

TAX COMPLIANCE SOLUTIONS – JUNE 2021 EXAMS

Question 1.1

The fundamental principles threatened by Baakanyang & Partners accepting Tau Ltd as a client are objectivity and confidentiality.

Baakanyang & Partners should:

Notify Moroko Ltd and Tau Ltd of the potential conflict in acting for both of them

- Obtain consent from each party to act for both. 1
- If consent is not obtained then Baakanyang & Partners should not accept Tau Ltd as a client. 1
- Assuming consent is obtained, use separate engagement teams for each client. 1
- Apply procedures to prevent access to information (physical separation of teams, secure data filing). 1
- Issue clear guidelines to the engagement teams/ provide training on issues of security and confidentiality. 1
- Use confidentiality agreements for employees and partners. 1
- Arrange a regular review of safeguards by a senior individual not involved in either engagement. 1

Maximum 4 marks

Question 1.2

Before accepting the client Baakanyang & Partners should:

- Carry out customer due diligence to establish areas of risk 1
- Verify the identity of Javadi Ltd and its directors and keep evidence of identification 1
- Obtain professional clearance from their previous advisors. 1
- Prepare an appropriate engagement letter explaining the scope of responsibilities 1

Maximum: 3 marks

Question 2.1

Calculation of the net VAT payable by or refundable to Nonyane Ltd for May 2021:

| Output VAT: | P | | P |
|------------------------------------|------------------|-------|----------------|
| Local sales | 1,445,000 | | 0.5 |
| Sales to South Africa – zero rated | 0 | | 1 |
| Proceeds – delivery van disposal | 130,000 | | 1 |
| Impaired trade debts recovered | 20,000 | | 1 |
| Commission received | 48,000 | | 0.5 |
| | ----- | | |
| Total output VAT | 1,643,000 | x 12% | 197,160 |
| | ----- | | |

Input VAT:

| | | | |
|--|-----------|-------|----------------|
| Local taxable supplies | 780,000 | | 0.5 |
| Imported supplies | 430,000 | | 1 |
| Overheads | 112,000 | | 1 |
| Purchase of pool car | 0 | | 1 |
| Purchase of car for a director | 0 | | 0.5 |
| Salaries & wages | 0 | | 1 |
| Bank deposit interest | 0 | | 1 |
| Discounts allowed for early settlement | 32,000 | | 1 |
| | ----- | | |
| Total input VAT | 1,354,000 | x 12% | 162,480 |
| | ----- | | |
| VAT payable for the period | | | 34,680 |
| | | | ----- |
| | | | 12 |
| | | | ----- |

Question 2.2

Transfer duty: $5\% \times (\text{P}2,500,000 - \text{P}1,000,000) =$ **P75,000** 1

Transfer duty is payable within 6 months from the date of the transfer. The transfer duty is payable by 30 September 2021. 1

The purchaser is liable to pay transfer duty i.e. Moatshe. 1

3

Total marks: 15

Question 3.1

Disposal of 100,000 shares in AB Ltd

| | P | P | |
|--------------------------------------|----------|-----------|---|
| Deemed sales proceeds (100,000 x P8) | | 800,000 | |
| Allowable cost | | (280,000) | |
| | | ----- | |
| Un-indexed gain | | 520,000 | |
| Less moveable allowance at 25% | | (130,000) | |
| | | ----- | |
| Chargeable gain | | 390,000 | 2 |
| | | ----- | |

Disposal of imported antique painting

| | | | |
|-------------------------------|--|--|---|
| Exempt from capital gains tax | | | 2 |
|-------------------------------|--|--|---|

Disposal of a house

| | | | |
|---------------------------------------|---------|-----------|---|
| Sales proceeds | | 2,100,000 | |
| Less Cost of house | 500,000 | | |
| Cost of extension | 175,000 | | |
| | | ----- | |
| Allowable cost | | 675,000 | 1 |
| | | ----- | |
| Un-indexed gain | | 1,425,000 | |
| Less indexation allowance: | | | |
| On house (Jan 2005 – Dec 2020): | | | |
| (1964.1 – 779.2) / 779.2 x P500,000 | 760,331 | | 1 |
| On extension (Oct 2010 – Dec 2020) | | | |
| (1964.1 – 1300.6) / 1300.6 x P175,000 | 89,276 | | 1 |
| | | ----- | |
| | | (849,607) | |
| | | ----- | |
| Chargeable gain | | 575,393 | |
| | | ----- | |

