#### Soccer Strips (Pty) Ltd

(a) Normal tax liability
Net income per income statement 8,280,671
Less exempt foreign dividends

1.1 Arsenal Aces Plc of R10 000
The section 10(1)(k)(ii)(dd) exemption is available because the shareholding and voting rights is 20%
- at least 20% is required for this exemption

1.2 Liverpool Legends Plc of R20 000
Exempt in terms of section 10(1)(k)(ii)(bb)

1.3 Manchester Magicians Plc of R30 000
Exempt portion (section 10(1)(k)(ii)(aa)(A) - 30% of R30 000)
30% from South African source

1.4 Chelsea Champs Plc of R40 000
Exempt portion (section 10(1)(k)(ii)(aa)(B) - 40% of R40 000)
40% is a dividend from a RSA company

1.5 Everton Eagers Plc (a controlled foreign company therefore section 9D applies)
'Preliminary' net income 1,200,000
Proportional amount to Soccer Strip Suppliers (Pty) Limited (15%) 180,000
Less exemptions
- Foreign business establishment (section 9D(9)(b)) (R300 000) -45,000
- South African taxable income (section 9D(9)(e)) (R180 000 x -27,000
Section 9D inclusion in taxable income (see below) 108,000
Dividend accrued of R50 000 -50,000
Exempt portion (section 10(1)(k)(ii)(cc) (R50 000 dividend is less than s 9D inclusion net of taxes, being R108 000 x 70% = 75 600, therefore entire dividend exempt)

1.6 Less profit a sale of Coventry Clowns Plc shares (capital in nature)

1.7 Less distribution from Iwisa Kings Limited
Add dividend from Iwisa Kings Ltd
As Iwisa Kings Limited is in liquidation, the revenue profits and the 'post-CGT' capital profit content of the distribution will be a dividend (paragraph (a) of the definition of a 'dividend').
Share capital (pure) - not a dividend 0.00
Revenue profits 3.00
Pre-CGT capital profit 0.00
Post-CGT capital profit - 'pre' portion only 0.00
Post-CGT capital profit - 'post' portion only 0.30
Dividend per share 3.30
10 000 shares held (10 000 x R3.30 a share) 33,000
Less section 10(1)(k)(ii) exemption for 'local' dividends -33,000
Alternative 1
Liquidation distribution

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return of share capital (R1)</td>
<td>10,000</td>
</tr>
<tr>
<td>Pre-CGT capital profit (R1,50)</td>
<td>15,000</td>
</tr>
<tr>
<td>Post-CGT capital profit - 'pre' portion only (R0.20)</td>
<td>2,000</td>
</tr>
<tr>
<td>The dividend is R 60k - R27k</td>
<td></td>
</tr>
<tr>
<td>Less section 10(1)(k)(i) exemption for 'local' dividends</td>
<td>-33,000</td>
</tr>
</tbody>
</table>

Add back loss on the liquidation of Iwisa Kings Limited (capital in nature) 40,000

1.8 Less distribution from Amakhosi Limited
As Amakhosi Limited is not in liquidation, capital profits distributed to shareholders constitute a 'dividend' as defined (paragraph (b) of the definition of a 'dividend'). Thus the entire R70 000 (5 000 x R14) is a 'dividend' as defined. But then this dividend of R70 000 is exempt in terms of section 10(1)(k)(i) -70,000

1.9 Less 'pure' share premium repayment by Orlando Limited (paragraph (e) of the definition of a 'dividend' excludes distributions out of the share premium account). Therefore, no portion of the R80 000 will be a dividend. -80,000

1.10 Return from Chiefs Collective Investment Scheme in Property (fully taxable) - no exemption - section 10(1)(k)(i)(bb) 0

1.11 Less exempt portion of the return from Pirates Collective Investment Scheme in Securities (portion funded by 'local' dividends) -90,000

1.12 Less 'local' dividend from Sundown Socks (Pty) Limited (exempt in terms of section 10(1)(k)(i)) -110,000

2 Add back depreciation on second-hand sewing machine 20,000

The second-hand sewing machine' tax cost is the lesser of the actual cost of R240 000, and the arm's length cash cost of R220 000. Its tax cost is the lesser amount of above. But because it has been acquired from a 'connected person' as defined, the section 12C allowance is determined on an amount being the lesser of the cost to the connected person - R200 000 and the market value when brought into use (on 1 November 2007) by Soccer Strip Suppliers (Pty) Limited - R220 000. The section 12C allowance is at 20% because it is second-hand plant and is determined on R200 000 (the cash cost to the connected person).

