PWM | 25 YEARS

PWM CONNECT 1st Edition 2025

PWM CONNECT

WHERE WEALTH AND LIFESTYLE MEET

TRUMP, TAUNTS, THREATS AND TARIFFS

WHY THE LAST SURVIVOR DEATH BENEFIT?

THE EMERGENCE OF THE GLOBAL CITIZEN AND SUCCESSION PLANNING

CELEBRATING 25 YEARS

WHAT'S INSIDE

A WORD FROM PIETER

Welcome to the first 2025 edition of our newsletter. Over the past few days, we've seen turbulent market conditions—and with ongoing uncertainty, more volatility may lie ahead. Locally, the National Budget remains unresolved, with uncertain impacts on markets and the Government of National Unity (GNU). Key disputes like the proposed tax hikes, including the debated VAT increase has sparked legal challenges and political tension.

Globally, Donald Trump introduced tariffs targeting to various countries as part of his strategy to reduce the U.S. trade deficit. These tariffs led to increased global trade tensions and potentially raising consumer costs and disrupting international trade. However, at the time of writing this, interim relief from these tariffs were afforded to all countries with the notable exception of China.

While market fluctuations can be unsettling, it's important to stay focused on your long-term goals. If you have questions or are feeling uncertain, our financial planners are here to support you and provide guidance for your financial decisions.

Just as businesses plan for the year ahead to navigate challenges and seize opportunities, it is equally important for us as individuals to take proactive steps on our financial journey. PWM is dedicated to assisting you with all aspects of financial planning. Whether you are evaluating your investment strategy, planning for retirement or would like assistance with your risk or estate planning, our team is here to help guide you through these decisions.

On the subject of financial planning, I would like to touch on Integrated Wealth Planning (IWP).

Integrated Wealth Planning provides a practical approach to setting goals, making informed financial decisions and achieving financial goals and objectives. Our financial planners have access to the Wealth Integrator Tool, a state-of-the-art, real-time financial planning tool that illustrates your current financial position and where you need to be.

The tool allows you to explore a range of scenarios and actions, helping you understand their impact on your financial plan. You can test various 'what if' scenarios – such as retiring earlier or later, increasing your retirement contributions etc. – or even look at scenarios where you might not have saved enough. A visual display of real-time graphs provides a clear picture of how long your retirement savings will last and whether you could experience a shortfall, giving you valuable insights to make informed decisions about your future.

Ask your financial planner to guide you through a live demonstration or show you the outcomes of different scenarios based on your current investments and savings. The same modelling and demonstration can be used for disability and death scenarios to illustrate the impact.

Remember Benjamin Franklin's wise words, *"An investment in knowledge pays the best interest."* Let's work together to make informed choices this year.

We're excited to announce that in May this year, we will be hosting our third business conference to explore the latest trends in financial planning, investment strategies and more. This event will also include presentations from our valued product partners, who will share their insights in the next editions of our newsletter.

We encourage you to connect with us to discuss your financial goals and how we can help you achieve them. Together, let's make 2025 a year of innovation, growth and smart investments!

Kind regards
Pieter Bester
CEO

TRUMP, TAUNTS, THREATS AND TARIFFS

By Izak Odendaal | Chief Investment Strategist | Old Mutual Wealth

"Geography has made us neighbours. History has made us friends. Economics has made us partners. And necessity has made us allies. Those whom nature hath so joined together, let no man pull asunder."

These were reflections of US President John F. Kennedy on the relationship across the world's longest undefended border, spoken in the Canadian Parliament in 1961.

Donald Trump, however, seems happy to pull asunder. He has taunted Canada by calling it the 51st state of America and by referring to its Prime Minister as 'Governor' Justin Trudeau. Worse of all, he slapped 25% tariffs on Canadian imports. He might still soften the blow somewhat by exempting some items, but this will be a knock to Canada, given that 80% of its exports go south to the US.

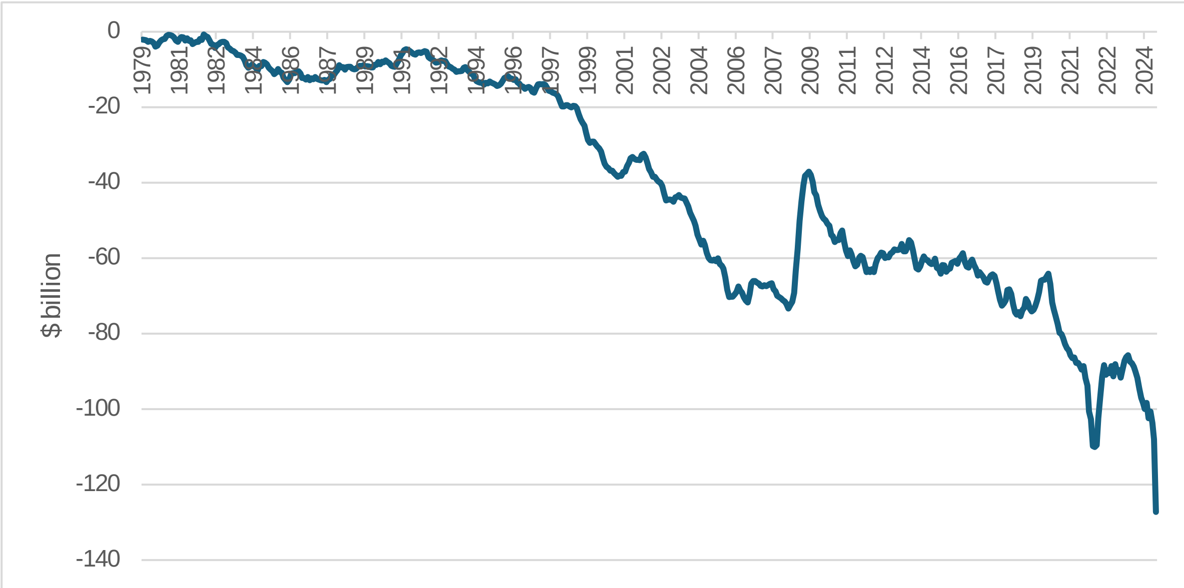
Similarly, exports from Mexico could be subject to steep tariffs, and Mexico also sends around 80% of its exports north. Since the North American Free Trade Agreement (NAFTA) was signed in 1994, supply chains have stitched the US, Mexico and Canada ever closer together. Until now. Unpicking these relationships will be difficult. Trump renegotiated NAFTA in 2018 as the US-Mexico-Canada Agreement (USMCA) and it was supposed to run until 2032.

