

Tutorial Letter 101/3/2015

THE TAXATION OF BUSINESS ACTIVITIES

TAX3701

Semesters 1 & 2

Department of Taxation

This tutorial letter contains important information regarding this module

Note: This is an online module and therefore available on *myUnisa*. However, in order to support you in your learning process, you will also receive some study material in printed format.

Bar code

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1 INTRODUCTION AND WELCOME

Dear Student

We have pleasure in welcoming you as a student to the module, The Taxation of Business Activities. We hope that you will find your studies interesting and rewarding and that you will be successful in the examination.

Please read this tutorial letter very carefully in order to orientate yourself with the requirements specific to this module.

This module is practical and therefore you will have to learn rules and how to apply them. This will mean that you will have to start with your studies immediately as the semester is 15 weeks long, and you will need to give yourself time to practice what you learn. For your convenience, we include a proposed study program indicating the MINIMUM time that you will have to put aside for each study unit as well as the specific outcomes and assessment standards for the module. The specific outcomes and assessment standards will be repeated in the appropriate study units in your study guide.

There are a number of lecturers in the undergraduate section of the Department of Taxation who will be assisting you but your primary lecturers are, Prof Boela Swanepoel, Ms Lenatha Wentzel, Ms Carien Cass, Ms Refilwe Matenche and Ms H van der Merwe.

How to get started on *myUnisa*

It is important that you regularly make use of *myUnisa*. These technological resources make it easier to communicate with the university, your lecturers and fellow students about your studies. By using *myUnisa*, you will be able to submit your assignments electronically, access the library resources, get your assignment marks and take part in activities, tasks and discussions relating to the contents of this module. Register TODAY and visit regularly.

In addition to registering on *myUnisa*, it is crucial that you activate your myLife email address, as all your official correspondence regarding this module will be sent to your myLife address and not your private email address. Please consult with the ***my Studies @ Unisa*** brochure for more information on the activation of your myLife email address as well as obtaining access to the *myUnisa* module website.

This is an online module, but you will receive printed materials as a back-up for everything that is online. **HOWEVER, DO NOT WAIT FOR PRINTED MATERIALS BEFORE YOU START STUDYING.**

We would like to take this opportunity to extend our best wishes for success in your studies and assure you that we realise that you are not studying under ideal conditions. We invite you to communicate with us on any matter concerning this module.

2 PURPOSE OF AND OUTCOMES FOR THE MODULE

2.1 PURPOSE

The aim of this module is to provide students studying towards an accounting degree, with an integrated knowledge of the relevant sections of the Income Tax and Value-Added Tax Acts. On completion of this module students should be able to determine the income tax and value-added tax liability or refund of business entities in terms of the requirements of the relevant professional bodies.

2.2 SPECIFIC OUTCOMES AND ASSESSMENT CRITERIA

SPECIFIC OUTCOME 1

Students must be able to demonstrate an integrated knowledge of the framework used to calculate a person's taxable income and tax liability for a year of assessment.

Assessment Criteria

Students are competent if evidence shows that they are able to:

- discuss and apply the requirements of the gross income definition in a practical situation.
- discuss and apply the requirements of the general deduction formula in a practical situation.
- calculate the taxable income for different enterprise forms (different taxpayers) in accordance with current tax legislation.

SPECIFIC OUTCOME 2

Students must be able to demonstrate a coherent and critical understanding of the income tax deductions and allowances that business entities can claim in terms of current income tax legislation and the ability to apply this knowledge to practice.

Assessment Criteria

Students are competent if evidence shows that they are able to:

- calculate the taxable income of a company by starting with the accounting net profit or loss.
- calculate the normal income tax liability for different companies correctly.
- calculate/discuss the expenses and deductions as contained in the Income Tax Act with reference to relevant legislation and case law.
- identify the different types of assets and calculate the allowances applicable to each by applying the rules with reference to relevant legislation and case law.
- discuss and apply the rules pertaining to depreciable assets and allowances with reference to relevant legislation and case law.
- calculate the recoupment or section 11(o) scrapping allowance when an asset is disposed of, as well as the deferment available on recoupment, if applicable, correctly.

SPECIFIC OUTCOME 3

Students must be able to analyse the applicable Value-Added Tax rules and apply it to transactions.

Assessment Criteria

Students are competent if evidence shows that they are able to:

- discuss the application of the value-added tax system in South Africa with reference to the VAT act.
- identify goods and services correctly as standard-rated, zero-rated or exempt supplies.
- apply the different VAT rules correctly in different situations.
- calculate the VAT payable by/refundable to a vendor correctly in a practical situation.
- discuss the impact of VAT on business income tax calculations with reference to relevant legislation and case law.

SPECIFIC OUTCOME 4

Students must be able to analyse the disposal or deemed disposal of an asset and apply solutions in a practical situation for capital gains tax purposes.

Assessment Criteria**Students are competent if evidence shows that they are able to:**

- determine the capital gains tax payable by applying the relevant rules.
- determine the capital gains and losses on the disposal of assets using the proceeds and the base cost of the relevant asset disposed of.
- calculate the taxable capital gains for a year of assessment.
- calculate the capital gains tax accurately on assets acquired before valuation date (1 October 2001) and disposed thereafter.
- identify the capital gains and losses in a practical situation which are to be disregarded.

SPECIFIC OUTCOME 5:

Students must be able to demonstrate the ability to distinguish between the dividends paid and received by companies and to determine the tax liabilities on these dividends.

Assessment Criteria**Students are competent if evidence shows that they are able to:**

- identify and discuss the income tax implications that are unique to dividends received and paid.
- discuss and apply the dividend definition rules.
- interpret and apply the dividend tax rules.
- calculate the tax liability by applying the dividend rules.

3 LECTURERS AND CONTACT DETAILS**3.1 ADMINISTRATIVE QUERIES**

For any contact with the University concerning administrative matters, please consult the **my Studies @ Unisa** brochure. Enquiries in connection with administrative matters must be addressed to the relevant administration department to which the problem applies and **NOT** to the lecturers.

Administrative enquiries should be directed to:

| E-mail addresses | SMS numbers | Use to enquire about: |
|--|--------------------|---|
| econ@unisa.ac.za | n/a | Registration and credit/exemption |
| study-info@unisa.ac.za | 43578 | Applications and registrations |
| assign@unisa.ac.za | 43584 | Assignments (not for submission purposes) |
| exams@unisa.ac.za | 43584 | Examinations |
| despatch@unisa.ac.za | 43579 | Study material |
| finan@unisa.ac.za | 31954 | Student accounts |
| gaudeamus@unisa.ac.za | n/a | Graduation ceremonies |

| E-mail addresses | SMS numbers | Use to enquire about: |
|--|-------------|-----------------------|
| myUnisaHelp@unisa.ac.za | 43582 | myUnisa |
| myLifeHelp@unisa.ac.za | 43582 | myLife e-mail |

When corresponding with the University in writing, always supply:

- your student number,
- module code and
- a telephone number where we can contact you.

3.2 MODULE CONTENT-RELATED QUERIES

Ensure that you have the right module code on hand when you contact the lecturers.

| | |
|--|---|
| Telephonic contact with lecturers: | |
| The lecturers who are available to assist you are: Prof AP Swanepoel Ms MSI Wentzel Ms R Matenche Ms C Cass Ms H van der Merwe Mr A Swanepoel Mr M van Dyk Ms R Moosa Ms C Stedall Ms E Doussy | 012 429 4133 (this is a hunting line – you will need to let it ring so that the exchange can find a free extension) |
| Departmental cell phone number: | 079 365 1124 (Please do not send text messages, missed calls or “please call me” messages to this number, it will not be responded to.) |
| E-mail contact with lecturers: | TAX3701-15-S1@unisa.ac.za (semester 1) TAX3701-15-S2@unisa.ac.za (semester 2) Course contact tab on myUnisa |
| CAS Enquiries | E-mail: CASenquiries-Undergraduate@unisa.ac.za Contact number: 012 429 4211 |

3.3 ACADEMIC ADMINISTRATIVE QUERIES

Ms P Mohase (Administrative assistant)

012 429 4918

4 MODULE-RELATED RESOURCES

4.1 STUDY MATERIAL

All the following tutorial letters for this module are available on *myUnisa*, at <https://my.unisa.ac.za>:

| Tutorial letter | Content | Study units to be covered |
|-----------------|--|---------------------------|
| 101 | Contains very important information regarding the module. Keep it at hand, as you will have to refer to it regularly. Assignment 1 – compulsory for exam admission, multiple choice, counts towards year mark. Assignment 2 – counts towards year mark. | 1 to 4 5 to 6 |
| 102 | Contains the first of two study guides you will use for this module. | 1 to 4 |
| 103 | Contains the second study guide you will use for this module. | 5 to 9 |
| 201 | Contains the questions and solutions to assignment 3 (mock exam paper). | |
| 202 | Contains the solution to assignment 1. | |
| 203 | Contains the solution to assignment 2. | |

Further tutorial letters

You may also receive further tutorial letters during the semester as the need may arise. Tutorial letters are all sequentially numbered.

Additional study material

The above study material is the only study material, which the University supplies to you. The lecturers believe that this is sufficient in order for you to complete your studies successfully.

