

1. Discuss the income tax implications to Magwiri of the presented information for the year ended 31 December 2017.

<ul style="list-style-type: none"> On the death of a taxpayer, an assessment is raised on the deceased's taxable income accruing to the death. Upon death a new taxpayer is created i.e. the deceased estate. 		1
<ul style="list-style-type: none"> Salary is included in Magwiri's gross income as it accrued to him pre-death. 	Section 8	1
<ul style="list-style-type: none"> The salary is included at [\$3,000 per month x 5 months] 		1
<ul style="list-style-type: none"> Interest income is included in Magwiri's gross income up to interest for May 2017. – Pre-death 	Section 8	1
<ul style="list-style-type: none"> $[(\\$2,000 \times 12\% \times 5\text{mths}/12\text{mths}) + (\\$2,000 \times 10\% \times 5\text{mths}/12\text{mths})]$ 		1
<ul style="list-style-type: none"> Medical expenses are prohibited deductions but rank for medical credits at 50% of the cost The credit shall be calculated as follows $[(\\$4,560 + \\$350) \times 50\%] = \\$2,455$ 	Section 16	1
<ul style="list-style-type: none"> The \$350, although incurred after the death of Magwiri, is included in the calculation of Magwiri's taxable income by way of a tax credit medical expenses claim. 		1
<ul style="list-style-type: none"> Magwiri had no rights to claim or was not entitled to the golden handshake nor was it due and payable at the time of his death and therefore the income is excluded from pre-death income. d 	Section 11(1) and 11(4)	1
<ul style="list-style-type: none"> The motoring benefits of a free vehicle is included in gross income as it is a fringe benefit. 	Section 8(1)(f)	1
<ul style="list-style-type: none"> The amount is exempt because Magwiri is an elderly person as defined. 	3rd Schedule	1
<ul style="list-style-type: none"> The loan waiver is excluded from Magwiri's gross income because it is a post death amount that accrued to him after he had died. 	Section 8(1)(f)	1
<ul style="list-style-type: none"> Rental income is included in Magwiri's gross income for the 5 months ending 31 May 2017. $[(400+450+800)/\text{mth} \times 5 \text{ months}] = \\$8,250.00$ The first \$3,000 is exempt 	Section 8(1) 3rd schedule	1 1 1
<ul style="list-style-type: none"> The interest and rental income are all trade and investment income taxed at an effective rate of 25.75%. 		1
Total		13

2. Calculate the Taxable income for Magwiri Trust, Kose and Mabura for the year ended 31 December 2017.

CALCULATION OF TAXABLE INCOME FOR MAGWIRI TRUST FOR THE YEAR ENDED 31 DECEMBER 2018

			Marks
Net Profit Before Tax		251,905.00	1
Revenue	<i>Section 8 Gross Income [1]</i>	-	1
Cost of Sales	<i>s15(2) Allowable Deduction [1]</i>	-	1
Donations Received	<i>Section 8 Capital in nature [1]</i>	(2,500.00)	2
Rental Income	<i>Section 8 Gross Income [1]</i>	-	2
Depreciation	<i>S15(2)(a) Capital in nature [1]</i>	16,000.00	1
Fines and Penalties (capacity of taxpayer is a lawbreaker)	<i>s15(2)(a) purposes of trade interpretation [1]</i>	250.00	2
Other	<i>s15(2) Allowable Deduction [1]</i>	-	2
Finance Income	<i>Section 8 Gross Income [1]</i>	-	2
Finance Cost	<i>s15(2) Capital in Nature [1]</i>	905.00	2
Kose payments [\$200/mth x 12mths]	<i>Beneficiary with a vested right [1]</i>	(2,400.00)	2
Distribution to Beneficiaries	<i>[30% x \$30,000] + [30% x 20,000] Beneficiary with a contingent right [1]</i>	(18,000.00)	2
Capital Allowances	<i>S15(2)(c) allowable deduction [1]</i>	(6,250)	2
Taxable Income		248,910.00	

CALCULATION OF TAXABLE INCOME FOR KOSE FOR THE YEAR ENDED 31 DECEMBER 2018

			Marks
Annuity [\$200/mth x 12 mths]	<i>section 8(1)(a)</i>	2,400.00	1
Distribution from Magwiri Trust [30% x \$25,000]	<i>section 8 gross income</i>	9,000.00	1
Rental Income [\$450/mth x 7mth]	<i>Trade and Investment gross Income</i>	3,150.00	1
Taxable Income		14,550.00	

CALCULATION OF TAXABLE INCOME FOR MABURA FOR THE YEAR ENDED 31 DECEMBER 2018

			Marks
Distribution from Trust		9,000.00	
Estate Residue	<i>capital in nature</i>	-	1
Rental Income [\$800/mth x 7mth]	<i>Trade and Investment gross Income</i>	5,600.00	1
Taxable Income		5,600.00	27

3. Discuss the Income Tax Implications to the estate of Magwiri for the year ended 31 December 2017.

	<i>PROVISION</i>	<i>MARKS</i>
<ul style="list-style-type: none"> The rental income from June onwards would have been from assets in a deceased estate but the assets have ascertained beneficiaries and therefore the income is included in the ascertained beneficiaries' hands and not in the deceased estate. 	<i>Section 11(1)</i>	1
<ul style="list-style-type: none"> Interest on receivable from Wezhira from June to July (\$2,000 x 12% = \$240) is income from an asset not in a deceased estate as the right to claim the principal was 	<i>Section 11(1)</i>	1

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due and payable before the death of Magwiri. This amount is therefore not included in the estate's gross income.		
<ul style="list-style-type: none"> Interest on receivable from Garanga from June to July (\$2,000 x 10% = \$200) is income from an asset in a deceased estate and therefore the amount is included in the estate's gross income. 	Section 8	1
<ul style="list-style-type: none"> The performance bonus is paid out of a right that became due and payable after the death of Magwiri and therefore that right is an asset in a deceased estate. 	Section 11(1)	1
<ul style="list-style-type: none"> Magwiri would have included the bonus amount in his gross income had he received this amount in his lifetime 	Section 11(4)(a)	1
<ul style="list-style-type: none"> Magwiri had no right to claim the bonus during his lifetime as the bonus had not been declared and therefore shall not be income in terms of the Income Tax Act 	Section 11(4)(b)(i)	1
<ul style="list-style-type: none"> The amount is also received <i>ex-gratia</i> 	11(4)(b)(ii)	1
<ul style="list-style-type: none"> The golden handshake is also income that is borne out of a right that was not in existence during Magwiri's lifetime and therefore not from asset in a deceased estate. 	11(4)	1
<ul style="list-style-type: none"> The amount also received <i>ex-gratia</i> and so shall not be income 	11(4)(b)(ii)	1
<ul style="list-style-type: none"> The loan waiver arose after Magwiri's death and so is a post-death income. Magwiri was not entitled to the amount before he died and the money was paid <i>ex-gratia</i> and so shall not be included in gross income 	11(4)(b)(ii)	1
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