Initially, markets rallied on Trump's election on the view that he would be pro-growth and pro-business. So far, however, he has only managed to cause uncertainty, which is never good for business. The risk is that business leaders, not knowing what comes next, may decide to pause on investing and hiring decisions, harming economic growth. Consumers might similarly decide to scale back big-ticket purchases and increase savings buffers. This would be prudent financial management on the part of individual households or businesses, but if many do it, economic growth will slow.

WHY TARIFFS?

When it comes to manufactured goods – cars, TVs, toys etc. – the US imports much more than it exports and therefore runs a massive trade deficit. Trump and many of his advisers sees this as the US 'subsidising' other countries that are taking advantage of the situation. While there might be a grain of truth in this view, it misses the bigger picture. The US deficit reflects the voracious consumer appetite of US households. It also misses the fact that the US is a massive exporter of services and provider of financial assets to the world. To put it very simply, the US imports iPhones but sells Apple shares and Apple subscription services to the rest of the world. It imports laptops, but exports Netflix subscriptions and Microsoft software.

CHART 1: US GOODS TRADE BALANCE



SOURCE: LSEG DATASTREAM

HOW DO TARIFFS WORK?

An import tariff (or customs duty) is a tax that is levied as soon as a good enters a country. It is paid by the importer. If the latest tariff threats go ahead, it would raise the average tariff on all goods imported into the US from 2.5% to 7.5%. This includes a lot of items that have 0% tariffs, so if we only look at goods that are subject to import duties, the average will rise from 8% to 17%, according to the Petersen Institute for International Economics. This will be the highest average tariff level since 1947. After the end of World War II, average tariff rates declined sharply across the world and trade volumes expanded. The US was in many ways the driving force of this process of globalisation, which accelerated when the Berlin Wall came down. Now it seems to be turning its back on it.

Different tariffs apply to different goods, and on different countries of origin, but the idea is basically that domestic producers are shielded somewhat form international competition. This sounds good in theory but also implies that domestic consumers pay more. Tariffs therefore tend to favour producers over consumers, the few over the many.

To illustrate how it all works, consider if Walmart wants to sell Chinese TVs. It will pay an import duty to the Inland Revenue Service on those TVs as they enter the port of Los Angeles. Notably though, the tariff applies to the import price, not the final retail price. The TVs still need to be moved inland to distribution centres and, ultimately, to the store where they will sit on a shelf. All those additional transportation, storage and marketing costs still need to be added, as well as Walmart's margin. If a 20% tariff becomes applicable, it therefore does not result in a 20% increase in the final sales price.

The change in the final sales price will depend mainly on whether Walmart wants to protect its margin. It could, for instance, pressurise the Chinese TV manufacturer to reduce its price a bit, and also ask logistics companies to do the same. The end consumer might not even notice the tariff increase, but it will very much depend on circumstances.

In some cases, companies cannot absorb the impact of higher tariffs and will pass on the cost. In other cases, they might even use the excuse of higher tariffs to push up prices even further. This is the complexity of the situation. Some businesses can turn to domestically produced alternatives, but not everyone can. Part of the problem is that Trump might change his mind. What is the use in signing a contract with a different supplier if the tariffs might be lowered again?

All this in turn complicates the inflation outlook in the US too. The Federal Reserve (the Fed), the US central bank, is unlikely to respond to the initial tariff increase, which represents a one-off jump in prices, but if companies raise prices by more than the tariff increase, the Fed will start to worry.

