Part (a)	**Calculate the taxable income of ZI for the 2018 year of assessment, starting with the taxable income calculated by the accountant and taking into account the information provided in the accountant's notes (transactions 1 to 5).** **Provide reasons to support calculations for the tax treatment applied.**			**Marks**
			R	
Transaction 1: Taxable income as determined by the accountant			9 740 000	
1.1	Rental income of R20 000 per month was **not received nor accrued** in terms of the gross income definition as the contract is subject to a suspensive condition.		nil	1
	ALT: it could be argued that the rental contract provided **an unconditional entitlement** to the taxpayer from 1 December 2018 ito the gross income definition.		20 000	1
	Lease premium: total amount to be included in terms of *par. (g) of 'gross income'* definition		60 000	1
	Section 11(h) could permit ZI to claim **an allowance** on the lease premium inclusion in gross income, subject to the Commissioner's consent			1
1.2	Shoes**: cost of manufacturing** allowed as a tax *deduction* under *s11(a)*		(1 200)	1
	When shoes were transferred from **manufactured stock to capital** (exhibition asset), *par (jA) of the gross income* definition will apply and there will be no recoupment under s22(8).		nil	1
	Shoes from exhibit to organisation**:** *s22(8)* **recoupment** @ **market value** as it was a donation to an organisation that is not a PBO. *If s22(8)(C) used, no mark*.		**3 500**	1
1.3	Lease rentals s11(a) deduction incurred during the 2018 year (R2 275 x 6 months)		(**13 650**)	1
1.4	Lease: *S8(5)* recoupment = market value of R12 500, less purchase price R1 000**,**		**11 500**	1
	limited to amounts previously paid R2 275 x 48 = **R109 200**			1
	S11(e) allowance for the 2018 tax year on market value R12 500/3 x 6/12 =		(**2 083**)	1
	ALT: R12 500/3 years x 184/365 =		*(2 100)*	1
1.5	Learnership allowances *s12H:* NQF level 4 24-month			
	2018: Annual allowance @ R40 000 x 11		**(440 000)**	1
	2018: Learner who left after 6 months: R40 000 x 6/12		**(20 000)**	1
	2018: Completion allowance @ R40 000 x 11 x 2 *If stated that a period less than 24 months will be used because contract only registered on 1 April, mark will be allowed.*		**(880 000)**	1
1.6	Factory: **Repairs** allowed as a **special deduction** *under s11(d)*		(5 000 000)	1
	Improvement – capital in nature but **building** used in **process of manufacture** (*s13(1))* allowed at			1
	5% p.a. on R25 000 000 (no apportionment)		(**1 250 000**)	1
Transaction 2: Head office				
2	Cost of land – R5 million: no tax deduction in terms of s11(a) because **capital in nature** *nor capital allowance*		nil	1
	Cost of office building **–** R8 million: *s13quin allowance*: R8 000 000 x 5% (no apportionment)		**(400 000)**	1

Transaction 3: Factory equipment				
3	*S45* transaction ZI and SA1 are part of the **same group of companies** as there is *more than a 70%* holding (*80%*) as defined in s41, read with s 45.			1
	Tax effect: transferor sells the asset for proceeds equal to base cost and transferee acquires asset at same base cost. ZI acquires the asset at base cost equal to SA1's base cost.			
	Section12C allowance to **ZI**: As ZI is the transferee company thus s *45(3)(a)(ii)(aa)* allows R650 000 x **20%** (**not new and unused**). *Candidate could also state that SA1 could claim allowance as legislation use the word 'may'*.		(130 000)	1
	If seen as **new and unused** as its 'one and the same person, ZI can claim R650 000 x **40%**		(260 000)	1
Transaction 4: Loan from Mauritian subsidiary (TAC)				
4.1	*S24I(2) applies* as the taxpayer is a company and its an **exchange item:** debt.			1
	Loan of USD2,5million**:** advanced on **31/12/2017**			
	Spot rate on 1/12/2017 less spot rate 31/12/2017			
	Exchange gain = USD2 500 000 x (**13,0 – 12.3**)	**0,7**		1
	Exchange gain added to taxable income		1 750 000	1P
	The **asset** funded by the loan was **only brought into use in 2018,** (*s24I(7)).*			1
	31/12/2018			
	Spot rate on 31/12/2017 less spot rate 31/12/2018			
	Exchange loss = USD2 500 000 x (**12.3-13.9**)	**–1,6**		1
	Exchange loss deducted from taxable income		(4 000 000)	1P
	Interest on loan: s31 transfer pricing adjustments**:** s 31 applies as this is an affected transaction: it is between **a resident and non-resident** (*cross-border*); who are **connected persons**			1
	The **interest rate** of 15% is **highe**r than the **arm's length rate (**4%), thus taxable income must be calculated as if its arm's length			1
	which gives rise to a **tax benefit** for ZI due to the interest deduction; and			1
	Calculation: S24J deduction for interest based on **spot rate** on 31/12/18 (read with s25D)	**13,9**		1
	Interest deduction (*s 24J(2)*) = USD2 500 000 x 15% =USD375 000 x 13,9		(5 212 500)	1
	Primary adjustment*: interest deduction disallowed* – excessive interest rate on acceptable debt of USD2,5 million			
	Interest rate adjustment (15% – 4%) (*mark awarded for calculating the difference*)	**11%**		1
	Interest adjustment = USD2,5 million x 11% x 13,9		3 822 500	
	Alt: As interest incurred on a day to day base the **average rate** of R13 could have been used (s24J)	**13**		1
	Interest deduction (s 24J(2)) = USD2 500 000 x 15% = USD375 000 x 13		(4 875 000)	1
	Interest rate adjustment (15% – 4%) (*mark awarded for calculating the difference*) Interest adjustment = USD2,5 million x 11% x 13	**11%**	3 575 000	1
	Exchange item: interest payable on 31/12/2018, the **transaction date** is the **same** as **translation date**: no **exchange difference** in 2018.			1