Disposal of 2 acres of land

| | | | |
|---|---------|----------------|-----------|
| Sales proceeds | | 220,000 | |
| Cost – 2/ 4 x P86,000 | | (43,000) | 1 |
| | | ----- | |
| Un-indexed gain | | 177,000 | |
| Less indexation allowance (Jan 2017 – Oct 2020) (1958.5 – 1769.2)/1769.2 x P43,000 | | (4600) | 1 |
| | | ----- | |
| Chargeable gains | | 172 400 | |
| | | ----- | |
| Total gains | | 1,137,793 | |
| Less capital losses brought forward | | (120,000) | 1 |
| | | ----- | |
| Taxable capital gain | | 1,017,793 | |
| | | ----- | |
| Tax on chargeable gains: | | | |
| First P144,000 | 13,950 | | |
| Next P873,793 x 25% | 218,448 | | |
| | ----- | | |
| Capital gains tax | | 232,398 | 1 |
| Tax on taxable income: | | | |
| First P144,000 | 13,050 | | |
| Next P96,000 x 25% | 24,000 | | |
| | ----- | | |
| Income tax | | 37,050 | 1 |
| | | ----- | ----- |
| Total tax liability | | 269,448 | 12 |
| | | ----- | ----- |

Question 3.2

Chargeable capital transfers arising on lifetime gifts: P

Gift to niece:

| | | |
|-----------------------------|----------|---|
| Amount | 50,000 | |
| Less customary exemption | (25,000) | |
| | ----- | |
| Chargeable capital transfer | 25,000 | 1 |
| | ----- | |

Cash to Selwana

| | | |
|-----------------------------|----------|---|
| Cash | 34,000 | |
| Less casual gift exemption | (25,000) | |
| | ----- | |
| Chargeable capital transfer | 9,000 | 1 |
| | ----- | |

Flat in Johannesburg gifted to Leina

| | | |
|--|-----------|---|
| Chargeable capital transfer = market value | 1,100,000 | 1 |
| | ----- | |

Gift of university fees to granddaughter, Katlego

| | | |
|-----------------------------|----------|---|
| Chargeable capital transfer | 80,000 | |
| | (25 000) | |
| | 55 000 | 1 |
| | ----- | |

Chargeable capital transfers arising on the death of Motswagae:

Bequest to wife:

| | | |
|---|--|---|
| Matrimonial house to wife valued at P1.5 million – exempt | | 1 |
| Land (1/3) – exempt | | 1 |

Bequest to Palesa:

| | | |
|-----------------------------|-----------------|---|
| Land (1/3) | 400,000 -Exempt | |
| Landcruiser | 320,000 | |
| | ----- | |
| | 320,000 | |
| Less allowable deduction | (61 538) | |
| | ----- | |
| Chargeable capital transfer | 258 462 | 2 |
| | ----- | |

Bequest to Seloi:

| | | |
|-----------------------------|----------|-------|
| Land (1/3) 400,000 – Exempt | 0 | |
| Toyota Hilux | 200,000 | |
| | ----- | |
| | 200,000 | |
| Less allowable deduction | (38 462) | |
| | ----- | |
| | 161 538 | 2 |
| | ----- | ----- |
| | | 10 |
| | | ----- |

Working – allocation of allowable deduction:

| | | | |
|--------|---------|-----------------------|----------|
| Palesa | 320,000 | $\times 100/520\ 000$ | = 61 538 |
| Seloi | 200,000 | $\times 100/520\ 000$ | = 38 462 |
| | ----- | | |
| | 520,000 | | |
| | ----- | | |

