



THE POWER
OF INDEPENDENT ADVICE

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"Any changes you make must be based on your investment risk profile. This is a measure of your tolerance for risk by considering factors such as your age, financial goals, income, net worth and investment experience.

Ultimately, it reflects your ability and willingness to take on risk in search of returns."

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OVERCONTRIBUTING TO AN RA COULD BE A GOOD THING

By Maria Smit - Certified Financial Planner®, Brenthurst Wealth Pretoria

OVERCONTRIBUTION CAN BE USED TO REDUCE OR EVEN NEUTRALISE THE AMOUNT OF TAX PAID ON LIVING ANNUITY INCOME PAYMENTS.

Not many investors are aware that any retirement contributions which did not previously qualify for a tax deduction can be used to reduce tax payable on retirement lump sums or post-retirement income.

The total contributions made by an individual to any pension, provident or retirement annuity fund during the year of assessment are tax deductible. However, the annual contribution deduction across all the individual's retirement funds is limited to the lesser of:

- R350 000, and
- 27.5% of the greater of your remuneration or taxable income, before the inclusion of capital gain.

If you contribute more than the limit, it is seen as a disallowed contribution.

HOWEVER, THE PERKS TO OVERCONTRIBUTING TO A RETIREMENT PRODUCT ARE AS FOLLOWS:

You reduce your income tax liability at retirement:

- Overcontribution can be used to reduce or even neutralise the amount of tax paid on living annuity income payments.
- The income you draw from your living annuity can be drawn tax-free until your disallowed contribution is exhausted.
- You receive your living annuity income without paying tax on it. More disposable income to use during retirement.

If you structure it correctly, you reduce estate duty:

- **Retirement annuities and living annuities are not estate dutiable.**
- Disallowed contributions might be estate dutiable if you do not include your beneficiaries in the planning process while you are alive.
- Overcontributions are seen as a deemed asset in your estate unless your beneficiaries transfer the funds directly to a living annuity.

IF YOUR BENEFICIARIES ELECT TO WITHDRAW THE ANNUITY AS A LUMP SUM

The disallowed contribution will be available to the beneficiaries should they elect a lump sum from the retirement funds. Where a beneficiary elects a lump sum, it is taxed in the hands of the deceased as if it was received the day before death. The disallowed contribution will be deducted from any lump sum amount to determine the taxable amount (par 5 of the Second Schedule). Based on the amended section 3(2)(bA)/e, disallowed contributions will be included in the deceased estate for estate duty purposes.

IF YOUR BENEFICIARIES ELECT A LIVING ANNUITY

The disallowed contribution will not be relevant in this instance. No tax will be payable upon the transfer from the retirement funds to the living annuity. The disallowed contributions will be lost as a potential tax benefit as it is only the person that made the contributions that can benefit from it from a tax point of view. No estate duty inclusion.

Your executor cannot take a fee on retirement annuities:

Correctly structuring your beneficiaries means succession falls outside of the control of the executor.

You create liquidity for your beneficiaries:

Because your beneficiaries won't have to wait for your estate to be wound up, they get access to the funds sooner, meaning they would just need to submit your death certificate to start the process of accessing funds instead of waiting for the master's office, which can take up to a year to finalise estates.

You create tax efficiency for your beneficiaries:

Retirement annuities are exempt from tax on dividends and interest, and no capital gains tax is payable on the growth earned in the investment, so if your beneficiaries preserve the retirement annuity the growth inside of it is tax efficient.

By using this disallowed contribution as an estate planning tool, you get to limit estate duty, but it is important to make sure your finances are a family matter to ensure that these estate duty benefits are in fact enjoyed.

Brenthurst believes that financial planning is a family matter and that your children should also be involved with financial planning. Consulting with a qualified, accredited advisor can give you access to platforms that offer family pricing, so your beneficiaries can start saving and pay lower fees in the long run.

ADVISOR PROFILE: MARIA SMIT | CERTIFIED FINANCIAL PLANNER®



MARIA is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

She joined Brenthurst Wealth in 2019 and has been in the financial services industry since 2015, working as a liaison between Financial Advisers and clients, assisting in all financial planning related duties.

Maria obtained a BCom Economics degree from the North West University's Potchefstroom Campus. She also obtained her Postgraduate Diploma in Financial Planning from the University of the Free State in 2019 and is qualified to give advice on all aspects of investing.

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