Budget and Tax 2020

March 2020

Self-assessment Questions and Answers

F A S S E T

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<u>**Assessment questions: Budget and Tax update**</u>

1. **The comparable tax exemption provided for in section 9D of the Income Tax Act determines that if the foreign tax paid by a controlled foreign company is at least equal to a specific minimum percentage of normal tax that would have been payable in respect of the taxable income of the controlled foreign company (had the controlled foreign company been a resident of South Africa), the net income of the controlled foreign company will be deemed to be Rnil.**

   What percentage is required for the comparable tax exemption to be applicable for years of assessment ending on/after 1 January 2020?

   a) 75%
   b) 66.6%
   c) 67.5%
   d) None of the above

2. **Paragraph 20 of the Eighth Schedule allows for improvements to be capitalised to base cost. Which of the following improvements can be capitalised?**

a) Improvements that are still reflected in the state or nature of the asset at the time of its disposal
b) All improvements as defined, as long as the cost incurred represents a capital in nature cost
c) Only improvements that are undertaken on/after valuation date (i.e. 1 October 2001)
d) None of the above

3. **Taxpayers subject to reduced withholding tax rates on royalties, dividends and interest are required to submit a declaration and undertaking in terms of section 49E, 50E and 64H of the Income Tax Act. How often are taxpayers required to submit such declarations and undertakings?**

a) Every year
b) Every time an amount becomes payable to them
c) Once every two years
d) Once every five years

4. **What is the annual limit related to contributions to tax-free investments in terms of section 12T of the Income Tax Act from 1 March 2020?**

a) R30 000
b) R33 000
c) R36 000
d) None of the above

5. **A large multinational company with a 31 December 2021 year of assessment wants to claim its interest expense actually incurred in the production of income during the**

2021 year of assessment as a tax deduction. How much of its interest expense can be claimed as a tax deduction?

a) The deduction will be limited to 30% of its profit before tax
b) The deduction will be limited 30% of its tax EBITDA (tax earnings before interest and capital allowances)
c) The deduction can be claimed in full
d) None of the above

6. A company has taxable income generated in the current year of assessment of R10 000 000 and an assessed loss carried forward from the previous year of assessment of R15 000 000. What portion of the assessed loss carried forward can be utilised in the current year of assessment by reducing the taxable income of R10 000 000?

a) R8 000 000
b) R15 000 000
c) R10 000 000
d) None of the above

7. A natural person taxpayer purchased a home on 18 March 2020 at R1 200 000. The seller is a natural person and no VAT is levied on the sale. What will be the value of the transfer duty payable on the purchase of the home?

a) Rnil
b) R9 000
c) R6 000
d) None of the above

8. A qualifying venture capital company as defined in section 12J of the Income Tax Act is subject to a test based on the spending by the venture capital company in obtaining qualifying shares. When must this test be performed?

a) At the end of every year of assessment
b) 36 months after the date of first issue of venture capital company shares
c) 48 months after the date of first issue of venture capital company shares
d) None of the above

9. Which of the following represents inclusions in the definition of "variable remuneration" per section 7B of the Income Tax Act?

a) Bonus
b) Leave pay
c) Night shift allowance
d) All of the above

10. A natural person provisional taxpayer passes away during the year of assessment. Which of the following statements is true?

a) For the purposes of provisional tax, the executor of the deceased estate must estimate the deceased taxpayer's taxable income for the period ending on the date of death

b) For the purposes of provisional tax, the executor of the deceased estate does not need to estimate the deceased taxpayer's taxable income for the period ending on the date of death
c) For the purposes of provisional tax, the executor of the deceased estate must estimate the deceased taxpayer's taxable income for the period ending on the last day of the provisional tax period during which the provisional taxpayer passes away
d) None of the above

11. **TRUE OR FALSE: Section 22B of the Income Tax Act and paragraph 43A of the Eighth Schedule will only be applicable if an actual distribution of shares occurred.**

12. **TRUE OR FALSE: The foreign employment tax exemption provided for in section 10(1)(o) of the Income Tax Act amounts to R1.25 million from 1 March 2020.**

13. **TRUE OR FALSE: Retirement funds and insurers that pay an annuity must, during years of assessment commencing on / after 1 March 2020, when deducting or withholding employees' tax disregard any tax rebates applicable to a surviving spouse or any other taxpayer receiving remuneration from more than one employer, if SARS issues a directive that the rebate must be disregarded.**

