

## TAX3701\_Errata\_Semester 2

### Textbook

#### Example 1.16 page 47

Add that the building consisted of 60% residential flats and 40% commercial offices.

#### Question 4.2 solution page 324

Delivery vehicle B. The tax value was calculated of the related party. The amount is indicated as R47 500, this should however be R46 500. Find below a detailed calculation of the correct cost price.

-Cost price	90 000
-Less: Allowances claimed (Calculated correctly in textbook)	<u>(43 500)</u>
-Tax value	46 500
-Plus: Recoupment (R136 800 x 100/114) - R46 500) Limited to allowances	43 500
-Plus Taxable capital gain ((R120 000 - R43 500) - R46 500) x 66.6%	<u>19 980</u>
-Cost price of vehicle B	109 980
-Section 11(e) allowance (R109 980/5)	(21 996)

#### Answer Question 4.4 on page 329

Leasehold improvements - should be:  $(R350\,000 / 14 \text{ years and } 10 \text{ months}) \times 6/12 = R11\,798$

Recoupment - section 8(4)(3) - should be  $(R38\,400 \times 40\%) = R15\,360$

#### Page 399 Question 5.2

Change the market value of the Hovercraft in Question 5.2 on page 399 of your 2014 prescribed handbook from R20 000 to R2 000.

### TUT letter 103/3/2014

#### Question 5.1 solution Page112 & 113

**Page 112:** Research and development cost

Computers  $[(R162\,300/10 \times 2) / 3 \times 6/12] = (R5\,410)$

#### **Page 113**

Sub-total before deducting the assessed loss of R98 000 should be R705 095 and not R583 477

Taxable income should be R607 095 and not R607 105

Tax payable  $(R607\,095 \times 28\%)$  should be R169 987 and not R169 989

**Question 6.3 page 47**

**Doubtful debt Item 7:**

Change the table in the question as follows:

	Bad debts recovered	List of doubtful debts at year end	Outstanding debtors at year end ( before bad debts were deducted)	Bad debts written off
	R	R	R	R
2014	-	10 000	48 000	12 000
2013	500	16 000	38 600	4 600
2012	1 000	9 000	-	-

(The dates need to be changed)

**Question 6.3 suggested solution page 118**

**R&D Building allowance:**

The answer must be:

Building research Section 13 -  $R750\,000 \times 75\% \times 5\% = R28\,125$ .

Building -administration Section 13 quin-  $R750\,000 \times 25\% \times 5\% = R9\,375$ .

Taxable income would therefore then change: R 680 353

Tax payable: R190 499

Tax liability: R90 499

Doubtful debt allowance

Doubtful debt allowance: 2013 :  $R16\,000 \times 25\%$  ( add to taxable income) 4 000

2014:  $R10\,000 \times 25\%$  (2 500)

(only the dates to change)

**Study unit 7**

Make the following adjustments to in the text (textbook) references in Study 7.

**Page 57-Sections to ignore**

5.5.3

5.8.2-5.8.3

5.11.3-5.11.6

5.12.1-5.12.3

5.12.5.1-5.12.5.6

5.12.5.9

5.12.5.11

5.15.3-5.15.5

5.18

**Page63- Assets acquired before 1 October 2001**

Textbook section

5.6.4

5.7

5.8.1

5.9

5.10

5.19

**Page 67- Exclusions and limitations to losses**

Textbook sections

5.12.4,

5.12.5.7,

5.12.5.8,

5.12.5.10,

5.12.5.12,

5.13

**Question 7.3 page 68**

Change the amount of the capital allowances for the building from 2002-2012 from R750 000 to R825 000.

**Question 7.3 suggested solution page 127**

The suggested solution should look as follows:

## **2013 year of assessment**

### Income tax calculation: determination of recoupment

<b>Tax value</b>	R
Cost	1 500 000
Less: Allowances	
2002–2012 (given)	(825 000)
2013 (R1 500 000 x 5%)	(75 000)
Tax value at date of sale	600 000

### **Recoupment**

Proceeds – indemnity payment	2 200 000
Less: Tax value	(600 000)
Recoupment	1600 000

Limited to previous allowances – thus, the recoupment = R900 000

### **Proceeds calculation**

Proceeds – indemnity payment	2 200 000
Less: Recoupment	(900 000)
Adjusted proceeds	1 300 000

### **Base cost calculation**

#### Calculate the valuation date value (VDV)

As the adjusted proceeds (R1 300 000) > the total calculated costs (R600 000),

Paragraph 26 applies.

