



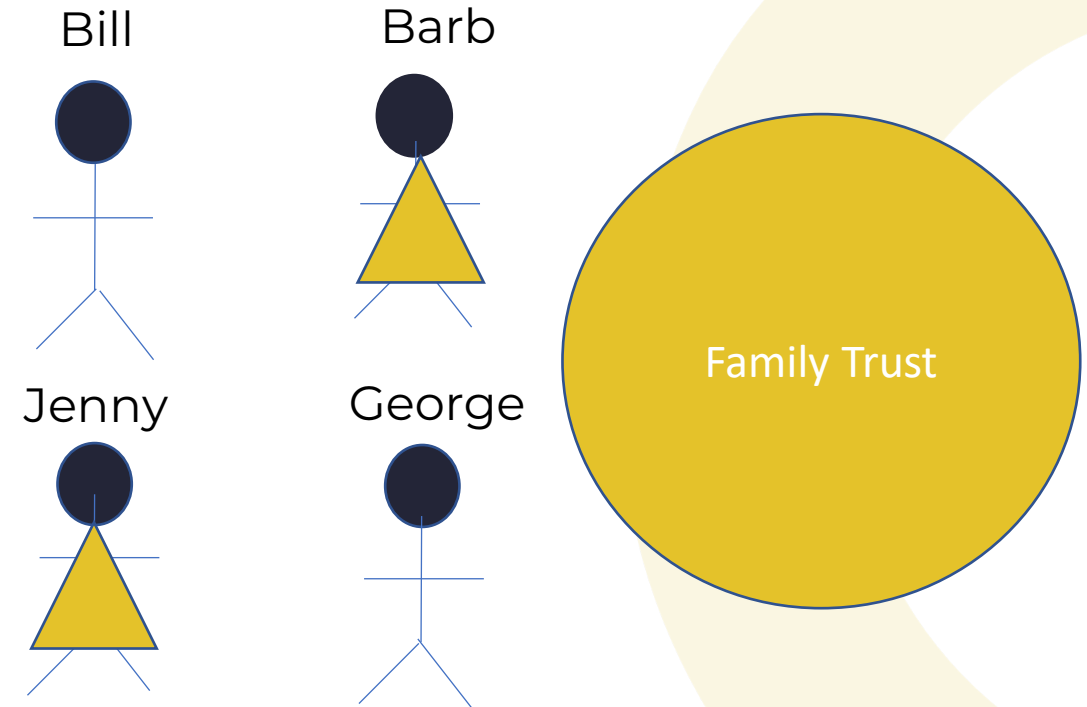
**FUNDING THE TRUST: PUTTING IT ALTOGETHER**  
(Domestic and Offshore)

*YOUR KEY TO THE TAX COMMUNITY*

# Nuclear Family with Domestic Trust

Bill and Barb have been married for 30 years. They have two older children (George and Jenny) who have recently graduated from university, both of whom are in their mid-20s.

The family recently formed a trust in order to facilitate their estate planning. Bill, Barb and their accountant are the trustees for the trust.

