# N6 Income Tax 2020/2021 <br> To be used in the 2022 academic year Lecturer Guide 

André Neethling

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N6 Income Tax Lecturer Guide

## Module 1

## Overview of income tax

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

- give a short overview of the Income Tax Act;
- 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 $\left(\mathrm{CO}_{2}\right)$ 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

N6 Income Tax Lecturer Guide

## 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
- 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) |  | 265821 |
| :---: | :---: | :---: | :---: |
|  | Normal tax per tables |  |  |
|  | Taxable income | 265821 |  |
|  | Less minimum of specific tax scale | $\underline{205900}$ |  |
|  | Difference $\times 26 \%$ | 59921 | 15579 |
|  | Add fixed amount according to specific category |  | 37062 |
|  | Normal tax per tables |  | 52641 |
|  | Less rebate |  | 25893 |
|  | Primary |  | 14958 |
|  | Secondary (over 65) |  | 8199 |
|  | Tertiary (over 75) |  | 2736 |

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, 14958 divided by $18 \%$
83100
2.3 Taxpayer over 65

Primary rebate 14958
Secondary rebate 8199
Total
23157
Divide by lowest rate of tax, $18 \%$
128650
2.4 Taxable income SA ..... 328985
Foreign taxable income ..... 56000
$\underline{384985}$
Normal tax per tables
Taxable incomeLess minimum of specific tax scaleDifference $\times 31 \%$Add fixed amount according to specific categoryNormal tax per tables
Less rebate
Primary
Medical tax rebateMedical tax rebateMedical tax rebate
TaxpayerSecond dependant (Child 2)Per month $\times 12$ for the year
First dependant (Child 1)

$$
384985
$$

$$
321600
$$

$$
63385 \quad 19649
$$

$\xrightarrow{67144}$ ..... 8679337394medical expenses tax credit (only shown for calculation purposes)Qualifying medical expenses (given)
Additional medical expenses tax credit (only show
Qualifying medical expenses (given)
Add Excess medical scheme contributions Calculation of excess medical scheme credit Actual contributions (given) R1 $245 \times 12$ Medical scheme tax credit times four (under Deduct 65)
(under Deduct 65) times four


### 2.5 Tax liability

$$
\text { Income (R380 } 000 \text { + R24 000) [Note 2] }
$$

404000
Taxable income. There are no other exemptions or deductions.
Determine the category on the tax tables where 404000 falls
This is between R 321600 and R 445100
By what amount does the taxable income exceed the starting amount of the specific tax scale?
Taxable income less starting amount of the tax scale is
Apply the specific rate of tax, which in this case is $31 \%$ $31 \%$ times R 82400
Add the fixed amount from the table, which in this case is
Normal tax
Less Rebates

## Primary

Medical scheme fees tax credit
Taxpayer
First dependant - wife
Additional dependant - daughter
Rebate per month
Rebate per year (month times 12)
Additional medical expenses tax credit
Qualifying medical expenses
(R32 691 + R9 232)
Add Excess medical scheme contributions
46900 less 30708
Calculation of excess medical schemes credit
Actual contributions
Deduct Medical scheme tax credit x three R $10236 \times 3=$ 30708
The additional tax credit is $33.3 \%$ of this amount
14958
25 544,00
67 144,00
92 688,00
44 636,21
14 958,00
10236,00
(The total of qualifying medical expenses plus the excess medical schemes credit) $33,30 \% \times 58385 \quad 19442,21$
Net normal tax 92688,00 less 44636,21

| 48051,80 |
| ---: |
| 40864,00 |
| 7187,79 |

Less employee's tax
Tax due by Mr Niekie
7187,79

## 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.

| 3.1.1 | T |  |  |
| :---: | :---: | :---: | :---: |
| 3.1.2 | F | (Birth, death, insolvent period of assessment) |  |
| 3.1.3 | T |  |  |
| 3.1.4 | F | (Other factors can play a role) |  |
| 3.1.5 | T | (In the hands of the taxpayer, not the agent) |  |
| 3.1.6 | T |  |  |
| 3.1.7 | T |  |  |
| 3.1.8 | T |  |  |
| 3.1.9 | F | (Dividends from a South African source, irrespective of residency) |  |
| 3.2 | Birth <br> Death <br> Insolvent <br> Rehabilitated |  |  |
| 3.3 | Place where one returns to after one's natural wanderings |  |  |
|  | Where one's usual or principal place of residence is |  |  |
| 3.4 | Physically spent more than 91 days in aggregate during the current year of assessment in South Africa (more than 91 days in 2017) <br> AND <br> 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) <br> AND <br> More than 915 days in aggregate during the preceding five years of assessment (More than 915 days from 2012 to 2016). |  |  |
| 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;
- 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 |  | $\mathbf{3 0 0} \mathbf{0 0 0}$ |
| :--- | :--- | ---: |
| Salary | (amount due and payable for 12 months) | 234000 |
| Maintenance |  | 24000 |
| Bursary | 12000 |  |
| Interest | 30000 |  |
| Less exemptions | (exempt) | $\mathbf{5 9 8 0 0}$ |
| Maintenance | (must repay) | 24000 |
| Bursary |  | 12000 |
| Interest | 23800 |  |
| Income | $\mathbf{2 4 0 2 0 0}$ |  |

Activity 4.2

| R1,2m less $15 \%$ withholding tax |  |
| :--- | ---: |
| $15 \%$ final tax |  |
| Amount that should be paid to Mr Rapper by the promoters | 1200000 |
| 180000 |  |

