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IN THIS ISSUE

“There is still time for you to top up your RA or tax-free savings account before February 28.”

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A LIGHT STILL FLICKERING AT THE END OF THE TAX TUNNEL

By Gavin Butchart, Tax Practitioner at Brenthurst Wealth Management

Talks of a tax revolt is heating up as more skeletons fall out of the state capture closet and Eskom literally and figuratively starts taking shots in the dark, holding most of citizen SA legally hostage by administrative incompetence and cost.

The reality is that it will take time to pick up the pieces of the economy, and a potential revolution will surely fail legal muster. In the shorter-term it might be a better idea to focus on the relief still available to frustrated taxpayers as we end out the fiscal year at the end of the month.

There is still time for you to top up your retirement annuity (RA) or tax-free savings account before 28 February, so you can benefit from tax concessions introduced by National Treasury to encourage a culture of saving. But you must put a hustle to it as it can take up to seven working days to get all the paperwork in order, and time is running out.

South Africans are allowed to invest up to R33 000 per year in a tax-free savings account and up to a maximum of R500 000 over a lifetime, so taxpayers who can afford to add more to the kitty to reach this year's limit, should do so.

Such accounts are offered by all major financial institutions at various interest rates and different cost structures. If you are new to the game, an exemption from any tax on dividend, capital gains or interest accrued when investing part of your after-tax income will apply when investing in the tax-free saving product.

In addition, the tax-free savings funds are available to you at any time and you do not pay tax on withdrawals, but investors should be aware that any fund extractions will affect annual and lifetime limits, which in turn will impact the benefit of future investment returns and should be discussed with your financial advisor or tax practitioner of the implications before any funds are withdrawn.

Amounts invested in retirement savings products can also be deducted from taxable income. If you play your cards right, you can get up to a 27,5% tax reprieve on your annual income, capped at R350 000 per tax year on an RA and/or pension fund. And of course, the investment returns on your RA contributions are free of dividend, income and capital gains tax, as well as any taxes on interest earned.

And because investment growth is not taxed, the future value over the long term could end up being far greater, compared to returns that are taxed at marginal tax rates for example.

RAs are also beneficial in estate planning because they are excluded from estate duty. The only downside of an RA is that you cannot access your savings before the age of 55 unless you are emigrating, whereby you will pay tax on the withdrawal.

Contributions for which you do not enjoy a tax holiday during your working years like can be taken at retirement, and growth on the additional funds is tax free, but you may pay tax on the pension you draw.

Your income will be taxed according to your marginal income tax rate at the time you stop working. If you have excess retirement fund contributions that you have not deducted for tax purposes remaining when you retire, these may be used to reduce your tax bill if you take a cash lump sum, or when you receive annuity income.

Topping up an RA or tax-free savings account is pretty straight forward and can be done at any time with assistance from your financial advisor. Adding to your pension or provident fund through your employer might prove a bit trickier.

For one not all fund rules allow for the option of making an "additional voluntary contribution", and even if they do like some umbrella funds, any additional endowment will have to comply with the Financial Intelligence Centre Act and members will have to declare the source of the funds.

So, as they say no deed goes unpunished, and saving more for a rainy day comes with its fair share of red tape and bureaucracy. So best you discuss your options with your financial advisor before embarking your own tax crusade. He/she will also discuss the objectives of the various products and how your choice of investment should be regarded in that light.

RAs could provide the best tax-effect vehicle for providing retirement savings, while a tax-free account could be a better option for long-term discretionary savings.

But as satisfying as tax breaks are, and it should be an important consideration in financial planning, it should not be the only driver of your decisions. Investments should also fit into one's future objectives, timeframes and risk profile.



Topping up your RA or tax-free savings before February 28 will ensure you reap more benefits.

Regulation 28 of the Pension Fund Act will also remain an imperative consideration when it comes to retirement planning. It limits the extent to which funds may invest asset classes. The main purpose is to protect the members' retirement provision from the effects of poorly diversified investment portfolios.

Bear in mind that paperwork is required for any additional contributions to make use of current tax rules and any money transferred must reflect in the correct bank account to qualify for the 2018/2019 tax year.

To allow for this it is best to finalise any such transactions / contributions by 22 February 2019.

UPCOMING DEADLINES FOR SUBMITTING TAX RETURNS FOR THE 2019 AND 2020 TAX YEARS



28/02/2019	Submission & Payment of 2nd Provisional Tax returns for 2019
01/07/2019	Start of 2019 Tax filing Season for Individuals
31/08/2019	Submission & Payment of 1st Provisional Tax return for 2020
31/10/2019	End of submission of non-provisional taxpayer returns 2019
31/01/2020	End of submission of provisional taxpayer returns 2019
28/02/2020	Submission & Payment of 2nd Provisional Tax return for 2020

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