Suggested solution

Section A

1 A and C

Statement A is correct due to the absence of more than 330 days and Jacob being not ordinarily resident.

Statement C is also correct. Once a period of more than 330 days has passed, the physical presence test residence is deemed to end from the start of that absence. In this case it is 6 January 2026 (the first full day of absence).

2 R110,000

(R90,000 + R20,000) = R110,000

The bad debt claims and the patent registration would be claimable expenses, meaning the related legal expenses are deductible. The first expense relates to tax and tax penalties, neither of which are themselves deductible. The legal expenses are similarly not deductible. The second expense relates to the capital formation of the company and is capital in nature. The legal costs are therefore also not deductible.

3 C

R163,043 refundable ([R800,000- R450,000+R7,000,000-R8,600,000] x 15/115). All amounts are subject to VAT – the premises are clearly not residential.

4 B and D

Statement B is correct because the employer is primarily liable for the payment of the employees' tax and has a right of recovery against the employee.

Statement D is also correct because the employer is primarily liable for the payment of the employees' tax, has a right of recovery against the employee, but may not claim a deduction (as the amount is deemed as a penalty).

5 D

(R5,000,000 – [50% x R3,000,000] = R3,500,000
([R3,500,000 – R40,000] x 40%) = R1,384,000

The taxable gain is calculated by deducting 50% of the cost of the land from the disposal proceeds, deducting the R40,000 exemption and then applying the 40% inclusion rate.

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6 A and C

Statement A is correct as persons ordinarily resident have all property, whether in or out of South Africa, included in the estate.

Statement C is correct as both immovable and movable property is included in the estate if that property is located in South Africa, if that person is not ordinarily resident in South Africa.

7 B

B is correct as the definition includes all assets as listed in the description (and also rights or interests in those assets).

8 B and C

Statement B is correct as the unused abatement value must be proven.

Statement C is correct as re-marriage does not eliminate the unused abatement.

9 C

Option C is correct. Tina's taxable supplies are below R1 million (R940,000 x 1.06 = R996,400), and this is assuming that all current business continues (so Tina does not lose business after the price increase). Additionally, as the additional business is not yet secured by written contract, it cannot be used to estimate the taxable supplies for the coming 12 months.

10 A

Option 1 is correct because the first payment is due in the first six months of the tax year, the second at the end of the tax year and the voluntary third six months after the end of the tax year (for years that do not end in February).

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11 C

R1,000,000 + R6,500 + [50% x R9,000] = R1,011,000

Small businesses may claim 100% of qualifying plant and machinery used in a process of manufacture. The printer cost less than R7,000 and the wear and tear may be claimed in full in terms of a Binding General Ruling. While the tool set's individual tools are less than R7,000 each, they form a set and that value is higher than R7,000. However, the wear and tear allowance of 25% per annum straight line would give a lower value than the small business option of 50% of the asset cost unapportioned, therefore the 50% allowance is used.

12 R21,500

([R40,000 x 20%] + [R90,000 x 15%]) = R21,500

These withholding rates apply as final taxes (irrespective of normal tax exemptions).

13 R57,391

(R90,000+R300,000+R50,000) x 15/115 = R57,391

VAT may be claimed on the second-hand goods purchased from non-vendors. Fuel is zero-rated.

14 D

[R84,000 – [3 x R728 x 12] + R40,000]) x 33.3% = R32,565

Gerri is under 65 years of age, and her son has a disability, therefore the additional medical credit is calculated using the following formula:

(Medical contributions – (medical aid contribution tax rebate x 3) + other qualifying medical expenses) x 33.3%

15 B

No dividends tax is withheld as this is a repurchase of shares on the exchange by a listed company. It is therefore not a dividend as defined.

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Section B

Question 16

Gentri (Pty) Ltd

(a) Document issued to DIY customers

As this is a sale by a registered value added tax (VAT) vendor, even cash sales should record the following information:

(i) Labelling the document as "Cash" is not sufficient. The words "tax invoice", "VAT invoice" or "invoice" should appear.

(ii) While the company name appears, the company address and VAT number are missing.

(iii) The name and address of the recipient is missing.

(iv) There is no document number. An individual serialised number and the date upon which the tax invoice is issued should appear.

(v) The description of what is sold is insufficient. It should provide a full and proper description of the goods (indicating, where applicable, that the goods are second-hand goods) and should include the quantity sold.

