

---

# Answers

---

|          |  |  |          | <b>Marks</b>     |
|----------|--|--|----------|------------------|
| <b>1</b> | <b>(a)</b>   | The supply of transport services within South Africa is an exempt supply. Ivan cannot therefore register as a VAT vendor and consequently cannot reclaim the VAT paid on the insurance and maintenance expenses. |          | <u><b>3</b></u>  |
|          | <b>(b)</b>   | <b>R</b>   | <b>R</b> |                  |
|          | Cash salary R20 000 x 6                                    |  | 120 000  | 1                |
|          | Travel allowance R4 000 x 6                                | 24 000   |          |                  |
|          | Business kilometres  |  |          |                  |
|          | 17 000 (limited to 16 000)                                 | 16 000   |          |                  |
|          | less deemed private  | (7 000)  |          |                  |
|          |  | <hr/>  |          |                  |
|          | Deemed business  | 9 000  |          |                  |
|          |  | <hr/>  |          |                  |
|          | Value of vehicle (including VAT) is R228 000               |  |          |                  |
|          | Business costs:  |  |          |                  |
|          | Fixed cost $\frac{68\,697}{34\,000} \times 184/_{365} =$   | 101,86   |          |                  |
|          | Fuel   | 51,10  |          |                  |
|          | Maintenance  | 41,60  |          |                  |
|          |  | <hr/>  |          |                  |
|          | Cents per km   | 194,56   |          |                  |
|          |  | <hr/>  |          |                  |
|          | Deemed business costs                                      | (17 510)   | 6 490    | 3                |
|          | Low interest loan 200 000 x (8,5% x $\frac{6}{12}$ )       |  | 8 500    | 1                |
|          | Employee housing greater of: costs borne by employer       |  |          |                  |
|          | R6 000 x 6 = R36 000 or (220 000 – 20 000) x 17% = R34 000 |  | 36 000   | 3                |
|          | Provident fund – no deduction                              |  | –        | 1                |
|          | Employer contribution not taxed                            |  | –        | 1                |
|          | Debt paid by employer                                      |  | 3 500    | 2                |
|          | Bonus  |  | 30 000   | 1                |
|          | Long service award   | 12 000   |          |                  |
|          |  | (5 000)  | 7 000    | 2                |
|          |  | <hr/>  |          |                  |
|          | Taxi fares (gross income)                                  |  | 160 000  | 1                |
|          | less fuel  |  | (13 000) | 1                |
|          | insurance  |  | (15 000) | 1                |
|          | maintenance  |  | (7 375)  | 1                |
|          | Wear and tear  |  |          |                  |
|          | 250 000 x 1.14 x 20% x $\frac{6}{12}$                      |  | (28 500) | 2                |
|          | Interest income (35 000 – 22 000)                          |  | 13 000   | 1                |
|          | Dividends exempt   |  | –        | 1                |
|          |  |  | <hr/>    |                  |
|          |  |  | 320 615  |                  |
|          | RAF limited to (15% x 320 615)                             |  | (10 000) |                  |
|          | Medical expenses – no limit                                |  | (40 000) | 2                |
|          |  |  | <hr/>    |                  |
|          | Taxable income   |  | 270 615  |                  |
|          |  |  | <hr/>    |                  |
|          | Tax per the table  |  | 74 834   | 1                |
|          | less rebate  |  | (10 800) | 1                |
|          |  |  | <hr/>    |                  |
|          | Income tax liability                                       |  | 64 034   | <u><b>27</b></u> |
|          |  |  |          | <u><b>30</b></u> |

