



Initial Assessment of Competence

Professional Paper 2

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All amounts include value-added tax (VAT) unless the context indicates otherwise.

1 Background

Lexi Liebenberg is a 27-year-old South African tax resident. Her public profile began to grow during her school years through modelling and fitness instruction. She achieved national recognition as a finalist on the reality television show *Real students of Cape Town*, that allowed her to study and complete a certificate in management at a London-based business school.

While studying in the United Kingdom (UK), Lexi wrote a motivational book entitled *Empowering voices from margins to spotlight*. The book aimed to inspire young women from disadvantaged backgrounds to overcome personal challenges. TB Sprong, a leading UK-based publishing house, published the book, which has had promising sales.

After returning to South Africa, Lexi started working at Hebony (Pty) Ltd ('Hebony'), a leading advertising agency and South African tax resident. Lexi joined Hebony's corporate communications department and played a key role in internal and external brand messaging initiatives. Lexi's employment contract with Hebony permits external work to the extent that it does not interfere with her contractual employment obligations.

Driven by an interest in digital influence and social media, Lexi began to explore opportunities as a content creator. She taught herself using online resources and now has about 150 000 followers on social media platforms such as Instagram[®] and TikTok[®].

In addition to her social media presence, Lexi is a motivational speaker at events, for which she is paid a fee. Lexi met Arno Smith at a conference two years ago, and the pair have been dating since then. Arno is a CA(SA) and an associate director at a large audit firm responsible for managing several large audit clients. He is Lexi's top follower on her social media platforms and actively promotes her professional profile.

2 Full-time employment

The following information relates to Lexi's employment with Hebony for the period 1 March 2024 to 30 November 2024:

- 2.1 Lexi received a basic salary of R50 000 per month. Hebony contributes 14,8% of the basic salary to the Hebony Provident Fund, an approved retirement fund, on Lexi's behalf. Lexi does not make any additional contributions to the provident fund.
- 2.2 Lexi contributes R4 000 per month to the Recover Medical Aid Fund. The medical cover is for herself as the main member and her mother as a dependent member. Hebony does not make additional contributions towards Lexi's monthly medical aid. Lexi made monthly payments to the Recover Medical Aid Fund for her entire 2025 year of assessment.
- 2.3 Lexi had the right of use of a laptop (purchased by Hebony for R13 000 on 15 September 2023) for the full nine months and used the laptop only for business purposes.

- 2.4 She received a monthly cell phone allowance of R1 000, as Lexi is required to use her phone for business purposes. Lexi's cell phone bills for the nine months amounted to R15 722, of which R7 413 was for personal use and R8 309 for business use.
- 2.5 In terms of the leave policy rules of Hebony, a maximum of ten days' leave may be carried forward to the next period, and any balance must be paid out. On 29 February 2024, Lexi had leave pay due to her amounting to R35 000. The full amount was paid to Lexi on 25 March 2024.
- 2.6 Hebony has a canteen on its premises that provides meals and refreshments exclusively for its employees. Hebony credits all employees' access cards with R400 per month, which they may only use to purchase meals, snacks and refreshments. Lexi never spent more than her allowed R400 per month. Employees are not allowed to withdraw any unused amounts.
- 2.7 On 3 January 2024, Hebony provided Lexi with an interest-free loan of R20 000 to enable her to undertake a short on-line course in personal investments. The course is aimed at individual investors and was not relevant to Lexi's responsibilities at Hebony. Over the duration of the loan, the repurchase rate was 6% per annum and the prime rate was 10,75% per annum. No principal repayments or additional borrowings were made after 3 January 2024. The outstanding loan amount of R20 000 was set off against Lexi's final salary payment on 30 November 2024.
- 2.8 As required by law, Lexi correctly contributed R177,12 per month to the Unemployment Insurance Fund.
- 2.9 Hebony seconded Lexi to Hallo Media Plc ('HalloMedia'), a company based in the UK. Hebony is a wholly-owned subsidiary of HalloMedia. Lexi departed from South Africa on 30 May 2024 and arrived in the UK on 1 June 2024. She departed from the UK on 30 August 2024 and arrived back in South Africa on 1 September 2024. The purpose of the secondment was for Lexi to assist with a new product launch by one of HalloMedia's major customers, Lola's Cluster Lashes. Hebony continued to pay Lexi her monthly salary during her secondment to the UK and Hebony withheld PAYE during this secondment period. She received no subsistence allowance during her stay in the UK.
- 2.10 Lexi resigned from her employment at Hebony and her last working day was 30 November 2024. Thus from 1 December 2024 she was free to pursue other projects. She withdrew the full amount in the savings component of her provident fund, which amounted to R39 596. She also withdrew the full amount of her vested component, amounting to R331 036, and transferred the retirement component amount of R19 192 to a provident preservation fund.

