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# Answers

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|              |   |                 | R               | Marks     |
|--------------|---|-----------------|-----------------|-----------|
| <b>1 (a)</b> | Cash salary 8 000 x 12                          |                 | 96 000          | 1/2       |
|              | Travel allowance 3 500 x 12                     | 42 000          |                 | 1         |
|              | <i>less</i> deemed business cost                |                 |                 |           |
|              | – total kms (limited)                           | 32 000          |                 | 1         |
|              | private kms                                     | <u>(14 000)</u> |                 | 1/2       |
|              | deemed business kms                             | 18 000          |                 |           |
|              | – Rate  |                 |                 |           |
|              | Fixed cost $\frac{51\ 110}{34\ 000} =$          | 150,32          |                 |           |
|              | Fuel  | 27,50           |                 |           |
|              | Maintenance                                     | <u>24,80</u>    |                 |           |
|              | Cents per km                                    | 202,62          |                 | 2         |
|              | Deemed business cost R2,0262 x 18 000           | <u>36 472</u>   | 5 528           | 1 1/2     |
|              | Medical aid fund fringe benefit                 |                 | –               | 1         |
|              | Entertainment allowance 1 000 x 12              |                 | 12 000          | 1         |
|              | Expenditure – no deduction (s.23m)              |                 | –               | 1/2       |
|              | Telephone allowance 500 x 12                    |                 | 6 000           | 1/2       |
|              | <i>less</i> wear and tear 1 200 x 33 1/3% x 40% |                 | (160)           | 1 1/2     |
|              | Monthly costs – non deduction                   |                 | –               | 1         |
|              | Pension contribution limited to 7 1/2% x 96 000 |                 | (7 200)         | 1 1/2     |
|              | Interest income                                 |                 | 15 000          | 1/2       |
|              | Exempt interest                                 |                 | (11 000)        | 1/2       |
|              | Dividends – exempt                              |                 | –               | 1/2       |
|              |   |                 | <u>116 168</u>  |           |
|              | RAF contributions                               | 5 000           |                 |           |
|              | limited to 15% x R20 168                        |                 | (3 025)         | 1 1/2     |
|              | Medical deductions                              |                 |                 |           |
|              | – medical aid contributions                     | 7 200           |                 |           |
|              | – expenditure (32 000 – 25 000)                 | <u>7 000</u>    |                 |           |
|              |   | 14 200          |                 |           |
|              | <i>less</i> limit                               | <u>(500)</u>    | (13 700)        | 1 1/2     |
|              | Taxable income                                  |                 | <u>99 443</u>   |           |
|              | Tax   |                 | 19 681          | 1/2       |
|              | <i>less</i> rebate                              |                 | <u>5 800</u>    | 1/2       |
|              | Tax liability                                   |                 | <u>13 881</u>   | <u>19</u> |
| <b>(b)</b>   | Pension R10 000 x 12                            |                 | 120 000         | 1/2       |
|              | Nursery: Gross income                           | 600 000         |                 | 1/2       |
|              | Cost of sales                                   | (200 000)       |                 | 1/2       |
|              | Salaries  | 150 000         |                 |           |
|              | <i>less</i> annuity (10 000 – 2 500)            | <u>(7 500)</u>  | (142 500)       | 1 1/2     |
|              | Rates etc                                       |                 | (50 000)        | 1/2       |
|              | Depreciation:                                   |                 |                 |           |
|              | – buildings                                     |                 | –               | 1         |
|              | – trucks (30 000 ÷ 20% x 25%)                   |                 | (37 500)        | 1 1/2     |
|              | – sundry equipment                              |                 | <u>(10 000)</u> | 1/2       |
|              | Taxable income                                  |                 | <u>160 000</u>  |           |
|              | Tax   |                 | 82 070          | 1/2       |
|              | <i>less</i> rebates: primary                    | 5 800           |                 |           |
|              | over 65   | 3 200           | <u>9 000</u>    | 1         |
|              | Tax liability                                   |                 | <u>73 070</u>   | <u>8</u>  |

**Marks**

(c) A pension is remuneration as defined in the Fourth Schedule to the Act. It is therefore included in 'net remuneration' and is not specifically excluded (as for example is the case for annuities from an RAF). The first R60 000 of the annual pension is subject to SITE.

