
Answers

				Marks	
1	Vista Gardening Services (Pty) Ltd				
		R	R	R	
	Contract income and sales			1,642,150	0·5
	Interest – banks			16,200	0·5
	– loans			350	0·5
	Dividends (exempt s.10(1)(k))			0	0·5
	Compensation – fixed property – capital			0	1
	– loss of profits – revenue	$130,000 \times \frac{100}{114}$		114,035	1
	– machinery damaged recoupment				
	proceeds	$50,000 \times \frac{100}{114}$	43,860		
	less tax value		<u>(30,000)</u>	13,860	1
	Capital gain				
	proceeds		43,860		
	Less s.8(4)(a) recoupment		<u>(13,860)</u>		
			30,000		
	Less Base cost	75,000			
	Less wear & tear	(2006 40% + 2007 20%) <u>(45,000)</u>	<u>(30,000)</u>	0	1·5
	Profit on sale of truck (see below)			<u>0</u>	
	Total income			1,786,595	
	Expenditure				
	Trade expenditure			(942,500)	0·5
	Repairs to trucks			(9,100)	0·5
	Legal expenses	$1,800 \times \frac{127,895}{189,298}$		(1,216)	1
	Wear and tear allowances				
	– Machinery (2005)	$64,500 / 25\% = 258,000 \times 20\%$		(51,600)	1·5
	– Machinery destroyed	$75,000 \times 20\%$		(15,000)	1
	– Replacement machinery	$80,000 \times 40\%$		(32,000)	1
	– New moulding machine	$98,000 \times \frac{100}{114} \times 40\%$		(34,386)	1
	– Equipment	$20,000 / 20\%$ full write off < R5,000		(100,000)	1
	– Trucks				
	– existing	$114,000 \times \frac{100}{114} \times 2 \times 25\%$		(50,000)	1·5
	– truck sold				
		Tax value	100,000		
		25% 2005	(25,000)		
		25% 2006	(25,000)		
		$25\% \times \frac{10}{12}$ 2007	<u>(20,833)</u>	(20,833)	1
			29,167		
	Proceeds	$34,200 \times \frac{100}{114}$	<u>30,000</u>		
	Recoupment			833	1
	Capital gain		30,000		
			<u>(833)</u>		
			29,167		
		base cost	100,000		
		less	<u>(70,833)</u>	(29,167)	0
	Finance charges on new machine	$20,008 \times \frac{6}{36}$		(3,335)	1
	Trade mark registration s.11B prohibits deduction			0	1
	Bad debts: loan never in income			0	1
	loan interest			(500)	1
	customers			(11,500)	1
	Pension fund contributions s.11(1)(<10%)			(35,000)	1

	R	R	R	Marks
Donations (see below)			0	
Life insurance premiums	shareholder		0	1
	foreman s.11(w)		(5,400)	1
Damages – in the production of income			(22,100)	1
Building allowance	$800,000 \times \frac{100}{114} \times 5\%$		(35,088)	1
Taxable income before donation deduction			417,870	
Donation R25,000 limited to	$417,870 \times 5\% = 20,893$		(20,893)	1
Taxable income			<u>396,977</u>	<u>30</u>

2 Cherie Oldham

(a)		R	R	
Employment				
Salary			380,000	0.5
Termination lump sum		100,000		
	> 55 s.10(1)(x)	(30,000)	70,000	2
Annual bonus			32,000	0.5
Use of company car	$285,000 \times \frac{100}{114} = 250,000$			
	$250,000 \times (2.5\% - 0.22\%) \times 11$		62,700	2
Medical aid contributions	$(1,500 - (500 \times 2)) \times 11$		5,500	1
Self employment				
Sales	$90,000 \times \frac{100}{114} =$	78,947		0.5
Closing stock on hand	$71,000 \times \frac{100}{114} =$	62,281		1
Purchases	$120,000 \times \frac{100}{114} =$	(105,263)		0.5
Rent	$14,000 \times \frac{100}{114} =$	(12,281)		1
Salary		(5,000)		1
Interest paid	January s.11A	(9,000)		1
	February s.11(a)	(9,000)		1
Computer	$13,000 \times \frac{100}{114} = 11,404$			
	$\frac{11,404}{3} \times \frac{1}{12}$	(317)		2
Furniture – market value	$\frac{15,000}{6} \times \frac{1}{12}$	(208)		2
Profit from business			159	
Interest			31,000	
Less – interest exemption			(16,500)	1
			564,859	
Less – retirement annuity limited to	$600 \times 12 = 7,200$			
	$15\% \times 564,859$		(7,200)	2
			557,659	
Less – medical contributions medical expenditure	1,500 limited to 500×2		(1,000)	1
	$(45,000 + 500 + 5,500)$	51,000		
	Less $7\frac{1}{2}\% \times 557,659$	(41,824)		2
Taxable income			<u>547,483</u>	<u>22</u>
(b) Employees' tax – monthly				1
Provisional tax – six monthly: on 31 August, on 28 February				2
				3
				<u>25</u>

