



Initial Assessment of Competence

Professional Paper 2

June 2026

Copyright, proprietary rights and permitted use

© The South African Institute of Chartered Accountants (SAICA). All rights reserved.

The SAICA Initial Assessment of Competence (IAC) questions, solutions and examiners comments ('these documents') constitutes proprietary intellectual property and professional know-how of SAICA. It has been developed and is maintained as part of SAICA's mandate to uphold the quality, integrity, and high professional standards of the Chartered Accountant profession, which underpin public confidence and the value and attractiveness of SAICA membership and designation.

Access to, or use of, these documents does not confer any right, licence, or interest in the intellectual property contained herein. Except where expressly permitted by SAICA in writing, no part of these documents may be copied, reproduced, adapted, published, distributed, or used for commercial, quasi-commercial, or third-party standard-setting purposes.

These documents may be used solely for legitimate educational, regulatory, or professional purposes, in a manner that preserves their integrity, acknowledges SAICA as the owner and source, and does not undermine SAICA's role as custodian of professional standards or dilute the value associated with SAICA's membership and designation.

Any authorised access to or use of these documents is subject to, and must be exercised in accordance with, SAICA's Intellectual Property Management Policy, as amended from time to time.

Disclaimer clause: All names of persons, places and business entities mentioned in these documents are fictitious and any resemblance to real persons, living or dead, places and business entities are purely coincidental.

Part (b) With reference to note 2 on the patient loyalty programme, discuss the VAT consequences and the effect on taxable income of the patient loyalty programme for BHealth's 2025 year of assessment and all relevant VAT periods falling within that year. • Provide supporting calculations		Marks
1	VAT consequences	
1.1	Output tax will be levied on the value of the <u>preventative health care check services</u> (in the loyalty programme) supplied by the clinics as it is a taxable supply .	1
1.2	Calculation: $R500\,000 \times 15\% = \mathbf{R75\,000}$ <i>If clearly stated that selling price = open market value; $100/115 \times R500\,000$ - marked with the amount included in GI below.</i>	1C
1.3	The issue of the HealthMulas by BHealth has no VAT consequences (HealthMulas are same as a token, voucher or stamp), as it issued at no consideration (section 10(18) of the VAT Act).	1
1.4	The HealthMulas utilised by patients of the clinics during 2025, is consideration not in money and therefore the market value of the consideration will be used (section 10(3)(b) of the VAT Act).	1
1.5	Therefore, output tax of R45 000 ($R300\,000 \times 15\%$) is accounted for when the HealthMulas are utilised .	1C
1.6	The time of supply is the general time of supply, which is the earlier of the invoice or payment for both R500 000 and R300 000.	1
1.7	Input tax can be deducted on the expenditure incurred in providing the preventative health care check services when the services are supplied (for consideration in money or otherwise) (para. (a) of the definition of input tax read with section 17(1) of the VAT Act).	1
2	Normal tax consequences	
2.1	The amount of the preventative health care check services provided of R500 000 is included in gross income of BHealth as it is cash or otherwise (section 1(1) of the Income Tax Act).	1
2.2	The issue of the loyalty points by BHealth did not constitute expenditure actually incurred , as no expenditure was incurred nor does an unconditional liability exist as it is dependent on the person redeeming or utilising the points awarded in future.	1
2.3	HealthMulas used as consideration to pay for preventative health check services will be expenditure incurred when its redeemed and will be deductible in terms of section 11(a) as the expenditure is in the production of income and for purposes of trade and actually incurred.	1
2.4	As listed preventative health check services supplied to patients will result future expenditure on contracts (s24C of the Income Tax Act).	1
2.5	However, the <i>revenue contract and the loyalty programme contract</i> are two separate contracts that are not inextricably linked (<i>Clicks Retailers (Pty) Ltd. v CSARS</i>) thus <i>Alternative: if clearly stated that patients spend on listed preventative health services HealthMulas are automatically earned as it is a sameness basis</i>	1P
2.6	no allowance in respect of future expenditure is deductible in terms of section 24C of the Income Tax Act or <i>Alternative: BHealth will be able to claim an allowance for future expenditure</i>	1
Available		13
Maximum		9
Y2: Integrative thinking Addressed both VAT and normal tax consequences of the same transaction, reflecting genuine integration		1
Total for part (b)		10

