

**Tax Professional**  
**Knowledge Competency Assessment**  
Sample Paper 1: Solution

## Suggested Solution

Question	Topic	Marks
1	Various – Advisory	50
2	VAT, CGT and Capital Allowances	30
3	Normal Tax Calculation	40
4	Analysis of Financial Statements	40

Total marks: 160

The marks specified are an indication of the expected length and detail of your response.

## Question 1

50 marks

### Part A

40 marks

#### Enquiry 1

##### The Winner

- For an amount to be included in a taxpayer's gross income for Income Tax purposes, all the requirements of the section 1 'gross income' definition must be met. The requirements for a resident are the following:
  - The total amount in cash or otherwise;
  - Received by or accrued to or in favour of such resident;
  - During such year of assessment; and
  - Excluding receipts or accruals of a capital nature. (2)
- The special inclusions in the definition of 'gross income' must also be considered and of specific relevance in this regard are the par(i) inclusion for fringe benefits and the par(c) inclusion for any amount, including a voluntary award, received or accrued in respect of services rendered. (1)
- The issue that needs to be determined in this enquiry is whether there will be an amount in cash or otherwise.
  - In *Lategan v CIR* it was held that an 'amount' includes not only money but also the value of every form of property earned by the taxpayer which has a money value. Therefore, although no cash will be paid to the winner it is necessary to determine whether they will derive any benefit which has a money value. (1)
  - In *C: SARS v Brummeria* it was held that the right to use loan capital interest-free had an ascertainable money value and there was therefore a value that should be included in the taxpayer's gross income. The judgment also laid down the principle that the word 'amount' in the definition of 'gross income' must be interpreted widely. (1)
  - SARS' Interpretation Note No. 58 adopts the approach of the *Brummeria* judgment and states that ' the test to be applied in order to determine whether the receipt or accrual has a monetary value is an objective one and not

subjective'. The Interpretation Note also states that the Stander case incorrectly reflected the law on this point. (1)

If the winner is an employee

- Paragraph 2 of the Seventh Schedule of the Income Tax Act provides that a taxable benefit will be included in para (i) of the 'gross income' definition of an employee if, as a benefit or advantage or by virtue of such employment or a reward for services rendered or to be rendered by the employee to the employer, the employee was provided: (1)
  - free or cheap services – the air ticket. (Para 2(e)) (1)
  - the use of residential accommodation – in this case the use of the house in Greece for two weeks. (Para 2(d)) (1)
- The value of the air ticket will be determined in accordance with para 10(1) of the Seventh Schedule, which provides that the value will be the cost to the employer of providing the service. (1)
- The value of right to use the house in Greece for two weeks: According to para 9(4)(b) of the Seventh Schedule the value would be the amount paid by the employer (Nil in this case) OR the prevailing rate per day at which such accommodation could normally be let to any person who is not an employee of the employer, less any consideration paid by the employee (Nil in this case). The value would therefore be the prevailing rate per day at which such accommodation could normally be let to any person who is not an employee. (1)
- As the holiday accommodation is situated in a foreign country the prevailing rate per day would be determined in foreign currency and as the employee may elect to either translate the value at the spot rate prevailing on the date of the transaction (the date on which the benefit accrues) or by applying the average exchange rate for the relevant year of assessment (s 25D). For practical purposes it is likely that the spot rate will be used. (1)

- Employee’s tax:
  - The value of the fringe benefits is included in the definition of 'remuneration' in the Fourth Schedule. (1)
  - Par 2 of the Fourth Schedule requires BLE, as the employer who pays 'remuneration' to an employee, to withhold the appropriate amount of employees' tax from that remuneration and pay the employees' tax to SARS by the 7th day of the month following the month in which the benefit accrued to the employee. (1)
  - If the winner is an independent agent who is deemed not to carry on a trade independently in terms of the exclusion from the definition of 'remuneration' in par 1 of the Fourth Schedule, the treatment as explained above will apply as the person will be taxed as though they are an employee. (1)

