

Donation or estate duty tax



Money Matters

-Mark Williams

Taxes are widely viewed as unfair and no more so than donations tax. Most people are horrified to hear they must pay donations tax on any amount above R100 000 they give away per year.

I often hear: "It's my money, I will do what I like with it". No, you won't, not without giving "Caesar his share".

Donations tax is commonly referred to as a wealth tax, which includes capital gains tax (CGT) and estate duty. CGT and estate duty are both payable on your death, which is why you cannot simply gift assets away before you die.

Donations tax and estate duty are levied at the same rate of 20% for amounts below R30 million and 25% above; effectively the same wealth tax, which you pay either when alive or dead, "nothing in life is promised

other than death and taxes."

The question is: Does it make financial sense to gift assets to your heirs to pass future growth onto them and in this way mitigate estate duty?

The time value of money suggests it is always better to delay the payment of taxes, but mathematically the net result is the same for the heirs, whether you pay the 20% donation's tax upfront or estate duty at the end. The trick is to pass on future growth without paying the donations tax upfront, which may sound a bit dodge, but it is possible and fully legit using a simple zero-interest loan arrangement.

The asset or investment in question is sold to the children on a zero-interest loan basis. The outstanding loan is an asset in the estate of the parent and thus liable for estate duty, but all future growth on the asset or investment now accrues to the children and the loan amount remains fixed in the parent's estate.

The outstanding loan balance can then be reduced by using the annual donation exemption of R100 000 to effectively write down the loan.

Using a zero-interest loan to family is just one of the estate planning tools available. Do not neglect your estate planning thinking this is only for the *uber* rich; the current estate duty exemption is only R3,5 million per person and has not been adjusted for years. -www.mwwealth.co.za