No deduction for any expenses

## Activity 4.3

| Gross income |  |  | 1058000 |
| :---: | :---: | :---: | :---: |
| Salary |  |  | 900000 |
| Airfares (fringe benefits) |  |  | 36000 |
| Bonus |  |  | 90000 |
| Interest (divide by two) | $52000 / 2$ |  | 26000 |
| Dividends from |  |  |  |
| Angola | 12 000/2 | Gross amount, before tax | 6000 |
| Less exemptions |  |  | 1053133 |
| Salary Sect 10(1)(o)(ii) applies |  | More than 183 days outside RSA | 900000 |
| Airfares (fringe benefits) |  | in calendar yr and more than |  |
|  |  | 60 | 36000 |
| Bonus |  | continuous days outside RSA | 90000 |
| Interest |  |  |  |
| Dividends from Angola |  |  | 23800 |
|  |  |  |  |
| $(25 / 45 \times 12000) / 2$ |  |  | 3333 |
| Income / Taxable income |  |  | 4867 |

## Hoosain Bold

## Gross income:

| Salary $(12 \times$ R20 000) | 240000 |
| :--- | ---: |
| Bonus | 40000 |
| Foreign dividends $(2000 / 2)$ | 1000 |
| Foreign interest $(5000+2400) / 2)$ | 3700 |
| Local interest $(60000 / 2)$ | 30000 |
| Rent $(120000 / 2)$ | 60000 |

## Less: Exempt income

Foreign dividends
(1000×25/45)

Foreign interest
No exemption

| 30556 |
| ---: |
| 556 |
| 0 |
| 30000 |
| 344144 |

## Income

27000

## Less: Deductions

Maintenance (repairs) on house being rented out
Pension ( $12 \times$ R1 500)
9000 18000

## Taxable income

Normal tax per table on taxable income of
Taxable income

Less amount at beginning of tax scale

| 317144 |  |
| ---: | ---: |
|  |  |
| 205900 | 37062,00 |
| 111244 | 28923,56 |

Times 26\%
Less: Rebates
Primary
Over 65

| $r\|r\|$ |
| ---: |
| 14958,00 |
| 8199,00 |
| 42828,56 |

## Net normal tax

Less: Prepaid Employees' tax (R4 $120 \times 12$ )
49 440,00

Net tax liability Amount due to taxpayer
$-6611,44$ (Mr Bold)

|  | 1425000 |
| :---: | :---: |
| Gross income |  |
| Salary | 500000 |
| Ferrari (capital receipt) | 0 |
| Bursary | 60000 |
| Uniform allowance | 25000 |
| Bursary: Daughter | 40000 |
| Bonus gold medal (included as he is a professional swimmer) | 400000 |
| Inheritance (capital receipt) | 0 |
| Interest | 400000 |
| Less: Exempt income | 108800 |
| Bursary (has to repay if not completed) | 60000 |
| Uniform allowance | 25000 |
| Bursary: Daughter (his remuneration exceeds R400 000) | 0 |
| Interest | 23800 |
| Income | 1316200 |
| Less: Deductions | 65000 |
| Other expenses | 35000 |
| Pension | 30000 |
|  | 1251200 |
| Taxable income |  |
| Note: UIF (not an allowable deduction) |  |

## Activity 4.6

## Gross income

729500
Salary
Bursary Daughter - Xolani
Bursary Son - Bongi
Interest on tax fee account (4000/2) Married in COP
Interest from wife on tax-free account (3000/2)
Interest on investment at ABSA (44000/2)
Royalties (fully taxable, he is a SA resident)
Less: Exempt income
Bursary (Remuneration proxy less than R600 000)
Daughter, disabled, NQF, max is R90 000
Son, Grade 10, max is R20 000
Interest TFI $\quad(4000+3000) / 2$
Interest at ABSA (44000/2) under 65
Income
120500

Taxable income

No penalty on TFI investment, does not exceed maximum limit
$(\mathrm{R} 3000 \times 12)=\mathrm{R} 36000$

## 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:

Salary ( $30000 \times 12$ )
SA dividends ( $20000 / 2$ )
440000

Local interest (80 000/2)
Local interest (80 000/2)
Rent ( $60000 / 2$ )
360000

## Less: Exempt income

SA dividends
SA interest
Income

Less deductions
Rental expenses (72000/2)
Taxable income before S 11F and 18A

Current retirement fund contributions
Pension fund
Retirement annuity fund

Determine the maximum deduction
The lesser of R350 000
OR
The higher of:
Salary
$27,5 \% \times$ (remuneration)
OR
$27,5 \% \times$ taxable inc. before S 11 F and 18 A
370200
99000

| 360000 | 99000 |
| :--- | :--- |
| 370200 | 101805 |

The higher of the two amounts is 101805

Apply the rules
Are the contributions more or less than the amount calculated as maximum deduction?
Actual contributions
Maximum allowable deduction limited to contributions
36600

