



PROGRAM : LLB
MODULE : TAX LAW
CODE : BRE0011/TLW41A0
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DURATION : 2 HOURS
TOTAL MARKS : 50

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MODERATOR : PROF J CALITZ
EXTERNAL EXAMINER : DR C FRITZ (UNIVERSITY OF PRETORIA)
NUMBER OF PAGES : 2 PAGES

INSTRUCTIONS:

1. Write legibly.
2. Answer in the answer sheet provided.
3. All examination rules of the University of Johannesburg are applicable.
4. Your answers should express a clear point of view in relation to each question.
5. Question papers must be handed in.

Question 1 (15 marks)

Section 11(a) of the Income Tax Act 58 of 1962 (the Act) provides for the deduction of expenditure incurred in the production of income, provided such expenditure is not of a capital nature. Expenditure is not defined in the Act. However, the term has been defined in case law.

With reference to relevant case law, discuss the term “expenditure” as a requirement of deductibility in terms of section 11(a) of the Act.

QUESTION 2 (20 marks)

Landlord Company (“LCo”) is a South African resident company that owns multiple properties consisting of vacant land, farms, and other immovable property. In 2016 LCo entered into an agreement with Tenant Company (“TCo”) a South African tax resident company for the rental of a plot owned by LCo. The lease agreement entitles TCo to occupy and use the plot for trading purposes for a period of 3 years (2016, 2017 and 2018). In the first year of the lease, TCo would build a warehouse on the property, which would enable TCo to carry out its trading activities. In the second and third years TCo would pay LCo rent amounting to R2million per year. Due to excessive torrential rains resulting in flooding LCo had to vacate the plot at the beginning of 2018 and has not used the plot for the 2018 tax year. LCo and TCo have not filed any tax returns since 2016 and approach you in 2019 to advise them on the tax implications of these transactions since 2016.

Advise LCo and TCo.

QUESTION 3 (15 marks)

Neo is in the business of buying, improving and then selling houses at a profit. In 2006 Neo bought a house (‘the house’) for R4 million and spent R2 million in improving it with an intention to sell it to Joe. Unfortunately, Joe decided not to buy the house. As a result, Neo decided not to sell the house anymore, but to move into the house with his wife and children. They moved into the house in 2007. In 2018 Neo sold the house and moved into a bigger house. He sold the house for R7 million.

Advise Neo on the tax implications of the transactions in relation to the house since its purchase in 2006.