# Deductions idends OME MONEY

## N6 Income Tax 2020/2021

To be used in the 2022 academic year Lecturer Guide

André Neethling

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# Deductions

Module 1

## **Overview of income tax**

#### After completing this module, students should be able to:

• give a short overview of the Income Tax Act;

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- distinguish between direct and indirect taxes;
- name the types of taxes levied in South Africa and briefly describe each type of tax;
- briefly describe the background as to how government applies tax revenue;
- give a schematic presentation of the taxation system;
- describe the procedure of calculating tax;
- understand the process from registering as a taxpayer to the issuing of an assessment; and
- explain the remedies when a taxpayer disagrees with the outcome of his/her assessment.



- 1.1 The Income Tax Act No. 58 of 1962, as amended
- 1.2 February
- 1.3 Changes to the Act have to be made on a regular basis. This is done every year during the budget speech by the Minister of Finance in Parliament. These are called amendments to the Act. The National Treasury, by means of the Department of Finance under the auspices of the Minister of Finance, combines all the income and expenses in one document called the budget speech. In his speech, the minister then outlines the revenue from which government will fund its expenses. The income is levied by means of taxes. The budget speech outlines the budget of government for the year.
- 1.4 The Minister of Finance
- 1.5 1 March to 28/29 February
- 1.6 Normal tax (payable by individuals and other types of taxpayers and includes capital gains and losses), donations tax (on assets transferred by taxpayers), dividends tax (on dividends on shares paid by companies to their shareholders), withholding taxes (on income received by non-residents) and turnover tax (certain types of taxpayers on their turnover)
- 1.7 South African Revenue Service
- 1.8 If you enter into a transaction to acquire a service or product If you enter into a transaction you will receive goods or services to consume. If you do not enter into a transaction, you will not receive any goods or services, therefore no consumption takes place on your side. A tax will therefore be paid on the consumption of goods and services.

#### 1.9 Normal tax

This is a tax that is levied on taxable income.

#### Capital gains tax (CGT)

This tax is levied when a person sells (disposes of) certain capital assets.

#### Pay-as-you-earn (PAYE)

This tax is deducted from a taxpayer's remuneration.

#### Provisional tax

This tax is deducted from a taxpayer's income other than remuneration.

#### Estate duty

Estate duty is levied on the net value of a natural person's estate after his/her death. **Donations tax** 

As opposed to estate duty, donations tax is levied on the transfer of assets by a taxpayer while still alive.

#### Transfer duty

This tax is payable by all persons on the transfer of fixed property situated in South Africa.

#### Turnover tax

Turnover tax applies to all micro-businesses with a 'qualifying turnover' that does not exceed R1 million per year of assessment.

#### Tax on retirement funds

When you retire or resign, a fund will pay you a lump sum benefit, which will be taxed. **Dividends tax** 

A company declaring a dividend in cash to a shareholder must withhold 20% tax on the dividend before paying it to a shareholder.

Value-added tax (VAT) This is an indirect tax that is levied at 15% on all transactions of goods and services in South Africa. **Customs duty** This is a tax levied on the import of goods into South Africa. Excise duty Excise duty refers to a tax on locally manufactured goods. 1.10 The following taxes are collected by SARS, but they are not responsible for the administration thereof: **Unemployment Insurance Fund (UIF)** The Department of Labour is responsible for the administration and payment of benefits to employees who qualify. **Skills Development Levy** The Department of Labour is responsible for the administration of the Act. Air passenger tax This tax is only levied on international travel from a South African airport. **Environmental levies** Carbon dioxide  $(CO_2)$  emission levy Plastic bag levy The reason for the introduction of this tax was to help curb the use of plastic bags and to protect the environment from litter. Tyre levy Sugar tax

- 1.11 General deductions and other specific deductions in terms of the Income Tax Act Retirement annuity fund contributions Plus capital gains Donations
   = Taxable income
- 1.12 Foreign tax rebate (Sect 6 Quat)
- 1.13 Primary rebate Secondary rebate (over 65) Tertiary rebate (over 75) Medical tax credits Additional medical expenses credit
- 1.14 Objection Appeal Tax board Tax court Provincial division of the high court Supreme Court of Appeal

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#### Module 2

## **Personal income tax**

#### After completing this module, students should be able to:

- provide a background as to how the tax of an individual is calculated;
- differentiate clearly between the following concepts:
  - normal tax

ICAS

- marginal rate of tax
- average rate of tax
- earnings
- income
- foreign income
- capital income;
- differentiate between capital income and other income; and
- do simple calculations according to the reduction process.



2.1	Taxable income (given)		265 821
	Normal tax per tables		
	Taxable income	265 821	
	Less minimum of specific tax scale	<u>205 900</u>	
	Difference $\times 26\%$	59 921	15 579
	Add fixed amount according to specific category		<u>37 062</u>
	Normal tax per tables		52 641
	Less rebate		25 893
	Primary		14 958
	Secondary (over 65)		8 199
	Tertiary (over 75)		2 7 3 6

Net normal tax liability

2.2 If a taxpayer's taxable income is less than the tax threshold, he/she will not pay tax in South Africa. To arrive at the tax threshold, you need to divide the primary rebate by the lowest rate of tax for a person under 65. Thus, 14 958 divided by 18% 83 100

2.3Taxpayer over 65Primary rebate14 958Secondary rebate8 199Total23 157Divide by lowest rate of tax, 18%128 650

		Module 2 •	Personal i	ncome tax	
2.4	Taxable income SA Foreign taxable income			328 985 <u>56 000</u> 384 985	
	Normal tax per tables Taxable income Less minimum of specific tax scale Difference × 31% Add fixed amount according to specific category Normal tax per tables Less rebate	384 985 <u>321 600</u> 63 385	19 649 <u>67 144</u>	86 793 37 394	
	Primary Medical tax rebate Taxpayer First dependant (Child 1) Second dependant (Child 2) Per month × 12 for the year Additional medical expenses tax credit (only shown for calcu Qualifying medical expenses (given) <u>Add</u> Excess medical scheme contributions Calculation of excess medical scheme credit Actual contributions (given) R1 245 × 12 Medical scheme tax credit times four	319 319 215 853 Ilation purposes) 14 940	14 958 10 236 0 0		
	(under Deduct 65) times four <u>R10 236 =</u> No further calculation needed Foreign tax rebate Net normal tax Less pre-paid taxes Employees' tax Provisional tax Tax liability (amount due to SARS)	40 944	0 12 200 22 500 5 600	49 399 28 100 21 299	

<ul><li>2.5 Tax liability</li><li>Income (R380 000 + R24 000) [Note 2]</li><li>Taxable income. There are no other exemptions or decompositions.</li></ul>	ductions.		404 000	
Determine the category on the tax tables where 4	04 000 falls	[	404 000	
This is between R 321 600 and R 445 100				
By what amount does the taxable income exceed the st	tarting amount			
of the specific tax scale?				
Taxable income less starting amount of the tax scale is		l	321 600	
404 000 less 321 600			82 400	
Apply the specific rate of tax, which in this case is 31%	0	ſ	255((22)	
31% times R 82 400			25 544,00	
Add the fixed amount from the table, which in this ca	se is		6/ 144,00	
Normal tax			92 688,00	
Less Rebates	1/050		44 636,21	
Primary Madical asheres from the sublit	14 958		14 958,00	
	210		10 230,00	
First dependent wife	319			
Additional dependant daughter	215			
Rebate per month	853			
Rebate per vear (month times 12)	10 236			
Additional medical expenses tax credit	10 290		19 442 21	
Qualifying medical expenses	Г	42 193	17 112,21	
$(R32\ 691\ +\ R9\ 232)$				
Add Excess medical scheme contributions		16 192		
46 900 less 30 708				
Calculation of excess medical schemes credit				
Actual contributions	46 900			
<b>Deduct</b> Medical scheme tax credit x three				
R 10 236 × 3 =	30 708			
The additional tax credit is 33.3% of this amou	nt	58 385		
(The total of qualifying medical expenses plus				
the excess medical schemes credit)				
33,30% × 58 385 19 442,21			(	
Net normal tax 92 688,00 less 44 636,21				
Less employee's tax		l	40 864,00	
Iax due by Mr Niekie			7 187,79	

#### Notes:

1. The payment for the two hearing aids will be a qualifying medical expense since the amount was necessarily incurred and paid for the taxpayer's child as a consequence of the child's physical disability.