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| 2 (a)  |                    | R 000's        |                  |
|--|--------------------|----------------|------------------|
| Sales (include export sales)   |                    | 40 000         | 1 <sup>1/2</sup> |
| Cost of sales:   | (25 000 000)       |                |                  |
| Add spare part to closing stock  | <u>200 000</u>     | (24 800)       | 1                |
| Dividend income (exempt)   |                    | –              | 1/2              |
| Interest taxable   |                    | 200            | 1/2              |
| Sale of asset:   |                    |                |                  |
| Cost of machine  | 1 000 000          |                |                  |
| less 12C 80%   | <u>(800 000)</u>   |                |                  |
| Tax value  | 200 000            |                |                  |
| Recoupment   | 800 000            |                |                  |
| s.8(4)(e) Add to income 40%<br>(this is equivalent to the allowance rate on the replacement machine)                                     |                    | 320            | 3                |
| CGT Proceeds   | R1.1m              |                |                  |
| less recoupment  | <u>0.8m</u>        |                |                  |
|  | 0.3m               |                |                  |
| less base cost   | <u>(0.2m)</u>      |                |                  |
| Capital gain   | 100 000            |                |                  |
| Include in taxable income 50% x 40%  |                    | 20             | 3                |
| Salaries   | 2 500 000          |                |                  |
| less: restraint (only 1/3 deductible)  | <u>(600 000)</u>   | (1 900)        | 2                |
| Depreciation   |                    |                |                  |
| – Buildings cost R600 000 ÷ 2% = R30 000 000<br>s.13 allowance 10%   |                    | (3 000)        | 2                |
| – Machinery  |                    |                |                  |
| Old machine  |                    | (200)          | 1 <sup>1/2</sup> |
| New machine 2m x 40%   |                    | (800)          | 1 <sup>1/2</sup> |
| Remaining machines<br>(2 200 000 – 200 000) ÷ 20% = 10 000 000<br>s.12C R10 000 000 x 20%  |                    | (2 000)        | 3                |
| – Sundry assets  |                    | (200)          | 1/2              |
| Lease costs:<br>(No adjustment for VAT because no input on motor cars)   |                    | (2 000)        | 1 <sup>1/2</sup> |
| Sundry expenses  |                    | <u>(1 000)</u> | 1/2              |
| Taxable income   |                    | <u>4 640</u>   | <u>22</u>        |
|  |                    |                |                  |
| (b) 2004 dividend declared   | 3 000 000          |                |                  |
| less accrued dividend  | <u>(3 500 000)</u> |                |                  |
| excess carried forward   | 500 000            |                | 2                |
| 2005 dividend  | 2 000 000          |                | 1                |
| less carried forward   | (500 000)          |                | 1                |
| less accrued dividend  | <u>(800 000)</u>   |                | 1                |
| Net dividend   | 700 000            |                |                  |
| STC R700 000 x 12 <sup>1/2</sup> %   |                    | <u>R87 500</u> | <u>1</u>         |
|  |                    |                | <u>6</u>         |
|  |                    |                |                  |
| (c) The STC must be paid by no later than 31 March 2005, i.e. the end of the month following the month in which the dividend cycle ends. |                    |                | <u>2</u>         |

