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Investing for a
world of change

Ninety One Masterclass Stick or twist?

Advanced advisor solutions
22 May 2024

Masterclass 8.0: Stick or twist...

Is it too late to amend my existing investment structures?

- Existing investments
- **Red flags with current structure**
- Has recommendations that can solve the issues but...
- **Will the short-term pain result in long term gain?**





Meet Susan

Personal circumstances and objectives

Client circumstances

Age: 82 and health is not great

Marital status:
Widow

Children:
One adult child

Son, 52 (CA, SA tax resident, married with children)

Needs and objectives

Income needs:
R 65,000 p.m. before tax

To take money offshore that her son can inherit quickly and cost efficiently

Primary Succession plan:
To provide for her son on her death and for his family thereafter

To tackle **material estate duty issues**

To minimize **income tax rate**



Meet Susan

Assets in held in her own name and within her South African Trust

Personal assets

Living annuity:
R 11,000,000

Cash in bank account:
R 15,000,000

Local Share Portfolio:
R 70,000,000

Ninety One Global Life Portfolio:
R 6,000,000

And... Annual R 350k contribution to an RA

Trust assets

Cash in Trust bank account
R 12,000,000

No loan account

Son and his family are beneficiaries



Client scenario

Tackling 8 of our top 10 client financial planning needs

- 1 Creating **liquidity on my death**
- 2 Providing the **most tax efficient solution** for the **lazy cash in my bank accounts**
- 3 Help me create **tax-efficient income** and **manipulate Estate Duty regardless of my age**
- 4 Help me achieve **inter-generational transfer of wealth** & cost and tax efficiency within my family
- 5 How do I get **more assets into my trust** without negative consequences?
- 6 Help me to create the **most efficient beneficiary nomination** to avoid un-intended consequences
- 7 Can you **guarantee the flow of money** on my **offshore investment** on my death?
- 8 How can I **transition wealth while I am alive** to reduce fees and taxes on my death?
- 9 What is the **most efficient solution** for funds in our **offshore bank account**?
- 10 Establishing **structures for my offshore shares** to avoid excessive consequences on my death including situs tax?



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Dealing with existing personal assets





Susan

Current finances – Analysis of robustness **while alive**



Living annuity
R 11,000,000

- No CGT
- No DWT
- No income tax on growth
- **Income drawn from annuity taxed as per PAYE tables**

Cash in bank
R 15,000,000

- Sitting in bank
- Secure, liquid investment
- FIA clearance received
- **Limited yield**
- **Interest taxed at 45%***

Local Share Portfolio
R 70,000,000

- Flexible liquid investment
- **Income taxed at 45%**
- **Portfolio turnover creates frequent CGT events taxed at 18%**



Case study

Analysis of robustness of current finance **scenario on death**



Living annuity
R 11,000,000

Cash in bank
R 15,000,000

Local Share Portfolio
R 70,000,000

- Beneficiary nomination
- No CGT
- No estate duty
- No executors fees
- Liquid on death

- Part of the estate
- Executors' fees (up to 4.03%)
- **Estate duty (20/25%)**
- Illiquid

- Part of the estate
- Executors' fees (up to 4.03%)
- **Estate duty (20/25%)**
- CGT on death (18%*)
- Illiquid

*40% of gain taxed at 45%

R 70m local share portfolio

Taking the CGT hit now to save time, fees and taxes later

Case study

- Client holds a local PSP in her own name (marginal rate 45%) with a current value of R 70m and a base cost of R 50m
- To reduce estate planning issues, the advisor is considering cashing in the shares and transferring to a policy wrapper

But very NB... approx. R 3.6m CGT liability

- Performance assumed to be the same in both scenarios
- Starting value adjusted for CGT in policy wrapper example
- CGT on death deducted at 18% for direct PSP example
- Assess the impact of fees, taxes, timing and beneficiary nominations on relative outcomes

