momentum

# Investment Vehicle Comparison

| Investment Type | FIO Linked Investment | Endowment Policy (Investo/Wealth) | Tax-Free Investment | Retirement Annuity |
|---|---|---|---|---|
| **General Description** | This is a direct investment into collective investment schemes via Momentum Wealth. | This is a fixed term contractual savings policy. | Flexible tax-free option, or Tax-free My Savings.<br>Both are underpinned by an endowment policy. | This is a fixed term retirement savings policy. |
| **Applicable Legislation** | Collective Investment Schemes Act<br>Income Tax Act<br>Estate Duty Act | Long Term Insurance Act<br>Income Tax Act<br>Estate Duty Act | Long Term Insurance Act<br>Income Tax Act<br>Estate Duty Act | Long Term Insurance Act<br>Pension Fund Act<br>Income Tax Act<br>Estate Duty Act |
| **Investment Term** | There is no fixed term.<br>The investment is fully liquid. | There is a minimum term of 5 years.<br>During the term one loan and one withdrawal can be made (limited to a maximum of premiums plus 5%)<br>Premium increases are limited to 20% p.a. of the higher of the premiums paid in the two preceding premium paying periods<br>Excess increases will trigger a new 5 year term. | No minimum term and no fixed investment term – fully liquid investment.<br>The restrictions applicable to endowment policies do not apply to tax-free investments. | The minimum term is linked to the retirement age of the member – which is from 55.<br>There is limited access before the retirement date:<br>- Disability<br>- Death<br>- Where the paid up fund value is less than R7 000<br>- Formal emigration/visa expiry<br>- Divorce and maintenance orders |
| **Investment Risk** | The fund selection will dictate the investment risk. | The fund selection will dictate the investment risk. | The fund selection will dictate the investment risk.<br>The Regulations pertaining to tax free investments contain certain restrictions to limit risk. | The fund selection will dictate the investment risk.<br>Regulation 28 guidelines must be followed, which limits investment into certain asset classes. |

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| **Income Tax – insurer or administrator** | Income earned by the collective investment scheme is taxed in the hands of the investor only. | The income earned in the policy is taxed at the insurer according to the four fund approach:<br><br>- Individual Policyholder Fund 30%<br>- Company Policyholder Fund 28% | No income tax is payable on the investment returns realised within the investment. | Retirement funds are exempt from income tax. |
| **Income Tax - investor** | Income earned by the collective investment scheme is taxed in the hands of the investor.<br>If the investor is a natural person, the interest and dividend exemption will apply. | When the endowment policy pays out to the policyholder, no income tax will be payable. The life insurer pays tax on any investment returns on behalf of the policyholder in terms of section 29A of the ITA. | Investment returns generated are exempt from income tax. | Contributions may be tax deductible within legislated limits.<br>The tax tables applicable to retirement funds will apply in respect of any lump sums received by the member or his dependants or beneficiaries. |
| **Capital Gains Tax – Insurer or administrator** | Capital gains realised when selling or switching units will only be taxable in the hands of the investor. | All capital gains are taxed in the hands of the insurer in terms of the four fund approach – (where units are sold to fund withdrawals, surrenders, loans, maturities or switches are made between funds)<br>- CGT can be incurred by the insurer, impacting the fund value. No exclusions apply in the funds. The inclusion rates are as follows:<br>- Individual Policyholder Fund – 40% (effective rate – 12%)<br>- Company Policyholder Fund – 80% (effective rate – 22.4%) | Tax-free investments are exempt from capital gains tax | Retirement funds are exempt from CGT |



Note – this document is intended for comparative purposes only and does not constitute financial, investment or tax advice.

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| **Capital Gains Tax – Investor** | If a capital gain is realised when the investor sells/switches units, it will be subject to CGT.<br>Natural persons are entitled to an annual exclusion of R40 000 where after the inclusion rate is applied and it is included in taxable income:<br><br>- Natural person – 40%<br>(max. effective rate – 18%)<br>- Company/CC/Trusts – 80%<br>(effective rate Co/CC – 22.4%)<br>(effective rate Trusts – 36%) | The original policyholder/spouse/ nominees/beneficiaries will not pay any capital gains tax on the proceeds from an endowment policy.<br>Where the policy proceeds pay to a subsequent policyholder (traded or second-hand endowment), capital gains tax may be payable by the policyholder on any gains realised.<br>Natural persons are entitled to an annual exclusion of R40 000 where after the inclusion rate is applied and it is included in taxable income:<br><br>- Natural person – 40%<br>(max. effective rate – 18%)<br>- Company/CC/Trusts – 80%<br>(effective rate Co/CC – 22.4%)<br>(effective rate Trusts – 36%) | Tax-free investments are exempt from capital gains tax | Capital gains tax is not payable in respect of retirement benefits |
| **Dividends Withholding Tax** | DWT (20%) may be withheld from certain dividends received. Where the investor is a natural person the DWT is withheld | DWT (20%) is applicable to dividends received in the individual policyholder fund | Tax-free investments are exempt from DWT | Retirement funds are exempt from DWT |

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| **Estate Duty** | If the investor is a natural person the investment will be an asset in the estate of the deceased. | Long term insurance policies are included in the estate of the life insured as a deemed asset. 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 | The cash value of the investment will be an asset in the estate of the investor and can be subject to estate duty. | Retirement funds are excluded from the estate for estate duty purposes.<br>All disallowed contributions made to retirement funds after 1 March 2015 will be part of the deceased member's estate for estate duty purposes. |
| **Protection against creditors** | The investment will be part of the insolvent estate and will be attachable by creditors if the investor is declared insolvent | If the policyholder or life insured is declared insolvent, the Long Term Insurance Act provides for limited creditor protection.<br>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. | Where the investment is underpinned by an endowment policy, the protection applicable to long term insurance policies will also apply towards the tax-free investment.<br>In other instances, where the investment is housed in example bank accounts, unit trust investments, etc, the investment will form part of the insolvent estate. | During the lifetime of the member, whilst the funds are invested in the retirement fund, it is protected against the creditors (other than those provided for in the Pension Fund Act, eg. maintenance orders). Once the member retires, any lump sum and pension received can be attached by creditors. Upon the death of the member prior to retirement, the retirement fund proceeds will be protected as long as there is a dependant to receive the proceeds. If the proceeds are payable to a nominated beneficiary (other than a dependant, as defined), the trustees will be obliged to first settle any debts (insofar the aggregate liabilities exceed the aggregate assets) before making payment to that nominee. |