



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Economics
DEPARTMENT	Commercial Accounting
CAMPUS(ES)	SWC
MODULE NAME	Taxation 3A
MODULE CODE	TAX33A3
SEMESTER	First
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Supplementary Summative Assessment Opportunity July 2019

ASSESSMENT DATE	July 2019	SESSION	
ASSESSOR(S)	Ms. K Esterhuizen Mr. K Masehela Ms. J Soobramoney		
MODERATOR(S)	Dr. M Bornman Ms. L Bester		
DURATION	3 hours (180 min)	TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	9
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INFORMATION/INSTRUCTIONS:

- Answer all questions.
- Use a blue or a black pen only.
- Show all calculations, workings and reasoning clearly.
- Silent, non-programmable calculators may be used.
- **Round up** all amounts to the nearest **Rand** (except for Question 1 – VAT).
- **Round up** to two decimals for Question 1.

Question	Topic	Marks	Time
1	VAT	25	45 minutes
2	Company Taxable Income	50	90 minutes
3	Provisional Tax – Company	10	18 minutes
4	Gross Income and General Deductions Theory	15	27 minutes
		100	180 minutes

QUESTION 1**[25 MARKS]**

Pectoral Ltd (Pectoral) is a company which sells gym equipment to various gyms and private individuals in Cape Town. It is a registered VAT vendor. Francis Pecks, the proud CEO, started the company when he was in his first year at the University of Cape Town (UCT), after discovering how his dancing pectoral muscles appealed to the ladies. He owns 100% of the company.

Note: All amounts are inclusive of VAT where appropriate unless otherwise mentioned and Pectoral is in possession of all valid tax invoices.

During the company's two-month VAT period ended 31 May 2019, the following transactions occurred:

- a) Pectoral purchased R100 000 of gym equipment from a Johannesburg VAT vendor and imported R50 000 (customs duty value) of gym equipment from a supplier in the United States.
- b) Pectoral sold gym equipment to customers in South Africa to the value of R2 500 000 (R50 000 of these sales were to non-vendors) and sales to customers in Zimbabwe to the value of R40 000.
- c) Pectoral paid short-term insurance of R1 500 per month (R500 thereof relates to a motor car). The company paid salaries of R15 000 per month.
- d) The company's building was broken into and a motor car and two computers were stolen. Insurance paid out R50 000 for the motor car and R10 000 in total for the two computers.
- e) On 28 March 2019, Pectoral decided to expand its business and purchased a small office block previously occupied in Observatory for R1 500 000. The purchase price of the office block was paid in full on 05 May 2019.
- f) Pectoral bought two used bakkies from a non-vendor. One of the bakkies purchased was a single-cab bakkie for R65 000 (open market value was R60 000). The second vehicle was a twin-cab bakkie which was purchased for R80 000 (open market value was R75 000).

- g) On the 22 May 2019, Francis took some gym equipment with an open market value of R2 500 for his personal use. He paid the company R800 for this equipment on the same date. The cost of this equipment was R3 000 (excluding VAT) when the company acquired it two years previously.
- h) The CEO of the company, Francis Pecks had to fly to Durban on business. The company incurred the following costs in respect of Francis's trip (amounts include VAT):
- Air ticket R1 250
 - Car hire R980
 - Hotel accommodation R750
 - Meals, drinks and other food and beverages for Francis and a client of Pectoral R220.
- i) The company purchased the petrol of R5 250 for the above two used bakkies. The company purchased a stationery of R2 500 from a non-vendor.

REQUIRED:

- 1.1 Calculate the net VAT payable by or refundable to Pectoral Ltd for its two-month VAT period ended 31 May 2019. Clearly distinguish between Input and Output tax. Provide reasons for any amounts not included in your calculation. **(20)**
- 1.2 Provide the four (4) requirements that would allow for the deduction of input tax on second hand goods. **(4)**
- 1.3 Are vendors that are in the business of supplying entertainment allowed to claim input tax deductions for entertainment expenses? **(1)**

QUESTION 2**[50 MARKS]****PART A (10 Marks)**

You have been appointed as the Accounting Officer of Balls CC. Balls CC is **NOT a small business corporation**. The information below relates to Balls CC for the financial year ending 30 May 2019:

- Net profit before tax R384 505

Question 2 continued on next page.