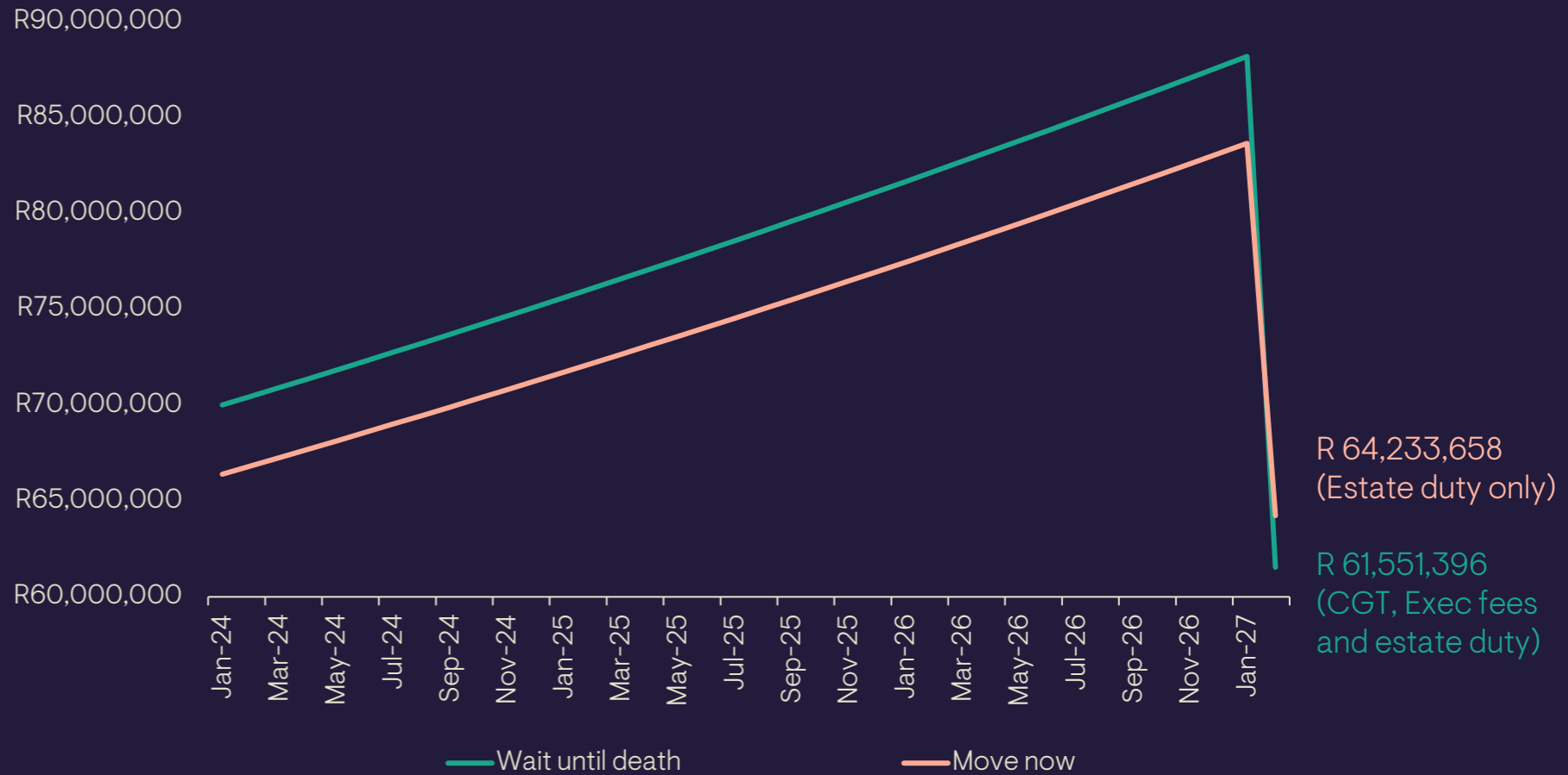
R 70m local share portfolio

Outlining the challenges involved where **assets transition on death**

Masters' Office involvement

Executors' fees

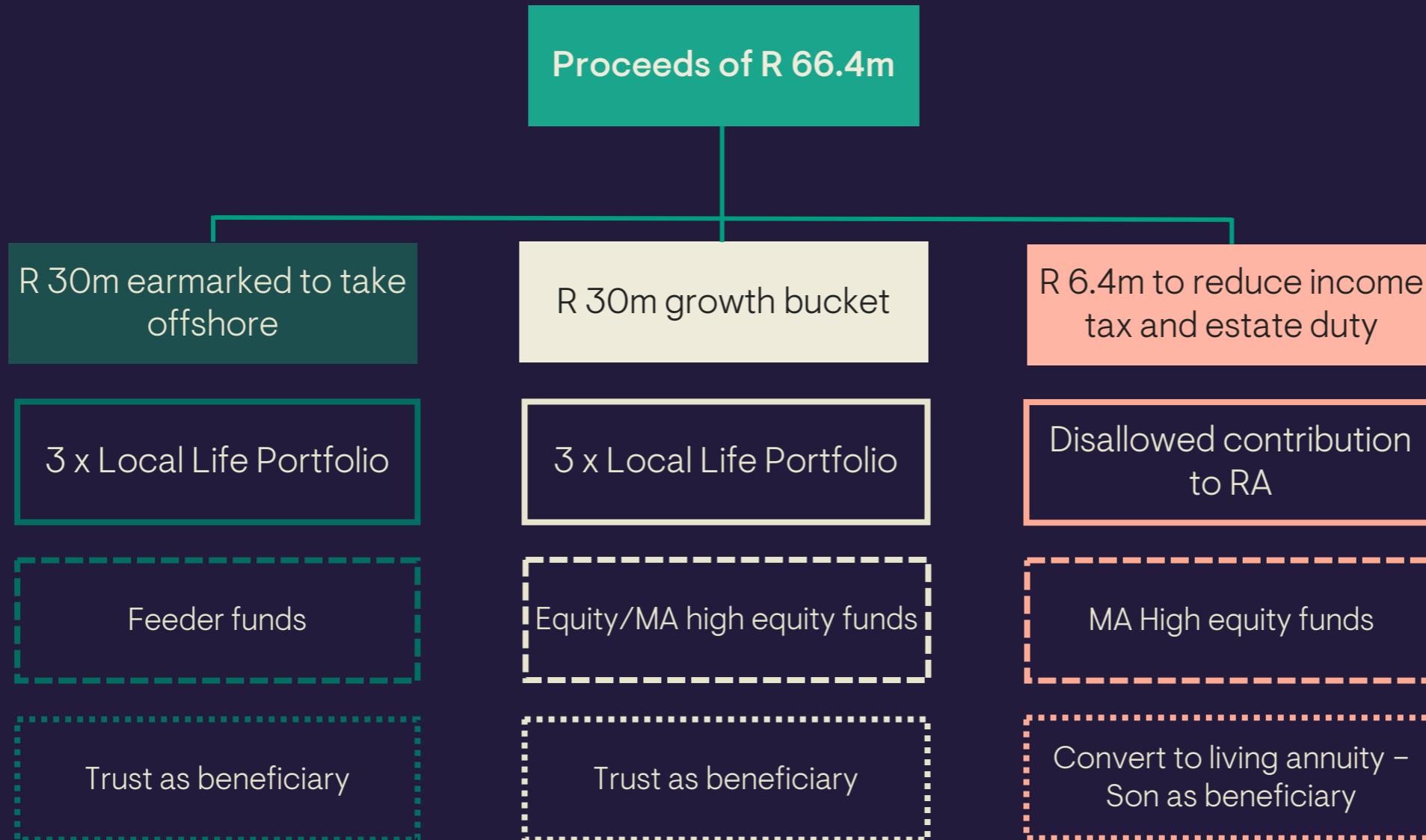
CGT





Redeployment of proceeds from local PSP