2. The amount of R24 000 contributed by the employer represents a taxable fringe benefit. This amount must be included in gross income.

### Module 3 Gross income

#### After completing this module, students should be able to:

- explain the term 'gross income' and give the definition according to the Act;
- apply the principles as handed down in court cases pertaining to gross income;
- understand and apply the concepts of gross income;
- understand the concepts of accrual vs. received;
- indicate the conditions that must apply for capital amounts to be excluded from gross income;
- indicate the conditions for amounts to be included in gross income;
- demonstrate background knowledge of sections 7, 8 and 9 of the Act;
- explain that deductions previously allowed are to be included in gross income when they are recovered;
- identify and understand the specific inclusions as gross income; and
- understand the difference between a capital receipt and a receipt of revenue.

Activity 3

3.1.1	Т			
3.1.2	F	(Birth, death, insolvent period of assessment)		
3.1.3	Т			
3.1.4	F	(Other factors can play a role)		
3.1.5	Т	(In the hands of the taxpayer, not the agent)		
3.1.6	Т			
3.1.7	Т			
3.1.8	Т			
3.1.9	F	(Dividends from a South African source, irrespec	ctive of residency)	
3.2	Birth Death Insolvent Rehabilitated			
3.3	Place where one returns	to after one's natural wanderings		
	Where one's usual or pr	incipal place of residence is		
3.4	<ul> <li>Physically spent more than 91 days in aggregate during the current year of assessment in South Africa (more than 91 days in 2017) AND</li> <li>More than 91 days in aggregate in each of the preceding five years of assessment (More than 91 days in each of 2016, 2015, 2014, 2013 and 2012) AND</li> <li>More than 915 days in aggregate during the preceding five years of assessment (More than 915 days from 2012 to 2016)</li> </ul>			
3.5	Period in South Africa		Days	
	2021	1 Mar 2020 to 28 Feb 2021	365	
	2020	1 Mar 2019 to 28 Feb 2020	366	
	2019	1 Nov 2018 to 28 Feb 2019	120	
	2018	1 Mar 2017 to 31 Oct 2017	245	
	2017	1 Mar 2016 to 30 Jun 2016	122	
	2016	1 Jan 2016 to 28 Feb 2016	60	
	2016	only 60 days, not resident		
	2017	More than 91 days, but not in SA for 5 years	not resident	
	2018	More than 91 days, but not in SA for 5 years	not resident	
	2019	More than 91 days, but not in SA for 5 years	not resident	
	2020	More than 91 days, but not in SA for 5 years	not resident	
	2021	More than 91 days, but not 91 days in 2016	not resident	

## Module 4 Exemptions from gross income for an individual

#### After completing this module, students should be able to:

- apply the concepts of exemptions applicable to individuals;
- understand the conditions applicable for an exemption to be excluded from gross income;
- name and calculate certain exemptions;

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- demonstrate an understanding of the exemptions pertaining to investment income; and
- demonstrate an understanding of the exemptions pertaining to investment income where a couple is married in community of property

Activity 4.1

Gross income		300 000
Salary		234 000
Maintenance	(amount due and payable for 12 months)	24 000
Bursary		12 000
Interest		30 000
Less exemptions		59 800
Maintenance	(exempt)	24 000
Bursary	(must repay)	12 000
Interest		23 800
Income		240 200

180 000 1 020 000



4

### Activity 4.2

	1 200 000
R1,2m less 15% withholding tax	
15% final tax	180 000
Amount that should be paid to Mr Rapper by the promoters	1 020 000

No deduction for any expenses



## Activity 4.3

Gross inc	ome			1 058 000
C 1	ome			
Salary				900 000
Airfares (	fringe benefits)			36 000
Bonus				90 000
Interest (a	divide by two)	52 000/2		26 000
Dividend	s from			
Angola		12 000/2	Gross amount, before tax	6 000
Less exen	nptions			1 053 133
Salary	Sect 10(1)(o)(ii)		More than 183 days outside	
;	applies		RSA	900 000
Airfares (#	fringe benefits)		in calendar yr and more than	
			60	36 000
Bonus			continuous days outside RSA	90 000
Interest				
Dividend	s from			23 800
Angola				
	(25/45 × 12 000)/2	2		3 333
Income /	Taxable income			4 867

#### Activity 4.4

20

Hoosain Bold				
Gross income:				374 700
Salary (12 $\times$ R20	0 000)		]	240 000
Bonus				40 000
Foreign dividend	ls (2 000 / 2)			1 000
Foreign interest	((5 000 + 2 400)/2)			3 700
Local interest (6	0 000/2)			30 000
Rent (120 000/2	2)		l	60 000
Less: Exempt incom	e			30 556
Foreign dividenc	ls	$(1\ 000 \times 25/45)$		556
Foreign interest		No exemption		0
Local interest (R	34 500 limit to R30 000 incl	uded as gross inc.)		30 000
Income				344 144
Less: Deductions			r	27 000
Maintenance (1	repairs) on house being rented	out		9 000
Pension $(12 \times 1)$	R1 500)		l	18 000
Taxable income				317 144
<b>Normal tax per tabl</b> Taxable income	e on taxable income of	317 144		65 985,56
Less amount at	beginning of tax scale	205 900	37 062,00	
	Times 26%	111 244	28 923,56	
Less: Rebates				23 157,00
Primary				14 958,00
Over 65				8 199,00
				42 828,56
Net normal tax				
Less: Prepaid E	mployees' tax (R4 120 $\times$ 12)			49 440,00
Net tax liability	Amount due to taxpayer (Mr Bold)			- 6 611,44



	1 425 000
Gross income	
Salary	500 000
Ferrari (capital receipt)	0
Bursary	60 000
Uniform allowance	25 000
Bursary: Daughter	40 000
Bonus gold medal (included as he is a professional swimmer)	400 000
Inheritance (capital receipt)	0
Interest	400 000
Less: Exempt income	108 800
Bursary (has to repay if not completed)	60 000
Uniform allowance	25 000
Bursary: Daughter (his remuneration exceeds R400 000)	0
Interest	23 800
Income	1 316 200
Less: Deductions	65 000
Other expenses	35 000
Pension	30 000
Taxable income	1 251 200

Note: UIF (not an allowable deduction)

Activity 4.6

Gross income	729 500
Salary	380 000
Bursary Daughter – Xolani	75 000
Bursary Son – Bongi	28 000
Interest on tax fee account (4 000/2) Married in COP	2 000
Interest from wife on tax-free account (3 000/2)	1 500
Interest on investment at ABSA (44 000/2)	22 000
Royalties (fully taxable, he is a SA resident)	221 000
Less: Exempt income	120 500
Bursary (Remuneration proxy less than R600 000)	
Daughter, disabled, NQF, max is R90 000	75 000
Son, Grade 10, max is R20 000	20 000
Interest TFI (4 000 + 3 000)/2	3 500
Interest at ABSA (44 000/2) under 65	22 000
Income	609 000
Taxable income	609 000

#### Taxable income

No penalty on TFI investment, does not exceed maximum limit  $(R3\ 000 \times 12) = R36\ 000$ 

# Deductions

## roperty

**Module 5** 

## **Expenses of an individual**

#### After completing this module, students should be able to:

- understand and apply the concepts of the general deduction formula;
- indicate the conditions for general deductions to be allowed from income
- explain what is meant by practising a trade;
- have a basic understanding of what payments and expenses are taxdeductible;
- explain what expenses are deductible if only a trade is practised;
- understand that an expense must meet all the requirements of Section11(a) before it is tax-deductible;
- explain the circumstances where expenses are prohibited from being deducted from income;
- explain and calculate allowable deductions; and
- calculate taxable income by applying the knowledge gained regarding gross income, income, exemptions and deductions.