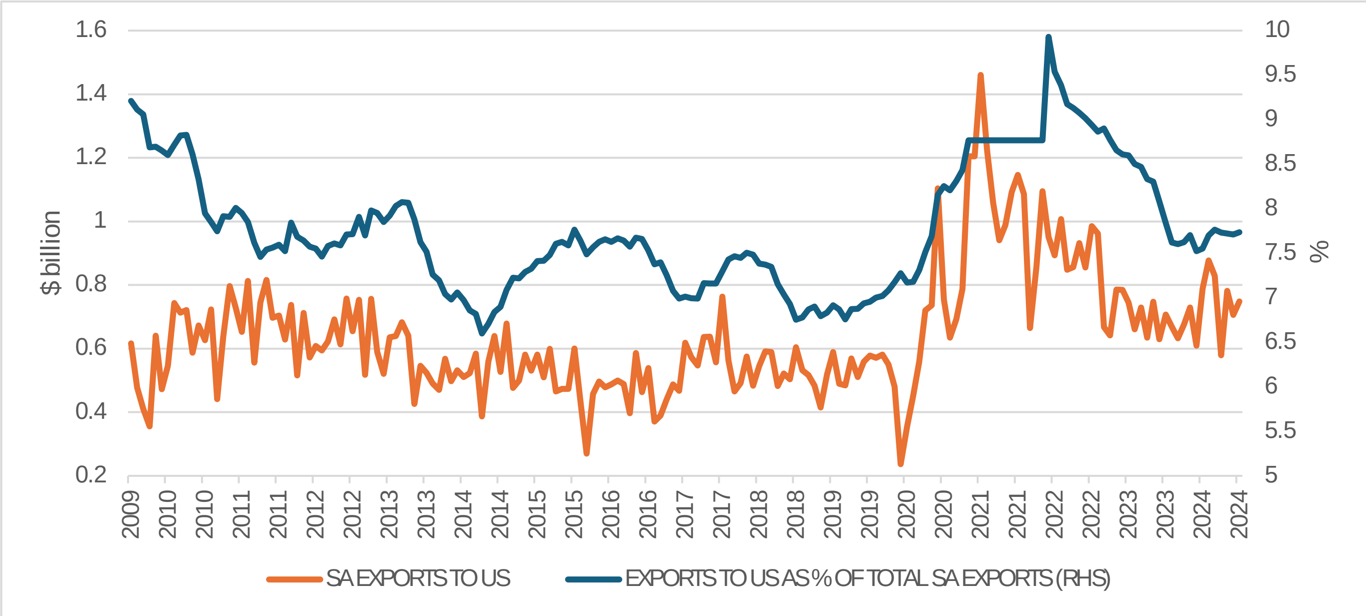
It is also worth remembering that most trade these days is in fact not in finished goods like TVs, but in intermediate goods-components, in other words. It is estimated that the components of a typical 'Made in America' car will have crossed the Canadian and Mexican borders seven times in the assembly process. Adding 25% tariffs each time will be very costly and disruptive. It could also harm American exports, since these will rely to some extent on imported components.

It is difficult to know what the impact on growth and inflation will be, since there are several layers. The first is whether the announced tariffs stay in place. The second is whether targeted countries retaliate. The third is how companies respond, particularly in setting prices. The fourth is what consumers do, bearing in mind that households in the rich countries spend most of their income on services, not goods. Nonetheless, they can either absorb the higher costs, choose alternatives, or consume less. What should be clear, however, is that there is little upside to Trump's trade wars to the US and global economies, and plenty of downside.

WHAT IS THE IMPACT ON SA?

Unexpectedly, South Africa has also been in Trump's crosshairs, superficially because of domestic transformation policies, but the underlying reason is probably unhappiness that Tshwane's foreign policy priorities have long clashed with Washington's. South Africa faces the possibility of losing duty-free access to the US market under the African Growth and Opportunities Act (AGOA), while additional tariffs cannot be ruled out. About 8% of South Africa's exports by value go to the US, a third of which is currently duty free under AGOA. As chart 2 shows, exports to the US have not grown much during the years, apart from the brief 2021 spike in platinum group metals (PGM) prices.

CHART 2: SA EXPORTS TO THE US BY VALUE



SOURCE: LSEG DATASTREAM

Again, we don't know how South African exporters, US importers and US consumers will respond to higher import tariffs. It will be negative for the South African economy, though not catastrophic. There could also be an indirect impact on South Africa if the broader global economy weakens because of trade wars, and our exports to Europe or China suffer as a result. If things really get bad, the rand is also likely to weaken.

This in turn clouds the domestic interest rate outlook, even though inflation remains low. January's inflation rate was only 3.2%. Note that low inflation does not mean that prices are low, only that they are now rising more slowly. Inflation was very high in 2022 and 2023, which is why prices still feel elevated today. If the SA Reserve Bank focused purely on domestic factors, it would have reduced the repo rate by more. But amid a complicated international inflation and interest rate picture, the Reserve Bank is likely to proceed cautiously.

PARTING THOUGHT

President Trump is going to dominate the headlines over the next four years – and there seems to be nothing he likes doing more – and perhaps beyond. However, you don't have to let him manage your money. In other words, you don't have to respond to every tweet, taunt or threat from the White House, nor to every twist and turn in markets. There is likely to be volatility amid all the uncertainty, but modern economies and businesses are extremely adaptable. Every crisis also brings opportunity with it. "This too shall pass" is an adage of Persian origin. It is supposedly the only phrase that applies in both good times and bad. It remains as true as ever.

THE TAX BENEFITS OF RETIREMENT CONTRIBUTIONS

By Carl Muller | Legal Executive | Private Wealth Management

Contributions to pension, provident or retirement annuity funds are deductible for income tax purposes up to prescribed limits. Any contributions not allowed as a tax deduction on retirement are applied as a tax exemption against annuity income, potentially reducing or eliminating your tax liability.

WHAT IS THE ALLOWABLE TAX DEDUCTION FOR CONTRIBUTIONS TO RETIREMENT FUNDS?

Total contributions made to pension, provident and retirement annuity funds in a tax year are deductible up to the following limits:

1. R350 000, or
2. 27.5% of the higher of your remuneration or taxable income, or
3. Your taxable income before adding a taxable capital gain.

Excess contributions above these limits are carried forward to future tax years and can be deducted subject to the said limits.

WHAT HAPPENS IF YOU RETIRE WITH DISALLOWED CONTRIBUTIONS?

If you retire and have contributions that have not yet been allowed as a tax deduction, they are treated as follows:

1. **Lump sum:** Such contributions are applied against any lump sum you opt to take, reducing or eliminating the lump sum tax.
2. **Annuity:** These disallowed contributions are used as a tax exemption against annuity income purchased with the remaining interest in a pension, provident or retirement annuity fund.

PLEASE NOTE:

- SARS must assess the disallowed contributions before applying the exemption against annuity income. This means that the exemption is only applied in the tax year following that in which the excess contribution was made.
- The exemption against annuity income is not applied on a pay-as-you-earn basis; it is only taken into account on assessment at the end of the tax year. It is only applied against annuity income from retirement funds..