If the winner is not an employee and no employer-employee relationship exists (i.e. a true Independent Contractor)

- The fringe benefit provisions will not apply; however there may still be an amount that must be included in the person's gross income. (1)
- When the provisions of s 102 of the Tax Administration Act are examined, it would seem that the onus of proving an ascertainable money value falls on the Commissioner and not on the taxpayer. Support for this submission is found in CIR v Butcher Bros (Pty) Ltd where it is stated in the judgment that (2)
  - ‘it is essential for the Commissioner, in order to support his assessment, to show that some “amount” has accrued to or been received by the [taxpayer] by virtue of such rights’. (1)
- It follows that the Commissioner must value the amount and that this value must be the open market value of the prize awarded. (1)
- The general rule is that only receipts or accruals that have a money value will be taxed. Those that
  - do not constitute money’s worth; or (1)
  - cannot be turned into money. (1)
 will not be included in the taxpayer’s gross income. (1)

- The independent contractor would have to settle the tax owing on this amount through the provisional tax system, or on assessment. (1)
- VAT (employees and independent agents):
  - No VAT implications for the employees and independent agents as they are not vendors. (1)

#### The Employer: BLE

- Income Tax:
  - In order for there to be a deduction, all the requirements of the so-called general deduction formula as found in s 11(a) (the positive requirements) must be met. Section 11(a) reads as follows:
    - ‘For the purpose of determining the taxable income derived by any person from carrying on any trade, there shall be allowed as deductions from the income of such person so derived expenditure and losses actually incurred in the production of the income, provided such expenditure and losses are not of a capital nature.’ (2)
    - None of the Section 23 (the negative requirements) must be applicable. (1)
 Section 23(g) reads as follows:
    - ‘any moneys, claimed as a deduction from income derived from trade, to the extent to which such moneys were not laid out or expended for the purposes of trade.’ (1)
- Air ticket: All the requirements of s 11(a) will be met and s 23(g) will not be applicable. The amount that may be deducted by BLE is the actual expenditure and the timing of the deduction is in the year that the expense is incurred or paid, whichever happens first. (1)
- BLE did not incur any expenditure or losses in respect of the use of the holiday home and therefore no s 11(a) deduction will be allowed. (1)

- VAT
  - Air tickets: The transport of passengers from South Africa to a place outside South Africa and from a place outside South Africa to South Africa is a zero-rated supply in terms of s11(2)(a) of the VAT Act. The value of the supply would be actual cost \* 0% = Rnil. Therefore, BLE would not pay any VAT on the tickets and there is an input tax that may be claimed. (1)
- Free use of holiday home: No consideration was payable and no invoice was issued: as a result no s7(1) supply and because there is no supply in terms of s7(1) no input would be claimed in terms of s 1 'input' definition. (1)
- Fringe benefit provided by employer: The provision of fringe benefits is a deemed supply in terms of s 18(3) of the VAT Act and the consideration is deemed to be the cash equivalent of the benefit granted to the employee as determined in the Seventh Schedule. (1)
- However: the deemed supply rule in s 18(3) does not apply to any such benefit or advantage to the extent that it has arisen by virtue of any supply of goods or services which is an exempt supply in terms of s 12 of the Act or is a zero-rated supply in terms of s 11 of the Act or is a supply of entertainment. (1)
- Residential accommodation is an exempt supply and there is therefore no deemed taxable supply on this part of the prize. (½)
- The air tickets is a zero-rated supply as explained above and there is therefore no deemed supply. (½)

