



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

**MAKING THE MOST OF
RETIREMENT PLANNING
TAX BENEFITS**

**UNDERSTANDING
RETIREMENT FUNDING
CONTRIBUTIONS**

**RETIREMENT ANNUITY
BENEFITS**

**TAX-FREE SAVING
ACCOUNT (TFSA)
CONTRIBUTIONS**

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TOP BOUTIQUE WEALTH
MANAGER IN SA, 2017**

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RETIREMENT PLANNING TAX BENEFITS

By Marise Smit Certified Financial Planner Brenthurst Wealth

INVESTORS have less than two weeks before the end of February 2018 to make use of the very attractive tax concessions available for contributions into retirement annuities and tax free investments.

It is widely expected that tax changes will be announced in the 2018 budget, while the current rules are in place, use it effectively.

UNDERSTANDING RETIREMENT FUNDING CONTRIBUTIONS

From 1 March 2016 members of all retirement funds (i.e. pension funds, provident funds and retirement annuity funds) have been entitled to a single tax deduction for the total contributions made to retirement funds.

The maximum deduction members are entitled to for contributions to all retirement funds (employee contributions plus employer contributions) is **27.5% of the greater of remuneration or taxable income, capped at R350 000 per tax year.**

Additional contributions that were not deductible for income tax purposes during the current tax year will be rolled over to qualify as a deduction, but still subject to the above-mentioned restrictions. Any contributions that were still deductible for income tax purposes on retirement may be set off against any lump sum taken at retirement and, if there are still any unutilized contributions, against the compulsory taxable annuity incomes.

Asset allocation within retirement funds is also subject to the provisions of Regulation 28 of the Pension Funds Act, which in short means that equity exposure within a RA is limited to 75% and foreign exposure to 25%. Sometimes there is unnecessary scepticism about the restrictive requirements of Regulation 28.

There are a lot of funds available that must continually comply with these terms and can therefore be used in total in a Retirement Annuity. These funds have a balanced risk exposure and try to deliver inflation plus 5% over time. Investors in such funds should be comfortable with moderate market fluctuations and should have an investment horizon of five years and longer.

For individuals who do not participate in a pension or provident fund, or who want to make additional contributions in their own capacity, there is a RETIREMENT ANNUITY. The “new generation” retirement annuity funds are much more cost effective, cost transparent and flexible than the traditional retirement annuity funds, and therefore provide an excellent method of reducing your annual tax burden which is why it is consequently recommended.

RETIREMENT ANNUITY BENEFITS:

This tax-effective product remains a terrific way to save for retirement and offers numerous benefits, including:

TAX EFFICIENCY

- ▶ Any amounts contributed in total to a pension fund, provident fund or retirement annuity are tax- deductible within the above stated limits.
- ▶ Prior to retirement, no tax is levied within the fund.
- ▶ Unclaimed or disallowed contributions are carried forward and may be deducted on retirement.
- ▶ At retirement (possible after the age of 55), a maximum of one-third of the value may be taken as a cash lump sum (subject to the retirement tax table) while the balance is transferred on a tax-neutral basis to purchase an annuity to provide the investor with an income.

FINANCIAL PLANNING TOOL

- ▶ Individuals can contribute to an RA at any age and can choose to let their RA mature at any time from age 55.
- ▶ On the death of an RA investor, lump sums received by beneficiaries are exempt from estate duty (excluding disallowed contributions) and no executor fees will apply.
- ▶ Beneficiaries may also take advantage of tax-free amounts, if a member had not done so during their lifetime.
- ▶ Living annuity benefits are free from estate duty (excluding disallowed contributions).

It is important to note that at retirement you would need to find a balance between discretionary money (unrestricted, liquid savings) and retirement savings to further reduce your tax burden after retirement and to have liquidity. Income from retirement savings are subject to Income Tax (maximum marginal rate of 45%), where withdrawals from discretionary savings are subject to Capital Gains Tax (maximum effective rate of 18%). With these withdrawals you would have to declare your capital gains and capital losses in your annual income tax return. All individuals get an annual capital gains exclusion of R40 000 per annum.

With a Tax-free savings account, you can save in a discretionary investment vehicle without this CGT burden when you decide to withdraw from the investment. The benefit may be small during the first few years, but for a long-term investment, as the value of the investment grows, it becomes significant. If used as an extra retirement savings vehicle, any withdrawals you make from this investment to supplement your income will reduce your tax burden since it will not be subject to income tax.

TAX-FREE SAVING ACCOUNT (TFSA) CONTRIBUTIONS

A TFSA IS NOT SUBJECT TO INCOME, CAPITAL GAINS, INTEREST OR DIVIDENDS TAX. The current annual contribution limit is R33 000, i.e. a maximum of R2750 per month for debit order investors. The lifetime contribution limit is R500 000 (this limit is only regarding contributions, not capital growth). If investors contribute less than R33 000 per annum, they may not carry over unused contributions to the next financial tax year.



CONSULT A PROFESSIONAL FINANCIAL ADVISOR TO DETERMINE THE RIGHT ALLOCATION BETWEEN DISCRETIONARY AND RETIREMENT SAVINGS FOR YOUR UNIQUE SITUATION.



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MARISE joined the Brenthurst team in April 2015. She is an experienced Certified Financial Planner® with a demonstrated history of working in the financial services industry. She is a strong finance professional with a Bachelor of Commerce in Investment Management and Bachelor of Commerce (Hons.) in Financial Management from the University of Pretoria. She also completed a Postgraduate Diploma in Financial Planning from the University of the Free State.

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