EXAMPLE:

Joe retires with R5 000 000 in contributions that were not allowed as a tax deduction. He opts for a R500 000 lump sum and purchases an annuity with the rest. In the first year, his annuity income is R1 000 000.

EFFECT:

1. **Lump sum:** R500 000 of his contributions is used to offset the lump sum, making it non-taxable.
2. **Annuity income:** R1 000 000 of the remaining contributions is used as an exemption against the annuity, making it non-taxable.
3. **Carry forward:** The remaining R3 500 000 of disallowed contributions is carried forward to the next year for use against future annuity income.

WHAT HAPPENS IF YOU DIE BEFORE RETIREMENT WITH DISALLOWED CONTRIBUTIONS?

If you die before retirement, the trustees of the retirement fund may offer your dependants/beneficiaries the option to take the benefit as:

1. A lump sum
2. An annuity (income), or
3. A combination of both.

Any disallowed contributions are applied against the lump sum received by the dependents/beneficiaries but not against the annuity income, which is taxed as regular income in the hands of the dependents/beneficiaries.

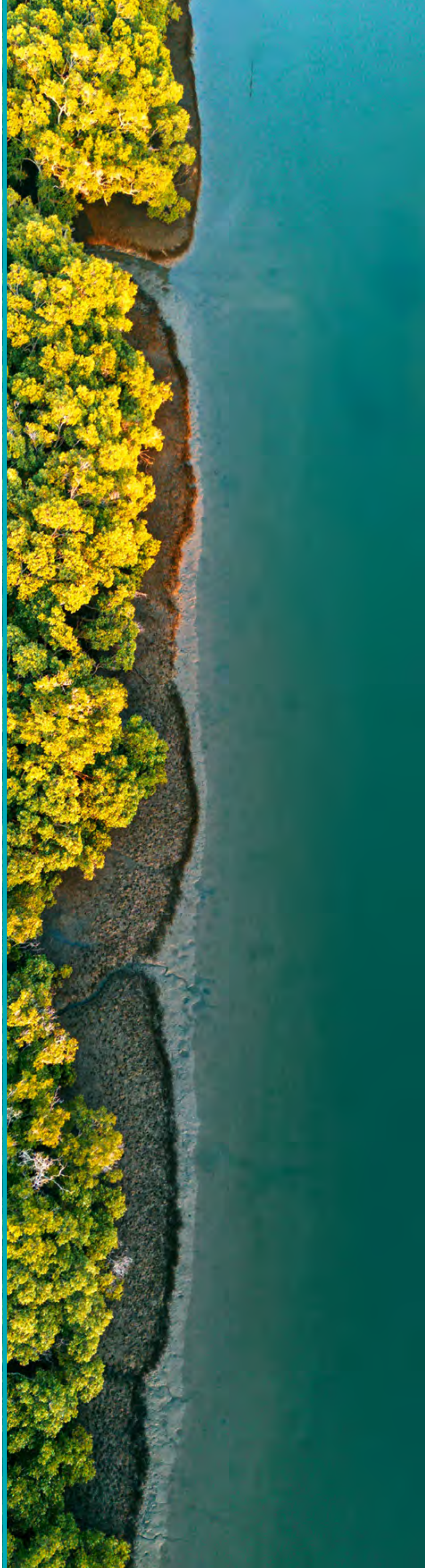
ESTATE DUTY CONSIDERATIONS:

- **Smaller lump sum:** If the lump sum paid to the dependants/ beneficiaries is less than the disallowed contributions, the value of the lump sum will be included in the deceased's estate for estate duty purposes.
- **Larger lump sum:** If the lump sum paid to the dependants/ beneficiaries is equal to or greater than the disallowed contributions, the value of the disallowed contributions will be included in the deceased's estate for estate duty purposes.
- **No lump sum:** If no lump sum is paid, there is no estate duty impact.

EXAMPLE:

At the time of his death, John had made R6 000 000 in contributions that were not allowed as a tax deduction. The tax implications depend on the payout option chosen by the beneficiaries:

1. **Smaller lump sum (less than R6m):**
   - **Estate duty:** The value of the lump sum will be included in John's estate for estate duty purposes.



- **Tax on lump sum:** The value of disallowed contributions will eliminate the value of the taxable lump sum, meaning no tax is payable.
- **Annuity:** If an annuity is purchased for the beneficiaries, it will be taxable as regular income in the hands of the beneficiaries..

2. **Larger lump sum (R6m or more):**
   - **Estate duty:** The full R6 000 000 will be included in John's estate for estate duty purposes.
   - **Tax on lump sum:** The disallowed contributions reduce the taxable portion of the lump sum. Any excess is taxed in John's hands according to the following table:

Taxable lump sum	Rate of tax
R0 – R550 000	0%
R550 001–R770 000	18% above R550 000
R770 001–R1 155 000	R39 600 + 27% above R770 000
R1 155 001 and above	R143 550 + 36% above R1 155 000

(Please note that the above tax table is applied cumulatively over a person's lifetime, and lump sums previously received from retirement funds and severance benefits received from an employer may therefore affect the tax liability.)

3. **No lump sum:**
   - **Estate duty:** No amount is included in John's estate for estate duty purposes.
   - **Annuity:** The annuity is taxable as regular income with no exemption.

IN CLOSING

Contributing more than the allowable limits to a retirement fund could result in tax and estate duty benefits, if applied correctly. Please speak to your financial planner for more information on this topic.

Disclaimer:
This communication is for information purposes only and does not constitute financial advice in any way or form. It is important to consult a financial planner to receive financial advice before acting on any information contained herein.

