# **Tutorial letter 203/1/2018**

**Taxation of Business Activities** 

**TAX3701** 

Semester 1

**Department of Taxation** 

**SUGGESTED SOLUTION:** 

**ASSIGNMENT 2** 

Bar code



#### Dear Student

This tutorial letter contains the solution to Assignment 2. Good luck with your preparation for the examination.

Kind regards

#### **TAX3701 LECTURERS**

Telephonic contact with lecturers:	
The lecturers available to assist you are:	
Mev SC Cass	012 429 8992
Mnr A Swanepoel	012 429 4313
Mnr M van Dyk	012 429 4918
Mev MSI Wentzel	012 429 4876
Mev C Stedall	012 429 4301
Mev I Kretzschmar	012 429 4394
Mev M Bernard	012 429 4002
Mev R Moosa	012 429 8976
Departmental cell phone number:	079 365 1124

Administrative assistant: Mrs Suzette Brecher 012 429 4494

### **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:

3

R

Opening inventory         @ cost price (lowest)         (430 800)         (Closing inventory           Elearnership agreements         230 900         (7           Commencement         - A Disabled (NQF 8)         (R50 000 x 10/12)         (41 667)         (2           - B Not disabled (NQF 8)         (R40 000 x 2/12)         (6 667)         (2           Completion         - A Disabled (NQF 8)         R50 000 x 2         (100 000)         (76 000)         (77 000)         (70 00	Taxable income (given)		3 123 321	
Closing inventory		@ cost price (lowest)	(430 800)	(1)
Learnership agreements			` ,	(1)
Commencement - A Disabled (NQF 8) - B Not disabled (NQF 4)  Completion - A Disabled (NQF 8)  R50 000 x 2/12)  (R40 000 x		, ,		
Completion	Commencement			
Completion	- A Disabled (NQF 8)	(R50 000 x 10/12)	(41 667)	(2)
A Disabled (NQF 8)  Bad debts written off  Bad debts recovered  Doubtful debts - 2017  Doubtful debts - 2018  Research and development Operating research expenses Administrative staff  Manufacturing machine  Storage Rental - current year - prepaid  Machine AA − s12C allowance  Disposal machine BB  Research and evelopment  (R219 700/4)  Cost Storage Rental - current year s11(e) allowance  Research and evelopment  (R219 700/4)  Cost Less: s12C 2017 (R430 000 x 40%) (172 000) s12C 2018 (R430 000 x 20%) (86 000)  Tax value Proceeds on disposal Recoupment  Donation of computer  Recoupment  Recoupment  Recoupment  Recoupment  Recoupment  (R20000 x 25%)  (R211 000 x 25%)  (R211 000 x 150%)  (R211 000 x 150%)  (R211 000 x 150%)  (R212 000 x 25%)  (R211 000 x 150%)  (R212 000 x 25%)  (R211 000 x 150%)  (R212 000 x 25%)  (R212 000 x 20%) (R212 000) Recoupment Recoup	- B Not disabled (NQF 4)	(R40 000 x 2/12)		(2)
Bad debts written off   (76 000)   (78 000)   (79 000)   (70 000	Completion			
Bad debts recovered		R50 000 x 2	(100 000)	(1)
Doubtful debts - 2017	Bad debts written off		(76 000)	(1)
Comparison of Computer   Comparison of Computer   Comparison of Computer	Bad debts recovered			(1)
Give a mark for adding 2017 doubtful debt allowance.   (2000)		,		(1)
Allowance and subtracting 2018 allowance.   Allowance	Doubtful debts - 2018	,	(44 000)	(1)
Research and development		_		(1)
Operating research expenses         (R211 000 x 150%)         (316 500)         (7 025 000)         (7		allowance and subtracting 2018 allowance.		
Administrative staff Manufacturing machine  (R760 000 x 50%)  Storage Rental - current year - prepaid  R164 000 x 9/12 = R123 000, more than R100 000 and more than 6 months  (R455 500 x 100/114 x 20%)  Cost Bisposal machine BB  (R219 700/4)  Cost Less: s12C 2017 (R430 000 x 40%) (172 000)		(5044.000 4500)	(0.4.0. = 0.0)	(4)
Manufacturing machine         (R760 000 x 50%)         (380 000)         (380 0		(R211 000 x 150%)		(1)
R164 000 x 3/12		(D700 000 x 500()		(1)