Available 36  
Max 28

## Enquiry 2

### a) South African tax implications relating to the deposits

#### Income Tax:

- The issue that needs to be determined in this enquiry is whether the non-refundable deposits are 'received' by the Swills Hotel in terms of the s1 gross income definition. (1)
- In other words, whether the amounts have been received on Swills Hotel's own behalf and for its own benefit as per *Geldenhuys v CIR*. (1)
- The amount in question is the non-refundable deposits of R100 000 (R114 000 \* 100/114). (1)
- The non-refundable deposits will be deemed to be received when the amounts are paid to the Swills Hotel due to the fact that the hotel's current policy does not freely allow for the refunding of deposits and because the amounts are not kept in a separate account till the guests arrive. (1)
- In *CIR v Genn & Co.* it was held that 'it is not every obtaining of physical control over money or money's worth that constitutes a receipt for the purposes of these provisions'. (1)
- Conclusion: Since the non-refundable deposits are received by the Swills Hotel as its own absolute property the amount of R100 000 is included in its gross income when the amount is received. (1)

Available 6  
Max 4

#### VAT:

- Kind of supply: The Swills Hotel provides commercial accommodation which is a taxable supply. (1)
- Value of supply: R14 000 (R114 000 \* 14/114). (1)
- Timing of supply: A deposit will only give rise to a supply if the amount is applied as part of the consideration (s 9(1)) but because the deposits received by Swills Hotel are not refundable and not kept in a separate account one can assume that it will be applied as part of the consideration once it is received. (2)

Available 4  
Max 3  
Total for Part A 7

b) The income tax implications of the newly proposed refundable deposit system

- The issue that needs to be determined in this part of enquiry 2 is whether the refundable deposits are received by or accrued to or in favour of the Hotel in terms of the s 1 gross income definition. (1)
- The amount in question is the refundable portion of the deposits: R50 000 (R114 000 \* 100/114 \* 50%). (1)
- Although the Swills Hotel keep R20 000 as the minimum balance in the account, for possible refund claims in a separately maintained account, and may be sufficient to cover the repayment of any possible refundable deposits the amount does not relate to the actual refundable refunds received. (1)
- All deposits received by Swills Hotel will continue to be freely mixed with other funds belonging to it. The procedure being followed and information provided would not indicate that the Hotel is obliged to keep these deposits in trust as was determined in Pyott Ltd v CIR. In addition the Swills Hotel would not appear to be acting as trustees on behalf of funds belonging to potential guests. (2)
- Conclusion: The amounts of refundable deposits will still be included in gross income as and when received by the Swills Hotel. (1)
- Repayments of refunds.
  - Because the refunds will be included in 'gross income' as and when it is received, the hotel will qualify for a deduction in terms of s 11(a) when their funds are repaid to the clients. (1)

Available 7  
Max 5

**Part B**

**10 marks**

**Option 1**

Lease premium: section 11(f)

R1 200 000 / 10 years x 2/12 (R20 000) (1)

Monthly rental

3 months actually paid/incurred (March, April and May 2014): s 11(a)

R40 000 x 3 (being March, April and May 2014) (R120 000) (1)

No adjustment for May 2014 prepayment as period involved is

less than 6 months (Proviso (aa) to s23H) (R140 000) (1)

**Option 2**

Annual rental paid on 1 March 2014 was actually incurred: s 11(a) R600 000 (1)

But limited by section 23H. (1)

> 6 months after year end (namely 10 months) (1)

10/12 x R600 000 = R500 000 (1)

which is more than R80 000 therefore s23H limitation applies (1)

Deductible: 2/12 x R600 000 (R100 000) (1)

- Conclusion: Although under both options R6 000 000 will be deducted over 10 years, option 1 will provide a larger normal tax deduction in Laddie's 2014 year of assessment. (1)

Available 10  
Max 10

## Question 2

30 marks

### a) Vat and transfer duty consequences

14 marks

#### Destruction of the warehouse

- Smokey has to account for R184 211 output tax ( $R1\,500\,000 \times 14/114$ ) on the amount received from the insurance company as this is a deemed supply (s 8(8)). (1)
- Time of supply: 18 January 2013 or during the Jan-Feb 2013 tax period. (1)

