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A CASE STUDY ANALYSIS OF THE IMPACT OF THE DAVIS TAX COMMITTEE'S FIRST INTERIM REPORT ON ESTATE DUTY ON CERTAIN TRUST AND ESTATE PLANNING STRUCTURES USED BY SOUTH AFRICAN RESIDENTS

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Proposed Abstract

The Davis Tax Committee released their First Interim Report on Estate Duty on 13 July 2015 which contained certain recommendations concerning the way trusts should be taxed which were to act as a deterrent against aggressive estate planning. This report also contained suggested changes to current estate duty legislation. Changes to these recommendations, yet to be published in a second report, were discussed in a webinar by Judge Dennis Davis in December 2015 and the 2016 Budget Review contained additional suggestions with regard to the taxation of trusts.

This study constructs case studies to compare the effect of the various recommendations on total taxation and capital preservation in a scenario where assets are held in a South African trust over a period of time, with a scenario where such assets are kept in a South African tax resident's personal estate. The case studies focus only on high-net-worth trusts and personal estates. The possible double taxation which may occur as a result of levying both estate duty and capital gains tax on death is also briefly considered.

The case study results show the punitive effects of the proposed repeal of the s 4(*q*) estate duty deduction for inter-spousal bequests on the personal estate scenarios and show how several of the new proposals could result in effective capital tax rates in excess of the deemed maximum capital tax benchmark of 15%. This may result in more aggressive estate planning strategies being employed should such proposals be enacted. The report also concludes that the double taxation effect of both estate duty and capital gains tax levied on death is likely to be small on average, although individual high-net-worth estates may be subject to such double taxation in certain cases.

Key words: Davis Tax Committee's First Interim Report on Estate Duty, taxation of South African trusts, South African trusts, South African estate duty, estate planning, double taxation on death, estimate for total capital gains tax collected on death, high-net-worth individuals, inequality in South Africa, wealth tax in South Africa, total taxation in South African trusts, income-splitting in South African trusts, capital preservation in South African trusts, South African trust case study, South African estate duty case study, South African estate planning case study

Declaration

I declare that this research report is my own unaided work. It is submitted for the degree of Master of Commerce in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination in any other university.

Mari Loubser (*Martha Sophia Loubser*)

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Contents

List of figures

List of tables

List of abbreviations

CGT	capital gains tax
the Committee	Davis Tax Committee
DTC	Davis Tax Committee
Estate Duty Act	Estate Duty Act, No 45 of 1955
First Report	First Interim Report on Estate Duty by the Davis Tax Committee released on 13 July 2015
GDP	gross domestic product
Income Tax Act	Income Tax Act, No 58 of 1962
para	paragraph (of an Act or Schedule to an Act)
s	section (of an Act)
Second Report	Second Interim Report on Estate Duty by the Davis Tax Committee still to be released (status as at 31 March 2016)
SARS	South African Revenue Service
Yr	year (related to the timeline of the case studies)

1 Background

The Davis Tax Committee ('DTC') released their First Interim Report on Estate Duty ('First Report') on 13 July 2015 which contained potentially far-reaching recommendations concerning the way trusts should be taxed which were to act as a deterrent against aggressive estate planning[1]. The Report suggested, among other recommendations, that both the attribution principles contained in s 7 of the Income Tax Act No 58 of 1962 ('Income Tax Act') and the conduit principle, a common law principle codified for taxation purposes in s 25B of the Act, should be repealed insofar as they apply to South African resident trust arrangements.

These recommendations were met with wide-spread criticism and concern from various professional bodies[2]. On 10 December 2015, Judge Dennis Davis, who heads up the DTC, announced in a webinar presented by the South African Institute of Tax Practitioners ('SAIT')[3] that most of the controversial recommendations made in the First Report with regard to the taxation of trusts will be removed and replaced with additional recommendations regarding changes to the Estate Duty Act No 45 of 1955 ('Estate Duty Act') to act as an alternative means of curbing aggressive estate planning. These new recommendations will be contained in a Second Report on Estate Duty ('Second Report') which was expected to be released by the end of January 2016 but which, by the hand-in date of this research report (31 March 2016), has not yet been released.

Certain of the recommendations alluded to by Judge Davis were however briefly mentioned in the South African National Treasury's Budget Review of 2016 under a short paragraph with the heading '*Tax treatment of trusts*' [4] which became available on 24 February 2016 during Minister of Finance, Pravin Gordhan's 2016 Budget Speech. Due to the vague wording of the abovementioned short paragraph it remains, however, unclear exactly how the proposed legislative changes with regard to interest-free loans made to trusts will be achieved and which 'further measures' with regard to discretionary trusts will also be considered (as stated in the final sentence of said paragraph).

This research report initially set out to analyse the effects of the recommendations made in the DTC's First Report on certain trust and inheritance structures used by South African residents and how that would compare to a situation where assets are kept in a personal

[1] Davis Tax Committee 2015:8
[2] See chapter 4.8 for a discussion of the comments submitted to the DTC from select professional bodies.
[3] Davis 2015
[4] Department of National Treasury 2016a:49

estate, given the recommendations made in the report regarding the limitation or repeal of the s 4(*q*) estate duty deduction (inter-spousal bequests)[5] and the increased s 4A estate duty abatement amount[6]. Such a comparison could show whether the DTC's First Report's recommendations, taken as a whole, would have been able to act as a deterrent against estate planning.

Having been given a glimpse of what the new recommendations contained in the DTC's soon-to-be-released Second Report on Estate Duty may be, the problem statement of this research report was modified to include a comparison between the recommendations of the First Report and the expected recommendations to be contained in the Second Report in order for the research to remain topical and relevant.

Since the Second Report has not been released by the finalisation date of this research report, certain assumptions as to the detail of the new recommendations to be contained in the Second Report had to be made in order to make such a comparison. The contents of the 2016 Budget Review with regard to the tax treatment of trusts will also be considered.

1.1 The Davis Tax Committee's First Interim Report on Estate Duty

The DTC's First Report consisted of a review of all aspects of wealth taxes in South Africa which included estate duty, capital gains tax ('CGT') on death, donations tax and the way that trusts are taxed. In the introductory chapter of the First Report the DTC also explained why it is important to understand how taxes on wealth could contribute to reducing the growing wealth inequality in South Africa and why it is important to look at additional ways of taxing wealth in order to assist in achieving this[7].

Apart from smaller adjustments suggested to the current estate duty and donations tax legislation, potentially the most far-reaching recommendations made by the Committee in this report were with regard to the way trusts should be taxed.

As mentioned above, the First Report suggested that both the attribution principles contained in s 7 of the Income Tax Act and the conduit principle, a common law principle codified for taxation purposes in s 25B of the Act, should be repealed insofar as they apply to South African resident trust arrangements. These suggestions were not to be applied to

[5] Davis Tax Committee 2015:51
[6] Davis Tax Committee 2015:64
[7] Davis Tax Committee 2015:12-24

non-resident trust arrangements and special trusts as defined in s 1 of the Income Tax Act (it was suggested, however, that the definition of special trusts be revisited) [8].

The effect of these recommended changes on the taxation of South African resident trusts would, broadly speaking, have been as follows:

- Repeal of s 7 – attribution principle: Income earned as a consequence of a donation, settlement or other disposition made by an individual (the donor) to a discretionary trust[9] which, under the current attribution rules of s 7[10] as applied to such trusts and if that donor was still alive, would have resulted in such income being taxable in the hands of the donor at the personal marginal tax rate of up to, but typically less than, 41% would now have been taxed in the trust at the flat 41% tax rate applicable to trusts[11].
- Repeal of s 25B – conduit principle: Even if no donation, settlement or other disposition was made by any individual to a discretionary trust (in other words, even if the attribution rules contained in s 7 do not apply), all amounts received in the trust and distributed by the trustees to beneficiaries[12] in the same tax year as it was received in the trust which, under the current conduit principle contained in s 25B, would result in such amounts being taxable in the hands of the beneficiaries at the personal marginal tax rate of up to, but typically less than, 41% would now be taxed in the trust at the flat 41% tax rate applicable to trusts regardless of whether distributed to beneficiaries or not[13].

With regard to foreign trusts, the First Report suggested that all distributions from such trusts be taxed as income in the hands of the resident beneficiaries, regardless of whether

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[8] Davis Tax Committee 2015:7

[9] In a discretionary trust, the beneficiaries do not have a vested right in either the trust income or trust capital. A beneficiary will only obtain a vested right to trust income or trust capital upon the trustees exercising their discretion to vest such income or capital in that beneficiary (De Koker & Williams 2015:para 12.19).

[10] The relevant sub-sections with regard to the attribution rules that currently apply to South African resident trusts are s 7(3) to (6) and in particular s 7(5) which will typically apply to discretionary trusts (De Koker & Williams 2015:para 12.27).

[11] Even though not specifically included in the DTC's list of recommendations it is assumed that the Committee's intention is that the attribution rules with regard to capital gains contained in para 68 to 73 of the Eighth Schedule to the Income Tax Act insofar as it applies to South African resident trusts should also be repealed (in particular para 70 as it applies to discretionary trusts). This assumption is based on the brief mention made of these paragraphs on page 38 of the Report.

[12] That is, the beneficiaries acquired a vested right in such amounts in consequence of the exercise by the trustees of a discretion vested in them in terms of the trust deed. The tax consequences applicable to such beneficiaries of South African resident trusts are currently determined by s 25B(2) of the Income Tax Act.

[13] Even though not specifically included in the DTC's list of recommendations it is assumed that the Committee's intention is that the conduit principle with regard to capital gains contained in para 80 of the Eighth Schedule to the Income Tax Act insofar as it applies to South African resident trusts should also be repealed.

the nature of the income so distributed relates to dividends or capital gains received in the foreign trust[14]. The DTC was also of the view in the First Report that there was no need to consider a further offshore amnesty programme for South African taxpayers who still have assets abroad that remain in contravention of both the Income Tax Act and the Exchange Control Regulations of the Reserve Bank[15].

The reason for the recommendations with regard to the income tax regime of trusts was purportedly to create a 'substantial deterrent against estate planning' using trusts[16] and to 'discourage offshore trust formation'[17] which the Committee felt would have resulted in trust structures being abandoned in favour of holding assets in individuals' personal estates which would in turn be dutiable in the event of their death. It should be noted that South Africa is one of the few countries in the world that imposes both estate duty and CGT on the assets of a person on death[18] and a combined estate duty and CGT effect will therefore occur at the time of a person's death. The Committee was therefore seeking a combination of increased estate duty and CGT collections with their recommendations[19].

Alternatively, if taxpayers wanted to continue to pursue the postponement of estate duty through the use of trusts, they would have remained at liberty to do so but as the eventual sale of trust assets would be subject to the higher tax rate in the trust, the Committee seemed satisfied that the estate duty loss would have been compensated for should their recommendations be implemented[20].

The quantifiable outcome sought with the recommendations made by the DTC seemed to be an increase in estate duty collections (which presumably includes an increase in CGT collections on death) from the then estimated 0.13% of total tax collections (actual percentage achieved was 0.15%)[21] to a level that is more in line with what is achieved in other countries that levy wealth, estate, inheritance or gift taxes[22]. The First Report referred to a suggested targeted tax contribution by wealth taxes of around 1% to 1.5% of

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[14] Davis Tax Committee 2015:45
[15] Davis Tax Committee 2015:44-45
[16] Davis Tax Committee 2015:8
[17] Davis Tax Committee 2015:45
[18] Roeleveld 2012:143, Maisto 2010:35
[19] Davis Tax Committee 2015:8
[20] Davis Tax Committee 2015:8
[21] Based on National Treasury estimates for the 2014/15 Budget, estate duty collections were expected to amount to R1,237 billion (Davis Tax Committee 2015:30) compared to the revised 2014/15 Budget total estimated revenue collections of R979 billion (Department of National Treasury 2015:xviii). Therefore 1.237 / 979 = 0.13%.
The actual estate duty collections for the 2014/15 tax year amounted to R1,489 billion (Department of National Treasury & SARS 2015:22) compared to total revenue collections of R986.3 billion (Department of National Treasury & SARS 2015:viii). Therefore 1.489 / 986.3 = 0.15%.
[22] Davis Tax Committee 2015:30

tax revenues which was suggested by the Katz Committee in their Third Interim Report[23]. This range of contribution percentages seems higher than what most countries cited in the Report achieved in 2013 (the Report refers to OECD Revenue Statistics of 2013 in this regard). The percentages contained in the list cited in the Report range from 0.4% achieved in the United States and in Germany to a combined 1.5% in France (which includes 0.5% relating to net wealth tax collections and 1% to inheritance and gift taxes)[24].

If the Committee will still be proposing a 1% to 1.5% target for wealth taxes collected as a percentage of total tax revenues, then a 7- to 10-fold increase in estate duty (up from the latest actual 0.15%) would potentially have been sought as a result of the implementation of the original suggested changes to estate duty legislation (notably the withdrawal or limitation of the inter-spousal exemptions[25] and roll-overs) and to the taxation of trusts.

It can be assumed that the recommendations contained in the Second Report will aim to achieve a similar increase in estate duty collections but through different mechanisms and legislative changes (as will be discussed in the following sub-chapter).

The First Report stated prior to its recommendations with regard to tax legislation changes relating to trusts that 'Given the various forms of trust arrangements, it is impossible to prescribe universal anti-avoidance provisions to stem the loss.'[26]. The Report then continued to list 'simple yet fundamental amendments to the current legislation'[27] which, by the Committee's own admission, would have had 'diverse and far-reaching implications'[28].

From the above excerpt, however, the DTC did not seem to have gone through an analysis of the effect of their recommendations on specific or typical trust and inheritance structures to demonstrate how the recommendations will result in the increase sought in estate duty and CGT collections on death.

Applying the recommendations made by the First Report to a simple trust and inheritance structure and comparing the overall tax effect on such structure (of CGT, estate duty and income tax) during the existence of the structure to a situation where the assets concerned were held in a founder's personal estate instead may provide valuable insight into whether the perceived losses in estate duty collections could indeed have been stemmed by the implementation of the Report's recommendations. Such a study may also provide an

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[23] Katz Commission 1994: para 7.2.2, Davis Tax Committee 2015:30
[24] Davis Tax Committee 2015:30
[25] Section 4(*q*) of the Estate Duty Act No 45 of 1955
[26] Davis Tax Committee 2015:39
[27] Davis Tax Committee 2015:39
[28] Davis Tax Committee 2015:7,40

opportunity to investigate whether any unintended consequences, that may be punitive in nature, could have arisen for certain structures.

1.2 The Davis Tax Committee's expected Second Report on Estate Duty

In a webinar presented by the SAIT on 10 December 2015, Judge Dennis Davis, who heads up the DTC conceded that some of the recommendations made in the First Report were perhaps not as carefully considered as they should have been[29]. He mentioned that the recommendations in the First Report regarding the taxation of South African trusts in particular will be abandoned and that the conduit principle (s 25B of the Income Tax Act) and the attribution principle (s 7) will therefore remain unchanged. He further mentioned that the recommendation with regard to foreign trusts was also incorrect and that distributions will continue to be taxed according to the nature of the income received in the foreign trust if distributed to residents (as currently governed by s 25B(2A) and para 80 of the Eighth Schedule to the Income Tax Act).

These and other recommendations will be contained in a Second Report on Estate Duty which was expected to be released by the end of January 2016 but which remained outstanding as at the hand-in date of this research report (31 March 2016). The remaining and new recommendations that were alluded to related to certain changes to the Estate Duty Act and will include the following:

- A repeal of the s 4(*q*) deduction, which means that there will be no deduction from the net estate value of any bequests to the surviving spouse which currently has the effect of reducing the net estate value of the first-dying spouse to Rnil in many instances and a roll-over of the unused portion of the first-dying spouse's abatement to the second spouse's estate. This recommendation was also contained in the First Report[30]. It seems also as if the unused portion of this abatement will now no longer be portable to the last-dying spouse's estate.
- Together with the above recommendation, the primary abatement contained in s 4A of the Estate Duty Act will be increased from R3,5 million to R15 million per estate which should prevent undue hardship to be imposed on the surviving spouse. This is a significant increase from the recommendation of a R6 million abatement per taxpayer contained in the First Report[31].

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[29] Davis 2015
[30] Davis Tax Committee 2015:51
[31] Davis Tax Committee 2015:64

- The rate of estate duty which currently stands at a flat 20% will be replaced with a staggered rate where the estate duty rate will remain at 20% for dutiable estate values up to a certain amount (which amount remains to be defined) after which the rate will increase to 25% for the portion of the dutiable estate exceeding such amount.
- The wording of para 80 of the Eighth Schedule to the Income Tax Act, which deals with capital gains distributed to trust beneficiaries, will be refined in order to correct some of the deficiencies in the wording of this paragraph which currently results in most distributions from capital gains received in the same tax year as when such gains arose, to be excluded from a beneficiary's aggregate capital gain or loss.
- Section 3(3)(*d*) of the Estate Duty Act, which serves as an anti-avoidance clause for estate duty purposes, will be modified to deem trust assets as property of a deceased trust settlor, and therefore subject to estate duty, if the deceased had a large interest free loan due to him or her by such trust on his or her death. Currently this section deems property of which the deceased was immediately prior to his or her death competent to dispose for his or her own benefit or for that of his or her estate to be property of the deceased and therefore subject to estate duty. The argument with regard to large outstanding loan accounts due to the deceased by a trust seems to be that the deceased was in fact able to control the trust by virtue of having the ability to call up such a large loan at any time. The exact mechanism of this proposal and how control will be determined have not yet been finalised and was not described in detail during the abovementioned webinar (see also the next sub-chapter regarding proposals contained in the 2016 Budget Review in this regard).

Given the complete about-turn by the Committee with regard to the First Report's recommendations in relation to the taxation of both resident and foreign trusts, the original object of this research report, which was to test the effect of these recommendations on various trust and inheritance structures, has now become a moot point as no substantial changes to trust taxation legislation would need to be considered any longer.

It seems therefore as if the DTC will change the manner in which they seek to discourage the use of trusts and inheritance structures for the avoidance of estate duty: from recommending the excessive taxation of trusts (as a result of the First Report's proposed repeal of the conduit principle) to substantially increasing the estate duty abatement which should lessen the need for the creation of trust and inheritance structures purely for estate duty savings purposes (as alluded to in Judge Davis's webinar).

Further amendments to the anti-avoidance clause of the Estate Duty Act – s 3(3)(*d*) – will aim to further discourage the use of trusts combined with large or ever-increasing loan accounts due to the founder and trust beneficiaries as a result of transfers made to the trusts or unpaid distributions made by the trustees of the trust to these individuals over the years.

Since the Second Report was not released prior to the 2016 Budget Speech on 24 February 2016, the only further information that is available to date is the short paragraph regarding '*Tax treatment of trusts*' contained in the 2016 Budget Review[32] which will be discussed below.

1.3 The 2016 Budget Review

1.3.1 Tax treatment of trusts

The only mention made of the DTC's work on Estate Duty in the 2016 Budget Review is in a short paragraph entitled '*Tax treatment of trusts*'[33]. No mention was made of the possible increase of the estate duty abatement to R15 million per estate nor of the possible staggered rate of estate duty discussed by Judge Davis in the December 2015 webinar[34].

The heading of the paragraph in the Budget Review suggests that the focus of the suggested legislative changes may still be on trusts and the aim seems to be, firstly, to include trust assets in the estate of the founder (who is also assumed to be the funder of the trust's assets) at the time of his or her death if assets have been transferred to the trust via a loan at any time and secondly, to trigger the payment of donations tax at the time that assets are transferred to a trust via an interest-free loan. This proposed treatment is likely to apply to any other funders of the trust who have sold assets on loan account to the trust other than the founder.

What is puzzling is the statement made in this paragraph that it is possible for a founder to transfer wealth from his or her own estate to a trust without being taxed where, for instance, a founder sells assets to a trust in exchange for the granting of an interest-free loan as payment. Although it is true that no donations tax will be triggered in such a situation as such a transaction constitutes a sale of said asset for a market-related price, capital gains tax or CGT will certainly still be applicable and therefore such transactions have not been tax-free since the advent of CGT on 1 October 2001. Furthermore, the

32 Department of National Treasury 2016a:49
33 Department of National Treasury 2016a:49
34 Davis 2015

outstanding loan amount of the founder will be subject to estate duty at the time of his or her death. This loan value may of course be substantially less than the value of the assets in the trust that have been allowed to grow over time.

The proposal that seems to be made in this paragraph of the 2016 Budget Review is for the sale of assets to a trust in exchange for an interest-free loan as payment to be treated as a donation on which donations tax of 20% will be payable (an amount that would now be due in addition to the CGT payable on the disposal of such assets). It is unclear whether it is also intended that the attribution rules of s 7 of the Income Tax Act will apply as a result of such a transaction being categorised as a donation.

If this is the case, then income generated by such transferred assets going forward may be taxed in the hands of the founder (or other funders) during his or her lifetime if the trust is a discretionary trust and distributions to beneficiaries have not occurred due to these being subject to certain conditions having to be met[35] or distributions are made to minor children[36] (distributions made to beneficiaries who are majors will be taxed in the hands of such beneficiaries). This will mean that so-called income-splitting opportunities may be reduced for some trusts. Currently, the practice of distributing income and gains to several beneficiaries to whom a lower marginal tax rate applies (for instance, minor children) can result in the overall income tax due on such distributions being lower than if all income and gains fell in the hands of a single beneficiary to whom a higher or the maximum marginal tax rate applies (for instance, the founder). If this is the intended working of the suggested changes in the 2016 Budget Review then higher income tax amounts may be collected with regard to trust distributions in certain trusts for certain periods during the existence of such trusts (notably those with beneficiaries who are still minors but only until such time as when they become majors).

It seems that, in addition to charging additional donations tax on such transactions when they occur, that the trust assets so transferred will be deemed to form part of the founder's personal estate at the time of his or her death. It is unclear whether the assets will still be included in the founder's estate if a loan is obtained at a reasonable interest rate (most probably the official rate of interest[37]) instead of an interest-free loan as the wording used in this particular sentence only mentions 'transferred through a loan to a trust' and does not specify an 'interest-free' loan as was discussed in the rest of the paragraph. Judge Davis seemed to have indicated in the December 2015 webinar[38] that the size of the loan

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[35] Section 7(5) of the Income Tax Act
[36] Section 7(3) of the Income Tax Act
[37] As defined in para 1 of the Seventh Schedule to the Income Tax Act
[38] Davis 2015

relative to the value of the assets in the trust would also be a consideration in order to determine if the founder did in fact have *de facto* control over the trust or not and, if so, whether it could be said that the founder was competent to dispose of such assets for his or her own benefit or for that of his or her estate immediately prior to his or her death. If that could be said to be the case then s 3(3)(*d*) of the Estate Duty Act may be applied to deem the trust assets to be those of the deceased founder's estate for estate duty purposes.

No clarity is however provided in this regard and the final sentence of this paragraph seems furthermore to allude to additional measures to be implemented which aim will be to penalise the use of discretionary trusts.

1.3.2 New amnesty programme announced

Despite the DTC's recommendation in the First Report that no further offshore amnesty programme should be considered for taxpayers with undisclosed assets abroad and who remain in contravention of both the Income Tax Act and the Exchange Control Regulations of the Reserve Bank[39], a special voluntary disclosure programme was announced in the 2016 Budget Speech which will run from October 2016 to March 2017 to allow non-compliant taxpayers to voluntarily disclose offshore assets and income[40].

The previous amnesty programme in 2004 resulted in assets in excess of R68,6 billion that were identified and brought into the South African tax system and exchange control levies collected of R2,9 billion[41]. Given the new global standard for the automatic exchange of information between tax authorities which will provide SARS with additional information from 2017 onwards[42], non-compliant taxpayers will be motivated to make use of this special programme which could therefore see even higher amounts of revenue being generated as a result of participation in this programme.

1.3.3 Increased capital gains inclusion rate

The major development with regard to the effective tax rate of trusts and individuals (particularly capital asset-rich persons) which was revealed in the 2016 Budget is of course the increase of the capital gains inclusion rate for individuals, companies and trusts

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[39] Davis Tax Committee 2015:44-45
[40] Per National Treasury media statement of 24 February 2016 - http://www.treasury.gov.za/comm_media/press/2016/2016022401%20-%20Media%20Statement%20Special%20Voluntary%20Disclosure%20Programme.pdf
[41] Davis Tax Committee 2015:44
[42] Per abovementioned National Treasury media statement of 24 February 2016.

effective for years of assessment beginning on or after 1 March 2016[43]. This inclusion rate was increased from 33.3% to 40% for individuals and although an increased annual capital gains exclusion (from R30,000 to R40,000) now applies to individuals, the current capital gains exclusion of R300,000 for individuals in the year of death was again left unchanged. This means that, regardless of which estate duty changes may or may not be made in the future, capital gains tax on death has increased on two fronts (a rate increase as well as an inflationary increase as a result of not adjusting the annual exclusion upwards for several years now[44]).

The inclusion rate of capital gains for companies and trusts increased from 66.6% to 80% which means that the effective capital gains tax rate applicable to trusts are now at 32.8% compared to an effective rate of 16.4% for individuals (previously 27.3% for trusts compared to 13.7% for individuals)[45]. These increases will not only affect companies but also high-net-worth individuals and trusts that are capital asset-rich.

A paper by Roeleveld (2012), which discussed the double taxation effect of having both estate duty and CGT in the event of death in South Africa, was criticised in the First Report[46] mainly on the grounds that CGT is not regarded as a wealth tax but as a type of income tax on deferred capital income gains[47]. Therefore the DTC responded that only one wealth tax (i.e. estate duty) is being levied on death and included an analysis of the effective tax rate (CGT and estate duty combined) conducted by National Treasury in the First Report[48] to substantiate their response.

The recent increase in the CGT inclusion rate brings the discussion regarding the effect of possible double taxation on death to the fore once more as individuals will be liable for both estate duty and now an increased CGT on essentially the same asset base on death.

In light of all these new developments and the resultant uncertainty, the original problem statement of this research report therefore had to be reconsidered. Rather than testing the recommendations of the First Report on various trust and inheritance structures, a comparison will now be done between the total accumulated taxation of all parties related to a wealth base as a percentage of the value of that wealth over the duration of a typical

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43 Department of National Treasury 2016a:50
44 The annual exclusion in the year of death has remained at R300,000 since the 2013 tax year (South African Revenue Service 2015b:5).
45 Effective CGT rate for trusts is calculated as 80% CGT inclusion rate x 41% income tax rate = 32.8% (previously: 66.6% x 41% = 27.3%). Effective CGT rate for individuals is calculated as 40% CGT inclusion rate x 41% maximum marginal income tax rate = 16.4% (previously: 33.3% x 41% = 13.7%)
46 Davis Tax Committee 2015:55-56
47 Davis Tax Committee 2015:56
48 Davis Tax Committee 2015:56-58

inter vivos discretionary trust holding such assets compared to the situation where such assets are being held in the founder's personal estate (that is, where no use is made of a trust to hold the wealth).

Such a comparison could show if the new recommendations could indeed be sufficient to discourage the use of trust and inheritance structures.

The possible double taxation on death due to both estate duty and CGT will also be briefly considered based on the data and information provided in the First Report.

1.4 Conclusion

The DTC considers additional wealth taxes as an important mechanism to increase revenue collection in order to help address the growing wealth inequality in South Africa[49]. Several recommendations have been made by or suggested by the DTC to date with regard to increasing estate duty collections through changing trust taxation legislation. Although none of these recommendations appear to be final or have been accepted into tax legislation as yet, a comparison of the effect of these recommendations over the duration of a typical *inter vivos* discretionary trust holding such assets compared to the situation where such assets are being held in a founder's personal estate may show if any of the new recommendations could assist in discouraging aggressive estate planning which makes use of trusts. The possible double taxation on death due to both estate duty and CGT will also be briefly considered.

[49] Davis Tax Committee 2015:22-23

2 Problem statement

2.1 Statement of the problem

The DTC, in arriving at their recommendations in the First Report with regard to the taxation of trusts and changes in estate duty legislation, seems not to have conducted an analysis of how their recommendations would have affected typical trust and inheritance structures and how it would compare to a similar situation where assets were kept in a personal estate.

Without performing such an analysis it would have been difficult to conclude with any confidence that the recommendations would not have been punitive to trust beneficiaries or have resulted in any unintended consequences or hardship for such beneficiaries as a result of excessive taxation or effective double taxation on death. The other estate duty recommendations made in the Report may also have resulted in trusts still being preferred from an estate planning point of view.

The desired effect of the recommendations and proposed recommendations in the First and expected Second Interim Report on Estate Duty as well as in the 2016 Budget Review is to discourage aggressive estate planning and specifically the usage of trusts purely for estate planning purposes. In this regard, the total taxes collected by SARS (income tax, CGT and estate duty) over a certain period of time from all parties with regard to a wealth asset (for example, investment portfolio, property, etc.) can be compared between the situation where a trust was used to house such assets and where the wealth was held in the personal estate of a taxpayer (the founder and his or her heirs). It is deemed necessary to include the income tax consequences of the DTC's recommendations with the capital and wealth tax consequences as the Committee's reasoning for introducing punitive income tax consequences to trusts and/or trust founders (by, for instance, the repeal of the conduit principle) is purportedly to compensate the Receiver for any perceived losses in estate duty as a result of the use of such trust and inheritance structures[50].

A baseline comparison of taxes collected over time as a percentage of the value of a wealth asset held in a trust versus that collected for the same asset held in a personal estate can be done using current legislation. An objective benchmark will be obtained to which the total taxes as percentage of the capital value can be compared to determine whether the current baseline can be said to be reasonable or whether additional taxation can be tolerated without resulting in capital flight.

[50] Davis Tax Committee 2015:44

This comparison can then be repeated by firstly applying the original recommendations contained in the First Report and secondly by applying the expected new recommendations of the Second Report and the additional proposed recommendations contained in the 2016 Budget Review.

The relevant differences in taxes collected as a percentage of the capital value calculated by using the different sets of recommendations may then be able to provide an indication of whether the recommendations in the reports would possibly be able to (or would have been able to in the case of the First Report) discourage the use of trusts for estate planning purposes and not result in any unintended consequences or hardship for any parties involved.

In light of the increased capital gains inclusion rate announced in the 2016 Budget, the possible effect of double taxation due to both CGT and estate duty being levied on death will also be briefly considered albeit through a different, non-case study-based approach.

2.2 The sub-problems

2.2.1 Using a case study approach and current tax legislation, is there an overall tax saving when an asset is held in a trust compared to not using a trust?

This sub-problem will create a baseline comparison based on current legislation[51] in order to compare the total taxation collected over the duration of the life of a discretionary *inter vivos* trust holding wealth assets to the total taxation collected over the same duration where the assets were held in the personal estate of a taxpayer.

Two basic scenarios or case studies will be created, the first being a scenario where wealth assets are transferred to an *inter vivos* trust and the second where no use is made of a trust. Each scenario will have a timeline of sufficiently long duration together with typical life events along such timelines (for instance, death of the founder, death of the surviving spouse etc.) and typical restructuring events with regard to trusts (for instance, where a single trust is restructured to form separate trusts for adult children to be managed separately etc.). The capital growth and income growth assumptions used for the wealth assets in the two basic scenarios will be the same. All taxation with regard to the income produced by the wealth asset, the CGT paid on disposals and estate duty collected will be calculated for each scenario on an annual basis. The aggregate tax paid by all parties from inception of each scenario will be calculated at the end of each year. This aggregate

[51] Including the capital gains inclusion rate increase announced in the 2016 Budget Review (Department of National Treasury 2016a:50).

taxation amount, which will build up over time, will be expressed as a percentage of the theoretical market value of the wealth asset at the end of that particular year (using the abovementioned growth assumptions) in order to get a sense of the relative total taxation levied on the assets at the end of any given year. The comparison between these two scenarios will provide the baseline comparison.

2.2.2 Using a case study approach and applying the recommendations of the First Interim Report on Estate Duty to current tax legislation, is there an overall tax saving when an asset is held in a trust compared to not using a trust and how does this compare to the same comparison using current tax legislation?

In the second set of case studies, the same two basic scenarios used in the previous problem statement will be used but the recommendations of the First Interim Report on Estate Duty will be applied and the relevant difference in total taxation collected over time as a percentage of the value of a wealth asset calculated between the two basic scenarios will be compared to the baseline comparison in order to determine what the effect of these recommendations would have been.

2.2.3 Using a case study approach and applying the expected recommendations of the Second Interim Report on Estate Duty to current tax legislation, is there an overall tax saving when an asset is held in a trust compared to not using a trust and how does this compare to the same comparison using current tax legislation?

In the third set of case studies, the same two basic scenarios used in the previous two problem statements will be used but the recommendations that are expected to appear in the Second Report on Estate Duty together with those recommendations mentioned in the 2016 Budget Review will be applied and the relevant difference in total taxation collected over time as a percentage of the value of a wealth asset calculated between the two basic scenarios will be compared to the baseline comparison in order to determine what the effect of these recommendations would be.

Where information with regard to the expected recommendations is not sufficient, reasonable assumptions will be made.

2.2.4 *Can the perceived double taxation on death due to both CGT and estate duty being levied be estimated based on information currently available?*

Given the contention in some academic circles[52] and in some commentaries to the First Interim Report on Estate Duty by professional bodies[53] that there may be double taxation on death due to both CGT and estate duty being levied, it may be useful to determine whether the perceived double taxation is significant enough to be taken into consideration.

The main issue is that the numbers provided in National Treasury's annual Tax Statistics for total CGT collected from individuals include both normal disposals as well as disposals on death as no separate breakdown for CGT collected on death is currently provided in the latest Tax Statistics documents issued by the Department of National Treasury and SARS[54].

The DTC's First Report does however contain some assumptions contained in a National Treasury analysis on the combined effective tax rates on death[55] and samples of estate duty collected for 2013[56]. This information could be used together with other assumptions to determine whether the amount of CGT collected in the event of death is likely to be significant compared to the estate duty collected on death especially given the increased capital gains inclusion rates announced in the 2016 Budget.

3 Scope and limitations

3.1 Final recommendations still to be released

At the hand-in date of this research report, the DTC's Second Report on Estate Duty has not yet been released and no clarity has been provided on the proposals regarding the taxation of trusts mentioned in the 2016 Budget Review.

The conclusions drawn in this report with regard to the expected Second Report's recommendations and the legislation changes alluded to in the Budget Review will therefore not be based on published recommendations or clear law. The recommendations and tax amendments, when eventually published or promulgated, may differ substantially from the expected recommendations mentioned by Judge Dennis Davis in the SAIT

[52] Notably Roeleveld 2012
[53] Refer chapter 4.8
[54] Department of National Treasury & SARS 2014:224; Department of National Treasury & SARS 2015:228
[55] Davis Tax Committee 2015:56-58
[56] Davis Tax Committee 2015:31 (Table 2); [56] Davis Tax Committee 2015:63 (Table 6)

webinar[57] and those mentioned in the 2016 Budget Review. As such, the conclusions drawn in this research report may not remain valid.

The case study framework to be created in this report could, however, still be employed to analyse the final recommendations or enacted legislation in order to obtain an understanding of the comparative effect of such recommendations and law on the taxation and capital preservation of assets held in trusts and of those held in personal estates.

3.2 Validity of trusts and absence of abuses in trusts assumed

This study will make the assumption that the trusts used in the case studies are neither sham trusts (that is, invalidly created trusts) nor valid trusts where certain abuses take place (for instance, trustees or beneficiaries not treating trust assets as separate to their own).

Such scenarios, if challenged in the courts, could in any event result in either the trust being declared invalid or the piercing of the veil of the trust which would have the effect of treating trust assets as being held by the individuals involved with the resulting tax and other legal consequences[58].

All case studies therefore assume the creation of a valid trust where no abuses are taking place.

3.3 Types and uses of trusts included in case studies

The case studies will be based on structures containing discretionary *inter vivos* trusts only as these are deemed the more common form of trust structures employed for estate duty planning purposes – *bewind* and vesting trusts will therefore not be used. For the purpose of the case studies a family type trust is assumed as an alternative to holding assets in a taxpayer's personal name. These scenarios would also be applicable to income-generating properties, for instance, agricultural property held in trust (which could be said to be more of a business type trust).

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[57] Davis 2015

[58] As seen, for instance, in the cases of *Jordaan v Jordaan* 2001 (3) SA 288 (C), *Land and Agricultural Bank of South Africa v Parker* 2005 (2) SA 77 (SCA) and *Badenhorst v Badenhorst* 2006 (2) SA 255 (SCA)

3.4 Residency of trusts included in case studies

The focus of the case studies will be on the effect of the recommendations on South African resident trusts and estate duty.

As the Committee also made certain recommendations with regard to the treatment of distributions from non-resident trusts to resident beneficiaries in order to 'discourage offshore trust formation'[59] and as this aspect is addressed by some commentaries submitted by professional bodies, some aspects relating to the taxation of non-resident trusts and to the interaction of resident beneficiaries with non-resident trusts will be discussed in the literature study.

3.5 Time value of money

The aggregate taxation over the duration of the scenarios or case studies will be calculated but in order to simplify the calculations, no time value of money adjustments will be made to any of the taxation payments. This approach was also followed in an example included in another study by Roeleveld[60] on the combined effect of the various taxes paid during the lifetime of an asset and on the death of the owner and is similar to the approach used in certain simple valuation methodologies, for instance in a payback period calculation[61].

3.6 Types of taxes included in scenarios

The scenarios will not include a transfer of the assets into trust by way of donation, therefore the effect of donations tax (and the resultant effect of the attribution rules contained in s 7 of the Income Tax Act) will not be considered. As some of the recommendations alluded to in the 2016 Budget Review suggested that the transfer of assets to a trust via an interest-free loan be categorised as a donation[62], one of the comparative scenarios will include the effect of a once-off donations tax levied upon entry into the trust structure (without the effect of applying the attribution rules).

Transfer duty upon transfer of the asset to a trust will also be ignored for the purposes of this study in order to focus on the effects of CGT, income tax and estate duty only.

[59] Davis Tax Committee 2015:45
[60] 2012:149
[61] Per Investopedia definition of 'payback period' from http://www.investopedia.com/terms/p/paybackperiod.asp
[62] Department of National Treasury 2016a:49

As the recommendations of the DTC’s First Report seem to want to use measures to increase income tax to penalise a perceived loss in estate duty as a result of the use of trust and inheritance structures, the effect of the additional income tax will be included in the analysis.

3.7 Limitation of scenario events and starting parameters selected

There may be a myriad of unique life events in the timeline of actual trusts and wealth held in personal estates that may include regular withdrawals with CGT consequences or new investments via, for instance, loan accounts into trust capital, which will have an effect on the overall tax paid as a percentage of the capital value. In order to study the effect of the various recommendations of the DTC, only a few basic events deemed typical will be selected to occur along the timelines of the two basic scenarios. This is done to both simplify the calculation of the taxes due and to be able to provide a clear graphic comparison between the scenarios from which certain conclusions may be drawn.

Only a single combination of starting investment asset values and retirement withdrawal amounts will be used across the various case studies in order to make the results comparable. In real life, these starting parameters will vary vastly which may have a significant effect on the outcomes of the scenario comparisons. As protection will be provided to personal estates falling within the current and various recommended s 4A abatement amounts (R3,5 million, R6 million and R15 million respectively), a starting asset value was selected that will far exceed such abatement amounts in order to test the worst-case effect of the various recommendations on high-net-worth personal estates and trusts.

In addition to the starting value and base cost assumed for the asset transferred to a trust or held in a personal estate, certain capital growth and annual income assumptions will also be made for the asset as well as for the retirement income withdrawal amounts. Different starting values, capital and income growth values or retirement withdrawal amounts will have different effects on the total taxation due over the chosen timeline and may affect the final evaluation of the various scenarios contained in the comparisons. It is beyond the scope of this research report to perform a comparative analysis involving different starting parameters, capital growth and income assumptions for each of the case studies. Such an analysis may, however, be the subject of another study. This research report will therefore only compare a single selection of the abovementioned parameters across all case studies and repeat these case studies by applying the different legislation recommendations in each comparison.

Furthermore, in order to provide a final comparison of potential taxes remaining at the end of the timeline in each of the basic scenarios, a hypothetical exit event (the complete liquidation of all capital assets) will be added at the end. Such an event may not be realistic in real life but is deemed necessary to conclude the comparison and to draw conclusions of the possible taxes due on such an exit event.

As a result of the selection of a single set of starting parameters and only a few basic events together with the exit event in the scenario timelines, the conclusions drawn from the case studies may therefore be quite different when compared to those drawn from studying trusts or personal estates in real life where different starting parameters may apply, a more complex set of events may occur along a similar timeline or where no final exit event occurred.

The case studies will, however, still be able to compare the effect on taxation and on the capital growth of wealth assets that the DTC's recommendation will have when typical major events occur in a high-net-worth estate or trust.

3.8 Limitations of data and assumptions used in estimation of CGT due on death

Due to the lack of detailed information for the underlying data used in the 2013 estate duty sample and the National Treasury study on the analysis on the combined effective tax rates on death contained in the DTC's First Report, no certainty or statistical significance of any of the outcomes related to this problem statement can be determined. Additional high-level assumptions that will be required may also further distort the outcome. In the absence of any other information available in this regard it is deemed to remain useful however to see what a potential answer to this question might look like.

4 Literature Review

4.1 Inequality in South Africa

In the introductory chapter of the DTC's First Report, the Committee stated that any discussion of taxes on wealth (which includes estate duty) should be analysed through the prism of wealth and inequality after which a lengthy discussion on the issues and arguments from various researchers follows[63]. Some further sources of inequality measures and possible solutions to the issue in South Africa are discussed in the paragraphs below.

4.1.1 Income share of top one-percent

Even though the International Monetary Fund ('IMF') has found that income inequality has been rising in many parts of the world in recent decades, the trends across countries with regards to the gross income share of the top one-percent of income earners, which is one way of measuring inequality, are mixed[64]. South Africa was named, however, as one of the countries (which also includes the United States) where the share of the top one-percent has increased dramatically in recent decades[65].

According to the latest available data for South Africa, the share of market income of the richest one-percent in 2011 was 16.68% of total income compared to that in 1993, the year before the country's first democratic elections, when it was only 10.27% of total income[66]. There has, however, been a slight downward trend in recent years from a peak of 18.12% in 2008 until 2011[67]. In the United States the share of the richest one-percent moved from 12.82% in 1993 to 17.47% in 2011 (with the latest available figures at 17.85% in 2014) [68].

Other BRICS[69] countries for which the above data for the income share of the top one-percent is available are India (1993: 8.53% and latest available data is for 1999: 8.95%) and China (1993: 4.34% and latest available data is for 2003: 5.87%) which are much lower than that seen for South Africa while the figures for South American countries for

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[63] Davis Tax Committee 2014: 12-24
[64] Lipton 2014
[65] Lipton 2014
[66] Alvaredo *et al.* 2015
[67] Alvaredo *et al.* 2015
[68] Alvaredo *et al.* 2015
[69] BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa. The grouping was originally known as 'BRIC' before the inclusion of South Africa in 2010. The BRICS members are all developing or newly industrialised countries, but they are distinguished by their large, fast-growing economies and significant influence on regional and global affairs (Wikipedia 2015).

which the data is available are nearer to those of South Africa (Argentina's earliest available data in 1997: 12.39% and latest available data in 2004: 16.75%; Uruguay's earliest available data in 2009: 14.20% and latest available data in 2012: 14.00%)[70]. Other developed countries' latest data are also lower than that of South Africa (Australia in 2010: 9.17%; Canada in 2010: 12.22%; United Kingdom in 2012: 12.70%)[71].

4.1.2 Gini coefficient

Another way of measuring inequality is by means of the Gini coefficient on disposable income and South Africa has one of the highest Gini coefficients in the world although a recent South African Economic Update by the World Bank confirmed that there has been a substantial reduction in the country's Gini coefficient brought about by a highly redistributive fiscal policy[72]. A recent IMF report stated that South Africa's Social Grants Program includes a means-tested social pension program costing 1.3 percent of gross domestic product ('GDP') where social pensions are typically in the order of ½ to ¾ percent of GDP[73]. South Africa also collects more than 1 percent of GDP through recurrent property taxes where the average yield of property taxes for developing economies for which data was available in the 2000s was only around 0.5 percent[74].

The latest World Bank estimate for South Africa's Gini coefficient is 0.63 (the 2011 figure) which is the highest figure given in the list of World Bank estimates for any country in the world (although estimates are not provided for all countries in this database)[75]. Although the Organisation for Economic Co-operation and Development ('OECD') does not provide an estimate for South Africa's Gini coefficient in its database, none of the countries for which the organisation does provide estimates exceed that of South Africa[76] with the nearest countries in either database being Haiti (2012: at 60.8), Honduras (2013: at 53.7), Columbia (2013: at 53.5) and Brazil (2013: at 52.9)[77].

[70] Alvaredo *et al.* 2015
[71] Alvaredo *et al.* 2015
[72] Davis Tax Committee 2015:13 citing a recent World Bank report (World Bank 2014).
[73] International Monetary Fund 2014:27 and footnote 23
[74] International Monetary Fund 2014:40 and footnote 45
[75] World Bank 2015 – The Gini coefficient is expressed as a fraction of 1 in this database.
[76] Organisation for Economic Co-operation and Development 2015b – The Gini coefficient is expressed as a percentage in this database.
[77] World Bank 2015

4.1.3 Estate value

The DTC's First Report includes a high-level analysis of a sample of estate duty receipts covering 70% of the total estate duty collected in the 2013 tax year[78] which reflects that the top 4% of estates, that is, estates with values in excess of R30 million, is responsible for 53% of estate duty collections and the top 17% of estates (with estate values in excess of R10 million) contributes 80% of the estate duty collections in the sample[79].

These numbers, although provided in a highly summarised format which does not allow the reader to calculate, for instance, the level of wealth associated with the top 1% or top 0.1% of estates, is another indication of the high level of inequality in wealth in South Africa but only shows wealth held in personal estates and would therefore not reflect any wealth contained in trust structures.

4.1.4 Possible solutions

From the above data it is clear that inequality remains high in South Africa despite redistributive policies being in place. A recent IMF staff discussion note on inequality, redistribution and growth concluded that more unequal societies tend to redistribute more, that lower net inequality is strongly correlated with faster and more durable growth for a given level of redistribution and finally that redistribution appears to be generally benign in terms of its impact on growth apart from some extreme cases where it may have direct negative effects on growth[80]. The reduction of inequality through redistribution is therefore deemed to be desirable but should not be so extreme as to start affecting economic growth.

The DTC's First Report took aboard, among others, the views of Thomas Piketty who stated that the reduction of extreme capital wealth at the top through mechanisms such as public policy and taxation could help to curb ever-increasing inequality[81]. Such proposed mechanisms include increasing the progressivity of the tax system and increasing taxes on the rich and superrich together with increases in inheritance tax and estate duty[82].

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[78] Davis Tax Committee 2015:31
[79] Per Table 2 in Davis Tax Committee 2014:31 the sample was divided into four bands based on estate value. The number of estates between R10 million and R20 million were equal to 10% of the sample and contributed 18% to the estate duty collected in the sample; the number of estates between R20 million and R30 million were equal to 3% of the sample and contributed 9% to the estate duty collected in the sample. The values associated with the estates in excess of R30 million are given in the text above and estates with values less than R10 million made up 83% of the sample but only contributed 20% of the estate duty.
[80] Ostry, Berg & Tsangarides 2014
[81] Davis Tax Committee 2014:19-20 citing Piketty 2014
[82] Davis Tax Committee 2014:20-21

Commentary by Holcombe (2014) on Piketty's line of reasoning states that the proposed wealth tax on the superrich would have to be a global tax to prevent capital flight to lower-tax jurisdictions which may make it difficult to implement effectively[83]. It was furthermore stated that an excess of social income programs could exacerbate inequality as it may discourage people to save in the form of capital ownership as they may choose to rather rely on government entitlements which cannot be passed on to heirs[84] which would have allowed such heirs to take advantage of the fact that capital tends to grow at a higher rate than that of output and wages over time[85].

Woolard *et al.* (2015) found that inequality in South Africa remains stubbornly high, even though a mildly progressive taxation and highly progressive government spending reduced inequality significantly from a Gini coefficient of 0.77 to 0.59, a reduction of 0.18 Gini points. This is the largest reduction in inequality of 12 middle-income countries analysed using the same method. The next country coming closest to South Africa in its estimated fiscal-related reduction in Gini points is Brazil which achieved a reduction of 0.14 Gini points based on 2009 figures[86].

Woolard *et al.* (2015) further concluded that although their analysis may be interpreted to suggest that even greater fiscal redistribution is required, that South Africa's fiscal deficit and debt indicators signal that there is limited fiscal scope to spend more to achieve even greater redistribution. This, they stated, is a result of the global economic downturn since 2008 which brought about an increase in South Africa's net debt burden from 22.9% of GDP in 2008/09 to 39.7% in 2013/14 and the continuing sluggish economic growth which does not spell an end to this worsening trajectory as yet.

Donaldson (2014) came to a similar conclusion and suggested that a policy shift should occur to emphasise an improvement of the market distribution of income rather than reliance on redistribution only. Donaldson suggested that this could be done by, for instance, addressing high unemployment and highly unequal earnings in the labour market through policy measures that expand opportunities in the labour market and raise earnings of informal or low-wage workers which would help to reduce inequality and enhance growth. Consideration should also be given to investment in housing, public transport, access to electricity and telecommunication networks in order to enhance households'

[83] Holcombe 2014:557

[84] Holcombe 2014:554

[85] This is the main argument of Piketty's book (Piketty 2014) that inequality increases over time because wealth accumulated in the past grows faster than output and wages due to the fact that the rate of return on capital r tends to be higher than an economy's rate of growth g (Holcombe 2014:551).

[86] Woolard *et al.* 2015

capacities to participate in work, to generate income and to address barriers faced by prospective work seekers and employers[87].

Donaldson further concluded that developing integrated delivery systems in a context of fragmented networks in an unequal society (where the quality of services differs greatly between high-quality private facilities and low-quality public services in, for instance, health and education) was far from straightforward[88]. It was also noted that measures which provide universal benefits or cash transfers (such as social grants, for instance) are institutionally less complex and less prone to leakage, corruption or bureaucratic failure than targeted in-kind public service delivery such as improved education, health, transport and communication services[89].

Woolard *et al.* (2015) also concluded that taxing the rich even more or having better targeted government spending on the poor may well be the answer to addressing inequality, which would make South Africa's fiscal system even more progressive, but said that further research would be important to determine the consequences of such policies on outcomes such as growth, unemployment, poverty and economic efficiency. Finally they concluded that it is essential to attain better outcomes in terms of the initial distribution of wages, salaries and capital income (that is, market income) and that fiscal redistribution alone is unlikely to achieve the desired reductions in inequality.

Lastly, a recent OECD economic survey of South Africa suggested as one way of increasing tax revenues, among other options, that the collection of recurrent property taxes (which can be seen as another type of wealth tax) be improved as opposed to transactional or transfer duty taxes since property tax is deemed to be one of the least harmful taxes for growth and can be equity enhancing[90]. Due to severe deficiencies in administrative capacity at the local municipal level, the report concluded however that the feasibility of increasing property tax rates in the near term was limited[91].

4.1.5 Increase in capital gains tax inclusion rate

The recent increase in the capital gains inclusion rate which was announced in the 2016 Budget for individuals, companies and trusts[92] will contribute to a more progressive tax system as it will burden capital transfers with a higher tax rate. Even though CGT is not

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[87] Donaldson 2014
[88] Donaldson 2014
[89] Donaldson 2014
[90] Organisation for Economic Co-operation and Development 2015a:46
[91] Organisation for Economic Co-operation and Development 2015a:46
[92] Department of National Treasury 2016a:50

generally considered to be a wealth tax[93], such a higher tax on capital when transferred will help to reduce the overall return on capital in the South African economy which in turn may, according to the arguments put forward by Thomas Piketty[94], assist in curbing growing inequality.

The additional revenue that will potentially be collected as a result of this increase in the CGT inclusion rate is likely to be substantially more than what would be achievable by any increase in the collection of estate duty or other wealth taxes. The total CGT collected from individuals and companies in the 2014/15 tax year amounted to R11,7 billion[95] whereas the total estate duty collected in the same tax year only amounted to R1.5 billion[96]. The previous increase in the capital gains inclusion rate which was effective from 1 March 2012[97] resulted in CGT revenue of R11,6 billion being raised in the 2013/14 tax year compared to the R7,1 billion CGT raised in the previous 2012/13 tax year. This amounted to a 63.4% increase in CGT revenue[98]. Even though the relative increase in the capital gains inclusion rate effective from 1 March 2016 is less than that which was effective from 1 March 2012[99] the percentage increase in CGT revenue that could be achieved is likely to be almost 40%[100] of the current CGT revenue which would amount to additional CGT revenue in the region of R4.5 billion that could possibly be collected in the next tax year compared to that collected in the 2014/15 tax year[101]. Based on the same principles, the amount of additional CGT revenue collected from individuals only as a result of the capital gain inclusion rate increase will be in the region of R2.1 billion[102].

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93 CGT is regarded as an income tax on deferred capital income gains (Davis Tax Committee 2015:56).

94 The main argument of Piketty's book (Piketty 2014) is that inequality increases over time because wealth accumulated in the past grows faster than output and wages due to the fact that the rate of return on capital *r* tends to be higher than an economy's rate of growth *g* (Holcombe 2014:551).

95 Department of National Treasury & SARS 2015:228

96 Department of National Treasury & SARS 2015:22

97 On 1 March 2012 the capital gains inclusion rate for individuals increased from 25.0% to 33.3% and for companies and trusts it increased from 50.0% to 66.6% (Department of National Treasury & SARS 2015:228).

98 Calculated as (11.6 – 7.1) / 7.1 = 63.4%

99 The 1 March 2012 increase for individuals was (33.3% - 25.0%) / 25.0% = 33.2%.
The 1 March 2016 increase for individuals is (40.0% - 33.3%) / 33.3% = 20.1%.

100 Using the 63.4% CGT revenue increase obtained previously as a result of a 33.2% capital gains inclusion rate increase, one way of roughly estimating the potential CGT revenue increase to be realised as a result of the latest CGT inclusion rate increase could be to calculate this using an amount proportional to the latest inclusion rate increase, i.e. as 63.4% x 20.1 / 33.2 = 38.4%.

101 This increase is calculated as 38.4% (see previous footnote) multiplied by the 2014/15 total CGT revenue collected of R11,7 billion (Department of National Treasury & SARS 2015:228) which equals R4.5 billion.

102 This increase is calculated as 38.4% (see previous footnote) multiplied by the 2014/15 CGT revenue collected from individuals only of R5,5 billion (Department of National Treasury & SARS 2015:228) which equals R2.1 billion.

For the same amount of revenue increase to be achieved by using estate duty revenue alone (currently at R1,5 billion[103]), an increase of 140% in estate duty collections must be achieved[104] (i.e. almost two and a half times the current amount) which seems an unlikely outcome for any but the most radical estate duty legislation changes that could possibly be implemented.

4.1.6 Conclusion

From the literature above it can therefore be concluded that addressing inequality through an increase in some form of wealth tax alone may not be the only mechanism required to achieve the desired results but that there may well be scope for increasing the progressivity of our tax system somewhat through an increase in wealth taxes as part of an overall solution to this problem. The expected recommendation to be included in the DTC's Second Report, which is to have a progressive estate duty rate of 25% above a certain estate value[105], may therefore be an efficient approach to help address inequality in South Africa.

The recent increase in the capital gains inclusion rate which was announced in the 2016 Budget for individuals, companies and trusts[106] will likewise contribute to a more progressive tax system as this will burden capital transfers with a higher tax rate. Such a higher tax on capital when transferred will help to reduce the overall return on capital in the South African economy which in turn may, according to the arguments put forward by Thomas Piketty[107], assist in curbing growing inequality.

The potential increase in revenue to be achieved from the increased capital gains inclusion rate is also much higher than any that is likely to be achieved from changes to estate duty legislation due to the relatively low level of estate duty revenue currently being collected.

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103 Department of National Treasury & SARS 2015:22
104 Calculated as [(1.5 + 2.1) – 1.5] / 1.5 = 140%
105 Davis 2015
106 Department of National Treasury 2016a:50
107 The main argument of Piketty's book (Piketty 2014) is that inequality increases over time because wealth accumulated in the past grows faster than output and wages due to the fact that the rate of return on capital r tends to be higher than an economy's rate of growth g (Holcombe 2014:551).

4.2 Using a wealth tax to address inequality – Margo and Katz Commissions' recommendations compared to those of the Davis Tax Committee

The Davis Tax Committee is not the first tax committee or commission to investigate ways to reform the way in which wealth is taxed in South Africa. Both the Margo Commission (1987) and the Katz Commission (1997) considered the replacement of estate duty and donation tax with a capital transfer tax[108].

4.2.1 Margo and Katz Commissions

These recommendations were made in particular to curb the tax-free transfer of assets from a person's estate to a trust on loan account as both these commissions were commenting on the tax system before capital gains tax was introduced on 1 October 2001[109]. The same situation today would give rise to capital gains tax on both the sale of the asset to the trust and on the subsequent vesting of the asset or that of the capital gain upon the sale of the asset in the trust in a beneficiary[110].

The Katz Commission considered three types of wealth taxes, namely either an annual wealth tax or a wealth transfer tax when wealth is transferred by gift or as a result of death and then thirdly a national land tax on agricultural land[111]. In their final conclusion, the Commission favoured a capital transfer tax in South Africa[112] despite noting certain disadvantages relating to such taxes for example notoriously low collection yield as percentage of GDP, high costs of collection, administrative problems and the fact that such taxes tend to give rise to an unproductive estate planning industry[113]. The Commission further indicated that the object of an appropriately designed capital transfer tax should reconcile the most effective utilisation of limited resources in SARS, the avoidance of unnecessary complexity and the greatest possible attainment of vertical and horizontal equity in the tax system[114,115]. After considering the types of capital transfer

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[108] Margo Commission 1987:322; Katz Commission 1994 at para 7.1.12
[109] Roeleveld 2012:145
[110] Paragraph 80 of the Eighth Schedule to the Income Tax Act
[111] Katz Commission 1994 at para 7.1.9 and 4.2.2(a); Katz Commission 1997 at para 7.1.9
[112] Katz Commission 1997 at para 5.1
[113] Katz Commission 1997 at para 1.7
[114] Katz Commission 1997 at para 1.12
[115] Vertical equity is a method of collecting income tax in which the taxes paid increase with the amount of earned income. The driving principle behind vertical equity is the notion that those who are more able to pay taxes should contribute more than those who are not (Investopedia definition from http://www.investopedia.com/terms/v/vertical_equity.asp#ixzz3vcu52H9G).
Horizontal equity is an economic theory that states that individuals with similar income and assets should pay the same amount in taxes. Horizontal equity should apply to individuals considered equal regardless of the tax system in place which means that there should not be an excess of

taxes available (such as having either an estate tax or an inheritance tax[116]), the Katz Commission settled on the retention of both donations tax[117] and estate duty[118] as these taxes were already in effect a capital transfer tax for *inter vivos* transfers of capital and transfers on death[119]. Estate duty was also seen as higher-revenue yielding and easier to administer than an inheritance tax[120].

Although a capital gains tax was seen by the Katz Commission as having similar purposes and similar problems to that of an annual wealth tax or wealth transfer tax, it was not seen as strictly being a wealth tax as such but rather more akin to an income tax[121]. Roeleveld (2012:145) pointed out, however, that while it is acknowledged that capital gains tax seeks to tax the appreciation of wealth as opposed to the transfer of wealth, there are many instances where the base cost of an asset is low or nil and therefore the amount on which capital gains tax is levied is often practically the same as the market value of the asset on which estate duty may be levied.

With regard to so-called generation-skipping trusts, the Katz Commission accepted that the conduit principle as laid down in s 25B of the Income Tax Act and in common law[122] would continue to govern income distributed from or retained in trusts[123]. As capital gains tax has not been instituted at that time, they recommended furthermore that the assets in a trust should be subject to a periodic valuation and capital transfer tax thereon[124] (every 25 to 30 years[125]) and that distributions from capital should also be subject to capital transfer tax[126]. With the advent of capital gains tax from 1 October 2001, capital distributions and distributions of capital gains realised in a trust are now subject to capital gains tax as governed by paragraph 80 of the Eighth Schedule to the Income Tax Act which in part achieves the implementation of the latter recommendation of the Katz Commission.

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loopholes, deductions or incentives in a tax system which may only be available to certain taxpayers (for instance as a result of specific types of assets held) and not to others (Adapted from Investopedia definition from http://www.investopedia.com/terms/h/horizontalequity.asp#ixzz3vcwPHz8Y) .

116 An inheritance tax levies the tax on the beneficiaries receiving the wealth whereas estate duty levies tax on the estate of the deceased person (Roeleveld 2012:147 at footnote 4).

117 Katz Commission 1997 at para 5.7

118 Katz Commission 1997 at para 5.8

119 Katz Commission 1997 at para 5.3

120 Katz Commission 1997 at para 5.8

121 Katz Commission 1997 at para 7.1.6

122 *SIR v Rosen* 1971 (1) SA 172 (A)

123 Katz Commission 1997 at para 10.3(b)

124 Katz Commission 1997 at para 10.3(a)

125 Katz Commission 1997 at para 10.9

126 Katz Commission 1997 at para 10.3(b)

4.2.2 Davis Tax Committee's First Interim Report on Estate Duty

The Davis Tax Committee (2015) also considered a capital transfer tax (which seeks in particular to recover lost estate duty collections where assets are transferred to a trust) with an emphasis on the periodic taxation of trust assets but concluded that the implementation of a capital transfer tax in South Africa would place an enormous burden on the resources of both SARS and the taxpayers as was evident when capital gains tax was implemented in 2001[127].

The DTC furthermore considered the implementation of an annual or periodic net wealth tax to be applied to taxpayers with a large surplus wealth but noted that several countries have abolished such wealth taxes because of the fact that affected taxpayers were able to move much of their wealth out of reach of such a tax and that the actual collections of these taxes were disappointing[128]. There were also numerous well-known and documented disadvantages associated with an annual wealth tax, like high compliance and collection costs, significant difficulties in the valuation of net assets on an annual or periodic basis, the possible disincentive to entrepreneurship and savings, the transfer of wealth offshore and/or emigration and causing the forced sale of assets or requiring increased borrowings by taxpayers to enable payment of these taxes if income generated is insufficient to cover such taxes[129]. Even though there were some advantages such as the ability of such taxes to contribute to vertical and horizontal equity, the disadvantages were generally considered to outweigh the advantages[130]. The Committee therefore concluded that the complexity of a net wealth tax and the uncertainty of a successful implementation thereof would prompt the exercise of caution as regards to such a proposal[131] and that, with some modification, the estate duty system could still achieve the objective of reducing inequality without the need to resort to the implementation of a capital transfer tax[132].

Increase in estate duty and CGT collections through changes in trust taxation

Rather than recommending a new form of wealth taxation, the DTC's First Report's recommendations aimed at increasing estate duty collections through creating disincentives for the use of trusts. With regard to resident trusts, this was done by recommending the abolishment of both the conduit principle with regard to trust income (that is, s 25B) as well as the attribution rules contained in s 7 which could apply both to

[127] Davis Tax Committee 2015:40-41
[128] Davis Tax Committee 2015:41-42
[129] Davis Tax Committee 2015:33-34
[130] Davis Tax Committee 2015:34
[131] Davis Tax Committee 2015:42
[132] Davis Tax Committee 2015:34

trusts and non-trust situations (with the assumption that these recommendations also apply to capital gains tax even though not mentioned specifically in the Committee's list of recommendations)[133]. It was also recommended that all distributions from foreign trusts be fully taxed as income rather than as, for instance, receipts of dividends or capital gains[134]. The manner in which the DTC seemed to have hoped to achieve an increase in estate duty collections was to make recommendations that would encourage individuals to hold assets in their personal names rather than in trusts thereby increasing the values of their dutiable estates. Other means of increasing tax receipts would have been in the form of CGT when dissolving a trust (where trusts have a 80.0% inclusion of capital gains as opposed to the 40.0%[135] inclusion of gains distributed to individual beneficiaries if the conduit principle still applied) or, if the assets were kept in the trust, the taxation of these assets' disposals and income generated in the trust at the flat 41% trust tax rate to compensate for the perceived estate duty loss[136].

As the DTC furthermore recommended in the First Report that taxpayers not be granted a period of reprieve in order to dissolve existing trust arrangements, the effect of these recommendations would have had, in the Committee's own words, diverse and far-reaching implications[137] (and even more so with the recent increase in the capital gains inclusion rate announced in the 2016 Budget).

Foreign trusts

The DTC's First Report made recommendations with regard to foreign trusts, in particular with regard to the taxation of distributions received from foreign trusts, to make up for the perceived estate duty loss owing to the use of such trusts. The Committee noted the deficiency in sub-para 80(2) of the Eighth Schedule with regard to the inclusion of capital gains realised in a foreign trust in the hands of a beneficiary when distributed in the same year as when it was realised in the trust. Due to the wording used in this sub-paragraph, the full range of capital gains so distributed is not brought into the tax net[138].

Rather than recommending that the wording in both sub-paragraphs 80(1) and 80(2) be amended, the Committee suggested that all distributions from foreign trusts to South African beneficiaries should be taxed, not as per the conduit principle (that is, as being

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133 Davis Tax Committee 2015:39-40
134 Davis Tax Committee 2015:45
135 These are the capital gains inclusion rates effective from 1 March 2016. At the time of the publishing of the DTC's First Report, the inclusion rate for trusts was 66.6% and that for individuals was 33.3%.
136 Davis Tax Committee 2015:44
137 Davis Tax Committee 2015:40
138 See chapter 4.6.5 of this report for a more detailed explanation.

either foreign dividends, interest, capital gains or other income) but as income regardless, in other words all distributions are to be taxed at the highest possible tax rate in every instance.

Normally, foreign trustees would assist their South African beneficiaries to prove the nature of the income from which distributions are made by keeping accounting records to this effect which is under most circumstances a straightforward process to accomplish. In the DTC's First Report, however, they seemed to be of the opinion that the nature of such income components was difficult to identify as a rule which is the reason for their recommendation of taxing all distributions of foreign trusts as income. The Committee furthermore hoped to discourage offshore trust formation with this recommendation and felt that the recommended tax amendment could be justified due to the postponement of taxes and estate duty savings for beneficiaries[139].

Amendments to existing estate duty legislation

The two main recommendations with regard to existing estate duty legislation in the DTC's First Report was firstly, to either withdraw or limit the deduction for bequests to the surviving spouse from the net estate as provided for in s 4(*q*) of the Estate Duty Act[140] and secondly, to increase the current estate duty abatement of R3.5 million to R6 million[141].

One of the results that the DTC hoped to achieve with the latter recommendation of having a higher estate threshold is to discourage most South Africans from pursuing estate duty saving mechanisms[142] like trust structures.

4.2.3 Davis Tax Committee's expected Second Report on Estate Duty and the 2016 Budget Review

In a complete about-turn by the Committee, Judge Dennis Davis (who heads up the DTC) said in a webinar held on 10 December 2015[143] that in the Second Interim Report on Estate Duty (which was due for release by the end of January 2016 but was still outstanding as at 31 March 2016, the hand-in date of this research report), the taxation of both resident and foreign trusts will be left as is. He did however add that the Second

[139] Davis Tax Committee 2015:45
[140] Davis Tax Committee 2015:51
[141] Davis Tax Committee 2015:64
[142] Davis Tax Committee 2015:65
[143] Davis 2015

Report will recommend that the wording in paragraph 80 of the Eighth Schedule be amended in order to address the deficiencies as discussed in the previous section above.

The estate duty threshold will furthermore be increased to R15 million per person (to compensate for a repeal of the s 4(*q*) spousal bequest deduction) and a progressive estate duty rate will be introduced with the rate increasing to 25% for dutiable estate values above a certain value (which value is still to be determined).

Rather than changing the taxation of trusts, which was met with wide-spread concern and criticism, Judge Davis's comments in the webinar seemed to indicate that the Committee has refocused their recommendations on estate duty legislation. Where trusts did seem to be brought back into the picture was with regard to a possible redrafting of the anti-avoidance provision in the Estate Duty Act, s 3(3)(*d*), which would deem trust assets to be dutiable property of a deceased if the deceased had a sufficiently large interest-free loan account owed to him by such trust which would have in effect resulted in the deceased having had control over such trust assets.

The exact mechanism of this new recommendation is still to be revealed, however, given the short paragraph in the 2016 Budget Review relating to the taxation of trusts[144] it seems as if any transfer of assets from a founder to a trust by means of an interest-free loan (or perhaps by means of any loan, the wording is unclear in this regard) would result in all such trust assets to be included in the estate of the founder at his or her death. If this latest recommendation is taken at face-value it could likewise have far-reaching implications to all founders (and other funders) of trusts but depending on how the legislative changes are to be worded, it may also be possible to easily circumvent such legislation by merely levying interest at, for instance, the official rate[145] on such outstanding loans.

4.2.4 Conclusion

The Davis Tax Committee went through a similar consideration exercise as was done by the Margo and Katz Commissions to arrive at the conclusion that estate duty and donations tax remain the preferred types of wealth taxes for the South African context and that, despite certain shortcomings, an alternative form of wealth tax would be both difficult to implement and unlikely to yield significantly more tax revenue than the existing taxes[146].

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[144] Department of National Treasury 2016a:49
[145] As defined in para 1 of the Seventh Schedule to the Income Tax Act
[146] Davis Tax Committee 2015:33

In order to increase estate duty tax collections which the Committee feels are low due to several estate planning mechanisms being used, they initially made certain far-reaching recommendations in their First Report to discourage the use of both local and foreign trust structures.

On reconsideration, the approach followed in the Committee's Second Report to increase estate duty collections was not to change trust legislation but to reintroduce a progressive estate duty rate and increase the dutiable threshold significantly in order to reduce the need for the creation of trusts purely for estate duty saving purposes.

Trust assets may still be included as deemed property of a deceased and therefore dutiable if either a sufficiently large interest-free loan account, which was due to the deceased from a trust, existed at their death[147] or if any assets were transferred to the trust and paid for by means of an interest-free (or other) loan that is due the founder, regardless of the size of such a loan[148]. Much clarity is still required with regard to the proposed adjustments to the anti-avoidance clause of the Estate Duty Act and such adjustments may well still have diverse and far-reaching implications for founders with current trust structures which include loan accounts due to the founder (or to other funders of the trust).

4.3 Benchmarks for estate duty as percentage of total tax collections, for estate duty rates and for a combined effective tax rate on death

In order to assess the effectiveness of estate duty to collect tax revenue and its ability to support a more equitable and progressive tax system, the DTC compared the South African estate duty collections as percentage of total revenue collected[149] and the estate duty rate[150] to international benchmarks. The effective tax rate on death (of CGT and estate duty combined) was also analysed and certain conclusions were reached[151]. A consideration of these benchmarks will be useful as a comparison to the overall taxes to be levied as a result of the DTC's recommendations with regard to wealth taxes in the proposed case studies and as such are discussed below.

[147] Per the explanation provided by Judge Davis in the abovementioned webinar (Davis 2015).
[148] Per the interpretation of the paragraph on the taxation of trusts contained in the 2016 Budget Review (Department of National Treasury 2016a:49).
[149] Davis Tax Committee 2015:30
[150] Davis Tax Committee 2015:65,69-73
[151] Davis Tax Committee 2015:56-58

4.3.1 Estate duty collections benchmarks

National Treasury estimates for the 2014/15 Budget indicated that estate duty collections were expected to amount to R1,237 billion[152] compared to the revised 2014/15 Budget total estimated revenue collections of R979 billion[153]. These estimates would have brought estate duty collections as a percentage of total revenue collections to about 0.13%[154] in the 2014/15 tax year.

The actual estate duty collections per the published 2014/15 Tax Statistics were R1,489 billion[155] compared to the total revenue collected of R986 billion[156]. The actual estate duty collections as a percentage of total revenue collections therefore came to about 0.15%[157] in the 2014/15 tax year which is slightly higher than the estimate.

The question remains as to what would be an acceptable South African benchmark for both a targeted tax contribution percentage for estate duty and for a combined effective tax rate on death. The targeted tax contribution for estate duty of 1% to 1.5% of total tax collections cited in the First Report[158] is a suggestion made by the Katz Commission in their Third Interim Report[159] but was done in the context of that Commission's then newly proposed capital transfer tax which was to replace both estate duty and donations tax. This was also before the advent of capital gains tax in South Africa (instituted from 1 October 2001). The Committee compared the 0.1% contribution made by estate duty to overall South African tax collections to that of nine countries having similar wealth taxes[160]. These nine countries' wealth tax contributions range from 0.4% to 1.5% of their respective total tax collections and the First Report concluded that 'These figures suggest that South Africa is significantly underperforming in terms of revenue collections on the estate duty and donations tax and that there is scope to increase performance in this regard'[161]. The countries with which South Africa is compared in the First Report are, however, all developed countries which begs the question as to whether these benchmarks are appropriate for comparison to South Africa, being a developing country.

Given the recent increase in the capital gains inclusion rate which would disproportionately affect the wealthy who owns a greater amount of capital assets,

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152 Davis Tax Committee 2015:30
153 Department of National Treasury 2015:xviii
154 Calculated as 1.237 / 979 x 100.
155 Department of National Treasury & SARS 2015:22
156 Department of National Treasury & SARS 2015:viii
157 Calculated as 1.489 / 986 x 100.
158 Davis Tax Committee 2015:30
159 Katz Commission 1994: para 7.2.2
160 Davis Tax Committee 2015:29-30
161 Davis Tax Committee 2015:30

together with the initial recommendations by the DTC in their First Report which amounted to a type of income tax penalty for assets held in trusts in order to penalise taxpayers for the supposed loss in estate duty as a result of having such assets transferred to a trust, it seems as if the fiscus is agnostic in terms of the source of increased tax revenue. This therefore raises the question whether estate duty as a percentage of total revenue collected remains a useful benchmark to consider for comparative purposes. Given further the increased estate duty abatement of R15 million currently being considered, this benchmark seems to have become even less relevant.

If, however, the proposed changes to the taxation of trusts, as briefly described in the 2016 Budget Review, is successfully implemented, then all assets of a trust could be included in the estate of the deceased trust founder at their present market values if any loan account was due by the trust to the founder. Currently only the trust loan account value due to the founder would form part of his or her estate on death which would represent the market value of the assets when these were first sold to the trust, typically a much lower amount, less any distributions or annual donations made over the years. The implementation of such a recommendation may well increase the amount of estate duty collected as a percentage of total revenue collections due to the fact that several trusts' assets may now also be taken into consideration as deemed property for estate duty purposes.

4.3.2 Estate duty rate benchmarks

The DTC cited declining estate duty collections, in real terms over the past 20 years[162], and the small percentage that estate duty represents of total tax collections in South Africa (an estimated 0.13% of total tax collections[163]) as reasons for the recommendations of the implementation of modifications to the estate duty system and their original recommendations regarding changes to the taxation of trusts in order to effect an increase in estate duty collections and to compensate for the perceived losses in estate duty collections due to estate planning.

It should be noted that the graph of estate duty collections from 1985 to 2013 presented in the First Report[164] which is sourced from Piketty (2014) shows a marked decrease from the 1985/86 real revenue figure (around R1,450 billion) to the 1989/90 real revenue figure

[162] Davis Tax Committee 2015:27-28 citing National Treasury as source for this statement as well as a graph of estate duty collections from 1985 to 2013 from Piketty (2014).
[163] Based on National Treasury estimates for the 2014/15 Budget, estate duty collections are expected to amount to R1,237 billion (Davis Tax Committee 2015:30) compared to the revised 2014/15 Budget total estimated revenue collections of R979 billion (Department of National Treasury 2015:xviii).
[164] Davis Tax Committee 2015:28

(around R450 million) indicating the change from a progressive estate duty rate to a flat rate in 1987/88 as reason. When examining the graph presented in the First Report, the real estate duty revenues have, however, increased steadily after that year until the 2012/13 year (to around R1 billion in nominal and real revenues). The graph does not include the figure for the 2013/14 tax year which amounted to R1,102 billion[165] or the figure for the 2014/15 tax year which amounted to R1,489 billion per the latest tax statistics[166].

The proposed new recommendation to be included in the Second Report with regard to the reintroduction of a progressive estate duty rate[167] may therefore well assist in achieving a significant increase in overall estate duty collections if the introduction of a flat rate in 1987/88, as seen in Piketty's graph, is any indication of the possible effect.

Both the Katz and Margo Commissions considered the merits of implementing progressive estate duty rates[168]. The Katz Commission stated in their Fourth Interim Report on Capital Transfer Tax that although it would be less burdensome from an administrative point of view to institute a progressive rate for estate duty only than to do so for donations tax as well, the difficult question that arises is whether *inter vivos* donations should be added back for purposes of estate duty computation[169]. This is due to the fact that a progressive estate duty rate would bring the rate at which donations are taxed (which is currently the same as that of estate duty at a flat 20%) out of alignment with that of estate duty which could give rise to avoidance strategies. The Katz Commission concluded however that the adding back of donations 'would be a complex requirement giving rise to difficulties of enforcement and implementation' and that they were therefore opposed to such a regime[170].

The flat rate system with a uniform rate for both estate duty and donations tax was therefore preferred by the Katz Commission. The DTC noted in their First Report that although progressive tax rates are commonly applied internationally[171] (a fact also noted by the Katz Commission[172]) complexities do arise particularly insofar as alignment between donations tax and estate duty is concerned[173]. The DTC therefore concluded that

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[165] Department of National Treasury & SARS 2014:22
[166] Department of National Treasury & SARS 2015:22
[167] Estate duty rate to increase to 25% for dutiable estates above a certain value still to be determined (Davis 2015).
[168] Davis Tax Committee 2015:64
[169] Katz Commission 1997: para 6.4
[170] Katz Commission 1997: para 6.4
[171] Davis Tax Committee 2015:66
[172] Katz Commission 1997: para 6.5
[173] Davis Tax Committee 2015:66

'increased revenue collections should be achieved through targeted amendments to curb estate planning rather than through change of rates' but that the higher estate duty threshold recommended in this report (from R3.5 million to R6 million) will achieve more in discouraging most South Africans from pursuing estate duty saving mechanisms[174].

With regard to the question as to how progressive estate duty rates should be constructed and what rates to use, both the DTC and the Katz Commission noted that even though industrialised countries tend to have progressive rates for estate duty, such rates vary dramatically internationally with very little consistency in rates while certain countries (like Canada, Australia and New Zealand) have no form of estate or gift taxes (although CGT may be triggered on death as in, for instance, Canada)[175]. It was also noted that high progressive tax rates tend to result in an extensive avoidance industry which represents a 'wasteful utilisation of resources'[176].

Given this conclusion by the DTC in their First Report, it would be interesting to see how the complexities with regard to aligning a progressive estate duty rate with donations tax will be dealt with in their Second Report given the announcement by Judge Dennis Davis that the portion of dutiable estates above a certain level (still to be determined) will attract estate duty at 25%[177]. The higher suggested estate duty threshold of R15 million[178] per estate to be recommended by the Second Report is hoped to further aid in discouraging most South Africans from pursuing estate duty saving mechanisms.

4.3.3 Combined effective tax rate on death (CGT and estate duty)

The DTC's First Report also included an analysis of an effective tax rate on death (that is, a combination of CGT and estate duty) which was recently conducted by National Treasury[179]. In this regard it was mentioned that the Katz Commission's Fourth Interim Report on Capital Transfer Tax cited a 1974 journal article[180] which supported their view of having a relatively low flat rate of estate duty because 'International experience supports the contention that where capital taxes materially exceed 15%, extensive planning results in significant avoidance and evasion, which reduces the effective yield.'[181]. The DTC's First Report concluded, however, that the recommendations

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[174] Davis Tax Committee 2015:65
[175] Davis Tax Committee 2015:65,70; Katz Commission 1997: para 6.5
[176] Katz Commission 1997: para 6.6(b)
[177] Davis 2015
[178] Davis 2015
[179] Davis Tax Committee 2015:56-58
[180] Whalley 1974:638
[181] Katz Commission 1997: para 6.6(a)

regarding an acceptable combined effective tax rate made by the Katz Commission's 1997 report would have to be reconsidered as 18 years have passed since that report was issued[182]. It is unclear, however, whether the DTC feels whether such an acceptable combined effective tax rate is likely to be above or below the 15% threshold.

The First Report did seem to use this 15% threshold mentioned by the Katz Commission as a reasonable benchmark in another part of the report[183] where the progressive quality of the effective rate of estate duty using the increased abatement proposed in the First Report (of R6 million per taxpayer) was demonstrated[184]. In this regard the DTC demonstrated that the effective estate duty rate does not exceed 15% unless the estate exceeds R20 million in the case of single taxpayers (assuming that the s 4(*q*) deduction for inter-spousal bequests is to be repealed)[185].

If the same logic is applied to the increased estate duty abatement of R15 million per taxpayer to be recommended by the DTC's Second Report[186] the effective estate duty rate will not exceed 15% unless the estate value exceeds R60 million[187]unless the estate value at which the new progressive estate duty rate of 25% will be levied kicks in at an estate value that is less than R60 million (in which case the 15% threshold will be exceeded at a lower estate value).

4.3.4 Considering the effect of CGT payable on death

Since CGT is also collected on death (after taking into account the R300,000 capital gain exclusion in the year of death[188]), even though calculated only on the amount representing the capital growth of the estate assets, the collections for this tax may also need to be taken into account for the purpose of determining the total collection of taxes on death.

Per the 2014 Tax Statistics published by the Department of National Treasury and the South African Revenue Service (SARS) the total revenue collected for the 2013/14 tax year amounted to just over R900 billion[189] whereas the total CGT collected from individuals in that tax year amounted to just under R7 billion[190]. Total CGT collections from individuals therefore amounted to about 0.78% of total revenue collections in the

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182 Davis Tax Committee 2015:58
183 Davis Tax Committee 2015:67
184 Davis Tax Committee 2015:66 – Table 7
185 Davis Tax Committee 2015:67
186 Davis 2015
187 Calculated as R60 million less R15 million abatement = R45 million dutiable estate x 20% = R 9 million estate duty payable which represents an effective estate duty rate of 9 / 60 = 15%
188 Per para 5(2) of the Eighth Schedule to the Income Tax Act
189 Department of National Treasury & SARS 2014:5
190 Department of National Treasury & SARS 2014:224

2013/14 tax year[191]. Estate duty collections in the same year amounted to R1,102 billion[192] which equals 0.12% of total revenue[193]. Donations tax came to R113 million[194] which only accounts for 0.013% of revenue collected in the 2013/14 tax year[195].

The 2015 Tax Statistics shows total revenue collected for the 2014/15 tax year as R986 billion[196] whereas total CGT collected from individuals decreased to R5,5 billion. Total CGT collections from individuals were therefore only 0.56% of total revenue collections in the 2014/15 tax year[197]. Estate duty collections amounted to R1,489 billion[198] which equals 0.15% of total revenue[199], an increase from the previous year. Donations tax was R167 million[200] which accounts for only 0.017% of revenue collected in the 2014/15 tax year[201].

The numbers given above for total CGT collected from individuals include both normal disposals as well as disposals on death as no separate breakdown for CGT collected on death is currently provided in the latest Tax Statistics documents issued by the Department of National Treasury and SARS[202].

It would therefore be useful to be able to arrive at a reasonable estimate of total CGT collected from individuals in the event of death in order to determine whether the contention raised by, for instance, Roeleveld[203], that CGT payable on death results in a type of double taxation, is justified. It is widely acknowledged that CGT is not seen as a tax on the transfer of the market value of the wealth (that is, a wealth tax) but rather as a tax on the appreciation of wealth from date of purchase to date of sale[204] (that is, an income tax on capital income[205]). It could be argued, however, that there are many instances where the base cost of an asset is nil or very low compared to the market value on death and that CGT and estate duty are therefore levied on essentially the same value[206]. There is also recognition by the Committee of this fact and the First Report

[191] Calculated as 7 / 900 x 100.
[192] Department of National Treasury & SARS 2014:22
[193] Calculated as 1.102 / 900 x 100.
[194] Department of National Treasury & SARS 2014:22
[195] Calculated as 0.113 / 900 x 100.
[196] Department of National Treasury & SARS 2015:viii
[197] Calculated as 5.5 / 986 x 100.
[198] Department of National Treasury & SARS 2015:22
[199] Calculated as 1.489 / 986 x 100.
[200] Department of National Treasury & SARS 2015:22
[201] Calculated as 0.167 / 986 x 100.
[202] Department of National Treasury & SARS 2014:224; Department of National Treasury & SARS 2015:228
[203] Roeleveld 2012:161
[204] Roeleveld 2012:145
[205] Davis Tax Committee 2015:56
[206] Roeleveld 2015:145

includes an analysis of the combined effective rate of taxation on death which was recently conducted by National Treasury[207]. The analysis states that the majority of assets in most deceased estates are excluded from CGT due to specific exclusions and rollovers and the percentage of the total value of an estate subject to CGT would therefore be low with a worst-case scenario considered, that is a maximum, of only 50% of an estate being subject to CGT[208].

CGT collected from individuals still contributes far more to total revenue than estate duty[209] therefore CGT paid during the lifetime of taxpayers still makes up a large amount of revenue compared to estate duty collections on death. It may therefore be argued that even though CGT is not strictly a wealth transfer tax it does assist in the taxation of the transfer of assets into, for instance, trusts and also in the taxation of the distribution of capital assets out of a trust to beneficiaries. Neither of these events would have had any tax consequences prior to the implementation of CGT on 1 October 2001 which was part of the reasons that both the Margo and Katz Commissions considered the implementation of a capital transfer tax in their respective recommendations[210].

In the light of the newly increased capital gains inclusion rates announced in the 2016 Budget Review for individuals, companies and trusts[211], the contribution of CGT collected from individuals is set to increase even further. Based on the assumptions contained in chapter 4.1.5, CGT collected from individuals is likely to increase to about R7,6 billion[212] as a result. Given the current total revenue estimates by National Treasury for the 2016 tax year of R1 070 billion[213] this will amount to about 0.71% of total revenue collected[214].

Either way, it could be concluded that CGT collections on death be considered for inclusion in the estate duty collections number to determine whether the total contribution of death taxes in South Africa compare favourably with international benchmarks or not and also to determine whether a form of double taxation occurs on death as a result of both CGT and estate duty being levied. This is also deemed reasonable in the light of the argument put forward by FISA based on the European Union wealth taxes report quoted

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[207] Davis Tax Committee 2015:56-58
[208] Davis Tax Committee 2015:57
[209] Per the numbers given above, CGT collected from individuals in the 2013/14 tax year amounted to more than 6 times that of estate duty (calculated as 7 / 1.102 = 6.35 times).
[210] Roeleveld 2015:145
[211] Department of National Treasury 2016a:50
[212] Calculated as the latest CGT raised from individuals of R5,5 billion (Department of National Treasury & SARS 2015:228) x 1.384 (as calculated in chapter 4.1.5) = R7,6 billion.
[213] Department of National Treasury 2016b:xx
[214] Calculated as 7.6 / 1070 x 100.

by the DTC in their First Report which classifies wealth taxes as taxes due on the transfer of assets regardless of whether income is realised[215].

In this regard an estimated figure of total CGT collected on death will be determined based on certain high-level assumptions in chapter 6.1.

4.3.5 Conclusion

From an analysis of the estate duty and wealth tax benchmarks discussed in the DTC's First Report it seems that the 1974 finding by Whalley[216], cited by the Katz Commission's Fourth Interim Report on Capital Transfer Tax of 1997[217], that capital taxes should not materially exceed 15% in order to avoid significant avoidance and evasion and resultant reduced effective tax yield, is still considered to be a relevant benchmark.

Given the newly proposed taxation of trusts alluded to in the 2016 Budget Review which may result in trust assets being included as deemed property for estate duty purposes together with the increased capital gains inclusion rate and the possibility of a progressive estate duty rate being introduced, it remains to be seen if the overall taxation on assets on death will tend to materially exceed this generally accepted benchmark or whether it will remain within reason.

4.4 Relevant aspects of South African estate duty legislation

This section will highlight the salient aspects of current and proposed estate duty legislation in South Africa as it relates to this research report.

4.4.1 Current estate duty legislation

Estate duty is currently calculated on the dutiable value of a deceased's person's estate at a rate of 20%[218]. The dutiable estate is the net estate less an abatement which is currently an amount of R3,5 million[219]. The net estate is calculated as the market value of all property and deemed property[220] less deductions allowed[221].

[215] Davis Tax Committee 2015:56; FISA 2015:11-12; Ernst & Young 2014:11
[216] Whalley 1974:638
[217] Katz Commission 1997: para 6.6(a)
[218] First Schedule to the Estate Duty Act No. 45 of 1955
[219] Section 4A of the Estate Duty Act
[220] Section 3 of the Estate Duty Act
[221] Section 4 of the Estate Duty Act

Deemed property of an estate specifically includes any amounts or assets donated in terms of a *donatio mortis causa* which was exempt from donations tax in terms of s 56(1)(*c*)[222]. Therefore a loan account or assets donated in terms of a *donatio mortis causa* would be included in the deceased's net estate and may be dutiable[223].

Any other property that was not included in the property or deemed property of a deceased estate (such as, for instance, property held in a trust) but which the deceased was immediately prior to his or her death competent to dispose of for his or her own benefit or for that of his or her estate, would under the anti-avoidance provision of s 3(3)(*d*) of the Estate Duty Act also be treated as deemed property of the estate and therefore potentially dutiable.

Any bequests to the surviving spouse would be treated as a deduction from the net estate per section 4(*q*) of the Estate Duty Act.

Prior to the commencement of capital gains tax on 1 October 2001, estate duty was levied at 25%. The reduction to 20% coincided with the implementation of CGT to compensate for the double tax exposure created when both CGT (initially established at a 25% inclusion rate for individuals) and estate duty are levied on a deceased estate[224].

If the full R3,5 million abatement was not utilised on the death of the first-dying spouse, the unutilised portion is portable to the estate of the surviving spouse[225]. If the first-dying spouse's net estate value was Rnil (due to, for instance bequeathing all assets to the surviving spouse and thereby receiving the s 4(*q*) deduction) then the last-dying spouse will have a total abatement of R7 million available to be deducted from their net estate.

4.4.2 *Proposed estate duty legislation changes*

In the DTC's First Report, the most prominent changes recommended were firstly an increase in the s 4A abatement from R3,5 million to R6 million[226] and secondly the proposed repeal or limitation of exempt inter-spousal bequests per s 4(*q*)[227].

[222] Section 3(3)(*b*) of the Estate Duty Act
[223] The DTC report made a comment on p. 53 (Davis Tax Committee 2015) as if their understanding of the treatment of an asset donated in terms of a *donatio mortis causa* agreement was that such asset would fall outside the property or deemed property of a deceased estate, which is clearly incorrect.
[224] Davis Tax Committee 2015:57-58
[225] Section 4A(2) and (3) of the Estate Duty Act
[226] Davis Tax Committee 2015:64
[227] Davis Tax Committee 2015:51

In the First Report, it was recommended for the estate duty rate to remain at 20%[228].

Based on comments by Judge Dennis Davis, the recommendations likely to appear in the Second Report still to be released will be a larger increase in the s 4A abatement to R15 million per estate and the introduction of a progressive estate duty rate[229]. The estate duty rate will be 20% up to a certain dutiable estate value (not yet disclosed) after which it will be increased to 25%[230].

The 2016 Budget Review seemed to suggest changes to be made to s 3(3)(*d*) of the Estate Duty Act (the anti-avoidance provision) in order for trust assets to be considered as deemed property in the estate of the trust founder at his or her death if the founder funded the trust by means of a loan account due by the trust to the founder[231].

4.4.3 Conclusion

This chapter briefly discussed the salient aspects of current and proposed estate duty legislation in South Africa as it relates to this research report in order to outline the basics with regard to estate duty calculations which will be compared in the case studies.

4.5 Relevant aspects of South African trust law

This section will provide a brief summary of the relevant aspects of South African trust law as it relates to this research report. This section does no purport to cover every aspect of trust law matters but merely seeks to provide context for the case study scenarios to be created as well as for the commentaries from professional bodies on the DTC's First Report's recommendations with regard to trusts.

4.5.1 Sources of South African trust law

South African trust law has developed over the course of more than two centuries and can be said to be a hybrid between English trust law (or common law) and Roman-Dutch law concepts (or civil law concepts)[232,233] or differently put, it is the incorporation into South

[228] Davis Tax Committee 2015:64
[229] Davis 2015
[230] Davis 2015
[231] Department of National Treasury 2016a:49
[232] Pace & Van der Westhuizen 2014:para B2
[233] Cameron *et al.* 2002:23

African law of the English trust as an institution as explained with reference to Roman-Dutch law without incorporating the English law of trust itself[234].

The Trust Property Control Act[235], which came into force on 31 March 1989, replacing the Trust Moneys Protection Act of 1934[236], furthermore regulates the registration and administration of South African trusts[237] (as opposed to the formation of a valid trust which is determined according to common law principles[238]). This Act also provides clarity regarding the separate position of trust property from that of a trustee's own estate[239] (except in so far as the trustee is entitled thereto as a trust beneficiary), stipulates certain statutory fiduciary duties of trustees[240] and contains other definitions and stipulations regarding South African trusts. The Trust Property Control Act is, however, not a codification of trust law but merely addresses certain specific issues[241] and is only applicable to trusts reduced to writing[242]. The main source of South African trust law remains embodied in common law principles established by the Courts over time[243].

4.5.2 Classification of South African trusts

Cameron *et al.* describes a trust as 'a legal institution in which a person, the trustee, subject to public supervision, holds or administers property separately from his or her own, for the benefit of another person or persons or for the furtherance of a charitable or other purpose'[244].

Trusts can be classified along several lines:

- **Time from when trust will take effect / manner of creation of trust:**
    - A trust that only takes effect after the death of the founder is known as a *mortis causa* trust[245].
        - A *mortis causa* trust that is created by means of the will of a deceased person is also known as a testamentary trust, which means that after such trust comes into existence in the event of the

[234] Honiball & Olivier 2009:2
[235] Act 57 of 1988
[236] Pace & Van der Westhuizen 2014:para B2 & para B4.1
[237] Honiball & Oliver 2009:10
[238] Honiball & Oliver 2009:7-9
[239] Section 10 and 12 of the Trust Property Control Act
[240] Section 9 of the Trust Property Control Act
[241] Honiball & Olivier 2009:14
[242] Honiball & Olivier 2009:10
[243] Honiball & Oliver 2009:10
[244] Cameron *et al.* 2002:1
[245] Honiball & Olivier 2009:4

death of the testator, it becomes one of the heirs of all or of a portion of the deceased founder's assets[246].

        - A *mortis causa* trust can also be created in contemplation of the founder's death and will then be created by contract during his or her lifetime but will only take effect in the event of their death. A *donatio mortis causa* or donation in contemplation of death is made by the testator or founder of this trust of his or her assets to the trustees and the same requirements as that for making a valid will should apply to such a donation agreement for such a trust to be valid[247].
    - A trust that takes effect from the time of its creation for a period which will be both during and most often also after the lifetime of the founder, is known as an *inter vivos* trust[248,249].
        - An *inter vivos* trust is created by contract. Assets are transferred to an *inter vivos* trust during the founder's lifetime and further assets may be bequeathed to such a trust at the time of the founder's death without affecting its definition as an *inter vivos* trust[250].
- **Ownership of and control over trust property:** In s 1 of the Trust Property Control Act, the two broad types of trusts are defined as follows:
    - Firstly, trusts where the ownership and control of the trust property vests in the trustees (para (*a*) of the definition of 'trust' and also known as the narrow definition of a trust); and
    - Secondly, where the ownership of the trust property vests in the beneficiaries but is controlled by the trustees (para (*b*) of the definition of 'trust' and also known as a *bewind* trust or the wide definition of a trust)[251].