|  |   |                             |                     | Marks     |
|--|---|-----------------------------|---------------------|-----------|
| 3  | 1. Machine  |                             |                     |           |
|  | – s.12C, 20% x 500 000  |                             | (100 000)           | 1         |
|  | – s.8(4)(a) recoupment<br>selling price limited to cost<br>less tax value | 500 000<br><u>(100 000)</u> | 400 000             | 1         |
|  | CGT   |                             |                     |           |
|  | Proceeds (600 000 – 400 000)  | 200 000                     |                     |           |
|  | less market value on 1/10/01  | <u>200 000</u>              |                     |           |
|  | Capital gain/loss   | nil                         | –                   | 1½        |
|  | 2. Sale of land   |                             |                     |           |
|  | Change of intention:  |                             |                     |           |
|  | Deemed disposal (market value)  | 15 000 000                  |                     |           |
|  | Base cost   | <u>(10 000 000)</u>         |                     |           |
|  | Capital gain  | <u>5 000 000</u>            | x 50% 2 500 000     | 2         |
|  | Sale gross income   |                             | 20 000 000          | 1½        |
|  | less opening stock (deemed)   |                             | <u>(15 000 000)</u> | 1½        |
|  | 3. Sale of capital asset  |                             |                     |           |
| Proceeds   | 400 000   |                             |                     |           |
| Cost (deemed)  | (150 000)   |                             |                     |           |
| Labour   | <u>(50 000)</u>   |                             |                     |           |
| Capital gain   | 200 000   | x 50% 100 000               | 2                   |           |
| 4. Office building   |   |                             |                     |           |
| Proceeds   | 4 000 000   |                             |                     |           |
| TABC   |   |                             |                     |           |
| Because costs are incurred after 1 October 2001 an adjustment must be made to P in the TABC formula. |   |                             |                     |           |
| $P = R \times \frac{B}{A + B}$   |   |                             |                     |           |
| $P = 4m \times \frac{2m}{2 \cdot 2m} = 3\,636\,364$  |   |                             |                     |           |
| Therefore TABC is:   |   |                             |                     |           |
| $2m + \frac{(3 \cdot 636364 - 2m \times 7)}{11} = 3\,041\,323$                                       |   |                             |                     |           |
| Add post 1/10/01   |   |                             |                     |           |
|  | Expenditure   | <u>200 000</u>              |                     | 1½        |
|  | Base cost   | <u>(3 241 323)</u>          |                     |           |
|  | Proceeds  | 4 000 000                   |                     |           |
|  | Capital gain  | 758 677                     | x 50%               | 379 339   |
|  |   |                             |                     | 1         |
| 5. Audi sold   |   |                             |                     |           |
|  | Tax value   | 360 000                     |                     |           |
|  | Selling price   | <u>500 000</u>              |                     |           |
|  | Recoup  | 140 000                     | 140 000             | 1½        |
|  | CGT   |                             |                     |           |
|  | Proceeds (500 000 – 140 000)  | 360 000                     |                     |           |
|  | Base cost (600 000 – 240 000)   | <u>360 000</u>              | –                   | 1         |
|  | Other taxable income  |                             | 16 000 000          | ½         |
|  | Taxable income  |                             | <u>24 419 339</u>   | <u>20</u> |

|  | R                | Marks    |
|--|------------------|----------|
| <b>4 (a) –</b> First provisional payment   |                  |          |
| Basic amount R460 000  |                  | 1/2      |
| Tax per table  | 154 070          | 1/2      |
| less rebate  | <u>(5 800)</u>   | 1/2      |
|  | 148 270          |          |
| ÷ 2  | 74 135           | 1        |
| less employees tax 10 800 x 6  | <u>64 800</u>    | 1        |
| First provisional payment  | <u>9 335</u>     | 1/2      |
| <br>– Second provisional payment   |                  |          |
| Basic amount R500 000  |                  | 1/2      |
| Tax per table  | 170 070          | 1/2      |
| less rebate  | <u>(5 800)</u>   | 1/2      |
|  | 164 270          |          |
| less – 1st provisional payment   | (9 335)          | 1        |
| less – employees tax 10 800 x 12   | <u>(129 600)</u> | 1        |
| Second provisional payment   | <u>R25 335</u>   | 1/2      |
| <br>The first provisional payment must be made by no later than 31 August 2004. The second must be made by no later than 28 February 2005. |                  | 1        |
|  |                  | <u>9</u> |
| <br><b>(b)</b> Taxable income (actual) for 2005  |                  |          |
| Salary 30 000 x 12   | 360 000          | 1/2      |
| Use of car 250 000 x 1·8% x 12   | 54 000           | 2        |
| Interest   | 251 000          | 1        |
| Exempt   | <u>(11 000)</u>  | 1        |
| Taxable income   | 654 000          |          |
| <br>Tax on taxable income  | 231 670          |          |
| less rebate  | <u>(5 800)</u>   |          |
|  | 255 870          | 1        |
| <br>Credit amount – 1st provisional  | 9 335            |          |
| – 2nd provisional  | 25 335           |          |
| – employees tax  | <u>129 600</u>   |          |
|  | <u>R164 270</u>  | 1 1/2    |
| <br>The third top-up payment is:   |                  |          |
| Assessed tax   | 225 870          |          |
| Credit amount  | <u>164 270</u>   |          |
|  | <u>R61 600</u>   | 1        |
|  |                  | <u>8</u> |
| <br><b>(c)</b> The short payment is R61 600  |                  | 1/2      |
| Interest in terms of s.89quat is calculated as follows:  |                  |          |
| 1 October 2005 to 31 December 2005 =   | 92 days          | 1        |
| R61 600 x 10·5% x 92/365 =   | <u>R1 630</u>    | 1 1/2    |
|  |                  | <u>3</u> |