#### Acquisition of new warehouse from a non-vendor

- Transfer duty of R24 500 will be payable by Smokey (s2 of Transfer Duty Act). (2)  
( $R600\,000 \times 0\%$ ) + ( $R400\,000 \times 3\%$ ) + ( $R250\,000 \times 5\%$ )
- No VAT was levied as bought from non-vendor, but because it is not second-hand goods (it is a new building), no notional input tax deduction may be claimed. (2)

#### Acquisition of delivery vehicle

- Smokey is entitled to an input tax credit on acquisition of the delivery vehicle. An input tax credit is NOT denied in terms of s 17(2), because the vehicle is not a 'motor car' as defined. (1)
- Input tax is claimed on the cash selling price of the vehicle (s 10(6)). Entitled to claim the input tax credit of R71 228 ( $R580\,000 \times 14/114$ ) (1)
- Time of supply: 28 February 2013 (earlier of any payment or delivery (s9(3)(c)) or during the Jan-Feb 2013 tax period (1)

#### Finance charges

- No VAT on finance charges as this is an exempt supply (s2). (2)

Contractor payment to clean the land

- Smokey is entitled to an input tax credit of R15 965 ( $R130\,000 \times 14/114$ ) on the amount paid to the contractor to clean the property (s17(1) or s16(3)) (1)
- Time of supply: During the Jan-Feb 2013 tax period. (1)

Disposal of land

- Smokey has to account for output tax of R110 526 ( $R900\,000 \times 14/114$ ) on disposal of the land. (1)
- Time of supply: No output tax will be accounted for during the company's 2013 financial year. (1)
- Time of supply is 10 May 2013 (s9(3)(d)) and Smokey has to account for output tax to the extent of payment of the purchase price (s16(4)(a)(ii)). Therefore the full R110 526 will only be accounted for on 10 May 2013 (or during the May-Jun 2013 tax period) after full payment was received and which is during the company's 2014 financial year. (2)

*Presentation: Layout – must have stated consequence and timing* (1)

Available 18  
Max 14

b) Normal tax 2013 year

16 marks

Destruction of the warehouse

- No recouplement as no allowances could be claimed on the warehouse.
- The destruction of an asset is a disposal in terms of paragraph 11 of the Eighth Schedule. CGT on the disposal is calculated as:

	R	
Proceeds (R1 500 000 x 100/114) (par 35)		
or R1 500 000 less R184 211	1 315 789	(1)
Less: Base cost	(257 437)	
Cost price R450 000 x 100/114 (s23C)	394,737	(1)
Less: Apportioned to land (par 33)		
R394 737 x R800k / (1 500 000 + 800 000)	(137,300)	(1)
Capital gain	1 058 352	

- Smokey would have elected to roll the capital gain over i.t.o. par 65 of the Eighth Schedule because it was an involuntary disposal and an amount of R1 629 763 (ex VAT) at least equal to the amount received from the insurance company of R1 315 789 (ex VAT) was expended on replacement assets. (1)

The capital gain calculated on disposal of the building should be apportioned between the two replacement assets:

	R	
• New office building		
Purchase price	1 250 000	(1)
Plus: Transfer duty	24 500	(1)
(R600 000 x 0%) + (R400 000 x 3%) + (R250 000 x 5%)		
	1 274 500	

s

R

*If notional input tax was claimed in part (a):*

Cost price ex VAT (s23C):

Purchase price	1 250 000	
Plus: Transfer duty	24 500	(1)
(R600 000 x 0%) + (R400 000 x 3%) + (R250 000 x 5%)		
Less: Notional input claimed	<u>(153 509)</u>	(1)
R1 250000 x 14/114 (lower of cost or OMV)		
	<u>1 120 991</u>	

- Delivery vehicle

Cost price ex VAT (s23C):

R580 000 less R71 228 input tax claimed	<u>508 772</u>	(1)
(R1 274 500 + R508 772)	<u>1 783 272</u>	

Apportionments of above capital gain on warehouse therefore:

