

Tutorial letter 203/1/2018

Taxation of Business Activities

TAX3701

Semester 1

Department of Taxation

SUGGESTED SOLUTION:

ASSIGNMENT 2

Bar code

SUGGESTED SOLUTION: ASSIGNMENT 2/1/2018**QUESTION 1 (40 marks, 48 minutes)**

Calculation of the tax liability of Mega Group (Pty) Ltd for the year of assessment ended 28 February 2018:

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Taxable income (given)		3 123 321	
Opening inventory	@ cost price (lowest)	(430 800)	(1)
Closing inventory	@ market value (lowest)	230 900	(1)
<u>Learnership agreements</u>			
Commencement			
- A Disabled (NQF 8)	(R50 000 x 10/12)	(41 667)	(2)
- B Not disabled (NQF 4)	(R40 000 x 2/12)	(6 667)	(2)
Completion			
- A Disabled (NQF 8)	R50 000 x 2	(100 000)	(1)
Bad debts written off		(76 000)	(1)
Bad debts recovered		23 300	(1)
Doubtful debts - 2017	(R128 000 x 25%)	32 000	(1)
Doubtful debts - 2018	(R176 000 x 25%)	(44 000)	(1)
	Give a mark for adding 2017 doubtful debt allowance and subtracting 2018 allowance.		(1)
<u>Research and development</u>			
Operating research expenses	(R211 000 x 150%)	(316 500)	(1)
Administrative staff		(1 025 000)	(1)
Manufacturing machine	(R760 000 x 50%)	(380 000)	(1)
Storage Rental - current year	R164 000 x 3/12	(41 000)	(1)
- prepaid	R164 000 x 9/12 = R123 000, more than R100 000 and more than 6 months	Nil	(1)
<u>Fixed assets</u>			
Machine AA – s12C allowance	(R455 500 x 100/114 x 20%)	(79 912)	(2)
Delivery vehicle –			
s11(e) allowance	R (R219 700/4)	(54 925)	(1)
Disposal machine BB	Cost 430 000		
	Less: s12C 2017 (R430 000 x 40%) (172 000)		
	s12C 2018 (R430 000 x 20%) (86 000)	(86 000)	
	Tax value 172 000		
	Proceeds on disposal (220 000)		
	Recoupment 48 000	48 000	(5)
Machine CC	Allowance claimable in following year	Nil	(1)
Donation of computer	Donation @ market value 3 500		
	Less: Tax value (2 000)		
	Recoupment 1 500	1 500	(2)
Office block	(R550 000 x 55% x 5%)	(15 125)	(2)
Rental	(R18 000 x 7)	(126 000)	(1)
Lease premium	(R100 000/180 x 7)	(3 888)	(2)
	Alternative: (R100 000/15 x 7/12)		
Leasehold improvement	(R390 000/175 x 2)	(4 457)	(3)
	Alternative: (R390 000/14.583 x 2/12)		
	Alternative: (R390 000/14 yrs 7 mnths x 2/12)		
s13(1) building allowance	(R410 000 – R390 000 x 5%)	(1 000)	(2)
Sub-total		626 080	

QUESTION 1 (continued)**R**

<u>Less: Donation</u>	(R626 080 x 10% = R62 608) but limited to actual donation	(21 000)	(1)
<u>Less: Assessed loss brought forward from 2017</u>		(87 000)	(1)
Taxable income		518 080	
Tax liability	(R518 080 x 28%)	145 062	(1)
Total marks			41

Maximum

40