



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

THE BENEFITS OF USING ENDOWMENTS

“ *It is essential to consider the tax consequences of any investment* ”

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THE IMPORTANCE OF THE CHOICE OF INVESTMENT VEHICLE

By Johan Burger, Certified Financial Planner® Brenthurst Wealth Management

As an investor, you generally have one aim in mind: how to get a return on your investment. There are many factors that influence the return that you get, including your investment horizon, the asset allocation, and the ability of the fund manager.

There is another aspect that casual investors often overlook and that is the vehicle in which your money is invested. For example, let's see that you invest R100 directly in a unit trust and after a year you get a 10% return. If you cash that in, your R10 return is liable for tax at your marginal rate. If you are at the 45% rate, that means that your 10% return is effectively only 5.5%. By not paying attention to the investment vehicle, you as an investor have lost out on almost half of the upside of your investment. While this is an extreme example, when you invest you need to consider the tax consequences.

For individuals who have large sums of money, such as an inheritance, and who are already at a marginal tax rate at/or above 31% (that is, anyone who earns more than R300 000 per year), an endowment such as the Investec Access endowment becomes very attractive.

Endowments are vehicles where you invest your money for a minimum period of five years. The upside is that the maximum income tax rate of 30% is applied and Capital Gains Tax (CGT) is pegged at 12%. This means that if you are drawing an income from the endowment, your income tax will be levied at 30% and not your marginal rate of tax. There is some flexibility in the first five years, so if you need to draw cash from the endowment in the first five years you can do that, however, the withdrawals are restricted.

Another benefit of an endowment is in estate planning. If you have nominated a beneficiary, when you pass away the endowment is transferred and there is no CGT on the transfer. While there may be estate duty liable, if there is a beneficiary on the endowment, the endowment passes straight to the beneficiary and there is no executor's fee charged on it. With executors fees at 3.5% of the liable estate before VAT, on a R1 000 000 endowment, this is a saving of R35 000, or R40 250 if you include VAT.

It's very important that the endowment transfers immediately to the beneficiary upon death because it means it's not trapped as part of the frozen assets in the deceased's estate. Where someone had a complex estate, this can be a saving grace in keeping an income source going, especially when the deceased was the primary breadwinner.

Endowments can be taken out in the name of an individual, or a juristic entity such as a trust. Utilising a trust, especially where there are large sums of money involved, can be a very effective mechanism to distribute income to beneficiaries. A trust is a vehicle that is separate to the founder of the trust and as such, when the individual passes away, the trust continues. The trust is also liable for tax in its own right, and this means that with effective estate planning an individual can drastically reduce their estate duty, and capital gains liability.

The investment portfolios within an endowment vary from product to product. What sets an endowment apart from a retirement annuity is that it is not bound by Regulation 28. Reg 28 is a law that limits the exposure of retirement money in particular assets. By not having this hurdle, an endowment can be completely invested offshore. Not having the Reg 28 constraints means that your financial advisor needs to be skilled enough to determine exactly which funds will be most appropriate for your needs.

Fortunately, at Brenthurst we have very skilled advisors with the experience to navigate the investment world.

An endowment is definitely not for everyone. In general, you need to have a large sum of money to invest, an investment horizon of more than five years, and be at a tax rate of 31% or higher. It is important to meet with a qualified financial advisor to help you determine if an endowment is appropriate for your needs.

Taking a holistic view on investments, and interrogating every aspect of the investment from the asset manager, and the asset allocation, to the investment vehicle, requires a diligent financial advisor with the experience and nous to understand when a particular strategy is required to meet a specific need.

Brenthurst Wealth believes that a poor decision in setting up an investment can result in reduced performance. It is therefore critical that every aspect of the investment is carefully considered. We form long-term relationships with our clients, and we know that as a business if we provide superior service, and act diligently, and consistently, then our clients will be happy and our business will continue to grow.





JOHAN is head of financial planning at our Pretoria branch and a director of Brenthurst Wealth Management (Pty) Ltd.

Johan obtained a B.Com degree in Financial Management from the University of South Africa in 2004. Additional qualifications include two years at Lynn University in the USA where he qualified in International Business.

Johan initially gained experience at Interdynamics an Australian Risk Analyst Company. He joined Brenthurst Wealth in 2006 and completed his National Certificate in Wealth Management.

Email: johan@brenthurstwealth.co.za

Phone: + 27 12 347 8240 | Mobile: + 27 732 8655

Brenthurst's team consists of fourteen highly-qualified investment advisors who can assist you in creating a truly global investment portfolio. Having a detailed financial plan provides you with a strategy to make practical financial decisions in all aspects of your life.

GLOBAL WEALTH CREATION UPCOMING JOHANNESBURG INVESTMENT SEMINARS , 26 JUNE 2019

The South African economy continues to struggle and any policies adopted by the new government selected after the election in May will take time to take effect. Internationally the US / China trade war continues to dampen markets. Coupled with an expected global economic slowdown the investment outlook requires careful consideration. The Brenthurst investment seminar will review the economic climate and speakers Magnus Heystek, Mike Schüssler, Tony Bell and Sam Houlie will share insights on what lies ahead.

THE SPEAKERS:

- ▶ **Mike Schüssler** - Keynote Speaker and Economist
- ▶ **Magnus Heystek** - Investment Strategist and Director Brenthurst Wealth
- ▶ **Sam Houlie** - Chief Investment Officer, Counterpoint
- ▶ **Tony Bell** - Portfolio Manager Mi-Plan

JOHANNESBURG SEMINAR

Date: Wednesday, 26 June 2019

Time: 16:00 to 18:15/18:30

Venue: The Forum at The Campus, Sloane Street, Bryanston

CLICK HERE TO REGISTER ONLINE: <http://www.bwm.co.za/seminars/>

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