WHY THE LAST SURVIVOR DEATH BENEFIT?

By Danie van der Merwe | Financial Planner | PWM Rustenburg

Which solution is more suitable to pay estate costs on death: last survivor cover, conventional death cover, or both?

In the pursuit of effective and holistic financial planning as an integral part of our lifestyle financial planning philosophy at PWM, we often have to navigate our way through estate liquidity shortfalls on death. Excessive estate costs can significantly impact the lives of a deceased person's heirs and dependants in the absence of proper estate planning.

Estate costs, also referred to as estate settlement costs or final expenses, are the expenses incurred in the winding-up of a deceased individual's estate. These costs will vary depending on factors such as the size and complexity of the estate, applicable taxes, legal fees and administrative expenses. Some common estate costs include:

1. **Executor's fees:** The executor of the estate is entitled to receive compensation for their services. This fee is typically based on a percentage of the estate's value or an hourly rate, as specified by state law or the terms of the will.
2. **Legal fees:** Legal fees may be incurred for the services of attorneys who assist with estate planning, property transfers, trust administration and other legal matters related to the estate settlement process.
3. **Funeral and burial expenses:** These include the costs associated with the deceased person's funeral, cremation, burial plot, headstone, memorial services and related expenses.
4. **Taxes:** Estate duty, capital gains tax, income tax and other tax liabilities may be payable during the winding-up of a deceased person's estate. These taxes will vary depending on factors such as the size of the estate, applicable tax exemptions, deductions and exclusions, and the relationship of the heirs to the deceased.
5. **Debts and liabilities:** Outstanding debts such as mortgages, loans, credit card balances and medical bills, must be settled from the deceased estate before any remaining assets can be distributed to heirs or beneficiaries.
6. **Administrative expenses:** These include fees for appraisals, property valuations, asset transfers, accounting services and other administrative costs associated with the settlement of the estate.

Traditionally, product solutions provided for parties to take out two separate policies to address the potential liquidity shortfall as set out in the following scenario:

Policy 1:	Policy 2:
Policy owner: Wife	Policy owner: Husband
Life assured: Wife	Life assured: Husband
Beneficiary: Husband	Beneficiary: Wife

When the first-dying spouse passes away, the proceeds of the policy will be paid out to the surviving spouse as the beneficiary. This payout would then be used to settle some or all of the debts and the estate administration costs of the first-dying spouse's estate. Often, the surviving spouse would cancel the remaining policy, believing that its cover is no longer necessary.

Research on estate planning trends has shown that:

- In most instances, the first-dying spouse would leave their estate to the surviving spouse.
- The surviving spouse would then have an inflated estate.

The section 4(q) estate duty deduction and the capital gains tax (CGT) roll-over relief allowed between spouses merely delay the payment of estate duty and CGT, not serving to avoid these taxes.

In the scenario above, upon the death of the surviving spouse, assets would most likely have to be liquidated to provide the executor with enough liquidity to wind up the estate.

As a solution to the above conundrum, some of the long-term insurers that PWM partners with, have created the last survivor death benefit. This benefit is not limited to spouses only – it may be implemented between any two parties where the circumstances warrant it.

Last survivor policies (LSPs), also known as second-to-die or survivorship policies, have been developed to address specific needs in estate planning and wealth transfer strategies. Some of these needs include:

1. **Estate planning** – tax issues: One of the primary reasons for the introduction of LSPs is planning in respect of estate duty and tax. In the instance of the first-dying spouse, neither estate duty nor capital gains tax is payable in respect of assets bequeathed to the surviving spouse. These liabilities are in effect postponed to the death of the surviving spouse. LSPs are designed to provide liquidity to cover estate duty and capital gains tax when the second insured individual passes away. By paying out the death benefit upon the death of the second individual, LSPs help ensure that sufficient funds are available to cover these liabilities without depleting the estate's assets.
2. **Efficient wealth transfer:** LSPs are commonly used as part of a comprehensive wealth transfer strategy. They allow individuals to leave a legacy for their heirs while minimising the impact of estate duty, capital gains tax and other expenses. Instead of purchasing separate life insurance policies, couples can utilise an LSP to provide a tax-efficient way to transfer wealth to the next generation.
3. **Preservation of assets:** LSPs help preserve family assets by providing a means to cover estate costs without liquidating valuable assets such as fixed property, business interests or investment portfolios. This can be particularly beneficial for individuals who wish to pass on their assets intact to their heirs or beneficiaries.
4. **Simplicity and convenience:** Managing a single LSP policy for both individuals can be simpler and more convenient than maintaining separate policies. With an LSP, there's only one policy to manage, one premium to pay, and one death benefit payout process, streamlining the estate planning process for couples.

Overall, LSPs are designed to provide a specialised solution for estate planning needs, offering couples an effective way to protect their estate, transfer wealth to future generations, and achieve their financial planning objectives.

The last survivor death benefit is the most cost-effective way to provide for estate duty and capital gains tax where the entire estate (or the bulk thereof) is bequeathed to the surviving spouse. It pays out on the death of the survivor of two insured lives. Some products also allow for the waiver of future premiums on the death of the first insured life.

The benefit ties in perfectly with estate planning. Estate duty and capital gains tax can be deferred to the death of the surviving spouse by bequeathing the estate of the first-dying spouse to the surviving spouse. Then provision for estate duty and capital gains tax is only needed on the death of the surviving spouse. The last survivor death benefit provides the ideal solution. Where future premiums are waived on the first spouse's death, the cover is guaranteed.

The table below compares the costs of a conventional solution and the last survivor death benefit.