Part (c) Discuss the normal tax implications of the expense relating to the SARs for BHealth and its employees in respect of their 2025 and 2026 years of assessment. • Do not perform calculations.		Marks
2	BHealth	
2.1	The cash-settled SAR benefit by Med4Me to the directors of BHealth is not expenditure for BHealth as it has no unconditional legal obligation (case law principle) and it will have no tax effect,	1
3	Employees	
3.1	2025 YOA (1 March 2024 to 28 Febr 2025) The SARs are equity instruments as defined as they are contractual rights of which the value is determined with reference to a share (definition of 'equity instrument' in para. (c) of section 8C(7)).	1
3.2	The SARs were granted to the executive directors by virtue of employment (section 8C(1)).	1
3.3	The contractual rights of SAR on 1 January 2024 is a restricted instrument as it has not yet vested, thus section 10(1)(nD)(i) exemption would have applied in the 2025 YOA. The resignation of a director would not trigger a vesting event (s8C(3)(b)).	1
3.4	2026 YOA (1 March 2025 to 28 Febr 2026) The amount of SARS doubled up as the R15 million target was met, accordingly, the gain on the vesting date (31 December 2025) must included the double value in the income of each employee.	1
3.5	The cash-based gain is the market value of the contractual right of SAR at the vesting date (value of the cash-settled SAR benefit), less any consideration paid (section 8C(2)(a)(ii)).	1
3.6	The directors receive a cash payment on the vesting date, which constitutes remuneration as defined in the Fourth Schedule. Accordingly, PAYE must be withheld and paid to SARS . No base cost of the shares arises due to the nature of the cash-settled SAR benefit (not shares).	1
Available		8
Maximum		7
<i>X1: Communication skill – logical argument</i> award the mark only where both relevant parties are identified and applied namely B Health and the employees.		1
Total for part (c)		8

Part (d) Advise, with reasons, the management of BHealth whether it would be able to register the new clinics in Newcastle and QwaQwa as separate vendors for VAT purposes.		Marks
1	The buildings in Newcastle and QwaQwa will be acquired by BHealth, which is a resident of the RSA and who already is a registered vendor thus no reapplication is needed.	1
2	As both branches are in South African, section 23(2A) is not applicable. In terms of section 50(1), BHealth (vendor) may apply in writing to the Commissioner for the two separate branches to be registered separately for the purposes of the Act.	1
3	Each separate clinic may register as separate vendors in terms of section 50(1) of the VAT Act because –	1C
3.1	• each clinic maintains its own independent accounting system , and	1
3.2	• each clinic can be separately identified by reference to the location of the clinic (Newcastle and Qwa Qwa) (section 50(2) of the VAT Act).	1
4	In terms of section 50(5), where the one or both branches fails to adhere to the requirements of the VAT Act, the VAT liability reverts to the original vendor (BHealth).	1
Available		6
Maximum		6
Total for part (d)		6

Part (e)		Marks
Discuss the VAT consequences (with supporting calculations), for all relevant VAT periods falling within the 2025 year of assessment, as well as the normal tax consequences for BHealth for the following transactions in respect of its 2025 year of assessment. - Acquisition of the old buildings in Newcastle and QwaQwa and the renovation costs incurred in respect of the old buildings. - Initiation fees charged by RMD bank. - Interest expense incurred on the loans obtained from Med4Me and RMD Bank. - Do not calculate the amount of the interest.		
1	VAT consequences	
1.1	<i>Acquisition of buildings and renovation costs</i>	
1.1.1	Input tax may be claimed on the acquisition of the old buildings and renovation costs because BHealth acquired the goods for the purpose of making taxable supplies in the course of its enterprise , and the suppliers levied output tax on the supplies (paragraph (a) of the definition of "input tax" in section 1(1) of the VAT Act).	1
1.1.2	Input tax on the acquisition may be deducted to the extent that the buildings will be used to make taxable supplies . As the buildings will be used 100% for taxable supplies , the full input tax may be claimed (section 17(1), read with the definition of "input tax" in section 1(1) of the VAT Act).	1
1.1.3	On the acquisition of fixed property, input tax is only deductible to the extent that payment has been made . However, as the purchase was financed by a loan and not by the seller, the full input tax may be claimed (section 16(3)(a)).	1
1.1.4	Input tax on acquisition of buildings (R2 million + R3,4 million) x 15% = R810 000	1
1.1.5	Input tax on renovation cost (R3 million + R5 million) x 15% = R1 200 000	1
1.2	<i>Interest expense</i>	
1.2.1	There is no input tax on the interest expense as interest is a financial service and an exempt supply (no output tax was levied by Med4Me and RMD Bank) (section 2(1)(f) read with section 12(a) of the VAT Act).	2
1.3	<i>Initiation fees</i>	
1.3.1	The initiation fees paid to RMD Bank is deemed not to be a financial service as the consideration payable is in respect of a fee that relates to section 2(1)(f) of the VAT Act (proviso to section 2(1) of the VAT Act) and is therefore a taxable supply .	1
1.3.2	Therefore, BHealth may claim input tax on the initiation fees, as RMD Bank levied output tax on the supply and the expenditure was incurred in the course of making taxable supplies .	1
1.3.3	Input tax on raising fees incurred (R6 250 x 15% = R938)	1
2	Normal tax consequences	
2.1	<i>Acquisition of the buildings and renovation costs</i>	
2.1.1	The loan amount is not "received by" the taxpayer for purposes of the gross income definition because it is received subject to an obligation to repay it .	1
2.1.2	The expense on purchasing the buildings/renovations is capital in nature and not deductible in terms of section 11(a) or section 11(d).	1
2.1.3	No capital allowances can be claimed on the buildings as they are not new and unused buildings .	1
2.1.4	No capital allowances on renovation cost in the current year as it was not brought into use in the 2025 year of assessment .	
2.1.5	The expenditure in respect of the initiation fees and the interest was actually incurred by BHealth as the raising fees and interest became due and payable in the 2025 year of assessment.	1