3 Additional income

Lexi received the following additional income during her 2025 tax year:

3.1 Local income and expenses

- 1 Lexi earned R10 000 (before tax) from product endorsements as a social media influencer who promotes products for various South African companies. According to

her agreement with these companies, she earns a 1% commission on sales generated through her product endorsements. The companies withheld 25% PAYE from her earnings.

- 2 Lexi lives in a two-bedroom apartment in Bryanston, a suburb of Johannesburg. Her monthly rent is R6 000, which she pays in cash. Due to the low rental amount, her landlord does not provide any supporting documents (e.g., lease agreement or receipts).

She converted one of the bedrooms (approximately 12 m²) into a recording studio. The entire apartment is 80 m² in size.

- 3 Lexi was the Master of Ceremonies at a spring fashion show that was held at the Cape Town Convention Centre on 1 September 2024. As payment for her services, Lexi received an all-expenses-paid trip for two to Cape Town for a weekend. The market value of the trip amounted to R20 000. The trip was non-transferable and had to be used within six months. Lexi and Arno took the trip in February 2025.

3.2 Foreign income – book talk fee

While on her secondment in the UK, Lexi received £3 000 for attending and giving a talk on her book. The UK did not apply any withholding tax to the payment of the fee.

4 CreativeLexi

After her resignation from Hebony on 1 December 2024, Lexi pursued her ambition to become a full-time content creator. With Arno's assistance, she finalised her business plan during December 2024. She incorporated and registered a company, CreativeLexi (Pty) Ltd ('CreativeLexi') with the Companies and Intellectual Property Commission on 2 January 2025, using her home address as the company's registered address.

CreativeLexi focuses on promoting brands through social media. It involves creating and sharing content in the form of text, images, audio and videos on specific social media platforms. This content is designed to engage and inform target audiences, to enhance brand visibility and achieve specific marketing objectives.

Lexi is CreativeLexi's sole shareholder and chief executive officer (CEO), while Arno serves as the chief financial officer (CFO). Arno informed Lexi that he could manage both his full-time job at the audit firm and his financial responsibilities at CreativeLexi. CreativeLexi is not a registered VAT vendor.

The company's first commercial contract was secured with Hebony, leveraging her existing relationship. CreativeLexi's revenue for January 2025 amounted to R150 000, of which R121 500 was earned from Hebony.

Arno introduced Lexi to Thabo Mpomo, the CFO of Mzansi Got Talent (Pty) Ltd ('MGT'), at an event in February 2025. MGT is one of Arno's clients at his audit firm. MGT is a South African company with a strategic interest in digital talent acquisition. It is a registered VAT vendor and has a February financial year end.

On 1 March 2025 MGT expressed an interest in acquiring a 70% equity interest in CreativeLexi. This offer marked a significant milestone in CreativeLexi's early-stage growth trajectory. The purchase of the equity interest is expected to be completed during MGT's 2026 financial year.

