Applied Skills

Taxation – South Africa (TX – ZAF)

Tuesday 4 June 2019

TX ZAF ACCA

TX – ZAF

Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–5.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.
This question paper must not be removed from the examination hall.

Think Ahead ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest R.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

Year ended 28 February 2019/31 March 2019

Rebates	
Primary rebate	R14,067
Secondary rebate (over 65)	R7,713
Tertiary rebate (over 75)	R2,574
Interest exemption	
Under 65	R23,800
Over 65	R34,500

Foreign dividend exemptions

Fully exempt where 10% or more of the equity shares and voting rights are held.
Fully exempt where received by a company from a foreign company resident in the same country as the recipient.
To the extent of any controlled foreign company inclusions (net of applicable foreign tax)
To the extent that the foreign dividend is from a company listed on the JSE

To the extent that the above do not apply:
For individuals 25/45ths of the dividend is exempt
For companies 8/28ths of the dividend is exempt

Medical aid contribution tax rebate rates	
Single member	R310
Member plus one dependant	R620
Each subsequent dependant	R209

Additional medical expenses tax rebate

Persons 65 or older or persons younger than 65 if that person, his or her spouse or his or her child is a person with a disability:

((Medical contributions – (medical aid contribution tax rebate x 3)) + other qualifying medical expenses) x 33·3%

Persons younger than 65:

((Medical contributions – (medical aid contribution tax rebate x 4)) + other qualifying medical expenses) as exceeds 7·5% of taxable income x 25%

Dividends tax		20%
Companies		
Normal tax rate		28%
Value added tax (VAT) (standard rate) –	to 31 March 2018	14%
	from 1 April 2018	15%
Official rate of interest (assumed)		8%

Rates of normal tax payable by persons (other than companies)
for the year of assessment ended 28 February 2019

Where taxable income:	
does not exceed R195,850	18% of each R1 of the taxable income
exceeds R195,850 but does not exceed R305,850	R35,253 plus 26% of the amount over R195,850
exceeds R305,850 but does not exceed R423,300	R63,853 plus 31% of the amount over R305,850
exceeds R423,300 but does not exceed R555,600	R100,263 plus 36% of the amount over R423,300
exceeds R555,600 but does not exceed R708,310	R147,891 plus 39% of the amount over R555,600
exceeds R708,310 but does not exceed R1,500,000	R207,448 plus 41% of the amount over R708,310
Exceeds R1,500,000	R532,041 plus 45% of the amount over R1,500,000

Tax rates for small business corporations
for the year of assessment ended 31 March 2019

Where taxable income:	
does not exceed R78,150	Nil
exceeds R78,150 but does not exceed R365,000	7% of the amount over R78,150
exceeds R365,000 but does not exceed R550,000	R20,080 plus 21% of the amount over R365,000
exceeds R550,000	R58,930 plus 28% of the amount over R550,000

Turnover tax rates for micro businesses
for the year of assessment ended 28 February 2019

Where taxable turnover:	
does not exceed R335,000	Nil
exceeds R335,000 but does not exceed R500,000	1% of the amount over R335,000
exceeds R500,000 but does not exceed R750,000	R1,650 plus 2% of the amount over R500,000
exceeds R750,000 but does not exceed R1,000,000	R6,650 plus 3% of the amount over R750,000

Car allowance

Maximum vehicle cost for actual expenses	R595,000

Fringe benefit (company car)

Benefit percentage (where no maintenance plan exists)	3·5%
Benefit percentage (where a maintenance plan exists)	3·25%

General business reduction: Benefit value x business kms/total kms (as per logbook)
Private fuel reduction: Private fuel (R) x private kms/total kms (as per logbook)
Private maintenance reduction: Private maintenance (R) x private kms/total kms (as per logbook)

Subsistence allowances

Deemed expenditure for meals and incidental costs (per Government regulation) R416 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R128 per day (local travel)
Deemed expenditure for meals and incidental costs (foreign travel) – (per published tables) will be supplied in the question where relevant

