



# PRINCIPLES OF TAXATION

TAX2601

[Abstract](#)

Designed for students attending face-face or online tutorial classes with UNITUTORS/ LSLSS

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## WELCOME TO OUR EXAMPACK FOR 2015

In this pack we included the questions and answers for the SELECTED PAST EXAM PAPERS of the module. And we hope this will make you pass with flying colors.



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## October –November 2014

### Question 1

calculation of income tax liability

Taxable income	5 989 747
Water tank;	
-Repairs	[20 0000]
-Allowance [s11e][36000/6 ]	[6 000]
-New machine AA;	
Allowance [s12c]-cost [600 000x40%]	[240 000]
-moving cost [15 000x6/48]	[2 500]
NB [Moving cost in equal installments each year Hence apportion]	
Machine BB	
-Allowance [s12c][250 000x20%]	[50 000]
-Recoupment	30 000
=selling price[Limited to cost ]less tax value	
=180 000[Limited to 250 000]-150 000	
=30 0000	
Cost	250 000
Allowances-2013	[50 000]
-2014	[50 000]
TAX VALUE	<u>150 000</u>
-Manufacturing building cc	
-Allowance [s13][2 500 000x5%]	[125 000]
-building DD [s13 quat ]	



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-allowance[5 000 000x55%x8%]	[ 220 000 ]
Building EE [S13quin]	
-allowance[1 700 000x55%x5%]	[46 750]
-Building LL [S13 September]	
-Allowance [130 000-10 000]x10%	[12000]
-recoupment[10 000limited to 12 000]	10 000
-buildingxx[s13]	
-allowance[30 000x1/5x3/12]	[1500]
-office furniture	
-Allowance[66 000x1/6x2/12]	[1833]
-scrap allowance	[9167]
Selling price[limited to cost]-tax value	
=0[Limited to 66 000]-9167	
Tax value beginning year	11 000
Allowance during year	[1 833]
Tax value	9167
-heavy duty truck	
Allowance[22 500x1/3]	[75 000]
-Toolbox	
-allowance-small asset in full	[2 000]
-rental –photo copy machine	[42 000]
Taxable income	<u>4'615'997</u>
Tax liability=4'615'997x28%=	
1'292'479'16	



## Question 2

Income tax liability

31/03/2014 year of assessment

Scales		2 000 000
Recoupment	[s22[8]	25 000
Local dividend		50 000
Exemption [s10]		[50 000]
Rental income[5 000x12]		60 000
-leasehold improvements		<u>300 000</u>
-include lesser of approved amount or actual cost		
-allowance for leasehold improvements are for the leasee		
<b>INCOME</b>		<b>2'385'000</b>
WATER and electricity		[45 000]
Salaries		[280 000]
Opening stock[s22]		[ 200 000]
Purchases[s11a]		[600 000]
Closing stock[s22]		350 000
Patent purchased[500 000x5%]		[25 000]
Renewed		[16 000]
-restraint of trade		
-deduct lesser of		
330 000/5 or 330 000/3		[66 000]
-bad debts-Trade debtors		[30 000]
-loan to employee-not in		
The production of income		



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-doubtful debt-previous year	28 125
-during[126 000x25%]	[31500]
-recoupment-chicken coops[s22[8]	
[400 000-380 000]	<u>20 000</u>
Taxable income	1'489'625
donation 28 000[limited to 10% of taxable	<u>[28 000]</u>
28 000[limited to 148 963]	
Taxable income	<u>1461 625</u>
Tax liability per small bizz tables	
=59702+28%[14 61625-550001]=314957	







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-10% of proceeds[100000x10%]	10000
-market value at vdv	400000
-TABC	18750

Hence base cost at vdv= 400000

Total Capital gain	3990000
Less assessed capital loss	[100000]
Aggregate capital gain aftr capital loss	<u>3890000</u>
<b>Taxable capital gain[3890000x66.6%]=2590740</b>	



## Question 4

### PART A

S11(a)-expenditure actually incurred-eagle crown has actually paid full cost of Mr Z Tech and his wife

S11(a)-in the production of income-The business class air ticket and hotel cost from 5 June to 10 June 2013 for Mr Z Tech was in the production of income, since he attended aviation work shop

S11(a)-not of a capital nature-all cost were of of a revenue in nature

S23(g)-any amounts claimed as a deduction from income derived from trade to the extent to which such moneys were not laid out for purpose of trade they will be no deduction allowed.