Taxable income

## Ms Everson

| Gross income: |  |  |  | 380000 |
| :---: | :---: | :---: | :---: | :---: |
| Salary (25000 $\times 12$ ) |  |  |  | 300000 |
| SA dividends (20 000/2) |  |  |  | 10000 |
| Local interest (80 000/2) |  |  |  | 40000 |
| Rent (60 000/2) |  |  |  | 30000 |
| Less: Exempt income |  |  |  | 33800 |
| SA dividends |  |  |  | 10000 |
| SA interest |  |  |  | 23800 |
| Income |  |  |  | 346200 |
| Less deductions |  |  |  | 58800 |
| Rental expenses (72000/2) |  |  | 36000 | 36000 |
| Taxable income before S 11F and 18A |  |  | 310200 |  |
| Current retirement fund contributions |  |  | 22800 | 22800 |
| Pension fund |  | 21000 |  |  |
| Retirement annuity fund |  | 1800 |  |  |
| Determine the maximum deduction |  |  |  |  |
| The lesser of R350 000 |  |  |  |  |
| OR |  |  |  |  |
| The higher of: |  |  |  |  |
| 27,5\% $\times$ retirement fund income | 300000 |  | 82500 |  |
|  |  |  |  |  |
| 27,5\% $\times$ taxable income before S 11 F and 18A | 310200 |  | 85305 |  |
| The higher of the two amounts is |  | 85305 |  |  |
| Apply the rules |  |  |  |  |
| Are the contributions more or less than the amount calculated as maximum deduction? |  |  |  |  |
| Actual contributions |  |  | 22800 |  |
| Maximum allowable deduction limited | ntributions |  | 22800 |  |
| Taxable income |  |  |  | 287400 |

### 5.2 Siyabonga

## Gross income

Salary
Bonus
Commission

## Income

Determine deductions

## Deductions

Current retirement fund contributions
Pension fund - current year
Not allowed in previous year
Arrear pension fund - current year
Arrear pension fund - previous year

Determine the maximum deduction
Salary
Bonus

| 256000 |
| ---: |
| 25600 |
| 51200 |

Commission
(Remuneration per definition)

Determine the maximum deduction
The lesser of R350 000
OR
The higher of:
$27,5 \% \times 332800$
OR
Calculate taxable income
$27,5 \% \times 332800$

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
Maximum allowable deduction limited to contributions
25460
25460

## Taxable income before donations

Calculate maximum for donations to be allowed
$10 \%$ of taxable income before donations

$$
10 \% \times 307340
$$

Apply rule, limit maximum to be deducted to actual donation Taxable income

332800
332800

## 5.3



## 5.4

## Gross income

| Salary | Rer |
| :--- | :---: |
| Bonus | Rer |
| Pension Fund Contributions (Fringe Benefit) | Rer |
| Foreign Dividends | Ot |
| SA interest | Ot |
| Foreign interest | Ot |
| Rental income | Ot |
| House sold (capital receipt) |  |

## Exemptions

Foreign dividends ( $25 / 45 \times 1800$ )
SA interest
Foreign interest - no exemption

## Income



### 5.5 Taxpayer younger than 65

## Determine gross income

Salary (15 $500 \times 12$ )
Add fringe benefit, employer's contribution to medical fund
Accounting classes
Inheritance (capital receipt)
Sale of house (capital receipt)
Foreign interest
SA interest

Determine income
Exemptions
Interest

|  | $\mathbf{2 4 4 \mathbf { 4 0 0 }}$ |
| ---: | ---: |
| 186000 |  |
| 9600 |  |
| 19500 |  |
| 0 |  |
| 0 |  |
| 3700 |  |
| 25600 |  |
|  |  |
| 23800 |  |

## Income

Determine deductions before donations
Allowable deduction against extra classes
Taxable income before S 11F and 18A


Current retirement fund contributions
26400
Determine retirement funding income
Salary
Medical fund contribution - fringe benefit

95600
186000
9600

Determine the maximum deduction
The lesser of R350 000
OR
The higher of:
$27,5 \% \times$ Retirement Fund Income 195600
OR
$27,5 \% \times$ taxable inc. before $S 11 \mathrm{~F}$ and 18 A
218600
60115
The higher of the two amounts is
60115

Apply the rules
Are the contributions more or less than the amount calculated as maximum deduction?
Actual contributions
Pension fund
Retirement annuity fund
Maximum allowable deduction limited to contributions
26400

Taxable income before donations

Allow university
CANSA
Not allowable - running assoc.
Maximum is $10 \% \times 192200=$ R19 220
Limit to actual donation
Taxable income

## Tax per tables

## Normal tax per tables

## Less rebates

Primary
Medical scheme fees tax credit
Taxpayer
First dependant - husband
1st child
2nd child
Rebate per month
Rebate per year (month times 12)
1068 times 12

Additional medical expenses tax credit
Qualifying medical expenses ( $15350-3150$ )
Add Excess medical scheme contributions

Calculation of excess medical schemes credit
Actual
Contributions
Self R1 $850 \times 12 \quad 22200$
$\begin{array}{lr}\text { Self R1 } 850 \times 12 & 22200 \\ \text { Employer R800 } \times 12 & 9600\end{array}$
Deduct Medical scheme tax credit times four R 12816 times four =

12200
0

Subtotal
Less 7,5\% of taxable income $7,5 \% \times 189950$
Total
The additional tax credit is $25 \%$ of this amount $25,00 \%$ times 00.00
Net normal tax
Less prepaid taxes
Employees' tax
Due by the taxpayer

| 189950 |  |
| :---: | :---: |
| $\times 18 \%$ | 34191 |
|  | 34191 |
|  | 27774,00 |
|  | 14958 |
|  | 12816 |
| 319 |  |
| 319 |  |
| 215 |  |
| 215 |  |
| 1068 |  |
| 12816 |  |
| 8 |  |
| 12816 |  |
|  | 0 |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
| 51264 |  |
|  |  |
|  |  |
| 0 |  |
|  | 6 417,00 |
|  | 3600,00 |
| 3600 |  |
|  | 2817,00 |