The narrow or strict definition of a trust per the para (*a*) definition originated from English trust law whereas the *bewind* trust originated from the Roman-Dutch law concept of administration[252,253].

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[246] Pace & Van der Westhuizen 2014:para B3
[247] Pace & Van der Westhuizen 2014:para B3
[248] Pace & Van der Westhuizen 2014:para B3
[249] Honiball & Olivier 2009:4
[250] Pace & Van der Westhuizen 2014:para B3; De Koker & Williams 2015:para 12.19
[251] Pace & Van der Westhuizen 2014:para B4.1
[252] Cameron *et al.* 2002:6-7
[253] Pace & Van der Westhuizen 2014:para B3

- **Nature of rights of beneficiaries to income and/or capital of the trust:** The vesting of either income or capital from a trust in a beneficiary will have income tax consequences for beneficiaries and a distinction can be drawn in the manner in which beneficiaries acquire such vested rights as follows:
    - <u>Vested trust:</u> Even if ownership of the trust assets vests in the trustees (that is, a para (*a*) trust per the Trust Property Control Act definition of 'trust' discussed in the previous point), the beneficiaries may still have vested rights to the income or capital of the trust if the trustees have no discretion as to whether to distribute income or capital to them. Such a trust will then also be classified as a vested trust. This is distinct from the *bewind* trust discussed in the previous point (where ownership of the trust assets vests in the beneficiaries from the start).

      If a beneficiary with vested income rights passes away before the income accrues to him or her, his or her deceased estate will acquire the right to such income. Beneficiaries with vested capital rights will have certainty that the trust assets will be distributed to them once the trust comes to an end.[254] Even if the trust is regarded as a vested trust, it does not necessarily mean that beneficiaries are immediately entitled to trust income or capital, that is, having a vested right does not mean that actual cash or assets will be distributed to beneficiaries as the vested income may be capitalised by the trustees only to be enjoyed by beneficiaries at some point in the future[255].

      A vested trust may have different income tax consequences for the beneficiaries than that of a discretionary trust in so far as the timing of any tax liability is concerned. Being a beneficiary of a vested trust will also have an estate duty consequence as any vested assets will be included in his or her estate on death, which will not be the case for a beneficiary of a discretionary trust (if no assets or income have been distributed by the trustees to such beneficiaries).

      A vested trust may be created inadvertently by using inappropriate wording in the trust deed which may not match the intention of the founder.
    - <u>Discretionary trust:</u> If the timing and amount of trust income or capital distributed to beneficiaries is within the sole discretion of the trustees

[254] Honiball & Olivier 2009:5
[255] Honiball & Olivier 2009:6

(apart from the fact that beneficiaries may have been classified as either income or capital beneficiaries by the trust deed) such a trust will be classified as a discretionary trust. A discretionary right held by such beneficiaries means that they have no right to ownership of the trust property but it does not mean that they have no right whatsoever to income or capital either[256]. They do, however, only have a mere hope or a *spes* to such income or capital[257] and as such their rights are of a personal nature[258].

Income tax consequences will only arise for discretionary beneficiaries when the trustees vest income or capital in them by exercising the discretion conferred on the trustees by the trust deed to do so[259].

If any loan account is due to a beneficiary by the trust at the time of death of the beneficiary, such loan account amount will be included in the estate of the beneficiary for estate duty calculation purposes.

- **Object of trust:**
    - A personal trust is a trust where the object of a trust is the benefit of a defined individual or group of individuals as in the case of typical family trusts with named beneficiaries and the possible inclusion of their descendants as future beneficiaries[260].
    - An impersonal trust is a trust where the object of the trust is the benefit of beneficiaries that are not predefined individuals but could be individuals belonging to a specific community or a group of individuals with specific needs as in the case of charitable trusts[261].
- **Tax classification of trust:** The next sub-section will discuss the taxation of trusts in greater detail but the different tax classifications could also be used to distinguish different types of trusts from each other:
    - A trust that does not fall within any of the special trust definitions below – this is the default classification of any trust.
    - A special trust is defined in s 1 of the Income Tax Act and applies, broadly speaking, to any one of the following situations:

[256] Honiball & Olivier 2009:6-7
[257] Honiball & Olivier 2009:6
[258] Honiball & Olivier 2009:23
[259] Honiball & Olivier 2009:4; De Koker & Williams 2015:para 12.19
[260] Pace & Van der Westhuizen 2014:para B3
[261] Pace & Van der Westhuizen 2014:para B3; De Koker & Williams 2015:para 12.19

        - Para (*a*) special trust: A trust solely for the benefit of a disabled person(s) as defined while such person(s) is/are still alive – this trust may be in the form of a testamentary or an *inter vivos* trust.
        - Para (*b*) special trust: A testamentary trust only that is for the benefit of living relatives of the deceased where at least one such beneficiary is a minor (that is, where the youngest relative is under the age of 18 years) – this definition therefore does not apply to *inter vivos* trusts with minors as beneficiaries.
    - Note that a special trust may cease to be so defined if either the last disabled beneficiary in the case of a para (*a*) special trust dies or the youngest beneficiary in a para (*b*) special trust turns 18 years of age. The special tax dispensation available to such trusts (see discussion below) will therefore cease at that time and the taxable income of these trusts will then be taxed at 41%[262] like any ordinary trust.
- **Purpose of trust:**
    - A trust where the main or substantial aim of the trust is to conduct a business is known as a trading or business trust but such trusts are treated in all respects the same as ordinary trusts, including the regulation and taxation thereof[263] (in some countries trading trusts may be classified and taxed as companies[264]).

      Examples of so-called private trading trusts are where agricultural land is transferred to a trust in order to avoid the prohibition on the subdivision of agricultural land into uneconomic units[265], also investment trusts or, more specifically, property-holding trusts (that is, where immovable property is held in trust)[266] among others.

4.5.3 Validity of trusts vs. trust abuse and the relevant tax consequences

One of the essentials of a valid trust is that the trust property be defined with sufficient certainty. If this is not the case, the trust will be rendered invalid[267]. An *inter vivos* trust is typically created by the making of a small donation by the founder to the trustees[268] (for

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[262] The tax rate for taxable income in trusts for the 2015/2016 year of assessment is 41% (Rates and Monetary Amounts and Amendment of Revenue Laws Act 2015).
[263] Honiball & Olivier 2009:304
[264] Honiball & Olivier 2009:305
[265] That is, without ministerial consent as per the Subdivision of Agricultural Land Act No 70 of 1970.
[266] Honiball & Olivier 2009:306-7
[267] Pace & Van der Westhuizen 2014:para B8.3
[268] Pace & Van der Westhuizen 2014:para B9.2.2

instance, of R100). The founder must furthermore be actually divested or bound to divest him- or herself of at least a part of the legal proprietary power over the trust property[269] for a valid trust to be formed[270] and have the intention to form a trust as such (as opposed to, for instance, forming a partnership or other legal entity)[271,272].

There are several other essentials for a valid trust to be formed (for instance, the trust object must be lawful) but even if a valid trust has been formed, certain abuses of the trust and trust assets may still cause the Court to look behind the trust veil without the trust itself being rendered a sham or invalid trust[273,274].

Such abuses may include treating the trust as a so-called alter ego trust where the founder or other parties who have transferred assets from their personal estates to the trust retain control over these assets either through any provisions in the trust deed (for instance, through controls over trustees and positive veto rights over decisions made by trustees which will constitute *de jure* control) or, more definitively, through conduct (that is, not treating the trust assets as separate to their own estates which will constitute *de facto* control)[275,276,277]. Any control retained and exercised over trust assets by the founder in his or her capacity as co-trustee must be done in a manner that is in the best interests of all the beneficiaries and not only in the founder's own best interests[278].

If it can be shown that a founder retained control over trust assets then such assets may be deemed to form part of the founder's estate for purposes of, for instance, determining the amounts due in divorce orders or in disputes with creditors or insolvency cases as was seen, for instance, in the court cases of *Jordaan v Jordaan*[279], *Land and Agricultural Bank of South Africa v Parker*[280] and *First Rand Limited trading, inter alia, as First National Bank v Britz and others*[281].

If a founder retained control over trust assets as if these were his or her own there could also be estate duty consequences on the death of the founder. Per s 3(3)(*d*) of the Estate

[269] Cameron *et al.* 2002:6
[270] Honiball & Olivier 2009:248
[271] Pace & Van der Westhuizen 2014:para B8.1
[272] *Khabola NO v Ralitabo NO* unreported OFSPD case no. 5512/2010
[273] Van der Westhuizen 2015:142
[274] *Van Zyl NNO & another v Kaye NO* 2014 (4) SA 452 WCC at para 16; confirmed in *WT and others v KT* [2015] JOL 32977 (SCA) at para 31 footnote 5
[275] Honiball & Olivier 2009:249-251
[276] Van der Westhuizen 2015:153
[277] See also *Badenhorst v Badenhorst* 2006 (2) SA 255 (SCA) at para 9
[278] Honiball & Olivier 2009:248-9
[279] 2001 (3) SA 288 (C)
[280] 2005 (2) SA 77 (SCA) at para 37.3
[281] [2013] JOL 29875 (GNP)

Duty Act[282], if it can be shown that the deceased was, immediately prior to his or her death competent to dispose of the trust assets for his or her own benefit or for the benefit of his or her estate then such property will be deemed to be property of the deceased for estate duty purposes. Section 3(5)(*a*) states that, for purposes of s 3(3)(*d*), the word 'property' includes the profits of any property and in s 3(5)(*b*) the phrase 'competent to dispose of property' is determined to mean that the deceased either had the power to appropriate or dispose of such property as he or she saw fit by any manner (in the case where he or she was *sui juris*)[283] or if, under any deed of donation, settlement, trust or other disposition made by him or her, the power to revoke or vary the provisions of such deed relating to such property was retained by him or her[284].

If s 3(3)(*d*) can be shown to apply, such trust property could attract 20% estate duty on the market value of such assets (depending on whether the inclusion of the trust assets causes the net estate of the deceased to exceed the estate duty abatement amount of R3,5 million)[285].

It should be noted that any remaining loan account amounts held by the founder which is still owed to him or her by the trust at the time of the founder's death would be an asset in the founder's estate which would attract estate duty at 20%. Even if such a loan account is donated back to the trust in the event of the founder's death by means of a *donatio mortis causa* (which would be exempt from donations tax per s 56(1)(*c*) of the Income Tax Act) such loan account would still be deemed property included in the founder's estate for estate duty purposes per s 3(3)(*b*) of the Estate Duty Act as a result of this donations tax exemption.

4.5.4 Legal nature of trusts

According to a decision made in *CIR v Friedman NO*[286] a trust possesses no legal or juristic personality in South African law[287]. A trust would therefore not have been considered to be a taxable entity were it not for the amendment to the definition of

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[282] No 45 of 1955
[283] Section 3(5)(*b*)(i) of the Estate Duty Act
[284] Section 3(5)(*b*)(ii) of the Estate Duty Act
[285] Per current estate duty legislation as discussed in the previous chapter
[286] 1993 (1) SA 353 (A)
[287] Cameron *et al.* 2002:68

‘person’ in s 1 of the Income Tax Act[288] in response to the above decision[289]. The definition of ‘person’ now specifically includes ‘any trust’ in para (*c*) of that definition.

It can therefore be said that in South African law a trust does not have juristic personality except if given such status by statute[290].

In *CIR v Macneillie’s Estate*[291] it was held that a trust is also not a taxable entity for estate duty purposes in the case where the ownership of the trust assets is conferred on the trustees (that is, in the case of a discretionary trust but not a *bewind* trust)[292]. A trust is also defined as a ‘juristic person’ in several other acts, including the Companies Act[293,294].

It was also noted in both Cameron *et al.* (2002:72) and in Pace & Van der Westhuizen (2014:para B5.1) that ‘The fact that a trust, though a legal entity for some purposes, does not possess juristic personality outside statute, does not, in practice, create too many difficulties, since the relevant assets and liabilities are vested in the trustee, who is either a natural or juristic person and who possesses all the capacities needed for the proper administration of the trust’.

4.5.5 Conclusion

This chapter briefly highlighted relevant aspects of South African trust law as it relates to this research report in order to provide context for the case study scenarios that will be constructed as well as for the comments submitted by professional bodies on the DTC’s First Report’s recommendations with regard to trusts that were discussed elsewhere[295].

4.6 The taxation of trusts

This chapter will summarise the current legislation with regard to the taxation of trusts in order to provide context for the tax calculations to be performed in the case studies as well as to provide context for the commentaries by professional bodies on the DTC’s First Report’s recommendations with regard to the taxation of trusts[296]. As with the previous

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[288] As amended by s 2(1)(*b*) of Act 129 of 1991
[289] The original decision which held that a trust was not a person was done in *Friedman NO v CIR* 1991 (2) SA 341 (W) and the legislative changes were made in response to this court case, which decision was confirmed by the Appellate Division in *CIR v Friedman NO* cited above.
[290] Cameron *et al.* 2002:69
[291] 1961 (3) SA 833 (A)
[292] Cameron *et al.* 2002:67
[293] No 71 of 2008
[294] Pace & Van der Westhuizen 2014:para B5.1
[295] See chapter 4.8
[296] See chapter 4.8

chapter, this chapter does not purport to cover every aspect of trust taxation but will merely act as a high-level summary of salient matters as it relates to this research report.

4.6.1 Nature of income received from a trust

With regard to the nature of income received from a trust, the conduit principle, as laid down in *Armstrong v CIR*[297] and *SIR v Rosen*[298], will apply. In these court cases it was held that income passing through a trust retains its identity and the trust acts merely as a conduit pipe through which income flows[299]. This means that, generally speaking, dividends received by a trust and distributed to a beneficiary will be taxed as dividends in the hands of the beneficiary and the same would apply to distributions to beneficiaries from interest, capital gains or ordinary income such as rental income received in the trust.

The notable exceptions to the common law conduit principle apply, firstly to local dividends received by a trust that is distributed to a beneficiary as an annuity which, in terms of s 10(2)(*b*) of the Income Tax Act, will not enjoy the local dividend exemption of s 10(1)(*k*) in the hands of the beneficiary[300]. The second exception applies to dividends received by a company in consequence of the exercise of a discretionary power by any trustee of a trust (that is, where the company is a beneficiary of such trust) which would also not enjoy the local dividends exemption per para (*ee*) of the proviso contained in s 10(1)(*k*) and the dividend would therefore be subject to normal tax in the company. In the latter case, however, if the trust vests the dividend in the company in the same year of assessment that it was received by the trust per s 25B(1) and (2), then such company will be deemed to be the beneficial owner of the dividend and the exemption of dividend withholding tax under s 64F(1)(*a*) will apply to such vested dividend amounts[301].

4.6.2 Taxation of income received in a trust or received by beneficiaries from a trust

In a vesting trust, both ownership and control of the trust property vests in the trustees but they would not typically have discretion over whether income or capital amounts are to be

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[297] 1938 AD 343
[298] 1971 (1) SA 172 (A)
[299] Pace & Van der Westhuizen 2014:para B21.2.1; De Koker & Williams 2015:para 12.25
[300] De Koker & Williams 2015:para 12.26
[301] Dividends tax would have been withheld or paid on the date the dividend was originally deemed to have been 'paid' for dividends tax purposes because the trust had not at that time vested the dividends in the beneficiary. Accordingly, if the dividend is subsequently vested in a beneficiary that is exempt under s 64F(1) or s 64FA(1)(*a*) within the same year of assessment in which the dividend was received by or accrued to the trust, then the trust may claim a refund under s 64L or s 64M from the company paying the dividend or from the regulated intermediary per Binding Private Rulings 118 (14 May 2012), 125 (25 October 2012) and 129 (10 December 2012) (South African Revenue Service 2015a:39 at para 2.3.1).

distributed to beneficiaries as they would already have vested rights in the income and/or capital as determined by the trust deed[302]. As a result, all vested income and capital may be taxable in the hands of the beneficiaries[303] (subject to the attribution rules contained in the Income Tax Act as discussed below).

In a *bewind* trust, as ownership rests with the beneficiaries, each beneficiary will be liable for the tax due on such trust property (income tax and CGT) from the inception of such a trust but also subject to the attribution rules.

In a discretionary trust the beneficiaries will only obtain a vested right to any income or capital when such amounts are distributed to them as a result of the trustees exercising their discretion as conferred upon them by the trust deed in this regard[304]. If a trustee has the discretion about how and also about whether or how much income or capital to distribute to beneficiaries from a trust, then such beneficiaries have a contingent right to income or capital only[305]. A mere contingent right is not generally subject to tax nor does it form part of a beneficiary's estate for insolvency or estate duty purposes[306].

A discretionary trust may also contain some elements of a vesting trust if, for example, some beneficiaries have vested rights to capital but contingent rights to income[307].

The tax liability amount as well as the determination of which taxpayer is liable for tax on income received in a trust will, however, depend on several factors[308] such as:

- The provisions laid down in the trust deed with regard to the type of income rights given to beneficiaries and whether trustees are given discretionary powers or not;
- The manner in which the trust was funded (whether by donation to the trust by the founder or by another donor, by sale of assets to the trust or by loans made to trusts);
- In the case of the trust being funded by donation, whether the donor is still alive or not;

[302] Honiball & Olivier 2009:5
[303] De Koker & Williams 2015:12.19
[304] Pace & Van der Westhuizen 2014:para B21.3.1; De Koker & Williams 2015:12.19
[305] Honiball & Olivier 2009:75
[306] Cameron *et al.* 2002:558 citing among other cases *Hilda Holt Will Trust v CIR* 1992 (4) SA 661 (A) and *Burger v CIR* 1956 (1) SA 534 (W).
[307] Honiball & Olivier 2009:75
[308] Pace & Van der Westhuizen 2014:para B21.2.2

- If the donor is still alive,
  - whether the beneficiaries obtaining vested rights to income are minors or majors (that is, whether these beneficiaries are younger than 18 years or not);
  - whether there are any conditions attached to beneficiaries receiving benefits (for instance, only obtaining benefits from a certain age onwards);
  - whether the trust is an offshore trust or a South African resident trust;
  - whether other persons are involved in schemes envisaged by subsections 7(2), 7(4), 7(6) or 7(7).
- Regardless of the manner of funding, whether income is distributed to beneficiaries or retained in the trust in any given year of assessment.

The amount of tax payable would depend on whether the taxpayer is an individual (that is, either the founder, donor or an individual beneficiary), a company (which could also be a beneficiary) or the trust itself as different tax rates would apply to each of these types of entities. A comparison of the tax rates applicable can be found in Table 1 in chapter 4.7.5.

The taxpayer could, generally speaking[309], either be the founder of or donor to the trust, the trust itself (with the trustees being liable as representative taxpayers on behalf of the trust) or the beneficiaries of the trust[310].

The liability for tax on income received in a trust or received by beneficiaries from a trust is governed by s 25B of the Income Tax Act, which effectively codifies the common law conduit principle discussed above. The provisions in this section are, however, subject to the anti-avoidance provisions or attribution rules of s 7 of the Income Tax Act. The liability for tax on capital gains realised in a trust or received by beneficiaries from a trust is again governed by para 80 of the Eighth Schedule to the Income Tax Act, which paragraph is also subject to the capital gains attribution rules contained in paras 68, 69, 71 and 72 of the Eighth Schedule.

The attribution rules in section 7 and paras 68, 69, 71 and 72 of the Eighth Schedule do not only apply to trusts but have a wider application. The discussion below regarding these provisions will, however, only relate to the specific application thereof to trusts.

[309] The taxpayer could also be other persons where s 7(4) may find application.
[310] Pace & Van der Westhuizen 2014:para B21.2.2

4.6.3 *Section 25B – conduit principle for income (trust-specific provision)*

Section 25B(1) states that any amount received by or accrued to or in favour of a trust (or more correctly, to any person acting in the capacity as trustee of a trust) during any tax year shall, subject to the provisions of s 7, to the extent to which such amount has been derived for the immediate future benefit of any beneficiary who has a vested right to that amount during that tax year, be deemed to be an amount accrued to such beneficiary, and to the extent to which that amount is not derived for the benefit of a beneficiary with vested rights, be deemed to be an amount which has accrued to the trust in question[311].

Vested income is therefore taxed in the hands of the relevant beneficiary (unless section 7 applies, in which case it would be taxed in the hands of the donor) and income not vested in any beneficiary is taxed in the trust. In the case of discretionary trusts, per s 25B(2), amounts will only be deemed to have accrued to a beneficiary in any tax year if the trustees exercised the discretion vested in them by the trust deed to distribute amounts received by or accrued to the trust in that tax year to a beneficiary in that same tax year, otherwise it is taxed in the trust[312].

Amounts that were deemed to have accrued to the trust and were taxed in the trust in any tax year and then distributed to beneficiaries in subsequent tax years will therefore be treated as capital distributions to beneficiaries in those years and not taxed again as income in the hands of the beneficiaries[313,314,315]. If such future distributions are, however, made in the form of an annuity these will be included in a beneficiary's gross income as annuities are specifically included in para (*a*) of the definition of 'gross income' in s 1 of the Income Tax Act.

Distributions from foreign or non-resident trusts to resident beneficiaries of income that are made in the same year as when such amounts were received in the foreign trust will similarly be governed by s 25B(1) and (2) as discussed above.

Distributions out of capitalised income of non-resident trusts will, per s 25B(2A), be included in the 'income' of the resident beneficiaries if the trust capital arose from any receipts and accruals of the non-resident trust which would have constituted 'income' as defined if the trust had been a resident in any previous tax year during which that resident had a contingent right to that amount, and if that amount has not been subject to tax in

[311] De Koker & Williams 2015:para 12.21
[312] De Koker & Williams 2015:para 12.21
[313] Meyerowitz 2008 at para 16.139
[314] Clegg & Stretch 2015 at para 17.3
[315] *Estate Dempers v SIR* 1997 (3) SA 410 (A)

South Africa in terms of the Income Tax Act[316]. This means that the conduit principle is in effect applied retrospectively at the time when distributions from a foreign trust make its way into the hands of resident beneficiaries.

Per s 102(*a*) of the Tax Administration Act[317] the beneficiaries will bear the burden of proving that the amounts so received are exempt or partially exempt (for instance, if such amounts are distributed from foreign dividends received in the trust) and therefore they would need the support of the trustees of the offshore trust to keep record of the amounts of, for instance, foreign dividends included in the capitalised income of the foreign trust in order to assist the beneficiaries to discharge their burden of proof in this regard[318].

The treatment of deductions and allowances in the trust related to income distributed to beneficiaries is governed by s 25B(3) to (7) but these provisions will not be discussed further for the purpose of this study.

4.6.4 Section 7 – attribution principle for income (not specific to trusts but an anti-avoidance provision with regard to any donations made)

If a founder donated assets to a trust[319] (as opposed to, for example, selling the assets or lending amounts to the trust) and any income or capital gains[320] derived from such amounts vest in or are distributed to minor beneficiaries, or the amounts to be received by beneficiaries are subject to a condition to be fulfilled or to the occurrence of an event (for instance, the attaining of a specific age), or the donation is made to a foreign resident or foreign trust[321] then such income or capital gains will be deemed to be the income or gains of the donor and not that of the beneficiary, should the donor still be alive.

The provisions in s 7 will first be applied before the provisions in s 25B may be applied[322]. If the donor has passed away, the provisions of s 7 cannot apply and the taxation of such

[316] Honiball & Olivier 2009:76-77
[317] No 28 of 2011
[318] Mitchell 2006
[319] Note that donations tax of 20% of the donation amount exceeding the annual R100,000 donations exclusion would be payable by the donor in the year such donations are made.
[320] See also chapter 4.6.6 for attribution of capital gains.
[321] Only subsections 7(3), 7(5) and 7(8) are discussed in the text above as these are the more common applications of the attribution rules contained in s 7 with respect to trusts. The attribution of income to the donor can, however, also take place in the event of other situations as envisaged in s 7(1), 7(2), 7(4), 7(6) and 7(7) which are not discussed in the above text in detail and may either not be often encountered in relation to trusts or are deemed of less importance with regard to determining the tax consequences in relation to trusts.
[322] Per s 25B(1) of the Income Tax Act

amounts would be in the hands of the beneficiaries with vested rights to such income regardless of their age or the other provisions contained in s 7.

4.6.5 Paragraph 80 – conduit principle for capital distributions (trust-specific provision)

Sub-paragraph 80(1) of the Eighth Schedule to the Income Tax Act regulates the treatment of capital gains realised when a trust asset vests in a trust beneficiary and states that the capital gain of such a distribution will be added to the aggregate capital gain or loss of the beneficiary, not the trust.

Sub-paragraph 80(2) regulates the treatment of the distribution of a capital gain itself when trustees sell a trust asset and distribute the profits of that sale (which will include the capital gain amounts) to a trust beneficiary in the same tax year as when the capital gain arose in the trust (that is, when the asset was disposed of).

The above two sub- paragraphs are both subject to paragraphs 68, 69, 71 and 72 of the Eighth Schedule, which mirror the attribution rules with regard to income contained in s 7 of the Act. Furthermore, as the trust and its beneficiaries are 'connected persons' as defined in s 1 of the Income Tax Act, para 38 of the Eighth Schedule (with regard to disposals between connected persons not at an arm's length price) may also be applicable[323]. For the calculation of the capital gain with regard to the distribution of an asset by a trust to a beneficiary, the proceeds to be used will be the market value of the asset (para 38(*a*)) at the date of the distribution. The base cost of that asset for calculating capital gains on its eventual disposal by the beneficiary will similarly be equal to the market value at the date of the distribution (para 38(*b*)).

It should be noted that the use of the word 'trust' in the wording of sub-paragraphs 80(1) and (2) is taken to refer to both resident and non-resident trusts. Furthermore, the use of the defined phrase 'capital gain' in the wording of the above two sub-paragraphs has the effect that, in relation to assets disposed of in non-resident trusts or capital gains realised on assets and distributed to resident beneficiaries in the same tax year, only amounts that are deemed capital gains with respect to non-residents (as the trust is non-resident) will be included in the beneficiaries' aggregate capital gain or loss. Capital gains in relation to a non-resident is defined in para 2(1)(*b*) of the Eighth Schedule as South African immovable property or an interest or right in such property and assets attributable to a permanent establishment in South Africa.

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[323] Honiball & Olivier 2009:131

These provisions therefore have limited application for including amounts distributed to resident beneficiaries from the sale of assets held in a foreign trust, in the hands of those resident beneficiaries, if distributed in the same tax year as when they arose (either through vesting of the asset or sale of the asset in the trust). The sale or distribution of any asset held in the foreign trust that is not a South African fixed property or interest therein or an asset of a South African permanent establishment (that is, all other assets like South African and foreign shares or foreign properties held in the trust) will therefore not be treated as a capital gains event in the hands of the resident beneficiary if distributed to them in the same tax year[324].

If assets like South African and foreign shares and foreign properties were held in the name of the resident beneficiaries themselves, the capital gains on the sale of these assets would have been included in their taxable income as residents are taxable on their worldwide income[325].

Sub-paragraph 80(3) deals specifically with capital gains vested in resident beneficiaries from non-resident trusts and even though the wording mirrors s 25B(2A), which speaks to the treatment of vested income from non-resident trusts, and as such will result in treating capital gains distributed from such a trust as if such a trust had been a resident (that is, disposal of all assets will fall into the tax net and not only the restricted set of assets listed in para 2(1)(*b*) for non-residents), this sub-paragraph only deals with distributions made in tax years subsequent to the one in which the capital gain had been realised in the trust. The attribution of capital gains which arise in and is vested in the same tax year is therefore not addressed by this sub-paragraph[326].

4.6.6 Paragraphs 69, 70, 71 and 72 – attribution principle for capital gains (not specific to trusts but an anti-avoidance provision with regard to any donations made)

Similar in wording to the sub-sections of s 7 of the Income Tax Act, these paragraphs will find application to trusts with regard to capital gains realised in the trust, whether such gains are vested in beneficiaries or not, if the founder has donated any assets to the trust (as opposed to an outright market-related sale of such assets to the trust). If the donor is still alive then these paragraphs may cause capital gains to be included in the donor's aggregate capital gain or loss regardless of whether such gains remained in the trust or

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324 Honiball & Olivier 2009:130 and supported by the SARS CGT Guide at para 14.11.2 and 14.11.8 (South African Revenue Services 2015c:446,457)

325 Per the definition of 'gross income' in s 1 of the Income Tax Act

326 South African Revenue Service 2015c:457 at para 14.11.8

were vested in beneficiaries where these beneficiaries are minors, or where the capital gain was subject to conditional or revocable vesting or vested in a non-resident.

As s 7 can apply to both income and a capital gain, para 73 provides relief by limiting the total amount of the income that is deemed to accrue to the donor and the capital gain attributed to him, to the amount of the benefit derived from the donation, settlement or other disposition so that normal tax is not payable on both the deemed income and the capital gains as a result of the same donation[327].

4.6.7 Conclusion

This chapter provided a high-level summary of the current trust taxation legislation in order to provide context for the tax calculations in the case study scenarios, for the discussion regarding tax consequences of certain manners of interaction with trusts in the next section, for the comments submitted by professional bodies on the DTC's First Report's recommendations with regard to trusts that will be discussed thereafter as well as for the new recommendations discussed by Judge Davis to be contained in the Second Report and those contained in the 2016 Budget Review.

4.7 Tax consequences of certain manners of interaction with trusts

This section will discuss some of the tax consequences (estate duty, donations tax and income tax) for taxpayers when interacting with South African and offshore trusts in certain ways in order to provide background and an understanding of the context in which the recommendations of the DTC's First Report were made, for the comments submitted by professional bodies on the DTC's First Report and for the new recommendations discussed by Judge Davis to be contained in the Second Report and those contained in the 2016 Budget Review.

4.7.1 Testamentary and **donatio mortis causa** *trusts*

Neither a testamentary trust nor a *donatio mortis causa* trust can be said to be entered into for the purpose of estate duty avoidance by the founder as these trusts only take effect on the death of the founder. When the founder passes away, all assets to be transferred to such trusts will first form part of his or her estate and estate duty will be levied on the value of the founder's net estate (assuming no other trust structures exist). As the founder will be deemed to have disposed of all his or her assets on death, CGT will also be levied

[327] De Koker & Williams 2015:para 24.131

on any capital gains on death prior to moving such assets at a base cost equal to the market value on the date of death to the above types of trusts. No CGT rollovers[328] will apply if all assets are transferred to such a trust and therefore the maximum amount of CGT will be due (less the capital gains exemption of R300,000 available in the year of death).

Beneficiaries of testamentary or *donatio mortis causa* trusts (other than the founder) however may be seen to obtain an estate duty advantage if the majority of their total wealth at their respective deaths is represented by the trust assets not yet distributed to them. Any distributed amounts vesting in the beneficiaries would be taxable in their hands for income tax and CGT purposes in the year that such distributions are made by the trustees. If distributed capital assets are still in the possession of a beneficiary at the time of their death, then these assets may also attract both estate duty and CGT on death.

If a restructuring of the assets in these trusts are required in the future, for instance if it becomes necessary because of administrative and family relationship management purposes, for trust assets held in the single testamentary trust to be split between beneficiaries and distributed in equal shares to new trusts for the benefit of each of the individual beneficiaries, CGT will be payable on such restructuring transactions (the payment of which will require a cash flow transaction).

4.7.2 Reasons for transferring assets to an **inter vivos** *trust apart from perceived tax savings*

Although the DTC contends that *inter vivos* trusts are mainly used for purposes of reducing estate duty on death and for other tax advantages, individuals move assets that are currently held in their personal name to an *inter vivos* trust for various non-tax-related reasons[329], some of which are discussed below:

- Protection of assets against third parties
    - For instance, where an individual is in a profession where a risk exists of personal liability lawsuits being brought against such an individual (for example, medical doctors, lawyers, engineers, financial and investment advisors and others) such individual might consider moving assets, like the primary residence, outside of his or her personal estate into a trust where it would be protected against any such legal action.
    - Protection against divorce claims

[328] For instance the CGT rollover for transfer of assets between spouses (para 67 of the Eighth Schedule to the Income Tax Act).
[329] Foster *et al.* 2015:5,7; FISA 2015:5 (para 2.6.4)

- Protection against creditors for entrepreneurs or directors (similar considerations as for individuals in a profession with a risk of personal liability lawsuits)

- Preserving wealth for future generations
    - Rather than bequeathing accumulated family wealth directly to children, who may be young and inexperienced but also at risk of being taken advantage of by for instance a spendthrift spouse, such wealth could be better preserved if placed in trust for such children with distributions being controlled by and made at the discretion of the trustees of such trust.
- Providing for the care and maintenance of elderly, minor or disabled family members
    - Such persons may equally be unable to manage their own financial affairs and could be at risk of being taken advantage of by outside parties.
- Holding assets subject to limited ownership regulations
    - Agricultural land may not be subdivided[330] and can therefore only be held in the name of a single entity. A trust is therefore commonly used if the agricultural land is operated for the benefit of multiple persons.
- Orderly succession of assets and income to surviving family members on the death of the founder
    - The process and time it takes to wind up a deceased estate may result in surviving family members suffering hardship due to income-generating assets being frozen until the executor is able to finalise the deceased estate. Due to the formalities prescribed and the possibility of any issues arising which may delay the finalisation of the deceased estate, there may be a significant time delay before surviving family members gain control and access to income-producing assets which may cause hardship to them or be detrimental to the efficient income-producing ability of any business enterprise forming part of the deceased estate (for instance, a farming concern). If such assets or business concerns are contained within a family trust, the death of the founder will not affect the trustees’ ability to continue managing the assets and business concerns within the trust or their ability to distribute any income for the benefit of the beneficiaries. Beneficiaries are therefore less likely to suffer hardship due to the untimely death of the founder and owner of the family wealth if such

[330] Section 3(a) of the Subdivision of Agricultural Land Act, No. 70 of 1970

wealth is contained within a family trust rather than held in such a person's personal estate.

Many trust specialists will strongly advise against any individual to form a trust merely for the perceived tax advantages[331] as this may place the validity of the trust at risk or open up such trust arrangement to the risk of certain abuses occurring which could have negative consequences for the founder regarding asset protection and the tax due related to such assets[332].

4.7.3 Different manners of transferring assets to South African trusts – donations vs. loan accounts

A founder or other party may transfer assets from their own estates to that of the trust in one of the following ways:

- Donate asset to trust:
    - The consequences are that donations tax will be levied at 20% of the market value of the donation that exceeds the R100,000 annual tax-free limit available to individuals[333].
    - The attribution rules of s 7 of the Income Tax Act may be applicable to any distributions made from such donated amounts for the duration of the founder's lifetime. This could result in distributions made to certain beneficiaries being taxable in the hands of the donor[334].
    - Subsequent distributions from the trust may also be kept on loan account due to the founder and other beneficiaries (see next subsection for detailed discussion) in which case such loan accounts will also be included in the respective beneficiaries' estates on death and liable for estate duty.
    - The upfront donations tax payment on the initial estate value should be compared with the estate duty saving of not paying estate duty on the market value of the assets on death (also levied at 20% of the net dutiable estate after the s 4A abatement, currently at R3,500,000).

[331] Foster *et al.* 2015:5 (para 2.2)
[332] See discussion under chapter 4.5.3
[333] Sections 54 to 64 of the Income Tax Act
[334] Refer chapter 4.6.4 for a discussion in this regard.

- Sell asset at market value to trust and amount due by trust to founder remains outstanding on loan account:
    - Assuming that a newly formed trust will have little or no cash available, the founder may sell the assets at market value to the trustees (which means that no donation or gratuitous disposal has taken place hence no donations tax will be due) but agrees with the trustees to leave the amount due to him or her outstanding on loan account. This loan account will be an asset in their personal estate but as an interest-free loan account it will remain at the same value as when the sale was done and any growth in market value of said assets will remain outside of his or her personal estate[335].
    - CGT will be due by the founder on the sale of the assets to the trust at the market value on date of transfer (other taxes, like transfer duty in respect of immovable property may also be payable at this time).
    - Regardless of other movements in the founder's loan account over the years following the inception of the trust (see next subsection for a detailed discussion), the remainder of the loan account on the death of the founder will be an asset in his or her estate which will be liable for estate duty at 20% of the net estate exceeding the current s 4A abatement of R3,500,000[336].
    - The value of the remainder of the loan account on death is however likely to be significantly less than the market value of the assets now held in the trust which will result in an estate duty saving (since more estate duty would have been due if the market value of the assets on death were dutiable in the founder's estate).

Regardless of whether assets are transferred to a trust via a donation or via a sale on loan account, the saving of CGT that may have been due on such assets on death should also be considered. Depending on the heir to whom such assets are bequeathed (CGT roll-over will apply if the surviving spouse is the heir[337]), if the assets remained in the founder's estate, CGT on the full market value thereof (less original base cost, which is likely to be low due to the passage of time) may also have been due on death.

[335] Foster *et al.* 2015:9 (para 2.2.3)
[336] Foster *et al.* 2015:9 (para 2.2.3)
[337] Para 67 of the Eighth Schedule to the Income Tax Act

4.7.4 Other uses and considerations for loan accounts due by a resident trust to its beneficiaries

At the time of inception of a trust, only the founder will typically have a loan account due to him or her by the trust as a result of the initial sale of assets to the trust at market value (unless the assets were donated to the trust).

Distributions on loan account

If any distributions are made by the trustees to the beneficiaries in any year, such distributions can either be paid out in cash from cash reserves in the trust or such amounts can be kept on a loan account due to each beneficiary while the income earned is reinvested in the trust thereby achieving greater potential growth in the trust. The latter option will result in loan accounts due to beneficiaries that will increase over time as distributions are declared but not paid out in cash. For founders and beneficiaries other than a founder who sold the initial assets to the trust on loan account, this loan account will start from Rnil whereas, for a founder who sold assets to the trust on loan account, this practice will increase the initial loan account over a period of time.

Regular distributions to beneficiaries are commonly done to obtain a tax advantage through the working of s 25B of the Income Tax Act (conduit principle) by having trust income and gains vest in the hands of beneficiaries and therefore taxable at the lower effective tax rates applicable to individuals (as opposed to the high tax rates applicable to trusts)[338]. In order to avoid a depletion of trust assets through regular cash distributions, such distributions are then often kept on loan account and reinvested in the trust to ensure maximum capital growth of the trust assets.

Such loan accounts due by the trust will be an asset in each of the estates of the founder and beneficiaries. These loan accounts are consequently open for attachment by third parties to the beneficiaries, like creditors or former spouses in divorce cases. Therefore, if such loan accounts are allowed to become sufficiently large compared to the value of the trust assets, the protection of wealth initially achieved through the use of a trust will effectively be partially undone. If a third party manages to attach a beneficiary’s loan account by means of a court order, the trustees may have to liquidate some of the trust’s assets in order to pay out such loan account to such third party on behalf of the relevant beneficiary. A significant reduction of trust capital may hamper the growth of trust assets in future years, affecting all other beneficiaries’ potential distributions.

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[338] See chapter 4.7.5 below for more detail regarding income-splitting.

Large remaining loan accounts of the founder or beneficiaries will also attract a large estate duty liability on death which may undo the short-term income tax savings achieved from regular annual distributions in the past.

Cash distributions to beneficiaries on a regular basis (as opposed to keeping such amounts on loan account or within the trust) will likewise form part of such beneficiaries' personal estates and, if not consumed for living expenses, could also result in the undoing of the protection of wealth achieved by use of a trust as well as being subject to excessive estate duty on the death of the beneficiaries.

Interest-free loan accounts

As transfer pricing will not be applicable between connected persons who are residents[339] (for instance, the founder and the trust), there is no taxation requirement for the loan account to a resident trust to carry an arm's length interest rate. Interest-free loans are therefore the norm as any interest earned by the trust would merely have been distributed as income to the various beneficiaries in order for such income to be taxed at the individual's marginal tax rate. This would also create an additional accounting and administrative burden.

Even though an interest-free loan is not seen as a donation itself[340], it has been argued that the interest foregone constitutes a continuing, common law donation and that s 7 and paras 68 to 73 of the Eighth Schedule may therefore apply to the amount that would have accrued to beneficiaries as a result of such interest amounts foregone[341].

Reducing loan accounts

A portion of each distribution made by trustees to beneficiaries could be made in cash in order to assist in paying the taxes due on such distributions in the hands of the various beneficiaries or if to be used to finance living expenses, while the rest of the distribution remains on loan account.

The founder and other beneficiaries will also typically opt to reduce their loan accounts annually by using their R100,000 annual donation free of donations tax[342]. The reduction of debt will not have any capital gain consequences in the trust as para 12A of the Eighth Schedule, which governs the calculation of capital gains in these cases, exempts debt

[339] Per the working of s 31 of the Income Tax Act

[340] That is, the interest foregone does not fall within the statutory definition of 'donation' per s 55(1) of the Income Tax Act which would have attracted donations tax (De Koker & Williams 2015:para 12.27).

[341] De Koker & Williams 2015:para 12.27; Foster *et al.* 2015:9 (para 2.2.3)

[342] Section 56(2)(*b*) of the Income Tax Act

reductions which occurred by way of donation[343]. Prior to 1 January 2013, the application of the now-repealed para 12(5) of the Eighth Schedule to the Income Tax, may have resulted in such annual donations being viewed as the reduction a debt for no consideration[344] which could have been considered as a deemed disposal attracting capital gains in the trust in those years of assessment[345].

A retired beneficiary (for instance, the founder) could furthermore start to draw down on their loan account in order to supplement retirement income thereby reducing his or her remaining loan account more rapidly which will result in less estate duty payable on this asset in their estate on death.

Another advantage of drawing down on a loan account is that such amounts will be cash distributions free from additional taxation (assuming that such withdrawals are paid from cash reserves in the trust and no sale of trust assets, resulting in taxable capital gains, is required). Distributions kept on loan account were taxed in the hands of the beneficiary in the years of assessment when these distributions were made and the withdrawal of cash from these loan accounts in later years will therefore have no additional tax implications for the beneficiary at that time.

Treatment of trust loan accounts on death of beneficiary

As stated above, a loan account due by a trust to a beneficiary will be regarded as an asset in the estate of such beneficiary and on death, the remainder of such loan account will therefore be included in his or her estate and subject to estate duty of 20% on the net estate exceeding the s 4A estate duty abatement (currently at R3,500,000) [346].

An excessive estate duty liability as a result of large remaining loan accounts on death due to distributions in excess of the living expense requirements of a beneficiary can therefore undo the previous short-term income tax benefits achieved by distributing income to beneficiaries each year.

A further arrangement that could be considered is for the founder to donate the remaining loan account due by the trust back to the trust via a *donatio mortis causa* (donation in contemplation of death). Such a donation will be exempt from donations tax per s 56(1)(*c*)

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[343] Para 12A(6)(*b*)(i) of the Eighth Schedule to the Income Tax Act.
Even though no donations tax would be payable, this sub-paragraph only refers to donations as defined in s 55(1) of the Income Tax Act and no reference is made to donations tax to have been levied in order for this exemption to apply.

[344] Per the now-repealed para 12(5)(*a*)(i) of the Eighth Schedule to the Income Tax Act applicable prior to 1 January 2013

[345] De Koker & Williams 2015:para 24.132

[346] Foster *et al.* 2015:9 (para 2.2.3)

of the Income Tax Act but will be regarded as deemed property in the estate of the founder on death per s 3(3)(*b*) of the Estate Duty Act and therefore liable for estate duty. Even though such a loan account will remain in the founder's estate for estate duty calculation purposes, no executor's fees will be due on such a loan account (typically charged at the statutory maximum of 3.99% of the estate's gross asset value, inclusive of VAT[347]) as it will no longer form part of the deceased estate to be managed by the executor. The founder's deceased estate will therefore save up to a maximum of 3.99% of the outstanding loan account in expenses which would otherwise have been payable by the estate. For sufficiently large loan accounts such a saving may not be insignificant which may make this option worth considering.

With regard to CGT consequences to both the trust and the founder, the donation of the founder's loan account to the trust via a *donatio mortis causa* amounts to a reduction of debt (due by the trust) which is governed by para 12A of the Eighth Schedule to the Income Tax Act. If this reduction of debt fell into the provisions of para 12A, then it would have resulted in a reduction of the base cost of any assets held in the trust purchased as a result of the reinvestment of the loan amounts due to the founder[348]. This would have resulted in an additional capital gain equal to the loan amount to be recognised on the eventual sale of such assets by the trust. Even though no donations tax was due on the *donatio mortis causa*, the amount by which the debt is reduced by the deceased estate of the founder (that is, the full loan account amount) forms part of the property of the deceased estate for the purposes of the Estate Duty Act[349] and therefore the donation of the loan account to the trust falls outside the provisions of s 12A[350] so it is submitted that there will be no CGT consequences for the trust as a result of the reduction of this debt.

As the founder is a connected person to the trust by virtue of being a beneficiary of the trust[351] it is furthermore submitted that the capital loss in the founder's estate as a result of the disposal (via donation) of the loan amount to the trust will be ring-fenced per para 39(1)(*a*) of the Eighth Schedule to the Income Tax Act. Additionally, as the trust was not required to reduce the base cost of assets in the trust per para 12A, it is submitted that the exceptions to the ring-fencing of capital losses contained in para 56 of the Eighth Schedule

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[347] Per Regulation 8(1)(a) promulgated under s 103 of the Administration of Estates Act, No. 66 of 1965 the executor's remuneration equals 3.5% on the gross value of estates. This is the amount exclusive of VAT, therefore if an executor is registered as a VAT vendor, an amount of 3.5% x 1,14 = 3.99% will be due.
[348] Para 12A(3) of the Eighth Schedule to the Income Tax Act
[349] Per s 3(3)(*b*) of the Estate Duty Act
[350] Para 12A(6)(*a*) of the Eighth Schedule to the Income Tax Act
[351] Per para (*a*)(ii) of the definition of "connected person" in s 1 of the Income Tax Act

will also not apply[352]. The donation of the founder's loan account to the trust via a *donatio mortis causa* will therefore neither result in a capital gain being recognised in the trust nor a capital loss being recognised in the founder's estate.

4.7.5 Income-splitting of resident trust income

The DTC submitted in their First Report that the original intention of the attribution rules contained in s 7 of the Income Tax Act was to prevent taxpayers prior to the 1999 tax year from using South African resident trusts as income-splitting devices. This was done by placing income-generating investments in a number of trusts in order to take advantage of the tax regime applicable to resident trusts in those years (a sliding scale with the same maximum marginal rate as for individuals) and thereby avoiding the extremely high individual tax rates that prevailed at the time (which could be as high as 78%)[353].

After the introduction of a flat rate of tax for trusts in 2003 equal to the highest marginal tax rate for individuals and the same high CGT inclusion rate for trusts as applies to companies (introduced in 2001), the DTC submitted that section 7 no longer served its purpose as an anti-avoidance provision. They submitted that, in fact, the opposite effect occurred in that high-net-worth individuals were now able to avoid the high taxes payable in a trust through use of this section[354]. Together with the working of s 25B and by making distributions to several beneficiaries having lower levels of taxable income, income-splitting could therefore still be achieved through the use of trusts which is why the DTC wished to combat income-splitting by suggesting a repeal of both s 7 and s 25B (including, it is presumed, the related CGT paragraphs).

Under current tax legislation, income-splitting occurs where the total income and gains realised in a trust are split into smaller distributions made to each trust beneficiary. Since only a portion of the total trust income will now be included in each beneficiary's tax return and as some beneficiaries may be minors with no other sources of income who are taxed at the lowest marginal tax rate, the effective tax rate at which the trust income and gains will be taxed will be lower than if all the trust's income and gains were lumped together and included in the tax return of a single beneficiary (for instance, the founder) who may also have other sources of income and who may be paying tax at the highest marginal tax rate.

[352] Para 56(1)(*a*)(i) of the Eighth Schedule to the Income Tax Act
[353] Davis Tax Committee 2015:37
[354] Davis Tax Committee 2015:38

Income-splitting, in the context of trust assets originally transferred to the trust by the founder via loan account (and not by donation), is mainly achieved by making use of s 25B (the conduit principle) which deems trust income that was distributed to a beneficiary to be taxed in the hands of such beneficiary (therefore such income is not taxable in the trust).

Due to the high capital gains inclusion rate and flat income tax rate applicable to trusts, capital gains are currently effectively taxed at 32.8%[355] if it remains in the trust. It is often such gains that are distributed to individual beneficiaries (using para 80 of the Eighth Schedule, the CGT equivalent of the conduit principle) as the effective tax rate for capital gains for individuals ranges only between 7.2% and 16.4%[356] before taking into account the effect of any normal tax rebates per s 6 of the Income Tax Act[357] (that is, at worst only half of the capital gains tax due compared to such gains remaining in the trust).

As South African income taxes levied in respect of individuals are based on a progressive, marginal tax rate, the effective tax rate for an individual will rarely be at the highest bracket's tax rate of 41%. At the highest tax bracket of R701,300[358] (from which amount all additional taxable income will be taxed at 41%) the effective tax rate, based on the 2016/2017 tax tables and assuming a primary rebate of R13,500[359], will only be approximately 27.59% with a corresponding effective capital gains tax rate of 40% x 27.59% = 11.04%. For illustrative purposes, at just over double that amount, for an annual taxable income of R1,5 million the effective income tax rate based on the same assumptions is approximately 34.73% and the corresponding effective capital gains tax rate equals approximately 13.89% (= 40% x 34.73%).

[355] Refer Table 1 below
[356] Refer Table 1 below
[357] In other words, the final effective tax rate for capital gains may range from 0% after the application of the normal tax rebates of s 6 of the Income Tax Act.
[358] Rates and Monetary Amounts and Amendment of Revenue Laws Bill (Draft) 2016 (in respect of taxable income of any natural person)
[359] Section 4(1) of Rates and Monetary Amounts and Amendments of Revenue Laws Bill (Draft) 2016

Table 1 – Comparative tax rates between individuals, trusts and companies

Taxpayer \ Type of income	Income tax rate[360]	Capital gains effective tax rate[361] (capital gains inclusion rate[362] x income tax rate)	Dividend withholding tax rate[363]
Individual	Varies from 18% to 41%	*= 40% x (18% to 41%)* 7.2% to 16.4%	15%
Company	28%	*= 80% x 28%* 22.4%	0%
Trust	41%	*= 80% x 41%* 32.8%	15%

The above table therefore illustrates why there would be a tendency for trustees to ensure that any income or capital gains realised in a trust are distributed to individual beneficiaries in order to enjoy the lower tax rates applicable to individuals. If the trust income is furthermore split between multiple individual beneficiaries then the overall effective tax rate can be kept low despite the fact that the total net taxable income may have attracted a higher effective tax rate if taxed as a whole or in the hands of a single beneficiary.

The common law principle that taxpayers are allowed to organise their financial affairs in a manner that will result in a reduction of the tax legally payable under the appropriate tax Acts, was established in cases like *IRC v Duke of Westminster*[364] and *Dadoo Ltd and others v Krugersdorp Municipal Council*[365].

[360] Rates and Monetary Amounts and Amendments of Revenue Laws Bill (Draft) 2016
[361] These are the effective tax rates calculated before taking into account the effect of any normal tax rebates per s 6 of the Income Tax Act.
[362] The taxable gain inclusion rates given above are as per para 10 of the Eighth Schedule to the Income Tax Act as to be amended by the promulgation of the Draft Rates and Monetary Amounts and Amendments of Revenue Laws Bill 2016 (s 10 of the Bill) and applicable in respect of years of assessment commencing on or after 1 March 2016.
From 1 March 2012 to 29 February 2016 the capital gains inclusion rate for individuals was 33.3% and for companies and trusts, 66.6% (Rates and Monetary Amounts and Amendments of Revenue Laws Act 2015).
[363] The income from which dividends are paid are effectively taxed at 28% in the company and then again with 15% dividend withholding tax when declared as a dividend to a non-exempt shareholder. Therefore the overall tax rate collected on such income (paid by different parties) would be equal to 1 – (1 – 0.28) x (1 – 0.15) = 38.80%. If a company forms part of an overall structure of a taxpayer or group of taxpayers then this effective rate needs to be taken into consideration.
[364] [1936] AC 1
[365] 1920 AD 530

The short-term tax benefits achieved by so-called income-splitting practices and regular distributions on loan account to individual beneficiaries should be weighed up against the effect this may have on the ability to protect the wealth held in the trust from third parties as well as on the eventual estate duty liability of such amounts for the founder and beneficiaries. As noted in the section on loan accounts above, the amount of distributions and amounts due to beneficiaries on loan accounts would be assets in the hands of the beneficiaries' personal estates, which could be attached by third parties through a court order and would also constitute dutiable assets in their estate upon their demise. Large distributions and loan accounts could therefore partially undo the protection of wealth provided by a trust if a trust has to liquidate trust assets in order to pay out a beneficiary's loan account to a third party on behalf of that beneficiary as a result of such a court order. Additionally, the short-term income tax benefits achieved by distributing large amounts of income to beneficiaries over time may be undone in the end by an excessive estate duty liability arising from large remaining loan accounts on death.

4.7.6 Considerations for resident beneficiaries' interactions with non-resident trusts

Transfer pricing considerations

If a South African resident founder creates an offshore trust by lending funds from an approved foreign investment[366] to such offshore trust, the transfer pricing provisions of s 31 of the Income Tax Act will apply as the resident beneficiary and the foreign trust are connected persons as defined[367] which will result in such a loan falling within the definition of an 'affected transaction' per s 31(1).

Even though it may be practical to have such loan account to a foreign trust remain free of interest for administrative purposes in the trust, an arm's length deemed interest income on such loan account will have to be declared in the South African beneficiary's annual tax returns in order to adhere to the transfer pricing principles set out in s 31 and if transfer pricing adjustments are to be avoided[368].

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[366] The foreign capital investment amount available to South African private individuals is currently R10 million per calendar year and must be done after obtaining the necessary Reserve Bank approval through an Authorised Dealer for such foreign investment. See chapter F.6.1.1 of the SARB's Exchange control manual (Financial Surveillance Department of SARB 2015:O1)
[367] Per para (*a*)(ii) of the definition of "connected person" in s 1 of the Income Tax Act
[368] For residents who are natural persons, the difference in such residents' taxable income as a result of not applying an arm's length interest on such loans to foreign trusts will be deemed to be a donation made by such persons which will be subject to donations tax of 20% after the annual exemption has been taken into account (s 31(3) of the Income Tax Act).

The basis of the calculation of an arm's length deemed interest income is, however, open to much debate as no clear guidelines currently exist in this regard[369]. The relevant interest rate applied will also depend on, *inter alia,* the currency in which such loan is held[370]. Interest in a foreign currency will then be translated to either the spot rate or the average exchange rate of said currency[371] to calculate the rand amount of interest income to be included in the individual taxpayer's tax return.

Taxation of foreign trust income and distributions from foreign trusts

Income and capital distributions from a foreign trust will be governed by s 25B(2A) and para 80 of the Eighth Schedule respectively[372]. The income and gains retained in a foreign trust will not be taxable in South Africa unless distributed to South African beneficiaries, in which case such income will be taxable in the hands of the resident beneficiaries. If, however, a founder opted to donate foreign investment amounts to a trust rather than lending such money to the trust, donations tax would be levied at the date of transfer and the attribution rules contained in s 7(8) will furthermore apply resulting in all income earned in the trust on such donated amounts being taxable in the hands of the founder in every year of assessment following such donation.

Treatment of foreign trust loan accounts on death of beneficiary

A foreign trust loan account will similarly be an asset in the estate of the founder or beneficiary at his or her death on which estate duty will be levied. In order to avoid the administration of creating a foreign-based will and appointing a foreign executor to deal with such loan account (as such loan account will constitute an asset in the foreign jurisdiction of the trust), a donation of the loan account to the foreign trust could be made via a *donatio mortis causa*. As before, South African estate duty will still be due on a foreign loan account donated in this manner but there will be no need to create or register a foreign will with regard to this asset in such cases and no foreign executor's fees will be payable either.

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369 Even though the provision of an interest-free loan is not seen as a donation as such, it has been argued that the interest foregone constitutes a continuing, common law donation for donation tax purposes and that s 7 and paras 68 to 73 of the Eighth Schedule may therefore apply the amount that would have accrued to beneficiaries as a result of such interest amounts foregone (De Koker & Williams 2015:para 12.27; Foster *et al.* 2015:9). If these attribution rules are utilised to determine the additional amounts to be included in a taxpayer's income, s 31 may still apply if the taxable income so included is deemed insufficient.

370 Taxpayers may therefore select a loan currency to which a low inter-bank rate applies which, if adjusted to an arm's length interest rate, may still be lower than that which applies to a loan denominated in, for instance, South African rand.

371 Section 25D(1) read together with s 24D(3) of the Income Tax Act

372 See detailed discussions with regard to these in chapters 4.6.3 and 4.6.5.

4.7.7 Suggested changes to legislation that may affect the way assets and income in trusts are taxed

As discussed elsewhere in this research report[373], some of the initial recommendations contained in the DTC's First Report included a repeal of both s 7 (attribution principle) and s 25B (conduit principle) with regard to trusts and for distributions from foreign trusts to residents to be treated as income regardless of the source of such income.

These recommendations were heavily criticised by various professional bodies[374].

In a SAIT webinar presented by Judge Dennis Davis[375], who heads up the DTC, he stated that the recommendations in the First Report regarding the taxation of South African trusts in particular will be abandoned and that the conduit principle (s 25B) and the attribution principle (s 7) will therefore remain unchanged. He further mentioned that the recommendation with regard to foreign trusts was also incorrect and that distributions will continue to be taxed according to the nature of the income received in the foreign trust if distributed to residents (as currently governed by s 25B(2A) and para 80 of the Eighth Schedule to the Income Tax Act).

In addition, the wording of para 80 of the Eighth Schedule to the Income Tax Act, which deals with capital gains distributed to trust beneficiaries, will be refined in order to correct some of the deficiencies in the wording of this paragraph which currently results in most distributions from capital gains received by resident beneficiaries from non-resident trusts which occurs in the same tax year as when such gains arose, to be excluded from a beneficiary's aggregate capital gain or loss, as discussed in chapter 4.6.5 above.

Judge Davis also mentioned that a recommendation will be made in the Second Interim Report on Estate Duty (still to be released) with regard to redrafting s 3(3)(*d*) of the Estate Duty Act to deem a trust's property to be that of a deceased's estate if the deceased had a sufficiently large loan account owed to him or her by the trust which would constitute the deceased having had *de facto* control over the trust assets.

The 2016 Budget Review contained a paragraph, '*Tax treatment of trusts*', which suggested however that if the founder transferred assets to a trust in exchange for a loan account due to the founder (possibly regardless of whether such loan account is interest-free or not) then all trust assets will be regarded as deemed property in the estate of the

373 Refer chapter 1.1
374 Refer chapter 4.8
375 Davis 2015

founder upon his or her death regardless of the size of such loan account[376]. Furthermore, this paragraph indicated that assets transferred to a trust through an interest-free loan account will be categorised as a donation. Although clarity is still required this may mean that s 7 of the Income Tax Act (with regard to trust income) as well as paras 69 to 72 of the Eighth Schedule to the Income Tax Act (with regard to capital gains in trusts) may apply in such cases[377].

It would be deemed unfair however for such a transfer to attract both donations tax upon initial transfer as well as estate duty on death as these two taxes are under normal circumstances intended to be mutually exclusive. Donations tax is levied on transfers made from a taxpayer's estate to compensate the tax authorities for the loss in estate duty that will be suffered due to the reduction of the taxpayer's estate as a result of the donation, hence the fact that the donations tax rate and estate duty rate are normally the same.

As neither the suggested legislation nor the Second Report on Estate Duty has been released to date, more clarity is required with regard to the intended working of the new changes being recommended to fully understand the possible taxation consequences.

If the proposed legislation is going to result in a higher expected estate duty and CGT liability for a founder of a trust, the founder will be required to plan for the provision of liquidity in his or her estate (typically through the use of life insurance policies[378]) in order for the executor to be able to pay the tax liabilities without requiring estate assets to be sold to raise the necessary cash. For founders who may be too old to take out additional life insurance to provide for an increased tax liability in the immediate to near future, such legislative changes may therefore result in hardship for their surviving spouse and family members who may be dependent on the estate assets for income after his or her death.

It remains to be seen if any of the proposed new legislation will be applied to existing structures or even retrospectively to any transfers done to trusts via loan accounts in the past. In the DTC's First Report, the Committee was not in favour of allowing taxpayers a grace period in which to dissolve their trust structures prior to the implementation of the suggested legislation changes (repeal of conduit principle and attribution rules)[379]. As trust structures are typically entered into for long time horizons across the lifetime of more than one generation, such a sudden change to existing legislation will result in a massive effort from both taxpayers and their tax practitioners to restructure affected taxpayers' affairs in

[376] Department of National Treasury 2016a:49
[377] Department of National Treasury 2016a:49
[378] Foster *et al.* 2015:5 (para 2.2)
[379] Davis Tax Committee 2015:44

a manner that will not undo the careful planning done over many years prior to such a change to achieve the preservation of hard-earned wealth for future generations.

4.7.8 Conclusion

This section discussed some of the tax consequences (estate duty, donations tax and income tax) for taxpayers when interacting with South African and offshore trusts in certain ways in order to provide background and an understanding of the context in which the recommendations of the DTC's First Report were made, for the comments submitted by professional bodies on the DTC's First Report and for the new recommendations discussed by Judge Davis to be contained in the Second Report and those contained in the 2016 Budget Review.

This section set out both the non-tax-related reasons for using trusts as well as the manners in which assets are transferred by founders to trusts. The section furthermore discussed the uses of and considerations for beneficiary loan accounts due by trusts, the concept and mechanisms of income-splitting in resident trusts which the DTC intends to curb with their various proposals as well as additional considerations for resident beneficiaries of non-resident trusts. Finally the potential consequences of the various recommendations by the DTC and the 2016 Budget Review were briefly considered.

4.8 Select commentaries on the DTC's First Interim Report on Estate Duty

Comments on the First Interim Report on Estate Duty released on 13 July 2015 could be submitted to the Committee until 31 August 2015. Various professional bodies and firms submitted commentaries to the Committee. Four of these commentaries were reviewed for the purpose of this research report and some aspects contained in these are briefly discussed below[380].

4.8.1 FISA

The Fiduciary Institute of Southern Africa ('FISA') noted that the repeal of the conduit principle with regard to distributed trust income contained in s 25B of the Income Tax Act may cause hardship to beneficiaries requiring the use of a trust for asset protection and for the management of capital and income on behalf of financially unsophisticated or elderly

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[380] Note that although certain comments were repeated or overlapped between the four commentaries discussed in the above text, such comments will mostly only be discussed under one of the commentaries' sub-headings to reduce repetition.

individuals[381]. Such trusts may typically hold property to a total value of only a couple of million Rand while paying out the income generated by such property to the beneficiary or assisting the caregiver of the beneficiary to meet the beneficiary's cost of living. Aggressively taxing such distributed income would therefore greatly reduce the cash available for the care of such beneficiaries[382].

FISA also contended that the tax leakage as a result of the conduit principle is probably substantially overstated and that any loss in capital gains tax on the death of the original owner of the assets (who has transferred such assets to an *inter vivos* trust) will be offset by any future distributions from the trust of capital gains to beneficiaries and any actual distribution of trust property to such beneficiaries[383]. They furthermore submitted that the perpetual nature of family trusts as alluded to by the DTC's First Report (who seemed to deem capital assets transferred to a trust to be lost forever for taxation opportunities since no estate duty will be levied on such assets on the death of the original owner[384]) was also overstated[385]. This is due to the fact that the experience of FISA members is that the typical family trust very rarely lasts longer than the second generation and that necessity together with the desire of beneficiaries to own assets individually usually lead to the undoing of the majority of such trusts every second generation[386].

FISA furthermore listed several non-tax purposes for high-net-worth individuals to set up trust structures, for instance to protect the inheritances of their children from themselves until they are old enough to deal with such wealth responsibly and to protect such children's inheritances from being abused by third parties (e.g. a spendthrift spouse); or for individuals who are about to enter into risky entrepreneurial businesses, to transfer primary residences to a trust in order to safeguard the individual's assets from high risk exposure (to, for instance, creditors and third parties)[387].

With regard to the repeal of the attribution principles contained in s 7 of the Income Tax Act (which section also applies to situations where no trust is present), FISA felt that the concern regarding this section was misplaced[388]. The reason for this contention is that the application of this section with regard to trusts will in most cases where an asset would have been taxed in the hands of a beneficiary, but for this section, result in such asset now being taxed in the hands of the founder or donor (that is, both outcomes will result in the

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381 FISA 2015:3 (para 2.4)
382 FISA 2015:3 (para 2.4)
383 FISA 2015:4 (para 2.6.1)
384 Davis Tax Committee 2015:7-8
385 FISA 2015:4 (para 2.6.2)
386 FISA 2015:4 (para 2.6.2)
387 FISA 2015:5 (para 2.6.4)
388 FISA 2015:7 (para 3)

asset being taxed in the hands of an individual). The application of this section therefore does not typically result in the taxation entity being changed from the trust to the founder and unless the proposed repeal of s 25B was also implemented, amounts distributed from the trust to beneficiaries would have resulted in these amounts being taxable in the hands of the beneficiaries in any event[389].

FISA criticised the repeal of s 4(*q*) of the Estate Duty Act with regard to the inter-spousal deduction as a sudden repeal would result in the estates of taxpayers who are too old to take out additional life insurance to provide for the cash shortfall, that would now have been created by an increased estate duty liability, to be placed at a significant disadvantage. Cash shortfalls as a result of an increased estate duty liability may then necessitate the sale of the assets in the estate (for instance, farms or small to medium business concerns) in order to pay the additional estate duty which in turn may result in the surviving spouse being left vulnerable without an income-generating asset base from which to be supported[390].

With regard to the notion that CGT is not regarded as a wealth tax, FISA noted that, the review on tax on wealth and transfers of wealth in the European Union that the DTC referred to in the First Report[391], differentiates CGT from wealth taxes on the premise that CGT does 'not aim to tax the sole possession or transfer of certain assets, because tax is only due when the possession or transfer of the assets results in the realisation of income'[392]. This review continues by stating that 'wealth taxes on the other hand are typified by the fact that the transfer or possession is taxed, regardless of whether income is realised'[393]. Differently put, FISA contends that in the text quoted from the authority that the DTC used to justify not classifying CGT on death as a wealth tax, it is clearly stated that wealth taxes are typified by the fact that the transfer of possession of such assets itself is taxed regardless of whether income is realised[394]. Therefore by this very definition, both CGT levied on assets on death as well as estate duty levied will be classified as wealth taxes. Where CGT is levied on the disposal of an asset for market-related consideration (that is, the transfer of assets results in the realisation of income) then only can it be said to truly be a tax on deferred income, that is, not be regarded as a wealth tax.

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[389] FISA 2015:7 (para 3)
[390] FISA 2015:7 (para 4)
[391] Davis Tax Committee 2015:56; Ernst & Young 2014
[392] Ernst & Young 2014:11
[393] Ernst & Young 2014:11
[394] FISA 2015:12 (para 10)

4.8.2 SAIT

The South African Institute of Tax Practitioners ('SAIT') noted in their commentary with regard to the recommendation regarding the repeal of the s 4(*q*)[395] inter-spousal deduction that this would be contrary to overwhelming international precedent and that this deduction exists because married couples typically operate as a single economic unit[396]. It was furthermore noted that the common principle of estate duty or succession taxes is that such a tax is applied only when assets are transferred from one generation to the next and that various other married relief provisions (for instance, the CGT rollover provisions[397] and the inter-spouse donations tax exemption[398]) correctly recognise that spouses form an economic unit and that transfers between spouses should have no tax effect unless such transfer has a tax avoidance motive[399].

The SAIT also noted that the conduit principle (s 25B of the Income Tax Act) has been a well-established principle of tax law for almost a century and that this principle is well-accepted amongst countries with a common law background such as South Africa[400]. They further noted that there are a myriad valid reasons for forming trusts and that the genuine vesting of assets and income does exist which therefore validates the flow-through principle[401].

With regard to the proposals regarding foreign trusts, the SAIT felt that an additional amnesty programme for foreign assets held in foreign trusts, which was deemed unnecessary by the DTC's First Report[402] may well be a reliable process to collect lost taxation[403]. They noted that the voluntary disclosure programme which the DTC felt should be used to deal with such cases[404] will have limited benefit as this programme only applies to defaults that have arisen since the implementation date of the Tax Administration Act[405] which was 1 October 2012 where many of these funds would have been expatriated many years before[406]. The programme also provides no limitation on the

395 Of the Estate Duty Act
396 Engel & Arendse 2015:6
397 In para 67 of the Eighth Schedule of the Income Tax Act
398 In s 56(1)(*a*) of the Income Tax Act
399 Engel & Arendse 2015:6
400 Engel & Arendse 2015:7
401 Engel & Arendse 2015:7
402 Davis Tax Committee 2015:44
403 Engel & Arendse 2015:8
404 Davis Tax Committee 2015:45
405 No 28 of 2011
406 Engel & Arendse 2015:8

interest charges that would be levied on undisclosed amounts which could be substantial given the length of time involved[407].

The SAIT also felt that the focus on excess abuse arising from inter-spousal donations mentioned by the DTC in their First Report[408] was misplaced and that as couples get older such inter-spousal relief in this regard provides more of a timing benefit given that most spouses die within a 10-year period of one another[409].

4.8.3 STEP

The commentary submitted by the combined Johannesburg and Cape Town branch committees of the Society of Trust and Estate Practitioners ('STEP') pointed out that SARS could do better to use existing common law with regard to trust abuses[410] in situations where founders do not, for instance, relinquish control over trust assets as well as better application of s 3(3)(*d*), the anti-avoidance provision of the Estate Duty Act, to combat estate duty avoidance rather than attempting to tax trusts in such a punitive fashion as to discourage the use of trusts altogether[411].

The STEP also pointed out (similar to the comments submitted by FISA) that trusts are very rarely perpetual and typically last no longer than two generations whereupon the trust's assets are either disposed of for the benefit of grandchildren or poured-over into sub-trusts[412]. Upon these occurrences, a substantial amount of CGT would arise on the value of the trust's disposed assets, having achieved considerable capital growth by then, and that such assets will then form part of the beneficiaries' estates (if not transferred to sub-trusts) and therefore subject to estate duty[413]. A deferral of tax rather than a complete elimination of tax is therefore achieved through the use of trusts. Furthermore, donations tax, CGT and/or transfer duty may be levied upon the initial transfer of property into any trust which is an upfront cost that the trust founder accept in order to protect such assets from creditors and immature or spendthrift children (and not necessarily from SARS)[414].

The STEP's commentary also pointed out the wide variety of non-tax purposes for the creation of trusts, for instance, the protection of assets from commercial risk, from

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[407] Engel & Arendse 2015:8
[408] Davis Tax Committee 2015:52-53
[409] Engel & Arendse 2015:9
[410] As seen, for instance, in the cases of *Jordaan v Jordaan* 2001 (3) SA 288 (C), *Land and Agricultural Bank of South Africa v Parker* 2005 (2) SA 77 (SCA) and *Badenhorst v Badenhorst* 2006 (2) SA 255 (SCA)
[411] Foster *et al.* 2015:3 (para 2.1)
[412] Foster *et al.* 2015:4 (para 2.2)
[413] Foster *et al.* 2015:4 (para 2.2)
[414] Foster *et al.* 2015:5 (para 2.2)

bereaved and former spouses, from children's current and former spouses and their offspring, from minor or immature children, from incapacitated persons (who do not qualify for having a special trust as defined) and more[415]. They also pointed out that trusts are often required for assets subject to limited owner regulations, like agricultural land that can only be held in one name[416]. Trusts also offer a means to ensure orderly succession, rather than relying on the speedy and efficient execution of a deceased estate by an executor or the courts[417].

A further response by STEP with regard to the DTC's comment that interest-free loans that are used to fund a trust are gradually repaid over the years whereby the founder's estate is reduced prior to death[418] was that it should be remembered that such loans remain an asset in the estate of the founder which will be subject to estate duty. Any loan repayments that have not been consumed will be cash which will still fall within the founder's estate. Only the growth of the assets within the trust will fall outside the founder's estate as such assets are now owned by the trust[419].

With regard to the DTC's recommendation that all distributions from foreign trusts to South African beneficiaries be treated as income, the STEP noted in their commentary that treating distributions which formed part of original capital as income for tax purposes would be grossly unfair and that such a recommendation would simply discourage investors from bringing back funds to South Africa[420]. They are also of the opinion that the identification of sources of income in offshore trusts (which would in most circumstances consist of dividend income, interest and occasional capital gains) is straightforward when proper records are kept, as is the responsibility of professional offshore trustees, and that there would therefore be no difficulty in identifying the origin of amounts distributed[421].

The STEP also commented on the unsuitability of the voluntary disclosure programme as a way by which taxpayers could regularise their affairs with regard to undisclosed foreign assets due to the fact that the programme does not provide a limit on the interest charges that would be due[422]. Currently there is also no certainty on the levies that will be imposed by the South African Reserve Bank when such amounts are declared as these could range

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[415] Foster *et al.* 2015:5,7 (para 2.2 & 2.2.1)
[416] Foster *et al.* 2015:7 (para 2.2.1)
[417] Foster *et al.* 2015:5 (para 2.2)
[418] Davis Tax Committee 2015:38-39
[419] Foster *et al.* 2015:9 (para 2.2.3)
[420] Foster *et al.* 2015:12 (para 2.2.4)
[421] Foster *et al.* 2015:10-11 (para 2.2.4)
[422] Foster *et al.* 2015:14 (para 2.2.5)

from 5% to 30% of the value of the foreign assets at the time such assets are declared[423]. They are therefore of the opinion that the potential excessive cost of regularisation, which could be in excess of 50%, will not encourage potential applicants to bring their assets within the tax base[424].

With regard to the DTC's recommendation that the exemption of inter-spousal bequests be repealed, the STEP noted in their commentary that wealth should be taxed when there is an inter-generational transfer of wealth but that the transfer from the first dying to the surviving spouse cannot be said to be such an inter-generational transfer[425]. If the inter-spousal bequest exemption is removed or limited, the effect of inflation on property values in South Africa may also result in the surviving spouse having to sell the family home in order to generate sufficient liquidity to meet the estate duty liability which would be considered an unfair result[426].

4.8.4 LSSA

The Law Society of South Africa ('LSSA') noted in their comments that the conduit principle is not a creature of statute or legislation which can be neutralised simply by repealing sections 7 and 25B of the Income Tax Act. As this principle has been part of the common law principles applicable to trusts as decided in the Courts[427], complicated legislative intervention will be required to neutralise the conduit principle[428]. The LSSA further noted that this will go against the DTC's recommendation of 'simple yet fundamental amendments to existing legislation'[429] and will have all the potential of litigation and clarification which the Society cannot support[430].

The LSSA likewise noted the likelihood of trusts to be unbundled when the next generation wants to take control of the trust assets after the death of the founder which will result in both CGT and eventually estate duty revenue being collected[431]. Further comments on the conclusions reached by the DTC with regard to the issues relating to double taxation on death created by the imposition of both CGT and estate duty was that they felt that CGT should only be payable on the realisation of an asset and not on death. They added that the capital gains realised are not adjusted for inflationary growth which

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423 Foster *et al.* 2015:13 (para 2.2.5)
424 Foster *et al.* 2015:13 (para 2.2.5)
425 Foster *et al.* 2015:22 (para 2.3)
426 Foster *et al.* 2015:23 (para 2.3)
427 *Armstrong v CIR* 1938 AD 343; *SIR v Rosen* 1971 (1) SA 172 (A)
428 LSSA 2015:2
429 Davis Tax Committee 2015:7
430 LSSA 2015:2
431 LSSA 2015:3

could lead to the absurdity of CGT being imposed on inflationary artificial gains which in real terms may even constitute losses[432].

With regard to the withdrawal or limitation of inter-spousal exemptions and roll-overs the LSSA was of the view that this recommendation will have catastrophic consequences which will lead to undue hardship to many households, especially the elderly and vulnerable[433].

4.8.5 Conclusion

Four commentaries by professional bodies on the DTC's First Interim Report on Estate Duty were reviewed which highlighted several concerns with regard to the recommendations made in this report, notably the technical and practical difficulties that would be associated with a repeal of ss 7 and 25B of the Income Tax Act, the risk of undue hardship to households as a result of the withdrawal or limitation of the inter-spousal exemptions and roll-overs suggested and the Committee's rejection of the idea that double taxation occurs on death due to both CGT and estate duty being levied.

It therefore seems that, generally speaking, these professional bodies felt that it would be imperative to conduct further research on several matters presented in the First Report before any final decisions can be taken.

4.9 Conclusion

The literature study section contained a review of inequality in South Africa by means of various indicators and a review of the Margo and Katz Commissions' views on using a wealth tax to address inequality which was compared to the Davis Tax Committee's submissions in this regard. The section continued with a review of benchmarks for estate duty as percentage of total tax collections, for estate duty rates and for a combined effective tax rate on death which concluded that a relevant benchmark for capital taxes is for such taxes to not materially exceed 15% in order to avoid significant avoidance and evasion and a resultant reduced effective tax yield. The possible double taxation effect of both estate duty and CGT levied on death was also considered.

This section was followed by high-level summaries of the relevant aspects of estate duty, trust law and trust taxation and a discussion of the tax consequences of certain manners of taxpayers' interactions with trusts. The literature study was concluded with a review of

[432] LSSA 2015:4
[433] LSSA 2015:3

commentaries on the DTC’s First Report submitted by four professional bodies, namely FISA, SAIT, STEP and the LSSA.

5 Methodology

5.1 Case studies to compare aggregate taxation as percentage of capital held in trust versus that held in personal estate

5.1.1 Two basic scenarios used in each comparison and high-level description of comparisons

Two basic scenarios or case studies will be created, the first being a scenario where wealth assets are transferred to an *inter vivos* trust and the second where no use is made of a trust. Each scenario will have a timeline of sufficiently long duration together with typical life events along such timelines (for instance, death of the founder, death of the surviving spouse etc.) and typical restructuring events with regard to trusts (for instance, where a single trust is restructured to form separate trusts for adult children to be managed separately).

The capital growth and income growth assumptions used for the wealth assets in the two basic scenarios will be the same. All taxation with regard to the income produced by the wealth asset, the CGT paid on disposals and estate duty collected will be calculated for each scenario on an annual basis. The aggregate tax paid by all parties from inception of each scenario will be calculated at the end of each year. This aggregate taxation amount, which will build up over time, will be expressed as a percentage of the theoretical market value of the wealth asset at the end of that particular year (using the abovementioned growth assumptions) in order to get a sense of the relative total taxation levied on the assets at the end of any given year. The comparison between these two scenarios using current legislation will provide the baseline comparison (Comparison 1).

This comparison will then be repeated using the DTC's First Report's recommendations (Comparison 2) and again using the expected recommendations in the DTC's Second Report and those in the 2016 Budget Review (Comparisons 3a and 3b).

5.1.2 Duration of trust and personal estate scenarios

In order to test the build-up of wealth in a typical trust structure and that in a personal estate together with testing the effect of typical events, for instance the death of the founder, spaced out in time, a duration of 50 years was arbitrarily selected over which the comparative analyses will be performed.

Within this 50 year timeline, certain parameters will be applied during certain periods which should coincide with the age and life situation of the founder and beneficiaries in a typical family trust.

5.1.3 Trust timeline and assumptions

The timeline in the trust scenarios will consist of the following events occurring in the following years. For ease of calculation, all events are assumed to occur on the last day of the year (unless otherwise indicated). The timelines are summarised in Table 2 below and all the parameters and assumptions used are summarised in Table 3. The trust timeline and events are as follows:

- Beginning of year 1:
  - Founder (age around 40 years) sells an investment asset to an *inter vivos* discretionary trust (Trust 1) of which the beneficiaries are the founder, spouse and two children (family of four).
    - A market value of R10,000,000 and base cost of R5,000,000 will be used across all scenarios.
    - The asset is assumed to have a fixed capital value growth (using Piketty's assumptions that the growth in capital is higher than that of the growth of income, income is assumed to grow at an assumed rate of inflation). The average annual capital growth rate includes all reinvestment of income produced and is net of all expenses except the payment of tax. The average capital growth value used will be 10%[434].
    - The asset is also assumed to produce a fixed rate of taxable income per year of 5% of the asset value at the beginning of that year[435]. In order to simplify tax calculations only a rate of taxable income is calculated and exempt income (such as dividends) is left out of the picture. The only effect that exempt income may have on the scenarios is an increase in loan account growth. Capital gains will only be taken into account when a major

[434] The investment asset is deemed to consist of a mixture of assets types similar to those held in a balanced fund unit trust. The 10% average capital growth value is a conservative estimate selected based on a rough average of 10-year forecasts of local equity (7 – 10%), global equity (10 – 13%), local property (7 – 10%) and local bonds and cash (6 – 9%) (Coronation Asset Managers 2015:9) and annualised return benchmarks for 10 years (10.8%) and beyond (13.6%) used by a prominent balanced fund (Allan Gray 2016:1).
[435] Arbitrary assumption that roughly half of average long-term capital growth is due to reinvestment of taxable income earned.

restructuring or forced liquidation event occurs which will result in all (or a large portion) of the assets in the trust being sold at the same time.

    - Income is distributed annually between the four beneficiaries on an equal basis on loan account. Each year, the tax amount due by the beneficiaries will be distributed as cash (this causes a reduction of the each beneficiary's outstanding loan account each year). A further R100,000 annual donation of each loan account is made to reduce the loan accounts further.
    - Cash distributions for purposes of paying tax are assumed to be made from cash reserves therefore no sale of assets or CGT thereon is required.
    - The beneficiaries other than the founder are assumed to have a lower effective tax rate due to being minors (children) or not earning additional income (for instance, non-working spouse).

- From year 11 onwards: Children start to earn income
  - Adult children who are beneficiaries start working and their effective tax rates increase (not yet at highest tax bracket). This rate will be adjusted upward every 5 years to reflect their increasing earning capacity.
- From year 21 onwards: Founder retires
  - Adult children's tax rates increase to maximum marginal rate as they start to become higher income earners.
  - Founder and spouse draw down annually on loan accounts in order to supplement retirement income. Draw down amounts increase with an assumed rate of inflation of 6% each year[436].
  - Founder's effective tax rate remains high due to other retirement income coupled with loan account draw down amounts or other cash distributions.
  - All cash distributions are assumed to be from cash reserves in the trust therefore no additional CGT due to sale of assets will be due.
- Year 30 (end): Founder dies
  - Founder donates remainder of loan account to trust (Trust 1) through a *donatio mortis causa* (or not, but estate duty may be due on the value of the remaining loan account regardless).
  - Surviving spouse continues to draw down on loan account to supplement retirement income.

[436] Coronation Asset Managers 2015:9

- Year 35 (end): Trust is restructured as adult children have own families and require separate trusts for each (Trust 2a and Trust 2b)
  - There is a capital gain event in the trust (Trust 1) on distribution of all assets that adult children are entitled to (two thirds of trust capital). Adult children transfer such amounts net of CGT to their own trusts (Trusts 2a and 2b) on loan account. The capital gain on the sale of two thirds of the original trust's assets is distributed to the living beneficiaries in order to take advantage of the lower capital gains inclusion rate.
  - Each of the new trusts (Trust 2a and 2b) have four beneficiaries (founder, spouse, two children).
  - The same principles with regard to loan accounts, cash distributions for tax payments and annual donations of loan accounts will apply as with the original trust (Trust 1).
  - The beneficiaries (of Trusts 2a and 2b) other than the founders are assumed to have lower effective tax rates due to being minors (children) or not earning additional income (for instance, non-working spouse).
  - The surviving spouse (Trust 1) continues to draw down on loan account and cash reserves from remaining assets in the original trust.
- Year 40 (end): Surviving spouse dies
  - Surviving spouse donates remainder of loan account to trust (Trust 1) through a *donatio mortis causa* (or not, but estate duty may be due on the value of the remaining loan account regardless).
  - Original trust (Trust 1) distributes remainder of capital to living beneficiaries who transfer it into their respective trusts (Trusts 2a and 2b) on loan account.
- Year 50 (end): Restructuring of trusts for 3rd generation
  - This is a final CGT event in order to test the comparative effect of a full exit or disposal of all assets between the trust and personal estate scenarios. All assets in each of the new trusts are disposed of and distributed to all individual beneficiaries.

5.1.4 Personal estate timeline and assumptions

The timeline in the personal estate scenarios will consist of the following events occurring in the following years. For ease of calculation, all events are assumed to occur on the last day of the year (unless otherwise indicated). The timelines are summarised in Table 2 below and all the parameters and assumptions used are summarised in Table 3. The personal estate timeline and events are as follows:

- Beginning of year 1:
    - Founder (age around 40 years) keeps an asset in his or her personal name, that is, it forms part of his or her estate.
        - The same starting market value and base cost of the asset as used in the trust scenario will apply.
        - The same average annual fixed capital growth rate will be used as in the trust scenario.
        - The same fixed rate of taxable income per year will be used as in the trust scenario.
        - All income will be taxed in the hands of the founder or owner whose tax rate is assumed to be at the same starting tax bracket as used for the founder in the trust scenario.
        - Tax is assumed to be paid out of cash reserves in the investment therefore no CGT event as a result of cash payments.
- From year 21 onwards: Owner retires
    - Owner and spouse draw down investment income earned to supplement retirement income which will result in a reduction of the estate value.
    - All cash distributions are assumed to be from cash reserves in the investment vehicle therefore no additional CGT due to sale of assets will be due.
- Year 30 (end): Owner dies
    - The full asset is deemed to be bequeathed to the surviving spouse and therefore subject to the s 4(*q*) deduction when calculating the founder / owner's dutiable estate.
    - There is a CGT inter-spouse rollover with regard to the asset therefore no CGT will be due.
    - Estate duty is levied at 20% of the dutiable estate value after the deduction of the s 4A abatement (currently at R3,5 million per taxpayer).
    - The surviving spouse continues to draw down investment income to supplement retirement income, which income is assumed to be from cash reserves (that is, no CGT as a result).
- Year 40 (end): Surviving spouse dies
    - The full asset is deemed to be bequeathed to the adult children of the couple therefore no s 4(*q*) estate duty deduction is applicable.

- CGT is calculated on death with no inter-spouse rollovers now applicable (original base cost used).
- Estate duty is levied at 20% of the dutiable estate value after the deduction of the s 4A abatement (currently at R3,5 million per taxpayer but if this abatement was not fully utilised in the estate of the first-dying spouse then an amount of up to R7 million may be available as abatement in the last-dying spouse's estate).
- If applicable, it is assumed that no rapid succession estate duty rebate will apply.
- The base cost assumed by the heirs equals the market value of the asset on the death of the last-surviving spouse.

- Year 50 (end): Sale of assets by heirs
  - This is a final CGT event in order to test the comparative effect of a full exit or disposal of all assets between the trust and personal estate scenarios. CGT is calculated on the sale of all assets in the hands of the two adult beneficiaries.

5.1.5 Summarised comparative timeline for trust and personal estate

Below is a table which summarises the events and timelines for each of the trust and the personal estate scenarios as set out in more detail in the sections above.

Table 2 – Summary of trust and personal estate timelines

Year	Trust timeline	Personal estate timeline
1	Asset sold to trust (Trust 1) on loan account (at start of year)	Asset remains in personal estate
11	Effective tax rate of beneficiaries increase (adjusted every 5 years)	-
21	Founder retires (from start of year); Founder and spouse start making annual withdrawals to supplement retirement income, adjusted annually for inflation – withdrawals assumed to be from cash reserves, i.e. no CGT	Owner retires (from start of year); Owner and spouse start making annual withdrawals to supplement retirement income, adjusted annually for inflation – withdrawals assumed to be from cash reserves, i.e. no CGT

Year	Trust timeline	Personal estate timeline
30	Founder dies (at end of year) and bequeaths loan account via *donatio mortis causa* to trust (estate duty on remaining loan account, no CGT)	Owner dies (at end of year) and bequeaths full asset value to surviving spouse (s 4 (*q*) deduction and CGT rollover)
35	Trust restructured (at end of year) for each child beneficiary (CGT event) and two new trusts created (Trusts 2a and 2b); Surviving spouse remains beneficiary of original trust (Trust 1) and continue withdrawals.	-
40	Surviving spouse dies (at end of year) and bequeaths loan account via *donatio mortis causa* to trust (estate duty on remaining loan account, no CGT); Remaining trust assets distributed to surviving children and transferred to their respective trusts (Trusts 2a and 2b)	Surviving spouse dies (at end of year) and bequeaths assets to surviving children (estate duty and CGT on full asset value – no rapid succession rebate)
50	Restructuring of Trusts 2a and 2b for 3rd generation of beneficiaries (CGT event – sale of all trust assets)	Sale of all assets by heirs (CGT event)

5.1.6 *Assumptions used with regard to taxation and the effect that paying of taxes has on the capital value of the investment asset*

It is assumed that CGT will only be due when a major restructuring event occurs and that the CGT due by all parties will reduce the value of the investment or wealth asset when reinvested. It will further be assumed that all income taxes paid annually, with regard to the taxable investment income generated by the wealth asset and which is due by either the trust or the beneficiaries, will reduce the value of the wealth assets. It will also be assumed that such cash distributions are paid from the cash reserves of the investment and will therefore not require the disposal of any investment assets or any additional CGT.

Withdrawals by the founder and spouse for the period after retirement will likewise be deemed to be made from cash reserves and not result in additional CGT as a result of the disposal of investment assets.

Estate duty and CGT due on the death of either the founder or spouse in the scenarios where the investment asset is held in the taxpayers’ personal estates will be assumed to result in a liquidation of investment assets in order to pay such taxes but as such disposal will be deemed to occur immediately after the CGT calculation on death, the base cost and market value of such assets will be assumed to be the same at the time of such disposal and therefore no additional CGT will be calculated as a result of this disposal.

5.1.7 *Parameters and assumptions used in trust and personal estate scenarios*

The following tables show the various parameters used in the calculation of the scenarios with explanations provided regarding the rationale behind these assumptions in the footnotes or below the tables.

Table 3 – Parameters and assumptions used in trust and personal estate scenarios

Parameter	Value
Market value of investment asset at start of Year 1	R 10,000,000
Base cost of asset at start of Year 1	R 5,000,000
Average annual capital growth rate (including reinvestment of income net of tax and expenses) [437]	10%
Annual taxable income as percentage of investment asset[438]	5%
Founder's assumed effective income tax rate (due to other income earned elsewhere, e.g. employment)[439]	38%
Initial annual post-retirement withdrawal (from Year 21) per person (founder and spouse)[440]	R 750,000
Assumed inflation rate at which post-retirement withdrawal amounts increase annually[441]	6%

[437] The investment asset is deemed to consist of a mixture of assets types similar to those held in a balanced fund unit trust. The 10% average capital growth value is a conservative estimate selected based on a rough average of 10-year forecasts of local equity (7 – 10%), global equity (10 – 13%), local property (7 – 10%) and local bonds and cash (6 – 9%) (Coronation Asset Managers 2015:9) and annualised return benchmarks for 10 years (10.8%) and beyond (13.6%) used by a prominent balanced fund (Allan Gray 2016:1).
[438] Arbitrary assumption that roughly half of average long-term capital growth is due to reinvestment of taxable income earned. The annual taxable income will be calculated using the opening value of the capital in any given year.
[439] This effective tax rate relates to a total taxable income for a person under the age of 65 of approximately R3,1 million per annum (see Table 80 in Annexure 9.5.2.
[440] Arbitrarily chosen amount to achieve a reduction of the founder’s loan account after retirement without reducing the remaining loan account on death to a value below the current s 4A abatement amount of R3,5 million in order to include the effect of estate duty on such loan in Comparison 1.
[441] Coronation Asset Managers 2015:9

The following table contains the effective tax rates at which the distributed income from the trust is taxed in the hands of each beneficiary at each point in the trust timeline in order to demonstrate the effect of income-splitting. The effective tax rates are calculated using a lookup table contained in Table 80 in Annexure 9.5.2 and for beneficiaries under the age of 65 as per the latest personal income tax rates announced[442]. Even though some beneficiaries (notably the founder and spouse) may reach ages older than 65 in the latter stages of the various case studies, the effect of the additional secondary and tertiary abatements are assumed to be negligible in determining the applicable effective tax rate.

Table 4 – Effective tax rates used for individuals at various points in the timelines

Period (years) and explanation of timeline situation	***Founder's tax rate (effective)***[443]	***Spouse's tax rate (effective)***	***Child beneficiaries' tax rate (effective)***
Years 1 – 10 **Beneficiaries are minors / unemployed spouse – no other income**	38%	Per effective tax rate tables *(Annexure 9.5.2)*	Per effective tax rate tables *(Annexure 9.5.2)*
Years 11 – 20 **Beneficiaries start earning other income**	38%	Per effective tax rate tables *(Annexure 9.5.2)*	Yr 11 – 15: 25% Yr 16 – 20: 30%
Years 21 – 30 **Founder retires, beneficiaries are higher income earners**	38%	Per effective tax rate tables *(Annexure 9.5.2)*	Yr 21 – 25: 35% Yr 26 – 30: 38%
Years 30 – 50 **Founder has died, beneficiaries remain high-income earners**	-	Per effective tax rate tables *(Annexure 9.5.2)*	Yr 31 – 50: 39% (Spouse and children in Trusts 2a and 2b: per effective tax rate tables)

442 Rates and Monetary Amounts and Amendment of Revenue Laws Bill (Draft) 2016
443 In the trust scenarios, the effective tax rate used for the founder was 38% unless the effective tax rate tables resulted in a higher effective tax rate, in which case the higher effective tax rate was used.

5.1.8 Loan accounts due to trust

For all the trust scenarios, the founder will sell the capital asset to the trust on loan account at the start of each trust scenario. All loan accounts will be interest-free. In order to demonstrate the effect of income-splitting, each beneficiary, including the founder, will receive income distributions on loan account annually. The income tax calculated on such distributions will be deemed to be distributed in cash to enable the beneficiaries to pay the tax due in their personal tax returns as a result of such vested income. Such cash distributions will therefore reduce the loan accounts each year.

Annual donations of R100,000 will also be made by each beneficiary on his or her loan account. Post-retirement withdrawals will be calculated using the starting value as set out in the parameters above and increased with the assumed inflation percentage annually. Both the founder and spouse will start to draw down these amounts to supplement their retirement accounts from their loan accounts from the year of retirement (Yr 21) until their respective deaths.

The loan accounts in the trust are calculated in order to determine the estate duty effect of a remaining loan account on death in the trust scenario.

5.1.9 Treatment of cash distributions in both trust and personal estate

It is assumed that any cash distributions made with regard to the income tax payments and the post-retirement withdrawals are done from cash reserves of the capital investment and that such amounts will not require any disposals of the capital which will result in CGT. These cash distributions will, however, reduce the total capital value (invested capital plus cash reserves) of the investment each year. This assumption applies to both the trust and personal estate scenarios.