| 2 (a)   | R                | R                | <b>Marks</b> |
|---|------------------|------------------|--------------|
| Taxable income before adjustments   |                  | 10 000 000       |              |
| Cape Town building:<br>5% x R10m (s.13)   |                  | (500 000)        | 1½           |
| Durban building:<br>2% x R5m (s.13)   |                  | (100 000)        | 2½           |
| 5% x R2m (s.13)   |                  | (100 000)        | 2            |
| Machinery:<br>Existing machines at 1 July 2005<br>20% x R20m (s.12C)  |                  | (4 000 000)      | 1            |
| Machine sold:<br>Selling price  | 600 000          |                  |              |
| Tax value   | 100 000          |                  |              |
|   | <u>400 000</u>   |                  |              |
| Recoupment (restricted)   |                  |                  |              |
| Deferred i.t.o. s.8(4)(e)<br>add to income 40%  |                  | 160 000          | 2            |
| New machine R1.2m x 40% (s.12C)   |                  | (480 000)        | 1½           |
| Machine sold to connected person<br>Cost  | 200 000          |                  |              |
| Tax value   | 40 000           |                  |              |
| Deemed disposal proceeds  | 150 000          |                  |              |
|   | <u>110 000</u>   |                  |              |
| Recoupment  |                  | 110 000          | 1½           |
| Second hand machine acquired<br>20% x R520 000  |                  | (104 000)        | 1½           |
| Sale of land:<br>Selling price  | 5 000 000        |                  |              |
| Cost  | (3 000 000)      |                  |              |
|   | <u>2 000 000</u> |                  |              |
| Capital gain  |                  |                  |              |
| Include in taxable income 50%   |                  | 1 000 000        | 2½           |
| Restraint payment R3m x 1/3   |                  | (1 000 000)      | 1½           |
| Retirement lump sum – not in the production of income   |                  | –                | 1            |
| Debt written off  |                  |                  |              |
| – capital portion (not previously in income)  |                  | –                | 1            |
| – accrued interest (s.11(j))  |                  | (30 000)         | 1            |
| Company car<br>Cost of fuel and insurance (s.11(a))   |                  | (23 000)         | 1            |
| Wear and tear:<br>R450 000 x 20%  |                  | (90 000)         | 1½           |
| VAT output (s.11(a))<br>R450 000 x 100/114 x 0.3% x 14/114 x 12   |                  | (1 745)          | 2            |
| Dividend income exempt  |                  | –                | 1            |
| Taxable income  |                  | <u>4 841 255</u> |              |
| Tax liability 29%   |                  | 1 403 964        | 1            |
|   |                  | <u>27</u>        |              |
| <b>(b)</b>  |                  | <b>R</b>         |              |
| Dividend declared   |                  | 1 400 000        |              |
| less dividends accrued  |                  | (800 000)        |              |
|   |                  | <u>600 000</u>   |              |
| Net dividend  |                  | 600 000          |              |
| STC 12½% x 600 000  |                  | 75 000           | 2            |
|   |                  | <u>75 000</u>    |              |
| <b>(c)</b> The STC must be paid by no later than 31 July 2006 i.e. the end of the month following the month in which the dividend cycle ends. |                  |                  | 1            |
|   |                  |                  | <u>30</u>    |

|  | R                | R                  | Marks     |
|--|------------------|--------------------|-----------|
| <b>3</b>   |                  |                    |           |
| 1 Sale of house:   |                  |                    |           |
| $P = 6\,000\,000 \times \frac{1\,000\,000}{1\,500\,000} = 4\,000\,000$ |                  |                    | 1½        |
| $Y = 1\,000\,000 + \frac{(4\,000\,000 - 1\,000\,000 \times 6)}{10}$    |                  |                    | 2         |
| Valuation date value   | 2 800 000        |                    |           |
| Post 1 October 2001 expenditure  | <u>500 000</u>   |                    | 1½        |
| Base cost  | 3 300 000        |                    |           |
| Proceeds   | <u>6 000 000</u> |                    |           |
| Capital gain   |                  | 2 700 000          | 1         |
| Exclusion  |                  | (1 000 000)        | 1½        |
| 2 Holiday house  |                  |                    |           |
| Proceeds   | 2 000 000        |                    |           |
| Cost   | <u>(600 000)</u> |                    |           |
| Capital gains  |                  | 1 400 000          | 2         |
| 3 Transfer of art to business:   |                  |                    |           |
| Personal use assets  |                  | –                  | 1         |
| 4 Sale of motor car  |                  |                    |           |
| Personal use asset   |                  | –                  | 1         |
| 5 Listed shares  |                  |                    |           |
| Proceeds   | 650 000          |                    |           |
| Base cost  | <u>(800 000)</u> |                    |           |
| Capital loss   |                  | (150 000)          | 1½        |
| 6 Loan written off para 12(5)  |                  |                    |           |
| Capital gain   |                  | <u>1 000 000</u>   | 2         |
| Total capital gains  |                  | 3 950 000          |           |
| less annual exclusion  |                  | <u>(10 000)</u>    | 1         |
|  |                  | <u>3 940 000</u>   |           |
| Taxable income:  |                  |                    |           |
| – 25% of capital gain  |                  | 985 000            | 1         |
| – sale of art gross income   |                  | 3 600 000          | 1½        |
| – opening stock (acquisition)  |                  | <u>(2 000 000)</u> | 1½        |
| Taxable income   |                  | <u>2 585 000</u>   | <b>20</b> |