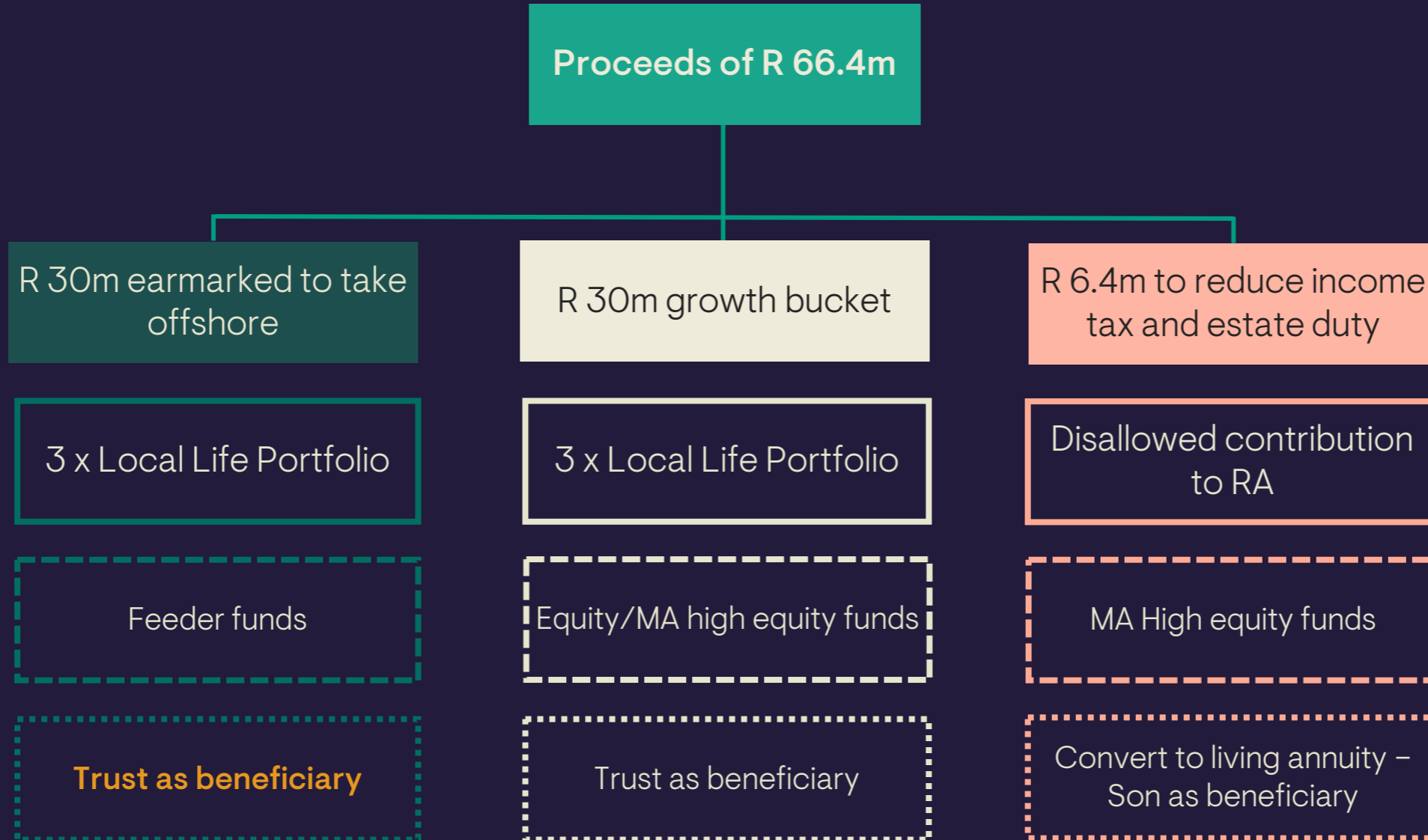
3 strategies





Redeployment of proceeds from local PSP

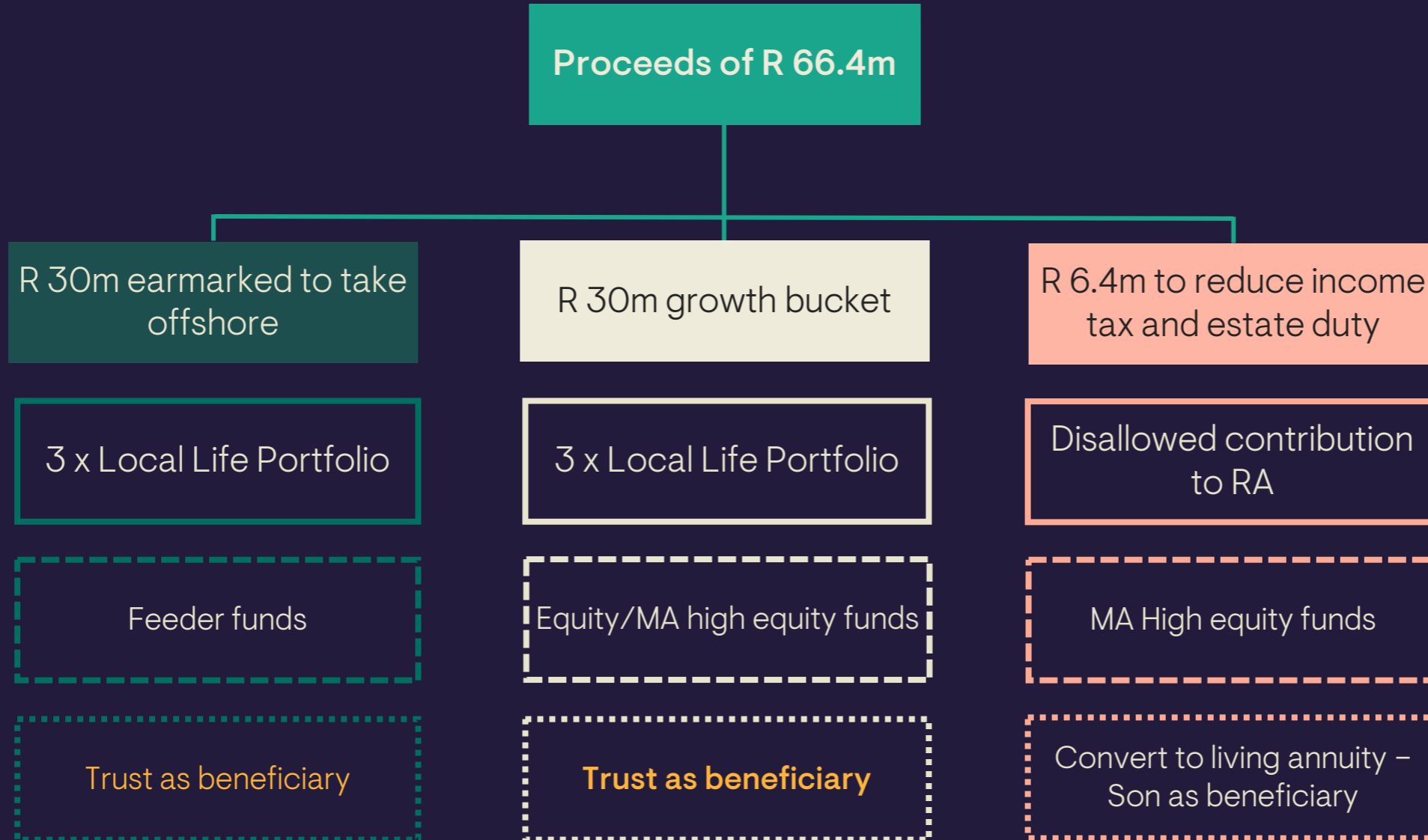
3 strategies





Redeployment of proceeds from local PSP

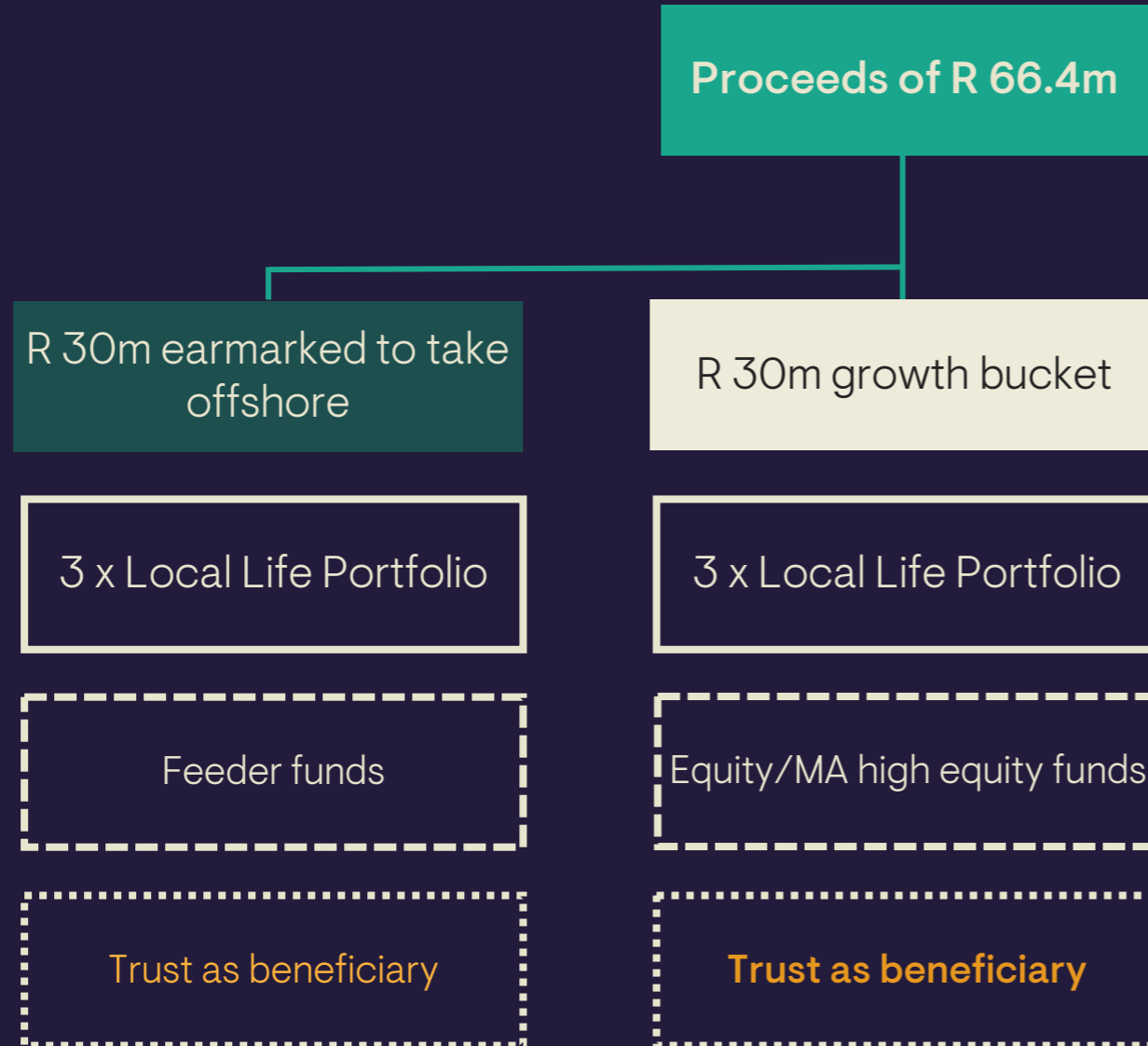
3 strategies





