



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY
FACULTY OF MANAGEMENT SCIENCES**

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING (CA)	
QUALIFICATION CODE: 07BACC	LEVEL: 5
COURSE: Taxation 200 (CA)	COURSE CODE: TAX601Y
DATE: 25 January 2019	SESSION: Theory, Calculation
DURATION: 150 Minutes	MARKS: 100

SUPPLEMENTARY FINAL ASSESSMENT OPPORTUNITY	
Examiner:	Mr. A Ketjinganda
Internal Moderator:	Ms Z Maritz
External Moderators:	Ms M Wassermann, Mr J Wessels

INSTRUCTIONS TO CANDIDATES

1. This paper consists of 6 pages including appendix A (excluding cover page).
2. You are reminded that answers may **NOT** be written in pencil. **NO** tippex may be used.
3. 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.
4. Answer the questions by the use of:
 - Effective structure and presentation; clear explanations;
 - Logical arguments; and clear and concise language.
5. Show all calculations clearly.
6. Round all amounts to the nearest Rand.

Question	Marks	Time allocated (minutes)
1	25	38
2	25	38
3	15	22
4	18	27
5	10	15
6	7	10
Total	100	150

Question 1**25 Marks****Part A****15 Marks**

YOU ARE REQUIRED TO: Indicate whether the following statements are TRUE OR FALSE. Give supporting reasons in cases where it is false.

1. In order to be 'actually incurred', an expense must be paid.
2. Expenditure actually incurred in year one may not be deducted under section 11(a) in year two, i.e. the subsequent year.
3. If a receipt or an accrual is of a capital nature it is not included in the recipient's gross income.
4. Mrs Jones lives in the United Kingdom where she is ordinarily resident. She visits South Africa on a regular basis. Her time spent in South Africa for the 2018 year of assessment and the previous five years of assessment is as follows:

Current year of assessment	- 2018	100 days
Previous years of assessment	- 2017	92 days
	-2016	195 days
	-2015	194 days
	-2014	101 days
	-2013	97 days

Statement: For the 2018 year of assessment, Mrs Jones is a resident as defined.

5. The value of a taxpayer's closing stock on hand on the last day of his year of assessment is added to his gross income.
6. For an amount to be included in a taxpayer's gross income it must be 'received by' him.
7. The *Pick 'n Pay Employee Share Purchase Trust* case is authority for the proposition that a 'Scheme of profit-making' is necessary in order for proceeds from the disposal of an asset to be revenue in nature.
8. If trading stock is donated by the taxpayer, he is required to include in his gross income an amount equal to its cost price.
9. In the period of assessment when a natural person dies, his annual exclusion is R300 000.
10. As from 1 April 2018, VAT rate was changed from 14% to 16%.

Part B**10 Marks**

Mr Andrew Dube, aged 45, entered into a restraint of trade agreement with his ex-employer, Ragged Tooth Ltd, on 12 July 2016. Andrew accepted an amount of R350 000 in consequence of the agreement, which was only paid to him on 14 April 2017.

A few days after paying the amount to him, Ragged Tooth Ltd came to believe that Andrew had not abided by the terms of his agreement. It instituted legal proceedings for damages against Andrew and won its case. The decision of the court was handed down on 19 February 2018, in terms of which Andrew was required to **pay damages** to Ragged Tooth Ltd in the amount of R150 000 and remained subject to the original restraint of trade agreement.

Andrew paid the amount of R150 000 on 20 March 2018.

YOU ARE REQUIRED TO:

Discuss the income tax implications of the above information for Andrew. Refer to case law where appropriate. **(10 Marks)**

Source: Questions on South African tax (2018)

Question 2**25 Marks**

Mrs Smith is 34 years old and works for Villa Homes (Pty) Ltd as an estate agent in the Port Elizabeth Atlantic Seaboard area. She receives a basic salary of R3 000 per month. The majority of her earnings come from commission on the properties she sells. Mrs Smith also has the use of a company car- an Audi 6A series, which the company acquired for cash at its retail market value of R325 000 (including VAT) and which she has had the use of since then.