4.2 PRESCRIBED BOOK

It is essential that you obtain the following prescribed textbook and have it readily available:

A Student's Approach to Income Tax – Business Activities. Venter *et al.* 2015
ISBN: 9780409119619

You must obtain the prescribed book as soon as possible in the semester. Note that the library does not provide for this book specifically and that copies of this book may not always be readily available in the library.

Please refer to the list of official booksellers and their addresses in *my Studies @ Unisa* brochure.

4.3 E-RESERVES/RECOMMENDED BOOKS AND READING LISTS

There are no e-reserves/recommended books and reading lists for this module.

4.4 POCKET CALCULATORS

Candidates may only use silent, electronic, battery-driven pocket calculators subject to the following conditions:

- Calculators must be cordless, and may not have print-out facilities or alpha keys;
- Any financial calculator will be allowed, as the following tables will not be provided:
 - Tables of present value factors for various discount rates for varying periods; and
 - Tables of future value factors for various interest rates for varying periods;
- The calculator function on mobile telephones or any electronic device (i.e. laptops and/or any Smart Phone) may not be used; and
- Candidates may not share a calculator with another candidate in the examination room.

5 STUDENT SUPPORT SERVICES FOR THE MODULE

5.1 myUNISA

To go to the *myUnisa* website, start at the main Unisa website, <http://www.unisa.ac.za>, and then click on the “Login to *myUnisa*” link on the right-hand side of the screen. You can also go there directly by typing in <https://my.unisa.ac.za>.

Please consult the ***my Studies @ Unisa*** brochure, for more information on *myUnisa*.

PLEASE ACTIVATE YOUR MYLIFE E-MAIL ACCOUNT SO THAT WE CAN COMMUNICATE WITH YOU!

For this module, we will make use of the following using *myUnisa*:

- Official study material – all tutorial letters that you will need for this module
- Course contact – module e-mail for technical questions
- Additional resources – podcasts & vodcasts will be uploaded here
- Schedule – you will be provided with a weekly study schedule
- Announcements – when required
- Discussion forum – please take part in meaningful content-related discussions
- FAQ – please read this
- Self-assessment – short questions at the end of study units.

Please make arrangements to visit *myUnisa* from time to time in order to make use of these valuable resources.

5.2 DVD

We will be sending out a DVD for this module. The DVD is a **revision tool** and will therefore only be available towards the end of the semester. The DVD is **not a replacement for doing the work** it is merely a tool to assist you to revise for the exam. Any enquiries you may have on the non-receipt of the DVD, please contact the Department of Despatch at despatch@unisa.ac.za.

5.3 TUTORS

Please be informed that, with effect from 2013, Unisa offers online tutorials (e-tutoring) to students registered for modules at NQF level 5, 6 and 7 which means qualifying first year, second year and third year modules.

Once you have been registered for a qualifying module, you will be allocated to a group of students with whom you will be interacting during the tuition period as well as an e-tutor who will be your tutorial facilitator. Thereafter you will receive a sms informing you about your group, the name of your e-tutor and instructions on how to log onto myUnisa in order to receive further information on the e-tutoring process.

Online tutorials are conducted by qualified e-tutors who are appointed by Unisa and are offered free of charge. All you need to be able to participate in e-tutoring is a computer with internet connection. If you live close to a Unisa regional Centre or a Telecentre contracted with Unisa, please feel free to visit any of these to access the internet. e-Tutoring takes place on myUnisa where you are expected to connect with other students in your allocated group. It is the role of the e-tutor to guide you through your study material during this interaction process. For you to get the most out of online tutoring, you need to participate in the online discussions that the e-tutor will be facilitating.

There are modules, which students have been found to repeatedly fail, these modules are allocated face-to-face tutors and tutorials for these modules take place at the Unisa regional centres. These tutorials are also offered free of charge, however, it is important for you to register at your nearest Unisa Regional Centre to secure attendance of these classes.

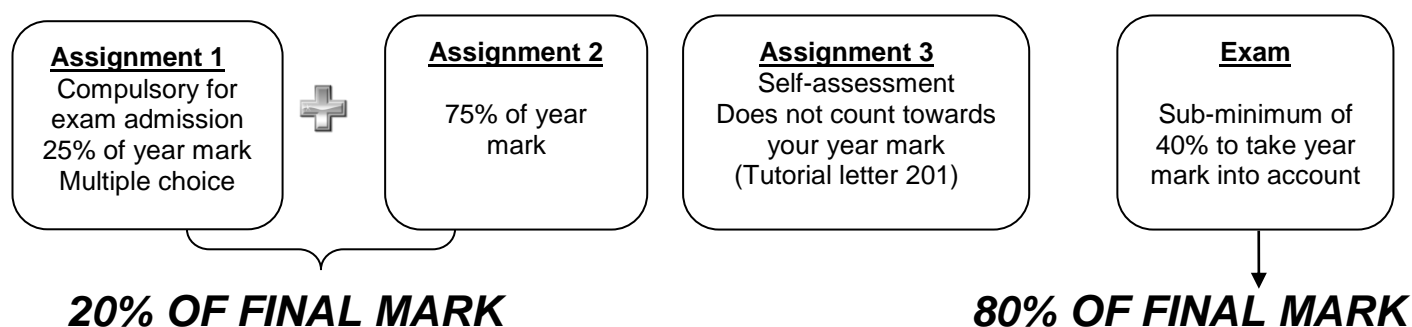
6 MODULE-SPECIFIC STUDY PLAN

Below is a proposed weekly plan for TAX3701 – based on a minimum time spent on the module of 9 hours per week. Please keep in mind that you have 15 weeks of study from registration to start of exams. Semester 1 commences 27 January 2015 and semester 2 commences 13 July 2015. If you start later, you need to realize that you will have to catch up the time that you have missed.

| Study Week | S1 | S2 | Topic | Minimum time needed |
|------------|------|------|--|-------------------------------|
| 1 | 26/1 | 13/7 | Read Tutorial Letter 101 Introduction to Tutorial Letter 102 Study unit 1: Value-Added Tax | 2 hours 1 hour 6 hours |
| 2 | 2/2 | 20/7 | Study unit 1: Value-Added Tax Study unit 2: Turnover tax | 6 hours 3 hours |
| 3 | 9/2 | 27/7 | Study unit 3: Income of a business entity Study unit 4: General deduction formula Assignment 1 (Tutorial Letter 101) | 4 hours 3 hours 3 hours |

| Study Week | S1 | S2 | Topic | Minimum time needed |
|------------|------|-------|---|---------------------|
| 4 | 16/2 | 3/8 | Study unit 5: Special deductions | 9 hours |
| 5 | 23/2 | 10/8 | Study unit 5: Special deductions | 9 hours |
| 6 | 2/3 | 17/8 | Study unit 6: Capital allowances and recoupment | 9 hours |
| 7 | 9/3 | 24/8 | Study unit 6: Capital allowances and recoupment | 9 hours |
| 8 | 16/3 | 31/8 | Study unit 6: Capital allowances and recoupment Assignment 2 (Tutorial Letter 101) | 6 hours 3 hours |
| 9 | 23/3 | 7/9 | Study unit 7: CGT | 9 hours |
| 10 | 30/3 | 14/9 | Study unit 7: CGT | 9 hours |
| 11 | 6/4 | 21/9 | Study unit 7: CGT | 9 hours |
| 12 | 13/4 | 28/9 | Study unit 8: Taxation of companies and close corporations | 9 hours |
| 13 | 20/4 | 5/10 | Study unit 8: Taxation of companies and close corporations | 9 hours |
| 14 | 27/4 | 12/10 | Study unit 9: Employees tax and provisional tax | 9 hours |
| 15 | 4/5 | 19/10 | Revision Assignment 3 (Tutorial Letter 201) | 6 hours 3 hours |

7 ASSESSMENT



7.1 ASSIGNMENTS

There are three assignments **per semester**.

As a UNISA student, you do not write tests and therefore you need to use the assignments as a substitute. It is part of your learning process to receive feedback in the form of an assignment solution. The completion of your assignment will also help you, as you will only obtain a total understanding of this module through practice by working through questions.

You MUST keep a copy of your completed assignments, so that in the event that the assignments are lost, before they can be assessed, you will have a copy that we can mark.

Submission of assignments

Assignments, both written and mark-reading sheets, can be submitted by **post or electronically** via *myUnisa*. See ***my Studies @ Unisa*** for the different ways in which assignments can be submitted. Assignments may not be faxed or e-mailed.

A mark-reading sheet is required for answering assignment 1. Before completing the mark-reading sheet please see the instructions contained in the ***my Studies @ Unisa*** brochure. Read these instructions carefully and follow them exactly to avoid mistakes and delays.

PLEASE NOTE: Written assignments that are submitted electronically/online for this module must be in PDF format.

For detailed information on assignments, please refer to ***my Studies @ Unisa*** brochure.

PLEASE NOTE: Information about assignments, (e.g. whether or not the university has received your assignment or the date on which an assignment was returned to you) can be obtained on *myUnisa*.

Marking of assignments

Assignment 1 will be marked electronically.

Assignment 2 will be marked by lecturers.