Redeployment of proceeds from local PSP

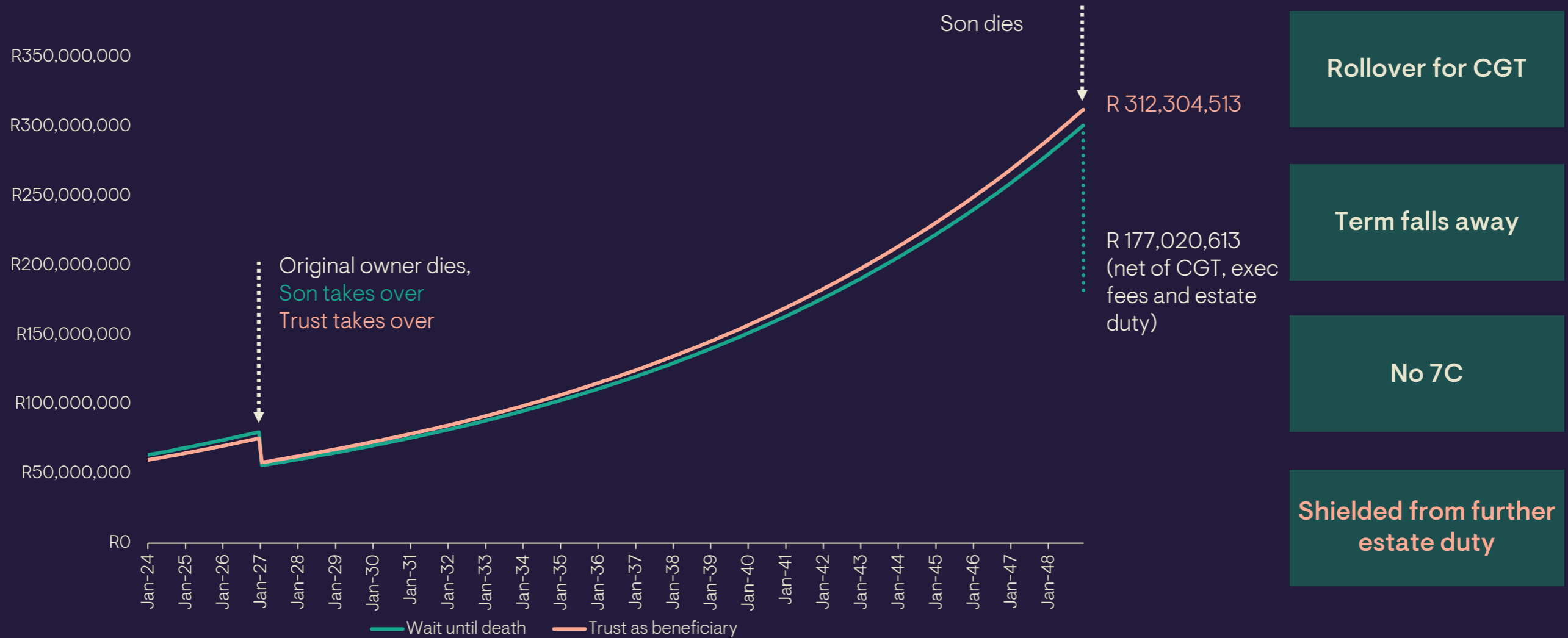
3 strategies





Exploring the R 60m Life Portfolio allocation

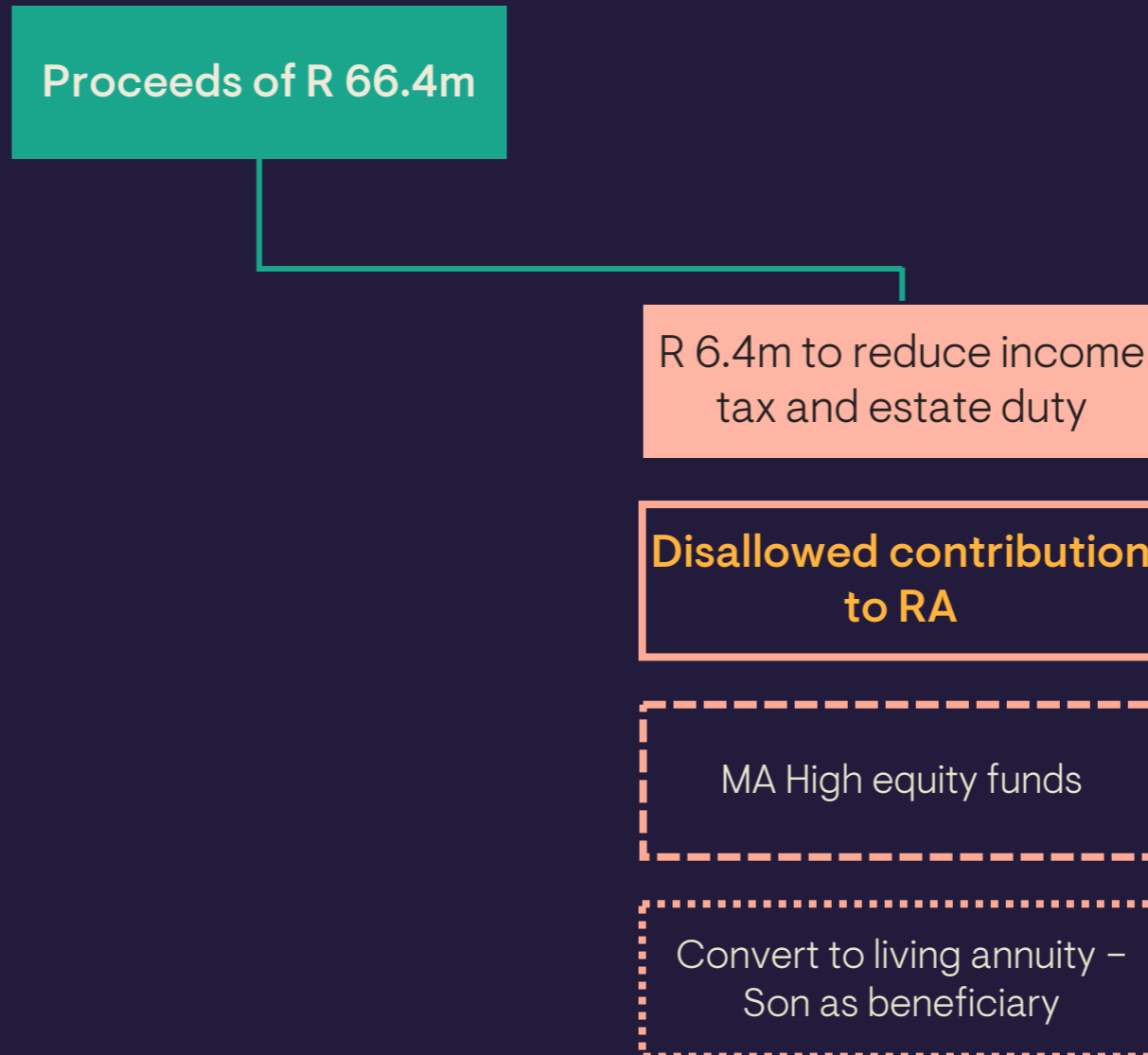
Benefit of the policy wrapper and using a Trust as a beneficiary





