

<b>Part (a) Discuss the tax consequences of the information contained in Item 4 for Nama for the year of assessment ended 30 June 2019</b>		<b>Marks</b>
<b>1. General</b>		
1.1	The deduction for the payment of shares, rental expense and interest must be considered in terms of the general deduction formula as set out in <i>section 11(a)</i> , read together with <i>section 23(g)</i> of the Income Tax Act.	1
1.2	In terms of <i>section 102 of the Tax Administration Act</i> , the onus of proof is on Nama to prove that the equity shares, rental and interest are deductible	1
<b>2. Purchase of the equity shares in Landic</b>		
2.1	The purchase price of R4,3 million for the equity shares is capital in nature as the intention is to add to the income earning structure of Nama and incurred to produce dividends which are not income as defined ( <i>s23(f)</i> ) of the <i>Income Tax Act</i>	1
2.2	Therefore, the purchase price of R4,3 million for the equity shares will not be deductible in terms of <i>s11(a)</i> .	1
2.3	The amount of R4,3 million will form part of the base cost of the shares in terms of par (20) of the Eight Schedule.	1
2.4	VAT effect: Nama (Pty) will not be able to claim any input tax as they acquired the shares, as a financial service ( <i>s2(1)(d)</i> of the VAT Act) which is an exempt supply.	1
2.5	Nama will not be liable for Securities Transfer Tax as they acquired privately held shares in Landic (Pty) Ltd.	1
<b>3. Loan from Squared Bank</b>		
3.1	Receipt of R4,3 million loan does not have tax consequences as it is capital in nature and not a receipt of gross income.	1
3.2	As the purchase of shares will result in the receipt of exempt dividends, the <i>s24J(2)</i> interest deduction will not be available as the expenditure is not in the production of the income ( <i>s23(f)</i> ).	1
3.3	The incurral of interest in respect of debts deemed to be in the production of income ( <i>S24O</i> ) will apply if the following requirements are met:	1
3.3.1	Nama incurred interest on the loan to acquire equity shares in Landic.	1
3.3.2	At the date of acquisition Landic was not the same group of companies as Nama	1
3.3.3	Landic is an operating company as defined because 100% (more than 80%) of rental receipts constitutes income	1
3.3.4	Landic carries on a business continuously through providing the use of the storage facility and land;	1
3.3.5	After the acquisition of 100% (more than 70%) of Landic, Nama becomes the controlling co and Landic and Nama will form part of the same group of companies;	1
3.3.6	Therefore, as the requirements of <i>s24O(2)</i> are met, the interest expense of R85 000 will be deemed to be in the production of income and expended for the purposes of trade.	1
3.3.7	The interest expense of R85 000 is deductible in terms of <i>s24J(2)</i> .	1

	<b>Alternative</b>	
3.3.3	<i>It is not clear from the information that more than 80% of Landic's receipts constitute income.</i>	1
3.3.4	<i>It is not clear from the information that Landic has been carrying on a business continuously.</i>	1
3.3.5	After the acquisition of 100% (more than 70%) of Landic, Nama becomes the controlling co and Landic and Nama will form part of the same group of companies.	1
3.3.6	<i>Therefore, as the requirements of s24O(2) are not met, the interest expense of R85 000 will not be deemed to be in the production of income and expended for the purposes of trade.</i>	1
3.3.7	<i>The interest expense of R85 000 will not be deductible in terms of s24J(2).</i>	1
3.5	VAT effect: Nama would not be able to claim any input tax on the interest expense", as the interest charged by Squared Bank is a financial service and therefore an exempt supply.	1
<b>4. Payment of monthly rental to Landic</b>		
4.1	The amount of R40 000 (R20 000 x 2 months) is not capital expenditure and incurred in the production of income as goods are sold to produce income as defined.	1
4.2	As such the payment of R40 000 will be deductible in terms of s11(a) for the year of assessment ending 30 June 2019.	1
4.3	Landic is not a VAT vendor, therefore Nama would not claim any input tax on the monthly rental, as no VAT would have been levied on the transaction.	1
<b>Available</b>		<b>21</b>
<b>Maximum</b>		<b>12</b>
<i>Communication skill – logical argument</i>		<i>1</i>
<b>Total for part (a)</b>		<b>13</b>

