Answers

Section B *Marks*

1 Gerald

(a) (i) Monthly travel allowance

	R	R	
Travel allowance (R3,000 x 12 months)		36,000	½
Reduction to allowance, greater of:			
Actual expenses:			
Wear and tear (R260,000/7 years)	37,143		½
Maintenance	0		½
Fuel	15,525		½
Total expenses	52,668		
Reduction (R52,668 x 8,000/15,000 kms)	28,090		½
Deemed expenses:			
Fixed cost from table	93,267		½
Fixed cost/km in cents (R93,267/15,000 kms)	621·8		½
Fuel	118·9		½
Maintenance	49·6		½
Cents per km	790·3		
Reduction (R8,000 x R7·903)	63,224		½
Maximum reduction is R63,224 limited to the allowance of R36,000		(36,000)	1
Inclusion		0	

(ii) Reimbursement per kilometre

	R	
Deemed allowance (R8,000 x R3·50)	28,000	½
Deemed reduction (business kms less than 12,000): R3·55 x 8,000 = R28,400 limited to deemed allowance	(28,000)	½
Inclusion	0	
		7

(b) (i) Monthly travel allowance

	R	
Travel allowance (as in (a)(i) above)	36,000	½
Less fuel incurred	(15,525)	½
Less normal tax (nil as nil inclusion)	(0)	½
Total cash	20,475	

(ii) Reimbursement per kilometre

	R	
Reimbursement allowance (as in (a)(ii) above)	28,000	½
Less fuel incurred	(15,525)	½
Less normal tax (nil as nil inclusion)	(0)	½
Total cash	12,745	
		3
		10

	Marks

2 Lynda Fry

(a) **Advantages of qualification as a micro business**

Micro businesses benefit from a reduced tax compliance burden due to the turnover tax regime which replaces its liability for income tax, provisional tax (in that the micro business provisional payments are governed by special regime provisions), capital gains tax and dividends tax with a turnover tax liability determined by applying a specific tax rate dependent on the level of business turnover.	1½
A Micro business also benefits from reduced record-keeping requirements.	½
	2

(b) **Tax payable – Micro business**

	R	
Income	900,000	½
Tax [(R900,000 – R750,000) x 3% + R6,650]	11,150	1
Maximum dividend:		
After-tax profit (R900,000 – R100,000 – R11,150)	788,850	1
Withholding tax on dividend at 20% [(R788,850 – R200,000) x 20%]	117,700	1

After-tax cash – Micro business

	R	
Profit (R900,000 – R100,000)	800,000	½
Less tax (R11,150 + R117,700)	(128,920)	½
After-tax cash	671,080	

Tax payable – Company

	R	
Income	900,000	½
Less expenditure	(100,000)	½
Taxable income	800,000	
Tax at 28%	224,000	½
Maximum dividend:		
After-tax profit (R800,000 – R224,000)	576,000	½
Withholding tax on dividend at 20% (R576,000 x 20%)	115,200	½

After-tax cash – Company

	R	
Profit (R900,000 – R100,000)	800,000	½
Less tax (R224,000 + R115,200)	(339,200)	½
After-tax cash	460,800	
		8
		10

Marks

3 We-Courier Ltd

(a) Value added tax (VAT) for the VAT period ended 31 January 2018

	Input VAT R	Output VAT R	Marks
Sales (R5,000,000 x 14/114)		614,035	½
Deemed input on purchase of second hand vehicle (R250,000 x 14/114)	30,702		½
Purchase of motor car (input denied)	0		1
Reversal of previous input claim on sub-contractor services (R57,000 x 14/114)		7,000	1
Bad debts written off (R150,000 x 14/114)	18,421		½
Bad debt recovered (R11,400 x 14/114)		1,400	½
Rental (R30,000 x 14/114)	3,684		1
Sponsorship (R40,000 x 14/114)	4,912		1
Wages and salaries (not an enterprise)	0		1
Interest income (exempt supply)	0		1
			8

Tutorial note: *Input claims on rental payments are made as the service is delivered according to the time of supply rules.*

(b) The invoice reflects the incorrect consideration. This has led to the issuing of a tax invoice in the prior VAT period which is incorrect. 1

WCL should issue a credit note with respect to the incorrect consideration of R42,300 (R47,000 – R4,700) and claim the VAT output reversal in the February VAT return. 1

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4 Carol Peters

(a) Holiday house

	R	R	Marks
Sale		1,500,000	½
Less base cost:			
Value on 1 October 2001 is the GREATER OF:			
Time apportioned base cost (TABC):			
B = R300,000			½
P = R1,500,000 – R50,000 (selling costs) = R1,450,000			1
N = 3			½
T = 16			½
TABC = R300,000 + [(R1,450,000 – R300,000) x 3/(3 + 16)]	481,579		½
Market value on 1 October 2001:			
However, as the market value on 1 October 2001 exceeds the proceeds realised on sale, this value is limited to the proceeds less expenditure incurred after 1 October 2001, i.e. R1,500,000 – R50,000	1,450,000		1
Value selected for 1 October 2001		(1,450,000)	½
Less other base cost expenditure		(50,000)	½
Capital gain		0	