Common capital allowances

New and unused manufacturing plant and equipment	40%/20%/20%/20%
Used or leased manufacturing plant and equipment	20% each year for five tax years
New or unused plant or machinery used for research and development (where it does not qualify for the research and development accelerated allowance)	50%/30%/20%
Small business corporation manufacturing plant and equipment	100%
Small business corporation (other assets) – unless wear and tear provides a greater deduction	50%/30%/20%

Wear and tear (based on Binding General Ruling 7) will be supplied in the question where relevant

Manufacturing building allowance (unless seller's rate supplied)	5%
New or unused commercial building (not a manufacturing building)	5%

- No deduction where another section of the Act applies to the building
- Where part of a building is acquired, 55% of the acquisition price is 'cost'
- Where an improvement to the building is acquired, 30% of the acquisition price of the improvement is 'cost'

Research and development (R&D) expenditure 150%

Costs related to immovable property, machinery, plant, implements, utensils or articles (excluding any prototype or pilot plant created solely for the purpose of the process of research and development) are not claimed as research and development expenditure. Financing, and administrative or compliance costs may not be claimed as research and development expenditure.

Capital gains tax

Annual exclusion (while alive)	R40,000
Annual exclusion (in year of death)	R300,000
Primary residence exclusion (where proceeds are R2 million or less, the full gain is excluded for the portion of the property used for domestic purposes as a primary residence)	R2,000,000
Inclusion rate (natural persons)	40%
Inclusion rate (non-natural persons)	80%

Time apportioned base cost formulae:

$$Y = B + [(P - B) \times N/(T + N)]$$

$$P = R \times B/(B + A)$$

Where deductible enhancement expenditure has been incurred after the valuation date, the time apportioned base cost formulae change to:

$$Y = B + [(P_1 - B_1) \times N/(T + N)]$$

$$P_1 = R_1 \times B_1/(A_1 + B_1)$$

Travel allowance table
for years of assessment commencing on or after 1 March 2018

Value of the vehicle (including value added tax (VAT) but excluding finance charges or interest) R			Fixed cost R p.a.	Fuel cost c/km	Maintenance cost c/km
0	–	85,000	28,352	95·7	34·4
85,001	–	170,000	50,631	106·8	43·1
170,001	–	255,000	72,983	116·0	47·5
255,001	–	340,000	92,683	124·8	51·9
340,001	–	425,000	112,443	133·5	60·9
425,001	–	510,000	133,147	153·2	71·6
510,001	–	595,000	153,850	158·4	88·9
Exceeds		595,000	153,850	158·4	88·9

Note: Where reimbursement is based on actual business kilometres travelled and no other compensation is paid to such employees and the kilometres travelled for business does not exceed 12,000, the prescribed rate is R3·61 per kilometre.

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

1 Deal Ltd is a registered value added tax (VAT) vendor. During the two-month VAT period ended 30 April 2018, Deal Ltd made the following purchases (all amounts stated are VAT inclusive):

Item	Date of purchase	Cost R
Additional stock for resale	15 March 2018	1,140,000
Office furniture	20 April 2018	115,000

What is the amount of input value added tax (VAT) which Deal Ltd can claim in respect of these purchases for the period ended 30 April 2018?

A R154,123
B R163,696
C R155,000
D R176,850

2 Joe has been trading as a sole proprietor as Joe's Corner Shop which was registered as a micro business in 2017. On 15 July 2018, Joe established that the qualifying turnover for the year had exceeded R1 million. This increased turnover is expected to be sustainable going forward.

Which of the following statements is true with respect to Joe and his micro business?

A Joe does not need to notify the Commissioner of the change and Joe's Corner Shop will be automatically deregistered as a micro business with effect from 1 March 2018
B Joe has 21 days to notify the Commissioner of the change and Joe's Corner Shop will be deregistered as a micro business from 1 August 2018
C Joe has 21 days to notify the Commissioner of the change and Joe's Corner Shop will be deregistered as a micro business from 1 July 2018
D Joe has 21 days to notify the Commissioner of the change and the Commissioner must exercise his discretion as to whether Joe's Corner Shop must be deregistered and will notify Joe accordingly

3 Karen is thinking of selling her house and needs to understand the costs to be included in the base cost for capital gains tax purposes. She supplies the following list:

(1) The original purchase price including transfer costs was R450,000 on 1 October 2001.
(2) The kitchen was renovated in 2009 at a cost of R25,000 and again in 2012 at a cost of R50,000.
(3) In 2018, the single garage was converted to a double garage at a cost of R60,000.
(4) Repairs undertaken on the property amounted to R70,000 over the years since the house was purchased.