New office building (R1 058 352 x R1 274 500 / R1 783 272)	756,402	(1)
Delivery vehicle (R1 058 352 x R508 772 / R1 783 272)	<u>301,951</u>	(1)
	<u>1 058 352</u>	

Acquisition of new office building

- Wear-and-tear s13quin (R1 274 500 x 5%) (63 725) (1)
- 100% of the acquisition cost is used.
- 55% or 30% as per s13quin(7) not applicable as the whole building was acquired. (1)

	<b>R</b>	
Acquisition of delivery vehicle		
• Wear-and-tear s11(e) (R 508 772/ 4 years x 1/12 months)	(10 599)	(1)
• Finance charges (s24J)	(5 438)	(½)
Amount given (deductible)		
• Contractor payment (R130 000/1.14)	-	(½)
 Taxable capital gain: Roll-over Par 65		
• New office building (R756 402 x 5%) (or R756 402 x R63 725 / R1 274 500)	37 820	(½)
• New delivery vehicle (R301 951/4yrs x 1/12) (or R301 951 x R10 599 / R508 772)	<u>6 291</u>	(½)
	<u>44 111</u>	
Inclusion rate: 66.6%	29 378	(1)

The sale of land did not fall in the 2013 year of assessment as the sale was subject to a condition that was only met in the 2014 year of assessment (par 13 of the 8<sup>th</sup> Schedule) (1)

Note:

- *no mark if annual exclusion was deducted*
- *no mark if 66,6% was applied before roll-over and aggregation*

Available 18  
Max 16

Question 3

40 marks

Part A

32 marks

	<b>R</b>	<b>R</b>
Taxable Income		1 980 000

**1. Fixed Assets**

1.1	Engraver			
	Purchase Price	10 000		
	Delivery Cost	800		(1)
		<u>10 800</u>		
	Less: Section 12C allowance			
	R10 800 x 20%	2 160	(2 160)	(1)
	Second-hand – no accelerated allowance			
		<u>4 640</u>		

1.2	Woodworking Tools		(5 599)	(1)
	Section 11(e) – small items written-off to R1 < R7 000, Binding general ruling No 7			

1.3	Cutting Machine			
	Cost of Machine			
	£50 000 x R11.75 = R587 500			
	Less: Section 12C allowance			
	R587 500 x 40%		(235 000)	(1)
	Foreign exchange differences (s24I)			
	Debt: £50 000 x (R11.75 – R11.80)		(2 500)	(2)
	FEC: £50 000 x (R11.85 – R11.90)		2 500	(2)

	R	R	
1.4 Scale			
Purchase Price – section 23J no longer applies	80 000		(1)
Less: Wear & Tear (Section 12C) R80 000 x 20% as second-hand		(16 000)	(1)
1.5 Manufacturing building – s13(1) allowance R1 500 000 x 5%		(75 000)	(1)
1.6 Recoupment on sale of Machine BB1			
Selling price (R547 200 x 100/114) = R480 000 but limited to original cost of R400 000	400 000		(2)
Less: Tax value	-		(1)
Recoupment (s8(4)(a) & par 66 of the 8 <sup>th</sup> Schedule	400 000		
Capital Gain			
Selling Price	480 000		
Less: Recoupment	(400 000)		
Proceeds	80 000		(1)
Less: Base Cost (R400 000 – R400 000) (cost – allowances claimed)		-	(1)

	R	R	
Capital Gain	80 000		
Capital gain – elected par 66 of the 8 <sup>th</sup> Schedule as proceeds > include only 40%, as 40% claimed on new Machine BB2 (replacement machine) – include later	32 000		(1)
Section 8(4)(eB) – R400 000 x 40% (based on the rate of machine BB2)		160 000	(1)
Machine BB2 – Section 12C allowance R1 350 000 x 40%		(540 000)	(1)
<b>2. Learnership Agreements</b>			
Learner B – disabled learner			
Section 12H(2)(b) and (5) – annual allowance – (R50 000 x 10/12)		(41 667)	(2)
Section 12H(5) – completion allowance		(50 000)	(1)
<b>3. Doubtful Debts – section 11(j)</b>			
2012: Add back R75 000 x 25%		18 750	(1)
2013: Deduct new provision R100 000 x 25%		(25 000)	(1)
<i>Alternative:</i> Increase in provision R25 000 x 25% = R6 250			
<b>4. Lump Sum paid out to Retired Employee</b>			
Amount deductible in terms of Section 12M(2)		(120 000)	(1)

