FINANCE MATTERS

MAXIMISE TAX BENEFITS BEFORE THE END OF THE TAX YEAR – Every year around this time we remind investors to think about taking advantage of some of the incentives the government has put in place to encourage us to save.

TAX INCENTIVE 1: Take full advantage of the tax-deductible limits for retirement annuity contributions

The government offers incentives to save for your retirement within approved retirement saving products, such as a retirement annuity. In return for putting your money away for the long term, you can invest in a retirement annuity and deduct the amount from your taxable income. In addition, while you are invested in a retirement annuity, growth is free of dividends tax, income tax on interest and capital gains tax.

The total contributions to retirement funds are deductible but limited to 27,5% of the greater of remuneration or taxable income (excluding lump sums), prior to the deduction of donations, capped at an annual limit of R350 000. Any excess may be carried forward to the next tax year.

Your current contributions to any retirement annuities, pension funds and provident funds should be taken into account when calculating the deductible contribution amount calculated as per the above formula.

Fast Fact – Benefits of a Retirement Annuity

A retirement fund, is an ideal vehicle for such long-term saving because, amongst other things:

- Contributions are tax-deductible up to 27.5% of the greater of remuneration or taxable income capped at R350 000 per annum.

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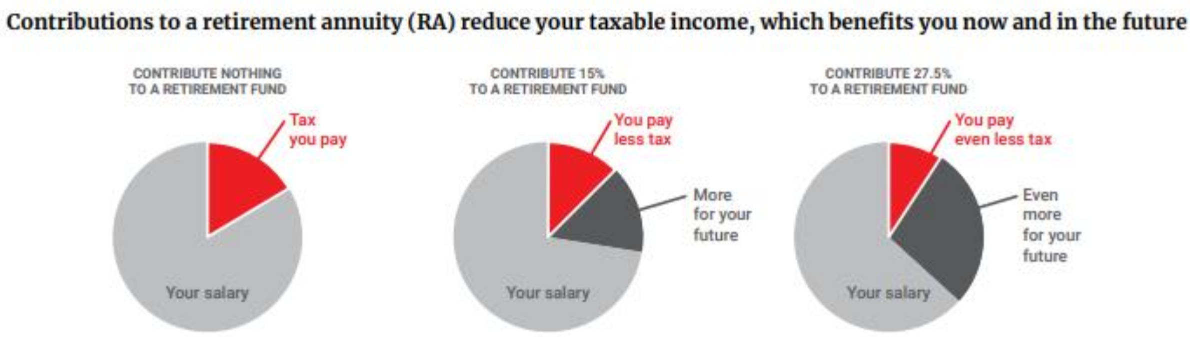
- All of the growth in the fund is tax-free.
- It offers protection from creditors and on insolvency.
- It is not dependent on the client's continued employment.
- It offers favourable tax treatment of benefits at retirement:
  - Any lump sum benefit taken is taxed in terms of the retirement lump sum tax table and not at your marginal rate.
  - Currently the first R500 000 per tax-payer's lifetime is taxed at 0%.
    (Note: Withdrawals and severance packages will impact your tax at retirement).
- At retirement you can buy a living annuity or life annuity to generate the passive income every retiree wants to receive:
  - The benefits you transfer into a compulsory annuity are transferred tax-free.
  - The growth within the investment is tax-free
  - You do however pay tax on the income you withdraw.
    (Note: Your retirement fund benefits remain protected from creditors after retirement).



Source: Allan Gray

Fast Fact – Limitations of a Retirement Annuity

- You can only access your investment at or after the age of 55.
- The investment needs to comply with Regulation 28, currently limiting equity exposure to 75% and international exposure to 25% of the value of the investment.
- At least two thirds of the proceeds at retirement must be used to purchase an income.
- Post-retirement lump sum and income payments are taxable (although you may qualify for lump sum tax concessions and benefit from a lower average tax rate).

TAX INCENTIVE 2: Take full advantage of the attractive tax benefits for Tax-Free Saving Account contributions

To encourage saving, the government introduced tax-exempt investment and savings products. This means the interest, capital gains and dividends you earn in a tax-free savings investment are completely tax free.

Fast Fact – of a Tax-Free Savings Account

- A maximum of R33 000 for the 2018/2019 tax year (the equivalent of R2750 a month), currently capped at R500 000 over your lifetime.
- The allowable amount is limited to each individual and not per investment.
- The returns or growth you earn on your investments are completely tax free.
- You have flexible access to your investment and there are no exit penalties.
- You can contribute a regular amount or a once off lump sum.
- You will have to pay a penalty of 40% of the amount you invest above the maximum.
- Any amount that you withdraw from your account will count towards your annual and lifetime limit.
- You may appoint beneficiaries and they will receive the money directly, without waiting for the estate to be wound up. Estate duty is payable but there are no executor's fees.

We have found that a Tax-Free Savings Account is ideal for the following investors:

- An investor with a long-term investment horizon, as the longer the capital is invested, the more tax-free growth there will be. Additionally, the investment allows for flexibility with regards to monthly contributions (within annual allowance) and access to capital.
- Parents (grandparents) looking for an investment to save for their child's education and /or future. The tax-free savings account can be opened in the name of a child, with their own R33 000 annual limit.

Please let us know if you intend to contribute to a retirement annuity and/or a tax-free savings account, so that we can assist you in the calculation and ultimate contribution.

Kindly note that we need to finalise all contributions before the **12th of February 2019** to ensure timeous allocation for the 2019 tax year.

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