Any estate duty and CGT due on any taxpayer’s death will however be deemed to require a disposal or reduction of capital (assumed to occur directly after the date of death therefore no additional CGT will be due on such disposal as proceeds will equal base cost). This assumption will also apply to both the trust and personal estate scenarios.

5.1.10 Comparisons of total taxation collected in trust and personal estate scenarios using current legislation, recommendations of the First Report and expected recommendations of the Second Report on Estate Duty

The following comparisons will be made between the total taxation collected over the 50 year period as a percentage of the capital value of an asset held in a trust compared to holding such asset in a personal estate.

As no clarity has yet been given with regard to the implementation of the vague suggestions made with regard to the taxation of trusts in the 2016 Budget Review and as it seems unfair to levy both donations tax and estate duty on the same assets[444], Comparison 3 was split into two sub-comparisons: one where the upfront donations tax will apply with regard to an interest-free loan made to a trust when transferring assets to such trust (Comparison 3a) and one where no upfront donations tax was paid but where the trust assets are deemed to be included in the founder's estate on his or her death (Comparison 3b).

Table 5 – Description of applicable legislation in each comparison case study

Comparison case study	**Trust**	**Personal estate**
Comparison 1	Using current trust legislation	Using current estate duty legislation, rates and abatements
Comparison 2	Using recommendations regarding changes to trust taxation contained in the First Interim Report on Estate Duty - Repeal of conduit principle (s 25B)[445]: all income taxed in trust at 41%	Using recommendations regarding changes to estate duty legislation contained in the First Interim Report on Estate Duty - Repeal of s 4(*q*) deduction[446] - Estate duty abatement of R6 million[447]

[444] See discussion under chapter 4.7.7
[445] Davis Tax Committee 2015:39
[446] Davis Tax Committee 2015:51
[447] Davis Tax Committee 2015:64

Comparison case study	Trust	Personal estate
Comparison 3a	Using current trust legislation 2016 Budget Review – initial sale of assets in trusts on loan account is treated as a donation[448] attracting donations tax at 20%	Using recommendations regarding changes to estate duty legislation contained in the expected Second Interim Report on Estate Duty - Repeal of s 4(*q*) deduction - Estate duty abatement of R15 million[449] - Progressive estate duty rate of 25% to apply above certain dutiable estate value (assumed to apply to so much of dutiable estate value as exceeds R15,000,000)[450]
Comparison 3b	Using current trust legislation 2016 Budget Review – on death of founder, trust assets are included in founder's estate and attracts estate duty[451] under the expected new estate duty legislation (same as for personal estate)	*Same as in Comparison 3a above*

5.1.11 *Manner of evaluating the comparison case studies*

In order to compare the effect of taxation on a typical trust and inheritance structure to that of assets held in a taxpayer's personal estate, the total taxation (income tax paid by all parties, estate duty, CGT and donations tax) which accumulated from the beginning of the entire test period until the end of a particular year is expressed as a percentage of the capital value of the investment asset at the end of that particular year.

448 Department of National Treasury 2016a:49
449 Davis 2015
450 As no indication was given by Judge Davis as to the dutiable estate value from which the increased estate duty rate of 25% will apply (Davis 2015), the assumption was made for the purpose of this study that this level would be the same as the suggested abatement value. This higher rate will therefore apply to the portion of dutiable estate values above R15 million which will therefore affect estates with net estate values exceeding R30 million (where the dutiable estate value is calculated as R30 million net estate value less R15 million s 4A abatement).
451 Department of National Treasury 2016a:49

This would therefore give an indication of whether the total taxation paid to date in any particular year compared to the value of the capital value at the end of that year may be deemed punitive or in excess of the benchmarks generally regarded as the maximum tolerable taxation of wealth (that is, 15%)[452]. In order to present a more refined comparison which isolates CGT and wealth taxes from income tax, the accumulated tax value per year will also be calculated by taking only CGT, estate duty and donations tax, where applicable, into account (that is, all taxes excluding income tax).

To present a visual format in which the comparison may be evaluated, a graphic representation will be made of the following parameters over the 50-year timeline:

- **'Cumulative total tax' set of charts:**
  - Cumulative total tax paid per year (income tax, CGT, estate duty and donations tax) in each scenario (trust and personal estate) within each comparison.
  - Trust capital or estate value per year
  - Cumulative total tax as percentage of capital value per year
  - Difference between personal estate and trust: Cumulative total tax as percentage of capital value per year
- **'Cumulative total CGT, estate duty and donations tax' set of charts:**
  - Cumulative total CGT, estate duty and donations tax paid per year (all taxes except income tax) in each scenario (trust and personal estate) within each comparison.
  - Trust capital or estate value per year (same as in previous set of charts)
  - Cumulative total CGT, estate duty and donations tax as percentage of capital value per year
  - Difference between personal estate and trust: Cumulative total CGT, estate duty and donations tax as percentage of capital value per year

This would help to indicate in which scenarios the capital value is severely affected as a result of the taxes due as well as whether situations may arise where the total cumulative taxes as a percentage of the capital value materially exceeds 15% at which point it becomes more likely that significant avoidance and evasion (and a resultant reduced effective tax yield) will occur[453].

To simplify the visual evaluation, the difference between the cumulative total tax as percentage of capital value line graph in the trust scenario and the personal estate scenario

[452] See discussion under chapter 4.3.3
[453] See discussion under chapter 4.3.3

related to each comparison will also be calculated and displayed in a chart (that is, cumulative total tax as percentage of capital value for asset held in personal estate *less* cumulative total tax as percentage of capital value for asset held in trust).

If this derived value is greater than 0% then more tax as a percentage of the capital value is paid if the asset is held in a personal estate than in a trust which means that, holding the asset in a trust is more tax effective relevant to the preservation of wealth achieved than holding the asset in a personal estate.

If this derived value is less than 0% then more tax as a percentage of the capital value is paid if the asset is held in a trust than in a personal estate in which case it may be more advantageous to hold the asset in a personal estate than to transfer it to a trust. If the latter is the case, an effective deterrent for the use trusts and aggressive estate planning may be created.

The same difference value will be determined for the cumulative CGT, estate duty and donations tax as percentage of capital value data sets.

Each chart presented will have indicators showing the time at which the major events in the scenarios occurred (for instance, the death of the founder, restructuring of trust, death of surviving spouse) in order to evaluate visually how these events affect the various outcomes in those years.

5.1.12 Data sheets and supplementary charts

The detailed data sheets related to each scenario in each comparison will be calculated using Excel and contained in the Annexures in chapter 9. The following data tables and charts will be presented in the annexures per comparison (that is, for each of Comparison 1, 2, 3a and 3b):

- **All scenarios:**
    - All scenarios: Post-retirement withdrawal schedule (from Yr 21 to Yr 40)
    - Effective tax rate lookup tables
- **Trust scenario:**
    - Trust 1: Capital growth (from Yr 0 to Yr 40)
    - Trust 2a and 2b: Capital growth combined (from Yr 35 to Yr 50)
    - Trust 1: Income and income tax (excluding CGT)
    - Trust 2a and 2b: Income and income tax (excluding CGT)

- All trusts (1, 2a, 2b): Other taxes (CGT on transfer, estate duty on death, CGT on death, donations tax (trust scenario in Comparison 3a only)) – all years
- Trust 1: Loan accounts:
  - Founder
  - Spouse
- Trust summary:
  - Total capital (Trust 1 + Trust 2a and 2b)
  - Total taxes (Trust 1 income tax + Trust 2a and 2b income tax + All trusts' other taxes)
  - Cumulative total taxes
  - Cumulative total tax / Total capital
  - Cumulative CGT, estate duty and donations tax
  - Cumulative CGT, estate duty and donations tax / Total capital
- Trust summary (using capital year-end values before year-end adjustments)

- **Personal estate scenario:**
  - Personal estate: Capital growth
  - Personal estate: Income and income tax (excluding CGT)
  - Personal estate: Other taxes (CGT on transfer, estate duty on death, CGT on death)
  - Personal estate summary:
    - Total capital
    - Total taxes (Income tax + Other taxes)
    - Cumulative total taxes
    - Cumulative total tax / Total capital
    - Cumulative CGT, estate duty and donations tax
    - Cumulative CGT, estate duty and donations tax / Total capital
  - Personal estate summary (using capital year-end values before year-end adjustments)
- **Comparative data and charts:**
  - Cumulative total tax
    - Trust v. Personal estate
  - Capital value
    - Trust v. Personal estate
  - Cumulative total tax as percentage of capital value
    - Trust v. Personal estate

        - Cumulative CGT, estate duty and donations tax
            - Trust v. Personal estate
        - Cumulative CGT, estate duty and donations tax as percentage of capital value
            - Trust v. Personal estate
- **Difference data and charts:**
    - Cumulative total tax as percentage of capital value
        - Personal estate *less* Trust
    - Cumulative CGT, estate duty and donations tax as percentage of capital value
        - Personal estate *less* Trust

The charts that will be presented in the results section will combine all data sets in all scenarios for all comparisons as line charts on a single graph per output parameter. The detail per comparison as listed above will be available in the Annexures in chapter 9.

5.2 High-level estimate of CGT payable on death – considering the possible double taxation effect of estate duty and CGT on death

As stated in the literature study section, the numbers provided by the Department of National Treasury and SARS for total CGT collected from individuals include both normal disposals as well as disposals on death but no separate breakdown is currently provided for CGT collected on death in the Tax Statistics documents issued by the two government entities[454].

The DTC's First Report, however, contains a sample of estate duty collected by SARS in 2013 with a high-level breakdown of the distribution across four broad estate value bands in Table 2[455] (and again in Table 6[456]) of the Report. This sample is said to represent 70% of the estate duty collected in the 2013 tax year[457] and can therefore be said to be most likely representative of the full population of estates from which estate duty was collected during that tax year. Not enough information is provided in the Report, however, to perform any detailed statistical analysis on this data. The Report also states that there is no

[454] Department of National Treasury & SARS 2014:224
[455] Davis Tax Committee 2015:31
[456] Davis Tax Committee 2015:63
[457] Davis Tax Committee 2015:31

information to determine, among other facts, what the effect of the double taxation of estate duty and CGT is on death[458].

The DTC's First Report also furnished an unpublished SARS statistic in a different section to where the estate duty sample was discussed which states that only 4% of the estates reported to SARS in 2013 were liable for CGT[459]. The results of an analysis of the effective tax rates on death by National Treasury is furthermore included in the Report which uses further assumptions with regard to the percentage of an estate that is likely to be subject to CGT, with a stated worst-case scenario maximum of 50% of the value of the estate[460].

The above information in addition to the amount of CGT collected in total from individuals as provided with regard to the 2013 tax year in the 2014 Tax Statistics document[461] by the Department of National Treasury and SARS[462] may, however, be utilised in conjunction with some reasonable assumptions to arrive at a very rough estimate of the amount of CGT possibly paid on death in the 2013 tax year.

Although there may be many ways of approaching the calculation of such an estimate given the little information available, the methodology followed in this research report represents only one possible approach and by no means purports to provide a definitive or accurate answer or even a statistical probability of the correctness of the estimate.

The assumptions used and the calculations are explained in detail in the results section below. Such an estimate would provide an indication of the double taxation effect of CGT payable on death in conjunction with estate duty and help to arrive at an indication of the total taxes paid on death as a percentage of total revenue collected in South Africa, with specific reference to the 2013 tax year. This may then be used to better compare the collection of taxes on death as percentage of total revenue of South Africa to that of other countries as was done in the DTC's First Report[463].

As these numbers will only be able to provide an overall or average indication of CGT payable on death based on a large sample of estates, a case study approach would not have been appropriate for this problem statement. Any individual high-value estate contained in

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[458] Davis Tax Committee 2015:32
[459] Davis Tax Committee 2015:57
[460] Davis Tax Committee 2015:57
[461] The 2013 Tax Statistics document did not contain a chapter on Other Taxes and Collections as this chapter was only included in the Tax Statistics publications from the 2014 tax year onwards. The 2014 Tax Statistics document does, however, contain historical data with regard to CGT collections for individuals and companies per tax year going back to the 2010 tax year.
[462] Department of National Treasury & SARS 2014:224
[463] Davis Tax Committee 2015:29-30

a case study may still be subject to some form of double taxation under certain circumstances (for instance, where little or no CGT exemptions or roll-overs are applicable to the assets in such an estate). It will therefore not be possible, using such an approach, to reach a conclusion on the overall or average double taxation that occurs as a result of assets in estates possibly being subject to both CGT and estate duty on the death of the taxpayer. Instead, high-level extrapolations of the data made available in the DTC's First Report will be used to arrive at a rough, high-level estimate for total CGT collected as a result of taxpayers' deaths in the 2013 tax year.

5.3 Conclusion

This chapter explained the methodology used for the three case study problem statements and for the problem statement regarding a high-level estimate of CGT paid on death. With regard to the case studies, the case study timelines for both a trust and a personal estate scenario were explained and the starting parameters and other assumptions used were provided. The output parameters to be calculated were furthermore explained and the type of data sets that will be made available in the annexures were listed. With regard to the high-level estimate of CGT paid on death, the source of the seed information used in the estimate was discussed as well as the high-level approach to be followed. Lastly, the reasoning behind not following a case study approach for this problem statement was discussed.

6 Results and Discussion

6.1 Case studies to compare aggregate taxation as percentage of capital held in trust versus that held in personal estate

In this section the results related to each outcome parameter introduced in chapter 5.1.11 will be presented as line graphs and discussed.

All the charts presented in this section use the following symbols and colour coding:

Solid lines with diamond-shaped markers denote the **trust** scenarios:

Dotted lines with open circle markers represent the **personal estate** scenarios:

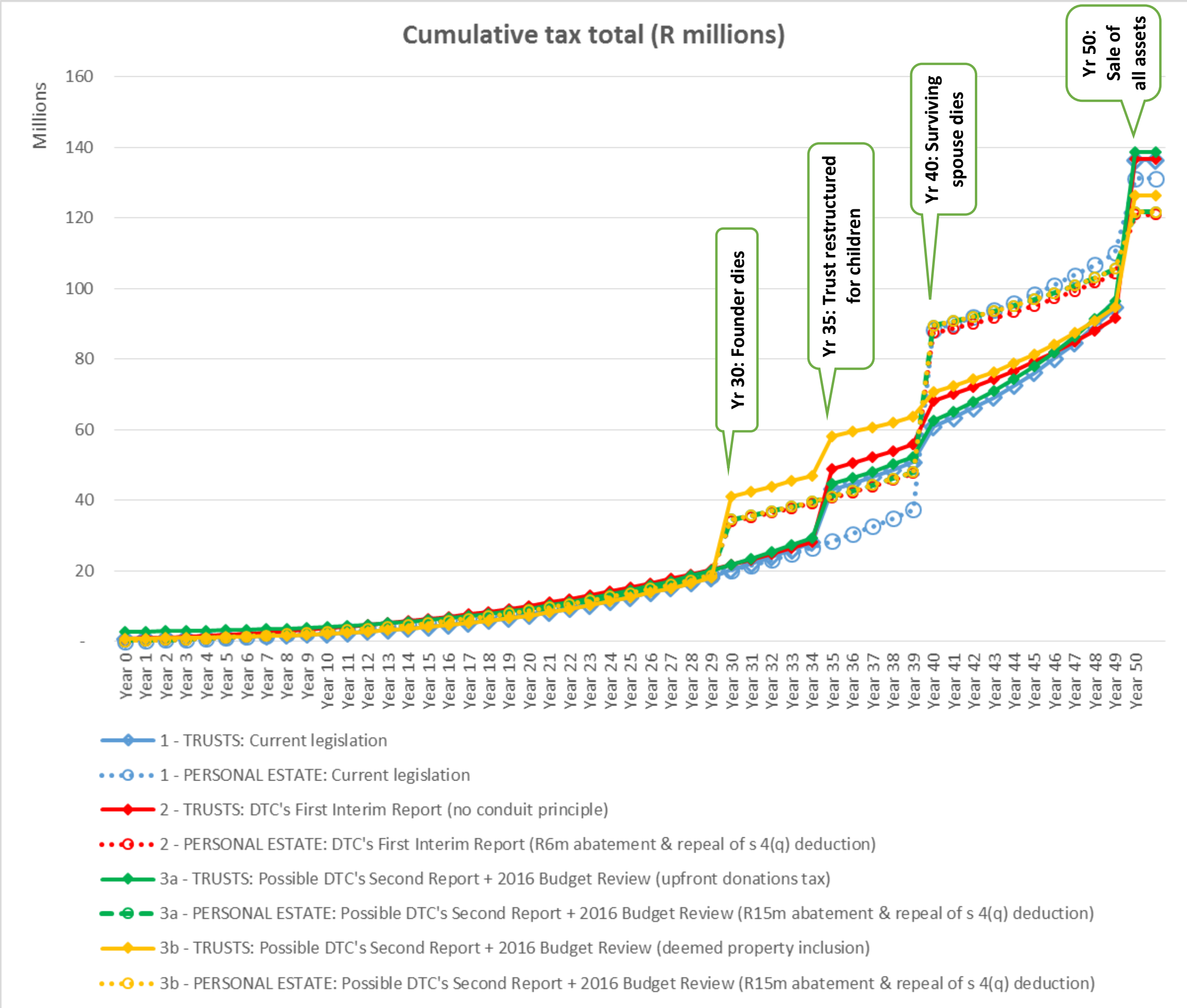
The comparisons are colour-coded as follows:

- **Comparison 1:** Current legislation: **BLUE**
- **Comparison 2:** DTC's First Report: **RED**
- **Comparison 3a:** DTC's expected Second Report and 2016 Budget Review (upfront donations): **GREEN**
- **Comparison 3b:** DTC's expected Second Report and 2016 Budget Review (trust assets deemed property in estate on death): **ORANGE**

6.1.1 Cumulative total taxation

The following chart represents the cumulative total tax, that is, income tax, CGT, estate duty and donations tax (the latter relates to Comparison 3a only) over the course of each scenario for all 4 comparisons.

Figure 1 – Cumulative total taxation



Discussion

The cumulative total tax amounts at the end of the various scenarios (in Year 50) do not seem to differ greatly between the scenarios with roughly only a R20 million variance between all scenarios after a period of 50 years (ranging from about R120 million to R140 million). The timing of the tax events at each of the major events will however have an effect on the capital value retained, as will be seen in the charts to follow (Figure 3).

The sudden increases in cumulative tax seen in the various line graphs coincide with a significant tax event in each scenario, for instance, estate duty and CGT on the death of the founder or spouse or CGT payable due to a restructuring. When the capital value is decreased due to a major tax event, the investment income generated in the following year (calculated as a percentage of the capital value at the start of each year[464]) will be reduced which will result in less income tax due annually. This can be seen as a decreased slope in certain line graphs after the occurrence of a significant tax event compared to other line graphs.

As the capital is allowed to grow over the years following such an event, the taxable income generated each year will gradually increase as will the income tax due. This can be seen as a gradually increasing slope in each line graph in the above chart over a period of time.

Year 30: In Year 30 (death of founder) all the personal estate line graphs for Comparisons 2, 3a and 3b see an increase as a result of estate duty due in the founder's estate because of the suggested repeal of the s 4 (*q*) estate duty deduction (with regard to inter-spousal bequests)[465]. The only personal estate scenario that does not see an increase in taxes in this year is that of Comparison 1 due to the s 4 (*q*) deduction still in place per current legislation.

The only trust scenario that has a major tax event on the death of the founder is the one in Comparison 3b due to the treatment of the trust assets as deemed property in the estate of the founder. In the trust scenarios, the death of the founder could possibly result in a minor increase in total taxes in that year as a result of estate duty due on the portion of any remaining loan account of the founder that exceeds the s 4A abatement amount applicable to each scenario. The only trust scenario that will have a minor estate duty on the death of the founder is that of the baseline Comparison 1 as a result of the remaining loan account exceeding the R3,5 million estate duty abatement per current legislation. In all the other trust scenarios, the remaining loan account will fall below the increased s 4A abatements (R6 million and R15 million in Comparison 2 and in Comparisons 3a and 3b respectively) and therefore no estate duty will be due on the founder's loan account in these scenarios.

Year 35: The major tax event in Year 35 will only affect the trust scenarios as this is the CGT due as a result of restructuring the trust by distributing two thirds of the trust assets to the two adult children (one third each) in order for them to set up their own trusts. The extent of the tax event will however vary as the tax payable will depend on the value of the trust assets at the end of Year 35. As can be seen, the amount of CGT paid by the trust in Comparison 3b is markedly less than that paid in the other trusts as the trust in this scenario already had a major tax event as a result of the death of the founder in Year 30 (estate duty) which would have depleted the capital value on which CGT will be

[464] Refer assumptions per Table 3 in chapter 5.1.7
[465] See discussion under chapter 4.4

calculated in Year 35. The tax event in Comparison 2 (the DTC's First Report's recommendations, which repealed the conduit principle) is also greater than that in the other trust scenarios due to the higher capital gains inclusion rate applicable to trusts which applies to the CGT calculation in this scenario.

Year 40: Year 40 shows a significant tax event for all the personal estate scenarios as a result of estate duty and CGT due on the death of the surviving spouse. Even though the total cumulative tax paid by all the personal estate scenarios are very similar at this point (about R90 million), the real difference will be seen in the effect on the capital value in the charts to follow (Figure 3). In the trusts, a relatively minor tax event occurs in this year as the remaining assets in the original trust (Trust 1) is distributed to the two living beneficiaries which triggers CGT.

Year 50: The exit event in Year 50 will attract more CGT in scenarios where the capital value that has been achieved at the end of Year 50 is greater. It can therefore be seen that the extent of the increase in cumulative taxes in that year is lower for the personal estate scenarios than for the trust scenarios where higher capital values have been achieved.

Conclusion

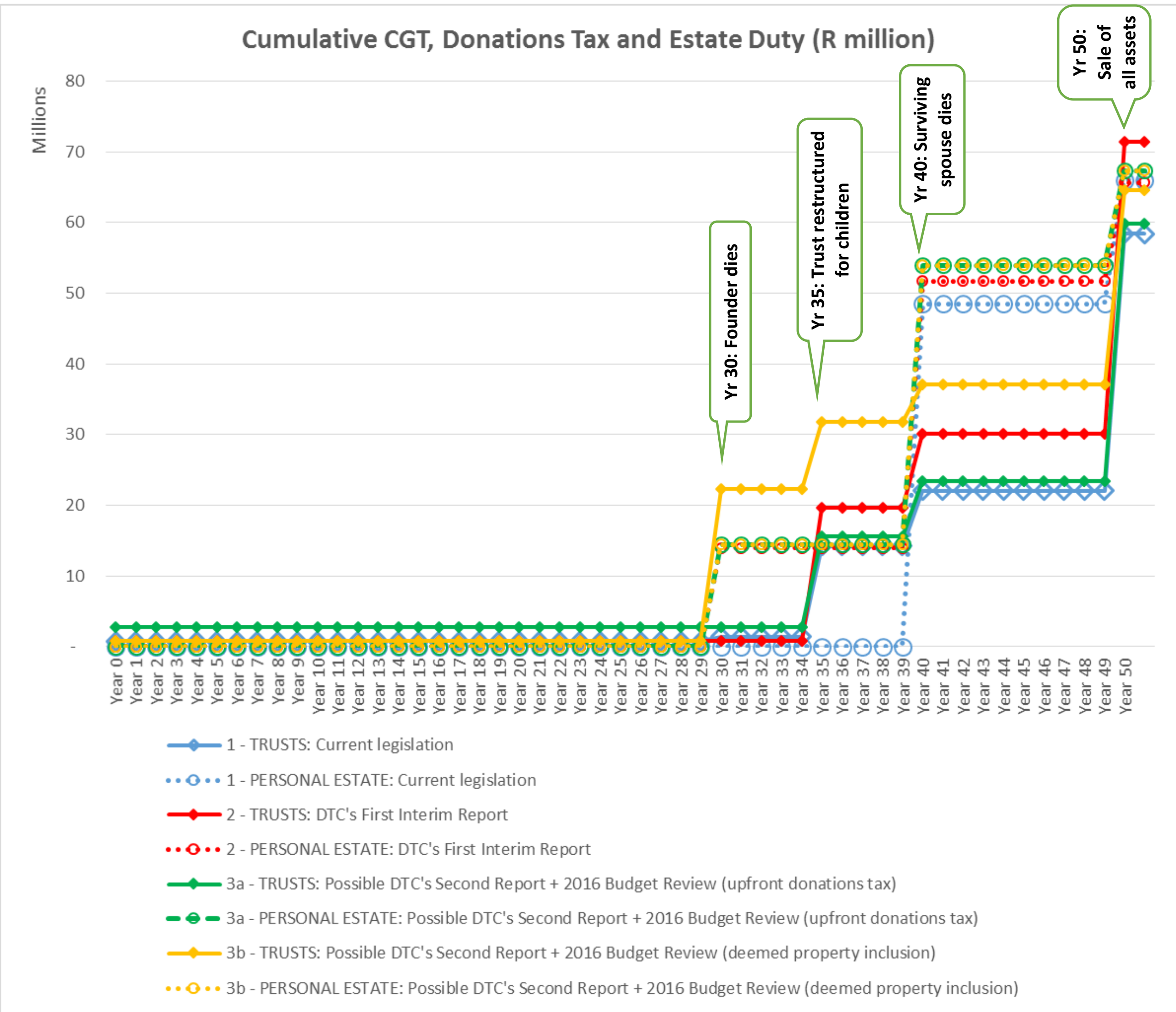
Even though the initial recommendations in the DTC's First Report with regard to the repeal of the conduit principle was expected to be punitive for the trust scenario, it seems as if such recommendations, if implemented, would not have resulted in significantly more tax to be collected over the lifetime of a typical trust compared to that collected from trust assets held under current legislation. The reason for this is that the capital gains on a complete exit event (sale of all assets in a trust) under current legislation would have resulted in a significant amount of CGT payable due to the increased capital growth that had been achieved in a trust over several years. As mentioned in some of the commentaries by professional bodies to the DTC's First Report in chapter 4.8, the restructuring of trust assets to cater for the needs of next generations is a fairly common occurrence[466] and if trust assets are allowed to grow in a trust without the interference of punitive income taxes, the CGT payable at the time of such a restructuring is likely to be significant.

[466] FISA 2015:4 (para 2.6.2)

6.1.2 *Cumulative CGT, estate duty and donations tax*

The next chart shows all cumulative taxes, with the exception of income taxes, over the course of each scenario for all 4 comparisons.

Figure 2 – Cumulative CGT, estate duty and donations tax



Discussion

The final cumulative CGT, estate duty and donations tax values at the end of the timeline each scenario (in Year 50) do not seem to differ greatly between the various scenarios with an estimated variance of just over R10 million between all scenarios after a period of 50 years (ranging from just under R60 million to just over R70 million). Just over half of the estimated R20 million variance in the final value of total cumulative taxes seen in the previous chart is therefore explained by the differences in CGT, estate duty and donations tax collected over the 50-year period. The relevant differences in the once-off taxes collected at each of the major tax events between each of the scenarios can be more clearly seen in this chart than in the previous chart and will therefore be discussed in more detail below (although some overlap of the points raised in the previous chart's discussion will occur).

Year 0: The scenario with the highest cumulative tax collection at the inception of the timeline is the trust in Comparison 3a due to the upfront donations tax due on transfer of the assets to the trust. This will be over and above the CGT due on such a disposal which will apply to all the other trust scenarios. None of the personal estate scenarios will have any taxes due until the occurrence of death or a disposal.

Year 30: In Year 30 it can be seen that the highest taxation will occur in the trust scenario of Comparison 3b due to the fact that the trust assets are included as deemed property in the estate of the deceased founder (no CGT is assumed to be calculated on such assets on death). The higher estate duty charge in this scenario (compared to those in the personal estates in Comparisons 2, 3a and 3b) is a result of the trust assets having obtained a greater capital value than the assets held in the personal estates due to the lower effective taxation achieved in the trust as a result of income-splitting over a period of 30 years. With less taxes deducted from the capital value in the trust each year than in the personal estate scenarios, the effective capital growth achieved in the trust will be higher as a result of a higher amount of after-tax capital remaining in the trust each year (while using the same capital growth assumptions). This results of this increased capital growth will also be demonstrated in the next chart (Figure 3) which depicts the capital value of the investment asset over the course of the scenarios.

A minor increase in taxes will be seen for the trust scenario of Comparison 1 as a result of the estate duty payable on the remaining value of the loan account of the founder which exceeds the relatively lower s 4A abatement amount of R3,5 million. In the other trust scenarios, the higher s 4A abatement amounts assumed (R6 million and R15 million) will result in the remaining loan account on death to be free of estate duty in those scenarios.

The capital in the scenarios where assets are held in personal estates would have been depleted by higher income tax payments in the hands of the original owner on the income generated by such assets due to a higher effective income tax rate applying to such person. The scenarios where assets are held in personal estates where the s 4(*q*) inter-spouse deduction has been repealed (Comparisons 2, 3a and 3b) show the effect of estate duty due on the death of the original owner. Due to the high estate values used in the scenarios, the effect of the different s 4A abatement amounts (R6 million and R15 million respectively) is not very pronounced in the graphical depiction of these cumulative tax values.

<u>Year 35:</u> As a result of the CGT payable due to the restructuring in the trust scenarios, the trusts which have not seen any significant tax events up to this point (trust scenarios in Comparisons 1, 2 and 3a), will see their first significant increase in cumulative taxes in this year. The abovementioned trust scenarios' cumulative tax values are now in closer to those of the personal estate scenarios where the s 4 (*q*) deduction was repealed (Comparisons 2, 3a and 3b). The trust scenario of Comparison 2 (in respect of the DTC's First Report's recommendations) shows a marked increase in CGT payable in the year due to the higher capital gains inclusion rate in trusts being used to calculate CGT as a consequence of the suggested repeal of the conduit principle. The CGT paid in the trust scenario of Comparison 1 is slightly less than such amount paid in the trust scenario of Comparison 3a. This is mainly because of the upfront donations tax paid by the founder in Comparison 3a's trust scenario in Year 0 reduced somewhat by the relatively smaller amount of estate duty paid in Comparison 1's trust scenario on the founder's loan account in Year 30.

<u>Year 40:</u> The biggest tax amount levied on the death of the surviving spouse is in the personal estate scenario of Comparison 1 (based on current legislation). The total tax paid at that point in the other personal estate scenarios exceed the total cumulative estate duty and CGT on death using current legislation by no more than about R5 million after a period of 40 years. The timing of the estate duty payments in the first-mentioned scenarios will however have a significant impact on the remainder of the capital value of the investment asset as will be seen in the charts to follow (Figure 3). The trust scenarios show CGT payments of varying magnitudes as a result of the distribution of the remaining assets in Trust 1 to the two living beneficiaries. As explained in the previous section, the CGT levied will be dependent on the capital value of the assets when liquidated. If the capital value has therefore been depleted due to previous large tax payments, less CGT will be due upon this liquidation. In the trust scenario of Comparison 2, the higher CGT amount can also be explained as a result of the repeal of the conduit principle and the fact that the gains realised will be subject to the high capital gains inclusion rate applicable to trusts.

In the personal estate scenarios, the effect of the proposed increased estate duty rate of 25% applicable from a certain level of dutiable estate (assumed to apply to so much of dutiable estates as exceed the value of R15 million[467]) can be seen as the estate duty calculated in the personal estate scenarios of Comparisons 3a and 3b is higher than that

[467] See case study parameters selected in Table 5 in chapter 5.1.10.

calculated for the scenario in Comparison 2 (where a single estate duty rate of 20% applies).

<u>Year 50:</u> As was discussed with regard to the cumulative total tax chart in the previous set of results, the exit event in Year 50 will attract more CGT in scenarios where the capital value achieved at the end of that year was greater. It can therefore be seen that the extent of the increase in cumulative CGT in that year is lower for the personal estate scenarios than for the trust scenarios where higher capital values have been achieved. The CGT due as a result of the exit from the trust scenario in Comparison 2 will be further elevated due to the trusts' high capital gains inclusion rate.

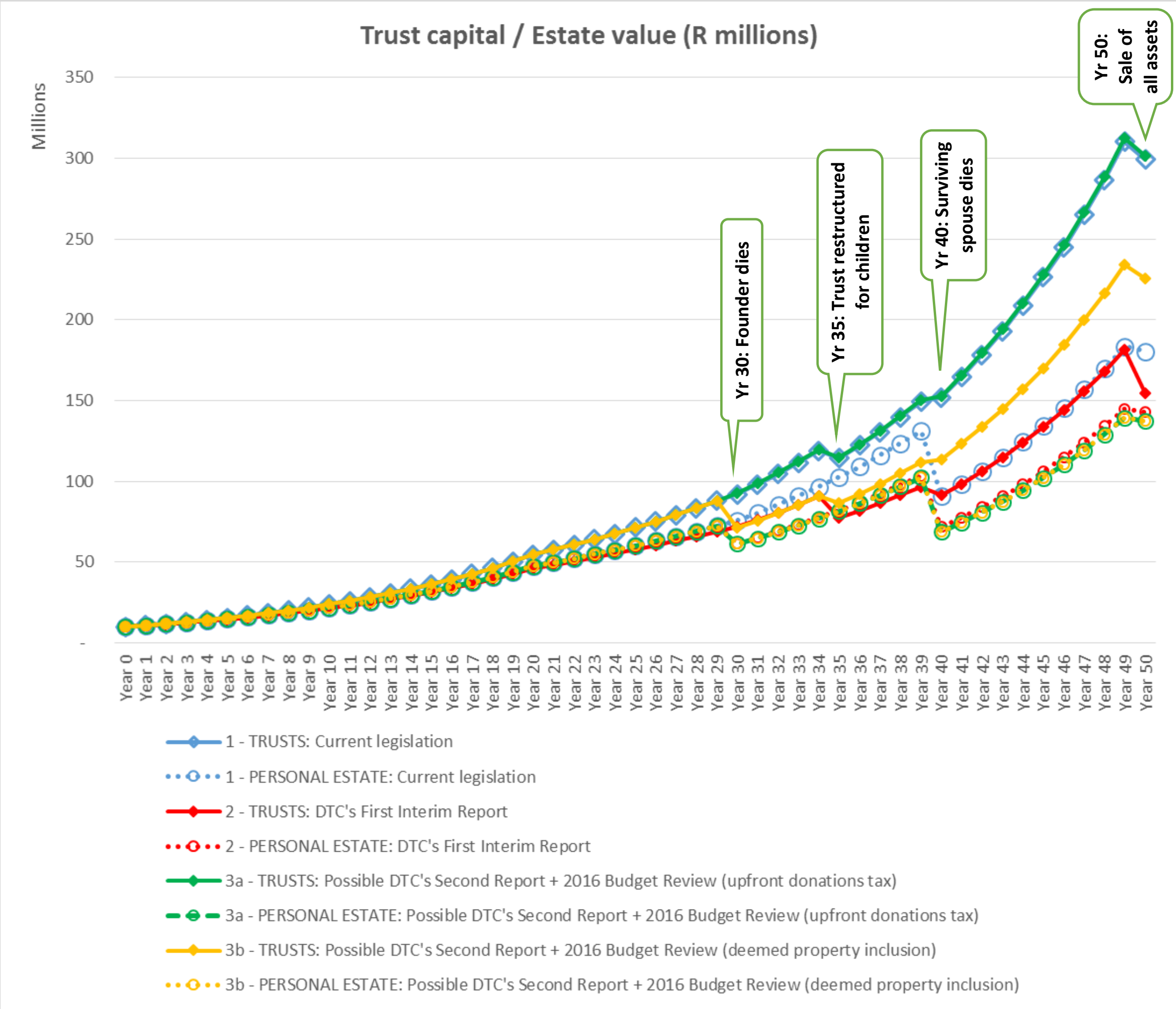
Conclusion

Even when income tax is stripped out from cumulative taxes, as was done in this part of the analysis, it can still be concluded that, for the given set of scenarios, no large additional amounts of taxes will be collected over a 50 year time period through the implementation of the various recommendations. The timing of the taxable events will, however, be affected by the recommendations and such events will now occur a couple of years earlier than what is the case under current legislation. This is seen in the trust scenario of Comparison 3b and the personal estate scenarios of Comparisons 2, 3a and 3b. The potential therefore exists for wealth to be taxed earlier and more regularly, potentially on the death of the founder or owner as well as on the death of the surviving spouse. In high-net-worth estates and trusts, this would occur regardless of the large increases in the s 4A estate duty abatement being proposed as can be seen in the personal estate scenarios of Comparisons 2, 3a and 3b where these increased abatement amounts have been applied.

6.1.3 Capital value

The following chart represents the capital value of the investment asset over the course of each scenario for all 4 comparisons.

Figure 3 – Capital value



Discussion

The potential punitive effect of the DTC's First Report's recommendations and the repeal of the s 4(*q*) deduction for inter-spousal bequests can clearly be seen in this chart. The end-values of the accumulated wealth in the scenarios differ vastly from about R140 million in the case of holding the assets in certain personal estate scenarios (Comparisons 2, 3a and 3b) to about R300 million when holding such assets in certain trust scenarios (Comparisons 1 and 3a).

In this case study, holding the assets in a personal estate under the proposed estate duty legislation results in a reduction of the eventual wealth to more than half of what it would have been had the assets been kept in a trust under current legislation. Even if the 2016 Budget Review suggestions are implemented, whereby the trust assets are regarded as deemed property in the estate of the founder on death (Comparison 3b), it will still be more beneficial from a capital appreciation point of view to hold the assets in a trust instead. The recommendations are therefore not likely to result in more taxpayers opting to hold assets in their personal estates but could rather result in the opposite, of more taxpayers embracing estate planning opportunities with trusts, especially where high estate values are involved.

Note that, if no exit event occurred in Year 50, the capital value at the end of that year would have been allowed to grow at the same increasing slope seen in each line graph prior to Year 49. Therefore the actual reduction of capital that occurred in Year 50 will be greater than what is apparent from each line graph. As the exit event is deemed to occur on the last day of Year 50, the taxation related to this event was calculated using the end-value of the capital in Year 50, that is, after capital growth has been taken into account for that year (less applicable income taxes paid on income generated by the capital value as at the beginning of that year). This also applies to all other years in which a major tax event occurred.

As can clearly be seen in this chart, the capital growth achieved over time by the remaining capital value will partly recover the capital lost due to taxes but as the growth occurs off a lower base, the capital value will forever be at a comparatively diminished value.

Comparisons 1 and 3a: As it is assumed that the trust capital invested at inception of the trust is unaffected by the taxes paid by the founder on initial transfer (that is, CGT and donations tax in the case of Comparison 3a), the capital value achieved in the baseline trust scenario in Comparison 1 is nearly the same as that achieved in Comparison 3a. The capital end-value for the trust scenario of Comparison 1 will be slightly less due to the relatively small amount of estate duty paid from the cash reserves of the trust assets on the founder's remaining loan account on his or her death in Year 30.

Comparison 2: It is only in Comparison 2 (the DTC's First Report's recommendations) where the capital values in the trust scenario and the personal estate scenario are relatively close to each other at the end of the 50-year test period. This is mainly the result of the higher capital gains inclusion rate applicable to trusts which is used to calculate the CGT payable in the trust scenario of this comparison as a result of the exit event in Year 50. In all the other comparisons the capital end-value achieved in the trust scenario far exceeds that achievable in the personal estate scenario.

Repeal of s 4(*q*): It can also be seen how the repeal of the s 4(*q*) deduction causes the capital value in the personal estate scenarios of Comparisons 2, 3a and 3b to be reduced for a second time in the space of 10 years on the death of the surviving spouse in Year 40.

In these scenarios, the value to which the capital is reduced in Year 40 is nearly the same lower capital value achieved in the year of the death of the founder or original owner in Year 30. Long-term wealth preservation will therefore be severely hampered in these cases by the fact that the capital value will have to recover from two major tax events in relatively quick succession of each other. This successive reduction may even result in a loss of capital in real terms[468].

Estates containing assets with lower starting values may be protected by the increased s 4A abatements recommended but as soon as an estate's value starts to significantly exceed the abatement amounts, the founder may deem it a better option to preserve the family wealth through the use of a trust structure.

Comparison 3b: Even where trust assets are included as deemed property in the estate of the founder at his or her death, as seen in the trust scenario of Comparison 3b, the capital growth potential still far exceeds that of holding the assets in a personal estate where the assets could be subject to punitive successive estate duty payments on the death of both the founder and the surviving spouse.

Conclusion

The potential punitive effect of the repeal of the s 4(*q*) deduction for high-value estates is clearly indicated when comparing the effect of these recommendations on the capital value of the asset achieved over time in the various scenarios. It seems as if capital losses in real terms may be the result in certain cases which could further encourage high-net-worth individuals to make use of estate planning strategies and trusts structures. Estate values falling below the proposed increased s 4A abatements may however be protected from the effect of this proposal. Studying the effects of the various recommendations on such smaller estate values falls outside the scope of this research report.

Some of the taxation proposals with regard to trusts could also result in decreased trust capital values over a period of time as a result of taxes levied at the major tax events and deemed to be paid from cash reserves forming part of the total investment asset held in the trust.

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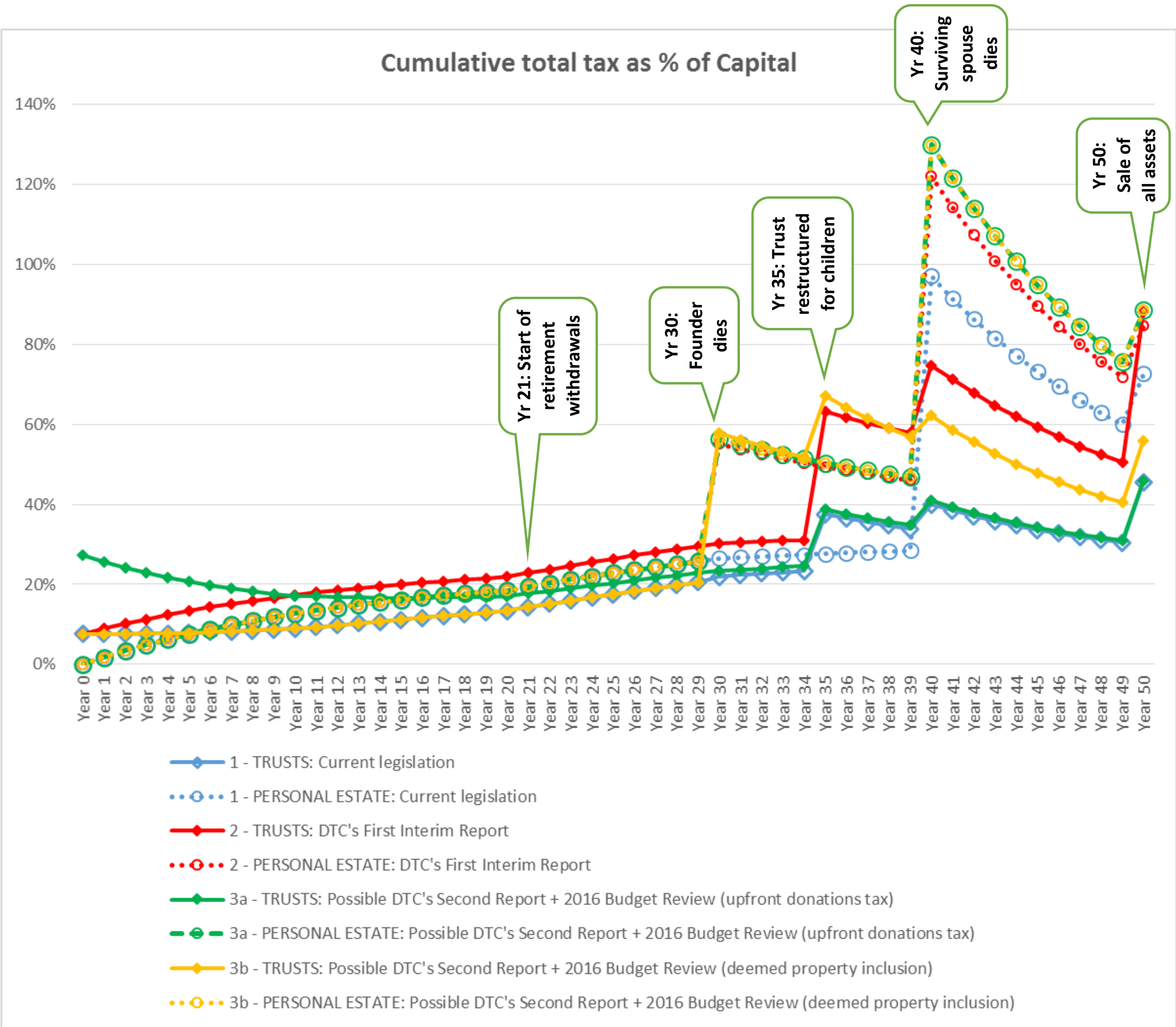
468 In the assumptions used in the case studies, the capital value in the personal estate scenarios of Comparison 3a and 3b is only about R8 million more at the end of Year 40 (R69 million) than what it was at the end of Year 30 (R61 million) (Refer Table 46 in Annexure chapter 9.3.4). Doing a time-value of money calculation (PV = 61, FV = -69, N = 10, I = ?) this amounts to an effective annual capital growth over this 10-year period of just 1.2% per year. With inflation assumed at 6% per annum, this would constitute a loss in real terms of 4.8% per annum.

6.1.4 Cumulative total tax as percentage of capital value

The following chart represents the cumulative total tax (presented in Figure 1) as a percentage of the capital value in each scenario as presented in Figure 3 above for each scenario in all 4 comparisons.

Figure 4 – Cumulative total tax as percentage of capital value



Discussion

This chart shows total cumulative taxes paid to date in any given year as a percentage of the capital or estate value at the end of that year. The sudden increases seen in this parameter in the year of a major tax event will be due to both the taxes (CGT or estate duty) calculated in that year based on the capital value at the end of that year (prior to the reduction of capital as a result of such taxes) and the decreased capital value at the end of that year after such taxes have been deducted. In the years following a major tax event, this parameter will steadily decrease as the denominator (capital value) increases due to annual capital growth (net of income taxes and withdrawals).

Also note the slight concave shape of the line graphs which coincides with the commencement of retirement withdrawals in Year 21. This is an effect which was not as visually apparent in earlier charts. The retirement withdrawals (which increase with inflation each year) will reduce the capital value more rapidly in each successive year and the decreasing capital value (as the denominator of this parameter) will result in a slightly increasing slope in the years immediately following the commencement of retirement withdrawals (from Year 21).

If the capital value starts to decrease below the cumulative tax amounts paid to date, the slope will increase until the capital has been fully depleted. Due to the high starting values for the asset base selected together with relatively small retirement withdrawal amounts, this effect will not be seen using the selected parameters. If these parameters are adjusted (for instance, a lower starting value of the assets held and/or an increased annual retirement withdrawal amount) such effects will, however, appear. Studying the differences in the end-results for different starting parameters falls outside the scope of this research report.

For the most part, all the trust scenarios follow a similar pattern with marked increases in this parameter in the years when the trust is restructured (Year 35), when the final amount of assets is distributed on the death of the surviving spouse (Year 40) and as a result of the exit event (Year 50).

<u>Comparison 3a (Trust):</u> The line graph for the trust scenario in Comparison 3a differs from that of the other trust scenarios in that it has a higher starting value due to the upfront donations tax paid upon transfer of the assets to the trust. As the growth in the capital value starts to overshadow this upfront payment, the parameter converges nearly completely with that of the trust scenario of Comparison 1 over time. As a result, the overall cumulative taxes paid calculated as a percentage of the remaining capital value rarely exceeds the maximum income tax margin of individuals (41%) which therefore seems to be a reasonable outcome.

<u>Comparison 3b (Trust):</u> Comparison 3b also differs from the rest of the trust scenarios due to the impact of estate duty due on the death of the founder in Year 30 in addition to the events in other years. As the assets remain in the trust and subject to the conduit principle, it can be seen that this parameter does recover somewhat over time as increased capital growth is achieved.

<u>Comparison 2 (Trust):</u> The impact of the repeal of the conduit principle tested in Comparison 2 can be clearly seen in the line graph depicting the trust scenario. The annual income taxes are higher than those of the other trust scenarios throughout the test period and the effect this has on the parameter in years when major tax events occur is much more pronounced than what is seen in the other trust scenarios. As a result of the high capital gains inclusion rate in the trust, the exit event in Year 50 causes the parameter in the trust scenario to end up at a value that is very close to that of the personal estate scenario used in this comparison set. This is the only comparison in which this is the case, with the end-result of all the other trust scenarios being more beneficial than their personal estate scenario counterparts by a much larger margin.

<u>Personal estate scenarios:</u> Of concern is the level to which the cumulative taxes as a percentage of capital value increases for the personal estate scenarios where the repeal of the s 4(*q*) deduction was applied. The cumulative taxes paid as a percentage of the remaining capital value, calculated in the year that the surviving spouse dies, exceeds the value of the remaining capital at that time by about 20% to 30% of such capital value. This means that the overall taxes paid on an asset at that point in time will exceed the value of the remaining capital by a wide margin. Even though some recovery will occur as the remaining capital is allowed to grow over the years following the death of the surviving spouse, it is likely that more than one decade of capital growth will be required before a better balance between the cumulative taxes paid and the capital value can be obtained.

Conclusion

The parameter discussed in this section includes income taxes as well as CGT and estate duty (and donations tax where applicable) as a percentage of the remaining capital value of an investment asset. Even though these taxes include more than just the capital taxes it will give an indication of any unintended consequences of the DTC's various proposals as the Committee's reasons for the repeal of the conduit principle in the First Report, for instance, was to compensate the Receiver for any perceived losses in estate duty as a result of the use of such trust and inheritance structures[469]. It was therefore deemed necessary to include overall taxes in the analysis and not only capital or wealth taxes in order to get an understanding of the overall consequences of the various recommendations.

The DTC's First Report's recommendations would have more than compensated for any estate duty loss per current legislation, that is, if comparing Comparison 2's trust scenario's final outcome to that of the personal estate scenario of the baseline Comparison

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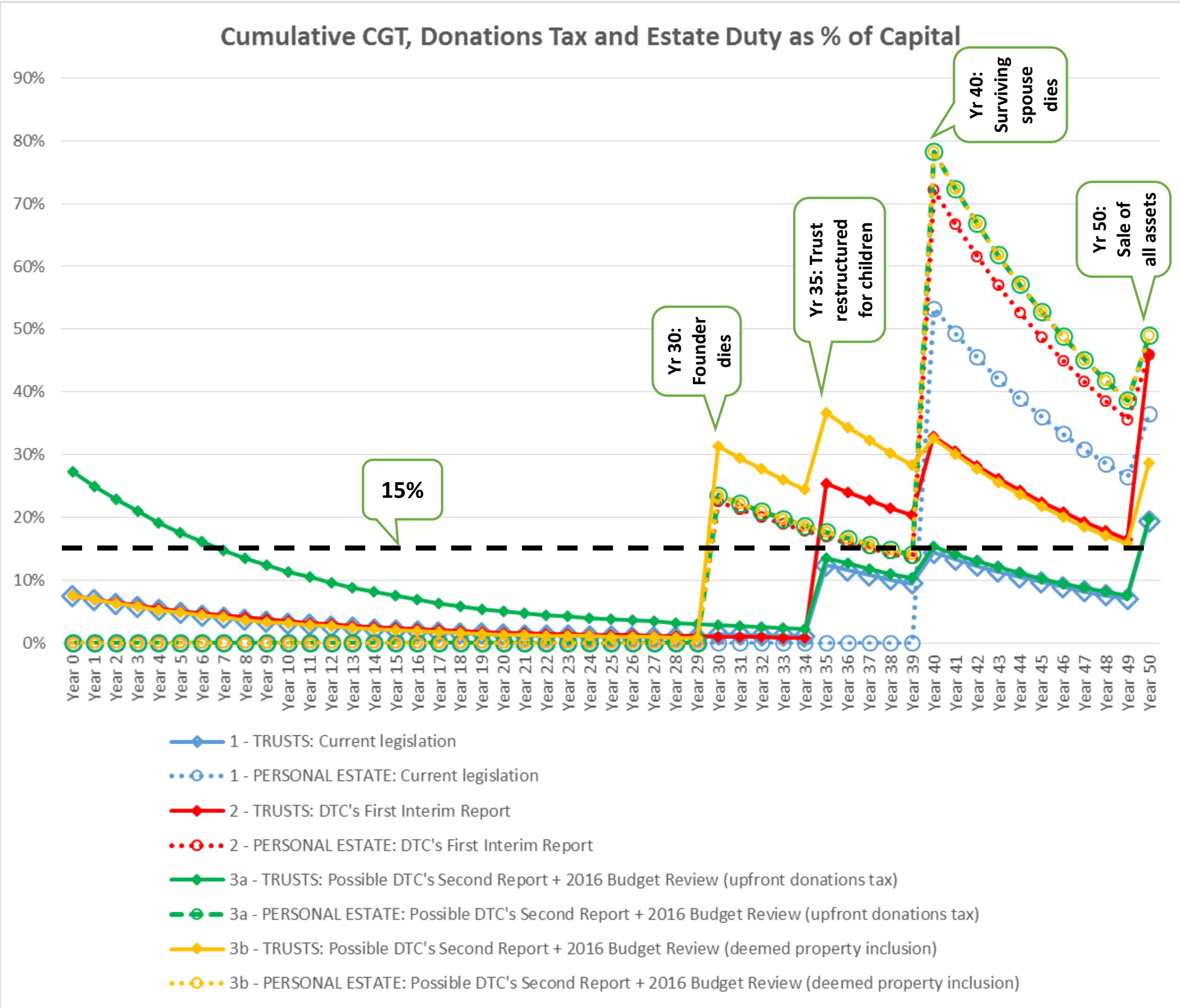
[469] Davis Tax Committee 2015:44

1 (see Figure 1) but at the cost of depleting the remaining capital value markedly more (see Figure 3). Once again, the punitive effects of the repeal of the s 4(*q*) deduction was clearly demonstrated in the personal estate scenarios of Comparisons 2, 3a and 3b.

6.1.5 Cumulative CGT, estate duty and donations tax as percentage of capital value

The following chart represents all cumulative taxes except income tax (presented in Figure 2) as a percentage of the capital value in each scenario as presented in Figure 3 above for each scenario in all 4 comparisons. Supplementary results will be presented in table format prior to the discussion below.

Figure 5 – Cumulative CGT, estate duty and donations tax as percentage of capital value



Supplementary results

This chart has a similar set of outcomes as seen in the discussion of the previous parameter's results but excludes the effect of cumulative income taxes. An analysis of this parameter can be used to test whether these taxes will tend, over time, to materially exceed the maximum international benchmark for capital taxes of 15%, which was cited earlier[470] (shown as a dashed black line in the above chart).

The sudden increases seen in this parameter in the year of a major tax event will be due to the combined effect of the capital taxes (CGT, estate duty or donations tax in the case of Comparison 3a) calculated in that year based on the capital value at the end of that year (prior to the reduction of capital as a result of such taxes) and the decreased capital value at the end of that year after such taxes have been deducted. In the years following a major tax event, this parameter will steadily decrease as the denominator (capital value) increases due to annual capital growth (net of income taxes and withdrawals).

As this parameter will be evaluated against a benchmark it is important to note that the way that these parameters have been calculated and shown in the various line graphs will result in an elevated percentage in the year of the major tax event due to the simultaneous impact of the event on both the numerator and the denominator of the parameter in the same year. The data represented graphically in years following a major tax event will be unaffected by this effect as cumulative taxes will be calculated as a percentage of the new reduced capital value at each year end which will yield the same high values as seen on the line graphs in those years.

The following table provides additional values not represented graphically which calculates the capital taxes as a percentage of the capital value at the end of each year before the deduction of such taxes from the capital value for each of the major tax event years. The values presented per scenario for each of the major tax events in the below table will therefore be lower than those represented graphically in Figure 5 for those scenarios but only in the years in which those tax events occur. All other values depicted in the above chart in all other years will remain unchanged for all scenarios. Values exceeding the 15% benchmark in the table below will be shown in **red** and table cells with progressively darker backgrounds depict progressively higher bands of values above the 15% benchmark.

[470] See discussion under chapter 4.3.3

Table 6 – CGT, estate duty and donations tax as percentage of year-end capital value before payment of tax

Comparison and scenario	***Total CGT, estate duty and donations tax as percentage of year-end capital before payment of taxes***			
	Year 30: Founder dies	**Year 35: Trust restructured**	**Year 40: Spouse dies**	**Year 50: Sale of all assets**
Comparison 1 : *Trust*[471]	1.47%	11.13%	13.73%	**17.30%**
Comparison 1 : *Personal estate*[472]	0%	0%	**34.77%**	**33.33%**
Comparison 2: *Trust*[473]	1.05%	**20.38%**	**29.59%**	**36.42%**
Comparison 2: *Personal estate*[474]	**18.41%**	**16.94%**	**47.25%**	**41.88%**
Comparison 3a: *Trust*[475]	2.95%	12.21%	14.59%	**17.71%**
Comparison 3a: *Personal estate*[476]	**19.06%**	**17.68%**	**49.76%**	**44.67%**
Comparison 3b: *Trust*[477]	**24.02%**	**33.00%**	**31.21%**	**25.54%**
Comparison 3b: *Personal estate*[478]	**19.06%**	**17.68%**	**49.76%**	**44.67%**

Discussion

All the trust scenarios' line graphs exhibit a similar pattern of movements for the most part. The trust scenarios start with a slightly elevated level in Year 0 due to the CGT paid on the transfer of assets to the trust. As the growth in the capital value starts to overshadow this upfront CGT payment, the parameter will gradually reduce over time until the first major tax event occurs. The trust scenario in Comparison 3a has a higher

[471] Refer Table 21in Annexure chapter 9.1.5
[472] Refer Table 26 in Annexure chapter 9.1.6
[473] Refer Table 38 in Annexure chapter 9.2.5
[474] Refer Table 43 in Annexure chapter 9.2.6
[475] Refer Table 55 in Annexure chapter 9.3.5
[476] Refer Table 60 in Annexure chapter 9.3.6
[477] Refer Table 72 in Annexure chapter 9.4.5
[478] Refer Table 77 in Annexure chapter 9.4.6

starting value due to the inclusion of both CGT and the upfront donations tax paid. Subsequently, the same gradual reduction due to the capital growth of the asset is seen in this line graph.

The first major tax event occurring in most of the trust scenarios is the first restructuring of the trust in Year 35. The trust scenario in Comparison 3b will also have a major tax event in the year of the death of the founder (Year 30) due to estate duty paid as a result of the trust assets included as deemed property in the estate of the deceased founder.

Comparison 1 (Trust): In the baseline comparison for trusts, the capital taxes hardly ever exceed the 15% benchmark and when this does occur (as a result of the exit event in Year 50), the benchmark is not materially exceeded (cumulative capital taxes of 17.30% of the capital value prior to adjustments[479]).

Comparison 3a (Trust): The results for this trust scenario is very similar to that seen in the baseline Comparison 1 apart from the effect of the upfront donations tax which sees this parameter nearing the 30% level at that time[480], although it tapers off to below the 15% benchmark in under a decade. Relative to the 50-year timeline, this may be seen as fairly reasonable overall, however, the forced upfront tax payment and resultant cash outflow required may act as a deterrent for some potential trust founders to create an *inter vivos* trust in the first place.

Comparison 3b (Trust): This trust scenario sees the parameter reaching a level of 24.02%[481] in the year of the founder's death due to estate duty, with a maximum level reached in Year 35 of 33.00%[482] due to CGT paid as a result of the restructuring of the trust. The distribution of the remaining assets after the death of the surviving spouse in Year 40 also results in a smaller increase and then the value almost recovers to below the 15% level over the next decade until the time of the exit event in Year 50 where it ends at 25.54%[483].

The estate duty due on the death of the founder exceeds that which is due for the scenarios where the assets are held in the personal estate of the founder as the assets in the trust have been allowed to achieve growth at a greater effective rate due to the reduced effective tax rate that the trust income will enjoy over a longer period. This is a result of the application of the conduit principle to distributed trust income and splitting such income to multiple

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479 Refer Table 6 above

480 This value is unaffected as the donations tax and CGT paid in the Year 0 is not deemed to reduce the capital value transferred to the trust.

481 Refer Table 6 above

482 Refer Table 6 above

483 Refer Table 6 above

beneficiaries to whom a lower effective tax rate may apply. As such, the estate value on which estate duty is calculated at the end of Year 30 in the trust scenario will be greater than the estate value held in personal estates at the end of that year (see also Figure 3 in this regard) resulting in a higher amount of estate duty payable in the trust scenario.

Comparison 2 (Trust): As a result of the higher capital gains inclusion rate of trusts which will apply in this scenario where the conduit principle has been repealed, the CGT in Year 35 and 40 as a result of restructuring the trust or distributing the remainder of the trust assets from the original trust (Trust 1) to the beneficiaries, is roughly double that of the baseline trust scenario in Comparison 1. The maximum level of this parameter prior to the exit event reaches just under 30% in Year 40[484], which is less than the maximum value seen in the trust scenario of Comparison 3b up to that point[485]. The exit event in Year 50, however, sees this value increase to 36.42%[486] which far exceeds the maximum level in any of the other trust scenarios.

Comparison 1 (Personal estate): The baseline personal estate scenario of Comparison 1 shows that the combined estate duty and CGT paid on the death of the surviving spouse equals 34.77% of the asset value at year-end prior to the payment of such taxes from the capital value[487]. This value shoots up to just below 50% in the following year as a result of the reduced capital value (see data point in Year 41 of this personal estate scenario's line graph).

Comparisons 2, 3a and 3b (Personal estate): The maximum level reached for these scenarios in the year of the death of the surviving spouse is 47.25% for Comparison 2 and 49.76% for both Comparisons 3a and 3b.[488] The values for Comparisons 3a and 3b are slightly higher than for those for Comparison 2 due to the increased estate duty rate of 25% assumed to apply to so much of the dutiable estate value as exceeds R15 million[489].

Conclusion

The recommendations tested in Comparisons 2, 3a and 3b which affect the personal estate scenarios resulted in cumulative capital taxes as a percentage of the capital value to materially exceed the international benchmark of 15%[490] with maximum values occurring

[484] Refer Table 6 above
[485] For the trust scenario of Comparison 3b, the maximum value occurs in Year 35 which is calculated as 33.00%% per Table 6 above.
[486] Refer Table 6 above
[487] Refer Table 6 above
[488] Refer Table 6 above
[489] See case study parameters selected in Table 5 in chapter 5.1.10.
[490] See discussion under chapter 4.3.3

in the years of taxable events reaching percentages in the high forties (nearly 50%)[491]. It is therefore likely for the implementation of such recommendations to result in extensive planning and significant avoidance and evasion, which may in turn reduce the effective yield[492].

The maximum values reached for cumulative capital tax as a percentage of capital resulting from the recommendations with regard to trusts in Comparisons 2 and 3b went up to percentages in the mid-thirties[493] which are still more than double that of the 15% benchmark. The recommendations for the tax treatment of trusts tested in Comparison 3a only reached a maximum at the end of the scenario of under 20%[494]. The upfront donations tax payable in this scenario, however, resulted in a value of nearly 30% in Year 0[495] although this value decreased below the 15% benchmark in under a decade due the capital growth achieved in the trust.

The results from these case studies with their selected starting parameters and events therefore seem to indicate that the bulk of the various recommendations with regard to both personal estates and trusts are likely to result in extensive planning and significant avoidance and evasion to occur in the case of high-net-worth estates or trusts. This may include drastic steps like tax and exchange control emigration which may result in a withdrawal of a significant amount of South African-held investments by private individuals.

6.1.6 Difference between personal estate and trust scenarios: Cumulative total tax as percentage of capital value

The following chart represents, per comparison, the cumulative total tax as percentage of capital value as presented in Figure 4 for each personal estate scenario less that of the trust scenario. A positive result will indicate when more total tax per capital value is paid for assets held in a personal estate (that is, a trust would have given better results) whereas a negative value indicates when more tax per capital value is paid in a trust (in other words, holding assets in a personal estate would have been preferred from a total tax per capital value perspective).

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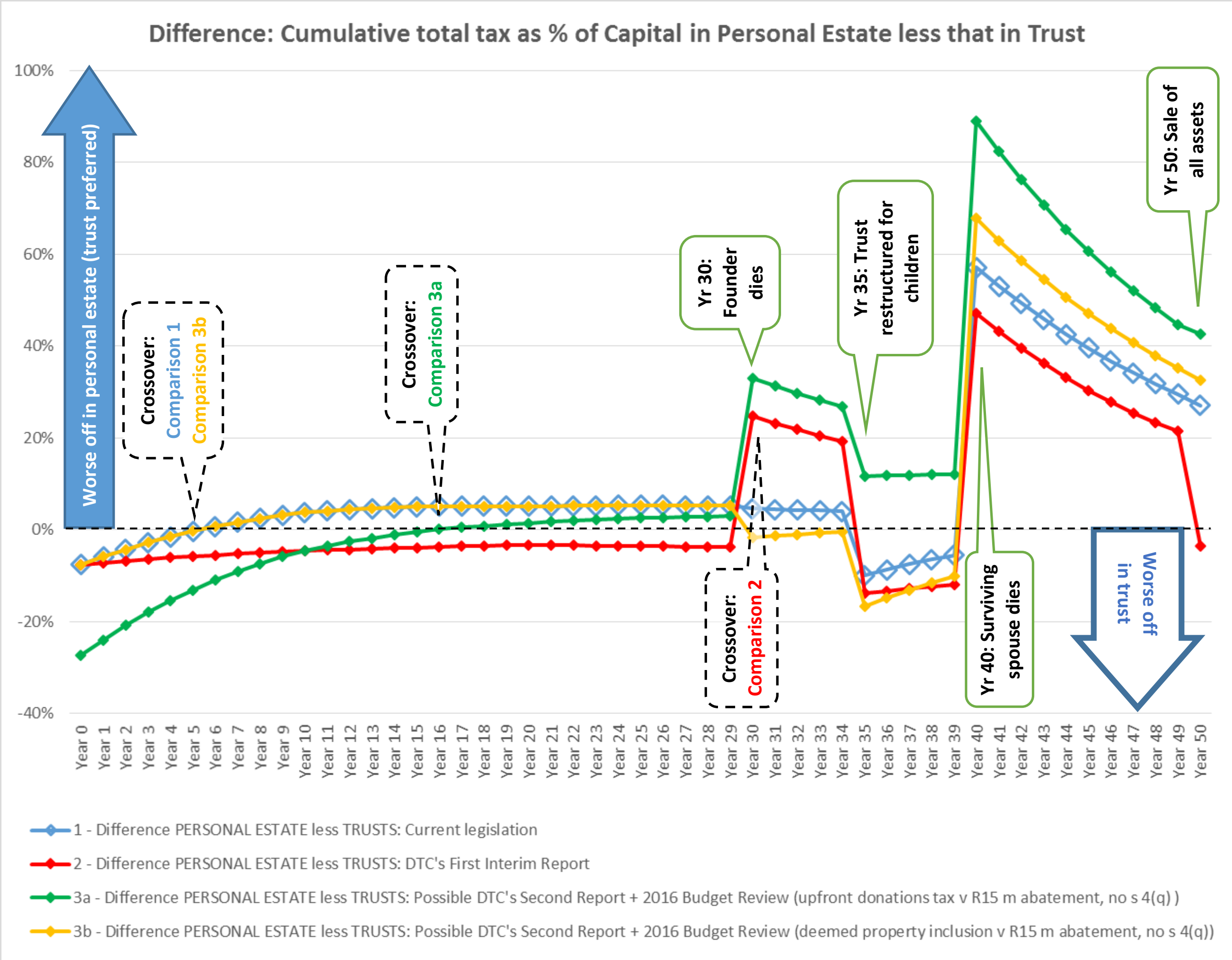
[491] Refer Table 6 above
[492] See discussion under chapter 4.3.3
[493] Refer Table 6 above
[494] Refer Table 6 above
[495] See Figure 5 above

Figure 6 – Difference in cumulative total tax as percentage of capital value between personal estate and trust



Discussion

In addition to the major tax events indicated in all the previous charts, the above chart also shows the years in which the trust scenario first becomes more beneficial, from a total tax per capital value point of view, than the personal estate scenario (indicated as crossover points). Note that these results will be applicable to high-net-worth trust and personal estate situations. Estate values which may be protected by the increased s 4A estate duty abatements proposed will display different results than those seen in the chart above. The analysis of such estates, however, falls outside the scope of this study.

Comparison 1: In the baseline comparison, the trust's total tax per capital value ratio is marginally better than that of the personal estate from Year 5 onwards and only the major restructuring of trust assets (Year 35) causes the trust scenario's ratio to be worse than the personal estate's due to the CGT paid on restructuring which would only have been payable in the trust scenario. In the year of the death of the surviving spouse, this situation is drastically reversed as a result of the estate duty and CGT paid in the personal estate scenario after which the trust scenario remains markedly more beneficial from a total tax per capital value point of view, regardless of the exit event in Year 50.

Comparison 2: In the comparison between trusts and personal estates where the DTC's First Report's recommendations are applied, the personal estate scenario's total tax per capital value ratio remains marginally more beneficial than that of the trust during the full lifetime of the founder due to the repeal of the conduit principle and the flat rate of 41% at which all income will be taxed in the trust. Only on the death of the founder (Year 30), as a result of the repeal of the s 4(*q*) deduction, does the personal estate scenario's total tax per capital ratio become significantly more than that of the trust scenario. This is temporarily reversed in the year that the trust assets are restructured (Year 35) only to swing strongly in favour of the trust once again on the death of the surviving spouse in Year 40. This comparison is the only one in which the exit event in Year 50 has a drastic effect on difference between the scenarios' ratios and where the personal estate scenario becomes marginally more beneficial. This is due to the high CGT inclusion rate in trusts which is applicable to the calculation of the exit tax due in the trust scenario of this comparison.

Comparison 3a: Due to the upfront donations tax paid, the total tax per capital value ratio only becomes more beneficial in the trust scenario from Year 16 onwards (compared to Year 5 in Comparisons 1 and 3b). After this year, however, the recommendations with regard to the repeal of the s 4(*q*) deductions keep the trust in a better position than the personal estate from a total tax per capital value without any exceptions. Even the CGT due on the initial restructuring of the trust in Year 35 does not reverse this situation in favour of the personal estate (as had happened in Comparisons 1, 2 and 3b).

Comparison 3b: Even though the trust's total tax per capital ratio starts to exceed the personal estate's ratio from Year 5 onwards, the estate duty on the death of the founder (as a result of the inclusion of all trust assets as deemed property in the estate of the deceased founder) will result in the personal estate and trust scenarios to be almost on a par (Year 30), with the personal estate being more preferential by a very small margin. In the year of the trust restructuring (Year 35), the personal estate's ratio will be better than that of the trust in a more pronounced way. The death of the surviving spouse in Year 40, however, will swing the difference in ratios decidedly back in favour of the trust again where it is likely to remain for several years to follow.

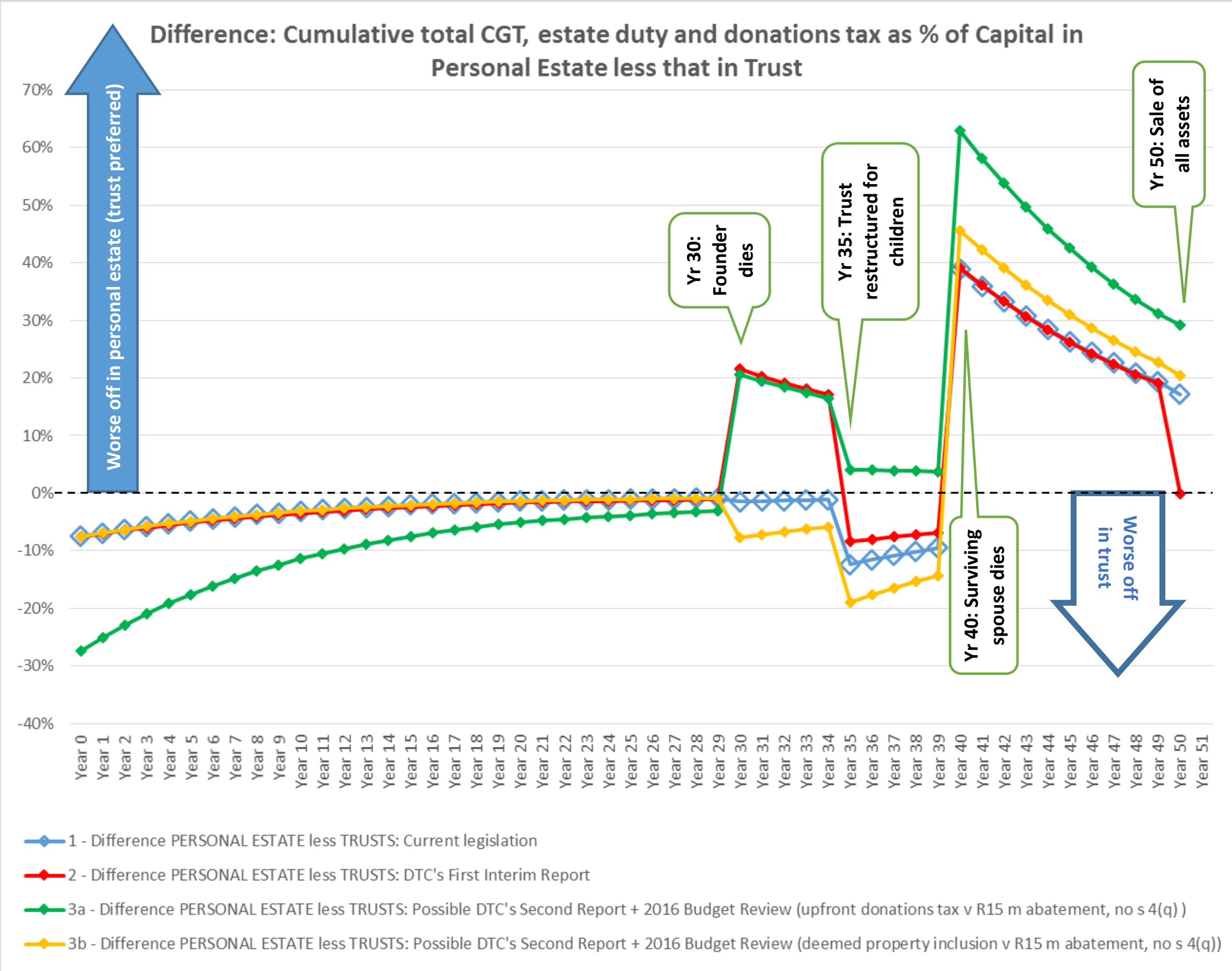
Conclusion

Even though some of the recommendations will result in the total tax per capital ratio for high-net-worth assets held in a personal estate to be slightly better than that in a trust for short periods of time, the estate duty that will be due on the death of the surviving spouse, together with the repeal of the s 4(*q*) deduction will still make a trust more preferential by a large margin in all the comparison case studies. Only the recommendations of the DTC's First Report would have made the exit from a trust extremely costly from a total tax per capital value point of view compared to selling all assets held in a personal estate (as seen in Year 50).

6.1.7 Difference between personal estate and trust scenarios: Cumulative CGT, estate duty and donations tax as percentage of capital value

The following chart represents, per comparison, the cumulative total capital taxes (that is, all taxes excluding cumulative income taxes) as percentage of capital value as presented in Figure 5 for each personal estate scenario less that of the trust scenario. A positive result will indicate when more total capital taxes per capital value is paid for assets held in a personal estate (that is, a trust would have given better results) whereas a negative value indicates when more capital taxes per capital value is paid in a trust (in other words, holding assets in a personal estate would have been preferred from a total CGT, estate duty and donations tax per capital value perspective).

Figure 7 – Difference in cumulative CGT, estate duty and donations tax as percentage of capital value between personal estate and trust



Discussion

This comparison, using cumulative CGT, estate duty and donations tax per capital value only, looks similar to that seen in the previous chart which included all cumulative taxes per capital value but due to the absence of cumulative income taxes in the above chart, which could make up differences in the tax per capital value ratio over a period of time, this chart shows all comparisons as being in favour of the personal estate until a major estate duty payment is due, in which case the total tax per capital ratio shifts significantly in favour of the trust.

Comparison 1: The baseline comparison only moves in favour of the trust on the death of the surviving spouse in Year 40 and the CGT due as a result of the restructuring in Year 35 will result in the trust scenario temporarily being markedly worse off than the personal estate.

Comparison 2: As a result of the proposed repeal of the s 4(*q*) deduction, this comparison will move in favour of the trust scenario in the year of the founder's death (Year 30) already. The high capital gains inclusion rate applicable in the trust as a result of the repeal of the conduit principle will result in the trust restructuring in Year 35 turning the advantage back to the personal estate but the estate duty and CGT due on the death of the surviving spouse in Year 40 will swing the comparison significantly back in favour of the trust scenario. The exit event in Year 50 will set the comparison back to a neutral position once more due to the high CGT payable in the trust scenario.

Comparison 3a: Apart from the effect of the initial donations tax paid, this comparison will turn in favour of the trust in the year of death of the founder (Year 30) as a result of the abovementioned estate duty recommendations and remain as such until the end of the case study's timeline.

Comparison 3b: Even though the repeal of the s 4(*q*) deduction will result in estate duty payable in the year of death of the founder (Year 30), the trust asset value will be higher than the asset value held in the personal estate in that year due to the reduced effective tax rate enjoyed in the trust up to that point compared to the higher effective tax rate which will be applicable to the asset held in a personal estate. As the trust assets are deemed to be included in the founder's estate, more estate duty will be payable on this higher trust asset base than on the lower asset base achieved in the personal estate. Having held the assets in a trust will therefore result in the trust scenario being worse off than the personal estate scenario in Year 30. The restructuring of the trust in Year 35 will result in a further swing in favour of personal estates and only on the death of the surviving spouse in Year 40 will the trust be preferred.

Conclusion

The estate duty recommendations tested in Comparison 2, 3a and 3b will result in most comparisons being better off in the trust than in the personal estate in the year in which the founder dies with the exception of Comparison 3b where the deemed property inclusion of trust assets in the estate of the founder at his or her death in Year 30 will result in the trust being worse off in that year. Regardless of the effect of the restructuring of the trust in Year 35, from Year 40 onwards, the effect of estate duty and CGT due on the death of the surviving spouse will swing all the comparisons back in favour of the trust. Only Comparison 2's trust exit event in Year 50 will have the effect of neutralising all the relative tax benefits that have been achieved from the use of a trust up to that year.

6.1.8 Conclusion

This chapter discussed the results of the case studies which did comparisons of seven different parameters for each of the given case studies, where each case study consisted of both a trust and a personal estate scenario. The punitive effect of the repeal of the s 4(*q*) estate duty deduction for inter-spousal bequests was clearly demonstrated in several instances (when looking at both the negative effect on the ability to preserve capital as well as the successive taxation of essentially the same asset base). Several of the new proposals resulted in effective capital tax rates far in excess of the deemed maximum capital tax benchmark of 15% which may result in more aggressive estate planning strategies being employed should such proposals be enacted. It was also shown that transferring assets to a trust will only result in a marginal tax advantage for the largest part of the duration of the trust compared to keeping such assets in a personal estate. It is only on the death of the founder and the surviving spouse that the trust will become markedly more advantageous with regard to the ability to preserve capital for future generations.

The case studies focused on the effect of the various recommendations by the DTC and the changes announced in the 2016 Budget Review on high-net-worth trusts and personal estates to analyse the worst-case effect of the different recommendations in such scenarios. The effect of the various recommendations on smaller estates, which may enjoy the protection of the increased s 4A abatements proposed, was not tested as this falls outside the scope of this research report.

6.2 High-level estimate of CGT payable on death – considering the possible double taxation effect of estate duty and CGT on death

The below paragraphs explain the basis and assumptions used to arrive at a possible high-level estimate of the CGT payable on death to provide an indication of a possible double taxation effect of estate duty and CGT on death. The estimate is calculated using these assumptions and is followed by a discussion of the results and possible limitations to the methodology used.

6.2.1 Assumptions used

In the DTC's First Report, reference is made to statistics furnished by SARS that only 4% of estates reported to SARS in 2013 were liable for CGT[496]. This low percentage is a result of the fact that most estates are made up of assets that are exempt from CGT due to specific exclusions and rollovers such as life insurance proceeds, retirement fund benefits, bequests to the surviving spouse[497], small business assets[498], primary residences[499], cash[500] and personal-use assets[501] which includes motor vehicles[502].

The DTC's First Report also includes an analysis conducted by National Treasury of the effective tax rate on death[503] which makes the assumption, based on the various exclusions for CGT available, that the worst-case scenario with regard to CGT is for 50% of the total estate being subject to CGT (other scenarios shown in the graphic analysis contained in the Report is one where 25% of the estate is subject to CGT and another where no CGT is payable by the estate).

In another section of the DTC's First Report a high-level breakdown is given of a sample of estates and estate duty collected in the 2013 tax year[504]. The sample covers 70% of estate duty collected in 2013[505] which contains data related to 659 estates and accounts for R794 million estate duty collected[506]. The Report states that the total estate collected in the 2013 tax year was R1,13 billion[507] in which case the sample covers, if recalculated, 70.18% of the total estate duty collected[508]. Per the 2013 Tax Statistics published by

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496 Davis Tax Committee 2015:57. No reference is given in the DTC's First Report to the specific data source from SARS therefore the information is assumed to be unpublished SARS statistics and it is furthermore assumed that the words 'in 2013' used in the Report refer to the 2013 tax year.
497 Per para 40 of the Eighth Schedule to the Income Tax Act
498 Per para 57 of the Eighth Schedule to the Income Tax Act
499 Per paras 44-50 of the Eighth Schedule to the Income Tax Act
500 Cash or currency is specifically excluded from the definition of 'asset' in para 1 of the Eighth Schedule to the Income Tax Act
501 Per para 53 of the Eighth Schedule to the Income Tax Act
502 Davis Tax Committee 2015:57
503 Davis Tax Committee 2015:56-58. No reference is given in the Report to the specific data source from National Treasury therefore the information is assumed to be unpublished National Treasury material.
504 Davis Tax Committee 2015:31,63
505 The DTC's First Report states that the total estate collected in the 2013 tax year was R1,13 billion (Davis Tax Committee 2015:31) in which case the sample covers, if recalculated, 70.18% of the total estate value collected. Per the 2013 Tax Statistics published by National Treasury and SARS, however, the total estate duty collections for that tax year were given as R1,013 billion (Department of National Treasury & SARS 2013:24). If this is taken as correct, the sample total as percentage of total estate duty collections would equal 794 / 1013 = 78.38%. This will affect the results marginally.
506 Davis Tax Committee 2015:31
507 Davis Tax Committee 2015:31
508 Calculated as the sample total per Table 7 of R794 million as a percentage of R1,13 billion, that is, 794 / 1130 x 100 = 70.18%.

National Treasury and SARS, however, the total estate duty collections for that tax year were given as R1,013 billion[509]. If this is taken as correct, the sample total would represent 78.38% of the total estate duty collections in the 2013 tax year[510] and not 70% as stated in the Report. The value to be used for the purpose of the assumptions below will therefore be 78% (rounded down to simplify calculations).

The estate duty sample data contained in Table 2[511] (and again in Table 6[512]) of the DTC's First Report is partially replicated in the table below:

Table 7 – SARS statistics regarding sample of estate duty collected in 2013 tax year covering 70% of estate duty collected

Estate value	**Estates by number**	**Estate duty collected (R million)**
Less than R10 million	547	158
R10 million to R20 million	69	145
R20 million to R30 million	17	73
Above R30 million	26	418
Total	**659**	**794**

As the above data is given in a very high-level format only, one approach of determining a very rough estimate of CGT collected on death based on the 2013 numbers and estimates given by SARS in various parts of the DTC's First Report could be done based on the following set of assumptions:

1. Firstly it is assumed that the 78% estate duty sample is distributed proportionally across the four broad bands of estate values given in the Report.
2. A further assumption following from the first is that both the number of estates and the amount of estate duty collected given in the above sample equal 78% of the total number of estates which paid estate duty and the total amount of estate duty collected respectively[513].

[509] Department of National Treasury & SARS 2013:24
[510] Calculated as the sample total per Table 7 of R794 million as a percentage of R1,013 billion, that is, 794 / 1013 x 100 = 78.38%.
[511] Davis Tax Committee 2015:31
[512] Davis Tax Committee 2015:63
[513] Per the wording used in the DTC's First Report's Report, the sample reflects a certain percentage of the estate duty collected in the 2013 tax year therefore the sample specifically relates

3. A third assumption is that the 4% of estates reported to SARS in 2013 that were liable for CGT[514] are equally distributed across the four broad bands of estate values given in the above tables[515].
4. A fourth assumption is that the average estate values for each of the first three estate value bands are calculated as the midpoint of the range of estate values[516] and for the fourth estate value band (estates above R30 million in value) an average of R80 million will be selected[517].
5. The fifth assumption is that the net estate value calculated as property and deemed property less allowable deductions (which includes liabilities and bequests to the surviving spouse) is a good proxy for the total possible capital gain of an estate[518] and that the three options for the percentage of an estate's value subject to CGT as used in the National Treasury analysis in the Report (that is, 0%, 25% and 50%) multiplied by the net estate value

to the *amount* of estate duty collected and not necessarily to the *number* of estates from which such estate duty was collected. As no additional information is provided in the Report, the assumption made for the purpose of calculating the above rough estimate of CGT collected, is that the sample was taken proportionally across the four estate value bands and that the number of estates covered by the sample is also equal to or nearly equal to 78% of all estates from which estate duty was collected in the 2013 tax year.

[514] Davis Tax Committee 2015:57. No reference is given in the Report to the specific data source from SARS therefore the information is assumed to be unpublished SARS statistics and it is furthermore assumed that the words 'in 2013' used in the Report refer to the 2013 tax year.

[515] This assumption is deemed reasonable as the 4% number is a result of the type of assets held in the estates (for instance, CGT exempt assets and assets subject to rollovers) and not necessarily a function of the value of the estates. Wealthier deceased estates are also more likely to have been subject to estate planning where the use of trusts and other mechanisms may be in place in order to avoid excessive CGT being due on death.

[516] It may be more likely that the estate values in each of the first three bands, especially the first one (less than R10 million) has a different distribution which would affect the average estate value but with no detailed information available, the above assumption is deemed to be the only reasonable one to make.

[517] Even though the estate duty is calculated as 20% of the dutiable estate, the effective estate duty rate for net estate values of R35 million equals about 18.00% (taking a R3.5 million rebate into account as follows: [(35 – 3.5) x 20%]/35), for a net estate value of R70 million the effective estate duty rate equals about 19.00% and at R140 million the effective estate duty rate equals about 19.50%. Using the statistics provided in the DTC's First Report that the 26 estates in the sample with values above R30 million contributed R418 million to estate duty in 2013 (Davis Tax Committee 2015:31 at Table 2), the average estate duty paid per estate in this band amounted to 418 / 26 which equals just over R16 million. Assuming an average effective estate duty rate of 19%, the average estate value equals about R84.6 million (16 x 100 / 19). Making the reasonable assumption that the number of higher value estates are likely to be much less than the number of lower value estates in this top band, which would tend to lower the average estate value in this band, this value is rounded down to the nearest tens of millions to R80 million to be used as the average estate value related to this band.

[518] It is therefore assumed that the base cost of assets subject to CGT on death is very low compared to the market value on death (for example, a holiday residence purchased several years prior to the death of the taxpayer) so that the capital gain, which is calculated as proceeds less base cost, closely approximates the net estate value or market value of the asset.

is in turn a good proxy for the non-exempt capital gain of each deceased estate[519].

6. The final assumption is that the marginal tax rate of taxpayers in their year of death was 40%, which is the maximum marginal tax rate applicable in the personal income tax tables for the 2013 tax year[520]. The effective capital gains tax rate therefore equals the capital gains inclusion percentage for individuals applicable in the 2013 tax year[521] times the maximum marginal tax rate, that is 33.3% x 40% = 13.32%[522].

6.2.2 Results and discussion

Based on the above assumptions, the estimated number of estates subject to CGT and total estate values in 2013 are calculated as follows:

Table 8 – Estimated number of estates and estate values per 2013 statistics and based on stated assumptions

Estate value bands	**A: Extrapolated number of estates based on assumption #2** *Estates in sample times 100/78 rounded to nearest estate*	**B: Number of estates subject to CGT based on assumption #3** *Extrapolated number of estates times 4% rounded to nearest 10th of an estate*	**C: Estimated average estate value in band based on assumption #4 (R million)**
Less than R10 million	701	28.0	5
R10 million to R20 million	88	3.5	15

519 Assets that are exempt from CGT include life insurance proceeds, retirement fund benefits, bequests to the surviving spouse, small business assets, primary residences, cash and personal-use assets which includes motor vehicles. Examples of non-exempt assets could therefore be share portfolios held personally, second homes or holiday homes and other immovable property, other assets not deemed personal-use assets or not subject to any rollovers, among others.

520 Per para 1 of Appendix I to the Rates and Monetary Amounts and Amendment of Revenue Laws Act 2012 in respect of any year of assessment commencing on 1 March 2012.

521 Per s 9(1)(*a*) of the Rates and Monetary Amounts and Amendment of Revenue Laws Act 2012 which amended para 10 of the Eighth Schedule to the Income Tax Act, deemed to have come into operation on 1 March 2012.

522 The capital gains inclusion rate applicable to individuals in the 2013 tax year was still 33.3%.

Estate value bands	A: Extrapolated number of estates based on assumption #2 *Estates in sample times 100/78 rounded to nearest estate*	B: Number of estates subject to CGT based on assumption #3 *Extrapolated number of estates times 4% rounded to nearest 10th of an estate*	C: Estimated average estate value in band based on assumption #4 (R million)
R20 million to R30 million	22	0.9	25
Above R30 million	33	1.3	80
Total	**844**	**33.7**	**-**

As a reasonability test, the number of reported deaths in South Africa in 2012[523] was a total of 480 476[524] compared to the estimated population size of South Africa in the same year of 52,27 million[525]. Therefore it seems that only an estimated 0.18% of all deaths in South Africa[526] resulted in any estate duty being payable.

This may be indicative of the high inequality in South Africa as discussed elsewhere in this report[527] together with estate planning which often occurs in the case of high-net-worth individuals thereby further reducing the number of estates where estate duty is due.

The estimated total CGT payable in the two scenarios where 50% and 25% of an estate was subject to CGT is calculated in the table below.

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[523] As the 2013 tax year runs from 1 March 2012 to 28 February 2013, the number of deaths in the 2012 calendar year was deemed to be the appropriate period to use in the reasonability test.
[524] Statistics South Africa 2012:13
[525] Statistics South Africa 2013:2.1 (Even though this publication is with regard to the 2013 calendar year, it contained historical data for the 2012 calendar year which is reflected in the text above).
[526] Calculated as the total extrapolated number of estates subject to estate duty in 2013 as estimated in Table 8 divided by total number of deaths in the 2012 calendar year, that is 844 / 480 476 x 100.
[527] See discussion under chapter 4.1

Table 9 – Estimated total CGT payable by estates in 2013 for the two scenarios where either 50% or 25% of the estate was subject to CGT

Estate value bands	**Total CGT payable where 50% of estate value is subject to CGT based on assumptions #5 and #6** **(R million)** ***Column B of Table 8 x Column C of Table 8 x 50% x 13.32%***	**Total CGT payable where 25% of estate value is subject to CGT based on assumptions #5 and #6** **(R million)** ***Column B of Table 8 x Column C of Table 8 x 25% x 13.32%***
Less than R10 million	9.32	4.66
R10 million to R20 million	3.50	1.75
R20 million to R30 million	1.50	0.75
Above R30 million	6.93	3.46
Total	**21.25**	**10.62**

If the above assumptions are able to provide a reasonable estimate of total CGT paid on death by taxpayers amounting to somewhere between R10,62 million and R21,25 million, then compared to the total amount of CGT paid by individuals in the 2012/13 tax year of just over R2 billion[528], CGT due on death only made up a maximum of 0.98% of total CGT collected from individuals in that year[529].

Based on the fact that total revenue collected in the 2012/13 tax year amounted to R813,8 billion[530] and accepting that the above assumptions are able to provide a reasonable estimate of CGT paid on death then an estimated maximum of only 0.003% of total revenue collected in 2012/13 can be ascribed to CGT that was paid on death[531].

As total estate duty collected in 2012/13 was R1,013 billion[532] which equals 0.14% of total revenue collected[533] it seems as if the perceived double taxation effect due to both estate duty and CGT being payable on death may not be that excessive in reality.

[528] CGT collected from individuals in the 2012/13 tax year came to R2 166 million (Department of National Treasury & SARS 2014:224).
[529] Calculated as 21.25 / 2166 x 100.
[530] Department of National Treasury & SARS 2013:5
[531] Calculated as 21.25 / 813 800 x 100.
[532] Department of National Treasury & SARS 2013:24
[533] Calculated as 1.103 / 813.8 x 100.

Even with the newly announced increase in the capital gains inclusion rate for individuals of 40%[534] (up from the previous 33.3% inclusion) which would result in a maximum effective CGT rate of 40.0% x 41% = 16.40% (up from the previous 13.65%), the effect on the percentage of CGT paid on death of total revenue collected based on the above assumptions is likely to be small.

6.2.3 Possible limitations

One possible limitation to the assumptions used above may be that there could be a far greater number of estates subject to CGT than those subject to estate duty (as recorded in Table 2[535] and again in Table 6[536] of the Report) as only the number of estates exceeding a net estate value of R3.5 million (or R7 million in cases where the portable abatement was used between spouses) may be reflected in those tables. As only the first R300,000 of capital gains are excluded in the year of death[537], the number of estates with net values exceeding this amount that would be included in the estate value band with estate values less than R10 million may result in the total number of estates in this band being significantly more. This may have a substantial effect on the extrapolated number of estates reflected in column A of Table 8 for this band as well as on the average estate value used in column C of that table and therefore the calculation of the CGT attributable to this band (which currently makes up about 44% of the total CGT calculated using the stated assumptions[538]) may be substantially underestimated.

It may, however, be concluded that the perceived double taxation will not occur in estates with net estate values of less than either R3.5 million or R7 million (where the portable abatement was used between spouses) as these estates would not have been subject to both estate duty and CGT but possibly only to CGT on certain assets. The above set of assumptions may therefore still be valid in order to indicate whether or not any double taxation occurs on estates that are subject to estate duty as well.

With the proposed increases in the s 4A estate duty abatements (either R6 million or R15 million[539]), it is likely that even less of the estates in the lower estate value bands will be

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[534] Department of National Treasury 2016a:50
[535] Davis Tax Committee 2015:31
[536] Davis Tax Committee 2015:63
[537] Per para 5(2) of the Eighth Schedule to the Income Tax Act
[538] Per Table 9 using the scenario where 50% of the estate value is subject to CGT, the CGT payable from estates with values less than R10 million was estimated as R9.32 million whereas the total CGT for all estates was calculated as R21.25 million. Therefore 9.32 / 21.25 = 44% of the CGT calculated using the stated assumptions can be ascribed to estates with values less than R10 million.
[539] See discussion under chapter 1.2

subject to both estate duty and CGT but possibly only to CGT (if the total capital gain exceeds the R300 000 exclusion in the year of death).

