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| FACULTY/COLLEGE | College of Business and Economics |
| SCHOOL | School of Accounting |
| DEPARTMENT | Accountancy |
| CAMPUS | APK |
| MODULE NAME | Taxation 200 |
| MODULE CODE | TAX2AB0 |
| SEMESTER | Second |
| ASSESSMENT OPPORTUNITY | Final Assessment Opportunity |
| MONTH AND YEAR | November 2019 |

| | | | |
|------------------------|----------------------------------|--------------------|---------------|
| ASSESSMENT DATE | 18 November 2019 | TIME | 12:30 – 15h00 |
| ASSESSORS | Mr J Wessels Mrs M Wassermann | | |
| MODERATORS | Mrs L Barnard Mr S Makhaya | | |
| DURATION | 150 minutes | TOTAL MARKS | 100 |

| | |
|---|---|
| NUMBER OF PAGES OF QUESTION PAPER (Including cover page) | 7 |
|---|---|

INSTRUCTIONS:

1. You are reminded that answers may **NOT** be written in pencil. **NO** tippex may be used.
2. The marks shown against the requirement(s) for every question should be regarded as an indication of the expected length and depth of your answer.
3. Answer the questions by the use of:
 - effective structure and presentation;
 - clear explanations;
 - logical arguments; and
 - clear and concise language.
4. Show all calculations clearly.
5. Round all amounts to the nearest Rand.

| Question | Marks | Time allocated (minutes) |
|--------------|------------|--------------------------|
| 1 | 25 | 37.5 |
| 2 | 20 | 30 |
| 3 | 30 | 45 |
| 4 | 25 | 37.5 |
| Total | 100 | 150 |

QUESTION 1**25 MARKS**

This question consists of 3 independent parts.

PART A**10 marks**

State whether the following statements are true or false:

1. The Tax Administration Act only binds SARS.
2. The Diamond Export Levy Act is also subject to the Tax Administration Act.
3. An objection by a taxpayer to a tax assessment must be in writing, but no grounds have to be stated at this stage.
4. Section 102 of the Tax Administration Act states that the taxpayer bears the onus to determine the amount to be included or deducted in a tax calculation.
5. A Taxpayer may not represent himself in the Tax Court.
6. Adam Smith felt that there were five basic maxims with regard to Taxes in general.
7. Micro Businesses have a choice on whether to register for Turnover Tax.
8. It is always to the taxpayer's advantage to register as a Turnover Tax payer.
9. When registered for turnover tax, the taxpayer is taxed on the receipt basis only.
10. The third provisional tax payment of an individual is based on his "basic amount", but excluding capital gains included in the "basic amount".

PART B**10 marks**

The Gross Income definition consists of five elements. These elements are not defined in the Income tax Act, and we have to go to case law to get the meaning of each of the elements.

One of the elements is that an amount has to "accrue" to a taxpayer.

REQUIRED:

- Briefly discuss the principles **and** how the decisions evolved of the tax cases dealing with "accrual" and the differences between the various Judgments. **(8)**
- Give a short example where "accrual" will be an issue. **(2)**

PART C**5 marks**

John Makwaeba ("John") farms with Bonsmara cows in the Free State. During a recent farming conference, he became aware that Meat Master Sheep are more profitable in the Free State climate.

He therefore sold half of his herd of Bonsmara cows for R650 000 (50 cows at R13 000 per cow) on 5 February 2019, and deposited the full amount into a Land Bank account.

John found and purchased a healthy heard of Meat Master sheep on 11 October 2019. After negotiating with the owner, he paid R500 000 for 100 sheep.

John know that you are a tax expert and has some questions for you.

REQUIRED:

- 1.1 John Makwaeba wants to know if the sale of the cows will be subject to Capital Gains Tax? Supply a short explanation for your answer. **(2)**
- 1.2 One of John Makwaeba's friends told him about the Paragraph 13A Relief Provision. He said that the provision stipulates that if proceeds because of sale of livestock is deposited with the Land Bank, the proceeds will only be taxed in the year you use the proceeds to buy replacement livestock. Uncle John wants to know if that provision will apply to him, and when the proceeds will be taxed. **(3)**

QUESTION 2**20 MARKS**

Professor Pepper (Pty) Ltd ('Prof Pepper'), is a manufacturer of handheld self-defence pepper sprays, and is a category C Value Added Tax ("VAT") vendor.