3 Jan Dekker

	R	R	R	
1. Helicopter (not a personal use asset)				
Wear and tear	1,500,000 × 20%		(300,000)	1
Recoupment				
Proceeds	limited to cost	1,500,000		1
Tax value	Cost	1,500,000		
Less wear and tear	(20% × 3) (2005, 2006, 2007)	<u>(900,000)</u>	<u>(600,000)</u>	1
Capital gain			900,000	
Proceeds	1,700,000			1
Less recoupment	<u>(900,000)</u>			1
	800,000			
Less base cost (1,500,000 – 900,000)	<u>(600,000)</u>			1
Gain	<u>200,000</u>			
2. Primary residence				
Base cost	(2,400,000 + 300,000) = 2,700,000			1
Pre 1 October 2001 asset:	$B + \frac{[P - B] \times N}{T + N}$ 2,700,000 + $[(8,000,000 - 2,700,000) \times \frac{3}{3 + 6}]$ = 4,466,667			3
Proceeds		8,000,000		
Less time adjusted base cost (TABC)		<u>(4,466,667)</u>		
Capital gain		3,533,333		0.5
Less primary residence exclusion		<u>(1,500,000)</u>		1
		<u>2,033,333</u>		
3. MG motor car				
Personal use asset	– no CGT effect			1
4. Holiday cottage				
Base cost	$P = R \times \frac{B}{(A+B)}$ $P = 750,000 \times \frac{200,000}{200,000 + 100,000}$ = 500,000			2
	$B + \frac{[P - B] \times N}{T + N}$ 200,000 + $[(500,000 - 200,000) \times \frac{10}{16}]$	387,500		2
Use this value as greater than market value (R350,000)				1
Add expenditure after 1 October 2001		<u>100,000</u>		1
Adjusted base cost		487,500		
Proceeds		<u>750,000</u>		
Capital gain		<u>262,500</u>		0.5
Aggregate capital gains (200,000 + 2,033,333 + 262,500)		2,495,833		
Less annual exclusion		<u>(12,500)</u>		0.5
		<u>2,483,333</u>		
Taxable capital gain 2,483,333 × 25%			<u>620,833</u>	0.5
Total taxable income effect			<u>1,220,833</u>	20

4 Talibo (Pty) Ltd

VAT control account

		Inputs Dr R	Outputs Cr R	
Opening balance 1 June 2007			6,100	0.5
VAT paid 25 June		6,100		0.5
1. New machine	No input and no deemed input	-		1
2. Bad debt	$1,000 \times \frac{14}{114}$	123		1
3. Passenger motor car	Input denied	-		0.5
Fringe benefit	$153,900 \times \frac{100}{114} \times 0.3\% \frac{14}{114}$		50	1
4. Sales	$(342,800 - 136,000) \times \frac{14}{114}$		25,396	1
Export sales	R136,000 – Zero rated		-	1
5. Television	$6,840 \times \frac{14}{114} =$	840		1
Fringe benefit	6,000			
Less exemption	(5,000)			
	<u>1,000</u>	$\times \frac{14}{114}$	123	2
6. Purchases	$(103,600 \times 80\%) \times \frac{14}{114}$	10,178		1
Non-vendors	$(103,600 \times 20\%)$ no input	-		1
7. Motor car fringe benefit	No output as input was denied on purchase			1
8. Second-hand vehicle	Not a passenger motor car			
Deemed input	$80,000 \times \frac{14}{114}$	9,825		2
		<u>27,066</u>	31,669	
Inputs			<u>(27,066)</u>	
Balance at 30 June 2007			<u>4,603</u>	0.5
				<u>15</u>

5 (a) Ce Décor CC qualifies as a small business corporation as turnover is less than R14,000,000.

Gross income		7,000,000	0.5
Cost of sales		(4,000,000)	0.5
Staff costs		(1,400,000)	0.5
Wear and tear	$\frac{5,000}{10\%} = 50,000 \times 30\%$	(15,000)	2
Rentals		(220,000)	0.5
Taxable income		<u>1,365,000</u>	
Tax payable			
On income	0 – 40,000	Nil	
	40,001 – 300,000	26,000	
	300,001 +	$(1,365,000 - 300,000) \times 29\%$	2
		<u>308,850</u>	
		334,850	
On dividends paid	STC	$500,000 \times 12.5\%$	1
		<u>62,500</u>	7

(b) Anne and her daughter would both be liable for employees' tax in the form of PAYE but no part of this would be SITE. This is because they are members of the close corporation and would also be provisional taxpayers.

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