6.2.4 Conclusion

Certain high-level statistical information provided in the DTC's First Report regarding estate duty collections together with assumptions used in a National Treasury analysis of the effective tax rate on death contained in the same Report was employed together with other high-level assumptions to reach an estimate of total CGT collected on death for the 2012/13 tax year as this number is not separately available in the annual Tax Statistics.

If the above assumptions hold then it seems as if the actual overall double taxation as a result of both CGT and estate duty being due on death with regard to a large sample of estates may be insignificant on average due to various roll-over relief and other exclusions that exist with regard to CGT. Any individual high-value estate may however experience some form of double taxation if it contains significant assets to which none of the CGT exemptions or rollovers apply which is why a case study approach may not have provided a satisfactory result in this case.

The latest suggested increase in the estate duty abatement to R15 million[540] may further reduce the incidence of perceived and actual double taxation as a result of both estate duty and CGT being due on the same assets.

[540] Davis 2015

7 Conclusion

7.1 Summary of research report content

This research report set out to conduct case studies to compare the effect of various proposals by the Davis Tax Committee and the 2016 Budget Review with regard to estate duty and the taxation of trusts. In addition, a brief investigation was made to attempt to perform a high-level estimate of the possible double taxation due to CGT and estate duty on death based on high-level statistics and other data provided by the DTC in their First Interim Report on Estate Duty. This was done in the light of the DTC's view in their First Report that CGT on death is not regarded as a wealth tax as well as the effect of the newly increased capital gains inclusion rates announced in the 2016 Budget Speech.

The literature study section contained a review of inequality in South Africa by means of various indicators and a review of the Margo and Katz Commissions' views on using a wealth tax to address inequality which was compared to the Davis Tax Committee's submissions in this regard. The section continued with a review of benchmarks for estate duty as percentage of total tax collections, for estate duty rates and for a combined effective tax rate on death which concluded that a relevant benchmark for capital taxes is for such taxes to not materially exceed 15% in order to avoid significant avoidance and evasion and a resultant reduced effective tax yield. The possible double taxation effect of both estate duty and CGT levied on death was also considered.

This section was followed by high-level summaries of the relevant aspects of estate duty, trust law and trust taxation and a discussion of the tax consequences of certain manners of taxpayers' interactions with trusts. The literature study was concluded with a review of commentaries on the DTC's First Report submitted by four professional bodies, namely FISA, SAIT, STEP and the LSSA.

The methodology section set out the approach to be followed with the case studies and scenarios and contained an explanation of all starting parameters and assumptions used. The approach to be followed regarding the high-level estimate of total CGT paid on death based on data made available in the DTC's First Interim Report on Estate Duty was also explained.

The results section discussed the results of the case studies which did comparisons of seven different parameters in chart format for each of the given case studies, each case study consisting of both a trust and a personal estate scenario. The punitive effect of the repeal of the s 4(*q*) estate duty deduction for inter-spousal bequests was clearly demonstrated in several instances (showing both the negative effect on the ability to preserve capital as well as the successive taxation of essentially the same asset base). Several of the new proposals resulted in effective capital tax rates far in excess of the deemed maximum capital tax benchmark of 15% which may result in more aggressive estate planning strategies being employed should such proposals be enacted. The case studies focused on the effect of the various estate duty and trust taxation recommendations on high-net-worth trusts and personal estates. The effect of the various recommendations on smaller estates, which may enjoy the protection of the increased s 4A estate duty abatements proposed, was not tested as this falls outside the scope of this research report. Such an analysis may possibly form the object of a follow-up study.

The results for the high-level estimate of CGT paid on death was also discussed and it was concluded that, if the stated assumptions hold, that it seems as if the actual overall double taxation as a result of both CGT and estate duty being due on death with regard to a large sample of estates may be insignificant on average due to various roll-over relief and other exclusions that exist with regard to CGT. Any individual high-value estate may however experience some form of double taxation if it contains significant assets to which none of the CGT exemptions or rollovers apply which is why a case study approach may not have provided a satisfactory result in this case.

The latest suggested increase in the estate duty abatement may further reduce the incidence of perceived and actual double taxation as a result of both estate duty and CGT being due on the same assets.

7.2 Closing thoughts

Even though a major limitation of this research report is the fact that the final recommendations of the Davis Tax Committee with regard to Estate Duty and other wealth taxes have not yet been published at the hand-in date of this report, the case study framework that was created can easily be reused to test the effect of the Committee's final recommendations once they are announced. Once the final recommendations are made available, case studies at various levels of estate and trust values could also be performed to analyse the effect of the recommendations on smaller estates as well.

The conclusion reached from the case studies performed in this report is that the various recommendations, as they currently stand, may not result in a reduction of aggressive estate planning strategies but that it may rather have the opposite effect, especially if high-net-worth estates are involved. If, however, the intention is also to reduce excessive capital growth in order to help reduce the persistent high levels of overall inequality in South

Africa, as advocated by Thomas Piketty, then these recommendations may well help to achieve this. Taxpayers may, however, not take such an aggressive reduction of their capital wealth lying down. It will also be interesting to see how the final recommendations will affect resident beneficiaries of non-resident trusts. Although the use of non-resident trusts by South Africans fell outside the scope of this study, the case studies may also be expanded to test the effect of the recommendations on such scenarios.

With regard to the contentious issue of possible double taxation on death as a result of both CGT and estate duty being due, it is hoped that SARS and the National Treasury will be able to provide a more detailed breakdown of the CGT collected in the annual Tax Statistics publications in future years which includes a breakdown of CGT paid on death as well. Based on the high-level statistical information provided in the DTC's First Interim Report on Estate Duty and the study performed by National Treasury regarding the combined effective tax rate on death also included in this report it does seem as if some detailed information may already be available in this regard. If far-reaching changes to estate duty legislation and the taxation of trusts are going to be enacted in the future, then such statistical information will be useful to have for comparative purposes and to see if the enacted legislation does in fact succeed in increasing estate duty collections and in clamping down on excessive use of trust structures.

Given the detail required to be provided in the new trust tax return forms (ITR12T) SARS may also already be in a position to integrate and analyse all the information collected in those forms in order to clamp down on trusts where clear abuses may be taking place or where not all distributed taxable income is given up in the tax returns of beneficiaries.

There remains a number of legitimate non-tax reasons for the use of trusts and it is hoped that the eventual legislation enacted with regard to the tax treatment of trusts will not make it overly costly from a tax point of view to enter into such a structure where it is genuinely required to do so.

Collections of estate duty is and will remain a very small component of overall revenue collections and as can be seen from the recently enacted increase in the capital gains inclusion rate for all entities, the Receiver may well opt for other means to increase their revenue collections from the wealthy which are easier to implement than an overhaul of long-established trust taxation and estate duty legislation.

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NOTE THAT THE ANNEXURES TO THIS RESEARCH REPORT IS CONTAINED IN A SEPARATE BOUND DOCUMENT.

REFER TABLE OF CONTENTS FOR MORE DETAIL REGARDING CONTENTS OF ANNEXURES.

9 Annexures

The detailed data sets per trust and personal estate comparison case study will be set out in the annexures to follow. In order to ease the use of the detailed data sets, the same colour formatting as was used in the Results section will be followed for each comparison in this section (refer chapter 6.1).

Each comparison's chapter will start with the charts for each of the parameters, containing only the trust and personal estate scenario pertaining to that particular comparison case study.

The charts will be followed by the detailed data sets, the summaries per scenario and all supporting schedules specific to the comparison's trust and personal estate scenarios. The source of each data column or the manner of calculation thereof will be explained in the header fields of each schedule. Detailed explanations are given in the 'Other taxes' schedules for all assumptions made and the origin of values used in the calculation of CGT, donations tax (where applicable) and estate duty in a particular year. Each column in a schedule or data set is numbered alphabetically and this numbering is referred to in other schedules.

Also refer the detail provided in the Methodology chapter (chapter 5) for explanations of certain starting parameter values selected and other assumptions made.

Following the data sets related to each comparison's set of scenarios, two schedules used by all scenarios in all comparisons will be provided, namely the Post-retirement withdrawal schedule and the Effective tax rate lookup tables.

9.1 Comparison 1

9.1.1 Comparison 1 – Charts

Figure 8 – Comparison 1 – Chart 1: Cumulative total taxation

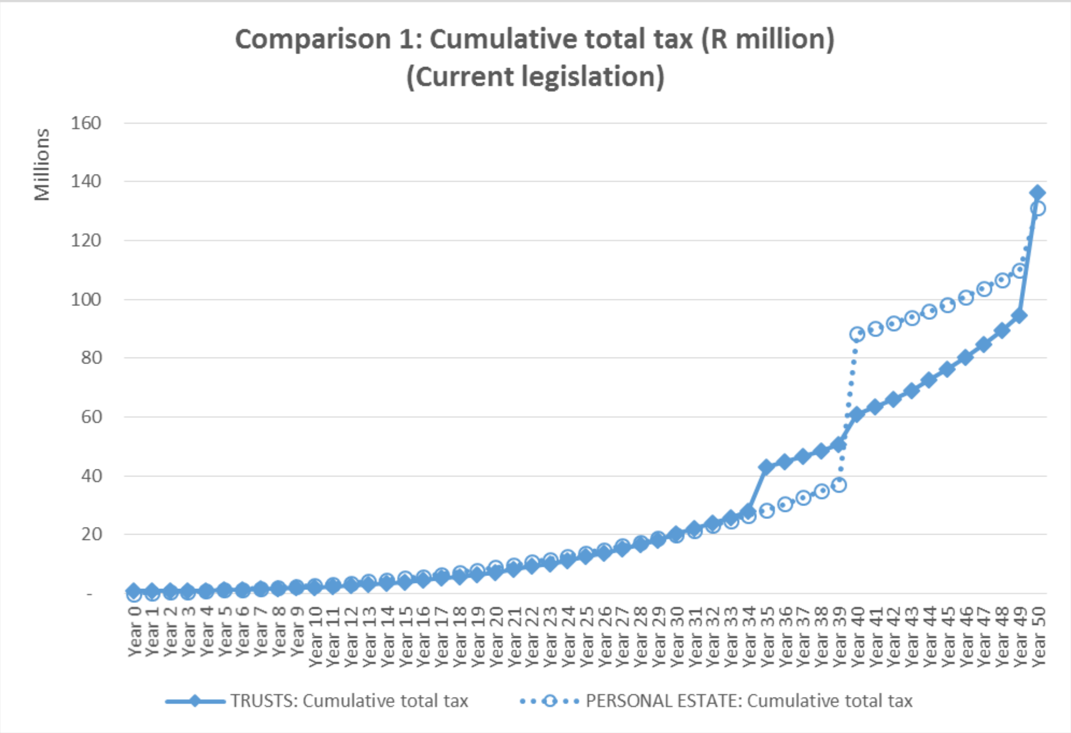


Figure 9 – Comparison 1 – Chart 2: Capital value

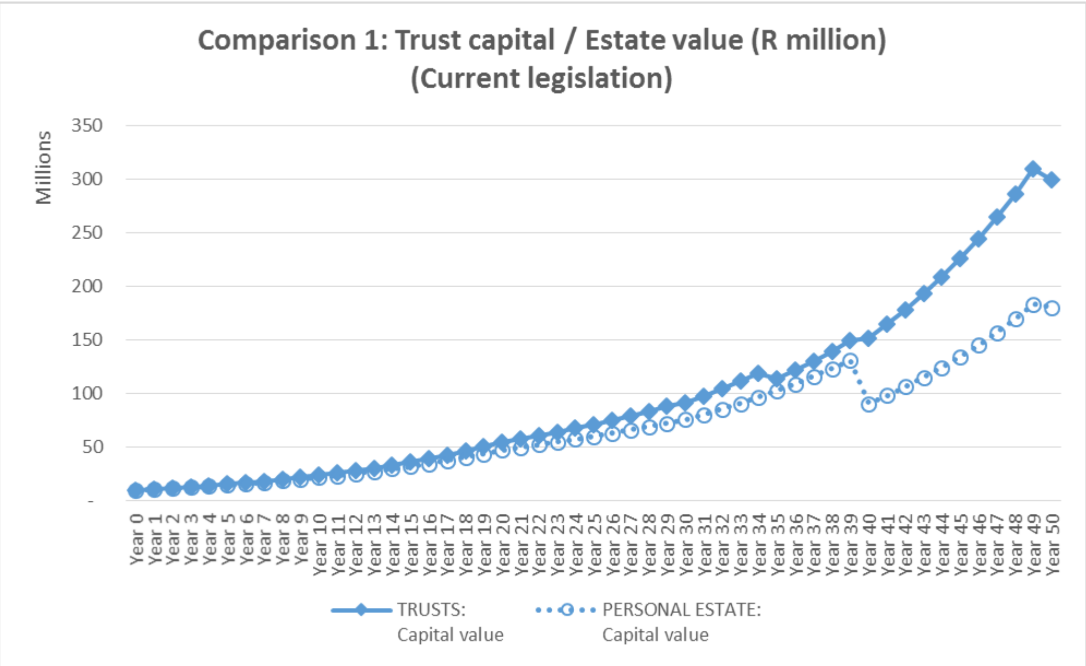


Figure 10 – Comparison 1 – Chart 3: Cumulative total tax as percentage of capital value

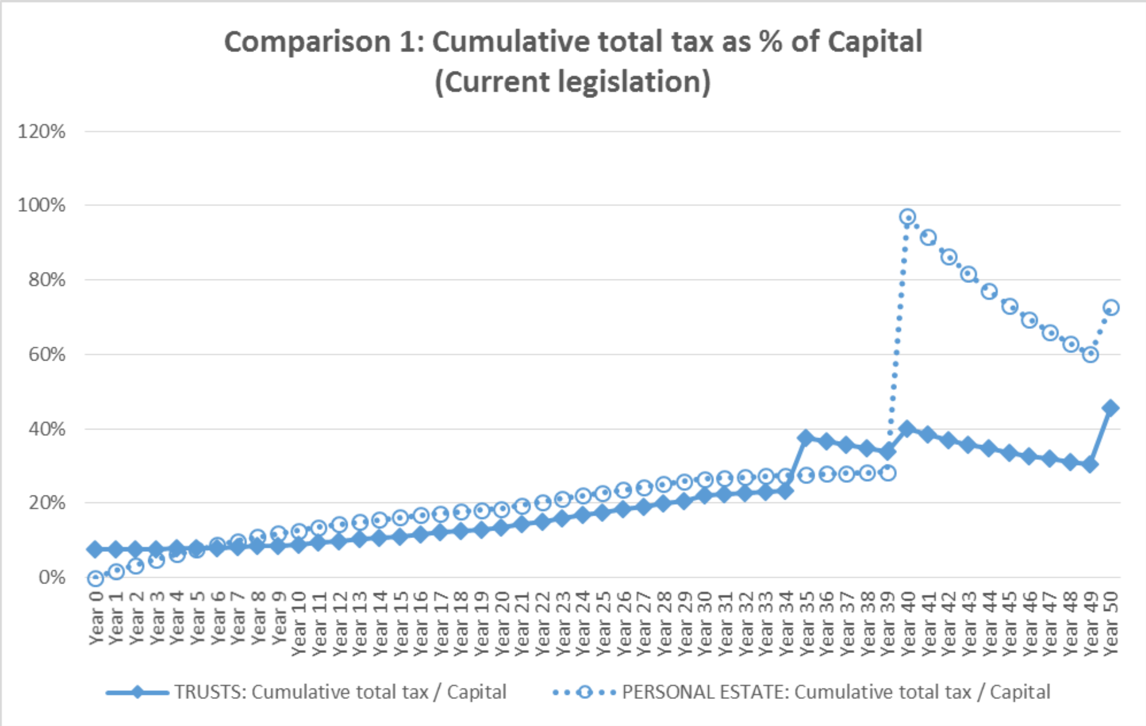


Figure 11 – Comparison 1 – Chart 4: Cumulative CGT and estate duty

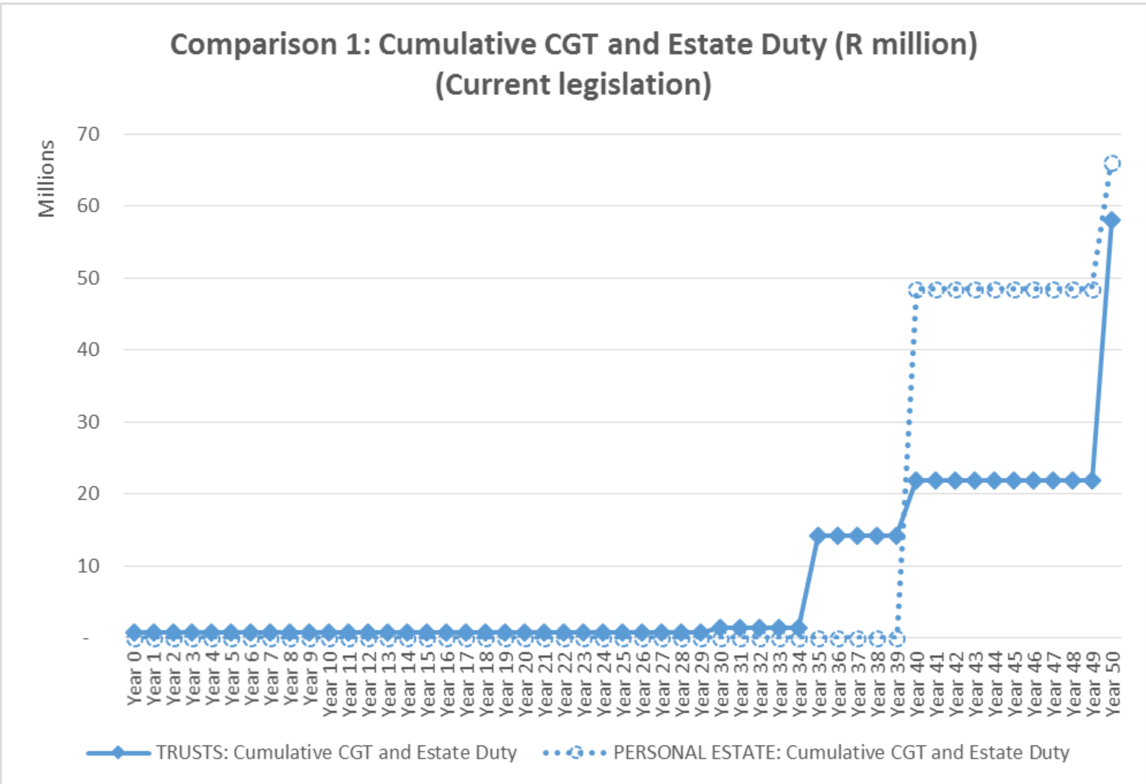


Figure 12 – Comparison 1 – Chart 5: Cumulative CGT and estate duty as percentage of capital value

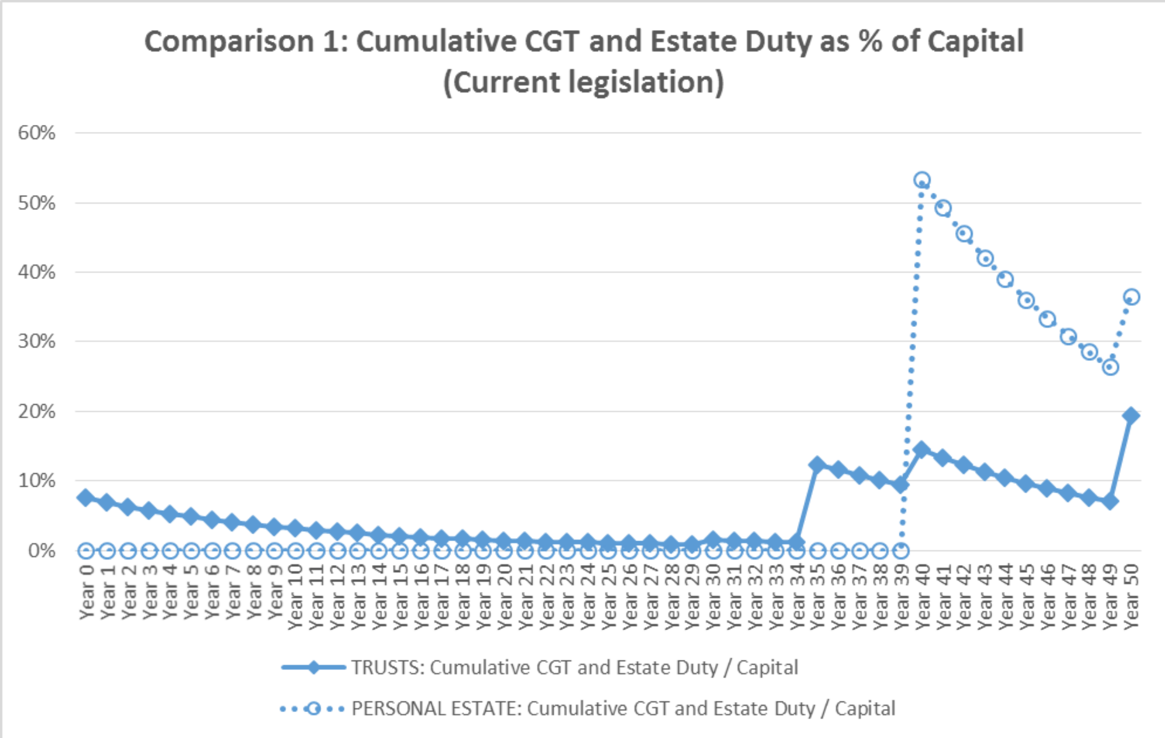


Figure 13 – Comparison 1 – Chart 6: Difference: Cumulative total tax as percentage of capital value

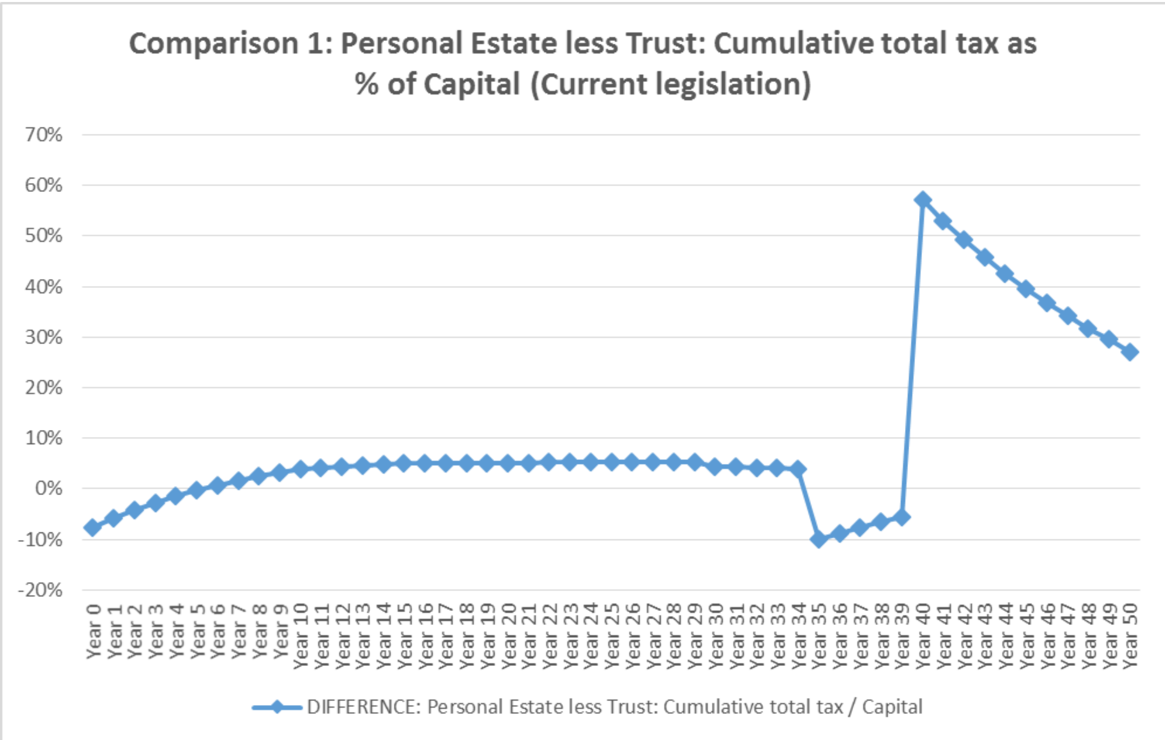
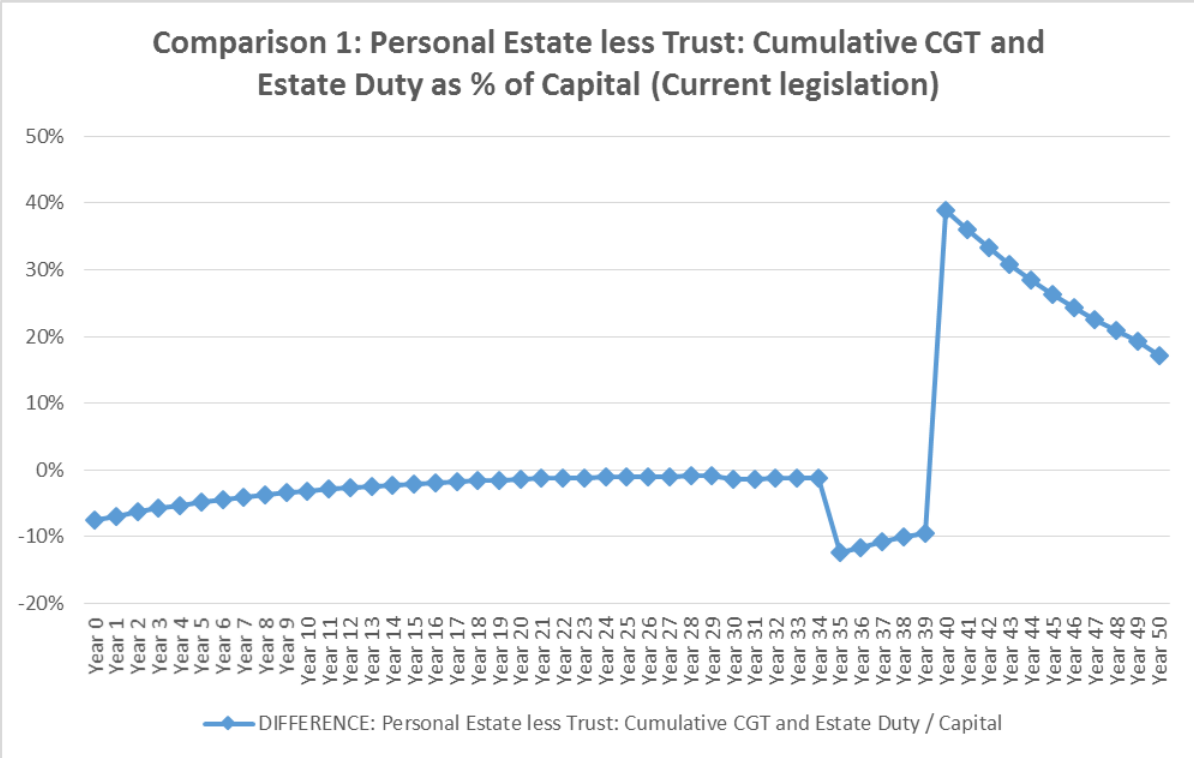


Figure 14 – Comparison 1 – Chart 7: Difference: Cumulative CGT and estate duty as percentage of capital value



9.1.2 *Comparison 1 – Comparative data between trust and personal estate scenarios including difference data used in charts*

Table 10 – Comparison 1: Comparative and difference data sets

COMPARISON 1: Trust vs. Personal Estate - current legislation

			A	B	C	D	E	F	G	H	I	J	K	L
			A = column I of Trusts summary schedule	B = column F of Personal estate summary schedule	C = column C of Trusts summary schedule	D = column A of Personal estate summary schedule	E = column J of Trusts summary schedule	F = column G of Personal estate summary schedule	G = column K of Trusts summary schedule	H = column H of Personal estate summary schedule	I = column L of Trusts summary schedule	J = column I of Trusts summary schedule	K = F - E	L = J - I
			CHART 1 Comparison 1: Cumulative total tax		CHART 2 Comparison 1: Capital / Estate value		CHART 3 Comparison 1: Cumulative total tax as % of Capital		CHART 4 Comparison 1: Cumulative CGT and Estate Duty		CHART 5 Comparison 1: Cumulative CGT and Estate Duty as % of Capital		CHART 6 Difference: Cumulative total tax . Capital	CHART 7 Difference: Cumulative CGT and Estate Duty / Capital
Year	**TRUSTS: Scenario event**	**PERSONAL ESTATE: Scenario event**	**TRUSTS: Cumulative total tax**	**PERSONAL ESTATE: Cumulative total tax**	**TRUSTS: Capital value**	**PERSONAL ESTATE: Capital value**	**TRUSTS: Cumulative total tax / Capital**	**PERSONAL ESTATE: Cumulative total tax / Capital**	**TRUSTS: Cumulative CGT and Estate Duty**	**PERSONAL ESTATE: Cumulative CGT and Estate Duty**	**TRUSTS: Cumulative CGT and Estate Duty / Capital**	**PERSONAL ESTATE: Cumulative CGT and Estate Duty / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative total tax / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative CGT and Estate Duty / Capital**
Year 0	Transfer of assets to Trust 1	Assets kept in personal estate	753 920	-	10 000 000	10 000 000	7.54%	0.00%	753 920	-	7.54%	0.00%	-7.54%	-7.54%
Year 1			828 420	190 000	10 925 500	10 810 000	7.58%	1.76%	753 920	-	6.90%	0.00%	-5.82%	-6.90%
Year 2			909 815	395 390	11 936 655	11 685 610	7.62%	3.38%	753 920	-	6.32%	0.00%	-4.24%	-6.32%
Year 3			998 743	617 417	13 041 392	12 632 144	7.66%	4.89%	753 920	-	5.78%	0.00%	-2.77%	-5.78%
Year 4			1 104 704	857 427	14 239 570	13 655 348	7.76%	6.28%	753 920	-	5.29%	0.00%	-1.48%	-5.29%
Year 5			1 227 266	1 116 879	15 540 965	14 761 431	7.90%	7.57%	753 920	-	4.85%	0.00%	-0.33%	-4.85%
Year 6			1 361 030	1 397 346	16 961 299	15 957 107	8.02%	8.76%	753 920	-	4.44%	0.00%	0.73%	-4.44%
Year 7			1 516 204	1 700 531	18 502 254	17 249 633	8.19%	9.86%	753 920	-	4.07%	0.00%	1.66%	-4.07%
Year 8			1 696 478	2 028 274	20 172 206	18 646 853	8.41%	10.88%	753 920	-	3.74%	0.00%	2.47%	-3.74%
Year 9			1 902 618	2 382 564	21 983 286	20 157 248	8.65%	11.82%	753 920	-	3.43%	0.00%	3.17%	-3.43%
Year 10			2 127 265	2 765 552	23 956 968	21 789 985	8.88%	12.69%	753 920	-	3.15%	0.00%	3.81%	-3.15%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	No event	2 437 573	3 179 562	26 042 356	23 554 974	9.36%	13.50%	753 920	-	2.89%	0.00%	4.14%	-2.89%
Year 12			2 781 822	3 627 106	28 302 343	25 462 927	9.83%	14.24%	753 920	-	2.66%	0.00%	4.42%	-2.66%
Year 13			3 159 293	4 110 902	30 755 106	27 525 424	10.27%	14.93%	753 920	-	2.45%	0.00%	4.66%	-2.45%
Year 14			3 572 631	4 633 885	33 417 279	29 754 984	10.69%	15.57%	753 920	-	2.26%	0.00%	4.88%	-2.26%
Year 15			4 024 745	5 199 230	36 306 894	32 165 137	11.09%	16.16%	753 920	-	2.08%	0.00%	5.08%	-2.08%
Year 16			4 568 803	5 810 367	39 393 524	34 770 513	11.60%	16.71%	753 920	-	1.91%	0.00%	5.11%	-1.91%
Year 17			5 162 775	6 471 007	42 738 905	37 586 925	12.08%	17.22%	753 920	-	1.76%	0.00%	5.14%	-1.76%
Year 18			5 810 761	7 185 159	46 364 810	40 631 466	12.53%	17.68%	753 920	-	1.63%	0.00%	5.15%	-1.63%
Year 19			6 520 416	7 957 157	50 291 635	43 922 615	12.97%	18.12%	753 920	-	1.50%	0.00%	5.15%	-1.50%
Year 20			7 297 796	8 791 686	54 543 419	47 480 346	13.38%	18.52%	753 920	-	1.38%	0.00%	5.14%	-1.38%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	8 216 073	9 693 813	57 579 483	49 826 254	14.27%	19.46%	753 920	-	1.31%	0.00%	5.19%	-1.31%
Year 22			9 191 796	10 640 512	60 771 709	52 272 181	15.13%	20.36%	753 920	-	1.24%	0.00%	5.23%	-1.24%
Year 23			10 228 390	11 633 683	64 126 886	54 820 828	15.95%	21.22%	753 920	-	1.18%	0.00%	5.27%	-1.18%
Year 24			11 328 498	12 675 279	67 652 943	57 474 791	16.75%	22.05%	753 920	-	1.11%	0.00%	5.31%	-1.11%
Year 25			12 489 095	13 767 300	71 363 924	60 236 533	17.50%	22.86%	753 920	-	1.06%	0.00%	5.35%	-1.06%
Year 26			13 773 049	14 911 794	75 209 025	63 108 354	18.31%	23.63%	753 920	-	1.00%	0.00%	5.32%	-1.00%
Year 27			15 131 962	16 111 284	79 243 235	66 091 921	19.10%	24.38%	753 920	-	0.95%	0.00%	5.28%	-0.95%
Year 28			16 569 217	17 371 969	83 474 859	69 184 983	19.85%	25.11%	753 920	-	0.90%	0.00%	5.26%	-0.90%
Year 29			18 088 387	18 695 940	87 912 402	72 388 738	20.58%	25.83%	753 920	-	0.86%	0.00%	5.25%	-0.86%

Table 10 (continued)

			A	B	C	D	E	F	G	H	I	J	K	L
			A = column I of Trusts summary schedule	B = column F of Personal estate summary schedule	C = column C of Trusts summary schedule	D = column A of Personal estate summary schedule	E = column J of Trusts summary schedule	F = column G of Personal estate summary schedule	G = column K of Trusts summary schedule	H = column H of Personal estate summary schedule	I = column L of Trusts summary schedule	J = column I of Trusts summary schedule	K = F - E	L = J - I
			CHART 1 Comparison 1: Cumulative total tax		CHART 2 Comparison 1: Capital / Estate value		CHART 3 Comparison 1: Cumulative total tax as % of Capital		CHART 4 Comparison 1: Cumulative CGT and Estate Duty		CHART 5 Comparison 1: Cumulative CGT and Estate Duty as % of Capital		CHART 6 Difference: Cumulative total tax . Capital	CHART 7 Difference: Cumulative CGT and Estate Duty / Capital
Year	TRUSTS: Scenario event	PERSONAL ESTATE: Scenario event	TRUSTS: Cumulative total tax	PERSONAL ESTATE: Cumulative total tax	TRUSTS: Capital value	PERSONAL ESTATE: Capital value	TRUSTS: Cumulative total tax / Capital	PERSONAL ESTATE: Cumulative total tax / Capital	TRUSTS: Cumulative CGT and Estate Duty	PERSONAL ESTATE: Cumulative CGT and Estate Duty	TRUSTS: Cumulative CGT and Estate Duty / Capital	PERSONAL ESTATE: Cumulative CGT and Estate Duty / Capital	DIFFERENCE: Personal Estate less Trust: Cumulative total tax / Capital	DIFFERENCE: Personal Estate less Trust: Cumulative CGT and Estate Duty / Capital
Year 30	Death of founder (at end of year)	Death of founder (at end of year) - bequeath assets to surviving spouse	20 295 884	20 085 332	91 961 927	75 704 001	22.07%	26.53%	1 356 565	-	1.48%	0.00%	4.46%	-1.48%
Year 31			22 023 676	21 542 312	98 087 192	80 474 286	22.45%	26.77%	1 356 565	-	1.38%	0.00%	4.32%	-1.38%
Year 32			23 872 958	23 097 408	104 622 906	85 542 894	22.82%	27.00%	1 356 565	-	1.30%	0.00%	4.18%	-1.30%
Year 33			25 851 491	24 756 368	111 597 516	90 929 077	23.16%	27.23%	1 356 565	-	1.22%	0.00%	4.06%	-1.22%
Year 34			27 970 266	26 525 374	119 038 796	96 653 282	23.50%	27.44%	1 356 565	-	1.14%	0.00%	3.95%	-1.14%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	No event	43 012 381	28 412 057	114 204 883	102 736 249	37.66%	27.66%	14 133 451	-	12.38%	0.00%	-10.01%	-12.38%
Year 36			44 703 059	30 423 402	122 137 274	109 201 110	36.60%	27.86%	14 133 451	-	11.57%	0.00%	-8.74%	-11.57%
Year 37			46 552 562	32 567 782	130 596 234	116 071 577	35.65%	28.06%	14 133 451	-	10.82%	0.00%	-7.59%	-10.82%
Year 38			48 549 169	34 853 122	139 639 672	123 373 815	34.77%	28.25%	14 133 451	-	10.12%	0.00%	-6.52%	-10.12%
Year 39			50 721 229	37 287 931	149 290 824	131 135 634	33.97%	28.43%	14 133 451	-	9.47%	0.00%	-5.54%	-9.47%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	60 863 248	88 349 307	151 808 688	90 918 622	40.09%	97.17%	21 910 657	48 467 262	14.43%	53.31%	57.08%	38.88%
Year 41			63 342 353	90 023 080	164 510 452	98 336 711	38.50%	91.55%	21 910 657	48 467 262	13.32%	49.29%	53.04%	35.97%
Year 42			66 093 365	91 850 198	178 210 485	106 343 264	37.09%	86.37%	21 910 657	48 467 262	12.29%	45.58%	49.28%	33.28%
Year 43			69 130 624	93 841 488	192 994 274	114 986 300	35.82%	81.61%	21 910 657	48 467 262	11.35%	42.15%	45.79%	30.80%
Year 44			72 471 422	96 008 941	208 952 904	124 317 477	34.68%	77.23%	21 910 657	48 467 262	10.49%	38.99%	42.55%	28.50%
Year 45			76 135 718	98 368 830	226 183 898	134 389 336	33.66%	73.20%	21 910 657	48 467 262	9.69%	36.06%	39.54%	26.38%
Year 46			80 146 025	100 935 127	244 791 981	145 261 973	32.74%	69.48%	21 910 657	48 467 262	8.95%	33.37%	36.74%	24.41%
Year 47			84 527 380	103 723 210	264 889 825	157 000 087	31.91%	66.07%	21 910 657	48 467 262	8.27%	30.87%	34.16%	22.60%
Year 48			89 325 082	106 752 368	286 581 105	169 670 938	31.17%	62.92%	21 910 657	48 467 262	7.65%	28.57%	31.75%	20.92%
Year 49			94 550 669	110 040 613	310 013 628	183 349 787	30.50%	60.02%	21 910 657	48 467 262	7.07%	26.43%	29.52%	19.37%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	Sale of all assets by children	136 342 223	131 176 939	299 223 437	180 548 439	45.57%	72.65%	58 000 014	66 034 451	19.38%	36.57%	27.09%	17.19%

9.1.3 *Comparison 1 – Trust scenario summary*

Table 11 – Comparison 1: Trust scenario summary

TRUSTS - SUMMARY (Comparison 1)

										VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column H of Trust 1: Capital schedule	B = Column G of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, after adjustments)	Trust 2a + 2b capital (end of year, after adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 0	Transfer of assets to Trust 1	10 000 000	-	10 000 000	-	-	753 920	-	753 920	753 920	7.54%	753 920	7.54%
Year 1		10 925 500	-	10 925 500	74 500	-	-	-	74 500	828 420	7.58%	753 920	6.90%
Year 2		11 936 655	-	11 936 655	81 395	-	-	-	81 395	909 815	7.62%	753 920	6.32%
Year 3		13 041 392	-	13 041 392	88 928	-	-	-	88 928	998 743	7.66%	753 920	5.78%
Year 4		14 239 570	-	14 239 570	105 961	-	-	-	105 961	1 104 704	7.76%	753 920	5.29%
Year 5		15 540 965	-	15 540 965	122 562	-	-	-	122 562	1 227 266	7.90%	753 920	4.85%
Year 6		16 961 299	-	16 961 299	133 763	-	-	-	133 763	1 361 030	8.02%	753 920	4.44%
Year 7		18 502 254	-	18 502 254	155 175	-	-	-	155 175	1 516 204	8.19%	753 920	4.07%
Year 8		20 172 206	-	20 172 206	180 274	-	-	-	180 274	1 696 478	8.41%	753 920	3.74%
Year 9		21 983 286	-	21 983 286	206 140	-	-	-	206 140	1 902 618	8.65%	753 920	3.43%
Year 10		23 956 968	-	23 956 968	224 647	-	-	-	224 647	2 127 265	8.88%	753 920	3.15%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	26 042 356	-	26 042 356	310 308	-	-	-	310 308	2 437 573	9.36%	753 920	2.89%
Year 12		28 302 343	-	28 302 343	344 249	-	-	-	344 249	2 781 822	9.83%	753 920	2.66%
Year 13		30 755 106	-	30 755 106	377 471	-	-	-	377 471	3 159 293	10.27%	753 920	2.45%
Year 14		33 417 279	-	33 417 279	413 337	-	-	-	413 337	3 572 631	10.69%	753 920	2.26%
Year 15		36 306 894	-	36 306 894	452 114	-	-	-	452 114	4 024 745	11.09%	753 920	2.08%
Year 16		39 393 524	-	39 393 524	544 059	-	-	-	544 059	4 568 803	11.60%	753 920	1.91%
Year 17		42 738 905	-	42 738 905	593 971	-	-	-	593 971	5 162 775	12.08%	753 920	1.76%
Year 18		46 364 810	-	46 364 810	647 986	-	-	-	647 986	5 810 761	12.53%	753 920	1.63%
Year 19		50 291 635	-	50 291 635	709 656	-	-	-	709 656	6 520 416	12.97%	753 920	1.50%
Year 20		54 543 419	-	54 543 419	777 380	-	-	-	777 380	7 297 796	13.38%	753 920	1.38%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	57 579 483	-	57 579 483	918 277	-	-	-	918 277	8 216 073	14.27%	753 920	1.31%
Year 22		60 771 709	-	60 771 709	975 722	-	-	-	975 722	9 191 796	15.13%	753 920	1.24%
Year 23		64 126 886	-	64 126 886	1 036 594	-	-	-	1 036 594	10 228 390	15.95%	753 920	1.18%
Year 24		67 652 943	-	67 652 943	1 100 108	-	-	-	1 100 108	11 328 498	16.75%	753 920	1.11%

Table 11 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column H of Trust 1: Capital schedule	B = Column G of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	**Scenario event**	**Trust 1 capital (end of year, after adjustments)**	**Trust 2a + 2b capital (end of year, after adjustments)**	**TOTAL CAPITAL**	**Trust 1 income tax**	**Trust 2a + 2b income tax**	**CGT on transfers or disposals**	**Estate Duty and CGT on death**	**TOTAL TAXES**	**Cumulative total taxes**	**Cumulative total tax / Capital**	**Cumulative CGT and Estate Duty**	**Cumulative CGT and Estate Duty / Capital**
Year 25		71 363 924	-	71 363 924	1 160 598	-	-	-	1 160 598	12 489 095	17.50%	753 920	1.06%
Year 26		75 209 025	-	75 209 025	1 283 953	-	-	-	1 283 953	13 773 049	18.31%	753 920	1.00%
Year 27		79 243 235	-	79 243 235	1 358 913	-	-	-	1 358 913	15 131 962	19.10%	753 920	0.95%
Year 28		83 474 859	-	83 474 859	1 437 254	-	-	-	1 437 254	16 569 217	19.85%	753 920	0.90%
Year 29		87 912 402	-	87 912 402	1 519 170	-	-	-	1 519 170	18 088 387	20.58%	753 920	0.86%
Year 30	Death of founder (at end of year)	91 961 927	-	91 961 927	1 604 852	-	-	602 645	2 207 497	20 295 884	22.07%	1 356 565	1.48%
Year 31		98 087 192	-	98 087 192	1 727 792	-	-	-	1 727 792	22 023 676	22.45%	1 356 565	1.38%
Year 32		104 622 906	-	104 622 906	1 849 282	-	-	-	1 849 282	23 872 958	22.82%	1 356 565	1.30%
Year 33		111 597 516	-	111 597 516	1 978 533	-	-	-	1 978 533	25 851 491	23.16%	1 356 565	1.22%
Year 34		119 038 796	-	119 038 796	2 118 775	-	-	-	2 118 775	27 970 266	23.50%	1 356 565	1.14%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	42 327 256	71 877 626	114 204 883	2 265 228	-	12 776 887	-	15 042 115	43 012 381	37.66%	14 133 451	12.38%
Year 36		43 989 657	78 147 617	122 137 274	772 907	917 772	-	-	1 690 678	44 703 059	36.60%	14 133 451	11.57%
Year 37		45 677 805	84 918 430	130 596 234	805 554	1 043 949	-	-	1 849 503	46 552 562	35.65%	14 133 451	10.82%
Year 38		47 385 096	92 254 575	139 639 672	840 909	1 155 697	-	-	1 996 606	48 549 169	34.77%	14 133 451	10.12%
Year 39		49 106 297	100 184 527	149 290 824	876 555	1 295 506	-	-	2 172 061	50 721 229	33.97%	14 133 451	9.47%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	151 808 688	151 808 688	912 406	1 452 406	7 777 206	-	10 142 018	60 863 248	40.09%	21 910 657	14.43%
Year 41		-	164 510 452	164 510 452	-	2 479 105	-	-	2 479 105	63 342 353	38.50%	21 910 657	13.32%
Year 42		-	178 210 485	178 210 485	-	2 751 012	-	-	2 751 012	66 093 365	37.09%	21 910 657	12.29%
Year 43		-	192 994 274	192 994 274	-	3 037 260	-	-	3 037 260	69 130 624	35.82%	21 910 657	11.35%
Year 44		-	208 952 904	208 952 904	-	3 340 797	-	-	3 340 797	72 471 422	34.68%	21 910 657	10.49%
Year 45		-	226 183 898	226 183 898	-	3 664 297	-	-	3 664 297	76 135 718	33.66%	21 910 657	9.69%
Year 46		-	244 791 981	244 791 981	-	4 010 307	-	-	4 010 307	80 146 025	32.74%	21 910 657	8.95%
Year 47		-	264 889 825	264 889 825	-	4 381 354	-	-	4 381 354	84 527 380	31.91%	21 910 657	8.27%
Year 48		-	286 581 105	286 581 105	-	4 797 703	-	-	4 797 703	89 325 082	31.17%	21 910 657	7.65%
Year 49		-	310 013 628	310 013 628	-	5 225 587	-	-	5 225 587	94 550 669	30.50%	21 910 657	7.07%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	299 223 437	299 223 437	-	5 702 197	36 089 357	-	41 791 553	136 342 223	45.57%	58 000 014	19.38%

9.1.4 *Comparison 1 – Personal estate scenario summary*

Table 12 – Comparison 1: Personal estate scenario summary

PERSONAL ESTATE - SUMMARY (Comparison 1)

							VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I
		A = Column H of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 0	Assets kept in personal estate	10 000 000	-	-	-	-	-	0.00%	-	0.00%
Year 1		10 810 000	190 000	-	-	190 000	190 000	1.76%	-	0.00%
Year 2		11 685 610	205 390	-	-	205 390	395 390	3.38%	-	0.00%
Year 3		12 632 144	222 027	-	-	222 027	617 417	4.89%	-	0.00%
Year 4		13 655 348	240 011	-	-	240 011	857 427	6.28%	-	0.00%
Year 5		14 761 431	259 452	-	-	259 452	1 116 879	7.57%	-	0.00%
Year 6		15 957 107	280 467	-	-	280 467	1 397 346	8.76%	-	0.00%
Year 7		17 249 633	303 185	-	-	303 185	1 700 531	9.86%	-	0.00%
Year 8		18 646 853	327 743	-	-	327 743	2 028 274	10.88%	-	0.00%
Year 9		20 157 248	354 290	-	-	354 290	2 382 564	11.82%	-	0.00%
Year 10		21 789 985	382 988	-	-	382 988	2 765 552	12.69%	-	0.00%
Year 11	No event	23 554 974	414 010	-	-	414 010	3 179 562	13.50%	-	0.00%
Year 12		25 462 927	447 545	-	-	447 545	3 627 106	14.24%	-	0.00%
Year 13		27 525 424	483 796	-	-	483 796	4 110 902	14.93%	-	0.00%
Year 14		29 754 984	522 983	-	-	522 983	4 633 885	15.57%	-	0.00%
Year 15		32 165 137	565 345	-	-	565 345	5 199 230	16.16%	-	0.00%
Year 16		34 770 513	611 138	-	-	611 138	5 810 367	16.71%	-	0.00%
Year 17		37 586 925	660 640	-	-	660 640	6 471 007	17.22%	-	0.00%
Year 18		40 631 466	714 152	-	-	714 152	7 185 159	17.68%	-	0.00%
Year 19		43 922 615	771 998	-	-	771 998	7 957 157	18.12%	-	0.00%
Year 20		47 480 346	834 530	-	-	834 530	8 791 686	18.52%	-	0.00%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	49 826 254	902 127	-	-	902 127	9 693 813	19.46%	-	0.00%
Year 22		52 272 181	946 699	-	-	946 699	10 640 512	20.36%	-	0.00%
Year 23		54 820 828	993 171	-	-	993 171	11 633 683	21.22%	-	0.00%
Year 24		57 474 791	1 041 596	-	-	1 041 596	12 675 279	22.05%	-	0.00%

Table 12 (continued)

		A	B	C	D	E	F	G	H	I
		A = Column H of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 25		60 236 533	1 092 021	-	-	1 092 021	13 767 300	22.86%	-	0.00%
Year 26		63 108 354	1 144 494	-	-	1 144 494	14 911 794	23.63%	-	0.00%
Year 27		66 091 921	1 199 490	-	-	1 199 490	16 111 284	24.38%	-	0.00%
Year 28		69 184 983	1 260 684	-	-	1 260 684	17 371 969	25.11%	-	0.00%
Year 29		72 388 738	1 323 971	-	-	1 323 971	18 695 940	25.83%	-	0.00%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	75 704 001	1 389 392	-	-	1 389 392	20 085 332	26.53%	-	0.00%
Year 31		80 474 286	1 456 980	-	-	1 456 980	21 542 312	26.77%	-	0.00%
Year 32		85 542 894	1 555 096	-	-	1 555 096	23 097 408	27.00%	-	0.00%
Year 33		90 929 077	1 658 960	-	-	1 658 960	24 756 368	27.23%	-	0.00%
Year 34		96 653 282	1 769 006	-	-	1 769 006	26 525 374	27.44%	-	0.00%
Year 35	No event	102 736 249	1 886 683	-	-	1 886 683	28 412 057	27.66%	-	0.00%
Year 36		109 201 110	2 011 345	-	-	2 011 345	30 423 402	27.86%	-	0.00%
Year 37		116 071 577	2 144 380	-	-	2 144 380	32 567 782	28.06%	-	0.00%
Year 38		123 373 815	2 285 340	-	-	2 285 340	34 853 122	28.25%	-	0.00%
Year 39		131 135 634	2 434 808	-	-	2 434 808	37 287 931	28.43%	-	0.00%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	90 918 622	2 594 114	-	48 467 262	51 061 376	88 349 307	97.17%	48 467 262	53.31%
Year 41		98 336 711	1 673 773	-	-	1 673 773	90 023 080	91.55%	48 467 262	49.29%
Year 42		106 343 264	1 827 118	-	-	1 827 118	91 850 198	86.37%	48 467 262	45.58%
Year 43		114 986 300	1 991 290	-	-	1 991 290	93 841 488	81.61%	48 467 262	42.15%
Year 44		124 317 477	2 167 453	-	-	2 167 453	96 008 941	77.23%	48 467 262	38.99%
Year 45		134 389 336	2 359 889	-	-	2 359 889	98 368 830	73.20%	48 467 262	36.06%
Year 46		145 261 973	2 566 297	-	-	2 566 297	100 935 127	69.48%	48 467 262	33.37%
Year 47		157 000 087	2 788 084	-	-	2 788 084	103 723 210	66.07%	48 467 262	30.87%
Year 48		169 670 938	3 029 158	-	-	3 029 158	106 752 368	62.92%	48 467 262	28.57%
Year 49		183 349 787	3 288 245	-	-	3 288 245	110 040 613	60.02%	48 467 262	26.43%
Year 50	Sale of all assets by children	180 548 439	3 569 137	17 567 189	-	21 136 326	131 176 939	72.65%	66 034 451	36.57%

9.1.5 Comparison 1 – Trust scenario supporting schedules

Table 13 – Comparison 1 (Trust scenario): Trust 1 capital value

TRUST 1: CAPITAL

Annual capital growth: 10%

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 1: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	F : refer G for explanation	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash distributions to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 0	Transfer of assets to Trust 1					10 000 000			10 000 000
Year 1		10 000 000	1 000 000	(74 500)	-	10 925 500			10 925 500
Year 2		10 925 500	1 092 550	(81 395)	-	11 936 655			11 936 655
Year 3		11 936 655	1 193 666	(88 928)	-	13 041 392			13 041 392
Year 4		13 041 392	1 304 139	(105 961)	-	14 239 570			14 239 570
Year 5		14 239 570	1 423 957	(122 562)	-	15 540 965			15 540 965
Year 6		15 540 965	1 554 097	(133 763)	-	16 961 299			16 961 299
Year 7		16 961 299	1 696 130	(155 175)	-	18 502 254			18 502 254
Year 8		18 502 254	1 850 225	(180 274)	-	20 172 206			20 172 206
Year 9		20 172 206	2 017 221	(206 140)	-	21 983 286			21 983 286
Year 10		21 983 286	2 198 329	(224 647)	-	23 956 968			23 956 968
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	23 956 968	2 395 697	(310 308)	-	26 042 356			26 042 356
Year 12		26 042 356	2 604 236	(344 249)	-	28 302 343			28 302 343
Year 13		28 302 343	2 830 234	(377 471)	-	30 755 106			30 755 106
Year 14		30 755 106	3 075 511	(413 337)	-	33 417 279			33 417 279
Year 15		33 417 279	3 341 728	(452 114)	-	36 306 894			36 306 894
Year 16		36 306 894	3 630 689	(544 059)	-	39 393 524			39 393 524
Year 17		39 393 524	3 939 352	(593 971)	-	42 738 905			42 738 905
Year 18		42 738 905	4 273 891	(647 986)	-	46 364 810			46 364 810
Year 19		46 364 810	4 636 481	(709 656)	-	50 291 635			50 291 635
Year 20		50 291 635	5 029 164	(777 380)	-	54 543 419			54 543 419
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	54 543 419	5 454 342	(918 277)	(1 500 000)	57 579 483			57 579 483
Year 22		57 579 483	5 757 948	(975 722)	(1 590 000)	60 771 709			60 771 709
Year 23		60 771 709	6 077 171	(1 036 594)	(1 685 400)	64 126 886			64 126 886
Year 24		64 126 886	6 412 689	(1 100 108)	(1 786 524)	67 652 943			67 652 943
Year 25		67 652 943	6 765 294	(1 160 598)	(1 893 715)	71 363 924			71 363 924

Table 13 (continued)

TRUST 1: CAPITAL

		Annual capital growth:	10%						
		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 1: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	F : refer G for explanation	G	H = E + F
Year	**Scenario event**	**Capital value** (start of year)	**Capital growth** (includes income reinvested net of expenses)	**Cash distributions to pay tax**	**Cash withdrawals post-retirement**	**Capital value** (end of year, before adjustments)	**Adjustments**	**Description of adjustments**	**Capital value** (end of year, after adjustments)
Year 26		71 363 924	7 136 392	(1 283 953)	(2 007 338)	75 209 025			75 209 025
Year 27		75 209 025	7 520 902	(1 358 913)	(2 127 779)	79 243 235			79 243 235
Year 28		79 243 235	7 924 324	(1 437 254)	(2 255 445)	83 474 859			83 474 859
Year 29		83 474 859	8 347 486	(1 519 170)	(2 390 772)	87 912 402			87 912 402
Year 30	Death of founder (at end of year)	87 912 402	8 791 240	(1 604 852)	(2 534 218)	92 564 572	(602 645)	Estate duty on loan account paid from cash reserves Refer Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule, column A, Yr 30	91 961 927
Year 31		91 961 927	9 196 193	(1 727 792)	(1 343 136)	98 087 192			98 087 192
Year 32		98 087 192	9 808 719	(1 849 282)	(1 423 724)	104 622 906			104 622 906
Year 33		104 622 906	10 462 291	(1 978 533)	(1 509 147)	111 597 516			111 597 516
Year 34		111 597 516	11 159 752	(2 118 775)	(1 599 696)	119 038 796			119 038 796
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	119 038 796	11 903 880	(2 265 228)	(1 695 678)	126 981 769	(84 654 513)	Restructuring of Trust 1 to form new Trusts 2a and 2b Distribute two thirds of Trust 1 capital to children	42 327 256
Year 36		42 327 256	4 232 726	(772 907)	(1 797 419)	43 989 657			43 989 657
Year 37		43 989 657	4 398 966	(805 554)	(1 905 264)	45 677 805			45 677 805
Year 38		45 677 805	4 567 780	(840 909)	(2 019 580)	47 385 096			47 385 096
Year 39		47 385 096	4 738 510	(876 555)	(2 140 754)	49 106 297			49 106 297
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	49 106 297	4 910 630	(912 406)	(2 269 200)	50 835 321	(50 835 321)	Distribute remaining trust capital to children	-
Year 41		-	-	-	-	-			-
Year 42		-	-	-	-	-			-
Year 43		-	-	-	-	-			-
Year 44		-	-	-	-	-			-
Year 45		-	-	-	-	-			-
Year 46		-	-	-	-	-			-
Year 47		-	-	-	-	-			-
Year 48		-	-	-	-	-			-
Year 49		-	-	-	-	-			-

Table 14 – Comparison 1 (Trust scenario): Trust 2a and 2b combined capital value

TRUST 2A and 2B COMBINED CAPITAL: (4 beneficiaries in each trust: 2 parents, 2 children)

Annual capital growth: **10%**

		A	B	C	D	E	F	G
		A = column G of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 2a and 2b income + tax schedule)	D = A + B + C	E : refer F for explanation	F	G = D + E
Year	**Scenario event**	**Capital value** (start of year)	**Capital growth** (includes income reinvested net of expenses)	**Cash distributions to pay tax**	**Capital value** (end of year, before adjustments)	**Adjustments**	**Description of adjustments**	**Capital value** (end of year, after adjustments)
Year 0	Transfer of assets to Trust 1							
Year 1		-	-	-	-			-
Year 2		-	-	-	-			-
Year 3		-	-	-	-			-
Year 4		-	-	-	-			-
Year 5		-	-	-	-			-
Year 6		-	-	-	-			-
Year 7		-	-	-	-			-
Year 8		-	-	-	-			-
Year 9		-	-	-	-			-
Year 10		-	-	-	-			-
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	-	-	-	-			-
Year 12		-	-	-	-			-
Year 13		-	-	-	-			-
Year 14		-	-	-	-			-
Year 15		-	-	-	-			-
Year 16		-	-	-	-			-
Year 17		-	-	-	-			-
Year 18		-	-	-	-			-
Year 19		-	-	-	-			-
Year 20		-	-	-	-			-
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	-	-	-	-			-
Year 22		-	-	-	-			-
Year 23		-	-	-	-			-
Year 24		-	-	-	-			-
Year 25		-	-	-	-			-
Year 26		-	-	-	-			-
Year 27		-	-	-	-			-
Year 28		-	-	-	-			-
Year 29		-	-	-	-			-
Year 30	Death of founder (at end of year)	-	-	-	-			-
Year 31		-	-	-	-			-
Year 32		-	-	-	-			-
Year 33		-	-	-	-			-
Year 34		-	-	-	-			-

Table 14 (continued)

TRUST 2A and 2B COMBINED CAPITAL: (4 beneficiaries in each trust: 2 parents, 2 children)

Annual capital growth: **10%**

		A	B	C	D	E	F	G
		A = column G of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 2a and 2b income + tax schedule)	D = A + B + C	E : refer F for explanation	F	G = D + E
Year	**Scenario event**	**Capital value** (start of year)	**Capital growth** (includes income reinvested net of expenses)	**Cash distributions to pay tax**	**Capital value** (end of year, before adjustments)	**Adjustments**	**Description of adjustments**	**Capital value** (end of year, after adjustments)
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	(12 776 887)	CGT due on restructuring reduces intital investment amount Refer Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule, column A, Yr 35	71 877 626
Year 36		71 877 626	7 187 763	(917 772)	78 147 617			78 147 617
Year 37		78 147 617	7 814 762	(1 043 949)	84 918 430			84 918 430
Year 38		84 918 430	8 491 843	(1 155 697)	92 254 575			92 254 575
Year 39		92 254 575	9 225 458	(1 295 506)	100 184 527			100 184 527
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	100 184 527	10 018 453	(1 452 406)	108 750 573	43 058 115	Remainder of capital from Trust 1 LESS CGT due on distribution Capital: Refer Trust 1: Capital schedule, column F, Yr 40 LESS CGT: Refer Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule, column A, Yr 40	151 808 688
Year 41		151 808 688	15 180 869	(2 479 105)	164 510 452			164 510 452
Year 42		164 510 452	16 451 045	(2 751 012)	178 210 485			178 210 485
Year 43		178 210 485	17 821 049	(3 037 260)	192 994 274			192 994 274
Year 44		192 994 274	19 299 427	(3 340 797)	208 952 904			208 952 904
Year 45		208 952 904	20 895 290	(3 664 297)	226 183 898			226 183 898
Year 46		226 183 898	22 618 390	(4 010 307)	244 791 981			244 791 981
Year 47		244 791 981	24 479 198	(4 381 354)	264 889 825			264 889 825
Year 48		264 889 825	26 488 982	(4 797 703)	286 581 105			286 581 105
Year 49		286 581 105	28 658 110	(5 225 587)	310 013 628			310 013 628
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	310 013 628	31 001 363	(5 702 197)	335 312 793	(335 312 793)	All assets in each trust sold to form new trust structures. Capital distribution to new trusts (not deducted in order to show total remaining wealth less CGT effect of restructuring)	299 223 437
		299 223 437	-	-	299 223 437	(36 089 357)	CGT due on 2nd restructuring reduces remaining investment amount Refer Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule, column A, Yr 50	299 223 437

Table 15 – Comparison 1 (Trust scenario): Trust 1 income and income tax (excluding CGT)

TRUST 1: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

Column L value transferred to column C of Trust 1: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 1: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B / 4 Yr 31+: = 0	D : 38%	E = C x D	F: Yr 1 - 30: = B / 4 Yr 31 - 35: = B / 3 Yr 35 - 40: = B	G = per effective tax rate table	H = F x G	I : Yr 1 -30: = B / 2 Yr 31 - 35: = B x 2/3 Yr 36+: = 0	J : Yr 1 - 10: per effective tax rate table; Yr 11 - 15: 25.0% Yr 16 - 20: 30.0% Yr 21 - 25: 35.0% Yr 25 - 30: 38.0% Yr 30 - 35: 39.0%	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (for single child, i.e. using half of income shown)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	Transfer of assets to Trust 1													
Year 1		10 000 000	500 000	125 000	38.0%	47 500	125 000	7.2%	9 000	250 000	7.2%	18 000	74 500	14.9%
Year 2		10 925 500	546 275	136 569	38.0%	51 896	136 569	7.2%	9 833	273 138	7.2%	19 666	81 395	14.9%
Year 3		11 936 655	596 833	149 208	38.0%	56 699	149 208	7.2%	10 743	298 416	7.2%	21 486	88 928	14.9%
Year 4		13 041 392	652 070	163 017	38.0%	61 947	163 017	9.0%	14 672	326 035	9.0%	29 343	105 961	16.3%
Year 5		14 239 570	711 979	177 995	38.0%	67 638	177 995	10.3%	18 308	355 989	10.3%	36 616	122 562	17.2%
Year 6		15 540 965	777 048	194 262	38.0%	73 820	194 262	10.3%	19 981	388 524	10.3%	39 962	133 763	17.2%
Year 7		16 961 299	848 065	212 016	38.0%	80 566	212 016	11.7%	24 870	424 032	11.7%	49 739	155 175	18.3%
Year 8		18 502 254	925 113	231 278	38.0%	87 886	231 278	13.3%	30 796	462 556	13.3%	61 592	180 274	19.5%
Year 9		20 172 206	1 008 610	252 153	38.0%	95 818	252 153	14.6%	36 774	504 305	14.6%	73 548	206 140	20.4%
Year 10		21 983 286	1 099 164	274 791	38.0%	104 421	274 791	14.6%	40 076	549 582	14.6%	80 151	224 647	20.4%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5	23 956 968	1 197 848	299 462	38.0%	113 796	299 462	15.6%	46 781	598 924	25.0%	149 731	310 308	25.9%
Year 12		26 042 356	1 302 118	325 529	38.0%	123 701	325 529	17.8%	57 783	651 059	25.0%	162 765	344 249	26.4%
Year 13		28 302 343	1 415 117	353 779	38.0%	134 436	353 779	18.7%	66 146	707 559	25.0%	176 890	377 471	26.7%
Year 14		30 755 106	1 537 755	384 439	38.0%	146 087	384 439	19.5%	75 031	768 878	25.0%	192 219	413 337	26.9%
Year 15		33 417 279	1 670 864	417 716	38.0%	158 732	417 716	20.2%	84 524	835 432	25.0%	208 858	452 114	27.1%
Year 16		36 306 894	1 815 345	453 836	38.0%	172 458	453 836	21.9%	99 299	907 672	30.0%	272 302	544 059	30.0%
Year 17		39 393 524	1 969 676	492 419	38.0%	187 119	492 419	22.6%	111 401	984 838	30.0%	295 451	593 971	30.2%
Year 18		42 738 905	2 136 945	534 236	38.0%	203 010	534 236	23.3%	124 434	1 068 473	30.0%	320 542	647 986	30.3%
Year 19		46 364 810	2 318 240	579 560	38.0%	220 233	579 560	24.4%	141 687	1 159 120	30.0%	347 736	709 656	30.6%
Year 20		50 291 635	2 514 582	628 645	38.0%	238 885	628 645	25.7%	161 307	1 257 291	30.0%	377 187	777 380	30.9%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	54 543 419	2 727 171	681 793	38.0%	259 081	681 793	26.7%	181 941	1 363 585	35.0%	477 255	918 277	33.7%
Year 22		57 579 483	2 878 974	719 744	38.0%	273 503	719 744	27.6%	198 399	1 439 487	35.0%	503 820	975 722	33.9%
Year 23		60 771 709	3 038 585	759 646	38.0%	288 666	759 646	28.5%	216 176	1 519 293	35.0%	531 752	1 036 594	34.1%
Year 24		64 126 886	3 206 344	801 586	38.0%	304 603	801 586	29.2%	234 395	1 603 172	35.0%	561 110	1 100 108	34.3%

Table 15 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 1: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B / 4 Yr 31+: = 0	D : 38%	E = C x D	F: Yr 1 - 30: = B / 4 Yr 31 - 35: = B / 3 Yr 35 - 40: = B	G = per effective tax rate table	H = F x G	I : Yr 1 -30: = B / 2 Yr 31 - 35: = B x 2/3 Yr 36+: = 0	J : Yr 1 - 10: per effective tax rate table; Yr 11 - 15: 25.0% Yr 16 - 20: 30.0% Yr 21 - 25: 35.0% Yr 25 - 30: 38.0% Yr 30 - 35: 39.0%	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (for single child, i.e. using half of income shown)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 25		67 652 943	3 382 647	845 662	38.0%	321 351	845 662	29.2%	247 283	1 691 324	35.0%	591 963	1 160 598	34.3%
Year 26		71 363 924	3 568 196	892 049	38.0%	338 979	892 049	29.9%	267 018	1 784 098	38.0%	677 957	1 283 953	36.0%
Year 27		75 209 025	3 760 451	940 113	38.0%	357 243	940 113	30.5%	287 185	1 880 226	38.0%	714 486	1 358 913	36.1%
Year 28		79 243 235	3 962 162	990 540	38.0%	376 405	990 540	31.1%	308 038	1 981 081	38.0%	752 811	1 437 254	36.3%
Year 29		83 474 859	4 173 743	1 043 436	38.0%	396 506	1 043 436	31.6%	329 654	2 086 871	38.0%	793 011	1 519 170	36.4%
Year 30	Death of founder (at end of year)	87 912 402	4 395 620	1 098 905	38.0%	417 584	1 098 905	32.0%	352 101	2 197 810	38.0%	835 168	1 604 852	36.5%
Year 31		91 961 927	4 598 096	-	-	-	1 532 699	34.7%	532 287	3 065 398	39.0%	1 195 505	1 727 792	37.6%
Year 32		98 087 192	4 904 360	-	-	-	1 634 787	35.1%	574 148	3 269 573	39.0%	1 275 133	1 849 282	37.7%
Year 33		104 622 906	5 231 145	-	-	-	1 743 715	35.5%	618 435	3 487 430	39.0%	1 360 098	1 978 533	37.8%
Year 34		111 597 516	5 579 876	-	-	-	1 859 959	35.9%	668 008	3 719 917	39.0%	1 450 768	2 118 775	38.0%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	119 038 796	5 951 940	-	-	-	1 983 980	36.2%	717 724	3 967 960	39.0%	1 547 504	2 265 228	38.1%
Year 36		42 327 256	2 116 363	-	-	-	2 116 363	36.5%	772 907	-	-	-	772 907	36.5%
Year 37		43 989 657	2 199 483	-	-	-	2 199 483	36.6%	805 554	-	-	-	805 554	36.6%
Year 38		45 677 805	2 283 890	-	-	-	2 283 890	36.8%	840 909	-	-	-	840 909	36.8%
Year 39		47 385 096	2 369 255	-	-	-	2 369 255	37.0%	876 555	-	-	-	876 555	37.0%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	49 106 297	2 455 315	-	-	-	2 455 315	37.2%	912 406	-	-	-	912 406	37.2%
Year 41		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 42		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 43		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 44		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 45		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 46		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 47		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 48		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 49		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 16 – Comparison 1 (Trust scenario): Trust 2a and 2b combined income and income tax (excluding CGT)

TRUSTS 2a and 2b: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

													Column L value transferred to column C of Trust 2a and 2b combined: Capital schedule	
		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 2a and 2b combined: Capital schedule	B = A x 0.05	C : Yr 36 - 50: = B / 4	D : 39.0%	E = C x D	F: Yr 36 - 50: = B / 4	G = per effective tax rate table	H = F x G	I : Yr 36 -50: = B / 2	J : per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
	Annual taxable income generated:		5%	Founders (x2)			Spouse (x2)			Children (2 x 2 = 4)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 2)	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 4)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	Transfer of assets to Trust 1													
Year 1		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 2		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 3		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 4		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 5		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 6		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 7		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 8		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 9		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 10		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 12		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 13		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 14		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 15		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 16		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 17		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 18		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 19		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 20		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 22		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 23		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 24		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-

Table 16 (continued)

TRUSTS 2a and 2b: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

Column L value transferred to column C of Trust 2a and 2b combined: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 2a and 2b combined: Capital schedule	B = A x 0.05	C : Yr 36 - 50: = B / 4	D : 39.0%	E = C x D	F: Yr 36 - 50: = B / 4	G = per effective tax rate table	H = F x G	I : Yr 36 -50: = B / 2	J : per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
	Annual taxable income generated:		5%		Founders (x2)			Spouse (x2)			Children (2 x 2 = 4)			
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 2)	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 4)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 25		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 26		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 27		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 28		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 29		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 30	Death of founder (at end of year)	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 31		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 32		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 33		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 34		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 36		71 877 626	3 593 881	898 470	39.0%	350 403	898 470	21.0%	189 123	1 796 941	21.0%	378 245	917 772	25.5%
Year 37		78 147 617	3 907 381	976 845	39.0%	380 970	976 845	22.6%	220 993	1 953 690	22.6%	441 986	1 043 949	26.7%
Year 38		84 918 430	4 245 921	1 061 480	39.0%	413 977	1 061 480	23.3%	247 240	2 122 961	23.3%	494 480	1 155 697	27.2%
Year 39		92 254 575	4 612 729	1 153 182	39.0%	449 741	1 153 182	24.4%	281 922	2 306 364	24.4%	563 843	1 295 506	28.1%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	100 184 527	5 009 226	1 252 307	39.0%	488 400	1 252 307	25.7%	321 336	2 504 613	25.7%	642 671	1 452 406	29.0%
Year 41		151 808 688	7 590 434	1 897 609	39.0%	740 067	1 897 609	30.5%	579 679	3 795 217	30.5%	1 159 359	2 479 105	32.7%
Year 42		164 510 452	8 225 523	2 056 381	39.0%	801 988	2 056 381	31.6%	649 674	4 112 761	31.6%	1 299 349	2 751 012	33.4%
Year 43		178 210 485	8 910 524	2 227 631	39.0%	868 776	2 227 631	32.4%	722 828	4 455 262	32.4%	1 445 656	3 037 260	34.1%
Year 44		192 994 274	9 649 714	2 412 428	39.0%	940 847	2 412 428	33.2%	799 983	4 824 857	33.2%	1 599 967	3 340 797	34.6%
Year 45		208 952 904	10 447 645	2 611 911	39.0%	1 018 645	2 611 911	33.8%	881 884	5 223 823	33.8%	1 763 767	3 664 297	35.1%
Year 46		226 183 898	11 309 195	2 827 299	39.0%	1 102 647	2 827 299	34.3%	969 220	5 654 597	34.3%	1 938 440	4 010 307	35.5%
Year 47		244 791 981	12 239 599	3 059 900	39.0%	1 193 361	3 059 900	34.7%	1 062 664	6 119 800	34.7%	2 125 329	4 381 354	35.8%
Year 48		264 889 825	13 244 491	3 311 123	39.0%	1 291 338	3 311 123	35.3%	1 168 788	6 622 246	35.3%	2 337 576	4 797 703	36.2%
Year 49		286 581 105	14 329 055	3 582 264	39.0%	1 397 083	3 582 264	35.6%	1 276 168	7 164 528	35.6%	2 552 336	5 225 587	36.5%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	310 013 628	15 500 681	3 875 170	39.0%	1 511 316	3 875 170	36.0%	1 396 960	7 750 341	36.0%	2 793 920	5 702 197	36.8%

Table 17 – Comparison 1 (Trust scenario): Other taxes – CGT on transfers and disposals

TRUST 1, 2a and 2b: OTHER TAXES (CGT and Estate duty) - CGT on transfer

Annual exemption and inclusion %: 40 000 40%

		CGT on transfer							
		A	B	C	D	E	F	G	H
		A = B x G x F x (C - D - E)	B: refer H	C: refer H	D: refer H	E = 40000	F = 0.4	G: refer H	H
Year	**Scenario event**	**CGT on transfer (total for all persons)**	**No. of persons**	**Proceeds (per person)**	**Base cost (per person)**	**Annual exemption**	**Inclusion %**	**Income tax rate**	**Description**
Year 0	Transfer of assets to Trust 1	753 920	1	10 000 000	5 000 000	40 000	40.0%	38.0%	- **CGT on transfer of assets to Trust 1.** - Base cost and Proceeds as per starting parameter assumptions - Income tax rate equals assumption for income tax of founder at start of trust.
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	12 776 887	2	42 327 256	3 333 333	40 000	40.0%	41.0%	- **CGT on distribution of 2/3rds of Trust 1 assets to 2 children (1/3 each) to set up own trusts (Trusts 2a and 2b).** - Base cost equals 1/3 of initial funding in Year 0. - Proceeds equals half of trust capital distributed per Trust 1: Capital schedule, column F, Yr 35 - Assume maximum income tax rate due to additional taxable income.
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	7 777 206	2	25 417 661	1 666 667	40 000	40.0%	41.0%	- **CGT on distribution of remainder of Trust 1 assets to 2 children (1/2 each) to be sold to trusts (Trusts 2a and 2b).** - Base cost equals 1/3 of initial funding in Year 0 divided by 2 (per child). - Proceeds equals half of trust capital distributed per Trust 1: Capital schedule, column F, Yr 40 - Assume maximum income tax rate due to additional taxable income.
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	36 089 357	8	41 914 099	14 366 968	40 000	40.0%	41.0%	- **CGT on distribution of all trust assets in Trust 2a and 2b for restructuring of trusts.** - Base cost equals initial funding into Trusts 2a and 2b in year 36 plus additional funding transferred in year 40 divided by 8 beneficiaries (2 families of 4 people each): add value in Trust 2a and 2b: Capital schedule, column A, Yr 35 and value in Trust 2a and 2b: Capital schedule, column E, Yr 40; divide sum by 8 - Proceeds equals Trust 2a and 2b: Capital schedule, column D, Yr 50 divided by 8 - Assume maximum income tax rate due to additional taxable income.

Table 18 – Comparison 1 (Trust scenario): Other taxes – Taxes on death

TRUST 1, 2a and 2b: OTHER TAXES (CGT and Estate duty) - Taxes on death

s 4A abatement and estate duty %: 3 500 000 20%

			Estate duty on death						
		A	B	C	D	E	F	G	H
		A = B + I	B = F x G	C: refer H	D: refer H	E = 3500000	F = C - D - E	G = 0.2	H
Year	Scenario event	TOTAL TAXES ON DEATH	ESTATE DUTY ON DEATH	Estate asset value	Deductions (if bequeathed to spouse, s 4(q) deduction)	Estate duty abatement (s 4A)	Dutiable estate	Estate duty rate	Description
Year 30	Death of founder (at end of year)	602 645	602 645	6 513 223	-	(3 500 000)	3 013 223	20.0%	Estate duty on loan account to Trust 1 - Refer Trust 1: loan accounts (founder) schedule, Column F, Yr 30
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	-	-	-	-	-	20.0%	No estate duty on loan account to Trust 1 (no loan account left) -

Annual exemption and inclusion %: 300 000 40%

		CGT on death							
		I	J	K	L	M	N	O	P
		I = J x O x N x (K - L - M)	J: refer P	K: refer P	L: refer P	M = 300000	N = 0.4	O: refer P	P
Year	Scenario event	CGT ON DEATH	No. of persons	Proceeds (per person)	Base cost (per person)	Exemption in year of death	Inclusion %	Income tax rate	Description
Year 30	Death of founder (at end of year)	-							No CGT on loan account (*donatio mortis causa* or base cost = proceeds) Payment of estate duty from trust asset also assumed to be from cash reserves therefore no additional CGT due to disposal
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-							No CGT on loan account (no loan account amount left)

Table 19 – Comparison 1 (Trust scenario): Trust 1 loan account – founder

TRUST 1: LOAN ACCOUNT: Founder

Annual donation free of donations tax: 100 000

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column C of Trust 1: Income and income tax schedule	C = Column E of Trust 1: Income and income tax schedule	D = Founder's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	**Scenario event**	**Loan account: founder (start of year)**	**Distributions of income on loan account**	**LESS Cash withdrawal - tax on distribution**	**LESS Cash withdrawal - post-retirement**	**Annual donation (max R100,000)**	**Loan account: founder (end of year)**	**Adjustments**	**Description**	**Trust 1 capital (end of year)**	**Loan account as percentage of Trust 1 capital**
Year 0	Transfer of assets to Trust 1						10 000 000			10 000 000	100%
Year 1		10 000 000	125 000	(47 500)	-	(100 000)	9 977 500			10 925 500	91%
Year 2		9 977 500	136 569	(51 896)	-	(100 000)	9 962 173			11 936 655	83%
Year 3		9 962 173	149 208	(56 699)	-	(100 000)	9 954 682			13 041 392	76%
Year 4		9 954 682	163 017	(61 947)	-	(100 000)	9 955 752			14 239 570	70%
Year 5		9 955 752	177 995	(67 638)	-	(100 000)	9 966 109			15 540 965	64%
Year 6		9 966 109	194 262	(73 820)	-	(100 000)	9 986 552			16 961 299	59%
Year 7		9 986 552	212 016	(80 566)	-	(100 000)	10 018 002			18 502 254	54%
Year 8		10 018 002	231 278	(87 886)	-	(100 000)	10 061 394			20 172 206	50%
Year 9		10 061 394	252 153	(95 818)	-	(100 000)	10 117 729			21 983 286	46%
Year 10		10 117 729	274 791	(104 421)	-	(100 000)	10 188 099			23 956 968	43%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	10 188 099	299 462	(113 796)	-	(100 000)	10 273 766			26 042 356	39%
Year 12		10 273 766	325 529	(123 701)	-	(100 000)	10 375 594			28 302 343	37%
Year 13		10 375 594	353 779	(134 436)	-	(100 000)	10 494 937			30 755 106	34%
Year 14		10 494 937	384 439	(146 087)	-	(100 000)	10 633 289			33 417 279	32%
Year 15		10 633 289	417 716	(158 732)	-	(100 000)	10 792 273			36 306 894	30%
Year 16		10 792 273	453 836	(172 458)	-	(100 000)	10 973 652			39 393 524	28%
Year 17		10 973 652	492 419	(187 119)	-	(100 000)	11 178 951			42 738 905	26%
Year 18		11 178 951	534 236	(203 010)	-	(100 000)	11 410 178			46 364 810	25%
Year 19		11 410 178	579 560	(220 233)	-	(100 000)	11 669 505			50 291 635	23%
Year 20		11 669 505	628 645	(238 885)	-	(100 000)	11 959 265			54 543 419	22%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	11 959 265	681 793	(259 081)	(750 000)	(100 000)	11 531 977			57 579 483	20%
Year 22		11 531 977	719 744	(273 503)	(795 000)	(100 000)	11 083 218			60 771 709	18%
Year 23		11 083 218	759 646	(288 666)	(842 700)	(100 000)	10 611 499			64 126 886	17%
Year 24		10 611 499	801 586	(304 603)	(893 262)	(100 000)	10 115 220			67 652 943	15%

Table 19 (continued)

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column C of Trust 1: Income and income tax schedule	C = Column E of Trust 1: Income and income tax schedule	D = Founder's annual withdrawals from Post-retirement withdrawal	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	**Scenario event**	**Loan account: founder (start of year)**	**Distributions of income on loan account**	**LESS Cash withdrawal - tax on distribution**	**LESS Cash withdrawal - post-retirement**	**Annual donation (max R100,000)**	**Loan account: founder (end of year)**	**Adjustments**	**Description**	**Trust 1 capital (end of year)**	**Loan account as percentage of Trust 1 capital**
Year 25		10 115 220	845 662	(321 351)	(946 858)	(100 000)	9 592 673			71 363 924	13%
Year 26		9 592 673	892 049	(338 979)	(1 003 669)	(100 000)	9 042 074			75 209 025	12%
Year 27		9 042 074	940 113	(357 243)	(1 063 889)	(100 000)	8 461 054			79 243 235	11%
Year 28		8 461 054	990 540	(376 405)	(1 127 723)	(100 000)	7 847 467			83 474 859	9%
Year 29		7 847 467	1 043 436	(396 506)	(1 195 386)	(100 000)	7 199 011			87 912 402	8%
Year 30	Death of founder (at end of year)	7 199 011	1 098 905	(417 584)	(1 267 109)	(100 000)	6 513 223	(6 513 223)	Founder bequeaths loan account to Trust 1	92 564 572	7%
Year 31		-	-	-	-	-	-				
Year 32		-	-	-	-	-	-				
Year 33		-	-	-	-	-	-				
Year 34		-	-	-	-	-	-				
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	-	-				
Year 36		-	-	-	-	-	-				
Year 37		-	-	-	-	-	-				
Year 38		-	-	-	-	-	-				
Year 39		-	-	-	-	-	-				
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	-	-	-	-	-				
Year 41		-	-	-	-	-	-				
Year 42		-	-	-	-	-	-				
Year 43		-	-	-	-	-	-				
Year 44		-	-	-	-	-	-				
Year 45		-	-	-	-	-	-				
Year 46		-	-	-	-	-	-				
Year 47		-	-	-	-	-	-				
Year 48		-	-	-	-	-	-				
Year 49		-	-	-	-	-	-				
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-				

Table 20 – Comparison 1 (Trust scenario): Trust 1 loan account – spouse

TRUST 1: LOAN ACCOUNT: Spouse

						100 000					
		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column F of Trust 1: Income and income tax schedule	C = Column H of Trust 1: Income and income tax schedule	D = Spouse's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	Scenario event	Loan account: spouse (start of year)	Distributions of income on loan account	LESS Cash withdrawal - tax on distribution	LESS Cash withdrawal - post-retirement withdrawals	Annual donation (max R100,000)	Loan account: spouse (end of year)	Adjustments	Description	Trust 1 capital (end of year)	Loan account as percentage of Trust 1 capital
Year 0	Transfer of assets to Trust 1						-			10 000 000	0%
Year 1		-	125 000	(9 000)	-	(100 000)	16 000			10 925 500	0%
Year 2		16 000	136 569	(9 833)	-	(100 000)	42 736			11 936 655	0%
Year 3		42 736	149 208	(10 743)	-	(100 000)	81 201			13 041 392	1%
Year 4		81 201	163 017	(14 672)	-	(100 000)	129 547			14 239 570	1%
Year 5		129 547	177 995	(18 308)	-	(100 000)	189 233			15 540 965	1%
Year 6		189 233	194 262	(19 981)	-	(100 000)	263 514			16 961 299	2%
Year 7		263 514	212 016	(24 870)	-	(100 000)	350 661			18 502 254	2%
Year 8		350 661	231 278	(30 796)	-	(100 000)	451 143			20 172 206	2%
Year 9		451 143	252 153	(36 774)	-	(100 000)	566 522			21 983 286	3%
Year 10		566 522	274 791	(40 076)	-	(100 000)	701 237			23 956 968	3%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	701 237	299 462	(46 781)	-	(100 000)	853 918			26 042 356	3%
Year 12		853 918	325 529	(57 783)	-	(100 000)	1 021 665			28 302 343	4%
Year 13		1 021 665	353 779	(66 146)	-	(100 000)	1 209 298			30 755 106	4%
Year 14		1 209 298	384 439	(75 031)	-	(100 000)	1 418 706			33 417 279	4%
Year 15		1 418 706	417 716	(84 524)	-	(100 000)	1 651 898			36 306 894	5%
Year 16		1 651 898	453 836	(99 299)	-	(100 000)	1 906 435			39 393 524	5%
Year 17		1 906 435	492 419	(111 401)	-	(100 000)	2 187 453			42 738 905	5%
Year 18		2 187 453	534 236	(124 434)	-	(100 000)	2 497 255			46 364 810	5%
Year 19		2 497 255	579 560	(141 687)	-	(100 000)	2 835 129			50 291 635	6%
Year 20		2 835 129	628 645	(161 307)	-	(100 000)	3 202 467			54 543 419	6%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	3 202 467	681 793	(181 941)	(750 000)	(100 000)	2 852 318			57 579 483	5%
Year 22		2 852 318	719 744	(198 399)	(795 000)	(100 000)	2 478 663			60 771 709	4%
Year 23		2 478 663	759 646	(216 176)	(842 700)	(100 000)	2 079 433			64 126 886	3%
Year 24		2 079 433	801 586	(234 395)	(893 262)	(100 000)	1 653 362			67 652 943	2%
Year 25		1 653 362	845 662	(247 283)	(946 858)	(100 000)	1 204 883			71 363 924	2%

Table 20 (continued)

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column F of Trust 1: Income and income tax schedule	C = Column H of Trust 1: Income and income tax schedule	D = Spouse's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	**Scenario event**	**Loan account: spouse (start of year)**	**Distributions of income on loan account**	**LESS Cash withdrawal - tax on distribution**	**LESS Cash withdrawal - post-retirement withdrawals**	**Annual donation (max R100,000)**	**Loan account: spouse (end of year)**	**Adjustments**	**Description**	**Trust 1 capital (end of year)**	**Loan account as percentage of Trust 1 capital**
Year 26		1 204 883	892 049	(267 018)	(1 003 669)	(100 000)	726 245			75 209 025	1%
Year 27		726 245	940 113	(287 185)	(1 063 889)	(100 000)	215 284			79 243 235	0%
Year 28		215 284	990 540	(308 038)	(1 127 723)	-	-			83 474 859	0%
Year 29		-	1 043 436	(329 654)	(1 195 386)	-	-			87 912 402	0%
Year 30	Death of founder (at end of year)	-	1 098 905	(352 101)	(1 267 109)	-	-			92 564 572	0%
Year 31		-	1 532 699	(532 287)	(1 343 136)	-	-			98 087 192	0%
Year 32		-	1 634 787	(574 148)	(1 423 724)	-	-			104 622 906	0%
Year 33		-	1 743 715	(618 435)	(1 509 147)	-	-			111 597 516	0%
Year 34		-	1 859 959	(668 008)	(1 599 696)	-	-			119 038 796	0%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	1 983 980	(717 724)	(1 695 678)	-	-			126 981 769	0%
Year 36		-	2 116 363	(772 907)	(1 797 419)	-	-			43 989 657	0%
Year 37		-	2 199 483	(805 554)	(1 905 264)	-	-			45 677 805	0%
Year 38		-	2 283 890	(840 909)	(2 019 580)	-	-			47 385 096	0%
Year 39		-	2 369 255	(876 555)	(2 140 754)	-	-			49 106 297	0%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	2 455 315	(912 406)	(2 269 200)	-	-	-	Spouse bequeaths loan account to Trust 1	50 835 321	0%
Year 41		-	-	-	-	-	-				
Year 42		-	-	-	-	-	-				
Year 43		-	-	-	-	-	-				
Year 44		-	-	-	-	-	-				
Year 45		-	-	-	-	-	-				
Year 46		-	-	-	-	-	-				
Year 47		-	-	-	-	-	-				
Year 48		-	-	-	-	-	-				
Year 49		-	-	-	-	-	-				
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-				

Table 21 – Comparison 1 (Trust scenario): Trust summary calculated using capital year-end values BEFORE year-end adjustments

TRUSTS - SUMMARY (using capital year-end values BEFORE year-end adjustments)

		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column E of Trust 1: Capital schedule	B = Column D of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	**Scenario event**	**Trust 1 capital (end of year, BEFORE adjustments)**	**Trust 2a + 2b capital (end of year, BEFORE adjustments)**	**TOTAL CAPITAL**	**Trust 1 income tax**	**Trust 2a + 2b income tax**	**CGT on transfers or disposals**	**Estate Duty and CGT on death**	**TOTAL TAXES**	**Cumulative total taxes**	**Cumulative total tax / Capital**	**Cumulative CGT and Estate Duty**	**Cumulative CGT and Estate Duty / Capital**
Year 0	Transfer of assets to Trust 1	10 000 000	-	10 000 000	-	-	753 920	-	753 920	753 920	7.54%	753 920	7.54%
Year 1		10 925 500	-	10 925 500	74 500	-	-	-	74 500	828 420	7.58%	753 920	6.90%
Year 2		11 936 655	-	11 936 655	81 395	-	-	-	81 395	909 815	7.62%	753 920	6.32%
Year 3		13 041 392	-	13 041 392	88 928	-	-	-	88 928	998 743	7.66%	753 920	5.78%
Year 4		14 239 570	-	14 239 570	105 961	-	-	-	105 961	1 104 704	7.76%	753 920	5.29%
Year 5		15 540 965	-	15 540 965	122 562	-	-	-	122 562	1 227 266	7.90%	753 920	4.85%
Year 6		16 961 299	-	16 961 299	133 763	-	-	-	133 763	1 361 030	8.02%	753 920	4.44%
Year 7		18 502 254	-	18 502 254	155 175	-	-	-	155 175	1 516 204	8.19%	753 920	4.07%
Year 8		20 172 206	-	20 172 206	180 274	-	-	-	180 274	1 696 478	8.41%	753 920	3.74%
Year 9		21 983 286	-	21 983 286	206 140	-	-	-	206 140	1 902 618	8.65%	753 920	3.43%
Year 10		23 956 968	-	23 956 968	224 647	-	-	-	224 647	2 127 265	8.88%	753 920	3.15%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	26 042 356	-	26 042 356	310 308	-	-	-	310 308	2 437 573	9.36%	753 920	2.89%
Year 12		28 302 343	-	28 302 343	344 249	-	-	-	344 249	2 781 822	9.83%	753 920	2.66%
Year 13		30 755 106	-	30 755 106	377 471	-	-	-	377 471	3 159 293	10.27%	753 920	2.45%
Year 14		33 417 279	-	33 417 279	413 337	-	-	-	413 337	3 572 631	10.69%	753 920	2.26%
Year 15		36 306 894	-	36 306 894	452 114	-	-	-	452 114	4 024 745	11.09%	753 920	2.08%
Year 16		39 393 524	-	39 393 524	544 059	-	-	-	544 059	4 568 803	11.60%	753 920	1.91%
Year 17		42 738 905	-	42 738 905	593 971	-	-	-	593 971	5 162 775	12.08%	753 920	1.76%
Year 18		46 364 810	-	46 364 810	647 986	-	-	-	647 986	5 810 761	12.53%	753 920	1.63%
Year 19		50 291 635	-	50 291 635	709 656	-	-	-	709 656	6 520 416	12.97%	753 920	1.50%
Year 20		54 543 419	-	54 543 419	777 380	-	-	-	777 380	7 297 796	13.38%	753 920	1.38%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	57 579 483	-	57 579 483	918 277	-	-	-	918 277	8 216 073	14.27%	753 920	1.31%
Year 22		60 771 709	-	60 771 709	975 722	-	-	-	975 722	9 191 796	15.13%	753 920	1.24%
Year 23		64 126 886	-	64 126 886	1 036 594	-	-	-	1 036 594	10 228 390	15.95%	753 920	1.18%
Year 24		67 652 943	-	67 652 943	1 100 108	-	-	-	1 100 108	11 328 498	16.75%	753 920	1.11%