## 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

Salary ( $37500 \times 12$ )
Entertainment allowance (no deductions allowed, not commission)
521979

Medical fund contributions ( $2500 \times 12$ )
Interest (22 $100+5500) / 2$
Company boat ( $15 \% \times$ lowest of cost or market value) $\times$ period used $15 \% \times 620000 \times 31 / 365$
Less Harry paid $(120 \times 31)$
Travelling allowance ( $3500 \times 12$ )
Less: Unspent portion of the travelling allowance $(14000 \mathrm{~km} \times$ total cost per km of $\mathrm{R} 4,316)=$ Limit to allowance received
Value of the vehicle
Fixed cost per table
Divide by total km
Fuel cost

| 280000 | 80539 |  |
| ---: | ---: | ---: |
|  | 32000 |  |
|  |  |  |
|  |  | 517 |
| 1,283 |  |  |
| 0,516 |  |  |
| 4,316 |  |  |
| 14000 |  |  |

6.2

A Calculate determined value of the car 384000
It was not purchased more than 12 months before the employee acquired the right to use the vehicle, no reduction of the value No maintenance plan, $174000 \times 3,5 \%$ 13440
Period used

$13440 \times 28 / 31 \quad$| 12139 |
| :--- |
| 13440 |
| 13440 |

B Loan of R28 $000 \times$ official rate of $7 \%$


Less rate paid by employee
Benefit per month $(\mathrm{R} 93 \times 12)$

C If one assumes that the house is let at an arm's length transaction, the benefit will be the rentals paid by the employer ( $5500 \times 12$ )
Less consideration paid by the employee
OR The lower of the formula

Formula: $(A-B) \times C / 100 \times D / 12$
A 325000
B 83100
C 17 less than 3 rooms
$\mathrm{D} \quad 12$

Less consideration paid by the employee

Answer is 41123 The lower amount

## 6.3

A
Taxpayer younger than 65

## Determine gross income

Salary
Add fringe benefit, employer's contribution to the fund (R4 $000 \times 12$ )

## Determine income

No exemptions, the same as gross income and taxable income

## Taxable income

Taxable income less starting amount of the tax scale
R408 000 less R321600


## Subtotal

Qualifying medical expenses (given)
Add

Deduct
Excess medical scheme contributions
Calculation of excess medical schemes credit
Medical fund contributions (R6 $000 \times 12$ )
Medical scheme tax credit times four
R12 $816 \times 4=$
Less $7,5 \%$ of taxable income
Total
The additional tax credit is $25 \%$ of the total of the medical expenses
and excess medical contributions, less $7,5 \%$ of taxable income
$25,00 \%$
$\times \quad 3136=784,00$

## Net normal tax

B Formula: $(\mathrm{A}-\mathrm{B}) \times \mathrm{C} / 100 \times \mathrm{D} / 12$
5307

| A | 260000 | Last year's remuneration to be taken into account. |
| :--- | :--- | :--- |
| B | 83100 |  |
| C | 18 | 4 rooms plus electricity paid by employer |
| D | 2 |  |

Less consideration paid by employee R $500 \times 2$
Value of benefit for the tax year (2 months)
C Allowance (9 $900 \times 12$ )
Value of the vehicle
Actual costs
Wear and tear
Finance charges
Fuel
Insurance
Capital repayment (no ded
claims wear
tres to total kilometres trave

| 17340 |
| ---: |
| 6530 |
| 10810 |

Apply business kilometres to total kilometres travelled
Total km
Private km
Business km
10810

10 810/17 $340 \times$ R116 355 (actual costs)

Unspent portion of the travelling allowance / taxable portion

## OR

Rate per km
Travelling allowance ( $9900 \times 12$ )
Less unspent portion of the travelling allowance

|  | 118800 |
| :--- | :--- |
|  | 100398 |

Value of the vehicle
382004
Fixed cost per table is
Divide by total km 17340
Fuel cost
Maintenance
Total cost per km
Multiply by business km $10810 \times 9,2875=100398$
Unspent portion of the travelling allowance / taxable portion
Use the lesser of the two

| 123955 |  |
| ---: | ---: |
| 17340 | 7,1485 |
|  | 1,4770 |
|  | 0,6620 |
|  | 9,2875 |
|  | 10810 |

R18 402

D Calculate determined value of the car
Cash cost of vehicle
Add VAT at 15\%
Add VAT at 15\%
It was purchased more than 12 months before the employee
acquired the right to use the vehicle, reduce by $15 \%$
712540 less $15 \%=605659$
Maintenance plan, $\times 3,25 \% \mathrm{pm}$
19684 per month
Period used, October to February is 5 months
6.4

A Calculate determined value of the car
359000
No maintenance plan, $\times 3,5 \% \mathrm{pm}$
12565 per month
Period used, September to February is 6 months

B If the accommodation was rented by the employer and it is an at arm's length transaction, the lower of the actual rental expenditure incurred by the employer or the formula may be used.

The benefit will be the rentals paid by the employer
81600
5000
Add other costs paid by the employer (levies)
Less consideration paid by the employee

Formula: $(A-B) \times C / 100 \times D / 12$
A 290000
B 83100
C 18 (3 bedrooms, therefore more than 3 rooms)
Furnished, electricity by employee
D 12

The lesser of the two is
37242
6.5

Travelling allowance is R10 $200 \times 12$ )
Value of the vehicle 288000
Fixed cost per table
(53 000-25 500)
3,717
Divide by total km
Fuel cost
Maintenance
Total cost per km
Multiply by business km

Deemed expenditure per table

Taxable portion of the allowance

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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.


