CHARTERED ACCOUNTANTS
PHYSICAL 1st FLOOR, 67 FLORIDA ROAD, DURBAN, KWAZULU NATAL, SOUTH AFRICA
POSTAL PO BOX 48619, QUALBERT 4078
TEL + 27 31 303 6130 FAX + 27 31 303 4399
EMAIL global@sjcasa.co.za WEB www.sjcasa.co.za

MoneyTalk

Lump sum proceeds exempted from Estate Duty

LIFE ASSURANCE has long been known as one of those great products that has been let down badly by the manner in which it is sold.

However, there is probably no other product in existence that allows someone with a relatively small asset base to provide a fairly substantial lump sum for their loved ones upon death, for a reasonably small monthly outlay. This makes life assurance an absolute must, particularly for high-income earners who are just starting out—usually their asset base is small, while they tend to carry debt on big-ticket items such as a home and cars.

Many employers also offer group life cover to their employees, whether as part of a retirement fund or as a stand-alone arrangement. But the very protection provided by such measures has historically been diluted by estate duty, in that even though the proceeds are paid directly to one or more nominated beneficiaries, such proceeds were regarded as "property deemed to be property", with the estate having to account for estate duty on such proceeds.

The existing provision also applies notwithstanding the fact that the benefit may have been paid directly to a third party, e.g. to a bank in order to settle a home loan. The problem that then arises is that assets often need to be liquidated in order to meet the estate duty liability.

While there is already an existing basic exemption from estate duty of the first R3.5 million of otherwise dutiable assets (in terms of Section 4A of the Estate Duty Act), this is not actually such a substantial sum nowadays. Even the "average" person with a fairly modest house, some money in a retirement fund, and one or two policies can quite easily overshoot the R3.5 million threshold.

One of the most exciting proposals to come from the draft Taxation Laws Amendment Bills is that for taxpayers who die on or after **1 January 2009**, any lump sum payments from pension, provident, group life assurance, and life assurance policies will be exempt from estate duty.

Previously, anyone wishing to use such lump sums to provide for their loved ones after their death would have had to go through an iterative process, whereby the amount required would need to be increased in order to cover the estate duty. This increased amount would in turn be subject to estate duty, and would therefore have needed to be increased again. That further increase would be dutiable, and so the process is repeated until the full estate duty liability is covered.

As a consequence of this, the conscientious breadwinner would have probably ended up being over-insured by around 25%.

If the proposed exemptions go ahead, the policyholder has the option of keeping his or her cover unchanged, which means that their beneficiaries will receive nearly a quarter more than anticipated.

On the other hand, given the squeeze experienced by consumers as a result of increased interest rates, fuel prices, and general inflationary pressures, reducing the amount of cover required (and, as a consequence, reducing the monthly premium) may be an option to be considered.

However, it is strongly recommended that you contact a competent financial advisor before taking any action in this regard.

Copied from a Tax Breaks publication by Steven Jones

1 September 2008