14. **TRUE OR FALSE: The tax rates applicable to a small business corporation as defined in section 12E have remained unchanged.**

15. **TRUE OR FALSE: From 1 March 2020, when deducting actual costs against a fixed travel allowance received from an employer, the maximum value that the section 11(e) wear-and-tear allowance can be claimed on a vehicle owned by an employee is R595 000.**

16. **TRUE OR FALSE: The certified emissions reduction exemption provided for in section 12K of the Income Tax Act has been increased.**

17. **TRUE OR FALSE: The validity of the Confirmation of diagnosis of Disability form (ITR-DD) in the case of moderate or severe permanent disabilities has been extended to 10 years.**

18. **TRUE OR FALSE: The old age, disability and care dependency grants have remained unchanged.**

19. **TRUE OR FALSE: The first R500 000 received as a withdrawal lump sum benefit is exempt from tax.**

20. **TRUE OR FALSE: The tax threshold for a natural person younger than 65 years, has been increased to R83 100 for the 2021 year of assessment.**

Answers

1.

Correct answer: (c)

Explanation

The CFC rules contain an exemption known as a comparable tax exemption

The net income of a CFC shall be deemed to be nil where the taxes payable on income by the CFC to foreign governments was at least 75% of the South African tax the CFC would have paid had it been a South African resident company

Amendment: The comparable tax exemption threshold is reduced to 67.5%

Effective in respect of the years of assessment **ending on/after 1 January 2020**

2.

Correct answer: (b)

Explanation:

Paragraph 20(1)(e) (amounts that from part of qualifying expenditure included in base cost) was updated to remove the requirement that improvement must still reflect in the asset at the time of disposal:

(e)'The expenditure actually incurred in effecting an improvement to or enhancement of the value of that asset (phrase removed: ~~if that improvement or enhancement is still reflected in the state or nature of that asset at the time of its disposal)~~'

3.

Correct answer: (c)

Explanation:

The requirement to submit a declaration before each payment will be removed and be replaced by a requirement to provide such a declaration once every two years, along with an undertaking to inform the payor if circumstances change during that period

With effect from 1 July 2020 such declaration and undertaking will only be valid for a **period of five years** from the date of declaration

4.

Correct answer: (c)

Explanation:

- Section 12T of the Income Tax Act provides for an exemption of:

Interest earned;

Dividends earned;

Capital gains realized

- related to tax-free investments
- The limit of the annual contribution to tax-free savings accounts was R33 000 per annum
- It was announced in the Budget Speech that this limit will be increased to R36 000 from 1 March 2020

5.
Correct answer: (b)

Explanation:

- If a company incurs interest cost related to trade and in the production of income as defined, the interest expense can be claimed as a deduction
- 2020/2021 Budget proposal: For **years of assessment commencing on/after 1 January 2021**, the net interest expense deduction claimable by companies in multinational groups will be **limited to 30% of taxable income before interest and capital allowances (similar to EBITDA, but from a tax perspective)**
- Excess

Carried forward for five years and will be claimable in a following period (subject to the limitation, on a FIFO basis)

After this the balancing unclaimed portion will be lost

6.
Correct answer: (a)

Explanation:

- Section 20 of the Income Tax Act relates to assessed losses carried forward to the following year of assessment and set off of this assessed loss against taxable income generated in the following year
- 2020/2021 Budget proposal: Only 80% of the taxable income can be "reduced" by applying the assessed loss carried forward from previous years
- Excess

Will be carried forward

Uncertainty exists whether a time limit will be applicable or whether the excess of the assessed loss will be carried forward indefinitely until fully utilised

7.
Correct answer: (c)

Explanation

From 1 March 2020 the duty-free portion of the purchase price is R1 000 000.

Therefore, the transfer duty payable will be (R1 200 000 – R1 000 000) x 3% = R6 000

Value of the property (R)	Rate of transfer duty		
0 - 1 000 000		0%	
1 000 001 - 1 375 000		3% above	1 000 000
1 375 001 - 1 925 000	11 250 +	6% above	1 375 000
1 925 001 - 2 475 000	44 250 +	8% above	1 925 000
2 475 001 - 11 000 000	88 250 +	11% above	2 475 000
11 000 001 - and above	1 026 000 +	13% above	11 000 000

8.
Correct answer: (c)

Explanation:

If, at the end of the year of assessment, after the expiry of 48 months from the date of the first issue of the VCC shares, the VCC:

- Has spent less than 80% of its expenditure to obtain qualifying shares with a book value of R 50 million (R 500 million in a junior mining company), *or*
- Has spent more than 20% of the amounts received to acquire qualifying shares in any qualifying company

the Commissioner can withdraw the VCC approval. The abovementioned period of 48 months was 36 months before 21 July 2019.

