

FINANCE MATTERS

HW | Hewett
Wealth

BENEFITS OF AN ENDOWMENT – The decision to utilise a flexible investment structure or an endowment structure when making an investment decision (local or offshore) is something that should be considered with appropriate advice. There are considerable differences in characteristics between a flexible investment structure and an endowment structure in terms of their **TAX, LIQUIDITY & ESTATE** treatment, to name a few but your ultimate choice can result in significantly **ENHANCED** or significantly **REDUCED** investment returns depending on your personal circumstances.

We have highlighted a few key attributes and constraints of an endowment that may be of interest:

KEY BENEFITS OF ENDOWMENTS

- ◆ All taxable income generated within an endowment is taxed at a maximum effective rate of 30% and all capital gains are taxed at a maximum effective rate of 12%.
- ◆ Individual interest and GCT exemptions are not utilized and remains intact.
- ◆ All income and capital gains tax are excluded from the calculation of personal taxable income and there is no risk of increasing personal tax liability on other income due to income or gains generated by assets within this investment vehicle.
- ◆ Simplified tax administration as tax is recovered within the endowment and taken care of on behalf of the investor.
- ◆ Endowments will not be included for executors' fee calculations.
- ◆ Beneficiary nomination can lead to potential savings on executor's fees (up to 4.025% of fund value). Where a beneficiary has been nominated, payment of the death benefit does not depend on the winding up of the estate and beneficiaries will receive the proceeds relatively quickly.
- ◆ Liquidity is created in the estate as payment of the death benefit does not depend on the winding up of the estate and beneficiaries will receive the proceeds relatively quickly.

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- ◆ Insolvency protection – the entire value of the policy will be protected against creditors three years after inception until five years after the maturity, or termination of the policy.
- ◆ A wide range of underlying investment options are available.
- ◆ Withdrawals after the restriction period are tax free
- ◆ No restrictions on underlying asset allocation

KEY CONSTRAINTS

- ◆ Withdrawals are restricted within the first five years.
- ◆ Contributions are restricted after the first 12 months.

IMPLICATIONS ON DEATH

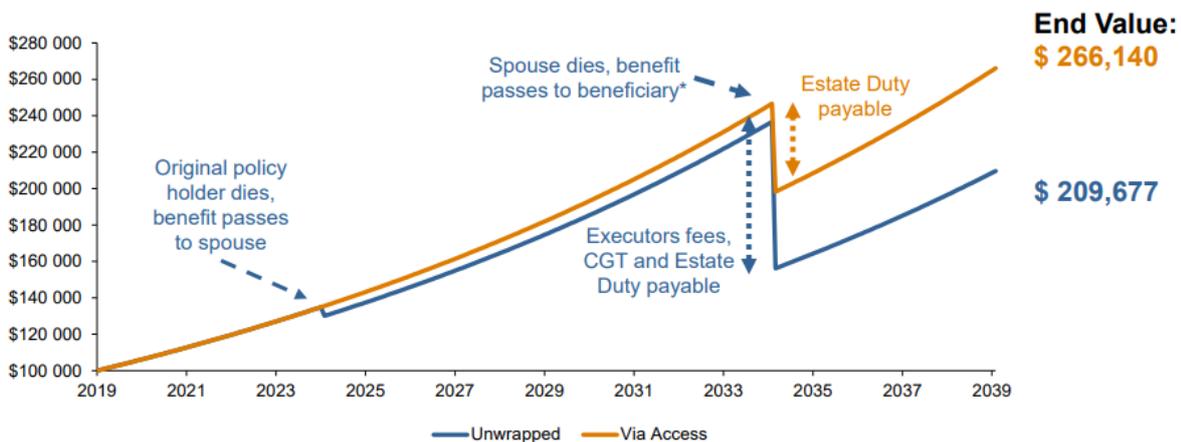
- ◆ Beneficiaries can be nominated to receive the proceeds.
- ◆ No CGT will be applicable on the transfer to a nominated beneficiary
- ◆ No executors fees where beneficiaries are nominated

PRACTICAL EXAMPLE

The following example shows the potential succession benefit for a high net worth individual of investing offshore via an endowment (wrapper) versus investing directly offshore. The same benefit applies for local investments.

Efficient succession

Allowing for preservation of wealth across generations



Source: Investec Asset Management. Higher rate tax payer. Assumed growth of 6% p.a. Executors fees of 4.03% *Assumes R3.5m abatement used elsewhere

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An investor invests \$100 000 offshore. The **BLUE** line depicts the investors investment if they invested directly offshore. The **ORANGE** line depicts the investors investment if they invested via the Investec Asset Management wrapper.

Upon the death of the investor in 2024, the benefit passes onto the surviving spouse. The difference in the benefit between **BLUE** and **ORANGE** is the impact of executor's fees.

In 2034, the spouse passes away. The beneficiaries in line for the benefit from **BLUE** are impacted as follows, the proceeds are received net of **1)** executor's fees, **2)** Capital Gains, and **3)** Estate Duty Payable. Whereas, the beneficiaries in line for the benefit from **ORANGE** are only impacted by the Estate Duty payable by the spouse.

You can obtain advice and more detailed information from Hewett Wealth directly by calling 010 597 7506 or by emailing enquiries@hewettwealth.co.za

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