

**Ignore VAT.**

Mr. Edward Makae ('Edward'), aged 42, is married to Mrs. Lerato Makae ('Lerato'), aged 40. Lerato and Edward met when they were studying at the University of Johannesburg towards their Bachelor of Accounting degrees. Since then they have both qualified as Chartered Accountants (CA(SA)) and established a good life for themselves and their two children in the popular Northern Johannesburg neighbourhood of Bryanston. Edward and Lerato are married out of community of property with the accrual principle. Both, Edward and Lerato are South African tax residents.

Edward, a registered tax practitioner and sole trader, provides tax consulting services and regards himself as a Double Taxation Agreement (DTA) specialist. Edward is regularly requested by individuals and companies to advice on foreign tax matters. He performs all his duties at his rented offices in Hyde Park, Johannesburg. Due to the recent economic impact of COVID-19 on the South African economy, Edward decided that he wants to emigrate from South Africa to Mauritius. He realised that he could easily still render services from Mauritius as meetings are moving to the virtual space. The emigration idea caused marital problems amongst Edward and Lerato, and on 24 July 2020, they got divorced.

As part of the divorce settlement agreement, Lerato was entitled to R700 000 from Edward's provident fund. Lerato elected to receive the full amount as a pay-out. Edward's provident fund paid out the full amount to her on 15 September 2020. On the day of receiving the payment she used R300 000 to replace the furniture Edward was entitled to in terms of the divorce settlement agreement. Lerato transferred the remaining R400 000 to her own pension fund held at Ninety-2 Investment Managers Ltd.

Lerato's father, Mr. Sylvester, established an *inter-vivos* trust, L&E Trust, as a wedding present to Lerato and Edward. The L&E Trust was registered with the Masters office in 2004. Mr. Sylvester donated a residential apartment to the trust, which had a market value of R475 000 at the time. This remained the only asset in the trust. Both Edward and Lerato have an equal vested right to the income of the trust. In terms of the trust deed, the trustees have the discretion to distribute assets for the benefit of the beneficiaries as they deem fit. As of 1 January 2020, the rental apartment was empty as the trustees could not find appropriate tenants. When COVID-19 hit in March 2020, the trustees decided to keep the apartment empty to avoid new tenants that may not be able to pay their rent. As part of removing any attachment to Edward, she asked her father to vest the asset in her name. Her father tabled the idea at the trustees meeting and the trustees resolved to vest the residential apartment in Lerato's name on 9 September 2020. At that time the residential apartment had a market value of R1 000 000.

**Edward**

On 1 August 2020, Edward formally emigrated to Mauritius, after his divorce was settled and lockdown travel restrictions were more lenient. Edward submitted all the necessary declarations to the South African Revenue Service (SARS) and they accepted that he is no longer a South African tax resident. The following pertain to transactions entered into by Edward.

1. Edward earned R550 000 in consultation fees from clients for the period from 1 March 2020 to 31 July 2020. After he emigrated, he resumed his consultations in Mauritius and earned a Rand equivalent amount of R600 000.

2. Edward paid an assistant R6 000 per month to manage his diary. She stopped working for Edward when he emigrated.
3. Edward had the following assets on hand on 31 July 2020:

	<b>Notes</b>	<b>Market value (R)</b>	<b>Actual cost (R)</b>
Holiday home in Kenton-On-Sea, Eastern Cape	3.1	4 500 000	2 600 000
Personal belongings	3.2	1 580 000	1 220 000
Share in SeaGulf Ltd.	3.3	600 000	18 000
Provident Fund	3.4	3 500 000	
Fixed deposit with Second National Bank Ltd. ('SNB')	3.5	1 200 000	
Fixed deposit with Beach Bank	3.5	2 000 000	

**Notes:**

- 3.1. Edward acquired the beach property in Kenton-On-Sea, Eastern Cape during 2010 for R2 000 000 and affected improvements during 2011 amounting to R600 000.
- 3.2. Edward's personal belongings include paintings, furniture and a car.
- 3.3. Edward owns 15% in SeaGulf Ltd ('SeaGulf'). SeaGulf is a foreign company listed on the London Stock Exchange (LSE). Back in the 2019 year of assessment, Edward received a R25 000 dividend from SeaGulf. The United Kingdom (UK) does not levy withholding taxes on dividends. Edward did not received any dividends since the 2019 year of assessment.
- 3.4. The R3 500 000 represents Edward's provident fund value i.e. excluding the R700 000 accruing to Lerato in terms of the divorce settlement agreement.
- 3.5. Edward has a 48-months local fixed deposit at SNB, a South African bank. The interest on the SNB fixed deposit accrues six-monthly on 31 July and 31 January. Edward also holds a 24-month fixed deposit at Beach Bank, a registered bank of Mauritius. Mauritius does not levy any withholding tax on interest received from Mauritian banks. Edward earned the following interest from his fixed deposits for the period of 1 March 2020 to 28 February 2021. All the amounts below are calculated correctly for Income Tax purposes.