Table 21 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column E of Trust 1: Capital schedule	B = Column D of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, BEFORE adjustments)	Trust 2a + 2b capital (end of year, BEFORE adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 25		71 363 924	-	71 363 924	1 160 598	-	-	-	1 160 598	12 489 095	17.50%	753 920	1.06%
Year 26		75 209 025	-	75 209 025	1 283 953	-	-	-	1 283 953	13 773 049	18.31%	753 920	1.00%
Year 27		79 243 235	-	79 243 235	1 358 913	-	-	-	1 358 913	15 131 962	19.10%	753 920	0.95%
Year 28		83 474 859	-	83 474 859	1 437 254	-	-	-	1 437 254	16 569 217	19.85%	753 920	0.90%
Year 29		87 912 402	-	87 912 402	1 519 170	-	-	-	1 519 170	18 088 387	20.58%	753 920	0.86%
Year 30	Death of founder (at end of year)	92 564 572	-	92 564 572	1 604 852	-	-	602 645	2 207 497	20 295 884	21.93%	1 356 565	1.47%
Year 31		98 087 192	-	98 087 192	1 727 792	-	-	-	1 727 792	22 023 676	22.45%	1 356 565	1.38%
Year 32		104 622 906	-	104 622 906	1 849 282	-	-	-	1 849 282	23 872 958	22.82%	1 356 565	1.30%
Year 33		111 597 516	-	111 597 516	1 978 533	-	-	-	1 978 533	25 851 491	23.16%	1 356 565	1.22%
Year 34		119 038 796	-	119 038 796	2 118 775	-	-	-	2 118 775	27 970 266	23.50%	1 356 565	1.14%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	126 981 769	-	126 981 769	2 265 228	-	12 776 887	-	15 042 115	43 012 381	33.87%	14 133 451	11.13%
Year 36		43 989 657	78 147 617	122 137 274	772 907	917 772	-	-	1 690 678	44 703 059	36.60%	14 133 451	11.57%
Year 37		45 677 805	84 918 430	130 596 234	805 554	1 043 949	-	-	1 849 503	46 552 562	35.65%	14 133 451	10.82%
Year 38		47 385 096	92 254 575	139 639 672	840 909	1 155 697	-	-	1 996 606	48 549 169	34.77%	14 133 451	10.12%
Year 39		49 106 297	100 184 527	149 290 824	876 555	1 295 506	-	-	2 172 061	50 721 229	33.97%	14 133 451	9.47%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	50 835 321	108 750 573	159 585 894	912 406	1 452 406	7 777 206	-	10 142 018	60 863 248	38.14%	21 910 657	13.73%
Year 41		-	164 510 452	164 510 452	-	2 479 105	-	-	2 479 105	63 342 353	38.50%	21 910 657	13.32%
Year 42		-	178 210 485	178 210 485	-	2 751 012	-	-	2 751 012	66 093 365	37.09%	21 910 657	12.29%
Year 43		-	192 994 274	192 994 274	-	3 037 260	-	-	3 037 260	69 130 624	35.82%	21 910 657	11.35%
Year 44		-	208 952 904	208 952 904	-	3 340 797	-	-	3 340 797	72 471 422	34.68%	21 910 657	10.49%
Year 45		-	226 183 898	226 183 898	-	3 664 297	-	-	3 664 297	76 135 718	33.66%	21 910 657	9.69%
Year 46		-	244 791 981	244 791 981	-	4 010 307	-	-	4 010 307	80 146 025	32.74%	21 910 657	8.95%
Year 47		-	264 889 825	264 889 825	-	4 381 354	-	-	4 381 354	84 527 380	31.91%	21 910 657	8.27%
Year 48		-	286 581 105	286 581 105	-	4 797 703	-	-	4 797 703	89 325 082	31.17%	21 910 657	7.65%
Year 49		-	310 013 628	310 013 628	-	5 225 587	-	-	5 225 587	94 550 669	30.50%	21 910 657	7.07%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	335 312 793	335 312 793	-	5 702 197	36 089 357	-	41 791 553	136 342 223	40.66%	58 000 014	17.30%

9.1.6 *Comparison 1 – Personal estate scenario supporting schedules*

Table 22 – Comparison 1 (Personal estate scenario): Capital value

PERSONAL ESTATE: ESTATE VALUE

Annual capital grow **10%**

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Personal estate: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	E: refer G	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash withdrawals to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 0	Assets kept in personal estate					10 000 000			10 000 000
Year 1		10 000 000	1 000 000	(190 000)	-	10 810 000			10 810 000
Year 2		10 810 000	1 081 000	(205 390)	-	11 685 610			11 685 610
Year 3		11 685 610	1 168 561	(222 027)	-	12 632 144			12 632 144
Year 4		12 632 144	1 263 214	(240 011)	-	13 655 348			13 655 348
Year 5		13 655 348	1 365 535	(259 452)	-	14 761 431			14 761 431
Year 6		14 761 431	1 476 143	(280 467)	-	15 957 107			15 957 107
Year 7		15 957 107	1 595 711	(303 185)	-	17 249 633			17 249 633
Year 8		17 249 633	1 724 963	(327 743)	-	18 646 853			18 646 853
Year 9		18 646 853	1 864 685	(354 290)	-	20 157 248			20 157 248
Year 10		20 157 248	2 015 725	(382 988)	-	21 789 985			21 789 985
Year 11	No event	21 789 985	2 178 999	(414 010)	-	23 554 974			23 554 974
Year 12		23 554 974	2 355 497	(447 545)	-	25 462 927			25 462 927
Year 13		25 462 927	2 546 293	(483 796)	-	27 525 424			27 525 424
Year 14		27 525 424	2 752 542	(522 983)	-	29 754 984			29 754 984
Year 15		29 754 984	2 975 498	(565 345)	-	32 165 137			32 165 137
Year 16		32 165 137	3 216 514	(611 138)	-	34 770 513			34 770 513
Year 17		34 770 513	3 477 051	(660 640)	-	37 586 925			37 586 925
Year 18		37 586 925	3 758 692	(714 152)	-	40 631 466			40 631 466
Year 19		40 631 466	4 063 147	(771 998)	-	43 922 615			43 922 615
Year 20		43 922 615	4 392 261	(834 530)	-	47 480 346			47 480 346
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	47 480 346	4 748 035	(902 127)	(1 500 000)	49 826 254			49 826 254
Year 22		49 826 254	4 982 625	(946 699)	(1 590 000)	52 272 181			52 272 181
Year 23		52 272 181	5 227 218	(993 171)	(1 685 400)	54 820 828			54 820 828
Year 24		54 820 828	5 482 083	(1 041 596)	(1 786 524)	57 474 791			57 474 791

Table 22 (continued)

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Personal estate: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	E: refer G	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash withdrawals to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 25		57 474 791	5 747 479	(1 092 021)	(1 893 715)	60 236 533			60 236 533
Year 26		60 236 533	6 023 653	(1 144 494)	(2 007 338)	63 108 354			63 108 354
Year 27		63 108 354	6 310 835	(1 199 490)	(2 127 779)	66 091 921			66 091 921
Year 28		66 091 921	6 609 192	(1 260 684)	(2 255 445)	69 184 983			69 184 983
Year 29		69 184 983	6 918 498	(1 323 971)	(2 390 772)	72 388 738			72 388 738
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	72 388 738	7 238 874	(1 389 392)	(2 534 218)	75 704 001	-	Reduced by estate duty and CGT due on death of founder / owner Refer Personal estate: Other taxes - Taxes on death schedule, column A, Yr 30	75 704 001
Year 31		75 704 001	7 570 400	(1 456 980)	(1 343 136)	80 474 286			80 474 286
Year 32		80 474 286	8 047 429	(1 555 096)	(1 423 724)	85 542 894			85 542 894
Year 33		85 542 894	8 554 289	(1 658 960)	(1 509 147)	90 929 077			90 929 077
Year 34		90 929 077	9 092 908	(1 769 006)	(1 599 696)	96 653 282			96 653 282
Year 35	No event	96 653 282	9 665 328	(1 886 683)	(1 695 678)	102 736 249			102 736 249
Year 36		102 736 249	10 273 625	(2 011 345)	(1 797 419)	109 201 110			109 201 110
Year 37		109 201 110	10 920 111	(2 144 380)	(1 905 264)	116 071 577			116 071 577
Year 38		116 071 577	11 607 158	(2 285 340)	(2 019 580)	123 373 815			123 373 815
Year 39		123 373 815	12 337 382	(2 434 808)	(2 140 754)	131 135 634			131 135 634
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	131 135 634	13 113 563	(2 594 114)	(2 269 200)	139 385 884	(48 467 262)	Reduced by estate duty and CGT due on death of spouse Refer Personal estate: Other taxes - Taxes on death schedule, column A, Yr 40	90 918 622
Year 41		90 918 622	9 091 862	(1 673 773)	-	98 336 711			98 336 711
Year 42		98 336 711	9 833 671	(1 827 118)	-	106 343 264			106 343 264
Year 43		106 343 264	10 634 326	(1 991 290)	-	114 986 300			114 986 300
Year 44		114 986 300	11 498 630	(2 167 453)	-	124 317 477			124 317 477
Year 45		124 317 477	12 431 748	(2 359 889)	-	134 389 336			134 389 336
Year 46		134 389 336	13 438 934	(2 566 297)	-	145 261 973			145 261 973
Year 47		145 261 973	14 526 197	(2 788 084)	-	157 000 087			157 000 087
Year 48		157 000 087	15 700 009	(3 029 158)	-	169 670 938			169 670 938
Year 49		169 670 938	16 967 094	(3 288 245)	-	183 349 787			183 349 787
Year 50	Sale of all assets by children	183 349 787	18 334 979	(3 569 137)	-	198 115 628	(17 567 189)	Reduced by CGT as result of sale Refer Personal estate: Other taxes - CGT on transfer schedule, column A, Yr 50	180 548 439

Table 23 – Comparison 1 (Personal estate scenario): Income and income tax (excluding CGT)

PERSONAL ESTATE: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

Column L value transferred to column C of Personal estate: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Personal estate: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B Yr 31+: = 0	D = 38%, unless effective tax rate table gives higher amount	E = C x D	F: Yr 1 - 30: = 0 Yr 31 - 40: = B Yr 41 - 50: = 0	G = per effective tax rate table	H = F x G	I : Yr 1 -40: = 0 Yr 41 - 50: = B	J = per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder / Owner			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	*Assets kept in personal estate*													
Year 1		10 000 000	500 000	500 000	38.0%	190 000	-	0.0%	-	-	0.0%	-	190 000	38.0%
Year 2		10 810 000	540 500	540 500	38.0%	205 390	-	0.0%	-	-	0.0%	-	205 390	38.0%
Year 3		11 685 610	584 281	584 281	38.0%	222 027	-	0.0%	-	-	0.0%	-	222 027	38.0%
Year 4		12 632 144	631 607	631 607	38.0%	240 011	-	0.0%	-	-	0.0%	-	240 011	38.0%
Year 5		13 655 348	682 767	682 767	38.0%	259 452	-	0.0%	-	-	0.0%	-	259 452	38.0%
Year 6		14 761 431	738 072	738 072	38.0%	280 467	-	0.0%	-	-	0.0%	-	280 467	38.0%
Year 7		15 957 107	797 855	797 855	38.0%	303 185	-	0.0%	-	-	0.0%	-	303 185	38.0%
Year 8		17 249 633	862 482	862 482	38.0%	327 743	-	0.0%	-	-	0.0%	-	327 743	38.0%
Year 9		18 646 853	932 343	932 343	38.0%	354 290	-	0.0%	-	-	0.0%	-	354 290	38.0%
Year 10		20 157 248	1 007 862	1 007 862	38.0%	382 988	-	0.0%	-	-	0.0%	-	382 988	38.0%
Year 11	No event	21 789 985	1 089 499	1 089 499	38.0%	414 010	-	0.0%	-	-	0.0%	-	414 010	38.0%
Year 12		23 554 974	1 177 749	1 177 749	38.0%	447 545	-	0.0%	-	-	0.0%	-	447 545	38.0%
Year 13		25 462 927	1 273 146	1 273 146	38.0%	483 796	-	0.0%	-	-	0.0%	-	483 796	38.0%
Year 14		27 525 424	1 376 271	1 376 271	38.0%	522 983	-	0.0%	-	-	0.0%	-	522 983	38.0%
Year 15		29 754 984	1 487 749	1 487 749	38.0%	565 345	-	0.0%	-	-	0.0%	-	565 345	38.0%
Year 16		32 165 137	1 608 257	1 608 257	38.0%	611 138	-	0.0%	-	-	0.0%	-	611 138	38.0%
Year 17		34 770 513	1 738 526	1 738 526	38.0%	660 640	-	0.0%	-	-	0.0%	-	660 640	38.0%
Year 18		37 586 925	1 879 346	1 879 346	38.0%	714 152	-	0.0%	-	-	0.0%	-	714 152	38.0%
Year 19		40 631 466	2 031 573	2 031 573	38.0%	771 998	-	0.0%	-	-	0.0%	-	771 998	38.0%
Year 20		43 922 615	2 196 131	2 196 131	38.0%	834 530	-	0.0%	-	-	0.0%	-	834 530	38.0%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	47 480 346	2 374 017	2 374 017	38.0%	902 127	-	0.0%	-	-	0.0%	-	902 127	38.0%
Year 22		49 826 254	2 491 313	2 491 313	38.0%	946 699	-	0.0%	-	-	0.0%	-	946 699	38.0%
Year 23		52 272 181	2 613 609	2 613 609	38.0%	993 171	-	0.0%	-	-	0.0%	-	993 171	38.0%

Table 23 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Personal estate: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B Yr 31+: = 0	D = 38%, unless effective tax rate table gives higher amount	E = C x D	F: Yr 1 - 30: = 0 Yr 31 - 40: = B Yr 41 - 50: = 0	G = per effective tax rate table	H = F x G	I : Yr 1 -40: = 0 Yr 41 - 50: = B	J = per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder / Owner			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 24		54 820 828	2 741 041	2 741 041	38.0%	1 041 596	-	0.0%	-	-	0.0%	-	1 041 596	38.0%
Year 25		57 474 791	2 873 740	2 873 740	38.0%	1 092 021	-	0.0%	-	-	0.0%	-	1 092 021	38.0%
Year 26		60 236 533	3 011 827	3 011 827	38.0%	1 144 494	-	0.0%	-	-	0.0%	-	1 144 494	38.0%
Year 27		63 108 354	3 155 418	3 155 418	38.0%	1 199 490	-	0.0%	-	-	0.0%	-	1 199 490	38.0%
Year 28		66 091 921	3 304 596	3 304 596	38.1%	1 260 684	-	0.0%	-	-	0.0%	-	1 260 684	38.1%
Year 29		69 184 983	3 459 249	3 459 249	38.3%	1 323 971	-	0.0%	-	-	0.0%	-	1 323 971	38.3%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	72 388 738	3 619 437	3 619 437	38.4%	1 389 392	-	0.0%	-	-	0.0%	-	1 389 392	38.4%
Year 31		75 704 001	3 785 200	-	-	-	3 785 200	38.5%	1 456 980	-	0.0%	-	1 456 980	38.5%
Year 32		80 474 286	4 023 714	-	-	-	4 023 714	38.6%	1 555 096	-	0.0%	-	1 555 096	38.6%
Year 33		85 542 894	4 277 145	-	-	-	4 277 145	38.8%	1 658 960	-	0.0%	-	1 658 960	38.8%
Year 34		90 929 077	4 546 454	-	-	-	4 546 454	38.9%	1 769 006	-	0.0%	-	1 769 006	38.9%
Year 35	No event	96 653 282	4 832 664	-	-	-	4 832 664	39.0%	1 886 683	-	0.0%	-	1 886 683	39.0%
Year 36		102 736 249	5 136 812	-	-	-	5 136 812	39.2%	2 011 345	-	0.0%	-	2 011 345	39.2%
Year 37		109 201 110	5 460 056	-	-	-	5 460 056	39.3%	2 144 380	-	0.0%	-	2 144 380	39.3%
Year 38		116 071 577	5 803 579	-	-	-	5 803 579	39.4%	2 285 340	-	0.0%	-	2 285 340	39.4%
Year 39		123 373 815	6 168 691	-	-	-	6 168 691	39.5%	2 434 808	-	0.0%	-	2 434 808	39.5%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	131 135 634	6 556 782	-	-	-	6 556 782	39.6%	2 594 114	-	0.0%	-	2 594 114	39.6%
Year 41		90 918 622	4 545 931	-	-	-	-	0.0%	-	4 545 931	36.8%	1 673 773	1 673 773	36.8%
Year 42		98 336 711	4 916 836	-	-	-	-	0.0%	-	4 916 836	37.2%	1 827 118	1 827 118	37.2%
Year 43		106 343 264	5 317 163	-	-	-	-	0.0%	-	5 317 163	37.5%	1 991 290	1 991 290	37.5%
Year 44		114 986 300	5 749 315	-	-	-	-	0.0%	-	5 749 315	37.7%	2 167 453	2 167 453	37.7%
Year 45		124 317 477	6 215 874	-	-	-	-	0.0%	-	6 215 874	38.0%	2 359 889	2 359 889	38.0%
Year 46		134 389 336	6 719 467	-	-	-	-	0.0%	-	6 719 467	38.2%	2 566 297	2 566 297	38.2%
Year 47		145 261 973	7 263 099	-	-	-	-	0.0%	-	7 263 099	38.4%	2 788 084	2 788 084	38.4%
Year 48		157 000 087	7 850 004	-	-	-	-	0.0%	-	7 850 004	38.6%	3 029 158	3 029 158	38.6%
Year 49		169 670 938	8 483 547	-	-	-	-	0.0%	-	8 483 547	38.8%	3 288 245	3 288 245	38.8%
Year 50	Sale of all assets by children	183 349 787	9 167 489	-	-	-	-	0.0%	-	9 167 489	38.9%	3 569 137	3 569 137	38.9%

Table 24 – Comparison 1 (Personal estate scenario): Other taxes – CGT on transfers and disposals

PERSONAL ESTATE: OTHER TAXES (CGT and Estate duty) - CGT on transfer

					Annual exemption and inclusion %:	40 000	40%		
		CGT on transfer							
		A	B	C	D	E	F	G	H
		A = B x G x F x (C - D - E)	B: refer H	C: refer H	D: refer H	E = 40000	F = 0.4	G: refer H	H
Year	Scenario event	CGT on transfer (total for all persons)	No. of persons	Proceeds (per person)	Base cost (per person)	Annual exemption	Inclusion %	Income tax rate	Description
Year 50	Sale of all assets by children	17 567 189	2	99 057 814	45 459 311	40 000	40.0%	41.0%	- CGT on sale of all investment assets - Base cost equals investment value net of CGT and estate duty in year 40 per Personal estate: Capital schedule, column H, Yr 40, divided by 2 (per child) - Proceeds equals Personal estate: Capital schedule, column E, Yr 50 divided by 2 (per child) - Assume maximum income tax rate due to additional taxable income.

Table 25 – Comparison 1 (Personal estate scenario): Other taxes – Taxes on death

PERSONAL ESTATE: OTHER TAXES (CGT and Estate duty) - Taxes on death

s 4A abatement and estate duty %: 3 500 000 20%

			Estate duty on death						
		A	B	C	D	E	F	G	H
		A = B + I	B = F x G	C: refer H	D: refer H	E = 3500000	F = C - D - E	G = 0.2	H
Year	**Scenario event**	**TOTAL TAXES ON DEATH**	**ESTATE DUTY ON DEATH**	**Estate asset value**	**Deductions (if bequeathed to spouse, s 4(q) deduction)**	**Estate duty abatement (s 4A)**	**Dutiable estate**	**Estate duty rate**	**Description**
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	-	-	75 704 001	(75 704 001)	-	-	20.0%	**Estate duty on investment asset value - founder/owner** - Refer Personal estate: Capital schedule, column E, Yr 30 - Bequeathed to spouse (s 4(q) deduction)
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	**48 467 262**	**26 477 177**	139 385 884	-	(7 000 000)	132 385 884	20.0%	**Estate duty on investment asset value - spouse;** - Refer Personal estate: Capital schedule, column E, Yr 40 - Portable abatement from first-dying used, therefore s 4A abatement x 2

Annual exemption and inclusion %: 300 000 40%

		CGT on death							
		I	J	K	L	M	N	O	P
		I = J x O x N x (K - L - M)	J: refer P	K: refer P	L: refer P	M = 300000	N = 0.4	O: refer P	P
Year	**Scenario event**	**CGT ON DEATH**	**No. of persons**	**Proceeds (per person)**	**Base cost (per person)**	**Exemption in year of death**	**Inclusion %**	**Income tax rate**	**Description**
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	-	1	-	-		40.0%	41.0%	**CGT on death of owner** CGT rollover - bequeathed to spouse
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	**21 990 085**	1	139 385 884	5 000 000	300 000	40.0%	41.0%	**CGT on death of spouse** - bequeathed to children (no CGT rollover); - Base cost equals rolled over base cost (starting parameter) - Proceeds equals Personal estate: Capital schedule, column E, Yr 40 - Highets income tax bracket assumed

Table 26 – Comparison 1 (Personal estate scenario): Personal estate summary calculated using capital year-end values BEFORE year-end adjustments

PERSONAL ESTATE - SUMMARY (using capital year-end values BEFORE year-end adjustments)

		A	B	C	D	E	F	G	H	I
		A = Column E of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE (end of year, BEFORE adjustments)	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 0	Assets kept in personal estate	10 000 000	-	-	-	-	-	0.00%	-	0.00%
Year 1		10 810 000	190 000	-	-	190 000	190 000	1.76%	-	0.00%
Year 2		11 685 610	205 390	-	-	205 390	395 390	3.38%	-	0.00%
Year 3		12 632 144	222 027	-	-	222 027	617 417	4.89%	-	0.00%
Year 4		13 655 348	240 011	-	-	240 011	857 427	6.28%	-	0.00%
Year 5		14 761 431	259 452	-	-	259 452	1 116 879	7.57%	-	0.00%
Year 6		15 957 107	280 467	-	-	280 467	1 397 346	8.76%	-	0.00%
Year 7		17 249 633	303 185	-	-	303 185	1 700 531	9.86%	-	0.00%
Year 8		18 646 853	327 743	-	-	327 743	2 028 274	10.88%	-	0.00%
Year 9		20 157 248	354 290	-	-	354 290	2 382 564	11.82%	-	0.00%
Year 10		21 789 985	382 988	-	-	382 988	2 765 552	12.69%	-	0.00%
Year 11	No event	23 554 974	414 010	-	-	414 010	3 179 562	13.50%	-	0.00%
Year 12		25 462 927	447 545	-	-	447 545	3 627 106	14.24%	-	0.00%
Year 13		27 525 424	483 796	-	-	483 796	4 110 902	14.93%	-	0.00%
Year 14		29 754 984	522 983	-	-	522 983	4 633 885	15.57%	-	0.00%
Year 15		32 165 137	565 345	-	-	565 345	5 199 230	16.16%	-	0.00%
Year 16		34 770 513	611 138	-	-	611 138	5 810 367	16.71%	-	0.00%
Year 17		37 586 925	660 640	-	-	660 640	6 471 007	17.22%	-	0.00%
Year 18		40 631 466	714 152	-	-	714 152	7 185 159	17.68%	-	0.00%
Year 19		43 922 615	771 998	-	-	771 998	7 957 157	18.12%	-	0.00%
Year 20		47 480 346	834 530	-	-	834 530	8 791 686	18.52%	-	0.00%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	49 826 254	902 127	-	-	902 127	9 693 813	19.46%	-	0.00%
Year 22		52 272 181	946 699	-	-	946 699	10 640 512	20.36%	-	0.00%
Year 23		54 820 828	993 171	-	-	993 171	11 633 683	21.22%	-	0.00%
Year 24		57 474 791	1 041 596	-	-	1 041 596	12 675 279	22.05%	-	0.00%

Table 26 (continued)

		A	B	C	D	E	F	G	H	I
		A = Column E of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE (end of year, BEFORE adjustments)	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 25		60 236 533	1 092 021	-	-	1 092 021	13 767 300	22.86%	-	0.00%
Year 26		63 108 354	1 144 494	-	-	1 144 494	14 911 794	23.63%	-	0.00%
Year 27		66 091 921	1 199 490	-	-	1 199 490	16 111 284	24.38%	-	0.00%
Year 28		69 184 983	1 260 684	-	-	1 260 684	17 371 969	25.11%	-	0.00%
Year 29		72 388 738	1 323 971	-	-	1 323 971	18 695 940	25.83%	-	0.00%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	75 704 001	1 389 392	-	-	1 389 392	20 085 332	26.53%	-	0.00%
Year 31		80 474 286	1 456 980	-	-	1 456 980	21 542 312	26.77%	-	0.00%
Year 32		85 542 894	1 555 096	-	-	1 555 096	23 097 408	27.00%	-	0.00%
Year 33		90 929 077	1 658 960	-	-	1 658 960	24 756 368	27.23%	-	0.00%
Year 34		96 653 282	1 769 006	-	-	1 769 006	26 525 374	27.44%	-	0.00%
Year 35	No event	102 736 249	1 886 683	-	-	1 886 683	28 412 057	27.66%	-	0.00%
Year 36		109 201 110	2 011 345	-	-	2 011 345	30 423 402	27.86%	-	0.00%
Year 37		116 071 577	2 144 380	-	-	2 144 380	32 567 782	28.06%	-	0.00%
Year 38		123 373 815	2 285 340	-	-	2 285 340	34 853 122	28.25%	-	0.00%
Year 39		131 135 634	2 434 808	-	-	2 434 808	37 287 931	28.43%	-	0.00%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	139 385 884	2 594 114	-	48 467 262	51 061 376	88 349 307	63.38%	48 467 262	34.77%
Year 41		98 336 711	1 673 773	-	-	1 673 773	90 023 080	91.55%	48 467 262	49.29%
Year 42		106 343 264	1 827 118	-	-	1 827 118	91 850 198	86.37%	48 467 262	45.58%
Year 43		114 986 300	1 991 290	-	-	1 991 290	93 841 488	81.61%	48 467 262	42.15%
Year 44		124 317 477	2 167 453	-	-	2 167 453	96 008 941	77.23%	48 467 262	38.99%
Year 45		134 389 336	2 359 889	-	-	2 359 889	98 368 830	73.20%	48 467 262	36.06%
Year 46		145 261 973	2 566 297	-	-	2 566 297	100 935 127	69.48%	48 467 262	33.37%
Year 47		157 000 087	2 788 084	-	-	2 788 084	103 723 210	66.07%	48 467 262	30.87%
Year 48		169 670 938	3 029 158	-	-	3 029 158	106 752 368	62.92%	48 467 262	28.57%
Year 49		183 349 787	3 288 245	-	-	3 288 245	110 040 613	60.02%	48 467 262	26.43%
Year 50	Sale of all assets by children	198 115 628	3 569 137	17 567 189	-	21 136 326	131 176 939	66.21%	66 034 451	33.33%

9.2 Comparison 2

9.2.1 Comparison 2 – Charts

Figure 15 – Comparison 2 – Chart 1: Cumulative total taxation

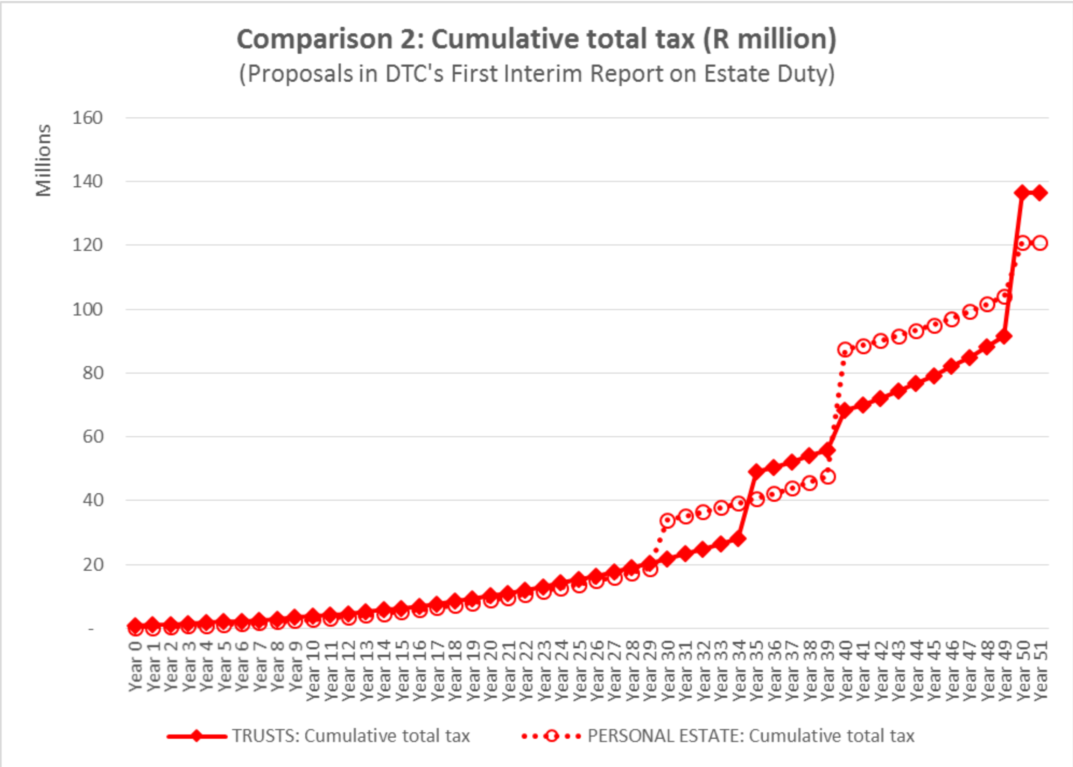


Figure 16 – Comparison 2 – Chart 2: Capital value

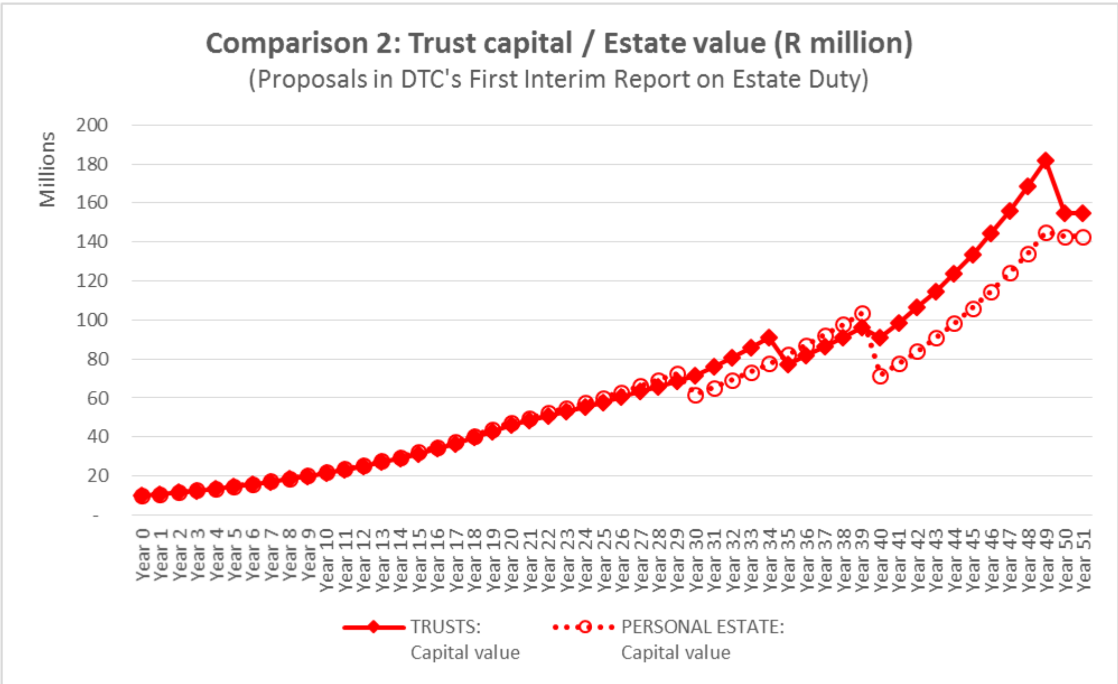


Figure 17 – Comparison 2 – Chart 3: Cumulative total tax as percentage of capital value

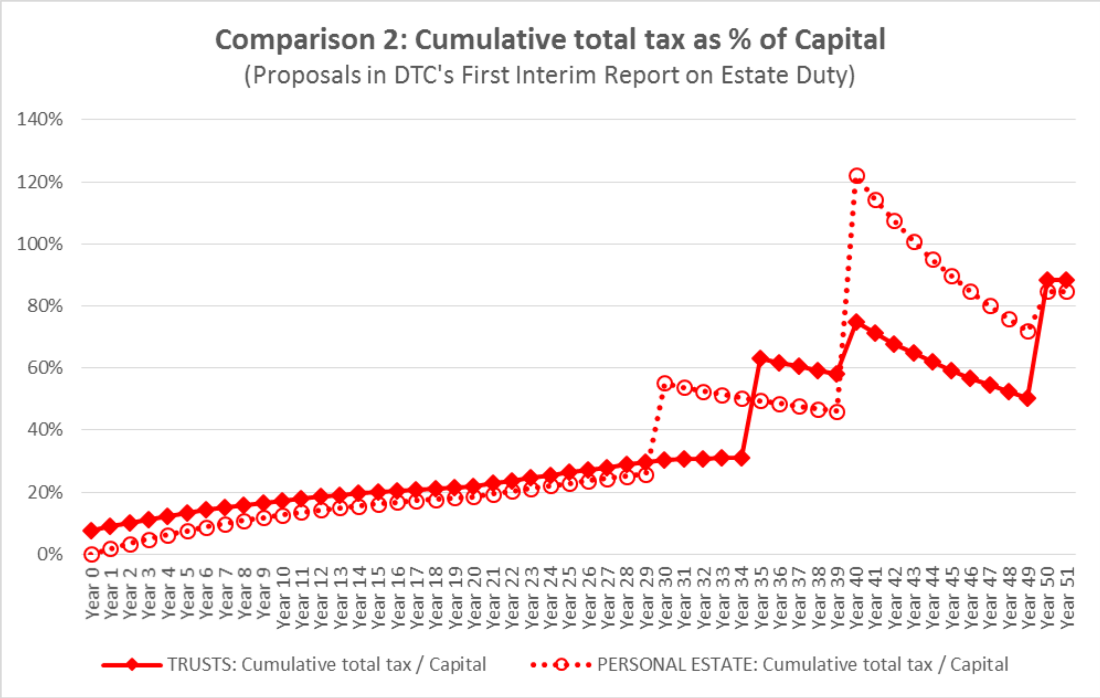


Figure 18 – Comparison 2 – Chart 4: Cumulative CGT and estate duty

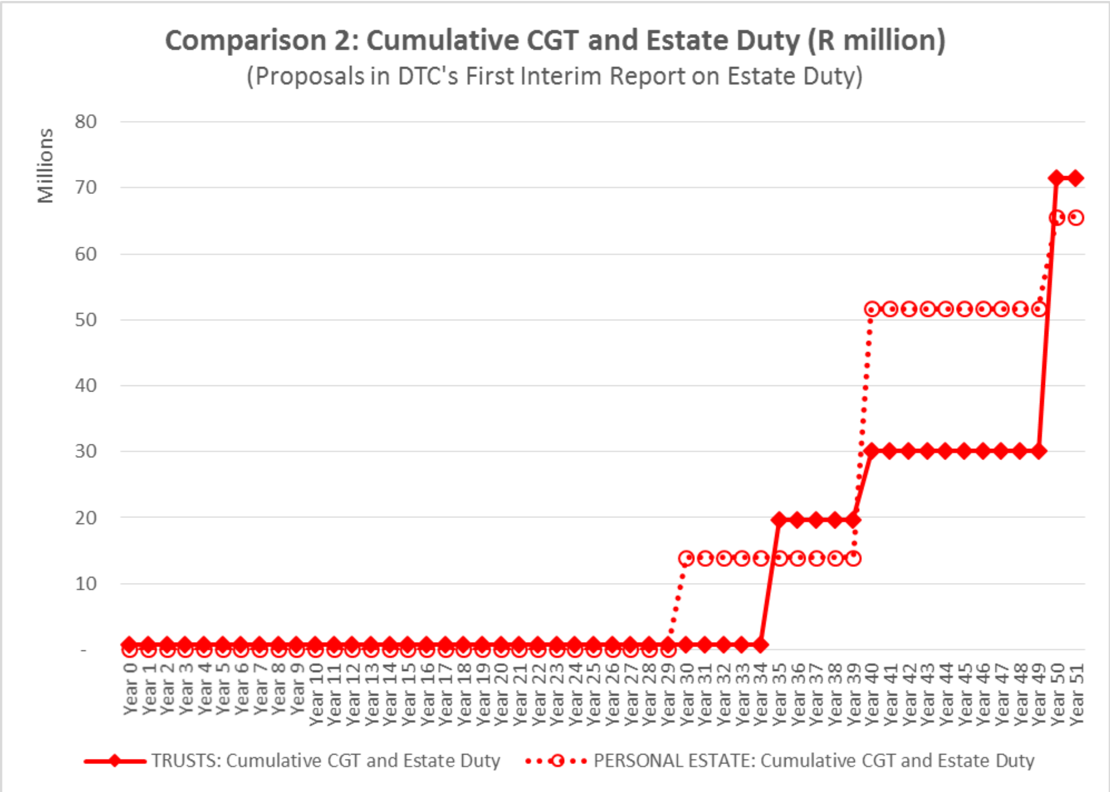


Figure 19 – Comparison 2 – Chart 5: Cumulative CGT and estate duty as percentage of capital value

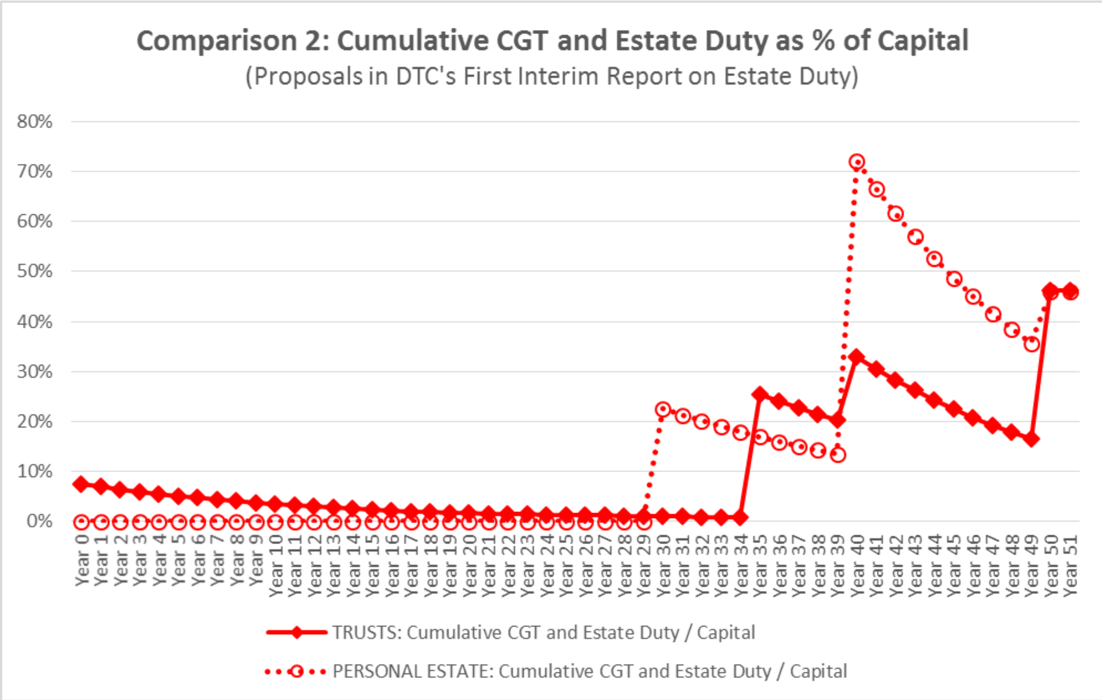


Figure 20 – Comparison 2 – Chart 6: Difference: Cumulative total tax as percentage of capital value

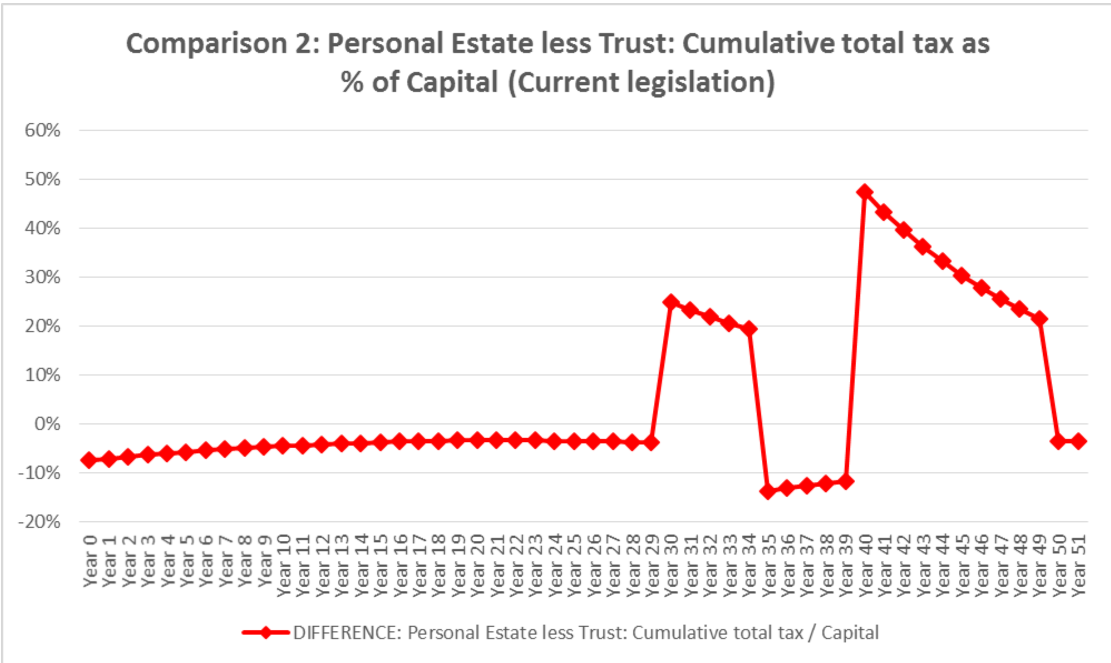
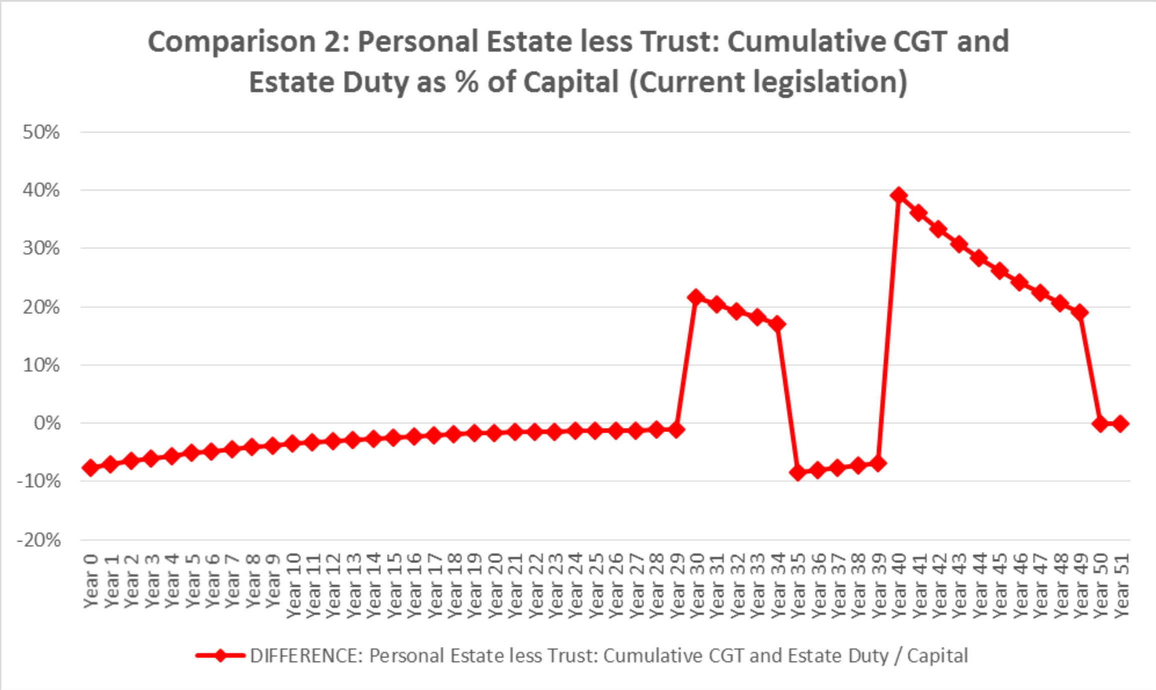


Figure 21 – Comparison 2 – Chart 7: Difference: Cumulative CGT and estate duty as percentage of capital value



9.2.2 *Comparison 2 – Comparative data between trust and personal estate scenarios including difference data used in charts*

Table 27 – Comparison 2: Comparative and difference data sets

COMPARISON 2: Trust vs. Personal Estate - Recommendations in DTC's First Interim Report on Estate Duty

			A	B	C	D	E	F	G	H	I	J	K	L
			A = column I of Trusts summary schedule	B = column F of Personal estate summary schedule	C = column C of Trusts summary schedule	D = column A of Personal estate summary schedule	E = column J of Trusts summary schedule	F = column G of Personal estate summary schedule	G = column K of Trusts summary schedule	H = column H of Personal estate summary schedule	I = column L of Trusts summary schedule	J = column I of Trusts summary schedule	K = F - E	L = J - I
			CHART 1 Comparison 1: Cumulative total tax		CHART 2 Comparison 1: Capital / Estate value		CHART 3 Comparison 1: Cumulative total tax as % of Capital		CHART 4 Comparison 1: Cumulative CGT and Estate Duty		CHART 5 Comparison 1: Cumulative CGT and Estate Duty as % of Capital		CHART 6 Difference: Cumulative total	CHART 7 Difference: Cumulative CGT
Year	**TRUSTS: Scenario event**	**PERSONAL ESTATE: Scenario event**	**TRUSTS: Cumulative total tax**	**PERSONAL ESTATE: Cumulative total tax**	**TRUSTS: Capital value**	**PERSONAL ESTATE: Capital value**	**TRUSTS: Cumulative total tax / Capital**	**PERSONAL ESTATE: Cumulative total tax / Capital**	**TRUSTS: Cumulative CGT and Estate Duty**	**PERSONAL ESTATE: Cumulative CGT and Estate Duty**	**TRUSTS: Cumulative CGT and Estate Duty / Capital**	**PERSONAL ESTATE: Cumulative CGT and Estate Duty / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative total tax / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative CGT and Estate Duty / Capital**
Year 0	Transfer of assets to Trust 1	Assets kept in personal estate	753 920	-	10 000 000	10 000 000	7.54%	0.00%	753 920	-	7.54%	0.00%	-7.54%	-7.54%
Year 1			958 920	190 000	10 795 000	10 810 000	8.88%	1.76%	753 920	-	6.98%	0.00%	-7.13%	-6.98%
Year 2			1 180 218	395 390	11 653 203	11 685 610	10.13%	3.38%	753 920	-	6.47%	0.00%	-6.74%	-6.47%
Year 3			1 419 108	617 417	12 579 632	12 632 144	11.28%	4.89%	753 920	-	5.99%	0.00%	-6.39%	-5.99%
Year 4			1 676 991	857 427	13 579 713	13 655 348	12.35%	6.28%	753 920	-	5.55%	0.00%	-6.07%	-5.55%
Year 5			1 955 375	1 116 879	14 659 300	14 761 431	13.34%	7.57%	753 920	-	5.14%	0.00%	-5.77%	-5.14%
Year 6			2 255 890	1 397 346	15 824 714	15 957 107	14.26%	8.76%	753 920	-	4.76%	0.00%	-5.50%	-4.76%
Year 7			2 580 297	1 700 531	17 082 779	17 249 633	15.10%	9.86%	753 920	-	4.41%	0.00%	-5.25%	-4.41%
Year 8			2 930 494	2 028 274	18 440 860	18 646 853	15.89%	10.88%	753 920	-	4.09%	0.00%	-5.01%	-4.09%
Year 9			3 308 532	2 382 564	19 906 908	20 157 248	16.62%	11.82%	753 920	-	3.79%	0.00%	-4.80%	-3.79%
Year 10			3 716 623	2 765 552	21 489 508	21 789 985	17.30%	12.69%	753 920	-	3.51%	0.00%	-4.60%	-3.51%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	No event	4 157 158	3 179 562	23 197 924	23 554 974	17.92%	13.50%	753 920	-	3.25%	0.00%	-4.42%	-3.25%
Year 12			4 632 716	3 627 106	25 042 159	25 462 927	18.50%	14.24%	753 920	-	3.01%	0.00%	-4.26%	-3.01%
Year 13			5 146 080	4 110 902	27 033 010	27 525 424	19.04%	14.93%	753 920	-	2.79%	0.00%	-4.10%	-2.79%
Year 14			5 700 257	4 633 885	29 182 134	29 754 984	19.53%	15.57%	753 920	-	2.58%	0.00%	-3.96%	-2.58%
Year 15			6 298 490	5 199 230	31 502 114	32 165 137	19.99%	16.16%	753 920	-	2.39%	0.00%	-3.83%	-2.39%
Year 16			6 944 284	5 810 367	34 006 532	34 770 513	20.42%	16.71%	753 920	-	2.22%	0.00%	-3.71%	-2.22%
Year 17			7 641 418	6 471 007	36 710 051	37 586 925	20.82%	17.22%	753 920	-	2.05%	0.00%	-3.60%	-2.05%
Year 18			8 393 974	7 185 159	39 628 501	40 631 466	21.18%	17.68%	753 920	-	1.90%	0.00%	-3.50%	-1.90%
Year 19			9 206 358	7 957 157	42 778 966	43 922 615	21.52%	18.12%	753 920	-	1.76%	0.00%	-3.40%	-1.76%
Year 20			10 083 327	8 791 686	46 179 894	47 480 346	21.83%	18.52%	753 920	-	1.63%	0.00%	-3.32%	-1.63%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	11 030 015	9 693 813	48 351 196	49 826 254	22.81%	19.46%	753 920	-	1.56%	0.00%	-3.36%	-1.56%
Year 22			12 021 214	10 640 512	50 605 116	52 272 181	23.75%	20.36%	753 920	-	1.49%	0.00%	-3.40%	-1.49%
Year 23			13 058 619	11 633 683	52 942 823	54 820 828	24.67%	21.22%	753 920	-	1.42%	0.00%	-3.44%	-1.42%
Year 24			14 143 947	12 675 279	55 365 253	57 474 791	25.55%	22.05%	753 920	-	1.36%	0.00%	-3.49%	-1.36%
Year 25			15 278 934	13 767 300	57 873 075	60 236 533	26.40%	22.86%	753 920	-	1.30%	0.00%	-3.55%	-1.30%
Year 26			16 465 332	14 911 794	60 466 646	63 108 354	27.23%	23.63%	753 920	-	1.25%	0.00%	-3.60%	-1.25%
Year 27			17 704 899	16 111 284	63 145 966	66 091 921	28.04%	24.38%	753 920	-	1.19%	0.00%	-3.66%	-1.19%
Year 28			18 999 391	17 371 969	65 910 625	69 184 983	28.83%	25.11%	753 920	-	1.14%	0.00%	-3.72%	-1.14%
Year 29			20 350 559	18 695 940	68 759 747	72 388 738	29.60%	25.83%	753 920	-	1.10%	0.00%	-3.77%	-1.10%

Table 27 (continued)

			A	B	C	D	E	F	G	H	I	J	K	L
			A = column I of Trusts summary schedule	B = column F of Personal estate summary schedule	C = column C of Trusts summary schedule	D = column A of Personal estate summary schedule	E = column J of Trusts summary schedule	F = column G of Personal estate summary schedule	G = column K of Trusts summary schedule	H = column H of Personal estate summary schedule	I = column L of Trusts summary schedule	J = column I of Trusts summary schedule	K = F - E	L = J - I
			CHART 1 Comparison 1: Cumulative total tax		CHART 2 Comparison 1: Capital / Estate value		CHART 3 Comparison 1: Cumulative total tax as % of Capital		CHART 4 Comparison 1: Cumulative CGT and Estate Duty		CHART 5 Comparison 1: Cumulative CGT and Estate Duty as % of Capital		CHART 6 Difference: Cumulative total	CHART 7 Difference: Cumulative CGT
Year	TRUSTS: Scenario event	PERSONAL ESTATE: Scenario event	TRUSTS: Cumulative total tax	PERSONAL ESTATE: Cumulative total tax	TRUSTS: Capital value	PERSONAL ESTATE: Capital value	TRUSTS: Cumulative total tax / Capital	PERSONAL ESTATE: Cumulative total tax / Capital	TRUSTS: Cumulative CGT and Estate Duty	PERSONAL ESTATE: Cumulative CGT and Estate Duty	TRUSTS: Cumulative CGT and Estate Duty / Capital	PERSONAL ESTATE: Cumulative CGT and Estate Duty / Capital	DIFFERENCE: Personal Estate less Trust: Cumulative total tax / Capital	DIFFERENCE: Personal Estate less Trust: Cumulative CGT and Estate Duty / Capital
Year 30	Death of founder (at end of year)	Death of founder (at end of year) - bequeath assets to surviving spouse	21 760 134	34 026 132	71 691 929	61 763 201	30.35%	55.09%	753 920	13 940 800	1.05%	22.57%	24.74%	21.52%
Year 31			23 229 818	35 197 032	76 048 301	65 425 486	30.55%	53.80%	753 920	13 940 800	0.99%	21.31%	23.25%	20.32%
Year 32			24 788 808	36 443 570	80 670 417	69 297 773	30.73%	52.59%	753 920	13 940 800	0.93%	20.12%	21.86%	19.18%
Year 33			26 442 552	37 769 699	85 574 568	73 392 273	30.90%	51.46%	753 920	13 940 800	0.88%	18.99%	20.56%	18.11%
Year 34			28 196 831	39 179 666	90 778 050	77 721 837	31.06%	50.41%	753 920	13 940 800	0.83%	17.94%	19.35%	17.11%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	No event	48 928 545	40 678 013	77 428 463	82 299 996	63.19%	49.43%	19 624 684	13 940 800	25.35%	16.94%	-13.77%	-8.41%
Year 36			50 515 828	42 270 750	81 786 607	87 139 840	61.77%	48.51%	19 624 684	13 940 800	23.99%	16.00%	-13.26%	-8.00%
Year 37			52 192 454	43 962 896	86 383 379	92 256 414	60.42%	47.65%	19 624 684	13 940 800	22.72%	15.11%	-12.77%	-7.61%
Year 38			53 963 313	45 759 821	91 231 278	97 665 551	59.15%	46.85%	19 624 684	13 940 800	21.51%	14.27%	-12.30%	-7.24%
Year 39			55 833 554	47 667 251	96 343 410	103 383 922	57.95%	46.11%	19 624 684	13 940 800	20.37%	13.48%	-11.85%	-6.89%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	68 288 669	87 454 853	91 253 437	71 665 512	74.83%	122.03%	30 104 759	51 703 452	32.99%	72.15%	47.20%	39.16%
Year 41			70 159 364	88 731 382	98 508 085	77 555 535	71.22%	114.41%	30 104 759	51 703 452	30.56%	66.67%	43.19%	36.11%
Year 42			72 178 780	90 129 282	106 339 478	83 913 188	67.88%	107.41%	30 104 759	51 703 452	28.31%	61.62%	39.53%	33.31%
Year 43			74 358 739	91 656 974	114 793 466	90 776 814	64.78%	100.97%	30 104 759	51 703 452	26.23%	56.96%	36.19%	30.73%
Year 44			76 712 005	93 328 137	123 919 547	98 183 333	61.90%	95.05%	30 104 759	51 703 452	24.29%	52.66%	33.15%	28.37%
Year 45			79 252 356	95 152 406	133 771 151	106 177 398	59.24%	89.62%	30 104 759	51 703 452	22.50%	48.70%	30.37%	26.19%
Year 46			81 994 665	97 140 589	144 405 957	114 806 954	56.78%	84.61%	30 104 759	51 703 452	20.85%	45.04%	27.83%	24.19%
Year 47			84 954 987	99 304 662	155 886 231	124 123 577	54.50%	80.00%	30 104 759	51 703 452	19.31%	41.65%	25.51%	22.34%
Year 48			88 150 654	101 660 870	168 279 186	134 179 726	52.38%	75.76%	30 104 759	51 703 452	17.89%	38.53%	23.38%	20.64%
Year 49			91 600 378	104 223 164	181 657 382	145 035 405	50.42%	71.86%	30 104 759	51 703 452	16.57%	35.65%	21.44%	19.08%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	Sale of all assets by children	136 641 109	120 948 490	154 782 388	142 813 620	88.28%	84.69%	71 421 514	65 645 042	46.14%	45.97%	-3.59%	-0.18%

9.2.3 *Comparison 2 – Trust scenario summary*

Table 28 – Comparison 2: Trust scenario summary

TRUSTS - SUMMARY (Comparison 2)

										VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column H of Trust 1: Capital schedule	B = Column G of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, after adjustments)	Trust 2a + 2b capital (end of year, after adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 0	Transfer of assets to Trust 1	10 000 000	-	10 000 000	-	-	753 920	-	753 920	753 920	7.54%	753 920	7.54%
Year 1		10 795 000	-	10 795 000	205 000	-	-	-	205 000	958 920	8.88%	753 920	6.98%
Year 2		11 653 203	-	11 653 203	221 298	-	-	-	221 298	1 180 218	10.13%	753 920	6.47%
Year 3		12 579 632	-	12 579 632	238 891	-	-	-	238 891	1 419 108	11.28%	753 920	5.99%
Year 4		13 579 713	-	13 579 713	257 882	-	-	-	257 882	1 676 991	12.35%	753 920	5.55%
Year 5		14 659 300	-	14 659 300	278 384	-	-	-	278 384	1 955 375	13.34%	753 920	5.14%
Year 6		15 824 714	-	15 824 714	300 516	-	-	-	300 516	2 255 890	14.26%	753 920	4.76%
Year 7		17 082 779	-	17 082 779	324 407	-	-	-	324 407	2 580 297	15.10%	753 920	4.41%
Year 8		18 440 860	-	18 440 860	350 197	-	-	-	350 197	2 930 494	15.89%	753 920	4.09%
Year 9		19 906 908	-	19 906 908	378 038	-	-	-	378 038	3 308 532	16.62%	753 920	3.79%
Year 10		21 489 508	-	21 489 508	408 092	-	-	-	408 092	3 716 623	17.30%	753 920	3.51%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	23 197 924	-	23 197 924	440 535	-	-	-	440 535	4 157 158	17.92%	753 920	3.25%
Year 12		25 042 159	-	25 042 159	475 557	-	-	-	475 557	4 632 716	18.50%	753 920	3.01%
Year 13		27 033 010	-	27 033 010	513 364	-	-	-	513 364	5 146 080	19.04%	753 920	2.79%
Year 14		29 182 134	-	29 182 134	554 177	-	-	-	554 177	5 700 257	19.53%	753 920	2.58%
Year 15		31 502 114	-	31 502 114	598 234	-	-	-	598 234	6 298 490	19.99%	753 920	2.39%
Year 16		34 006 532	-	34 006 532	645 793	-	-	-	645 793	6 944 284	20.42%	753 920	2.22%
Year 17		36 710 051	-	36 710 051	697 134	-	-	-	697 134	7 641 418	20.82%	753 920	2.05%
Year 18		39 628 501	-	39 628 501	752 556	-	-	-	752 556	8 393 974	21.18%	753 920	1.90%
Year 19		42 778 966	-	42 778 966	812 384	-	-	-	812 384	9 206 358	21.52%	753 920	1.76%
Year 20		46 179 894	-	46 179 894	876 969	-	-	-	876 969	10 083 327	21.83%	753 920	1.63%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	48 351 196	-	48 351 196	946 688	-	-	-	946 688	11 030 015	22.81%	753 920	1.56%
Year 22		50 605 116	-	50 605 116	991 200	-	-	-	991 200	12 021 214	23.75%	753 920	1.49%
Year 23		52 942 823	-	52 942 823	1 037 405	-	-	-	1 037 405	13 058 619	24.67%	753 920	1.42%
Year 24		55 365 253	-	55 365 253	1 085 328	-	-	-	1 085 328	14 143 947	25.55%	753 920	1.36%

Table 28 (continued)

Year	Scenario event	A	B	C	D	E	F	G	H	I	J	K	L
		A = Column H of Trust 1: Capital schedule	B = Column G of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, after adjustments)	Trust 2a + 2b capital (end of year, after adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 25		57 873 075	-	57 873 075	1 134 988	-	-	-	1 134 988	15 278 934	26.40%	753 920	1.30%
Year 26		60 466 646	-	60 466 646	1 186 398	-	-	-	1 186 398	16 465 332	27.23%	753 920	1.25%
Year 27		63 145 966	-	63 145 966	1 239 566	-	-	-	1 239 566	17 704 899	28.04%	753 920	1.19%
Year 28		65 910 625	-	65 910 625	1 294 492	-	-	-	1 294 492	18 999 391	28.83%	753 920	1.14%
Year 29		68 759 747	-	68 759 747	1 351 168	-	-	-	1 351 168	20 350 559	29.60%	753 920	1.10%
Year 30	Death of founder (at end of year)	71 691 929	-	71 691 929	1 409 575	-	-	-	1 409 575	21 760 134	30.35%	753 920	1.05%
Year 31		76 048 301	-	76 048 301	1 469 685	-	-	-	1 469 685	23 229 818	30.55%	753 920	0.99%
Year 32		80 670 417	-	80 670 417	1 558 990	-	-	-	1 558 990	24 788 808	30.73%	753 920	0.93%
Year 33		85 574 568	-	85 574 568	1 653 744	-	-	-	1 653 744	26 442 552	30.90%	753 920	0.88%
Year 34		90 778 050	-	90 778 050	1 754 279	-	-	-	1 754 279	28 196 831	31.06%	753 920	0.83%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	32 099 742	45 328 721	77 428 463	1 860 950	-	18 870 764	-	20 731 714	48 928 545	63.19%	19 624 684	25.35%
Year 36		32 854 253	48 932 354	81 786 607	658 045	929 239	-	-	1 587 283	50 515 828	61.77%	19 624 684	23.99%
Year 37		33 560 903	52 822 476	86 383 379	673 512	1 003 113	-	-	1 676 625	52 192 454	60.42%	19 624 684	22.72%
Year 38		34 209 415	57 021 863	91 231 278	687 999	1 082 861	-	-	1 770 859	53 963 313	59.15%	19 624 684	21.51%
Year 39		34 788 309	61 555 101	96 343 410	701 293	1 168 948	-	-	1 870 241	55 833 554	57.95%	19 624 684	20.37%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	91 253 437	91 253 437	713 160	1 261 880	10 480 074	-	12 455 114	68 288 669	74.83%	30 104 759	32.99%
Year 41		-	98 508 085	98 508 085	-	1 870 695	-	-	1 870 695	70 159 364	71.22%	30 104 759	30.56%
Year 42		-	106 339 478	106 339 478	-	2 019 416	-	-	2 019 416	72 178 780	67.88%	30 104 759	28.31%
Year 43		-	114 793 466	114 793 466	-	2 179 959	-	-	2 179 959	74 358 739	64.78%	30 104 759	26.23%
Year 44		-	123 919 547	123 919 547	-	2 353 266	-	-	2 353 266	76 712 005	61.90%	30 104 759	24.29%
Year 45		-	133 771 151	133 771 151	-	2 540 351	-	-	2 540 351	79 252 356	59.24%	30 104 759	22.50%
Year 46		-	144 405 957	144 405 957	-	2 742 309	-	-	2 742 309	81 994 665	56.78%	30 104 759	20.85%
Year 47		-	155 886 231	155 886 231	-	2 960 322	-	-	2 960 322	84 954 987	54.50%	30 104 759	19.31%
Year 48		-	168 279 186	168 279 186	-	3 195 668	-	-	3 195 668	88 150 654	52.38%	30 104 759	17.89%
Year 49		-	181 657 382	181 657 382	-	3 449 723	-	-	3 449 723	91 600 378	50.42%	30 104 759	16.57%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	154 782 388	154 782 388	-	3 723 976	41 316 755	-	45 040 732	136 641 109	88.28%	71 421 514	46.14%

9.2.4 Comparison 2 – Personal estate scenario summary

Table 29 – Comparison 2: Personal estate scenario summary

PERSONAL ESTATE - SUMMARY (Comparison 2)

							VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I
		A = Column H of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 0	Assets kept in personal estate	10 000 000	-	-	-	-	-	0.00%	-	0.00%
Year 1		10 810 000	190 000	-	-	190 000	190 000	1.76%	-	0.00%
Year 2		11 685 610	205 390	-	-	205 390	395 390	3.38%	-	0.00%
Year 3		12 632 144	222 027	-	-	222 027	617 417	4.89%	-	0.00%
Year 4		13 655 348	240 011	-	-	240 011	857 427	6.28%	-	0.00%
Year 5		14 761 431	259 452	-	-	259 452	1 116 879	7.57%	-	0.00%
Year 6		15 957 107	280 467	-	-	280 467	1 397 346	8.76%	-	0.00%
Year 7		17 249 633	303 185	-	-	303 185	1 700 531	9.86%	-	0.00%
Year 8		18 646 853	327 743	-	-	327 743	2 028 274	10.88%	-	0.00%
Year 9		20 157 248	354 290	-	-	354 290	2 382 564	11.82%	-	0.00%
Year 10		21 789 985	382 988	-	-	382 988	2 765 552	12.69%	-	0.00%
Year 11	No event	23 554 974	414 010	-	-	414 010	3 179 562	13.50%	-	0.00%
Year 12		25 462 927	447 545	-	-	447 545	3 627 106	14.24%	-	0.00%
Year 13		27 525 424	483 796	-	-	483 796	4 110 902	14.93%	-	0.00%
Year 14		29 754 984	522 983	-	-	522 983	4 633 885	15.57%	-	0.00%
Year 15		32 165 137	565 345	-	-	565 345	5 199 230	16.16%	-	0.00%
Year 16		34 770 513	611 138	-	-	611 138	5 810 367	16.71%	-	0.00%
Year 17		37 586 925	660 640	-	-	660 640	6 471 007	17.22%	-	0.00%
Year 18		40 631 466	714 152	-	-	714 152	7 185 159	17.68%	-	0.00%
Year 19		43 922 615	771 998	-	-	771 998	7 957 157	18.12%	-	0.00%
Year 20		47 480 346	834 530	-	-	834 530	8 791 686	18.52%	-	0.00%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	49 826 254	902 127	-	-	902 127	9 693 813	19.46%	-	0.00%
Year 22		52 272 181	946 699	-	-	946 699	10 640 512	20.36%	-	0.00%
Year 23		54 820 828	993 171	-	-	993 171	11 633 683	21.22%	-	0.00%
Year 24		57 474 791	1 041 596	-	-	1 041 596	12 675 279	22.05%	-	0.00%

Table 29 (continued)

		A	B	C	D	E	F	G	H	I
		A = Column H of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	**Scenario event**	**TOTAL CAPITAL or ESTATE VALUE**	**Total income taxes**	**CGT on transfers or disposals**	**Estate Duty and CGT on death**	**TOTAL TAXES**	**Cumulative total taxes**	**Cumulative total tax / Capital**	**Cumulative CGT and Estate Duty**	**Cumulative CGT and Estate Duty / Capital**
Year 25		60 236 533	1 092 021	-	-	1 092 021	13 767 300	22.86%	-	0.00%
Year 26		63 108 354	1 144 494	-	-	1 144 494	14 911 794	23.63%	-	0.00%
Year 27		66 091 921	1 199 490	-	-	1 199 490	16 111 284	24.38%	-	0.00%
Year 28		69 184 983	1 260 684	-	-	1 260 684	17 371 969	25.11%	-	0.00%
Year 29		72 388 738	1 323 971	-	-	1 323 971	18 695 940	25.83%	-	0.00%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	61 763 201	1 389 392	-	13 940 800	15 330 192	34 026 132	55.09%	13 940 800	22.57%
Year 31		65 425 486	1 170 900	-	-	1 170 900	35 197 032	53.80%	13 940 800	21.31%
Year 32		69 297 773	1 246 538	-	-	1 246 538	36 443 570	52.59%	13 940 800	20.12%
Year 33		73 392 273	1 326 129	-	-	1 326 129	37 769 699	51.46%	13 940 800	18.99%
Year 34		77 721 837	1 409 967	-	-	1 409 967	39 179 666	50.41%	13 940 800	17.94%
Year 35	No event	82 299 996	1 498 347	-	-	1 498 347	40 678 013	49.43%	13 940 800	16.94%
Year 36		87 139 840	1 592 737	-	-	1 592 737	42 270 750	48.51%	13 940 800	16.00%
Year 37		92 256 414	1 692 147	-	-	1 692 147	43 962 896	47.65%	13 940 800	15.11%
Year 38		97 665 551	1 796 925	-	-	1 796 925	45 759 821	46.85%	13 940 800	14.27%
Year 39		103 383 922	1 907 429	-	-	1 907 429	47 667 251	46.11%	13 940 800	13.48%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	71 665 512	2 024 951	-	37 762 652	39 787 602	87 454 853	122.03%	51 703 452	72.15%
Year 41		77 555 535	1 276 529	-	-	1 276 529	88 731 382	114.41%	51 703 452	66.67%
Year 42		83 913 188	1 397 900	-	-	1 397 900	90 129 282	107.41%	51 703 452	61.62%
Year 43		90 776 814	1 527 693	-	-	1 527 693	91 656 974	100.97%	51 703 452	56.96%
Year 44		98 183 333	1 671 163	-	-	1 671 163	93 328 137	95.05%	51 703 452	52.66%
Year 45		106 177 398	1 824 268	-	-	1 824 268	95 152 406	89.62%	51 703 452	48.70%
Year 46		114 806 954	1 988 184	-	-	1 988 184	97 140 589	84.61%	51 703 452	45.04%
Year 47		124 123 577	2 164 073	-	-	2 164 073	99 304 662	80.00%	51 703 452	41.65%
Year 48		134 179 726	2 356 208	-	-	2 356 208	101 660 870	75.76%	51 703 452	38.53%
Year 49		145 035 405	2 562 294	-	-	2 562 294	104 223 164	71.86%	51 703 452	35.65%
Year 50	Sale of all assets by children	142 813 620	2 783 735	13 941 591	-	16 725 326	120 948 490	84.69%	65 645 042	45.97%

9.2.5 *Comparison 2 – Trust scenario supporting schedules*

Table 30 – Comparison 2 (Trust scenario): Trust 1 capital value

TRUST 1: CAPITAL

Annual capital grow **10%**

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 1: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	F : refer G for explanation	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash distributions to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 0	Transfer of assets to Trust 1					10 000 000			10 000 000
Year 1		10 000 000	1 000 000	(205 000)	-	10 795 000			10 795 000
Year 2		10 795 000	1 079 500	(221 298)	-	11 653 203			11 653 203
Year 3		11 653 203	1 165 320	(238 891)	-	12 579 632			12 579 632
Year 4		12 579 632	1 257 963	(257 882)	-	13 579 713			13 579 713
Year 5		13 579 713	1 357 971	(278 384)	-	14 659 300			14 659 300
Year 6		14 659 300	1 465 930	(300 516)	-	15 824 714			15 824 714
Year 7		15 824 714	1 582 471	(324 407)	-	17 082 779			17 082 779
Year 8		17 082 779	1 708 278	(350 197)	-	18 440 860			18 440 860
Year 9		18 440 860	1 844 086	(378 038)	-	19 906 908			19 906 908
Year 10		19 906 908	1 990 691	(408 092)	-	21 489 508			21 489 508
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	21 489 508	2 148 951	(440 535)	-	23 197 924			23 197 924
Year 12		23 197 924	2 319 792	(475 557)	-	25 042 159			25 042 159
Year 13		25 042 159	2 504 216	(513 364)	-	27 033 010			27 033 010
Year 14		27 033 010	2 703 301	(554 177)	-	29 182 134			29 182 134
Year 15		29 182 134	2 918 213	(598 234)	-	31 502 114			31 502 114
Year 16		31 502 114	3 150 211	(645 793)	-	34 006 532			34 006 532
Year 17		34 006 532	3 400 653	(697 134)	-	36 710 051			36 710 051
Year 18		36 710 051	3 671 005	(752 556)	-	39 628 501			39 628 501
Year 19		39 628 501	3 962 850	(812 384)	-	42 778 966			42 778 966
Year 20		42 778 966	4 277 897	(876 969)	-	46 179 894			46 179 894
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	46 179 894	4 617 989	(946 688)	(1 500 000)	48 351 196			48 351 196
Year 22		48 351 196	4 835 120	(991 200)	(1 590 000)	50 605 116			50 605 116
Year 23		50 605 116	5 060 512	(1 037 405)	(1 685 400)	52 942 823			52 942 823
Year 24		52 942 823	5 294 282	(1 085 328)	(1 786 524)	55 365 253			55 365 253
Year 25		55 365 253	5 536 525	(1 134 988)	(1 893 715)	57 873 075			57 873 075

Table 30 (continued)

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 1: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	F : refer G for explanation	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash distributions to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 26		57 873 075	5 787 308	(1 186 398)	(2 007 338)	60 466 646			60 466 646
Year 27		60 466 646	6 046 665	(1 239 566)	(2 127 779)	63 145 966			63 145 966
Year 28		63 145 966	6 314 597	(1 294 492)	(2 255 445)	65 910 625			65 910 625
Year 29		65 910 625	6 591 062	(1 351 168)	(2 390 772)	68 759 747			68 759 747
Year 30	Death of founder (at end of year)	68 759 747	6 875 975	(1 409 575)	(2 534 218)	71 691 929	-	Estate duty on loan account paid from cash reserves Refer Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule, column A, Yr 30	71 691 929
Year 31		71 691 929	7 169 193	(1 469 685)	(1 343 136)	76 048 301			76 048 301
Year 32		76 048 301	7 604 830	(1 558 990)	(1 423 724)	80 670 417			80 670 417
Year 33		80 670 417	8 067 042	(1 653 744)	(1 509 147)	85 574 568			85 574 568
Year 34		85 574 568	8 557 457	(1 754 279)	(1 599 696)	90 778 050			90 778 050
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	90 778 050	9 077 805	(1 860 950)	(1 695 678)	96 299 227	(64 199 485)	Restructuring of Trust 1 to form new Trusts 2a and 2b Distribute two thirds of Trust 1 capital to children	32 099 742
Year 36		32 099 742	3 209 974	(658 045)	(1 797 419)	32 854 253			32 854 253
Year 37		32 854 253	3 285 425	(673 512)	(1 905 264)	33 560 903			33 560 903
Year 38		33 560 903	3 356 090	(687 999)	(2 019 580)	34 209 415			34 209 415
Year 39		34 209 415	3 420 941	(701 293)	(2 140 754)	34 788 309			34 788 309
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	34 788 309	3 478 831	(713 160)	(2 269 200)	35 284 780	(35 284 780)	Distribute remaining trust capital to children	-
Year 41		-	-	-	-	-			-
Year 42		-	-	-	-	-			-
Year 43		-	-	-	-	-			-
Year 44		-	-	-	-	-			-
Year 45		-	-	-	-	-			-
Year 46		-	-	-	-	-			-
Year 47		-	-	-	-	-			-
Year 48		-	-	-	-	-			-
Year 49		-	-	-	-	-			-
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-			-

Table 31 – Comparison 2: (Trust scenario): Trust 2a and 2b combined capital value

TRUST 2A and 2B COMBINED CAPITAL: (4 beneficiaries in each trust: 2 parents, 2 children)

Annual capital growth: **10%**

		A	B	C	D	E	F	G
		A = column G of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 2a and 2b income + tax schedule)	D = A + B + C	E : refer F for explanation	F	G = D + E
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash distributions to pay tax**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 0	Transfer of assets to Trust 1							
Year 1		-	-	-	-			-
Year 2		-	-	-	-			-
Year 3		-	-	-	-			-
Year 4		-	-	-	-			-
Year 5		-	-	-	-			-
Year 6		-	-	-	-			-
Year 7		-	-	-	-			-
Year 8		-	-	-	-			-
Year 9		-	-	-	-			-
Year 10		-	-	-	-			-
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	-	-	-	-			-
Year 12		-	-	-	-			-
Year 13		-	-	-	-			-
Year 14		-	-	-	-			-
Year 15		-	-	-	-			-
Year 16		-	-	-	-			-
Year 17		-	-	-	-			-
Year 18		-	-	-	-			-
Year 19		-	-	-	-			-
Year 20		-	-	-	-			-
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	-	-	-	-			-
Year 22		-	-	-	-			-
Year 23		-	-	-	-			-
Year 24		-	-	-	-			-
Year 25		-	-	-	-			-
Year 26		-	-	-	-			-
Year 27		-	-	-	-			-
Year 28		-	-	-	-			-
Year 29		-	-	-	-			-
Year 30	Death of founder (at end of year)	-	-	-	-			-

Table 31 (continued)

TRUST 2A and 2B COMBINED CAPITAL: (4 beneficiaries in each trust: 2 parents, 2 children)

		Annual capital growth:	**10%**					
		A	B	C	D	E	F	G
		A = column G of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 2a and 2b income + tax schedule)	D = A + B + C	E : refer F for explanation	F	G = D + E
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash distributions to pay tax**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 31		-	-	-	-			-
Year 32		-	-	-	-			-
Year 33		-	-	-	-			-
Year 34		-	-	-	-			-
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	(18 870 764)	CGT due on restructuring reduces intital investment amount Refer Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule, column A, Yr 35	45 328 721
Year 36		45 328 721	4 532 872	(929 239)	48 932 354			48 932 354
Year 37		48 932 354	4 893 235	(1 003 113)	52 822 476			52 822 476
Year 38		52 822 476	5 282 248	(1 082 861)	57 021 863			57 021 863
Year 39		57 021 863	5 702 186	(1 168 948)	61 555 101			61 555 101
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	61 555 101	6 155 510	(1 261 880)	66 448 731	24 804 705	Remainder of capital from Trust 1 LESS CGT due on distribution Capital: Refer Trust 1: Capital schedule, column F, Yr 40 LESS CGT: Refer Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule, column A, Yr 40	91 253 437
Year 41		91 253 437	9 125 344	(1 870 695)	98 508 085			98 508 085
Year 42		98 508 085	9 850 809	(2 019 416)	106 339 478			106 339 478
Year 43		106 339 478	10 633 948	(2 179 959)	114 793 466			114 793 466
Year 44		114 793 466	11 479 347	(2 353 266)	123 919 547			123 919 547
Year 45		123 919 547	12 391 955	(2 540 351)	133 771 151			133 771 151
Year 46		133 771 151	13 377 115	(2 742 309)	144 405 957			144 405 957
Year 47		144 405 957	14 440 596	(2 960 322)	155 886 231			155 886 231
Year 48		155 886 231	15 588 623	(3 195 668)	168 279 186			168 279 186
Year 49		168 279 186	16 827 919	(3 449 723)	181 657 382			181 657 382
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	181 657 382	18 165 738	(3 723 976)	196 099 143	(196 099 143)	All assets in each trust sold to form new trust structures. Capital distribution to new trusts (not deducted in order to show total remaining wealth less CGT effect of restructuring)	154 782 388
		154 782 388	-	-	154 782 388	(41 316 755)	CGT due on 2nd restructuring reduces remaining investment amount Refer Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule, column A, Yr 50	154 782 388

Table 32 – Comparison 2 (Trust scenario): Trust 1 income and income tax (excluding CGT)

TRUST 1: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

Column L value transferred to column C of Trust 1: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 1: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B / 4 Yr 31+: = 0	D : 41% (taxed in trust regardless of distribution)	E = C x D	F: Yr 1 - 30: = B / 4 Yr 31 - 35: = B / 3 Yr 35 - 40: = B	G : 41% (taxed in trust regardless of distribution)	H = F x G	I : Yr 1 -30: = B / 2 Yr 31 - 35: = B x 2/3 Yr 36+: = 0	J : 41% (taxed in trust regardless of distribution)	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	Transfer of assets to Trust 1													
Year 1		10 000 000	500 000	125 000	41.0%	51 250	125 000	41.0%	51 250	250 000	41.0%	102 500	205 000	41.0%
Year 2		10 795 000	539 750	134 938	41.0%	55 324	134 938	41.0%	55 324	269 875	41.0%	110 649	221 298	41.0%
Year 3		11 653 203	582 660	145 665	41.0%	59 723	145 665	41.0%	59 723	291 330	41.0%	119 445	238 891	41.0%
Year 4		12 579 632	628 982	157 245	41.0%	64 471	157 245	41.0%	64 471	314 491	41.0%	128 941	257 882	41.0%
Year 5		13 579 713	678 986	169 746	41.0%	69 596	169 746	41.0%	69 596	339 493	41.0%	139 192	278 384	41.0%
Year 6		14 659 300	732 965	183 241	41.0%	75 129	183 241	41.0%	75 129	366 483	41.0%	150 258	300 516	41.0%
Year 7		15 824 714	791 236	197 809	41.0%	81 102	197 809	41.0%	81 102	395 618	41.0%	162 203	324 407	41.0%
Year 8		17 082 779	854 139	213 535	41.0%	87 549	213 535	41.0%	87 549	427 069	41.0%	175 098	350 197	41.0%
Year 9		18 440 860	922 043	230 511	41.0%	94 509	230 511	41.0%	94 509	461 022	41.0%	189 019	378 038	41.0%
Year 10		19 906 908	995 345	248 836	41.0%	102 023	248 836	41.0%	102 023	497 673	41.0%	204 046	408 092	41.0%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	21 489 508	1 074 475	268 619	41.0%	110 134	268 619	41.0%	110 134	537 238	41.0%	220 267	440 535	41.0%
Year 12		23 197 924	1 159 896	289 974	41.0%	118 889	289 974	41.0%	118 889	579 948	41.0%	237 779	475 557	41.0%
Year 13		25 042 159	1 252 108	313 027	41.0%	128 341	313 027	41.0%	128 341	626 054	41.0%	256 682	513 364	41.0%
Year 14		27 033 010	1 351 651	337 913	41.0%	138 544	337 913	41.0%	138 544	675 825	41.0%	277 088	554 177	41.0%
Year 15		29 182 134	1 459 107	364 777	41.0%	149 558	364 777	41.0%	149 558	729 553	41.0%	299 117	598 234	41.0%
Year 16		31 502 114	1 575 106	393 776	41.0%	161 448	393 776	41.0%	161 448	787 553	41.0%	322 897	645 793	41.0%
Year 17		34 006 532	1 700 327	425 082	41.0%	174 283	425 082	41.0%	174 283	850 163	41.0%	348 567	697 134	41.0%
Year 18		36 710 051	1 835 503	458 876	41.0%	188 139	458 876	41.0%	188 139	917 751	41.0%	376 278	752 556	41.0%
Year 19		39 628 501	1 981 425	495 356	41.0%	203 096	495 356	41.0%	203 096	990 713	41.0%	406 192	812 384	41.0%
Year 20		42 778 966	2 138 948	534 737	41.0%	219 242	534 737	41.0%	219 242	1 069 474	41.0%	438 484	876 969	41.0%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	46 179 894	2 308 995	577 249	41.0%	236 672	577 249	41.0%	236 672	1 154 497	41.0%	473 344	946 688	41.0%
Year 22		48 351 196	2 417 560	604 390	41.0%	247 800	604 390	41.0%	247 800	1 208 780	41.0%	495 600	991 200	41.0%
Year 23		50 605 116	2 530 256	632 564	41.0%	259 351	632 564	41.0%	259 351	1 265 128	41.0%	518 702	1 037 405	41.0%
Year 24		52 942 823	2 647 141	661 785	41.0%	271 332	661 785	41.0%	271 332	1 323 571	41.0%	542 664	1 085 328	41.0%

Table 32 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 1: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B / 4 Yr 31+: = 0	D : 41% (taxed in trust regardless of distribution)	E = C x D	F: Yr 1 - 30: = B / 4 Yr 31 - 35: = B / 3 Yr 35 - 40: = B	G : 41% (taxed in trust regardless of distribution)	H = F x G	I: Yr 1 -30: = B / 2 Yr 31 - 35: = B x 2/3 Yr 36+: = 0	J : 41% (taxed in trust regardless of distribution)	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 25		55 365 253	2 768 263	692 066	41.0%	283 747	692 066	41.0%	283 747	1 384 131	41.0%	567 494	1 134 988	41.0%
Year 26		57 873 075	2 893 654	723 413	41.0%	296 600	723 413	41.0%	296 600	1 446 827	41.0%	593 199	1 186 398	41.0%
Year 27		60 466 646	3 023 332	755 833	41.0%	309 892	755 833	41.0%	309 892	1 511 666	41.0%	619 783	1 239 566	41.0%
Year 28		63 145 966	3 157 298	789 325	41.0%	323 623	789 325	41.0%	323 623	1 578 649	41.0%	647 246	1 294 492	41.0%
Year 29		65 910 625	3 295 531	823 883	41.0%	337 792	823 883	41.0%	337 792	1 647 766	41.0%	675 584	1 351 168	41.0%
Year 30	Death of founder (at end of year)	68 759 747	3 437 987	859 497	41.0%	352 394	859 497	41.0%	352 394	1 718 994	41.0%	704 787	1 409 575	41.0%
Year 31		71 691 929	3 584 596	-	-	-	1 194 865	41.0%	489 895	2 389 731	41.0%	979 790	1 469 685	41.0%
Year 32		76 048 301	3 802 415	-	-	-	1 267 472	41.0%	519 663	2 534 943	41.0%	1 039 327	1 558 990	41.0%
Year 33		80 670 417	4 033 521	-	-	-	1 344 507	41.0%	551 248	2 689 014	41.0%	1 102 496	1 653 744	41.0%
Year 34		85 574 568	4 278 728	-	-	-	1 426 243	41.0%	584 760	2 852 486	41.0%	1 169 519	1 754 279	41.0%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	90 778 050	4 538 903	-	-	-	1 512 968	41.0%	620 317	3 025 935	41.0%	1 240 633	1 860 950	41.0%
Year 36		32 099 742	1 604 987	-	-	-	1 604 987	41.0%	658 045	-	-	-	658 045	41.0%
Year 37		32 854 253	1 642 713	-	-	-	1 642 713	41.0%	673 512	-	-	-	673 512	41.0%
Year 38		33 560 903	1 678 045	-	-	-	1 678 045	41.0%	687 999	-	-	-	687 999	41.0%
Year 39		34 209 415	1 710 471	-	-	-	1 710 471	41.0%	701 293	-	-	-	701 293	41.0%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	34 788 309	1 739 415	-	-	-	1 739 415	41.0%	713 160	-	-	-	713 160	41.0%
Year 41		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 42		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 43		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 44		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 45		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 46		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 47		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 48		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 49		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 33 – Comparison 2 (Trust scenario): Trust 2a and 2b combined income and income tax (excluding CGT)

TRUSTS 2a and 2b: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

		A	B	C	D	E	F	G	H	I	J	K	L	M
													Column L value transferred to column C of Trust 2a and 2b combined: Capital schedule	
		A =Column A of Trust 2a and 2b combined: Capital schedule	B = A x 0.05	C : Yr 36 - 50: = B / 4	D : 41% (taxed in trust regardless of distribution)	E = C x D	F: Yr 36 - 50: = B / 4	G : 41% (taxed in trust regardless of distribution)	H = F x G	I : Yr 36 -50: = B / 2	J : 41% (taxed in trust regardless of distribution)	K = I x J	L = E + H + K	M = (L / B) %
	Annual taxable income generated:		5%	Founders (x2)			Spouse (x2)			Children (2 x 2 = 4)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 2)	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 4)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	Transfer of assets to Trust 1													
Year 1		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 2		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 3		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 4		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 5		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 6		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 7		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 8		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 9		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 10		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 12		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 13		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 14		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 15		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 16		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 17		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 18		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 19		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 20		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 22		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 23		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 24		-	-	-	-	-	-	-	-	-	-	-	-	-

Table 33 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 2a and 2b combined: Capital schedule	B = A x 0.05	C : Yr 36 - 50: = B / 4	D : 41% (taxed in trust regardless of distribution)	E = C x D	F: Yr 36 - 50: = B / 4	G : 41% (taxed in trust regardless of distribution)	H = F x G	I : Yr 36 -50: = B / 2	J : 41% (taxed in trust regardless of distribution)	K = I x J	L = E + H + K	M = (L / B) %
	Annual taxable income generated:		5%	Founders (x2)			Spouse (x2)			Children (2 x 2 = 4)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 2)	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 4)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 25		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 26		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 27		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 28		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 29		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 30	Death of founder (at end of year)	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 31		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 32		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 33		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 34		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 36		45 328 721	2 266 436	566 609	41.0%	232 310	566 609	41.0%	232 310	1 133 218	41.0%	464 619	929 239	41.0%
Year 37		48 932 354	2 446 618	611 654	41.0%	250 778	611 654	41.0%	250 778	1 223 309	41.0%	501 557	1 003 113	41.0%
Year 38		52 822 476	2 641 124	660 281	41.0%	270 715	660 281	41.0%	270 715	1 320 562	41.0%	541 430	1 082 861	41.0%
Year 39		57 021 863	2 851 093	712 773	41.0%	292 237	712 773	41.0%	292 237	1 425 547	41.0%	584 474	1 168 948	41.0%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	61 555 101	3 077 755	769 439	41.0%	315 470	769 439	41.0%	315 470	1 538 878	41.0%	630 940	1 261 880	41.0%
Year 41		91 253 437	4 562 672	1 140 668	41.0%	467 674	1 140 668	41.0%	467 674	2 281 336	41.0%	935 348	1 870 695	41.0%
Year 42		98 508 085	4 925 404	1 231 351	41.0%	504 854	1 231 351	41.0%	504 854	2 462 702	41.0%	1 009 708	2 019 416	41.0%
Year 43		106 339 478	5 316 974	1 329 243	41.0%	544 990	1 329 243	41.0%	544 990	2 658 487	41.0%	1 089 980	2 179 959	41.0%
Year 44		114 793 466	5 739 673	1 434 918	41.0%	588 317	1 434 918	41.0%	588 317	2 869 837	41.0%	1 176 633	2 353 266	41.0%
Year 45		123 919 547	6 195 977	1 548 994	41.0%	635 088	1 548 994	41.0%	635 088	3 097 989	41.0%	1 270 175	2 540 351	41.0%
Year 46		133 771 151	6 688 558	1 672 139	41.0%	685 577	1 672 139	41.0%	685 577	3 344 279	41.0%	1 371 154	2 742 309	41.0%
Year 47		144 405 957	7 220 298	1 805 074	41.0%	740 081	1 805 074	41.0%	740 081	3 610 149	41.0%	1 480 161	2 960 322	41.0%
Year 48		155 886 231	7 794 312	1 948 578	41.0%	798 917	1 948 578	41.0%	798 917	3 897 156	41.0%	1 597 834	3 195 668	41.0%
Year 49		168 279 186	8 413 959	2 103 490	41.0%	862 431	2 103 490	41.0%	862 431	4 206 980	41.0%	1 724 862	3 449 723	41.0%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	181 657 382	9 082 869	2 270 717	41.0%	930 994	2 270 717	41.0%	930 994	4 541 435	41.0%	1 861 988	3 723 976	41.0%

Table 34 – Comparison 2 (Trust scenario): Other taxes – CGT on transfers and disposals

TRUST 1, 2a and 2b: OTHER TAXES (CGT and Estate duty) - CGT on transfers and disposals

Annual exemption and inclusion %:	**Trust:**	**-**	**80%**
Annual exemption and inclusion %:	**Individual:**	**40 000**	**40%**

		CGT on transfer							
		A	B	C	D	E	F	G	H
		A = B x G x F x (C - D - E)	B: refer H	C: refer H	D: refer H	E = 40000	F = 0.4 (Individual) / 0.8 (Trust)	G: refer H	H
Year	Scenario event	CGT on transfer (total for all persons)	No. of persons	Proceeds (per person)	Base cost (per person)	Annual exemption	Inclusion %	Income tax rate	Description
Year 0	Transfer of assets to Trust 1	**753 920**	**1**	10 000 000	5 000 000	40 000	40.0%	38.0%	**- CGT on transfer of assets to Trust 1.** - Base cost and Proceeds as per starting parameter assumptions - Income tax rate equals assumption for income tax of founder at start of trust. ***- Inclusion rate: individual***
Year 35	**Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1**	**18 870 764**	**2**	32 099 742	3 333 333	-	80.0%	41.0%	**- CGT on distribution of 2/3rds of Trust 1 assets to 2 children (1/3 each) to set up own trusts (Trusts 2a and 2b).** - Base cost equals 1/3 of initial funding in Year 0. - Proceeds equals half of trust capital distributed per Trust 1: Capital schedule, column F, Yr 35 - Assume maximum income tax rate due to additional taxable income. ***- Inclusion rate: Trust***
Year 40	**Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans**	**10 480 074**	**2**	17 642 390	1 666 667	-	80.0%	41.0%	**- CGT on distribution of remainder of Trust 1 assets to 2 children (1/2 each) to be sold to trusts (Trusts 2a and 2b).** - Base cost equals 1/3 of initial funding in Year 0 divided by 2 (per child). - Proceeds equals half of trust capital distributed per Trust 1: Capital schedule, column F, Yr 40 - Assume maximum income tax rate due to additional taxable income. ***- Inclusion rate: Trust***
Year 50	**Further restructuring for 3rd generation (sale of all trust assets)**	**41 316 755**	**8**	24 512 393	8 766 678	-	80.0%	41.0%	**- CGT on distribution of all trust assets in Trust 2a and 2b for restructuring of trusts.** - Base cost equals initial funding into Trusts 2a and 2b in year 36 plus additional funding transferred in year 40 divided by 8 beneficiaries (2 families of 4 people each): add value in Trust 2a and 2b: Capital schedule, column A, Yr 35 and value in Trust 2a and 2b: Capital schedule, column E, Yr 40; divide sum by 8 - Proceeds equals Trust 2a and 2b: Capital schedule, column D, Yr 50 divided by 8 - Assume maximum income tax rate due to additional taxable income. ***- Inclusion rate: Trust***

Table 35 – Comparison 2 (Trust scenario): Other taxes – Taxes on death

TRUST 1, 2a and 2b: OTHER TAXES (CGT and Estate duty) - Taxes on death

s 4A abatement and estate duty %: 6 000 000 20%

			Estate duty on death						
		A	B	C	D	E	F	G	H
		A = B + I	B = F x G	C: refer H	D: refer H	E = 6000000	F = C - D - E	G = 0.2	H
Year	Scenario event	TOTAL TAXES ON DEATH	ESTATE DUTY ON DEATH	Estate asset value	Deductions (if bequeathed to spouse, s 4(q) deduction)	Estate duty abatement (s 4A)	Dutiable estate	Estate duty rate	Description
Year 30	Death of founder (at end of year)	-	-	4 671 517	-	(4 671 517)	-	20.0%	Estate duty on loan account to Trust 1 - Refer Trust 1: loan accounts (founder) schedule, Column F, Yr 30
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	-	-	-	-	-	20.0%	No estate duty on loan account to Trust 1 (no loan account left)

Annual exemption and inclusion %: 300 000 40%

		CGT on death							
		I	J	K	L	M	N	O	P
		I = J x O x N x (K - L - M)	J: refer P	K: refer P	L: refer P	M = 300000	N = 0.4	O: refer P	P
Year	Scenario event	CGT ON DEATH	No. of persons	Proceeds (per person)	Base cost (per person)	Exemption in year of death	Inclusion %	Income tax rate	Description
Year 30	Death of founder (at end of year)	-							No CGT on loan account (*donatio mortis causa* or base cost = proceeds) Payment of estate duty from trust asset also assumed to be from cash reserves therefore no additional CGT due to disposal
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-							No CGT on loan account (no loan account amount left)