-		
	Activity	5

#### 5.1 Mr Everson

Gross income:	440 000
Salary (30 000 × 12)	360 000
SA dividends (20 000/2)	10 000
Local interest (80 000/2)	40 000
Rent (60 000/2)	30 000
Less: Exempt income	33 800
SA dividends	10 000
SA interest	23 800
Income	406 200

Less deductions 72 360 36 000 Rental expenses (72 000/2) 36 000 Taxable income before S 11F and 18A 370 200 Current retirement fund contributions 36 360 36 360 Pension fund 28 800 Retirement annuity fund 7 560 Determine the maximum deduction The lesser of R350 000 OR The higher of: Salary (Remuneration)  $27,5\% \times (remuneration)$ 360 000 99 000 OR 27,5%  $\times$  taxable inc. before S 11F and 18A 370 200 101 805 101 805 The higher of the two amounts is Apply the rules Are the contributions more or less than the amount calculated as maximum deduction? Actual contributions 36 600 Maximum allowable deduction limited to contributions 36 600 Taxable income 333 840

Ms Everson			
Gross income:		38	80 000
Salary (25 000 $\times$ 12)		30	000 000
SA dividends (20 000/2)		1	000 01
Local interest (80 000/2)		4	40 000
Rent (60 000/2)		3	30 000
Less: Exempt income		3	33 800
SA dividends		1	000 01
SA interest		2	23 800
Income		34	6 200
Less deductions		5	8 800
Rental expenses (72 000/2)		36 000 3	36 000
Taxable income before S 11F and 18A		310 200	
Current retirement fund contributions		22 800 2	22 800
Pension fund	21 00	0	
Retirement annuity fund	1 80	0	
Determine the maximum deduction			
The lesser of R350 000			
OR			
The higher of:			
$27,5\% \times retirement fund income$	300 000	82 500	
OR			
27,5% $\times$ taxable income before S 11F and 18A	310 200	85 305	
The higher of the two amounts is	85 30	5	
Apply the rules			
Are the contributions more or less than the amoun	t calculated as maximum dada	iction?	
Actual contributions	i calculated as maximum dedi	22 800	
Maximum allowable deduction limited to	contributions	22 800	
Taxable income	Contributions	22 000	7 400
		20	<b>100</b>

#### 5.2 Siyabonga

Gross income		332 800
Salary	256 000	
Bonus	25 600	
Commission	51 200	
<b>.</b>		222.000
Income Determine deductions		332 800
Determine deductions		
Deductions		25 460
Current retirement fund contributions	25 460	25 460
Pension fund - current year	21 120	
Not allowed in previous year	2 340	
Arrear pension fund - current year	1 600	
Arrear pension fund - previous year	400	
Determine the maximum deduction	332 800	
Salary 256 000	552 800	
Bonus 25 600		
Commission 51 200		
(Remuneration per definition)		
(remuneration per demittion)		
Determine the maximum deduction		
The lesser of R350 000		
OR		
The higher of:		
27,5% × 332 800	91 520	
OR		
Calculate taxable income		
27,5% × 332 800	91 520	
The higher of the two amounts is	91 520	
Apply the rules		
Are the contributions more or less than the amount calculated as maxi	mum deduction?	
Actual contributions	25 460	
Maximum allowable deduction limited to contributions	25 460	
	29 100	307 340
Taxable income before donations		007010
Calculate maximum for donations to be allowed		
10% of taxable income before donations		
10% × 307 340	30 734	1
Apply rule, limit maximum to be deducted to actual donation	30 000	30 000
Taxable income	<u> </u>	277 340

### 5.3

Gross income					428 000
Salary	Remuneration				180 000
Bonus	Remuneration				24 000
Commission	Remuneration				80 000
SA interest	Other income				80 000
Rental income	Other income				64 000
Exemptions					23 800
SA interest				Г	23 800
Income					404 200
Deductions					78 000
Entertainment: Is the	e commission more than 50%	of total remunera	tion?	Г	0
80 000/(180 000 + 8	$0\ 000 + 24\ 000) = 28\%$	No deduction			-
Rental expenses - See	ction 11(a)		_	28 000	28 000
Taxable Income befo	ore S 11F and 18A			376 200	
Current retirement fu	and contributions			50 000	50 000
Pension fund			20 000		
Retirement annuity fu	ınd		30 000		
Determine retiremen	t funding income		284 000		
Salary	C		180 000		
Bonus			24 000		
Commission			80 000		
Determine the maxim	num deduction				
The lesser of R350 0	00				
OR					
The higher of:					
27,5% × 284 000				78 100	
OR					
27,5% × taxable inc.	before S 11F and 18A	376 200		103 455	
The higher of the two	o amounts is		103 455		
Apply the rules					
Are the contributions	s more or less than the amoun	t calculated as ma	ximum deducti	on?	
Actual contributions				50 000	
Maximum allowable	deduction limited to contribu	itions		50 000	
Taxable income					326 200

#### 5.4

Gross income			
Salary	Remuneration	540 000	
Bonus	Remuneration	45 000	
Pension Fund Contributions (Fringe Benefit)	Remuneration	72 000	
Foreign Dividends	Other inc. divide by 2	1 800	
SA interest	Other inc. divide by 2	40 600	
Foreign interest	Other inc. divide by 2	2 000	
Rental income	Other inc. divide by 2	480 000	
House sold (capital receipt)			

Income
Foreign interest – no exemption
SA interest
Foreign dividends $(25/45 \times 1\ 800)$

24 800
1 000
23 800
0
724 600

Deductions			106 500
Rental expenses – Section 11(a)	(26 000/2)	13 000	13 000
Taxable income before S 11F and 18A		711 459	
Current retirement fund contributions		93 500	93 500
Pension fund – current contributions this year	72 000		
Pension fund – past contributions	1 900		
RAF Current year	12 000		
RAF Current n/a in previous year	4 500		
RAF Current year – reinstatement	2 500		
RAF Reinstatement n/a in previous year	600		
Determine retirement funding income	657 000		
Salary	540 000		
Pension fund contribution – fringe benefit	72 000		
Bonus	45 000		
Determine the maximum deduction			
The lesser of R350 000			
OR			
The higher of:			
Retirement funding			
27,5% × Income	657 000	180 675	
OR			
$27,5\% \times \text{taxable inc. before S 11F and 18A}$	711 600	195 651	
The higher of the two amounts is	195 690		
Apply the rules			
Are the contributions more or less than the amount	calculated as maximum deduc	ction?	
Actual contributions		93 500	
Maximum allowable deduction limited to contributi	ions	93 500	

Taxable income

### 5.5 Taxpayer younger than 65

Determine gross income		[	244 400
Salary (15 500 × 12)		186 000	
Add fringe benefit, employer's contribution to med	ical fund	9 600	
Accounting classes		19 500	
Inheritance (capital receipt)		0	
Sale of house (capital receipt)		0	
Foreign interest		3 700	
SA interest		25 600	
			22 800
Exemptions		22.000	23 800
Interest		25 800	
Income		]	220 600
Determine deductions before donations		ĺ	28 400
Allowable deduction against extra classes		2 000	2 000
Taxable income before S 11F and 18A		218 600	
Current retirement fund contributions			26 400
Determine retirement funding income	195 600		
Salary	186 000		
Medical fund contribution – fringe benefit	9 600		
Determine the maximum deduction			
The lesser of R 350 000			
OR			
The higher of:	105 (00	52 700	
2/,3% × Retirement Fund Income	193 600	55 /90	
OR	219 (00	(0.115	
2/,5% × taxable inc. before S 11F and 18A	218 000	60 113	
The higher of the two amounts is	00 11 )		
Apply the rules			
Are the contributions more or less than the amount	nt calculated as maximum dedu	ction?	
Actual contributions	26 400		
Pension fund	15 600		
Retirement annuity fund	10 800		
Maximum allowable deduction limited to	o contributions	26 400	
Taxable income before donations			192 200
Donations:	2 250		2 250
Allow university	1 500		
CANSA	750		
Not allowable – running assoc.	0		
Maximum is 10% × 192 200 = R19 220			
Limit to actual donation		ļ	
Taxable income			189 950