-the full cost for Mrs B Tech 92500 was not for purposes of trade hence no deduction allowed

-the cost for Mr Z Tech hotel cost from 11 June to 24 June 2013 they were visiting friends and family hence not for purposes of trade no deduction is allowed

Conclusion

The only deduction allowed is hotel cost and air ticket for Mr Z Tech 56125(332550+22875)

### PART B

a)

- The tax practitioner should file a notice to appeal with the commissioner
- The notice should be filed within 30 business days
- The tax practitioner should file an address that the commissioner can use to file.

b)

- The tax payer can take the matter to the tax board if tax is less R500 000 but as the amount is above the specified amount.
- The tax payer can take the matter to the tax court by filling with the tax court.

### Part C

a) First provisional tax payments

Basic amount as last assessment last done more than 18 months ago

$825338 \times 1.16 = 957392$

First provisional tax payment  $R957392 \times 28\% \times 1/2 = 134035$

b) Second provisional tax payment

Estimated  $1\,025\,414 \times 28\%$

287 116



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Less profit provisional tax payment	<u>(134035)</u>
Second provisional tax payment	<u>153081</u>



OCT/NOV 2013

## QUESTION 1

a) Administrative steps to lodge an appeal to SARS

- To lodge an objection,

- i) It must be lodged on the prescribed forms
- ii) It must be submitted within the prescribed period of 30 days
- iii) It must specify the grounds on which it is being made
- iv) It must specify an address on which the tax payer will receive notice on from the commissioner.
- v) The appeal must signed by the tax payer.

b) When an objection has been settled SARS has to keep the following in its records

- i) Details that should be made known to the tax payer
- ii) The settlement agreement in writing
- iii) The explanation of how the issue was settled and how it is to be treated in future.
- iv) The secrecy provisions that pertain to SARS work
- v) The altered assessment that is final unless fraud is involved on the part of the tax payer.

c) Income tax

- i) Income tax
- ii) Vat
- iii) Provisional tax and P.A.Y.E
- iv) Estate duty
- v) Transfer duty
- vi) Exercise duty



## Question 2

- a) i) Its income should be R20 million or less in any year of assessment ended 31 March 2013
- ii) It should not own any shares in other companies that are more than 5% of those companies, whether operating or not.
- iii) Its investment income should be 20% or less of its total income
- iv) The company may not be a personal service provider
- v) The shareholders must be natural persons in any year of assessment under review

b) Tax liability for Fratela Ltd for the year of assessment ended 28 February 2013 (SBC)

	R
Taxable income before latest and capital gains	385 000
Interest received	17 500
Capital gain @ 0.666 × 55 000	<u>36 630</u>
Taxable income	<u>419 130</u>
Tax there on as per tax tables	
=R21 051 + (419 130 – 350 000) × 28%	46007
Less provisional tax payment made	<u>(30 250)</u>
Find tax liability/ tax done	<u>15757</u>

c) Tax liability for fratulaLtd for the year of assessment ended 28 February 2013 (Micro business company)

	R
Taxable turnover	610 000
Interest received	17 500
Capital gain 50 % × 55 000	27 500
Quality turnover	655000
Tax liability[5500+4%[655000-500000]]	11700
First provisional tax payment	<u>[30250]</u>
Tax refund	<u>18550</u>

d) Final tax liability of Fratula Limited for the year of assessment ended 28 February 2013

	R
Taxable income before interest and capital gains	385 000
Interest income	17 500
Capital gains @ inclusive rate 0.666 × 55 000	36 630
Taxable income	439 130
Tax there on @ 28%	122956



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Provisional tax payment made            (30 250)  
Final tax due                                    92706

paid on 28 february 2013



## Question 3

### Part A

Brand guru (Pty) Ltd Gross income for the year of assessment ended 31 March 2013

	R
Consultation fees (accrued to guru, not of capital in nature, during YOA)	285 000
Company logo (received by guru, not of capital nature)	165 000
Business cards (accrued to guru, not of capital in nature, during YOA)	10 000
Lease premium of (450 000) included as specifically included under Special inclusions part of gross income definition	400 000
Lease rent (included as specifically included under specification on the Definition of gross income)	405 000
Sale of building B (Not included as it is capital in nature. Building is a long lived asset and forms part of the income earning structures of the company)	-

### Part B

Heavy James Grey Gross income for the rear of Assessment ended 28 February 2013

Divided received from Brand guru (from revenue within the republic)	12 000
Consultation work realized for brand guru (from a source within the republic)	55 000
Interest received from an investment in the republic (from a source within the republic)	36 000
Rent received from apartment in the republic ( from a source within the republic)	60 000