Redeployment of proceeds from local PSP

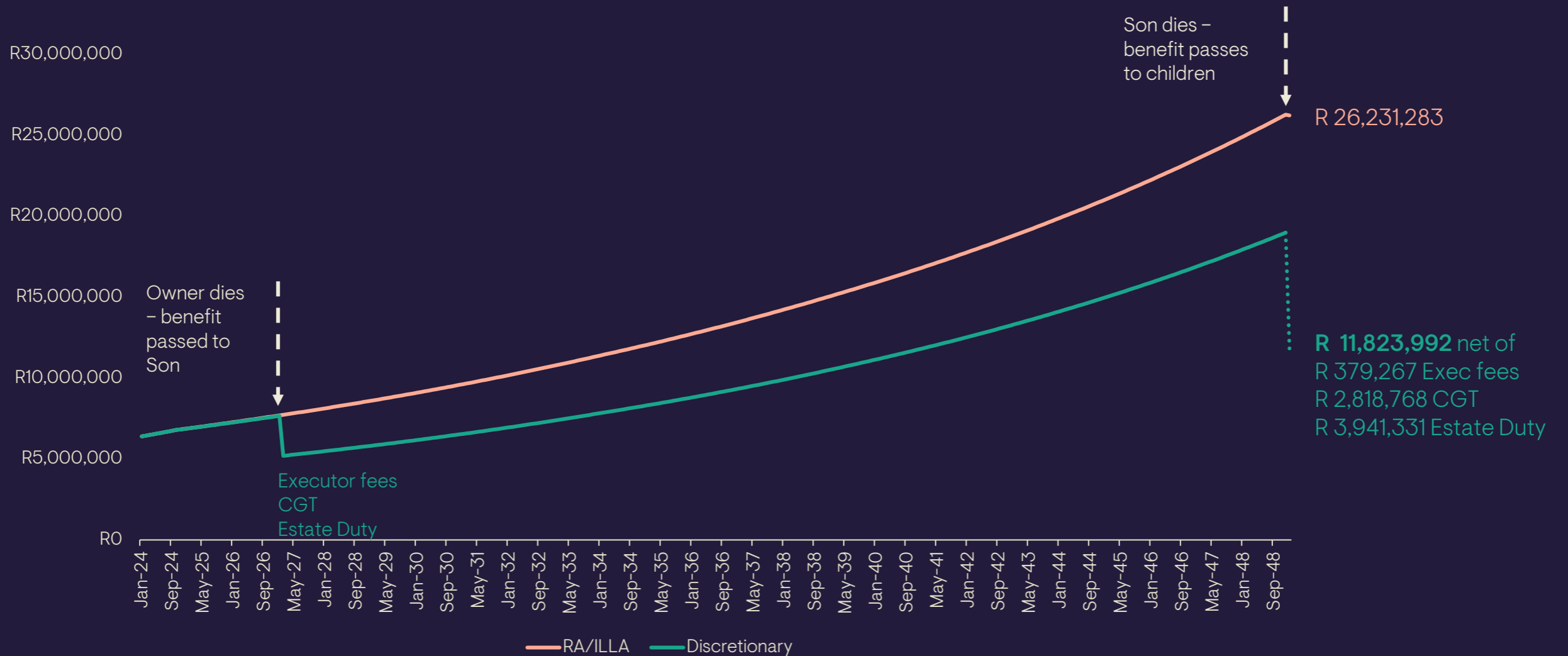
3 strategies





Unpacking the benefit of R 6.4m disallowed contributions

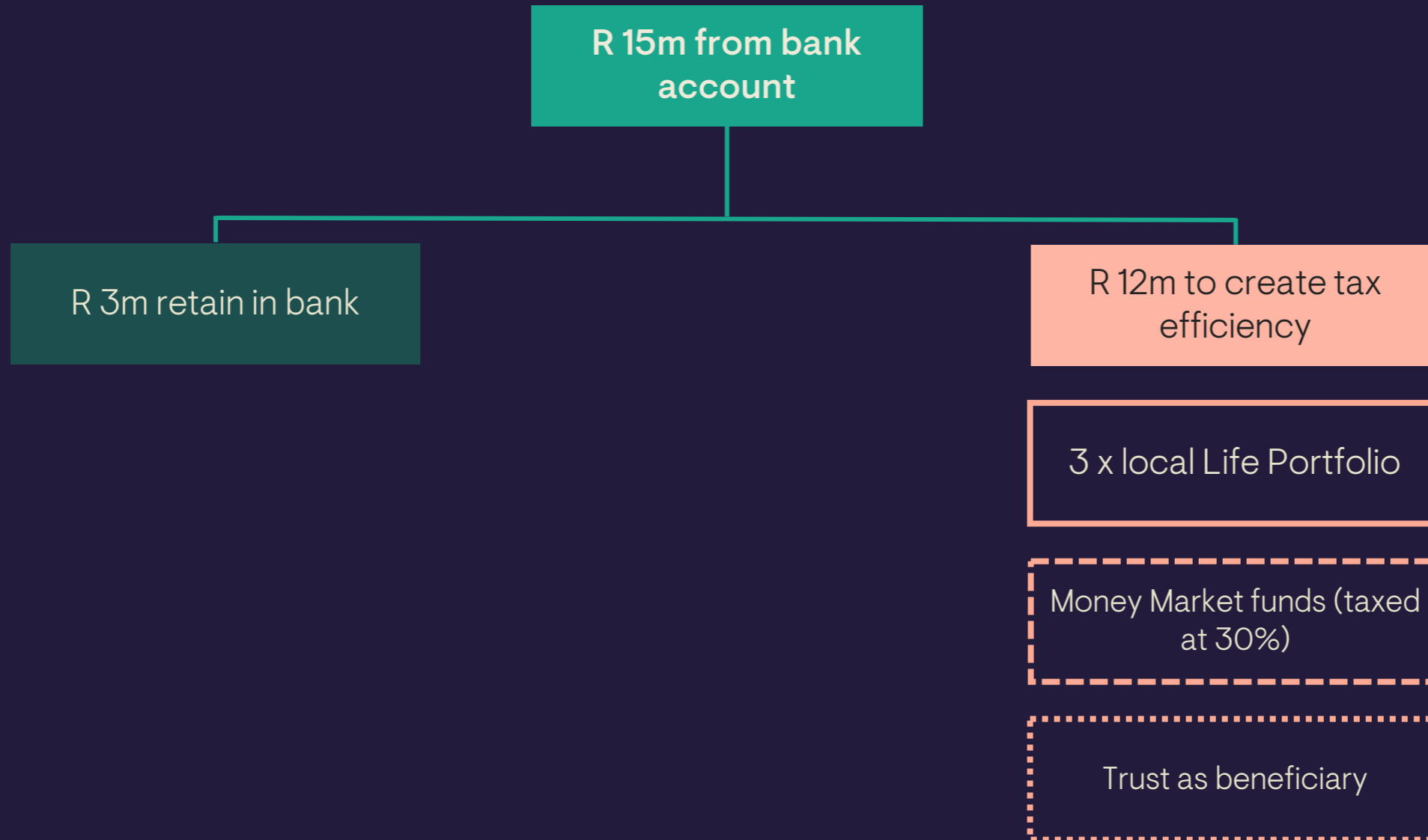
Long term financial planning benefit – Where beneficiaries take as an annuity





Evaluating the R 15m in the bank account

To create tax efficiency and liquidity on death





R 12m Money Market via policy wrapper

Demonstrating the financial benefit

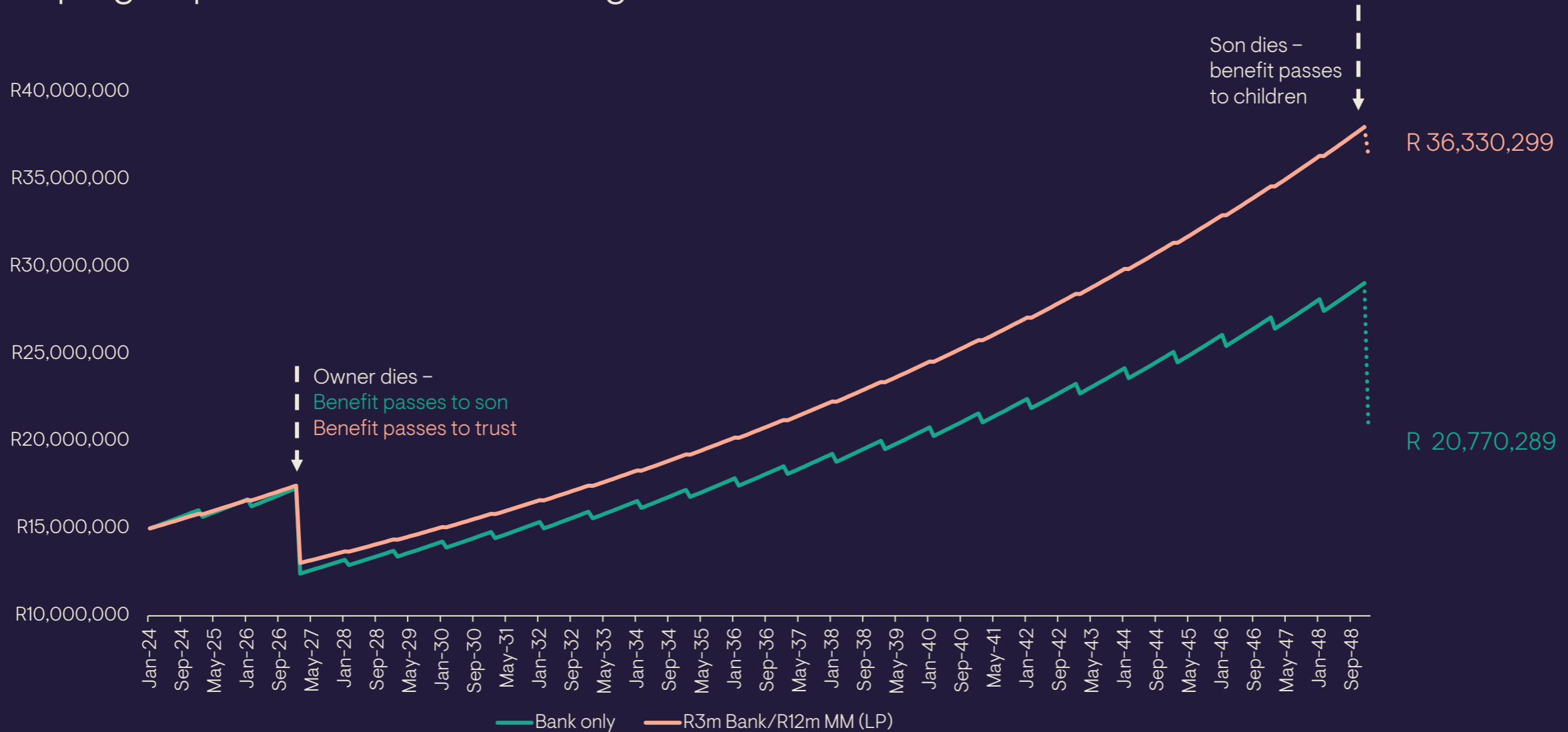
Ninety One Local Life Portfolio

	Year 1	Year 2	Year 3
Cash (repo rate)	R 12,544,500	R 13,113,707	R 13,708,741
Ninety One Money Market (Policy)	R 12,708,960	R 13,459,805	R 14,255,011

Extra 1.31% p.a.