Mrs Smith is required to pay for all fuel costs, amounting to R12 000. Mrs Smith keeps a logbook and travelled 20 000 kilometres for business and 10 000 kilometres for private use. The Audi has a maintenance plan.

For the tax year ended 28 February 2018, she earned R200 000 commission on house sales.

She also received an entertainment allowance of R2 000 per month, which she uses to entertain prospective customers. She is not required to account for expenditure to her employer, but she does keep accurate records of her expenditure, which amounted to R25 000 for the year ended 28 February 2018.

Mrs Smith contributes 10% of her basic salary to the company's pension fund. Because this is unlikely to meet her future financial needs, she also joined a retirement annuity fund, to which she contributes R2 000 per month. She also belongs to a medical aid fund, to which she contributes R1 500 per month for medical cover for herself and her husband. She also incurred medical expenses of R20 000 that were not covered by her medical aid.

Mrs Smith also runs her own interior decorating business in her spare time. During the year, she earned R45 000 and incurred deductible costs of R22 000. In addition, she estimates that, of the amounts owing to the business, R5 000 will not be collectable. This includes R2 000 that she lent to a supplier whose business was undergoing cash-flow difficulties. She also wrote off a debt of R1 000 as 'bad', which she had identified as doubtful in the previous year. She is not a VAT vendor.

YOU ARE REQUIRED TO:

Calculate Mrs Smith's normal tax payable (after any rebates) for the year of assessment ended 28 February 2018.

(25 Marks)

Adapted: Questions on South African tax (2018)

Question 3**15 Marks**

Andrew Vermus owns a wholesale factory that buys and sells industrial sewing machines and related accessories. He has registered a company trading as AV Sewing CC and is based in Durban. The CC is a registered VAT vendor, accounting for VAT on a two-month cycle.

During the VAT period ended 30 June 2017, the following transactions occurred (All amounts include VAT where applicable):

1. Ten machines were purchased at a cost of R570 000; all machines have the same cost of R57 000 each.

The standard mark-up on cost (including VAT) is 50%, i.e. cost-plus VAT is increased by 50% to derive selling price, which includes VAT.
2. Five machines were sold for cash to the local customers.
3. Foreign sales (directly exported) amounted to R654 287.
4. Rental income of R88 520 received from employees living in the company's residential flats.
5. Marketing manager, Nelson Mbatlana of AV Sewing CC, had to fly to Cape Town on business for 2 nights. AV Sewing CC incurred the following costs in respect of Nelson's trip (amounts include VAT):
 - Air ticket R2 250
 - Car hire R970
 - Hotel accommodation R1 985
 - Meals and drinks for himself R850
 - Cost of entertaining customers R1 564
6. Interest received on investments in ABSA local bank of R14 000.
7. AV Sewing CC paid salaries of R120 000 in the two-month period.
8. Petrol costs were R12 000.
9. Telephone cost amounted to R1 300.
10. Electricity and Water was R1 980.

YOU ARE REQUIRED TO:

Calculate the VAT payable by or refundable to AV Sewing CC in respect of its two-month tax period ended 30 June 2017. (Show detailed workings of how you would deal with each item, and comment where VAT is not applicable) **(15 Marks)**

Adapted: Questions on South African tax (2016)

Question 4**18 Marks**

Janie Ockert, aged 55 years, is a resident of the Republic. During the 2017 year of assessment all his grazing was damaged by fire. He was forced to sell his entire flock of sheep. This flock of sheep comprised five rams and 100 ewes. The flock was sold for R126 000.

During the 2018 year of assessment Janie Ockert's grazing recovered. He purchased 125 ewes at R1 200 each and four rams at R2 500 each.

Details of his taxable income for the 2012 to the 2018 years of assessment follow:

Year of Assessment	Taxable income from		
	Farming	Non-Farming	Total
2012	65 000	255 000	320 000
2013	85 000	255 000	340 000
2014	70 000	260 000	330 000
2015	75 000	260 000	335 000
2016	80 000	262 000	342 000
2017	255 000	260 000	515 000
2018	30 000	270 000	300 000

The taxable income from farming for the 2018 year of assessment is **after** taking into account the deduction for the purchase consideration of the 125 ewes and the four rams.