5 Proposed acquisition of an equity stake in CreativeLexi

The 70% CreativeLexi equity stake to be acquired was accurately valued at R2,5 million by an independent valuation expert on 1 March 2025. MGT is considering purchasing this equity stake with an effective date of 1 March 2026, following the completion of its due diligence assessment of the business. MGT views this investment as having significant medium- to long-term potential.

MGT is a wholly-owned subsidiary of Holdings Ltd ('Holdings'). Holdings is listed on the Johannesburg Stock Exchange and is a South African resident investment holding company that provides loan funding and cash management services to its subsidiaries. Holdings is not considered to be a money lender and is not registered with the National Credit Regulator.

In its full-year 2025 management accounts, Holdings reflected interest income of R34,9 million from its subsidiaries and R68,1 million of interest paid to its shareholder, Africa Holdings (Pty) Ltd. Holdings' management believes that the R68,1 million interest paid is deductible for tax purposes. Holdings does not get involved in the daily management of its subsidiaries. Holdings has a February financial year end. The only source of income for Holdings is interest on loans to subsidiaries and dividends earned from subsidiaries.

MGT is considering two loan offers to fund this investment. However, it is uncertain which loan would be the most cost effective.

Option 1: Loan from Holdings

Holdings offered to provide MGT with 100% loan financing for the acquisition of the stake in CreativeLexi on the following terms:

Loan amount	R2,5 million
Issue date	1 March 2026
Initiation fees	Nil
Term	5 years
Interest rate	Fixed rate of 14% per annum (before tax), capitalised annually
Repayment	A single bullet payment on 28 February 2031
Other	Should the investment in CreativeLexi not yield a minimum of 30% return in any of the financial years during the term of the loan, the loan will become payable at the end of the month following that financial year end.

Option 2: Loan from Khuba Capital

Khuba Capital (Pty) Ltd ('Khuba') is a registered financial service provider that provides loans and funding solutions tailored to small and growing businesses.

Khuba offered to finance 100% of the required acquisition amount on the following terms:

Loan amount	R2,5 million
Issue date	1 March 2026
Initiation fees	2% of loan amount – payable 1 March 2026
Loan term	5 years
Interest rate	Prime + 3%
Repayment	Annual instalments (interest plus capital, fully amortising)
First payment due	One year from loan issue date
Late payment fee	R1 500 per missed instalment plus 2% additional penalty interest (i.e., increase to prime + 5%) per month on overdue amounts
Security	Guarantees to be provided by owner(s)
Required disclosures	Quarterly financial statements of MGT

6 Due diligence investigation

Before MGT was willing to make an official offer to acquire a 70% equity interest in CreativeLexi, Thabo invited Lexi and Arno to give a presentation at a board meeting. As part of the presentation, they had to provide an overview of CreativeLexi's budgeted profit projections, a SWOT analysis and the company's short-, medium- and long-term strategy.

These projections are built on the company obtaining contracts and sustaining future growth. The revenue drivers and growth rate assumptions are dependent on Lexi's personal brand and reach on social media, including the number of followers she can obtain and retain on various social media platforms. Consequently, her reputation, credibility and consistent public appearances are key factors to maintain these projected figures. CreativeLexi will also obtain commission on sales generated via trackable links and codes from affiliated partnerships on Lexi's social media accounts.

MGT requested details of the social media accounts of CreativeLexi, Lexi and Arno to support the data and projections in their presentation. As part of the due diligence process, MGT appointed a consulting firm to independently evaluate the accuracy and reasonableness of the data and assumptions presented, and the success of CreativeLexi's social media campaigns.