Primary residence

	R	Marks
Sale price	4,000,000	½
Less base cost	(2,700,000)	½
	1,300,000	
Less portion not used as primary residence (10% x R1,300,000)	(130,000)	½
Portion of gain subject to primary residence exclusion	1,170,000	
Less primary residence exclusion (R2,000,000 limited to actual gain for primary residence use)	(1,170,000)	½
	0	
Add back portion not subject to primary residence exclusion	130,000	½
Capital gain	130,000	
		8

(b) Total taxable capital gain/assessed capital loss

	R	
Total capital gains	130,000	
Less annual exclusion	(40,000)	½
	90,000	
Less assessed capital loss brought forward	(40,000)	½
Net capital gain	50,000	
Taxable capital gain (at 40% inclusion)	20,000	1
		2
		10

Marks

5 Recycle Running Ltd

	R	R	
Sales		10,000,000	½
Sales price of returned stock		250,000	½
Cost of returned stock		(160,000)	½
Cost of replacement stock		(175,000)	½
Collection of returned stock		(50,000)	½
Delivery of replacement stock		(25,000)	½
Sales of discounted stock (R450,000 x 50%)		225,000	½
Cost of discounted stock sold		(300,000)	½
Other stock movements:			
Opening stock	2,500,000		½
Purchases	3,000,000		½
Closing stock	(2,700,000)		½
Cost of goods sold		(2,800,000)	
Stock held by distributor for delivery (considered 'disposed of')		0	1
Bad debts written off		(25,000)	½
Reversal of prior year provision for doubtful debts (R30,000 x 25%)		7,500	½
Current year provision for doubtful debts (R40,000 x 25%)		(10,000)	½
Allowance on old machine (100% claimed in previous year of assessment)		0	½
Capital gain/capital loss:			
Proceeds	20,000		½
Less recoupment (amount received for scrap as tax value is nil)	(20,000)		½
Base cost:			
Cost less allowances (R200,000 – R200,000 (100% allowance in Year 1))	(0)		1
Capital gain	0		
Recoupment		20,000	1
Allowance on new machine (100% x R350,000)		(350,000)	½
Wages and salaries		(3,000,000)	½
		3,607,500	
Donation of running shoes		0	½
Taxable income		3,607,500	
Tax at the small business corporation rates:			
(R3,607,500 – R550,000) x 28% + R59,098		915,198	1
Less provisional tax payments (R300,000 + R400,000)		(700,000)	1
Normal tax liability		215,198	
			15

Tutorial notes:

1. *Recoupment may be deferred in accordance with the taxable allowances of the replacement machine as the capital gain is nil, however, the new allowance is 100%, therefore full recoupment is included in taxable income.*
2. *No donation deduction is available in respect of the donation of running shoes as the donation is not to a registered public benefit organisation. No general deduction is available as the donation was not advertised.*

		Marks

6 Jeremy Law

(a) Employees tax – Jeremy

	R	
Salary (R40,000 x 12 months)	480,000	½
Less pension contribution		
(5% x R480,000 (less than 27·5% of salary))	(24,000)	½
Remuneration	456,000	
Tax per the tables [(R456,000 – R410,460) x 36% + R97,225]	113,619	½
Less primary rebate	(13,635)	½
Employees tax	99,984	
		2

(b) Employees tax – Joan

	R	
Salary (R10,000 x 4 months)	40,000	½
Add employer contribution to retirement annuity fund (10% x R40,000)	4,000	½
Less retirement contribution deduction (10% x R40,000 (less than 27·5% of remuneration))	(4,000)	½
Remuneration to 30 June 2017	40,000	
Annualised earnings (R40,000 x 12/4)	120,000	½
Tax per the tables (R120,000 x 18%)	21,600	½
Less primary rebate	(13,635)	½
Employees tax for the year	7,965	
Employees tax for 4 months (R7,965 x 4/12)	2,655	½
Annualised earnings (above)	120,000	½
Add lump sum payment	120,000	½
Annual remuneration	240,000	
Tax per the tables [(R240,000 – R189,880) x 26% + R34,178]	47,209	½
Less primary rebate	(13,635)	½
Employees tax for the year	33,574	
Less employees tax on annualised salary	(7,965)	½
Employees tax on lump sum	25,609	
		6

			Marks
(c) Taxable income for the 2018 year of assessment			
	R	R	
Salaried earnings (before retirement deductions)		480,000	½
Legal consultancy income	2,000,000		½
Wages and lump sums paid (R120,000 + R40,000)	(160,000)		1
Retirement contributions paid (R40,000 x 10%)	(4,000)		½
Office space (10% x R250,000)	(25,000)		½
Landline and internet	(19,000)		½
Business profit		1,792,000	
Taxable income sub-total		2,272,000	
Contributions to own retirement funds:			
Legal college pension fund	24,000		½
Retirement annuity fund (R70,000 x 12 months)	840,000		½
	864,000		
Actual deduction limited to lesser of:		(350,000)	½
– R350,000; or			½
– 27·5% x greater of:			
Remuneration (480,000); or			½
Taxable income before the deduction (R2,272,000)			½
Equals (27·5% x R2,272,000) = R624,800			½
Taxable income		1,922,000	
			7
			15