

Tax Technician

Knowledge Competency Assessment

June 2015

Paper 2: Solutions

Instructions to Candidates

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

Question	Topic	Marks	Answer Book
1	Analysis of Financial Statements	40	Blue
2	Normal Tax Calculation and Dividends Tax	40	White
3	VAT	20	Green

Total marks: 100

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 (Tippex) 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.

Question 1

40 marks

Note 3: Intangible assets

- Amortisation on the patent is incorrect: the accounting amortisation exceeds the allowable tax deduction and an adjustment is required.
- This will lead to deferred tax in annual financial statements. 1
- As per s11(gC), a maximum of 5% is allowed. 1

Note 4: Loan to group company

- The loan bears interest at 4.5% per annum, which could be lower than a market related interest rate. 1
- Risk that the difference in actual and market related rate could constitute a donation for purposes of donations tax. Not a dividend in specie as s64E(4) excludes loans to other resident companies. 1

Note 7: Trade and other receivables

- Age of the trade receivables and its impact on the provision for doubtful debts. 1
- Other receivables of R1 622 373 could be recognised incorrectly for tax purposes. 1
- Amounts should be included in gross income at the earlier of receipt or accrual. 1
- The credit leg of these entries should be posted to the Statement of Comprehensive Income and included in net profit before tax where applicable. 1

Note 10: Trade and other payables

Provision for bonuses

- Included in the R1 585 000 is an amount of R567 456 which depends on the final results of the company and the performance of employees during the year. (1) 1
- The provisions of s7B should be considered (effective 1/3/2013): any amount to which an employee becomes entitled from an employer in respect of variable remuneration is deemed to (a) accrue to the employee; and (b) constitute expenditure incurred by the employer, on the date during 1

the year of assessment on which the amount is paid to the employee by the employer.

- It is however not yet certain if the total provision will be paid, as the employee performance evaluations have not yet been finalised. 1
- Due to the condition, the provision is not deductible for tax purposes. 1

Accrued expenses and other payable

- The debit leg of these entries should be posted to the Statement of Comprehensive Income. 1
- These expenses could be incorrectly deducted for tax purposes. 1

Note 13: Finance costs

- The South African Revenue Service amount of R7 326 constitutes interest, penalties and additional taxes imposed by SARS. 1
- These costs are not tax deductible (s 23(d)). 1

Note 22: Comparative figures

- As there was a change in year-end, the tax period is now for 8 months. 1
- Section 11(e) allowances could be calculated incorrectly. 1
- Incorrect comparative figures could be used, i.e. prepayments at the end of previous tax year now reversed to the Statement of Comprehensive Income. 1

Investment income

- Risk of understatement of investment income. 1
- Cash and cash equivalent decreased (note 8), yet interest income increased (note 12). 2
- Dividends of R4 079 were received, and is not reflected as investments. 1

Detailed operating expenses

Unreasonable increases in operating expenses.

- Possible excessive expenses claimed (could be disallowed eg s 23(g) or Tobacco Father v COT). 1
- Examples:
 - Advertising ½
 - Auditor's remuneration ½

Expenses incurred which is not deductible for tax purposes.

• *Examples:*

- Legal fees of R15 000 for Mr. Galore’s bail. Not deductible as private expenditure or illegal activities. There is also a risk that this constitutes remuneration and that no PAYE was withheld. 1
- This is a private expenditure. 1
- Entertainment of R10 675 paid for Mr. Galore’s daughter 21st birthday. Possible employees' tax implications. 1
- This is a private expenditure. 1
- Consulting fees of R78 732 related to an objection iro expenses claimed in 2011 IT14, which SARS disallowed. 1
- This is possibly not in the production of income. Consider whether closely linked (this is interpreted widely) as in PE Tramway case and MTN Holdings case (audit fees). 1

Commission paid of R798 113.

- This may be excessive and thus not for the purposes of trade (section 23(g)). 1
- Possible understatement of PAYE. 1

Donations of R1000.

- R500 was paid to Boys Towns, but no Section 18A certificate was received therefore not deductible. 1
- R500 given to homeless people in Pretoria. No Section 18A certificate will be available for this donation therefore not deductible. 1
- These donations are not deductible for tax purposes as no Section 18A certificates were received. 1

Entertainment of R154 693 & Gifts and promotions of R597 857.

