

# EXECTRUST (Pty) Ltd

Formerly Trustee Board (Pty) Ltd

Reg. No 1957/001017/07

## NEWS LETTER 03/2005

Deceased Estate Specialists

Trust Administration

Curatorship Administration

Wills consultation and preparation

Tax Compliance

460 Ontdekkers Road  
Florida Park 1710  
P O Box 21451  
HELDERKRUIJN 1733  
Tel (011) 472 9308  
Fax 0866 74 9909

## LIFE POLICIES – ASSETS OR NOT?

It is a cumbersome practise to save your disposable income as opposed to blowing it on that long awaited home theatre system or upgrading the family car that is now reaching the end of its lifespan.

Nowadays our investment options are vast, yet mainly aimed at the community with the larger disposable income than those with less cash on hand after the monthly bills are settled. The alternative? Obviously turn to the good old Life Assurance Industry. It is our humble submission that, whilst a policy of sorts is a good investment (depending on the type of policy) it remains a minefield where one could make some grave mistakes. Again, you are well advised to consult your broker on this aspect.

Life policies are also a very good manner in which cash may be injected into your estate to ensure a good cashflow, thus providing for the cash bequests mentioned in our previous newsletter.

However, beware!! Whether a life policy is paid to your estate or whether it is payable to a third party, the death value received by the beneficiary of such policy is used when calculating the dreaded Estate Duty. The long and short of the story is, only certain lumpsum death benefits are exempt from the Estate Duty calculation. Included in this category are annuities, pension funds, etc.

Therefore, take a closer look at your policy, or policies, and see who payments have been ceded to or who has been

nominated as the receiving beneficiary. Policies payable to third parties (i.e. not payable to your estate) are regarded as “deemed assets” for estate administration and estate duty calculation purposes.

These facts are but a few to look out for. We are merely creating an awareness for you – merely “scratching the tip of the iceberg” as it were.

Hopefully these notes have assisted, but feel free to contact us should you need assistance with other queries that you may have.

## IS YOUR ESTATE DUTIABLE?

The Estate Duty Act, as amended, dictates the calculation and what assets/lumpsum benefits are to be taken into account when calculating the estate duty, at the same time, allowing for some abatements and allowable deductions.

Basically, in a marriage of two spouses, the first dying’s estate is not dutiable due to the fact that over and above the primary abatement of R1500 000, anything that the spouse inherits is also deducted from the net dutiable estate. The fact that the first dying spouse’s estate is not dutiable is dependant on the fact that the spouse inherits the total residue for distribution. I.e. the survivor of the two spouses is the sole heir.

You are probably aware of some of the Estate Planning techniques used in reducing or “pegging” the estate duty payable.

What follows, is a simple calculation that can be used by you in determining your approximate net dutiable estate. We cannot cater for each and every case in this calculation, but it will provide for very basic assistance :

Total assets (Include investments, cars, furniture, etc)	R
<u>Less</u> proceeds of all policies payable to your estate	R
<u>Less</u> one half share if you are married in community of property	R
<u>Add</u> total policies payable (includes policies payable to third parties)	R
<b><u>Assets</u></b> Subtotal	R_____
Total liabilities	R
<u>Less</u> one half share if you are married in community of property	R
<b><u>Liabilities</u></b> Subtotal	R_____
Assets less liabilities =	R
<u>Less</u> Primary abatement	R1500 000
<u>Less</u> inheritance due to surviving spouse	R
Net dutiable estate is therefore	R_____
Estate Duty thereon is 20%.	