		F		
Tax per tables		Ļ	189 950	
		L	× 18%	34 191
Normal tax per tables				34 191
Less rebates				27 774,00
Primary			Γ	14 958
Medical scheme fees tax credit				12 816
Taxpayer		Γ	319	
First dependant - husband			319	
1st child			215	
2nd child			215	
Rebate per month		<b>–</b>	1 068	
Rebate per year (month times 12)		Γ	12 816	
1 068 times 12			8	
			12 816	
Additional medical expenses tax credit				0
Qualifying medical expenses (15 350 – 3 150)	12 200			
Add Excess medical scheme contributions	0			
Calculation of excess medical schemes credit		31 800		
Actual				
Contributions				
Self R1 850 $\times$ 12	22 200			
Employer R800 $\times$ 12	9 600			
<b>Deduct</b> Medical scheme tax credit times four R 12 816 times four =			51 264	
Subtotal		12 200		
Less 7,5% of taxable income 7,5% × 189 950		14 246		
Total			0	
The additional tax credit is 25% of this amount 25.00% times 0 0.00			ſ	
Net normal tax				6 417,00
Less prepaid taxes				3 600,00
Employees' tax			3 600	
Due by the taxpayer				2 817,00

# Deductions

## roperty

Module 6

## **Allowances and fringe benefits**

#### After completing this module, students should be able to:

- identify all fringe benefits;
- identify the recipients of fringe benefits;
- determine the value of all fringe benefits;
- indicate the conditions for a fringe benefit to be excluded from gross income, income and taxable income;
- identify all allowances that an individual taxpayer can receive from his/her employer;
- determine the value of all these allowances; and
- indicate the conditions for an allowance to be excluded from gross income, income and taxable income.



6.1	Gross income				521 979
	Salary $(37500 \times 12)$			Г	450 000
	Entertainment allowance (no deductions allowed, not com	nission)			24 000
	Medical fund contributions $(2500 \times 12)$				30 000
	Interest $(22\ 100\ +\ 5\ 500)/2$				13 800
	Company boat $(15\% \times \text{lowest of cost or market value}) \times \text{pe}$	eriod used			4 179
	15% × 620 000 × 31/365		7 899		
	Less Harry paid $(120 \times 31)$		3 720		
	Travelling allowance $(3\ 500 \times 12)$	·		42 000	0
	Less: Unspent portion of the travelling allowance			42 000	
	(14 000 km × total cost per km of R	84,316) =	R60 422		
	Limit to allowance received				
	Value of the vehicle	280 000			
	Fixed cost per table		80 539		
	Divide by total km		32 000	2,517	
	Fuel cost			1,283	
	Maintenance			0,516	
	Total cost per km			4,316	
	Multiply by business km (32 000 – 18 000)			14 000	
()					
0.Z	Calculate determined value of the ear			28/ 000	
Л	It was not purchased more than 12 months before the empl	0.149		384 000	
	acquired the right to use the vehicle no reduction of the val	lue			
	No maintenance plan $174000 \times 35\%$	13 440			
	Period used	19 110			39.019
	3 December to 31 December	13 440 × 28/31		12 139	57 017
	Month of January	19 110 / 20,91		13 440	
	Month of February			13 440	
				-0	
В	Loan of R28 000 $\times$ official rate of 7%	$(28\ 000 \times 7)$	$100 \times 1/12$	163	
	Less rate paid by employee	(28 000 × 3/	$100 \times 1/12$	70	
	Benefit per month	,		93	
	Period that benefit was enjoyed is 12 months		(R93 × 12)		1 120
С	If one assumes that the house is let at an arm's length transa	ction,			
	the benefit will be the rentals paid by the employer (5 500 >	× 12)		66 000	
	Less consideration paid by the employee			0	

OR The lower of the formula

	Formula: $(A - B) \times G$	$C/100 \times D/12$			41 123	
	А	325 000				
	В	83 100				
	С	17	less than 3 rooms			
	D	12				
	Less consideration p	aid by the emp	ployee		0	
	Answer is	41 123	The lower amount			
6.3						
Α			Taxpayer younger than 65			
	Determine gross in	come		i		408 000
	Salary				360 000	
	Add fringe benefit, e	mployer's con	tribution to the fund (R4 000 $\times$ 12)		48 000	
	Determine income					408 000
	No exemptions, the	same as gross	income and taxable income			(00.000
	Taxable income					408 000
	Taxable income less	starting amou	nt of the tax scale			321 600
	R408 000 less	R321 600	1 · 1 · · · · · · · · · · · · · · · · ·			86 400
	Apply the specific ra	te of tax, whic	in this case is 31%			26 70 6 00
	31% times	R86 400	-1-			26 / 84,00
	Add the fixed amoun	it from the tai	ble			07 144,00
	Loss rebatos					93 928,00 28 558 00
	Drimory					28 338,00
	Medical scheme fees	tax credit				12 816
	Wiedical scheme rees	Taxpaver		319		12 010
		First depen	dant - wife	319		
		1 st child		215		
		2nd child		215		
		Rebate per	month	1 068		
		Rebate per	year (month times 12)	12 816		
	Additional medical e	expenses tax cr	edit			784,00
		Qualifying	medical expenses (given)		13 000	
	Add	Excess med	lical scheme contributions	_	20 736	
		Calculatior	n of excess medical schemes credit	_	_	
		Medical fu	nd contributions (R6 000 $\times$ 12)	72 000		
	Deduct	Medical scl	neme tax credit times four			
		R12 816 ×	4 =	51 264		
	Subtotal			-	33 736	

	Less 7,5% of taxable	income	7,5% × 408 000	30 600	
	Total			3 136	
	The additional tax cr	edit is 25% of	the total of the medical expenses		
	and excess medical c	ontributions,	less 7,5% of taxable income		
	25,00%	×	3 136 = 784,00		
	Net normal tax				65 370,00
B	Formula: (A - B) $\times$ C	$1/100 \times D/12$		5 307	
	A	260 000	Last year's remuneration to be taken into account.		
	В	83 100			
	С	18	4 rooms plus electricity paid by employer		
	D	2	. , , , , , ,		
	Less consideration pa	id by employe	ee R500 × 2	1 000	
	Value of benefit for th	ne tax year (2	months)		4 307
С	Allowance (9 900 $\times$ 1	2)			118 800
-	Value of the vehicle	,		382 004	
	Actual costs			116 355	
		Wear and to	ear $382\ 004 \div 7 \times 12/12$ (full year)	54 572	
		Finance cha	irges	27 831	
		Fuel		17 952	
		Insurance		16 000	
		Capital repa	ayment (no deduction, the employee	0	
			claims wear and tear and finance charges)		
	Apply business kilom	etres to total l	kilometres travelled		
	Total km		17 340		
	Private km		6 530		
	Business km		10 810		
	10 810/17 340 × R1	16 355 (actua	l costs)		72 537
	Unspent portion of t	ne travelling a	llowance / taxable portion	I	46 263
			OR		
	Rate per km				
	Travelling allowance	$(9\ 900 \times 12)$			118 800
	Less unspent portion	of the travelli	ng allowance		100 398
	Value of the vehicle		382 004		
	Fixed cost per table is	:	123 955		
	Divide by total km 17	7 340	17 340	7,1485	
	Fuel cost			1,4770	
	Maintenance			0,6620	
	Total cost per km			9,2875	
	Multiply by business	km 10 810 ×	9,2875 = 100 398	10 810	

