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Investing for a
world of change

Why it pays to invest in an RA and a TFSA

It is almost the end of the tax year. If you have some extra funds available, consider adding to your savings in a retirement annuity (RA) or tax-free savings account (TFSA), thereby enjoying the significant tax benefits these products offer.

Why invest in an RA?

1 RAs can be viewed as gifts from the taxman.

For example, if you are currently paying tax at a rate of 45% and contribute R100 000 to your RA in the year of assessment, you effectively only contribute R55 000 of the R100 000, while SARS contributes the balance. Tax will be applicable when the funds eventually pay out at retirement, but due to the tax-exempt portion of the lump sum, as well as the tax rebates for individuals over 65 and 75, you may pay less tax at that time.

2 You do not lose your tax benefits, even if you contribute more than the maximum annual tax deduction (excess contributions).

If you contribute more than the maximum (excess contributions), your tax benefit will roll over to the next tax year of assessment. Any excess contributions in subsequent tax years will continue to be rolled over. This means that you could receive a tax benefit at retirement, after retirement or your beneficiaries could benefit when you've passed away, as explained in the diagram overleaf.

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RA contributions and tax

Before retirement*

When contributing to an RA, your maximum tax deduction for the year is the lesser of:

- R350 000
- 27.5% of remuneration/taxable income
- Taxable income excluding taxable capital gains

At retirement

If you elect to receive a lump sum:

- The remaining excess contributions will be paid out free of tax
- R550 000 could be tax free – if not previously utilised

After retirement

Excess contributions remaining after your retirement are deductible from your compulsory annuity income for tax purposes (section 10C of the Income Tax Act)

After you pass away

If your beneficiary elects to receive the full death benefit or a portion thereof as a lump sum:

- The remaining excess contributions will be paid out free of tax
- R550 000 could be tax free – if not previously utilised

*The R350 000/27.5% limit includes member and employer contributions to workplace pension and provident funds.

3 You enjoy estate planning benefits.

- An RA is exempt from estate duty. Please note that excess contributions may be included for estate duty purposes, to the extent that a lump sum is received.
- The growth on your excess contributions is not subject to estate duty – you can therefore effectively peg the value of your estate (similar to the benefit obtained from a trust, prior to the introduction of section 7C of the Income Tax Act).
- Over time, the value of excess contributions could be reduced, which would decrease the estate duty payable on these excess contributions.

4 No tax is deducted within the investment (no income tax, capital gains tax or dividend withholding tax).

This means you will benefit even more from compounded growth.

5 You remain disciplined with your retirement savings.

The two-pot retirement regime was introduced on 1 September 2024. The new system allows members access to a small portion of their retirement savings before they retire, while preserving the remainder until retirement (unless one of the exceptions as specified in the Income Tax Act applies). To achieve this, various notional components within a member's retirement fund benefit/contract were created.

These components are referred to as:

1. The Vested component
2. The Savings component
3. The Retirement component

Members are able to withdraw from the Savings component once in a tax year.

6 You have protection from creditors.

This means your savings for your retirement will be available when you need them.

Key considerations when investing in an RA

- RAs are subject to Regulation 28 investment limits.
- On the death of the investor, the Board of Trustees will have full discretion when deciding on a fair allocation of the benefit to dependants and/or nominees, in terms of section 37C of the Pension Funds Act.
- There are liquidity restrictions prior to reaching retirement age. This means that you will only have access to the funds in the Savings component before reaching the age of 55 (unless you qualify for one of the exceptions).

Why invest in a TFSA?

- TFSAs are exempt from tax on interest, dividends and capital gains.
- There are no restrictions on withdrawals; however, if you replenish the funds withdrawn, it will count towards your contribution limits. For this reason, these investments are generally more suited for long-term investing.
- TFSAs are a great way to save for your child's education (be aware of donations tax if the annual exemption of R100 000 per donor is exceeded).

Contributions

- You may only contribute a maximum of R36 000 per year and R500 000 over your lifetime.
- If you exceed these contribution limits, a penalty of 40% will apply.

Important information

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