In the 2012 year of assessment he elected to be subjected to tax under the provisions of paragraph 19(1) of the first Schedule to the Income Tax Act.

YOU ARE REQUIRED TO:

- (a) Farmers' taxable income are taxed under the so-called average basis or the rating formula contained in the two applicable general rating provisions that is, paragraph 15 (3) and paragraph 19(2) of the first schedule.

Contrast the difference in the application of these two general rating provisions. **(8 Marks)**

- (b) Calculate Janie Ockert's normal tax liability with respect to his farming operation in terms of the rating formula for the year of assessment ending 28 February 2018. **(10 Marks)**

Question 5

10 MARKS

YOU ARE REQUIRED TO:

A. Choose the correct answer from the options indicated below regarding questions on the Tax Administration Act (TAA):

1. How many days does the Commissioner has to decide after receiving the notice to show the taxpayer where he has already provided reasons for the objection to the assessment?
 - (a) 45 days
 - (b) 30 days
 - (c) 61 days

2. For how long must a taxpayer keep the records relevant to a return submitted to SARS?
 - (a) 2 years
 - (b) 3 years
 - (c) 5 years

3. What is the process called that has been developed as a less formal, more cost-effective, and speedier way to resolve tax disputes?
 - (a) The Tax Board
 - (b) The Tax Court
 - (c) The Alternative Dispute Resolution

4. Within how long should the refund on a SARS assessment be claimed?
 - (a) 1 year
 - (b) 3 years
 - (c) 6 years

5. How many days, does the Commissioner has to request information, documents or things required to decide on the taxpayer's objection?
 - (a) 20 days
 - (b) 60 days
 - (c) 45 days

(5 Marks)

B. In terms of Section 104 the TAA, the taxpayer may object to the assessment made by SARS and equally in terms of Section 106, SARS may allow an objection, disallow it or allow it only in part.

YOU ARE REQUIRED TO state:

1. In the case where the objection is disallowed by SARS and the taxpayer does not accept the disallowance, what are the five (5) requirements to lodge or steps that the taxpayer can follow with respect to the *notice of appeal*?

(5 Marks)

Question 6**7 Marks**

A friend of yours, Joni, has contacted you for assistance on some tax matters as his knowledge has become too rusty and presented you the following scenario:

Jim Doman is not a resident of South Africa and does not have a permanent establishment in South Africa, nor has he visited South Africa in the last 2 years. He however, visited the Republic for 2 months during the current year of assessment of 2018 for holidays. During the year of assessment, he earned the following:

- Interest of R40 000 on treasury bills;
- Dividend of R15 000 from investments he had made in 2012 in South Africa
- Royalties of R300 000 in respect of a patent he had devised in 2012 and used in South Africa

REQUIRED:

Joni requested that you calculate Jim Doman's taxable income and any withholding taxes in respect of the 2018 year of assessment. **(7 Marks)**

Adapted from Questions on SA tax (2016)

-End of the Examination Paper-

Appendix A

a) Income Tax Table: Individuals 2018 tax year (1 March 2017 - 28 February 2018)

Taxable income (R)	Rates of tax (R)
0 – 189 880	18% of taxable income
189 881 – 296 540	34 178 + 26% of taxable income above R189 880
296 541 – 410 460	61 910 + 31% of taxable income above R296 540
410 461 – 555 600	97 225 + 36% of taxable income above R410 460
555 601 – 708 310	149 475 + 39% of taxable income above R555 600
708 311 – 1 500 000	209 032 + 41% of taxable income above R708 310
1 500 001 and above	533 625 + 45% of taxable income above R1 500 000

b) Travelling allowance

Value of the vehicle (including VAT) (R)	Fixed cost (R p.a)	Fuel cost (c/km)	Maintenance cost (c/km)
0 - 85 000	28 492	91.2	32.9
85 001 - 170 000	50 924	101.8	41.2
170 001 - 255 000	73 427	110.6	45.4
255 001 - 340 000	93 267	118.9	49.6
340 001 - 425 000	113 179	127.2	58.2
425 001 - 510 000	134 035	146.0	68.4
510 001 - 595 000	154 879	150.9	84.9
exceeding 595 000	154 879	150.9	84.9