Unspent portion of the travelling allowance / taxable portion Use the lesser of the two R18 402

18 402

D	Calculate determined Cash cost of vehicle Add VAT at 15%	value of the ca	ar		619 900 92 940	712 540	
	It was purchased more	e than 12 mon	ths before the employee		)2)10		
	acquired the right to u	use the vehicle	, reduce by 15%				
	712 540 less 15% = 6	05 659					
	Maintenance plan, $\times$	3,25% pm		19 684	per month		
	Period used, October	to February is	5 months				98 420
6 4							
0.4 A	Calculate determined	value of the c	ar			359 000	
11	No maintenance plan	. × 3.5% pm	11	12 565	per month	555 000	
	Period used, Septemb	er to February	is 6 months	12 909	Per monu		75 390
		,					
B	If the accommodation	n was rented by	y the employer and it is an at a	rm's			
	length transaction, the	e lower of the	actual rental expenditure incur	red			
	by the employer or the	ne formula ma	y be used.				
					г		
	The benefit will be th	e rentals paid	by the employer			81 600	
	Add other costs paid I	by the employe	er (levies)			5 000	
	Less consideration pai	id by the empl	oyee		Į	0	96 (00
							80 000
	Formula: $(A - B) \times C$	$/100 \times D/12$					37 242
	A	290 000					
	В	83 100					
	С	18	(3 bedrooms, therefore more	than 3 room	s)		
			Furnished, electricity by emp	loyee			
	D	12					
	The lesser of the two	is	37 242				
6.5							
0.9	Travelling allowance i	s R10 200 × 1	2)			Г	122 400
	Value of the vehicle			288 000	]		
	Fixed cost per table				102 211		
	Divide by total km		(53 000 - 25 500)		27 500	3,717	
	Fuel cost					1,380	
	Maintenance					0,564	
	Total cost per km					5,661	
	Multiply by business	km			l	18 000	
	<b>.</b>						
	Deemed expenditure	per table				L	101 894
	Taxable portion of the	e allowance					20 506
	1						

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## Module 7 Prepaid taxes

#### After completing this module, students should be able to:

- explain the methods used by SARS to collect tax;
- explain when Pay-As-You-Earn (PAYE) must be deducted;
- calculate the remittance due to SARS;
- complete and issue the annual IRP5;
- complete an annual return for a person who earned a salary and who was granted fringe benefits;
- explain when a person becomes a provisional taxpayer;
- indicate the dates when payments must be made;
- do estimates and calculations; and
- do a tax calculation of an individual by means of a computer program and compare this to the manual calculation.



7.1.1	<b>Remuneratio</b> Salary Commission Medical fund Reimbursive t	<b>n</b> contributions paid by the employer ravelling, not remuneration, less than F	3,98 per km			<b>32 400</b> 25 000 4 200 3 200 0
	Less allowable Current retire	e deductions ment fund contributions			2,000	2 000
	Pension fund	- current contributions this month		2 000	2000	2000
	Determine re Salary Commission Medical fund	irement funding income contributions paid by the employer		32 400 25 000 4 200 3 200		
	Determine th	e maximum deduction				
	The lesser of I	R350 000 divide by 12 OR	29 167			
	27,5% ×	32 400	8 910			
	Apply the rule Are the contri	es butions more or less than the amount o Actual contributions Maximum allowable deduction lin	calculated as maxin nited to contributi	num deductio ons	on? 2 000 2 000	
		Balance of remuneration			L	30 400
7.1.2	Balance of re	muneration				30 400
	Annual equiv	alent of balance of remuneration		30 400	times 12	364 800
	Normal tax Per table on Less 31% ×			364 800 296 540 68 260	61 910,00 21 160,60	83 070,60
	Less rebates Primary			ſ	13 635	25 803
	Medical scher Employee 1st dependan 2nd dependar 3rd dependan	ne credit : (husband) nt (child) t (child)	1 014 303 303 204 204	× 12	12 168	
	Net normal e	mployees' tax for the year				57 267,60

#### 7.2 Calculate the basic amount

The latest assessment was received for the 2019 tax year.

The taxable income indicated is for more than a year before the current tax year, but is the first period more than 18 months after 28 February 2019? The answer is no. and the taxable income will not be increased by 8% for the tax year's first provisional payment.

The basic amou	nt is therefore	420 000
The basic amou	nt to be used for the first provisional payment is	420 000
Calculate the firs The taxable inco	st provisional payment me to be used (the basic amount)	420 000
Use the tax table Tax on Less	s to determine the normal tax due $ \begin{array}{r} 420\ 000 \\ 321\ 600 \\ 31\% \times 98\ 400 \\ 30\ 504,00 \end{array} $	97 648,00
Less rebate(s) Primary		14 958
Net normal tax		82 690,00
Net normal tax f Divide by 2	or the first six months (87 024,40 ÷ 2)	41 345,00
Deduct employe Maximum of	es' tax paid	17 500,00
	Employee's tax deducted by the employer R32 000	
	(assume this for the year, to arrive at 6 months divide by 2) R16 000	
	OR	
	Half of the employee's tax deducted to calculate the basic	
	amount (that is the 2019 tax year's taxable income)	
	R35 000/2 = R17 500	
First provisiona	l tax payment	23 845,00

**Note:** If the second provisional payment had to be calculated, the date of February 2021 would be more than 18 months before the date for which the second provisional payment of 28 February 2020 and the 8% additional calculations for the 2020 and 2021 years would have applied.

#### 7.3

Determine whether the estimate was less than 90% of the actual taxableincome as assessed for the current tax year. $90\% \times$  $413\ 000$  $371\ 700$ The estimate that Mr Peters has used was R360 000, which is lower than R371 000.

The basic amount is to be calculated on the latest taxable income received from SARS. That is per assessment for 2018 and amounts to R260 000. As this is more than a a year before the current tax year, and more than 18 months after 28 February 2018, 8% has to be added for 2019, 2020 and 2021 basic amount is (R260 000 + 28 480 + 28 480 + 28 480) = 345 440

The estimate is not lower than the basic amount. No penalty has to be imposed.

IF the estimate was **say R340 000**, it would have been lower than the estimate and a penalty must now be imposed. Determine the penalty. The penalty is the difference between the lesser of

90% of the normal tax on the actual taxable income		[	82 675,00
(90% × R413 000 = R371 700)			-
Taxable income	371 700		
Tables begins at	321 600	67 144	
Times 31%	50 100	15 531	
Less rebates - Primary		14 958	25 893,00
Secondary		8 199	
Tertiary		2 736	
·			61 602,60
OR			
The normal tax on the basic amount			
Normal tax on R345 440			67 392,00
Taxable Income	322 400		
Tables begins at	321 600	67 144	
Times 31%	800	248	
Less rebates – Primary		14 958	25 893,00
Secondary		8 199	
Tertiary		2 736	
			41 499,00
The lesser is			41 499,00
Deduct the			
provisional tax and employees' tax paid for the tax year			
(R32 000 + R26 000)			58 00,00
The difference is			-16 501,00

