Tax Professional

Knowledge Competency Assessment

June 2016

Paper 1

South African
Institute of
Tax Professionals

Instructions to Candidates

1. This competency assessment paper consists of four questions.
2. Answer each question in a separate answer book.

Question	Topic	Marks	Answer Book
1	Company Reorganisation	40	Blue
2	Analysis of Financial Statements	40	White
3	Value-Added Tax (VAT) & Transfer Duty	40	Pink
4	General Income Tax Principles	40	Green

Total marks: 160 Marks

Time: 4 hours plus ½ hour reading time

The marks specified are an indication of the expected length and detail of your response.

3. Enter your examination number on the cover of each answer book as well as on all answer sheets.
4. Your name must not appear anywhere in the answer books.
5. Answers may not be written in pencil and correction pens (Tipp-ex) may not be used.
6. Answer the questions using effective presentation and pay particular attention to the use of concise language, clarity of explanation and logical argument. Marks will be awarded for these aspects of your response.
7. It is your responsibility to ensure that all answer books are handed in to the invigilator before leaving the examination room, as answer books handed in thereafter will not be marked.
8. Please note that a **summary of the monetary changes and tax rates** in respect of the **2017-year of assessment** are provided in an **Appendix** at the end of this paper.

Question 1 **40 Marks**

This question consists of two unrelated parts:

PART A **(20 marks)**

Troy Reid purchased a farm in the North-West Province for R2 500 000 on 1 December 2005. Troy leased the farm to a farmer and earned rental income of R200 000 per year since the date of acquisition.

Troy recently became aware that, due to numerous residential developments in the proximity of the farm, the value of the property increased dramatically. It is, however, unlikely that Troy will find a single buyer with sufficient funds to purchase the entire farm. It is estimated that if the farm is subdivided into 50 stands, Troy will be able to sell each stand for R300 000.

In order to facilitate such sale, Troy incorporated Reid Estates (Pty) Ltd ("Reid Estates") on 3 May 2016. He transferred the farm to Reid Estates on 5 May 2016 in consideration for 100 shares (100%) and voting rights in the company. The approximate market value of the farm at the date of transfer was R15 million.

QUESTION 1 PART A - REQUIRED		**Marks**
(a)	Briefly discuss whether the proceeds of the sale of the farm by Troy Reid to Reid Estates (Pty) Ltd will be "capital" or "income" in nature in his hands. Support your answer with references to relevant case law.	3
(b)	Briefly discuss whether the proceeds of the sale of individual stands by Reid Estates (Pty) Ltd will be "capital" or "income" in nature in the company's hands. Support your answer with references to relevant case law.	3
(c)	Discuss whether the transfer of the farm to Reid Estates (Pty) Ltd would qualify for the roll-over relief provided in terms of section 42 of the Income Tax Act. Assume that the farm is a capital asset for all parties involved.	6
(d)	Briefly discuss the income tax implications of the transaction for both Troy Reid and Reid Estates (Pty) Ltd if it is assumed that the transaction qualifies for the section 42 roll-over relief. Assume that the farm is a capital asset for all parties involved. Ignore Value-Added Tax (VAT).	3
(e)	Briefly discuss the income tax implications of the transaction for both Troy Reid and Reid Estates (Pty) Ltd if assumed that the transaction does **NOT** qualify for the section 42 roll-over relief. Assume that the farm is a capital asset for all parties involved. Ignore VAT.	5
TOTAL MARKS		**20**

PART B **(20 marks)**

Macy (Pty) Ltd ("Macy") is a South African resident company and registered Value-Added Tax (VAT) vendor making 96% taxable supplies.

The company manufactures clothing and accessories for the South African market. The materials used in the production process are imported from Madison LLC, a company that is incorporated in and operates from the United States of America. The Commissioner for the South African Revenue Service (SARS) has approved the company's production process as a "process of manufacture".

The company has had the following holders of shares since its incorporation:

NAME	COUNTRY OF RESIDENCE FOR TAX PURPOSES	NUMBER OF SHARES HELD ON 31 DECEMBER 2016
Mr Hugo Boss	South Africa	250
Ms Patricia Prada	South Africa	210
Madison LLC	United States of America	220
HoldCo 155 (Pty) Ltd	South Africa	320
	TOTAL:	**1 000**

Mr Hugo Boss is the sole director of Macy.