### Question 3 part c

yoa 31/03/2013

Royalties[5000 000x20%]	1 000 000
Local dividend	90 000
Exemption	[90 000]
Interest received	75 000
Salaries	[186 000]
-restraint of trade lesser 100000/5or100000/3	[20 000]
-low cost residential unit –does not Qualify as low cost as the cost Exceed r300 000hence no allowance	nil



-loan to employee bad debt-not in the	
Production of income	nil
-insurance premium	
During[165 000x3/11]	[45 000]
-prepaid[165 000-45 000]=120 0000	
-not paid within 6 months after Year end	
- Aggregate of prepaid exceeds R100 000	
-not required by law	nil
Delivery vehicle	
-not damaged allowance[12 0000-20 000]/4	[25 000]
-damaged allowance [20 000x1/4x8/12]	[ 3333]
-scrapping allowance =selling price[limited to cost]-tax value	
=10 000[limited to 20 000]-14 167	
=4167	[4167]
Cost           20 000	
Allowance 20 0000x1/4x14/12[5833]	
Tax value                   14 167	
Administration building	
-allowance [480 000x5%x55%]	[13 200]
-repairs	[12 650]
-rental payment	[28 000]
-accomodation at Hilton hotel	[30 000]
-scented candles	[850]
Taxable income	706;800
Less donation s18A 50 680 [limited to 10% of taxable income	[50 680]





Taxable income	656;120
Assessed loss from previous year	[ 386 000]
Taxable income after assessed loss	270'120
Tax liability= 270'120x28%=2'117'740'8	

### Question 4 part A

#### CAPITAL GAIN

#### Office building

Proceeds	3 500 000	
Base cost[32 50 000+90 000]	[3 340 000]	
Capital gain	160 000	160 0000

#### Manufacturing building

Proceeds[selling price-recoupment]	308 000	
[680 000-372 000]		
Base cost[cost-allowances]	[248 000]	
[620 000-372 0000]		
Capital gain	60 000	60 000

Recoupment=selling price[limited to cost ]-taxvalue

$$=680\,000[\text{limited to } 62\,000]-248\,000$$

$$=3\,720\,00$$

Cost	620 000
Allowances	[372 000]
Tax value	248 000

Total capital gain	220 000
Assessed capital loss	[12 000]
Total capital gain	208 000



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Taxable capital gain[208 000x66.6%]=	138 528
Part B	
Base cost VDV is higher of	
-20% ofproceeds [55 20 000x20%]	=1104 000
-market value[900 000+7 000]	=907 000
-tabc	856 500
Hence base cost =1 104 000	



MAY /JUNE 2014

**QUESTION 1**

calculation of tax liability 31/03/2014 year of assessment

Taxable income	4 781 142
Sales	800 000
Exemption	[150 000]
Local dividend	150 000
Interest	355 000
-not interest exemption for companies	nil
Opening stock s22	[244 000]
Purchases s11a	[487 000]
Closing stock s22	457 000
Dividend paid –subject to withholding Tax not in the production Of income	Nil
Leashership agreements	
-allowance [50 000x11/12]	[45 833]
-completion allowance	[ 50 000]
-salaries	[455 000]
-doubtful debts allowance	
Previous year 78 000x25%	19 500
-during year 54 000x25%	[13 500]
Restraint of trade lesser of	
450000/3 or 450 000/2	[ 150 000]
Manufacturing machine(s12C)-allowance[350000x40%]	[140000]
Trucks S11(e)[No 7]-allowance[440000x0.25x2/12]	[18333]
Contribution by employer 53630 ltd to[20%x480000]	[57630]



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Leave pay provision-not actually incurred		Nil
Assessed loss prev year		<u>[274145]</u>
Taxable income		<u>4477201</u>
<u>Tax liability</u> [4477201*28%	1253616	
First provisional tax payment	<u>[976214]</u>	
Normal tax liability	<u>277402</u>	



## QUESTION 2

Calculation of income tax liability year of assessment 31/03/2014

Accounting profit	2676387
Repairs	[72000]
Indemnification insurance	65000
Factory building allowance[25000x5%]	[12500]
Factory machinery allowance	
-new[450000+20000]x40%	[188000]
-second hand[120000x20%]	[24000]
-recoupment =80000[ltd to 120000]-48000	32000
Delivery truck- allowance[185000*0.25*8/12]	[30833]
Lap top computers-allowance[15000x1/3]	[5000]
Passenger vehicle- allowance[90000x1/5x7/12]	[10500]
Scrapping allowance 59500[ltd to 90000]-79500	[20000]
Factory building-allowance[3600000x5%]	[180000]
-repairs	[61000]
Commercial building s13 quin-not new and unused hence no allowance	Nil
Bad debts[18000-2000]	[16000]
Allowance for doubtful debts-previous year	42500
-current year[212000x25%]	[53000]
Telephone & security	[4000]
Assessed tax loss	<u>[181697]</u>
Taxable income	<u>1957357</u>
Tax liability 1957357x28%=548060	