Assignment 3 is a self-assessment assignment, which means that you do not submit to Unisa and you mark it yourself. It is a mock exam paper and you can find it in tutorial letter 201 (both the questions and the solutions)

You will receive the correct answers automatically for multiple-choice questions. The solutions to all assignments **will be sent to all students registered for this module** in a follow-up tutorial letter, and not only to those students who submitted the assignments. The tutorial letter number will be 201, 202, etc. Feedback regarding assignments will be “announced” on *myUnisa*. The assignments and the feedback on these assignments constitute an important part of your learning and should help you to be better prepared for the next assignment and the examination.

The feedback on the self-assessment assignments is included in tutorial letter 201. This will enable you to mark your assignment as soon as you have completed it.

Due dates

The due dates for the assignments are as follows:

| FIRST SEMESTER | | |
|-----------------|------------------|---------------|
| ASSIGNMENT | DUE DATE | UNIQUE NUMBER |
| 1 (compulsory) | 6 March 2015 | 585505 |
| 2 | 27 March 2015 | 587521 |
| SECOND SEMESTER | | |
| ASSIGNMENT | DUE DATE | UNIQUE NUMBER |
| 1 (compulsory) | 11 August 2015 | 572738 |
| 2 | 7 September 2015 | 574048 |

Finality of due dates

Please remember that the assignment 1 is marked by the computer and these marks are finalised on a given date, therefore NO extensions can be granted, WHATSOEVER.

Assignment 1 and 2 count 25% and 75% respectively of your year mark. Only assignment 1 is compulsory, this means that you have to **do assignment 1 and submit it if you would like admission to the exam**. The assignments do not cover ALL the essential work of the module – they are just a tool to assist you to study the material in good time. Furthermore, just doing assignments is **not** sufficient preparation for the examination. For your own good, and in preparation for the examination, we recommend that over and above the assignments, you should do all the activities properly.

NO EXTENSION OF TIME WILL BE GIVEN FOR THE SUBMISSION OF ASSIGNMENTS, SINCE SOLUTIONS WILL BE AVAILABLE ON MYUNISA AUTOMATICALLY TO ALL STUDENTS AFTER THE DUE DATES. NO CORRESPONDENCE OR TELEPHONE CONVERSATION WILL BE CONDUCTED REGARDING THE LATE SUBMISSION OF ASSIGNMENTS. ASSIGNMENTS RECEIVED AFTER DUE DATE WILL NOT BE MARKED.

7.2 EXAMINATION

The examination counts 100 marks and is a written exam. The entire syllabus is covered in the examination and you can therefore not afford to leave out any part of it.

The mark obtained for this examination will contribute 80% towards the final mark for this module. In order to obtain admission to the examination you must submit assignment 1 (**the compulsory assignment**) on or before the due date. Assignment 2 is not compulsory but it will count towards your year mark.

Once again all-important information regarding the administration of the exam is contained in the *my Studies @ Unisa* brochure.

Final mark

The final mark for this module is calculated as follows, an example:

| Assignment | Weighting | Mark achieved | Final mark (weight x actual mark) |
|-------------|-----------|---------------|--------------------------------------|
| 1 | 25% x 20% | 80% | 4% |
| 2 | 75% x 20% | 68% | 10,20% |
| 3 | 0% | 75% | 0% |
| Examination | 80% | 64% | 51,20% |
| Final mark | | | 65% |

You must obtain a final mark of 50% or more in order to pass this module.

You have to achieve 40% or more in the exam before your year mark will be taken into account when calculating your final mark.

7.3 SUPPLEMENTARY, AEGROTAT OR SPECIAL EXAMINATIONS

Supplementary, aegrotat and special examinations are allowed in this module.

Each year the Income Tax Act is amended. We **expect** you to update yourself on the latest tax amendments, but you will not be issued with any new study material. You can visit the SARS website at www.sars.gov.za for relevant updates/changes. Work through the study material that you have at your disposal together with updates/changes. Remember that if you become a tax practitioner, you will need to continually update your knowledge.

You will not be required to submit assignments if you are a supplementary, aegrotat or special examination student.

Supplementary, aegrotat or special examination student – your year mark from the previous semester will be carried forward. As a supplementary student, you will still have access to *myUnisa* and we encourage you to make use of all the resources.

8 OTHER ASSESSMENT METHODS

There are no other assessment methods for this module.

9 OTHER

9.1 PLAGIARISM

Plagiarism is the act of taking words, ideas and thoughts of others and passing them off as your own. It is a form of theft, which involves a number of dishonest academic activities.

The *Disciplinary Code for Students* (2004) is given to students at registration. Students are advised to study the Code, especially Sections 2.1.13 and 2.1.14 (2004:3 – 4). Kindly read the University's *Policy on Copyright Infringement and Plagiarism* as well.

10 FREQUENTLY ASKED QUESTIONS

1. Must I buy the prescribed textbook or can I use a previous version?

The Income Tax Act is amended (changed) each year with the budget speech. This means that old textbooks will be out of date. Please only use the current version of the textbook.

2. I think that I found a mistake in the study material, what should I do?

In spite of the care taken to ensure that the tutorial letters, assignments and solutions are comprehensible and free from errors, omissions and discrepancies may occur, as our study material must be updated annually. Should you come across such matters, or matters that are not clearly expressed, kindly let us know to enable us to make the necessary correction. As soon as we discover a mistake we will make an announcement on the *myUnisa* system, please ensure that you register yourself to receive e-mails from the system.

3. Please could I have the answers to the old exam papers that are available on *myUnisa*.

These are uploaded automatically on *myUnisa*. We advise you, however, not to focus on old examination papers only as the content of modules and therefore examination papers changes from year to year. You may, however, accept that the type of questions that will be asked in the examination will be similar to those asked in the activities in your study guide and in the assignments. Remember that the solutions to the previous exam papers are not made available to students, as they are out of date. Assignment 03 is a previous exam paper that has been updated with the legislative amendments and a new solution is provided for you in tutorial letter 201. Other exam questions have in most instances been incorporated into your study guide as additional questions to work through.

You can also refer to the *my Studies @ Unisa* brochure which contains an A-Z guide of the most relevant study information.

4. I received my study material too late to submit my first assignment on time. What do I do now?

You will have to prove that you indeed received your study material late and submit it with a motivated request to examadmission@unisa.ac.za.

ASSIGNMENTS FOR FIRST SEMESTER STUDENTS

NOTE:



SUBMISSION OF ASSIGNMENT 1 IS COMPULSORY IN ORDER TO OBTAIN ADMISSION TO THE EXAMINATION. ADMISSION WILL BE OBTAINED BY SUBMITTING THE ASSIGNMENT AND **NOT** BY THE MARKS YOU HAVE OBTAINED FOR IT. THIS ASSIGNMENT WILL COUNT A MAXIMUM OF **5%** OF YOUR FINAL MARKS.

PLEASE ENSURE THAT THIS ASSIGNMENT REACHES THE UNIVERSITY ON OR BEFORE THE DUE DATE SINCE LATE SUBMISSION WILL RESULT IN YOUR **NOT BEING ADMITTED TO THE EXAMINATION.** NO CORRESPONDENCE OR TELEPHONIC CONVERSATION WILL BE ENTERED INTO IN THIS REGARD.

IF YOU INTEND POSTING YOUR ASSIGNMENT, MAKE A COPY OF IT BEFORE YOU POST IT TO UNISA, IN CASE YOUR ASSIGNMENT IS LOST IN THE POST.

WE ADVISE YOU, IF AT ALL POSSIBLE, TO **SUBMIT YOUR ASSIGNMENT ELECTRONICALLY.**

IMPORTANT INFORMATION REGARDING MULTIPLE CHOICE QUESTIONS :

- (1) You must answer all questions on a **mark-reading sheet** or **submit them electronically** via the myUnisa online system.
- (2) Before completing the mark-reading sheet, study the instructions in *My studies @ Unisa*. Read these instructions carefully and follow them exactly to avoid mistakes.
- (3) Do your calculations on a separate piece of paper before completing the mark-reading sheet.
- (4) There is only one correct answer to each question.
- (5) All questions are equal in value.



FIRST SEMESTER
ASSIGNMENT 1 (60 marks, 72 minutes)

| MODULE | DUE DATE | UNIQUE NUMBER |
|---------|--------------|---------------|
| TAX3701 | 6 March 2015 | 585505 |

ASSESSMENT CRITERIA FOR THIS ASSIGNMENT

For this assignment, you will need to have achieved the learning objectives set out in **study units 1 to 4** as contained in Tutorial Letter 102/3/2015. This assignment will assess your ability to select the alternative that best reflects the quantitative/qualitative solution to a problem. This assignment will count a maximum of **5%** towards your final mark.

| REQUIRED | MARKS |
|---|-----------|
| Select the option ((1) – (4)) that represents the correct answer to the question. (The mark-reading sheet has 5 options; please ignore option 5 for each question in this assignment.) | 60 |

ASSIGNMENT 1: SEMESTER 1

Khazimula Jewellers (Pty) Ltd (Khazimula) is a South African jewellery company that imports jewellery from overseas to resell locally. Khazimula is registered for value-added tax (VAT) on the invoice basis and it has a two-month tax period. The following amounts relate to receipts and payments for the two-month tax period ending 30 April 2015.