The estate agent has valued the property at R3,000,000 indicating that the kitchen could be modernised, but the valuation is higher due to the double garage. The agent also indicates that the property is in good condition.

What is the base cost of Karen's house for capital gains tax purposes?

A R450,000
B R655,000
C R560,000
D R585,000

4 Tamzin is 67 years of age. In the 2019 year of assessment, she made medical contributions of R1,500 per month and incurred additional medical costs of R50,000 (not recovered from her medical aid) after an operation. Tamzin has taxable income before any medical deductions or rebates of R600,000. She has no dependants on her medical aid.

What is Tamzin's total amount of medical tax rebates for the 2019 year of assessment?

A R22,667
B R18,947
C R3,720
D R5,750

5 Paperless Ltd receives and sends most of its documents, including invoices, in electronic form. However, some suppliers still send documents in paper format. On receipt of any paper documentation, the document is scanned and saved to Paperless Ltd's server for retrieval by administrative staff. The paper copy is then immediately destroyed.

Which of the following statements is true?

A Provided the scanned copy is held in a format prescribed by the Commissioner by public notice, the paper copy need not be retained
B The paper copy must be retained for five years before it may be destroyed
C The Commissioner will only accept the original paper copy when requesting supporting documentation on submission of a return
D The Commissioner will first review the electronic copy but the paper original must be available for inspection

6 African Hold (Pty) Ltd manages various subsidiaries both in South Africa and the rest of Africa. The majority shareholder is resident in the Bahamas. The directors are based in South Africa but board meetings are held in Mauritius. African Hold (Pty) Ltd is incorporated in South Africa.

Which of the following statements is correct regarding African Hold (Pty) Ltd's residence status for South African income tax purposes?

A The company is resident in South Africa because it is incorporated in South Africa
B The company is not resident in South Africa because its majority shareholder resides in the Bahamas
C The company is resident in South Africa because its directors are based in South Africa
D The company is not resident in South Africa because its place of effective management is Mauritius

7 David is a sole proprietor. He is not currently registered for value added tax (VAT). For the past 11 months, his business generated turnover (comprising only taxable supplies) of R935,000. As usual, David will take his holiday in the 12th month and so his turnover is expected to drop to R20,000 for that month. He also sold a major capital asset during the year for R200,000, but plans to replace it on his return from holiday.

Which of the following statements is true with respect to David's obligation to register for value added tax (VAT)?

A David will not be required to register for VAT because the capital asset sale is the only reason that the taxable supply threshold of R1 million will be exceeded
B David's taxable supplies will exceed the R1 million threshold and so David must apply to the Commissioner within 21 days to be registered for VAT
C David's taxable supplies are greater than R50,000 per month so he should have already registered for VAT
D David must register for VAT as his taxable supplies will exceed the R1 million threshold. He should then deregister for VAT after reacquiring the capital asset as his taxable supplies will be below R1 million

8 Research Ltd conducts approved research and development activities. It incurred the following expenses during the year ended 31 December 2018:

(1) Marketing research – R100,000
(2) Salaries of scientists – R3,000,000
(3) Acquisition costs for trademarks and patents – R1,200,000
(4) Interest on an overdraft to fund operational research and development activities – R10,000

What is the amount of the deduction which Research Ltd can claim in respect of research and development expenditure for the year ended 31 December 2018?

A R4,310,000
B R6,300,000
C R4,500,000
D R4,515,000

9 **Which of the following statements is/are true with respect to the South African Revenue Service's (SARS) search and seizure procedures?**

(1) A search and seizure operation can sometimes be executed without a warrant
(2) A search and seizure operation can never be executed without a warrant
(3) A warrant for a search and seizure operation can only be issued by a judge or magistrate

A 1 only
B 2 only
C 2 and 3
D 1 and 3

10 Elizabeth sold the following assets in the 2019 year of assessment:

(1) A holiday home to her brother for R1,000,000. The home had cost R2,000,000 when Elizabeth acquired it, but due to a downturn in the economy it was only worth R1,700,000 when she sold it to her brother;
(2) Investments to a third party for R3,000,000. These had cost Elizabeth R1,100,000.

