

1 Background

On-the-Line Ltd ('OTL'), is a company resident in South Africa for income tax purposes with a year of assessment ending on 31 December. OTL is also a registered value-added tax (VAT) vendor. OTL's primary business is in the online retail sector.

OTL offers its employees competitive salary packages, including forfeitable share awards. The forfeitable shares are awarded by means of the OTL Employee Share Ownership Trust. The Trust is funded by OTL to acquire OTL shares for each employee award that OTL makes. The Trust's objective is to manage OTL shares in terms of the share incentive scheme. Employees become beneficiaries of the OTL Employee Share Ownership Trust on acceptance/grant date of a forfeitable share award.

Forfeitable share awards are registered in the name of the Trust up to settlement date – this is the date on which the Trust registers the employee as the owner of the shares in the securities register. Settlement of the forfeitable share awards occurs on the last day of OTL's year of assessment, in the year in which the award was issued.

2 Boitumelo Radebe

Boitumelo is a 66-year-old South African tax resident who has a wealth of marketing and managerial experience. Boitumelo married Gift Radebe, out of community of property, in 2010. Boitumelo has an adult daughter, Lesedi Mbana, from a previous marriage. Gift and Lesedi are also South African tax residents.

KicksZA (Pty) Ltd ('KicksZA') is a South African company providing online marketing services. Boitumelo joined KicksZA in January 2019 as its country industry manager. Her employment contract contained the following provisions:

- She would be awarded a sign-on incentive of R1,5 million for accepting its employment offer;
- R300 000 of the R1,5 million would be forfeited if Boitumelo's employment was terminated for misconduct before 31 December 2022; and
- The sign-on incentive is not variable remuneration in terms of section 7B of the Income Tax Act.

Boitumelo was dismissed for misconduct from KicksZA on 2 March 2020 following a disciplinary hearing.

Following her dismissal from KicksZA, Boitumelo was appointed at OTL as Chief Marketing Officer on 1 May 2020. At that date the market value of an OTL share was R117,32. On 31 December 2020 the OTL share price had increased to R129,74.

The following is an extract of Boitumelo's letter of appointment from OTL:

Dear Ms Radebe

APPOINTMENT AS CHIEF MARKETING OFFICER

It gives me great pleasure to inform you that On-the-Line Ltd has decided to appoint you in the above-mentioned executive role with effect from 1 May 2020.

Your salary package for this position has been structured as set out below:

- 1 Cash remuneration**
An annual cash salary of R2 million. R166 667 will be paid on the 25th day of each month of your employment.
- 2 Share awards on appointment**
On your appointment, OTL will award 30 000 OTL forfeitable share awards to you. The forfeitable share awards will be subject to the rules of the OTL Employee Share Ownership Trust.
- 3 OTL Provident Fund**
Membership of the OTL Provident Fund is compulsory. Your contribution to the Fund will be R19 167 per month. OTL will pay the premium to the Fund on your behalf, in addition to the cash salary.
- 4 Virtual office**
OTL operates in a virtual office environment in which all employees work from home. All employees are required to have a dedicated home office, as well as an uncapped fibre line which is to be used mainly for OTL work. You will receive an additional amount of R1 497 per month as compensation for the cost of the fibre line.
- 5 OTL employee discount**
All employees receive a discount on the selling price of products purchased through the OTL online website.

3 Ukuthula

Boitumelo holds a 51% equity interest in Ukuthula Coffee (Pty) Ltd ('Ukuthula'). Ukuthula is a company resident in South Africa for income tax purposes and a registered VAT vendor. Ukuthula, which has a year of assessment ending on 31 December, was formed in 2006 and operates several coffee shops in Cape Town. Boitumelo's daughter, Lesedi, was appointed as the operational manager of Ukuthula on 1 August 2020. Because of the remuneration structure offered to Lesedi at Ukuthula, as well as the structure she received from her previous employer, she is subject to normal tax at the maximum marginal tax rate.

As the operational manager at Ukuthula, Lesedi is expected to travel to the various Ukuthula coffee shops. Senior employees are offered the opportunity to either make use of one of Ukuthula's leased company vehicles or to receive a travel allowance of R12 500 per month to cover transport costs. Employees who use their own vehicles and receive a travel allowance are responsible for all the costs of fuel and maintenance relating to those vehicles. Lesedi received no benefits from her previous employer, apart from a cash salary.

Lesedi already has a motor vehicle, which she acquired in March 2018 in terms of a 60-month lease arrangement with monthly lease payments of R6 500. This vehicle had a value of R350 000, which included a maintenance plan, on its acquisition date.

