

QUESTION 1**50 marks****IGNORE VALUE-ADDED TAX****1 Background**

Naveed Bux, aged 67 and a tax resident of South Africa, was employed at Advanced Software Projects (Pty) Ltd (ASP), a company specialising in software development solutions. He began working there as a junior designer almost 20 years ago and worked his way up to being the senior operations executive. He retired on 30 September 2021.

Naveed retired because he had been diagnosed with a terminal illness and wanted to spend his last remaining days with his family. He was no longer able to work. At the time of his retirement, Naveed had been married to his wife, Davina, for 32 years. Naveed and Davina were married out of community of property, and had two children together:

- Mahendra Bux, aged 29, unmarried, and a tax resident of the United Kingdom.
- Ahmed Bux, aged 16, is currently in grade 10, and residing with Naveed and Davina.

2 Possible emigration to Singapore

To ensure that his family was properly taken care of, Naveed had started considering his long-term finances, with a particular view to estate planning. Naveed had also received some tax advice from a friend who stated that Naveed should consider emigrating to Singapore. He said Singapore has several tax benefits compared to South Africa as well as excellent healthcare facilities.

Naveed, Davina and Ahmed had planned to emigrate on 1 November 2021. However, Naveed's health took a turn for the worse as November approached and the family decided to not emigrate. Naveed passed away on 31 December 2021.

The table below details the market values of all the assets owned by Naveed on 31 December 2021:

List of assets owned by Naveed Bux					
Description of asset	Notes	Purchase date	Purchase price	Market value 31 October 2021 R	Market value 31 December 2021 R
Family home in Pretoria	1	1/1/2015	6 600 000	9 145 000	9 420 000
Local listed share portfolio	2	–	4 625 050	12 326 354	12 666 870
Foreign unlisted share portfolio	3	–	8 256 300	16 263 000	17 263 000
Cash in bank	4	–	–	4 986 230	5 326 780
Loan to the Bux Family Trust	5	–	–	2 300 000	2 300 000

Notes

- 1 The family home in Pretoria has five bedrooms and had, since purchase, been used as the Bux family's primary residence. Naveed used 5% of the total floor space as a home office for the period 1 April 2020 until 31 March 2021. In terms of his will, the family home was left exclusively to Mahendra. Mahendra plans to use the house as a holiday home when vacationing in South Africa.
- 2 The local share portfolio consisted exclusively of shares listed on the Johannesburg Stock Exchange. Naveed had purchased these shares as investments over the past 20 years. The portfolio earned net dividends to the value of R213 032 during the period March 2021 to December 2021. In terms of his will, the local share portfolio was left entirely to his wife, Davina.
- 3 The foreign share portfolio consisted of unlisted shares that Naveed had purchased as an investment 15 years ago. The portfolio earned gross dividends with a rand equivalent value of R356 998 on 1 September 2021. Naveed did not own more than 2% in any of the companies in which he had investments. In terms of his will, the foreign unlisted share portfolio was left entirely to the Bux Family Trust.
- 4 The cash in bank was bequeathed to Davina.
- 5 This loan was bequeathed to Davina. See part 4 below for additional information on the loan.

3 Employment at ASP

While employed at ASP, Naveed earned a monthly cash salary of R134 000 before deductions. ASP also paid a portion of the total contributions of Naveed's medical aid, which covered himself, Davina and their son Ahmed. This amounted to R10 050 per month. Naveed's own personal contributions amounted to R6 700 per month. After retirement, Naveed continued to pay this medical aid, covering all contributions personally.

Naveed did not contribute to a retirement fund as he believed he had sufficient assets to provide for his family.

4 The Bux Family Trust

Naveed came from a wealthy family, who many years ago established a family trust, the Bux Family Trust (the Trust), for the benefit of any members of the Bux family. Naveed had benefitted from the Trust when it paid for his studies in the 1980s. Until the date of his death, Naveed had not contributed anything to the Trust, other than the property in Durban described below.

The Trust had three trustees: Naveed, Davina, and Naveed's sister, Annie. Another family member will replace Naveed as trustee. All members of the Bux family have a discretionary interest in the assets of the Trust, while some have vested interests as stated below.

On 1 September 2021, Naveed sold a property that is situated in Durban to the Bux Family Trust. The property was sold to the Trust on an interest-free loan account that had no fixed capital repayment terms. Upon sale to the Trust, the trustees immediately vested the rental income from the property to Ahmed. This vested interest will continue until Ahmed reaches the age of 21, after which it will revert to a discretionary interest. The property was sold to

the Trust at its market value of R2,3 million on 1 September 2021. Naveed had purchased the property on 1 September 2009 for R890 000. The property earned net rentals of R10 000 per month until August 2021. From September 2021 onwards, the property earned net rentals of R11 000 per month. The net rental and taxable income are the same.

In February 2022, the Trust sold 10% of the foreign unlisted share portfolio that was bequeathed to it by Naveed for a total of R1,95 million. The proceeds of this sale were vested equally between Naveed's two sons, Mahendra and Ahmed, on 23 February 2022 to help with the payment of unforeseen expenses.

The Trust also earned local interest amounting to R423 560 from its cash reserves during the year of assessment ended 28 February 2022.

5 Additional Information

- The official interest rate was 6,75% throughout the period and was equal to the market rate.
- The final normal tax liability of Naveed has been correctly calculated at R625 412.
- All amounts have been translated into South African rand at the correct exchange rates as required by the Income Tax Act.
- The estate of Naveed incurred no expenses other than those evident from the scenario.
- The Trust is not a share dealer.

INITIAL TEST OF COMPETENCE, JANUARY 2023

PROFESSIONAL PAPER 1

**This paper consists of two questions
Answer each question in a separate answer book**

PAPER 1 QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	Calculate the following for Naveed Bux in respect of his year of assessment ended 31 December 2021: (i) Taxable income; (ii) Estate duty; and (iii) Donations tax. <ul style="list-style-type: none"> Round all amounts to the nearest rand. <i>Communication skills – presentation</i>	19 9 2 1	31
(b)	With respect to part 2, discuss what the South African tax benefits and disadvantages would have been for Naveed if he had emigrated to Singapore on 1 November 2021. <ul style="list-style-type: none"> Do not perform any calculations. <i>Communication skills – clarity of expression</i>	9 1	10
(c)	Discuss the impact of information relevant to the taxable income of Mahendra and the Bux Family Trust on their years of assessment ended 28 February 2022. <i>Communication skills – appropriate style</i>	8 1	9
Total for question 1			50