Table 36 – Comparison 2 (Trust scenario): Trust 1 loan account – founder

TRUST 1: LOAN ACCOUNT: Founder

Annual donation free of donations tax: 100 000

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column C of Trust 1: Income and income tax schedule	C = Column E of Trust 1: Income and income tax schedule	D = Founder's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	Scenario event	Loan account: founder (start of year)	Distributions of income on loan account	LESS Cash withdrawal - tax on distribution	LESS Cash withdrawal - post-retirement withdrawals	Annual donation (max R100,000)	Loan account: founder (end of year)	Adjustments	Description	Trust 1 capital (end of year)	Loan account as percentage of Trust 1 capital
Year 0	Transfer of assets to Trust 1						10 000 000			10 000 000	100%
Year 1		10 000 000	125 000	(51 250)	-	(100 000)	9 973 750			10 795 000	92%
Year 2		9 973 750	134 938	(55 324)	-	(100 000)	9 953 363			11 653 203	85%
Year 3		9 953 363	145 665	(59 723)	-	(100 000)	9 939 305			12 579 632	79%
Year 4		9 939 305	157 245	(64 471)	-	(100 000)	9 932 080			13 579 713	73%
Year 5		9 932 080	169 746	(69 596)	-	(100 000)	9 932 231			14 659 300	68%
Year 6		9 932 231	183 241	(75 129)	-	(100 000)	9 940 343			15 824 714	63%
Year 7		9 940 343	197 809	(81 102)	-	(100 000)	9 957 050			17 082 779	58%
Year 8		9 957 050	213 535	(87 549)	-	(100 000)	9 983 036			18 440 860	54%
Year 9		9 983 036	230 511	(94 509)	-	(100 000)	10 019 037			19 906 908	50%
Year 10		10 019 037	248 836	(102 023)	-	(100 000)	10 065 851			21 489 508	47%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	10 065 851	268 619	(110 134)	-	(100 000)	10 124 336			23 197 924	44%
Year 12		10 124 336	289 974	(118 889)	-	(100 000)	10 195 420			25 042 159	41%
Year 13		10 195 420	313 027	(128 341)	-	(100 000)	10 280 106			27 033 010	38%
Year 14		10 280 106	337 913	(138 544)	-	(100 000)	10 379 475			29 182 134	36%
Year 15		10 379 475	364 777	(149 558)	-	(100 000)	10 494 693			31 502 114	33%
Year 16		10 494 693	393 776	(161 448)	-	(100 000)	10 627 021			34 006 532	31%
Year 17		10 627 021	425 082	(174 283)	-	(100 000)	10 777 819			36 710 051	29%
Year 18		10 777 819	458 876	(188 139)	-	(100 000)	10 948 556			39 628 501	28%
Year 19		10 948 556	495 356	(203 096)	-	(100 000)	11 140 816			42 778 966	26%
Year 20		11 140 816	534 737	(219 242)	-	(100 000)	11 356 311			46 179 894	25%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	11 356 311	577 249	(236 672)	(750 000)	(100 000)	10 846 888			48 351 196	22%
Year 22		10 846 888	604 390	(247 800)	(795 000)	(100 000)	10 308 478			50 605 116	20%
Year 23		10 308 478	632 564	(259 351)	(842 700)	(100 000)	9 738 990			52 942 823	18%
Year 24		9 738 990	661 785	(271 332)	(893 262)	(100 000)	9 136 182			55 365 253	17%

Table 36 (continued)

Annual donation free of donations tax: 100 000

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column C of Trust 1: Income and income tax schedule	C = Column E of Trust 1: Income and income tax schedule	D = Founder's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	Scenario event	Loan account: founder (start of year)	Distributions of income on loan account	LESS Cash withdrawal - tax on distribution	LESS Cash withdrawal - post-retirement withdrawals	Annual donation (max R100,000)	Loan account: founder (end of year)	Adjustments	Description	Trust 1 capital (end of year)	Loan account as percentage of Trust 1 capital
Year 25		9 136 182	692 066	(283 747)	(946 858)	(100 000)	8 497 643			57 873 075	15%
Year 26		8 497 643	723 413	(296 600)	(1 003 669)	(100 000)	7 820 788			60 466 646	13%
Year 27		7 820 788	755 833	(309 892)	(1 063 889)	(100 000)	7 102 840			63 145 966	11%
Year 28		7 102 840	789 325	(323 623)	(1 127 723)	(100 000)	6 340 819			65 910 625	10%
Year 29		6 340 819	823 883	(337 792)	(1 195 386)	(100 000)	5 531 523			68 759 747	8%
Year 30	Death of founder (at end of year)	5 531 523	859 497	(352 394)	(1 267 109)	(100 000)	4 671 517	(4 671 517)	Founder bequeaths loan account to Trust 1	71 691 929	7%
Year 31		-	-	-	-	-	-				
Year 32		-	-	-	-	-	-				
Year 33		-	-	-	-	-	-				
Year 34		-	-	-	-	-	-				
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	-	-				
Year 36		-	-	-	-	-	-				
Year 37		-	-	-	-	-	-				
Year 38		-	-	-	-	-	-				
Year 39		-	-	-	-	-	-				
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	-	-	-	-	-				
Year 41		-	-	-	-	-	-				
Year 42		-	-	-	-	-	-				
Year 43		-	-	-	-	-	-				
Year 44		-	-	-	-	-	-				
Year 45		-	-	-	-	-	-				
Year 46		-	-	-	-	-	-				
Year 47		-	-	-	-	-	-				
Year 48		-	-	-	-	-	-				
Year 49		-	-	-	-	-	-				
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-				

Table 37 – Comparison 2 (Trust scenario): Trust 1 loan account – spouse

TRUST 1: LOAN ACCOUNT: Spouse

						100 000					
		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column F of Trust 1: Income and income tax schedule	C = Column H of Trust 1: Income and income tax schedule	D = Spouse's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	Scenario event	Loan account: spouse (start of year)	Distributions of income on loan account	LESS Cash withdrawal - tax on distribution	LESS Cash withdrawal - post-retirement withdrawals	Annual donation (max R100,000)	Loan account: spouse (end of year)	Adjustments	Description	Trust 1 capital (end of year)	Loan account as percentage of Trust 1 capital
Year 0	Transfer of assets to Trust 1						-			10 000 000	0%
Year 1		-	125 000	(51 250)	-	(73 750)	-			10 795 000	0%
Year 2		-	134 938	(55 324)	-	(79 613)	-			11 653 203	0%
Year 3		-	145 665	(59 723)	-	(85 942)	-			12 579 632	0%
Year 4		-	157 245	(64 471)	-	(92 775)	-			13 579 713	0%
Year 5		-	169 746	(69 596)	-	(100 000)	150			14 659 300	0%
Year 6		150	183 241	(75 129)	-	(100 000)	8 263			15 824 714	0%
Year 7		8 263	197 809	(81 102)	-	(100 000)	24 970			17 082 779	0%
Year 8		24 970	213 535	(87 549)	-	(100 000)	50 955			18 440 860	0%
Year 9		50 955	230 511	(94 509)	-	(100 000)	86 957			19 906 908	0%
Year 10		86 957	248 836	(102 023)	-	(100 000)	133 770			21 489 508	1%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	133 770	268 619	(110 134)	-	(100 000)	192 255			23 197 924	1%
Year 12		192 255	289 974	(118 889)	-	(100 000)	263 340			25 042 159	1%
Year 13		263 340	313 027	(128 341)	-	(100 000)	348 026			27 033 010	1%
Year 14		348 026	337 913	(138 544)	-	(100 000)	447 394			29 182 134	2%
Year 15		447 394	364 777	(149 558)	-	(100 000)	562 613			31 502 114	2%
Year 16		562 613	393 776	(161 448)	-	(100 000)	694 941			34 006 532	2%
Year 17		694 941	425 082	(174 283)	-	(100 000)	845 739			36 710 051	2%
Year 18		845 739	458 876	(188 139)	-	(100 000)	1 016 476			39 628 501	3%
Year 19		1 016 476	495 356	(203 096)	-	(100 000)	1 208 736			42 778 966	3%
Year 20		1 208 736	534 737	(219 242)	-	(100 000)	1 424 231			46 179 894	3%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	1 424 231	577 249	(236 672)	(750 000)	(100 000)	914 807			48 351 196	2%
Year 22		914 807	604 390	(247 800)	(795 000)	(100 000)	376 397			50 605 116	1%
Year 23		376 397	632 564	(259 351)	(842 700)	-	-			52 942 823	0%
Year 24		-	661 785	(271 332)	(893 262)	-	-			55 365 253	0%

Table 37 (continued)

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column F of Trust 1: Income and income tax schedule	C = Column H of Trust 1: Income and income tax schedule	D = Spouse's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	Scenario event	Loan account: spouse (start of year)	Distributions of income on loan account	LESS Cash withdrawal - tax on distribution	LESS Cash withdrawal - post-retirement withdrawals	Annual donation (max R100,000)	Loan account: spouse (end of year)	Adjustments	Description	Trust 1 capital (end of year)	Loan account as percentage of Trust 1 capital
Year 25		-	692 066	(283 747)	(946 858)	-	-			57 873 075	0%
Year 26		-	723 413	(296 600)	(1 003 669)	-	-			60 466 646	0%
Year 27		-	755 833	(309 892)	(1 063 889)	-	-			63 145 966	0%
Year 28		-	789 325	(323 623)	(1 127 723)	-	-			65 910 625	0%
Year 29		-	823 883	(337 792)	(1 195 386)	-	-			68 759 747	0%
Year 30	Death of founder (at end of year)	-	859 497	(352 394)	(1 267 109)	-	-			71 691 929	0%
Year 31		-	1 194 865	(489 895)	(1 343 136)	-	-			76 048 301	0%
Year 32		-	1 267 472	(519 663)	(1 423 724)	-	-			80 670 417	0%
Year 33		-	1 344 507	(551 248)	(1 509 147)	-	-			85 574 568	0%
Year 34		-	1 426 243	(584 760)	(1 599 696)	-	-			90 778 050	0%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	1 512 968	(620 317)	(1 695 678)	-	-			96 299 227	0%
Year 36		-	1 604 987	(658 045)	(1 797 419)	-	-			32 854 253	0%
Year 37		-	1 642 713	(673 512)	(1 905 264)	-	-			33 560 903	0%
Year 38		-	1 678 045	(687 999)	(2 019 580)	-	-			34 209 415	0%
Year 39		-	1 710 471	(701 293)	(2 140 754)	-	-			34 788 309	0%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	1 739 415	(713 160)	(2 269 200)	-	-	-	Spouse bequeaths loan account to Trust 1	35 284 780	0%
Year 41		-	-	-	-	-	-				
Year 42		-	-	-	-	-	-				
Year 43		-	-	-	-	-	-				
Year 44		-	-	-	-	-	-				
Year 45		-	-	-	-	-	-				
Year 46		-	-	-	-	-	-				
Year 47		-	-	-	-	-	-				
Year 48		-	-	-	-	-	-				
Year 49		-	-	-	-	-	-				
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-				

Table 38 – Comparison 2 (Trust scenario): Trust summary calculated using capital year-end values BEFORE year-end adjustments

TRUSTS - SUMMARY (using capital year-end values BEFORE year-end adjustments)

		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column E of Trust 1: Capital schedule	B = Column D of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, BEFORE adjustments)	Trust 2a + 2b capital (end of year, BEFORE adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 0	Transfer of assets to Trust 1	10 000 000	-	10 000 000	-	-	753 920	-	753 920	753 920	7.54%	753 920	7.54%
Year 1		10 795 000	-	10 795 000	205 000	-	-	-	205 000	958 920	8.88%	753 920	6.98%
Year 2		11 653 203	-	11 653 203	221 298	-	-	-	221 298	1 180 218	10.13%	753 920	6.47%
Year 3		12 579 632	-	12 579 632	238 891	-	-	-	238 891	1 419 108	11.28%	753 920	5.99%
Year 4		13 579 713	-	13 579 713	257 882	-	-	-	257 882	1 676 991	12.35%	753 920	5.55%
Year 5		14 659 300	-	14 659 300	278 384	-	-	-	278 384	1 955 375	13.34%	753 920	5.14%
Year 6		15 824 714	-	15 824 714	300 516	-	-	-	300 516	2 255 890	14.26%	753 920	4.76%
Year 7		17 082 779	-	17 082 779	324 407	-	-	-	324 407	2 580 297	15.10%	753 920	4.41%
Year 8		18 440 860	-	18 440 860	350 197	-	-	-	350 197	2 930 494	15.89%	753 920	4.09%
Year 9		19 906 908	-	19 906 908	378 038	-	-	-	378 038	3 308 532	16.62%	753 920	3.79%
Year 10		21 489 508	-	21 489 508	408 092	-	-	-	408 092	3 716 623	17.30%	753 920	3.51%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	23 197 924	-	23 197 924	440 535	-	-	-	440 535	4 157 158	17.92%	753 920	3.25%
Year 12		25 042 159	-	25 042 159	475 557	-	-	-	475 557	4 632 716	18.50%	753 920	3.01%
Year 13		27 033 010	-	27 033 010	513 364	-	-	-	513 364	5 146 080	19.04%	753 920	2.79%
Year 14		29 182 134	-	29 182 134	554 177	-	-	-	554 177	5 700 257	19.53%	753 920	2.58%
Year 15		31 502 114	-	31 502 114	598 234	-	-	-	598 234	6 298 490	19.99%	753 920	2.39%
Year 16		34 006 532	-	34 006 532	645 793	-	-	-	645 793	6 944 284	20.42%	753 920	2.22%
Year 17		36 710 051	-	36 710 051	697 134	-	-	-	697 134	7 641 418	20.82%	753 920	2.05%
Year 18		39 628 501	-	39 628 501	752 556	-	-	-	752 556	8 393 974	21.18%	753 920	1.90%
Year 19		42 778 966	-	42 778 966	812 384	-	-	-	812 384	9 206 358	21.52%	753 920	1.76%
Year 20		46 179 894	-	46 179 894	876 969	-	-	-	876 969	10 083 327	21.83%	753 920	1.63%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	48 351 196	-	48 351 196	946 688	-	-	-	946 688	11 030 015	22.81%	753 920	1.56%
Year 22		50 605 116	-	50 605 116	991 200	-	-	-	991 200	12 021 214	23.75%	753 920	1.49%
Year 23		52 942 823	-	52 942 823	1 037 405	-	-	-	1 037 405	13 058 619	24.67%	753 920	1.42%
Year 24		55 365 253	-	55 365 253	1 085 328	-	-	-	1 085 328	14 143 947	25.55%	753 920	1.36%

Table 38 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column E of Trust 1: Capital schedule	B = Column D of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, BEFORE adjustments)	Trust 2a + 2b capital (end of year, BEFORE adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 25		57 873 075	-	57 873 075	1 134 988	-	-	-	1 134 988	15 278 934	26.40%	753 920	1.30%
Year 26		60 466 646	-	60 466 646	1 186 398	-	-	-	1 186 398	16 465 332	27.23%	753 920	1.25%
Year 27		63 145 966	-	63 145 966	1 239 566	-	-	-	1 239 566	17 704 899	28.04%	753 920	1.19%
Year 28		65 910 625	-	65 910 625	1 294 492	-	-	-	1 294 492	18 999 391	28.83%	753 920	1.14%
Year 29		68 759 747	-	68 759 747	1 351 168	-	-	-	1 351 168	20 350 559	29.60%	753 920	1.10%
Year 30	Death of founder (at end of year)	71 691 929	-	71 691 929	1 409 575	-	-	-	1 409 575	21 760 134	30.35%	753 920	1.05%
Year 31		76 048 301	-	76 048 301	1 469 685	-	-	-	1 469 685	23 229 818	30.55%	753 920	0.99%
Year 32		80 670 417	-	80 670 417	1 558 990	-	-	-	1 558 990	24 788 808	30.73%	753 920	0.93%
Year 33		85 574 568	-	85 574 568	1 653 744	-	-	-	1 653 744	26 442 552	30.90%	753 920	0.88%
Year 34		90 778 050	-	90 778 050	1 754 279	-	-	-	1 754 279	28 196 831	31.06%	753 920	0.83%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	96 299 227	-	96 299 227	1 860 950	-	18 870 764	-	20 731 714	48 928 545	50.81%	19 624 684	20.38%
Year 36		32 854 253	48 932 354	81 786 607	658 045	929 239	-	-	1 587 283	50 515 828	61.77%	19 624 684	23.99%
Year 37		33 560 903	52 822 476	86 383 379	673 512	1 003 113	-	-	1 676 625	52 192 454	60.42%	19 624 684	22.72%
Year 38		34 209 415	57 021 863	91 231 278	687 999	1 082 861	-	-	1 770 859	53 963 313	59.15%	19 624 684	21.51%
Year 39		34 788 309	61 555 101	96 343 410	701 293	1 168 948	-	-	1 870 241	55 833 554	57.95%	19 624 684	20.37%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	35 284 780	66 448 731	101 733 511	713 160	1 261 880	10 480 074	-	12 455 114	68 288 669	67.13%	30 104 759	29.59%
Year 41		-	98 508 085	98 508 085	-	1 870 695	-	-	1 870 695	70 159 364	71.22%	30 104 759	30.56%
Year 42		-	106 339 478	106 339 478	-	2 019 416	-	-	2 019 416	72 178 780	67.88%	30 104 759	28.31%
Year 43		-	114 793 466	114 793 466	-	2 179 959	-	-	2 179 959	74 358 739	64.78%	30 104 759	26.23%
Year 44		-	123 919 547	123 919 547	-	2 353 266	-	-	2 353 266	76 712 005	61.90%	30 104 759	24.29%
Year 45		-	133 771 151	133 771 151	-	2 540 351	-	-	2 540 351	79 252 356	59.24%	30 104 759	22.50%
Year 46		-	144 405 957	144 405 957	-	2 742 309	-	-	2 742 309	81 994 665	56.78%	30 104 759	20.85%
Year 47		-	155 886 231	155 886 231	-	2 960 322	-	-	2 960 322	84 954 987	54.50%	30 104 759	19.31%
Year 48		-	168 279 186	168 279 186	-	3 195 668	-	-	3 195 668	88 150 654	52.38%	30 104 759	17.89%
Year 49		-	181 657 382	181 657 382	-	3 449 723	-	-	3 449 723	91 600 378	50.42%	30 104 759	16.57%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	196 099 143	196 099 143	-	3 723 976	41 316 755	-	45 040 732	136 641 109	69.68%	71 421 514	36.42%

9.2.6 Comparison 2 – Personal estate scenario summary

Table 39 – Comparison 2 (Personal estate scenario): Capital value

PERSONAL ESTATE: ESTATE VALUE

Annual capital growtl 10%

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Personal estate: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	E: refer G	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash withdrawals to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 0	Assets kept in personal estate					10 000 000			10 000 000
Year 1		10 000 000	1 000 000	(190 000)	-	10 810 000			10 810 000
Year 2		10 810 000	1 081 000	(205 390)	-	11 685 610			11 685 610
Year 3		11 685 610	1 168 561	(222 027)	-	12 632 144			12 632 144
Year 4		12 632 144	1 263 214	(240 011)	-	13 655 348			13 655 348
Year 5		13 655 348	1 365 535	(259 452)	-	14 761 431			14 761 431
Year 6		14 761 431	1 476 143	(280 467)	-	15 957 107			15 957 107
Year 7		15 957 107	1 595 711	(303 185)	-	17 249 633			17 249 633
Year 8		17 249 633	1 724 963	(327 743)	-	18 646 853			18 646 853
Year 9		18 646 853	1 864 685	(354 290)	-	20 157 248			20 157 248
Year 10		20 157 248	2 015 725	(382 988)	-	21 789 985			21 789 985
Year 11	No event	21 789 985	2 178 999	(414 010)	-	23 554 974			23 554 974
Year 12		23 554 974	2 355 497	(447 545)	-	25 462 927			25 462 927
Year 13		25 462 927	2 546 293	(483 796)	-	27 525 424			27 525 424
Year 14		27 525 424	2 752 542	(522 983)	-	29 754 984			29 754 984
Year 15		29 754 984	2 975 498	(565 345)	-	32 165 137			32 165 137
Year 16		32 165 137	3 216 514	(611 138)	-	34 770 513			34 770 513
Year 17		34 770 513	3 477 051	(660 640)	-	37 586 925			37 586 925
Year 18		37 586 925	3 758 692	(714 152)	-	40 631 466			40 631 466
Year 19		40 631 466	4 063 147	(771 998)	-	43 922 615			43 922 615
Year 20		43 922 615	4 392 261	(834 530)	-	47 480 346			47 480 346
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	47 480 346	4 748 035	(902 127)	(1 500 000)	49 826 254			49 826 254
Year 22		49 826 254	4 982 625	(946 699)	(1 590 000)	52 272 181			52 272 181
Year 23		52 272 181	5 227 218	(993 171)	(1 685 400)	54 820 828			54 820 828
Year 24		54 820 828	5 482 083	(1 041 596)	(1 786 524)	57 474 791			57 474 791

Table 39 (continued)

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Personal estate: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	E: refer G	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash withdrawals to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 25		57 474 791	5 747 479	(1 092 021)	(1 893 715)	60 236 533			60 236 533
Year 26		60 236 533	6 023 653	(1 144 494)	(2 007 338)	63 108 354			63 108 354
Year 27		63 108 354	6 310 835	(1 199 490)	(2 127 779)	66 091 921			66 091 921
Year 28		66 091 921	6 609 192	(1 260 684)	(2 255 445)	69 184 983			69 184 983
Year 29		69 184 983	6 918 498	(1 323 971)	(2 390 772)	72 388 738			72 388 738
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	72 388 738	7 238 874	(1 389 392)	(2 534 218)	75 704 001	(13 940 800)	Reduced by estate duty and CGT due on death of founder / owner Refer Personal estate: Other taxes - Taxes on death schedule, column A, Yr 30	61 763 201
Year 31		61 763 201	6 176 320	(1 170 900)	(1 343 136)	65 425 486			65 425 486
Year 32		65 425 486	6 542 549	(1 246 538)	(1 423 724)	69 297 773			69 297 773
Year 33		69 297 773	6 929 777	(1 326 129)	(1 509 147)	73 392 273			73 392 273
Year 34		73 392 273	7 339 227	(1 409 967)	(1 599 696)	77 721 837			77 721 837
Year 35	No event	77 721 837	7 772 184	(1 498 347)	(1 695 678)	82 299 996			82 299 996
Year 36		82 299 996	8 230 000	(1 592 737)	(1 797 419)	87 139 840			87 139 840
Year 37		87 139 840	8 713 984	(1 692 147)	(1 905 264)	92 256 414			92 256 414
Year 38		92 256 414	9 225 641	(1 796 925)	(2 019 580)	97 665 551			97 665 551
Year 39		97 665 551	9 766 555	(1 907 429)	(2 140 754)	103 383 922			103 383 922
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	103 383 922	10 338 392	(2 024 951)	(2 269 200)	109 428 164	(37 762 652)	Reduced by estate duty and CGT due on death of spouse Refer Personal estate: Other taxes - Taxes on death schedule, column A, Yr 40	71 665 512
Year 41		71 665 512	7 166 551	(1 276 529)	-	77 555 535			77 555 535
Year 42		77 555 535	7 755 553	(1 397 900)	-	83 913 188			83 913 188
Year 43		83 913 188	8 391 319	(1 527 693)	-	90 776 814			90 776 814
Year 44		90 776 814	9 077 681	(1 671 163)	-	98 183 333			98 183 333
Year 45		98 183 333	9 818 333	(1 824 268)	-	106 177 398			106 177 398
Year 46		106 177 398	10 617 740	(1 988 184)	-	114 806 954			114 806 954
Year 47		114 806 954	11 480 695	(2 164 073)	-	124 123 577			124 123 577
Year 48		124 123 577	12 412 358	(2 356 208)	-	134 179 726			134 179 726
Year 49		134 179 726	13 417 973	(2 562 294)	-	145 035 405			145 035 405
Year 50	Sale of all assets by children	145 035 405	14 503 540	(2 783 735)	-	156 755 210	(13 941 591)	Reduced by CGT as result of sale Refer Personal estate: Other taxes - CGT on transfer schedule, column A, Yr 50	142 813 620

Table 40 – Comparison 2 (Personal estate scenario): Income and income tax (excluding CGT)

PERSONAL ESTATE: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Personal estate: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B Yr 31+: = 0	D = 38%, unless effective tax rate table gives higher amount	E = C x D	F: Yr 1 - 30: = 0 Yr 31 - 40: = B Yr 41 - 50: = 0	G = per effective tax rate table	H = F x G	I : Yr 1 -40: = 0 Yr 41 - 50: = B	J = per effective tax rate table	K = I x J	L = E + H + K (Column L value transferred to column C of Personal estate: Capital schedule)	M = (L / B) %
	Annual taxable income generated:		5%	Founder / Owner			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	*Assets kept in personal estate*													
Year 1		10 000 000	500 000	500 000	38.0%	190 000	-	0.0%	-	-	0.0%	-	190 000	38.0%
Year 2		10 810 000	540 500	540 500	38.0%	205 390	-	0.0%	-	-	0.0%	-	205 390	38.0%
Year 3		11 685 610	584 281	584 281	38.0%	222 027	-	0.0%	-	-	0.0%	-	222 027	38.0%
Year 4		12 632 144	631 607	631 607	38.0%	240 011	-	0.0%	-	-	0.0%	-	240 011	38.0%
Year 5		13 655 348	682 767	682 767	38.0%	259 452	-	0.0%	-	-	0.0%	-	259 452	38.0%
Year 6		14 761 431	738 072	738 072	38.0%	280 467	-	0.0%	-	-	0.0%	-	280 467	38.0%
Year 7		15 957 107	797 855	797 855	38.0%	303 185	-	0.0%	-	-	0.0%	-	303 185	38.0%
Year 8		17 249 633	862 482	862 482	38.0%	327 743	-	0.0%	-	-	0.0%	-	327 743	38.0%
Year 9		18 646 853	932 343	932 343	38.0%	354 290	-	0.0%	-	-	0.0%	-	354 290	38.0%
Year 10		20 157 248	1 007 862	1 007 862	38.0%	382 988	-	0.0%	-	-	0.0%	-	382 988	38.0%
Year 11	No event	21 789 985	1 089 499	1 089 499	38.0%	414 010	-	0.0%	-	-	0.0%	-	414 010	38.0%
Year 12		23 554 974	1 177 749	1 177 749	38.0%	447 545	-	0.0%	-	-	0.0%	-	447 545	38.0%
Year 13		25 462 927	1 273 146	1 273 146	38.0%	483 796	-	0.0%	-	-	0.0%	-	483 796	38.0%
Year 14		27 525 424	1 376 271	1 376 271	38.0%	522 983	-	0.0%	-	-	0.0%	-	522 983	38.0%
Year 15		29 754 984	1 487 749	1 487 749	38.0%	565 345	-	0.0%	-	-	0.0%	-	565 345	38.0%
Year 16		32 165 137	1 608 257	1 608 257	38.0%	611 138	-	0.0%	-	-	0.0%	-	611 138	38.0%
Year 17		34 770 513	1 738 526	1 738 526	38.0%	660 640	-	0.0%	-	-	0.0%	-	660 640	38.0%
Year 18		37 586 925	1 879 346	1 879 346	38.0%	714 152	-	0.0%	-	-	0.0%	-	714 152	38.0%
Year 19		40 631 466	2 031 573	2 031 573	38.0%	771 998	-	0.0%	-	-	0.0%	-	771 998	38.0%
Year 20		43 922 615	2 196 131	2 196 131	38.0%	834 530	-	0.0%	-	-	0.0%	-	834 530	38.0%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	47 480 346	2 374 017	2 374 017	38.0%	902 127	-	0.0%	-	-	0.0%	-	902 127	38.0%
Year 22		49 826 254	2 491 313	2 491 313	38.0%	946 699	-	0.0%	-	-	0.0%	-	946 699	38.0%
Year 23		52 272 181	2 613 609	2 613 609	38.0%	993 171	-	0.0%	-	-	0.0%	-	993 171	38.0%
Year 24		54 820 828	2 741 041	2 741 041	38.0%	1 041 596	-	0.0%	-	-	0.0%	-	1 041 596	38.0%

Table 40 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Personal estate: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B Yr 31+: = 0	D = 38%, unless effective tax rate table gives higher amount	E = C x D	F: Yr 1 - 30: = 0 Yr 31 - 40: = B Yr 41 - 50: = 0	G = per effective tax rate table	H = F x G	I : Yr 1 -40: = 0 Yr 41 - 50: = B	J = per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
	Annual taxable income generated:		5%	Founder / Owner			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 25		57 474 791	2 873 740	2 873 740	38.0%	1 092 021	-	0.0%	-	-	0.0%	-	1 092 021	38.0%
Year 26		60 236 533	3 011 827	3 011 827	38.0%	1 144 494	-	0.0%	-	-	0.0%	-	1 144 494	38.0%
Year 27		63 108 354	3 155 418	3 155 418	38.0%	1 199 490	-	0.0%	-	-	0.0%	-	1 199 490	38.0%
Year 28		66 091 921	3 304 596	3 304 596	38.1%	1 260 684	-	0.0%	-	-	0.0%	-	1 260 684	38.1%
Year 29		69 184 983	3 459 249	3 459 249	38.3%	1 323 971	-	0.0%	-	-	0.0%	-	1 323 971	38.3%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	72 388 738	3 619 437	3 619 437	38.4%	1 389 392	-	0.0%	-	-	0.0%	-	1 389 392	38.4%
Year 31		61 763 201	3 088 160	-	-	-	3 088 160	37.9%	1 170 900	-	0.0%	-	1 170 900	37.9%
Year 32		65 425 486	3 271 274	-	-	-	3 271 274	38.1%	1 246 538	-	0.0%	-	1 246 538	38.1%
Year 33		69 297 773	3 464 889	-	-	-	3 464 889	38.3%	1 326 129	-	0.0%	-	1 326 129	38.3%
Year 34		73 392 273	3 669 614	-	-	-	3 669 614	38.4%	1 409 967	-	0.0%	-	1 409 967	38.4%
Year 35	No event	77 721 837	3 886 092	-	-	-	3 886 092	38.6%	1 498 347	-	0.0%	-	1 498 347	38.6%
Year 36		82 299 996	4 115 000	-	-	-	4 115 000	38.7%	1 592 737	-	0.0%	-	1 592 737	38.7%
Year 37		87 139 840	4 356 992	-	-	-	4 356 992	38.8%	1 692 147	-	0.0%	-	1 692 147	38.8%
Year 38		92 256 414	4 612 821	-	-	-	4 612 821	39.0%	1 796 925	-	0.0%	-	1 796 925	39.0%
Year 39		97 665 551	4 883 278	-	-	-	4 883 278	39.1%	1 907 429	-	0.0%	-	1 907 429	39.1%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	103 383 922	5 169 196	-	-	-	5 169 196	39.2%	2 024 951	-	0.0%	-	2 024 951	39.2%
Year 41		71 665 512	3 583 276	-	-	-	-	0.0%	-	3 583 276	35.6%	1 276 529	1 276 529	35.6%
Year 42		77 555 535	3 877 777	-	-	-	-	0.0%	-	3 877 777	36.0%	1 397 900	1 397 900	36.0%
Year 43		83 913 188	4 195 659	-	-	-	-	0.0%	-	4 195 659	36.4%	1 527 693	1 527 693	36.4%
Year 44		90 776 814	4 538 841	-	-	-	-	0.0%	-	4 538 841	36.8%	1 671 163	1 671 163	36.8%
Year 45		98 183 333	4 909 167	-	-	-	-	0.0%	-	4 909 167	37.2%	1 824 268	1 824 268	37.2%
Year 46		106 177 398	5 308 870	-	-	-	-	0.0%	-	5 308 870	37.5%	1 988 184	1 988 184	37.5%
Year 47		114 806 954	5 740 348	-	-	-	-	0.0%	-	5 740 348	37.7%	2 164 073	2 164 073	37.7%
Year 48		124 123 577	6 206 179	-	-	-	-	0.0%	-	6 206 179	38.0%	2 356 208	2 356 208	38.0%
Year 49		134 179 726	6 708 986	-	-	-	-	0.0%	-	6 708 986	38.2%	2 562 294	2 562 294	38.2%
Year 50	Sale of all assets by children	145 035 405	7 251 770	-	-	-	-	0.0%	-	7 251 770	38.4%	2 783 735	2 783 735	38.4%

Table 41 – Comparison 2 (Personal estate scenario): Other taxes – CGT on transfers and disposals

PERSONAL ESTATE: OTHER TAXES (CGT and Estate duty) - CGT on transfers and disposals

Annual exemption and inclusion %: 40 000 40%

		CGT on disposals							
		A	B	C	D	E	F	G	H
		A = B x G x F x (C - D - E)	B: refer H	C: refer H	D: refer H	E = 40000	F = 0.4	G: refer H	H
Year	Scenario event	CGT on transfer (total for all persons)	No. of persons	Proceeds (per person)	Base cost (per person)	Annual exemption	Inclusion %	Income tax rate	Description
Year 50	Sale of all assets by children	13 941 591	2	78 377 605	35 832 756	40 000	40.0%	41.0%	- **CGT on sale of all investment assets** - Base cost equals investment value net of CGT and estate duty in year 40 per Personal estate: Capital schedule, column H, Yr 40, divided by 2 (per child) - Proceeds equals Personal estate: Capital schedule, column E, Yr 50 divided by 2 (per child) - Assume maximum income tax rate due to additional taxable income.

Table 42 – Comparison 2 (Personal estate scenario): Other taxes – Taxes on death

PERSONAL ESTATE: OTHER TAXES (CGT and Estate duty)

s 4A abatement and estate duty %: 6 000 000 20%

			Estate duty on death						
		A	B	C	D	E	F	G	H
		A = B + I	B = F x G	C: refer H	D: refer H	E = 6000000	F = C - D - E	G = 0.2	H
Year	Scenario event	TOTAL TAXES ON DEATH	ESTATE DUTY ON DEATH	Estate asset value	Deductions (if bequeathed to spouse, s 4(q) deduction)	Estate duty abatement (s 4A)	Dutiable estate	Estate duty rate	Description
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	13 940 800	13 940 800	75 704 001	-	(6 000 000)	69 704 001	20.0%	Estate duty on investment asset value - founder/owner - Refer Personal estate: Capital schedule, column E, Yr 30 - Bequeathed to spouse but repeal of s 4(q) deduction
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	37 762 652	20 685 633	109 428 164	-	(6 000 000)	103 428 164	20.0%	Estate duty on investment asset value - spouse; - Refer Personal estate: Capital schedule, column E, Yr 40

Annual exemption and inclusion %: 300 000 40%

		CGT on death							
		I	J	K	L	M	N	O	P
		I = J x O x N x (K - L - M)	J: refer P	K: refer P	L: refer P	M = 300000	N = 0.4	O: refer P	P
Year	Scenario event	CGT ON DEATH	No. of persons	Proceeds (per person)	Base cost (per person)	Exemption in year of death	Inclusion %	Income tax rate	Description
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	-	1	-	-		40.0%	41.0%	CGT on death of owner CGT rollover - bequeathed to spouse
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	17 077 019	1	109 428 164	5 000 000	300 000	40.0%	41.0%	CGT on death of spouse - bequeathed to children (no CGT rollover); - Base cost equals rolled over base cost (starting parameter) - Proceeds equals Personal estate: Capital schedule, column E, Yr 40 - Highets income tax bracket assumed

Table 43 – Comparison 2 (Personal estate scenario): Personal estate summary calculated using capital year-end values BEFORE year-end adjustments

PERSONAL ESTATE - SUMMARY (using capital year-end values BEFORE year-end adjustments)

		A	B	C	D	E	F	G	H	I
		A = Column E of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE (end of year, BEFORE adjustments)	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 0	Assets kept in personal estate	10 000 000	-	-	-	-	-	0.00%	-	0.00%
Year 1		10 810 000	190 000	-	-	190 000	190 000	1.76%	-	0.00%
Year 2		11 685 610	205 390	-	-	205 390	395 390	3.38%	-	0.00%
Year 3		12 632 144	222 027	-	-	222 027	617 417	4.89%	-	0.00%
Year 4		13 655 348	240 011	-	-	240 011	857 427	6.28%	-	0.00%
Year 5		14 761 431	259 452	-	-	259 452	1 116 879	7.57%	-	0.00%
Year 6		15 957 107	280 467	-	-	280 467	1 397 346	8.76%	-	0.00%
Year 7		17 249 633	303 185	-	-	303 185	1 700 531	9.86%	-	0.00%
Year 8		18 646 853	327 743	-	-	327 743	2 028 274	10.88%	-	0.00%
Year 9		20 157 248	354 290	-	-	354 290	2 382 564	11.82%	-	0.00%
Year 10		21 789 985	382 988	-	-	382 988	2 765 552	12.69%	-	0.00%
Year 11	No event	23 554 974	414 010	-	-	414 010	3 179 562	13.50%	-	0.00%
Year 12		25 462 927	447 545	-	-	447 545	3 627 106	14.24%	-	0.00%
Year 13		27 525 424	483 796	-	-	483 796	4 110 902	14.93%	-	0.00%
Year 14		29 754 984	522 983	-	-	522 983	4 633 885	15.57%	-	0.00%
Year 15		32 165 137	565 345	-	-	565 345	5 199 230	16.16%	-	0.00%
Year 16		34 770 513	611 138	-	-	611 138	5 810 367	16.71%	-	0.00%
Year 17		37 586 925	660 640	-	-	660 640	6 471 007	17.22%	-	0.00%
Year 18		40 631 466	714 152	-	-	714 152	7 185 159	17.68%	-	0.00%
Year 19		43 922 615	771 998	-	-	771 998	7 957 157	18.12%	-	0.00%
Year 20		47 480 346	834 530	-	-	834 530	8 791 686	18.52%	-	0.00%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	49 826 254	902 127	-	-	902 127	9 693 813	19.46%	-	0.00%
Year 22		52 272 181	946 699	-	-	946 699	10 640 512	20.36%	-	0.00%
Year 23		54 820 828	993 171	-	-	993 171	11 633 683	21.22%	-	0.00%
Year 24		57 474 791	1 041 596	-	-	1 041 596	12 675 279	22.05%	-	0.00%

Table 43 (continued)

		A	B	C	D	E	F	G	H	I
		A = Column E of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE (end of year, BEFORE adjustments)	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 25		60 236 533	1 092 021	-	-	1 092 021	13 767 300	22.86%	-	0.00%
Year 26		63 108 354	1 144 494	-	-	1 144 494	14 911 794	23.63%	-	0.00%
Year 27		66 091 921	1 199 490	-	-	1 199 490	16 111 284	24.38%	-	0.00%
Year 28		69 184 983	1 260 684	-	-	1 260 684	17 371 969	25.11%	-	0.00%
Year 29		72 388 738	1 323 971	-	-	1 323 971	18 695 940	25.83%	-	0.00%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	75 704 001	1 389 392	-	13 940 800	15 330 192	34 026 132	44.95%	13 940 800	18.41%
Year 31		65 425 486	1 170 900	-	-	1 170 900	35 197 032	53.80%	13 940 800	21.31%
Year 32		69 297 773	1 246 538	-	-	1 246 538	36 443 570	52.59%	13 940 800	20.12%
Year 33		73 392 273	1 326 129	-	-	1 326 129	37 769 699	51.46%	13 940 800	18.99%
Year 34		77 721 837	1 409 967	-	-	1 409 967	39 179 666	50.41%	13 940 800	17.94%
Year 35	No event	82 299 996	1 498 347	-	-	1 498 347	40 678 013	49.43%	13 940 800	16.94%
Year 36		87 139 840	1 592 737	-	-	1 592 737	42 270 750	48.51%	13 940 800	16.00%
Year 37		92 256 414	1 692 147	-	-	1 692 147	43 962 896	47.65%	13 940 800	15.11%
Year 38		97 665 551	1 796 925	-	-	1 796 925	45 759 821	46.85%	13 940 800	14.27%
Year 39		103 383 922	1 907 429	-	-	1 907 429	47 667 251	46.11%	13 940 800	13.48%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	109 428 164	2 024 951	-	37 762 652	39 787 602	87 454 853	79.92%	51 703 452	47.25%
Year 41		77 555 535	1 276 529	-	-	1 276 529	88 731 382	114.41%	51 703 452	66.67%
Year 42		83 913 188	1 397 900	-	-	1 397 900	90 129 282	107.41%	51 703 452	61.62%
Year 43		90 776 814	1 527 693	-	-	1 527 693	91 656 974	100.97%	51 703 452	56.96%
Year 44		98 183 333	1 671 163	-	-	1 671 163	93 328 137	95.05%	51 703 452	52.66%
Year 45		106 177 398	1 824 268	-	-	1 824 268	95 152 406	89.62%	51 703 452	48.70%
Year 46		114 806 954	1 988 184	-	-	1 988 184	97 140 589	84.61%	51 703 452	45.04%
Year 47		124 123 577	2 164 073	-	-	2 164 073	99 304 662	80.00%	51 703 452	41.65%
Year 48		134 179 726	2 356 208	-	-	2 356 208	101 660 870	75.76%	51 703 452	38.53%
Year 49		145 035 405	2 562 294	-	-	2 562 294	104 223 164	71.86%	51 703 452	35.65%
Year 50	Sale of all assets by children	156 755 210	2 783 735	13 941 591	-	16 725 326	120 948 490	77.16%	65 645 042	41.88%

9.3 Comparison 3a

9.3.1 Comparison 3a – Charts

Figure 22 – Comparison 3a – Chart 1: Cumulative total taxation

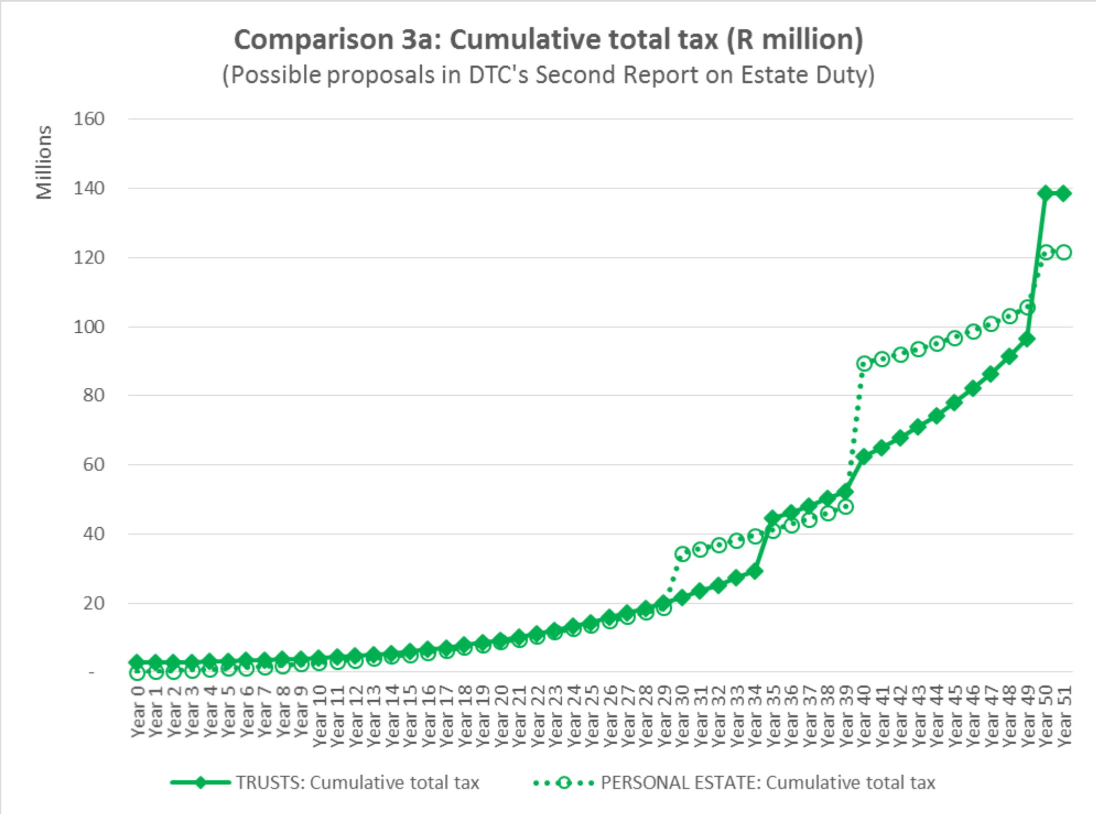


Figure 23 – Comparison 3a – Chart 2: Capital value

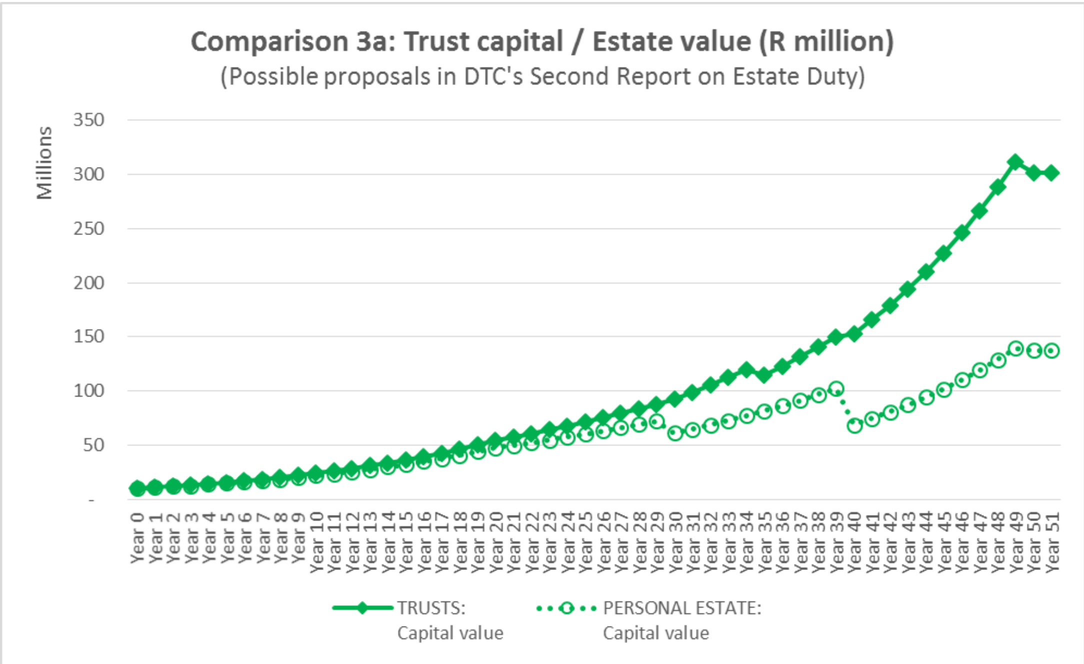


Figure 24 – Comparison 3a – Chart 3: Cumulative total tax as percentage of capital value

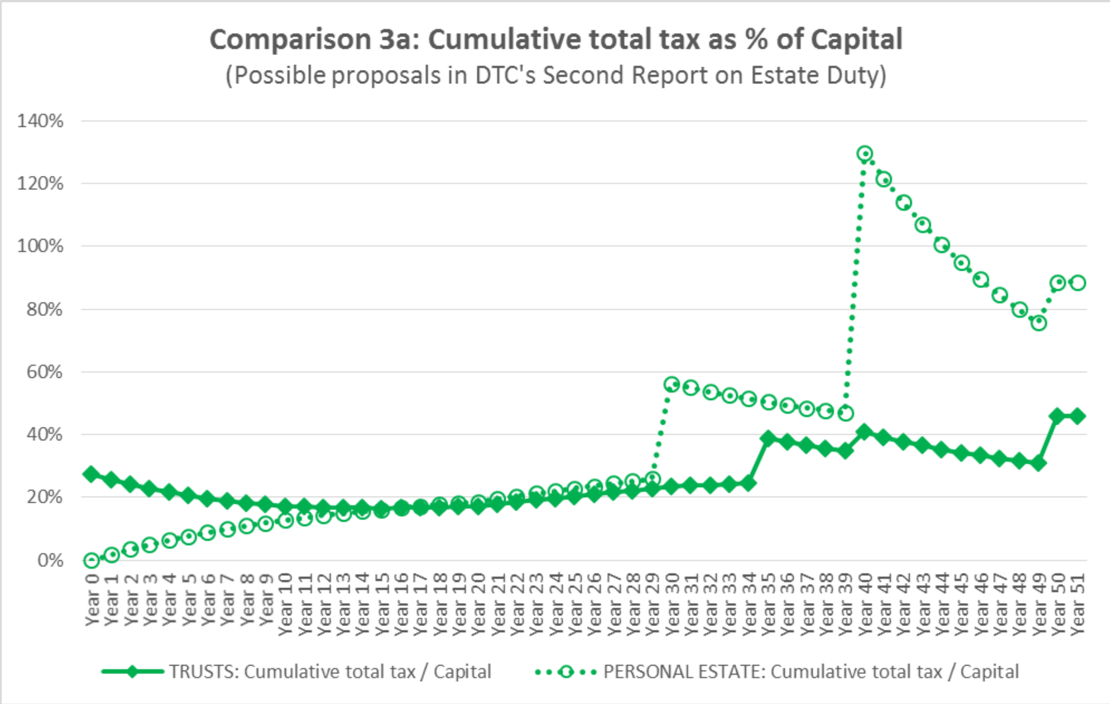


Figure 25 – Comparison 3a – Chart 4: Cumulative CGT, donations tax and estate duty

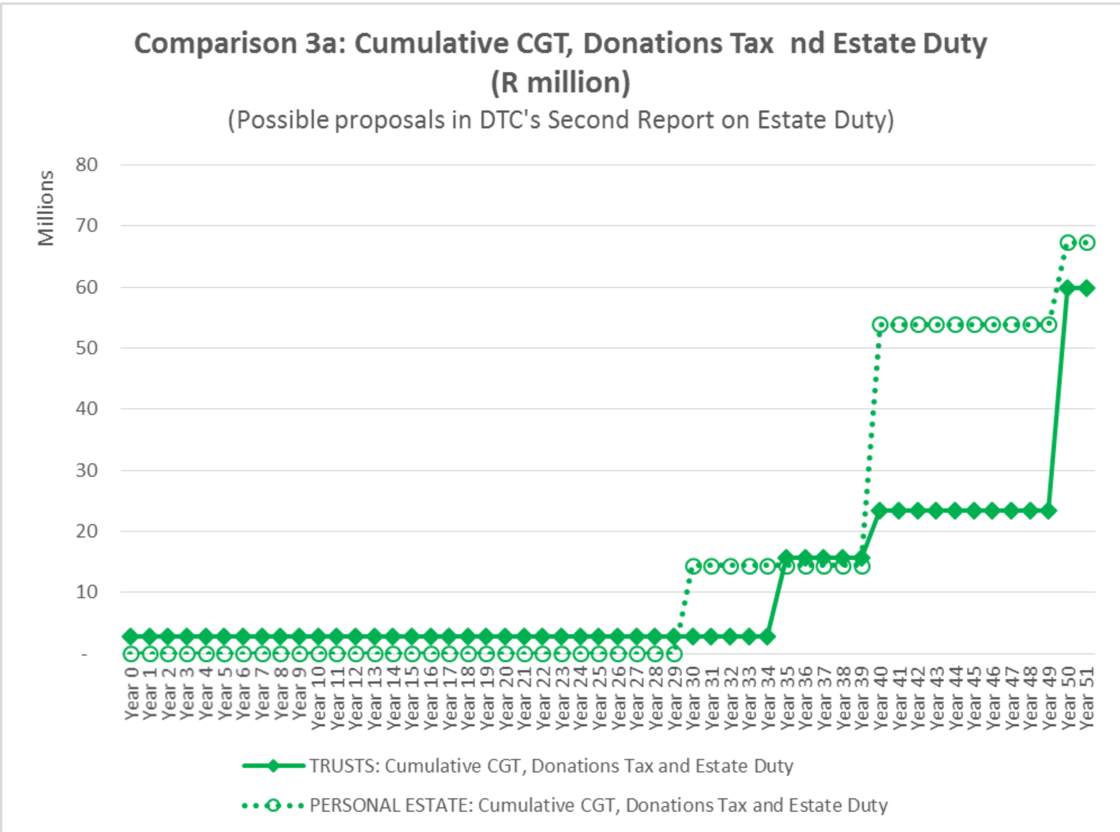


Figure 26 – Comparison 3a – Chart 5: Cumulative CGT, donations tax and estate duty as percentage of capital value

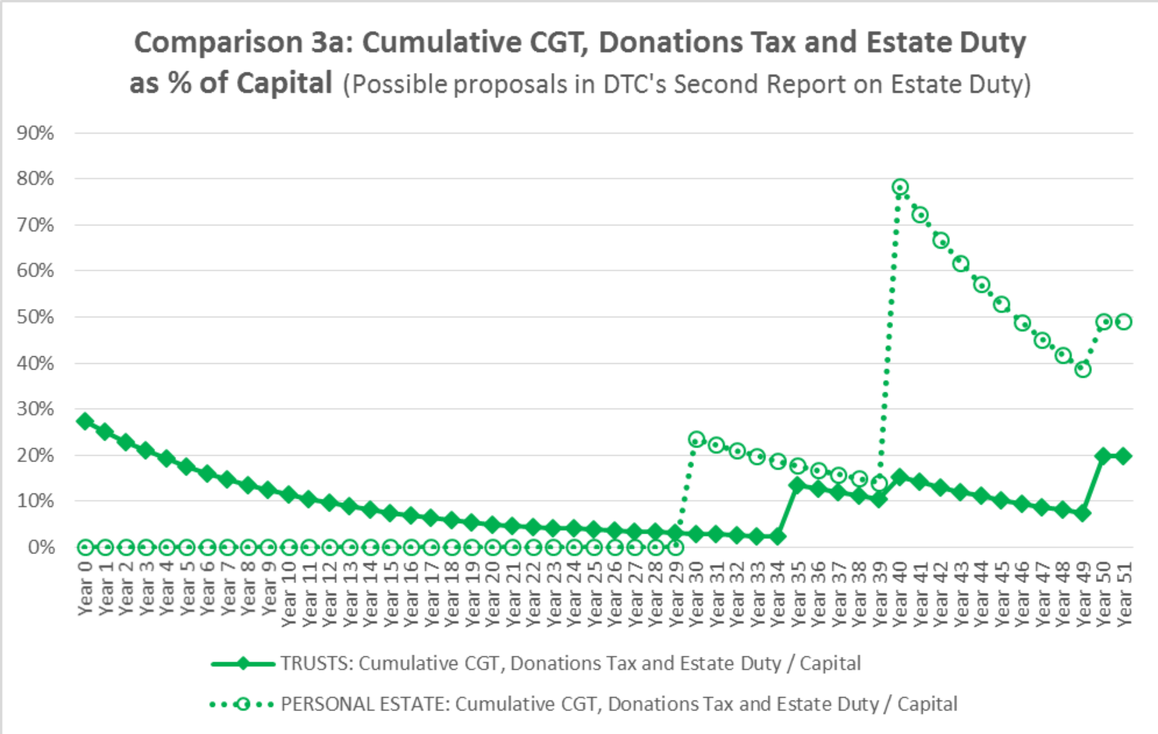


Figure 27 – Comparison 3a – Chart 6: Difference: Cumulative total tax as percentage of capital value

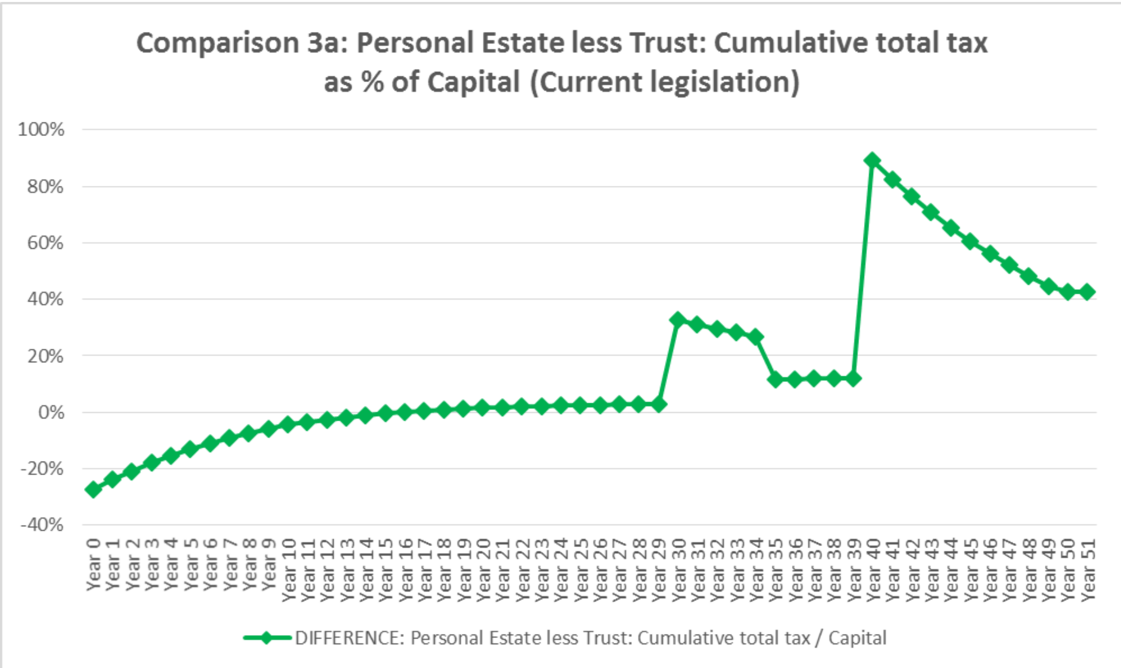
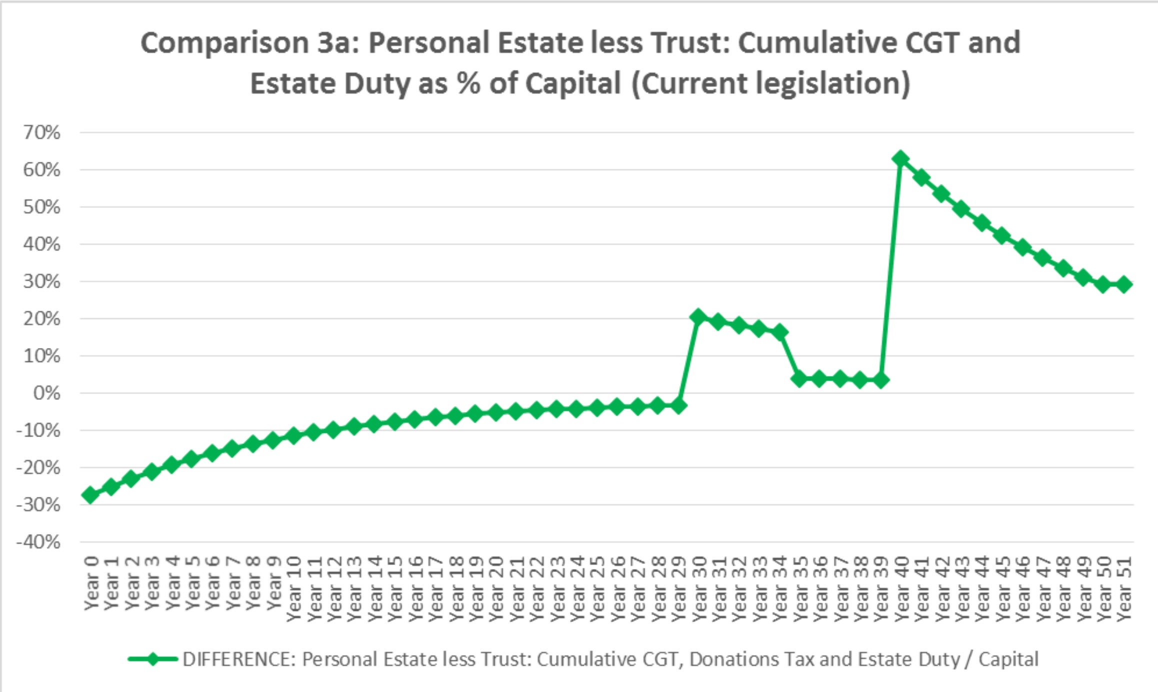


Figure 28 – Comparison 3a – Chart 7: Difference: Cumulative CGT, donations tax and estate duty as percentage of capital value



9.3.2 *Comparison 3a – Comparative data between trust and personal estate scenarios including difference data used in charts*

Table 44 – Comparison 3a: Comparative and difference data sets

COMPARISON 3b: Trust vs. Personal Estate - Possible proposals in DTC's Second Report + 2016 Budget Review (upfront donations tax payment)

			A	B	C	D	E	F	G	H	I	J	K	L
			A = column I of Trusts summary schedule	B = column F of Personal estate summary schedule	C = column C of Trusts summary schedule	D = column A of Personal estate summary schedule	E = column J of Trusts summary schedule	F = column G of Personal estate summary schedule	G = column K of Trusts summary schedule	H = column H of Personal estate summary schedule	I = column L of Trusts summary schedule	J = column I of Trusts summary schedule	K = F - E	L = J - I
			CHART 1 Comparison 1: Cumulative total tax		CHART 2 Comparison 1: Capital / Estate value		CHART 3 Comparison 1: Cumulative total tax as % of Capital		CHART 4 Comparison 1: Cumulative CGT and Estate Duty		CHART 5 Comparison 1: Cumulative CGT and Estate Duty as % of Capital		CHART 6 Difference: Cumulative total	CHART 7 Difference: Cumulative CGT
Year	**TRUSTS: Scenario event**	**PERSONAL ESTATE: Scenario event**	**TRUSTS: Cumulative total tax**	**PERSONAL ESTATE: Cumulative total tax**	**TRUSTS: Capital value**	**PERSONAL ESTATE: Capital value**	**TRUSTS: Cumulative total tax / Capital**	**PERSONAL ESTATE: Cumulative total tax / Capital**	**TRUSTS: Cumulative CGT, Donations Tax and Estate Duty**	**PERSONAL ESTATE: Cumulative CGT, Donations Tax and Estate Duty**	**TRUSTS: Cumulative CGT, Donations Tax and Estate Duty / Capital**	**PERSONAL ESTATE: Cumulative CGT, Donations Tax and Estate Duty / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative total tax / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative CGT, Donations Tax and Estate Duty / Capital**
Year 0	Transfer of assets to Trust 1	Assets kept in personal estate	2 733 920	-	10 000 000	10 000 000	27.34%	0.00%	2 733 920	-	27.34%	0.00%	-27.34%	-27.34%
Year 1			2 808 420	190 000	10 925 500	10 810 000	25.71%	1.76%	2 733 920	-	25.02%	0.00%	-23.95%	-25.02%
Year 2			2 889 815	395 390	11 936 655	11 685 610	24.21%	3.38%	2 733 920	-	22.90%	0.00%	-20.83%	-22.90%
Year 3			2 978 743	617 417	13 041 392	12 632 144	22.84%	4.89%	2 733 920	-	20.96%	0.00%	-17.95%	-20.96%
Year 4			3 084 704	857 427	14 239 570	13 655 348	21.66%	6.28%	2 733 920	-	19.20%	0.00%	-15.38%	-19.20%
Year 5			3 207 266	1 116 879	15 540 965	14 761 431	20.64%	7.57%	2 733 920	-	17.59%	0.00%	-13.07%	-17.59%
Year 6			3 341 030	1 397 346	16 961 299	15 957 107	19.70%	8.76%	2 733 920	-	16.12%	0.00%	-10.94%	-16.12%
Year 7			3 496 204	1 700 531	18 502 254	17 249 633	18.90%	9.86%	2 733 920	-	14.78%	0.00%	-9.04%	-14.78%
Year 8			3 676 478	2 028 274	20 172 206	18 646 853	18.23%	10.88%	2 733 920	-	13.55%	0.00%	-7.35%	-13.55%
Year 9			3 882 618	2 382 564	21 983 286	20 157 248	17.66%	11.82%	2 733 920	-	12.44%	0.00%	-5.84%	-12.44%
Year 10			4 107 265	2 765 552	23 956 968	21 789 985	17.14%	12.69%	2 733 920	-	11.41%	0.00%	-4.45%	-11.41%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	No event	4 417 573	3 179 562	26 042 356	23 554 974	16.96%	13.50%	2 733 920	-	10.50%	0.00%	-3.46%	-10.50%
Year 12			4 761 822	3 627 106	28 302 343	25 462 927	16.82%	14.24%	2 733 920	-	9.66%	0.00%	-2.58%	-9.66%
Year 13			5 139 293	4 110 902	30 755 106	27 525 424	16.71%	14.93%	2 733 920	-	8.89%	0.00%	-1.78%	-8.89%
Year 14			5 552 631	4 633 885	33 417 279	29 754 984	16.62%	15.57%	2 733 920	-	8.18%	0.00%	-1.04%	-8.18%
Year 15			6 004 745	5 199 230	36 306 894	32 165 137	16.54%	16.16%	2 733 920	-	7.53%	0.00%	-0.37%	-7.53%
Year 16			6 548 803	5 810 367	39 393 524	34 770 513	16.62%	16.71%	2 733 920	-	6.94%	0.00%	0.09%	-6.94%
Year 17			7 142 775	6 471 007	42 738 905	37 586 925	16.71%	17.22%	2 733 920	-	6.40%	0.00%	0.50%	-6.40%
Year 18			7 790 761	7 185 159	46 364 810	40 631 466	16.80%	17.68%	2 733 920	-	5.90%	0.00%	0.88%	-5.90%
Year 19			8 500 416	7 957 157	50 291 635	43 922 615	16.90%	18.12%	2 733 920	-	5.44%	0.00%	1.21%	-5.44%
Year 20			9 277 796	8 791 686	54 543 419	47 480 346	17.01%	18.52%	2 733 920	-	5.01%	0.00%	1.51%	-5.01%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	10 196 073	9 693 813	57 579 483	49 826 254	17.71%	19.46%	2 733 920	-	4.75%	0.00%	1.75%	-4.75%
Year 22			11 171 796	10 640 512	60 771 709	52 272 181	18.38%	20.36%	2 733 920	-	4.50%	0.00%	1.97%	-4.50%
Year 23			12 208 390	11 633 683	64 126 886	54 820 828	19.04%	21.22%	2 733 920	-	4.26%	0.00%	2.18%	-4.26%
Year 24			13 308 498	12 675 279	67 652 943	57 474 791	19.67%	22.05%	2 733 920	-	4.04%	0.00%	2.38%	-4.04%
Year 25			14 469 095	13 767 300	71 363 924	60 236 533	20.28%	22.86%	2 733 920	-	3.83%	0.00%	2.58%	-3.83%
Year 26			15 753 049	14 911 794	75 209 025	63 108 354	20.95%	23.63%	2 733 920	-	3.64%	0.00%	2.68%	-3.64%
Year 27			17 111 962	16 111 284	79 243 235	66 091 921	21.59%	24.38%	2 733 920	-	3.45%	0.00%	2.78%	-3.45%
Year 28			18 549 217	17 371 969	83 474 859	69 184 983	22.22%	25.11%	2 733 920	-	3.28%	0.00%	2.89%	-3.28%
Year 29			20 068 387	18 695 940	87 912 402	72 388 738	22.83%	25.83%	2 733 920	-	3.11%	0.00%	3.00%	-3.11%

Table 44 (continued)

			A	B	C	D	E	F	G	H	I	J	K	L
			A = column I of Trusts summary schedule	B = column F of Personal estate summary schedule	C = column C of Trusts summary schedule	D = column A of Personal estate summary schedule	E = column J of Trusts summary schedule	F = column G of Personal estate summary schedule	G = column K of Trusts summary schedule	H = column H of Personal estate summary schedule	I = column L of Trusts summary schedule	J = column I of Trusts summary schedule	K = F - E	L = J - I
			CHART 1 Comparison 1: Cumulative total tax		CHART 2 Comparison 1: Capital / Estate value		CHART 3 Comparison 1: Cumulative total tax as % of Capital		CHART 4 Comparison 1: Cumulative CGT and Estate Duty		CHART 5 Comparison 1: Cumulative CGT and Estate Duty as % of Capital		CHART 6 Difference: Cumulative total	CHART 7 Difference: Cumulative CGT
Year	TRUSTS: Scenario event	PERSONAL ESTATE: Scenario event	TRUSTS: Cumulative total tax	PERSONAL ESTATE: Cumulative total tax	TRUSTS: Capital value	PERSONAL ESTATE: Capital value	TRUSTS: Cumulative total tax / Capital	PERSONAL ESTATE: Cumulative total tax / Capital	TRUSTS: Cumulative CGT, Donations Tax and Estate Duty	PERSONAL ESTATE: Cumulative CGT, Donations Tax and Estate Duty	TRUSTS: Cumulative CGT, Donations Tax and Estate Duty / Capital	PERSONAL ESTATE: Cumulative CGT, Donations Tax and Estate Duty / Capital	DIFFERENCE: Personal Estate less Trust: Cumulative total tax / Capital	DIFFERENCE: Personal Estate less Trust: Cumulative CGT, Donations Tax and Estate Duty / Capital
Year 30	Death of founder (at end of year)	Death of founder (at end of year) - bequeath assets to surviving spouse	21 673 239	34 511 332	92 564 572	61 278 001	23.41%	56.32%	2 733 920	14 426 000	2.95%	23.54%	32.91%	20.59%
Year 31			23 412 354	35 673 034	98 738 778	64 900 964	23.71%	54.97%	2 733 920	14 426 000	2.77%	22.23%	31.25%	19.46%
Year 32			25 273 920	36 908 110	105 327 366	68 732 260	24.00%	53.70%	2 733 920	14 426 000	2.60%	20.99%	29.70%	18.39%
Year 33			27 268 551	38 222 039	112 356 325	72 782 409	24.27%	52.52%	2 733 920	14 426 000	2.43%	19.82%	28.25%	17.39%
Year 34			29 401 733	39 618 988	119 859 079	77 064 006	24.53%	51.41%	2 733 920	14 426 000	2.28%	18.72%	26.88%	16.44%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	No event	44 556 403	41 104 653	114 994 639	81 589 063	38.75%	50.38%	15 607 753	14 426 000	13.57%	17.68%	11.63%	4.11%
Year 36			46 281 330	42 682 475	122 971 757	86 372 728	37.64%	49.42%	15 607 753	14 426 000	12.69%	16.70%	11.78%	4.01%
Year 37			48 145 768	44 358 639	131 499 231	91 428 573	36.61%	48.52%	15 607 753	14 426 000	11.87%	15.78%	11.90%	3.91%
Year 38			50 158 405	46 138 413	140 616 938	96 772 077	35.67%	47.68%	15 607 753	14 426 000	11.10%	14.91%	12.01%	3.81%
Year 39			52 345 836	48 027 415	150 350 446	102 419 529	34.82%	46.89%	15 607 753	14 426 000	10.38%	14.09%	12.08%	3.70%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	62 575 737	89 535 635	152 886 389	68 884 063	40.93%	129.98%	23 455 849	53 929 075	15.34%	78.29%	89.05%	62.95%
Year 41			65 103 981	90 757 174	165 646 784	74 550 930	39.30%	121.74%	23 455 849	53 929 075	14.16%	72.34%	82.44%	58.18%
Year 42			67 873 995	92 095 929	179 441 449	80 667 267	37.83%	114.17%	23 455 849	53 929 075	13.07%	66.85%	76.34%	53.78%
Year 43			70 932 234	93 559 901	194 327 355	87 270 022	36.50%	107.21%	23 455 849	53 929 075	12.07%	61.80%	70.71%	49.73%
Year 44			74 296 107	95 158 020	210 396 217	94 398 905	35.31%	100.80%	23 455 849	53 929 075	11.15%	57.13%	65.49%	45.98%
Year 45			77 985 715	96 904 261	227 746 231	102 092 555	34.24%	94.92%	23 455 849	53 929 075	10.30%	52.82%	60.68%	42.52%
Year 46			82 023 722	98 808 850	246 482 847	110 397 221	33.28%	89.50%	23 455 849	53 929 075	9.52%	48.85%	56.23%	39.33%
Year 47			86 435 340	100 883 176	266 719 514	119 362 618	32.41%	84.52%	23 455 849	53 929 075	8.79%	45.18%	52.11%	36.39%
Year 48			91 266 182	103 139 799	288 560 623	129 042 256	31.63%	79.93%	23 455 849	53 929 075	8.13%	41.79%	48.30%	33.66%
Year 49			96 544 022	105 595 495	312 138 845	139 490 786	30.93%	75.70%	23 455 849	53 929 075	7.51%	38.66%	44.77%	31.15%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	Sale of all assets by children	138 623 756	121 681 137	301 272 996	137 354 222	46.01%	88.59%	59 779 436	67 345 327	19.84%	49.03%	42.58%	29.19%

9.3.3 *Comparison 3a – Trust scenario summary*

Table 45 – Comparison 3a: Trust scenario summary

TRUSTS - SUMMARY (Comparison 3a)

										VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column H of Trust 1: Capital schedule	B = Column G of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT + donations tax on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, after adjustments)	Trust 2a + 2b capital (end of year, after adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT or Donations tax on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT, Donations Tax and Estate Duty	Cumulative CGT, Donations Tax and Estate Duty / Capital
Year 0	Transfer of assets to Trust 1	10 000 000	-	10 000 000	-	-	2 733 920	-	2 733 920	2 733 920	27.34%	2 733 920	27.34%
Year 1		10 925 500	-	10 925 500	74 500	-	-	-	74 500	2 808 420	25.71%	2 733 920	25.02%
Year 2		11 936 655	-	11 936 655	81 395	-	-	-	81 395	2 889 815	24.21%	2 733 920	22.90%
Year 3		13 041 392	-	13 041 392	88 928	-	-	-	88 928	2 978 743	22.84%	2 733 920	20.96%
Year 4		14 239 570	-	14 239 570	105 961	-	-	-	105 961	3 084 704	21.66%	2 733 920	19.20%
Year 5		15 540 965	-	15 540 965	122 562	-	-	-	122 562	3 207 266	20.64%	2 733 920	17.59%
Year 6		16 961 299	-	16 961 299	133 763	-	-	-	133 763	3 341 030	19.70%	2 733 920	16.12%
Year 7		18 502 254	-	18 502 254	155 175	-	-	-	155 175	3 496 204	18.90%	2 733 920	14.78%
Year 8		20 172 206	-	20 172 206	180 274	-	-	-	180 274	3 676 478	18.23%	2 733 920	13.55%
Year 9		21 983 286	-	21 983 286	206 140	-	-	-	206 140	3 882 618	17.66%	2 733 920	12.44%
Year 10		23 956 968	-	23 956 968	224 647	-	-	-	224 647	4 107 265	17.14%	2 733 920	11.41%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	26 042 356	-	26 042 356	310 308	-	-	-	310 308	4 417 573	16.96%	2 733 920	10.50%
Year 12		28 302 343	-	28 302 343	344 249	-	-	-	344 249	4 761 822	16.82%	2 733 920	9.66%
Year 13		30 755 106	-	30 755 106	377 471	-	-	-	377 471	5 139 293	16.71%	2 733 920	8.89%
Year 14		33 417 279	-	33 417 279	413 337	-	-	-	413 337	5 552 631	16.62%	2 733 920	8.18%
Year 15		36 306 894	-	36 306 894	452 114	-	-	-	452 114	6 004 745	16.54%	2 733 920	7.53%
Year 16		39 393 524	-	39 393 524	544 059	-	-	-	544 059	6 548 803	16.62%	2 733 920	6.94%
Year 17		42 738 905	-	42 738 905	593 971	-	-	-	593 971	7 142 775	16.71%	2 733 920	6.40%
Year 18		46 364 810	-	46 364 810	647 986	-	-	-	647 986	7 790 761	16.80%	2 733 920	5.90%
Year 19		50 291 635	-	50 291 635	709 656	-	-	-	709 656	8 500 416	16.90%	2 733 920	5.44%
Year 20		54 543 419	-	54 543 419	777 380	-	-	-	777 380	9 277 796	17.01%	2 733 920	5.01%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	57 579 483	-	57 579 483	918 277	-	-	-	918 277	10 196 073	17.71%	2 733 920	4.75%
Year 22		60 771 709	-	60 771 709	975 722	-	-	-	975 722	11 171 796	18.38%	2 733 920	4.50%
Year 23		64 126 886	-	64 126 886	1 036 594	-	-	-	1 036 594	12 208 390	19.04%	2 733 920	4.26%
Year 24		67 652 943	-	67 652 943	1 100 108	-	-	-	1 100 108	13 308 498	19.67%	2 733 920	4.04%

Table 45 (continued)

										VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column H of Trust 1: Capital schedule	B = Column G of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT + donations tax on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, after adjustments)	Trust 2a + 2b capital (end of year, after adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT or Donations tax on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT, Donations Tax and Estate Duty	Cumulative CGT, Donations Tax and Estate Duty / Capital
Year 25		71 363 924	-	71 363 924	1 160 598	-	-	-	1 160 598	14 469 095	20.28%	2 733 920	3.83%
Year 26		75 209 025	-	75 209 025	1 283 953	-	-	-	1 283 953	15 753 049	20.95%	2 733 920	3.64%
Year 27		79 243 235	-	79 243 235	1 358 913	-	-	-	1 358 913	17 111 962	21.59%	2 733 920	3.45%
Year 28		83 474 859	-	83 474 859	1 437 254	-	-	-	1 437 254	18 549 217	22.22%	2 733 920	3.28%
Year 29		87 912 402	-	87 912 402	1 519 170	-	-	-	1 519 170	20 068 387	22.83%	2 733 920	3.11%
Year 30	Death of founder (at end of year)	92 564 572	-	92 564 572	1 604 852	-	-	-	1 604 852	21 673 239	23.41%	2 733 920	2.95%
Year 31		98 738 778	-	98 738 778	1 739 114	-	-	-	1 739 114	23 412 354	23.71%	2 733 920	2.77%
Year 32		105 327 366	-	105 327 366	1 861 566	-	-	-	1 861 566	25 273 920	24.00%	2 733 920	2.60%
Year 33		112 356 325	-	112 356 325	1 994 630	-	-	-	1 994 630	27 268 551	24.27%	2 733 920	2.43%
Year 34		119 859 079	-	119 859 079	2 133 182	-	-	-	2 133 182	29 401 733	24.53%	2 733 920	2.28%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	42 622 824	72 371 815	114 994 639	2 280 837	-	12 873 833	-	15 154 670	44 556 403	38.75%	15 607 753	13.57%
Year 36		44 309 384	78 662 373	122 971 757	778 304	946 623	-	-	1 724 927	46 281 330	37.64%	15 607 753	12.69%
Year 37		46 021 446	85 477 784	131 499 231	813 612	1 050 826	-	-	1 864 438	48 145 768	36.61%	15 607 753	11.87%
Year 38		47 754 685	92 862 253	140 616 938	849 327	1 163 310	-	-	2 012 637	50 158 405	35.67%	15 607 753	11.10%
Year 39		49 506 007	100 844 439	150 350 446	883 392	1 304 039	-	-	2 187 431	52 345 836	34.82%	15 607 753	10.38%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	152 886 389	152 886 389	919 833	1 461 973	7 848 096	-	10 229 902	62 575 737	40.93%	23 455 849	15.34%
Year 41		-	165 646 784	165 646 784	-	2 528 244	-	-	2 528 244	65 103 981	39.30%	23 455 849	14.16%
Year 42		-	179 441 449	179 441 449	-	2 770 014	-	-	2 770 014	67 873 995	37.83%	23 455 849	13.07%
Year 43		-	194 327 355	194 327 355	-	3 058 239	-	-	3 058 239	70 932 234	36.50%	23 455 849	12.07%
Year 44		-	210 396 217	210 396 217	-	3 363 873	-	-	3 363 873	74 296 107	35.31%	23 455 849	11.15%
Year 45		-	227 746 231	227 746 231	-	3 689 607	-	-	3 689 607	77 985 715	34.24%	23 455 849	10.30%
Year 46		-	246 482 847	246 482 847	-	4 038 008	-	-	4 038 008	82 023 722	33.28%	23 455 849	9.52%
Year 47		-	266 719 514	266 719 514	-	4 411 618	-	-	4 411 618	86 435 340	32.41%	23 455 849	8.79%
Year 48		-	288 560 623	288 560 623	-	4 830 842	-	-	4 830 842	91 266 182	31.63%	23 455 849	8.13%
Year 49		-	312 138 845	312 138 845	-	5 277 840	-	-	5 277 840	96 544 022	30.93%	23 455 849	7.51%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	301 272 996	301 272 996	-	5 756 146	36 323 587	-	42 079 734	138 623 756	46.01%	59 779 436	19.84%

9.3.4 Comparison 3a – Personal estate scenario summary

Table 46 – Comparison 3a: Personal estate scenario summary

PERSONAL ESTATE - SUMMARY (Comparison 3a)

							VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I
		A = Column H of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	**Scenario event**	**TOTAL CAPITAL or ESTATE VALUE**	**Total income taxes**	**CGT on transfers or disposals**	**Estate Duty and CGT on death**	**TOTAL TAXES**	**Cumulative total taxes**	**Cumulative total tax / Capital**	**Cumulative CGT, Donations Tax and Estate Duty**	**Cumulative CGT, Donations Tax and Estate Duty / Capital**
Year 0	Assets kept in personal estate	10 000 000	-	-	-	-	-	0.00%	-	0.00%
Year 1		10 810 000	190 000	-	-	190 000	190 000	1.76%	-	0.00%
Year 2		11 685 610	205 390	-	-	205 390	395 390	3.38%	-	0.00%
Year 3		12 632 144	222 027	-	-	222 027	617 417	4.89%	-	0.00%
Year 4		13 655 348	240 011	-	-	240 011	857 427	6.28%	-	0.00%
Year 5		14 761 431	259 452	-	-	259 452	1 116 879	7.57%	-	0.00%
Year 6		15 957 107	280 467	-	-	280 467	1 397 346	8.76%	-	0.00%
Year 7		17 249 633	303 185	-	-	303 185	1 700 531	9.86%	-	0.00%
Year 8		18 646 853	327 743	-	-	327 743	2 028 274	10.88%	-	0.00%
Year 9		20 157 248	354 290	-	-	354 290	2 382 564	11.82%	-	0.00%
Year 10		21 789 985	382 988	-	-	382 988	2 765 552	12.69%	-	0.00%
Year 11	No event	23 554 974	414 010	-	-	414 010	3 179 562	13.50%	-	0.00%
Year 12		25 462 927	447 545	-	-	447 545	3 627 106	14.24%	-	0.00%
Year 13		27 525 424	483 796	-	-	483 796	4 110 902	14.93%	-	0.00%
Year 14		29 754 984	522 983	-	-	522 983	4 633 885	15.57%	-	0.00%
Year 15		32 165 137	565 345	-	-	565 345	5 199 230	16.16%	-	0.00%
Year 16		34 770 513	611 138	-	-	611 138	5 810 367	16.71%	-	0.00%
Year 17		37 586 925	660 640	-	-	660 640	6 471 007	17.22%	-	0.00%
Year 18		40 631 466	714 152	-	-	714 152	7 185 159	17.68%	-	0.00%
Year 19		43 922 615	771 998	-	-	771 998	7 957 157	18.12%	-	0.00%
Year 20		47 480 346	834 530	-	-	834 530	8 791 686	18.52%	-	0.00%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	49 826 254	902 127	-	-	902 127	9 693 813	19.46%	-	0.00%
Year 22		52 272 181	946 699	-	-	946 699	10 640 512	20.36%	-	0.00%
Year 23		54 820 828	993 171	-	-	993 171	11 633 683	21.22%	-	0.00%
Year 24		57 474 791	1 041 596	-	-	1 041 596	12 675 279	22.05%	-	0.00%

Table 46 (continued)

		A	B	C	D	E	F	G	H	I
		A = Column H of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT, Donations Tax and Estate Duty	Cumulative CGT, Donations Tax and Estate Duty / Capital
Year 25		60 236 533	1 092 021	-	-	1 092 021	13 767 300	22.86%	-	0.00%
Year 26		63 108 354	1 144 494	-	-	1 144 494	14 911 794	23.63%	-	0.00%
Year 27		66 091 921	1 199 490	-	-	1 199 490	16 111 284	24.38%	-	0.00%
Year 28		69 184 983	1 260 684	-	-	1 260 684	17 371 969	25.11%	-	0.00%
Year 29		72 388 738	1 323 971	-	-	1 323 971	18 695 940	25.83%	-	0.00%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	61 278 001	1 389 392	-	14 426 000	15 815 393	34 511 332	56.32%	14 426 000	23.54%
Year 31		64 900 964	1 161 701	-	-	1 161 701	35 673 034	54.97%	14 426 000	22.23%
Year 32		68 732 260	1 235 076	-	-	1 235 076	36 908 110	53.70%	14 426 000	20.99%
Year 33		72 782 409	1 313 929	-	-	1 313 929	38 222 039	52.52%	14 426 000	19.82%
Year 34		77 064 006	1 396 948	-	-	1 396 948	39 618 988	51.41%	14 426 000	18.72%
Year 35	No event	81 589 063	1 485 665	-	-	1 485 665	41 104 653	50.38%	14 426 000	17.68%
Year 36		86 372 728	1 577 823	-	-	1 577 823	42 682 475	49.42%	14 426 000	16.70%
Year 37		91 428 573	1 676 164	-	-	1 676 164	44 358 639	48.52%	14 426 000	15.78%
Year 38		96 772 077	1 779 774	-	-	1 779 774	46 138 413	47.68%	14 426 000	14.91%
Year 39		102 419 529	1 889 002	-	-	1 889 002	48 027 415	46.89%	14 426 000	14.09%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	68 884 063	2 005 144	-	39 503 075	41 508 219	89 535 635	129.98%	53 929 075	78.29%
Year 41		74 550 930	1 221 539	-	-	1 221 539	90 757 174	121.74%	53 929 075	72.34%
Year 42		80 667 267	1 338 755	-	-	1 338 755	92 095 929	114.17%	53 929 075	66.85%
Year 43		87 270 022	1 463 972	-	-	1 463 972	93 559 901	107.21%	53 929 075	61.80%
Year 44		94 398 905	1 598 119	-	-	1 598 119	95 158 020	100.80%	53 929 075	57.13%
Year 45		102 092 555	1 746 241	-	-	1 746 241	96 904 261	94.92%	53 929 075	52.82%
Year 46		110 397 221	1 904 589	-	-	1 904 589	98 808 850	89.50%	53 929 075	48.85%
Year 47		119 362 618	2 074 326	-	-	2 074 326	100 883 176	84.52%	53 929 075	45.18%
Year 48		129 042 256	2 256 623	-	-	2 256 623	103 139 799	79.93%	53 929 075	41.79%
Year 49		139 490 786	2 455 696	-	-	2 455 696	105 595 495	75.70%	53 929 075	38.66%
Year 50	Sale of all assets by children	137 354 222	2 669 391	13 416 251	-	16 085 642	121 681 137	88.59%	67 345 327	49.03%

9.3.5 Comparison 3a – Trust scenario supporting schedules

Table 47 – Comparison 3a (Trust scenario): Trust 1 capital value

TRUST 1: CAPITAL

Annual capital growth: 10%

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 1: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	F : refer G for explanation	G	H = E + F
Year	Scenario event	Capital value (start of year)	Capital growth (includes income reinvested net of expenses)	Cash distributions to pay tax	Cash withdrawals post-retirement	Capital value (end of year, before adjustments)	Adjustments	Description of adjustments	Capital value (end of year, after adjustments)
Year 0	Transfer of assets to Trust 1					10 000 000			10 000 000
Year 1		10 000 000	1 000 000	(74 500)	-	10 925 500			10 925 500
Year 2		10 925 500	1 092 550	(81 395)	-	11 936 655			11 936 655
Year 3		11 936 655	1 193 666	(88 928)	-	13 041 392			13 041 392
Year 4		13 041 392	1 304 139	(105 961)	-	14 239 570			14 239 570
Year 5		14 239 570	1 423 957	(122 562)	-	15 540 965			15 540 965
Year 6		15 540 965	1 554 097	(133 763)	-	16 961 299			16 961 299
Year 7		16 961 299	1 696 130	(155 175)	-	18 502 254			18 502 254
Year 8		18 502 254	1 850 225	(180 274)	-	20 172 206			20 172 206
Year 9		20 172 206	2 017 221	(206 140)	-	21 983 286			21 983 286
Year 10		21 983 286	2 198 329	(224 647)	-	23 956 968			23 956 968
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	23 956 968	2 395 697	(310 308)	-	26 042 356			26 042 356
Year 12		26 042 356	2 604 236	(344 249)	-	28 302 343			28 302 343
Year 13		28 302 343	2 830 234	(377 471)	-	30 755 106			30 755 106
Year 14		30 755 106	3 075 511	(413 337)	-	33 417 279			33 417 279
Year 15		33 417 279	3 341 728	(452 114)	-	36 306 894			36 306 894
Year 16		36 306 894	3 630 689	(544 059)	-	39 393 524			39 393 524
Year 17		39 393 524	3 939 352	(593 971)	-	42 738 905			42 738 905
Year 18		42 738 905	4 273 891	(647 986)	-	46 364 810			46 364 810
Year 19		46 364 810	4 636 481	(709 656)	-	50 291 635			50 291 635
Year 20		50 291 635	5 029 164	(777 380)	-	54 543 419			54 543 419
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	54 543 419	5 454 342	(918 277)	(1 500 000)	57 579 483			57 579 483
Year 22		57 579 483	5 757 948	(975 722)	(1 590 000)	60 771 709			60 771 709
Year 23		60 771 709	6 077 171	(1 036 594)	(1 685 400)	64 126 886			64 126 886
Year 24		64 126 886	6 412 689	(1 100 108)	(1 786 524)	67 652 943			67 652 943

Table 47 (continued)

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 1: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	F : refer G for explanation	G	H = E + F
Year	**Scenario event**	**Capital value** (start of year)	**Capital growth** (includes income reinvested net of expenses)	**Cash distributions to pay tax**	**Cash withdrawals post-retirement**	**Capital value** (end of year, before adjustments)	**Adjustments**	**Description of adjustments**	**Capital value** (end of year, after adjustments)
Year 25		67 652 943	6 765 294	(1 160 598)	(1 893 715)	71 363 924			71 363 924
Year 26		71 363 924	7 136 392	(1 283 953)	(2 007 338)	75 209 025			75 209 025
Year 27		75 209 025	7 520 902	(1 358 913)	(2 127 779)	79 243 235			79 243 235
Year 28		79 243 235	7 924 324	(1 437 254)	(2 255 445)	83 474 859			83 474 859
Year 29		83 474 859	8 347 486	(1 519 170)	(2 390 772)	87 912 402			87 912 402
Year 30	Death of founder (at end of year)	87 912 402	8 791 240	(1 604 852)	(2 534 218)	92 564 572	-	Estate duty on loan account paid from cash reserves Refer Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule, column A, Yr 30	92 564 572
Year 31		92 564 572	9 256 457	(1 739 114)	(1 343 136)	98 738 778			98 738 778
Year 32		98 738 778	9 873 878	(1 861 566)	(1 423 724)	105 327 366			105 327 366
Year 33		105 327 366	10 532 737	(1 994 630)	(1 509 147)	112 356 325			112 356 325
Year 34		112 356 325	11 235 632	(2 133 182)	(1 599 696)	119 859 079			119 859 079
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	119 859 079	11 985 908	(2 280 837)	(1 695 678)	127 868 472	(85 245 648)	Restructuring of Trust 1 to form new Trusts 2a and 2b Distribute two thirds of Trust 1 capital to children	42 622 824
Year 36		42 622 824	4 262 282	(778 304)	(1 797 419)	44 309 384			44 309 384
Year 37		44 309 384	4 430 938	(813 612)	(1 905 264)	46 021 446			46 021 446
Year 38		46 021 446	4 602 145	(849 327)	(2 019 580)	47 754 685			47 754 685
Year 39		47 754 685	4 775 468	(883 392)	(2 140 754)	49 506 007			49 506 007
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	49 506 007	4 950 601	(919 833)	(2 269 200)	51 267 576	(51 267 576)	Distribute remaining trust capital to children	-
Year 41		-	-	-	-	-			-
Year 42		-	-	-	-	-			-
Year 43		-	-	-	-	-			-
Year 44		-	-	-	-	-			-
Year 45		-	-	-	-	-			-
Year 46		-	-	-	-	-			-
Year 47		-	-	-	-	-			-
Year 48		-	-	-	-	-			-
Year 49		-	-	-	-	-			-
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-			-

Table 48 – Comparison 3a (Trust scenario): Trust 2a and 2b combined capital value

TRUST 2A and 2B COMBINED CAPITAL: (4 beneficiaries in each trust: 2 parents, 2 children)

Annual capital growth **10%**

		A	B	C	D	E	F	G
		A = column G of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 2a and 2b income + tax schedule)	D = A + B + C	E : refer F for explanation	F	G = D + E
Year	**Scenario event**	**Capital value** (start of year)	**Capital growth** (includes income reinvested net of expenses)	**Cash distributions to pay tax**	**Capital value** (end of year, before adjustments)	**Adjustments**	**Description of adjustments**	**Capital value** (end of year, after adjustments)
Year 0	Transfer of assets to Trust 1							
Year 1		-	-	-	-			-
Year 2		-	-	-	-			-
Year 3		-	-	-	-			-
Year 4		-	-	-	-			-
Year 5		-	-	-	-			-
Year 6		-	-	-	-			-
Year 7		-	-	-	-			-
Year 8		-	-	-	-			-
Year 9		-	-	-	-			-
Year 10		-	-	-	-			-
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	-	-	-	-			-
Year 12		-	-	-	-			-
Year 13		-	-	-	-			-
Year 14		-	-	-	-			-
Year 15		-	-	-	-			-
Year 16		-	-	-	-			-
Year 17		-	-	-	-			-
Year 18		-	-	-	-			-
Year 19		-	-	-	-			-
Year 20		-	-	-	-			-
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	-	-	-	-			-
Year 22		-	-	-	-			-
Year 23		-	-	-	-			-
Year 24		-	-	-	-			-
Year 25		-	-	-	-			-
Year 26		-	-	-	-			-
Year 27		-	-	-	-			-
Year 28		-	-	-	-			-
Year 29		-	-	-	-			-
Year 30	Death of founder (at end of year)	-	-	-	-			-

Table 48 (continued)

		A	B	C	D	E	F	G
		A = column G of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 2a and 2b income + tax schedule)	D = A + B + C	E : refer F for explanation	F	G = D + E
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash distributions to pay tax**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 31		-	-	-	-			-
Year 32		-	-	-	-			-
Year 33		-	-	-	-			-
Year 34		-	-	-	-			-
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	(12 873 833)	**CGT due on restructuring reduces intital investment amount** Refer Trusts 1, 2a and 2b: Other taxes - CGT + donations tax on transfer schedule, column A, Yr 35	72 371 815
Year 36		72 371 815	7 237 181	(946 623)	78 662 373			78 662 373
Year 37		78 662 373	7 866 237	(1 050 826)	85 477 784			85 477 784
Year 38		85 477 784	8 547 778	(1 163 310)	92 862 253			92 862 253
Year 39		92 862 253	9 286 225	(1 304 039)	100 844 439			100 844 439
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	100 844 439	10 084 444	(1 461 973)	109 466 910	43 419 480	**Remainder of capital from Trust 1 LESS CGT due on distribution** Capital: Refer Trust 1: Capital schedule, column F, Yr 40 LESS CGT: Refer Trusts 1, 2a and 2b: Other taxes - CGT + donations tax on transfer schedule, column A, Yr 40	152 886 389
Year 41		152 886 389	15 288 639	(2 528 244)	165 646 784			165 646 784
Year 42		165 646 784	16 564 678	(2 770 014)	179 441 449			179 441 449
Year 43		179 441 449	17 944 145	(3 058 239)	194 327 355			194 327 355
Year 44		194 327 355	19 432 735	(3 363 873)	210 396 217			210 396 217
Year 45		210 396 217	21 039 622	(3 689 607)	227 746 231			227 746 231
Year 46		227 746 231	22 774 623	(4 038 008)	246 482 847			246 482 847
Year 47		246 482 847	24 648 285	(4 411 618)	266 719 514			266 719 514
Year 48		266 719 514	26 671 951	(4 830 842)	288 560 623			288 560 623
Year 49		288 560 623	28 856 062	(5 277 840)	312 138 845			312 138 845
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	312 138 845	31 213 885	(5 756 146)	337 596 584	(337 596 584)	**All assets in each trust sold to form new trust structures.** Capital distribution to new trusts (not deducted in order to show total remaining wealth less CGT effect of restructuring)	301 272 996
		301 272 996	-	-	301 272 996	(36 323 587)	**CGT due on 2nd restructuring reduces remaining investment amount** Refer Trusts 1, 2a and 2b: Other taxes - CGT + donations tax on transfer schedule, column A, Yr 50	301 272 996

