



University of Fort Hare
Together in Excellence

NKUHLU DEPARTMENT OF ACCOUNTING

TAXATION

ATV 221E

**FINAL ASSESSMENT
NOVEMBER 2019**

ASSESSOR: Ms Simoné Buchler (Internal)
MODERATOR : Mrs Gail Young (Internal)
TIME: 3 hours (plus 20 minutes reading time)
MARKS: 120
PAGES: 12 pages (including front page and an addendum)
INSTRUCTIONS:

1. Answer **all** the questions.
2. Start each question on a new page.
3. Show all workings clearly – marks are allocated to workings.
4. Only answers in ink will be marked (including workings). Pages where pencil or tippex were used will not qualify for remarking.
5. Only silent, non-programmable calculators are allowed.
6. Students that contravene the rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.

Question	Marks	Minutes
1	15	22
2	37	56
3	28	42
4	40	60
	120	180

QUESTION 1**15 MARKS (22 MINUTES)**

This question consists of two **INDEPENDENT** and **UNRELATED** parts.

PART A**7 MARKS (10 MINUTES)**

On 21 November 2018, Rich Coyne, the Australian number-one tennis player, won the South African Open Tennis Tournament that was played in Johannesburg. He was awarded R1 000 000 for winning this event.

In addition to the prize money that he won, Rich Coyne also earned a further R500 000 for appearance moneys and fees for assisting various advertising campaigns. These appearances took place in Durban and Cape Town and the various advertising campaigns to place in Johannesburg.

QUESTION 1 – PART A - REQUIRED	MARKS
<p>Discuss whether the amounts earned by Rich Coyne should be included in gross income from a South African Income Tax perspective.</p> <p><i>You do not need to discuss the entire gross income definition. Ignore any withholding tax implications.</i></p>	7

PART B**8 MARKS (12 MINUTES)**

Bestcar (Pty) Limited, a car-hire business, paid damages of R25 000 to a customer. The claim arose due to a fault in a hired car that was involved in an accident. The customer had suffered injuries and had claimed damages of R25 000. On the advice of its lawyer, it has not disputed the claim, but merely settled the claimed amount of damages. Legal costs incurred by it were R3 400.

QUESTION 1 – PART B - REQUIRED	MARKS
<p>Discuss whether the R25 000 damages settled by Bestcar (Pty) Limited and the R 3 400 legal expenses incurred by it would be deductible in the determination of its taxable income.</p>	8

QUESTION 2**37 MARKS (56 MINUTES)**

Jessica Johnson, aged 56 years and South African resident, is employed as a project director of a non-profit company, Make It Better South Africa ('MIBSA'). She has been in their employ for 16 years enjoying certain fringe benefits as part of her employment package. She was employed for the entire year of assessment.

The following information relates to her income and expenses for the year of assessment ended 28 February 2019:

1. Jessica received a cash salary of R18 000 per month.
2. Jessica belongs to the pension fund of MIBSA to which she contributes 8% of her cash salary. MIBSA contributes an additional 8% of her cash salary to the fund. Her remuneration for the purposes of this calculation is R365 217.
3. Jessica has the use of a motor car owned by MIBSA for the entire year of assessment. The motor car was purchased by MIBSA for R100 000 (the car's retail market value) on 1 June 2017 at which time it was given to Jessica to use. The car is not subject to a maintenance plan as defined.

For the current year of assessment, Jessica kept an accurate log book reflecting a total of 15 786 kms, 7 342 kms of which were for private purposes. Jessica is responsible for the insurance of R1 200 per month and bears the total fuel cost of private use.

4. On 1 April 2018, MIBSA purchased a painting for R6 000 and gave this painting to Jessica as a reward for 15 years long service.
5. MIBSA granted Jessica a loan of R100 000 with 6% interest (compounded annually) on 1 March 2018 to assist her with the deposit for the purchase of her first privately owned house. She repaid R20 000 of this loan at the end of on 28 February 2019. The official rate of interest is 7.5% (compounded annually).
6. With effect from 1 July 2018, Jessica's employer provided her with a furnished, four-bedroomed house (the employer paid for the electricity) at a monthly rental of R2 500. Jessica's remuneration proxy was R315 000.

7. Jessica belonged to the medical scheme of MIBSA. She and her disabled son were the only two dependents of the scheme. The total contribution made to the scheme each month is R4 000 of which MIBSA pays R2 000 and Jessica pays R2 000. By the end of the year, Jessica had to pay an additional R30 000 of qualifying medical expenses (which were not covered by the medical fund scheme).
8. Jessica received South African Interest of R26 500 during the 2019 year of assessment.
9. MIBSA deducted employees' tax of R45 000 from her annual salary.