	R	R	
<b>5. Trading Stock</b>			
5.1 Purchases – Raw material s11(a)		(1 400 000)	(1)
Closing stock (s22(1)) – raw materials		280 000	(1)
R1 400 000x 20%			
5.2 Donation of finished goods		17 500	(1)
Recoupment at cost ito s22(8)(C)			
donation ito s18A allowable deduction			
<b>Sub Total</b>		<u>(54 176)</u>	
<b>Taxable Capital Gain</b>			
Capital gain – as per calculation above	32 000		
Less: Assessed capital loss	(15 000)		(1)
	<u>17 000</u>		
Taxable Capital Gain (66.6%)		<u>11 322</u>	(1)
		<u>(42 854)</u>	
Donation Section 18A: R17 500 as per 5.2 above			
Maximum deduction: 10% x R0		-	(1)
Because of loss position			
<b>Assessed Loss</b>		(42 854)	
Tax rate of 28% but no tax payable –			
assessed loss carried forward to the following			(1)
year of assessment			

Available 32  
Max 32

Part B

8 marks

- Dividends tax is payable at 15% on the amount of any dividend paid on or after 1 April 2012 (s64E). (1)
- Although the dividends tax is a liability of the shareholder, the company paying the dividend is obliged to withhold the correct amount of tax and pay it to SARS (s64G). (1)
- The company is obliged to withhold the dividends tax unless the shareholder is exempt in terms of s 64F AND the shareholder has provided the necessary declaration and undertaking to the company by no later than the date on which the dividend is paid, unless the company has determined an earlier date (s64G(1)).(2)
- The dividend tax must be paid to SARS by the end of the month following the month in which the dividend is paid (s64K). (1)
- 'Paid', in the case of an unlisted company means the earlier of the date on which the dividend is paid or becomes due and payable (s64E(2)). (1)
- In Lavender's case, the payment date is 22/11/2013 and the dividends tax must therefore be paid to SARS by no later than 31/12/2013. (1)
- The dividends tax to be withheld is determined as follows, assuming that exempt shareholders have provided the necessary documentation on time:

Shareholder	Dividend Declared	Dividends Tax payable to SARS	Net Dividend paid to Shareholder	
May Peaches	1 000 000	150 000	850 000	(1)
Lavender Family Trust	7 000 000	1 050 000	5 950 000	(1)
Pealave (Pty) Ltd – beneficial owner is a resident company	2 000 000	0	2 000 000	(1)
<b>Total</b>	<b>10 000 000</b>	<b>1 200 000</b>	<b>8 800 000</b>	

Available 10  
Max 8

## Question 4

40 marks

### Note 3: Intangible assets

- Amortisation on the patent is incorrect: the accounting amortisation exceeds the allowable tax deduction and an adjustment is required.
- This will lead to deferred tax in annual financial statements. (1)
- As per s11(gC), a maximum of 5% is allowed. (1)

### Note 4: Loan to group company

- The loan bears interest at 4.5% per annum, which could be lower than a market related interest rate. (1)
- Risk that the difference in actual and market related rate could constitute a donation for purposes of donations tax. Not a dividend in specie as s64E(4) excludes loans to other resident companies. (1)

### Note 7: Trade and other receivables

- Age of the trade receivables and its impact on the provision for doubtful debts. (1)
- Other receivables of R1 622 373 could be recognised incorrectly for tax purposes. (1)
- Amounts should be included in gross income at the earlier of receipt or accrual. (1)
- The credit leg of these entries should be posted to the Statement of Comprehensive Income and included in net profit before tax where applicable. (1)

