

TAX IMPLICATIONS OF VARIOUS INVESTMENT VEHICLES

Investment Vehicle	Unit trusts (owned in personal capacity) (Lisp)	Local endowment: (<u>One</u> partial or full withdrawal in the first 5 year period Offshore endowment: (Multiple withdrawals from the offshore endowment are allowed) – No loans on a Discovery endowment.	Retirement Annuity/Group RA	Tax free Savings account
Can you nominate a beneficiary?	No	Yes (Will save executors fees but will not save the client estate duty unless section 4(q) is applicable)	Yes, but the trustees of the fund will have the final say in the distribution of the proceeds. Dependency will be established in terms of Section 37 of the Pensions Funds Act. NB-this does not apply to Living Annuities-there <u>beneficiaries are paid.</u>	Unit trust – No Endowment – Yes [Discovery does not have an endowment wrapper for TFSA's, other companies do]
Are Contributions tax deductible?	No	No	Yes, within certain limits: NB-from <u>1 March 2016 WITH TLAA 2015- 27.5% OF TAXABLE INCOME/REMUNERATION OR R350 000, WHICHEVER IS THE LESSOR</u> <u>Remember trick with capital gains</u>	No Limited to R36 000 per person per year. (R500 000 lifetime limit) 40% tax penalty for contributions exceeding the R36 000 annual limit.
Tax implications of the investment vehicle during the investment term	Income tax: Rental and interest income are taxed at the <u>INVESTOR'S</u> marginal rate. (Maximum of 45%, but can be less) The Investor can make use of the full interest exemption: (R23 800 if below 65 and R34 500 if above 65) BUT THIS MIGHT ALREADY HAVE BEEN USED UP <u>CGT -ONLY IF AND WHEN UNITS ARE SOLD/SWITCHED:</u> 40% (inclusion rate) x marginal tax rate	Income tax: Taxed at 30% (Tax payable by the insurer) THIS MAY BE LOWER THAN THE <u>INVESTOR'S PERSONAL RATE</u>- IMPORTANT TO FIND OUT WHAT THAT RATE IS. IF IT IS 30% OR LESS, IT IS MORE TAX EFFICIENT TO INVEST <u>DIRECTLY</u> IN UNIT TRUSTS. The investor is not entitled to his annual interest exemption. NB-IS THIS RELEVANT TO THE INVESTOR? CGT: Taxed at 12% (40% x 30%). Tax payable by	Income tax: 0% tax payable on gross interest, foreign and local dividends and net rental income CGT: No CGT payable <u>BUT THE INVESTOR CANNOT ACCESS THE INVESTMENT UNTIL AGE 55.</u> Unless gets divorced, or RA is made paid up and is less than R15000 or the member is <u>non tax resident</u> for 3 years and not retired or started the financial emigration process before 1 March 2021. Also if	Income tax: 0% tax payable on gross interest, foreign and local dividends and net rental income CGT: No CGT payable