What is Elizabeth's taxable capital gain for the 2019 year of assessment?

A R744,000
B R344,000
C R760,000
D R624,000

11 Kevin is 42 years of age. During the 2019 year of assessment, Kevin made a series of donations. His taxable income before taking the donations into account was R2,000,000. Relevant information in respect of Kevin's donations is as follows (no donation certificates were received unless stated otherwise):

(1) Carry forward of disallowed donations in excess of limit from 2018 year of assessment – R80,000;
(2) Donation to his former university – R50,000 (donation certificate received);
(3) A general donation to a public benefit organisation carrying on both certifiable and non-certifiable public benefit activities – R20,000; and
(4) A donation to his local amateur sports club – R5,000.

What amount may Kevin deduct from his taxable income for the 2019 year of assessment in respect of these donations?

A R75,000
B R150,000
C R130,000
D R100,000

12 Manu Ltd is neither a micro business nor a small business corporation. It moved two machines from its old factory to a new factory in February 2019. Both machines are used in a process of manufacture.

(1) Machine A moving costs of R60,000. Machine A had been acquired new on 1 June 2003;
(2) Machine B moving costs of R60,000. Machine B had been acquired new on 3 November 2018.

What is the total amount of allowances which Manu Ltd can claim for the 2019 year of assessment in respect of these moving costs?

A R120,000
B R48,000
C R24,000
D R84,000

13 James acquired a commercial vehicle for his business on 3 December 2018 during his one-month value added tax (VAT) period ended 31 December 2018. He purchased the vehicle under the terms of an instalment credit agreement. This agreement provides for the following:

(1) Monthly instalments – R13,680 per month for 60 months;
(2) Total instalment contract price – R820,800;
(3) Cost of vehicle if bought for cash – R500,000 (excluding VAT).

All amounts are stated inclusive of VAT where applicable, unless otherwise stated.

What is the input value added tax (VAT) which James can claim in respect of this agreement for the VAT period ended 31 December 2018?

A R107,061
B R75,000
C R1,784
D R65,217

14 Mae is 55 years of age and rents out one of her two properties. During the 2019 year of assessment, Mae received R144,000 in rental income against which she intends to claim the following expenses:

(1) Repairs to the rented property – R20,000;
(2) Interest on mortgage bond – R40,000 (note);
(3) Costs to build a boundary wall – R80,000; and
(4) Municipality rates – R12,000.

Note: Mae had paid the mortgage bond, but kept the facility open for large expenses. During the year, she purchased a motor car for R680,000 and used the mortgage facility on the property to fund this purchase.

What is Mae's taxable rental income for the 2019 year of assessment?

A R72,000
B R32,000
C R12,000
D R112,000

15 Trade Ltd entered into a new lease for business premises on 1 April 2018. The lease agreement provides for the following terms:

(1) Monthly rental of R20,000 per month for ten years;
(2) A lease premium of R200,000;
(3) Leasehold improvements costing R300,000. The actual cost of the improvements was eventually R330,000 and these were completed and brought into use on 1 July 2018.

What is the total deduction which Trade Ltd can claim in respect of this lease for the year of assessment ended 31 March 2019?

Note: Ignore value added tax (VAT).

A R285,385
B R290,000
C R293,000
D R283,077

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 Start-Up (Pty) Ltd is a new company, with a year of assessment ending 31 March each year. The company began to trade on 1 April 2018, however, it incurred various costs prior to that date in preparation for trade to commence.

During the period from 1 September 2017 to 31 March 2018, Start-Up (Pty) Ltd incurred the following costs:

(1) Interest on a bank loan used for start-up capital – R15,000;
(2) Salaries and wages for the founding staff – R200,000;
(3) Purchase of raw materials – R300,000;
(4) Rental of business premises – R40,000;
(5) Furniture and fittings – R650,000.