## Note 10: Trade and other payables

### Provision for bonuses

- Included in the R1 585 000 is an amount of R567 456 which depends on the final results of the company and the performance of employees during the year. (1)
- The provisions of s7B should be considered (effective 1/3/2013): any amount to which an employee becomes entitled from an employer in respect of variable remuneration is deemed to (a) accrue to the employee; and (b) constitute expenditure incurred by the employer, on the date during the year of assessment on which the amount is paid to the employee by the employer. (1)
- It is however not yet certain if the total provision will be paid out, as the employee performance evaluations have not yet been finalised. (1)
- Due to the condition, the provision is not claimable for tax purposes. (1)

### Accrued expenses and other payable

- The debit leg of these entries should be posted to the Statement of Comprehensive Income. (1)
- These expenses could be incorrectly deducted for tax purposes. (1)

## Note 13: Finance costs

- The South African Revenue Service amount of R7 326 constitutes interest, penalties and additional taxes imposed by SARS. (1)
- These costs are not tax deductible (s 23(d)). (1)

## Note 22: Comparative figures

- As there was a change in year-end, the tax period is now for 8 months. (1)
- Section 11(e) allowances could be calculated incorrectly. (1)
- Incorrect comparative figures could be used, i.e. prepayments at the end of previous tax year now reversed to the Statement of Comprehensive Income. (1)

## Investment income

- Risk of understatement of investment income. (1)
- Cash and cash equivalent decreased (note 8), yet interest income increased (note 12). (1)
- Dividends of R4 079 were received, and are not reflected as investments. (1)

## Detailed operating expenses

### Unreasonable increases in operating expenses.

- Possible excessive expenses claimed (could be disallowed e.g. s 23(g) or Tobacco Father v COT). (1)
- Examples:
  - Advertising (½)
  - Auditor's remuneration (½)

### Expenses incurred which is not deductible for tax purposes.

- Examples:
  - Legal fees of R15 000 for Mr. Galore's bail. Not deductible as private expenditure or illegal activities. There is also a risk that this constitutes remuneration and that no PAYE was withheld. (1)
  - This is a private expenditure. (1)
  - Entertainment of R10 675 paid for Mr. Galore's daughter 21st birthday. Possible employees' tax implications. (1)
  - This is a private expenditure. (1)
  - Consulting fees of R78 732 related to an objection iro expenses claimed in 2011 IT14, which SARS disallowed. (1)
  - This is possibly not in the production of income. Consider whether closely linked (this is interpreted widely) as in PE Tramway case and MTN Holdings case (audit fees). (1)

Commission paid of R798 113.

- This may be excessive and thus not for the purposes of trade (section 23(g)). (1)
- Possible understatement of PAYE. (1)

Donations of R1000.

- R500 was paid to Boys Towns, but no Section 18A certificate was received therefore not deductible. (1)
- R500 given to homeless people in Pretoria. No Section 18A certificate will be available for this donation therefore not deductible. (1)
- These donations are not deductible for tax purposes as no Section 18A certificates were received. (1)

Entertainment of R154 693 & Gifts and promotions of R597 857.

- Risk that not all expenses were incurred in the production of income. (1)
- Private expenditure is not deductible for tax purposes (section 23(a) and (b)). (1)
- No input VAT on entertainment is allowed. (1)

Management fees paid to related parties of R3 941 444.

- This expenditure could be excessive / not for trade purposes. (1)
- Valid Tax invoices to substantiate input claim may not be available. (1)

Subscriptions of R1 327 751.

- Risk that amounts of a capital nature may be included. (1)
- These will not be deductible for tax purposes. (1)

Overseas travel

- Risk that not all expenditure were for business purposes, but for private use as well. (1)
- VAT input could be overstated if claimed for the private expenditure. (1)
- PAYE could be understated if the spouse's travel expenses are not included. (1)

Total 45  
Maximum 40