(vi) While the amount charged is shown, the tax charged or the tax fraction applied should be shown.

Tutorial note: as it is unlikely that these customers are VAT vendors, the recipient VAT number is not needed.

(b) VAT payable for the period ended 30 November 2026

	Output VAT R	**Input VAT R**
Sales of sound-proofing kits (R7,000,000 x 15/115)	913,043	
International flight (zero-rated)		0
Staff party (input denied - entertainment)		0
Purchase of materials (input R3,300,000 x 15/115)		430,435
Independent consultant (R150,000 x 15/115)		19,565
Salaries and wages (the employee service is not an enterprise for VAT purposes – no VAT)		0
	913,043	**450,000**
Net VAT payable		463,043

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The return must be filed by 31 December 2026, and payment should be made by that date (meaning that the payment must be reflected in the SARS account by that date, perhaps necessitating an earlier payment).

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Question 17

Genius Music Ltd

(a) Transactions with foreign subsidiaries

Transactions with Hip (Pty) Ltd

	R
Sale	500,000
Transfer pricing adjustment (R750,000 market value – R500,000 sales value)	250,000
Adjustment deemed dividend *in specie*:	
Dividends tax (R250,000 x 20%)	50,000

Transactions with Jazz (Pty) Ltd – 2026 year of assessment

	R
Sale (EUR 100,000 x 20)	2,000,000
Year-end foreign exchange adjustment:	
Exchange loss (EUR 100,000 x (19.30 – 20)	(70,000)

Transactions with Jazz (Pty) Ltd – 2027 year of assessment

	R
Settlement of debt by Jazz (Pty) Ltd:	
Exchange gain (EUR 100,000 x (20.50 – 19.30)	120,000

(b) Repair contract

	R
2026 year-end effects	
Gross income	1,000,000
Allowance for future expenditure	(800,000)
2027 year-end effects	
Reversal of allowance	800,000
Less actual expenditure	(800,000)

As the full amount received must be recognised as gross income when received, the allowance for future expenditure provides relief for expenditure not yet incurred, leaving the anticipated profit on the contract taxable in the year in which the income is received.

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Question 18

Jessie

(a) First provisional payment

For the first provisional payment, the basic amount is R800,00 (being R820,000 less the taxable capital gains of R20,000). This is not adjusted as the assessment was issued within 18 months of the estimate.

	R
Tax on R800,000 (R179,147 + [39% x (R800,000 – R673,000)])	228,677
Less primary rebate	(17,235)
Total tax estimated	**211,442**
Half for first provisional payment	105,721

(b) Second provisional payment

As she has not been assessed, but the last assessment is more than 18 months old by the estimate date, the last assessment (less capital gains) must be increased by 8% per year. R800,000 (as above) is the basic amount increased by 8% for the 2025 and 2026 year of assessment.

	R
R800,000 x 1.16	928,000

R928,000 is the lowest amount that should be used.

As the 2025 assessment was issued more than 14 days from the second provisional tax estimate is due, it may be used to determine the basic amount. As there were no capital gains, the assessed amount is the basic amount of R780,000.

(c) (i) Second provisional payment if capital gains were R210,000

Here the final taxable income would be greater than R1,000,000 (R800,000 + R210,000) = R1,010,000)

The second provisional payment cannot be based on an amount less than 80% of this actual taxable income including capital gains i.e. R1,010,000 x 80% = R808,000

(ii) Under-estimate penalty

	R
Tax on R700,000 (R179,147 + [39% x (R700,000 – R673,000)])	189,677
Less primary rebate	(17,235)
Total tax estimated	**172,442**

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Tax on R808,000 = 80% of actual of R1,010,000 (R179,147 + [39% x (R808,000 - R653,000)])	239,597
Less primary rebate	(17,235)
	222,362
Penalty 20% x (R222,362 – R172,442)	9,984

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Question19

Ned

(a) Sale of Ned's holiday home

	R
As this is a sale to connected person the proceeds are deemed to be at market value	700,000
Less base cost	(1,200,000)
Capital loss	**(500,000)**

This capital loss arises with a connected person. As a result, the capital loss is immediately ring-fenced and may not be set off against any other capital gains or capital losses. It may only be used against capital gains made through transactions with that same person.

