
Answers

Section B

Marks

1 Congress Ltd and Entertainment Ltd

(a) Disposal of yacht

	R	R	
Cost	2,000,000		1/2
Allowances over 2 years and 8 months of use (R2,000,000/12 years x 32/12 months use)	(444,444)		1/2
Tax value	<u>1,555,556</u>		
Scrapping loss (selling price – tax value) (1,200,000 – 1,555,556)		(355,556)	1/2
Sale price	1,200,000		
Less recoupment	<u>(0)</u>	1,200,000	1/2
Less base cost:			
Cost	2,000,000		1/2
Less allowances (444,444 (allowances) + 355,556 (scrapping))	<u>(800,000)</u>	<u>(1,200,000)</u>	1/2
Capital gain		<u>0</u>	

Disposal of building

	R	R	
Sale price		6,000,000	1/2
Less base cost:			
Proceeds for time apportioned base cost (TABC):			
A = R1,350,000			1/2
B = R500,000			1/2
R = R6,000,000			1/2
P = $R \times B / (A + B)$			
$6,000,000 \times 500,000 / (1,350,000 + 500,000)$	1,621,622		
TABC:			
B = R500,000			1/2
P = R1,621,622			1/2
N = 1			1/2
T = 16			1/2
TABC = $B + [(P - B) \times N / (T + N)]$			
$500,000 + [(1,621,622 - 500,000) \times 1 / (16 + 1)]$		(565,978)	1/2
Post-valuation date costs		<u>(1,350,000)</u>	1/2
Capital gain		<u>4,084,022</u>	

8

(b) Congress Ltd – taxable capital gain/assessed capital loss

	R	
Yacht (not disregarded as used for trade)	0	1/2
Building (50% x R4,084,022)	2,042,011	1/2
	<u>2,042,011</u>	
Capital loss brought forward (clogged as with a connected person – it cannot therefore be used)	0	1/2
Net capital gain	<u>2,042,011</u>	
Taxable capital gain (at 80% inclusion)	1,633,609	1/2

2

10

2 Local Fashion (Pty) Ltd

(a) Value added tax (VAT) for the 2017 year of assessment

	Input VAT R	Output VAT R	
Sales to South African customers (R1,300,000 x 14/114)		159,649	1/2
Sales to export customers – zero rated		0	1/2
Sales of display items (R25,000 x 14/114)		3,070	1/2
Interest income (exempt supply)		0	1/2
Dividend income (exempt supply)		0	1/2
Legal costs (R30,000 x 14/114)	3,684		1/2
Courier fees – South African customers (R15,000 x 14/114)	1,842		1/2
Courier fees – export customers – zero rated	0		1
Wages to local dressmakers (not an enterprise)	0		1/2
Bad debts written off (R22,000 x 14/114)	2,702		1/2
Evening function (input denied – entertainment)	0		1/2
Runway show – advertising (R100,000 x 14/114)	12,281		1/2
Bank charges (R3,000 x 14/114)	368		1/2
			<u>7</u>

- (b) The VAT input previously claimed will have to be reversed after non-payment for more than 12 months (R11,400 x 14/114). 1,400 1
- Provided the notice requesting the payment has been issued by a senior South African Revenue Service (SARS) official and is only to the extent of money owed to a taxpayer, the amount must be paid over to SARS. 2
- 3
- 10

3 Plumb Co Ltd (PC)

(a) Small business corporation qualification

Criterion: The gross income of PC must be less than R20 million for the year of assessment. 1/2

Application: Gross income for the year of assessment ended 31 March 2017:

	R	
Sales and services (R1,500,000 + R13,000,000)	14,500,000	1/2
Interest	25,000	1/2
Dividends	40,000	1/2
	<u>14,565,000</u>	

Criterion met

Criterion: No shareholder of PC may own shares or equity in another company, close corporation or co-operative, other than certain exceptions. 1/2

Application:

Shareholdings in listed companies – permitted. 1/2

Shareholding of PC in Tap Ltd – not relevant as it is a shareholding of the company and not of PC's shareholders. 1/2

Criterion met

Criterion: Not more than 20% of PC's total receipts (excluding capital) and capital gains may be derived from investment income or personal services. 1/2

Application:

The directors working as plumbers is not a personal service despite them holding an interest in PC as the work does not fall into the list of excluded fields. 1/2

The company employs more than three full-time unconnected persons – each of the four teams has one full-time employee. 1/2

The only investment income is from interest and dividends which is below the 20% threshold.

$$(R40,000 + R25,000)/(R14,565,000) = 0.45\%$$

Marks

1/2

1/2

6

Criterion met

Conclusion: PC qualifies as a small business corporation for the year of assessment ended 31 March 2017.

(b) Small business corporation – year of assessment ended 31 March 2017

	R	
Turnover (from (a) above)	14,565,000	1/2
Opening stock	(560,000)	1/2
Purchases	(7,000,000)	1/2
Closing stock	600,000	1/2
Wages	(5,000,000)	1/2
Miscellaneous costs	(700,000)	1/2
Taxable income	<u>1,905,000</u>	
Tax payable $R59,150 + 28\% \times (R1,905,000 - R550,000)$	438,550	<u>1</u>
		<u>4</u>
		<u>10</u>

4 David Smith

(a) Accommodation fringe benefit

	R	R	
Rental costs to company: 1 March 2016 to 30 June 2016			
4 x R25,000		100,000	1
1 July to 30 November 2016:			
A: Remuneration factor	850,000		1/2
B: Abatement value	75,000		1/2
C: Statutory quantity value	19		1/2
D: Months for which accommodation supplied	5		1/2
$(A - B) \times C/100 \times D/12$		61,354	
1 December 2016 to 28 February 2017:			
Purchase price becomes a deemed loan			1/2
Rental deemed to be a payment of interest			1/2
Low interest loan fringe benefit:			
$(R9,000,000 \times 8\% \text{ (official rate)} \times 3/12) - (R9,000,000 \times 1\% \text{ (agreed rate)} \times 3/12)$		157,500	1
Inclusion		<u>318,854</u>	<u>5</u>

- (b)** Despite the market value at the time of acquisition being greater than the market value at the date of the agreement, the agreement negates a further fringe benefit of receiving an asset at a value less than market value.

