SOUTHWOOD
FINANCIAL PLANNING cc

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Authorised Financial Services Provider (FSP licence number 13566)

RETIREMENT ANNUITY INFORMATION

What is an RA?

An RA is nothing more than a one-person pension plan. A person applies to become a member of an RA fund, which is approved as such by the Registrar of Pension Funds and the tax authorities. No employer / employee relationship is required to qualify for membership.

RA's are the main savings vehicle for self-employed persons to accumulate funds for retirement in a tax-efficient way. They are also popular as a top-up plan for salaried employees who belong to pension and provident funds, to close the income gap at retirement.

Smaller employers often choose retirement annuities for their staff over traditional pension schemes, thereby avoiding the administration and responsibility involved in operating the latter schemes.

Ways To Save Tax With An RA

Most people know that contributions to an RA are tax deductible up to a certain maximum, but few people realise that an RA may actually provide them with an opportunity to save tax in 10 different ways. These are as follows:

- The total contributions to retirement funds (pension, provident and retirement annuities) are tax deductible up to a maximum 27,5% of the greater of remuneration or taxable income (excluding lump sums), capped at an annual limit of R350,000.

- Retirement contributions which exceed the tax deductible limit can be carried forward to be claimed next year (but are nevertheless subject to the same formula limits).

- Contributions paid by an employer are taxed as a fringe benefit in the hands of the employee and are deemed to be contributions paid by the employee in order to calculate the allowable deduction.

- **Build up -** The build-up of interest, net rental income and local and foreign dividends in retirement funds is exempt from tax. Retirement funds are exempt from Capital Gains Tax and Dividend Withholding tax.

- At retirement, one third of the total retirement funding value may be taken as a lump sum. The balance must be used to purchase a compulsory annuity, taxed at the annuitant's marginal rate. Where the retirement benefit does not exceed R247,500, the entire amount can be taken as a lump sum.

- The taxable portion of the lump sum (at death, retirement or retrenchment) is taxed on a sliding scale as follows:

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Lump Sum Payments on Death, Retirement or Retrenchment	
R0 – R500 000	To be taxed at 0%
Balance is taxed according to a sliding scale	
R500 001 – R700 000	To be taxed at 18% of the amount above R500 000
R700 001 – R1 050 000	To be taxed at R36 000 + plus 27% of the amount above R700 000
R1 050 001 and above	To be taxed at R130 500 + 36% of the amount over R1 050 000

- On death, any benefits paid out by way of an annuity are free of estate duty.

- The full amount of your Retirement Annuity is protected against insolvency in terms of Section 37B of the Pension Funds Act.

- If you leave your employer and receive a withdrawal benefit from your pension or provident fund, you can preserve your retirement benefit by transferring it into an RA or preservation fund tax-free. Any withdrawal benefits not preserved will be taxed as follows:

Pre-retirement withdrawals from retirement savings	
R0 - R25 000	To be taxed at 0%
Balance is taxed according to a sliding scale	
R25 001 - R660 000	To be taxed at 18% of the amount above R25 000
R600 001 - R990 000	To be taxed at R114 300 plus 27% of the amount above R660 000
R990 001 and above	To be taxed at R203 400 plus 36% of the amount above R990 000

- On retirement, you have a choice between a conventional annuity and an equity-linked living annuity. By choosing the equity-linked living annuity (assuming your risk profile justifies the decision) you can manage the income you receive (between 2.5% and 17.5 % of the capital amount each year) and consequently also manage your income tax position.

- A compulsory annuity is fully taxable but does have the benefit of the tax threshold: if 65 and older one will only pay tax to the extent that it exceeds taxable income of R141,250, and age 75 and older, R157 900.

- Non-deductible contributions are exempt from income tax regardless of whether these interests are withdrawn as a lump sum or by way of a compulsory annuity. A compulsory annuity includes income drawn from a living annuity. Non-deductible contributions will first be applied to any lump sum and the remainder, if any, will be applied to annuity income.