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HIDDEN WEAPON. Your tangible returns grow your wealth, but your intangible returns help protect and accelerate it. Picture: Shutterstock

How to boost your money

TAX EFFICIENCY: HUGE RETURN DRIVER IN ITS OWN RIGHT FOR DISCERNING INVESTORS

It helps to not only focus on chasing market performance, but also build structured portfolios.

Arin Ruttenberg

Intangible returns are different. They're not shown in bold numbers on your statement, yet they're just as real.

They come from saving tax.

When you lose money in the market, you can often recover it over time. But money paid unnecessarily in tax is gone for good.

It's a one-way transfer to the taxman, with no recovery mechanism.

Every rand you save on tax is a rand that stays invested, compounding year after year. This is why tax efficiency should be seen as a return driver in its own right.

Tools for creating intangible returns

1. Tax-free savings accounts (TFSAs)

▶ All growth is exempt from income tax, capital gains tax (CGT) and dividends tax.

▶ Once your contribution is made, every cent of return is yours – permanently.

2. Retirement annuities (RAs).

▶ Contributions are tax-deductible (up to 27.5% of taxable income, capped at R350 000 per year).

▶ All growth within the RA is tax-free (no CGT, income tax, or dividends tax).

3. Living annuities and Section 10C

▶ When you convert your RA into a living annuity at retirement, Section 10C of the Income Tax Act allows you to draw down some of your income tax-free.

▶ How? Any amount you contributed to an RA (or pension/provident fund) that wasn't claimed as a deduction during your working years – called non-deductible contributions – gets tracked.

This "over-contribution pool" can be used to offset living annuity withdrawals, reducing or even eliminating tax on that portion of income.

▶ In effect, you're drawing income that's been taxed, so the South African Revenue Service (Sars) can't tax it again.

4. Endowment wrappers (especially for trusts)

▶ Trusts pay a flat 45% tax rate on income and 36% effective tax rate on capital gains – which can be punitive.

▶ An endowment wrapper shifts the tax burden to the insurer, which pays tax at a much lower effective rate (currently 30% on income and 12% on capital gains).

▶ This can improve after-tax returns for trusts over the long term.

5. Offshore investment wrappers

▶ If structured correctly, these can provide a maximum 12% tax rate on interest and capital gains.

▶ Additional estate benefits: no executor's fees or CGT on death if beneficiaries are nominated, as the policy proceeds are paid directly to them.

▶ Ideal for those who want offshore diversification, tax efficiency and estate simplicity in one vehicle.

Every rand you save on tax stays invested

The big picture – combining both returns

The best investors don't just chase market gains – they also design portfolios for tax efficiency. This involves:

▶ Diversifying across local and offshore assets for growth and currency benefits (tangible returns).

▶ Using tax-efficient structures to keep more of that growth in your pocket (intangible returns).

When you combine the two, you create a compounding effect: your tangible returns grow your wealth, while your intangible returns help protect and accelerate it. Markets will always go up and down. Exchange rates will swing.

Tangible returns will fluctuate.

But your intangible returns – the tax you never had to pay – will stay with you forever.

If you make tax efficiency a permanent pillar of your investment strategy, you're not just investing smarter – you're building a second, invisible engine of growth.

▶ *Ruttenberg is a financial advisor at Brenthurst Wealth Management*

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