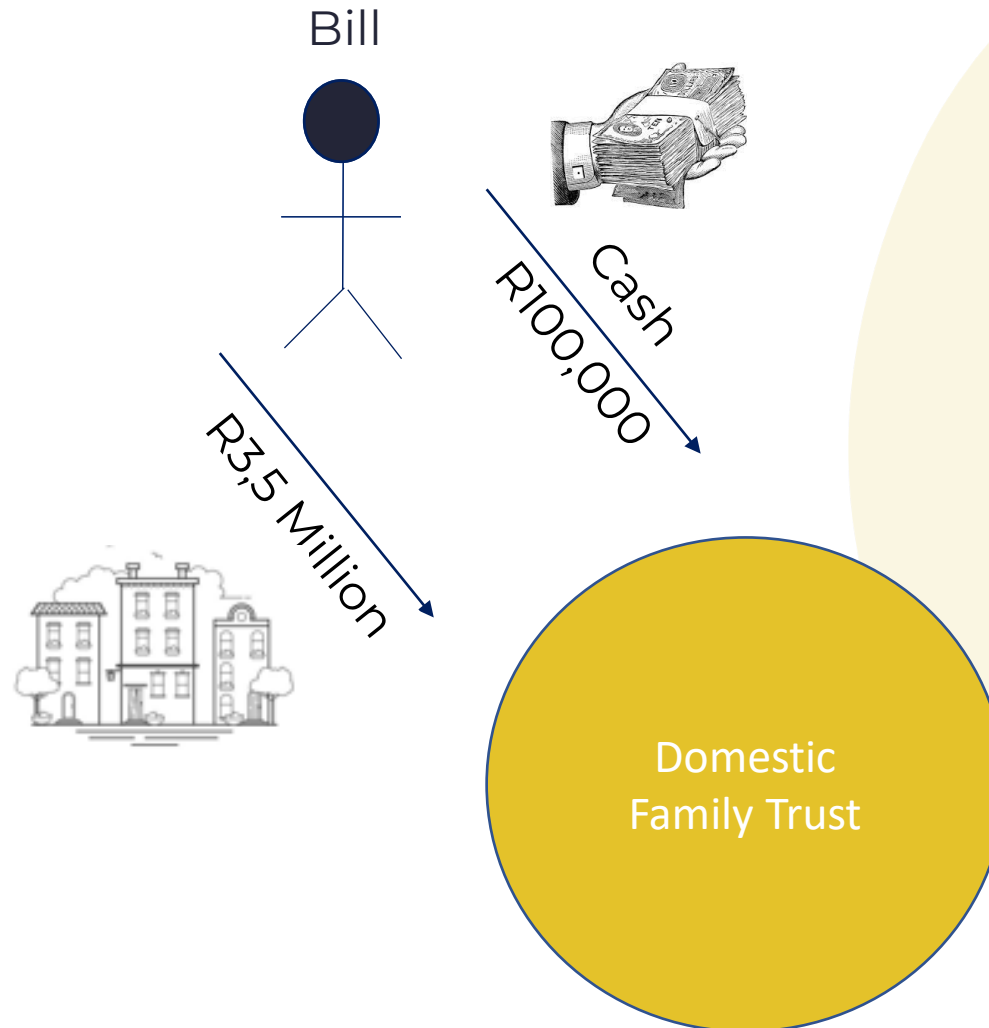


# Bill / Barbara Scenario #1a – Straight Donation to a Domestic Trust

Bill transfers R100 000 in cash plus residential flats worth R3.5 million. The cash and the flats are donated to the trust for no consideration.

The flats generate R320 000 per year in rent.

The cash is invested into a securities portfolio. The portfolio generates 4% bond interest, 3% dividends and 8% share growth.



