

Part (a) Calculate the accrual claim and state why the claim belongs to Grace.		Marks
Accrual claim		Amount
		R
Accrual in Itumeleng's estate		9 800 000
Accrual in Grace's estate		50 000
Difference in the accruals		9 750 000
Accrual claim (50%)		4 875 000
<i>Alt: (R9,8 mil plus R50 000) / 2 = R4 925 000 - R50 000 = R4 875 000</i>		
Because Grace's accrual is smaller , she has an accrual claim against Itumeleng		1
Alt: As the accrual claim belongs to Grace (<i>as given in the required</i>) this claim needs to be added/included as deemed property in Grace's deceased estate's estate duty calculation in terms of section 3(3)(cA) of the Estate Duty Act.		
		Available
		Maximum
		Total for part (a)
		3
		3
		3

Part (b) Discuss the estate duty implications (including liability for payment) of the life policy taken out by Grace on Itumeleng's life, in the event of his death.		Marks
1	The life policy would constitute a domestic policy, and as it is upon a deceased person's life (Itumeleng). Grace, as the owner of the policy, will be able to recover an amount in terms of the policy issued in the Republic of South Africa .	1
2	The amount due and recoverable by Grace in terms of the policy will be deemed to be property of Itumeleng for estate duty purposes in terms of s3(3)(a).	1
3	None of the exclusion provisos to s3(3)(a) applies, specifically: Although the policy was not taken out by Itumeleng and no premium was borne by him, the amount due will be paid to Grace who is wholly or partly dependent on Itumeleng, for maintenance (proviso (ii) to s3(3)(a)). The exclusion therefore does not apply.	1
3.2	The value of the proceeds will be the amount of the proceeds less/reduced by the sum of the premiums paid by Grace plus interest at 6% per annum on such premiums paid	1
4	Because the policy proceeds do not accrue to a surviving spouse (Grace is no longer a spouse), it will not qualify for a s4(q) deduction .	1
5	In the case of a domestic policy of insurance on the life of the deceased person, the proceeds of which are paid to a person other than the executor, Grace is entitled to the proceeds becomes liable for payment of the attributable estate duty (s11(b)(i)).	1
6	The executor , in terms of s13, has the right to recover any estate duty attributable to this amount from Grace .	1
Available		7
Maximum		4
<i>Communication skills – clarity of expression</i>		1
Total for part (b)		5

Part (c) Calculate the normal tax payable (if any) by Itumeleng and Grace in respect of the lump sums awarded to Grace in terms of section 37D(4)(b)(ii) of the Pension Funds Act from Itumeleng's ABASA Pension Fund.			Marks
Tax payable by Itumeleng	R	R	
There is no tax payable by Itumeleng because the non-member spouse who receives the amount after the reduction of the minimum individual reserve of the member spouse must be taxed in terms of para. 2(1)(b)(iA) of the Second Schedule.		Nil	1
Tax payable by Grace Lump sum amount in terms of a divorce order (retirement fund lump sum withdrawal benefit (para. 2(1)(b)(iA) of the Second Schedule) (R2 200 000/2 = R1 100 000)	1 100 000		1
Less: Para. 6(1)(a) – Second Schedule: Deductible transfer from a pension fund to a pension preservation fund	(850 000)		1
Less: Itumeleng's previous contributions of R50 000 to the ABASA Pension Fund not allowed as a deduction – not deductible in terms of para. 6(1)(a) of the Second Schedule	(0)		1
Gross income (par (e)) - Retirement fund lump sum withdrawal benefit	250 000		
Add: Previous lump sums (R120 000 + R150 000)	<u>270 000</u> 520 000		2
Tax thereon per withdrawal lump sum table (R520 000 less R25 000) x 18%		89 100	1P
All lump sums received excluding current lump sum (R120 000 + R150 000)	270 000		
Tax thereon per withdrawal lump sum table (R270 000 less R25 000) x 18%		(44 100)	1P
Tax payable by Grace on lump sum received		45 000	
		Available	8
		Maximum	8
		Total for part (c)	8

Part (d) Calculate the effects of the divorce agreement (only in respect of notes 2.1 and 2.2, and sections 3 and 5 of the scenario) on the taxable income of Itumeleng for his 2023 year of assessment.			Marks
<ul style="list-style-type: none"> Provide reasons for nil effects. 			
Maintenance payments and Legal costs			
2.1, 2.2 and 5	Maintenance, medical aid contributions and legal costs are not deductible in terms of s11(a) or s11(c) because it is a domestic or private expense and is not allowed as a deduction from income in terms of s23(a)/(b) .	nil	1
3.1	Accrual claim s9HB(2)(b) applies to all assets transferred to Grace in terms of the divorce order (rolled over): Share portfolio (Itumeleng is a share dealer) Opening stock s 22(2) @ cost (200*R180 + 160*R200 + 140*R140 + 4 000*R40)	(247 600)	2
	Astra shares Deemed disposed of at the amount previously allowed as deduction (s9HB(3)) – include in gross income, the amount claimed as opening stock (200 * R180) + (160 * R200) + (140 * R140)	87 600	1P
	Bailey shares Held for at least three years – proceeds deemed to be capital in nature in terms of s9C Section 9C(5) recoupment (4 000 * R40)	160 000	1
	Proceeds R0 Base Cost <u>(R160 000)</u> Capital loss (R160 000)		1
3.2	Private residence Proceeds R0 Base Cost <u>(R2 594 000)</u> Capital loss (R2 594 000)		1
	The capital loss on disposals of Bailey Shares and Private Residence to Grace must be disregarded in terms of s9HB(1) and base cost is rolled over to Grace.		1
3.3	Accrual amount in cash (no roll-over as not an asset in terms of the Eighth Schedule – no capital gain) or the expense is not incurred in carrying on a trade and therefore no s11(a) deduction .	nil	1
Net effect on taxable income			Rnil
			Available
			8
			Maximum
			7
			Total for part (d)
			7