QUESTION 2 - REQUIRED:	MARKS
Calculate, with reasons, Jessica Johnson's normal tax liability for the year of assessment ended 28 February 2019. Round your calculations to the nearest rand and include reasons for your workings.	37

QUESTION 3**28 MARKS (42 MINUTES)**

Ikhaya Proprietary Limited ('Ikhaya'), which is located in East London and operates under the slogan "Your home away from home", owns various properties and business ventures around the area. Ikhaya is a category B VAT vendor. All the transactions were entered into with VAT vendors and all amounts are inclusive of VAT, unless otherwise stated. The following income and expenses were incurred by Ikhaya for the VAT period ending 31 October 2019.

INCOME

1. Sales comprises of the following:

Bed and breakfasts (all stays by guests are for periods of less than 28 days)	R46 000
Board and lodging at a hostel (excluding VAT) (all periods of stay are for longer than 28 days)	R35 000
Sale of linen	Note A

Note A:

Ikhaya started manufacturing their own linen in order to save costs. Due to popular demand, Ikhaya started selling linens to local and foreign customers. The following amounts were earned during September and October 2019:

Local sales	R9 200
Foreign sales	R12 000

2. Other income consists of interest income of R1 223 and bad debts recovered amounting to R2 500 related to foreign sales of linen (See note 1 above).
3. During October, a Suzuki motorcycle used in deliveries was involved in an accident on the way back from delivering takeaways to Vincent. The insurance company paid the replacement cost of the motorcycle that carries 1 passenger of R12 000 and made a cash pay-out of R35 000 to the company to reimburse the third party for damages to their vehicle.

EXPENSES

4. Purchase of raw materials consists of:

Purchases of other raw materials from vendors	R13 800
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5. Municipal rates and taxes of R25 000 per month.

6. Bank charges of R275 per month.

7. Employee costs incurred as follows:

Salaries and wages	R56 500
Staff party held in September 2019	R12 500
Tuition fees for employee studying at the Technikon to become a qualified baker	R10 000

8. Stationery purchased for R772 in the month of October. The administrator purchased the stationery from petty cash and lost the tax invoice for this purchase on the way back to the office.

9. Costs incurred for the managing director:

Subscription to the local food and wine club to keep on top of the latest trends in hospitality	R1 000
Return air ticket from Johannesburg to Paris, France to meet with potential clients that would like to enter into a long-term agreement to purchase linen produced by Ikhaya.	R7 800

10. Insurance premiums of R4 400 per month.

11. Depreciation of R5 500 per month.

12. Fuel costs of R6 450 for the two months, September and October 2019.

13. The following assets were purchased during the month of October 2019:

A second-hand oven from a non-VAT vendor. All the requirement paperwork was obtained.	R15 000
Due to increased demand in takeaways, another delivery vehicle was purchased. Ikhaya purchased a new small 4-door sedan.	R95 000

QUESTION 3 - REQUIRED:	MARKS
Calculate, with reasons, the net VAT payable or refundable for the two-month VAT period ended 31 October 2019. Round your calculations to the nearest rand and provide brief reasons for including and excluding amounts.	28

QUESTION 4**40 MARKS (60 MINUTES)**

Bright Lights Proprietary Limited ('Bright Lights') is a private company that produces candles and is located in East London. Bright Lights is not a small business corporation as defined in section 12E of the Income Tax Act No.58 of 1962. The bookkeeper of Bright Lights calculated a net profit before tax of R2 450 000 for the year ended 31 October 2019. Included in the profit before tax are the following amounts:

1. Sales

The sales amount includes R120 000 from a customer who paid a deposit for a delivery of lavender-fragranced candles. Bright Lights expected to deliver the inventory before 31 October 2019 but was unable to secure the raw materials from a supplier needed to produce the candles and therefore no delivery was made to the customer.

2. Dividends

Moonbright Proprietary Limited ('Moonbright') Bright Lights holds 100% of the issued share capital of Moonbright, a private company. The dividends were declared and paid on 1 March 2019.	R30 000
Sun Plc Sun Plc (not a controlled foreign company) is a company resident in Scotland. Bright Lights holds 15% of Sun Plc's total equity shares and voting rights. The dividend, converted to Rands, was received on 31 December 2018.	R50 000

3. Repairs and maintenance

The engine of a delivery vehicle belonging to Bright Lights has to be replaced because of a fault. A new engine, with the same specifications as the replaced engine, was bought from its manufacturer. Bright Light's delivery vehicle was used in the same way as it had been before the engine was replaced. The new engine cost R150 000.