You are presented with the following financial and additional information pertaining to the company's 2016 financial year:

MACY (PTY) LTD
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Reference to additional information	2016 R
Sales revenue	1	17 000 000
Cost of sales	2	(10 000 000)
Gross profit		**7 000 000**
Investment income	3	4 250 000
Employee cost	4	(6 700 000)
Lease payments: buildings and equipment		(1 000 000)
Other operating expenses (all tax deductible)		(500 000)
Profit before tax		**3 050 000**

Notes and additional information

1. The company received a payment of R2 million (excluding VAT) on 12 December 2016 for a non-cancellable sales order that will be fulfilled in March 2017. In accordance with International Financial Reporting Standards (IFRS), the amount was not included in revenue for the 2016 financial year, but treated as deferred income (liability).

2. Cost of sales was calculated as follows:

Opening stock	R4 000 000
Purchases: materials imported from Madison LLC	R8 000 000
Closing stock	(R2 000 000)
COST OF SALES	**R10 000 000**

2.1 Macy still owed £50 000 to Madison LLC on 31 December 2016 in respect of materials imported on 2 December 2016. The purchase amount was correctly converted to South African Rand and was included in purchases on 2 December 2016. Please refer to note 6 for prevailing exchange rates for the 2016 year of assessment.

2.2 Ms Patricia Prada took clothing items with a cost of R10 000 (excluding VAT) and a sales price of R17 000 (excluding VAT) for her personal use on 10 November 2016.

3. Investment income consists of the following:

Interest on bond investment (refer to note 3.1)	R250 000
Local dividends received	R4 000 000
INVESTMENT INCOME	**R4 250 000**

3.1 Macy invested in an interest-bearing bond on 1 July 2016 for a period of three years. The instrument was issued for R10 million and has an annual interest coupon of 5%. The instrument will be redeemed at a premium of 20% on 30 June 2019.

The contractual cash flows of the instrument are as follows:

Date	**Cash flows R**
1 July 2016	(10 000 000)
30 June 2017	500 000
30 June 2018	500 000
30 June 2019	12 500 000
	3 500 000

The R3 500 000 represents a yield to maturity on an annual accrual period of 10.9851194%.

4. Employee cost consists of:

Salaries and wages	R6 000 000
Restraint of trade payment (refer to note 4.1)	R700 000
TOTAL	**R6 700 000**

4.1 A restraint of trade payment of R700 000 was made to Mr Ralph Polo, a rival fashion designer who was never employed by Macy. The restraint of trade payment is made on condition that Mr Polo does not design certain items of clothing that may compete with the fashion lines offered by Macy.

5. Macy made the following provisional tax payments during 2016:

30 June 2016	R100 000
31 December 2016	R150 000
TOTAL	**R250 000**

6. The ruling exchange rates were as follows:

Date	**Spot rate = $1**
2 December 2016	R16.85
31 December 2016	R16.95
Average exchange rate 1 January 2016 to 31 December 2016	R17.02

7. A cash dividend of R2 500 per share was declared and paid on 31 December 2016. Beneficial owners of dividends submitted the necessary declarations within the prescribed time to Macy, where relevant.

QUESTION 1 PART B - REQUIRED		**Marks**
(a)	**List** two (2) reasons why Macy (Pty) Ltd is **NOT** a "small business corporation" as contemplated in section 12E of the Income Tax Act.	2
(b)	**Calculate** the taxable income for Macy (Pty) Ltd in respect of the 2016 year of assessment. Each item listed above must appear in your calculation together with a brief reason (including references to legislation) for the inclusion, deduction or omission of an amount in your answer. You may assume that the company will elect to minimise or defer its tax liability where permitted by the Income Tax Act. Start your answer with the **profit before tax**.	13
(c)	**Calculate** any dividends tax evident from the information provided. Support your answer with reasons and indicate which person(s) is/are liable for the dividends tax, if any.	5
TOTAL MARKS		**20**

Question 2 **40 Marks**

You are a tax practitioner engaged to assist with the tax affairs of Cool Candy (Pty) Ltd ("Cool"). The company has a 31 December financial year-end and is a South African resident for tax purposes.