The consulting firm provided Thabo with a full due diligence report. The following are relevant extracts of the report:

Extract from a report on the social media performance indicators of CreativeLexi (Pty) Ltd	
Report addressed to: The directors – Mzansi Got Talent (Pty) Ltd	
Purpose of the report	
<p>This report was prepared to evaluate data presented in a presentation made by CreativeLexi’s directors. We made use of data analytics software to evaluate social media marketing campaigns that are currently run by CreativeLexi. Lexi provided details relating to five CreativeLexi social media accounts, although we believe there may be more. Our report does not extend to her personal social media accounts.</p> <p>The report covers the major social media platforms used by CreativeLexi. Each social media platform has similar capabilities that allows users to –</p> <ul style="list-style-type: none"> • create profiles using an email address; • like a social media post; • comment on a social media post; and • make purchases directly from marketing posts (after clicking on the link within the social media post). <p>The frequency of these actions was analysed to determine social media engagement levels. The report does not consider users that have unfollowed CreativeLexi on a social media platform.</p>	
Data extracted	
<p>To verify the projections and increase in revenue, we examined the increase in social media engagement from 1 February 2025 to 31 March 2025 by new followers as a base to evaluate the growth rate indicated in the presentation. The analysis is limited to new followers on social media platforms and excludes those individuals who followed CreativeLexi on the social media platforms before February 2025.</p> <p>The following activity information was extracted from the data obtained to perform the analysis:</p>	
Table 1: Overview of data extracted for the period for analysis	
Data type	Examples
User profile data	Username, bio information, profile picture, location, account age.
Post metadata	Post ID, time of posting, likes made, comments made, only views, hashtags used.
Follower data	Number of followers per user, other users being followed by a user, follower lists.
Engagement data	Like counts, comment text, reposts/shares, reaction types.

Data analysed and findings

The findings of the data analysis are presented below and have not been linked to specific marketing campaigns over the period:

Table 2: Findings on changes in social media engagement from 1 February 2025 to 31 March 2025					
	YouTube®	Instagram®	Facebook®	TikTok®	X¹
New followers for the period	5 000	150	200	6 000	5 500
Number of purchases made by new followers (see note (a))	1	18	15	1	1
Average purchase value	R300	R300	R300	R300	R300
Total purchase value during period	R300	R5 400	R4 500	R300	R300
Likes made on social media posts during the period	30 000	950	800	45 000	30 000
Comments made by new followers on social media posts during the period	15	300	270	10	15

Note (a): Purchases refer to those purchases made via a post promoting a CreativeLexi client's product, with users clicking on the post and buying directly from the client's website.

Our analysis identified that new social media followers included a number of user accounts all linked to one Internet Protocol (IP) address². For the user accounts linked to this IP address, we further analysed the user profiles, and the following findings are applicable.

Table 3: Findings regarding user profiles linked to the same IP address					
	YouTube®	Instagram®	Facebook®	TikTok®	X
Followers linked to one IP address	3 600	55	65	4 500	4 300
Followers with no profile picture	3 500	50	60	4 000	4 200
Followers with no biographical information	3 200	40	55	3 900	4 100
Followers with no posts	3 100	30	50	3 700	4 000
Followers with no followers	3 000	10	45	3 500	3 900
Likes made on social media posts in the period	15 000	500	375	30 200	23 250
Average purchase value during the period	R0	R0	R0	R0	R0

*****End of report extract*****

¹ Formerly known as Twitter.

² An IP address (internet protocol address) is a unique identifier assigned to a device or network when it connects to the internet. It functions like a digital address, allowing data to be sent and received between devices across the internet or local networks.

7 Social media reports

On 10 August 2025 (after the valuation and the due diligence had been performed), serious allegations surfaced on the social media platform TikTok[®]. These claimed that Arno had been leaking sensitive strategic information to Lexi about his audit clients, including MGT. Social media posts revealed the long-term relationship between Lexi and Arno and how CreativeLexi secured digital marketing contracts with many of Arno's audit clients. It was also alleged that Lexi benefited from this relationship even before starting CreativeLexi, by handling digital marketing campaigns for some of Arno's clients while she worked at Hebony. In addition, media outlets alleged that Arno was using bots³ hosted on his personal computer to boost social media engagement. There were further allegations that CreativeLexi was creating fictitious user accounts with the sole purpose of increasing likes and posting positive comments on its social media platforms.