Age Next	Death Benefit	Last Survivor Death Benefit
40	R305	R82
50	R610	R216
60	R1167	R550
R1m benefit amount. Level premium pattern. Premiums as at 31 May 2022		

Note: Momentum rates applied

The last survivor death benefit can also be used very cost-effectively for the following needs:

1. Funding a buy-and-sell agreement of a business interest on death: Where a spouse bequeaths their share of the business to the surviving spouse, and the other business partner buys the shares on the death of the surviving spouse.
2. Making provision for the simultaneous death of a married couple, where they want to provide for additional expenses a guardian or trust might incur, such as buying a house and car or hiring an au pair to look after minor children.
3. Using the benefit to provide loan account cover and insurance for debt, where liquidity is only needed on the death of the last spouse. Liabilities could range from debts owed by individuals to be settled on the death of the survivor spouse, to credit loan accounts owed by trusts to be paid on the death of the survivor spouse.

When comparing last survivor policies (LSPs) and traditional life cover for the purpose of covering estate costs, it is essential to consider various factors to determine which option aligns best with your needs and preferences. Here's how they compare:

1. **Coverage structure:**
    - **LSP:** LSPs provide coverage for two individuals, typically spouses or partners, and pay out the death benefit upon the death of the second-dying individual. This means that the policy remains in force until both individuals have passed away.
    - **Traditional life cover:** Traditional life cover policies provide coverage for an individual and pay out the death benefit upon the insured's death. These policies are typically designed to provide financial protection for a specific individual or family member.

2. **Premiums:**

- **LSP:** LSP premiums are often lower compared to purchasing two separate life cover policies for the two individuals. Since the insurer pays out the death benefit only on the death of the second-dying individual, premiums may be more affordable.
- **Traditional life cover:** Premiums for traditional life cover policies are based on individual risk factors such as age, health and lifestyle. Depending on these factors, premiums may vary and could be higher compared to LSP premiums.

3. **Estate planning considerations:**

- **LSP:** LSPs are commonly used in estate planning to cover estate costs such as estate duty, executor's fees, and other settlement expenses. They are particularly useful for couples looking to maximize the value of their estate for beneficiaries while efficiently covering estate-related financial obligations.
- **Traditional life cover:** Traditional life cover policies can also be used for estate planning purposes, but they provide coverage for individual persons rather than joint coverage for couples. They may be more suitable for individuals who want to ensure financial protection for specific beneficiaries or dependants.

4. **Simplicity and convenience:**

- **LSP:** Managing a single LSP policy for both individuals can be simpler and more convenient than maintaining separate policies. With an LSP, you only need to deal with one insurance policy, making it easier to track and manage your estate planning arrangements.
- **Traditional life cover:** Traditional life cover policies provide coverage for individual persons and would usually require separate policies for each person. This could involve more administrative complexity compared to an LSP.

Ultimately, the choice between a last survivor policy and traditional life cover depends on your unique circumstances, estate planning goals and preferences. It is advisable to consult with a financial planner or estate planning professional who can assess your specific needs and provide personalised recommendations tailored to your situation. They can help you weigh up the advantages and disadvantages of each option and make an informed decision that aligns with your overall financial strategy.

Proper estate planning, including the use of life insurance policies such as last survivor policies and traditional life cover policies, helps to mitigate some of these costs and provide financial support for the estate settlement process.

Sources & References

1. Financial Planning & Estate Planning Guidelines – South African Revenue Service (SARS)
   - Website: www.sars.gov.za
   - Relevant sections: Estate Duty Act, Tax Treatment of Life Insurance
2. Life Insurance Industry Standards – *Financial Sector Conduct Authority (FSCA)*
   - Website: www.fsca.co.za
   - Guidelines on life insurance policy structures, premium pricing and tax considerations
3. Comparative Analysis of Estate Planning & Risk Cover – *Industry publications & reports*
   - Example: Reports from financial institutions like *Momentum, Old Mutual, Sanlam and Liberty*
   - Details on Last Survivor Policies vs Individual Life Cover and their estate planning advantages
4. South African Estate Planning Handbook – Legal & Tax Advisory Firms
   - Guidelines on tax efficiency, estate duty implications and financial structuring strategies
5. Consultations & Expert Insights
   - Insights from Certified Financial Planners (CFP®) and estate planning professionals on how these products fit within a holistic financial strategy
6. Momentum | ASAP Legal and Technical Update | Last Survivor Death Benefit | Reviewed March 2021

Footnotes & Disclaimers

- The information provided is for **general educational purposes** and should not be considered personalised financial or legal advice.
- Tax laws and estate regulations are subject to **change**, and it is always recommended to consult a **qualified financial planner or tax adviser** before making any financial decisions.
- **Premium costs, tax benefits and estate planning** may vary based on individual circumstances, underwriting conditions and insurer-specific policies.

ESTATE PLANNING – OFFSHORE

THE EMERGENCE OF THE GLOBAL CITIZEN AND SUCCESSION PLANNING

By Mandy Dix-Peek | Head of Fiduciary | Old Mutual Wealth

Introduction

At Private Clients by Old Mutual Wealth, our Fiduciary offering assists financial planners and their high-net-worth clients with their fiduciary needs. This includes the drafting of wills, registering of trusts, providing professional and independent trusteeship, trust accounting, tax, and administration as well as estate planning. We also provide professional and independent executorship and administration of deceased estates.

I believe that a last will and testament is one of the most important documents clients will execute during their lifetimes. An updated, valid will that clearly outlines how a clients' assets are to be handled upon their death is an essential aspect of their financial and estate planning. While this may seem relatively straightforward, the reality is that after more than 25 years in the fiduciary space, I have experienced many situations where poorly drafted, ill-considered wills cause insurmountable problems within families.