The bookkeeper advised that the following items of income and expenditure were taken into account in the determination of the Net profit before tax of R384 505:

- Dividends received from SA companies R19 500
- Interest received from SA banks R14 540
- Legal expenses R34 000

The legal expenses were incurred in respect of:

- Attorney letters to debtors for outstanding debts, R28 000
- Court fees of R6 000 were paid for the owner's divorce case
- Depreciation on office furniture R9 800
 - Office furniture with a cost of R98 000 was purchased on 1 January 2017. Depreciation is written off at 10% p.a. on the straight-line method. The Commissioner allows a wear and tear allowance on office furniture over 6 years
- Depreciation on office equipment R3 000
 - A printer was purchased on 1 May 2016 for R6 000. Depreciation is written off at 50% p.a. For tax purposes, the company elected to write the asset off in full in the year of acquisition.

REQUIRED:

Calculate the **Taxable Income** for the 2019 year of assessment for Balls CC **by starting your calculation with the Net profit before tax of R384 505.**

Provide a reason for the inclusion or exclusion of any amount in your Taxable Income calculation (Make sure that you address every transaction noted above). Show all calculations. Ignore VAT and CGT for the purpose of this question. **(10)**

PART B

(40 Marks)

You are preparing the annual tax return of JayZee Ltd for the 2019 year of assessment ending 30 April 2019. The company manufactures gear boxes for heavy motor vehicles. JayZee Ltd is **not a small Business Corporation** as defined in s12E of the Income Tax Act. JayZee (Pty) Ltd wishes to postpone the payment of taxes where applicable. JayZee Ltd is a VAT vendor. All amounts exclude VAT unless stipulated otherwise.

The bookkeeper supplied you with the following information for the year ended 30 April 2019:

1. Sales for the year amounted to R28 280 000.
2. Purchases of raw material (gear boxes) for the year, R7 500 000.
3. Trading stock on hand:

- 1 May 2018	R80 000
- 30 April 2019	R60 000
4. Raw material stock on hand:

- 1 May 2018	R45 900
- 30 April 2019	R35 100
5. A gear box that was not made to a client's satisfaction, was donated on 1 December 2018 to a charitable organization – Mandla's Children's Home- to be fitted to their light delivery vehicle. The charitable organization is not a registered Public Benefit Organization. The gear box had a cost of R6 800 and a market value of R6 000.
6. Bad debts written off:

- Trade debtors	R120 000
- Amount owing by a former employee for a personal loan made to him. The employee has left the service of the company and never repaid the loan.	R14 000
- Interest on the loan owed by the employee	R 1 500
7. Provision for doubtful debts as at 30 April 2019:

• Debts of 125 days in areas	R110 000
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Provision for doubtful debts as at 30 April 2018:

• Debts of 90 days in areas	R80 000
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JayZee Ltd does not apply IFRS 9.

8. During July 2018, the company was awarded a contract by the local municipality to fit gear boxes to 20 municipal trucks. It came to light that the company paid bribes to the value of R19 000 to influence a member of the tender committee in order to secure the contract.
9. A customer claimed R84 000 from JayZee Ltd as compensation for damages to his vehicle after the gear box fitted to his vehicle fell off while driving. The company agreed to pay the compensation after legal advice was sought.
10. Legal expenses incurred consist of :
- Cost of collecting outstanding debts (including a fee of R1 850 for legal letters written to the former employee owing the loan (see note 6) R33 400
 - Cost of seeking legal advice for payment of compensation to customer (see note 9) R 5 500
11. On 1 December 2018, a restraint of trade payment of R600 000 was paid to a former employee to prevent him from trading in competition with JayZee Ltd for a period of 2 years and 6 months.
12. During October 2018, the owner incurred travelling expenses amounting to R78 000 on a trip to China for buying new high quality parts to be used in the manufacturing process of gear boxes. The trip was very successful and a new supplier was contracted.
13. The company incurred the following staff costs for the year:
- Salaries and wages paid R5 500 000
 - Annuity paid to former employee who retired at the age of 48 to start his own business R85 000
 - Annuity paid to the widow of a deceased employee R60 000