During the 2019 year of assessment, Start-up (Pty) Ltd recorded the following amounts:

(6) Turnover – R280,000;
(7) Salaries and wages – R490,000;
(8) Raw materials – R250,000;
(9) Production costs – R100,000;
(10) Raw materials and finished goods in stock at year end – R525,000;
(11) Interest on the bank loan – R35,000;
(12) Rental of business premises – R80,000.

The Commissioner for the South African Revenue Service (SARS) allows furniture and fittings to be deducted over six years.

Required:

(a) Calculate the assessed loss of Start-Up (Pty) Ltd for the 2019 year of assessment, assuming it is not registered as a micro business.

Note: You should indicate by the use of zero (0) any items not taxable or not deductible. (7 marks)

(b) Calculate the tax payable, if any, by Start-Up (Pty) Ltd in the 2019 year of assessment if it had been registered as a micro business. (1 mark)

(c) Explain what advantages and disadvantages arise from registration as a micro business. (2 marks)

(10 marks)

2 Mario and his wife, Marie, decided to emigrate from South Africa due to undertaking contract work in the United Kingdom. Marie's work contract started on 1 March 2018 and so she departed from South Africa on 25 February 2018, completing all emigration documentation. Mario remained in South Africa to complete the required notice period for his South African employment and dispose of a number of assets prior to departure. Mario formally emigrated on 1 September 2018.

Details of the disposals Mario made during the year are as follows:

(i) On 31 August 2018, Mario sold his motor car for R250,000. He had originally purchased it new for R400,000.

(ii) Mario was not able to sell the South African family home before his departure and so he rented it out under a short-term lease of three months, during which time he continued to advertise it for sale.

The property was finally sold for R5,950,000 on 15 February 2019. The agent's commission and legal fees totalled R416,500. The property was originally purchased on 1 March 2008 for R3,400,000. Mario and Marie made improvements to the property costing R200,000 during their period of ownership.

Mario and Marie had also rented out the property for two years from 1 March 2014 to 28 February 2016, while they were working and travelling in Europe. During that time Mario and Marie stayed in rented accommodation under short-term leases.

The property was jointly owned by Mario and Marie and had been their primary residence until their respective departures from South Africa.

In February 2018, when Marie arrived in the United Kingdom, they purchased a new home there for GBP300,000 (R5,100,000). On the date of Mario's departure from South Africa, the property price had increased to GBP305,000 (R5,642,500). This new property is jointly owned by Mario and Marie and is now their primary residence.

Required:

(a) Explain the implications of the two rental periods for the primary residence exclusion in respect of the South African family home. (3 marks)

(b) Calculate the taxable capital gains of Mario for each of the following periods:

(i) 1 March 2018 to 31 August 2018; and
(ii) 1 September 2018 to 28 February 2019. (7 marks)

(10 marks)

3 Bim Vergankelijk has recently moved to South Africa to commence employment with Shadow (Pty) Ltd, a local company, on a two-year contract. His wife and two minor children moved with him. Bim is resident in the Netherlands for tax purposes and will not become resident in South Africa.

His employment contract began on 1 March 2018. Bim's package, detailed as follows, includes a number of fringe benefits:

(1) Shadow (Pty) Ltd pays for the schooling of Bim's two minor children, which amounts to R250,000 per annum in total. The school fees are payable upfront for the year and the children started at the school on 1 August 2018.

(2) Bim was provided with a company motor car which cost Shadow (Pty) Ltd R750,000. The motor car has a maintenance plan and the company pays all the costs. The motor car is used only for private travel.

(3) Shadow (Pty) Ltd also incurred costs of R250,000 for flights and transportation of Bim's personal effects from the Netherlands to South Africa.

(4) The company rents a fully furnished house for Bim and his family. The monthly rental is R50,000. Shadow (Pty) Ltd has rented this house for the past five years and places any long contract families in it when it is available. The Commissioner of the South African Revenue Service (SARS) will accept a remuneration factor of R2,600,000.

(5) Bim's contract further specifies that he is to receive a cash salary of R2,000,000 per annum.

