

Income Contributions

Introduction

During the period of Bankruptcy, the Bankrupt's Trustee will assess the amount of income which has been earned by the Bankrupt, on an annual basis.

Based on this assessment the Bankrupt may have to pay Income Contributions to the Estate for the benefit of the Bankrupt's Creditors.

Assessment of Income

The Trustee assesses the Bankrupt's income by obtaining estimated income figures from the bankrupt for the coming year. This is usually obtained by way of an Income Questionnaire completed by the Bankrupt. Based on this information an assessment is issued to the Bankrupt.

At the end of the year the Bankrupt is requested to provide actual details of income earned. Should this vary from the initial assessment made, the Trustee is able to issue an amended assessment.

This process continues throughout the period of the Bankruptcy which is usually 3 years.

For the process of assessing the Bankrupt's income the Trustee will include the following:

- a. The Bankrupt's gross salary or wages;

- b. All other income earned by the Bankrupt;
- c. Any money which is provided to the Bankrupt for rent or other living expenses, irrespective of by whom;
- d. Any benefits provided to the Bankrupt, such as a Motor vehicle;
- e. Any income tax refunds or income tax payable;
- f. Any child support payments made.

The Bankrupt must provide to the Trustee any information relating to his/her income. Failure to do so may result in the extension of the bankruptcy up to 8 years.

Should the Trustee believe that the Bankrupt is earning more than he/she discloses, or the Bankrupt fails to disclose details of his/her income, the Trustee is able to make an arbitrary assessment of the Bankrupt's income.

Income Threshold

The Income Threshold is the amount of income which a Bankrupt can earn after tax before they have to pay income contributions. If the Bankrupt earns in excess of the threshold amount then they must pay 50% of this excess to their trustee. This threshold varies based on the number of dependants a Bankrupt may have up to a maximum of 5.

Timing of Payment

The timing of the payment of the income contribution is determined by the trustee. It may either be paid in a lump sum or if the trustee permits, by instalments.

Example of Income Contributions Calculation

| | | |
|------|--|--------------------|
| | Gross Wage | \$50,000.00 |
| Add | Motor Vehicle benefit | \$ 7,000.00 |
| | Free accommodation | <u>\$6,500.00</u> |
| | | <u>\$63,500.00</u> |
| Less | Income Tax payable | \$15,352.50 |
| | Assessable Income | <u>\$48,147.50</u> |
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| Less | Threshold amount | <u>\$37,537.50</u> |
| | Excess | <u>\$10,610.00</u> |
| | Contribution amount (50% of excess) | <u>\$5,305.00</u> |

Calculation based on threshold and tax rates as at 20 March 2007. It is noted that the threshold amount is adjusted 6 monthly to accommodate inflation.