



DAVEY'S
Locker



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Estate duty

Sixtieth anniversary in its current form

by Tony Davey

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At its zenith, the maximum rate of estate duty was 35%, but today, even at a 20% rate imposed above a R3,5 million threshold, estate duty planning continues, while everyone awaits the review report and recommendations of the Davis Tax Committee.

Retirement annuity solution

A most effective and immediate band-aid solution is available through the purchase of a single-premium retirement annuity. This immediately converts dutiable assets or cash into a nondutiable investment, since the full proceeds of a retirement annuity, whether received in the form of a lump sum or annuity or any combination of the two, are exempt from estate duty.

Before 2008, you were required to

retire from a retirement annuity upon attainment of age 70 and were thus prohibited from buying a retirement annuity after that age. The removal of this age restriction has allowed the single-premium, retirement annuity, estate-planning scheme to flourish.

2015 Budget Review proposal

In order to restrict its attractiveness, the Treasury proposes that an amount equal to the non-income-tax-deductible contribution to a retirement annuity be included in the dutiable estate.

For example, currently a single premium of say R1 million switched from a bank fixed deposit to a retirement annuity would reduce the dutiable estate by the full R1 million, resulting in a R200 000 estate duty saving.

If the Treasury's proposal is implemented, the exempt portion would be equal only to the income tax deductions claimed up to the date of death. Thus, at the current tax deduction of 15% per tax year of taxable income (say, also R1 million), only R150 000 qualifies for dutiable estate exemption, and the balance of R850 000 would be included in the dutiable estate, if death occurs in the first year of contributions.

It appears that any investment growth on the R1 million investment would remain nondutiable.

Representations regarding both the finer details and retrospectivity have been made by the retirement industry and tax bodies, who await the legislative result.