Ukuthula leases a number of vehicles under an operating lease as defined in terms of section 23A(1) of the Income Tax Act. Lease payments of R8 000 per month per vehicle are made to the lessor and Ukuthula incurs fuel costs of R1 500 per month on each leased vehicle. The retail market value of each vehicle that Ukuthula leases is R380 000. Lesedi will keep accurate records of her kilometres travelled, but not of the costs incurred, irrespective of the option chosen. Lesedi plans to travel a total of 30 000 km, of which 12 000 km is expected to be for business purposes, from 1 August 2020 until 28 February 2021.

4 Atlantic seaboard property

Boitumelo purchased an Atlantic seaboard property in 2009 for R2 million. Up to 31 July 2020, the property was listed on the internet as a short-term rental unit. The property is fully furnished. For the period 1 March 2020 to 31 July 2020, Boitumelo received an amount of R60 000 from letting this property.

Lesedi was living in Johannesburg at the time of her appointment at Ukuthula, and she had to move to Cape Town when she accepted the appointment. Consequently, Boitumelo agreed to lease her Atlantic seaboard property to Lesedi from 1 August 2020 at a market-related rental of R7 000 per month. Boitumelo incurred tax-deductible expenditure on the property of R110 000 during the 2021 year of assessment. Boitumelo did not use the property for personal purposes during the 2021 year of assessment.

The Atlantic seaboard property contains an expensive coffee machine, which Ukuthula had given Boitumelo on 31 March 2020, as a distribution of a *dividend in specie*. The coffee machine, which was used by Ukuthula in its barista training facility, had a cash cost of R18 999 when it was purchased on 1 April 2019. The coffee machine had an open market value of R13 999 on 31 March 2020. The coffee machine is considered to be kitchen equipment.

5 Lajuba land

Boitumelo was the owner of 150 ha of undeveloped land in Lajuba, Mpumalanga, until August 2018. Boitumelo inherited the Lajuba land from her father in 2017, when its market value was R3 million. Boitumelo intended to hold this land for long-term investment purposes.

In May 2018, GOAT (Pty) Ltd ('GOAT') made a purchase offer to Boitumelo for a portion of her land. GOAT is the owner of a game reserve on land adjacent to her Lajuba property. It wanted to use 100 ha of Boitumelo's 150 ha to expand its existing game reserve camp site, to provide community housing and build a new community centre.

To facilitate the transaction, Boitumelo incorporated a realisation company, Origins (Pty) Ltd ('Origins'), on 1 June 2018. Origins was to acquire the entire 150 ha of Lajuba land from Boitumelo, in an asset-for-share transaction in terms of section 42 of the Income Tax Act. Origin's purpose was to realise the Lajuba land to the best advantage of the company. Boitumelo was to be the sole shareholder of Origins. The transfer of the 150 ha of land from Boitumelo to Origins was registered at the Deeds Office on 15 August 2018, at which date its market value was R19,5 million.

GOAT offered Origins a purchase price of R13 million for the 100 ha and the sale agreement was concluded in September 2020. At the time that the sale agreement was concluded, the market value of the 150 ha of land was R18 million.

In December 2020, Origins and GOAT entered into a contractual arrangement to develop the remaining 50 ha of Lajuba land still owned by Origins into a mixed-use residential and commercial development for sale. By 30 June 2021, the financial year end, Origins had incurred expenditure of R2 million in developing and marketing the land for sale and earned R12 million from the sale of residential units.

6 Other information

- On 14 April 2020, Boitumelo purchased a desktop monitor for R6 000 from the OTL online website store. The cost price of the desktop monitor was R4 000 to OTL. Boitumelo used this desktop monitor in her home office from 15 June 2020.
- Boitumelo also incurred deductible expenditure of R32 000 relating to her home office for the period from 1 April 2020 to 28 February 2021.
- OTL and Ukuthula only transact with VAT vendors, unless indicated otherwise.
- All amounts provided are inclusive of VAT, where relevant, and in all cases OTL and Ukuthula obtained valid VAT invoices.
- Boitumelo and Lesedi are not registered VAT vendors.



MONETARY CHANGES – ITC 2022

Applicable in respect of years of assessment commencing **on or after 1 March 2020 (i.e. 2021 year of assessment)** – *unless specifically stated otherwise.*

REBATES (section 6)	2020	2021
Primary rebate	R14 220	R14 958
Secondary rebate	R7 794	R8 199
Tertiary rebate	R2 601	R2 736

MEDICAL CREDITS (section 6A)	2020	2021
Benefits to the taxpayer	R310	R319
Benefits to the taxpayer and one dependant	R620	R638
Benefits to each additional dependant	R209	R215

TRAVEL ALLOWANCE (section 8(1))	2020	2021
Cost limitation of vehicle (section 8(1)(b)(iiiA)(bb))	R595 000	R665 000

SERVICES OUTSIDE THE REPUBLIC (section 10(1)(o))	2020	2021
Exemption limitation (section 10(1)(o)(ii))	n/a	R1 250 000
Full days requirement (section 10(1)(o)(ii)(aa))	183 days	117 days