(6) Bim continues to contribute to a medical scheme in the Netherlands offering him and his family (wife and two children) global coverage. The total premiums incurred amounted to a Rand equivalent of R300,000.

Required:

Calculate Bim's South African income tax liability for the 2019 year of assessment, briefly explaining your treatment of the flights and transport costs.

(10 marks)

4 Sale (Pty) Ltd operates a successful retail business. The company is a small business corporation and registered value added tax (VAT) vendor. Miles, the company's sole shareholder and director, has decided to retire and would like to sell his business to his main competitor, Buy Ltd, with effect from 31 December 2018.

Sale (Pty) Ltd has the following transactions for the final two-month VAT period ended 31 December 2018:

(1) Sales of goods – R2,000,000.

(2) Salaries and wages – R500,000.

(3) Debts written off – R60,000 (all remaining doubtful debts were written off as the business will cease).

(4) Acquired goods from vendors – R100,000.

(5) Staff party and close of business celebrations – R200,000.

(6) Interest earned on the bank account – R15,000.

(7) Bank charges incurred – R6,000.

(8) Legal costs in respect of the sale agreement with Buy Ltd – R5,000.

(9) Miles purchased the company motor car from Sale (Pty) Ltd at its open market value of R300,000.

(10) Buy Ltd and Sale (Pty) Ltd agreed in writing that R10 million would be paid for all the remaining assets in the business, that the assets represent the entirety of the business and that the sale is that of a going concern.

All amounts are stated inclusive of VAT where applicable.

Required:

(a) Explain how the final supply of Sale (Pty) Ltd's business assets would be valued for value added tax (VAT) purposes, if the company ceased to operate instead of being sold as a going concern to Buy Ltd. (2 marks)

(b) Explain how the final supply of Sale (Pty) Ltd's business assets would be valued for VAT purposes if the business were sold as a going concern to Buy Ltd. (1 mark)

(c) Calculate the input VAT and output VAT arising from each of the transactions (1) to (10) for the two-month VAT period ended 31 December 2018.

Note: You should format your answer in two columns labelled 'Input VAT' and 'Output VAT' and indicate by the use of zero (0) any item which does not result in either input VAT or output VAT. Give a brief reason for any amount generating a zero (0). (7 marks)

(10 marks)

5 Miguel Deal, aged 55, is employed. He also operates a number of trades and investments in his personal capacity. The information below pertains to Miguel's 2019 year of assessment. All amounts, where applicable, exclude value added tax (VAT).

Investments

Miguel invests in both a regular collective investment scheme (standard CIS) and a collective investment scheme (tax-free CIS) operating as a government approved tax-free investment. Miguel's tax certificates in respect of the 2019 year of assessment show the following (all amounts in appropriately translated Rand values):

	Standard CIS R	Tax-free CIS R
Local dividends (net of withholding tax)	45,000	700
Withholding tax on local dividends	11,250	175
Foreign dividends (net of withholding tax)	25,000	0
Withholding tax on foreign dividends	2,500	0
Local interest	22,500	350
Distributions from real estate investment trusts (REITs)	29,000	0

On 1 October 2018, Miguel sold units in the standard CIS for R3,000,000. The units had a weighted average cost of R2,700,000.

Rental trade

Miguel rents out two properties. The first property, in Durban, is rented to his brother-in-law for R5,000 per month. The market related rental would be R12,000 per month. The second property, in Cape Town, is always rented out on a short-term basis (leaving it empty some months).

The drought has heavily impacted the rentals and for both the 2017 and 2018 years of assessment, Miguel incurred losses on the Cape Town property. The Durban property usually breaks even or incurs a small loss if repairs have to be undertaken.

A summary of Miguel's rental activities are below:

2019 year of assessment	Durban Property R	Cape Town Property R
Rental income	60,000	108,000
Operating costs	(55,000)	(60,000)
Cleaning service	0	(36,000)
Mortgage interest	(5,000)	(16,000)
Profit/(loss)	0	(4,000)
2018 year of assessment loss	(1,000)	(10,000)
2017 year of assessment loss	(500)	(7,000)

Employment

Miguel works for a large company in Johannesburg. He earns a cash salary of R1,500,000. For the 2019 year of assessment, Miguel exceeded his targets and was also awarded a performance bonus of R400,000.