Cool was established four years ago by Warren Cool, a resident of the USA, who owns 95% of the issued share capital of the company. The remaining 5% of the shares are held by Warren's sister, Nicole Lincoln, a resident of South Africa. Cool imports specialised candy in bulk from Super Sweets LLC, a company incorporated in the USA. The candy is repackaged into retail-sized packages in the company's factory in Pretoria (South Africa) and sold to supermarkets and retail stores.

Warren Cool also owns 100% of the issued share capital of Super Sweets LLC. Since it is not a requirement by the Companies Act (2008), Cool's financial statements are not audited. The company is not registered for Value-Added Tax (VAT). The company applies International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs).

You have been provided with the following draft financial statements for the year ended 31 December 2016:

COOL CANDY (PTY) LTD DRAFT STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016			
	Notes	**2016 R**	**2015 R**
Revenue	1	2 000 000	600 000
Cost of sales	2	(1 200 000)	(200 000)
Gross profit		**800 000**	**400 000**
Other income		267 000	73 000
Administrative expenses	3	(370 000)	(250 000)
Distribution expenses	4	(70 000)	(46 000)
Other expenses	5	(265 000)	(155 000)
Finance costs	6	(240 000)	(6 000)
Profit before tax		**122 000**	**16 000**
Income tax expense		(34 160)	(4 480)
Profit for the year		**87 840**	**11 520**

COOL CANDY (PTY) LTD DRAFT STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016			
	Notes	**2016 R**	**2015 R**
ASSETS			
<u>Non-current assets</u>			
Property, plant and equipment	7	2 150 000	1 350 000
Shareholder loan	8	1 500 000	-
Share investment	9	30 000	50 000
<u>Current assets</u>			
Inventory		240 000	125 000
Trade receivables		270 000	65 000
Cash and cash equivalents		32 000	30 000
Total assets		**4 222 000**	**1 620 000**

COOL CANDY (PTY) LTD DRAFT STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (CONTINUED)			
	Notes	**2016 R**	**2015 R**
EQUITY AND LIABILITIES			
Equity			
Share capital		1 000 000	1 000 000
Retained earnings		454 340	369 500
Non-current liabilities			
0% Loan from Tiger Ltd	10	1 062 660	-
20% Loan from Maine Ltd	11	1 000 000	-
Current liabilities			
Trade payables		675 000	250 000
Tax payable		30 000	500
Total equity and liabilities		**4 222 000**	**1 620 000**

Notes and additional information:

1. Revenue consists of sales to supermarkets and retailers.

   Cool made a large sale to a supermarket on 31 December 2016. The invoice amount (face value) of the sale amounts to R264 000. However, since the credit terms granted to the customer are unusually long, IFRS required the company to measure the sale at its present value of R240 000 for accounting purposes.

2. Cost of sales for 2016 was calculated as follows:

	R
Opening inventory based on stock count on 31 December 2015	125 000
Purchases from Super Sweets LLC (USA)	1 315 000
Closing inventory based on stock count on 31 December 2016	(240 000)
Cost of sales	**1 200 000**

   Included in purchases is an amount of R50 000 in respect of stock-in-transit from Super Sweets LLC in the USA. The goods were shipped free-on-board (FOB) on 29 December 2016. Purchases from Super Sweets LLC were translated at average exchange rate of R14.25: US$1.

3. Administrative expenses consist of:

	2016 R	**2015 R**
Salary paid Warren Cool	84 000	84 000
December bonus paid to Warren Cool	56 000	86 000
Salary paid to administrative clerk	30 000	30 000
Salary paid to delivery driver	30 000	30 000
Salary paid to Daniel Cool	120 000	-
General administrative expenses	45 000	15 000
Fee paid to tax practitioner	5 000	5 000

TOTAL	**370 000**	**250 000**

A monthly salary of R10 000 was paid to Daniel Cool, the son of Warren Cool. Daniel is currently studying towards his law degree in Cape Town, but helps the company from time to time with making deliveries.