(b) Sale of Ned's primary residence

Proceeds		R5,000,000
Time apportioned base cost:		
B (costs per 1 October 2001)	R1,800,000	
A (costs after 1 October 2001)	R1,000,000	
Selling costs (4% x R5,000,000)	R200,000	
N (years before 1 October 2001)	2 years	
T (years after 1 October 2001)	25 years	
R (Proceeds less selling costs): R5,000,000 – R200,000	R4,800,000	
P = R x B / (B + A) P = R4,800,000 x R1,800,000 / (R1,800,000 + R1,000,000)	R3,085,714	
Y = B + [(P – B) x N / (T + N)] R1,800,000 + [(R3,085,714 – R1,800,000) x 2/(25 + 2)]	R1,895,238	R(1,895,238)
Post 1 October 2001 expenditure		R(1,000,000)
Selling costs		R(200,000)
Capital gain		**R1,904,762**
Capital gain		R1,904,762
Less primary residence exclusion (R2,000,000 limited to actual)		R(1,904,762)
Capital gain after primary residence exclusion		**0**
Taxable capital gain (loss ring-fenced)		**0**

As the capital loss is ring-fenced and there is no capital gain, the taxable capital gain is nil.

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Question 20

Tracy – normal tax payable for the 2026 year of assessment

	R	R
Salary		650,000
Employer contribution to pension fund (10% x R650,000)		65,000
Remuneration		**715,000**
Hotel partnerships		
Income	440,000	
Expenses	(550,000)	
Loss	(110,000)	
Half of loss (50% x R110,000)		(55,000)
Investments		
SA dividends (all exempt)		0
SA interest	60,000	
Less interest exemption (limited)	(23,800)	36,200
Foreign dividends	120,000	
Less general exemption (R120,000 x 25/45)	(66,667)	53,333
REITS		13,000
Capital gains:		**762,533**
Proceeds (insurance plus sale – R2,500,000 + R20,000,000)	22,500,000	
Less base cost:		
Original cost	(750,000)	
Improvements	(4,000,000)	
Capital gain	17,750,000	
Half is Tracy's share: 50% x R17,750,000	8,875,000	
Less annual exclusion	(40,000)	
Taxable capital gain	8,835,000	
Inclusion at 40% (40% x R8,835,000)		3,534,000
		4,296,533
Retirement contribution deduction		
Employer contribution deemed employee contribution (working)		(65,000)
Taxable income		**4,231,533**
Tax as per the tables (R644,489 + 45% x (R4,231,533 – R1,817,000)		1,731,029
Less primary rebate		(17,235)
		1,713,794
Less medical contribution credit (R728 x 12)		(8,736)
Less employees' tax		(144,896)
Normal tax payable		**1,560,162**

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Working: Retirement contribution deduction

Employer contribution is deemed the employee contribution, limited to the lesser of:

- R350,000; or
- R1,181,547 (The higher of 1. R196,625 (27.5% x R715,000 (remuneration)); 2. R1,181,547 (27.5% x R4,296,533); and 3. R762,533 (taxable income excluding gains))

Since the employer contribution is less than R350,000, the full amount may be claimed.

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Question 21

Woodworks (Pty) Ltd – taxable income for the 2026 year of assessment

	R	R
Revenue		25,000,000
Opening inventory:		
Work in progress	4,000,000	
Raw materials	3,000,000	
Consumables	600,000	(7,600,000)
Purchase of spare parts		(60,000)
Wood purchased		(4,000,000)
Further wood purchased		(500,000)
Treatment of wood		(100,000)
Closing inventory:		
Work in progress	6,000,000	
Raw materials	1,300,000	
Consumables	340,000	
Spare parts (R60,000 – R5,500)	54,500	7,694,500
Existing machinery (R5,000,000 x 20%)		(1,000,000)
Damaged machine (R1,240,000 x 20%)		(248,000)
Recoupment:		
Proceeds (R600,000 + R50,000)	650,000	
Less tax value (R1,240,000 x (100% - 40% - 20% - 20%))	(248,000)	
Recoupment pending deferral decisions	**402,000**	
CGT:		
Proceeds	650,000	
Less recoupment	(402,000)	
	248,000	
Less base cost	(248,000)	
Cost	1,240,000	
Less allowances	(992,000)	
Capital gain	0	
Deferral of recoupment possible (R402,000 x 40%)		160,800
New machine (R1,520,000 x 40%)		(608,000)
Fine (not deductible)		0
Wages and salaries		(5,000,000)
Year-end party		(110,000)
Taxable income		13,629,300