No penalty

## Activity 7

7.4					
	1	Remuneration excluding the annual payment			
		Salary 84 147		ſ	84 147
	2	Allowable deductions			17 655
		Retirement fund contributions			
		84 147 × 10.5%		8 835	
		$84\ 000 \times 10.5\%$		8 820	
		No UIF			0
		Balance of remuneration			66 492
	3	Employees' tax for June on remuneration excluding the bonus			
		Annual equivalent of remuneration excluding annual payment			7 <b>9</b> 7 899
		66 492 times 12		-	
		Normal tax per tables on	797 899		
		Less	744 800	218 139,00	
		41% x	53 099	21 770,50	239 909,50
		Less rebates		_	14 958,00
		Normal tax on annual equivalent excluding annual payment			224 951,50
		R224 951         divide by 12         18 745,96			
	4	The employees' tax on the bonus			
		Total Annual equivalent of remuneration			797 899,00
		Add: Annual amount received			84 000,00
		Total annual equivalent remuneration (including annual payment)		-	881 899,00
		Normal tax per tables on	881 899		
		Less	744 800	218 139,00	
		$41\% \times$	137 099	56 210,59	274 349,59
		Less rebates		_	14 958,00
		Net normal tax on annual equivalent (including remuneration and			259 391,59
		annual payment)			
		Employee's tax on Annual payment			
		259 391,59 less 224 951,50			34 440,09
	5	Employee's tax for the month			53 186,05
		Employee's tax for the month excluding annual payment		F	
		224 951,50 divide by 12 =			18 745,96
		Add employee's tax on annual amount		L	34 440,09
		(Rental income to be ignored, not remuneration)			

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## Retirement and resignation benefits

Module 8

#### After completing this module, students should be able to:

- explain and calculate the taxability of regular receipts as annuities from pension;
- calculate the exempt and taxable portion from single payments from pension and provident funds;
- determine the taxable portion received when resigning from pension funds;
- determine the taxable portion received when retiring from service;
- explain the payments received upon amounts received when retiring from service and amounts regarded as a golden handshake; and
- calculate the tax payable on retirement funds.

Module 8 questions

#### 8.1

-

Step 1	Use the formula	$Y = \underline{A \times C}_{B}$	
Step 2	A =	The original amount invested at the insurer 3.3 million times 2/3	2 200 000
Step 3	B =	Expected returns over the period of investment 15 185 times 18.04 years times 12 months	3 287 249
Step 4	C =	Amount received in the current tax year December to 28 February 3 months times 15 185	45 555
Step 5	Y =	2 200 000       ×       45 555         3 287 249       ×         Capital portion is       ×	30 488
Step 5		Actual amount received for the year	45 555
		Capital portion for the year	30 488
		Taxable amount for the tax year	15 067

#### 8.1.1

8.1.1	
Gross income	1 145 500
Salary (R28 000 × 10 months employed until December)	280 000
Interest	30 000
SA company dividends	134 000
Lump sum on resignation	633 000
Leave pay (amount for services rendered due to him in terms of his service contract, not a severance package)	68 500
Watch as long service award less than R5 000 excluded	0
Farewell gift, not gross income not received from employer, but as gift from colleagues	0
Exclude lump sum on retirements – to be taxed separately	633 000
Lump sum on retirement	633 000
Gross income excluding lump sums on retirement	512 500
Less exemptions	157 800
SA company dividends	134 000
Interest	23 800
Income	354 700
Less deductions	97 543
Deduction to provident fund	
Determine the maximum deduction	97 543
The lesser of R350 000	

OR

#### The higher of:

27,5% × remuneration	348 500	95 838
Salary	280 000	
Leave pay (amount for services	68 500	
rendered due to him in terms of his contract)		
OR		
Calculate taxable income before 11F and 18A as above		
Income 27,5% ×	354 700	
The higher of the two amounts is R97 543	354 700	97 543

Apply the rules

Are the contributions more or less than the amount calculated as maximum<br/>deduction?Actual contributions (12% salary of R280 000)33 600Contributions as yet not allowed<br/>(before the 2017 tax year, contributions to a provident fund were not allowed<br/>as a deduction)188 000Total contributions to be taken into account<br/>Less maximum allowable221 600Difference to be allowed as a deduction against taxable lump sum received124 058

Taxable income

257 157

50 388,69

#### Normal tax per tables (Appendix A)

Tax on		257 157		
Less minimum of scale		205 900	37 062,00	
Add 26% of difference	26%	51 257	13 326,69	
Normal tax			50 388,69	
Less rebates				14 958,00
Primary				14 958,00
Net normal tax due				35 430,69

## The second calculation will be the tax on the lump sums (Appendix C). Calculate the tax on the lump sum on resignation (withdrawal).

Lump sum benefit from provident fund on resignation	633 000
Less deduction against the lump sums (para 5 of the 2nd schedule) Provident fund contributions not allowed over period of membership and this year	124 058

Taxable portions of lump sums

508 942

Tax on lump sums per Appendix C	508 942	
Less	25 000	
18%	483 942	
Total amount of tax on the lump sum resignation benefits		87 109,47
The total amount of tax that Mr Dean will pay for the tax year is		125 144,36
Net normal tax		38 034,89
Withdrawal benefit fund tax		87 109,47

8.2 Appendix C: The taxpayer has resigned from her employment. She has not reached the normal retirement age and therefore it is seen as a withdrawal for tax purposes.

Calculate the tax on the lump sum on resignation (withdrawal)	
Lump sum benefit from provident fund on resignation	500 000
Less deductions against the lump sums (para 5 of the 2nd schedule)	0
All contributions were allowed over the period of her employment	0
Total contributions of 6% of cash salary is less than maximum of 27,5%	
Taxable portion of lump sums	500 000
	,
Tax on lump sums per Appendix C 500 000	1
Less tax-free portion 25 000	
18% 475 000	J
Total amount of tax on the lump sum resignation benefits	85 500 00
Total amount of tax on the tump sum resignation benefits	0,00,00
8.3 Wyman	
Retirement lump sum on withdrawal	825 000
Add lump sum from previous employer	28 000
	853 000
Less allowable deductions	112 000
Transferred to preservation fund	100 000
Contributions not deducted	12 000
	7/1.000
Taxable portion of lump sum benefits	/41 000
Calculate tax from tables for retirement 114 300	660 000
X 2/% 21 8/0	4
Tax per table         130 1/0           Les ter en continue lunge some         28 000	
Allow first P 25 000 tay free 25 000	
Allow first K2) 000 tax-free $25000$	
Total amount of tax payable on current lump sum	135 630
Total amount of tax payable on current tunip sum	155 050

#### 8.4

Lump sum received				555 000
Less : paragraph 5 deductions				9 000
Taxable portion of lump sum received				546 000
Previous lump sum				420 000
Less : para 5 deductions				0
Taxable portion of lump sum received				420 000
Tax payable on total	420 000			
1 /	546 000			
Total of all lump sums received	966 000			
Fixed rate on difference	700 000		36 000	
	266 000	× 27%	71 820	
			107 820	

(Ignore the previous tax calculation when the previous lump sum was received. One has to calculate the amount of tax that would have been withheld using the current tax tables.

The R18 900 will be allowed as a deduction against the 107 820 calculated above).

#### Solutions to more complex examples from the Student Book

#### Example 8.2.1

Tax payable on lump sum				
Current withdrawal benefit			840 000	)
Less deductions;				
Previous contribution	s not allowed		72 500	7
Total amount of lump sum liable for ta	X		767 500	
Calculate tax according to table for lun	np sums on withdrawal			
Amount of lump sum	•	767 500		
Less beginning of scale		660 000		
	Fixed amount		114 300	
	Difference × 27%	107 500	29 025	
Tax on lump sums		<b>,</b>	143 325	
Normal tax liability				
Other taxable income			357 000	)
Old employer			42 000	7
New employer			315 000	
Normal tax per table	Appendix A		78 118	]
Tax on		357 000		
Less minimum of scale		321 600	67 144	
Add 31% of difference		31% × 35 400	10 974	
Less rebates				
Primary			14 958	
Normal tax due			63 160	Ţ
Less employees' tax			56 000	
Normal tax due by Ms Henry			7 160	,

Note that there are two separate tax calculations which have no influence on each other.

#### Example 8.3.1

Lump sum received	l in current tax ye	ar		1 850 000
Add previous lump	sum			610 000
				2 460 000
Tax on	2 460 000			
	1 050 000	130 500	(fixed amount)	
	1 410 000	507 600	36%	
		638 100		638 100
Less tax on the first	lump sum using	the current	tax tables	
	610 000			
	500 000	0	(fixed amount)	
	110 000	19 800	18%	
		19 800		19 800
Amount of tax on p	present lump sum	l		618 300

(Ignore the amount of R42 500 tax that was actually deducted when the previous lump sum was received.

