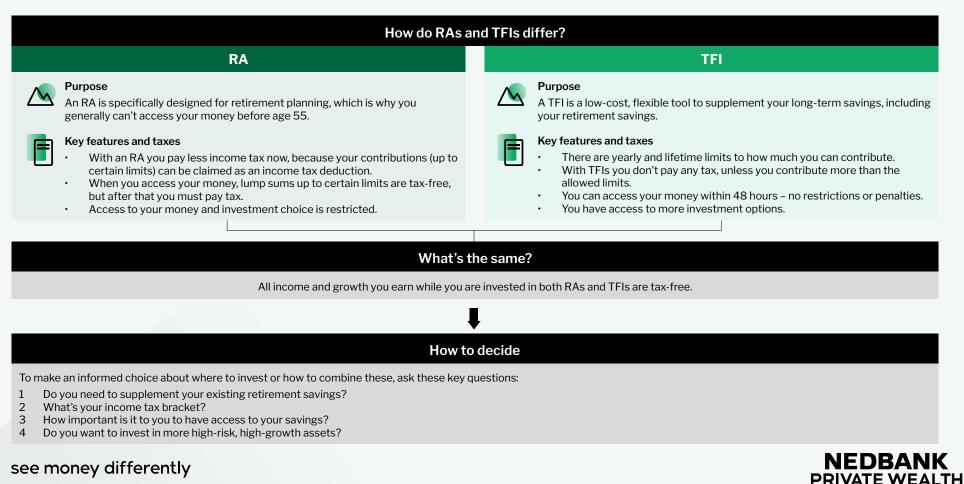
Retirement annuities (RAs) versus tax-free investments (TFIs)



How do they compare?

RAs and TFIs both enable you to invest in a tax-efficient manner, giving you the opportunity to maximise your savings and improve your long-term outcomes. To make an informed choice about how to include these in your investment portfolio and your retirement planning, it's important to understand their different features and tax benefits.

In a nutshell







		RA		TFI
Contribution limits	No limits	However, contributions are tax-deductible only up to a certain limit.	Restricted	 R36 000 per year R500 000 over your lifetime
Access to your money	Restricted	 Before age 55 Full withdrawal only if: the fund value is less than R15 000; and/or you can prove permanent disability or ill health for early retirement (subject to the rules of the fund). From age 55 (retirement) You can take a maximum of one-third of the fund value in cash. The remaining two-thirds must be used to buy a compulsory annuity. You can make a full withdrawal only if the fund value is equal or less than R247 500. At any time You can make a full withdrawal at any time if you have emigrated and: have tax clearance approval from the South African Revenue Service (SARS); and can prove that you have been a tax non-resident for an uninterrupted period of three years. 	Unrestricted access	You can access your money within 48 hours. However, you can't replace any withdrawals you have made in terms of the contribution limits shown above. For example, if you have already contributed R36 000 in one tax year and you withdraw R6 000, you cannot contribute another R6 000 in the same tax year. If you do, you will be penalised with 40% income tax.
Investment restrictions	Restricted	An RA must comply with pension fund investment limits (Regulation 28 of the Pension Fund Act), which serves to protect investors from poorly diversified portfolios. This means there are limits to how much can be invested in certain asset classes and geographies. For example, RAs can invest a maximum of 75% in equities and 45% in international assets.	Limited restrictions	While a TFI does not have to comply to Regulation 28, some restrictions do apply. However, these are less restrictive than the restrictions of RAs.Image: Colspan="2">For example, exposure to shares from a single company is limited for a TFI.
Option to invest in a minor's name	Yes	But no access to the money before age 55.	Yes	 Parents have signing rights. The minor must have a bank account by the time of withdrawal, so it's important to consider the age of the minor in context of when they would need access to the money.
Protection from creditors	Yes		No	
What happens when you die	Transfer to beneficiaries	 You can nominate a beneficiary(ies) to receive the proceeds from your RA. However, it is not guaranteed that they will receive the payout – the trustees of the RA have a duty to identify all your dependents and to distribute the benefit according to those who are financially dependent on you. 	No beneficiaries	 If you are directly invested in a unit trust TFI, it will form par of your estate. You cannot nominate a beneficiary(ies) unless the investment is held in an endowment policy.





	RA	TFI			
	When you invest (contributions)				
Tax deductions on contributions	 Tax deduction of up to 27,5% of your total taxable income during a tax year, capped at R350 000. Any excess may be carried over the next tax year. 	No deductions.			
	While you are invest	ted			
Tax penalties	None	Tax penalties of 40% on contributions that exceed the R36 000 per year and R500 000 per lifetime contribution limit.			
Tax on interest and dividends	None	None			
Tax on capital gains	None	None			
	When you access your money				
Tax on lump sum (in the case of an RA – at retirement)	 The first R500 000 is tax-free if you didn't make any previous withdrawals. The balance is taxed according to the retirement tax tables – up to 36%. 	None			
Tax on annuity income	Taxed according to your marginal income tax rate.	None			
Estate duty	 No estate duty on tax-deductible contributions – excess contributions will be subject to estate duty. There are no executor fees. 	 Subject to estate duty. However, take note of the following: If you bequeath your TFI to your spouse, estate duty deductions will apply. If the investment is held in an endowment policy and there is a nominated beneficiary, no executor's fees apply. 			

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