Nine good reasons why an RA

is an exceptional investment vehicle.

1. Contributions are deductible

Contributions are deductible from taxable income for income tax purposes. At a marginal tax rate of 40% the Receiver of Revenue is actually sponsoring R40 of each R100 invested via the medium of an RA.

2. Contributions that were not deductible may be carried forward

All contributions (or portions of contributions) which exceeded the deductibility limit, can be carried forward to the following tax year. Contributions not yet utilised for tax purposes at retirement, can be used to increase the taxfree portion of the available cash sum. Any other “unused” contributions may be offset against the compulsory annuity for income tax purposes.

3. Tax favourable internal fund yield

Only the interest and net rental income earned by the RA fund is subject to income tax at a rate of 18% and no capital gains tax is applicable. This benefits the investor whose marginal tax rate is greater than 18%. If the underlying fund assets are made up of shares, there is no tax liability, as the return would consist of dividends and capital growth, which are both tax free for approved funds. It is thus comparable to an investment in shares which is deductible for tax purposes.

4. Tax favourable lump sum at death or retirement

The cash lump sum is tax free up to the greatest of R120 000 and R4 500 x number of years of contributory membership to the fund. By commencing an investment to an RA at a young age, the tax free portion of the lump sum benefit can be increased to an amount substantially higher than R120 000. Any taxable balance is taxed at the investor’s beneficial lower “average” tax rate.

5. Compulsory annuity is estate duty free

At the death of the investor all benefits payable as an annuity is excluded from his/her estate for estate duty purposes. It also follows that a linked (living) life annuity fund will be inherited estate duty free by dependants.

This benefit creates an attractive eatate planning opportunity for a wealthy estate owner, as contributions to an RA will reduce his/her dutiable estate.

6. Withdrawal from a pension fund

A withdrawal benefit from a pension fund can be transferred taxfree to an RA fund and in this way the accumulated retirement benefit is fully preserved.

7. Choices at retirement

A conventional (level or increasing income) or a linked (living) life annuity (or a combination of the two types) can be purchased at retirement. The choices made will depend on the client’s specific needs and risk profile. A linked annuity is more risky, but offers exceptional benefits (e.g. taxfree internal fund build-up; the fund is passed on by inheritance at the death of the annuitant; the fund is never estate dutiable; the fund is protected against creditors; the pension can be adjusted within certain limits to meet changing income needs; it may be switched to a conventional annuity; etc.)

8. Provision of medical care after retirement

An RA is the ideal vehicle for the payment of medical costs after retirement. The contribution is deductible and, if the annuity is e.g. used to fund medical aid contributions after age 65, it would be fully deductible against income for income tax purposes. Contributions are thus deductible and benefits are taxfree!

9. Protection against yourself and creditors

An RA offers protection against poor financial self-discipline as also protection in the event of insolvency. The fact that capital cannot be accessed before age 55 (except at death and disability) is a blessing in disguise, as it ensures that the capital will be available when it is most needed and intended for : The provision of retirement income.