One has to calculate the amount of tax that would have been withheld using the current tax tables.)

## Module 9 Estates and trusts

#### After completing this module, students should be able to:

• define an estate and a trust;

ICAS

- explain how income from estates and trusts is taxed; and
- explain how gifts/donations to minor children are taxed and that the proceeds remain taxable in the hands of the giver/donor.



#### 9.1

The **donor** may establish a trust. **Beneficiaries** may receive benefits from a trust. A **trustee** will normally act as the representative.

#### 9.2

Inter vivos trust Testamentary trust

#### 9.3

Type A - A trust for the benefit of a person with a disability Type B - A trust under the will of a person for the benefit of the relatives of such a person with a disability

#### 9.4

45%

#### 9.5

A sliding scale from 18% to 45%

#### 9.6

20%

#### 9.7

R3,5 million per natural person

#### 9.8

To counter the possibility of tax evasion schemes where a taxpayer donates or disposes of some or all of his/her assets or income and still reaps the benefits without paying the relevant taxes due

#### Module 10

## **Deductible income for a business**

#### After completing this module, students should be able to:

- explain what is meant by practising a trade;
- understand which payments and expenses are tax-deductible;
- explain which expenses are deductible if only a trade is practised;
- explain that an expense is theoretically only allowed if a trade is practised;
- explain that an expense must meet all the requirements of Section 11(a) before it is tax-deductible;
- explain which deductions are prohibited by Section 23;
- explain that certain expenses that do not qualify as a general deduction are specifically permitted in terms of other sections in the Act;
- understand when legal expenses are allowable;
- differentiate between repairs, which are deductible, and improvements, which may not be deducted;
- understand the conditions that must be met before a deduction for bad debts can be allowed;
- understand the procedure for allowing doubtful debts as a deduction;
- explain when interest is deductible and when it is capitalised;
- draw a distinction between assets that may be written off over a period and allowances that are allowable as a deduction;
- calculate the depreciation of assets; and
- understand lease (rental) expenses, leasehold improvements and lease agreements.



Module 10 questions

10.1

Machine Kelvin       100 000         Original cost       100 000         Less: S 12C for 2017       40%       40 000         Less: S 12C for current year 20%       20 000	
Income tax value (100 000 – (40 000 + 20 000))	40 000
Amount to be added to taxable income (72 000 – 40 000)	72 000 32 000
Machine Hot R120 500 40% (unused machine)	48 200
Rental R20 000 12 months	240 000
Lease premium $\frac{R280\ 000}{300} \times 12$ months	11 200
Leasehold improvementsCost of completion = *R354 400(* actual amount < contract amount)	3 580
Motor car       BMW: $\frac{R542\ 000}{5\ years} \times 9\ months$ Wear & tear       11 (e)         Ford: $\frac{R450\ 000}{5} \times \frac{12}{12}\ 2017$ 11 (e) current year       90\ 000	81 300
$(450\ 000 - 90\ 000)/5 \times \frac{1}{12}$ 18000         Total 11 (e)       108 000	

#### 10.2

10.2.1

Note 1 Lesse premium			
100 000 5			1 667
$\frac{100000}{25} \times 12$			
Rental 15 000 5			75 000
Lease improvements			
25 years less 4 months u Brought into house on 1	Intil completion = 296 months		
To the value of use R50	0 000		
500.000			2 196
$\frac{296}{296}$ months 1 × m	onth		
Note 2 Doubtful debts			
Allow current tax year			4 000
Add back previous tax y	ear	3 500	
Note 3 S 12C machine			
New is 40%	Add installation costs		
	(45 000 + 10 000) 40%		22 000
Note 4 Legal costs			
Drawing up of lease con	tract is capital expense		0
Cost of defending – in t	he production of income		12 000
Note 5 Repairs			
Cleaning			1 250
Old aircon (recoupment	t of wear and tear)	3 000	
New aircon	Not a repair, new capital asset		
$\frac{8500}{6} \times \frac{6}{12}$			708
Machine Wood			
2017	No deduction, not brought into use	550 000	
	current year	456 000	
Cost	Add import duties	94 000	110.000
0031	Used machine allow 20%	current tax year	110 000
Machine Iron			
Cost price			912 000
Less Accumulated v	vear and tear		547 200
2016: 20% 91	2 000 (used machine use 20%)		182 400
2017: 20% 91	2 000		182 400
Current tax yea	ar: 20% 912 000		182 400
Income tax value			364 800
Proceeds			284 000
S 11(o) Scrapping			80 800
Machine Steel			

950 000 40%	New machine, allow $\times 40^{\circ}$	%
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380 000

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т	υ	•••

Sales	Cash			500 000	
	Credit			6 000 000	6 500 000
Less	Cost of sales				4 300 000
	Opening stock			[	250 000
	Purchases	Cash			2 000 000
		Credit			2 400 000
					4 650 000
Less	Closing stock				350 000
Gross p	orofit			2 200 000	
Bad del	ots	Consignment			50 000
		Debtor			100 000
Doubtf	ul debts	Previous year		10 000	
		Current year			15 000
Damag	es	Loss of income			500 000
		Legal fees			25 000
		Insurance pay-out		470 000	
		Insurance premiums			40 000
Adverti	sing	Newspaper			4 000
		Billboard (capital asset, not advertising)			0
		$S 11e^{\frac{50\ 000}{5}} \times \frac{3}{12}$			2 500
Relaxer		S 12C 1,5 m × 40%			600 000
Glow		S 12C 800 00020%			160 000
Thin		Cost	500 000		
		Delivery charges	30 000		
		S 12C = 20%	530 000		106 000
				2 680 000	1 602 500
Net pro	ofit				1 077 500

## Module 11 Calculation of tax for different business entities

#### After completing this module, students should be able to:

- do a tax calculation of a sole owner of a business and complete an ITR12;
- do a tax calculation of each partner and complete an ITR12 and show that each partner is taxed individually on the partnership's profits; and
- do a tax calculation of a close corporation and a company, complete an ITR14 and show that a close corporation or a company is a legal entity separate from its members.



