

Part (a) Calculate the following for Naveed Bux in respect of his year of assessment ended 31 December 2021:			Marks
(i) Taxable Income;			
• Round all answers to the nearest rand.			
		Amount	
		R	
Salary (134 000 x 7)		938 000	1
Medical aid fringe benefit (R10 050 x 7)		70 350	1
Local dividends (213 032 x 100/80)		266 290	1
Local dividends s10(1)(k)		(266 290)	1P
Foreign dividends		356 998	1
Foreign dividend exemption (356 998 x 25/45) s10B		(198 332)	1P
Net rental from property before sale to the Bux Family Trust (10 000 x 6)		60 000	1
Rental income from trust: s7(3) minor child –taxed in hands of donor R2 300 000 x (6,75% - 0%) x			1
122/365 (102/306) = 51 892 <i>Woulidge</i>			1
However, limited to the rental income of R44 000		44 000	1
Capital Gains: <i>Investment property in Durban</i>			
Proceeds par 35	2 300 000		
Base costs par 20	<u>(890 000)</u>		
Capital gain	1 410 000		1
<b>Deemed disposals on death – s9HA</b>			
<b>Family home</b>			
Proceeds	9 420 000		
Base costs	<u>(6 600 000)</u>		
Capital gain	2 820 000		1
Portion attributable to home office: 2 820 000 x 5% = 141 000			1
x 1/7			1
ALT: 2 820 000 x 5% = 141 000 x 12/84 (7x12)		<u>(20 143)</u>	
Portion attributable to primary residence		2 799 857	
Primary residence exclusion (full R2 million applied)		<u>(2 000 000)</u>	
		799 857	1P
Portion attributable to home office		<u>20 143</u>	1P
Capital gain on family home		820 000	

<b>Local dividend portfolio – s9HA(4)</b>			
Proceeds	4 625 050		
Base Cost	<u>(4 625 050)</u>		
Capital Gain	nil		1
<b>Foreign unlisted share portfolio</b>			
Proceeds	17 263 000		
Base costs	<u>(8 256 300)</u>		
Capital gain	9 006 700		1
<b>CGT on loan</b>			
Proceeds	2 300 000		
Less base cost.	<u>(2 300 000)</u>		
	nil		1
Aggregate capital gains	11 236 700		
Exclusion in year of death	<u>(300 000)</u>		
Net capital gain	10 936 700		1
Included <b>at 40%</b>		<u>4 374 680</u>	1
Taxable Income		5 645 696	
		<b>Available</b>	<b>21</b>
		<b>Maximum</b>	<b>19</b>
		<b>Total for part (a)(i)</b>	<b>19</b>

<b>Part (a) Calculate the following for Naveed Bux in respect of his year of assessment ended 31 December 2021:</b>		<b>Marks</b>
<b>(ii) Estate duty</b>		
• Round all answers to the nearest rand.		
	<b>Amount</b>	
Family home in Pretoria	9 420 000	1
Local listed share portfolio	12 666 870	1
Foreign unlisted share portfolio	17 263 000	1
Cash balances	5 326 780	1
Loan to Bux Family Trust (2 300 000)	2 300 000	1
Gross value of Estate	46 976 650	
Less: Allowable deductions: Tax liability	(625 412)	1
Less: s 4(q) deduction to spouse (R12 666 870 + R5 326 780 + R2 300 000)	(20 293 650)	1
Net value of the Estate	<u>26 057 588</u>	
Abatement	(3 500 000)	1
Dutiable amount	22 557 588	
Estate duty at <b>20%</b> on total below <R30m	4 511 518	<b>1P</b>
	<b>Available</b>	<b>9</b>
	<b>Maximum</b>	<b>9</b>
	<b>Total for part (a)(ii)</b>	<b>9</b>

Part (a) Calculate the following for Naveed Bux in respect of his year of assessment ended 31 December 2021: (iii) Donations tax. • Round all answers to the nearest rand.		Marks
	<b>Amount</b>	
	<b>R</b>	
<b>s7C Deemed interest:</b> (R2 300 000 x 6,75% x 122/365)	51 892	1
Less: Annual exclusion – R100 000 limited to R51 892	(51 892)	1P
No donations tax payable	<b>0</b>	
<i>Alternative:</i> <i>In terms of s7C(3) the donation would arise <b>on the last day of the year of assessment of the Trust</b> (28 February 2022) [1].</i> <i>Therefore, <b>no donations tax liability</b> arises on 31 December 2021, as <b>no donation</b> has taken place at this date [1].</i>		
	<b>Available</b>	<b>2</b>
	<b>Maximum</b>	<b>2</b>
	<b>Total for part (a)(iii)</b>	<b>2</b>
	<b>Communication skills part (a) – presentation</b>	<b>1</b>
	<b>Total for part (a)</b>	<b>31</b>