Where applicable, all amounts are **inclusive of VAT**, unless otherwise stated.

| Receipts | Notes | R |
|--|--------------|----------|
| Cash sales | | 171 000 |
| Credit sales | | 558 600 |
| Loan from Imali Bank | 1 | 100 000 |
| Equity contributions from shareholders | 1 | 150 000 |
| Indemnity payment | 2 | 57 000 |
| Payments | | |
| Import of stock | 3 | 300 000 |
| Purchase of a building | 4 | 100 000 |
| Sundry payments | 5 | 28 500 |

Notes

1. Khazimula has stores throughout the country. In March 2015, the company opened two new stores, one in Johannesburg and another one in Durban. In order to finance the expansion, the company acquired a loan of R100 000 from Imali Bank and received equity contributions of R150 000 from the company's shareholders.
2. On 6 March 2015, a fire broke out at the Johannesburg branch and stock valued at R88 920 was destroyed. The insurance company indemnified the company with a cash payment of R57 000.
3. On 28 February 2015, Khazimula imported a rare piece of jewellery from Switzerland. The cost price and value for customs duty purposes was R300 000. Import surcharges of R2 400 were levied. The date reflected on the customs bill of entry is 4 March 2015.
4. Khazimula purchased a second-hand building from a non-vendor for a consideration equal to R100 000. The property was paid for in full on 25 March 2015 and was registered on 16 April 2015. The open-market value at the date of registration was R120 000.
5. Sundry payments comprise of the following amounts **exclusive of VAT**:

| | |
|-------------------|---------------|
| | R |
| Fuel cost | 12 500 |
| Bank charges | 6 500 |
| Salaries | 5 000 |
| Insurance premium | 3 500 |
| Subscription fees | <u>1 000</u> |
| | <u>28 500</u> |

The subscription fees are for the purchase of international magazines and membership with jewellery trend forecasting agencies to ensure the company stocks up on the latest trends.

ASSIGNMENT 1: SEMESTER 1 (continued)

Now answer questions **1 to 15** of Assignment 01 based on the information provided above for Khazimula Jewellers (Pty) Ltd's two-month tax period ended 30 April 2015. Round off all your calculations to the nearest rand.

1. Calculate the output VAT on the credit sales. Which one of the following amounts is correct?
 - (1) R21 000
 - (2) R68 600
 - (3) R89 600
 - (4) R102 144

2. Calculate the output VAT on the loan from Imali Bank. Which one of the following amounts is correct?
 - (1) Rnil
 - (2) R12 000
 - (3) R12 281
 - (4) R14 000

3. Which one of the following statements is correct?
 - (1) Equity contributions will attract output VAT of R21 000.
 - (2) Equity contributions will not attract output VAT, as they will be exempt.
 - (3) Equity contributions will not attract output VAT, as they are zero-rated.
 - (4) Equity contributions will not attract output VAT, as there is no supply of goods or services.

4. Calculate the total output VAT on total sales. Which one of the following amounts is correct?
 - (1) R21 000
 - (2) R68 600
 - (3) R89 600
 - (4) R102 144

5. Calculate the output VAT on the indemnity payment of the destroyed stock. Which one of the following amounts is correct?
 - (1) Rnil
 - (2) R3 920
 - (3) R7 000
 - (4) R10 920

6. Calculate the input VAT applicable to the jewellery imported from Switzerland. Which one of the following amounts is correct?
 - (1) Rnil – imports are zero-rated
 - (2) R37 137
 - (3) R40 821
 - (4) R46 536

ASSIGNMENT 1: SEMESTER 1 (continued)

7. Calculate what the input VAT claimable on the imported jewellery would be if it were imported from Namibia. Which one of the following amounts is correct?
- (1) Rnil – imports are zero-rated
 - (2) R42 000
 - (3) R42 336
 - (4) R46 536
8. Calculate the input VAT related to the second-hand building acquired from a non-vendor. Which one of the following amounts is correct?
- (1) Rnil – input tax denied
 - (2) R12 000
 - (3) R12 281
 - (4) R14 737
9. What date indicates the time of supply for the building purchased from a non-vendor? Which one of the following is correct?
- (1) 1 March 2015
 - (2) 25 March 2015
 - (3) 16 April 2015
 - (4) 30 April 2015
10. Calculate the input tax claimable on the fuel cost. Which one of the following is correct?
- (1) Rnil – zero-rated supply
 - (2) Rnil – exempt supply
 - (3) Rnil – input tax denied
 - (4) R1 750
11. Calculate the input tax claimable on the bank charges. Which one of the following is correct?
- (1) Rnil – financial service exempt supply
 - (2) Rnil – zero-rated supply
 - (3) R798
 - (4) R910
12. Calculate the input tax claimable on the salaries paid to employees. Which one of the following is correct?
- (1) Rnil – exempt supply
 - (2) Rnil – zero-rated supply
 - (3) Rnil – input tax denied
 - (4) Rnil – not a supply

ASSIGNMENT 1: SEMESTER 1 (continued)

13. Calculate the input tax claimable on the insurance premium. Which one of the following is correct?
- (1) Rnil – financial service exempt supply
 - (2) Rnil – zero-rated supply
 - (3) R430
 - (4) R490
14. Calculate the input tax claimable on the subscription fees. Which one of the following is correct?
- (1) Rnil – input tax denied
 - (2) Rnil – exempt supply
 - (3) R123
 - (4) R140
15. Which statement is true?
- (1) If output VAT is greater than input VAT, total VAT is refundable from SARS.
 - (2) If output VAT is greater than input VAT, total VAT is payable to SARS.
 - (3) If input VAT is greater than output VAT, total VAT is payable from SARS.
 - (4) If input VAT is equal to output VAT, total VAT is refundable from SARS.
16. Turnover tax can be seen as a simplified tax package that substitutes certain taxes contained in the Income Tax Act. Which of the following taxes is not substituted by turnover tax?
- (1) Donations tax and dividends tax
 - (2) Capital gains tax and normal income tax
 - (3) Donations tax and normal income tax
 - (4) Capital gains tax and dividends tax
17. The taxable turnover of a microbusiness includes all amounts, EXCEPT which one of the following?
- (1) Amounts received by the registered microbusiness
 - (2) Amounts not of a capital nature
 - (3) Amounts received from carrying on business activities outside the Republic
 - (4) Amounts received during the year of assessment
18. Which of the following statements about turnover tax is incorrect?
- (1) Qualifying turnover refers to receipts only; not to amounts accrued.
 - (2) Any natural person, company, trust or close corporation with a qualifying turnover less than R1 million may elect to be taxed in terms of the turnover tax system.
 - (3) A company, close corporation or co-operative is disqualified as a microbusiness if the year of assessment ends at a date other than the last day of February.
 - (4) Taxable turnover includes cash receipts not of a capital nature from carrying on business activities in the Republic.

ASSIGNMENT 1: SEMESTER 1 (continued)

Tiny-Tots (Pty) Ltd (Tiny-Tots) is a registered microbusiness that sells organic baby food. The following activities occurred for the 2015 year of assessment:

- It earned R400 000 from sales, of which R320 000 was received.
- It incurred business expenditure of R225 000.
- It received R150 000 from the disposal of one of its machines used to produce organic baby food.

Now answer questions **19 to 20** of Assignment 1 based on the information provided above for Tiny-Tots. Round off all your calculations to the nearest rand.

19. Calculate the taxable turnover for Tiny-Tots for its 2015 year of assessment. Which one of the following amounts is correct?
- (1) R170 000
 - (2) R250 000
 - (3) R395 000
 - (4) R475 000
20. Calculate the turnover tax for Tiny-Tots for its 2015 year of assessment. Which one of the following amounts is correct?
- (1) R200
 - (2) R3 400
 - (3) R26 600
 - (4) R49 000
21. In which appellate division case did the courts decide that “accrue” means a person has become entitled to an amount?
- (1) CIR v People’s Stores (Walvis Bay) (Pty) Ltd
 - (2) Mooi v SIR
 - (3) SIR v Trust Bank of Africa Ltd
 - (4) CIR v Visser
22. Which of the following factors is **NOT** considered when determining if an item may be of a capital nature for the purpose of the definition of gross income?
- (1) Subjective factors
 - (2) Objective factors
 - (3) Fruit-and-tree principle
 - (4) Fixed vs. floating capital
23. Section 20A states that if a natural person suffers a loss because of operating a trade, he or she may sometimes not claim this loss against income from another trade. Which of the following is not a suspect trade for the purposes of section 20A?
- (1) Any form of gambling or betting practised by that person or any relative
 - (2) Dealing in collectibles by the person or relative
 - (3) Animal showing by that person or any relative
 - (4) Rental of residential accommodation, unless where less than 20% is used by persons who are relatives and they lease the property for at least half the year

ASSIGNMENT 1: SEMESTER 1 (continued)

