Revision

End of year exams 2018

Objectives

To cover the following areas

- Exam Technique
- Answering discussion type questions
- Key mind maps for the 3 tax heads
- CGT
- VAT

Exam Technique

- Comprehend the scenario –
  - Key words in the scenario may not be same as the ones used in the Act.
  - Evaluate and analyse the data to make it information.

Knowledge/Research
Knowledge is the prerequisite to IDENTIFY THE PROBLEM. Always ask why

Understand the ISSUE
Understand the problem in the context of the scenario What links need to be established

APPLY
Apply the knowledge to the facts comprehended in previous step.

Analyse & Evaluate
Consider all alternatives in your analysis phase . Interpret and evaluate

Anticipate
Have I formed logical/methodical approach to any possible required (NOT PREPARED SOLUTIONS)

WRITE

Exam Technique

- Understand the required – Analysis and interpretation
  - Who is the tax payer?
  - Which tax head ?
  - The command word (Verb)?
  - Timing of the assessment?
  - Communication marks?

Solution

- Plan your approach (the order in which you will attempt and how much time?)
- Plan your solution
  - Logical argument
  - Presentation/layout
  - Avoid writing name.
- Differences between calculation and discussion type required.
- Calculation use columns
- Know where the marks are eg Quoting section.
- Answering discussion type required :
  - State the issue
  - Apply the principle
  - Conclude

Example

- Fred, is a fish monger, sold fish on credit worth $100 to his neighbour in 2017. His neighbour only paid him his cash in 2018. Discuss the income tax implications to Fred for the 2018 year of assessment?
- Solution
  - Amounts are included in gross income at the earlier of receipt or accrual. **State issue**
  - Fred received the $100 in 2018 as this was when he physically got paid on his own behalf and for his own benefit**.(Gledenhuys). Application**
  - However in 2017 he was entitled to the $100 as this was when the fish were delivered and he had a right to claim the $100. (**Lategan/Standard Chartered}. Application**
  - Therefore the amount accrued to Fred in 2017 and would have been included in the 2017 year of assessment. **Application**
  - Do not include in 2018 year of assessment. **Conclude**

VAT Discussion

- State if there is a supply?
- At what rate will the supply be charged?
- When will the VAT be charged?(Time of supply)
- At what value will the supply be charged?

Income Tax Act

- Gross Income – 5 key areas
  - Amount – Ascertainable monetary value-Brummeria
  - Received - own benefit and own behalf-Gledenhuys
  - Accrued
    - Due and payable –Delfos
    - Entitlement – Lategan/Standard Chartered
  - From Source/Deemed Source
  - Not Capital in Nature

Capital in nature arguments

- Non-compensatory receipt/accrual
  - Intention- CIR v George Forest Timber Co Ltd (1924) 1 SATC 20 contrast to ITC 1494 (1991) 53 SATC 206
  - Change in intention- Elandsheuwel Farming (Edms) Bpk v SBI (1978) 39 SATC 163
  - Mixed intention- main or dominant factor COT (SR) v Levy (1952) 18 SATC 127
- Compensatory receipt/accrual
  - Hole filling principle

Source

- Originating course – CIR v Lever Bros and Unilever Ltd (1946) 14 SATC 1
  - True source of the income
    - Rental
    - Directors fees- renders services at head office
    - Employment- generally were services are rendered
    - Business operations- generally were operations are carried on.
    - Dividends- generally where the company is incorporated.
    - Interest- where the service of provision of credit happened(lever bros case).
    - Royalties- where the wits were exercised (Millin v CIR (1928) 3 SATC 170).
- Deemed Source – s12

General Deductions

- 5 key areas
  - Expenditure/losses
  - Incurred
  - Production of income or
  - Purpose of trade
  - Not of a capital nature

Incurred

- Unavoidable obligation- Port Elizabeth Electric Tramway Co. Ltd v CIR (1936) 8 SATC 13
- Legal liability
- Finance costs - When are they incurred?