**Module 11 questions** 

#### 11.1

Income from partnership

		I	_
Net profit given as per qu	lestion	213 820	
Bad debts rec.	To be added back and allowed as in partnership share		3 750
Interest	To be added back and allowed as in partnership share		6 360
Bad debts	Never income of the partners	2 000	
Goodwill	Not allowable deduction - capital nature, add back	60 000	
Drawings Gee	Not allowable deduction - capital nature, add back	6 600	
Interest paid	Allowable deduction		40 000
Other expenses allowable	goodwill and drawings added back	0	0
			232 310
Taxable income from pa	rtnership	282 420	282 420
Divide in partnership ra	tio		
Gee 70%	232 310 × 70%		162 617
Gee         70%           Tee         30%	232 310 × 70% 232 310 × 30%		162 617 69 693
Gee70%Tee30%	232 310 × 70% 232 310 × 30%		162 617 69 693
Gee70%Tee30%Calculation of taxable in	232 310 × 70% 232 310 × 30%	Gee	162 617 69 693 <b>Tee</b>
Gee70%Tee30%Calculation of taxable in Taxable income from par	232 310 × 70% 232 310 × 30%	<b>Gee</b> 162 617	162 617 69 693 <b>Tee</b> 69 693
Gee     70%       Tee     30%       Calculation of taxable in       Taxable income from par       Add	232 310 × 70% 232 310 × 30%	<b>Gee</b> 162 617	162 617 69 693 <b>Tee</b> 69 693
Gee 70% Tee 30% Calculation of taxable in Taxable income from par Add Salary	232 310 × 70% 232 310 × 30% acome for individual partners enership	Gee 162 617 36 000	162 617 69 693 <b>Tee</b> 69 693 45 000
Gee70%Tee30%Calculation of taxable in Taxable income from par Add Salary	232 310 × 70% 232 310 × 30% come for individual partners mership Add back in ratio	<b>Gee</b> 162 617 36 000	162 617 69 693 <b>Tee</b> 69 693 45 000
Gee 70% Tee 30% Calculation of taxable in Taxable income from par Add Salary Interest	$\begin{array}{r} 232\ 310 \\ 232\ 310 \\ \times \ 30\% \end{array}$	Gee 162 617 36 000 4 452	162 617 69 693 <b>Tee</b> 69 693 45 000 1 908
Gee 70% Tee 30% Calculation of taxable in Taxable income from par Add Salary Interest Interest from p/ship	232 310 × 70% 232 310 × 30% come for individual partners mership Add back in ratio 70:30 Only Gee received interest	<b>Gee</b> 162 617 36 000 4 452 40 000	162 617 69 693 <b>Tee</b> 69 693 45 000 1 908 0
Gee 70% Tee 30% Calculation of taxable in Taxable income from par Add Salary Interest Interest from p/ship	232 310 × 70% 232 310 × 30% come for individual partners mership Add back in ratio 70:30 Only Gee received interest Add back in ratio 70:0	Gee 162 617 36 000 4 452 40 000	162 617 69 693 <b>Tee</b> 69 693 45 000 1 908 0
Gee 70% Tee 30% Calculation of taxable in Taxable income from par Add Salary Interest Interest from p/ship Bad debts recovered	232 310 × 70% 232 310 × 30% come for individual partners mership Add back in ratio 70:30 Only Gee received interest Add back in ratio 70:30	Gee 162 617 36 000 4 452 40 000 2 625	162 617 69 693 <b>Tee</b> 69 693 45 000 1 908 0 1 125
Gee 70% Tee 30% Calculation of taxable in Taxable income from par Add Salary Interest Interest from p/ship Bad debts recovered	232 310 × 70% 232 310 × 30% come for individual partners mership Add back in ratio 70:30 Only Gee received interest Add back in ratio 70:30 R2 000 was never included in their income	Gee 162 617 36 000 4 452 40 000 2 625 0	162 617 69 693 <b>Tee</b> 69 693 45 000 1 908 0 1 125 0
Gee 70% Tee 30% Calculation of taxable in Taxable income from par Add Salary Interest Interest from p/ship Bad debts recovered Gross income for each p	232 310 × 70% 232 310 × 30% acome for individual partners mership Add back in ratio 70:30 Only Gee received interest Add back in ratio 70:30 R2 000 was never included in their income artner	Gee 162 617 36 000 4 452 40 000 2 625 0 245 694	162 617 69 693 <b>Tee</b> 69 693 45 000 1 908 0 1 125 0 117 726
Gee 70% Tee 30% Calculation of taxable in Taxable income from par Add Salary Interest Interest from p/ship Bad debts recovered Gross income for each p Less interest exempt	232 310 × 70% 232 310 × 30% acome for individual partners timership Add back in ratio 70:30 Only Gee received interest Add back in ratio 70:30 R2 000 was never included in their income artner	Gee 162 617 36 000 4 452 40 000 2 625 0 245 694 -23 800	162 617 69 693 <b>Tee</b> 69 693 45 000 1 908 0 1 125 0 117 726 -1 908

Γ

#### Fees earned 2 000 000 Less: Local dividends (Exempt) 2 000 000 Deductions Entertainment (S 11 (a)) 15 600 In the production of income Interest incurred (Not in production of income Dividends are exempt income) Dr Collins Interest on capital accounts 46 000 44 000 Dr Arrow

Pentals					180.000	1
Replacement of medical	equipment				16 600	
Salaries of employees	equipment				245 000	
Salaries of north ore		Dr Callina			460.000	
Salaries of partners		Dr Comms			460 000	
Subscriptions to modical	iournala	DI AIIOw			25 800	
Weer and teer on medica					16 000	
wear and tear on medica	ai DOOKS			L	10 000	1 509 000
Taxable profit from par	rtnership				L	491 000
	ľ				-	
Dr Collins						
Gross income					,	728 500
Share of partnership pro-	fit	50% ×	491 000			245 500
Salary						460 000
Interest		50% ×	46 000		l	23 000
Less: Exemption						23 000
Intere	est	(limit to actual amount of inte	erest received)		[	23 000
					L	
Income						705 500
Less: deductions						
Retirement annuity fun	nd				г	R 79 000
Determine the maximum	n deduction					
The lesser of R350 000						
OR						
Calculate taxable income	e before S 11F and	d 18A as above				
Income			705 500			
27,5% × 705 5	00			194 012,5		
Apply the rules						
Are the contributions me	ore or less than th	e amount calculated as maximu	m deduction?			
Actua	l contributions	R79 000				
Limit	the deduction to	actual contributions				
Taxable income						626 500
					L	
Tax payable:						
626 5	500					
less 584	200	155 505,00				
42	300 × 39%	16 497,00				
Normal tax per table						172 002,00
Less: Rebates						14 958,00
Net normal tax				-		157 044,00
Less: Provisional tax paid	1					150 000,00
Tax due to SARS				-		7 044,00

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## Module 12 Farming

#### After completing this module, students should be able to:

- describe briefly the legal difference between full-time farming v part-time farming;
- explain that income tax prescriptions on individuals and enterprises are also applicable to farming;
- explain the difference between livestock and other stock as well as the limitation on purchases of livestock from a taxation point of view;
- explain and calculate the standard value for valuing livestock;
- distinguish between other income and farming income;
- distinguish between capital development expenditure and normal expenses;
- calculate the allowances claimed against farming income for implements;
- understand the concept of average rate of tax for farmers; and
- do a tax calculation on farming on the basis of a case study, and complete form ITR12.



## Module 12 questions

Income				
Fruit sold at his farm stall				
Fruit sold to a co-operative society				450 000
Sale of fruit juice that had been bottled on the farm				400 000
Livestock sold -	100 cows			850 000
	300 sheep			300 000
Bonus from co-operative society based on fruit sold				20 000
Interest earned from co-operative - not farming income				25 000
Closing stock -	cost price - harvested			170 000
	growing crop (not produce)			Nil
Closing stock -	livestock (at standard values)			56 000
Rations -	4 cows x R8 000 (market value)			32 000
	8 sheep at R1100 (market value)			8 800
Livestock donated	out at market values:	(3 × R8 000)	cows	24 000
		(5 × R1 100)	sheep	5 500
Livestock slaughter	red for private use	$(1 \times R3.000)$	CONVE	3 000
	ice for private use.	$(1 \times R_{2} 000)$ $(4 \times R_{4} 50)$	sheen	1 800
		(1 × 1(1)0)	sneep	2 566 100
Expenses				
-			220 000	
	Opening stock: Livestock at standard value		62 000	
	Opening stock: Fruit - harvested (at cost)		180 000	
	Opening stock: Fruit - unharvested		Nil	
Rations -	4 cows × R8 000 (market value)		32 000	
(seen as wages)	8 sheep at R1100 (market value)		8 800	
Purchases of livestock			500 000	
Wages paid to farm employees			320 000	
Interest incurred on a loan - new fruit trees			10 000	
Purchase of new tractor on 1 May - S 12B				
50% × R800 000			400 000	
Costs of producing and bottling of fruit juice			200 000	
Fodder purchased			20 000	
Veterinary expenses			24 000	
Repairs to fences		32 000		
				2 008 800

Farming income before capital development expenditure			557 300
Less:	Prevention of soil erosion		30 000 527 300
Less:	Capital development expenses brought forward	7 000	
	Clearing of land for planting new fruit trees	50 000	
	New irrigation pump purchased	130 000	
	New dipping thanks	54 000	
			241 000
Taxable farming income			286 300

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