More importantly, and often a subject that receives far less attention, is the fact that as South Africans increasingly diversify their assets globally, managing wealth and succession planning becomes more complex. Therefore, I will address the following key considerations in this document:

1. **If I have foreign assets, do I need a foreign will, or my worldwide South African will suffice?**
2. **Situs tax**
3. **Can my heirs/children, particularly those living abroad, inherit from my South African estate, and what process should be followed?**

1. DO I NEED A FOREIGN WILL IF I OWN FOREIGN ASSETS?

South Africans are increasingly acquiring assets that are situated outside of the country and many people are uncertain about whether owning foreign assets gives rise to the need for a foreign will. Estate planning for foreign-owned assets is a legal minefield and it is always best to seek expert advice. Unless otherwise specified, a South African will cover your worldwide assets, although there may be instances where you will require a foreign will.

ASSET TYPE

The first thing to consider when determining whether a foreign will is necessary is the type of offshore assets you hold and where the assets are located. A foreign will is always advisable if you own immovable property overseas. Fixed property will need to be transferred according to the laws of the country in which it is situated.

If you own shares in a foreign company, it is also likely that you will require a foreign will. For assets such as life insurance policies, ETFs and unit trusts, a foreign will is generally not required.

PRACTICAL CONSIDERATIONS

Even if you do not legally require a foreign will, there may be circumstances where it may be practically advantageous to have one. Where a country does not recognise South African Letters of Executorship, they may require local probate or court authority before the foreign estate can be wound up, and this can cause delays and cost a great deal of money. Probate is a procedure whereby your South African-drafted will is approved by the foreign legal authority so that your foreign assets can be administered on your death.

The main reason for executing a foreign will is to avoid delays in winding up your estate, and many South Africans choose to draft a separate will, especially where the foreign country (Spain, for example) stipulates a certain time limit in which the estate must be wound up. Furthermore, having a separate foreign will means that your South African estate can be wound up simultaneously with your offshore assets, which would naturally benefit your heirs.

REGULATIONS

While some countries will recognise a will drafted in South Africa, others may deem a South African drafted Will to be invalid. For example, a South African will dealing with your offshore assets works well if you have assets in the UK because the UK, like SA, enjoys freedom of testation. Other countries have a system of forced heirship, which limits the ability of the testator to freely bequeath his assets, making a worldwide will impractical. Therefore, if you own assets in a country with forced heirship rules, it is best to have a foreign will drafted for your assets in that jurisdiction.

2. SITUS TAX

Upon death, the tax levied in South Africa is called estate duty. Situs is Latin for “position” or “site”; therefore the situs of an asset is the place where the asset is located for offshore purposes.

On death, South African residents are liable for estate duty based on their worldwide assets. Estate duty is currently levied at a rate of 20% in the case of an estate valued at less than R30 million and at rate of 25% on the value above R30 million. It is important to note that on death, both the UK and the US levy an estate duty on certain situs assets i.e. assets that are physically situated in their jurisdictions.

In the UK, situs tax of 40% is levied on assets situated in the UK over the value of GBP 325 000. Everyone receives this GBP 325 000 exemption. No situs tax is levied on assets bequeathed to a surviving spouse. Furthermore, if the situs assets are left to the spouse, which results in the GBP 325 000 exemption not being used, this exemption will roll over to the surviving spouse. In this event, the second-dying spouse will benefit from a GBP 650 000 exemption on his/her death.

In the US, the threshold for situs tax is dangerously low at US$ 60 000 and the rate is 40% on US-based assets. Unlike the UK, the US offers no spousal exemptions or rollovers, unless the spouse is a US citizen. Therefore, on death, you could be liable for 20% SA estate duty as well as a potential 40% on your US or UK situs assets.

To prevent double taxation, SA has entered into an estate duty agreement with both the US and the UK, the terms of which allow the countries in which the situs assets are located to tax such assets. Thereafter, South Africans will be able to claim a credit in SA for the situs taxes paid in the UK and the US. The credit is limited to a maximum of the 20% estate duty payable on the asset, even though you may have paid 40% in the US or the UK. This means that instead of paying 20% estate duty in SA, you will pay 40% situs tax on your offshore assets.

It is the executor’s responsibility to ensure that the appropriate credits are claimed and applied. Failure to pay the necessary taxes may result in the executor being held personally liable, with severe penalties potentially imposed on both the executor and the heirs.

To avoid incurring unnecessary taxes upon death, South Africans investing offshore should always consult their tax practitioners and ensure they understand international tax law before making any decisions. Investing through an offshore trust or an offshore company may, in certain circumstances, mitigate situs exposure. However, this requires specialist structuring. Additionally, investments through certain unit trust portfolios, ETFs, and insurance wrappers registered outside the relevant jurisdiction may not attract situs tax in certain circumstances, even if they hold situs assets.

As the world becomes increasingly interconnected, so do the global tax laws applicable to your worldwide assets. Failure to consider the tax implications of where you invest could create unnecessary costs for you and your heirs.

3. NON-RESIDENT INHERITANCES FROM SOUTH AFRICAN ESTATES

Another issue that we frequently come across is the migration of inheritances from South African estates to non-resident heirs. For example, parents dying in South Africa with children living abroad.

Many South Africans assume that they are non-residents when they have been living abroad for many years. However, this is not the case, as you are only a non-resident when you have formally emigrated through the tax migration process, which was recently introduced by SARS. If you have not formally emigrated (under previous legislation) or undergone tax migration since the implementation of the new regulations in February 2022, you will still be regarded as a South African resident. This means that you are still bound by South African exchange controls and are only allowed to repatriate your Foreign Capital Allowance (FCA) of R10 million annually, while also needing to obtain an Approval for International Transfer, formally known as tax clearance, or use your annual R1 million Single Discretionary Allowance (SDA).