## ***Basic Questions for Scenario #1a***

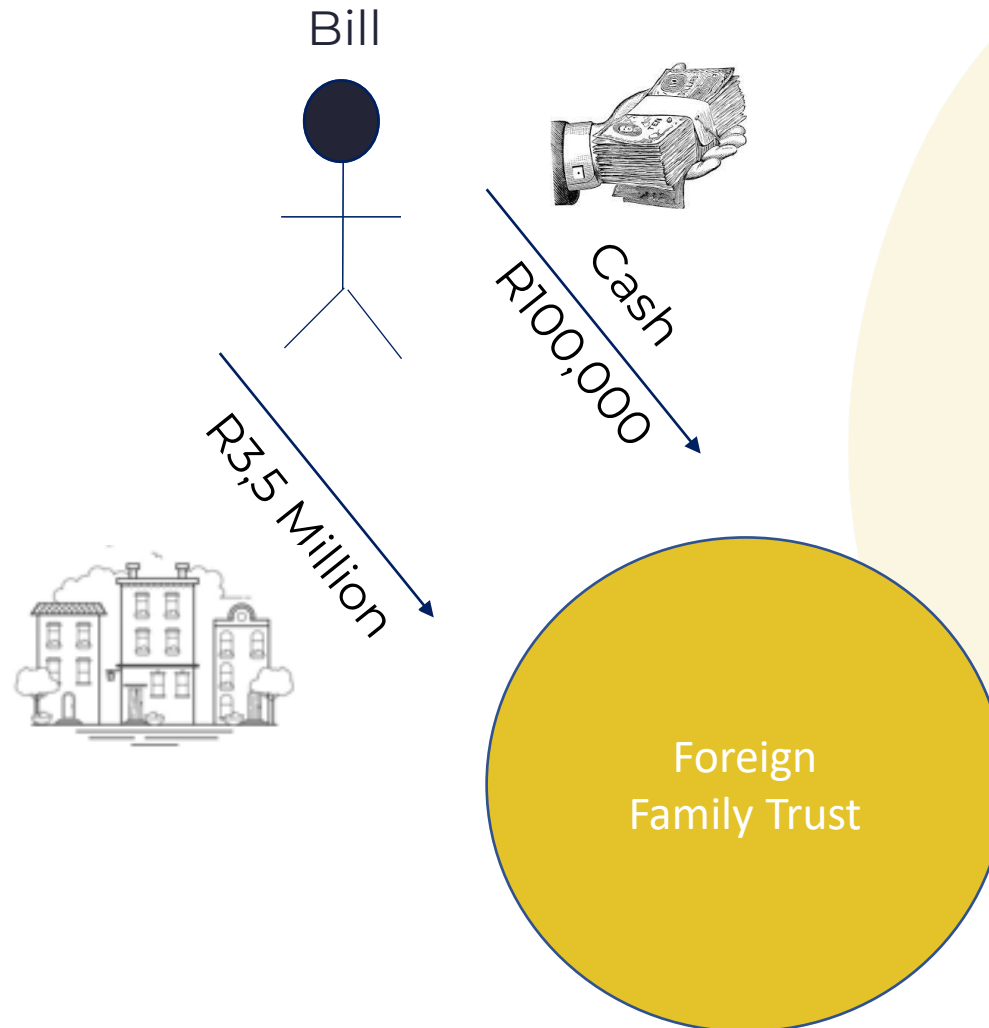
- What is the impact of the actual transfer of cash and residential flats to the domestic trust? (In terms of the flats, how would your answer change if the tax cost is R250 000 versus R400 000)
  - Ordinary revenue / capital gain
  - Donations Tax / Estate Duty
  - Other taxes
- Who will the residential flat and securities portfolio income be taxed after the transfer? How would your answer change if the securities portfolio is subsequently sold by the trust for government bonds?

# Bill / Barbara Scenario #1b – Straight Donation to a Foreign Trust

Bill transfers R100 000 in cash plus residential flats worth R3.5 million. The cash and the flats are donated to a foreign trust for no consideration.

The flats generate R320 000 per year in rent.

The cash is invested into a securities portfolio. The portfolio generates 4% bond interest, 3% dividends and 8% share growth.



## ***Basic Questions for Scenario #1b***

- What is the impact of the actual transfer of cash and residential flats to the foreign trust? (In terms of the flats, how would your answer change if the tax cost is R250 000 versus R400 000)
  - Ordinary revenue / capital gain
  - Donations Tax / Estate Duty
  - Other taxes
- Who will the residential flat and securities portfolio income be taxed after the transfer? How would your answer change if the securities portfolio is subsequently sold by the trust for government bonds?