The following transactions, which are all **VAT inclusive, where applicable**, were entered into during October 2019:

| Details | Note | Amount (R) |
|---|------|------------|
| Sale of pepper sprays (all to customers in South Africa) | | 2 280 000 |
| Purchases of raw materials from VAT vendors in South Africa | | (467 500) |
| Sale of pepper sprays to a client in Brazil, South America | 1. | 250 000 |
| Interest received | 2. | 47 000 |
| Rental received: Office space | 3. | 85 000 |
| Rental received: Apartments | 4. | 50 000 |
| Lease payment made to vendor for fixed property | 5. | (22 800) |
| Purchases of raw materials from non-VAT vendors in South Africa | | (380 500) |
| Repairs and maintenance: Apartments | | (180 000) |
| Salaries and wages for staff working in the apartments (R40 000) and in the manufacturing business (R150 000) | | (190 000) |
| Air ticket for the Managing Director to fly to Durban on business | | (3 200) |
| Gautrain ticket for the Managing Director (travel to and from OR Tambo Airport) | | (300) |
| Hiring a motor car while the Managing Director was in Durban | | (8 100) |
| Water bottles purchased for the water coolers throughout the manufacturing building from VAT vendors | | (2 280) |

Notes:

1. The goods were exported directly to the client in Brazil.
2. Interest received on a money market investment for October 2019.
3. Prof Pepper sublets office space in the manufacturing building in which it manufactures the pepper sprays.
4. The apartments are part of a property purchased by Prof Pepper for investment purposes. The apartments are rented out to natural persons for domestic use at a market related rate.
5. The manufacturing building is leased from a property company. The rent is a fixed amount paid per month. There are no finance charges included in the monthly rental payments.

In addition to the above, the following information may be relevant:

- For the year ended 31 December 2018, Prof Pepper had raised an allowance for doubtful debts of R96 000. By October 2019 Prof Pepper had successfully managed to collect R60 000 of this amount, and decided to write off the balance. The balance relates to a sale concluded in January 2015, and the debtor can't be traced.
- Prof Pepper acquired a second-hand machine from a VAT vendor to fill the pepper sprays with pepper gas for a consideration of R40 000 on 24 October 2018. The consideration was paid in two equal instalments of R20 000, the first on taking delivery and the second on 15 November 2019.
- An old machine was sold to a non-vendor on 31 October 2019 for R25 000.

REQUIRED:

- 2.1 Calculate the VAT effect for each of the transactions for Professor Pepper (Pty) Ltd in respect of the October 2019 tax period. Provide a reason if a transaction does not have an effect on the VAT calculation. **(17)**
- 2.2 Professor Pepper (Pty) Ltd plans to sell pepper sprays to students of the local university at cost price, for cash only. Shortly explain to Prof Pepper (Pty) Ltd if it should charge VAT (and what rate) on these cash transactions. **(3)**

QUESTION 3**30 MARKS**

Create-an-App Ltd ("CAA") is a South African Resident company and develops iPad applications and manufactures Apple accessories. This process is a process of manufacture as per Practice Note 42. CAA is a registered VAT vendor. The financial year-end of CAA is on 30 September. Below is information relating to the 2019 year of assessment: **(All amounts include VAT, where applicable, unless otherwise stated.)**

1. CAA sales for the year:
 - a. Cash sales R7 041 000
 - b. Credit sales R2 085 000
2. The stock count on 30 September revealed the stock balances as follows:

| | 2019 R | 2018 R |
|----------------|-------------------|-------------------|
| Finished goods | 300 000 | 200 000 |
| Raw materials | 50 000 | 60 000 |