## Activity 7

### 7.1.1 Remuneration

Salary
Commission
Medical fund contributions paid by the employer
Reimbursive travelling, not remuneration, less than $\mathrm{R} 3,98$ per km

32400
Salary
Commission
Medical fund contributions paid by the employer
Reimbursive travelling, not remuneration, less than R3,98 per km
Less allowable deductions
Current retirement fund contributions
Pension fund - current contributions this month
2000
Determine retirement funding income

$$
32400
$$

Salary
Commission
Medical fund contributions paid by the employer

25000

Determine the maximum deduction
The lesser of R350 000 divide by 12
OR

Apply the rules
Are the contributions more or less than the amount calculated as maximum deduction?
Actual contributions
Maximum allowable deduction limited to contributions

7.1.2 Balance of remuneration

30400

Annual equivalent of balance of remuneration
30400 times 12
364800

Normal tax
83 070,60
Per table on
Less
$31 \% \times$
$296540 \quad 61910,00$

Less rebates
25803
Primary
Medical scheme credit
1014
Employee
303
1st dependant (husband)
303
2nd dependant (child)
204
3rd dependant (child)
204
Net normal employees' tax for the year
57 267,60
Employees' tax for the month
4772,30 57 267,60 /12

## 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 amount is therefore
The basic amount to be used for the first provisional payment is
Calculate the first provisional payment
The taxable income to be used (the basic amount)
Use the tax tables to determine the normal tax due
Tax on
Less

|  |  |  | 97 648,00 |
| :---: | :---: | :---: | :---: |
|  | 420000 |  |  |
|  | 321600 | 67144,00 |  |
| $31 \% \times$ | 98400 | 30504,00 |  |
|  |  |  | 14958 |
|  |  |  | 82 690,00 |

Less rebate(s)
Primary

Net normal tax for the first six months ( $87024,40 \div 2$ )
Divide by 2

Deduct employees' tax paid
Maximum of
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 provisional tax payment

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 taxable income as assessed for the current tax year.
$90 \% \times 413000 \quad 371700$
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 $000+28480+28480+28480)=345440$

The estimate is not lower than the basic amount.
No penalty has to be imposed.
IF the estimate was say $\mathbf{R} 340000$, 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
( $90 \% \times \mathrm{R} 413000=\mathrm{R} 371700$ )
Taxable income
Tables begins at
Times $31 \%$

Less rebates - Primary
Secondary
Tertiary

|  |  | 82 675,00 |
| :---: | :---: | :---: |
| 371700 |  |  |
| 321600 | 67144 |  |
| 50100 | 15531 |  |
|  | 14958 | 25893,00 |
|  | 8199 |  |
|  | 2736 | 61602,60 |
|  |  |  |
|  |  | 67 392,00 |
| 322400 |  |  |
| 321600 | 67144 |  |
| 800 | 248 | 25 893,00 |
|  | 14958 |  |
|  | 8199 |  |
|  | 2736 |  |
|  |  | 41499,00 |
|  |  | 41 499,00 |
|  |  | 5800,00 |
|  |  | -16 501,00 |

No penalty

## 7.4

## 1 Remuneration excluding the annual payment

Salary
84147

2 Allowable deductions
Retirement fund contributions
$84147 \times 10.5 \%$
$84000 \times 10.5 \%$
No UIF
Balance of remuneration


3 Employees' tax for June on remuneration excluding the bonus

Annual equivalent of remuneration excluding annual payment

797899
66492 times 12
Normal tax per tables on
Less
41\% x
Less rebates
Normal tax on annual equivalent excluding annual payment
R224 951 divide by 1218 745,96
4 The employees' tax on the bonus
Total Annual equivalent of remuneration
Add: Annual amount received
Total annual equivalent remuneration (including annual payment)
881 899,00

Normal tax per tables on
Less
$41 \% \times$
Less rebates
Net normal tax on annual equivalent (including remuneration and 881899
annual payment)
Employee's tax on Annual payment
259 less $391,5924951,50 \quad 34440,09$
5 Employee's tax for the month
53 186,05
Employee's tax for the month excluding annual payment 224951,50 divide by $12=$
Add employee's tax on annual amount
34440,09
(Rental income to be ignored, not remuneration)

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## Module 8

## Retirement and resignation benefits

## 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.


## 8.1

Step 1 Use the formula $Y=\frac{A \times C}{B}$

| Step $2 A=$ | The original amount invested at the insurer |
| :--- | :--- | :--- |
| 3.3 million times $2 / 3$ |  |


| Step $3 B=$ | Expected returns over the period of investment <br> 15185 times 18.04 years times 12 months | 3287249 |
| :--- | :--- | :--- |


| Step $4 \mathrm{C}=$ | Amount received in the current tax year <br> December to 28 February <br>  <br> 3 months times 15 185 | 45555 |
| :--- | :--- | :--- |


| Step $5 \quad Y=$ | $\frac{2200000}{3287249}$ |  |
| :--- | :--- | :--- |
| Capital portion is | 35555 |  |
|  |  | 388 |


| Step 5 | Actual amount received for the year <br> Less <br> Capital portion for the year <br> Taxable amount for the tax year | 45555 |
| :--- | :--- | :--- |
| 30488 |  |  |