<b>Part (b) Calculate the taxable income of Nama for the year of assessment ended 30 June 2019 based on all the available information provided in items 1 to 5.</b>					<b>Marks</b>
<b>Taxable Income of Nama for the year of assessment ending 30 June 2019</b>					
			<b>Amount</b>		
<b>ITEM</b>	<b>Calculations</b>	<b>R</b>	<b>R</b>	<b>R</b>	
Taxable income excluding presented information			VAT effect Alternative	15 604 000	
<b>S13(1) Allowance on old factory</b>	R13 300 000 x 5% R13.3 x 100/114 = R11 666 667 X 5%		(R583 332)	(665 000)	1
<b>Recoupment on disposal of old factory</b>	<b>Proceeds</b> (R14 950 000 x 100/115), <b>Limited to:</b> R13.3m or R11.667 <b>Less tax value</b> (R13 300 000 or R11 666 667 x <b>14/20</b> <b>Recoupment</b>	<b>13 000 000</b>	<b>11 666 667</b>		1
		<u>9 310 000</u>	<u>8 166 667</u>		1
		3 690 000	<u>3 500 000</u>		

<b>S12C allowance on old machinery</b> (2 <sup>nd</sup> hand-goods rule for VAT)	600 000 X <b>100/115</b> (less R78 261) x <b>20%</b>	521 739			1
				(104 348)	1
S11(o) on disposal of <b>old machinery</b> Cost less [Sum of: Sales price + Capital allowances claimed.	Cost: R521 739 Less the sum of" <b>R200 000</b> (R230 000 x <b>100/115</b> ) + <b>R104 348</b>	(304 348)		(217 391)	1P
					1
S13(1) Allowance on <b>new factory</b> With <b>13(3) adjustment</b>	(R12 500 000 – R3 690 000) or <b>R10 869 565</b> (12.5m x 100/115) – R3 500 000)	x <b>5%</b>	<b>(368 478)</b>	(440 500)	1P 1
<b>Fine for contravening building regulations</b>	<b>R100 000 prohibited deduction</b> ito s 23(o)(ii)			nil	1
S13sex on <b>residential accommodation</b> for workers	R840 000 x 20 x <b>55%</b> = R9 240 000 x <b>5%</b>			(462 000)	1 1
<b>Rental Income</b>	20 x 3 000 x 2			<b>120 000</b>	1
<b>Rental expense</b> (ICA as defined) – s 11(a)	<b>VAT</b> (R575 000 x 15/115) Monthly amount (R75 000/60)	75 000 <b>1 250</b>			1
	(R15 000 – R1 250) x <b>2</b>			(27 500)	1P
<b>S240 expenditure</b> – from discussion				(85 000)	1P
S11(a) rental expenditure for <b>storage facility</b> – from discussion				<b>(40 000)</b>	1P
<b>Capital gains tax</b>					
<b>Old factory</b>					
Proceeds	R14 950 000 x 100/115	13 000 000	<b>13 000 000</b>		
<b>Less: Recoupment</b>		<u>(3 690 000)</u> 9 310 000	<u>(3 500 000)</u> 9 500 000		1P
Par. 20 expenditure	R665 000 x 6	13 300 000	<b>11 666 667</b>	nil	
Less: Allowances	R583 333 x 6	<u>(3 690 000)</u> 9 310 000	<u>(3 500 000)</u> 8 166 667		1P
Base cost as defined					
<i>Capital gain</i>			<b>1 333 333</b>		
<i>Inclusion at 80%</i>			<b>1 066 666</b>		
<b>Old machinery</b>					
Proceeds	R230 000 x 100/115	<b>200 000</b>			1P
Para 20 expenditure		521 739			
Less Allowances		(104 348)			
Less s11(o)		(217 391)			1P
Base cost as defined		200 000		nil	

Taxable income				13 682 261	
				<b>Available</b>	<b>23</b>
				<b>Maximum</b>	<b>21</b>
				<b>Total for part (b)</b>	<b>21</b>

<b>Part (c) Discuss whether the spend to rebuild the wall mentioned in item 6.2 would be deductible for income tax purposes in respect of Nama's year of assessment ended 30 June 2020.</b>		<b>Marks</b>
<b>For purposes of answering part (c) of the question, assume that information provided in the 2018/2019 SAICA Legislation Handbook is correct and applicable despite the company having a 30 June 2020 year end.</b>		
<b>Deductibility of expenditure</b>		
1.1	Section 11(d) needs to be considered to determine if the R500 000 expenditure is in respect of a repair.	1
1.2	In order to qualify as a repair:	
1.2.1	The wall has been restored to its original condition; it was unstable due to damage caused by the tractor hitting it. There is no mention of improvement.	1
1.2.2	The fact that R500 000 is the more expensive quote does not change that the R500 000 has been actually incurred and not necessarily incurred for the purposes of Nama's trade.	1
1.2.3	Therefore, the R500 000 would be repairs and deductible in terms of s11(d) for the year of assessment ended 30 June 2020.	1
<b>Available</b>		<b>4</b>
<b>Maximum</b>		<b>4</b>
<b>Total for part (c)</b>		<b>4</b>
<b>TOTAL FOR PART I</b>		<b>38</b>