4.2	<u>Delivery vehicle sale from SA2 to ZI</u> – SA2 and ZI are **'connected persons'** as defined in s1 as ZI holds *more than 50%* of the shares in SA2.			1
	ZI may claim a s11(e) allowance on the vehicle, based on the reasonable value according to the Commissioner. As it's a connected person, market value ought to be used			
	ZI's allowance is therefore R300 000**/**4 X 7/12 <u>or</u>		(43 750)	1P
	Alt: R300 000 /4 years x 214/365 days =		(43 973)	1P
Transaction 5: Mauritian branch				
	The branch is a **permanent establishment in Mauritius** as it is a fixed place of business through which the business of the enterprise is wholly or partly carried in terms of section 5 of the DTA			1
	As ZI is a **resident** gross income includes both SA and non-SA source receipts and accruals (taxed on **worldwide income**). The branch profit must be included in ZI's taxable income.			1
	Article 7 of the **DTA** classify income as business profits and provide **taxing rights to both** South Africa and Mauritius. Therefore, the Mauritian branch profits will be **taxed in SA**.			1
	Average exchange rate for the year of assessment (MUR1 = ZAR) in terms of *S25D(2),* functional currency of the permanent establishment	**0,3875**		1
	<u>Taxable income</u> to be included in ZI's SA taxable income (**MUR6 000 000** x 0,3875) =		2 325 000	1P
	2018 taxable income		319 317	
			Available	**40**
			Maximum	**36**
			Communication skills – clarity of expression; layout and structure	*2*
			Total for part (a)	**38**

Part (b)	**Discuss the VAT implications for ZI with regard to transactions 1.1 to 1.3 and 2 in the scenario.**		**Marks**
1.1	***Sub-lease***	**R**	
	Lease premium: **output tax** (R60 000 x 15%) in December 2018	9 000	1
	Time of supply: earlier of payment or invoice, therefore **1 December** 2018 when *payment was received*.		1
1.2	***Asset donated to a non-profit organisation***		
	The donation of trading stock will result in an **output tax adjustment** in terms of *section 18(1)* from taxable supplies to non-taxable supplies *ALT: The donation itself is at **no consideration***		1
	on market value (exclusive of VAT) of (**15%** x R3 500) (or open market value *(inclusive of VAT)* ***15/115*** *x R3 500 = R457*	525	1
	ALT: therefore no VAT implication		
	Time of supply: on *date of donation*: **30 November 2018**		1
1.3	***Operating lease***		
	ZI may deduct **input tax** credits on each **lease payment** (R2 275 x 15%) *ALT: or (R341 x 6)*	(341) *(2047)*	1
2	***Acquisition of land and erection of building***		
	Land acquired from a non-vendor**:** ZI would have paid transfer duty on the acquisition ZI would have claimed **notional input tax** *(deemed input tax)* as the land would be used for the purpose of making taxable supplies, provided that		1
	• ZI would have been required to have the **required documentation** (per s16(2) and s20(8)) to support the notional input tax credit; and		1
	• ZI would be entitled to the input tax credit if: • -the land has been **registered** in its name in the Deeds office and • -to the **extent that ZI had paid for the land**		 1 1
	Notional input tax credit (on **lower of consideration or OMV** (not provided) thus **R5 million x 15/115**	**(652 174)**	1 1
	Input tax credit on **cost** of erection of office building = *R8 million x 15%*	(1 200 000)	1
		Available	**13**
		Maximum	**9**
		Communication skills – appropriate style	***1***
		Total for part (b)	**10**
TOTAL FOR THE QUESTION			**48**