Based on the report and media coverage, Thabo called MGT's engagement partner. The audit partner confirmed that Arno had accessed parts of the audit file that contained the summarised minutes of board meetings and audit team comments on the digital strategy of MGT. Arno had accessed these parts of the audit file shortly before introducing Lexi to Thabo and again before CreativeLexi's presentation to the board of directors of MGT.

Thabo told the audit partner how impressed he had been with Arno at the CreativeLexi presentation to the board, as Arno displayed considerable enthusiasm for the potential value that could be generated using CreativeLexi's services. The audit partner admitted that he was unaware that Arno was the CFO of CreativeLexi.

After the meeting, the audit partner reviewed Arno's timesheets and found that Arno had billed eight hours (at R2 600 per hour) to the audit of MGT on the same day as the CreativeLexi presentation to the board of MGT. The audit partner also found that Arno did not disclose his role as CreativeLexi's CFO in his independence declaration on the MGT audit file.

To counter the negative press, Lexi and Arno decided to attend a public fundraiser on 12 August 2025 aimed at raising funds to combat substance abuse and made a sizable donation. The event was disrupted by a police raid, resulting in multiple arrests for drug-related offences. Arno, who was found to be in possession of an illegal substance, was also arrested.

The incident has drawn significant negative media attention and responses on social media. A video was uploaded to TikTok[®] showing Lexi talking to a suspected member of a syndicate accused of selling counterfeit luxury fashion brands. In the video, Lexi states she does not care about the accusations and would like to endorse them on social media to enhance their legitimacy. She would do this for a 5% commission on all sales generated through her social media platforms.

³ Bots are automated software programs that perform repetitive tasks, mimicking human behaviour.

Lexi was outraged by the video that was posted on social media and posted the following message on CreativeLexi's social media platforms:

The video uploaded on TikTok is a fabrication and a lie. The discussion never took place, and the person who uploaded the video used artificial intelligence to create a deepfake⁴ to harm my reputation. I have their personal address and cell phone number and I am happy to share this with any of my followers who would like to help me sort this person out. Please send me a message, and I will share the details with you. #justiceforLexi #justiceforArno #deepfake #CreativeLexi

8 Additional information

- Assume that the information provided in the *2024/2025 SAICA Tax Legislation Handbook* is applicable to all years of assessment.
- None of the taxpayers has any assessed loss or assessed loss brought forward from the previous year of assessment.
- Assume that the prime interest rate on 1 March 2026 will be 10,75% per annum. It is expected to increase by 50 basis points every two years starting from 1 March 2028.
- The average exchange rate for the 2025 tax year: £1 = ZAR23,43.
- The spot rate on 28 February 2025: £1 = ZAR23,51.
- The UK upholds the double tax agreement between South Africa and the UK.

⁴ A video or image in which a person's face, body or voice has been digitally altered so that they appear to be someone else.

TAX INFORMATION FOR THE 2024/2025 YEAR OF ASSESSMENT

Tax tables applicable to natural persons	
Taxable income (R)	Rates of tax (R)
1 – 237 100	18% of taxable income
237 101 – 370 500	42 678 + 26% of taxable income above 237 100
370 501 – 512 800	77 362 + 31% of taxable income above 370 500
512 801 – 673 000	121 475 + 36% of taxable income above 512 800
673 001 – 857 900	179 147 + 39% of taxable income above 673 000
857 901 – 1 817 000	251 258 + 41% of taxable income above 857 900
1 817 001 and above	644 489 + 45% of taxable income above 1 817 000

Rebates applicable to natural persons	
Tax rebate	
Primary	R17 235
Secondary (65 and older)	R9 444
Tertiary (75 and older)	R3 145

Medical credits	
Per month (R)	
For the taxpayer; or for a dependant who is a member of a medical scheme or fund, where the taxpayer him- or herself is not a member of a medical scheme or fund	R364
For the taxpayer and one dependant; or in respect of two dependants where the taxpayer him- or herself is not a member of a medical scheme or fund	R728
For each additional dependant	R246