Benefit of new cash strategy

Helping to preserve value across generations

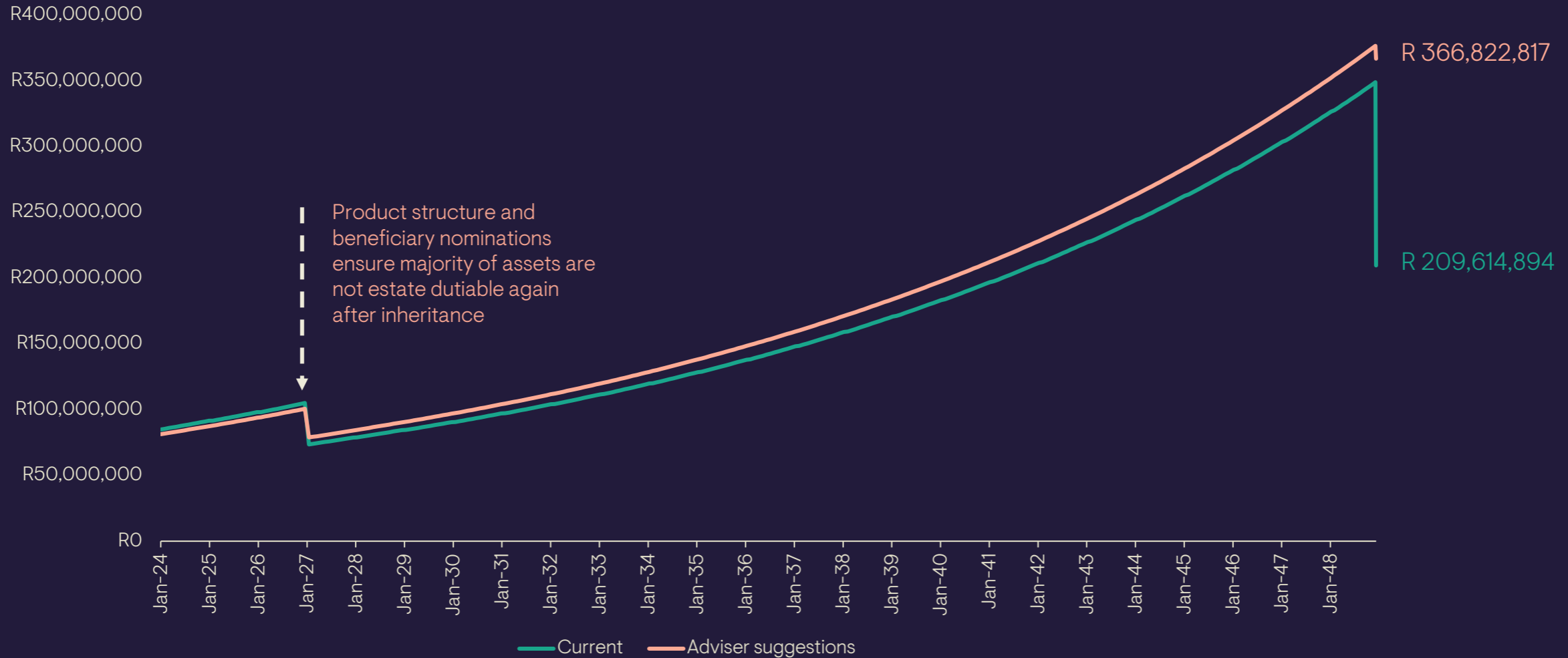


Source: Ninety One calculations, for illustrative purposes only. 7% return assumed for cash in the bank taxed at 45%. Interest of 7.57% for policy wrapper and taxed monthly at 30%. Executors fees of 2% deducted from bank account. 25% estate duty applied on death in all scenarios



Bringing it all together

Demonstrating the benefit of structure and beneficiary nominations

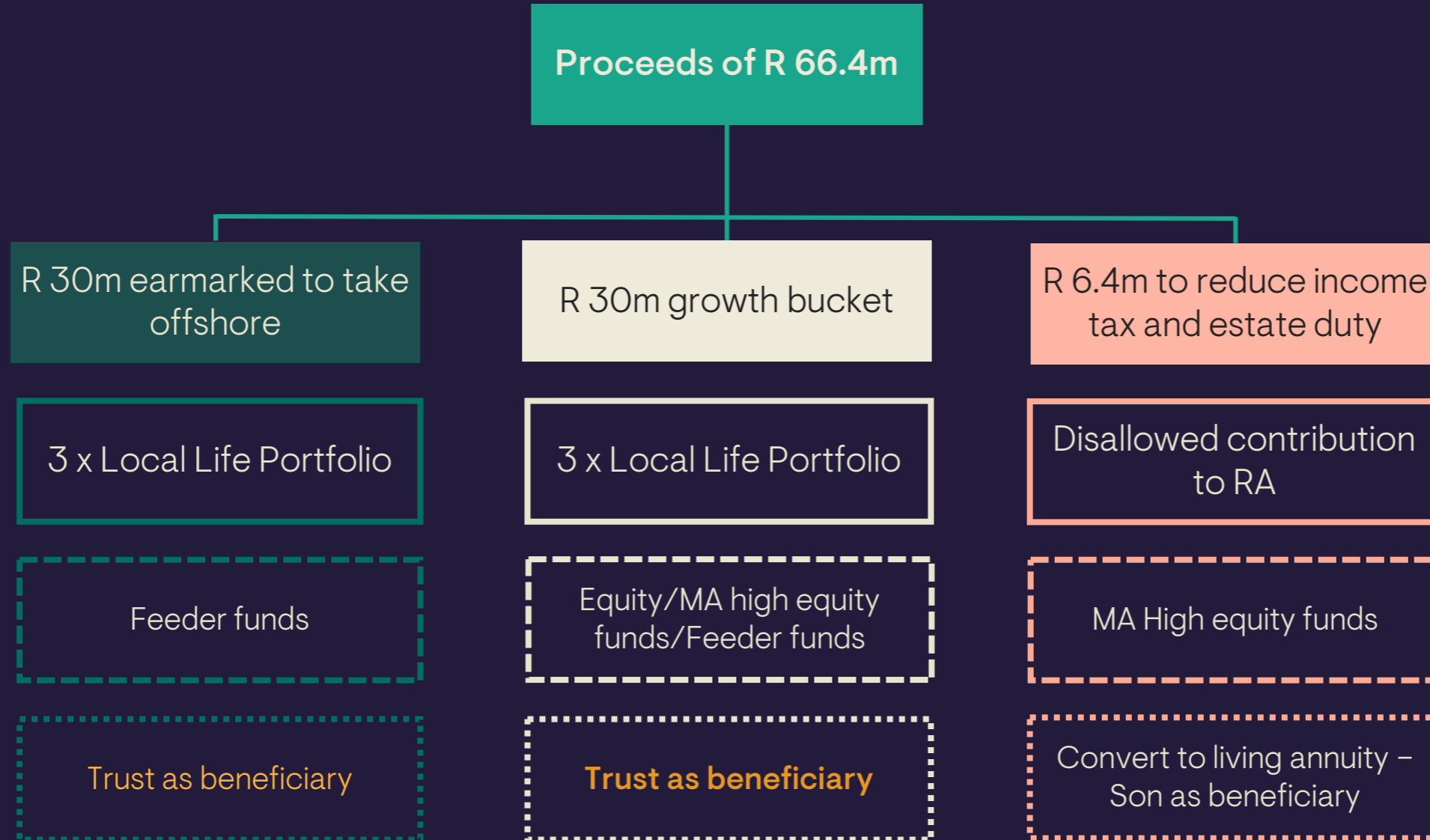


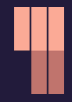
Tackling the estate duty challenge



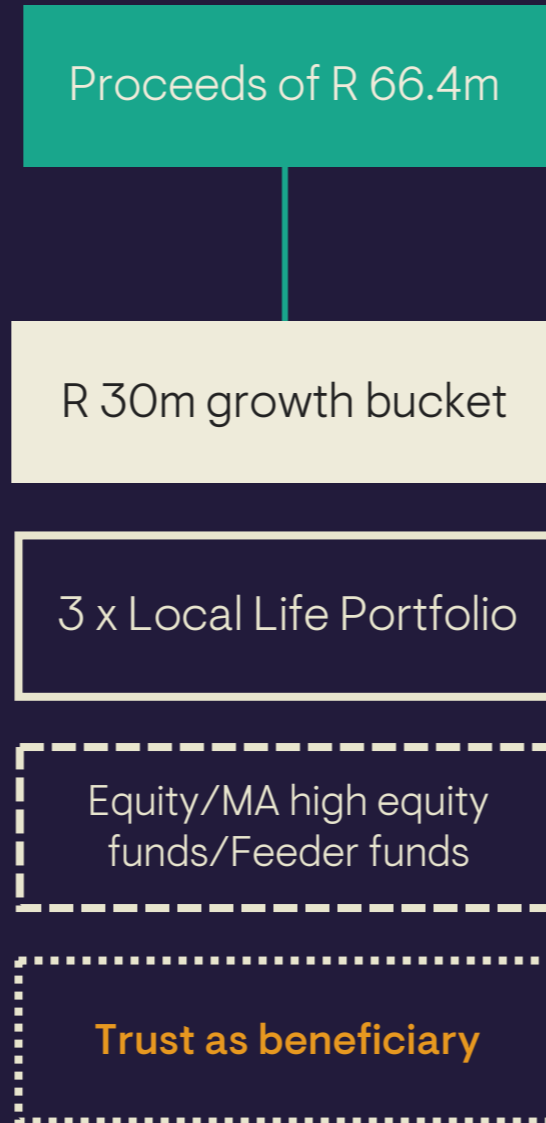


Tackling estate duty?