4. Distribution expenses consist of:

	2016 R	**2015 R**
Lease of delivery vehicle	48 000	40 000
Fuel	12 000	6 000
Traffic fines incurred by delivery driver	10 000	-
TOTAL	**70 000**	**46 000**

5. Other expenses consist of:

	2016 R	**2015 R**
Depreciation on factory building (10% per year)	150 000	150 000
Depreciation on office building (5% per year)	50 000	-
Costs to create website	10 000	-
Fair value adjustment on share investment	20 000	-
Donation to SPCA (approved Public Benefit Organisation)	20 000	5 000
Donation to animal shelter (not approved PBO)	15 000	
TOTAL	**265 000**	**155 000**

6. Finance costs consist of:

	2016 R	**2015 R**
Interest on loan from Super Sweets LLC	200 000	-
Interest on trade payables	5 000	6 000
Interest and penalties paid to the SARS	35 000	
TOTAL	**240 000**	**6 000**

7. At 31 December 2016, property, plant and equipment consisted of a factory building with a carrying amount of R1 200 000 and an office building with a carrying amount R950 000.

   The factory building was purchased second-hand for R1 500 000 on 1 January 2015. The previous owner of the building was entitled to a section 13(1) allowance. The factory building is used to repackage the bulk purchases of pet food into retail-sized packages. The building is depreciated over ten years for accounting purposes.

   The used office building was purchased second-hand for R1 000 000 on 1 January 2016 and is depreciated over 20 years for accounting purposes. A part of the building is occupied by Tiger Ltd (see note 10).

8. A loan of R1 500 000 was granted to Nicole Lincoln on 1 July 2016. The loan does not bear any interest.

9. The share investment is held for long-term capital appreciation. For accounting purposes, annual fair value adjustments are shown in profit or loss.

10. Tiger Ltd, an unrelated company, advanced an interest-free loan of R1 062 660 on 1 January 2016 in exchange for the right to occupy a part of the office building for a period of ten years. The loan is repayable after this period.

11. Super Sweets LLC advanced a R1 000 000 loan to the company on 1 January 2016 which bears interest at 20%.

12. You may assume that the repurchase rate ("repo rate") of the South African Reserve Bank was 7% for the entire 2016.

QUESTION 2 - REQUIRED	**Marks**
Analyse the information provided and indicate any tax risks evident therefrom. Also include differences between financial reporting standards and tax law as part of this analysis.	40

Question 3 40 Marks

This question consists of three unrelated parts.

PART 1

You are the tax advisor to Jamishakes (Pty) Ltd (Jamishakes), a business that produce and sell a variety of home-made milkshakes and that is a registered Value-Added Tax (VAT) vendor. In the past twelve months the total taxable supplies of Jamishakes was R35 000. The reason for the poor performance of the business, relative to previous years, is that Jamishakes was closed for business for four months of the year due to illness suffered by the owner of Jamishakes.

The SARS issued Jamishakes with a notice of deregistration as a vendor. The owner of Jamishakes would wish that the business remains a VAT vendor. Jamishakes only sell milkshakes to non-vendors and does not export any milkshakes. Jamishakes has submitted all required returns as required by law.

QUESTION 3 PART 1 - REQUIRED	Marks
Draft a tax opinion for the owner of Jamishakes, Jami Mokoena, wherein you indicate:	
• Whether the SARS may have issued the notice of deregistration to Jamishakes;	8
• Possible arguments that Jamishakes may have towards not being deregistered by the SARS; and	3
• The advantages and disadvantages that Jamishakes would have by being registered as a VAT vendor.	3
Your tax opinion should include reference to relevant legislation where applicable.	
Communication skills – layout and logical argument	*2*
TOTAL MARKS	**16**

PART 2

During a recent soccer match at the Moses Mabhida stadium, Durban, Pat my Hat (Pty) Ltd (Pat my Hat), a registered VAT vendor (making only taxable supplies) and supplier of sporting equipment, distributed free caps during the half time show. Pat my Hat was lucky enough to get Lucas Radebe to shoot the caps with a canon into the crowd while wearing a South African soccer jersey. Two types of caps were distributed:

- The first type of caps was black with a large "Pat my Hat" logo on the front. Pat my Hat purchased these caps, together with the printed logos from Print Maniac for R24 000 (including VAT).
- The second type of caps was plain blue caps, without any logo or indication that the cap is from Pat my Hat. There was unfortunately insufficient time to print the required logos on these caps. These caps were purchased from Cappee for R12 000 (including VAT).