The VDV is the greater of

- the market value: R1 600 000

- 20% of proceeds less paragraph 20 expenditure on or after 1 October 2001:

$$(20\% \times R1\,300\,000 - R0) = R260\,000$$

- Time apportionment base cost: R1 587 500

Thus, the market value is the higher

and proceeds is less than the market value – then the VDV = proceeds less expenses after 1 October 2001 =

$$R1\,300\,000 - 0$$

$$\text{Base cost} = \text{VDV} + \text{costs after 1 October 2001} = R1\,300\,000 + R0$$

$$= R1\,300\,000$$

**Calculate the capital gain.**

R

Proceeds (adjusted)

1 300 000

Less: Base cost

(1 300 000)

Capital gain

-

Capital gain deferred – thus, taxable capital gain = R0

**2014 year of assessment**

There will be no impact on the 2014 year of assessment

**Question 7.7 page 78**

Item 6: Add the following sentence to the paragraph: “The research and development was approved by the Minister of Science and Technology prior to the commencement of the project”.

Item 8: Disposal of East London factory\_ Change the date of the disposal to 30 June 2014

**Question 7.7 solution page 134**

Change the following:

Research and development

Machine – s11D R108 000 x 40% (not 50%)

(43 500)

**Question 8.1 page 87**

Note 3. Add that the research and development was approved by the minister of science and technology.

**Question 8.1 suggested solution page 136**

Research machine allowance indicated as Research machine Section 12C- R150 000 x 40%

However the allowance should be:

**Research machine – Section 12 E (R150 000 x 50%) (75 000)**

As a consequence the following will also change

**Taxable income before donation will be: 1 017 990**

**The limit for the donation will be:**

R1 017 990 x 10%= R101 799 Limited to actual of R6 000

**Taxable income 1 011 990**

**Tax Liability**

**(R59 702+ ((R1 011 990 – R550 000) x 28%) 189 059**

**TUT letter 201**

**Question 2(a) solution page 12**

Renewal of patent J should be R8 500 deducted against taxable income not R9 000.

**Question 2(b) solution page 13**

**Make the following changes to the solution**

**Natural person**

Dividend portion (R850 000 x 25%) 212 500

Less: Dividend tax (R750 000 x 25% x 15%) (28 125)

Net dividend received 184 375

**Question 4 solution page 16**

**Make the following changes to the solution**

a) 1<sup>st</sup> provisional tax payment (payable before/on 30 September 2013) (1)

Basic amount- taxable income 2012 as 2013 is not more than <b>14 days</b> old	<b>R 1 200 000</b>	(2)
<b>(no adjustment made-</b> not more than 1 year from preceeding year of assessment		(1)
Tax on R1 200 000 x 28%	<b>336 000</b>	(1)
X 50% for first payment	<b>168 000</b>	(1)

2nd provisional tax payment (payable before/on 31 March 2014) (1)

	<b>R</b>	
Taxable income is more than R1 million therefore based on estimated taxable income	<u>1 784 432</u>	(1)
Alternative: 80% x 1 784 432	1 427 546	(1)
Tax on R1 784 432 @ 28%	499 641	
Less: 1 <sup>st</sup> provisional payment	<u>(168 000)</u>	(1)
Amount payable	<u><b>331 641</b></u>	

b) **Third provisional tax payments ( payable before/on 30 September 2014)** (1)

Use actual taxable income`	1 890 850	(1)
Tax on R1 890 850 @ 28%	529 438	(1)
Less: Provisional tax payment already made for 2014		
First provisional tax payment	<b>(168 000)</b>	(1)
Second provisional tax payment	<b>(331 641)</b>	(1)
Calculate third provisional tax payment due for 2014	<u><u>29 797</u></u>	