BRENTHURST GLOBAL WEALTH

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BUILDING WEALTH SINCE 2004

IN THIS ISSUE

Retirement planning doesn't need to be complicated. Understanding how lump-sum withdrawals, retirement contributions and tax allowances work can help you make smarter decisions, maximise tax efficiency and build greater financial security for retirement.

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HOW TO BEAT THE TAXES-AT-RETIREMENT BLUES

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Thinking about retirement is something most of us ignore. It's not because we don't care. Often, it's that as soon as you start looking into it, you're met with numbers, rules and jargon that feel like they were written for accountants, not for you.

It's human nature to either do nothing and hope for the best when you don't understand how something works, or take a wild guess at what you should be doing. Either way, the worry doesn't disappear. It just quietly brews, and it can end up costing you money.

I'm not suggesting that you need to become a tax expert, but there are certain aspects regarding the taxation of retirement money that surprise many people. And being aware of these can change the decisions you make, sometimes significantly.

WHAT CASH LUMP SUM SHOULD YOU WITHDRAW?

The first thing to know is that, when you retire, you're allowed to withdraw a tax-free lump sum from your retirement savings. The first R550,000 you withdraw is completely free of tax. There's no downside to using this lump sum and it is money you're entitled to, so I see no reason to leave it unclaimed.

Beyond that, SARS taxes the next R220,000 of a cash lump sum withdrawal, up to a total of R770,000, at a flat rate of 18%. The tax is deducted and paid upfront.

Here's the part that surprises people. It's often more tax efficient to include the R220,000 being taxed at 18% in your cash lump sum, rather than allocate it to your living annuity from where you will draw an income. The reason being that your annuity income is taxed at your nominal marginal rate every year, which for most readers here will be higher than the 18% rate applied to the lump sum.

There's one important consideration here: you only pay tax when you withdraw from your investment savings. So, if you're able to keep the R220,000 invested instead of drawing it at retirement, it can grow in value over time and possibly offset that which you'd lose to tax.

I suggest that you run the actual numbers for your personal situation so that you can make an informed decision, rather than making assumptions.

SHOULD YOU CONTRIBUTE MORE THAN R430,000?

One of the many changes to tax thresholds announced in this year's Budget was an increase in the cap on tax-deductible contributions to retirement annuities to R430,000 a year.

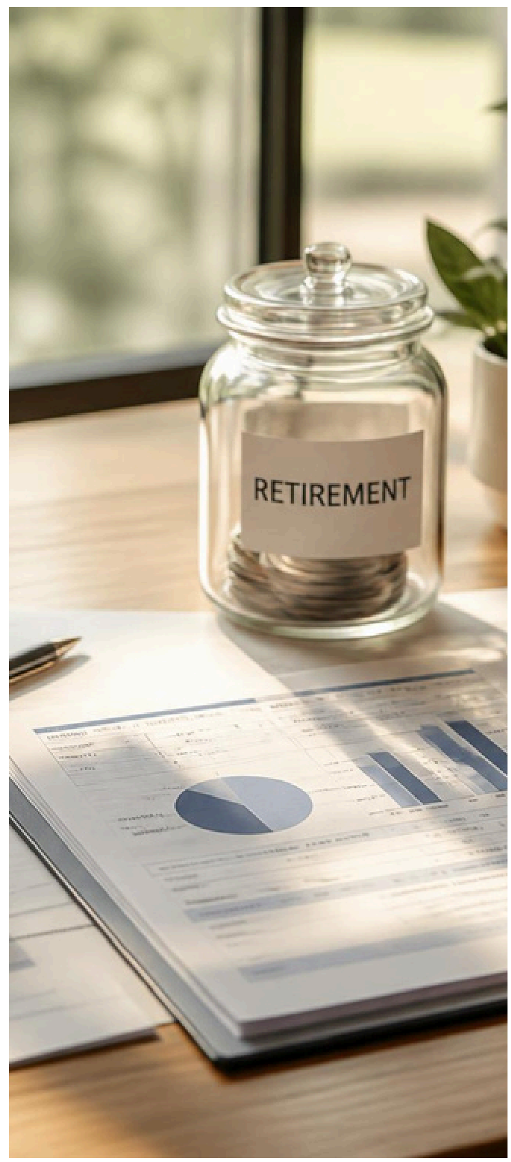
The tax benefit is that any contributions made to approved retirement annuities and retirement funds, limited to the R430,000 tax-deductible maximum, are deducted from your annual income and you're taxed on the difference.

But what if you're able to save more than this limit? This is referred to as a disallowed contribution, which sounds worse than it is. It simply means you've maxed out your tax allowance for the year, so the excess contributions cannot be deducted from your annual income in the current tax year when your tax liability gets calculated.

The good news is that if you are unable to contribute the maximum tax-deductible R430,000 in following years, your earlier excess contributions are then applied to that year's allowance.

Even better, any unutilised excess contributions aren't lost at retirement. You can offset these against the tax on your retirement cash lump sum. And thereafter, if there are still unutilised excess contributions remaining, they can be offset against the tax on your annuity income as you draw it.

Either way, SARS keeps a record of your unutilised excess contributions, so those contributions retain their tax-free status and are automatically applied to future transactions, where applicable.



THIS ISN'T A ONE-SIZE-FITS-ALL DECISION

It's important to recognise that neither of these approaches are set in stone. That which will work for you depends on your income, your tax bracket, how much liquidity you need along the way, and what you're actually trying to achieve with your money.

This is exactly the kind of decision worth working through with your adviser, using your personal circumstances and numbers, not a rule of thumb.

And ultimately, the message here is: don't get so caught up in chasing the perfect number or the perfect strategy that you lose sight of the one habit which matters most – contributing regularly and staying consistent, year after year. Get that right and the rest is detail you can work through when you get there.

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Maria Smit is a Certified Financial Planner® with over 10 years of experience in the financial planning industry.

She has been part of Brenthurst Wealth for the past 6 years, where she plays a key role in providing independent, client-focused financial advice. Maria holds both the RE1 and RE5 regulatory certificates, authorising her to give professional advice, and to serve as the Key Individual for Brenthurst Wealth's Pretoria office. Her expertise spans investment planning, retirement strategies, and estate planning, where she is committed to delivering tailored solutions that align with her clients' long-term financial goals.

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