- Risk that not all expenses were incurred in the production of income. 1
- Private expenditure is not deductible for tax purposes (section 23(a) and (b)). 1
- No input VAT on entertainment is allowed. 1

Management fees paid to related parties of R3 941 444.

- This expenditure could be excessive / not for trade purposes. 1
- Valid Tax invoices to substantiate input claim may not be available. 1

Subscriptions of R1 327 751.

- Risk that amounts of a capital nature may be included. 1
- These will not be deductible for tax purposes. 1

Overseas travel

- Risk that not all expenditure were for business purposes, but for private use as well. 1
- VAT input could be overstated if claimed for the private expenditure. 1
- PAYE could be understated if the spouse's travel expenses are not included. 1

Total marks: 45

Max: 40

Question 2

suggested solution

Part A

32 marks

	R	R	
Taxable Income		1 980 000	
1. Fixed Assets			
1.1 Engraver			
Purchase Price	10 000		
Delivery Cost	800		1
	10 800		
Less: Section 12C allowance			
R10 800 x 20%	2 160	(2 160)	1
Second-hand – no accelerated allowance			
	4 640		
1.2 Woodworking Tools			
		(5 599)	1
Section 11(e) – small items written-off to R1 < R7 000, Binding general ruling No 7			
1.3 Cutting Machine			
Cost of Machine			
£50 000 x R11.75 = R587 500			
Less: Section 12C allowance			
R587 500 x 40%		(235 000)	1
Foreign exchange differences (s24I)			
Debt: £50 000 x (R11.75 – R11.80)		(2 500)	2
FEC: £50 000 x (R11.85 – R11.90)		2 500	2

	R	R	
1.4	Scale		
Purchase Price – section 23J no longer applies	80 000		1
Less: Wear & Tear (Section 12C) R80 000 x 20% as second-hand		(16 000)	1
1.5	Manufacturing building – s13(1) allowance		
R1 500 000 x 5%		(75 000)	1
1.6	Recoupment on sale of Machine BB1		
Selling price (R547 200 x 100/114) = R480 000 but limited to original cost of R400 000	400 000		2
Less: Tax value	-		1
Recoupment (s8(4)(a) & par 66 of the 8 th Schedule)	400 000		
Capital Gain			
Selling Price	480 000		
Less: Recoupment	(400 000)		
Proceeds	80 000		1
Less: Base Cost (R400 000 – R400 000) (cost – allowances claimed)		-	1

	R	R	
Capital Gain	80 000		
Capital gain – elected par 66 of the 8 th Schedule as proceeds > include only 40%, as 40% claimed on new Machine BB2 (replacement machine) – include later	32 000		1
Section 8(4)(eB) – R400 000 x 40% (based on the rate of machine BB2)		160 000	1
Machine BB2 – Section 12C allowance R1 350 000 x 40%		(540 000)	1
2. Learnership Agreements			
Learner B – disabled learner			
Section 12H(2)(b) and (5) – annual allowance – (R50 000 x 10/12)		(41 667)	2
Section 12H(5) – completion allowance		(50 000)	1
3. Doubtful Debts – section 11(j)			
2012: Add back R75 000 x 25%		18 750	1
2013: Deduct new provision R100 000 x 25%		(25 000)	1
<i>Alternative: Increase in provision</i>			
R25 000 x 25% = R6 250			
4. Lump Sum paid out to Retired Employee			
Amount deductible in terms of Section 12M(2)		(120 000)	1

	R	R	
5. Trading Stock			
5.1 Purchases – Raw material s11(a)		(1 400 000)	1
Closing stock (s22(1)) – raw materials		280 000	1
R1 400 000x 20%			
5.2 Donation of finished goods			
Recoupment at cost ito s22(8)(C)		17 500	1
donation to s18A allowable deduction			
Sub Total			
		(54 176)	
Taxable Capital Gain			
Capital gain – as per calculation above	32 000		
Less: Assessed capital loss	(15 000)		1
	17 000		
Taxable Capital Gain (66.6%)		11 322	1
		(42 854)	
Donation Section 18A: R17 500 as per 5.2 above			
Maximum deduction: 10% x R0		-	1
Because of loss position			
Assessed Loss			
		(42 854)	
Tax rate of 28% but no tax payable –			
assessed loss carried forward to the following			1
year of assessment			
		Total marks:	32
		Max:	32