3. Purchases of raw materials in the current financial year amounted to R6 049 800.
4. During the year CAA donated accessories from their trading stock to a local orphanage with a cost price of R30 000 and a market value of R50 000. They received a S18A certificate for this donation. **(All amounts for this note are excluding VAT.)**
5. CAA also earned local and foreign dividends from listed investments. The following amounts were paid into their bank account:
 - Local dividends: R15 000
 - Foreign dividends: R35 000 (CAA owns only 1% of the shares in the foreign company, according to the tax legislation of the home country no withholding tax was applicable)
6. CAA purchased and took into use a new machine on 30 March 2019. The machine is used in the process of manufacture. The machine had a cost price R205 200.
7. CAA has a delivery vehicle which it purchased and took into use on 8 January 2019 for R588 000. According to Interpretation Note 47 delivery vehicles can be written off over 4 years.
8. Due to the growth in the industry and the looming Fourth Industrial Revolution, CAA designed a new manufacturing building:
 - a. CAA purchased a piece of land on which to build a new manufacturing building. The land was purchased on 2 December 2018 for R800 000 (excluding VAT).
 - b. Building of the new building began on 15 January 2019 and was completed on 22 August 2019. The building was brought into use on 12 September 2019.

The total cost of the building was R5 025 000 (excluding VAT, but including an amount of R45 000 relating to the salaries of wages of own employees to test the new building).

9. This new plant led to the sale of the old building. The old building was purchased second hand and taken into use on 4 April 1999.

CAA paid R800 000 in total for the property: R200 000 for the land and R600 000 for the building. The previous owner did not qualify for any allowances on the building.

Due to the property being in an abandoned part of town, it was sold on 3 September 2019 for only R720 000, (R250 000 of the selling price was for the land). The building was used until 30 August 2019.

On 1 October 2001 the market value of the building was R700 000, and the land R220 000. The Time Apportioned Base cost on valuation date was R581 429 for the building and R209 091 for the land.

(All amounts for this note are excluding VAT.)

10. Municipal rates and taxes for the year amounted to R29 900.

11. CAA declared a cash dividend of R1 200 000 on 5 March 2019. This dividend was paid to the shareholders on 18 May 2019.

The shareholders are made up as follows:

| Shareholder | Shareholding |
|---|--------------|
| SDG (Pty) Ltd (South African resident company) | 45% |
| Lesedi Trust (a registered Public Benefit Organisation) | 20% |
| Allen Pension fund (south African resident) | 15% |
| Various South Africa resident natural persons | 20% |

REQUIRED:

- 3.1 Calculate Create an App Ltd's taxable income for its 2019 year of assessment. If an amount should not be included or deducted in your calculation of taxable income provide a reason. **(26)**
- 3.2 **In terms of note 11:** Calculate the amount each of the shareholders will receive, and state when CAA has to pay over withholding tax (if any) in respect of the dividends declared. **(4)**

QUESTION 4

25 MARKS

Nandi Khumalo ("Nandi") is 35 years old and not married. She is a stock manager at Mobile Cellphone Network Ltd ("MCN"), a mobile telecommunications company. She has been employed by MCN since January 2004. The following is applicable for the 2019 year of assessment:

1. On 15 January 2019 MCN announced that 80% of staff in managerial positions will be retrenched on 31 October 2019. Nandi realised that she will have to start looking for alternative sources of income. With cellphones being high in demand and her knowledge of stock movements at shops, she decided to start a syndicate that robs cellphones from cellphone shops in Gauteng.

For the month of February 2019 she received R350 000 in cash from selling the stolen cellphones and incurred R100 000 in paying wages, in cash, to the people working with her in the syndicate. She also incurred R1 000 in respect of other expenses she considered to be deductible for tax purposes.