24. Which one of the following items does NOT form part of the general deduction formula as outlined in section 11(a) of the Income Tax Act?
- (1) Expenditure and losses
 - (2) Actually (necessarily) incurred
 - (3) In the year of assessment
 - (4) In the production of income
25. Various court cases have tested the practical application of the principles of the general deduction formula. Which of the following is one of the most notable cases?
- (1) Joffe & Co (Pty) Ltd v CIR 13 SATC 354 (carrying on a trade)
 - (2) Port Elizabeth Electric Tramway Co Ltd v CIR 8 SATC 13 (in the production of income)
 - (3) Sub-Nigel Ltd v CIR 15 SATC 381 (expenditure and losses)
 - (4) All of the above
26. Which one of the following deductions is prohibited in terms of section 23 even though it may comply with section 11(a)?
- (1) Expenditure not recoverable from insurance
 - (2) Provisional expenditure
 - (3) Any payment made for restraint of trade
 - (4) All of the above
27. Zasho (Pty) Ltd has an interest in a share-block company (from which it operates) and it paid levies of R18 775 for the 2015 year of assessment. The trustees of the share-block company imposed a 10% penalty on the amount paid due to late payment. Calculate the amount claimable in terms of the general deduction formula for the 2015 year of assessment. Which one of the following amounts is correct?
- (1) Rnil – deduction prohibited
 - (2) R18 775
 - (3) R20 653
 - (4) R16 898


Mr Mokoena is a chartered accountant and he conducts his practice from an office that is part of his private residence, which was converted to accommodate his practice. His office space is specifically equipped and is used regularly and exclusively for his trade. The floor space of the office represents 12% of the total floor area of his residence. He incurred the following expenses in connection with his residence during the 2015 year of assessment:

| | |
|------------------------|---------------|
| | R |
| Capital repaid on bond | 12 000 |
| Interest on bond | 18 000 |
| Municipal accounts | 16 000 |
| Cleaning expenses | <u>4 000</u> |
| | <u>50 000</u> |

ASSIGNMENT 1: SEMESTER 1 (continued)

Now answer questions **28 to 30** of Assignment 01 based on the information provided above for Mr Mokoena. Where applicable, round off all your calculations to the nearest rand.

28. Which one of the following statements is correct?
- (1) Mr Mokoena will only qualify for a deduction if he can satisfy section 11(a) requirements.
 - (2) Mr Mokoena incurred the R50 000 in the carrying on of trade.
 - (3) Capital repaid on the bond would constitute capital expenditure and it is not allowable.
 - (4) Section 23(b) prohibits the deduction of 12% of the expenditure.
29. Calculate the deduction for which Mr Mokoena will qualify in terms of section 11(a). Which one of the following amounts is correct?
- (1) R6 000
 - (2) R4 560
 - (3) R33 440
 - (4) R44 000
30. Which one of the following statements is incorrect?
- (1) Section 23(b) prohibits the deduction of 88% of the expenditure incurred.
 - (2) Section 23(g) prohibits the deduction of 88% of the expenditure incurred.
 - (3) Section 23(b) prohibits the deduction of R33 440 of the expenditure incurred.
 - (4) Section 23(g) prohibits the deduction of R12 000 of the expenditure incurred.

| | |
|---|--|
|  | <p>FIRST SEMESTER</p> <p>ASSIGNMENT 2 (40 marks, 48 minutes)</p> |
|---|--|

| MODULE | DUE DATE | UNIQUE NUMBER |
|---------|---------------|---------------|
| TAX3701 | 27 March 2015 | 587521 |

NOTE:

THE MARK YOU HAVE OBTAINED FOR THIS ASSIGNMENT WILL FORM **75%** OF YOUR YEAR MARK FOR THIS MODULE. YOUR YEAR MARK WILL CONTRIBUTE 20% TOWARDS YOUR FINAL MARK.

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ASSESSMENT CRITERIA FOR THIS ASSIGNMENT

For this assignment, you will need to have achieved the learning objectives set out in **study units 5 to 6** as contained in Tutorial Letter 103/3/2015.

ASSIGNMENT 2: FIRST SEMESTER**QUESTION 1 (40 marks, 48 minutes)**

This question comprises of two unrelated parts.

PART A

Abantwana (Pty) Ltd (Abantwana) is a company that manufactures modern baby products. Abantwana **is a small business corporation** as defined in the Income Tax Act.

The accountant of Abantwana, Mr Rabana, has calculated the entity's normal tax liability for the year of assessment ended 28 February 2015. He would like you to review his calculation before he submits the company's ITR14 tax return. His calculation is as follows:

Normal tax liability calculation of Abantwana (Pty) Ltd for the year of assessment ended 28 February 2015

| | Notes | R | R |
|---|-------|----------|-----------------------|
| Sales | | | 5 876 248 |
| Prepaid expenses | | | |
| Insurance premiums for period 01/09/2014 – 01/11/2015 | | | (324 721) |
| Electricity for period 01/01/2015 – 01/05/2015 | | | (785 248) |
| Design and trademark | | | |
| Design A for baby play-gym (R28 600 x 5%) (sec 11(gC)) | | | (1 430) |
| Trademark renewal on 1 January 2015 for R10 500 – no deduction | | | Nil |
| Purchases (sec 11(a)) | 1 | | (1 489 000) |
| Restraint of trade (R485 000 / 2) | 2 | | (242 500) |
| Salaries paid to researchers | 3 | | (145 778) |
| Capital allowance – section 12C (R650 000 x 40%) | 3 | | (260 000) |
| Packaging machine | 4 | | |
| Cost (R20 520 x 100/114) | | 18 000 | |
| Less: Wear and tear – section 11(e) | | | |
| 2014: R18 000/4 x 1/12 | | (375) | |
| 2015: R18 000/4 x 2/12 | | (750) | (750) |
| Tax value | | 16 875 | |
| Proceeds are zero | | - | |
| Scrapping allowance | | (16 875) | (16 875) |
| Wear and tear for the remaining packaging machines: | | | (9 000) |
| Section 11(e) – (R12 800 x 100/114 x 2) / 3 | | | |
| Leasehold improvements (R475 000 / 110) x 2 (sec 11(g)) | 5 | | (8 636) |
| Assessed loss brought forward from 2014 | | | (155 000) |
| Provisional tax paid for 2015 | | | (504 887) |
| Taxable income | | | <u>1 932 423</u> |
| Normal tax liability (R1 932 423 x 28%) | | | <u><u>541 078</u></u> |

ASSIGNMENT 2: FIRST SEMESTER (continued)**QUESTION 1 (continued)****Notes:**

- Included in the purchases of R1 489 000 is new and unused machinery costing R650 000 that will be used exclusively for research (**refer to note 3**).
- A baby products specialist who worked for the company decided to start her own baby products company and informed the owner of Abantwana accordingly. To prevent this, the company decided to pay her a restraint of trade compensation of R485 000 on 1 December 2014, effective for two years. She accepted the compensation, which was fully taxable in her hands.
- During the 2015 year of assessment, Abantwana commenced with a research project to develop a state-of-the-art stroller range called X-ploration. The following expenses relating to the project were incurred:

| | R |
|------------------------------|---------|
| Salaries paid to researchers | 145 778 |
| Machinery | 650 000 |

The Minister of Science and Technology approved the research and development.

- On 1 February 2014, Abantwana purchased three packaging machines for a cash amount of R20 520 **each** (VAT inclusive). On 30 April 2014, one of the packaging machines was damaged beyond repair before Abantwana had a chance to insure the equipment.

Binding general ruling No. 7 makes provision for the following write-off period:

- Packaging equipment – 4 years

- On 1 April 2014, Abantwana entered into a lease contract with Lekalana (Pty) Ltd for a period of ten years with the option to extend the contract for another three years. In terms of the contract, Abantwana had to effect improvements to the premises to the value of R445 000. The building improvements commenced on 30 June 2014 and were completed on 30 November 2014. The building was brought into use on 1 January 2015 and was used in the manufacturing process. The total cost of the improvements was R475 000.

| REQUIRED: | MARKS |
|--|--------------|
| Recalculate the entity's normal tax liability for the year of assessment ended 28 February 2015 and provide brief reasons for any adjustments that <u>in your opinion</u> , should be made to Mr Rabana's calculations. Ignore any capital gains tax (CGT) consequences. | 30 |

ASSIGNMENT 2: FIRST SEMESTER (continued)**QUESTION 1 (continued)****PART B**

Botshelo (Pty) Ltd manufactures equipment used by carpenters. The entity disposed of the following assets during the 2015 year of assessment and replaced these items by acquiring replacement assets:

| | Vehicle Sec 11(e) R | Escalator Sec 11(e) R | Machine Sec 12C R |
|---|------------------------------------|--------------------------------------|----------------------------------|
| Cost of asset disposed | 80 000 | 140 000 | 120 000 |
| <u>Less: Allowances up to 31/3/2014</u> | <u>(48 000)</u> | <u>(126 000)</u> | - |
| Tax value on 1/4/2014 | 32 000 | 14 000 | 120 000 |
| <u>Less: Allowances for the 2015 year of assessment</u> | <u>(16 000)</u> | <u>(7 000)</u> | <u>(24 000)</u> |
| Tax value at date of disposal | <u>16 000</u> | <u>7 000</u> | <u>96 000</u> |
| Proceeds on disposal | 10 000 | 5 000 | 125 000 |
| Replacement asset (new and unused) - cost | 90 000 | 170 000 | 150 000 |
| <u>Less: Allowances for the 2015 year of assessment</u> | <u>(9 000)</u> | <u>(8 500)</u> | <u>(60 000)</u> |
| Tax value on 31/3/2015 | <u>81 000</u> | <u>161 500</u> | <u>90 000</u> |

The company has indicated that it plans to elect the rollover provisions of paragraph 66 of the Eighth Schedule, where applicable. It would also endeavour to use any other concession whereby its normal tax liability for the current year of assessment can legitimately be reduced.

