

Looking at Retirement Annuities Through Different Eyes

Retirement Annuity investments (RA's) are well known and are used extensively in planning for retirement by people of all ages. In recent times these investments have received their fair share of media coverage. In this article we reflect on some of the facts to equip you with knowledge that will enable you to make the correct decisions when reviewing your investment portfolio.

When one thinks of an RA, the thought that probably comes to mind is that contributing to an RA means that you will ultimately pay less income tax because contributions are tax deductible (up to certain limits).

You can afford to invest an amount of R600 per month for retirement and decide to invest in unit trusts. The next point to consider is how to invest this amount into the unit trust e.g. by way of an endowment policy or through an RA (the investment vehicle) or directly into the Unit Trusts. Because you will not have to fund the RA with after tax money, you will be able to contribute R1000 per month into an RA whereas you will only be able to contribute R600 to a unit trust or endowment (assuming a tax rate of 40%). From a purely investment return point of view, investing through an RA should therefore result in a significantly higher value being available at retirement.

Furthermore, any income or capital gains earned in an RA are not taxed, whereas in a unit trust or endowment, tax may be payable.

An additional advantage not as widely known is that on death, none of the accumulated retirement fund value (i.e. the original contribution plus any growth) is taken into account for estate duty purposes i.e. neither the lump sum (if any) taken by your beneficiaries nor the full value of the future annuities payable out of the fund is liable for estate duty.

Accordingly, ignoring income tax, a large simple premium investment in a retirement annuity fund will immediately reduce the dutiable amount of your estate. The value of the fund is also not used to calculate any Capital Gains Tax liability which may arise



by virtue of the deemed disposal of all your assets on death.

If the beneficiary of the policies is your surviving spouse, this estate duty and CGT saving does not apply as bequests to a surviving spouse are in any event free of Estate Duty and CGT. However, if the beneficiaries are, in whole or in part, your children, other persons or trusts, the estate duty and CGT savings available by virtue of a Retirement Annuity investment could be substantial.

Recently legislation was amended removing the requirement that all RA's be "matured" by the owner's 70th birthday. RA investments can now be made at any age.

Should you have any questions on this or any other related subject, please contact the partner who deals with your affairs or any of the email addresses listed here.

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