Question 3.3

i) Calculation of the tax payable on Mothibi's gratuity:

| | | |
|---|----------|-------|
| Gratuity entitlement | P360,000 | |
| | ----- | |
| Qualifying gratuity: | | |
| P300,000 x 3 years x 30% = | P270,000 | 1 |
| Non-qualifying gratuity: | | |
| P360,000 – P270,000 = | P90,000 | 1 |
| | | |
| Tax liability on qualifying gratuity: | | |
| P270,000 x 2/3 x 25% = | 45,000 | 1 |
| Tax liability on non-qualifying gratuity: | | |
| P90,000 x 25% = | 22,500 | 1 |
| | ----- | ----- |
| Total tax liability on gratuity | 67,500 | 4 |
| | ----- | ----- |

ii) Where a close company gives an interest free loan to a participator on terms that the Commissioner General would consider as not at arm's length, the loan shall be treated as a dividend and taxed at the prevailing withholding tax for dividends on the participator. 1

The interest free loan gave to Nonofu appears to be at arm's length because she will be required to repay the loan over a period of 45 months. Furthermore, she has demonstrated the commitment to repay the loan. 1

For this reason, the loan shall not be treated as a dividend but as a loan accounted for under employment income as a benefit in kind. 1

The taxable benefit will be:

$P300,000 + P220,000) / 2 = P260,000 \times 8\% = P20,800.$ 1

3

Maximum: 5 marks

Total marks: 27

Question 4

i) Withholding tax deductible by Yarona Ltd:

| | P | |
|--|--------|------|
| Local dividend – P50,000 x 7.5% | 3,750 | 1 |
| Rent – P144,000 x 5% | 7,200 | 1 |
| Consultancy fees – P180,000 x 15% | 27,000 | 1 |
| Payments to contractor – P520,000 x 3% | 15,600 | 1 |
| | ----- | ---- |
| Total withholding tax | 53,550 | 4 |
| | ----- | ---- |

ii) Computation of capital allowances fye 31 December 2020:

| | Allowances P | |
|---|-----------------|---|
| F & F – P150,000 x 10% | 15,000 | 1 |
| Computers – P120,000 x 25% | 30,000 | 1 |
| M/Vehicles – P1,040,000 x 25% | 260,000 | 1 |
| Delivery vans – P370,000 x 25% | 92,500 | 1 |
| | ----- | |
| Total | 397,500 | |
| | ----- | |
| Balancing adjustment on disposal of motor vehicles: | | |
| Cost -2016 | 440,000 | |
| WDAs (2016 – 2019) | | |
| P440,000 x 25% x 4 years | (440,000) | 1 |
| | ----- | |
| Balance b/f | 0 | |
| Sales proceeds | 384,000 | 1 |
| | ----- | |
| Balancing charge | 384,000 | 1 |
| | ----- | |

iii) Computation of the taxable income for year ended 31 December 2020:

| | P | P | |
|----------------------------------|---------|------------------|-----------|
| Net profit per accounts | | 3,300,000 | |
| Add: | | | |
| Depreciation | 488,000 | | 1 |
| Employee loan w/off | 30,000 | | 1 |
| Balancing charge – M/vehicles | 384,000 | | 1 |
| Local dividends | 50,000 | | 1 |
| | ----- | 952,000 | |
| | | ----- | |
| | | 4,252,000 | |
| Less: | | | |
| Profit on disposal of m/vehicles | 120,000 | | 1 |
| Decrease in general provision | 25,000 | | 1 |
| Capital allowances | 397,500 | | 1 |
| | ----- | (542,500) | |
| | | ----- | ----- |
| Taxable income | | 3,709,500 | 15 |
| | | ----- | ----- |

Question 5.1 (i)