Binding general ruling No. 7 makes provision for the following write-off periods:

- Vehicle – 5 years
- Escalator – 20 years

Botshelo (Pty) Ltd has a March year-end.

| REQUIRED: | MARKS |
|---|--------------|
| Indicate the way in which the abovementioned disposals would affect the taxable income of Botshelo (Pty) Ltd for the 2015 year of assessment. Where necessary, provide brief reasons for your answer. Ignore value-added tax and CGT calculations. | 10 |

ASSIGNMENTS FOR SECOND SEMESTER STUDENTS

NOTE:



SUBMISSION OF ASSIGNMENT 1 IS COMPULSORY IN ORDER TO OBTAIN ADMISSION TO THE EXAMINATION. ADMISSION WILL BE OBTAINED BY SUBMITTING THE ASSIGNMENT AND **NOT** BY THE MARKS YOU HAVE OBTAINED FOR IT. THIS ASSIGNMENT WILL COUNT A MAXIMUM OF **5%** OF YOUR FINAL MARKS.

PLEASE ENSURE THAT THIS ASSIGNMENT REACHES THE UNIVERSITY ON OR BEFORE THE DUE DATE SINCE LATE SUBMISSION WILL RESULT IN YOUR **NOT BEING ADMITTED TO THE EXAMINATION.** NO CORRESPONDENCE OR TELEPHONIC CONVERSATION WILL BE ENTERED INTO IN THIS REGARD.

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IMPORTANT INFORMATION REGARDING MULTIPLE CHOICE QUESTIONS:

- (1) You must answer all questions on a **mark-reading sheet** or **submit them electronically** via the myUnisa online system.
- (2) Before completing the mark-reading sheet, study the instructions in *My studies @ Unisa*. Read these instructions carefully and follow them exactly to avoid mistakes.
- (3) Do your calculations on a separate piece of paper before completing the mark-reading sheet.
- (4) There is only one correct answer to each question.
- (5) All questions are equal in value.



SECOND SEMESTER
ASSIGNMENT 1 (60 marks, 72 minutes)

| MODULE | DUE DATE | UNIQUE NUMBER |
|---------|----------------|---------------|
| TAX3701 | 11 August 2015 | 572738 |

ASSESSMENT CRITERIA FOR THIS ASSIGNMENT

For this assignment, you will need to have achieved the learning objectives set out in **study units 1 to 4** as contained in Tutorial Letter 102/3/2015. This assignment will assess your ability to select the alternative that best reflects the quantitative/qualitative solution to a problem. This assignment will count a maximum of **5%** towards your final mark.

| REQUIRED: | MARKS |
|---|-----------|
| Select the option ((1) – (4)) that represents the correct answer to the question. (The mark-reading sheet has 5 options; please ignore option 5 for each question in this assignment.) | 60 |

ASSIGNMENT 1: SECOND SEMESTER

Edgar Edwards started a small business called Exciting Exports (Pty) Ltd (Exciting Exports) which is duly incorporated in South Africa. Exciting Exports specialises in the export of goods and services. Edgar Edwards also established a subsidiary in the Cayman Islands to which he exports goods before redistributing it to European countries. Exciting Exports also imports certain products and services to South Africa and sells them locally. Exciting Exports is a registered VAT vendor.

Exciting Exports' income and expenditure for the two-month tax period ending 31 July 2014 is shown below. (All amounts are **inclusive** of VAT, where applicable.)

| Income | Note | R |
|--|-------------|----------|
| Direct exports | 1 | 540 000 |
| Local sales of tobacco | | 268 400 |
| | | |
| Expenditure | | |
| Importation of goods | 2 | ? |
| Purchase of tobacco from local producers | | 250 300 |
| Telephone costs | 3 | 15 000 |
| Purchase of vehicle | 4 | 200 000 |
| Purchase of popcorn | 5 | 200 |
| Donation | 6 | 30 000 |
| Membership fee to Nicotine Anonymous | 7 | 4 200 |

Notes

- Exciting Exports directly exported tobacco to its subsidiary in the Cayman Islands. The open market value was R530 000.
- Exciting Exports imported tobacco from a farmer based in Lesotho. The customs duty value was R530 000 and the import surcharge was R20 000. The goods were imported and entered for storage in a licensed customs and excise warehouse. They were not entered for local consumption. These goods were never removed from the customs and excise storage warehouse and were subsequently directly exported (note 1).
- Telephone costs consisted of international and local calls made. Approximately 30% of calls were made to the subsidiary and they will be considered international calls.
- A delivery vehicle was purchased for R200 000 (excluding VAT) on 1 July 2014. The vehicle was given to one of the employees, Mr Fastrider, on 1 July 2014 for his use.
- Popcorn was purchased for a social event organised by Edgar for the employees.
- A donation of R30 000 was made to an antismoking centre (a registered public benefit organisation).
- Exciting Exports paid a once-off membership fee to Nicotine Anonymous on behalf of Edgar Edwards. This organisation would assist Edgar with its 12-step programme to stop smoking.

ASSIGNMENT 1: SECOND SEMESTER (continued)

Now answer questions 1 to 10 of Assignment 1 based on the information provided above about Exciting Exports's two-month tax period ended 31 July 2014. Round off all your calculations to the nearest rand.

1. Calculate the total output tax applicable to the income from the direct export made to the subsidiary. Which of the following calculations is correct?
 - (1) $R530\,000 \times 0\% = R\text{nil}$
 - (2) $R530\,000 \times 14/114 = R65\,088$
 - (3) $R540\,000 \times 14/114 = R66\,316$
 - (4) $R530\,000 \times 14\% = R73\,640$

2. Determine the VAT implication of the local sales of tobacco. Which of the following statements is correct?
 - (1) No VAT is payable, as this is a zero-rated sale (agricultural purposes).
 - (2) Output VAT of R32 961 is payable.
 - (3) Input VAT of R37 576 is payable.
 - (4) Output VAT of R37 576 is payable.

3. Determine the VAT implication of the importation of tobacco from Lesotho. Which of the following statements is correct?
 - (1) Output VAT is calculated as $R530\,000 \times 0\% = R0$.
 - (2) Input VAT is calculated as $R530\,000 \times 14\% = R74\,200$.
 - (3) Output VAT is calculated as $(R530\,000 + (10\% \times R530\,000) + R20\,000) \times 14\% = R84\,420$.
 - (4) Input VAT is calculated as $(R530\,000 + (10\% \times R530\,000) + R20\,000) \times 14\% = R84\,420$.

4. Calculate the input tax claimable on the purchase of tobacco from local suppliers. Which one of the following amounts is correct?
 - (1) Rnil
 - (2) R26 964
 - (3) R30 739
 - (4) R35 042

5. Determine the VAT implication of the telephone costs incurred. Which of the following statements is correct?
 - (1) Input VAT is calculated as $R15\,000 \times 30\% = R5\,400 \times 14/114 = R663$.
 - (2) Input VAT is calculated as $R15\,000 \times 70\% = R10\,500 \times 14/114 = R1\,289$.
 - (3) Input VAT is calculated as $R15\,000 \times 14/114 = R1\,842$.
 - (4) Output VAT is calculated as $R15\,000 \times 14/114 = R1\,842$.

6. Calculate the input tax claimable on the purchase of the delivery vehicle. Which one of the following amounts is correct?
 - (1) Rnil
 - (2) R24 561
 - (3) R28 000
 - (4) R31 920

ASSIGNMENT 1: SECOND SEMESTER (continued)

7. Calculate the output tax payable on the fringe benefit given to Mr Fastrider. Which one of the following calculations is correct?
- (1) $((R200\ 000 \times 100/114) \times 0.6\%) \times 14/114 \times 1 = R129$
 - (2) $(R200\ 000 \times 0.6\%) \times 14/114 \times 1 = R147$
 - (3) $(R200\ 000 \times 0.6\%) \times 14/114 \times 2 = R295$
 - (4) $(R200\ 000 \times 0.6) \times 14/114 \times 1 = R14\ 737$
8. What is the VAT implication of the popcorn that was purchased?
- (1) Input VAT of R0 can be claimed.
 - (2) Input VAT of R28 can be claimed.
 - (3) Output VAT of R28 should be paid.
 - (4) Input VAT cannot be claimed (entertainment).
9. What is the input VAT that can be claimed on the donation made?
- (1) Input VAT of R0 can be claimed.
 - (2) Input VAT of R3 684 can be claimed.
 - (3) Input VAT of R4 200 can be claimed.
 - (4) Input VAT cannot be claimed.
10. Which of the following statements is correct regarding the subscription fee that was paid to Nicotine Anonymous?
- (1) The membership fee will not be claimed as input tax, as it is an exempt supply.
 - (2) The membership fee will result in input tax of R516.
 - (3) The membership fee will result in output tax of R516.
 - (4) The membership fee will not be claimed, as input tax is denied.
11. Where the consideration of a supply is less than R5 000, an abridged tax invoice may be issued. Which of the following statements are **incorrect** regarding abridged tax invoices?
- (1) The abridged tax invoice should contain the words "tax invoice" in a prominent place.
 - (2) The abridged tax invoice should include the name, address and VAT registration number of the recipient.
 - (3) The abridged tax invoice should contain the name, address and VAT registration number of the supplier.
 - (4) The abridged tax invoice should include a description of goods or services supplied.
12. On which of the following fringe benefits will output VAT be levied?
- (1) Granting of the use of a company car to an employee, giving shares to an employee and giving of cash allowances.
 - (2) Granting of the use of a company car to an employee, giving shares to an employee and granting the use of residential accommodation.
 - (3) Granting of the use of a company car to an employee, giving shares to an employee and granting the right to use a laptop for private purposes.
 - (4) Granting of the use of a company car to an employee, giving shares to an employee and granting the right to use a coffee machine.