QUESTION 3 PART 2 - REQUIRED	**Marks**
Discuss and calculate with reference to relevant legislation the VAT consequences for Pat my Hat on the acquisition and distribution of the caps during the soccer match at the hand of the definition of input tax and section 7(1)(*a*) of the VAT Act.	12

PART 3

House and All (Pty) Ltd (House and All) is a developer, supplier and lessor of exclusively residential accommodation (dwelling). House and All is also a registered category A VAT vendor. During the past VAT period, House and All only had the following acquisitions and supplies (all amounts include VAT where applicable):

1. The supply of residential accommodation (property one) by way of a lease at a total consideration of R340 000.
2. The sale of a newly developed residential property (property two) for R1 200 000.
3. The purchase of a second-hand property (property three) with the purpose of reselling the property for R900 000. This property was purchased from a non-vendor.
4. The purchase of a compact drill that was used only in this VAT period at a cost of R9 000. This drill was purchased from a vendor and used at properties one and two as indicated above.

QUESTION 3 PART 3 – REQUIRED	**Marks**
Briefly discuss, supported with calculations and references to relevant legislation, the VAT and transfer duty consequences (if any) for House and All during the past VAT period for each the four listed acquisitions and/or supplies. You are not required to discuss the time of supply.	12

Question 4 **40 Marks**

You are the tax manager of a group of companies, The Key Group. All of the companies in the group are incorporated in South Africa and all companies have a financial year-end of June. All amounts exclude Value-Added Tax (VAT), where appropriate and all parties are registered VAT vendors, unless indicated otherwise.

One of the companies in the group, Ashton (Pty) Limited, does not agree with the assessment issued by the South African Revenue Services (SARS) and has requested reasons for assessment from the SARS. The financial manager of Ashton (Pty) Limited is on sick-leave and the assistant of the financial manager provided you with the following extract from the financial statements:

Ashton (Pty) Limited – Statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	R'000 2016	**R'000 2015**
Revenue	401 700	365 650
Cost of sales	(252 350)	(236 900)
Gross profit	**149 350**	**128 750**
Other income	21 287	11 639
Distribution costs	(9 270)	(8 961)
Administrative expenses	(20 600)	(21 630)
Other expenses	(2 163)	(1 236)
Finance costs	(8 240)	(7 725)
Profit before tax	130 364	100 837
Income tax expense	(41 630)	(32 960)
PROFIT FOR THE YEAR	88 734	67 877

The following are extracts from the reasons for assessment as provided by the SARS:

1. The income tax expense amount reflected on the financial statements is R41 630 000 and this amount does not agree with the income tax amount calculated in your tax calculation.
2. The capital allowances claimed on the building of R48 000 are not allowed since the building was acquired before 1 April 2007.
3. The lease agreement is a finance lease as defined (paragraph (*b*) of the definition of 'instalment credit agreement' according to the VAT Act and not an operating lease. The rental deduction of R120 000 claimed in respect of operating lease payments is therefore incorrectly calculated on the return.

4. Other administrative expenses include interest charged by the creditor of R1 960 due to a late payment of the outstanding creditor balance. This amount is not deductible for tax purposes since it is a fine for late payment.
5. No completion allowance can be claimed for the registered learnership agreement in the 2016 year of assessment since the employee is no longer in employment of Ashton (Pty) Limited. The deduction of the R90 000 and the R30 000 is disallowed in full.
6. Prepaid expenditure is not deductible. The deduction of the following amounts are disallowed in full:
   R98 880, R74 400, R540 000 and R100 000 since it relate to expenditure which benefit will only be received in full during the following year(s) of assessment.
7. Travel between home and workplace is private in nature and not deductible. The deduction of the R128 000 is disallowed in full.
8. Section 11(*g*) deduction of R66 667 disallowed in full.
9. Deduction for cost of shares of R1 680 000 disallowed in full.

The assistant of the financial manager of Ashton (Pty) Limited provided you with the following additional information and comments regarding each of the reasons of assessment provided by the SARS above:

1. I don't know why the tax calculated on the company's taxable income by the financial manager does not agree with the income tax expense of R41 630 000 on the financial statements prepared by the financial manager? Can you please assist in providing a possible reason?

2. The company purchased the building for R3 400 000 on 1 September 2005. The building was improved at a total cost of R1 200 000 during November 2015. Both the previous building as well as the improvement part is 80% being used for commercial purposes and 20% for residential purposes (not more than five units). We claimed the following capital allowances in the 2016 year of assessment*:* R1 200 000 x 5% x 80% = R48 000.