Less section 12C allowance on second-hand machine (R200 000 at 20%) -40,000
3 Add back capital portion of the bad debt 600,000
Write off of bad debts allowed as previously included in income 1
Interest accrued on the loan to Chatsworth Canvas (Pty) Limited (gross income) - R 30 000 0 1

4 Add back disallowed interest on Philamon Radebe's loan: 107,000
'Original' R400 000 loan - interest deductible (but see below) R300 000 loan - interest deductible (but see below) R300 000 'provisional tax payment' loan (section 11(a) not satisfied OR section 23(d))
'Deductible' interest is R92 000 (R107 000 - R15 000) 92,000
Weighted average of borrowings
R400 000 for 122 days = 48,800,000
R700 000 for 244 days = 170,800,000
For 366 days 219,600,000
On average 600,000
Approved rate @ 14%
Deductible interest 84,000
Add back non-deductible interest (R92 000 - R84 000) 8,000 1

5 Less 'discount' on purchase consideration for the warehouse (capital in nature) (if VAT adjusted plus R10 260) -128,250 1

6 Registration of trade mark (deductible in terms of section 11(gB)) Alternative - trade mark and therefore no deduction 0 1

7 Loan to Kaizer Khumalo - not allowed as a deduction
Add taxable income capital gain (see below) 0 1
Taxable income 8,333,421
Normal tax rate 29%
Normal tax payable 2,416,692 1

Capital gains

1.6 Coventry Clowns Plc
Proceeds (R245 000 - 0) 245,000 1
Less base cost (R190 000 - 0) 190,000 1
Capital gain 55,000
Less disregarded in terms of paragraph 64B(2) - sold after eighteen months and 20% held -55,000
Capital gain 0 0

5 Warehouse
No disposal of the asset 0
The debt was reduced by the creditor and therefore it is deemed to be a disposal i.to paragraph 12(5) 1
Proceeds 128,250 1
Base cost 0 1
Capital gain 128,250

1.7 Iwisa Kings Limited
Proceeds reduced by inclusion (R60 000 - R 33 000) 27,000 1
Less base cost 40,000 1
Capital loss 13,000
Less disregarding of 'extraordinary dividends' in terms of paragraph 19 - more than two years therefore no disregarding 0
Capital loss 13,000 -13,000
1.9 Orlando Limited
Capital distribution of R80 000 carried forward until
disposal of shares.

3 Loan to Chatsworth Canvas (Pty) Limited
Proceeds 0 1
Less base cost (R690 000 - R90 000 (section 11(i))) 600,000 1
Capital loss 600,000
This capital loss is not disregarded in terms of
paragraph 39 because Chatsworth Clowns (Pty) Limited
and Soccer Strip Suppliers (Pty) Limited are not connected persons.

Sum of all capital gains and losses = aggregate -484,750 1
Carried forward to next year 1

Because there is an assessed capital loss there is no taxable capital gain.

Total marks 50

(b) Secondary tax on companies

Dividend declared on 29 February 2008 1,500,000 1
Deemed dividends on 29 February 2008
  - Loan to Kaizer Khumalo 100,000 1
  - Transfer pricing adjustment on loan from Philamon Radebe 8,000 1
Total dividend declared 1,608,000 1
Less dividends accrued: 329,000 1
Deemed dividend accrued (brought forward) 120,000 1
Foreign dividends qualifying as "dividends accrued" for net amount
  Chelsea Champs Plc 16,000 1
  Iwisa Kings Limited 33,000 1
  Amakhosi Limited 70,000 1
  Orlando Limited (not a dividend) 0 1
  Chiefs Collective Investment Scheme in Property (a 'section 11(s)' dividend) 0 1
  Pirates Collective Investment Scheme in Securities 90,000 1
  (portion funded by 'local' dividends)
  Coventry Clowns Plc (no dividend accrued) 0 1
  Sundown Socks (Pty) Limited (exemption elected in
terms of section 64B(5)(f)) 0 1
Net amount 1,279,000 1
STC rate 10%
STC liability 127,900

Alternative: Total investment income 660,000
Less amounts included which are not a dividend
  Arsenal Ases Plc -10,000
  Liverpool Legends Plc -20,000
  Manchester Magicians Plc -30,000
  Chelsea Champs Plc -24,000
  Everton Eagers Plc -50,000
  Iwisia Kings -27,000
  Orlando Ltd -80,000
  Chiefs Collective Investment Scheme -90,000
  Pirates Collective Investment Scheme -10,000
  Sundown Socks (Pty) Ltd -110,000
Deemed dividend accrued (brought forward) 120,000
Less dividends accrued: 329,000

Total marks 10
1

1

1

1

1