

# Occupational Certificate Tax Professional

## External Integrated Summative Assessment (EISA)

SAQA ID: 93624

**November 2017**  
**DAY 2: Paper 5 - VAT**

### CASE STUDY AND REQUIRED

CANDIDATE NUMBER									
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## Instructions to Candidates

1. Candidates must answer **two** of the following three papers:  
Paper 3, Paper 4 or Paper 5.
2. This is Paper 5. It is an external integrated summative assessment paper with case study and required.
3. This external integrated summative assessment paper consists of one case study. The questions thereon are divided into 3 parts, Part 1, Part 2 and Part 3.
4. Time: Day 2: 8 hours (Choice of 2 of the 3 papers)
5. Your name must **not** appear anywhere in the answer books or saved documents.
6. Answer the questions using effective presentation skills and pay 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 assessment stationary is handed in to the invigilator **before leaving** the examination room and saved documents are forwarded as per assessment requirements.
8. Total marks for Paper 5: 50
9. Pass mark: 50 % pass is required per paper and competence achieved on all exit level outcomes per paper.

## CASE STUDY

### Background

CAS (Pty) Ltd (hereafter referred to as “CAS”) is a South African resident company for tax purposes and has a financial year-end that ends on the last day of February. CAS is a Category B vendor for Value-Added Tax (‘VAT’) purposes. The company was incorporated in South Africa in 2004 by Nonhlanhla Gumede (Ms Gumede) when she saw the need for complex tax, accounting, finance and corporate governance training.

Initially the conferences and seminars were held in Gauteng only. However, due to their popularity, training events are now held in all the major cities in Africa.

Ms Gumede turned 40 on 14 April 2017. She lives in Centurion with her husband and two children. She is a South African resident. Ms Gumede was the sole shareholder and director of CAS. Initially she had time to focus all her attention on CAS. However, due to the company rapidly expanding and the fact that Ms Gumede also became a director of two other companies, she decided in 2015 to issue more ordinary shares and appoint more directors to manage CAS. Since 2015, Anton Weynand and Khosi Mkwabane are the other shareholders in CAS. There has been no other changes in shareholding. Anton and Khosi are also directors in CAS and are South African residents.

The management team of CAS identifies key areas for training events. They then contract with subject matter experts to present the training at various locations throughout Africa. CAS also employs four in-house experts in the fields of tax, accounting, finance and corporate governance.

## 1. VAT risks

For the two month VAT period ended 31 October 2017, the bookkeeper passed the following journal entries. Ms Gumede is concerned that these journal entries will expose CAS to VAT risks. Ms Gumede provided the journal extract and the additional information in the notes below.

DATE	ACCOUNT	ACCOUNT	REFERENCE	DEBIT	CREDIT
19-09-17	5000/305	Motor vehicles	<b>1.1</b>	243,509	
	9000/000	VAT Control		34,091	
	3000/001	Bank			277,600
	<i>(Purchase of pool motor car)</i>				
30-09-17	2000/097	Employee Gym Membership	<b>1.2</b>	3,500	
	3000/001	Bank			3,500
	<i>(Payment of monthly employee gym membership fee)</i>				
13-10-17	3000/001	Bank		19,000	
	1000/079	Insurance proceeds received	<b>1.3</b>		19,000
	<i>(Insurance proceeds: stolen laptop)</i>				
31-10-17	2000/097	Employee Gym Membership	<b>1.2</b>	3,500	
	3000/001	Bank			3,500
	<i>(Payment of monthly employee gym membership fee)</i>				

### Additional information

**1.1** CAS purchased a Toyota Corolla for R277 600 (VAT inclusive) as a pool car to be used by employees when travelling from the office to training venues. The car is parked at CAS's office after hours.

**1.2** CAS provides all seven employees with a gym contract of R500 per month (VAT inclusive) at an independent national gym franchise. CAS pays the membership fees on a monthly basis.