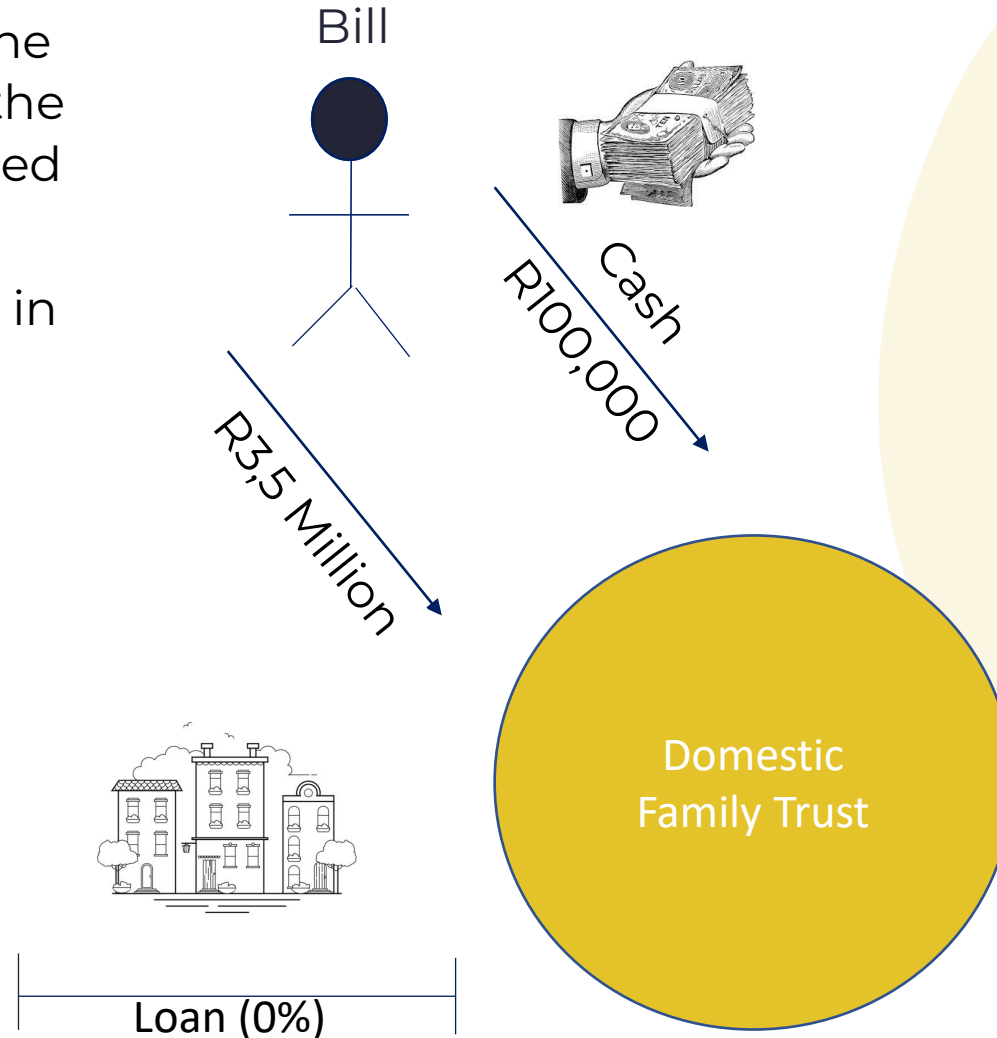
# Bill / Barbara Scenario #2a – Sale For Trust Loan (Domestic)

Bill transfers R100 000 in cash plus residential flats worth R3.5 million. The cash and the flats are transferred to the trust with the trust becoming indebted to Bill for R3.6 million.

The flats generate R320 000 per year in rent.

The cash is invested into a securities portfolio. The portfolio generates 4% bond interest, 3% dividends and 8% share growth.

The loan does not generate any interest.



## ***Basic Questions for Scenario #2a***

- What is the impact of the actual transfer of cash and residential flats to the domestic trust? Who will be taxed on these assets after the transfer?
- What is the impact of the interest on the loan?
  - What happens if the rate changes to 5% (official rate) versus 10% (market rate)
- What happens if SARS subsequently determines that the flats were worth R5 million before the transfer?

