momentum

Voluntary investment comparison – Non-natural persons			
	Flexible Endowment Option Company policyholder fund	**Flexible Investment Option Owned by Trust with corporate entities as beneficiaries**	**Flexible Investment Option Owned by Company or CC**
General Description	This is a fixed term contractual savings long term insurance policy.	This is an investment into a basket of collective investment schemes with no fixed term and not in an endowment policy wrapper.	
Applicable Legislation	Long Term Insurance Act Estate Duty Act Income Tax Act	Collective Investment Schemes Act Estate Duty Act Income Tax Act	
Investment Term	There is a minimum term of 5 years prescribed by the Long Term Insurance Act. During the term one loan and one withdrawal can be made (limited to a maximum of premiums plus 5%). Premium increases are limited to 20% p.a. Excess increases will trigger a new 5 year restriction term.	There is no fixed term. The investment is fully liquid. Withdrawals can be made at any time by selling units.	
Investment Risk	The fund selection will dictate the investment risk		
Protection against creditors	If the policyholder or <u>life insured</u> is declared insolvent, the Long Term Insurance Act provides for creditor protection if: - the policy is in force for at least 3 years, and - it is payable to that person's spouse, children or parents. The protection would apply for a period of 5 years from the date upon which the benefits were provided.	No creditor protection will apply in respect of creditors of the trust No creditor protection will apply in respect of creditors of the company or CC	

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Income tax payable by the insurer	The income earned in the policy is taxed on an insurer level according to the five fund approach. Where the policyholder is a company/CC or a trust with corporates as beneficiaries, the funds will be allocated to the Company Policyholder Fund where the income tax rate is 28%. No exemptions or rebates apply in the fund.	Not applicable	
Income tax payable by policyholder or investor	No income tax is payable by the policyholder	Income earned on the investment will be taxed in one of the following: - The donor, whose gratuitous disposition to the trust made the investment possible; or - The beneficiaries if the trustees exercise their discretion to vest the income in the beneficiary during the year of assessment that it is earned; or - The trust if none of the above apply Where the income is subject to income tax in the hands of the donor/beneficiary, it will retain its nature and any related deduction will be considered to determine the taxable income. The taxable income of the company/CC beneficiary will be taxed at the marginal tax rate of 28%. If the income is taxed in the trust, no exemptions or rebates will apply and a flat income tax rate of 45% will apply.	Income earned on the investment will be taxed in the hands of the investor. It will be gross income and any related exemptions or deductions will be allowed to determine the taxable income of that company/CC. The taxable income of the company or CC will be taxed at the marginal tax rate of 28%. No annual exemptions or rebates apply.

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	Flexible Endowment Option Company policyholder fund	Flexible Investment Option Owned by Trust with corporate entities as beneficiaries	Flexible Investment Option Owned by Company or CC
Capital Gains Tax Payable by the Insurer	Capital gains in the policy are taxed in the hands of the insurer in terms of the five fund approach. Capital gains can be realised when fund switches are made, loans and withdrawals are made and also when the maturity value has to be realised. No exclusions apply in the funds The inclusion rate in the Company Policyholder Fund is 80% - therefore the effective CGT rate that applies is 22.4%.	Not applicable	
Capital Gains Tax Payable by the Investor	No capital gains tax payable by the investor who is the original policyholder.	Where the trust sells units, a capital gain may be realised. The net capital gain will be taxable in the hands of one of the following: - The donor, whose gratuitous disposition to the trust made the investment possible; or -The beneficiaries if the trustees exercise their discretion to vest the capital gain in the beneficiary during the year of assessment (the trust deed must make provision for this); or - The trust, if none of the above applies. If taxed in the hands of the donor, the annual exclusion of R40 000 will apply and the inclusion rate of 40%. The taxable gain will be taxed at the marginal tax rate of that person (18% to 45%). (Effective rate of CGT ranges between 7.2% and 18% for natural persons). If taxed in the hands of the beneficiary (company or CC), no annual exclusion will apply and 80% of the gain will be taxed at 28% - which is an effective rate of 22.4% If the capital gain is taxed in the trust, no capital gains exclusion will apply and the effective CGT rate will be 36% (80% inclusion rate at 45% tax rate)	Where the company/CC sells units, a capital gain may be realised. The capital gain will be subject to income tax in the hands of the investor. The inclusion rate applicable to companies or CCs is 80% which will then be included in the taxable income of the entity, which will be taxed at the marginal tax rate of 28%. Therefore the effective rate of CGT payable will be 22.4%

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Dividends Withholding Tax	Where the investor is a SA company or CC, the DWT exemption will apply.		
Estate Duty	Long term insurance policies are included in the estate of the life insured as property or deemed property. If there are multiple lives insured it will be included in the estate of the last surviving of them. A sinking fund policy does not have a life insured and in that instance there is no estate duty implications.	Not applicable.	

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Practical Example			
Big Buck CC has R5 000 000 to invest. The investment options are either a Flexible Investment Option or a Flexible Endowment Option. They would like to know which one will be most beneficial from a tax point of view. Assume an annual rate of return of 12% which equals R600 000. Of this, 20% is interest (R120 000), 10% is dividends (R60 000) and 70% is capital growth (R420 000). For the purpose of the calculation it is assumed the investment is disposed of at the end of the year to illustrate the impact of capital gains tax. It is assumed that the annual rebate is applied iro his salary and therefore ignored when calculating the tax payable in his personal capacity.			
	Flexible Endowment Option Company policyholder fund	**Flexible Investment Option Owned by Trust with corporate entities as beneficiaries**	**Flexible Investment Option Owned by Company or CC**
Tax situation at the end of the tax year	Interest earned is fully taxable: R120 000 x 28% = R33 600 Dividends earned will be exempt from income tax. Taxable capital gain = (R420 000 x 80%) = R336 000 Taxed at 28% = R94 080 Net return on the investment = R472 320	Interest earned is fully taxable: R120 000 x 45% = R54 000 Dividends earned will be exempt from income tax. Taxable capital gain: (R420 000 x 80%) = R336 000 Taxed at 45% = R151 200 Net return on the investment = R394 800	Interest earned is fully taxable: R120 000 x 28% = R33 600 Dividends earned will be exempt from income tax. Taxable capital gain = (R420 000 x 80%) = R336 000 Taxed at 28% = R94 080 Net return on the investment = R472 320

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