<p>Part (e) Calculate the normal tax payable by or refundable to Grace for the 2023 year of assessment.</p> <ul style="list-style-type: none"> • Provide reasons for nil effects. • Where an amount is fully exempt, include a reference to the legislation for both the gross income inclusion and the subsequent exemption. • Exclude all amounts calculated in part (d). 			Marks
Tax payable by Grace			
<u>Maintenance allowances</u>			
Maintenance para. (b) of gross income definition			0.5
<p>Gross income Grace's maintenance of R15 000 per month x 6 months) , Lerato's maintenance of R5 000 per month x 6 months) and Medical aid contributions paid for Grace as part of maintenance required by divorce agreement of R3 000 per month x 6 months R90 000 + R30 000 + R18 000</p>	138 000		0.5
Less: S10(1)(u):			0.5
Exemption for maintenance paid by former spouse from after-taxed income	(138 000)	nil	0.5P
<u>Accrual claim</u>			
<p>s9HB(2)(b) applies to all assets share portfolio and private residence transferred to Grace in terms of the divorce order (rolled over) and deemed to be acquired @ Itumeleng's base cost.</p>			0.5
<p>3.1 Share portfolio: Astra shares deemed acquired at the amount previously allowed as a deduction for Itumeleng (s9HB(4)) .</p> <p>Thus deduct opening stock (s22(2)) @ cost (200*R180 + 160*R200 + 140*R140)</p>		(87 600)	0.5P
4. Pension interest inclusion in terms of para (e) of the gross income definition		250 000	1
Not subject to normal tax tables but subject to withdrawal lump sum tables		(250 000)	1P
<u>Proceeds from disposal of share portfolio</u>			
<p>Sale of Astra shares – include in gross income (500*R200) (although Grace is not a share dealer, it is deemed in terms of s9HB that she used the shares in the same way as Itumeleng)</p>		100 000	1
<u>Commission earned as estate agent</u> (gross income)		225 000	1
<u>Less: General deductions</u>			
<p><u>Lerato's after-school care</u> Not deductible as it is not incurred in carrying on the trade of an estate agent. It is therefore not deductible in terms of s11(a). Furthermore, because it is a domestic or private expense it is also not allowed as a deduction from income in terms of s23(b) or maintenance cost of family in terms of s23(a).</p>			1
<u>Legal costs</u>			
<p>Not deductible as it is not incurred in carrying on the trade of an estate agent. It is therefore not deductible in terms of s11(c). Furthermore, because it is a domestic or</p>			1

private expense it is also not allowed as a deduction from income in terms of s23(b) or maintenance cost of family in terms of s23(a).			
<u>Premiums on life policy</u> Not deductible as it is not incurred in carrying on the trade of an estate agent. It is therefore not deductible in terms of s11(w). Furthermore, because it is a domestic or private expense it is also not allowed as a deduction from income in terms of s23(b) or maintenance cost of family in terms of s23(a).			1
<u>Capital gains tax</u> <u>Sale of Bailey shares</u> Proceeds (4 000 x R70 per share) Less: Base cost (4 000 x R40 per share) (deemed to have been acquired at same cost as Itumeleng in terms of s9HB(1)(b)(ii)).	280 000 (160 000)		1 1P
Capital gain Less: Annual exclusion	120 000 (40 000)		1
Net capital gain Included @ 40% in taxable income	80 000	32 000	1P
Taxable income		269 400	
<u>Normal tax on progressive rate table</u> Per table (R40 680 + 26% (R269 400 – R226 000))	51 964		1P
Less: Primary rebate	(16 425)	35 539	1
Normal tax per withdrawal lump sum table (part (c))		45 000	1P
No s6A credit as the contributions are paid by Itumeleng and not Grace			1
<u>Less s 6B credit</u> Qualifying medical expenditure	30 000		1
Less: 7.5% x taxable income of R269 400 (20 205)	(20 205)		1P
	9 795		
25% of R9 795		(2 449)	1P
		78 090	
Less: Employees' tax (R40 000 + R42 500)		(82 500)	2
Normal tax refundable to Grace		(4 410)	
		Available	23
		Maximum	23
		<i>Communication skills – layout and structure; logical argument</i>	2
		Total for part (e)	25
		TOTAL FOR THE QUESTION	48