

GIVE KIDS SHAREHOLDING: IT'S TAX-EFFICIENT: By Jonathan Hore

It is interesting how many transactions we blindly seal without thinking of tax. I am not surprised; people want to conclude deals or reach the next milestone and tax is usually an afterthought. One of the instances where this is done is when parents start new companies with 100% shareholding, which is tax-inefficient, especially if the shares are not in a property-rich company. I want to show you that whilst it looks so good to hold as many shares in a company as parents, it is not tax efficient. In this article, words importing the masculine shall be deemed to include the feminine.

THE BIG IDEA

The big idea here is that very few of us think of what happens to our assets when we depart from this earth. Even if we think about it, we are not certain of the tax consequences. Our focus is mainly on the current benefits that we can derive during our lifetime and what happens after our departure rarely crosses our minds. Well, let me introduce you to reality and try to open your mind.

When you depart, your children and or spouse or other heirs take over assets that you currently own. That takeover triggers tax, particularly inheritance tax, especially if the company is not property-rich. Let me state that effective 1 March 2020, there is no inheritance tax on devolution of property-rich companies. Maybe I should expand more on what that tax is and who pays it.

ENTER THE TAXMAN!

Immediately upon your departure, an artificial person comes into existence, being the deceased estate. That estate automatically owns what you owned whilst you were alive. But that artificial person lives for a very short time, awaiting the transfer of your assets to your heirs.

So, if you hold shares in a company, the estate will temporarily own those shares and the executor appointed to take care of your affairs will have to transfer them from your name to say, your children's name. The taxman considers that transfer as a disposal of the shares at their market value and that is a killer; trust me. Your kids will suffer inheritance tax on the value of the shares that will move from your estate to them. This is a tax that is triggered by inheriting property from another person and it is payable by the receiver of the property, being your children.

Remember that we stated that chances that you would have left little cash in your estate are extremely high, especially if you had to deal with old age illnesses. As if I am not aware that I am repeating my words, your kids may escape this tax if the main assets are immovable property as there is no tax on such assets.

THIS IS THE SOLUTION

The Plan B is for you not to own 100% of shares in any company so as to limit the magnitude of the taxes that your heirs bear when you depart, particularly if the company is not property-rich, as stated above. It should be obvious that if you own 100% of a company, the value of the shares on transfer will be much higher than if you own say 5%. Let me simplify this further by saying that if your company is valued at say P5m and you own 100% of the shares, your estate is likely to pay inheritance tax of around P 236 000. Where will the estate get such money? Further, you could have made life easier by getting professional tax advice.

So, when you are starting a company or buying shares in a company, consider having your children holding 95% or so of the shares and you and your spouse hold say 5%. This cuts down the above tax by about 95% when you depart as the children already own the shares. If you already own 100% in a company which is not property-rich, you may as well transfer the shares but move with a professional tax consultant. Don't just transfer the shares that you already own without tax advice; tax may bite you! You obviously need to consider other non-tax factors. Well, let me take this opportunity to congratulate those who stayed awake whilst reading this article. You are brave and enduring; you understood all that tax jargon? Clap hands for yourself buddy!

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.