**1.3** CAS owns various laptops that are used when presenting training to clients. After presenting a training session at a client's premises, one of the experts stopped for a take-away coffee and left a laptop on the back seat of his car. The laptop was stolen from the expert's car. CAS purchased the laptop at a cost of R23 700 (VAT inclusive). CAS received R19 000 from their short-term insurance company as compensation for the stolen laptop.

## **2. Objection to disallowance of VAT input tax credit on the purchase of second-hand fixed property**

The South African Revenue Service (SARS) performed a VAT audit on CAS for this tax period. They requested CAS to supply relevant material to support certain input tax claims. CAS provided all the relevant material as requested by SARS and in terms of the VAT Act. SARS was satisfied with CAS's input claims, with the exception of the purchase of a residential property to be converted into a conference venue. SARS disallowed the input tax claimed on this purchase. Ms Gumede would like to object to the disallowance of the input tax credit. Therefore, Ms Gumede is requesting assistance in drafting an objection letter. Ms Gumede provided the following information via email:

*“On 15 September 2016, CAS bought a used residential property in Morningside, Sandton. The property was purchased from Arthur Blumenthal, a South African resident, who is not a registered VAT vendor. The purchase price was R3 500 000 and the open market value was R3 400 000. CAS will convert the residential property into a conference venue. Transfer duty of R222 500 was paid on 28 September 2016. The property was registered in CAS's name on 10 October 2016 and the full purchase price of R3 500 000 was paid on the same date. Arthur Blumenthal is not a connected person in relation to CAS. SARS disallowed the input tax credit claimed by CAS”.*

### 3. VAT opinion of proposed transaction

During the current financial year of assessment, CAS will enter into a contract on the 4<sup>th</sup> of December 2017 with Legal Experts Inc. (hereafter referred to as “Legal Experts”), one of South Africa’s leading legal companies. Legal Experts is a South African resident company and a registered VAT vendor. Both the board of directors of CAS and Legal Experts will sign the contract on the same date (4 December 2017). In terms of the contract, Legal Experts will provide sponsorship of legal services that CAS require for seminars and conferences they will host for the period 3 January 2018 to 28 February 2018. CAS and Legal Experts are not connected persons. In terms of the agreement, the relevant extract stipulates that:

*“Legal Experts will provide legal services that cost R250 000 (excluding VAT) for the seminars and conferences provided by CAS for the period 3 January 2018 to 28 February 2018. The open market value of the services rendered by Legal Experts amounts to R342 000 for this stipulated period. In exchange for the legal services, CAS will provide branding and marketing services to Legal Experts at all the venues where the conferences and seminars will be hosted during the period stipulated in the contract”.*

Both CAS and Legal Experts will not issue any tax invoices for the services rendered by each company. The board of directors felt the contract stipulated all the relevant terms and conditions that a valid tax invoice would contain and that the contract was therefore sufficient.

<b>REQUIRED</b>		<b>MARKS</b>
<b>1.</b>	Identify the Value-Added Tax risks from <i>Note 1</i> above and briefly discuss why these transactions were identified as risks.	<b>7</b>
<b>2.</b>	In respect of <i>Note 2</i> , draft an objection letter to SARS regarding the disallowed input tax credit on the purchase of the second-hand property.	<b>20</b>
<b>3.</b>	In respect of <i>Note 3</i> , you are required to draft an opinion to the management of CAS (Pty) Ltd in which you address the VAT consequences of the agreement for the company. Your opinion should also address the documentary requirements that will enable CAS (Pty) Ltd to deduct an input tax credit in the tax period ended 28 February 2018 with regards to the proposed transaction.	<b>19</b>
	<b>COMMUNICATION SKILLS – FORMAT, LAYOUT, PROFESSIONAL LANGUAGE AND COHERENCE OF ARGUMENTS</b>	<b>4</b>
	<b>TOTAL</b>	<b>50</b>

**NOTE:** In all instances, please provide full section references in support of your arguments in each of the required sections above.

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