What are the tax implications for the trust when the beneficiaries grow up?

What happens when the beneficiaries of a trust grow up and start earning? Does the trust combat the potential large tax charges the beneficiaries will be liable for? Also, what costs are involved in setting-up and running a trust?

Answer by Gerrie Vosser, IPMG Trust & Fiduciary Services:

The effective use of the conduit principle (Sections.25B on the Income Tax Act) in a discretionary trust from which tax benefits are derived, is very much dependent on the number of discretionary beneficiaries and, obviously, low income earning beneficiaries. In a trust with a professionally structured and personalised beneficiary base, suitable beneficiaries may be selected from children, students, housewives, pensioners, unemployed, etc.

Concerning the running costs of a trust, these are very much client-specific, and a function of any combination of at least the following factors:

- The purpose of the trust.
- The asset base of the trust: types of assets, values, management intervention required, etc.
- The type of trust: an actively trading trust will incur more costs.
- Frequency of income, capital gains, and capital allocations.
- The level of skill of trustees, and the subsequent dependence on professional trustee services.
- Accounting fees, and the level of dependence on professional services.
- The requirement to render security and/or take out short term insurance and professional liability insurance.

Only a client-specific analysis and quotes for services required, will answer this question satisfactorily. The Fiduciary Institute of SA (FISA) can be contacted for a registered professional in your area. (email: secretariat@fidsa.org.za).

Please note that this response is generic, simplistic and should not be seen as advice. It is always recommended that proper professional consultation should be sought, taking into account your unique personal situation, to enable you to optimally use your trust.