RETIREMENT ANNUITIES –
THE MOST TAX EFFICIENT INVESTMENT VEHICLE

WRITTEN & COMPILED BY: JOHANNES BURGER CFP® •

THE ISSUE
Statistics show that only 6% of South Africans make adequate provision for retirement. Government consequently encourages individuals to save for retirement by offering tax incentives to those who invest in registered retirement funds like retirement annuities.

WHY THE END OF THE TAX YEAR IS IMPORTANT TO YOU
February is an important month as it is the last opportunity in the tax year to make use of these incentives. The current tax year ends on 28 February 2023.

HOW YOU CAN BENEFIT
As individual you can contribute up to 27.5% of your non-retirement funding income (after deducting exemptions and deductions allowable against such income) towards retirement funds and enjoy tax deductibility. The maximum tax deductible amount is R350,000 per annum. This is the easiest way to reduce your taxable income, and pay less tax. By implication, SARS could pay up to 45% of the contributions to your retirement funds. Ensure that you understand the value of this.

HOW TO CLAIM YOUR REFUND
- Option A
  If your payroll administrator is unaware of your contributions, you would have been paying too much income tax. SARS will reimburse you for this in the form of a tax refund within a year, when you file your tax return.

- Option B
  If you do not want to wait until after you have filed your tax return, you can send your payroll administrator proof of your monthly RA contributions and ask them to adjust your PAYE tax so that you pay less tax every month. Your tax refund is then effectively paid out to you monthly in the form of a higher net salary in your bank account.

TAX ON THE GROWTH OF YOUR INVESTMENT
The underlying investments in a retirement annuity are not subject to capital gains tax (CGT) or income tax on the interest and dividends earned. This is an advantage over other savings products like pure unit trusts, which are subject to both income tax and CGT, either in your hands or in the hands of the fund manager.

MORE TAX SAVINGS
On death, a retirement annuity is free from Donations Tax (20%), Estate Duty (20%), Capital Gains Tax (depends on marginal tax rate) and Executors Fees (3.99%). Beneficiaries can also be nominated to inherit the proceeds without having to pass through the individual's estate.

PROTECTION AGAINST CREDITORS
In case of insolvency, the investment is protected from creditors.

TRADITIONAL VS NEW GENERATION PRODUCTS

Insurance companies market underwritten RAs. These products are more expensive and inflexible. New generation RAs offered by investment houses (like Allan Gray) have lower fees, no penalties for surrender/discontinuation and greater flexibility.

INVESTMENT MANAGER SELECTION

You can choose between a wide rage of unit trusts to build a portfolio that best suit your needs. This can give you exposure to a range of assets and asset classes. If you are not able to do this yourself consult an independent CFP (Certified Financial Planner).

REGULATION 28

Regulation 28 of the Pension Funds Act limits the extent to which retirement funds (like retirement annuities) may invest in particular assets or assets classes. The purpose of the regulation is to protect members from the effects of poorly diversified investment portfolios. The most notable asset class limits of Regulation 28 are listed below.

- Listed Equity/Shares 75%
- Listed Property 25%
- Offshore 45%
- Unlisted Equity/Shares 10%

IS THERE A CATCH?

Retirement investments are intended for retirement. Unless you pass away or become permanently disabled, it is only accessible on or after age 55 unless the value is lower than R7,000. The money is thus not only protected from creditors, but also from yourself. It prevents you from stealing from your future self.

WHEN IS TAX PAID?

At retirement, a member can withdraw up to ⅓ of his retirement capital in a lump sum. This withdrawal is taxed according to the following table:

R 0 – R 500,000	:	0% of taxable lump sum
R 500,001 – R 700,000	:	18% of taxable lump sum above R 500 000
R 700 001 – R 1 050 000	:	R36 000 + 27% of taxable lump sum above R 700 000
R 1 050 001 and above	:	R130 500 + 36% of taxable lump sum above R 1 050 000

The remaining funds have to be reinvested to draw a monthly or annual income as retiree. This income is taxed like a salary. Three things need to be noted here:

1. SARS will always take their cut. Investing in an RA as opposed to an after tax savings vehicle merely allows them to take less.
2. Individuals 65 years and older pay less tax by enjoying a larger annual rebate from SARS. You will consequently postpone paying tax on your retirement funds and only do so when you will (in all probability) draw less income to be taxed on.
3. The benefits of tax deduction and not paying any investment-related tax for all the years you remain in an RA are undisputed. This allows you to optimally benefit from the wonder that is compound interest.

THE NEXT STEP

It is advisable to discuss any decisions involving your finances with your financial planner. Make sure that you benefit from this and that your contributions are submitted prior to **28 February 2023**.