Computation of the partnership taxable income for the year ended 30 June 2021:

| | P | P | |
|---------------------------------------|----------|-----------|-----|
| Net profit | | 972,000 | |
| Add: | | | |
| Partners' salaries | 200,000 | | 0.5 |
| Depreciation | 186,000 | | 0.5 |
| Donation to political party | 35,000 | | 1 |
| Penalty for late submission – Gaolape | 2,000 | | 1 |
| Overloading fine | 12,000 | | 1 |
| Own consumption of cows: | | | |
| Gaolape – 2 x P10,000 | 20,000 | | 1 |
| Seanokeng – 3 x P10,000 | 30,000 | | 1 |
| | ----- | 485,000 | |
| | | ----- | |
| | | 1,457,000 | |
| Less: | | | |
| Capital allowances | 246,000 | | 1 |
| Bush clearing | 30,000 | | 1 |
| Dam construction | 58,000 | | 1 |
| Fencing | 44,000 | | 1 |
| Capital allowance of tractor: | | | |
| P190,000 x 25% | 47,500 | | 1 |
| | ----- | (425,500) | |
| | | ----- | |
| Partnership taxable farming income | | 1,031,500 | |
| | | ----- | |

Question 5.1 (ii)

Computation of taxable income for the partners fye 30 June 2021:

| | Total P | Gaolape P | Seanokeng P | |
|---------------------------------------|------------|--------------|----------------|-------|
| Partnership taxable income | 1,031,500 | | | |
| Penalty for late submission | (2,000) | 2,000 | | 1 |
| Partners' salaries | (200,000) | 120,000 | 80,000 | 2 |
| | ----- | | | |
| | 829,500 | | | |
| Share of profits | (829,500) | 497,700 | 331,800 | 1 |
| | ----- | ----- | ----- | |
| Taxable income | 0 | 619,700 | 411,800 | |
| | ----- | ----- | ----- | |
| Tax payable: | | | | |
| First P144,000 | | 13,050 | 13,050 | |
| Next P475,700 x 25% | | 118,925 | | |
| Next P267,800 x 25% | | | 66,950 | |
| | | ----- | ----- | |
| Tax liability | | 131,975 | 80,000 | 1 |
| Less WHT on BMC payments: | | | | |
| Beef sales: P840,000 x 7.5% = P63,000 | | (37,800) | (25,200) | 1 |
| Bonus: P60,000 x 4% = P2,400 | | (1,440) | (960) | 1 |
| | | ----- | ----- | ----- |
| Tax payable | | 92,735 | 53,840 | 18 |
| | | ----- | ----- | ----- |

Maximum : 16 marks

Question 5.2 (i)

Computation of Pontsho's chargeable employment income for year ended 30 June 2021:

| | P | |
|--|----------|-------|
| Basic salary | 300,000 | 1 |
| Sales commission | 210,000 | 1 |
| Employer's pension contribution | 0 | 1 |
| Leave pay ($22 / 248 \times P300,000$) | 26,613 | 1 |
| Christmas bonus | 25,000 | 1 |
| Accommodation benefit $P520,000 \times 10\% \times 9/12$ | 39,000 | 1 |
| Employer's medical aid contributions | 0 | 1 |
| Family holiday package | 60,000 | |
| | ----- | |
| | 660,613 | |
| Less: employee's pension contribution | | |
| $P300,000 \times 15\%$ | (45,000) | 1 |
| | ----- | ----- |
| Chargeable employment income | 615,613 | 8 |
| | ----- | ----- |

Question 5.2 (ii)

Computation of total taxable income for Pontsho for year ended 30 June 2021:

| | P | |
|--------------------------------|----------|-------|
| Chargeable employment income | 615,613 | 1 |
| Bank deposit interest | 0 | 1 |
| Dividends from local companies | 0 | 1 |
| Management & consultancy fees | 40,000 | 1 |
| Income from letting properties | 68,000 | 1 |
| | ----- | ----- |
| Total taxable income | 723,613 | 5 |
| | ----- | ----- |

Question 5.3 (iii)

Computation of tax payable for Pontsho fye 30 June 2021:

| | P | |
|----------------------|----------|-------|
| First P144,000 | 13,050 | |
| Next P579,613 | 144,903 | |
| | ----- | |
| | 157,953 | 1 |
| Less: PAYE | (52,050) | 1 |
| WHT on rental income | (3,400) | 1 |
| | ----- | ----- |
| Tax payable | 102,503 | 3 |
| | ----- | ----- |

Total: 16 marks