momentum

<table>
<tr><th colspan="4">Voluntary investment comparison – natural persons</th></tr>
<tr><th></th><th>Flexible Endowment Option
Individual policyholder fund</th><th>Flexible Investment Option
Owned by Trust with natural persons as beneficiaries</th><th>Flexible Investment Option Owned by Natural Person</th></tr>
<tr><td>General Description</td><td>This is a fixed term contractual savings long term insurance policy.</td><td colspan="2">This is an investment into a basket of collective investment schemes with no fixed term and not in an endowment policy wrapper.</td></tr>
<tr><td>Applicable Legislation</td><td>Long Term Insurance Act
Estate Duty Act
Income Tax Act</td><td colspan="2">Collective Investment Schemes Act
Estate Duty Act
Income Tax Act</td></tr>
<tr><td>Investment Term</td><td>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.</td><td colspan="2">There is no fixed term.
The investment is fully liquid.
Withdrawals can be made at any time by selling units.</td></tr>
<tr><td>Investment Risk</td><td colspan="3">The fund selection will dictate the investment risk</td></tr>
<tr><td>Protection against creditors</td><td>If the policyholder or life insured 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.</td><td colspan="2">No creditor protection will apply in respect of creditors of the trust
No creditor protection will apply in respect of creditors of the natural person</td></tr>
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Revised May 2019

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	Flexible Endowment Option Individual policyholder fund	Flexible Investment Option Owned by Trust with natural persons as beneficiaries	Flexible Investment Option Owned by a Natural Person
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 natural person or a trust with only natural persons as beneficiaries, the funds will be allocated to the Individual Policyholder Fund where the income tax rate is 30%. 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 exemption that the natural person enjoys or related deduction will be deducted to determine the taxable income. The taxable income of the natural person will be taxed at the marginal tax rate of that person (18% to 45%). The annual rebates will also apply. 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 person. The taxable income of the natural person will be taxed at the marginal tax rate of that person (18% up to 45%). The annual rebates will also apply.

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	Flexible Endowment Option Individual policyholder fund	Flexible Investment Option Owned by Trust with natural persons as beneficiaries	Flexible Investment Option Owned by a Natural Person
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 Individual Policyholder Fund is 40% - therefore the effective CGT rate that applies is 12%.	Not applicable	
Capital Gains Tax Payable by the Investor	No capital gains tax payable by the investor who is the original policyholder or that policyholder's spouse or nominee or beneficiary.	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 apply. If taxed in the hands of the donor/beneficiary, 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 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 individual sells units, a capital gain may be realised. The capital gain will be subject to income tax in the hands of the investor and therefore the annual exclusion of R40 000 will be allowed as a deduction when determining the taxable capital gain. The inclusion rate applicable to natural persons is 40% which will then be included in the taxable income of the natural person, which will be taxed at the marginal tax rate of that person (18% to 45%). Therefore the effective rate of CGT payable ranges between 7.2% and 18%.

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	Flexible Endowment Option Individual policyholder fund	Flexible Investment Option Owned by Trust with natural persons as beneficiaries	Flexible Investment Option Owned by a Natural Person
Dividends Withholding Tax	DWT (20%) is applicable to dividends received in the individual policyholder fund.	DWT (20%) can be applicable if dividends are paid to the collective investment schemes. This will always be the case where the FIO is owned by the individual. In the case of a trust with a CC or Co or other exempt person as a beneficiary and that dividend is distributed to that beneficiary in the same year of assessment, no DWT will apply.	
Estate Duty (Levied at 20% on the dutiable estate exceeding R3 500 000 up to R30million and 25% on the amount in excess of R30 million)	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. Where the policyholder dies and there are remaining lives insured (so the policy does not pay out), the policy's cash value will be an asset in the estate of the policyholder.	Not applicable. Note – if the trust was funded by a loan account, that loan account owing to the donor will be an asset in that donor's deceased estate for estate duty purposes.	The cash value of the investment will be an asset in the estate of the investor and could be subject to estate duty

Practical Example

Peter Peters is 45 years old. He inherited R5 000 000 from his father and wants to invest it in either a Flexible Investment Option or a Flexible Endowment Option. He 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.

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Practical Example Comparison:			
	Flexible Endowment Option Individual policyholder fund	**Flexible Investment Option Owned by Trust with natural persons as beneficiaries**	**Flexible Investment Option Owned by a Natural Person**
Tax situation at the end of the tax year	Interest earned is fully taxable: R120 000 x 30% = R36 000 Dividends earned will be exempt from income tax. Taxable capital gain = (R420 000 x 40%) = R168 000 Taxed at 30% = R50 400 Net return on the investment = R513 600	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 – R23 800 (exemption) = R96 200 Marginal rate 26% = R25 012 Marginal rate 31% = R29 822 Marginal rate 36% = R34 632 Marginal rate 39% = R37 518 Marginal rate 41% = R39 442 Marginal rate 45% = R43 290 Dividends earned will be exempt from income tax. Taxable capital gain: (R420 000 – R40 000) x 40% = R152 000 @ 26% = R39 520 @ 31% = R47 120 @ 36% = R54 720 @ 39% = R59 280 @ 41% = R62 320 @ 45% = R68 400 Net return on the investment: Marginal rate of 26% = R535 468 Marginal rate of 31% = R523 058 Marginal rate of 36% = R510 648 Marginal rate of 39% = R503 202 Marginal rate of 41% = R498 238 Marginal rate of 45% = R488 310
Executor's Fees	Assume a beneficiary is nominated on policy: No executor fees payable	N/A	Assume fund value on date of death equal to R5 600 000Executor's fees at the maximum rate of 3.5% plus VAT (3.99%) = R223 440

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