ESTATE PLANNING 101

Estate planning has been defined as: *The arrangement, management, securement and disposition of a person's estate so that he, his family and other beneficiaries may enjoy and continue to enjoy the maximum from his estate and his assets during his lifetime and after his death no matter when death may occur.*

Estate planning, wills and trust services are playing an increasingly important role in the financial planning process for affluent clients. Glacier Fiduciary Services partners with intermediaries to provide a comprehensive estate planning service – something intermediaries and clients are increasingly recognising as a value-add.

In this issue, we take a very broad look at what estate planning is and what its objectives are. In future issues, we'll delve deeper into the various components, including trusts, wills, executors' fees, interest free loans, as well as policies and estate duty.

Very broadly, estate planning sets out to achieve the following objectives:

- Reduce estate duty liability
- Reduce capital gains tax (CGT) liability
- Reduce income tax liability
- Ensure that there is sufficient liquidity in the estate
- Ensure the smooth and efficient administration of deceased estates
- Protect against insolvency and inflation

Glacier Fiduciary Services follows a set process to determine the client's needs:

- An initial consultation will be arranged to establish whether the client will benefit from a comprehensive estate planning exercise.
- Thereafter, a data gathering exercise will be undertaken.
- If the client has an existing trust, Glacier Fiduciary Services will look at the general structure and make suggestions. The recommendations will be presented to the client in a comprehensive report that includes an action plan. A legal audit will be undertaken in cases where the client has specifically requested this.
- The elements contained in the plan will be implemented in line with the client's wishes.

Our basket of services, aimed at clients with estates of R15m and above, includes the following:

- Will drafting services
- Administration of deceased estates
- Administration of testamentary trusts
- Setting up, registration and amendments to inter vivos trusts
- Offshore fiduciary services via an outsource partner
- Business assurance solutions

Consider the tale of two clients, one who did proper estate planning and one who neglected this area of his financial planning:

CLIENT A		CLIENT B	
Assets		Assets	
House Shares (Listed) Cars	R3 000 000 (R500 000) R15 000 000 (R2 000 000) R600 000	House Shares (Pty) Cars	R3 000 000 (R500 000) R16 000 000 (R500 000) R600 000
Gross Estate	R18 600 000	Gross Estate	R19 600 000
CGT	R0	CGT	R1 538 000
Estate Duty	R0	Estate Duty	R2 755 992
Administration expenses	+/- R56 000	Administration expenses	+/- R782 040
Total expenses	**R56 000**	**Total expenses**	**R5 076 032**

Although both clients started out with assets of more or less an equal amount, the example clearly shows how client A reaped the benefits of astute estate planning.

Estate planning implications of the 2008/09 Budget
Constantly changing legislation is another good reason to obtain professional assistance when it comes to estate planning.

Some of the figures from the Budget that will affect personal estate planning include the following:

- The R3.5m estate duty abatement remains unchanged from last year.
- The donations tax threshold also remains unchanged at R100 000 per person, per tax year.
- The donations tax and estate duty rates of 20% remain the same.
- The tax-free threshold on capital gains tax in the year of death remains at R120 000, having been increased from R60 000 in the previous Budget. The normal annual exclusion threshold for capital gains tax has increased from R15 000 to R16 000.

This year's Budget provided a few new income tax amendments, one of which concerns *outside contributions added to estate re-distributions*. Heirs often wish to swap the assets they've been bequeathed. The capital gains regime was recently changed to allow for the tax-free re-distribution of inherited assets among heirs. However, these rules need to be adjusted to cover situations where a capital gain occurs when certain heirs supply outside funds (or assets) in order to equalise differences in values among the inherited assets.

Another new amendment is the *general anti-avoidance rule to protect the estate duty*. Unlike other tax acts, the estate duty does not contain a general anti-avoidance rule to protect against estate duty avoidance. This general anti-avoidance rule will be added as well as specific anti-avoidance rules to prevent the artificial manipulation of estate values through the use of short-term trusts and similar arrangements. Clients have no need for concern, however, as Glacier uses non-aggressive estate planning techniques.

The next Estate Planning Essentials will focus on Trusts.