### 8.1.1

Gross income
Salary (R28 $000 \times 10$ months employed until December)
Interest
SA company dividends
Lump sum on resignation
Leave pay (amount for services rendered due to him in terms of his service contract, not a
Watch as long service award less than R5 000 excluded
Farewell gift, not gross income not received from employer, but as gift from colleagues

## Exclude lump sum on retirements - to be taxed separately

Lump sum on retirement
Gross income excluding lump sums on retirement

## Less exemptions

SA company dividends
Interest

## Income

354700

## Less deductions

Deduction to provident fund
Determine the maximum deduction
The lesser of R350 000
OR

## The higher of:

$27,5 \% \times$ remuneration
Salary
Leave pay (amount for services
rendered due to him in terms of his contract)
OR
Calculate taxable income before 11 F and 18 A as above Income $27,5 \% \times$
The higher of the two amounts is R97 543

| 348500 |  |
| ---: | ---: |
| 280000 |  |
| 68500 |  |
| 354700 |  |
| 354700 |  |

Apply the rules
Are the contributions more or less than the amount calculated as maximum deduction?
Actual contributions ( $12 \%$ salary of R280 000)
33600
Contributions as yet not allowed
(before the 2017 tax year, contributions to a provident fund were not allowed as a deduction)
Total contributions to be taken into account
Less maximum allowable
Difference to be allowed as a deduction against taxable lump sum received

| 33600 |
| ---: |
| 188000 |
|  |
| 221600 |
| 97543 |
| 124058 |

Taxable income
257157

Normal tax per tables (Appendix A)
50 388,69
Tax on
Less minimum of scale
Add $26 \%$ of difference 26\%
Normal tax

| 257157 |  |
| ---: | ---: |
| 205900 | 37062,00 <br> 13326,69 |
| 51257 | $\mathbf{5 0 3 8 8 , 6 9}$ |

Less rebates

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
633000

Less deduction against the lump sums (para 5 of the 2 nd schedule)
124058
Provident fund contributions not allowed over period of membership and this year

508942

Tax on lump sums per Appendix C
Less
18\%
Total amount of tax on the lump sum resignation benefits

The total amount of tax that Mr Dean will pay for the tax year is
Net normal tax
Withdrawal benefit fund tax

| $\begin{array}{r} 508942 \\ 25000 \end{array}$ |  |
| :---: | :---: |
| 483942 |  |
|  | 87 109,47 |
|  | 125 144,36 |
|  | 38034,89 |
|  | 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
500000

Less deductions against the lump sums (para 5 of the 2 nd schedule)
All contributions were allowed over the period of her employment
Total contributions of $6 \%$ of cash salary is less than maximum of $27,5 \%$

Taxable portion of lump sums
500000

Tax on lump sums per Appendix C
Less tax-free portion


Total amount of tax on the lump sum resignation benefits

### 8.3 Wyman



## 8.4


(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 107820 calculated above).

## Solutions to more complex examples from the Student Book

## Example 8.2.1

Tax payable on lump sum
Current withdrawal benefit 840000
Less deductions;
Previous contributions not allowed $\quad 72500$
Total amount of lump sum liable for tax
Calculate tax according to table for lump sums on withdrawal
Amount of lump sum
Less beginning of scale
Fixed amount
Difference $\times 27 \%$
143325
Tax on lump sums

| 767500 |  |
| ---: | ---: |
| 660000 |  |
|  | 114300 |
| 107500 | 29025 |

Normal tax liability
Other taxable income
Old employer
357000

New employer
315000

Normal tax per table
Tax on
Less minimum of scale
Add 31\% of difference
Less rebates
Primary
14958

Normal tax due
Less employees' tax
Normal tax due by Ms Henry
Note that there are two separate tax calculations which have no influence on each other.

## Example 8.3.1

| Lump sum received in current tax year | 1850000 |
| :--- | ---: |
| Add previous lump sum | 610000 |
| $\mathbf{2 4 6 0 0 0 0}$ |  |


| Tax on | 2460000 |  |  |
| :---: | :---: | :---: | :---: |
|  | $\frac{1050000}{1410000}$ | 130500 | (fixed amount) |
|  |  | 507600 | 36\% |
|  |  | 638100 |  |

Less tax on the first lump sum using the current tax tables

| 610000 |  |  |
| ---: | ---: | ---: | ---: |
| 500000 | 0 | (fixed amount) |
| 110000 | 19800 | $18 \%$ |

638100

Amount of tax on present lump sum
(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;
- 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.


## 10.1

## Machinery

R980 000 20\%
Machine Kelvin
Original cost
Less: S 12C for 2017

Less: S 12C for current year 20\% $\quad 40 \% ~$| 100000 |
| ---: | ---: |

Income tax value (100 $000-(40000+20000))$
Proceeds
Amount to be added to taxable income
(72 000-40 000)

## Machine Hot

R120 500 40\% (unused machine)

## Rental

R20 00012 months

## Lease premium

$\frac{\text { R280 } 000}{300} \times 12$ months

## Leasehold improvements

Cost of completion $=$ *R354 400
(* actual amount < contract amount)
If the actual cost of the improvements is less than the amount stipulated in the lease, the
lessor is taxed on the amount stipulated in the lease (gross income, para (h)) and the lessee
can only deduct the actual cost of the improvements (S 11(g)).
Original contract 306 months
Period of completion -9 months
Is period $<25 \times 12=300$ ? Yes
Period used in year 3 months
Date of lease: 01/02/2017
Completed: 31/10/2017

