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As the yearly budget speech has come and gone, here is a brief reminder of all the tax efficient vehicles currently available to South African investors.

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BE SMART WITH TAX

By Arin Ruttenberg, Financial Planner Brenthurst Wealth Sandton Office

South Africa has been faced with many economic and political headwinds, especially in the past year in the wake of the impact of the global COVID-19 pandemic. Higher and more taxes have been introduced in recent years as the government desperately tries to balance the books. This has led to South Africa's ranking as one of the most heavily taxed countries in the world. Discussions of a potential wealth tax in future is on the table and has attracted a lot of media attention.

The current debt burden as a percentage of GDP which Moody's has warned could cause a further downgrade as well as a low economic growth rate. This leaves taxpayers with not many options to legally avoid or minimise taxes.

As the yearly budget speech has come and gone, here is a brief reminder of all the tax efficient vehicles currently available to South African investors, together a few of its advantages and limitations:

- ⇒ Retirement annuity
- ⇒ Tax free Savings account
- ⇒ Endowment (Local and Directly Offshore)
- ⇒ Section 12J Investments

A RETIREMENT ANNUITY (RA)

This is tax free within the structure, which means any growth that is achieved through dividends, interest and capital is not taxed.

Current legislation allows for a maximum retirement fund deduction of 27.5% of the greater of remuneration or taxable income to the maximum of R350 000.

The RA however is still limited to the shackles of Regulation 28 as there is a limit to the allocation of offshore and equity exposure one can take, currently 30% and 75% respectively, thus limits true diversification which should be worldwide.

Investors in these products, with certain providers, have been paying more in fees and have had enough of the words “long term view” as over 7 years some investor returns have been less than the tax-free benefit these structures have provided them when being compared to the returns of investments that allow for higher offshore allocations. Investors in these products over the age of 55 that want true offshore diversification can retire from them and invest the capital in a living annuity (LA) providing up to 100% offshore global market exposure. RA's and LA's are also not subject to estate duty or executors fees on death provided beneficiaries are nominated.

A TAX-FREE SAVINGS ACCOUNT (TFSA)

This is fantastic in the sense that the investor is not limited in terms of the amount of offshore exposure as well as allocation to equities. However, the only limitation is the amount that can be invested per annum which currently stands at R36 000.

It is recommended that these be maximised every year for the entire household, and importantly, that investment products, not bank accounts, be selected. These are particularly important for younger investors with a long-term time horizon. The only tax, however, that is payable is on death in the form of estate duty and executors' fees.

THE ENDOWMENT:

This one is particularly important for the wealthier individuals and a favourite of Brenthurst advisors, as it is often overlooked. Investors who may have already used or maximised the above-mentioned tax efficient vehicles or who are looking to gain more offshore exposure within a tax efficient vehicle with a longer-term view and an objective of capital growth, should certainly consider investing in an endowment. With the added estate planning benefits this adds extra tax savings. An endowment is useful for those whose marginal tax rates are in excess of 30%, as income and capital gains are taxed at 30% and 12% effective, respectively. Whilst they do form part of an individual's estate at death, executors' fees are not payable.

However, liquidity is restricted to 5 years.

THE ENDOWMENT CAN ALSO BE INVESTED UP TO 100% OFFSHORE, EITHER INDIRECTLY OR DIRECTLY VIA TWO WAYS:

- Investing in locally domiciled offshore funds (example unit trusts or ETFs) that are known as asset swaps or feeder funds.
- The direct method, which may be the better option as it allows for direct foreign currency, converting rand into foreign currency using the single discretionary or foreign investment allowance and investing the capital directly offshore out of South Africa, not needing to bring the money back into rand as with the asset swap version. Certain funds that offer unique and rewarding investment options such as specialist tech, blockchain, healthcare and biotech are only available offshore. These offshore endowments have the added benefit of providing more liquidity than the local version, as they are structured slightly differently with 100 underlying policies allowing for 100 interest free loans during the 5 year restriction period.

SECTION 12J INVESTMENTS:

Section 12J is an investment tax incentive that has been used by investors to invest capital into a range of private companies which need to meet a defined set of criteria. They have played a role in promoting job creation, stimulating economic growth and offer investors tax relief in the form of an upfront deduction – the investor can deduct 100% of their investment against their taxable income.

These are [higher risk investments](#) into unlisted private companies that may not go through all the same regulations as listed companies. One also needs to be invested for the full 5-year period or the tax relief will be lost, thus it is important to do your homework on what you are investing in. Investing for the sake of tax relief alone is not a responsible strategy.

Section 12J will, however, not be extended post June 2021, thus an investor has up until this date to invest and claim the deduction in the same year i.e., the February 2022 tax year.

Tax rules are amended and tweaked regularly. It is advisable to consult a qualified, experienced financial advisor who will review investors' personal situation of how to best approach tax efficiency.

Read more about [tax planning](#).

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ARIN is based in Brenthurst Wealth's Sandton Office and has been in the financial services industry since 2013.

He started his career with Investec, thereafter as a financial advisor under supervision at Brenthurst Wealth Management. Arin also consulted as an Investment specialist for Momentum Wealth and Wealth International, before re-joining the Brenthurst team as a Financial Advisor in 2020.

Having obtained his BCom and Postgraduate Diploma in Financial Planning from the University of the Free State, he continues his passion for Financial Planning by continuously learning, challenging himself and most importantly assisting clients in taking ownership of their financial affairs and long-term wealth.

He has also successfully completed the First Level Regulatory Examination for Representatives, which enables him to furnish advice to clients on all investment-related matters.

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