Retirement withdrawal tax table in terms of Schedule 2	
Taxable income (R)	Rate of tax
1 – 27 500	0% of taxable income
27 501 – 726 000	18% of taxable income above 27 500
726 001 – 1 089 000	125 730 + 27% of taxable income above 726 000
1 089 001 and above	223 740 + 36% of taxable income above 1 089 000

INITIAL ASSESSMENT OF COMPETENCE, JANUARY 2026

PROFESSIONAL PAPER 2

**This paper consists of one scenario and two required parts.
Answer each required part in a separate answer book.**

PAPER 2 PART I – REQUIRED		Marks	
		Sub-total	Total
(a)	Discuss, with reference to case law principles, the income tax implications for Lexi in respect of the all-expenses-paid trip described in section 3 (Additional income).	7	7
(b)	Calculate Lexi’s normal tax payable for her 2025 year of assessment. <ul style="list-style-type: none"> • Provide reasons for amounts that have a nil effect on the calculation. • For the purposes of answering required (b), assume that – <ul style="list-style-type: none"> ○ with regard to point 3.2 (Foreign income – book talk fee) the fee will be fully taxable in South Africa; and ○ section 6B is nil. 	27	27
(c)	Discuss whether Hebony should withhold employees’ tax on the R121 500 payable to CreativeLexi for January 2025. <i>Y1: Critical thinking</i>	6 1	 7
(d)	Discuss the income tax implications for Holdings in respect of the R68,1 million interest paid to Africa Holdings (Pty) Ltd in its 2025 tax return. <i>Y1: Critical thinking</i>	8 1	 9
Total for part I			50

INITIAL ASSESSMENT OF COMPETENCE, JANUARY 2026
PROFESSIONAL PAPER 2

**This paper consists of one scenario and two required parts.
Answer each required part in a separate answer book.**

PAPER 2 PART II – REQUIRED		Marks	
		Sub-total	Total
(e)	<p>Calculate, based on the internal rate of return method, which of the two loan offers received for the acquisition of CreativeLexi would be most cost effective.</p> <p>For this required only, assume that –</p> <ul style="list-style-type: none"> SARS will allow a deduction of the interest on each loan in terms of section 24J of the Income Tax Act; MGT will not default on payments; and the returns from CreativeLexi will be above the 30% requirement for loan option 1 for the duration of the loan. <p><i>Y3: Problem solving</i></p>	24	
		1	25
(f)	<p>Advise MGT on which loan offer it should accept.</p> <ul style="list-style-type: none"> Consider both quantitative and qualitative factors. Do not provide calculations. <p><i>Y4: Judgement and decision making</i> <i>Z2: Business external environment</i></p>	10	
		1	12
(g)	<p>Based only on the information and data included in the extract from the report on social media performance indicators, discuss the factors that MGT should consider before proceeding with the acquisition of CreativeLexi.</p> <ul style="list-style-type: none"> Do not provide calculations. <p><i>Y5: Professional scepticism</i></p>	10	
		1	11

Continued on page 2

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PROFESSIONAL PAPER 2

**This paper consists of one scenario and two required parts.
Answer each required part in a separate answer book.**

PAPER 2 PART II – REQUIRED (cont.)		Marks	
		Sub-total	Total
(h)	Discuss any ethical concerns with regard to Arno’s conduct in terms of the SAICA Code of Professional Conduct. <ul style="list-style-type: none"> • Do not discuss any safeguards to address any possible breach or threat. • Do not discuss the level of the threat. 	14	14
(i)	Discuss the ethical conduct of Lexi as the CEO of CreativeLexi in view of how she responded to the allegations in the video. <ul style="list-style-type: none"> • Do not discuss the Companies Act and <i>King IV Report on Corporate Governance</i>. <i>11: Personal ethics</i>	7	
Total for part II			70
TOTAL FOR PAPER 2			120