14. On 1 May 2018 the following non-manufacturing asset was on hand:

- Computer equipment:
Cost = R855 000 Tax value = R484 200
- On 1 September 2018, the company bought a new 2-ton truck to be used for deliveries. The truck cost R380 500 and was brought into use immediately.
- On 1 October 2018, the company bought a site hut for R150 000 and positioned it on a temporary foundation which cost R30 000. It paid transport costs of R12 000 to take the site hut to the building site where it was placed on the foundation. The hut was brought into use on 1 October 2018. The company claims wear and tear of 15% per annum on the site hut.
- New computer equipment was purchased and brought into use on 1 June 2018 at a cost of R190 000.

The write-off periods for wear and tear as allowed by SARS are as follows:

Computer equipment: 3 years

Delivery vehicle: 4 years

15. Details of machinery used in the process of manufacturing:

- Bending and cutting machinery which had been purchased new on 1 October 2014 for R3 500 000 was on hand on 30 April 2019.
- A used industrial welding machine that was purchased on 1 August 2014 for R550 000, was destroyed when a truck crashed into it on 1 June 2018. The insurance paid out an amount of R180 000.
- A new industrial welding machine was bought to replace the destroyed machine and brought into use on 1 December 2018 at a cost of R720 000. Costs to install the machine amounted to R18 400.

REQUIRED:

Calculate the income tax payable of JayZee Ltd.'s for the year of assessment ended 30 April 2019. Show all calculations. Ignore any CGT implications. If any amount should not be included in your calculations, state the reason why. **(40)**

QUESTION 3**[10 MARKS]**

1. What is the definition of a provisional taxpayer? **(3)**
2. Must a provisional taxpayer submit an IRP6 to SARS if the amount payable for the period is nil? **(1)**
3. Explain what is meant with the “basic amount”? **(2)**
4. When does the taxable income have to be adjusted with 8% per annum in order for it to be used as the basic amount? **(1)**
5. Is a provisional tax return required for the third provisional tax payment? **(1)**
6. What is the implication for the taxpayer who is liable for paying provisional tax if he/she does not submit an IRP6 (Provisional tax return)? **(1)**
7. What is the penalty percentage for late payment of provisional tax? **(1)**

QUESTION 4**[15 MARKS]****PART A****(10 Marks)**

Solly is a 35-year-old man working in South Africa. He considers his home to be in Zambia, which is where his family lives, and where he returns to whenever possible. During the 2019 year of assessment Solly earned R950 000 as his salary from his employers for his work performed in South Africa. He also earned the equivalent of R50 000 rental income from a flat he rented out in Zambia. He was physically present in South Africa for the following number of days:

<u>Year of assessment</u>	<u>Number of days</u>
2014	95
2015	110
2016	115
2017	92
2018	151
2019	355

REQUIRED:

Explain fully whether any amounts received by Solly should be included in his gross income for the 2019 year of assessment. **(10)**

PART B**(5 Marks)**

Fancy Shoes (Pty) Ltd is a company incorporated in South Africa. During the 2019 year of assessment, Fancy Shoes (Pty) Ltd was robbed and R25 000 worth of shoes was stolen. The company recorded this as a loss due to theft of inventory by robbers.

REQUIRED:

Explain fully whether Fancy Shoes (Pty) Ltd would be allowed to deduct the loss due to theft of inventory by robbers as a general deduction in its taxable income calculation for the 2019 year of assessment. **(5)**

Total: 100 Marks