R354400
$297 \times 3$
297 months
Date of start of trading 01/12/2017

## Motor car

| BMW: $\frac{\text { R } 542000}{5 \text { years }} \times 9$ months | Wear \& tear | $11(\mathrm{e})$ |
| :--- | :--- | ---: |
| Ford: $\frac{\mathrm{R} 450000}{5} \times \frac{12}{12} 2017$ | $11(\mathrm{e})$ <br> current year | 90000 |
| $(450000-90000) / 5 \times \frac{3}{12}$ |  | 18000 |
| Total $11(\mathrm{e})$ | 108000 |  |

## 10.2

## Note 1 Lease premium

| $\frac{100000}{25} \times \frac{5}{12}$ | 1667 |
| :--- | :---: |
| Rental 150005 | 75000 |
| Lease improvements |  |
| 25 years less 4 months until completion $=296$ months |  |
| Brought into house on 1 February, 1 month |  |
| To the value of use R500 000 |  |
| $\frac{500000}{296}$ months $1 \times$ month | 2196 |

## Note 2 Doubtful debts

| Allow current tax year |  | 4000 |
| :--- | :--- | :--- |
| Add back previous tax year | 3500 |  |

## Note 3 S 12C machine

New is $40 \%$
Add installation costs
$(45000+10000) 40 \% 22000$

## Note 4 Legal costs

Drawing up of lease contract is capital expense
Cost of defending - in the production of income

## Note 5 Repairs

| Cleaning |  | 1250 |
| :--- | :---: | :---: |
| Old aircon (recoupment of wear and tear) | 3000 |  |
| New aircon | Not a repair, new capital asset |  |
| $\frac{8500}{6} \times \frac{6}{12}$ | 708 |  |

10.2.1

| Machine Wood |  |  |  |
| :---: | :---: | :---: | :---: |
| 2017 | No deduction, not brought into use current year Add import duties | 550000 456000 <br> 94000 |  |
| Cost | $550000 \times 20 \%$ brought into use in current tax year Used machine allow 20\% |  | 110000 |
| Machine Iron |  |  |  |
| Cost price |  |  | 912000 |
| Less $\begin{array}{ll}\text { Accum } \\ & 2016 \\ & 2017 \\ & \text { Curre }\end{array}$ | lated wear and tear |  | 547200 |
|  | \% 912000 (used machine use 20\%) |  | 182400 |
|  | \% 912000 |  | 182400 |
|  | tax year: 20\% 912000 |  | 182400 |
| Income tax value |  |  | 364800 |
| Proceeds |  |  | 284000 |
| S 11(o) Scrapping |  |  | 80800 |
| Machine Steel |  |  |  |
| 950000 40\% | New machine, allow $\times 40 \%$ |  | 380000 |

10.3

| Sales | Cash | 500000 |  |  |
| :--- | :--- | :--- | ---: | ---: |
|  | Credit |  | 6000000 | 6500000 |
| Less | Cost of sales |  |  | 4300000 |
|  | Opening stock |  | 250000 |  |
|  | Purchases | Cash |  | 2000000 |
|  |  | Credit |  | 400000 |
|  |  |  | 4650000 |  |
| Less | Closing stock |  | 350000 |  |


| Gross profit |  |
| :--- | :--- |
| Bad debts |  |
| Doubtful debts | Consignment <br> Debtor <br> Previous year <br> Current year |
| Damages | Loss of income <br> Legal fees |
|  | Insurance pay-out |
|  | Insurance premiums |
| Advertising | Newspaper |
|  | Billboard (capital asset, <br> not advertising) |
| Relaxer | S 11e $\frac{50000}{5} \times \frac{3}{12}$ |
| Glow | S 12C $1,5 \mathrm{~m} \times 40 \%$ |
| Thin | S 12C $80000020 \%$ |
|  | Cost |
|  | Delivery charges |
|  | S 12C $=20 \%$ |

## Net profit

|  |  |  |
| :---: | :---: | :---: |
|  | 2200000 |  |
|  |  | 50000 |
|  |  | 100000 |
|  | 10000 |  |
|  |  | 15000 |
|  |  | 500000 |
|  |  | 25000 |
|  | 470000 |  |
|  |  | 40000 |
|  |  | 4000 |
|  |  | 0 |
|  |  | 2500 |
|  |  | 600000 |
|  |  | 160000 |
| 500000 |  |  |
| 30000 |  |  |
| 530000 |  | 106000 |
|  | 2680000 | 1602500 |
|  |  | 1077500 |

## 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.


## 11.1

Income from partnership

Net profit given as per question

Bad debts rec.
Interest
Bad debts
Goodwill
Drawings Gee
Interest paid

To be added back and allowed as in partnership share To be added back and allowed as in partnership share Never income of the partners
Not allowable deduction - capital nature, add back
Not allowable deduction - capital nature, add back
Allowable deduction

Other expenses allowable, goodwill and drawings added back

## Taxable income from partnership

| + | - |
| ---: | ---: |
| 213820 |  |
|  | 3750 |
| 2000 | 6360 |
| 60000 |  |
| 6600 |  |
|  | 40000 |
| 0 | 0 |
|  | 232310 |
| 282420 | 282420 |

## Divide in partnership ratio

| Gee | $70 \%$ | 232310 | $\times 70 \%$ | 162617 |
| :--- | :--- | :--- | :--- | :--- |
| Tee | $30 \%$ | 232310 | $\times 30 \%$ | 69693 |