Examples

- **Investment in 10% Debentures**
- The board of FunWorld tasked executive management to develop a business proposal on how to venture into the Cinema business. The proposal was presented in November 2016 at the Annual General Meeting. The proposal was approved in this meeting and FunWorld immediately started sourcing funding to construct a world class movie house in Kariba.
- The entity issued 100,000 10% debentures at $7.50 each on 01 January 2017. The debentures are redeemable on 31 December 2021 when they mature at a premium of 10%. The coupon is payable at the 31st of December. On 31 December 2021, the debentures can be converted into one ordinary share for every debenture held, at the option of the holder. A similar debenture instrument without a conversion option attracts an interest rate of 9%.
- **Required**
- Discuss the tax implications to FunWorld on issuing the debenture and on maturity of the debenture. Also discuss any tax implications between issuing and maturity?

Purpose of trade vs Production of income

- Purpose of Trade- for the purpose of enabling a person to carry on and earn profits in the trade": Strong & Co of Romsey Ltd v Woodifield (Surveyor of Taxes) HL (1906) 5 TC 215
- Production of income – Small investor incurring agents fees in the collection of interest (of a taxable nature).
- Interest expense is deductible as it is expended for either for the purpose of trade eg interest on loan to buy a office building or
- Production of income eg interest expense on money borrowed from a bank at 5% and lent to third party at 8%
- N.b this is different from how your module explains it.

Capital in nature

- A general test was laid down in CIR v George Forest Timber Co Ltd (1924) 1 SATC 20:
- "Money spent in creating or acquiring an income-producing concern must be capital expenditure.
- Fixed or floating capital
- Enduring benefit
- Income earning structure

Specific Deductions

- Share granted to employees (s15(2)(jj)
- Thin Capitalisation
- Administration expenses
- Trade conventions

Example

- **Bravo impairment**
- Bravo Africa Ltd has a business that manufactures and sells compact discs (CDs) of the performances of famous artists in South Africa. The assets used in the business qualify as a CGU. The carrying amounts of the assets in the CGU as at 31 December

	$
Equipment	30 000
Machinery	28 000
Furniture	42 000
Goodwill	25 000
	125 000

- The following information regarding the recoverable amount of the CGU is available:
- Fair value less costs of disposal $70 000
- Value in use $82 000

Cont.

- The effect of the impairment of the unit must still be recorded. The only fair value less costs of
- disposal available for individual assets is for furniture, for which there is an active market. This fair
- value less costs of disposal amounts to $38 000.
- The recoverable amount of the CGU is the higher of the fair value less costs of disposal and value
- in use, thus $82 000. The carrying amount of the unit of $125 000 exceeds the recoverable amount;
- therefore, the CGU is impaired, and an impairment loss of $43 000 ($125 000 – 82 000) is recognised.
- The impairment loss is allocated first to goodwill (utilising goodwill of $25 000) and the remaining
- $18 000 on a pro rata basis to the remaining assets in the unit.
- **Required**
- What are the tax implications to Bravo of the impairment in the 2014 tax year?