## QUESTION 3

### PART A

		CAPITAL GAIN
TRANSACTION ONE		
Proceeds[78000-220000]	560000	
Base cost VDV	[350000]	
Capital gain	210000	210000
Recoupment=selling price[ltd to cost] less tax value =780000[ltd to 250000]-30000=220000		
Cost	250000	
Allowances	220000	
Tax value	30000	
Base cost VDV- higher of:-		
-10% of proceeds=560000x10%	56000	
-market value	350000	
-TABC	98125	
Hence base cost vdv= 350000		
TRANSACTION TWO		
capital gain machine		<u>50000</u>
total capital gain		260000
assessed capital loss		<u>[64500]</u>
aggregate capital gain		<u>195500</u>
taxable capital gain[195500*66.6%]=130203		

### PART B



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- a) Basic amount 1320564  
 tax liability $[59702+28\%[1320564-550001]]=275460$   
 first provisional tax $[275460/2]=137730$ ;date of payment is 31 august 2013
- b) Actual taxable income 1055877  
 tax liability $[59702+28\%[1055877-550001]]=201347$   
 second provisional tax $[201347-137730]=63617$ ;date of payment is 28 february 2014



## QUESTION 4

- a) Direct tax is tax that is charged specifically on taxpayers trade or wealthy for example normal tax, employee tax  
 indirect tax- is tax that is paid indirectly by anyone from their spending eg VAT
- b) –its qualifying turnover exceeds R1million  
 -trust that was not registered as a micro business at the death of the founder do not qualify
- c) –when it is registered in the republic  
 -when active management is in the republic  
 -when it has a south African bank account
- d) Tax on world wide income
- e) Tree vs fruit, fixed vs floating
- f) Mooi, Geldenhuys
- g) S11(a)- expenditure or losses actually incurred  
 -warranty loss have not yet incurred they just raised a provision  
 S11(a)-in the production of income  
 -warranty provision is for purposes of trade hence in the production of taxpayer's income  
 S11(a)-not of a capital in nature  
 -warranty expense will be revenue in nature but warranty provision is capital in nature  
 S23-expenditure will be deducted to the extent it is not recoverable  
 -it is still uncertain about the recoverability of warranty hence no deduction  
 To preclude warranty provision is not deducted since it is not actually incurred yet by XYZ trust





## MAY/JUNE 2013 TAX2601

### Question 1 (a)

An amount should be included in gross income if it meets the definition of gross income. The campaign receipt originates from the company's normal income generating activities. The R10 000 exchange of artwork for advertising is from selling artwork which are the operation of dinner fela Pty Ltd and are therefore revenue in nature and the amount is clearly identified. The amount has accrued to dineper fela(Pty )on 28 March 2013 as the contract amount is theirs to do as and whatever they desire to do therefore the amount has been accrued on the tax payer on the Golden days case. The amount is clearly identified as was decided in the Butcher brothers case therefore it can be included in gross income as it was received in the current year of assessment as 28 March it falls within the current year of assessment.

1b) An amount will be deductible from the income of the tax payer if it meets the definition of the general deductions formulas 511(a) was read in conjunction with 523. The onus or better off to prove that an amount is deductible falls on the tax payer.

- The cost of the town houses were incurred in the production of income as Dikolodo fela built the house with a view to sell them in the generation of income, therefore the amount will be deductible.
- The loss that Dikolodo fela (pty) Ltd suffered did not arise from its income generating activities as hurricanes are not a natural concomitant of undertaking building operations as was decided in the case of the Port Elizabeth Tramway case on in the Joffe case, therefore the amount of the loss would not be deductible as hurricanes do not satisfy the natural concomitant criteria.
- The loss was suffered in the current year of assessment and therefore meets the year of assessment criteria.
- From the above that the loss was not incurred in the production of income for the originating cause of the loss does not have any relation with the income generating activities of Dikolodo limited the amount will not be deductible for tax purposes as the loss will not be deductible from the evidence on case law. The company may use provisions from trading stock to get the loss deductible.
- Therefore the loss on trading stock might not be deductible using the general formula but deductible under trading stock rules.