Miguel contributes the maximum he can each year to a retirement annuity fund.

Required:

(a) Explain whether or not the losses on Miguel's rental trade should be ring-fenced. (3 marks)

(b) Calculate Miguel's tax liability for the 2019 year of assessment, before any foreign tax credits.

Note: You should indicate income not taxable or expenses not deductible by the use of a zero (0). (12 marks)

(15 marks)

6 Clothes-2-U (Pty) Ltd (C2U) is neither a micro nor small business corporation. The company sources clothes from small, upcoming designers to sell via its website. Customers order clothing from the C2U website and the clothing is then manufactured based on a signed-off design from the designer and distributed to the customer by courier.

The customer may return the clothing within ten days of receipt if not satisfied for a refund of the cost to the customer of the clothing ordered. However, any returns must be made utilising C2U's courier. C2U is responsible for the cost of the courier where the customer returns the goods as a result of C2U supplying the incorrect size (i.e. not the size ordered) or where the clothing has a manufacturing fault. The customer is responsible for the courier cost for returning goods where the customer simply does not like the clothing ordered.

Clothing manufacture is considered to be a manufacturing process by the South African Revenue Service (SARS).

During the year of assessment ended 31 March 2019, C2U recorded the following transactions. All amounts are stated exclusive of value added tax (VAT) where applicable.

(1) Gross turnover for the year was R117,500,000. Returns which were credited to customer accounts amounted to R17,625,000. Discounts redeemed (other than in (4) below) amounted to R1,000,000. Bad debts in respect of clothing sales amounted to R800,000.

(2) Courier charges levied to customers amounted to R2,937,500 and courier charges levied to C2U amounted to R7,000,000. The company pays the courier company for all courier deliveries and retrieves the charges against customers by debiting their accounts. There is an 80% collection rate on the charges to customer accounts. Of the 20% of customer charges which remain uncollected, R400,000 is to be written off and R187,500 is considered doubtful.

(3) As at 1 April 2018, opening stock was valued at R5,500,000. Stock of R23,000,000 was manufactured by C2U during the year. At the year end, stock on hand should have amounted to R7,700,000, excluding stock out for delivery of R40,000. However, it was discovered during the stock count at the year end that stock to the value of R4,000,000 had been stolen either during delivery or from the warehouse.

(4) One of the cloud computer servers (Server A) hosting the online customer portal exploded on 1 June 2018. No past sales data was lost, but new sales made on that date were lost. C2U emailed its existing customer base offering any customer who could prove an order placed on that day a R500 discount on that purchase. The uptake was significant and discounts on sales of R200,000 were given.

Server A had been insured and the insurance company paid C2U R500,000. On 1 July 2018, C2U acquired a new server (Server B) for R750,000 and fire extinguishing accessories for server rooms at a cost of R240,000. Server A's cost of R550,000 had been fully written off for tax purposes prior to the explosion.

(5) On 31 March 2016, C2U had purchased a vacant plot of land next to its factory for R3,700,000 in anticipation of expansion. However, this year the directors decided not to expand and so sold the land for R4,000,000 on 31 January 2019.

(6) All the designs used by C2U are purchased and registered under the Designs Act. The company incurred registration costs of R10,000.

(7) C2U sponsors a number of fashion shows hoping to identify new designers. Shows were sponsored to the value of R6,000,000. The shows carry key branding messages and C2U discount vouchers are distributed to attendees.

(8) Wages and salaries paid amounted to R28,000,000.

(9) C2U had an assessed loss carried forward of R1,000,000 from the 2018 year of assessment.

The Commissioner for the SARS allows computer servers to be written off over five years and fire equipment over three years.

Required:

Calculate the taxable income of Clothes-2-U (Pty) Ltd for the 2019 year of assessment.

Note: You should list all of the items referred to in the question, indicating by the use of zero (0) any items which are not taxable or not tax deductible.

(15 marks)

End of Question Paper