3. The auditors confirmed that this is a finance lease. I do, however, not understand what effect this has on the calculated taxable income of Ashton (Pty) Limited? What should the correct deduction then be? Isn't the lease deduction the same regardless of whether it is an operating lease or a finance lease? The terms of the lease agreement are as follows:

Selling price and 'cash value' in terms of the lease agreement	R5 520 000
Term of the lease agreement	48 months
Monthly payment in terms of the lease agreement	R138 000

Date first monthly payment commences 1 February 2016

Both the lessee and the lessor are registered VAT vendors and all amounts include VAT, where appropriate.

4. I think the SARS official is correct in disallowing this deduction?

5. This particular learner entered into a three-year registered learnership agreement with the company (Ashton (Pty) Limited) on 1 July 2013 and the learnership will be successfully completed on 30 June 2016. However, the learner was employed by a new employer since 1 April 2016. The learnership agreement was therefore taken over by this learner's new employer on 1 April 2016. We (Ashton (Pty) Limited) claimed the annual allowance of R30 000 as well as the completion allowance of R30 000 x 3 = R90 000 as a tax deduction in the 2016 year of assessment since the agreement was completed in the 2016 year of assessment. I can't see the problem with our calculations and deductions?

6. The following schedule sets out the amounts paid in advance:

Date paid	Nature of expenditure	Period that it relates to	R
01/02/2016	Annual rental of the storehouse	For 12 months from 01/02/2016 – 31/01/2017	98 880
01/03/2016	Annual fee for security services	For 12 months from 01/03/2016-28/02/2017	74 400
01/05/2016	Goods (not trading stock) – three months' supply.	R540 000 worth of goods will be received in equal amounts of R180 000 each on 31 May 2016, 30 June 2016 and 31 July 2016	540 000
27/06/2016	Trading stock	Of this trading stock purchased, 90% was still on hand by the end of the day on 30 June 2016	100 000
		TOTAL:	**813 280**

All amounts were actually paid on the date indicated in the 'date paid' column. I do not understand why we can't claim the full R813 280 as a tax deduction? According to the general deduction formula in section 11(*a*) the amounts were actually incurred since it was actually paid during the 2016 year of assessment?

7. The amount of R128 000 relates to transport fees paid on behalf of the employees that resides out of town. The company paid the transport fees of these employees in order to transport them from their homes to the premises of the company and back to their homes. This is in terms of their employment contract.

8. Ashton (Pty) Limited entered into a lease agreement with the local government whereby Ashton (Pty) Limited leases land from the government situated within the Republic. The lease period is for 50 years, commencing on 1 July 2014. Ashton (Pty) Limited erected ten residential units (not low-cost residential units as defined in the Income Tax Act) on the leased land at their own cost of R10 000 000 (excluding VAT) in total. These units are being used by employees of Ashton (Pty) Limited since 1 May 2016 (the date of completion of the units). A section 11(*g*) deduction was claimed by Ashton (Pty) Limited calculated over the remaining period of lease, limited to 25 years: R10 000 000/25 x 2/12 = R66 667. Why was this deduction disallowed? Can't we claim any part of the improvement cost as a tax deduction?

9. Shares were issued to each of the 112 employees in terms of a 'broad-based employee share plan' (as correctly defined in s 8B(3) and as confirmed by the auditors and the SARS) during the 2016 year of assessment,. Why can't we claim the cost of the shares as a deduction? The market value of each issued share was R150 and each employee received 100 equity shares. Each employee paid R1 per share. The deduction claimed was as follows: R150 x 100 shares x 112 employees = R1 680 000.