2. As part of her duties, Nandi needs to visit various warehouses and outlets in Gauteng. She received a travel allowance of R7 500 a month from her employer. She kept a log book of her travels, which showed the following for the current year of assessment:

| | Kilometres |
|---------------------------------|-------------------|
| Travel between house and office | 5 320 km |
| Travel on MCN business | 15 810 km |
| Travel for private use | 5 210 km |
| | <u>26 340 km</u> |

She did not keep records of her actual expenses incurred. Nandi drives a Hyundai i20 passenger vehicle that she had purchased on 1 April 2016 for R220 000 (including VAT).

3. During the year, Nandi represented MCN at a telecommunications conference in Kwazulu Natal. MCN arranged and paid for her accommodation, and paid her R420 per day for meals and incidental costs. She was away from home for 7 nights. She kept accurate records of the expenses she incurred while away from home, and it amounted to R2 940.
4. MCN does not have landlines at its offices, and provides all employees with the use of a MTN cellphone and pays the monthly bills on calls made. Nandi received a new iPhone X with a cost price of R17 000 and market value of R23 000. Nandi's cellphone account for the year amounted to R48 300, and according to her itemised billing 20% related to private calls.
5. MCN pays R30 per meal for all employees in management positions at a local diner. MCN provides each employee with 20 coupons per month for which the employees must pay R320 (R16 per coupon). One meal can be enjoyed at the diner for each coupon. Because Nandi is single and does not enjoy cooking she makes use of this offer.
6. MCN withheld employees' tax of R8 500 per month from Nandi's salary.

REQUIRED:

- In terms of Note 1:** Discuss, with reference to relevant case law, whether the R350 000 cash received from selling stolen cellphones will be included in Nandi Khumalo's Gross Income. (You do not have to refer to the gross income definition in your answer, only relevant case law.) **(5)**
- Discuss, with reference to the positive test of the general deduction formula, whether the costs incurred (wages and other costs) in respect of stealing cellphones will be deductible for income tax purposes. You can assume for this part of the question that the R350 000 will be included in Nandi Khumalo's gross income. (You do not have to include case law in this part of the answer, only apply the positive test of the general deduction formula.) **(6)**
- Calculate Nandi Khumalo's taxable income for the 2019 year of assessment. Where a transaction or amount has no effect on your calculation, clearly indicate that with a "nil" and provide a reason. **(14)**

APPENDIX A**Travel allowance – deemed costs**

| Where the value of the vehicle | Fixed cost R | Fuel cost c | Maintenance cost c |
|--|-----------------|----------------|--------------------------|
| Does not exceed R85 000..... | 28 352 | 95,7 | 34,4 |
| exceeds R85 000 but does not exceed R170 000 | 50 631 | 106,8 | 43,1 |
| exceeds R170 000 but does not exceed R255 000 ... | 72 983 | 116,0 | 47,5 |
| exceeds R255 000 but does not exceed R340 000 ... | 92 683 | 124,8 | 51,9 |
| exceeds R340 000 but does not exceed R425 000 ... | 112 443 | 133,5 | 60,9 |
| exceeds R425 000 but does not exceed R510 000 ... | 133 147 | 153,2 | 71,6 |
| exceeds R510 000 but does not exceed R595 000 ... | 153 850 | 158,4 | 88,9 |
| exceeds R595 000 | 155 850 | 158,4 | 88,9 |

APPENDIX B

**NORMAL TAX RATES
PERSONS OTHER THAN COMPANIES AND TRUSTS**

Year of assessment ending 28 February 2019

| Taxable Income | | Rates of taxes | |
|----------------|-----------------|-----------------------------------|-----------|
| Exceeds | Does not exceed | | |
| R | R | R | R |
| 0 | 195 850 | 0 + 18% of each R1 | |
| 195 850 | 305 850 | 35 253 + 26% of the amount above | 195 850 |
| 305 850 | 423 300 | 63 853 + 31% of the amount above | 305 850 |
| 423 300 | 555 600 | 100 263 + 36% of the amount above | 423 300 |
| 555 600 | 708 310 | 147 891 + 39% of the amount above | 555 600 |
| 708 310 | 1 500 000 | 207 448 + 41% of the amount above | 708 310 |
| 1 500 000 | + | 532 041 + 45% of the amount above | 1 500 000 |