	(maximum 45%) = maximum of 18%. BUT The Investor is entitled to a CGT exemption of R40 000 per year. BUT THIS MIGHT ALREADY HAVE BEEN USED UP NB-CHANGES IN UNITS / PORTFOLIOS TRIGGER TAX CONSEQUENCES- CASHFLOW ISSUE	the insurer. AGAIN, THIS MAY BE LOWER THAN THE INDIVIDUAL'S PERSONAL RATE- IMPORTANT TO FIND OUT WHAT THAT IS. The investor is not entitled to his annual CGT exemption. NB-IS THIS RELEVANT? NB-THE INVESTOR HAS NO TAX COMPLIANCE ISSUES TO WORRY ABOUT LIKE HE WOULD WITH UNIT TRUSTS. HE DOES NOT HAVE TO DECLARE INTEREST AND CAPITAL GAINS EVERY YEAR. PORTFOLIO CHANGES NOT TAXABLE DIRECTLY TO INVESTOR, PAID BY INSURANCE COMPANY ON HIS BEHALF, AT THEIR LOWER RATE. <u>PROBLEM-INVESTOR WON'T BE ABLE TO UTILIZE LOSSES</u>	he/she dies or is disabled. IT CANNOT BE CEDED OR USED AS COLLATERAL. ONLY 1/3 CAN BE TAKEN IN CASH [SOME OF WHICH WILL BE TAX FREE- SEE BELOW], THE REMAINING 2/3 MUST BUY AN ANNUITY, WHICH IS FULLY TAXABLE AT MARGINAL RATES.	
Tax issues at date of withdrawal from or disposal of the investment	CGT as above, AS LONG AS NOT TRADING UNITS, OR SELLING THEM SO REGULARLY THAT THEY BECOME AN ANNUITY. NOTE IN PRACTICE SARS HAS NOT YET TRIED TO APPLY THIS.	After tax proceeds at <u>maturity</u>, as the fund has already been taxed. Again this is useful for the high earner, as he would pay no more tax on a big lump sum.	Can only take 1/3rd in cash, unless RA is <u>R247 500</u> or less <u>per fund/insurer.[R247 500 from 1 March 2016]</u> <u>Note that if the life assured dies, the full fund value can be paid out to the dependants.</u> Proceeds taxable according to formula: First R500 000 @ 0% R500 001-R700 000 @ 18% R700 001- R1 050 000 @ 27% Exceeds R1 050 000 @ 36% NOTE-THESE CONCESSIONS ARE ONCE OFF, AND COULD ALREADY HAVE BEEN USED UP WITH AMOUNTS FROM A PENSION OR PROVIDENT FUND/ OR A RETRENCHMENT BENEFIT	No tax on withdrawals but the investor cannot "replace" any amount withdrawn.
Foreign Currency Matters	Paragraph 43 (1) of the 8th Schedule exempts a natural person from paying CGT on foreign currency gains	Offshore endowment: Paragraph 43(7) of 8th Schedule and Sec 25D(2) of the Income Tax Act exempts an insurer (with a permanent offshore establishment) from paying CGT on pure foreign currency gains within the policyholder fund.		

			<u>NB-RA'S FREE OF ESTATE DUTY SINCE 1 January 2009</u> <u>NB-AMENDMENT IN TLAA 2015 NON-DEDUCTIBLE CONTRIBUTIONS FROM 1 MARCH 2015 WILL BE ADDED BACK INTO THE ESTATE</u> <u>Pre-retirement (Withdrawal) lump-sum taxation</u> Rates of tax R0 - R25 000 = 0% R25 001 -660 000 =18% R660 001-990 000=27% Above R990 001 = 36% NB-reduces tax free amounts on retirement <u>NB-ask your client to protect yourself!</u>	TFSA's are estate dutiable
Protection of benefits	None	In terms of Section 63(1) of the Long Term Insurance Act: The policy must be a life, disability, assistance [funeral policy] or health policy; It must have been effected by the insolvent on his own life or that of his spouse It must have been in force for a minimum of three years prior to the date of insolvency. Risk policies such as life cover and severe illness qualify, an endowment policy is also a life policy and therefore also qualifies for protection. NB - A sinking fund policy does not qualify There is no longer any limit specified and the full policy proceeds of a complying policy are thus protected – the protection also extends for a period of 5 years from the date the benefits were provided. These policy benefits (and assets acquired exclusively with such policy benefits) are	Protected from creditors (PFA)	None, unless an endowment policy with a life assured

		protected for a period of five years from the date on which the benefit was provided under the policy. The protection is enjoyed during the lifetime of the policy holder, and upon the life assured's death if such policy benefits are payable to a surviving spouse, child, stepchild or parent at his death (whether by way of beneficiary nomination or through testate or intestate succession). NB-IF THE PROCEEDS PAY TO A NOMINATED BENEFICIARY, THE BENEFITS ARE PROTECTED AGAINST CREDITORS AND SECTION 63 IS NOT NEEDED...		
Conclusion - WHICH IS MORE APPROPRIATE?	NB-depends on the facts of each case. <u>NB FACTORS TO CONSIDER:</u> 1. What is the individual's marginal tax rate? 2. Has the investor already used his interest/CGT tax concession? 3. Does the investor want to change portfolios/underlying investments regularly? 4. Does the investor want to utilize losses?			

NB-THIS CHART ONLY CONSIDERS THE INCOME TAX AND CGT CONSEQUENCES OF INVESTMENTS. OTHER ISSUES SUCH AS COSTS AND LIQUIDITY ARE IGNORED, BUT SHOULD ALSO BE CONSIDERED BY INVESTORS

Important: National Treasury has adjusted the threshold for the lump-sum commutation of the full residual value of a living annuity to **R125 000**. **This amendment is a permanent change and is effective from 1 June 2020.**

Multiple living annuities are now aggregated per insurer or annuity provider.