4. Depreciation**a) Administration building**

The administration building was purchased new in 2008 by Bright Lights at a cost of R2 500 000. Depreciation has been provided for at 2% on a straight-line basis in calculating profit before tax.

b) **Factory building**

Bright Lights was required to move to a bigger factory in 2019 due to increased production capacity requirements. Bright Lights entered into a lease agreement with Darkness Limited for 20 years with a renewal period of 3 years on the 1 July 2019 for a monthly rental of R10 000. Per the lease agreement, Bright Light was to make improvements to the value of R4 500 000 to the building. These improvements were completed on 1 September 2019 and ultimately cost R5 000 000. The effects of the lease have not yet been accounted for in the current year's profit and loss statement.

The previous factory building erected for R2 000 000 and brought into use on 01 November 2008 was sold on 30 June 2019 for R800 000. The accountant has recorded the following:

Depreciation	R 26 667
Loss on sale of asset	R373 333

c) **Laptops**

Two second hand laptops were purchased for R4 450 each on 1 April 2019. The South African Revenue Services (SARS) allows a write off period of three years in terms of Interpretation Note No. 47. Depreciation of R1 731 was deducted from profit.

5. Other expenses

The following amounts were paid for the current year of assessment:

Expense	Period	Total Amount
Security expense	1 August 2019 – 31 July 2020	R168 000
Health and Safety certification as required by the Department of Labour	1 July 2019 – 30 June 2020	R45 000

The accountant correctly calculated the amounts that must be included in the profit or loss statement.

6. Fines

Bright Lights paid a fine of R4 785 for the late payment of Value Added Tax in July 2019.

The bookkeeper was unsure of how to deal with following amounts and therefore these amounts have not been considered in the calculation of profit before tax, unless otherwise stated:

7. Donations

Bright Lights donated R100 000 to Shining Lights Educare, a registered Public Benefit Organisation. A section 18A certificate was received.

8. Bad debts

Northern Lights Limited owed R45 000 for a delivery of candles. This was written off during the year as the company could not pay the amount due to insolvency.

9. Doubtful debt allowance

Trade receivables as at 31 October 2019 is as follows per the accounting records:

Aging	Balance
0 – 30 days	R 89 009
31 – 59 days	R78 999
60 – 89 days	R45 009
90 – 119 days	R34 004
120 days or more	R9 007
Provision for doubtful debts	(R18 005)
Total	R238 023

The prior year's provision for accounting purposes was R21 010. The accountant accounted for the movement between the balances in the profit or loss statement. Bright Lights does not apply IFRS 9 in its financial statements. The prior year provision allowed for tax purposes was R15 500.

10. Restraint of trade

Bright Lights paid a Miss Bestseller, a sales person who resigned from the company. a restraint of trade payment of R200 000. He was not allowed to work as a sales person within a radius of 1 000 kilometres of Bright Lights for a period of 2 years.

QUESTION 4 - REQUIRED:	MARKS
Calculate, with reasons, Bright Lights Pty Ltd normal tax liability for the year of assessment ended 31 October 2019. Start your calculation with the net profit before tax and adjust where applicable. Provide brief reasons for including and excluding amounts. Round your calculations to the nearest rand. Ignore VAT and capital gains tax (CGT) implications.	40

ADDENDUM

Tax Tables: 2019 year of assessment

Taxable income (R)	Rates of tax (R)
0 – 195 850	18% of taxable income
195 851 – 305 850	35 253 + 26% of taxable income above 195 850
296 541 – 423 300	63 853 + 31% of taxable income above 305 850
423 301 – 555 600	100 263 + 36% of taxable income above 423 300
555 601 – 708 310	147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000

Tax Rebates: 2019 year of assessment

Primary	R14 067
Secondary (65 or older)	R7 713
Tertiary (75 or older)	R2 574

Medical Tax Credits: 2019 year of assessment

R303 per month for the taxpayer who paid the medical scheme contributions
R303 per month for the first dependant
R204 per month for each additional dependant(s)

Rates per Kilometre: 2019 year of assessment

Value of the vehicle (R)	Fixed cost (R p.a)	Fuel cost (c/km)	Maintenance cost (c/km)
0 - 85 000	28 352	95.7	34.4
85 001 - 170 000	50 631	106.8	43.1
170 001 - 255 000	72 983	116.0	47.5
255 001 - 340 000	92 683	124.8	51.9
340 001 - 425 000	112 443	133.5	60.9
425 001 - 510 000	133 147	153.2	71.6
510 001 - 595 000	153 850	158.4	88.9
more than 595 000	153 850	158.4	88.9

Interest Exemption: 2019 year of assessment

Person younger than 65	R23 800
Person 65 and older	R34 500

Fringe Benefit: Accommodation: 2019 year of assessment

Formula = $(A - B) \times C/100 \times D/12$

"B" in the formula is R78 150.