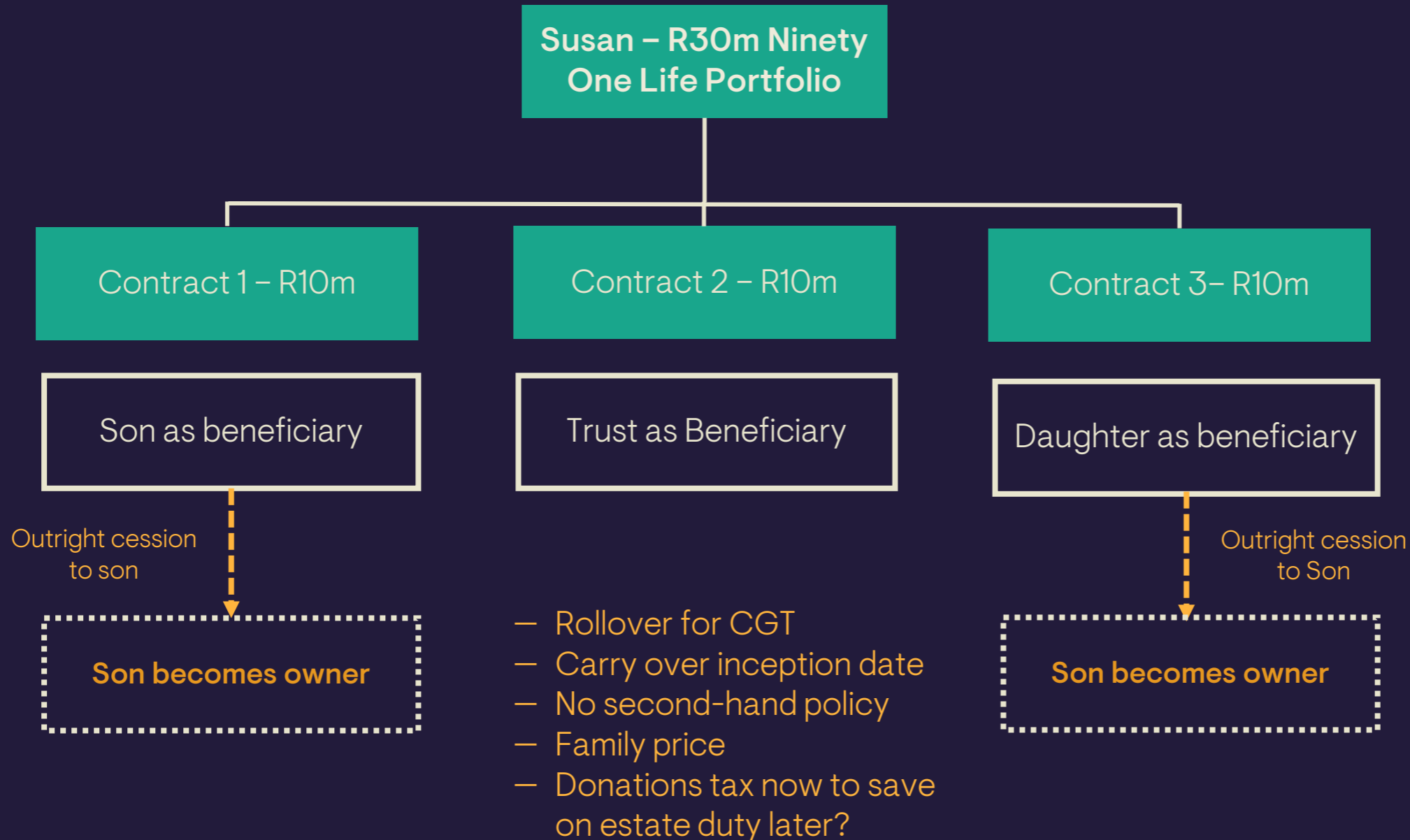
Tackling estate duty!