1

Marks**(c) Taxable income**

	R	
Salary (R71,000 x 12)	852,000	1/2
Accommodation fringe benefits (from (a) above)	318,854	1/2
School fees paid (R7,500 x 4 + R5,500 x 8)	74,000	1
Relocation (exempt)	0	1/2
Taxable income	<u>1,244,854</u>	
Total normal tax		
(R1,244,854 – R701,300) x 41% + R206,964	429,821	1
Less rebate	<u>(13,500)</u>	1/2
Normal tax payable	<u>416,321</u>	4
		10

5 Ice-Cool Ltd**Taxable income for the 2017 year of assessment**

	R	R	
1. Sales		28,000,000	1/2
2. Addition to buildings: 5% x (R1,500,000 + R500,000)		(100,000)	1
Conveyor belt: 20% (manufacturing assets) x R150,000		(30,000)	1
Moving costs: Spread over remaining tax useful life of 3 years: R21,000/3 years		(7,000)	1
3. Legal fees (revenue nature to receive payment for stock)		(10,000)	1/2
Interest on overdue account		3,000	1/2
Doubtful debt 25% x (R240,000 + R3,000)		(60,750)	1
4. Bad debts written off		(56,000)	1/2
Reversal of 2016 provision (25% x R56,000)		14,000	1/2
5. Opening stock		(8,000,000)	1/2
Manufactured		(12,000,000)	1/2
Closing stock: (R9,000,000 – R400,000 + R370,000)		8,970,000	1
6. Allowance for 2017 on old machine (R300,000 x 20%)		(60,000)	1/2
Recoupment on old machine: [(Proceeds of R450,000 limited to the cost of R300,000) less tax value (R300,000 less 80% x R300,000)]	240,000		1
Capital gain:			
Proceeds	450,000		1/2
Less recoupment	<u>(240,000)</u>		1/2
	210,000		
Base cost:			
Cost less allowances: R300,000 – R240,000 (allowances years 1, 2 and 3)	<u>(60,000)</u>		1
Capital gain	<u>150,000</u>		
Elect deferral			
Recoupment recognised 40% x R240,000		96,000	1
Allowance on new machine 40% x R470,000		(188,000)	1/2
Taxable capital gains: 80% x (R150,000 x 40%)		48,000	1
7. Wages and salaries		<u>(3,500,000)</u>	1/2
Taxable income		<u>13,119,250</u>	
			15

6 Rose Plant

(a) Employees tax

	R	
Salary R30,000 x 12	360,000	1/2
Travel allowance R3,000 x 1 month x 80%	2,400	1/2
Employer contribution to retirement 5% x R360,000	18,000	1/2
Low interest loan R500,000 x (8% – 2%) x 8/12	20,000	1/2
Gross remuneration	400,400	
Pension deduction:		
Lesser of R350,000 or 27.5% x R400,400 = R110,110		1/2
Contribution (employer plus employee) R18,000 + R18,000 = R36,000	(36,000)	1/2
	364,400	
Less donation		
Limited to 5% x R364,400 = R18,220		1/2
Actual: R600 x 12 = R7,200	(7,200)	1/2
	357,200	
Tax per tables (R357,200 – R293,600) x 31% + R61,296	81,012	1
Less primary rebate	(13,500)	1/2
Less medical rebate R286 x 12	(3,432)	1/2
Employees tax	64,080	
		6

(b) Taxable income

	R	R	
Remuneration from above		357,200	1/2
Add remaining 20% of travel allowance R3,000 – R2,400		600	1
Remuneration		357,800	
Tutorial note: <i>There is no reduction to the travel allowance as Rose only has private travel</i>			
Art gallery			
Proceeds from painting	400,000		1/2
Cost of painting	(4,000)		1/2
Other net costs	(5,000)		1/2
	391,000		1/2
Less assessed loss brought forward	(8,000)	383,000	1/2
Capital gains			
Proceeds from sale of flat	900,000		1/2
Less base cost:			
Cost	(350,000)		1/2
Improvement	(150,000)		1/2
Selling costs (R27,000 + R10,000 + R5,000)	(42,000)		1/2
Repairs (do not qualify)	(0)		1/2
Capital gain	358,000		
Less primary residence exclusion (limited to gain)	(358,000)		1/2
Aggregate and net capital gain	0		
Taxable income		740,800	
			7

	<i>Marks</i>
(c) Second provisional payment	
As Rose's last tax assessment reflects taxable income of R355,000, this is her basic amount.	$\frac{1}{2}$
Her second provisional payment needs to be not less than the lesser of the basic amount or 90% of her actual taxable income (as Rose's taxable income is less than R1,000,000).	1
This means that her second provisional payment could have been based on the basic amount of R355,000 as 90% of actual is R666,720 (90% x R740,800).	$\frac{1}{2}$
	<u>2</u>
	<u>15</u>