2.2	<i>Interest expense</i>	
2.2.1	The interest expense would have been allowed as a deduction in terms of section 24J(2) of the Income Tax Act as the amount would have been incurred in the production of income and for the purposes of trade .	1
2.2.2	BHealth is the issuer of an instrument because the debt is interest-bearing and BHealth has the obligation to repay the loan and has the incurred interest . (s24J)	1
2.3	<i>Initiation fee</i>	
2.3.1	Initiation fees are regarded as ' interest or similar finance charges ' in terms of 11(x) read with section 24J (1) of Income Tax Act. (IT 76795, 'Taxpayer Trust v Commissioner for the South African Revenue Service') <i>Alternative: Initiation fees are not 'interest or similar finance charges', because it is not of the same kind or nature of interest,</i>	1
2.3.2	The Initiation fees would have been allowed as a deduction in terms of section 24J(2) of the Income Tax Act as the amount would have been incurred in the production of income and for the purposes of trade . <i>Alternative: The initiation fee is not capital in nature and is therefore deductible under section 11(a). However, the deduction is limited by section 23H(1)(ii) as the benefit extends beyond the current year of assessment.</i>	1
2.4	<i>Pre-trade expenditure</i>	
2.4.1	The interest and the initiation fees would be deductible in terms of section 11A against BHealth's income, as the expenditure was incurred prior to trade . <i>Alternative: The interest and the initiation fees would be deductible in terms of section 11(a), as the new clinics are merely an extension of BHealth's existing trade and the expenditure was incurred in the production of income and is not capital in nature.</i>	1
2.4.2	However, the interest and initiation fees cannot exceed the income derived from that trade during the year of assessment.	1
2.4.3	As no income has been derived by the new clinics, no deduction will be allowed in the 2025 year of assessment, and it may be carried forward to the next year of assessment.	1
Available		21
Maximum		19
Y1: Critical thinking – identification and application of the VAT and income tax consequences relating to the acquisition, renovations, initiation fees and interest expense.		1
Total for part (e)		20

Part (f) Discuss the income tax implications of the management fees levied by the holding company of the Med4Me on the clinics. • Do not address ethical frameworks.		Marks
1	The fact that the amount of the management fee charged, is above a market related amount , may well mean that the expenditure was not wholly incurred for purposes of trade, as it may have been incurred to utilise the assessed loss . It may therefore be necessary to evaluate whether anti-avoidance legislation is applicable.	1
2	There is an agreement in place as Med4Me charges a management fee under an agreement which may be deductible in terms of section 11(a) read with section 23(g).	1
3	The agreement entitles Med4Me to management fees, resulting in income accruing to the company.	1
4	As Med4Me has an assessed loss , it is possible that the intention is to use the assessed loss to reduce the normal tax liabilities of the other companies within the same group, effectively shifting profits to the holding company with no normal tax consequences. <i>Alternative: if clearly identified that the management fee is an agreement in terms of section 103(2)(a) with the purpose to use the assessed loss to its advantage.</i>	1
5	As the arrangement results in a tax benefit , the party obtaining that benefit may be unable to demonstrate that, having regard to the relevant facts and circumstances, obtaining a tax benefit was not the sole or main purpose of the avoidance arrangement (transaction).	1
6	The agreement may be seen by the Commissioner as an impermissible tax avoidance arrangement in terms of section 80A (or 103(2)(a)) of the Income Tax Act, as the transaction would not have been entered into for <i>bona fide</i> business purposes other than obtaining a tax benefit. (purpose – section 80G).	1
7	The expenditure, or part thereof (excessive 3% of full 10%), may be disallowed by SARS, and Med4Me will have to include the full amount of the management fees in its gross income as an amount that has accrued to it.	1P
Available		7
Maximum		6
Total for part (f)		6
Total for part II		50