<b>Fixed Deposit</b>	<b>1 March 2020 - 31 July 2020</b>	<b>1 August 2020 - 28 February 2021</b>
SNB	R20 000	R39 585
Beach Bank	R34 200	R45 800

## Lerato

Lerato works at Zebra Investment Bank ('Zebra') as a private equity consultant. COVID-19 forced Zebra to think about new ways in which they can incorporate the 4<sup>th</sup> Industrial Revolution (4IR) to make the workplace more accessible from home. Unfortunately, Lerato was one of the few at Zebra that could not adapt to the changing 4IR environment and was retrenched on 30 September 2020.

Up to the date of her retrenchment, Lerato and Zebra entered into the following transactions:

- Lerato received a monthly salary of R104 000.
- Lerato was regularly required to travel across South Africa to meet with potential clients. During the month of February 2020, Zebra paid Lerato a subsistence allowance of R4 000 to travel to Durban to meet a potential new client that wanted to expand into the chemicals industry. It was expected that Lerato would only meet with the client in the last week of March 2020. In March 2020, the COVID-19 pandemic forced South Africa into a national lockdown. Lerato was unable to visit the client in March 2020 and did not use any of the subsistence allowance as originally planned. She did not re-imburse the subsistence allowance to Zebra.
- As Lerato was regularly required to meet clients, she received a re-imbursive travel allowance at a fixed rate of R4,50 per kilometer based on the actual amount of business kilometers traveled. As COVID-19 forced all her meetings to be conducted on online platforms, Lerato travelled significantly less than usual. Lerato kept a detailed business logbook of her travels during the period 1 March 2020 to 30 September 2020.

<b>Month</b>	<b>Private Kilometers (km)</b>	<b>Business Kilometers (km)</b>
March 2020	300	150
April 2020	20	0
May 2020	60	0
June 2020	100	20
July 2020	105	80
August 2020	160	105
September 2020	140	30
	<b>885</b>	<b>385</b>

- Zebra gifted Lerato with a Michel Herbelin watch worth R14 000 as a farewell gift and long service award after working at Zebra for 11 years. Zebra purchased the watch specifically for Lerato, as part of a post-lockdown promotion, for R12 000.
- Zebra has always prioritised the health of their employees. As part of their "Keep-your-stripes-healthy Drive" all the employees' are given an opportunity to get vitamin booster shots annually. Lerato opted to take the Vitamin B12 shot in June 2020 in order to keep herself healthy during the worldwide pandemic. Zebra incurred a cost of R215 per vitamin B12 shot.

### **Payroll matters**

While in the service of Zebra, Lerato queried her net salary received on 25 March 2020. She requested the calculations regarding her Pay-As-You-Earn (PAYE) from the payroll clerk at Zebra. He responded to her with the following email:

<b>FROM:</b>	<a href="mailto:JacobZ@zebra.co.za">JacobZ@zebra.co.za</a>
<b>SENT:</b>	31 March 2020
<b>TO:</b>	<a href="mailto:LeratoM@zebra.co.za">LeratoM@zebra.co.za</a>
<b>SUBJECT:</b>	March PAYE Calculation

Dear Lerato,

I have looked at your request for the PAYE calculation. As you did not query any of the previous months, I assume your problem was with the handling of your Travel Allowance and Subsistence Allowance as these are the only variable parts of your PAYE calculation. Please find my calculations for these two items below.

Travel allowance:  
You received a travel allowance of R4,50 per business kilometer travelled. As per your logbook and travel claim submitted, you travelled 150km for the month of March 2020. This equals to a total travel allowance of R675 (R4,50 x 150km). Therefore, I included R540 in your PAYE calculation.  
This is 80% of the R675 allowance as required under paragraph (cA) of the Paragraph 1 definition of "Remuneration" in the Fourth Schedule.

Subsistence Allowance:  
The full R4 000 subsistence allowance was added to your March PAYE calculation. I was unsure on how to account for the allowance as you will not be using it. My managers however told me you did not repay the company and instructed me to tax you on the full amount in March.

Please let me know if you have any other queries.

Kind regards  
Jacob

### **Other Income**

Lerato firmly believes in long-term investing and has accumulated a diversified portfolio of investments in shares, bonds and unit trusts. The following local dividends accrued to Lerato during the year:

<b>Investments</b>	<b>Date received</b>	<b>R</b>
Strike Real Estate Investment Trust (REIT)	31 December 2020	40 000
Rush Collective Investment Scheme in Securities (CIS)	15 February 2021	50 000

### **Additional Information:**

- Round all amounts to the nearest rand.
- The L&E Trust is a valid registered trust in terms of the requirements as set out in the Trust Property Control Act 57 of 1988.
- The trustees of the L&E Trust are Mr. Sylvester and two independent trustees.