

It's that time of the year again, where you can reduce your income tax bill by making an additional contribution to your retirement annuity as well as contribute to a tax-free investment.

I have jotted down some key points to help you understand what's on offer, for you to invest wisely so that less of your money lands up in the hands of the taxman. The tax year-end in February means that you need to act soon if you still want to maximise your tax savings for this year.

What are the key tax benefits of saving in a retirement annuity (R.A):

Your contributions to your R.A reduce your taxable income, this means that you pay less income tax or better yet, get money back this tax year, so don't let this opportunity by pass you.

Your contributions are limited to 27.5% of the higher of taxable income or remuneration is capped at R350 000 per tax year

A big tax advantage of an R.A is that, not only is your contribution tax deductible which at 27.5% is a massive advantage, but the growth in your R.A investment is completely tax free! This means it is free of dividends tax, income tax on interest and capital gains tax. Not only do you score in these 2 area's but you get another bonus at retirement too, a portion that you withdraw in cash is exempt from tax up to a specified limit (currently the first R500 000 you withdraw is tax free), add to this mix, retirement annuities by pass your will, pay out directly to your beneficiaries, free of executor's fees and estate duty, you have a heady cocktail of beautiful tax planning not to be missed!



Another tax planning product not to be sneezed at is...

Use a tax-free investment account (TFI) to benefit from long-term tax savings:

You can invest R33 000 per year (up to a maximum of R500 000 over your lifetime) and benefit from the growth of your investment which is free of dividends tax, income tax on interest and capital gains tax, mimicking the phenomenal tax-free growth that the RA offers you.

It's important to note that you are limited each year by what National Treasury allows us to invest, currently you can invest R33 000 per year in TFI products. This is the maximum limit for all TFI accounts in your name, across product providers. If you over-contribute, SARS will hit you with a hefty 40% tax penalty.



Which product is right for you?

R.A's and TFIs fulfil different objectives and it may not be an either/or decision, but rather a question of using both for different needs. From a retirement savings perspective, in most cases R.As offer the best tax deal. However, access to your money is a lot more restricted in a R.A than a TFI. On the other hand, with a TFI you will need to be disciplined and resist the temptation of withdrawing from your TFI account in order to enjoy the long-term compounding benefits, this is key. This is what makes this an attractive investment. If you are smart you will use your TFI alongside your R.A, pension plan, as your tax planning cocktail in retirement maximising your tax- free income by withdrawing from both products to support your income but lower your taxable income. Your end goal at retirement is to retire at the lowest tax bracket possible.

It is important to look at your portfolio holistically to ensure your decisions fit in with your long-term plan. Let us know if you want our help in checking whether you can take further advantage of the tax benefits, we have the calculators, our fingers are poised and we ready to help!

If you haven't reached these limits, you have until the end of February to take advantage. Please do, you don't want a fantastic tax planning opportunity to by-pass you, do you?

As always, happy to talk ... Susan Mercer.