ASSIGNMENT 1: SECOND SEMESTER (continued)

13. Which of the following items is **not** an exempt supply?
- (1) The purchase of stationery by a school
 - (2) The purchase of nappies by a crèche
 - (3) The purchase of a motor vehicle
 - (4) The purchase of a lawn mower by a body corporate
14. Pretty House Accommodation (Pty) Ltd provides rentals of both residential and commercial property. The input tax ratio is 60%. A lawnmower was purchased for an amount of R3 200 (including VAT) to use for garden maintenance services rendered as part of the commercial property rental amounts paid by tenants. What is the input VAT that can be claimed on the purchase of the lawnmower?
- (1) $R3\ 200 \times 14/114 \times 40\% = R157$
 - (2) $R3\ 200 \times 14/114 \times 60\% = R235$
 - (3) $R3\ 200 \times 14/114 = R393$
 - (4) $R3\ 200 \times 14\% = R448$
15. An enterprise is required to register if it ...
- (1) supplies goods or services in the furtherance of an enterprise.
 - (2) has a qualifying turnover of more than R1 million.
 - (3) produced taxable supplies for the preceding 12 months exceeding R1 million.
 - (4) produced supplies of goods and services for the preceding 12 months exceeding R1 million.
16. FunkyRedPanda (Pty) Ltd (FRP) would like to register as a microbusiness. The following information relates to FRP for the 2015 year of assessment:

| | R |
|-----------------------|---------|
| Receipts from debtors | 350 000 |
| Sales to debtors | 450 000 |
| Sales of equipment | 780 000 |
| Cost of sales | 410 000 |

Calculate the qualifying turnover of FRP. Which of the following calculations is correct?

- (1) $R350\ 000 + R450\ 000 = R800\ 000$
 - (2) $R350\ 000 + (50\% \times R780\ 000) = R740\ 000$
 - (3) $R350\ 000 + R450\ 000 - R410\ 000 = R390\ 000$
 - (4) $R350\ 000$
17. PrettyFlamingo (Pty) Ltd (PF) would like to register as a microbusiness. Assume the qualifying turnover was calculated as R500 000. The interest earned by PF was R90 000. PF have two shareholders, namely, Mr Sunshine (50%) and Mrs Rainbow (50%). Mrs Rainbow has 77% shares in another private company. In the last three years of assessment (including 2015) the capital receipts amounted to R1,2 million.

Would PF be able to register as a microbusiness?

- (1) Yes, the qualifying turnover is less than R1 million and the capital receipts for the last three years were less than R1,5 million.
- (2) Yes, the qualifying turnover is less than R1 million, the capital receipts for the last three years were less than R1,5 million and passive income is less than 20% of total receipts.
- (3) No, passive income earned was more than 20% of total receipts.
- (4) No, the shareholder holds an interest in another private company.

ASSIGNMENT 1: SECOND SEMESTER (continued)

18. Vaughan's Video Shop CC is a registered microbusiness. The following information relates to the 2015 year of assessment:

| | R |
|--|---------|
| Cash sales | 564 000 |
| Debtors for penalties levied on late rentals | 10 000 |
| Interest received | 313 000 |
| Receipt from equipment sold | 100 000 |
| Refunds from broken stock (videos) purchased | 20 000 |

Calculate the taxable turnover of Vaughan's Video Shop CC. Which one of the following calculations is correct?

- (1) $R564\ 000 + R313\ 000 + (R100\ 000 \times 50\%) = R927\ 000$
- (2) $R564\ 000 + R313\ 000 + (R100\ 000 \times 50\%) + R20\ 000 = R947\ 000$
- (3) $R564\ 000 + R10\ 000 + R313\ 000 + (R100\ 000 \times 50\%) + R20\ 000 = R957\ 000$
- (4) $R564\ 000 + R313\ 000 + R100\ 000 = R977\ 000$
19. Whaley Water (Pty) Ltd is a registered microbusiness. On 31 August 2014, the estimated taxable turnover was R770 000. The taxable turnover for the previous year of assessment was R820 000. SARS accepted the lower estimate. Calculate the first interim payment that Whaley Water (Pty) Ltd needs to pay. Which one of the following amounts is correct?
- (1) R8 350
- (2) R9 850
- (3) R16 700
- (4) R19 700
20. Disturbing Doozles CC is a registered microbusiness. The estimated taxable turnover for the second interim payment was R200 000. The actual taxable turnover was R280 000. Disturbing Doozles CC was assessed by SARS on additional tax that needs to be paid. Calculate the additional tax. Which one of the following calculations is correct?
- (1) $((R280\ 000 \times 80\%) \times 1\%) - (R200\ 000 \times 1\%) \times 20\% = R48$
- (2) $((R280\ 000 \times 80\%) - R150\ 000) \times 1\% - (R200\ 000 - R150\ 000) \times 1\% \times 20\% = R48$
- (3) $((R280\ 000 \times 1\%) - (R200\ 000 \times 1\%)) \times 20\% = R160$
- (4) $((R280\ 000 - R150\ 000) \times 1\%) - ((R200\ 000 - R150\ 000) \times 1\%) \times 20\% = R160$
21. Choose the **incorrect** option. When a company registers as a micro business during the year of assessment ...
- (1) it is effective immediately when all requirements have been fulfilled.
- (2) it applies with effect from the beginning of the year of assessment.
- (3) it does not influence registration as a VAT vendor.
- (4) its balance of assessed losses cannot be used to reduce the taxable turnover of the micro-business.

ASSIGNMENT 1: SECOND SEMESTER (continued)

22. Holy Moly! is incorporated in Luxembourg. Holy Moly! has a small office in Luxembourg, where the chief operating officer (COO) is present on a daily basis. All the directors fly to Luxembourg for the annual directors' meeting. Although incorporated in Luxembourg, the company receives revenue from South Africa only, and all the senior employees responsible for the day-to-day management are in South Africa. Determine whether the company will be a resident or a non-resident. Which one of the following statements is correct? (**TIP:** Look at interpretation note 6 on www.sars.gov.za.)
- (1) Holy Moly! is a non-resident for South African income tax purposes, as it is incorporated in Luxembourg.
 - (2) Holy Moly! is a non-resident for South African income tax purposes, as the COO resides in Luxembourg.
 - (3) Holy Moly! is a non-resident for South African income tax purposes, as the directors have their annual directors' meeting in Luxembourg.
 - (4) Holy Moly! is a resident of South Africa for income tax purposes, as the business is managed from South Africa on a day-to-day basis.

23. R2D2 (Pty) Ltd is a non-resident for South African income tax purposes. It earned the following during the 2015 year of assessment:

| | R |
|--|---------|
| Dividends from a South African listed company | 40 000 |
| Royalties from the use of a patent in the Republic of SA | 70 000 |
| Rental income from property located in Kazakhstan | 100 000 |
| Fees earned from consulting work done in South Africa | 300 000 |

Calculate what amount will be included in **income** and taxed in South Africa. Which one of the following amounts is correct?

- (1) R300 000
 - (2) R410 000
 - (3) R400 000
 - (4) R510 000
24. The general deduction formula requires taxpayers to carry on a trade to be able to deduct expenses. Which of the following scenarios would not constitute the carrying-on of a trade?
- (1) The taxpayer carries on a business in construction and incurs expenses for numerous years before income is earned.
 - (2) The taxpayer has a trademark and earns royalties by granting the right to use the trademark.
 - (3) The taxpayer invests on the JSE Limited and earns dividends from shares.
 - (4) The taxpayer owns several investments in the form of properties and earns rental income.
25. Wizz Watches (Pty) Ltd (WW) manufactures watches and has a 31 March 2015 year-end. A bonus scheme was created whereby all employees are entitled to five golden watches if they are still employed by 28 March 2015. The bonus scheme was offered to 215 employees and on 28 March 2015, 125 employees were still employed by WW. The market value of a watch is R7 200 and the cost to manufacture a watch is R4 315.

Calculate the deduction that will be allowed in terms of the general deduction formula. Which one of the following amounts is correct?