The process for applying for these allowances has become extremely onerous since the new regulations came into effect. If you are still regarded as a South African resident for tax purposes and are set to inherit less than R1 million, it is possible to use your Foreign Capital Allowance and Single Discretionary Allowance to transfer the funds abroad. If are set to inherit more than R1 million, it is possible to externalise the larger amount by applying to the South African Reserve Bank for special approval.

It is important that your heirs retain their green bar-coded IDs or smart cards as this document will be requested irrespective of how long you have been living abroad, unless you can prove that you have formally emigrated or tax migrated.

If you have no ties to South Africa (meaning you were not born nor resided in South Africa), the process is simple. The South African executor will transfer the non-resident's share of the estate into his /her elected foreign banking account.

I trust I have highlighted some of the critical issues that must be addressed in your estate and succession planning, especially if you own assets offshore.

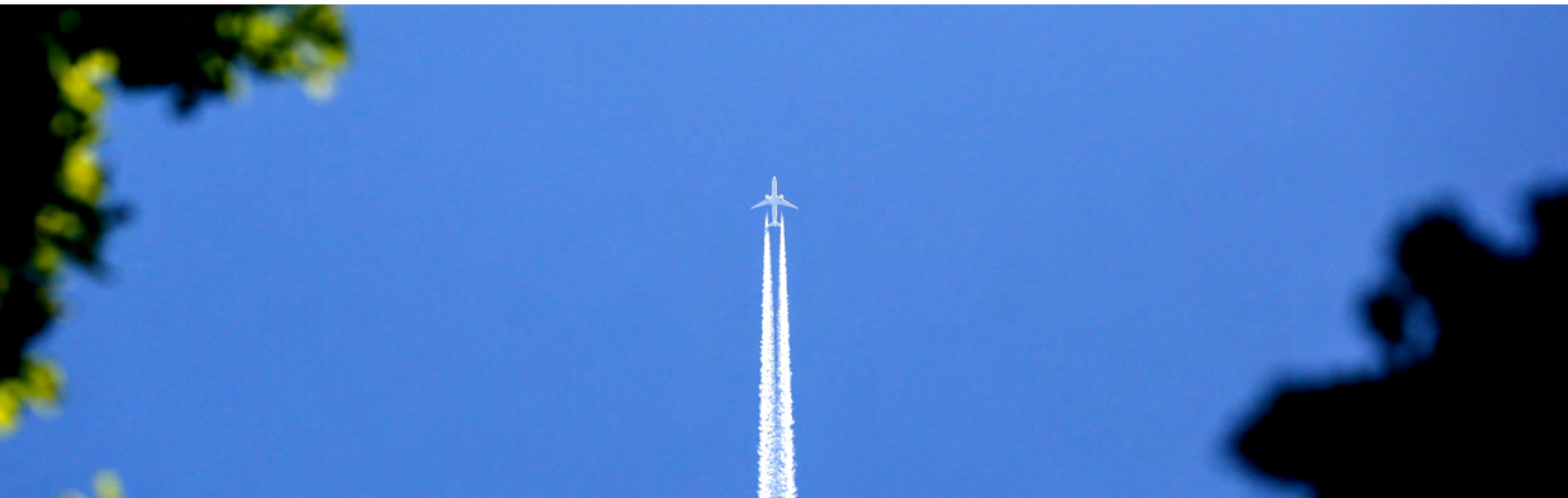
If you have any questions, please contact your Financial Planner for more information.

COMPANY NEWS

By Michelle Matthews | Portfolio Manager | Old Mutual Wealth Private Clients

Stryker, a leader in orthopaedic and neurological medical devices, delivered strong full-year 2024 results that exceeded analyst expectations. Organic sales grew by 10.2%, an impressive achievement given the high base of 12% in the prior year. Revenue matched organic sales growth at US$22.6 billion, while adjusted earnings per share rose 15% to US$12.19. Both business segments performed well, with MedSurg and Neurotechnology leading at 11.2% organic growth. Geographically, growth was balanced across the US and international markets, with emerging markets, Europe and Canada standing out. On the merger and acquisition (M&A) front, management highlighted recent bolt-on acquisitions in specialised surgical products and technology. While these had a slight impact on margins, they strengthened Stryker's position in adjacent markets. Management are optimistic about a strong deal pipeline and the group's strong balance sheet supporting further acquisitions. Looking ahead to 2025, management expect revenue growth of just below 10%, double-digit earnings growth and improved operating margins. Longer term, Stryker remains well positioned to benefit from the growing demand for innovative and minimally invasive surgery.

Naspers's 2025 interim results reflect resilience and a strategic focus on profitability, with a commitment to driving shareholder value. Revenue rose 23% to US$3.4 billion, core headline earnings surged 88%, and free cash flow improved significantly by 74%. E-commerce was the standout performer, with adjusted earnings before interest and tax (EBIT) increasing fivefold year on year to US$169 million. The results were also bolstered by Tencent's strong performance and the ongoing share buyback programme, which has generated US$36 billion in value since inception and a 12% net asset value (NAV) per share increase. With a robust balance sheet and prudent capital allocation, Naspers continues to deliver value while leading in technological innovation. The company announced Nico Marais as Interim Chief Financial Officer, effective 30 November 2024, following Basil Sgourdos's retirement. Looking ahead, Naspers is aiming for US$400 million in consolidated e-commerce adjusted EBIT and US$6.2 billion in e-commerce revenue for FY25, representing 20% year-on-year growth.



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