

Tutorial letter 203/2/2017

The Taxation of Business Activities

TAX3701

Semester 2

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:	<p style="text-align: center;">012 429 4133</p> <p>(this is a hunting line – you will need to let it ring so that the exchange can find a free extension)</p>
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SUGGESTED SOLUTION: ASSIGNMENT 2/2/2017**QUESTION 1****PART A****Calculation of the normal income tax liability of Heavy Punch (Pty) Ltd for the year of assessment ended on 31 March 2017**

	R	
Taxable income – given	2 783 276	
Opening stock – 1/4/2016 – at market value (R587 395 – R572 451)	14 944	(2)
Closing stock – 31/03/2017 – at cost – no adjustment required	-	(1)
Pension fund deduction – full amount deductible	(355 000)	(1)
Restraint of trade payment – deduction limit to the lessor of: $\frac{1}{3}$ of the payment of R900 000 = R300 000, or R900 000/5 years = R180 000	-	(1)
	(180 000)	(1)
Doubtful debt allowance: 2016	42 250	(1)
Doubtful debt allowance: 2017 (R150 300 – R7 300) x 25%	(35 750)	(2)
Bad debts – written-off	(7 300)	(1)
Patent acquired – R85 500 x 100/114 x 5%	(3 750)	(2)
Machine KP – section 12C allowance: (R456 000 x 100/114 + R21 500) x 20%	(84 300)	(3)
Second-hand computers: R8 500 x 3 = R25 500/3 x 9/12	(6 375)	(3)
Manufacturing building: R4 300 750 x 5%	(215 038)	(1)
Research and development expenses Incurred before 1/10/2016 = R160 000 x 100%	(160 000)	(1)
Incurred after 1/10/2016		
Salaries to research personnel – R250 000 x 150%	(375 000)	(1)
Specialized computers – section 11D – R120 000 x 50%	(60 000)	(1)
Building – section 13 – R1 350 000 x 80% x 5%	(54 000)	(2)
Building – section 13 – R1 350 000 x 20% x 5%	(13 500)	(1)
Legal expenses		
Fees paid to collect outstanding debtors	(17 500)	(1)
Fees paid on behalf of a director – not in the production of income	-	(1)
Machine XP – section 12C (€52 500 x R17,81= R935 025 + R25 750) = R960 775 x 40%	(384 310)	(3)
Exchange rate difference on 15/11/2016 = (€30 250 x (R18,03 – R17,81))	(6 655)	(2)
Exchange rate difference on 31/01/2017 = (€22 250 x (R17,75 – 17,81))	1 335	(2)
Sub-total	883 327	
Donation claimed - Reversal	150 000	(1)
Taxable income before donation	1 033 327	
Less: section 18A donation – limit to 10% of R1 033 327 = R103 333	(103 333)	(1)
Sub-total	929 994	
Less: Assessed loss from 2016	(46 237)	(1)
Taxable income for 2017	883 757	
Normal income tax at 28% (R883 757 x 28%)	247 452	(1)

Total 38

QUESTION 1 (continued)**PART B**

Income tax implications should the delivery truck be donated:

Heavy Punch (Pty) Ltd will be deemed to have disposed of the delivery truck at an amount equal to its current market value of R75 000 on the date of the actual donation.	(1)
Any possible recoupment will be limited to the section 11(e) allowances previously granted.	(1)

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