It is time...

Reap the tax benefits of a retirement annuity!

It is commonly known that only a small percentage of people end up with sufficient retirement savings to maintain their pre-retirement standard of living.

What are the possible reasons for this?

1. Putting money away for some distant goal requires a lot of **discipline and commitment.**
2. Deciding on the most **appropriate investment vehicle** for their retirement savings is also not easy.

What is a possible solution to address both these problems?

A retirement annuity! It has proven to be a beneficial savings instrument for many people, because it encourages disciplined savings with accompanying tax incentives. The purpose of this article is to highlight the latter as well as some other important features or benefits.

Tax incentives

Retirement annuity contributions reduce the client's taxable income up to certain limits:
Part of the contributions come from tax savings, which means that the South African Revenue Service (SARS) is actually paying a part of the client's retirement savings.

For example:
This means that for each (say) R10 000 invested in a retirement annuity, R3 000 (for someone taxed at a marginal rate of 30%) is effectively paid back by SARS.

Another big tax advantage is that the growth on the investment is tax free!	**Also of value is the favourable tax treatment of the lump-sum proceeds at retirement.**
Tax is not payable on rental income and interest and no tax is payable on either capital gains or dividends received in the investment fund.	On retirement the first R315 000 of all retirement funds (cumulatively) is tax-free and the rest of the lump sum taxed at favourable scales.

Other important features of a retirement annuity are:

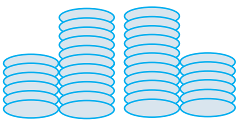
A retirement annuity is protected against creditors and therefore provides protection in the event of insolvency.

A withdrawal from a pension fund can be transferred to a retirement annuity tax-free.

Various options exist at retirement: A conventional life annuity with or without capital protection; a linked annuity - more risky but offers investment fund choices and more flexibility; or a composite life annuity – part conventional life annuity and part linked annuity.

A compulsory life annuity as well as the lump sum is exempt from estate tax at the death of the client i.e. the member of the retirement annuity fund.

If the compulsory life annuity is used to fund medical aid contributions after age 65, it is currently fully deductible against income for income tax purposes. From 1 March 2014 however, such contribution and deduction of expenses will be replaced with a medical tax rebate.



From 1 March 2014, any member contributions to a retirement fund that has not already been allowed as a deduction will accordingly reduce the taxability of the compulsory life annuity.

From 1 March 2015 a transfer from a provident or preservation provident fund before or after this date will retain the right to a full commutation on contributions prior to this date plus growth.