## Calculation of taxable income for individual partners

Taxable income from partnership
Add
Salary
Interest
Interest from p/ship

Bad debts recovered

## Gross income for each partner

Less interest exempt
Taxable income

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 | Tee |
| ---: | ---: |
| 162617 | 69693 |
| 36000 | 45000 |
| 4452 | 1908 |
| 40000 | 0 |
| 2625 | 1125 |
| 0 | 0 |
| 245694 | 117726 |
| -23800 | -1908 |
| 221894 | 115818 |

## 11.2

Fees earned
2000000
Less: Local dividends (Exempt)

## Deductions

| Entertainment (S 11 (a)) | In the production of income |  |
| :--- | :--- | ---: |
| Interest incurred | (Not in production of income |  |
|  | Dividends are exempt income) |  |
| Interest on capital accounts | Dr Collins | 15600 |
|  | Dr Arrow | - |


| Rentals |  | 180000 |
| :--- | :--- | ---: |
| Replacement of medical equipment |  | 16600 |
| Salaries of employees | Dr Collins |  |
| Salaries of partners | Dr Arrow | 245000 |
| Subscriptions to medical journals |  | 460000 |
| Wear and tear on medical books |  | 460000 |
|  | 25800 |  |
| 16000 |  |  |

## Dr Collins

| Gross income |  | 728500 |  |
| :--- | :--- | :--- | ---: |
| Share of partnership profit | $50 \% \times$ | 491000 | 245500 <br> Salary |
| Interest |  |  | 460000 |
|  |  | 46000 |  |
| Less: Exemption |  |  |  |
|  | Interest | (limit to actual amount of interest received) | 23000 |

## Income

705500
Less: deductions
Retirement annuity fund
Determine the maximum deduction
The lesser of R350 000
OR
Calculate taxable income before S 11 F and 18 A as above
Income

Apply the rules
Are the contributions more or less than the amount calculated as maximum deduction?

> Actual contributions $\quad$ R79 000
> Limit the deduction to actual contributions

Taxable income

Tax payable:

less \begin{tabular}{l}
626500 <br>
<br>

\hline | 584200 |
| ---: |
| 42300 |


 

\hline 155505,00 <br>
16497,00 <br>
\hline
\end{tabular}

| Normal tax per table | 172002,00 |
| :--- | ---: |
| Less: Rebates | 14958,00 |
| Net normal tax | 157044,00 |
| Less: Provisional tax paid | 150000,00 |
| Tax due to SARS | 7044,00 |

N6 Income Tax Lecturer Guide

## 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 |  |  |  | 220000 |
| Fruit sold to a co-operative society |  |  |  | 450000 |
| Sale of fruit juice that had been bottled on the farm |  |  |  | 400000 |
| Livestock sold - | 100 cows |  |  | 850000 |
|  | 300 sheep |  |  | 300000 |
| Bonus from co-operative society based on fruit sold |  |  |  | 20000 |
| Interest earned from co-operative - not farming income |  |  |  | 25000 |
| Closing stock - | cost price - harvested |  |  | 170000 |
|  | growing crop (not produce) |  |  | Nil |
| Closing stock - | livestock (at standard values) |  |  | 56000 |
| Rations - | 4 cows x R8 000 (market value) |  |  | 32000 |
|  | 8 sheep at R1100 (market value) |  |  | 8800 |
| Livestock donated out at market values: |  | ( $3 \times \mathrm{R} 8000$ ) | cows | 24000 |
|  |  | $(5 \times$ R1 100) | sheep | 5500 |
| Livestock slaughtered for private use: |  | $(1 \times \mathrm{R} 3000)$ | cows | 3000 |
|  |  | $(4 \times \mathrm{R} 450)$ | sheep | 1800 |
|  |  |  |  | 2566100 |
| Expenses |  |  |  |  |
|  |  |  | 220000 |  |
| Opening stock: Livestock at standard value |  |  | 62000 |  |
| Opening stock: Fruit - harvested (at cost) |  |  | 180000 |  |
| Opening stock: Fruit - unharvested |  |  | Nil |  |
| Rations - | 4 cows $\times$ R8 000 (market value) |  | 32000 |  |
| (seen as wages) | 8 sheep at R1100 (market value) |  | 8800 |  |
| Purchases of livestock |  |  | 500000 |  |
| Wages paid to farm employees |  |  | 320000 |  |
| Interest incurred on a loan - new fruit trees |  |  | 10000 |  |
| Purchase of new tractor on 1 May - S 12B |  |  |  |  |
| $50 \% \times \mathrm{R} 800000$ |  |  | 400000 |  |
| Costs of producing and bottling of fruit juice |  |  | 200000 |  |
| Fodder purchased |  |  | 20000 |  |
| Veterinary expenses |  |  | 24000 |  |
| Repairs to fences |  |  | 32000 |  |
| 2008800 |  |  |  |  |


| Farming income before capital development expenditure |  |  | $\begin{array}{r} 557300 \\ 30000 \end{array}$ |
| :---: | :---: | :---: | :---: |
| Less: | Prevention of soil erosion |  |  |
|  |  |  | 527300 |
| Less: | Capital development expenses brought forward | 7000 |  |
|  | Clearing of land for planting new fruit trees | 50000 |  |
|  | New irrigation pump purchased | 130000 |  |
|  | New dipping thanks | 54000 |  |
| 241000 |  |  |  |
| Taxable farming income |  |  | 286300 |

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