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Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Question 16

a	Issues with document: - Labelling - Company address and VAT number - Recipient name and address - Document number - Description - Tax charges	 1 1 1 1 1 1
Maximum 6 marks		
b	VAT payable: Output VAT - Sales Input VAT - Flight - Staff party - Materials - Consultant - Salaries and wages - Deadline	 0.5 0.5 0.5 0.5 0.5 0.5 1
Maximum 4 marks		
Total 10 marks		

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Question 17

a	Transactions with foreign subsidiaries:	
	Hip (Pty) Ltd	
	- Sales price	0.5
	- Transfer pricing adjustment	1
	- Dividends tax	1
	Jazz (Pty) Ltd 2026	
	- Sales price	1
	- Exchange loss	1
	Jazz (Pty) Ltd 2027	
	- Exchange gains	1.5
Maximum 6 marks		
b	Repair contract:	
	2026 year-end effects	
	- Gross income	0.5
	- Allowance	1
	2027 year-end effects	
	- Reversal	1
	- Actual expenditure	0.5
	Timing of tax on profit	1
Maximum 4 marks		
Total 10 marks		

Question 18

a	First provisional payment:	
	- Basic amount	1
	- Payment	1
Maximum 2 marks		
b	Second provisional payment:	
	- Lowest amount	2
	- Basic amount	1
Maximum 3 marks		
ci	Second provisional payment:	
	- Exceeds R1 million	1
	- Identifying minimum	1
Maximum 2 marks		
cii	Underestimate penalty:	
	- Tax on R700,000	0.5
	- Primary rebate	0.5
	- Tax on R808,000	0.5
	- Primary rebate	0.5
	- Penalty	1
Maximum 3 marks		
Total 10 marks		

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Question 19

a	Capital loss:	
	- Market value	0.5
	- Base cost	0.5
	- Ringfencing	2
Maximum 3 marks		
b	Capital gain:	
	- Proceeds	0.5
	- Selling costs	0.5
	- Calculate R	0.5
	- Calculate P	1.5
	- Calculate Y	1.5
	- Post October 2001 expenditure	0.5
	- Deduct selling costs	0.5
	- Primary residence exclusion	0.5
	Taxable gain	1
Maximum 7 marks		
Total 10 marks		

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Question 20

a	Tax payable for 2026:	
	- Salary	0.5
	- Employer pension fund	0.5
	Hotel partnership	
	- Income	0.5
	- Expenses	0.5
	- Half of loss	0.5
	Investments	
	- SA dividends	0.5
	- SA interest	0.5
	- Interest exemption	0.5
	- Foreign dividends	0.5
	- General exemption	1
	- REITS	0.5
	Capital gains	
	- Proceeds	0.5
	- Cost	0.5
	- Improvements	0.5
	- Half share	1
	- Annual exclusion	0.5
	- 40% of gain	0.5
	Retirement contribution deduction:	
	- Employer contribution	0.5
	- Lesser of R350,000	0.5
	- Higher of figures	1.5
	- Full amount claimed	0.5
	Tax calculation:	
	- Charge per tables	1
	- Primary rebate	0.5
	- Medical contribution credit	0.5
	- Employees tax deduction	0.5
Total 15 marks		

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Question 21

a	Woodworks (Pty) Ltd – taxable income for 2026:	
	- Revenue	0.5
	Opening inventory	
	- Work in progress	0.5
	- Raw materials	0.5
	- Consumables	0.5
	- Spare parts	0.5
	- Wood purchased	0.5
	- Further wood	0.5
	- Treatment of wood	0.5
	Closing inventory	
	- Work in progress	0.5
	- Raw materials	0.5
	- Consumables	0.5
	- Spare parts	1
	- Existing machinery	0.5
	- Damaged machine	0.5
	Recoupment	
	- Proceeds	1
	- Tax value	1
	Capital gains tax:	
	- Proceeds	0.5
	- Recoupment	0.5
	- Base cost	0.5
	- Allowances	0.5
	Other:	
	- Deferral of recoupment	1
	- New machine at 40%	1
	- Fine	0.5
	- Wages and salaries	0.5
	- Year-end party	0.5
Total 15 marks		

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