SOLUTION 1

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.

a. Income Tax Consequences:

- The furniture cost of $15,000 in itself cannot be allowed as a s 15 (2) deduction as it is capital in nature. (1)
- The furniture does rank for capital allowances since it is going to be used for the purposes of trade. (1)
- The furniture is a movable defined in the fourth schedule under articles and implements.
- Afribrite should therefore be able to claim SIA as follows: $15,000 * 25% = $3,750. (2)

b. VAT Consequences:

- In terms of section 6, VAT is levied on the supply of goods through an auctioneer by persons who are not registered operators. (1)
- The $15,000 was the consideration and therefore the VAT was (15,000 x 15%) = 2,250 (2)
- The furniture is used in the making of taxable supplies as Afribrite supplies taxable supplies. Afribrite therefore can claim input tax on the amount paid to ADC Auctioneers. (2)

c. CGT Consequences

- There is no CGT as there was no sale of a specified asset. (1)

Total Available 9 marks

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.

a. Income Tax Consequences

- The $3,200,000 is included in gross income as it is a specific amount that has been either received or accrued from a local sources and is not capital in nature since these units were inventory. (2)
- The $1,500,000 cost of sale is an allowable deduction as it is an expenditure that was incurred for the purposes of trade and is not capital in nature as earlier determined. (1)

b. VAT Consequences:

- The supply of housing units is a taxable supply at the standard rate. (1)
- The time of supply is the earlier of an invoice being issued or any payment being made. (1)

- Since all amounts have been given exclusive of VAT, Afribrite should have charged output tax of $3,2m * 15% = $480K. (2)
- The input tax on the qualifying costs included in cost of sales is claimable and the claiming rules including validity of tax invoice apply. (1)

c. Capital Gains Tax Consequences

- The housing units sold are specified assets as defined in the CGT Act and ordinarily the disposal would rank for capital gains tax. (1)
- However since the full proceeds from the sale were included in gross income in terms of the Income Tax Act, the gross capital amount would be zero resulting in no capital gains tax payable on the sales. (2)

  Maximum available 11 marks

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.

	$
Fuel allowance	***12,000***
Housing allowance	***20,000***
Cellphone allowance	***8,000***
Groceries	***5,000***
	45,000

a. Income Tax Consequences:

- Generally, fringe benefits are an allowable deduction as they are incurred for the purposes of trade and are not capital in nature. (1)
- However, groceries are prohibited deductions as they are considered entertainment (which is hospitality of any form). (1)

b. VAT Consequences:

- Fringe benefits offered to employees are a deemed supply and therefore attracts output tax. (1)
- The value of the supply is the cash equivalent of the benefit for PAYE purposes and the output tax will be at Afribrite's cost (2)
- The VAT implication for each benefit is as follows:
  - Fuel allowance – No output tax since Afribrite supplied an exempt supply to the employee. (1)
  - Housing allowance – the supply of residential accommodation is exempt therefore no output tax on the benefit. (1)
  - Cell phone allowance – Output tax: $8,000 *15/115 = $1,043 (1)
  - Groceries – Afribrite would have been denied an input tax deduction on the acquisition of the groceries since they are entertainment expenses, therefore no output tax on the benefit. (2)

- The time of supply is when the fringe benefit is awarded to the employee.

c. CGT consequences

- No CGT consequences as there was no disposal of a specified asset.

Maximum available 10 marks

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.

a. Income Tax consequences:

- The disposal of the office block results in recoupment which should then be included in gross income. (1)
- The proceeds from the disposal shall be $110,000.The ITV is $54,000 [$60,000-$6,000 ($60,000 x 2.5% x 4 yrs)]. (1)
- The potential recoupment is therefore $56,000 ($110,000-$54,000). The recoupment is however limited to capital allowances granted of $6,000. (1)
- The untaxed balance of the obligatory improvements made by the lessee will become immediately taxable in 2015 when Afribrite cancelled the lease agreement. (2)
- No capital allowances will be claimed in the year of disposal. (1)

b. VAT consequences:

- The disposal of the building is a supply. The timing of the supply is the date of sale. (1)
- The Value of the supply is $110,000. (1)
- Output tax is therefore $110,000 * 15% = $16,500. (1)

c. Capital Gains consequences:

- The disposal is of a specified asset and therefore any gains attract CGT. (1)
- In terms of sect 11(5), Afribrite is permitted to claim deductions in respect of the obligatory lease improvement effected by the lessee. (1)

	$	$
Proceeds		110,000 (1)
Less Recoupment		(6,000) (1/2)
		104,000
Allowable deductions		
Cost	60,000 (1)	
Less capital allowances	(6,000) (1/2)	
Inflation allowance (60k * 2.5% * 5)	7,500 (1)	
Improvements	12,000 (1)	
Inflation allowance (12k * 2.5% * 4)	1,200 (1)	(74,700)
Capital Gain		29,300

Capital Gains Tax (29,300 * 20%)	5,860 (1)

Maximum available 17 marks