9.
Correct answer: (d)

Explanation:

The current definition of variable remuneration reads as follows:

'variable remuneration' means-

(a) overtime pay, bonus or commission contemplated in the definition of 'remuneration' in para 1 of the Fourth Schedule;

(b) an allowance or advance paid in respect of transport expenses as contemplated in s 8(1)(b)(ii); or
(c) any amount which an employer has during any year of assessment become liable to pay to an employee in consequence of the employee having during such year become entitled to any period of leave which had not been taken by the employee during that year.

The following paragraphs have been added –
(d) any night shift allowance;
(e) any standby allowance; or
(f) any amount paid or granted in reimbursement of any expenditure as contemplated in s8(1)(a)(ii)

The above additions come into operation on 1 March 2020 and applies in respect of amounts accrued or expenditure incurred on or after that date.

10.
Correct answer: (b)

Explanation:

- A proviso has been added to paragraph 19 of the Fourth Schedule that determines that, in respect of the year of assessment that a person passes away, no estimate is required to be made in respect of the deceased period ending on the date of death of that person

11.

Answer: FALSE

Explanation: In order to curb abuse, the anti-dividend stripping anti-avoidance measures are extended to not only apply in respect of actual disposals of shares but also apply in respect of **deemed disposals** of shares

12.

Answer: TRUE

Explanation: From 1 March 2020 the exemption will only apply to the extent that remuneration does not exceed **R 1.25 million** *(previously R1 million)* during a year of assessment

Any excess above the R 1.25 million is subject to normal tax in SA

13.
Answer: TRUE

Explanation: Retirement funds and insurers that pay an annuity must, when deducting or withholding employees' tax, **disregard any tax rebates** in terms of section 6 applicable to a surviving spouse or any other taxpayer, if SARS issues a directive that the rebate must be disregarded

- This will be the case where the person to whom the annuity is paid receives an amount of remuneration from more than one employer;
- Any PAYE excessively withheld will be **refunded upon assessment**;
- Effective from 1 March 2021 and apply in respect of any year of assessment commencing on or after that date.

14.
Answer: FALSE

Explanation: The tax rates applicable to 2021:

Taxable income (R)			Tax Rate (R)				
0	-	83 100			0%		
83 101	-	365 000			7%	above	83 100
365 001	-	550 000	19 733	+	21%	above	365 000
550 001	-	and above	58 583	+	28%	above	550 000

The tax rates applicable to 2020:

Taxable income (R)			Tax Rate (R)				
0	-	79 000			0%		
79 001	-	365 000			7%	above	79 000
365 001	-	550 000	20 020	+	21%	above	365 000
550 001	-	and above	58 870	+	28%	above	550 000

15.
Answer: FALSE

Explanation: The travel allowance table has been updated and now limits the section 11(e) wear-and-tear allowance to R665 000 (which represents the final value of the vehicle including VAT given in the table).

16.
Answer: FALSE

Explanation: The certified emissions reduction exemption provided for in section 12K of the Income Tax Act has been repealed

17.
Answer: TRUE

Explanation: The validity period of the form has been extended to 10 years for moderate to severe permanent disabilities

18.
Answer: FALSE

Explanation: The Budget Speech announced in increase in grants with an R80 increase for the old age, disability and care dependency grants to R1 860 per month.

19.
Answer: FALSE

Explanation: The first R25 000 received as a withdrawal lump sum benefit is exempt from tax. In the case of a retirement lump sum benefit, the first R500 000 received will be exempt from tax

20.
Answer: TRUE

Explanation: The tax threshold for natural persons younger than 65 years has been increased from R79 000 in the 2020 year of assessment to R83 100 in the 2021 year of assessment.

Type of person	2020	2021
Natural persons below age 65	79 000	83 100

Natural persons 65 - 74 years	122 300	128 650
Natural persons 75 years and older	136 750	143 850