How to bring the family members into the equation

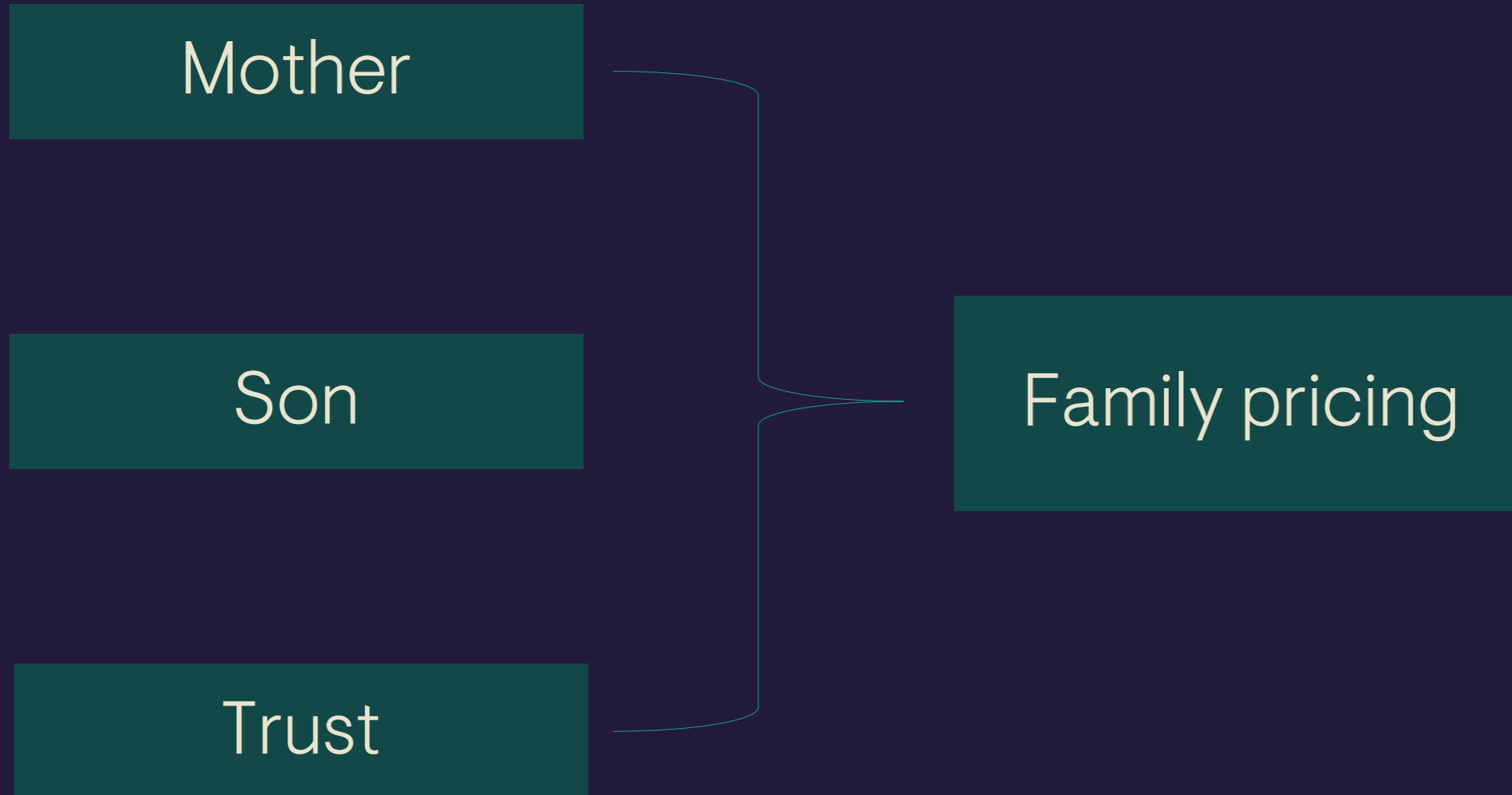
To maintain cost efficiency on death



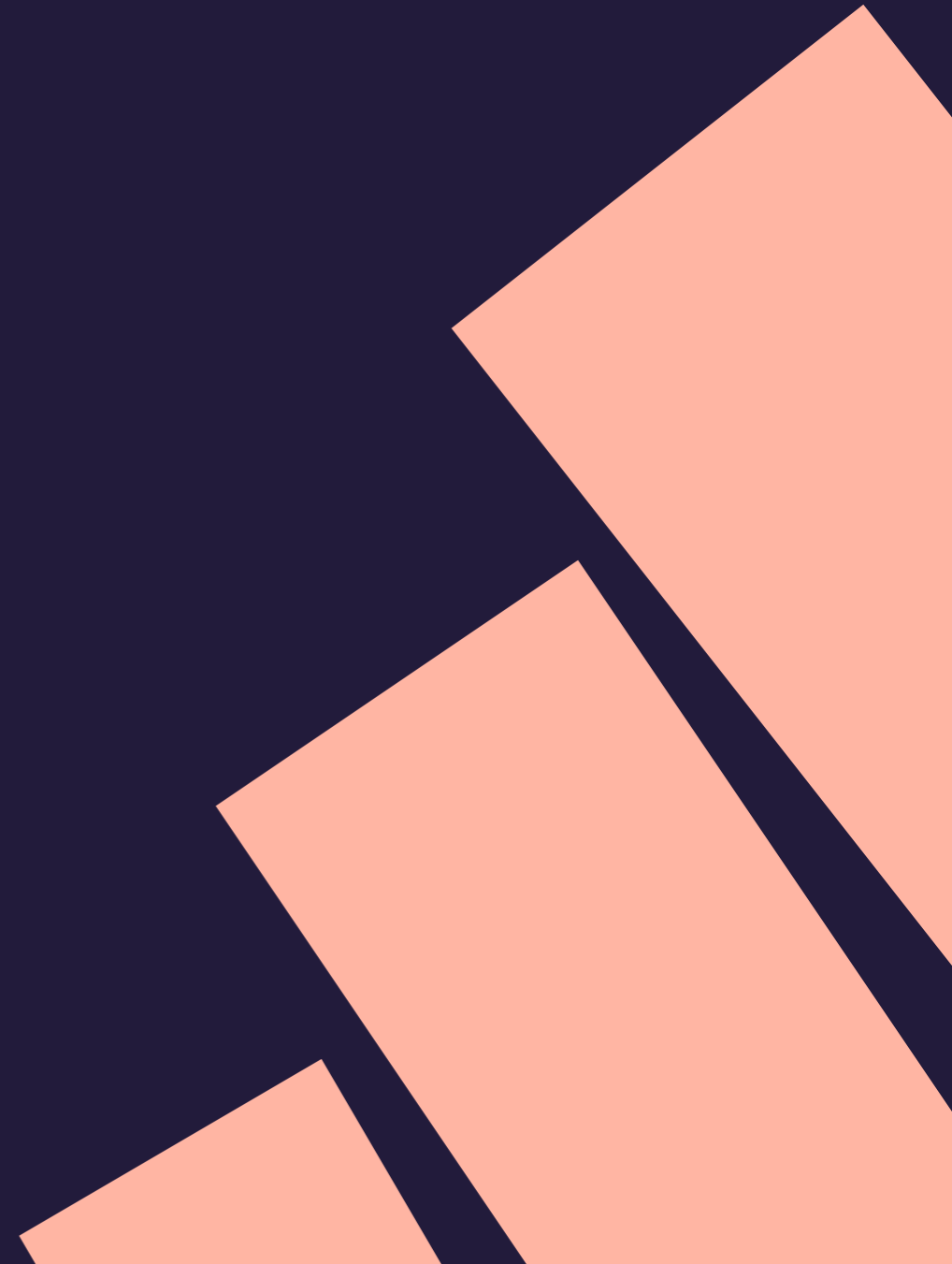


Bringing it all together – The icing on the cake

Ninety One Family Office – Allowing for cost and tax efficiency



Dealing with existing offshore personal assets





Susan

Current finances – Analysis of robustness **while alive**



Global Life Portfolio
R 6,000,000

- No income tax on growth
- CGT at 12%
- **Income drawn from annuity taxed as per PAYE tables**



Case study

Analysis of robustness of current finance **scenario on death**

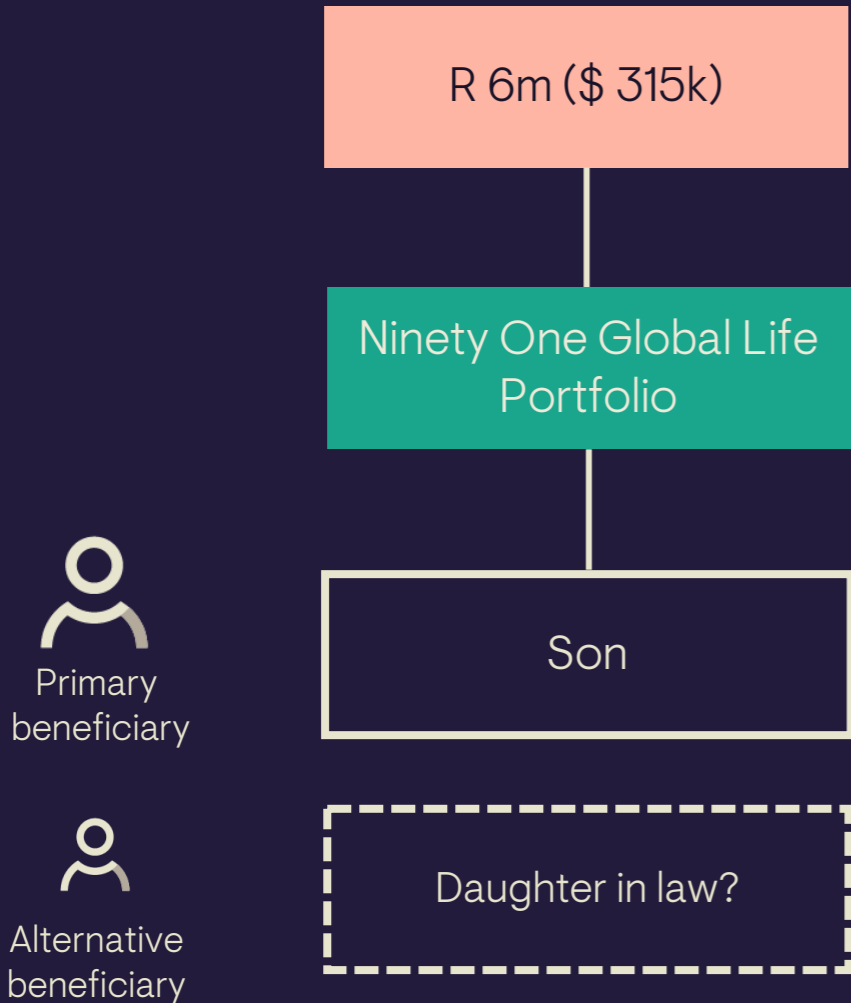


Global Life Portfolio
R 6,000,000

- No Executors fees
- No CGT on death
- Liquid on death
- **Estate duty at (20/25%)**

Looking at the offshore piece

Externalize R 6m (and extra R30m over next 3 years) – Ninety One Global Life Portfolio



Quick transition from her to her son ✓

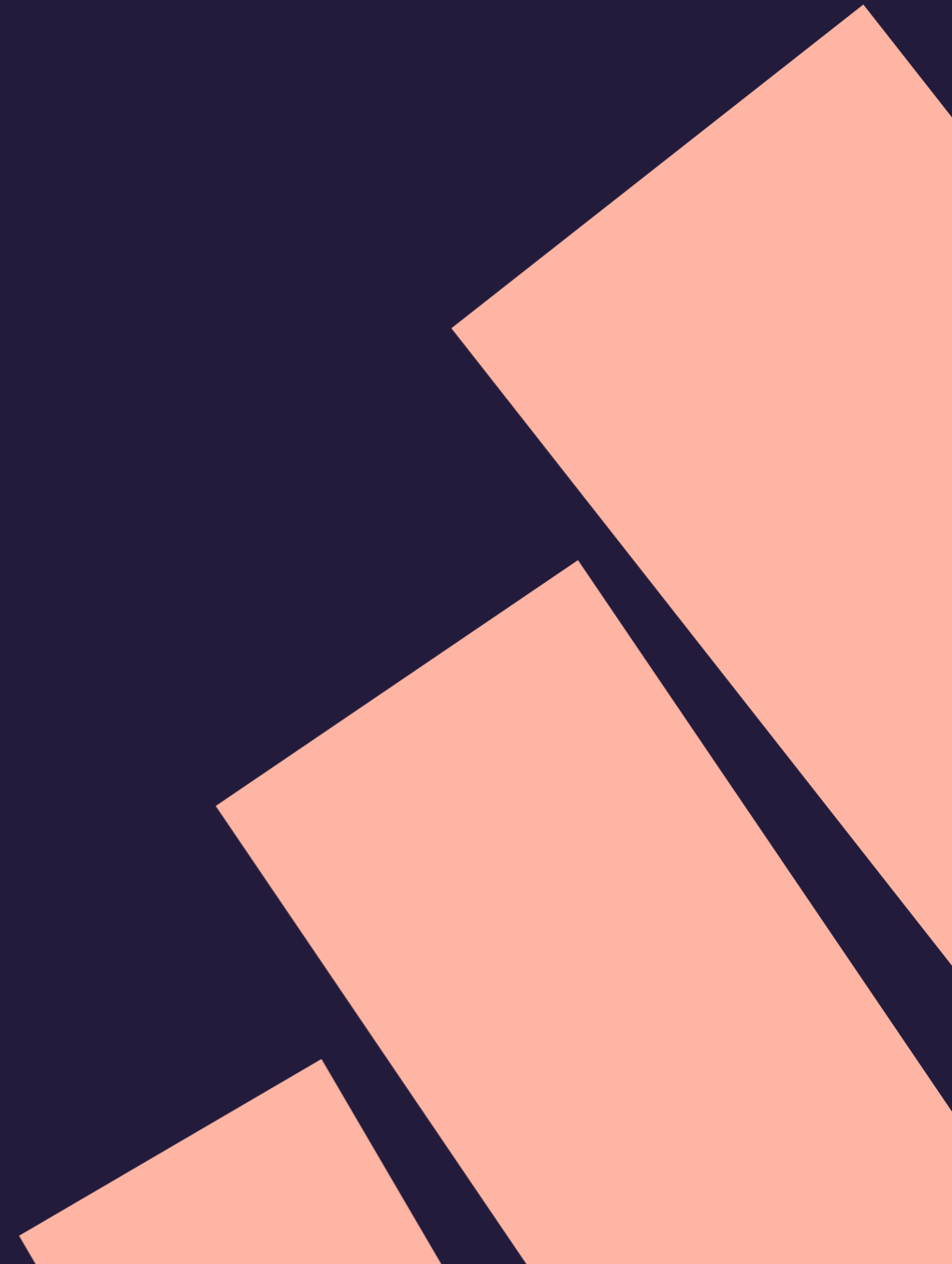
Tax efficient while alive ✓

Cost efficient on death ✓

Liquid on death ✓

Opportunity to cede ✓

Dealing with existing Trust assets





Thank you

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