TAX FREE INVESTMENTS (section 12T)	2020	2021
Annual contribution limitation (section 12T(4)(a))	R33 000	R36 000

RESIDENTIAL ACCOMMODATION (para. 9 of the Seventh Schedule)	2020	2021
Symbol B	R79 000	R83 100

RATES OF NORMAL TAX: Small business corporation (as defined in section 12E) in respect of years of assessment ending on or after 1 April 2020	
Taxable income (R)	Rate of tax
0 – 83 100	0% of taxable income
83 101 – 365 000	7% of the amount above R83 100
365 001 – 550 000	R19 733 + 21% of the amount above R365 000
550 001 and above	R58 583 + 28% of the amount above R550 000

RATES OF NORMAL TAX: Natural persons and deceased estates (in respect of the taxable income (excluding any retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit or severance benefit))	
Taxable income (R)	Rate of tax
0 – 205 900	18% of taxable income
205 901 – 321 600	R37 062 + 26% of the amount above R205 900
321 601 – 445 100	R67 144 + 31% of the amount above R321 600
445 101 – 584 200	R105 429 + 36% of the amount above R445 100
584 201 – 744 800	R155 505 + 39% of the amount above R584 200
744 801 – 1 577 300	R218 139 + 41% of the amount above R744 800
1 577 301 and above	R559 464 + 45% of the amount above R1 577 300

TRAVEL ALLOWANCE			
Value of the vehicle (R)	Fixed cost (R/p.a.)	Fuel cost (c/km)	Maintenance cost (c/km)
0 – 95 000	31 332	105,8	37,4
95 001 – 190 000	55 894	118,1	46,8
190 001 – 285 000	80 539	128,3	51,6
285 001 – 380 000	102 211	138,0	56,4
380 001 – 475 000	123 955	147,7	66,2
475 001 – 570 000	146 753	169,4	77,8
570 001 – 665 000	169 552	175,1	96,6
Exceeding 665 000	169 552	175,1	96,6

ALTERNATIVE FIXED RATE FOR CERTAIN REIMBURSIVE TRAVEL ALLOWANCES	2020 (c/km)	2021 (c/km)
Simplified method	361	398

AMOUNTS DEEMED TO HAVE BEEN ACTUALLY EXPENDED ON MEALS AND INCIDENTALS COSTS	2020	2021
Local travel		
Allowance for incidental costs only (per day)	R134	R139
Allowance for meals and incidental costs (per day)	R435	R452
Overseas travel		
Amounts listed in the Regulation in the SAICA Student Handbook for the different countries remained unchanged.		

TRANSFER DUTY (Section 2(1)(b) of the Transfer Duty Act) In respect of acquisition of property on or after 1 March 2020	
Value of property (R)	Rate
0 – 1 000 000	0%
1 000 001 – 1 375 000	3% of the value above R1 000 000
1 375 001 – 1 925 000	R11 250 + 6% of the value above R1 375 000
1 925 001 – 2 475 000	R44 250 + 8% of the value above R1 925 000
2 475 001 – 11 000 000	R88 250 + 11% of the value above R2 475 000
11 000 001 and above	R1 026 000 + 13% of the value above R11 000 000

VALUE-ADDED TAX RATE: 15% from 1 April 2018 (before this date the rate was 14%).

INITIAL TEST OF COMPETENCE, JANUARY 2022

PROFESSIONAL PAPER 2

PAPER 2 QUESTION 2 – REQUIRED		Marks	
		Sub-total	Total
(a)	Discuss the normal tax consequences for Boitumelo for her 2021 year of assessment of –		
	(i) the sign-on incentive from KicksZA;	5	
	(ii) the forfeitable share awards she received from OTL; and	5	
	(iii) the Atlantic seaboard property (using all the information provided in section 4), with supporting calculations.	7	17
(b)	Calculate Boitumelo’s taxable income for her 2021 year of assessment, excluding the information in section 4.	11	
	<ul style="list-style-type: none"> Clearly indicate all items that have a nil effect and provide a brief reason for each of these items only. <p><i>Communication skills – layout and structure</i></p>	1	12
(c)	Advise Lesedi which of the two transport arrangement options available to her as part of her employment package at Ukuthula would result in her having the highest after-tax cash flows for her 2021 year of assessment.	13	
	<ul style="list-style-type: none"> Base your answer on cash flows after the tax return has been submitted by the taxpayer and any appropriate refunds received from the South African Revenue Service. <p><i>Communication skills – logical argument</i></p>	1	14
(d)	Discuss the gross income consequences for Origins relating to the Lajuba land sales made during the 2021 year of assessment.	7	
	<ul style="list-style-type: none"> Ignore VAT. 		7
Total for question 2			50
TOTAL FOR THE PAPER			100