|              |   |                  | <b>Marks</b> |           |
|--------------|---|------------------|--------------|-----------|
| <b>4 (a)</b> | 1st provisional payment                                 |                  | <b>R</b>     |           |
|              | Basic amount  | R120 000         |              |           |
|              | Tax on 120 000  |                  | 24 400       | 1         |
|              | less rebate   |                  | (5 800)      | 1/2       |
|              |   |                  | <hr/>        |           |
|              | Annual tax on estimate                                  |                  | 18 600       |           |
|              | dividend by 2   |                  | 9 300        | 1 1/2     |
|              | less employees tax 900 x 6                              |                  | (5 400)      | 1         |
|              |   |                  | <hr/>        |           |
|              | First provisional payment                               |                  | 3 900        | <u>4</u>  |
| <b>(b)</b>   | 2nd provisional payment                                 |                  | <b>R</b>     |           |
|              | Basic amount  | R140 000         |              | 1         |
|              | Tax on 140 000  |                  | 29 900       |           |
|              | less rebate   |                  | (5 800)      |           |
|              |   |                  | <hr/>        |           |
|              | less employees tax 900 x 12                             |                  | 24 100       | 1         |
|              | 1st provisional payment                                 |                  | (10 800)     | 1         |
|              |   |                  | <hr/>        |           |
|              | Second provisional payment                              |                  | (3 900)      | 1         |
|              |   |                  | <hr/>        |           |
|              |   |                  | 9 400        | <u>4</u>  |
| <b>(c)</b>   | The provisional payments must be made by no later than: |                  |              |           |
|              | 1st   | 31 August 2005   |              |           |
|              | 2nd   | 28 February 2006 |              |           |
|              |   |                  |              | <hr/>     |
|              |   |                  |              | <b>2</b>  |
| <b>(d)</b>   | Taxable income for the 2006 year.                       | <b>R</b>         | <b>R</b>     |           |
|              | Salary R8 000 x 12                                      |                  | 96 000       | 1         |
|              | Pension contributions (s.11(k)) limit to 7 1/2%         |                  | (7 200)      | 1         |
|              | Rental income   |                  | 80 000       | 1         |
|              | Rental expenses   |                  | (15 000)     | 1         |
|              |   |                  | <hr/>        |           |
|              | Taxable income  |                  | 153 800      |           |
|              |   |                  | <hr/>        |           |
|              | Tax on R153 800   | 34 040           |              |           |
|              | less rebate   | (5 800)          |              |           |
|              |   | <hr/>            | 28 240       | 1         |
|              | Credit amount   |                  |              |           |
|              | Employees tax 900 x 12                                  | 10 800           |              |           |
|              | 1st provisional payment                                 | 3 900            |              |           |
|              | 2nd provisional payment                                 | 9 400            |              |           |
|              |   | <hr/>            | 24 100       | 1         |
|              | Third top up payment required                           |                  | <hr/>        |           |
|              |   |                  | 4 140        | 1         |
|              |   |                  | <hr/>        |           |
|              |   |                  |              | <b>7</b>  |
| <b>(e)</b>   | SITE  | <b>R</b>         |              |           |
|              | Salary R4 500 x 12                                      | 54 000           |              |           |
|              | Bonus   | 8 000            |              |           |
|              |   | <hr/>            |              |           |
|              |   | 62 000           |              | 1         |
|              |   |                  | <hr/>        |           |
|              | SITE on first R60 000 only                              |                  | <b>R</b>     | <b>1</b>  |
|              | Tax on R60 000  |                  | 10 800       | 1/2       |
|              | less rebate   |                  | (6 300)      | 1/2       |
|              |   |                  | <hr/>        |           |
|              | SITE to be withheld                                     |                  | 4 500        | <u>3</u>  |
|              |   |                  |              | <hr/>     |
|              |   |                  |              | <b>20</b> |