

## Tax Efficient Investment Vehicles – Retirement Annuity and Tax-Free Savings Investment

The end of the financial tax year is rapidly approaching. This week we will be looking at the mechanics and workings of Retirement Annuities (RA) and Tax-Free Savings Investments (TFSI) as tax efficient investment vehicles for retirement savings.

### Maximise Your Tax Benefits

As a starting point, I would like to offer the below example to illustrate how you can make the most of your tax benefit associated with an RA before retirement. Tax efficiency remains a key consideration when saving for retirement.

These calculations are based on a monthly salary of R 50,000.00 and no additional pension / retirement contributions or any other deductions.

In **Calculation 1** the individual did not make any contributions towards an RA and in **Calculation 2** the individual contributed 15% of his annual salary towards an RA.

It is important to note that contributions towards an RA are tax deductible.

#### Calculation 1 : No RA Contribution

Monthly Salary	R 50,000.00
Monthly Tax	R 12,582.25
% Effective Tax Rate	25%
Net Monthly Income	R 37,417.75

#### Calculation 2 : RA Contribution

Monthly Salary	R 50,000.00
Monthly RA Contribution (15% of Monthly Salary)	R 7,500.00
Monthly Salary after Contribution	R 42,500.00
Monthly Tax	R 9,771.25
Net Monthly Income	R 32,728.75

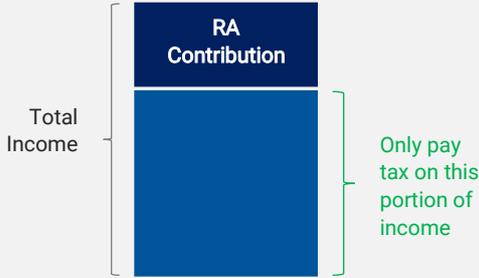
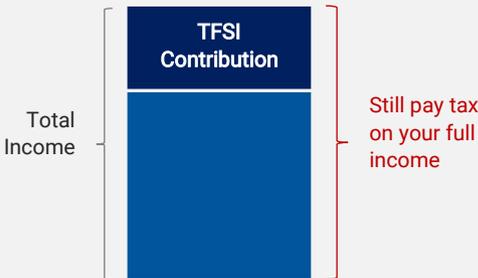
#### Difference : Income and Tax (ZAR)

Net Monthly Income Plus RA Contribution	R 40,228.75
Difference in monthly tax if contributing to a RA	R 2,811.00
Difference in annual tax if contributing to a RA	R 33,732.00

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You will notice that there is a difference of R 4,689.00 (R 37,417.75 – R 32,728.75) in the net monthly income where a contribution was made towards an RA, but from a savings perspective, the individual would have saved R 2,811.00 every month in tax payments. The other benefit is that there is no tax payable on the investment growth or dividends and interest received inside of an RA.

Furthermore, you can make use of a TFSI to supplement your retirement savings. Although the contributions to a TFSI are not tax deductible, there is no tax payable on the investment growth or dividends and interest received within the TFSI (as with the RA). To maximize the benefit of a TFSI, you should aim to invest regularly and as early as possible, even if the amount is small to begin with. You can start with as little as R 500.00 per month. The sooner you start, the more time your money is given to compound and grow - tax free.

Tax Benefits @ A Glance	Retirement Annuity	Tax-Free Savings Investment
<b>Tax Treatment of Contributions</b>	 <p>Contributions to an RA are tax deductible.</p>	 <p>Contributions to an RA are not tax deductible.</p>
<b>Contribution Limits</b>	Maximum annual contribution of 27.5% of your pensionable salary (OR) R 350k (whichever is less).	Maximum annual contribution of R 33k. There is also a lifetime contribution limit of R 500k.
<b>Tax on Investments</b>	No tax payable on the investment growth or dividends and interest received inside of an RA.	No tax payable on the investment growth or dividends and interest received inside of a TFSI.
<b>Investment Rules</b>	No more than 75% in equities, no more than 25% in listed property.  Must have 75% in South African investments (or at least 70% if 5% is invested into Africa).	No single commodity investments, no ETNs allowed.
<b>Access</b>	Money cannot be taken out before the age of 55.  After the age of 55, up to 1/3 of the RA can be taken as cash, the remainder needs to be converted into a living or life annuity.	Money can be taken out at any time. No limitations on the amount that can be taken as cash, and no conversions to other products is required.
<b>Tax when Accessing the Money</b>	The cash portion that is taken is taxable on a sliding scale.  The income received from the living or guaranteed annuity is taxable at income tax rates.	No tax payable when the money is accessed.

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As always, our Wealth Managers understand your journey and are available to answer any questions that you may have.

Please feel welcome to get in touch with us on +27 21 914 4966 or via email on [wealthadmin@seedinvestments.co.za](mailto:wealthadmin@seedinvestments.co.za) if you would like to open up a Retirement Annuity or Tax-Savings Investment or make additional contributions to existing investments before Monday, 20 February 2020.

Kind regards,



**Angelique Du Preez NQF 5**

Wealth Manager

Sources : <https://yourtax.co.za/tax-calculator/2020>, [www.stealthywealth.co.za](http://www.stealthywealth.co.za)

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