- prepaid R164 000 x 9/12 = R123 000, more than R100 000 and more than 6 months  Fixed assets  Machine AA – s12C allowance Delivery vehicle – s11(e) allowance Disposal machine BB  R212 2017 (R430 000 x 40%) (172 000) s12C 2018 (R430 000 x 20%) (86 000) Tax value Proceeds on disposal R210 000 Recoupment A8 000 Allowance claimable in following year  Donation of computer  R219 700/4) Cost Less: s12C 2017 (R430 000 x 40%) (172 000) s12C 2018 (R430 000 x 20%) (86 000) Recoupment A8 000 A8 000 A8 000 C8 000 C9 000				(1)
R100 000 and more than 6 months			,	(1)
Cost	- prepaid	The state of the s	INII	(1)
Machine AA – s12C allowance       (R455 500 x 100/114 x 20%)       (79 912)       (2         Delivery vehicle – s11(e) allowance       (R219 700/4)       (54 925)       (7         Disposal machine BB       (R219 700/4)       (54 925)       (7         Less: s12C 2017 (R430 000 x 40%) (172 000) s12C 2018 (R430 000 x 20%) (86 000)       (86 000)       (86 000)         Tax value       172 000       Proceeds on disposal       (220 000)       48 000       (8         Proceeds on disposal       (220 000)       Allowance claimable in following year       Nil       (7         Donation of computer       Donation @ market value       3 500       1 500       (2         Less: Tax value       (2 000)       1 500       (2	Fixed assets	K 100 000 and more than 6 months		
Delivery vehicle — R s11(e) allowance (R219 700/4) (54 925) (7		(R455 500 v 100/114 v 20%)	(79 912)	(2)
S11(e) allowance   Cost   430 000   Less: s12C 2017 (R430 000 x 40%) (172 000)   s12C 2018 (R430 000 x 20%) (86 000)   Tax value   172 000   Proceeds on disposal   (220 000)   Recoupment   48 000   Allowance claimable in following year   Nil   (7 000)   Cost   Cost   430 000   (86 000)   (86 00		,	(19912)	(2)
Cost			(54 925)	(1)
Less: s12C 2017 (R430 000 x 40%) (172 000)   s12C 2018 (R430 000 x 20%) (86 000)   Tax value   172 000   Proceeds on disposal   (220 000)   Recoupment   48 000   48 000   (86 000)   Tax value   (20 000)   Recoupment   Tax value   (20 000)   Tax value   Tax value   (20 000)   Tax value   Tax value   (20 000)   Tax value   (20 000)   Tax value   (20 000)   Tax value   Tax value   (20 000)   Tax value   Tax value   (20 000)   Tax value			(0.1020)	(')
S12C 2018 (R430 000 x 20%) (86 000)   Tax value   172 000   Proceeds on disposal   (220 000)   Recoupment   48 000   Allowance claimable in following year   Nil   (2000)   Computer   Donation @ market value   3 500   Computer   Computer   Recoupment   Recoupment   1 500   1 500   (2000)   Recoupment   1				
Tax value 172 000 Proceeds on disposal (220 000) Recoupment 48 000 48 000 (8 Allowance claimable in following year Nil (2 000) Donation of computer Donation @ market value 3 500 Less: Tax value (2 000) Recoupment 1 500 1 500 (2		\ \	(86 000)	
Recoupment 48 000 48 000 (5)  Allowance claimable in following year Nil (7)  Donation of computer Donation @ market value 3 500  Less: Tax value (2 000)  Recoupment 1 500 1 500 (2			,	
Machine CC  Allowance claimable in following year  Donation of computer  Donation @ market value  Less: Tax value  Recoupment  1 500  1 500  (2		Proceeds on disposal (220 000)		
Donation of computer  Donation @ market value  Less: Tax value  Recoupment  3 500  (2 000)  1 500  1 500  (2		Recoupment 48 000	48 000	(5)
Less: Tax value (2 000) Recoupment 1 500 1 500 (2	Machine CC		Nil	(1)
Recoupment 1 500 1 500 (2	Donation of computer			
· · · · · · · · · · · · · · · · · · ·				
Office block (R550 000 x 55% x 5%) (15 125) (2		Recoupment 1 500	1 500	(2)
Office block   (R550 000 x 55% x 5%)   (15 125)   (2	000	(5	(4 = 40=)	(0)
		,		(2)
	Rental	,	,	(1)
	Lease premium	,	(3 888)	(2)
Alternative: (R100 000/15 x 7/12)	Logophald improvement		(4 457)	(2)
Leasehold improvement (R390 000/175 x 2) (4 457) (3 Alternative: (R390 000/14.583 x 2/12)	Leasehold improvement		(4 457)	(3)
Alternative: (R390 000/14.383 x 2/12) Alternative: (R390 000/14 yrs 7 mnths x 2/12)				
	s13(1) building allowance		(1 000)	(2)
	Sub-total	(11-10 000 - 11000 000 X 0 /0)	` '	(2)

## **QUESTION 1** (continued)

R

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

Maximum 40