<b>Part (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.</b>		<b>Marks</b>
<ul style="list-style-type: none"> <li>• <b>Do not perform any calculations.</b></li> </ul>		
<b>1</b>	<b>Income tax</b>	
1.1	Naveed ceased to be ordinarily resident from 1 November 2021. Any income on or after 1 November 2021 that is of a South African source will be taxed in South Africa in terms of <i>section 9</i> and <i>common law principles</i> .	1
1.2	All income earned on or after 1 November 2021 that is of a non-South African source (foreign dividends) would not be taxed in South Africa, which may be an advantage.	1
1.3	Even though the share portfolios were subject to CGT, Naveed would still be entitled to the local dividend exemption on the dividends that arise from the share portfolio, in terms of s10(1)(k), which is a tax advantage.	1
1.4	The tax advantage lies in that the future interest on the cash in the bank accounts will be exempt in terms of s10(1)(h) or s10(1)(i).	1
1.5	Naveed will have the tax disadvantage that section 7(3) on rental income would remain applicable until date of his death, since the rental income relates to property sold to the trust prior to emigration.	1
1.6	A further tax disadvantage is that only residents qualify for medical rebates (s6A and s6B).	1
1.7	If South Africa have a valid Double Tax Agreement (DTA) with Singapore it might override SA tax provisions in regard to income earned after emigration that could be a tax advantage or disadvantage to Naveed depending on the DTA terms in regard to taxing rights.	1
<b>2</b>	<b>Capital gains tax on emigration</b>	
2.1	Naveed will be deemed to have disposed of all his assets (excluding immovable property) and re-acquired all assets on the day before he emigrated, namely 31 October 2021, for CGT purposes.	1
2.2	In the long term, any possible growth in his assets would fall inside or outside the South African CGT net. This could be a tax advantage or disadvantage, depending on the growth of his assets.	1
<b>3</b>	<b>Estate duty if Naveed died in Singapore</b>	
3.1	All assets that are immovable or movable property situated in South Africa will be included in a person's dutiable estate ( <i>section 3(2) of the Estate Duty Act</i> ) regardless of whether that person was a resident or not, as such there is no tax advantage in his Estate duty calculation if he is to die in Singapore.	1
3.2	If Naveed is to die in Singapore, his unlisted foreign share portfolio will no longer form part of the dutiable estate in South Africa ( <i>section 3(2)(d) of the Estate Duty Act</i> ), because these are not assets located in South Africa, providing him the tax advantage on estate duty taxes.	1

<b>4</b>	<b>Donations Tax</b> Donations tax is only payable by residents. Even though Naveed remains a connected person to the trust after emigration, the deemed donation in terms of section 7C will no longer apply post emigration.	1
	<b>Available</b>	<b>12</b>
	<b>Maximum</b>	<b>9</b>
	<b><i>Communication skills – clarity of expression</i></b>	<b>1</b>
	<b>Total for part (b)</b>	<b>10</b>

<b>Part (c) Discuss the impact of information relevant to the taxable income of Mahendra and the Bux Family Trust for their years of assessment ended 28 February 2022.</b>		<b>Marks</b>
<b>1</b>	<b>The Bux Family Trust</b>	
1.1	Local interest income of R423 560 not distributed will be included in gross income and taxed at a rate of 45%. <i>Alt. If interest income has been distributed to other beneficiaries, the beneficiaries will be taxed in their own hands in terms of s 25B(2).</i>	1
1.2	There is no exemption available for local interest accrued to a trust in terms of s 10(1)(i), as it is not a natural person.	1
1.3	An interest-free loan account is a donation, settlement or disposition, thus the rental income received for the house in Durban for the period 1 Sept 2021 – 31 Dec 2021 (before death) will be taxed in the hands of Naveed (not the trust) as the beneficiary, Ahmed is a minor in <i>terms of section 7(3)</i> .	1
	For the period 1 Jan 2022 – 28 Feb 2022 (after death), Naveed, the donor is no longer alive and the rental income vested in Ahmed will be <u>taxed in his hands</u> in <i>terms of section 25B(1)</i> and as such is not taxed in the hands of the Trust.	1
1.4	The Bux Family Trust would be deemed to have acquired the foreign unlisted share portfolio from Naveed's deceased estate at a base cost of R17 263 000.	1
1.5	Upon sale of 10% of the foreign unlisted portfolio, a capital gain of R223 700 (Proceeds R1 950 000 less a base cost of R1 726 300 (R17 263 000 x 0,1) would be distributed to Ahmed and Mahendra in equal shares.	1P
1.6	As Mahendra is a non-resident, his portion of the capital gain will be attributed to the Trust for purposes of calculating the aggregate capital gain as per para. 80(2) of the Eighth Schedule and	1
1.7	50% of R223 700 will be included at 80% in taxable income of the Trust in terms of para 10 read with s26A of the Income Tax Act. <i>Note: this mark will not be awarded if the candidate deducted the R40 000 annual exclusion in terms of par 5 of the Eighth Schedule.</i>	1
1.8	As the attribution rules in terms of par 69 does not apply to Ahmed, his 50% portion of the capital gain will be taxable in his own hands in terms of para 80(1) of the Eighth Schedule.	1
<b>2</b>	<b>Mahendra Bux</b>	
2.1	The award of the sales proceeds from the foreign unlisted share portfolio would have no effect for Mahendra due to the application of para. 80(2) of the Eighth Schedule.	1
2.2	The receipt of the family home would be capital in nature and not revenue as it is an inheritance and not added to the taxable income.	1
2.3	Mahendra will be deemed to have acquired the family home in Pretoria at a base cost of R9 420 000 ( <i>in terms of section 9HA read with s 25</i> ) and will be liable for CGT upon any future disposal, as it is fixed property in South Africa.	1B
<b>Available</b>		<b>12</b>
<b>Maximum</b>		<b>8</b>
<b>Communication skills – appropriate style</b>		<b>1</b>

<b>Total for part (c)</b>	<b>9</b>
<b>TOTAL FOR THE QUESTION</b>	<b>50</b>