Question 2

suggested solution

Part B

8 marks

- Dividends tax is payable at 15% on the amount of any dividend paid on or after 1 April 2012 (s64E). 1
- Although the dividends tax is a liability of the shareholder, the company paying the dividend is obliged to withhold the correct amount of tax and pay it to SARS (s64G). 1
- The company is obliged to withhold the dividends tax unless the shareholder is exempt in terms of s 64F AND the shareholder has provided the necessary declaration and undertaking to the company by no later than the date on which the dividend is paid, unless the company has determined an earlier date (s64G(1)). 2
- The dividend tax must be paid to SARS by the end of the month following the month in which the dividend is paid (s64K). 1
- 'Paid', in the case of an unlisted company means the earlier of the date on which the dividend is paid or becomes due and payable (s64E(2)). 1
- In Lavender's case, the payment date is 22/11/2014 and the dividends tax must therefore be paid to SARS by no later than 31/12/2014. 1
- The dividends tax to be withheld is determined as follows, assuming that exempt shareholders have provided the necessary documentation on time: 1

Shareholder	Dividend Declared	Dividends Tax payable to SARS	Net Dividend paid to Shareholder	
May Peaches	1 000 000	150 000	850 000	1
Lavender Family Trust	7 000 000	1 050 000	5 950 000	1
Pealave (Pty) Ltd – beneficial owner is a resident company	2 000 000	0	2 000 000	1
Total	10 000 000	1 200 000	8 800 000	

Total marks: 10

Max: 8

Question 3

20 marks

Boogaloo Books (Pty) Limited

Vat return: 1 September to 31 October 2014

Local sales invoiced in - (the amounts reflected below are the amounts debited to the Trade Debtors account in each month)	-230 889	1
Export sales (zero-rated supply in terms of section 11(1)(a))	-	1
Interest on overdue accounts ('financial service' – an exempt supply in terms of section 12(a))	-	1
Bad debts recovered:		
– Bonanza Books (R18 500 × 14 / 114)	-2 272	1
– Stirling Readers (a zero-rated supply)	-	1
Insurance indemnity payment (deemed supply under s 8(8)):		
- Stolen trading stock (R120 000 × 14 / 114)	-14 737	1
– Stolen computers (R80 000 × 14 / 114)	-9 825	1
– Pool car stolen (not a deemed supply as no input tax credit would have been claimed on its purchase)	-	1
Deemed supply on 'company car' fringe benefit (section 18(3))		
(R333333 (R380000 × 100 / 114) × 0,3% × 14 / 114 × 2 months)	-246	2
Total output tax	-257 968	10
Input tax		
Purchases of trading stock (R1368920 x 14 / 114)	168 113	1
Salaries and wages (not a 'taxable supply' in terms of the definition of an 'enterprise' proviso (iii)(aa))	-	1
Fuel (a zero-rated supply in terms of s 11(1)(h))	-	1
Motor vehicle repairs and maintenance (R3 650 × 14 / 114)	448	1

Insurance premiums (R12000*2 x 14 / 114)	2 947	1
Depreciation (not a 'taxable supply')	-	1
Replacement of computers (R120 000 x 14/114)	14 737	1
Purchase of a new pool car		
- No input tax credit is available on the purchase of a 'motor car' as defined in terms of section 17(2)(c)	-	1
Teas and coffees. No input tax credit is available as the expenditure relates to the supply of 'entertainment' as defined (section 17(2)(a))	-	1
Rental of office premises (R64000 x 14 / 114)	7 860	1
Total input tax credits	194 105	10
Net amount of VAT payable to SARS	-63 863	1P
The VAT 201 return must be submitted to SARS through efiling by the last business day of November 2014		
If payment is also made through the efiling system, the latest date to pay the VAT is also the last business day of November 2014.		1
Available		23
Maximum		20