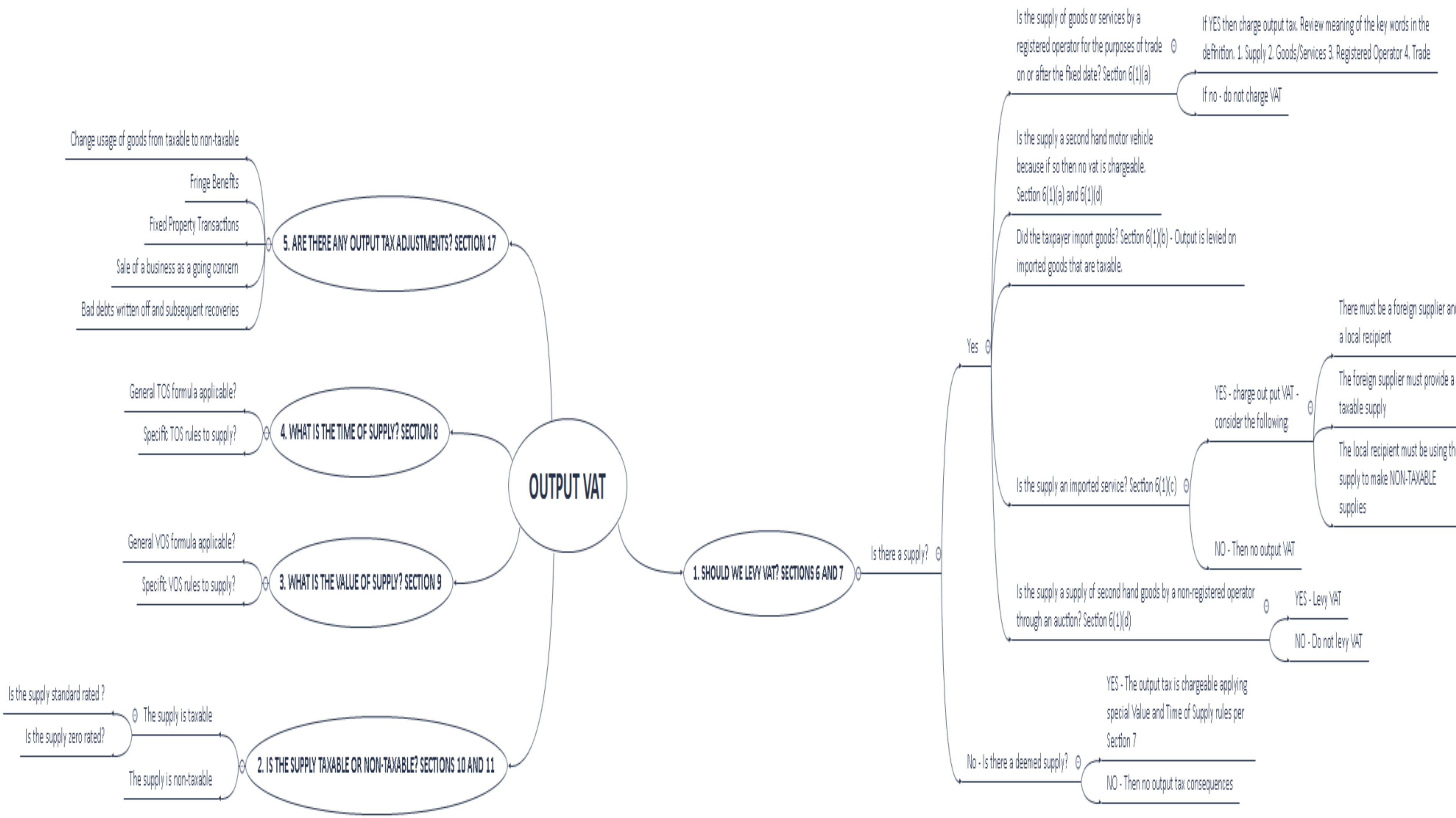
Specialised Tax payers

- Deceased estates
  - Key is s11
  - Ascertained beneficiary
  - Pre-death income
  - Post-death income – s11(4)
- Trusts
  - Conduit argument
- Partnerships
  - S10(2)
  - Distribution vs Allowable deduction

Capital Gains Tax

- Specified Asset – note inclusion of intangible assets
- Gross Capital amount
- Allowable deduction
- Exclusions from gross capital amount
- Reliefs
- Deferments

Value Added Tax



VAT

- Deemed Supplies- s7
- Input Tax s15
  - Were you Charged?
  - Are you making taxable supplies?
- Time of supply s8
- Value of supply s9
- Adjustments s17
  - reduce (output tax adjustment) or increase (input tax adjustment) input tax previously claimed

VAT

- Lease – instalment credit agreements
- Finance lease
- Rental agreements
- Fixed Property transactions
- Integration with other acts – look at the earlier examples given.