Table 49 – Comparison 3a (Trust scenario): Trust 1 income and income tax (excluding CGT)

TRUST 1: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

Column L value transferred to column C of Trust 1: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 1: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B / 4 Yr 31+: = 0	D : 38%	E = C x D	F: Yr 1 - 30: = B / 4 Yr 31 - 35: = B / 3 Yr 35 - 40: = B	G = per effective tax rate table	H = F x G	I : Yr 1 -30: = B / 2 Yr 31 - 35: = B x 2/3 Yr 36+: = 0	J : Yr 1 - 10: per effective tax rate table; Yr 11 - 15: 25.0% Yr 16 - 20: 30.0% Yr 21 - 25: 35.0%	K = I x J	L = E + H + K	M = (L / B) %
	Annual taxable income generated:		5%	Founder			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	Transfer of assets to Trust 1													
Year 1		10 000 000	500 000	125 000	38.0%	47 500	125 000	7.2%	9 000	250 000	7.2%	18 000	74 500	14.9%
Year 2		10 925 500	546 275	136 569	38.0%	51 896	136 569	7.2%	9 833	273 138	7.2%	19 666	81 395	14.9%
Year 3		11 936 655	596 833	149 208	38.0%	56 699	149 208	7.2%	10 743	298 416	7.2%	21 486	88 928	14.9%
Year 4		13 041 392	652 070	163 017	38.0%	61 947	163 017	9.0%	14 672	326 035	9.0%	29 343	105 961	16.3%
Year 5		14 239 570	711 979	177 995	38.0%	67 638	177 995	10.3%	18 308	355 989	10.3%	36 616	122 562	17.2%
Year 6		15 540 965	777 048	194 262	38.0%	73 820	194 262	10.3%	19 981	388 524	10.3%	39 962	133 763	17.2%
Year 7		16 961 299	848 065	212 016	38.0%	80 566	212 016	11.7%	24 870	424 032	11.7%	49 739	155 175	18.3%
Year 8		18 502 254	925 113	231 278	38.0%	87 886	231 278	13.3%	30 796	462 556	13.3%	61 592	180 274	19.5%
Year 9		20 172 206	1 008 610	252 153	38.0%	95 818	252 153	14.6%	36 774	504 305	14.6%	73 548	206 140	20.4%
Year 10		21 983 286	1 099 164	274 791	38.0%	104 421	274 791	14.6%	40 076	549 582	14.6%	80 151	224 647	20.4%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	23 956 968	1 197 848	299 462	38.0%	113 796	299 462	15.6%	46 781	598 924	25.0%	149 731	310 308	25.9%
Year 12		26 042 356	1 302 118	325 529	38.0%	123 701	325 529	17.8%	57 783	651 059	25.0%	162 765	344 249	26.4%
Year 13		28 302 343	1 415 117	353 779	38.0%	134 436	353 779	18.7%	66 146	707 559	25.0%	176 890	377 471	26.7%
Year 14		30 755 106	1 537 755	384 439	38.0%	146 087	384 439	19.5%	75 031	768 878	25.0%	192 219	413 337	26.9%
Year 15		33 417 279	1 670 864	417 716	38.0%	158 732	417 716	20.2%	84 524	835 432	25.0%	208 858	452 114	27.1%
Year 16		36 306 894	1 815 345	453 836	38.0%	172 458	453 836	21.9%	99 299	907 672	30.0%	272 302	544 059	30.0%
Year 17		39 393 524	1 969 676	492 419	38.0%	187 119	492 419	22.6%	111 401	984 838	30.0%	295 451	593 971	30.2%
Year 18		42 738 905	2 136 945	534 236	38.0%	203 010	534 236	23.3%	124 434	1 068 473	30.0%	320 542	647 986	30.3%
Year 19		46 364 810	2 318 240	579 560	38.0%	220 233	579 560	24.4%	141 687	1 159 120	30.0%	347 736	709 656	30.6%
Year 20		50 291 635	2 514 582	628 645	38.0%	238 885	628 645	25.7%	161 307	1 257 291	30.0%	377 187	777 380	30.9%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	54 543 419	2 727 171	681 793	38.0%	259 081	681 793	26.7%	181 941	1 363 585	35.0%	477 255	918 277	33.7%
Year 22		57 579 483	2 878 974	719 744	38.0%	273 503	719 744	27.6%	198 399	1 439 487	35.0%	503 820	975 722	33.9%
Year 23		60 771 709	3 038 585	759 646	38.0%	288 666	759 646	28.5%	216 176	1 519 293	35.0%	531 752	1 036 594	34.1%
Year 24		64 126 886	3 206 344	801 586	38.0%	304 603	801 586	29.2%	234 395	1 603 172	35.0%	561 110	1 100 108	34.3%

Table 49 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of <u>Trust 1: Capital</u> schedule	B = A x 0.05	C : Yr 1 - 30: = B / 4 Yr 31+: = 0	D : 38%	E = C x D	F: Yr 1 - 30: = B / 4 Yr 31 - 35: = B / 3 Yr 35 - 40: = B	G = per <u>effective tax rate table</u>	H = F x G	I : Yr 1 -30: = B / 2 Yr 31 - 35: = B x 2/3 Yr 36+: = 0	J : Yr 1 - 10: per <u>effective tax rate table</u>; Yr 11 - 15: 25.0% Yr 16 - 20: 30.0% Yr 21 - 25:	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 25		67 652 943	3 382 647	845 662	38.0%	321 351	845 662	29.2%	247 283	1 691 324	35.0%	591 963	1 160 598	34.3%
Year 26		71 363 924	3 568 196	892 049	38.0%	338 979	892 049	29.9%	267 018	1 784 098	38.0%	677 957	1 283 953	36.0%
Year 27		75 209 025	3 760 451	940 113	38.0%	357 243	940 113	30.5%	287 185	1 880 226	38.0%	714 486	1 358 913	36.1%
Year 28		79 243 235	3 962 162	990 540	38.0%	376 405	990 540	31.1%	308 038	1 981 081	38.0%	752 811	1 437 254	36.3%
Year 29		83 474 859	4 173 743	1 043 436	38.0%	396 506	1 043 436	31.6%	329 654	2 086 871	38.0%	793 011	1 519 170	36.4%
Year 30	Death of founder (at end of year)	87 912 402	4 395 620	1 098 905	38.0%	417 584	1 098 905	32.0%	352 101	2 197 810	38.0%	835 168	1 604 852	36.5%
Year 31		92 564 572	4 628 229	-	-	-	1 542 743	34.7%	535 775	3 085 486	39.0%	1 203 339	1 739 114	37.6%
Year 32		98 738 778	4 936 939	-	-	-	1 645 646	35.1%	577 962	3 291 293	39.0%	1 283 604	1 861 566	37.7%
Year 33		105 327 366	5 266 368	-	-	-	1 755 456	35.6%	625 375	3 510 912	39.0%	1 369 256	1 994 630	37.9%
Year 34		112 356 325	5 617 816	-	-	-	1 872 605	35.9%	672 550	3 745 211	39.0%	1 460 632	2 133 182	38.0%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	119 859 079	5 992 954	-	-	-	1 997 651	36.2%	722 669	3 995 303	39.0%	1 558 168	2 280 837	38.1%
Year 36		42 622 824	2 131 141	-	-	-	2 131 141	36.5%	778 304	-	-	-	778 304	36.5%
Year 37		44 309 384	2 215 469	-	-	-	2 215 469	36.7%	813 612	-	-	-	813 612	36.7%
Year 38		46 021 446	2 301 072	-	-	-	2 301 072	36.9%	849 327	-	-	-	849 327	36.9%
Year 39		47 754 685	2 387 734	-	-	-	2 387 734	37.0%	883 392	-	-	-	883 392	37.0%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	49 506 007	2 475 300	-	-	-	2 475 300	37.2%	919 833	-	-	-	919 833	37.2%
Year 41		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 42		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 43		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 44		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 45		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 46		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 47		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 48		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 49		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 50 – Comparison 3a (Trust scenario): Trust 2a and 2b combined income and income tax (excluding CGT)

TRUSTS 2a and 2b: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

Column L value transferred to column C of Trust 2a and 2b combined: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 2a and 2b combined: Capital schedule	B = A x 0.05	C : Yr 36 - 50: = B / 4	D : 39.0%	E = C x D	F: Yr 36 - 50: = B / 4	G = per effective tax rate table	H = F x G	I : Yr 36 -50: = B / 2	J : per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
	Annual taxable income generated:		5%	Founders (x2)			Spouse (x2)			Children (2 x 2 = 4)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 2)	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 4)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	Transfer of assets to Trust 1													
Year 1		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 2		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 3		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 4		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 5		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 6		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 7		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 8		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 9		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 10		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 12		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 13		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 14		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 15		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 16		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 17		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 18		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 19		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 20		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 22		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 23		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 24		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-

Table 50 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 2a and 2b combined: Capital schedule	B = A x 0.05	C : Yr 36 - 50: = B / 4	D : 39.0%	E = C x D	F: Yr 36 - 50: = B / 4	G = per effective tax rate table	H = F x G	I : Yr 36 -50: = B / 2	J : per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
	Annual taxable income generated:		5%	Founders (x2)			Spouse (x2)			Children (2 x 2 = 4)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 2)	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 4)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 25		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 26		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 27		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 28		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 29		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 30	Death of founder (at end of year)	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 31		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 32		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 33		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 34		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 36		72 371 815	3 618 591	904 648	39.0%	352 813	904 648	21.9%	197 937	1 809 295	21.9%	395 874	946 623	26.2%
Year 37		78 662 373	3 933 119	983 280	39.0%	383 479	983 280	22.6%	222 449	1 966 559	22.6%	444 898	1 050 826	26.7%
Year 38		85 477 784	4 273 889	1 068 472	39.0%	416 704	1 068 472	23.3%	248 869	2 136 945	23.3%	497 737	1 163 310	27.2%
Year 39		92 862 253	4 643 113	1 160 778	39.0%	452 703	1 160 778	24.4%	283 779	2 321 556	24.4%	567 557	1 304 039	28.1%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	100 844 439	5 042 222	1 260 555	39.0%	491 617	1 260 555	25.7%	323 452	2 521 111	25.7%	646 904	1 461 973	29.0%
Year 41		152 886 389	7 644 319	1 911 080	39.0%	745 321	1 911 080	31.1%	594 308	3 822 160	31.1%	1 188 615	2 528 244	33.1%
Year 42		165 646 784	8 282 339	2 070 585	39.0%	807 528	2 070 585	31.6%	654 162	4 141 170	31.6%	1 308 324	2 770 014	33.4%
Year 43		179 441 449	8 972 072	2 243 018	39.0%	874 777	2 243 018	32.4%	727 821	4 486 036	32.4%	1 455 641	3 058 239	34.1%
Year 44		194 327 355	9 716 368	2 429 092	39.0%	947 346	2 429 092	33.2%	805 509	4 858 184	33.2%	1 611 018	3 363 873	34.6%
Year 45		210 396 217	10 519 811	2 629 953	39.0%	1 025 682	2 629 953	33.8%	887 975	5 259 905	33.8%	1 775 950	3 689 607	35.1%
Year 46		227 746 231	11 387 312	2 846 828	39.0%	1 110 263	2 846 828	34.3%	975 915	5 693 656	34.3%	1 951 830	4 038 008	35.5%
Year 47		246 482 847	12 324 142	3 081 036	39.0%	1 201 604	3 081 036	34.7%	1 070 005	6 162 071	34.7%	2 140 009	4 411 618	35.8%
Year 48		266 719 514	13 335 976	3 333 994	39.0%	1 300 258	3 333 994	35.3%	1 176 861	6 667 988	35.3%	2 353 723	4 830 842	36.2%
Year 49		288 560 623	14 428 031	3 607 008	39.0%	1 406 733	3 607 008	35.8%	1 290 369	7 214 016	35.8%	2 580 738	5 277 840	36.6%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	312 138 845	15 606 942	3 901 736	39.0%	1 521 677	3 901 736	36.2%	1 411 490	7 803 471	36.2%	2 822 980	5 756 146	36.9%

Table 51 – Comparison 3a (Trust scenario): Other taxes – CGT and donations tax on transfers and disposals

TRUST 1, 2a and 2b: OTHER TAXES (CGT and Estate duty) - CGT and donations tax on transfers and disposals

Annual exemption and inclusion %: 40 000 40%

			CGT on transfer							
		A	B	C	D	E	F	G	H	I
		A = B + J	B = C x H x G x (D - E - F)	C: refer I	D: refer I	E: refer I	F = 40000	G = 0.4	H: refer I	I
Year	Scenario event	TOTAL TAXES ON TRANSFERS AND DISPOSALS	CGT on transfer (total for all persons)	No. of persons	Proceeds (per person)	Base cost (per person)	Annual exemption	Inclusion %	Income tax rate	Description
Year 0	Transfer of assets to Trust 1	2 733 920	753 920	1	10 000 000	5 000 000	40 000	40.0%	38.0%	- CGT on transfer of assets to Trust 1. - Base cost and Proceeds as per starting parameter assumptions - Income tax rate equals assumption for income tax of founder at start of trust.
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	12 873 833	12 873 833	2	42 622 824	3 333 333	40 000	40.0%	41.0%	- CGT on distribution of 2/3rds of Trust 1 assets to 2 children (1/3 each) to set up own trusts (Trusts 2a and 2b). - Base cost equals 1/3 of initial funding in Year 0. - Proceeds equals half of trust capital distributed per Trust 1: Capital schedule, column F, Yr 35 - Assume maximum income tax rate due to additional taxable income.
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	7 848 096	7 848 096	2	25 633 788	1 666 667	40 000	40.0%	41.0%	- CGT on distribution of remainder of Trust 1 assets to 2 children (1/2 each) to be sold to trusts (Trusts 2a and 2b). - Base cost equals 1/3 of initial funding in Year 0 divided by 2 (per child). - Proceeds equals half of trust capital distributed per Trust 1: Capital schedule, column F, Yr 40 - Assume maximum income tax rate due to additional taxable income.
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	36 323 587	36 323 587	8	42 199 573	14 473 912	40 000	40.0%	41.0%	- CGT on distribution of all trust assets in Trust 2a and 2b for restructuring of trusts. - Base cost equals initial funding into Trusts 2a and 2b in year 36 plus additional funding transferred in year 40 divided by 8 beneficiaries (2 families of 4 people each): add value in Trust 2a and 2b: Capital schedule, column A, Yr 35 and value in Trust 2a and 2b: Capital schedule, column E, Yr 40; divide sum by 8 - Proceeds equals Trust 2a and 2b: Capital schedule, column D, Yr 50 divided by 8 - Assume maximum income tax rate due to additional taxable income.

Annual donation free of donations tax 100 000 20%

		Donations tax on transfer					
		J	K	L	M	N	O
		J = M x N	K: refer O	L = 100000	M = K - L	N = 0.2	O
Year	Scenario event	Donations tax on transfer	Deemed donation	Annual exemption	Taxable donation	Donations tax rate	Description
Year 0	Transfer of assets to Trust 1	1 980 000	10 000 000	(100 000)	9 900 000	20%	Sale of assets to trust on loan account treated as deemed donation Value of donation equals market value of asset sold to trust

Table 52 – Comparison 3a (Trust scenario): Other taxes – Taxes on death

TRUST 1, 2a and 2b: OTHER TAXES (CGT and Estate duty) - Taxes on death

s 4A abatement and estate duty %: 15 000 000 20%

Dutiable estate value at which higher estate duty % levied: 15 000 000 25%

			Estate duty on death						
		A	B	C	D	E	F	G	H
		A = B + I	B = F x G	C: refer H	D: refer H	E =	F = C - D - E	G = 0.2 and on portion above 15000000 apply 0.25	H
Year	Scenario event	TOTAL TAXES ON DEATH	ESTATE DUTY ON DEATH	Estate asset value	Deductions (if bequeathed to spouse, s 4(q) deduction)	Estate duty abatement (s 4A)	Dutiable estate	Estate duty rate	Description
Year 30	Death of founder (at end of year)	-	-	6 513 223	-	(6 513 223)	-	20.0%	Estate duty on loan account to Trust 1 - Refer Trust 1: loan accounts (founder) schedule, Column F, Yr 30
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	-	-	-	-	-	20.0%	No estate duty on loan account to Trust 1 (no loan account left)

Annual exemption and inclusion %: 300 000 40%

		CGT on death							
		I	J	K	L	M	N	O	P
		I = J x O x N x (K - L - M)	J: refer P	K: refer P	L: refer P	M = 300000	N = 0.4	O: refer P	P
Year	Scenario event	CGT ON DEATH	No. of persons	Proceeds (per person)	Base cost (per person)	Exemption in year of death	Inclusion %	Income tax rate	Description
Year 30	Death of founder (at end of year)	-							No CGT on loan account (*donatio mortis causa* or base cost = proceeds) Payment of estate duty from trust asset also assumed to be from cash reserves therefore no additional CGT due to disposal
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-							No CGT on loan account (*donatio mortis causa*)

Table 53 – Comparison 3a (Trust scenario): Trust 1 loan account – founder

TRUST 1: LOAN ACCOUNT: Founder

Annual donation free of donations tax: 100 000

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column C of Trust 1: Income and income tax schedule	C = Column E of Trust 1: Income and income tax schedule	D = Founder's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	**Scenario event**	**Loan account: founder (start of year)**	**Distributions of income on loan account**	**LESS Cash withdrawal - tax on distribution**	**LESS Cash withdrawal - post-retirement withdrawals**	**Annual donation (max R100,000)**	**Loan account: founder (end of year)**	**Adjustments**	**Description**	**Trust 1 capital (end of year)**	**Loan account as percentage of Trust 1 capital**
Year 0	Transfer of assets to Trust 1						10 000 000			10 000 000	100%
Year 1		10 000 000	125 000	(47 500)	-	(100 000)	9 977 500			10 925 500	91%
Year 2		9 977 500	136 569	(51 896)	-	(100 000)	9 962 173			11 936 655	83%
Year 3		9 962 173	149 208	(56 699)	-	(100 000)	9 954 682			13 041 392	76%
Year 4		9 954 682	163 017	(61 947)	-	(100 000)	9 955 752			14 239 570	70%
Year 5		9 955 752	177 995	(67 638)	-	(100 000)	9 966 109			15 540 965	64%
Year 6		9 966 109	194 262	(73 820)	-	(100 000)	9 986 552			16 961 299	59%
Year 7		9 986 552	212 016	(80 566)	-	(100 000)	10 018 002			18 502 254	54%
Year 8		10 018 002	231 278	(87 886)	-	(100 000)	10 061 394			20 172 206	50%
Year 9		10 061 394	252 153	(95 818)	-	(100 000)	10 117 729			21 983 286	46%
Year 10		10 117 729	274 791	(104 421)	-	(100 000)	10 188 099			23 956 968	43%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	10 188 099	299 462	(113 796)	-	(100 000)	10 273 766			26 042 356	39%
Year 12		10 273 766	325 529	(123 701)	-	(100 000)	10 375 594			28 302 343	37%
Year 13		10 375 594	353 779	(134 436)	-	(100 000)	10 494 937			30 755 106	34%
Year 14		10 494 937	384 439	(146 087)	-	(100 000)	10 633 289			33 417 279	32%
Year 15		10 633 289	417 716	(158 732)	-	(100 000)	10 792 273			36 306 894	30%
Year 16		10 792 273	453 836	(172 458)	-	(100 000)	10 973 652			39 393 524	28%
Year 17		10 973 652	492 419	(187 119)	-	(100 000)	11 178 951			42 738 905	26%
Year 18		11 178 951	534 236	(203 010)	-	(100 000)	11 410 178			46 364 810	25%
Year 19		11 410 178	579 560	(220 233)	-	(100 000)	11 669 505			50 291 635	23%
Year 20		11 669 505	628 645	(238 885)	-	(100 000)	11 959 265			54 543 419	22%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	11 959 265	681 793	(259 081)	(750 000)	(100 000)	11 531 977			57 579 483	20%
Year 22		11 531 977	719 744	(273 503)	(795 000)	(100 000)	11 083 218			60 771 709	18%
Year 23		11 083 218	759 646	(288 666)	(842 700)	(100 000)	10 611 499			64 126 886	17%
Year 24		10 611 499	801 586	(304 603)	(893 262)	(100 000)	10 115 220			67 652 943	15%

Table 53 (continued)

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column C of Trust 1: Income and income tax schedule	C = Column E of Trust 1: Income and income tax schedule	D = Founder's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	Scenario event	Loan account: founder (start of year)	Distributions of income on loan account	LESS Cash withdrawal - tax on distribution	LESS Cash withdrawal - post-retirement withdrawals	Annual donation (max R100,000)	Loan account: founder (end of year)	Adjustments	Description	Trust 1 capital (end of year)	Loan account as percentage of Trust 1 capital
Year 25		10 115 220	845 662	(321 351)	(946 858)	(100 000)	9 592 673			71 363 924	13%
Year 26		9 592 673	892 049	(338 979)	(1 003 669)	(100 000)	9 042 074			75 209 025	12%
Year 27		9 042 074	940 113	(357 243)	(1 063 889)	(100 000)	8 461 054			79 243 235	11%
Year 28		8 461 054	990 540	(376 405)	(1 127 723)	(100 000)	7 847 467			83 474 859	9%
Year 29		7 847 467	1 043 436	(396 506)	(1 195 386)	(100 000)	7 199 011			87 912 402	8%
Year 30	Death of founder (at end of year)	7 199 011	1 098 905	(417 584)	(1 267 109)	(100 000)	6 513 223	(6 513 223)	Founder bequeaths loan account to Trust 1	92 564 572	7%
Year 31		-	-	-	-	-	-				
Year 32		-	-	-	-	-	-				
Year 33		-	-	-	-	-	-				
Year 34		-	-	-	-	-	-				
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	-	-				
Year 36		-	-	-	-	-	-				
Year 37		-	-	-	-	-	-				
Year 38		-	-	-	-	-	-				
Year 39		-	-	-	-	-	-				
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	-	-	-	-	-				
Year 41		-	-	-	-	-	-				
Year 42		-	-	-	-	-	-				
Year 43		-	-	-	-	-	-				
Year 44		-	-	-	-	-	-				
Year 45		-	-	-	-	-	-				
Year 46		-	-	-	-	-	-				
Year 47		-	-	-	-	-	-				
Year 48		-	-	-	-	-	-				
Year 49		-	-	-	-	-	-				
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-				

Table 54 – Comparison 3a (Trust scenario): Trust 1 loan account – spouse

TRUST 1: LOAN ACCOUNT: Spouse

Annual donation free of donations tax: 100 000

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column F of Trust 1: Income and income tax schedule	C = Column H of Trust 1: Income and income tax schedule	D = Spouse's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	**Scenario event**	**Loan account: spouse (start of year)**	**Distributions of income on loan account**	**LESS Cash withdrawal - tax on distribution**	**LESS Cash withdrawal - post-retirement withdrawals**	**Annual donation (max R100,000)**	**Loan account: spouse (end of year)**	**Adjustments**	**Description**	**Trust 1 capital (end of year)**	**Loan account as percentage of Trust 1 capital**
Year 0	Transfer of assets to Trust 1						-			10 000 000	0%
Year 1		-	125 000	(9 000)	-	(100 000)	16 000			10 925 500	0%
Year 2		16 000	136 569	(9 833)	-	(100 000)	42 736			11 936 655	0%
Year 3		42 736	149 208	(10 743)	-	(100 000)	81 201			13 041 392	1%
Year 4		81 201	163 017	(14 672)	-	(100 000)	129 547			14 239 570	1%
Year 5		129 547	177 995	(18 308)	-	(100 000)	189 233			15 540 965	1%
Year 6		189 233	194 262	(19 981)	-	(100 000)	263 514			16 961 299	2%
Year 7		263 514	212 016	(24 870)	-	(100 000)	350 661			18 502 254	2%
Year 8		350 661	231 278	(30 796)	-	(100 000)	451 143			20 172 206	2%
Year 9		451 143	252 153	(36 774)	-	(100 000)	566 522			21 983 286	3%
Year 10		566 522	274 791	(40 076)	-	(100 000)	701 237			23 956 968	3%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	701 237	299 462	(46 781)	-	(100 000)	853 918			26 042 356	3%
Year 12		853 918	325 529	(57 783)	-	(100 000)	1 021 665			28 302 343	4%
Year 13		1 021 665	353 779	(66 146)	-	(100 000)	1 209 298			30 755 106	4%
Year 14		1 209 298	384 439	(75 031)	-	(100 000)	1 418 706			33 417 279	4%
Year 15		1 418 706	417 716	(84 524)	-	(100 000)	1 651 898			36 306 894	5%
Year 16		1 651 898	453 836	(99 299)	-	(100 000)	1 906 435			39 393 524	5%
Year 17		1 906 435	492 419	(111 401)	-	(100 000)	2 187 453			42 738 905	5%
Year 18		2 187 453	534 236	(124 434)	-	(100 000)	2 497 255			46 364 810	5%
Year 19		2 497 255	579 560	(141 687)	-	(100 000)	2 835 129			50 291 635	6%
Year 20		2 835 129	628 645	(161 307)	-	(100 000)	3 202 467			54 543 419	6%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	3 202 467	681 793	(181 941)	(750 000)	(100 000)	2 852 318			57 579 483	5%
Year 22		2 852 318	719 744	(198 399)	(795 000)	(100 000)	2 478 663			60 771 709	4%
Year 23		2 478 663	759 646	(216 176)	(842 700)	(100 000)	2 079 433			64 126 886	3%
Year 24		2 079 433	801 586	(234 395)	(893 262)	(100 000)	1 653 362			67 652 943	2%

Table 54 (continued)

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column F of Trust 1: Income and income tax schedule	C = Column H of Trust 1: Income and income tax schedule	D = Spouse's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	Scenario event	Loan account: spouse (start of year)	Distributions of income on loan account	LESS Cash withdrawal - tax on distribution	LESS Cash withdrawal - post-retirement withdrawals	Annual donation (max R100,000)	Loan account: spouse (end of year)	Adjustments	Description	Trust 1 capital (end of year)	Loan account as percentage of Trust 1 capital
Year 25		1 653 362	845 662	(247 283)	(946 858)	(100 000)	1 204 883			71 363 924	2%
Year 26		1 204 883	892 049	(267 018)	(1 003 669)	(100 000)	726 245			75 209 025	1%
Year 27		726 245	940 113	(287 185)	(1 063 889)	(100 000)	215 284			79 243 235	0%
Year 28		215 284	990 540	(308 038)	(1 127 723)	-	-			83 474 859	0%
Year 29		-	1 043 436	(329 654)	(1 195 386)	-	-			87 912 402	0%
Year 30	Death of founder (at end of year)	-	1 098 905	(352 101)	(1 267 109)	-	-			92 564 572	0%
Year 31		-	1 542 743	(535 775)	(1 343 136)	-	-			98 738 778	0%
Year 32		-	1 645 646	(577 962)	(1 423 724)	-	-			105 327 366	0%
Year 33		-	1 755 456	(625 375)	(1 509 147)	-	-			112 356 325	0%
Year 34		-	1 872 605	(672 550)	(1 599 696)	-	-			119 859 079	0%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	1 997 651	(722 669)	(1 695 678)	-	-			127 868 472	0%
Year 36		-	2 131 141	(778 304)	(1 797 419)	-	-			44 309 384	0%
Year 37		-	2 215 469	(813 612)	(1 905 264)	-	-			46 021 446	0%
Year 38		-	2 301 072	(849 327)	(2 019 580)	-	-			47 754 685	0%
Year 39		-	2 387 734	(883 392)	(2 140 754)	-	-			49 506 007	0%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	2 475 300	(919 833)	(2 269 200)	-	-	-	Spouse bequeaths loan account to Trust 1	51 267 576	0%
Year 41		-	-	-	-	-	-				
Year 42		-	-	-	-	-	-				
Year 43		-	-	-	-	-	-				
Year 44		-	-	-	-	-	-				
Year 45		-	-	-	-	-	-				
Year 46		-	-	-	-	-	-				
Year 47		-	-	-	-	-	-				
Year 48		-	-	-	-	-	-				
Year 49		-	-	-	-	-	-				
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-				

Table 55 – Comparison 3a (Trust scenario): Trust summary calculated using capital year-end values BEFORE year-end adjustments

TRUSTS - SUMMARY (using capital year-end values before year-end adjustments)

										VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column E of Trust 1: Capital schedule	B = Column D of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT + donations tax on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, BEFORE adjustments)	Trust 2a + 2b capital (end of year, BEFORE adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT or Donations tax on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT, Donations Tax and Estate Duty	Cumulative CGT, Donations Tax and Estate Duty / Capital
Year 0	Transfer of assets to Trust 1	10 000 000	-	10 000 000	-	-	2 733 920	-	2 733 920	2 733 920	27.34%	2 733 920	27.34%
Year 1		10 925 500	-	10 925 500	74 500	-	-	-	74 500	2 808 420	25.71%	2 733 920	25.02%
Year 2		11 936 655	-	11 936 655	81 395	-	-	-	81 395	2 889 815	24.21%	2 733 920	22.90%
Year 3		13 041 392	-	13 041 392	88 928	-	-	-	88 928	2 978 743	22.84%	2 733 920	20.96%
Year 4		14 239 570	-	14 239 570	105 961	-	-	-	105 961	3 084 704	21.66%	2 733 920	19.20%
Year 5		15 540 965	-	15 540 965	122 562	-	-	-	122 562	3 207 266	20.64%	2 733 920	17.59%
Year 6		16 961 299	-	16 961 299	133 763	-	-	-	133 763	3 341 030	19.70%	2 733 920	16.12%
Year 7		18 502 254	-	18 502 254	155 175	-	-	-	155 175	3 496 204	18.90%	2 733 920	14.78%
Year 8		20 172 206	-	20 172 206	180 274	-	-	-	180 274	3 676 478	18.23%	2 733 920	13.55%
Year 9		21 983 286	-	21 983 286	206 140	-	-	-	206 140	3 882 618	17.66%	2 733 920	12.44%
Year 10		23 956 968	-	23 956 968	224 647	-	-	-	224 647	4 107 265	17.14%	2 733 920	11.41%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	26 042 356	-	26 042 356	310 308	-	-	-	310 308	4 417 573	16.96%	2 733 920	10.50%
Year 12		28 302 343	-	28 302 343	344 249	-	-	-	344 249	4 761 822	16.82%	2 733 920	9.66%
Year 13		30 755 106	-	30 755 106	377 471	-	-	-	377 471	5 139 293	16.71%	2 733 920	8.89%
Year 14		33 417 279	-	33 417 279	413 337	-	-	-	413 337	5 552 631	16.62%	2 733 920	8.18%
Year 15		36 306 894	-	36 306 894	452 114	-	-	-	452 114	6 004 745	16.54%	2 733 920	7.53%
Year 16		39 393 524	-	39 393 524	544 059	-	-	-	544 059	6 548 803	16.62%	2 733 920	6.94%
Year 17		42 738 905	-	42 738 905	593 971	-	-	-	593 971	7 142 775	16.71%	2 733 920	6.40%
Year 18		46 364 810	-	46 364 810	647 986	-	-	-	647 986	7 790 761	16.80%	2 733 920	5.90%
Year 19		50 291 635	-	50 291 635	709 656	-	-	-	709 656	8 500 416	16.90%	2 733 920	5.44%
Year 20		54 543 419	-	54 543 419	777 380	-	-	-	777 380	9 277 796	17.01%	2 733 920	5.01%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	57 579 483	-	57 579 483	918 277	-	-	-	918 277	10 196 073	17.71%	2 733 920	4.75%
Year 22		60 771 709	-	60 771 709	975 722	-	-	-	975 722	11 171 796	18.38%	2 733 920	4.50%
Year 23		64 126 886	-	64 126 886	1 036 594	-	-	-	1 036 594	12 208 390	19.04%	2 733 920	4.26%
Year 24		67 652 943	-	67 652 943	1 100 108	-	-	-	1 100 108	13 308 498	19.67%	2 733 920	4.04%

Table 55 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column E of Trust 1: Capital schedule	B = Column D of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT + donations tax on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, BEFORE adjustments)	Trust 2a + 2b capital (end of year, BEFORE adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT or Donations tax on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT, Donations Tax and Estate Duty	Cumulative CGT, Donations Tax and Estate Duty / Capital
Year 25		71 363 924	-	71 363 924	1 160 598	-	-	-	1 160 598	14 469 095	20.28%	2 733 920	3.83%
Year 26		75 209 025	-	75 209 025	1 283 953	-	-	-	1 283 953	15 753 049	20.95%	2 733 920	3.64%
Year 27		79 243 235	-	79 243 235	1 358 913	-	-	-	1 358 913	17 111 962	21.59%	2 733 920	3.45%
Year 28		83 474 859	-	83 474 859	1 437 254	-	-	-	1 437 254	18 549 217	22.22%	2 733 920	3.28%
Year 29		87 912 402	-	87 912 402	1 519 170	-	-	-	1 519 170	20 068 387	22.83%	2 733 920	3.11%
Year 30	Death of founder (at end of year)	92 564 572	-	92 564 572	1 604 852	-	-	-	1 604 852	21 673 239	23.41%	2 733 920	2.95%
Year 31		98 738 778	-	98 738 778	1 739 114	-	-	-	1 739 114	23 412 354	23.71%	2 733 920	2.77%
Year 32		105 327 366	-	105 327 366	1 861 566	-	-	-	1 861 566	25 273 920	24.00%	2 733 920	2.60%
Year 33		112 356 325	-	112 356 325	1 994 630	-	-	-	1 994 630	27 268 551	24.27%	2 733 920	2.43%
Year 34		119 859 079	-	119 859 079	2 133 182	-	-	-	2 133 182	29 401 733	24.53%	2 733 920	2.28%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	127 868 472	-	127 868 472	2 280 837	-	12 873 833	-	15 154 670	44 556 403	34.85%	15 607 753	12.21%
Year 36		44 309 384	78 662 373	122 971 757	778 304	946 623	-	-	1 724 927	46 281 330	37.64%	15 607 753	12.69%
Year 37		46 021 446	85 477 784	131 499 231	813 612	1 050 826	-	-	1 864 438	48 145 768	36.61%	15 607 753	11.87%
Year 38		47 754 685	92 862 253	140 616 938	849 327	1 163 310	-	-	2 012 637	50 158 405	35.67%	15 607 753	11.10%
Year 39		49 506 007	100 844 439	150 350 446	883 392	1 304 039	-	-	2 187 431	52 345 836	34.82%	15 607 753	10.38%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	51 267 576	109 466 910	160 734 485	919 833	1 461 973	7 848 096	-	10 229 902	62 575 737	38.93%	23 455 849	14.59%
Year 41		-	165 646 784	165 646 784	-	2 528 244	-	-	2 528 244	65 103 981	39.30%	23 455 849	14.16%
Year 42		-	179 441 449	179 441 449	-	2 770 014	-	-	2 770 014	67 873 995	37.83%	23 455 849	13.07%
Year 43		-	194 327 355	194 327 355	-	3 058 239	-	-	3 058 239	70 932 234	36.50%	23 455 849	12.07%
Year 44		-	210 396 217	210 396 217	-	3 363 873	-	-	3 363 873	74 296 107	35.31%	23 455 849	11.15%
Year 45		-	227 746 231	227 746 231	-	3 689 607	-	-	3 689 607	77 985 715	34.24%	23 455 849	10.30%
Year 46		-	246 482 847	246 482 847	-	4 038 008	-	-	4 038 008	82 023 722	33.28%	23 455 849	9.52%
Year 47		-	266 719 514	266 719 514	-	4 411 618	-	-	4 411 618	86 435 340	32.41%	23 455 849	8.79%
Year 48		-	288 560 623	288 560 623	-	4 830 842	-	-	4 830 842	91 266 182	31.63%	23 455 849	8.13%
Year 49		-	312 138 845	312 138 845	-	5 277 840	-	-	5 277 840	96 544 022	30.93%	23 455 849	7.51%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	337 596 584	337 596 584	-	5 756 146	36 323 587	-	42 079 734	138 623 756	41.06%	59 779 436	17.71%

9.3.6 *Comparison 3a – Personal estate scenario supporting schedules*

Table 56 – Comparison 3a (Personal estate scenario): Capital value

PERSONAL ESTATE: ESTATE VALUE

Annual capital grow 10%

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Personal estate: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	E: refer G	G	H = E + F
Year	**Scenario event**	**Capital value** (start of year)	**Capital growth** (includes income reinvested net of expenses)	**Cash withdrawals to pay tax**	**Cash withdrawals post-retirement**	**Capital value** (end of year, before adjustments)	**Adjustments**	**Description of adjustments**	**Capital value** (end of year, after adjustments)
Year 0	Assets kept in personal estate					10 000 000			10 000 000
Year 1		10 000 000	1 000 000	(190 000)	-	10 810 000			10 810 000
Year 2		10 810 000	1 081 000	(205 390)	-	11 685 610			11 685 610
Year 3		11 685 610	1 168 561	(222 027)	-	12 632 144			12 632 144
Year 4		12 632 144	1 263 214	(240 011)	-	13 655 348			13 655 348
Year 5		13 655 348	1 365 535	(259 452)	-	14 761 431			14 761 431
Year 6		14 761 431	1 476 143	(280 467)	-	15 957 107			15 957 107
Year 7		15 957 107	1 595 711	(303 185)	-	17 249 633			17 249 633
Year 8		17 249 633	1 724 963	(327 743)	-	18 646 853			18 646 853
Year 9		18 646 853	1 864 685	(354 290)	-	20 157 248			20 157 248
Year 10		20 157 248	2 015 725	(382 988)	-	21 789 985			21 789 985
Year 11	No event	21 789 985	2 178 999	(414 010)	-	23 554 974			23 554 974
Year 12		23 554 974	2 355 497	(447 545)	-	25 462 927			25 462 927
Year 13		25 462 927	2 546 293	(483 796)	-	27 525 424			27 525 424
Year 14		27 525 424	2 752 542	(522 983)	-	29 754 984			29 754 984
Year 15		29 754 984	2 975 498	(565 345)	-	32 165 137			32 165 137
Year 16		32 165 137	3 216 514	(611 138)	-	34 770 513			34 770 513
Year 17		34 770 513	3 477 051	(660 640)	-	37 586 925			37 586 925
Year 18		37 586 925	3 758 692	(714 152)	-	40 631 466			40 631 466
Year 19		40 631 466	4 063 147	(771 998)	-	43 922 615			43 922 615
Year 20		43 922 615	4 392 261	(834 530)	-	47 480 346			47 480 346
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	47 480 346	4 748 035	(902 127)	(1 500 000)	49 826 254			49 826 254
Year 22		49 826 254	4 982 625	(946 699)	(1 590 000)	52 272 181			52 272 181
Year 23		52 272 181	5 227 218	(993 171)	(1 685 400)	54 820 828			54 820 828
Year 24		54 820 828	5 482 083	(1 041 596)	(1 786 524)	57 474 791			57 474 791

Table 56 (continued)

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Personal estate: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	E: refer G	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash withdrawals to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 25		57 474 791	5 747 479	(1 092 021)	(1 893 715)	60 236 533			60 236 533
Year 26		60 236 533	6 023 653	(1 144 494)	(2 007 338)	63 108 354			63 108 354
Year 27		63 108 354	6 310 835	(1 199 490)	(2 127 779)	66 091 921			66 091 921
Year 28		66 091 921	6 609 192	(1 260 684)	(2 255 445)	69 184 983			69 184 983
Year 29		69 184 983	6 918 498	(1 323 971)	(2 390 772)	72 388 738			72 388 738
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	72 388 738	7 238 874	(1 389 392)	(2 534 218)	75 704 001	(14 426 000)	Reduced by estate duty and CGT due on death of founder / owner Refer Personal estate: Other taxes - Taxes on death schedule, column A, Yr 30	61 278 001
Year 31		61 278 001	6 127 800	(1 161 701)	(1 343 136)	64 900 964			64 900 964
Year 32		64 900 964	6 490 096	(1 235 076)	(1 423 724)	68 732 260			68 732 260
Year 33		68 732 260	6 873 226	(1 313 929)	(1 509 147)	72 782 409			72 782 409
Year 34		72 782 409	7 278 241	(1 396 948)	(1 599 696)	77 064 006			77 064 006
Year 35	No event	77 064 006	7 706 401	(1 485 665)	(1 695 678)	81 589 063			81 589 063
Year 36		81 589 063	8 158 906	(1 577 823)	(1 797 419)	86 372 728			86 372 728
Year 37		86 372 728	8 637 273	(1 676 164)	(1 905 264)	91 428 573			91 428 573
Year 38		91 428 573	9 142 857	(1 779 774)	(2 019 580)	96 772 077			96 772 077
Year 39		96 772 077	9 677 208	(1 889 002)	(2 140 754)	102 419 529			102 419 529
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	102 419 529	10 241 953	(2 005 144)	(2 269 200)	108 387 137	(39 503 075)	Reduced by estate duty and CGT due on death of spouse Refer Personal estate: Other taxes - Taxes on death schedule, column A, Yr 40	68 884 063
Year 41		68 884 063	6 888 406	(1 221 539)	-	74 550 930			74 550 930
Year 42		74 550 930	7 455 093	(1 338 755)	-	80 667 267			80 667 267
Year 43		80 667 267	8 066 727	(1 463 972)	-	87 270 022			87 270 022
Year 44		87 270 022	8 727 002	(1 598 119)	-	94 398 905			94 398 905
Year 45		94 398 905	9 439 891	(1 746 241)	-	102 092 555			102 092 555
Year 46		102 092 555	10 209 255	(1 904 589)	-	110 397 221			110 397 221
Year 47		110 397 221	11 039 722	(2 074 326)	-	119 362 618			119 362 618
Year 48		119 362 618	11 936 262	(2 256 623)	-	129 042 256			129 042 256
Year 49		129 042 256	12 904 226	(2 455 696)	-	139 490 786			139 490 786
Year 50	Sale of all assets by children	139 490 786	13 949 079	(2 669 391)	-	150 770 474	(13 416 251)	Reduced by CGT as result of sale Refer Personal estate: Other taxes - CGT on transfer schedule, column A, Yr 50	137 354 222

Table 57 – Comparison 3a (Personal estate scenario): Income and income tax (excluding CGT)

PERSONAL ESTATE: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table belo

Column L value transferred to column C of Personal estate: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Personal estate: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B Yr 31+: = 0	D = 38%, unless effective tax rate table gives higher amount	E = C x D	F: Yr 1 - 30: = 0 Yr 31 - 40: = B Yr 41 - 50: = 0	G = per effective tax rate table	H = F x G	I : Yr 1 -40: = 0 Yr 41 - 50: = B	J = per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder / Owner			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	*Assets kept in personal estate*													
Year 1		10 000 000	500 000	500 000	38.0%	190 000	-	0.0%	-	-	0.0%	-	190 000	38.0%
Year 2		10 810 000	540 500	540 500	38.0%	205 390	-	0.0%	-	-	0.0%	-	205 390	38.0%
Year 3		11 685 610	584 281	584 281	38.0%	222 027	-	0.0%	-	-	0.0%	-	222 027	38.0%
Year 4		12 632 144	631 607	631 607	38.0%	240 011	-	0.0%	-	-	0.0%	-	240 011	38.0%
Year 5		13 655 348	682 767	682 767	38.0%	259 452	-	0.0%	-	-	0.0%	-	259 452	38.0%
Year 6		14 761 431	738 072	738 072	38.0%	280 467	-	0.0%	-	-	0.0%	-	280 467	38.0%
Year 7		15 957 107	797 855	797 855	38.0%	303 185	-	0.0%	-	-	0.0%	-	303 185	38.0%
Year 8		17 249 633	862 482	862 482	38.0%	327 743	-	0.0%	-	-	0.0%	-	327 743	38.0%
Year 9		18 646 853	932 343	932 343	38.0%	354 290	-	0.0%	-	-	0.0%	-	354 290	38.0%
Year 10		20 157 248	1 007 862	1 007 862	38.0%	382 988	-	0.0%	-	-	0.0%	-	382 988	38.0%
Year 11	No event	21 789 985	1 089 499	1 089 499	38.0%	414 010	-	0.0%	-	-	0.0%	-	414 010	38.0%
Year 12		23 554 974	1 177 749	1 177 749	38.0%	447 545	-	0.0%	-	-	0.0%	-	447 545	38.0%
Year 13		25 462 927	1 273 146	1 273 146	38.0%	483 796	-	0.0%	-	-	0.0%	-	483 796	38.0%
Year 14		27 525 424	1 376 271	1 376 271	38.0%	522 983	-	0.0%	-	-	0.0%	-	522 983	38.0%
Year 15		29 754 984	1 487 749	1 487 749	38.0%	565 345	-	0.0%	-	-	0.0%	-	565 345	38.0%
Year 16		32 165 137	1 608 257	1 608 257	38.0%	611 138	-	0.0%	-	-	0.0%	-	611 138	38.0%
Year 17		34 770 513	1 738 526	1 738 526	38.0%	660 640	-	0.0%	-	-	0.0%	-	660 640	38.0%
Year 18		37 586 925	1 879 346	1 879 346	38.0%	714 152	-	0.0%	-	-	0.0%	-	714 152	38.0%
Year 19		40 631 466	2 031 573	2 031 573	38.0%	771 998	-	0.0%	-	-	0.0%	-	771 998	38.0%
Year 20		43 922 615	2 196 131	2 196 131	38.0%	834 530	-	0.0%	-	-	0.0%	-	834 530	38.0%

Table 57 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Personal estate: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B Yr 31+: = 0	D = 38%, unless effective tax rate table gives higher amount	E = C x D	F: Yr 1 - 30: = 0 Yr 31 - 40: = B Yr 41 - 50: = 0	G = per effective tax rate table	H = F x G	I : Yr 1 -40: = 0 Yr 41 - 50: = B	J = per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder / Owner			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 21	Founder retires, tax rate remains the same; Founder	47 480 346	2 374 017	2 374 017	38.0%	902 127	-	0.0%	-	-	0.0%	-	902 127	38.0%
Year 22		49 826 254	2 491 313	2 491 313	38.0%	946 699	-	0.0%	-	-	0.0%	-	946 699	38.0%
Year 23		52 272 181	2 613 609	2 613 609	38.0%	993 171	-	0.0%	-	-	0.0%	-	993 171	38.0%
Year 24		54 820 828	2 741 041	2 741 041	38.0%	1 041 596	-	0.0%	-	-	0.0%	-	1 041 596	38.0%
Year 25		57 474 791	2 873 740	2 873 740	38.0%	1 092 021	-	0.0%	-	-	0.0%	-	1 092 021	38.0%
Year 26		60 236 533	3 011 827	3 011 827	38.0%	1 144 494	-	0.0%	-	-	0.0%	-	1 144 494	38.0%
Year 27		63 108 354	3 155 418	3 155 418	38.0%	1 199 490	-	0.0%	-	-	0.0%	-	1 199 490	38.0%
Year 28		66 091 921	3 304 596	3 304 596	38.1%	1 260 684	-	0.0%	-	-	0.0%	-	1 260 684	38.1%
Year 29		69 184 983	3 459 249	3 459 249	38.3%	1 323 971	-	0.0%	-	-	0.0%	-	1 323 971	38.3%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	72 388 738	3 619 437	3 619 437	38.4%	1 389 392	-	0.0%	-	-	0.0%	-	1 389 392	38.4%
Year 31		61 278 001	3 063 900	-	-	-	3 063 900	37.9%	1 161 701	-	0.0%	-	1 161 701	37.9%
Year 32		64 900 964	3 245 048	-	-	-	3 245 048	38.1%	1 235 076	-	0.0%	-	1 235 076	38.1%
Year 33		68 732 260	3 436 613	-	-	-	3 436 613	38.2%	1 313 929	-	0.0%	-	1 313 929	38.2%
Year 34		72 782 409	3 639 120	-	-	-	3 639 120	38.4%	1 396 948	-	0.0%	-	1 396 948	38.4%
Year 35	No event	77 064 006	3 853 200	-	-	-	3 853 200	38.6%	1 485 665	-	0.0%	-	1 485 665	38.6%
Year 36		81 589 063	4 079 453	-	-	-	4 079 453	38.7%	1 577 823	-	0.0%	-	1 577 823	38.7%
Year 37		86 372 728	4 318 636	-	-	-	4 318 636	38.8%	1 676 164	-	0.0%	-	1 676 164	38.8%
Year 38		91 428 573	4 571 429	-	-	-	4 571 429	38.9%	1 779 774	-	0.0%	-	1 779 774	38.9%
Year 39		96 772 077	4 838 604	-	-	-	4 838 604	39.0%	1 889 002	-	0.0%	-	1 889 002	39.0%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	102 419 529	5 120 976	-	-	-	5 120 976	39.2%	2 005 144	-	0.0%	-	2 005 144	39.2%
Year 41		68 884 063	3 444 203	-	-	-	-	0.0%	-	3 444 203	35.5%	1 221 539	1 221 539	35.5%
Year 42		74 550 930	3 727 546	-	-	-	-	0.0%	-	3 727 546	35.9%	1 338 755	1 338 755	35.9%
Year 43		80 667 267	4 033 363	-	-	-	-	0.0%	-	4 033 363	36.3%	1 463 972	1 463 972	36.3%
Year 44		87 270 022	4 363 501	-	-	-	-	0.0%	-	4 363 501	36.6%	1 598 119	1 598 119	36.6%
Year 45		94 398 905	4 719 945	-	-	-	-	0.0%	-	4 719 945	37.0%	1 746 241	1 746 241	37.0%
Year 46		102 092 555	5 104 628	-	-	-	-	0.0%	-	5 104 628	37.3%	1 904 589	1 904 589	37.3%
Year 47		110 397 221	5 519 861	-	-	-	-	0.0%	-	5 519 861	37.6%	2 074 326	2 074 326	37.6%
Year 48		119 362 618	5 968 131	-	-	-	-	0.0%	-	5 968 131	37.8%	2 256 623	2 256 623	37.8%
Year 49		129 042 256	6 452 113	-	-	-	-	0.0%	-	6 452 113	38.1%	2 455 696	2 455 696	38.1%
Year 50	Sale of all assets by children	139 490 786	6 974 539	-	-	-	-	0.0%	-	6 974 539	38.3%	2 669 391	2 669 391	38.3%

Table 58 – Comparison 3a (Personal estate scenario): Other taxes – CGT on transfers and disposals

PERSONAL ESTATE: OTHER TAXES (CGT and Estate duty) - CGT on transfers and disposals

Annual exemption and inclusion %: 40 000 40%

		CGT on transfer							
		A	B	C	D	E	F	G	H
		A = B x G x F x (C - D - E)	B: refer H	C: refer H	D: refer H	E = 40000	F = 0.4	G: refer H	H
Year	Scenario event	CGT on transfer (total for all persons)	No. of persons	Proceeds (per person)	Base cost (per person)	Annual exemption	Inclusion %	Income tax rate	Description
Year 50	Sale of all assets by children	13 416 251	2	75 385 237	34 442 031	40 000	40.0%	41.0%	**- CGT on sale of all investment assets** - Base cost equals investment value net of CGT and estate duty in year 40 per Personal estate: Capital schedule, column H, Yr 40, divided by 2 (per child) - Proceeds equals Personal estate: Capital schedule, column E, Yr 50 divided by 2 (per child) - Assume maximum income tax rate due to additional taxable income.

Table 59 – Comparison 3a (Personal estate scenario): Other taxes – Taxes on death

PERSONAL ESTATE: OTHER TAXES (CGT and Estate duty) - Taxes on death

s 4A abatement and estate duty %: 15 000 000 20%

Dutiable estate value at which higher estate duty % levied: 15 000 000 25%

			Estate duty on death						
		A	B	C	D	E	F	G	H
		A = B + I	B = F x G	C: refer H	D: refer H	E =	F = C - D - E	G = 0.2 and on portion above 15000000 apply 0.25	H
Year	Scenario event	TOTAL TAXES ON DEATH	ESTATE DUTY ON DEATH	Estate asset value	Deductions (if bequeathed to spouse, s 4(q) deduction)	Estate duty abatement (s 4A)	Dutiable estate	Estate duty rate	Description
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	14 426 000	14 426 000	75 704 001	-	(15 000 000)	60 704 001	20.0% / 25.0%	Estate duty on investment asset value - founder/owner - Refer Personal estate: Capital schedule, column E, Yr 30 - Bequeathed to spouse but repeal of s 4(q) deduction
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	39 503 075	22 596 784	108 387 137	-	(15 000 000)	93 387 137	20.0% / 25.0%	Estate duty on investment asset value - spouse; - Refer Personal estate: Capital schedule, column E, Yr 40

Annual exemption and inclusion %: 300 000 40%

		CGT on death							
		I	J	K	L	M	N	O	P
		I = J x O x N x (K - L - M)	J: refer P	K: refer P	L: refer P	M = 300000	N = 0.4	O: refer P	P
Year	Scenario event	CGT ON DEATH	No. of persons	Proceeds (per person)	Base cost (per person)	Exemption in year of death	Inclusion %	Income tax rate	Description
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	-	1	-	-		40.0%	41.0%	CGT on death of owner CGT rollover - bequeathed to spouse
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	16 906 291	1	108 387 137	5 000 000	300 000	40.0%	41.0%	CGT on death of spouse - bequeathed to children (no CGT rollover); - Base cost equals rolled over base cost (starting parameter) - Proceeds equals Personal estate: Capital schedule, column E, Yr 40 - Highets income tax bracket assumed

Table 60 – Comparison 3a (Personal estate scenario): Personal estate summary calculated using capital year-end values BEFORE year-end adjustments

PERSONAL ESTATE - SUMMARY (using capital year-end values before year-end adjustments)

							VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I
		A = Column E of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE (end of year, BEFORE adjustments)	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT, Donations Tax and Estate Duty	Cumulative CGT, Donations Tax and Estate Duty / Capital
Year 0	Assets kept in personal estate	10 000 000	-	-	-	-	-	0.00%	-	0.00%
Year 1		10 810 000	190 000	-	-	190 000	190 000	1.76%	-	0.00%
Year 2		11 685 610	205 390	-	-	205 390	395 390	3.38%	-	0.00%
Year 3		12 632 144	222 027	-	-	222 027	617 417	4.89%	-	0.00%
Year 4		13 655 348	240 011	-	-	240 011	857 427	6.28%	-	0.00%
Year 5		14 761 431	259 452	-	-	259 452	1 116 879	7.57%	-	0.00%
Year 6		15 957 107	280 467	-	-	280 467	1 397 346	8.76%	-	0.00%
Year 7		17 249 633	303 185	-	-	303 185	1 700 531	9.86%	-	0.00%
Year 8		18 646 853	327 743	-	-	327 743	2 028 274	10.88%	-	0.00%
Year 9		20 157 248	354 290	-	-	354 290	2 382 564	11.82%	-	0.00%
Year 10		21 789 985	382 988	-	-	382 988	2 765 552	12.69%	-	0.00%
Year 11	No event	23 554 974	414 010	-	-	414 010	3 179 562	13.50%	-	0.00%
Year 12		25 462 927	447 545	-	-	447 545	3 627 106	14.24%	-	0.00%
Year 13		27 525 424	483 796	-	-	483 796	4 110 902	14.93%	-	0.00%
Year 14		29 754 984	522 983	-	-	522 983	4 633 885	15.57%	-	0.00%
Year 15		32 165 137	565 345	-	-	565 345	5 199 230	16.16%	-	0.00%
Year 16		34 770 513	611 138	-	-	611 138	5 810 367	16.71%	-	0.00%
Year 17		37 586 925	660 640	-	-	660 640	6 471 007	17.22%	-	0.00%
Year 18		40 631 466	714 152	-	-	714 152	7 185 159	17.68%	-	0.00%
Year 19		43 922 615	771 998	-	-	771 998	7 957 157	18.12%	-	0.00%
Year 20		47 480 346	834 530	-	-	834 530	8 791 686	18.52%	-	0.00%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	49 826 254	902 127	-	-	902 127	9 693 813	19.46%	-	0.00%
Year 22		52 272 181	946 699	-	-	946 699	10 640 512	20.36%	-	0.00%
Year 23		54 820 828	993 171	-	-	993 171	11 633 683	21.22%	-	0.00%
Year 24		57 474 791	1 041 596	-	-	1 041 596	12 675 279	22.05%	-	0.00%

Table 60 (continued)

		A	B	C	D	E	F	G	H	I
		A = Column E of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	**Scenario event**	**TOTAL CAPITAL or ESTATE VALUE (end of year, BEFORE adjustments)**	**Total income taxes**	**CGT on transfers or disposals**	**Estate Duty and CGT on death**	**TOTAL TAXES**	**Cumulative total taxes**	**Cumulative total tax / Capital**	**Cumulative CGT, Donations Tax and Estate Duty**	**Cumulative CGT, Donations Tax and Estate Duty / Capital**
Year 25		60 236 533	1 092 021	-	-	1 092 021	13 767 300	22.86%	-	0.00%
Year 26		63 108 354	1 144 494	-	-	1 144 494	14 911 794	23.63%	-	0.00%
Year 27		66 091 921	1 199 490	-	-	1 199 490	16 111 284	24.38%	-	0.00%
Year 28		69 184 983	1 260 684	-	-	1 260 684	17 371 969	25.11%	-	0.00%
Year 29		72 388 738	1 323 971	-	-	1 323 971	18 695 940	25.83%	-	0.00%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	75 704 001	1 389 392	-	14 426 000	15 815 393	34 511 332	45.59%	14 426 000	19.06%
Year 31		64 900 964	1 161 701	-	-	1 161 701	35 673 034	54.97%	14 426 000	22.23%
Year 32		68 732 260	1 235 076	-	-	1 235 076	36 908 110	53.70%	14 426 000	20.99%
Year 33		72 782 409	1 313 929	-	-	1 313 929	38 222 039	52.52%	14 426 000	19.82%
Year 34		77 064 006	1 396 948	-	-	1 396 948	39 618 988	51.41%	14 426 000	18.72%
Year 35	No event	81 589 063	1 485 665	-	-	1 485 665	41 104 653	50.38%	14 426 000	17.68%
Year 36		86 372 728	1 577 823	-	-	1 577 823	42 682 475	49.42%	14 426 000	16.70%
Year 37		91 428 573	1 676 164	-	-	1 676 164	44 358 639	48.52%	14 426 000	15.78%
Year 38		96 772 077	1 779 774	-	-	1 779 774	46 138 413	47.68%	14 426 000	14.91%
Year 39		102 419 529	1 889 002	-	-	1 889 002	48 027 415	46.89%	14 426 000	14.09%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	108 387 137	2 005 144	-	39 503 075	41 508 219	89 535 635	82.61%	53 929 075	49.76%
Year 41		74 550 930	1 221 539	-	-	1 221 539	90 757 174	121.74%	53 929 075	72.34%
Year 42		80 667 267	1 338 755	-	-	1 338 755	92 095 929	114.17%	53 929 075	66.85%
Year 43		87 270 022	1 463 972	-	-	1 463 972	93 559 901	107.21%	53 929 075	61.80%
Year 44		94 398 905	1 598 119	-	-	1 598 119	95 158 020	100.80%	53 929 075	57.13%
Year 45		102 092 555	1 746 241	-	-	1 746 241	96 904 261	94.92%	53 929 075	52.82%
Year 46		110 397 221	1 904 589	-	-	1 904 589	98 808 850	89.50%	53 929 075	48.85%
Year 47		119 362 618	2 074 326	-	-	2 074 326	100 883 176	84.52%	53 929 075	45.18%
Year 48		129 042 256	2 256 623	-	-	2 256 623	103 139 799	79.93%	53 929 075	41.79%
Year 49		139 490 786	2 455 696	-	-	2 455 696	105 595 495	75.70%	53 929 075	38.66%
Year 50	Sale of all assets by children	150 770 474	2 669 391	13 416 251	-	16 085 642	121 681 137	80.71%	67 345 327	44.67%

9.4 Comparison 3b

9.4.1 Comparison 3b – Charts

Figure 29 – Comparison 3b – Chart 1: Cumulative total taxation

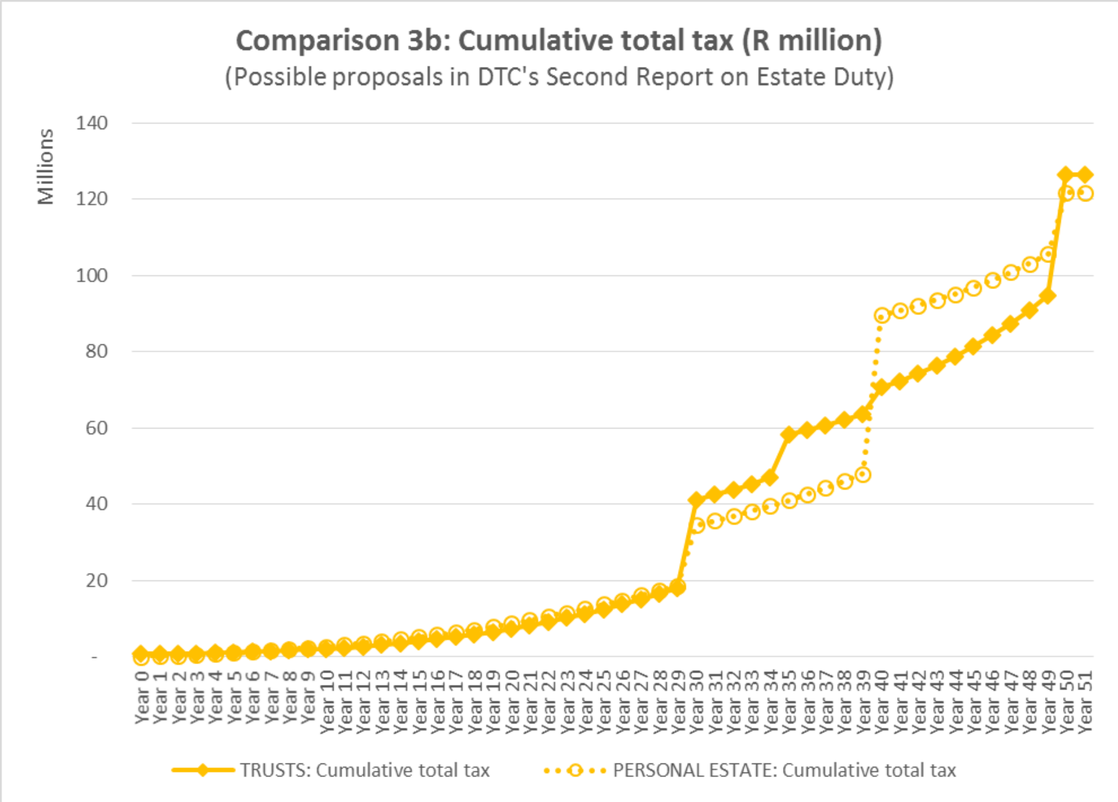


Figure 30 – Comparison 3b – Chart 2: Capital value

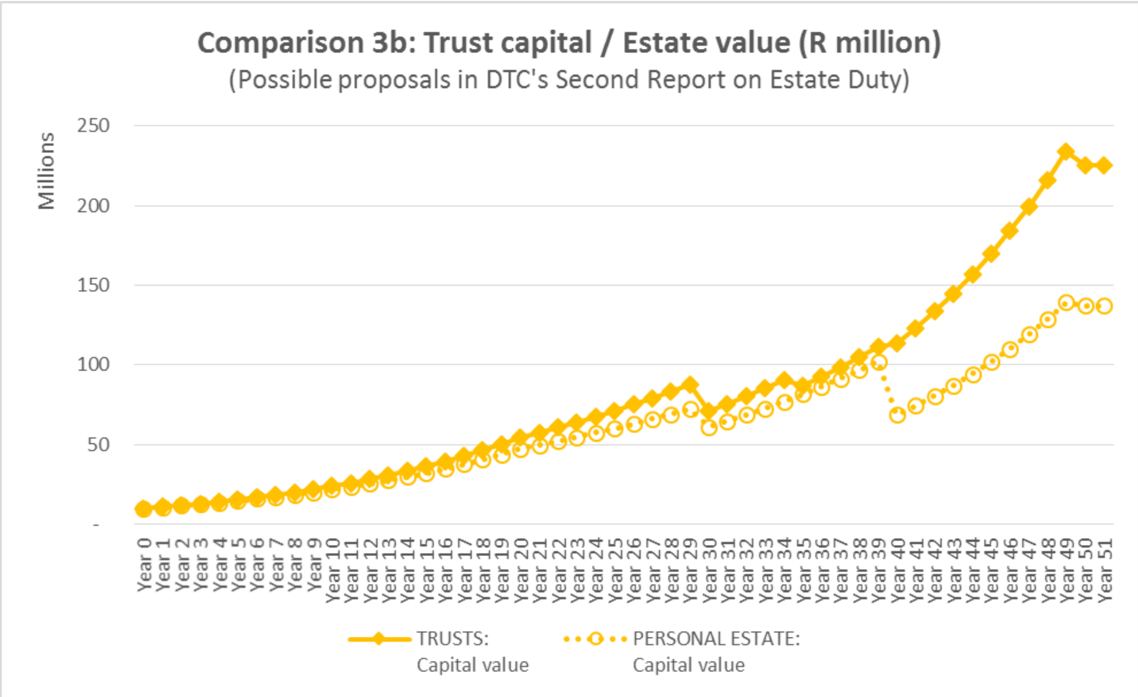


Figure 31 – Comparison 3b – Chart 3: Cumulative total tax as percentage of capital value

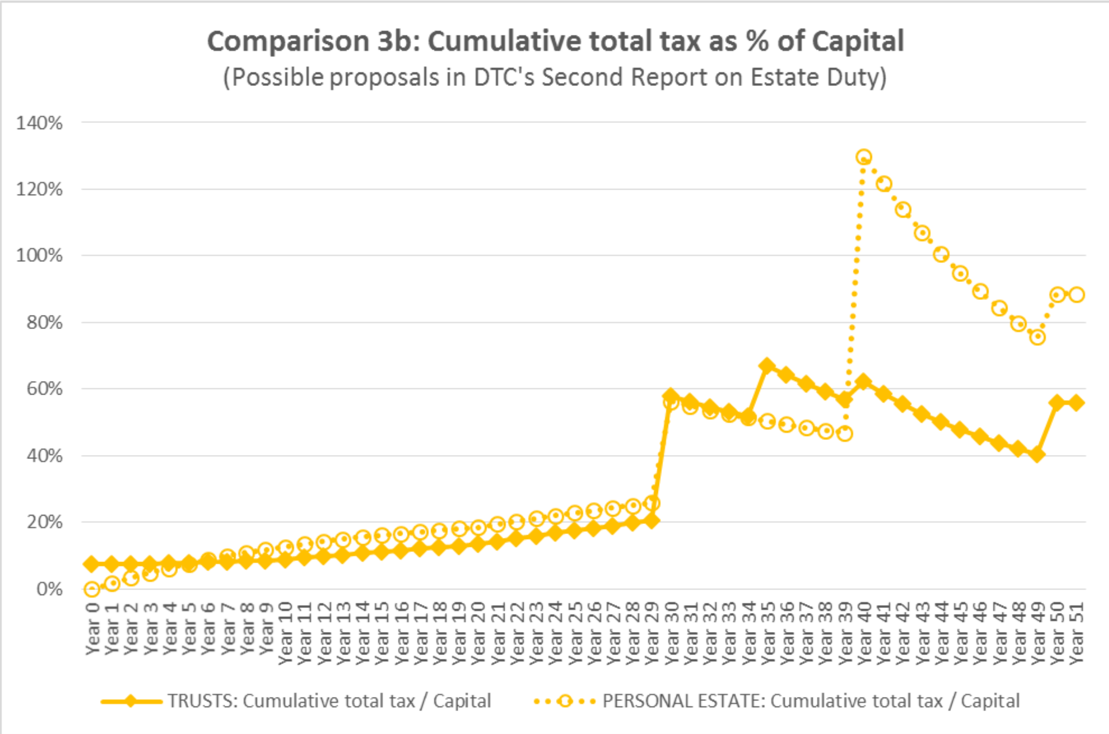


Figure 32 – Comparison 3b – Chart 4: Cumulative CGT and estate duty

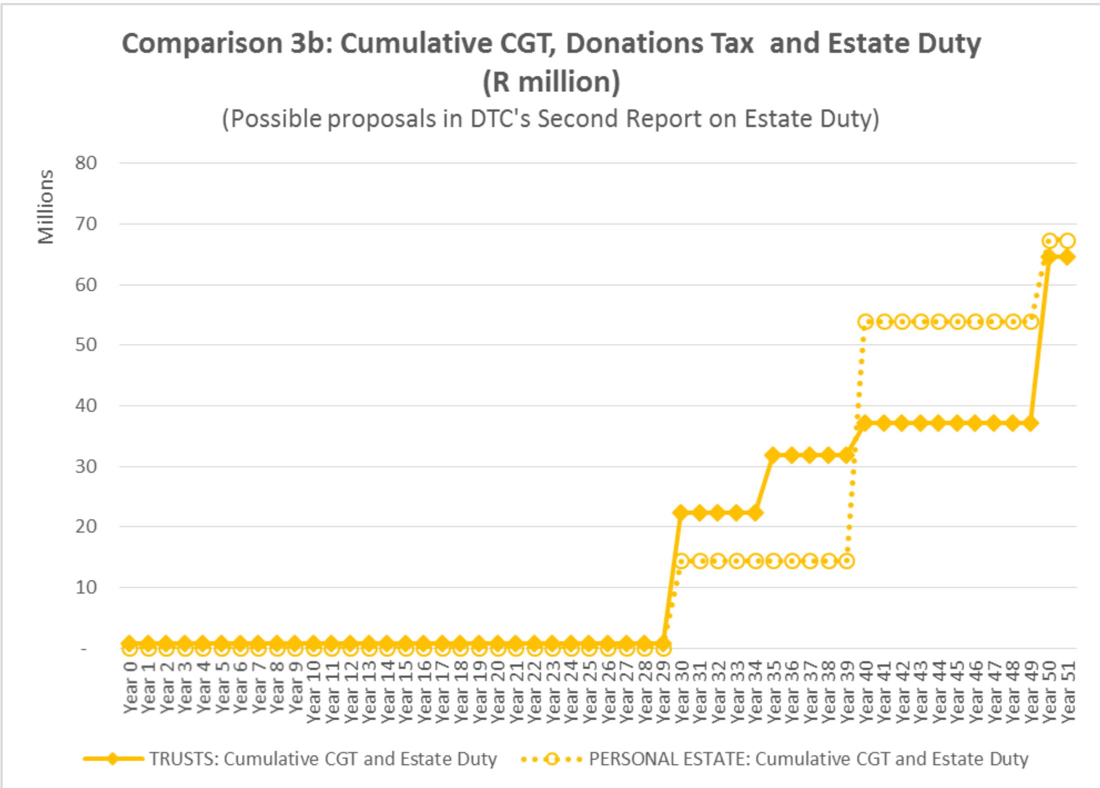


Figure 33 – Comparison 3b – Chart 5: Cumulative CGT and estate duty as percentage of capital value

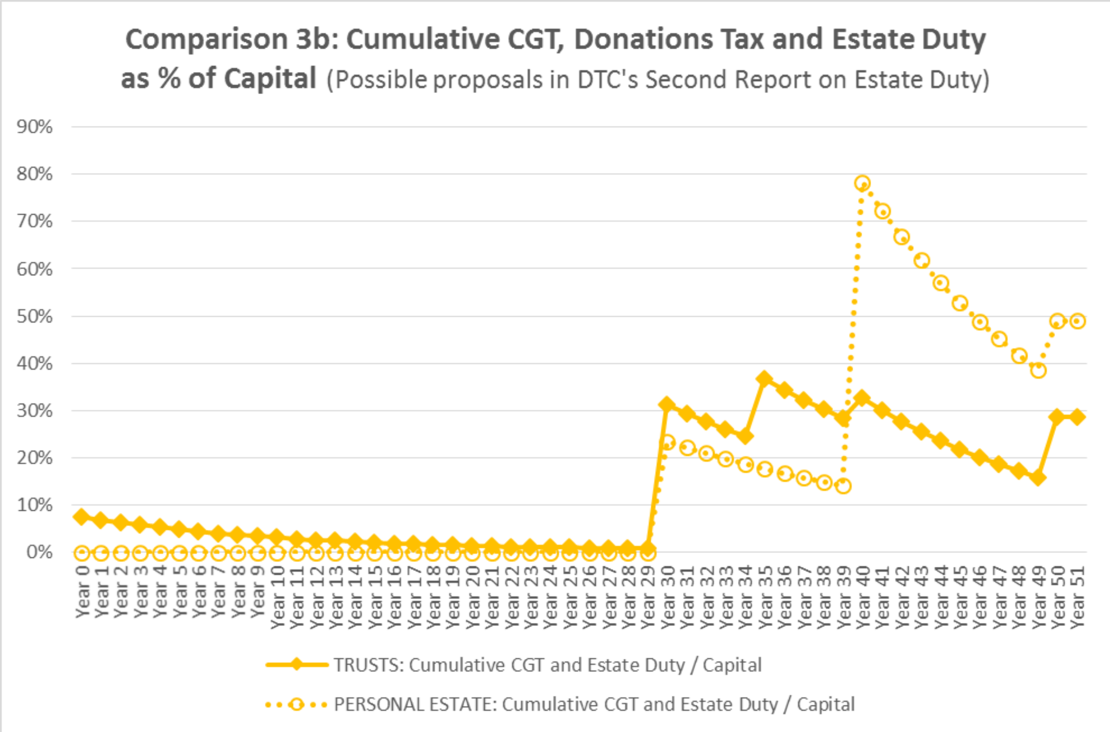


Figure 34 – Comparison 3b – Chart 6: Difference: Cumulative total tax as percentage of capital value

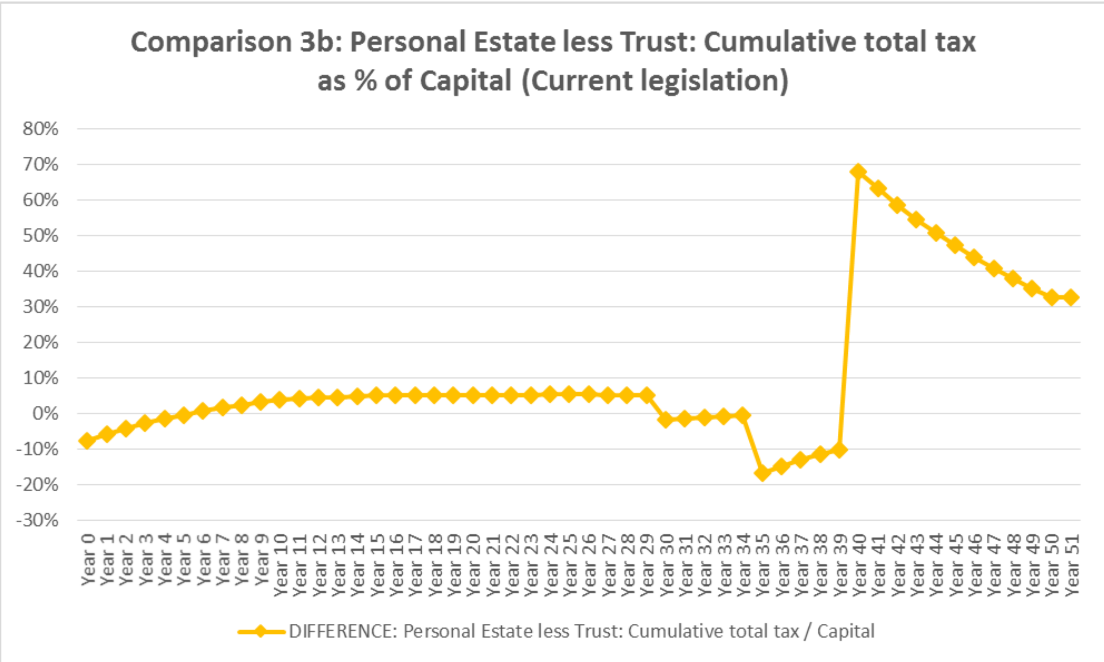
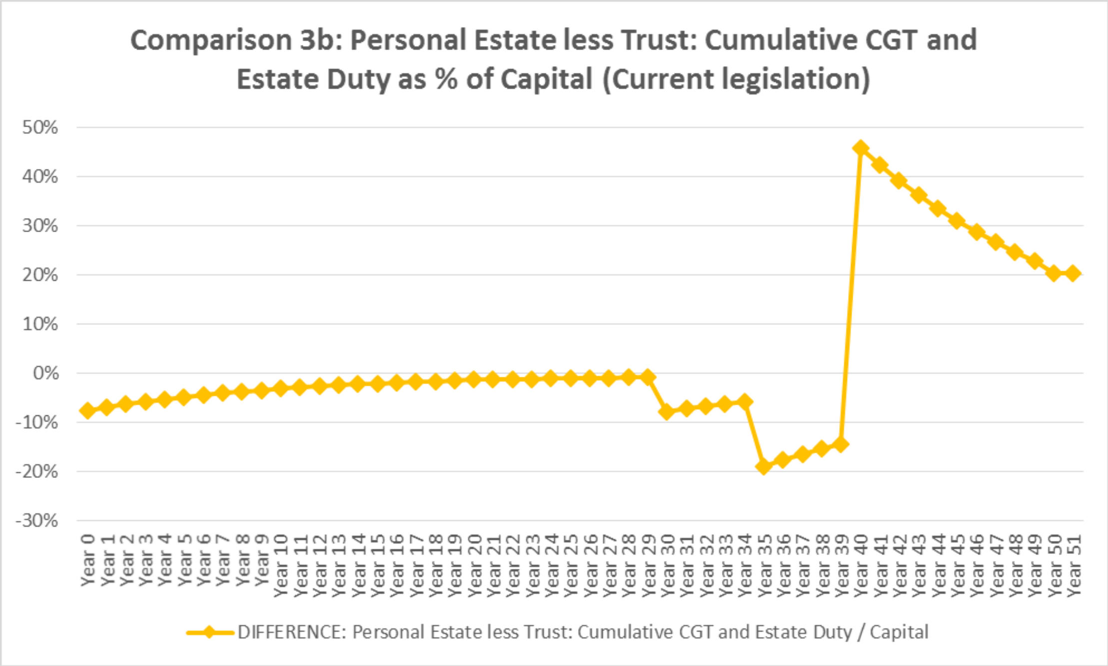


Figure 35 – Comparison 3b – Chart 7: Difference: Cumulative CGT and estate duty as percentage of capital value



9.4.2 Comparison 3b – Comparative data between trust and personal estate scenarios including difference data used in charts

Table 61 – Comparison 3b: Comparative and difference data sets

COMPARISON 3b: Trust vs. Personal Estate - Possible proposals in DTC's Second Report + 2016 Budget Review (deemed property inclusion)

			A	B	C	D	E	F	G	H	I	J	K	L
			A = column I of Trusts summary schedule	B = column F of Personal estate summary schedule	C = column C of Trusts summary schedule	D = column A of Personal estate summary schedule	E = column J of Trusts summary schedule	F = column G of Personal estate summary schedule	G = column K of Trusts summary schedule	H = column H of Personal estate summary schedule	I = column L of Trusts summary schedule	J = column I of Trusts summary schedule	K = F - E	L = J - I
			CHART 1 Comparison 1: Cumulative total tax		CHART 2 Comparison 1: Capital / Estate value		CHART 3 Comparison 1: Cumulative total tax as % of Capital		CHART 4 Comparison 1: Cumulative CGT and Estate Duty		CHART 5 Comparison 1: Cumulative CGT and Estate Duty as % of Capital		CHART 6 Difference: Cumulative total tax . Capital	CHART 7 Difference: Cumulative CGT and Estate Duty / Capital
Year	**TRUSTS: Scenario event**	**PERSONAL ESTATE: Scenario event**	**TRUSTS: Cumulative total tax**	**PERSONAL ESTATE: Cumulative total tax**	**TRUSTS: Capital value**	**PERSONAL ESTATE: Capital value**	**TRUSTS: Cumulative total tax / Capital**	**PERSONAL ESTATE: Cumulative total tax / Capital**	**TRUSTS: Cumulative CGT and Estate Duty**	**PERSONAL ESTATE: Cumulative CGT and Estate Duty**	**TRUSTS: Cumulative CGT and Estate Duty / Capital**	**PERSONAL ESTATE: Cumulative CGT and Estate Duty / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative total tax / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative CGT and Estate Duty / Capital**
Year 0	Transfer of assets to Trust 1	Assets kept in personal estate	753 920	-	10 000 000	10 000 000	7.54%	0.00%	753 920	-	7.54%	0.00%	-7.54%	-7.54%
Year 1			828 420	190 000	10 925 500	10 810 000	7.58%	1.76%	753 920	-	6.90%	0.00%	-5.82%	-6.90%
Year 2			909 815	395 390	11 936 655	11 685 610	7.62%	3.38%	753 920	-	6.32%	0.00%	-4.24%	-6.32%
Year 3			998 743	617 417	13 041 392	12 632 144	7.66%	4.89%	753 920	-	5.78%	0.00%	-2.77%	-5.78%
Year 4			1 104 704	857 427	14 239 570	13 655 348	7.76%	6.28%	753 920	-	5.29%	0.00%	-1.48%	-5.29%
Year 5			1 227 266	1 116 879	15 540 965	14 761 431	7.90%	7.57%	753 920	-	4.85%	0.00%	-0.33%	-4.85%
Year 6			1 361 030	1 397 346	16 961 299	15 957 107	8.02%	8.76%	753 920	-	4.44%	0.00%	0.73%	-4.44%
Year 7			1 516 204	1 700 531	18 502 254	17 249 633	8.19%	9.86%	753 920	-	4.07%	0.00%	1.66%	-4.07%
Year 8			1 696 478	2 028 274	20 172 206	18 646 853	8.41%	10.88%	753 920	-	3.74%	0.00%	2.47%	-3.74%
Year 9			1 902 618	2 382 564	21 983 286	20 157 248	8.65%	11.82%	753 920	-	3.43%	0.00%	3.17%	-3.43%
Year 10			2 127 265	2 765 552	23 956 968	21 789 985	8.88%	12.69%	753 920	-	3.15%	0.00%	3.81%	-3.15%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	No event	2 437 573	3 179 562	26 042 356	23 554 974	9.36%	13.50%	753 920	-	2.89%	0.00%	4.14%	-2.89%
Year 12			2 781 822	3 627 106	28 302 343	25 462 927	9.83%	14.24%	753 920	-	2.66%	0.00%	4.42%	-2.66%
Year 13			3 159 293	4 110 902	30 755 106	27 525 424	10.27%	14.93%	753 920	-	2.45%	0.00%	4.66%	-2.45%
Year 14			3 572 631	4 633 885	33 417 279	29 754 984	10.69%	15.57%	753 920	-	2.26%	0.00%	4.88%	-2.26%
Year 15			4 024 745	5 199 230	36 306 894	32 165 137	11.09%	16.16%	753 920	-	2.08%	0.00%	5.08%	-2.08%
Year 16			4 568 803	5 810 367	39 393 524	34 770 513	11.60%	16.71%	753 920	-	1.91%	0.00%	5.11%	-1.91%
Year 17			5 162 775	6 471 007	42 738 905	37 586 925	12.08%	17.22%	753 920	-	1.76%	0.00%	5.14%	-1.76%
Year 18			5 810 761	7 185 159	46 364 810	40 631 466	12.53%	17.68%	753 920	-	1.63%	0.00%	5.15%	-1.63%
Year 19			6 520 416	7 957 157	50 291 635	43 922 615	12.97%	18.12%	753 920	-	1.50%	0.00%	5.15%	-1.50%
Year 20			7 297 796	8 791 686	54 543 419	47 480 346	13.38%	18.52%	753 920	-	1.38%	0.00%	5.14%	-1.38%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	8 216 073	9 693 813	57 579 483	49 826 254	14.27%	19.46%	753 920	-	1.31%	0.00%	5.19%	-1.31%
Year 22			9 191 796	10 640 512	60 771 709	52 272 181	15.13%	20.36%	753 920	-	1.24%	0.00%	5.23%	-1.24%
Year 23			10 228 390	11 633 683	64 126 886	54 820 828	15.95%	21.22%	753 920	-	1.18%	0.00%	5.27%	-1.18%
Year 24			11 328 498	12 675 279	67 652 943	57 474 791	16.75%	22.05%	753 920	-	1.11%	0.00%	5.31%	-1.11%
Year 25			12 489 095	13 767 300	71 363 924	60 236 533	17.50%	22.86%	753 920	-	1.06%	0.00%	5.35%	-1.06%
Year 26			13 773 049	14 911 794	75 209 025	63 108 354	18.31%	23.63%	753 920	-	1.00%	0.00%	5.32%	-1.00%
Year 27			15 131 962	16 111 284	79 243 235	66 091 921	19.10%	24.38%	753 920	-	0.95%	0.00%	5.28%	-0.95%
Year 28			16 569 217	17 371 969	83 474 859	69 184 983	19.85%	25.11%	753 920	-	0.90%	0.00%	5.26%	-0.90%
Year 29			18 088 387	18 695 940	87 912 402	72 388 738	20.58%	25.83%	753 920	-	0.86%	0.00%	5.25%	-0.86%

Table 61 (continued)

			A	B	C	D	E	F	G	H	I	J	K	L
			A = column I of Trusts summary schedule	B = column F of Personal estate summary schedule	C = column C of Trusts summary schedule	D = column A of Personal estate summary schedule	E = column J of Trusts summary schedule	F = column G of Personal estate summary schedule	G = column K of Trusts summary schedule	H = column H of Personal estate summary schedule	I = column L of Trusts summary schedule	J = column I of Trusts summary schedule	K = F - E	L = J - I
			CHART 1 Comparison 1: Cumulative total tax		CHART 2 Comparison 1: Capital / Estate value		CHART 3 Comparison 1: Cumulative total tax as % of Capital		CHART 4 Comparison 1: Cumulative CGT and Estate Duty		CHART 5 Comparison 1: Cumulative CGT and Estate Duty as % of Capital		CHART 6 Difference: Cumulative total tax . Capital	CHART 7 Difference: Cumulative CGT and Estate Duty / Capital
Year	**TRUSTS: Scenario event**	**PERSONAL ESTATE: Scenario event**	**TRUSTS: Cumulative total tax**	**PERSONAL ESTATE: Cumulative total tax**	**TRUSTS: Capital value**	**PERSONAL ESTATE: Capital value**	**TRUSTS: Cumulative total tax / Capital**	**PERSONAL ESTATE: Cumulative total tax / Capital**	**TRUSTS: Cumulative CGT and Estate Duty**	**PERSONAL ESTATE: Cumulative CGT and Estate Duty**	**TRUSTS: Cumulative CGT and Estate Duty / Capital**	**PERSONAL ESTATE: Cumulative CGT and Estate Duty / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative total tax / Capital**	**DIFFERENCE: Personal Estate less Trust: Cumulative CGT and Estate Duty / Capital**
Year 30	Death of founder (at end of year)	Death of founder (at end of year) - bequeath assets to surviving spouse	41 177 194	34 511 332	71 080 617	61 278 001	57.93%	56.32%	22 237 874	14 426 000	31.29%	23.54%	-1.61%	-7.74%
Year 31			42 490 054	35 673 034	75 532 683	64 900 964	56.25%	54.97%	22 237 874	14 426 000	29.44%	22.23%	-1.29%	-7.21%
Year 32			43 893 382	36 908 110	80 258 900	68 732 260	54.69%	53.70%	22 237 874	14 426 000	27.71%	20.99%	-0.99%	-6.72%
Year 33			45 388 390	38 222 039	85 280 634	72 782 409	53.22%	52.52%	22 237 874	14 426 000	26.08%	19.82%	-0.71%	-6.26%
Year 34			46 984 286	39 618 988	90 613 105	77 064 006	51.85%	51.41%	22 237 874	14 426 000	24.54%	18.72%	-0.44%	-5.82%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	No event	58 216 581	41 104 653	86 746 443	81 589 063	67.11%	50.38%	31 767 719	14 426 000	36.62%	17.68%	-16.73%	-18.94%
Year 36			59 410 371	42 682 475	92 429 878	86 372 728	64.28%	49.42%	31 767 719	14 426 000	34.37%	16.70%	-14.86%	-17.67%
Year 37			60 695 927	44 358 639	98 482 046	91 428 573	61.63%	48.52%	31 767 719	14 426 000	32.26%	15.78%	-13.11%	-16.48%
Year 38			62 098 356	46 138 413	104 908 243	96 772 077	59.19%	47.68%	31 767 719	14 426 000	30.28%	14.91%	-11.52%	-15.37%
Year 39			63 609 215	48 027 415	111 747 453	102 419 529	56.92%	46.89%	31 767 719	14 426 000	28.43%	14.09%	-10.03%	-14.34%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	70 630 743	89 535 635	113 631 471	68 884 063	62.16%	129.98%	37 139 641	53 929 075	32.68%	78.29%	67.82%	45.61%
Year 41			72 359 302	90 757 174	123 266 059	74 550 930	58.70%	121.74%	37 139 641	53 929 075	30.13%	72.34%	63.04%	42.21%
Year 42			74 275 664	92 095 929	133 676 303	80 667 267	55.56%	114.17%	37 139 641	53 929 075	27.78%	66.85%	58.60%	39.07%
Year 43			76 393 166	93 559 901	144 926 431	87 270 022	52.71%	107.21%	37 139 641	53 929 075	25.63%	61.80%	54.50%	36.17%
Year 44			78 759 881	95 158 020	157 052 359	94 398 905	50.15%	100.80%	37 139 641	53 929 075	23.65%	57.13%	50.66%	33.48%
Year 45			81 357 017	96 904 261	170 160 460	102 092 555	47.81%	94.92%	37 139 641	53 929 075	21.83%	52.82%	47.11%	31.00%
Year 46			84 231 094	98 808 850	184 302 429	110 397 221	45.70%	89.50%	37 139 641	53 929 075	20.15%	48.85%	43.80%	28.70%
Year 47			87 397 876	100 883 176	199 565 889	119 362 618	43.79%	84.52%	37 139 641	53 929 075	18.61%	45.18%	40.72%	26.57%
Year 48			90 852 430	103 139 799	216 067 924	129 042 256	42.05%	79.93%	37 139 641	53 929 075	17.19%	41.79%	37.88%	24.60%
Year 49			94 663 214	105 595 495	233 863 932	139 490 786	40.48%	75.70%	37 139 641	53 929 075	15.88%	38.66%	35.22%	22.78%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	Sale of all assets by children	126 324 248	121 681 137	225 589 291	137 354 222	56.00%	88.59%	64 633 879	67 345 327	28.65%	49.03%	32.59%	20.38%

9.4.3 Comparison 3b – Trust scenario summary

Table 62 – Comparison 3b: Trust scenario summary

TRUSTS - SUMMARY (Comparison 3b)

										VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column H of Trust 1: Capital schedule	B = Column G of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, after adjustments)	Trust 2a + 2b capital (end of year, after adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 0	Transfer of assets to Trust 1	10 000 000	-	10 000 000	-	-	753 920	-	753 920	753 920	7.54%	753 920	7.54%
Year 1		10 925 500	-	10 925 500	74 500	-	-	-	74 500	828 420	7.58%	753 920	6.90%
Year 2		11 936 655	-	11 936 655	81 395	-	-	-	81 395	909 815	7.62%	753 920	6.32%
Year 3		13 041 392	-	13 041 392	88 928	-	-	-	88 928	998 743	7.66%	753 920	5.78%
Year 4		14 239 570	-	14 239 570	105 961	-	-	-	105 961	1 104 704	7.76%	753 920	5.29%
Year 5		15 540 965	-	15 540 965	122 562	-	-	-	122 562	1 227 266	7.90%	753 920	4.85%
Year 6		16 961 299	-	16 961 299	133 763	-	-	-	133 763	1 361 030	8.02%	753 920	4.44%
Year 7		18 502 254	-	18 502 254	155 175	-	-	-	155 175	1 516 204	8.19%	753 920	4.07%
Year 8		20 172 206	-	20 172 206	180 274	-	-	-	180 274	1 696 478	8.41%	753 920	3.74%
Year 9		21 983 286	-	21 983 286	206 140	-	-	-	206 140	1 902 618	8.65%	753 920	3.43%
Year 10		23 956 968	-	23 956 968	224 647	-	-	-	224 647	2 127 265	8.88%	753 920	3.15%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	26 042 356	-	26 042 356	310 308	-	-	-	310 308	2 437 573	9.36%	753 920	2.89%
Year 12		28 302 343	-	28 302 343	344 249	-	-	-	344 249	2 781 822	9.83%	753 920	2.66%
Year 13		30 755 106	-	30 755 106	377 471	-	-	-	377 471	3 159 293	10.27%	753 920	2.45%
Year 14		33 417 279	-	33 417 279	413 337	-	-	-	413 337	3 572 631	10.69%	753 920	2.26%
Year 15		36 306 894	-	36 306 894	452 114	-	-	-	452 114	4 024 745	11.09%	753 920	2.08%
Year 16		39 393 524	-	39 393 524	544 059	-	-	-	544 059	4 568 803	11.60%	753 920	1.91%
Year 17		42 738 905	-	42 738 905	593 971	-	-	-	593 971	5 162 775	12.08%	753 920	1.76%
Year 18		46 364 810	-	46 364 810	647 986	-	-	-	647 986	5 810 761	12.53%	753 920	1.63%
Year 19		50 291 635	-	50 291 635	709 656	-	-	-	709 656	6 520 416	12.97%	753 920	1.50%
Year 20		54 543 419	-	54 543 419	777 380	-	-	-	777 380	7 297 796	13.38%	753 920	1.38%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	57 579 483	-	57 579 483	918 277	-	-	-	918 277	8 216 073	14.27%	753 920	1.31%
Year 22		60 771 709	-	60 771 709	975 722	-	-	-	975 722	9 191 796	15.13%	753 920	1.24%
Year 23		64 126 886	-	64 126 886	1 036 594	-	-	-	1 036 594	10 228 390	15.95%	753 920	1.18%
Year 24		67 652 943	-	67 652 943	1 100 108	-	-	-	1 100 108	11 328 498	16.75%	753 920	1.11%