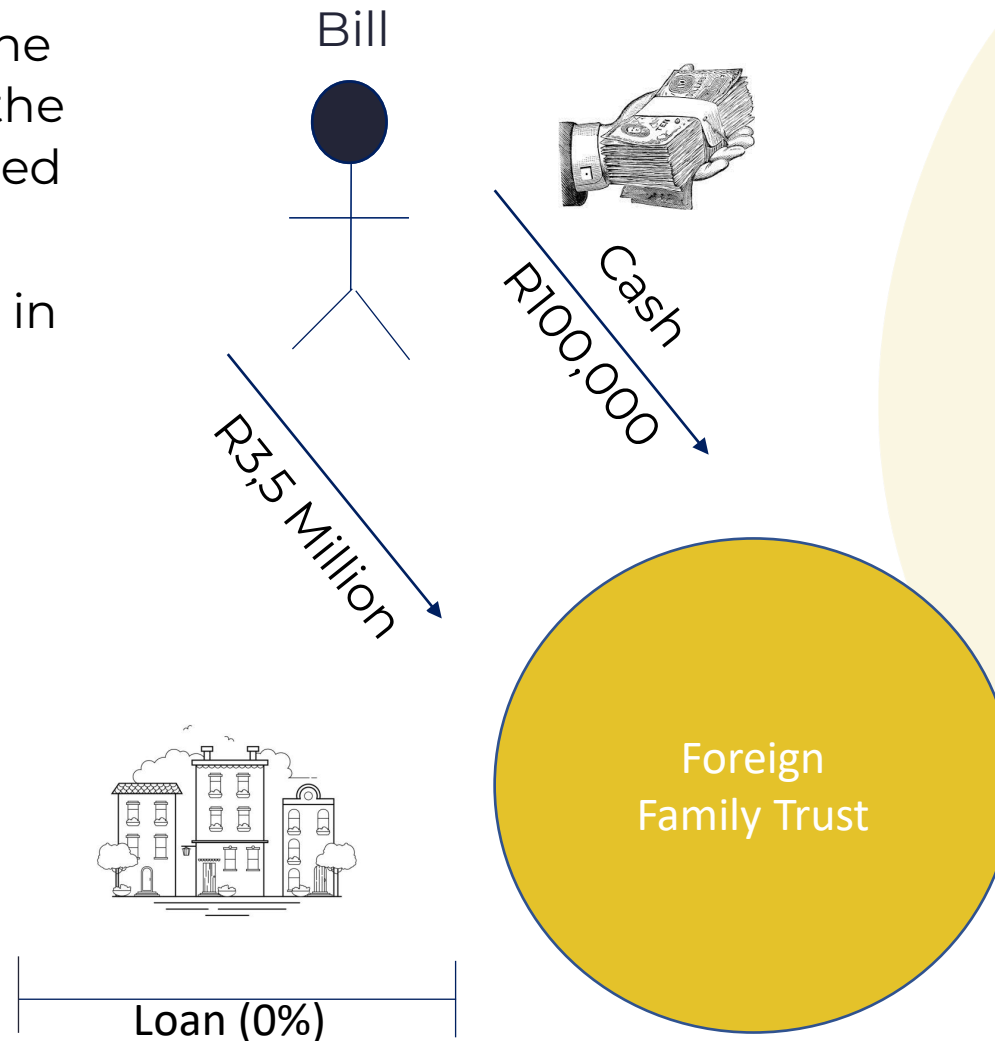
# Bill / Barbara Scenario #2b – Sale For Trust Loan (Foreign)

Bill transfers R100 000 in cash plus residential flats worth R3.5 million. The cash and the flats are transferred to the trust with the trust becoming indebted to Bill for R3.6 million.

The flats generate R320 000 per year in rent.

The cash is invested into a securities portfolio. The portfolio generates 4% bond interest, 3% dividends and 8% share growth.

The loan does not generate any interest.



## ***Basic Questions for Scenario #2b***

- What is the impact of the actual transfer of cash and residential flats to the domestic trust? Who will be taxed on these assets after the transfer?
- What is the impact of the interest on the loan?
  - What happens if the rate changes to 5% (official rate) versus 10% (market rate)
  - What happens if the loan is denominated in US dollars?
- What happens if SARS subsequently determines that the flats were worth R5 million before the transfer?

# Bill / Barbara Scenario #5 – Loan Cancellation

Bill dies about 10 years later when the children are in their 30s (and Barbara is in her 60s). The trust loan has been reduced to R2.7 million. The flats owned by the trust are now worth R4.2 million. The trust has cash of R60 000 and has used its earnings to purchase a collective investment scheme portfolio worth R550 000, generating roughly R40 000 of dividends and R18 000 of interest per annum.

- What happens if the rights to the loan are cancelled on death?
- What happens if the loan is cancelled by Bill two months before death?

