Occupational Certificate
Tax Professional

External Integrated Summative Assessment (EISA)

SAQA ID: 93624

November 2017
DAY 1: Paper 2

CASE STUDY

CANDIDATE NUMBER									

Instructions to Candidates

1. This external integrated summative assessment paper consists of a Part A, Part B and Part C case study and required.
2. Time: Paper 1 and Paper 2: 8 hours
3. Enter your examination number on each document and save all documents with your examination number.
4. Your name must not appear anywhere in the answer books or saved documents.
5. Answer the questions using effective presentation skills 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.
6. It is your responsibility to ensure that all assessment stationary is handed in to the invigilator before leaving the examination room and saved documents are forwarded as per assessment requirements.
7. Total marks for Paper 2: 50
8. Pass mark: 50% pass is required for each paper and competence should be demonstrated for all exit level outcomes.

CASE STUDY

Your friend, Jonathan Hammond, is 35 years of age. Jonathan's father taught him the importance of saving and Jonathan has been investing his savings in shares, since he was 16 years old. He is always looking for opportunities to grow his investments. He has a number of offshore investments.

Jonathan also recently took a leap of faith and started his own business. He is trading as a sole proprietor. He designed a revolutionary new mobile phone application. Initially, business was slow, but by 4 July 2017, the value of his taxable supplies exceeded the minimum threshold as stated in the Value-Added Tax Act No. 89 of 1991 ('the VAT Act'). He registered as a VAT vendor on the invoice basis and submitted his first VAT201 for the period ending 31 October 2017.

PART A **15 MARKS**

After submitting his VAT201 for the period ending 31 October 2017, he received a request for relevant material *via* his SARS eFiling profile. He submitted the relevant material within the allowable period of 21 days. He contacted you yesterday and was very upset. He told you that SARS issued an additional assessment in which an input tax deduction of R28 000 was denied. The additional assessment also included a penalty. The reason cited for the additional assessment was: "*Relevant material not provided*."

The R28 000 was with respect to 2 state-of-the-art computers that he purchased at the iStore on 2 June 2017. He scanned the original invoice and sent it to you *via* email (see **Appendix A**).

REQUIRED

Write a memo to Jonathan in which you discuss whether or not SARS had any grounds for raising the additional assessment. You need not address the penalty in the memo.

PART B **15 MARKS**

Jonathan only recently received a statement of returns with respect to his United Kingdom investments. For his 2016 year of assessment, he received:

- Dividends of 30 000 Pounds (UK withholding taxes paid: 3 000 Pounds);
- Interest of 20 000 Pounds (no UK withholding taxes paid).

Jonathan did not declare the above in his 2016 personal income tax return. He asked you to help him submit a Voluntary Disclosure Programme (VDP) application with respect to his 2016 year of assessment to rectify the above.

He provided you with the following information:

- His taxable income as per his ITA34 for his 2016 year of assessment was R568 000. SARS owed him an amount of R12 015;
- He is a member of a medical aid and has no dependents on the scheme. He did not incur any additional medical expenditure that he was not able to fully claim with his medical aid;
- He paid employees' tax of R152 118 for his 2016 year of assessment.

REQUIRED

Determine the additional amount of income tax that Jonathan will have to pay if he submits a VDP application with respect to his 2016 year of assessment.

Note: Please document your answer in Microsoft Word and set out your calculations clearly. Also include short descriptions where necessary.

PART C **20 MARKS**

Jonathan’s accountant sent him an e-mail to inform him that Shaz (Pty) Ltd (“Shaz”) (a South African resident company) intends to do a share repurchase on 5 December 2017. Jonathan purchased 1 000 shares in Shaz on 18 July 2015 for R980 500. Shaz is a technology investment company.

According to the accountant, Shaz will repurchase 30% of Jonathan’s shares for R520 000. According to the notification sent by Shaz, the directors resolved that 60% of the repurchase amount will result in a reduction of contributed tax capital. No prior reductions in contributed tax capital have been made by Shaz to date. Jonathan’s accountant estimates that he will be liable for dividends tax of R78 000.

Jonathan forwarded the accountant’s e-mail to you, and wanted to know if this estimation is correct. He also wanted to know if there would be any other tax implications as a result of the share repurchase.

REQUIRED

Respond to Jonathan’s e-mail. Your response should include references to relevant tax Acts and amounts (where relevant).

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