QUESTION 4 - REQUIRED		**Marks**
(a)	Should the income tax expense amount reflected on the financial statements always agree with the assessed tax according to the assessment if you assume that both amounts are correctly calculated? Provide a reason for your answer.	2
(b)	Draft a memo to the financial manager of Ashton (Pty) Limited where you provide your comments relating to the reasons of assessment provided by the SARS official in notes 2 to 9. You have to provide the assistant of the financial manager with relevant references to legislation and/or case law (where appropriate) in order to assist him to prepare an objection to the assessment (where necessary) or in order for him to understand why the SARS official's treatment is correct. Also support your discussion with calculations. *Format, layout and presentation*	36 *2*
TOTAL MARKS		**40**

*****END OF PAPER 1*****

South African Institute of Tax Professionals

APPENDIX:

MONETARY CHANGES IN RESPECT OF THE 2017 YEAR OF ASSESSMENT

Applicable in respect of years of assessment commencing **on or after 1 March 2016 (i.e. 2017 year of assessment)** – *unless specifically stated otherwise*

REBATES (section 6)
Primary rebate increases from R13 257 to **R13 500**;
(Secondary and tertiary rebates remained unchanged)

MEDICAL CREDITS (section 6A)
Benefits to the taxpayer: R270 increases to **R286**;
Benefits to the taxpayer and one dependant: R540 increases to **R572;**
Benefits to each additional dependant: R181 increases to **R192**.

SECTION 9D inclusion adjustment if the resident is a natural person (section 9D(2A)(f))
For purposes of paragraph 10 of the Eighth Schedule: 33,3% increases to **40%** of that company's net capital gain for the relevant foreign tax year if the resident is a natural person.

RESIDENTIAL ACCOMMODATION (paragraph 9 of the Seventh Schedule)
Symbol B of R73 650 increases to **R75 000**.

CGT INCLUSION RATES (paragraph 10 of the Eighth Schedule)
In the case of a natural person or a special trust (as defined in s1): 33.3% increases to **40%**
In the case of a company and a trust (not being a special trust): 66.6% increases to **80%**

RATES OF NORMAL TAX

- In respect of the taxable income (excluding any retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit or severance benefit) of natural persons, estates and special trusts

Taxable Income (R)	Rate of Tax
0 – 188 000	18% of each R1
188 001 – 293 600	33 840 + 26% of the amount above 188 000
293 601 – 406 400	61 296 + 31% of the amount above 293 600
406 401 – 550 100	96 264 + 36% of the amount above 406 400
550 101– 701 300	147 996 + 39% of the amount above 550 100
701 301 and above	206 964 + 41% of the amount above 701 300

- **Small business corporation (as defined in s12E)**
  (Applicable in respect of years of assessment ending on or after April 2016)

Taxable Income (R)	Rate of Tax
0 – 75 000	0% of taxable income
75 001 – 365 000	7% of taxable income above 75 000
365 001 – 550 000	20 300 + 21% of taxable income above 365 000
550 001 and above	59 150 + 28% of the amount above 550 000

TRAVEL ALLOWANCE

Value of the vehicle (R)	Fixed cost (R p.a.)	Fuel cost (c/km)	Maintenance cost (c/km)
0 – 80 000	26 675	82.4	30.8
80 001 – 160 000	47 644	92.0	38.6
160 001 – 240 000	68 684	100.0	42.5
240 001 – 320 000	87 223	107.5	46.4
320 001 – 400 000	105 822	115.0	54.5
400 001 – 480 000	125 303	132.0	64.0
480 001 – 560 000	144 784	136.5	79.5
Exceeding 560 000	144 784	136.5	79.5

Alternative fixed rate for certain reimbursive travel allowances: **329** cents per kilometer (previously 318 cents)

SUBSISTENCE ALLOWANCE

- Local travel:
  - Allowance for incidental costs only – **R115** (previously R109) for each day.
  - Allowance for meals and incidental costs – **R372** (previously R353) for each day.
- Overseas travel:
  - Actual accommodation plus a prescribed amount based on the relevant country (which amount will be provided in the ITC if it differs from the amount listed in the Regulation in the SAICA Student Handbook).

TRANSFER DUTY (Section 2(1)(b) of the Transfer Duty Act)

In respect of acquisition of property on or after **1 March 2016:**

Value of property (R)	Rate
0 – 750 000	0%
750 001 – 1 250 000	3% of the value above 750 000
1 250 001 – 1 750 000	15 000 + 6% of the value above 1 250 000
1 750 001 – 2 250 000	45 000 + 8% of the value above 1 750 000
2 250 001 – 10 000 000	85 000 + 11% of the value above 2 250 000
10 000 001 and above	937 500 + 13% of the value above 10 000 000

REPO RATE ("REPURCHASE RATE")

Increased from 6.75% to **7%** as from 17 March 2016 (thus effective as from **1 April 2016** for purposes of determining the official rate of interest