

PAY TAX ON DONATIONS & INHERITANCES : By Jonathan Hore

Welcome folks to this week's instalment of my tax articles. I want to analyse one of the least known taxes in the country, being the donations and inheritance tax. And by the way, the Minister of Finance & Economic Development (Minister) mentioned that he will make amendments to the Capital Transfer Tax Act (CTTA) in the 2019/2020 financial year. It will not harm us to quote him in verbatim when he said, 'I will also be seeking amendment to the Capital Transfer Tax Act to align it with the Transfer Duty Act.

These amendments, among others, will include: removing the ceiling of P15 000, for exemption of transfer of property such as household goods and personal belongings to heirs; increasing the value of gifts that are exempted from being taxed from P5 000 to P25 000; and the transfer of immovable property which is currently exempted under the Transfer Duty Act will also be exempted under the Capital Transfer Act.' The Minister was basically reminding the nation that donations and inheritance tax, chargeable in terms of the CTTA, is still payable and you and I should be ready to pay our part now and after the contemplated amendments. Before I get to the contemplated amendments, let me explain what this tax is all about.

WHAT'S DONATIONS & INHERITANCE TAX?

Donations tax is a tax that is payable by the donee (receiver of donation) in instances where such donee receives a donation of movable or immovable property as well as money. The donee pays such tax on the market value of the goods received or the cash donated as long as the donation is at least P 5 000 per annum. This simply means that if a father donates cattle and a house to his son, that son is subject to donations tax at 5%, at the highest bracket. Other instances where the tax is payable include when a person receives shares from a parent, wedding gifts and any payments arising during marital rites. In fact anyone who receives a gratuitous donation, save for special instances, is supposed to pay donations tax and the return is due by 30 September. In other words, the donations tax administration and payment follows that of personal tax, as per the Income Tax Act.

On the other hand, inheritance tax is payable by the one who inherits property of any kind from a late person, i.e. on the excess of P 100 000 of the value of such property. Spouses are exempt from the tax. Inheritance tax would be payable in instances where a person receives insurance proceeds from a late person or inherits movable or immovable property of any kind. I must state that the donations and inheritance taxes have very minimal exemptions, hence the intention by the Minister to make changes to the CTTA, basically to bring the Act in line with prevailing economic conditions as well as to increase exemptions.

SO, WHAT CHANGES ARE COMING?

The amended CTTA should, among others, bring forth the following changes:

- Donations threshold: Currently, anyone who receives a donation in excess of P 5 000/annum is subject to donations tax. However, the said threshold is now too little and the Minister wants to increase it to P 25 000, meaning that only donations above P25 000 per year will be taxable.
- Inheritances threshold: Anyone receiving inherited movable goods worth not more than P 15 000 is currently not subject to tax. The Minister intends to remove the exemption of P 15 000 and if the limit is removed, it means that any movable inherited goods will be taxable but subject to them exceeding the P 100 000

mentioned above. Alternatively, the Minister could increase the P 15 000 to a higher figure so as to lessen the burden on heirs inheriting such property.

- Alignment with Transfer Duty: The Minister also wants to amend the CTTA such that all immovable property which will be exempted when the new Transfer Duty Amendment comes into force will also be exempt from donations and inheritance tax. These include donations from a deceased estate to an heir, which will ensure that immovable property smoothly moves from a late person to the new owner. The other exemption to expect is that of immovable property transferred to an orphan under the age of 18, a disabled or destitute person as well as to institutions taking care of the above-mentioned classes of persons. The CTTA should also be amended to allow transfer of immovable property from an individual to a company which he/she wholly or co-owns with their spouse, without tax implications.

WHEN IS THIS EXPECTED?

It is never easy to tell when bills will be published but as the Minister stated, the CTTA shall be amended in the 2019/2020 financial year, which means anytime between the day you are reading this article and 31 March 2020. It may even be tabled to Parliament during the March 2019 sitting or even later. So, what you need to know is that whenever you receive donations or an inheritance, you declare the same to the taxman by 30 September of the respective year.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.