Table 62 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column H of Trust 1: Capital schedule	B = Column G of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	Scenario event	Trust 1 capital (end of year, after adjustments)	Trust 2a + 2b capital (end of year, after adjustments)	TOTAL CAPITAL	Trust 1 income tax	Trust 2a + 2b income tax	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 25		71 363 924	-	71 363 924	1 160 598	-	-	-	1 160 598	12 489 095	17.50%	753 920	1.06%
Year 26		75 209 025	-	75 209 025	1 283 953	-	-	-	1 283 953	13 773 049	18.31%	753 920	1.00%
Year 27		79 243 235	-	79 243 235	1 358 913	-	-	-	1 358 913	15 131 962	19.10%	753 920	0.95%
Year 28		83 474 859	-	83 474 859	1 437 254	-	-	-	1 437 254	16 569 217	19.85%	753 920	0.90%
Year 29		87 912 402	-	87 912 402	1 519 170	-	-	-	1 519 170	18 088 387	20.58%	753 920	0.86%
Year 30	Death of founder (at end of year)	71 080 617	-	71 080 617	1 604 852	-	2 842 811	18 641 143	23 088 807	41 177 194	57.93%	22 237 874	31.29%
Year 31		75 532 683	-	75 532 683	1 312 860	-	-	-	1 312 860	42 490 054	56.25%	22 237 874	29.44%
Year 32		80 258 900	-	80 258 900	1 403 328	-	-	-	1 403 328	43 893 382	54.69%	22 237 874	27.71%
Year 33		85 280 634	-	85 280 634	1 495 008	-	-	-	1 495 008	45 388 390	53.22%	22 237 874	26.08%
Year 34		90 613 105	-	90 613 105	1 595 896	-	-	-	1 595 896	46 984 286	51.85%	22 237 874	24.54%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	32 092 096	54 654 347	86 746 443	1 702 450	-	9 529 845	-	11 232 295	58 216 581	67.11%	31 767 719	36.62%
Year 36		32 940 339	59 489 539	92 429 878	563 548	630 242	-	-	1 193 791	59 410 371	64.28%	31 767 719	34.37%
Year 37		33 750 665	64 731 381	98 482 046	578 444	707 112	-	-	1 285 555	60 695 927	61.63%	31 767 719	32.26%
Year 38		34 510 472	70 397 770	104 908 243	595 680	806 749	-	-	1 402 429	62 098 356	59.19%	31 767 719	30.28%
Year 39		35 208 782	76 538 671	111 747 453	611 983	898 876	-	-	1 510 859	63 609 215	56.92%	31 767 719	28.43%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	113 631 471	113 631 471	627 150	1 022 456	5 371 922	-	7 021 527	70 630 743	62.16%	37 139 641	32.68%
Year 41		-	123 266 059	123 266 059	-	1 728 560	-	-	1 728 560	72 359 302	58.70%	37 139 641	30.13%
Year 42		-	133 676 303	133 676 303	-	1 916 362	-	-	1 916 362	74 275 664	55.56%	37 139 641	27.78%
Year 43		-	144 926 431	144 926 431	-	2 117 502	-	-	2 117 502	76 393 166	52.71%	37 139 641	25.63%
Year 44		-	157 052 359	157 052 359	-	2 366 715	-	-	2 366 715	78 759 881	50.15%	37 139 641	23.65%
Year 45		-	170 160 460	170 160 460	-	2 597 136	-	-	2 597 136	81 357 017	47.81%	37 139 641	21.83%
Year 46		-	184 302 429	184 302 429	-	2 874 077	-	-	2 874 077	84 231 094	45.70%	37 139 641	20.15%
Year 47		-	199 565 889	199 565 889	-	3 166 782	-	-	3 166 782	87 397 876	43.79%	37 139 641	18.61%
Year 48		-	216 067 924	216 067 924	-	3 454 554	-	-	3 454 554	90 852 430	42.05%	37 139 641	17.19%
Year 49		-	233 863 932	233 863 932	-	3 810 784	-	-	3 810 784	94 663 214	40.48%	37 139 641	15.88%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	225 589 291	225 589 291	-	4 166 796	27 494 238	-	31 661 034	126 324 248	56.00%	64 633 879	28.65%

9.4.4 Comparison 3b – Personal estate scenario summary

Table 63 – Comparison 3b: Personal estate scenario summary

PERSONAL ESTATE - SUMMARY (Comparison 3b)

							VALUES PRESENTED IN CHARTS			
		A	B	C	D	E	F	G	H	I
		A = Column H of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 0	Assets kept in personal estate	10 000 000	-	-	-	-	-	0.00%	-	0.00%
Year 1		10 810 000	190 000	-	-	190 000	190 000	1.76%	-	0.00%
Year 2		11 685 610	205 390	-	-	205 390	395 390	3.38%	-	0.00%
Year 3		12 632 144	222 027	-	-	222 027	617 417	4.89%	-	0.00%
Year 4		13 655 348	240 011	-	-	240 011	857 427	6.28%	-	0.00%
Year 5		14 761 431	259 452	-	-	259 452	1 116 879	7.57%	-	0.00%
Year 6		15 957 107	280 467	-	-	280 467	1 397 346	8.76%	-	0.00%
Year 7		17 249 633	303 185	-	-	303 185	1 700 531	9.86%	-	0.00%
Year 8		18 646 853	327 743	-	-	327 743	2 028 274	10.88%	-	0.00%
Year 9		20 157 248	354 290	-	-	354 290	2 382 564	11.82%	-	0.00%
Year 10		21 789 985	382 988	-	-	382 988	2 765 552	12.69%	-	0.00%
Year 11	No event	23 554 974	414 010	-	-	414 010	3 179 562	13.50%	-	0.00%
Year 12		25 462 927	447 545	-	-	447 545	3 627 106	14.24%	-	0.00%
Year 13		27 525 424	483 796	-	-	483 796	4 110 902	14.93%	-	0.00%
Year 14		29 754 984	522 983	-	-	522 983	4 633 885	15.57%	-	0.00%
Year 15		32 165 137	565 345	-	-	565 345	5 199 230	16.16%	-	0.00%
Year 16		34 770 513	611 138	-	-	611 138	5 810 367	16.71%	-	0.00%
Year 17		37 586 925	660 640	-	-	660 640	6 471 007	17.22%	-	0.00%
Year 18		40 631 466	714 152	-	-	714 152	7 185 159	17.68%	-	0.00%
Year 19		43 922 615	771 998	-	-	771 998	7 957 157	18.12%	-	0.00%
Year 20		47 480 346	834 530	-	-	834 530	8 791 686	18.52%	-	0.00%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	49 826 254	902 127	-	-	902 127	9 693 813	19.46%	-	0.00%
Year 22		52 272 181	946 699	-	-	946 699	10 640 512	20.36%	-	0.00%
Year 23		54 820 828	993 171	-	-	993 171	11 633 683	21.22%	-	0.00%
Year 24		57 474 791	1 041 596	-	-	1 041 596	12 675 279	22.05%	-	0.00%

Table 63 (continued)

		A	B	C	D	E	F	G	H	I
		A = Column H of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	**Scenario event**	**TOTAL CAPITAL or ESTATE VALUE**	**Total income taxes**	**CGT on transfers or disposals**	**Estate Duty and CGT on death**	**TOTAL TAXES**	**Cumulative total taxes**	**Cumulative total tax / Capital**	**Cumulative CGT and Estate Duty**	**Cumulative CGT and Estate Duty / Capital**
Year 25		60 236 533	1 092 021	-	-	1 092 021	13 767 300	22.86%	-	0.00%
Year 26		63 108 354	1 144 494	-	-	1 144 494	14 911 794	23.63%	-	0.00%
Year 27		66 091 921	1 199 490	-	-	1 199 490	16 111 284	24.38%	-	0.00%
Year 28		69 184 983	1 260 684	-	-	1 260 684	17 371 969	25.11%	-	0.00%
Year 29		72 388 738	1 323 971	-	-	1 323 971	18 695 940	25.83%	-	0.00%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	61 278 001	1 389 392	-	14 426 000	15 815 393	34 511 332	56.32%	14 426 000	23.54%
Year 31		64 900 964	1 161 701	-	-	1 161 701	35 673 034	54.97%	14 426 000	22.23%
Year 32		68 732 260	1 235 076	-	-	1 235 076	36 908 110	53.70%	14 426 000	20.99%
Year 33		72 782 409	1 313 929	-	-	1 313 929	38 222 039	52.52%	14 426 000	19.82%
Year 34		77 064 006	1 396 948	-	-	1 396 948	39 618 988	51.41%	14 426 000	18.72%
Year 35	No event	81 589 063	1 485 665	-	-	1 485 665	41 104 653	50.38%	14 426 000	17.68%
Year 36		86 372 728	1 577 823	-	-	1 577 823	42 682 475	49.42%	14 426 000	16.70%
Year 37		91 428 573	1 676 164	-	-	1 676 164	44 358 639	48.52%	14 426 000	15.78%
Year 38		96 772 077	1 779 774	-	-	1 779 774	46 138 413	47.68%	14 426 000	14.91%
Year 39		102 419 529	1 889 002	-	-	1 889 002	48 027 415	46.89%	14 426 000	14.09%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	68 884 063	2 005 144	-	39 503 075	41 508 219	89 535 635	129.98%	53 929 075	78.29%
Year 41		74 550 930	1 221 539	-	-	1 221 539	90 757 174	121.74%	53 929 075	72.34%
Year 42		80 667 267	1 338 755	-	-	1 338 755	92 095 929	114.17%	53 929 075	66.85%
Year 43		87 270 022	1 463 972	-	-	1 463 972	93 559 901	107.21%	53 929 075	61.80%
Year 44		94 398 905	1 598 119	-	-	1 598 119	95 158 020	100.80%	53 929 075	57.13%
Year 45		102 092 555	1 746 241	-	-	1 746 241	96 904 261	94.92%	53 929 075	52.82%
Year 46		110 397 221	1 904 589	-	-	1 904 589	98 808 850	89.50%	53 929 075	48.85%
Year 47		119 362 618	2 074 326	-	-	2 074 326	100 883 176	84.52%	53 929 075	45.18%
Year 48		129 042 256	2 256 623	-	-	2 256 623	103 139 799	79.93%	53 929 075	41.79%
Year 49		139 490 786	2 455 696	-	-	2 455 696	105 595 495	75.70%	53 929 075	38.66%
Year 50	Sale of all assets by children	137 354 222	2 669 391	13 416 251	-	16 085 642	121 681 137	88.59%	67 345 327	49.03%

9.4.5 *Comparison 3b – Trust scenario supporting schedules*

Table 64 – Comparison 3b (Trust scenario): Trust 1 capital value

TRUST 1: CAPITAL

Annual capital growth: 10%

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 1: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	F : refer G for explanation	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash distributions to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 0	Transfer of assets to Trust 1					10 000 000			10 000 000
Year 1		10 000 000	1 000 000	(74 500)	-	10 925 500			10 925 500
Year 2		10 925 500	1 092 550	(81 395)	-	11 936 655			11 936 655
Year 3		11 936 655	1 193 666	(88 928)	-	13 041 392			13 041 392
Year 4		13 041 392	1 304 139	(105 961)	-	14 239 570			14 239 570
Year 5		14 239 570	1 423 957	(122 562)	-	15 540 965			15 540 965
Year 6		15 540 965	1 554 097	(133 763)	-	16 961 299			16 961 299
Year 7		16 961 299	1 696 130	(155 175)	-	18 502 254			18 502 254
Year 8		18 502 254	1 850 225	(180 274)	-	20 172 206			20 172 206
Year 9		20 172 206	2 017 221	(206 140)	-	21 983 286			21 983 286
Year 10		21 983 286	2 198 329	(224 647)	-	23 956 968			23 956 968
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	23 956 968	2 395 697	(310 308)	-	26 042 356			26 042 356
Year 12		26 042 356	2 604 236	(344 249)	-	28 302 343			28 302 343
Year 13		28 302 343	2 830 234	(377 471)	-	30 755 106			30 755 106
Year 14		30 755 106	3 075 511	(413 337)	-	33 417 279			33 417 279
Year 15		33 417 279	3 341 728	(452 114)	-	36 306 894			36 306 894
Year 16		36 306 894	3 630 689	(544 059)	-	39 393 524			39 393 524
Year 17		39 393 524	3 939 352	(593 971)	-	42 738 905			42 738 905
Year 18		42 738 905	4 273 891	(647 986)	-	46 364 810			46 364 810
Year 19		46 364 810	4 636 481	(709 656)	-	50 291 635			50 291 635
Year 20		50 291 635	5 029 164	(777 380)	-	54 543 419			54 543 419
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	54 543 419	5 454 342	(918 277)	(1 500 000)	57 579 483			57 579 483
Year 22		57 579 483	5 757 948	(975 722)	(1 590 000)	60 771 709			60 771 709
Year 23		60 771 709	6 077 171	(1 036 594)	(1 685 400)	64 126 886			64 126 886
Year 24		64 126 886	6 412 689	(1 100 108)	(1 786 524)	67 652 943			67 652 943
Year 25		67 652 943	6 765 294	(1 160 598)	(1 893 715)	71 363 924			71 363 924

Table 64 (continued)

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 1: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	F : refer G for explanation	G	H = E + F
Year	Scenario event	Capital value (start of year)	Capital growth (includes income reinvested net of expenses)	Cash distributions to pay tax	Cash withdrawals post-retirement	Capital value (end of year, before adjustments)	Adjustments	Description of adjustments	Capital value (end of year, after adjustments)
Year 26		71 363 924	7 136 392	(1 283 953)	(2 007 338)	75 209 025			75 209 025
Year 27		75 209 025	7 520 902	(1 358 913)	(2 127 779)	79 243 235			79 243 235
Year 28		79 243 235	7 924 324	(1 437 254)	(2 255 445)	83 474 859			83 474 859
Year 29		83 474 859	8 347 486	(1 519 170)	(2 390 772)	87 912 402			87 912 402
Year 30	Death of founder (at end of year)	87 912 402	8 791 240	(1 604 852)	(2 534 218)	92 564 572	(21 483 954)	Combined estate duty and CGT effect: Trust assets liquidated to pay estate duty on deemed property (liquidation has CGT effect) Refer Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule, column A, Yr 30	71 080 617
Year 31		71 080 617	7 108 062	(1 312 860)	(1 343 136)	75 532 683			75 532 683
Year 32		75 532 683	7 553 268	(1 403 328)	(1 423 724)	80 258 900			80 258 900
Year 33		80 258 900	8 025 890	(1 495 008)	(1 509 147)	85 280 634			85 280 634
Year 34		85 280 634	8 528 063	(1 595 896)	(1 599 696)	90 613 105			90 613 105
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	90 613 105	9 061 311	(1 702 450)	(1 695 678)	96 276 288	(64 184 192)	Restructuring of Trust 1 to form new Trusts 2a and 2b Distribute two thirds of Trust 1 capital to children	32 092 096
Year 36		32 092 096	3 209 210	(563 548)	(1 797 419)	32 940 339			32 940 339
Year 37		32 940 339	3 294 034	(578 444)	(1 905 264)	33 750 665			33 750 665
Year 38		33 750 665	3 375 067	(595 680)	(2 019 580)	34 510 472			34 510 472
Year 39		34 510 472	3 451 047	(611 983)	(2 140 754)	35 208 782			35 208 782
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	35 208 782	3 520 878	(627 150)	(2 269 200)	35 833 310	(35 833 310)	Distribute remaining trust capital to children	-
Year 41		-	-	-	-	-			-
Year 42		-	-	-	-	-			-
Year 43		-	-	-	-	-			-
Year 44		-	-	-	-	-			-
Year 45		-	-	-	-	-			-
Year 46		-	-	-	-	-			-
Year 47		-	-	-	-	-			-
Year 48		-	-	-	-	-			-
Year 49		-	-	-	-	-			-
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-			-

Table 65 – Comparison 3b (Trust scenario): Trust 2a and 2b combined capital value

TRUST 2A and 2B COMBINED CAPITAL: (4 beneficiaries in each trust: 2 parents, 2 children)

Annual capital growth: 10%

		A	B	C	D	E	F	G
		A = column G of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 2a and 2b income + tax schedule)	D = A + B + C	E : refer F for explanation	F	G = D + E
Year	**Scenario event**	**Capital value** (start of year)	**Capital growth** (includes income reinvested net of expenses)	**Cash distributions to pay tax**	**Capital value** (end of year, before adjustments)	**Adjustments**	**Description of adjustments**	**Capital value** (end of year, after adjustments)
Year 0	Transfer of assets to Trust 1							
Year 1		-	-	-	-			-
Year 2		-	-	-	-			-
Year 3		-	-	-	-			-
Year 4		-	-	-	-			-
Year 5		-	-	-	-			-
Year 6		-	-	-	-			-
Year 7		-	-	-	-			-
Year 8		-	-	-	-			-
Year 9		-	-	-	-			-
Year 10		-	-	-	-			-
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	-	-	-	-			-
Year 12		-	-	-	-			-
Year 13		-	-	-	-			-
Year 14		-	-	-	-			-
Year 15		-	-	-	-			-
Year 16		-	-	-	-			-
Year 17		-	-	-	-			-
Year 18		-	-	-	-			-
Year 19		-	-	-	-			-
Year 20		-	-	-	-			-
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	-	-	-	-			-
Year 22		-	-	-	-			-
Year 23		-	-	-	-			-
Year 24		-	-	-	-			-
Year 25		-	-	-	-			-
Year 26		-	-	-	-			-
Year 27		-	-	-	-			-
Year 28		-	-	-	-			-
Year 29		-	-	-	-			-
Year 30	Death of founder (at end of year)	-	-	-	-			-
Year 31		-	-	-	-			-
Year 32		-	-	-	-			-
Year 33		-	-	-	-			-

Table 65 (continued)

TRUST 2A and 2B COMBINED CAPITAL: (4 beneficiaries in each trust: 2 parents, 2 children)

		Annual capital growth:	10%					
		A	B	C	D	E	F	G
		A = column G of previous year	B = A x (1 + 0.1)	C = -(column L of Trust 2a and 2b income + tax schedule)	D = A + B + C	E : refer F for explanation	F	G = D + E
Year	**Scenario event**	**Capital value** (start of year)	**Capital growth** (includes income reinvested net of expenses)	**Cash distributions to pay tax**	**Capital value** (end of year, before adjustments)	**Adjustments**	**Description of adjustments**	**Capital value** (end of year, after adjustments)
Year 34		-	-	-	-			-
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	(9 529 845)	CGT due on restructuring reduces intital investment amount Refer Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule, column A, Yr 35	54 654 347
Year 36		54 654 347	5 465 435	(630 242)	59 489 539			59 489 539
Year 37		59 489 539	5 948 954	(707 112)	64 731 381			64 731 381
Year 38		64 731 381	6 473 138	(806 749)	70 397 770			70 397 770
Year 39		70 397 770	7 039 777	(898 876)	76 538 671			76 538 671
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	76 538 671	7 653 867	(1 022 456)	83 170 083	30 461 389	Remainder of capital from Trust 1 LESS CGT due on distribution Capital: Refer Trust 1: Capital schedule, column F, Yr 40 LESS CGT: Refer Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule, column A, Yr 40	113 631 471
Year 41		113 631 471	11 363 147	(1 728 560)	123 266 059			123 266 059
Year 42		123 266 059	12 326 606	(1 916 362)	133 676 303			133 676 303
Year 43		133 676 303	13 367 630	(2 117 502)	144 926 431			144 926 431
Year 44		144 926 431	14 492 643	(2 366 715)	157 052 359			157 052 359
Year 45		157 052 359	15 705 236	(2 597 136)	170 160 460			170 160 460
Year 46		170 160 460	17 016 046	(2 874 077)	184 302 429			184 302 429
Year 47		184 302 429	18 430 243	(3 166 782)	199 565 889			199 565 889
Year 48		199 565 889	19 956 589	(3 454 554)	216 067 924			216 067 924
Year 49		216 067 924	21 606 792	(3 810 784)	233 863 932			233 863 932
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	233 863 932	23 386 393	(4 166 796)	253 083 529	(253 083 529)	All assets in each trust sold to form new trust structures. Capital distribution to new trusts (not deducted in order to show total remaining wealth less CGT effect of restructuring)	225 589 291
		225 589 291	-	-	225 589 291	(27 494 238)	CGT due on 2nd restructuring reduces remaining investment amount Refer Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule, column A, Yr 50	225 589 291

Table 66 – Comparison 3b (Trust scenario): Trust 1 income and income tax (excluding CGT)

TRUST 1: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

Column L value transferred to column C of Trust 1: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 1: Capital schedule	B = A x 0.05	C: Yr 1 - 30: = B / 4 Yr 31+: = 0	D : 38%	E = C x D	F: Yr 1 - 30: = B / 4 Yr 31 - 35: = B / 3 Yr 35 - 40: = B	G = per effective tax rate table	H = F x G	I: Yr 1 -30: = B / 2 Yr 31 - 35: = B x 2/3 Yr 36+: = 0	J: Yr 1 - 10: per effective tax rate table; Yr 11 - 15: 25.0% Yr 16 - 20: 30.0% Yr 21 - 25: 35.0% Yr 25 - 30: 38.0% Yr 30 - 35: 39.0%	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	Transfer of assets to Trust 1													
Year 1		10 000 000	500 000	125 000	38.0%	47 500	125 000	7.2%	9 000	250 000	7.2%	18 000	74 500	14.9%
Year 2		10 925 500	546 275	136 569	38.0%	51 896	136 569	7.2%	9 833	273 138	7.2%	19 666	81 395	14.9%
Year 3		11 936 655	596 833	149 208	38.0%	56 699	149 208	7.2%	10 743	298 416	7.2%	21 486	88 928	14.9%
Year 4		13 041 392	652 070	163 017	38.0%	61 947	163 017	9.0%	14 672	326 035	9.0%	29 343	105 961	16.3%
Year 5		14 239 570	711 979	177 995	38.0%	67 638	177 995	10.3%	18 308	355 989	10.3%	36 616	122 562	17.2%
Year 6		15 540 965	777 048	194 262	38.0%	73 820	194 262	10.3%	19 981	388 524	10.3%	39 962	133 763	17.2%
Year 7		16 961 299	848 065	212 016	38.0%	80 566	212 016	11.7%	24 870	424 032	11.7%	49 739	155 175	18.3%
Year 8		18 502 254	925 113	231 278	38.0%	87 886	231 278	13.3%	30 796	462 556	13.3%	61 592	180 274	19.5%
Year 9		20 172 206	1 008 610	252 153	38.0%	95 818	252 153	14.6%	36 774	504 305	14.6%	73 548	206 140	20.4%
Year 10		21 983 286	1 099 164	274 791	38.0%	104 421	274 791	14.6%	40 076	549 582	14.6%	80 151	224 647	20.4%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	23 956 968	1 197 848	299 462	38.0%	113 796	299 462	15.6%	46 781	598 924	25.0%	149 731	310 308	25.9%
Year 12		26 042 356	1 302 118	325 529	38.0%	123 701	325 529	17.8%	57 783	651 059	25.0%	162 765	344 249	26.4%
Year 13		28 302 343	1 415 117	353 779	38.0%	134 436	353 779	18.7%	66 146	707 559	25.0%	176 890	377 471	26.7%
Year 14		30 755 106	1 537 755	384 439	38.0%	146 087	384 439	19.5%	75 031	768 878	25.0%	192 219	413 337	26.9%
Year 15		33 417 279	1 670 864	417 716	38.0%	158 732	417 716	20.2%	84 524	835 432	25.0%	208 858	452 114	27.1%
Year 16		36 306 894	1 815 345	453 836	38.0%	172 458	453 836	21.9%	99 299	907 672	30.0%	272 302	544 059	30.0%
Year 17		39 393 524	1 969 676	492 419	38.0%	187 119	492 419	22.6%	111 401	984 838	30.0%	295 451	593 971	30.2%
Year 18		42 738 905	2 136 945	534 236	38.0%	203 010	534 236	23.3%	124 434	1 068 473	30.0%	320 542	647 986	30.3%
Year 19		46 364 810	2 318 240	579 560	38.0%	220 233	579 560	24.4%	141 687	1 159 120	30.0%	347 736	709 656	30.6%
Year 20		50 291 635	2 514 582	628 645	38.0%	238 885	628 645	25.7%	161 307	1 257 291	30.0%	377 187	777 380	30.9%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	54 543 419	2 727 171	681 793	38.0%	259 081	681 793	26.7%	181 941	1 363 585	35.0%	477 255	918 277	33.7%
Year 22		57 579 483	2 878 974	719 744	38.0%	273 503	719 744	27.6%	198 399	1 439 487	35.0%	503 820	975 722	33.9%
Year 23		60 771 709	3 038 585	759 646	38.0%	288 666	759 646	28.5%	216 176	1 519 293	35.0%	531 752	1 036 594	34.1%
Year 24		64 126 886	3 206 344	801 586	38.0%	304 603	801 586	29.2%	234 395	1 603 172	35.0%	561 110	1 100 108	34.3%
Year 25		67 652 943	3 382 647	845 662	38.0%	321 351	845 662	29.2%	247 283	1 691 324	35.0%	591 963	1 160 598	34.3%
Year 26		71 363 924	3 568 196	892 049	38.0%	338 979	892 049	29.9%	267 018	1 784 098	38.0%	677 957	1 283 953	36.0%
Year 27		75 209 025	3 760 451	940 113	38.0%	357 243	940 113	30.5%	287 185	1 880 226	38.0%	714 486	1 358 913	36.1%
Year 28		79 243 235	3 962 162	990 540	38.0%	376 405	990 540	31.1%	308 038	1 981 081	38.0%	752 811	1 437 254	36.3%
Year 29		83 474 859	4 173 743	1 043 436	38.0%	396 506	1 043 436	31.6%	329 654	2 086 871	38.0%	793 011	1 519 170	36.4%

Table 66 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of <u>Trust 1: Capital</u> schedule	B = A x 0.05	C : Yr 1 - 30: = B / 4 Yr 31+: = 0	D : 38%	E = C x D	F: Yr 1 - 30: = B / 4 Yr 31 - 35: = B / 3 Yr 35 - 40: = B	G = per <u>effective tax rate table</u>	H = F x G	I : Yr 1 -30: = B / 2 Yr 31 - 35: = B x 2/3 Yr 36+: = 0	J : Yr 1 - 10: per <u>effective tax rate table</u>; Yr 11 - 15: 25.0% Yr 16 - 20: 30.0% Yr 21 - 25: 35.0% Yr 25 - 30: 38.0% Yr 30 - 35: 39.0%	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 30	Death of founder (at end of year)	87 912 402	4 395 620	1 098 905	38.0%	417 584	1 098 905	32.0%	352 101	2 197 810	38.0%	835 168	1 604 852	36.5%
Year 31		71 080 617	3 554 031	-	-	-	1 184 677	32.8%	388 812	2 369 354	39.0%	924 048	1 312 860	36.9%
Year 32		75 532 683	3 776 634	-	-	-	1 258 878	33.5%	421 403	2 517 756	39.0%	981 925	1 403 328	37.2%
Year 33		80 258 900	4 012 945	-	-	-	1 337 648	33.8%	451 643	2 675 297	39.0%	1 043 366	1 495 008	37.3%
Year 34		85 280 634	4 264 032	-	-	-	1 421 344	34.3%	487 248	2 842 688	39.0%	1 108 648	1 595 896	37.4%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	90 613 105	4 530 655	-	-	-	1 510 218	34.7%	524 480	3 020 437	39.0%	1 177 970	1 702 450	37.6%
Year 36		32 092 096	1 604 605	-	-	-	1 604 605	35.1%	563 548	-	-	-	563 548	35.1%
Year 37		32 940 339	1 647 017	-	-	-	1 647 017	35.1%	578 444	-	-	-	578 444	35.1%
Year 38		33 750 665	1 687 533	-	-	-	1 687 533	35.3%	595 680	-	-	-	595 680	35.3%
Year 39		34 510 472	1 725 524	-	-	-	1 725 524	35.5%	611 983	-	-	-	611 983	35.5%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	35 208 782	1 760 439	-	-	-	1 760 439	35.6%	627 150	-	-	-	627 150	35.6%
Year 41		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 42		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 43		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 44		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 45		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 46		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 47		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 48		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 49		-	-	-	-	-	-	-	-	-	-	-	-	-
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 67 – Comparison 3b (Trust scenario): Trust 2a and 2b combined income and income tax (excluding CGT)

TRUSTS 2a and 2b: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

Column L value transferred to column C of Trust 2a and 2b combined: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 2a and 2b combined: Capital schedule	B = A x 0.05	C : Yr 36 - 50: = B / 4	D : 39.0%	E = C x D	F: Yr 36 - 50: = B / 4	G = per effective tax rate table	H = F x G	I : Yr 36 -50: = B / 2	J : per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founders (x2)			Spouse (x2)			Children (2 x 2 = 4)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 2)	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 4)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	Transfer of assets to Trust 1													
Year 1		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 2		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 3		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 4		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 5		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 6		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 7		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 8		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 9		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 10		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 12		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 13		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 14		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 15		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 16		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 17		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 18		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 19		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 20		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 22		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 23		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 24		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-

Table 67 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Trust 2a and 2b combined: Capital schedule	B = A x 0.05	C : Yr 36 - 50: = B / 4	D : 39.0%	E = C x D	F: Yr 36 - 50: = B / 4	G = per effective tax rate table	H = F x G	I : Yr 36 -50: = B / 2	J : per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founders (x2)			Spouse (x2)			Children (2 x 2 = 4)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Distributed taxable income	Effective income tax rate	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 2)	INCOME TAX	Distributed taxable income	Effective income tax rate (per person: lookup value = distributed income / 4)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 25		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 26		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 27		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 28		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 29		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 30	Death of founder (at end of year)	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 31		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 32		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 33		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 34		-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	-	-	0.0%	-	-	0.0%	-	-	-
Year 36		54 654 347	2 732 717	683 179	39.0%	266 440	683 179	17.8%	121 267	1 366 359	17.8%	242 535	630 242	23.1%
Year 37		59 489 539	2 974 477	743 619	39.0%	290 012	743 619	18.7%	139 033	1 487 238	18.7%	278 067	707 112	23.8%
Year 38		64 731 381	3 236 569	809 142	39.0%	315 565	809 142	20.2%	163 728	1 618 285	20.2%	327 456	806 749	24.9%
Year 39		70 397 770	3 519 889	879 972	39.0%	343 189	879 972	21.0%	185 229	1 759 944	21.0%	370 458	898 876	25.5%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	76 538 671	3 826 934	956 733	39.0%	373 126	956 733	22.6%	216 443	1 913 467	22.6%	432 887	1 022 456	26.7%
Year 41		113 631 471	5 681 574	1 420 393	39.0%	553 953	1 420 393	27.6%	391 535	2 840 787	27.6%	783 071	1 728 560	30.4%
Year 42		123 266 059	6 163 303	1 540 826	39.0%	600 922	1 540 826	28.5%	438 480	3 081 651	28.5%	876 960	1 916 362	31.1%
Year 43		133 676 303	6 683 815	1 670 954	39.0%	651 672	1 670 954	29.2%	488 610	3 341 908	29.2%	977 220	2 117 502	31.7%
Year 44		144 926 431	7 246 322	1 811 580	39.0%	706 516	1 811 580	30.5%	553 400	3 623 161	30.5%	1 106 799	2 366 715	32.7%
Year 45		157 052 359	7 852 618	1 963 154	39.0%	765 630	1 963 154	31.1%	610 502	3 926 309	31.1%	1 221 004	2 597 136	33.1%
Year 46		170 160 460	8 508 023	2 127 006	39.0%	829 532	2 127 006	32.0%	681 515	4 254 011	32.0%	1 363 030	2 874 077	33.8%
Year 47		184 302 429	9 215 121	2 303 780	39.0%	898 474	2 303 780	32.8%	756 103	4 607 561	32.8%	1 512 205	3 166 782	34.4%
Year 48		199 565 889	9 978 294	2 494 574	39.0%	972 884	2 494 574	33.2%	827 223	4 989 147	33.2%	1 654 447	3 454 554	34.6%
Year 49		216 067 924	10 803 396	2 700 849	39.0%	1 053 331	2 700 849	34.0%	919 151	5 401 698	34.0%	1 838 302	3 810 784	35.3%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	233 863 932	11 693 197	2 923 299	39.0%	1 140 087	2 923 299	34.5%	1 008 903	5 846 598	34.5%	2 017 806	4 166 796	35.6%

Table 68 – Comparison 3b (Trust scenario): Other taxes – CGT on transfers and disposals

TRUST 1, 2a and 2b: OTHER TAXES (CGT and Estate duty) - CGT on transfers and disposals

Annual exemption and inclusion %: 40 000 40%

Annual exemption in year of death: 300 000

		CGT on transfer							
		A	B	C	D	E	F	G	H
		A = B x G x F x (C - D - E)	B: refer H	C: refer H	D: refer H	E = 300000	F =	G: refer H	H
Year	Scenario event	CGT on transfer (total for all persons)	No. of persons	Proceeds (per person)	Base cost (per person)	Annual exemption	Inclusion %	Income tax rate	Description
Year 0	Transfer of assets to Trust 1	753 920	1	10 000 000	5 000 000	40 000	40.0%	38.0%	- CGT on transfer of assets to Trust 1. - Base cost and Proceeds as per starting parameter assumptions - Income tax rate equals assumption for income tax of founder at start of trust.
Year 30	Death of founder (at end of year)	2 842 811	1	18 641 143	1 006 926	300 000	40.0%	41.0%	**- CGT on assumption that trust assets had to be liquidated to pay estate duty - assume distributed to founder and annual CGT exemption on death could be applied** - Base cost is proportion of market value transferred in Yr0: Market value transferred in Yr 0 x Proceeds (equal to estate duty, see below) / Total trust capital (Trust 1: Capital schedule, column E, Yr 30) - Proceeds equals estate duty due - refer Trust 1, 2a and 2b Other taxes - Taxes on death schedule, column A, Yr 30 - Annual exemption in year of death assumed - Assume maximum income tax rate due to additional taxable income.
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	9 529 845	2	32 092 095.88	2 997 691	40 000	40.0%	41.0%	**- CGT on distribution of 2/3rds of Trust 1 assets to 2 children (1/3 each) to set up own trusts (Trusts 2a and 2b).** - Base cost equals 1/3 of initial funding in Year 0. - Proceeds equals half of trust capital distributed per Trust 1: Capital schedule, column F, Yr 35 - Assume maximum income tax rate due to additional taxable income.
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	5 371 922	2	17 916 655.14	1 498 846	40 000	40.0%	41.0%	**- CGT on distribution of remainder of Trust 1 assets to 2 children (1/2 each) to be sold to trusts (Trusts 2a and 2b).** - Base cost equals 1/3 of initial funding in Year 0 divided by 2 (per child). - Proceeds equals half of trust capital distributed per Trust 1: Capital schedule, column F, Yr 40 - Assume maximum income tax rate due to additional taxable income.
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	27 494 238	8	31 635 441	10 639 467	40 000	40.0%	41.0%	**- CGT on distribution of all trust assets in Trust 2a and 2b for restructuring of trusts.** - Base cost equals initial funding into Trusts 2a and 2b in year 36 plus additional funding transferred in year 40 divided by 8 beneficiaries (2 families of 4 people each): add value in Trust 2a and 2b: Capital schedule, column A, Yr 35 and value in Trust 2a and 2b: Capital schedule, column E, Yr 40; divide sum by 8 - Proceeds equals Trust 2a and 2b: Capital schedule, column D, Yr 50 divided by 8 - Assume maximum income tax rate due to additional taxable income.

Table 69 – Comparison 3b (Trust scenario): Other taxes – Taxes on death

TRUST 1, 2a and 2b: OTHER TAXES (CGT and Estate duty) - Taxes on death

s 4A abatement and estate duty %: 15 000 000 | 20%

Dutiable estate value at which higher estate duty % levied: 15 000 000 | 25%

			Estate duty on death						
		A	B	C	D	E	F	G	H
		A = B + I	B = F x G	C: refer H	D: refer H	E =	F = C - D - E	G = 0.2 and on portion above 15000000 apply 0.25	H
Year	**Scenario event**	**TOTAL TAXES ON DEATH**	**ESTATE DUTY ON DEATH**	**Estate asset value**	**Deductions (if bequeathed to spouse, s 4(q) deduction)**	**Estate duty abatement (s 4A)**	**Dutiable estate**	**Estate duty rate**	**Description**
Year 30	Death of founder (at end of year)	**18 641 143**	**18 641 143**	92 564 572	-	(15 000 000)	77 564 572	20.0% / 25.0%	Full trust assets are deemed property in founder's estate due to sale on loan account (assumed that loan account value not considered for estate duty in addition to trust assets) Refer Trust 1: Capital schedule, column E, Yr 30
Year 40	Death of surviving spouse (at end of year): Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	-	-	-	-	-	20.0%	No estate duty on loan account to Trust 1 (no loan account left)

Annual exemption and inclusion %: 300 000 | 40%

		CGT on death							
		I	J	K	L	M	N	O	P
		I = J x O x N x (K - L - M)	J: refer P	K: refer P	L: refer P	M = 300000	N = 0.4	O: refer P	P
Year	**Scenario event**	**CGT ON DEATH**	**No. of persons**	**Proceeds (per person)**	**Base cost (per person)**	**Exemption in year of death**	**Inclusion %**	**Income tax rate**	**Description**
Year 30	Death of founder (at end of year)	-							No CGT on loan account (*donatio mortis causa* or base cost = proceeds) Payment of estate duty from trust asset also assumed to be from cash reserves therefore no additional CGT due to disposal
Year 40	Death of surviving spouse (at end of year): Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-							No CGT on loan account (*donatio mortis causa*)

Table 70 – Comparison 3b (Trust scenario): Trust 1 loan account – founder

TRUST 1: LOAN ACCOUNT: Founder

Annual donation free of donations tax: 100 000

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column C of Trust 1: Income and income tax schedule	C = Column E of Trust 1: Income and income tax schedule	D = Founder's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	Scenario event	Loan account: founder (start of year)	Distributions of income on loan account	LESS Cash withdrawal - tax on distribution	LESS Cash withdrawal - post-retirement withdrawals	Annual donation (max R100,000)	Loan account: founder (end of year)	Adjustments	Description	Trust 1 capital (end of year)	Loan account as percentage of Trust 1 capital
Year 0	Transfer of assets to Trust 1						10 000 000			10 000 000	100%
Year 1		10 000 000	125 000	(47 500)	-	(100 000)	9 977 500			10 925 500	91%
Year 2		9 977 500	136 569	(51 896)	-	(100 000)	9 962 173			11 936 655	83%
Year 3		9 962 173	149 208	(56 699)	-	(100 000)	9 954 682			13 041 392	76%
Year 4		9 954 682	163 017	(61 947)	-	(100 000)	9 955 752			14 239 570	70%
Year 5		9 955 752	177 995	(67 638)	-	(100 000)	9 966 109			15 540 965	64%
Year 6		9 966 109	194 262	(73 820)	-	(100 000)	9 986 552			16 961 299	59%
Year 7		9 986 552	212 016	(80 566)	-	(100 000)	10 018 002			18 502 254	54%
Year 8		10 018 002	231 278	(87 886)	-	(100 000)	10 061 394			20 172 206	50%
Year 9		10 061 394	252 153	(95 818)	-	(100 000)	10 117 729			21 983 286	46%
Year 10		10 117 729	274 791	(104 421)	-	(100 000)	10 188 099			23 956 968	43%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	10 188 099	299 462	(113 796)	-	(100 000)	10 273 766			26 042 356	39%
Year 12		10 273 766	325 529	(123 701)	-	(100 000)	10 375 594			28 302 343	37%
Year 13		10 375 594	353 779	(134 436)	-	(100 000)	10 494 937			30 755 106	34%
Year 14		10 494 937	384 439	(146 087)	-	(100 000)	10 633 289			33 417 279	32%
Year 15		10 633 289	417 716	(158 732)	-	(100 000)	10 792 273			36 306 894	30%
Year 16		10 792 273	453 836	(172 458)	-	(100 000)	10 973 652			39 393 524	28%
Year 17		10 973 652	492 419	(187 119)	-	(100 000)	11 178 951			42 738 905	26%
Year 18		11 178 951	534 236	(203 010)	-	(100 000)	11 410 178			46 364 810	25%
Year 19		11 410 178	579 560	(220 233)	-	(100 000)	11 669 505			50 291 635	23%
Year 20		11 669 505	628 645	(238 885)	-	(100 000)	11 959 265			54 543 419	22%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	11 959 265	681 793	(259 081)	(750 000)	(100 000)	11 531 977			57 579 483	20%
Year 22		11 531 977	719 744	(273 503)	(795 000)	(100 000)	11 083 218			60 771 709	18%
Year 23		11 083 218	759 646	(288 666)	(842 700)	(100 000)	10 611 499			64 126 886	17%
Year 24		10 611 499	801 586	(304 603)	(893 262)	(100 000)	10 115 220			67 652 943	15%

Table 70 (continued)

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column C of Trust 1: Income and income tax schedule	C = Column E of Trust 1: Income and income tax schedule	D = Founder's annual withdrawals from Post-retirement withdrawal	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	**Scenario event**	**Loan account: founder (start of year)**	**Distributions of income on loan account**	**LESS Cash withdrawal - tax on distribution**	**LESS Cash withdrawal - post-retirement withdrawals**	**Annual donation (max R100,000)**	**Loan account: founder (end of year)**	**Adjustments**	**Description**	**Trust 1 capital (end of year)**	**Loan account as percentage of Trust 1 capital**
Year 25		10 115 220	845 662	(321 351)	(946 858)	(100 000)	9 592 673			71 363 924	13%
Year 26		9 592 673	892 049	(338 979)	(1 003 669)	(100 000)	9 042 074			75 209 025	12%
Year 27		9 042 074	940 113	(357 243)	(1 063 889)	(100 000)	8 461 054			79 243 235	11%
Year 28		8 461 054	990 540	(376 405)	(1 127 723)	(100 000)	7 847 467			83 474 859	9%
Year 29		7 847 467	1 043 436	(396 506)	(1 195 386)	(100 000)	7 199 011			87 912 402	8%
Year 30	Death of founder (at end of year)	7 199 011	1 098 905	(417 584)	(1 267 109)	(100 000)	6 513 223	(6 513 223)	Founder bequeaths loan account to Trust 1	92 564 572	7%
Year 31		-	-	-	-	-	-				
Year 32		-	-	-	-	-	-				
Year 33		-	-	-	-	-	-				
Year 34		-	-	-	-	-	-				
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	-	-	-	-	-				
Year 36		-	-	-	-	-	-				
Year 37		-	-	-	-	-	-				
Year 38		-	-	-	-	-	-				
Year 39		-	-	-	-	-	-				
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	-	-	-	-	-				
Year 41		-	-	-	-	-	-				
Year 42		-	-	-	-	-	-				
Year 43		-	-	-	-	-	-				
Year 44		-	-	-	-	-	-				
Year 45		-	-	-	-	-	-				
Year 46		-	-	-	-	-	-				
Year 47		-	-	-	-	-	-				
Year 48		-	-	-	-	-	-				
Year 49		-	-	-	-	-	-				
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-				

Table 71 – Comparison 3b (Trust scenario): Trust 1 loan account – spouse

TRUST 1: LOAN ACCOUNT: Spouse

Annual donation free of donations tax: 100 000

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column F of Trust 1: Income and income tax schedule	C = Column H of Trust 1: Income and income tax schedule	D = Spouse's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	**Scenario event**	**Loan account: spouse (start of year)**	**Distributions of income on loan account**	**LESS Cash withdrawal - tax on distribution**	**LESS Cash withdrawal - post-retirement withdrawals**	**Annual donation (max R100,000)**	**Loan account: spouse (end of year)**	**Adjustments**	**Description**	**Trust 1 capital (end of year)**	**Loan account as percentage of Trust 1 capital**
Year 0	Transfer of assets to Trust 1						-			10 000 000	0%
Year 1		-	125 000	(9 000)	-	(100 000)	16 000			10 925 500	0%
Year 2		16 000	136 569	(9 833)	-	(100 000)	42 736			11 936 655	0%
Year 3		42 736	149 208	(10 743)	-	(100 000)	81 201			13 041 392	1%
Year 4		81 201	163 017	(14 672)	-	(100 000)	129 547			14 239 570	1%
Year 5		129 547	177 995	(18 308)	-	(100 000)	189 233			15 540 965	1%
Year 6		189 233	194 262	(19 981)	-	(100 000)	263 514			16 961 299	2%
Year 7		263 514	212 016	(24 870)	-	(100 000)	350 661			18 502 254	2%
Year 8		350 661	231 278	(30 796)	-	(100 000)	451 143			20 172 206	2%
Year 9		451 143	252 153	(36 774)	-	(100 000)	566 522			21 983 286	3%
Year 10		566 522	274 791	(40 076)	-	(100 000)	701 237			23 956 968	3%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	701 237	299 462	(46 781)	-	(100 000)	853 918			26 042 356	3%
Year 12		853 918	325 529	(57 783)	-	(100 000)	1 021 665			28 302 343	4%
Year 13		1 021 665	353 779	(66 146)	-	(100 000)	1 209 298			30 755 106	4%
Year 14		1 209 298	384 439	(75 031)	-	(100 000)	1 418 706			33 417 279	4%
Year 15		1 418 706	417 716	(84 524)	-	(100 000)	1 651 898			36 306 894	5%
Year 16		1 651 898	453 836	(99 299)	-	(100 000)	1 906 435			39 393 524	5%
Year 17		1 906 435	492 419	(111 401)	-	(100 000)	2 187 453			42 738 905	5%
Year 18		2 187 453	534 236	(124 434)	-	(100 000)	2 497 255			46 364 810	5%
Year 19		2 497 255	579 560	(141 687)	-	(100 000)	2 835 129			50 291 635	6%
Year 20		2 835 129	628 645	(161 307)	-	(100 000)	3 202 467			54 543 419	6%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	3 202 467	681 793	(181 941)	(750 000)	(100 000)	2 852 318			57 579 483	5%
Year 22		2 852 318	719 744	(198 399)	(795 000)	(100 000)	2 478 663			60 771 709	4%
Year 23		2 478 663	759 646	(216 176)	(842 700)	(100 000)	2 079 433			64 126 886	3%
Year 24		2 079 433	801 586	(234 395)	(893 262)	(100 000)	1 653 362			67 652 943	2%

Table 71 (continued)

		A	B	C	D	E	F	G	H	I	J
		A = column F of previous year	B = Column F of Trust 1: Income and income tax schedule	C = Column H of Trust 1: Income and income tax schedule	D = Spouse's annual withdrawals from Post-retirement withdrawal schedule	E = max 100000	F = A + B + C + D + E	G: refer H	H	I = Column E of Trust 1: Capital schedule	J = F / I
Year	**Scenario event**	**Loan account: spouse (start of year)**	**Distributions of income on loan account**	**LESS Cash withdrawal - tax on distribution**	**LESS Cash withdrawal - post-retirement withdrawals**	**Annual donation (max R100,000)**	**Loan account: spouse (end of year)**	**Adjustments**	**Description**	**Trust 1 capital (end of year)**	**Loan account as percentage of Trust 1 capital**
Year 25		1 653 362	845 662	(247 283)	(946 858)	(100 000)	1 204 883			71 363 924	2%
Year 26		1 204 883	892 049	(267 018)	(1 003 669)	(100 000)	726 245			75 209 025	1%
Year 27		726 245	940 113	(287 185)	(1 063 889)	(100 000)	215 284			79 243 235	0%
Year 28		215 284	990 540	(308 038)	(1 127 723)	-	-			83 474 859	0%
Year 29		-	1 043 436	(329 654)	(1 195 386)	-	-			87 912 402	0%
Year 30	Death of founder (at end of year)	-	1 098 905	(352 101)	(1 267 109)	-	-			92 564 572	0%
Year 31		-	1 184 677	(388 812)	(1 343 136)	-	-			75 532 683	0%
Year 32		-	1 258 878	(421 403)	(1 423 724)	-	-			80 258 900	0%
Year 33		-	1 337 648	(451 643)	(1 509 147)	-	-			85 280 634	0%
Year 34		-	1 421 344	(487 248)	(1 599 696)	-	-			90 613 105	0%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	1 510 218	(524 480)	(1 695 678)	-	-			96 276 288	0%
Year 36		-	1 604 605	(563 548)	(1 797 419)	-	-			32 940 339	0%
Year 37		-	1 647 017	(578 444)	(1 905 264)	-	-			33 750 665	0%
Year 38		-	1 687 533	(595 680)	(2 019 580)	-	-			34 510 472	0%
Year 39		-	1 725 524	(611 983)	(2 140 754)	-	-			35 208 782	0%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	1 760 439	(627 150)	(2 269 200)	-	-	-	Spouse bequeaths loan account to Trust 1	35 833 310	0%
Year 41		-	-	-	-	-	-				
Year 42		-	-	-	-	-	-				
Year 43		-	-	-	-	-	-				
Year 44		-	-	-	-	-	-				
Year 45		-	-	-	-	-	-				
Year 46		-	-	-	-	-	-				
Year 47		-	-	-	-	-	-				
Year 48		-	-	-	-	-	-				
Year 49		-	-	-	-	-	-				
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	-	-	-	-	-				

Table 72 – Comparison 3b: Trust summary calculated using capital year-end values BEFORE year-end adjustments

TRUSTS - SUMMARY (using capital year-end values BEFORE year-end adjustments)

		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column E of Trust 1: Capital schedule	B = Column D of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	**Scenario event**	**Trust 1 capital (end of year, BEFORE adjustments)**	**Trust 2a + 2b capital (end of year, BEFORE adjustments)**	**TOTAL CAPITAL**	**Trust 1 income tax**	**Trust 2a + 2b income tax**	**CGT on transfers or disposals**	**Estate Duty and CGT on death**	**TOTAL TAXES**	**Cumulative total taxes**	**Cumulative total tax / Capital**	**Cumulative CGT and Estate Duty**	**Cumulative CGT and Estate Duty / Capital**
Year 0	Transfer of assets to Trust 1	10 000 000	-	10 000 000	-	-	753 920	-	753 920	753 920	7.54%	753 920	7.54%
Year 1		10 925 500	-	10 925 500	74 500	-	-	-	74 500	828 420	7.58%	753 920	6.90%
Year 2		11 936 655	-	11 936 655	81 395	-	-	-	81 395	909 815	7.62%	753 920	6.32%
Year 3		13 041 392	-	13 041 392	88 928	-	-	-	88 928	998 743	7.66%	753 920	5.78%
Year 4		14 239 570	-	14 239 570	105 961	-	-	-	105 961	1 104 704	7.76%	753 920	5.29%
Year 5		15 540 965	-	15 540 965	122 562	-	-	-	122 562	1 227 266	7.90%	753 920	4.85%
Year 6		16 961 299	-	16 961 299	133 763	-	-	-	133 763	1 361 030	8.02%	753 920	4.44%
Year 7		18 502 254	-	18 502 254	155 175	-	-	-	155 175	1 516 204	8.19%	753 920	4.07%
Year 8		20 172 206	-	20 172 206	180 274	-	-	-	180 274	1 696 478	8.41%	753 920	3.74%
Year 9		21 983 286	-	21 983 286	206 140	-	-	-	206 140	1 902 618	8.65%	753 920	3.43%
Year 10		23 956 968	-	23 956 968	224 647	-	-	-	224 647	2 127 265	8.88%	753 920	3.15%
Year 11	Beneficiaries' effective tax rate increases (Trust 1) - adjustment done every 5 years	26 042 356	-	26 042 356	310 308	-	-	-	310 308	2 437 573	9.36%	753 920	2.89%
Year 12		28 302 343	-	28 302 343	344 249	-	-	-	344 249	2 781 822	9.83%	753 920	2.66%
Year 13		30 755 106	-	30 755 106	377 471	-	-	-	377 471	3 159 293	10.27%	753 920	2.45%
Year 14		33 417 279	-	33 417 279	413 337	-	-	-	413 337	3 572 631	10.69%	753 920	2.26%
Year 15		36 306 894	-	36 306 894	452 114	-	-	-	452 114	4 024 745	11.09%	753 920	2.08%
Year 16		39 393 524	-	39 393 524	544 059	-	-	-	544 059	4 568 803	11.60%	753 920	1.91%
Year 17		42 738 905	-	42 738 905	593 971	-	-	-	593 971	5 162 775	12.08%	753 920	1.76%
Year 18		46 364 810	-	46 364 810	647 986	-	-	-	647 986	5 810 761	12.53%	753 920	1.63%
Year 19		50 291 635	-	50 291 635	709 656	-	-	-	709 656	6 520 416	12.97%	753 920	1.50%
Year 20		54 543 419	-	54 543 419	777 380	-	-	-	777 380	7 297 796	13.38%	753 920	1.38%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	57 579 483	-	57 579 483	918 277	-	-	-	918 277	8 216 073	14.27%	753 920	1.31%
Year 22		60 771 709	-	60 771 709	975 722	-	-	-	975 722	9 191 796	15.13%	753 920	1.24%
Year 23		64 126 886	-	64 126 886	1 036 594	-	-	-	1 036 594	10 228 390	15.95%	753 920	1.18%
Year 24		67 652 943	-	67 652 943	1 100 108	-	-	-	1 100 108	11 328 498	16.75%	753 920	1.11%

Table 72 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L
		A = Column E of Trust 1: Capital schedule	B = Column D of Trust 2a and 2b: Combined Capital schedule	C = A + B	D = column L of Trust 1: Income and Income Tax schedule	E = column L of Trust 2a and 2b: Income and Income Tax schedule	F = column A of Trusts 1, 2a and 2b: Other taxes - CGT on transfer schedule	G = column A of Trusts 1, 2a and 2b: Other taxes - Taxes on death schedule	H = D + E + F + G	I : cumulative value of H	J = I / C	K: cumulative value of F + G	L = K / C
Year	**Scenario event**	**Trust 1 capital (end of year, BEFORE adjustments)**	**Trust 2a + 2b capital (end of year, BEFORE adjustments)**	**TOTAL CAPITAL**	**Trust 1 income tax**	**Trust 2a + 2b income tax**	**CGT on transfers or disposals**	**Estate Duty and CGT on death**	**TOTAL TAXES**	**Cumulative total taxes**	**Cumulative total tax / Capital**	**Cumulative CGT and Estate Duty**	**Cumulative CGT and Estate Duty / Capital**
Year 25		71 363 924	-	71 363 924	1 160 598	-	-	-	1 160 598	12 489 095	17.50%	753 920	1.06%
Year 26		75 209 025	-	75 209 025	1 283 953	-	-	-	1 283 953	13 773 049	18.31%	753 920	1.00%
Year 27		79 243 235	-	79 243 235	1 358 913	-	-	-	1 358 913	15 131 962	19.10%	753 920	0.95%
Year 28		83 474 859	-	83 474 859	1 437 254	-	-	-	1 437 254	16 569 217	19.85%	753 920	0.90%
Year 29		87 912 402	-	87 912 402	1 519 170	-	-	-	1 519 170	18 088 387	20.58%	753 920	0.86%
Year 30	Death of founder (at end of year)	92 564 572	-	92 564 572	1 604 852	-	2 842 811	18 641 143	23 088 807	41 177 194	44.48%	22 237 874	24.02%
Year 31		75 532 683	-	75 532 683	1 312 860	-	-	-	1 312 860	42 490 054	56.25%	22 237 874	29.44%
Year 32		80 258 900	-	80 258 900	1 403 328	-	-	-	1 403 328	43 893 382	54.69%	22 237 874	27.71%
Year 33		85 280 634	-	85 280 634	1 495 008	-	-	-	1 495 008	45 388 390	53.22%	22 237 874	26.08%
Year 34		90 613 105	-	90 613 105	1 595 896	-	-	-	1 595 896	46 984 286	51.85%	22 237 874	24.54%
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	96 276 288	-	96 276 288	1 702 450	-	9 529 845	-	11 232 295	58 216 581	60.47%	31 767 719	33.00%
Year 36		32 940 339	59 489 539	92 429 878	563 548	630 242	-	-	1 193 791	59 410 371	64.28%	31 767 719	34.37%
Year 37		33 750 665	64 731 381	98 482 046	578 444	707 112	-	-	1 285 555	60 695 927	61.63%	31 767 719	32.26%
Year 38		34 510 472	70 397 770	104 908 243	595 680	806 749	-	-	1 402 429	62 098 356	59.19%	31 767 719	30.28%
Year 39		35 208 782	76 538 671	111 747 453	611 983	898 876	-	-	1 510 859	63 609 215	56.92%	31 767 719	28.43%
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	35 833 310	83 170 083	119 003 393	627 150	1 022 456	5 371 922	-	7 021 527	70 630 743	59.35%	37 139 641	31.21%
Year 41		-	123 266 059	123 266 059	-	1 728 560	-	-	1 728 560	72 359 302	58.70%	37 139 641	30.13%
Year 42		-	133 676 303	133 676 303	-	1 916 362	-	-	1 916 362	74 275 664	55.56%	37 139 641	27.78%
Year 43		-	144 926 431	144 926 431	-	2 117 502	-	-	2 117 502	76 393 166	52.71%	37 139 641	25.63%
Year 44		-	157 052 359	157 052 359	-	2 366 715	-	-	2 366 715	78 759 881	50.15%	37 139 641	23.65%
Year 45		-	170 160 460	170 160 460	-	2 597 136	-	-	2 597 136	81 357 017	47.81%	37 139 641	21.83%
Year 46		-	184 302 429	184 302 429	-	2 874 077	-	-	2 874 077	84 231 094	45.70%	37 139 641	20.15%
Year 47		-	199 565 889	199 565 889	-	3 166 782	-	-	3 166 782	87 397 876	43.79%	37 139 641	18.61%
Year 48		-	216 067 924	216 067 924	-	3 454 554	-	-	3 454 554	90 852 430	42.05%	37 139 641	17.19%
Year 49		-	233 863 932	233 863 932	-	3 810 784	-	-	3 810 784	94 663 214	40.48%	37 139 641	15.88%
Year 50	Further restructuring for 3rd generation (sale of all trust assets)	-	253 083 529	253 083 529	-	4 166 796	27 494 238	-	31 661 034	126 324 248	49.91%	64 633 879	25.54%

9.4.6 *Comparison 3b – Personal estate scenario supporting schedules*

Note that the personal estate scenarios for Comparison 3a and 3b are identical. The schedules are repeated with the colour-coding of Comparison 3b for the sake of completeness and ease of reference.

Table 73 – Comparison 3b (Personal estate scenario): Capital value

PERSONAL ESTATE: ESTATE VALUE

Annual capital growth: 10%

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Personal estate: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	E: refer G	G	H = E + F
Year	**Scenario event**	**Capital value** (start of year)	**Capital growth** (includes income reinvested net of expenses)	**Cash withdrawals to pay tax**	**Cash withdrawals post-retirement**	**Capital value** (end of year, before adjustments)	**Adjustments**	**Description of adjustments**	**Capital value** (end of year, after adjustments)
Year 0	Assets kept in personal estate					10 000 000			10 000 000
Year 1		10 000 000	1 000 000	(190 000)	-	10 810 000			10 810 000
Year 2		10 810 000	1 081 000	(205 390)	-	11 685 610			11 685 610
Year 3		11 685 610	1 168 561	(222 027)	-	12 632 144			12 632 144
Year 4		12 632 144	1 263 214	(240 011)	-	13 655 348			13 655 348
Year 5		13 655 348	1 365 535	(259 452)	-	14 761 431			14 761 431
Year 6		14 761 431	1 476 143	(280 467)	-	15 957 107			15 957 107
Year 7		15 957 107	1 595 711	(303 185)	-	17 249 633			17 249 633
Year 8		17 249 633	1 724 963	(327 743)	-	18 646 853			18 646 853
Year 9		18 646 853	1 864 685	(354 290)	-	20 157 248			20 157 248
Year 10		20 157 248	2 015 725	(382 988)	-	21 789 985			21 789 985
Year 11	No event	21 789 985	2 178 999	(414 010)	-	23 554 974			23 554 974
Year 12		23 554 974	2 355 497	(447 545)	-	25 462 927			25 462 927
Year 13		25 462 927	2 546 293	(483 796)	-	27 525 424			27 525 424
Year 14		27 525 424	2 752 542	(522 983)	-	29 754 984			29 754 984
Year 15		29 754 984	2 975 498	(565 345)	-	32 165 137			32 165 137
Year 16		32 165 137	3 216 514	(611 138)	-	34 770 513			34 770 513
Year 17		34 770 513	3 477 051	(660 640)	-	37 586 925			37 586 925
Year 18		37 586 925	3 758 692	(714 152)	-	40 631 466			40 631 466
Year 19		40 631 466	4 063 147	(771 998)	-	43 922 615			43 922 615
Year 20		43 922 615	4 392 261	(834 530)	-	47 480 346			47 480 346
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	47 480 346	4 748 035	(902 127)	(1 500 000)	49 826 254			49 826 254
Year 22		49 826 254	4 982 625	(946 699)	(1 590 000)	52 272 181			52 272 181
Year 23		52 272 181	5 227 218	(993 171)	(1 685 400)	54 820 828			54 820 828
Year 24		54 820 828	5 482 083	(1 041 596)	(1 786 524)	57 474 791			57 474 791

Table 73 (continued)

		A	B	C	D	E	F	G	H
		A = column H of previous year	B = A x (1 + 0.1)	C = -(column L of Personal estate: Income + Income tax schedule)	D = -(Total annual withdrawals column from Post-retirement withdrawal schedule)	E = A + B + C + D	E: refer G	G	H = E + F
Year	**Scenario event**	**Capital value (start of year)**	**Capital growth (includes income reinvested net of expenses)**	**Cash withdrawals to pay tax**	**Cash withdrawals post-retirement**	**Capital value (end of year, before adjustments)**	**Adjustments**	**Description of adjustments**	**Capital value (end of year, after adjustments)**
Year 25		57 474 791	5 747 479	(1 092 021)	(1 893 715)	60 236 533			60 236 533
Year 26		60 236 533	6 023 653	(1 144 494)	(2 007 338)	63 108 354			63 108 354
Year 27		63 108 354	6 310 835	(1 199 490)	(2 127 779)	66 091 921			66 091 921
Year 28		66 091 921	6 609 192	(1 260 684)	(2 255 445)	69 184 983			69 184 983
Year 29		69 184 983	6 918 498	(1 323 971)	(2 390 772)	72 388 738			72 388 738
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	72 388 738	7 238 874	(1 389 392)	(2 534 218)	75 704 001	(14 426 000)	Reduced by estate duty and CGT due on death of founder / owner Refer Personal estate: Other taxes - Taxes on death schedule, column A, Yr 30	61 278 001
Year 31		61 278 001	6 127 800	(1 161 701)	(1 343 136)	64 900 964			64 900 964
Year 32		64 900 964	6 490 096	(1 235 076)	(1 423 724)	68 732 260			68 732 260
Year 33		68 732 260	6 873 226	(1 313 929)	(1 509 147)	72 782 409			72 782 409
Year 34		72 782 409	7 278 241	(1 396 948)	(1 599 696)	77 064 006			77 064 006
Year 35	No event	77 064 006	7 706 401	(1 485 665)	(1 695 678)	81 589 063			81 589 063
Year 36		81 589 063	8 158 906	(1 577 823)	(1 797 419)	86 372 728			86 372 728
Year 37		86 372 728	8 637 273	(1 676 164)	(1 905 264)	91 428 573			91 428 573
Year 38		91 428 573	9 142 857	(1 779 774)	(2 019 580)	96 772 077			96 772 077
Year 39		96 772 077	9 677 208	(1 889 002)	(2 140 754)	102 419 529			102 419 529
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	102 419 529	10 241 953	(2 005 144)	(2 269 200)	108 387 137	(39 503 075)	Reduced by estate duty and CGT due on death of spouse Refer Personal estate: Other taxes - Taxes on death schedule, column A, Yr 40	68 884 063
Year 41		68 884 063	6 888 406	(1 221 539)	-	74 550 930			74 550 930
Year 42		74 550 930	7 455 093	(1 338 755)	-	80 667 267			80 667 267
Year 43		80 667 267	8 066 727	(1 463 972)	-	87 270 022			87 270 022
Year 44		87 270 022	8 727 002	(1 598 119)	-	94 398 905			94 398 905
Year 45		94 398 905	9 439 891	(1 746 241)	-	102 092 555			102 092 555
Year 46		102 092 555	10 209 255	(1 904 589)	-	110 397 221			110 397 221
Year 47		110 397 221	11 039 722	(2 074 326)	-	119 362 618			119 362 618
Year 48		119 362 618	11 936 262	(2 256 623)	-	129 042 256			129 042 256
Year 49		129 042 256	12 904 226	(2 455 696)	-	139 490 786			139 490 786
Year 50	Sale of all assets by children	139 490 786	13 949 079	(2 669 391)	-	150 770 474	(13 416 251)	Reduced by CGT as result of sale Refer Personal estate: Other taxes - CGT on transfer schedule, column A, Yr 50	137 354 222

Table 74 – Comparison 3b (Personal estate scenario): Income and income tax (excluding CGT)

PERSONAL ESTATE: INCOME AND INCOME TAX (excl CGT)

Refer Methodology section for assumptions used with respect to effective income tax rates used in table below

Column L value transferred to column C of Personal estate: Capital schedule

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Personal estate: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B Yr 31+: = 0	D = 38%, unless effective tax rate table gives higher amount	E = C x D	F: Yr 1 - 30: = 0 Yr 31 - 40: = B Yr 41 - 50: = 0	G = per effective tax rate table	H = F x G	I : Yr 1 -40: = 0 Yr 41 - 50: = B	J = per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder / Owner			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 0	Assets kept in personal estate													
Year 1		10 000 000	500 000	500 000	38.0%	190 000	-	0.0%	-	-	0.0%	-	190 000	38.0%
Year 2		10 810 000	540 500	540 500	38.0%	205 390	-	0.0%	-	-	0.0%	-	205 390	38.0%
Year 3		11 685 610	584 281	584 281	38.0%	222 027	-	0.0%	-	-	0.0%	-	222 027	38.0%
Year 4		12 632 144	631 607	631 607	38.0%	240 011	-	0.0%	-	-	0.0%	-	240 011	38.0%
Year 5		13 655 348	682 767	682 767	38.0%	259 452	-	0.0%	-	-	0.0%	-	259 452	38.0%
Year 6		14 761 431	738 072	738 072	38.0%	280 467	-	0.0%	-	-	0.0%	-	280 467	38.0%
Year 7		15 957 107	797 855	797 855	38.0%	303 185	-	0.0%	-	-	0.0%	-	303 185	38.0%
Year 8		17 249 633	862 482	862 482	38.0%	327 743	-	0.0%	-	-	0.0%	-	327 743	38.0%
Year 9		18 646 853	932 343	932 343	38.0%	354 290	-	0.0%	-	-	0.0%	-	354 290	38.0%
Year 10		20 157 248	1 007 862	1 007 862	38.0%	382 988	-	0.0%	-	-	0.0%	-	382 988	38.0%
Year 11	No event	21 789 985	1 089 499	1 089 499	38.0%	414 010	-	0.0%	-	-	0.0%	-	414 010	38.0%
Year 12		23 554 974	1 177 749	1 177 749	38.0%	447 545	-	0.0%	-	-	0.0%	-	447 545	38.0%
Year 13		25 462 927	1 273 146	1 273 146	38.0%	483 796	-	0.0%	-	-	0.0%	-	483 796	38.0%
Year 14		27 525 424	1 376 271	1 376 271	38.0%	522 983	-	0.0%	-	-	0.0%	-	522 983	38.0%
Year 15		29 754 984	1 487 749	1 487 749	38.0%	565 345	-	0.0%	-	-	0.0%	-	565 345	38.0%
Year 16		32 165 137	1 608 257	1 608 257	38.0%	611 138	-	0.0%	-	-	0.0%	-	611 138	38.0%
Year 17		34 770 513	1 738 526	1 738 526	38.0%	660 640	-	0.0%	-	-	0.0%	-	660 640	38.0%
Year 18		37 586 925	1 879 346	1 879 346	38.0%	714 152	-	0.0%	-	-	0.0%	-	714 152	38.0%
Year 19		40 631 466	2 031 573	2 031 573	38.0%	771 998	-	0.0%	-	-	0.0%	-	771 998	38.0%
Year 20		43 922 615	2 196 131	2 196 131	38.0%	834 530	-	0.0%	-	-	0.0%	-	834 530	38.0%
Year 21	remains the same; Founder	47 480 346	2 374 017	2 374 017	38.0%	902 127	-	0.0%	-	-	0.0%	-	902 127	38.0%
Year 22		49 826 254	2 491 313	2 491 313	38.0%	946 699	-	0.0%	-	-	0.0%	-	946 699	38.0%
Year 23		52 272 181	2 613 609	2 613 609	38.0%	993 171	-	0.0%	-	-	0.0%	-	993 171	38.0%
Year 24		54 820 828	2 741 041	2 741 041	38.0%	1 041 596	-	0.0%	-	-	0.0%	-	1 041 596	38.0%

Table 74 (continued)

		A	B	C	D	E	F	G	H	I	J	K	L	M
		A =Column A of Personal estate: Capital schedule	B = A x 0.05	C : Yr 1 - 30: = B Yr 31+: = 0	D = 38%, unless effective tax rate table gives higher amount	E = C x D	F: Yr 1 - 30: = 0 Yr 31 - 40: = B Yr 41 - 50: = 0	G = per effective tax rate table	H = F x G	I : Yr 1 -40: = 0 Yr 41 - 50: = B	J = per effective tax rate table	K = I x J	L = E + H + K	M = (L / B) %
Annual taxable income generated:			5%	Founder / Owner			Spouse			Children (x 2)				
Year	Scenario event	Capital value (start of year)	Annual taxable income generated by asset (calculated using starting value of capital)	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate	INCOME TAX	Taxable Income	Effective income tax rate (per child, lookup value = distributed income / 2)	INCOME TAX	TOTAL TAX PAID BY ALL PARTIES	Effective income tax rate of trust income
Year 25		57 474 791	2 873 740	2 873 740	38.0%	1 092 021	-	0.0%	-	-	0.0%	-	1 092 021	38.0%
Year 26		60 236 533	3 011 827	3 011 827	38.0%	1 144 494	-	0.0%	-	-	0.0%	-	1 144 494	38.0%
Year 27		63 108 354	3 155 418	3 155 418	38.0%	1 199 490	-	0.0%	-	-	0.0%	-	1 199 490	38.0%
Year 28		66 091 921	3 304 596	3 304 596	38.1%	1 260 684	-	0.0%	-	-	0.0%	-	1 260 684	38.1%
Year 29		69 184 983	3 459 249	3 459 249	38.3%	1 323 971	-	0.0%	-	-	0.0%	-	1 323 971	38.3%
Year 30	Death of founder (at end of year) - bequeath assets to	72 388 738	3 619 437	3 619 437	38.4%	1 389 392	-	0.0%	-	-	0.0%	-	1 389 392	38.4%
Year 31		61 278 001	3 063 900	-	-	-	3 063 900	37.9%	1 161 701	-	0.0%	-	1 161 701	37.9%
Year 32		64 900 964	3 245 048	-	-	-	3 245 048	38.1%	1 235 076	-	0.0%	-	1 235 076	38.1%
Year 33		68 732 260	3 436 613	-	-	-	3 436 613	38.2%	1 313 929	-	0.0%	-	1 313 929	38.2%
Year 34		72 782 409	3 639 120	-	-	-	3 639 120	38.4%	1 396 948	-	0.0%	-	1 396 948	38.4%
Year 35	No event	77 064 006	3 853 200	-	-	-	3 853 200	38.6%	1 485 665	-	0.0%	-	1 485 665	38.6%
Year 36		81 589 063	4 079 453	-	-	-	4 079 453	38.7%	1 577 823	-	0.0%	-	1 577 823	38.7%
Year 37		86 372 728	4 318 636	-	-	-	4 318 636	38.8%	1 676 164	-	0.0%	-	1 676 164	38.8%
Year 38		91 428 573	4 571 429	-	-	-	4 571 429	38.9%	1 779 774	-	0.0%	-	1 779 774	38.9%
Year 39		96 772 077	4 838 604	-	-	-	4 838 604	39.0%	1 889 002	-	0.0%	-	1 889 002	39.0%
Year 40	Death of surviving spouse (at end of year) - bequeaths	102 419 529	5 120 976	-	-	-	5 120 976	39.2%	2 005 144	-	0.0%	-	2 005 144	39.2%
Year 41		68 884 063	3 444 203	-	-	-	-	0.0%	-	3 444 203	35.5%	1 221 539	1 221 539	35.5%
Year 42		74 550 930	3 727 546	-	-	-	-	0.0%	-	3 727 546	35.9%	1 338 755	1 338 755	35.9%
Year 43		80 667 267	4 033 363	-	-	-	-	0.0%	-	4 033 363	36.3%	1 463 972	1 463 972	36.3%
Year 44		87 270 022	4 363 501	-	-	-	-	0.0%	-	4 363 501	36.6%	1 598 119	1 598 119	36.6%
Year 45		94 398 905	4 719 945	-	-	-	-	0.0%	-	4 719 945	37.0%	1 746 241	1 746 241	37.0%
Year 46		102 092 555	5 104 628	-	-	-	-	0.0%	-	5 104 628	37.3%	1 904 589	1 904 589	37.3%
Year 47		110 397 221	5 519 861	-	-	-	-	0.0%	-	5 519 861	37.6%	2 074 326	2 074 326	37.6%
Year 48		119 362 618	5 968 131	-	-	-	-	0.0%	-	5 968 131	37.8%	2 256 623	2 256 623	37.8%
Year 49		129 042 256	6 452 113	-	-	-	-	0.0%	-	6 452 113	38.1%	2 455 696	2 455 696	38.1%
Year 50	Sale of all assets by children	139 490 786	6 974 539	-	-	-	-	0.0%	-	6 974 539	38.3%	2 669 391	2 669 391	38.3%

Table 75 – Comparison 3b (Personal estate scenario): Other taxes – CGT on transfers and disposals

PERSONAL ESTATE: OTHER TAXES (CGT and Estate duty) - CGT on transfers and disposals

Annual exemption and inclusion %: 40 000 40%

		CGT on transfer							
		A	B	C	D	E	F	G	H
		A = B x G x F x (C - D - E)	B: refer H	C: refer H	D: refer H	E = 40000	F = 0.4	G: refer H	H
Year	**Scenario event**	**CGT on transfer (total for all persons)**	**No. of persons**	**Proceeds (per person)**	**Base cost (per person)**	**Annual exemption**	**Inclusion %**	**Income tax rate**	**Description**
Year 50	Sale of all assets by children	13 416 251	2	75 385 237	34 442 031	40 000	40.0%	41.0%	**- CGT on sale of all investment assets** - Base cost equals investment value net of CGT and estate duty in year 40 per Personal estate: Capital schedule, column H, Yr 40, divided by 2 (per child) - Proceeds equals Personal estate: Capital schedule, column E, Yr 50 divided by 2 (per child) - Assume maximum income tax rate due to additional taxable income.

Table 76 – Comparison 3b (Personal estate scenario): Other taxes – Taxes on death

PERSONAL ESTATE: OTHER TAXES (CGT and Estate duty) - Taxes on death

s 4A abatement and estate duty %: 15 000 000 20%

Dutiable estate value at which higher estate duty % levied: 15 000 000 25%

			Estate duty on death						
		A	B	C	D	E	F	G	H
		A = B + I	B = F x G	C: refer H	D: refer H	E =	F = C - D - E	G = 0.2 and on portion above 15000000 apply 0.25	H
Year	Scenario event	TOTAL TAXES ON DEATH	ESTATE DUTY ON DEATH	Estate asset value	Deductions (if bequeathed to spouse, s 4(q) deduction)	Estate duty abatement (s 4A)	Dutiable estate	Estate duty rate	Description
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	14 426 000	14 426 000	75 704 001	-	(15 000 000)	60 704 001	20.0% / 25.0%	Estate duty on investment asset value - founder/owner - Refer Personal estate: Capital schedule, column E, Yr 30 - Bequeathed to spouse but repeal of s 4(q) deduction
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	39 503 075	22 596 784	108 387 137	-	(15 000 000)	93 387 137	20.0% / 25.0%	Estate duty on investment asset value - spouse; - Refer Personal estate: Capital schedule, column E, Yr 40

Annual exemption and inclusion %: 300 000 40%

		CGT on death							
		I	J	K	L	M	N	O	P
		I = J x O x N x (K - L - M)	J: refer P	K: refer P	L: refer P	M = 300000	N = 0.4	O: refer P	P
Year	Scenario event	CGT ON DEATH	No. of persons	Proceeds (per person)	Base cost (per person)	Exemption in year of death	Inclusion %	Income tax rate	Description
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	-	1	-	-		40.0%	41.0%	CGT on death of owner CGT rollover - bequeathed to spouse
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	16 906 291	1	108 387 137	5 000 000	300 000	40.0%	41.0%	CGT on death of spouse - bequeathed to children (no CGT rollover); - Base cost equals rolled over base cost (starting parameter) - Proceeds equals Personal estate: Capital schedule, column E, Yr 40 - Highets income tax bracket assumed

Table 77 – Comparison 3b (Personal estate scenario): Personal estate summary calculated using capital year-end values BEFORE year-end adjustments

PERSONAL ESTATE - SUMMARY (using capital year-end values BEFORE year-end adjustments)

		A	B	C	D	E	F	G	H	I
		A = Column E of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	**Scenario event**	**TOTAL CAPITAL or ESTATE VALUE (end of year, BEFORE adjustments)**	**Total income taxes**	**CGT on transfers or disposals**	**Estate Duty and CGT on death**	**TOTAL TAXES**	**Cumulative total taxes**	**Cumulative total tax / Capital**	**Cumulative CGT and Estate Duty**	**Cumulative CGT and Estate Duty / Capital**
Year 0	Assets kept in personal estate	10 000 000	-	-	-	-	-	0.00%	-	0.00%
Year 1		10 810 000	190 000	-	-	190 000	190 000	1.76%	-	0.00%
Year 2		11 685 610	205 390	-	-	205 390	395 390	3.38%	-	0.00%
Year 3		12 632 144	222 027	-	-	222 027	617 417	4.89%	-	0.00%
Year 4		13 655 348	240 011	-	-	240 011	857 427	6.28%	-	0.00%
Year 5		14 761 431	259 452	-	-	259 452	1 116 879	7.57%	-	0.00%
Year 6		15 957 107	280 467	-	-	280 467	1 397 346	8.76%	-	0.00%
Year 7		17 249 633	303 185	-	-	303 185	1 700 531	9.86%	-	0.00%
Year 8		18 646 853	327 743	-	-	327 743	2 028 274	10.88%	-	0.00%
Year 9		20 157 248	354 290	-	-	354 290	2 382 564	11.82%	-	0.00%
Year 10		21 789 985	382 988	-	-	382 988	2 765 552	12.69%	-	0.00%
Year 11	No event	23 554 974	414 010	-	-	414 010	3 179 562	13.50%	-	0.00%
Year 12		25 462 927	447 545	-	-	447 545	3 627 106	14.24%	-	0.00%
Year 13		27 525 424	483 796	-	-	483 796	4 110 902	14.93%	-	0.00%
Year 14		29 754 984	522 983	-	-	522 983	4 633 885	15.57%	-	0.00%
Year 15		32 165 137	565 345	-	-	565 345	5 199 230	16.16%	-	0.00%
Year 16		34 770 513	611 138	-	-	611 138	5 810 367	16.71%	-	0.00%
Year 17		37 586 925	660 640	-	-	660 640	6 471 007	17.22%	-	0.00%
Year 18		40 631 466	714 152	-	-	714 152	7 185 159	17.68%	-	0.00%
Year 19		43 922 615	771 998	-	-	771 998	7 957 157	18.12%	-	0.00%
Year 20		47 480 346	834 530	-	-	834 530	8 791 686	18.52%	-	0.00%
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from investment income	49 826 254	902 127	-	-	902 127	9 693 813	19.46%	-	0.00%
Year 22		52 272 181	946 699	-	-	946 699	10 640 512	20.36%	-	0.00%
Year 23		54 820 828	993 171	-	-	993 171	11 633 683	21.22%	-	0.00%
Year 24		57 474 791	1 041 596	-	-	1 041 596	12 675 279	22.05%	-	0.00%

Table 77 (continued)

		A	B	C	D	E	F	G	H	I
		A = Column E of Personal estate: Capital schedule	B = column L of Personal estate: Income and Income Tax schedule	C = column A of Personal estate: Other taxes - CGT on transfer schedule	D = column A of Personal estate: Other taxes - Taxes on death schedule	E = B + C + D	F : cumulative value of E	G = F / A	H: cumulative value of C + D	I = H / A
Year	Scenario event	TOTAL CAPITAL or ESTATE VALUE (end of year, BEFORE adjustments)	Total income taxes	CGT on transfers or disposals	Estate Duty and CGT on death	TOTAL TAXES	Cumulative total taxes	Cumulative total tax / Capital	Cumulative CGT and Estate Duty	Cumulative CGT and Estate Duty / Capital
Year 25		60 236 533	1 092 021	-	-	1 092 021	13 767 300	22.86%	-	0.00%
Year 26		63 108 354	1 144 494	-	-	1 144 494	14 911 794	23.63%	-	0.00%
Year 27		66 091 921	1 199 490	-	-	1 199 490	16 111 284	24.38%	-	0.00%
Year 28		69 184 983	1 260 684	-	-	1 260 684	17 371 969	25.11%	-	0.00%
Year 29		72 388 738	1 323 971	-	-	1 323 971	18 695 940	25.83%	-	0.00%
Year 30	Death of founder (at end of year) - bequeath assets to surviving spouse	75 704 001	1 389 392	-	14 426 000	15 815 393	34 511 332	45.59%	14 426 000	19.06%
Year 31		64 900 964	1 161 701	-	-	1 161 701	35 673 034	54.97%	14 426 000	22.23%
Year 32		68 732 260	1 235 076	-	-	1 235 076	36 908 110	53.70%	14 426 000	20.99%
Year 33		72 782 409	1 313 929	-	-	1 313 929	38 222 039	52.52%	14 426 000	19.82%
Year 34		77 064 006	1 396 948	-	-	1 396 948	39 618 988	51.41%	14 426 000	18.72%
Year 35	No event	81 589 063	1 485 665	-	-	1 485 665	41 104 653	50.38%	14 426 000	17.68%
Year 36		86 372 728	1 577 823	-	-	1 577 823	42 682 475	49.42%	14 426 000	16.70%
Year 37		91 428 573	1 676 164	-	-	1 676 164	44 358 639	48.52%	14 426 000	15.78%
Year 38		96 772 077	1 779 774	-	-	1 779 774	46 138 413	47.68%	14 426 000	14.91%
Year 39		102 419 529	1 889 002	-	-	1 889 002	48 027 415	46.89%	14 426 000	14.09%
Year 40	Death of surviving spouse (at end of year) - bequeaths capital to two children who keep in own estate	108 387 137	2 005 144	-	39 503 075	41 508 219	89 535 635	82.61%	53 929 075	49.76%
Year 41		74 550 930	1 221 539	-	-	1 221 539	90 757 174	121.74%	53 929 075	72.34%
Year 42		80 667 267	1 338 755	-	-	1 338 755	92 095 929	114.17%	53 929 075	66.85%
Year 43		87 270 022	1 463 972	-	-	1 463 972	93 559 901	107.21%	53 929 075	61.80%
Year 44		94 398 905	1 598 119	-	-	1 598 119	95 158 020	100.80%	53 929 075	57.13%
Year 45		102 092 555	1 746 241	-	-	1 746 241	96 904 261	94.92%	53 929 075	52.82%
Year 46		110 397 221	1 904 589	-	-	1 904 589	98 808 850	89.50%	53 929 075	48.85%
Year 47		119 362 618	2 074 326	-	-	2 074 326	100 883 176	84.52%	53 929 075	45.18%
Year 48		129 042 256	2 256 623	-	-	2 256 623	103 139 799	79.93%	53 929 075	41.79%
Year 49		139 490 786	2 455 696	-	-	2 455 696	105 595 495	75.70%	53 929 075	38.66%
Year 50	Sale of all assets by children	150 770 474	2 669 391	13 416 251	-	16 085 642	121 681 137	80.71%	67 345 327	44.67%

9.5 All scenarios in all comparisons

9.5.1 All scenarios: Post-retirement withdrawal schedule (from Yr 21 to Yr 40)

Table 78 – Post-retirement withdrawal schedule (from Yr 21 to Yr 40)

POST-RETIREMENT WITHDRAWALS: YEARS 21 TO 40

Initial annual amount	750 000
Annual increase	6.0%

		A	B	C
		A = prior year value of A x (1 + 0.06)	B = prior year value of B x (1 + 0.06)	C = A + B
Year	Scenario event	Founder - annual post-retirement withdrawal	Spouse - annual post-retirement withdrawal	Total annual withdrawals
Year 21	Founder retires, tax rate remains the same; Founder and spouse start making cash withdrawals from loan accounts (Trust 1)	750 000	750 000	1 500 000
Year 22		795 000	795 000	1 590 000
Year 23		842 700	842 700	1 685 400
Year 24		893 262	893 262	1 786 524
Year 25		946 858	946 858	1 893 715
Year 26		1 003 669	1 003 669	2 007 338
Year 27		1 063 889	1 063 889	2 127 779
Year 28		1 127 723	1 127 723	2 255 445
Year 29		1 195 386	1 195 386	2 390 772
Year 30	Death of founder (at end of year)	1 267 109	1 267 109	2 534 218
Year 31		-	1 343 136	1 343 136
Year 32		-	1 423 724	1 423 724
Year 33		-	1 509 147	1 509 147
Year 34		-	1 599 696	1 599 696
Year 35	Original trust (Trust 1) restructured for each separate beneficiary (Trust 2a and 2b) - at end of year; Surviving spouse remains beneficiary of Trust 1	-	1 695 678	1 695 678
Year 36		-	1 797 419	1 797 419
Year 37		-	1 905 264	1 905 264
Year 38		-	2 019 580	2 019 580
Year 39		-	2 140 754	2 140 754
Year 40	Death of surviving spouse (at end of year); Remaining capital in Trust 1 distributed to child beneficiaries who reinvest in new trusts via loans	-	2 269 200	2 269 200

9.5.2 *All scenarios: Effective personal income tax rate (2016/2017) lookup table*

The below effective tax rate lookup table was created using the latest marginal tax rates applicable to natural persons announced in the 2016 Budget[541] together with the primary rebate applicable to the 2017 tax year of R13,500[542] for natural persons under the age of 65.

Table 79 – Rates of normal tax for natural persons for years of assessment ending 28 February 2017

Taxable income	**Rate of tax**
Not exceeding R188 000	18 per cent of taxable income
Exceeding R188 000 but not exceeding R293 000	R33 840 plus 26 per cent of amount by which taxable income exceeds R188 000
Exceeding R293 000 but not exceeding R406 400	R61 269 plus 31 per cent of amount by which taxable income exceeds R293 600
Exceeding R406 400 but not exceeding R550 100	R96 264 plus 36 per cent of amount by which taxable income exceeds R406 400
Exceeding R550 100 but not exceeding R701 300	R147 996 plus 39 per cent of amount by which taxable income exceeds R550 100
Exceeds R701 300	R206 964 plus 41 per cent of amount by which taxable income exceeds R701 300

In the income tax calculations performed in subsequent data sets, the taxable income value was used to perform a lookup in the table listed below and the nearest taxable income value was used to look up the applicable effective tax rate for the purpose of calculating the income tax due on such income. This table and lookup process was created to simplify the tax calculations in cases where the assumptions stated that the effective tax rate was deemed to vary from year to year for beneficiaries (and not set at a fixed rate as a result of other income earned outside of the trust or outside of income from an investment asset held in a personal estate).

[541] Per para 1 of Schedule 1 to the Rates and Monetary Amounts and Amendments of Revenue Laws Bill (Draft) 2016
[542] Per s 4(1)(*a*) of the Rates and Monetary Amounts and Amendments of Revenue Laws Bill (Draft) 2016

The following is an example of how the effective tax rates were calculated using the information above (the example below is highlighted in yellow in the tables to follow):

Example (effective personal income tax rate calculation):

- Taxable income: **R1 000 000**
- Tax thereon (before deduction of tax rebates):
  R206 964 + 41% x (R1 000 000 – R701 300) = R206 964 + R122 467 = **R329 431**
- Tax payable after deduction of primary tax rebate:
  R329 431– R13 500 = **R315 931**
- Effective tax rate:
  (R315 931 / R1 000 000) x 100 = **31.59%**

Table 80 – Effective personal income tax lookup table for persons under the age of 65

Taxable income	Under 65 - effective tax rate
50 000	0.00%
75 000	0.00%
100 000	4.50%
125 000	7.20%
150 000	9.00%
175 000	10.29%
200 000	11.73%
225 000	13.32%
250 000	14.58%
275 000	15.62%
300 000	16.65%
325 000	17.75%
350 000	18.70%
375 000	19.52%
400 000	20.23%
425 000	21.05%
450 000	21.88%
475 000	22.62%
500 000	23.29%
550 000	24.45%
600 000	25.66%
650 000	26.69%
700 000	27.57%
750 000	28.46%
800 000	29.24%
850 000	29.93%
900 000	30.55%
950 000	31.10%
1 000 000	31.59%
1 050 000	32.04%
1 100 000	32.45%
1 150 000	32.82%
1 200 000	33.16%
1 250 000	33.47%
1 300 000	33.76%
1 350 000	34.03%
1 400 000	34.28%
1 450 000	34.51%
1 500 000	34.73%
1 550 000	34.93%
1 600 000	35.12%
1 650 000	35.30%
1 700 000	35.47%
1 750 000	35.62%
1 800 000	35.77%
1 850 000	35.92%
1 900 000	36.05%
1 950 000	36.18%
2 000 000	36.30%
2 050 000	36.41%
2 100 000	36.52%
2 150 000	36.62%
2 200 000	36.72%
2 250 000	36.82%
2 300 000	36.91%
2 350 000	37.00%
2 400 000	37.08%
2 450 000	37.16%
2 500 000	37.24%
2 550 000	37.31%
2 600 000	37.38%
2 650 000	37.45%
2 700 000	37.52%

Taxable income	Under 65 - effective tax rate
2 750 000	37.58%
2 800 000	37.64%
2 850 000	37.70%
2 900 000	37.76%
2 950 000	37.81%
3 000 000	37.86%
3 050 000	37.92%
3 100 000	37.97%
3 150 000	38.01%
3 200 000	38.06%
3 250 000	38.11%
3 300 000	38.15%
3 350 000	38.19%
3 400 000	38.23%
3 450 000	38.27%
3 500 000	38.31%
3 550 000	38.35%
3 600 000	38.39%
3 650 000	38.42%
3 700 000	38.46%
3 750 000	38.49%
3 800 000	38.52%
3 850 000	38.56%
3 900 000	38.59%
3 950 000	38.62%
4 000 000	38.65%
4 050 000	38.68%
4 100 000	38.71%
4 150 000	38.73%
4 200 000	38.76%
4 250 000	38.79%
4 300 000	38.81%
4 350 000	38.84%
4 400 000	38.86%
4 450 000	38.89%
4 500 000	38.91%
4 550 000	38.93%
4 600 000	38.96%
4 650 000	38.98%
4 700 000	39.00%
4 750 000	39.02%
4 800 000	39.04%
4 850 000	39.06%
4 900 000	39.08%
4 950 000	39.10%
5 000 000	39.12%
5 050 000	39.14%
5 100 000	39.16%
5 150 000	39.17%
5 200 000	39.19%
5 250 000	39.21%
5 300 000	39.23%
5 350 000	39.24%
5 400 000	39.26%
5 450 000	39.27%
5 500 000	39.29%
5 550 000	39.31%
5 600 000	39.32%
5 650 000	39.34%
5 700 000	39.35%
5 750 000	39.36%
5 800 000	39.38%
5 850 000	39.39%

Table 11 (continued)

Taxable income	Under 65 - effective tax rate
5 900 000	39.41%
5 950 000	39.42%
6 000 000	39.43%
6 050 000	39.45%
6 100 000	39.46%
6 150 000	39.47%
6 200 000	39.48%
6 250 000	39.49%
6 300 000	39.51%
6 350 000	39.52%
6 400 000	39.53%
6 450 000	39.54%
6 500 000	39.55%
6 550 000	39.56%
6 600 000	39.57%
6 650 000	39.59%
6 700 000	39.60%
6 750 000	39.61%
6 800 000	39.62%
6 850 000	39.63%
6 900 000	39.64%
6 950 000	39.65%
7 000 000	39.66%
7 050 000	39.67%
7 100 000	39.68%
7 150 000	39.68%
7 200 000	39.69%
7 250 000	39.70%
7 300 000	39.71%
7 350 000	39.72%
7 400 000	39.73%
7 450 000	39.74%
7 500 000	39.75%
7 550 000	39.75%
7 600 000	39.76%
7 650 000	39.77%
7 700 000	39.78%
7 750 000	39.79%
7 800 000	39.79%
7 850 000	39.80%
7 900 000	39.81%
7 950 000	39.82%
8 000 000	39.82%
8 050 000	39.83%
8 100 000	39.84%
8 150 000	39.85%
8 200 000	39.85%
8 250 000	39.86%
8 300 000	39.87%
8 350 000	39.87%
8 400 000	39.88%
8 450 000	39.89%
8 500 000	39.89%
8 550 000	39.90%
8 600 000	39.91%
8 650 000	39.91%
8 700 000	39.92%
8 750 000	39.92%
8 800 000	39.93%
8 850 000	39.94%
8 900 000	39.94%
8 950 000	39.95%
9 000 000	39.95%

Taxable income	Under 65 - effective tax rate
9 050 000	39.96%
9 100 000	39.97%
9 150 000	39.97%
9 200 000	39.98%
9 250 000	39.98%
9 300 000	39.99%
9 350 000	39.99%
9 400 000	39.999%
9 450 000	40.005%
9 500 000	40.01%
9 550 000	40.01%
9 600 000	40.02%
9 650 000	40.03%
9 700 000	40.03%
9 750 000	40.04%
9 800 000	40.04%
9 850 000	40.04%
9 900 000	40.05%
9 950 000	40.05%
10 000 000	40.06%
11 000 000	40.14%
12 000 000	40.22%
13 000 000	40.28%
14 000 000	40.33%
15 000 000	40.37%
16 000 000	40.41%
17 000 000	40.45%
18 000 000	40.48%
19 000 000	40.50%
20 000 000	40.53%
21 000 000	40.55%
22 000 000	40.57%
23 000 000	40.59%
24 000 000	40.61%
25 000 000	40.62%
26 000 000	40.64%
27 000 000	40.65%
28 000 000	40.66%
29 000 000	40.68%
30 000 000	40.69%
31 000 000	40.70%
32 000 000	40.71%
33 000 000	40.71%
34 000 000	40.72%
35 000 000	40.73%
36 000 000	40.74%
37 000 000	40.75%
38 000 000	40.75%
39 000 000	40.76%
40 000 000	40.76%
41 000 000	40.77%
42 000 000	40.78%
43 000 000	40.78%
44 000 000	40.79%
45 000 000	40.79%
46 000 000	40.80%
47 000 000	40.80%
48 000 000	40.80%
49 000 000	40.81%
50 000 000	40.81%