Endowment vs Direct Investment Comparison

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Flexible Endowment Option	Flexible Investment Option	Flexible Endowment Option	Flexible Investment Option
Individual policyholder fund	Natural person or Trust with natural person beneficiaries	Company policyholder fund	Business entities or Trust with non-natural person beneficiaries
General Description			
A fixed term contractual savings long term insurance policy.	An investment into a basket of collective investment schemes with no fixed term and not in an endowment policy wrapper.	A fixed term contractual savings long term insurance policy.	This is an investment into a basket of collective investment schemes with no fixed term and not in an endowment policy wrapper.

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Applicable Legislation			
Long Term Insurance Act Insurance Act Estate Duty Act Income Tax Act	Collective Investment Schemes Act Estate Duty Act Income Tax Act	Long Term Insurance Act Insurance Act Estate Duty Act Income Tax Act	Collective Investment Schemes Act Estate Duty Act Income Tax Act

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Investment Term			

There is a minimum term of 5 years. During the term one loan and one withdrawal can be made (limited to a maximum of premiums plus 5% p.a. compounded interest). Premium increases are limited to 20% p.a. Excess increases will trigger a new 5-year restriction term.	There is no fixed term. The investment is fully liquid. Withdrawals can be made at any time by selling units.	There is a minimum term of 5 years. During the term one loan and one withdrawal can be made (limited to a maximum of premiums plus 5%). Premium increases are limited to 20% p.a. Excess increases will trigger a new 5-year restriction term.	There is no fixed term. The investment is fully liquid. Withdrawals can be made at any time by selling units.

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Investment Risk			
The fund selection will dictate the investment risk			

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Income Tax			

Payable by insurer within the policyholder fund. Fixed income tax rate of 30%. No income tax payable by the investor.	Payable by investor. Natural person investor: Marginal tax rate depends on total taxable income of the investor and rate range between 18% and 45%. Trust investor: It is either taxed in the hands of the donor or beneficiaries at a marginal tax rate of 18% to 45%. If it is taxed in the trust, it will be at a fixed rate of 45%.	Payable by the insurer within the policyholder fund. The rate is the corporate tax rate of 27%. No income tax payable by the investor.	Business entity investor: All income is taxed at the corporate rate of 27%. Trust investor: If the income is taxable in the trust, it will be at the trust rate of 45%. It can also be taxed in the hands of the donor or beneficiaries. If the donor is a natural person, the tax rate will vary between 18% and 45%. If the donor is a non-natural person or it is taxed in the hands of the non-natural beneficiaries, the corporate rate will apply.
The endowment will yield a better after-tax return for investors that pay tax at an average rate more than 30%. Average rate in this context is the effective tax rate paid after rebates are taken into consideration.		Where the income is taxable in the hands of the business entity as the investor or as the beneficiary of the investor trust, the tax effect will be the same between the two investments. However, where the income is taxable in the hands of the trust, the endowment will provide a better after-tax return.	

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Capital Gains Tax			

Payable by insurer within the policyholder fund. It will be triggered when switching between underlying portfolios or making a withdrawal or a loan. No annual exclusion applies. The effective rate is 12%. No CGT is payable by the investor.	Payable by investor. It will be triggered when selling units to either switch to another portfolio or to make a withdrawal. Natural person investor: A natural person is entitled to an annual exclusion of R40 000. Effective rate ranges between 7.2% and 18%. Trust investor: No annual exclusion will apply in the trust. If taxed in the trust it will be at an effective rate of 36%. If taxed in the natural person donor or beneficiaries' hands, it is like the natural person investor.	Payable by the insurer within the policyholder fund. The effective rate is 21.6%. No CGT is payable by the investor.	Business entity investor: The effective CGT rate is 21.6%. Trust investor: If the capital gain is taxable in the trust, it will be at an effective rate of 36%. It can also be taxed in the hands of the donor or beneficiaries. If the donor is a natural person, the effective rate will vary between 7.2% and 18%. If the donor is a non-natural person or it is taxed in the hands of the non-natural beneficiaries, the corporate rate will apply.
The endowment will yield a better after-tax return for investors that pay tax at an average rate more than 30% resulting in an effective CGT rate more than 12%.		Where the capital gain is taxable in the hands of a business entity, the tax effect will be the same between the two investments. However, where it is taxable in the hands of the trust, the endowment will provide a better after-tax return.	

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Dividends Withholding Tax			

DWT applies at a rate of 20%	DWT applies at a rate of 20%	Where the investor is a SA company or CC, the DWT exemption will apply in respect of local dividends. Foreign DWT may be payable if offshore funds are held in the portfolio.	Business entity investor: The DWT exemption will apply iro local dividends. Foreign dividends may still attract DWT. Trust investor: DWT will be payable at 20%.
There is no difference between the application of DWT.		There is essentially no difference between the application of DWT if the investor is a company/CC.	

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Creditor Protection			
If the policyholder or life insured is declared insolvent, the Long-Term Insurance Act provides for creditor protection if: • the policy is in force for at least 3 years, and • it is payable to that person's spouse, children, or parents. The protection would apply for a period of 5 years from the date upon which the benefits were provided.	No creditor protection		