

## UNISA Level 2 Taxation Test 4 Exam Report

### General

- Many students are using South African tax wording and principles. For example: using VAT vendor instead of operator, using base cost when calculating capital gains, and mentioning the inclusion of capital gains in the income tax computation.
- Many students state that an item is '**exempt** thus it will be **zero-rated**', or vice-versa. These two are different and cannot apply for the same supply.
- Though informed that all amounts exclude VAT, students are deducting VAT for the purpose of calculating income tax and CGT figures.
- A number of students are suggesting in their solutions that VAT is applicable because the supply is within normal trading operations.
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### Transaction 1

*Afribrite purchased second hand office furniture from ADC Auctioneers for an amount of \$15,000. The second hand furniture belonged to a non-registered operator who was forced to sell the furniture due to liquidity problems. Mr Thuso was not sure whether or not Afribrite will be able to claim input tax on the purchase of the furniture.*

- Students are missing the fact that sales through an auctioneer by a non-registered operator attract VAT.
- Instead of arguing that purchases of furniture are capital in nature students are arguing that it is not in the production of income
- Some are assuming that 2<sup>nd</sup> hand furniture does not rank for SIA, whereas all immovable property – whether new or used – ranks for SIA.
- There is a general confusion surrounding notional input tax as it is being treated as claimable for all purchases from non-registered operations. Notional tax is only claimed on the purchase of **fixed** property.

### Transaction 2

*During the year, Afribrite sold housing units with a total construction cost of \$1,500,000 for a total sales value of \$3,200,000. All the housing units sold are being used by the customers for residential accommodation purposes. These houses were sold in Afribrite's ordinary trading operations.*

- Students are basing no capital gains arising on the fact that for income tax purposes the housing units were considered to be gross income and not of a capital nature thus shall be excluded from capital gains tax as they are not a 'capital item/asset'. This is incorrect, the sale of **ANY** specified asset attracts capital gains tax, however, the CGT act allows the deduction of items included in gross income under the income tax act i.e. recoupments, leasehold improvements, in this case the sale of a specified asset considered to be gross income and so forth.

### **Transaction 3**

*Afribrite has a practice of awarding fringe benefits to its staff members. Mr Thuso provided you the following figures of the amounts of the total fringe benefits awarded to employees calculated in terms of the Income Tax Act for PAYE purposes.*

- Students are failing to identify that groceries are entertainment related expenses therefore Afribrite would have been denied an input tax deduction on acquisition of these.
- Where applicable some students were failing to discuss that the fringe benefit would give rise to Output VAT.

### **Transaction 4**

*Also during 2015, Afribrite sold an office block for an amount of \$110,000 to an unconnected person. Before sale, this office block was being leased out under a finance lease agreement commencing July 2011. Afribrite initially incurred a total cost of \$60,000 in constructing the office building in 2011 and the lessee effected obligatory improvements in terms of the lease agreement amounting to \$12,000. The improvements were completed in 2012 and brought into use by the lessee in the same year.*

- Students are missing the fact that the improvements were considered to be gross income and Afribrite were not granted any capital allowances, hence there is no recoupment on the improvements.
- Students still do not know how to determine the rate of capital allowances for each type of asset as many are still applying SIA to commercial buildings.
- Many went to town discussing treatment of the rentals for income tax and VAT purposes, but the question asked for treatment of transactions (the sale) and not what transpired before.