- (1) R539 375
- (2) R2 696 875
- (3) R4 500 000
- (4) R4 638 625


ASSIGNMENT 1: SECOND SEMESTER (continued)

26. Erlank (Pty) Ltd is a non-resident. Erlank (Pty) Ltd has a 28 February 2015 year end and it received the following during the 2015 year of assessment:

| | R |
|--|---------|
| - Interest paid by AB Bank received on 28 February 2015 | 100 000 |
| - Acquired a residential property located in South Africa from a non-resident company for R3 million and paid one instalment | 200 000 |

Calculate the total withholding tax. Which one of the following calculations is correct?

- (1) $(R100\ 000 \times 15\%) + (R200\ 000 \times 5\%) = R25\ 000$
 (2) $R200\ 000 \times 7,5\% = R15\ 000$
 (3) $R3\ 000\ 000 \times 7,5\% = R225\ 000$
 (4) $(R100\ 000 \times 15\%) + (R200\ 000 \times 7,5\%) = R30\ 000$
27. Which one of the following options does not form part of gross income as outlined in section 1 of the Income Tax Act?
- (1) Total amount of cash, or otherwise
 (2) Actually incurred
 (3) In the year of assessment
 (4) Not of a capital nature
28. Which one of the following options was the principle laid down by the court in *Port Elizabeth Electric Tramway Co Ltd v CIR*?
- (1) An act must be identified, it must be determined whether the act was for the purposes of producing income, and the expenses must be closely linked to the act.
 (2) An act must be identified but the act does not need to be for the purposes of producing income; however, the expenses must be closely linked to the act.
 (3) An expense must not produce an enduring benefit to be deducted in terms of the general deduction formula.
 (4) An expense does not need to be closely linked to the act of producing income for it to be deductible in terms of the general deduction formula.
29. One of the requirements of the gross income definition is that amounts must not be of a capital nature. Various tests have been employed to determine whether amounts are of a capital nature. Which one of the following scenarios would be considered “not of a capital nature”?
- (1) A taxpayer wins a prize on a radio station.
 (2) A taxpayer receives an insurance payout for the loss of a manufacturing machine.
 (3) A taxpayer who deals in property sells three houses.
 (4) A taxpayer sells the house in which he resides.
30. PeteeWhy (Pty) Ltd incurred various expenses. Which one of the following expenses incurred will be deductible in terms of the *general deduction formula*?
- (1) An annuity of R210 000 was paid to a retired employee but it was not part of his initial contract of employment.
 (2) Stock losses of R10 000 were incurred when stock was stolen by an employee.
 (3) A bribe of R15 000 was paid when a tender was not accepted.
 (4) Advertising expenses of R1 million were incurred to make a television advertisement that will run on a local television programme for the next five years.



SECOND SEMESTER

ASSIGNMENT 2 (40 marks, 48 minutes)

| MODULE | DUE DATE | UNIQUE NUMBER |
|---------|------------------|---------------|
| TAX3701 | 7 September 2015 | 574048 |

NOTE:

THE MARK YOU OBTAINED FOR THIS ASSIGNMENT WILL FORM **75%** OF YOUR YEAR MARK FOR THIS MODULE. YOUR YEAR MARK WILL CONTRIBUTE 20% TO YOUR FINAL MARK.

PLEASE ENSURE THAT THIS ASSIGNMENT REACHES THE UNIVERSITY ON OR BEFORE THE DUE DATE SINCE LATE SUBMISSION WILL RESULT IN YOUR **NOT BEING ADMITTED TO THE EXAMINATION**. NO CORRESPONDENCE OR TELEPHONIC CONVERSATION WILL BE ENTERED INTO IN THIS REGARD.

IF YOU INTEND POSTING YOUR ASSIGNMENT, MAKE A COPY OF IT BEFORE YOU POST IT TO UNISA, IN CASE YOUR ASSIGNMENT IS LOST IN THE POST.

WE ADVISE YOU, IF AT ALL POSSIBLE, TO **SUBMIT YOUR ASSIGNMENT ELECTRONICALLY**.

ASSESSMENT CRITERIA FOR THIS ASSIGNMENT

For this assignment, you will need to have achieved the learning objectives set out in **study units 5 to 6** as contained in Tutorial Letter 103/3/2015.

ASSIGNMENT 2: SECOND SEMESTER**QUESTION 1 (40 marks, 48 minutes)**

Plutonic Plate Movers (Pty) Ltd (PPM) manufactures trucks. PPM has a 31 March 2015 year-end and is regarded as a **small business corporation** in terms of the Income Tax Act. The information below relates to the 2015 year of assessment. All amounts exclude VAT unless otherwise stated.

Statement of comprehensive income

| | Notes | R |
|------------------------------|-------|-------------------------|
| Sales | | 4 500 000 |
| Cost of sales | 1 | (712 500) |
| Gross profit | | <u>3 787 500</u> |
| Other income | | 369 000 |
| Dividends received | | 45 000 |
| Profit on sale of factory | 2 | 324 000 |
| Expenses | | (1 268 400) |
| Restraint of trade | 3 | 260 000 |
| Salaries | | 532 100 |
| Annuities | 4 | 230 000 |
| Provision for doubtful debt | 5 | 60 200 |
| Bad debts | 6 | 25 000 |
| ADSL line rental expense | 7 | 2 500 |
| Insurance | 7 | 35 000 |
| Depreciation | 8 | 123 600 |
| Net profit before tax | | <u><u>2 888 100</u></u> |

Notes:

1. Cost of sales consisted of the following:

| | R |
|----------------------------|-----------------------|
| Opening stock | 410 000 |
| <u>Add:</u> Purchases | 835 000 |
| <u>Less:</u> Closing stock | (532 500) |
| | <u><u>712 500</u></u> |

Opening stock, purchases and closing stock are all stated at cost. The market value of opening stock was R435 000 on 1 April 2014, and on 31 March 2015 the market value of closing stock was R510 000. Not included in purchases was a truck that was donated to PPM on 1 February 2015. The market value on the date of donation was R52 100. The truck was not sold at year-end and the market value on 31 March 2015 was R55 000.

The accountant was not sure how to treat consumables and did **not** include it in cost of sales or **any** other item in the statement of comprehensive income. The value of consumables was as follows:

| | R |
|---------------|--------|
| 1 April 2014 | 45 000 |
| 31 March 2015 | 71 200 |

ASSIGNMENT 2: SECOND SEMESTER (continued)

During the year of assessment, new consumables were purchased to the value of R45 100. On each of the respective dates, the market value equalled the cost.

2. PPM sold their factory in Benoni. The factory was initially purchased on 1 February 2002 at a cost of R456 000. The factory was sold for R780 000 on 15 January 2015.
3. The restraint of trade was paid to CEECEE (Pty) Ltd for a period of five years. CEECEE (Pty) Ltd is not a personal service company.

4. Annuities consisted of the following:

| | R |
|---------------------------|---------|
| Annuity paid to Mr Shaker | 110 000 |
| Annuity paid to Mrs Twist | 120 000 |

The annuity was paid to Mr Shaker when he retired after he was diagnosed with cancer. Mrs Twist also received an annuity when she retired. Mrs Twist retired at the age of 29 and due to her precarious financial position, the company decided to pay her this annuity.

5. The list of doubtful debts amounted to R125 000 in 2014 and is R185 200 in 2015.

6. Bad debts consisted of the following:

| | R |
|--------------------------------------|--------|
| Bad debts from trade debtors | 15 000 |
| Bad debt from purchased debtors book | 10 000 |

A debtor's book was purchased from a competitor and some of the debts could not be recovered.

7. PPM paid insurance for the period 1 January 2015 to 31 December 2015 and the ADSL line rental was paid for the period 1 March 2015 to 31 May 2015.

8. Depreciation was calculated on the following items. All other assets have been fully written off for tax and accounting purposes.

- Equipment: In 2015, all equipment was replaced with new equipment imported from Japan. On 1 February 2015 an order was placed for equipment worth 7 800 000 Japanese yen. On 1 March 2015, the items were shipped (transaction date). The full purchase amount was paid on 1 April 2015. The exchange rates are as follows:

| | R/yen |
|-----------------|--------|
| 1 February 2015 | 0.1089 |
| 1 March 2015 | 0.1057 |
| 31 March 2015 | 0.1022 |
| 1 April 2015 | 0.1020 |

The accountant was not sure about the treatment of the foreign exchange liability for accounting purposes and therefore did not make any accounting entry.

- Factory: A factory was purchased in 2012 for an amount of R2 500 000 including VAT. This is a commercial property and was purchased from a vendor (it was also used in the furtherance of the enterprise). The sale was not considered to be a sale of a going concern.
- Motor vehicle: A delivery vehicle was purchased on 1 March 2014 for an amount of R260 000 excluding VAT.

ASSIGNMENT 2: SECOND SEMESTER (continued)

| REQUIRED: | MARKS |
|--|--------------|
| (a) Calculate the taxable income of Plutonic Plate Movers (Pty) Ltd for the 2015 year of assessment. Start your answer with net profit before tax of R2 888 100 . Provide brief reasons for adjusting or not adjusting the accounting transactions. Ignore all capital gains tax implications. | 35 |
| (b) Plutonic Plate Movers (Pty) Ltd heard that it might be beneficial for tax purposes to build low-cost housing and then sell it to employees on a loan account to be repaid over five years. Discuss the requirements for a deduction under section 13sept and motivate whether this would result in any tax benefit for PPM over the next five years. | 5 |

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