## Question 2

a) Sunshine private limited

As sunshine limited has a 31 March year end the first provisional tax payment will be due in September at the end of the month. 15 September 2012 can be used and R120 000 can be used as the estimate of income

### First provisional tax payment

$R1354980 \times 28\% = 379394 / 2 = R189697$

It must be paid on 30 September 2012

### Second Provisional tax payment

Estimate of income  $R1\,784\,432 \times 28\% = R499\,641$

Less first provisional tax payment (R189697)

Second provisional tax payment R309944

It must be paid on 31 March 2013

b) this now in our new act it doesn't apply since if it is received 14 days before we take it into account

## Question 2b

Mafuba (Pty)Ltd : Procedures to follow when rectifying incorrect 2012 tax assessment.

- To appeal an assessment that does not exceed R500 000 the company may do so using the alternative dispute resolution or the tax board if the Mafuba chooses this.
- To appeal, Mafuba should file a notice to appeal within 30 days of receipt of the assessment from SARS.
- The appeal should be signed by representatives of Mafuba (Pty)Ltd.
- The appeal should be delivered to the commissioner at the address specified: the assessment for the purpose of tax.
- The appeal should specify an address which the commissioner can deliver his decision to the tax payer.



### Question 3

Lazy age CC (small business corporation)

Taxable income for the year of assessment ended 28 February 2013

Sales (450 000 +5 025 000)	5 475 000
Closing inventory	330 000
Opening inventory	(290 000)
Purchases	(3 587 150)
Doubtful debts: Previous year	12 500
: Current year (93 000× 25%)	(23 450)
Bad debts written off	(119 000)
Personnel costs: Salaries and wages	(650 000)
: Contributions to pension fund (limited to 20%of approved)	
Remuneration = 0.2×650 000= R130 000 Actual R125 850	(125850)
Loss of income lawsuit settlement (in the production of income)	(1 000 000)
Legal cost: Any Khumalo case (sec 11 (c)	(6 000)
: Jenny Levin (not in the production of income) -	
Advertising costs : vacant posts	(3 750)
: erecting a bill board (capital 50% W&T allowable)	(12 925)
Cosmetic manufacturing machine (300 000×40%)	(120000)
Delivery vehicles (85 000 ×20%)	(17 000)
Manufacturing building (section 13(1) R 1 250 000) × 0.05)	(62 500)
Recoupment: old manufacturing machine	20 000
Trademarks: renewal	(8 500)
New trademark purchased	-
Restraint of trade payment (312 000/3 or 312 000/4 ) the lesser	<u>(78 000)</u>
Assessed loss	(266625)
Section 18A deduction	-
Assessed loss	<u>266625</u>



## Question 4

### Notes cc

Income tax liability for the year of assessment ended 31 March 2013

Taxable income before adjustment	5 800 000
1) Vehicles : Wear & tear $(120000 \times 2 / 12 \times 1/5)$	(4000)
2) Building cc R 1 200 000 $\times 8 \% \times 55\%$	(52800)
3) Small item assets (R4 500) reduced to R1	(4499)
4) Manufacturing machine ATM : R300 000 $\times 20\%$ (sec 12c)	(60 000)
5) Manufacturing machine LL R450 000 $\times 40\%$	(180 000)
6) Manufacturing building: wear and tear $(9000\ 000 - 800000) \times 5\%$	(410 000)
7) Repair costs	(220 000)
Extension cost $(30\ 000 \times 5\%)$	(15 000)
8) Furniture sold: wear and tear $(30\ 000 \times 1/6)$	(5 000)
: scapping allowance $(10\ 000 - (30\ 000 - 5\ 000 \times 1.5))$	(12 500)
9) Manufacturing machine PP: recoupment	290 000
Capital gains proceeds 310 000-290000]	20000
Base cost	-
Capital gain	20000
$0.666 \times 20\ 000$	<u>13320</u>
Taxable income	<u>5139521</u>
Tax expense @ 28% = R1 439 066	



## Question 5

### Frozen lemons CC

Proceeds [890000-48000]		842000
Base cost higher of		
-10% $\times$ 842000	84200	
-market value vdv [88+4,5]	92500	
-TABC	90000	<u>[92500]</u>
Capital gain		749500
Assessed capital loss		<u>[30000]</u>
Capital gain		<u>719500</u>

Taxable capital gain  $719500 \times 66.6\% = 479187$