

# Why optimising tax incentives is a great way to create wealth

Almost every financial decision your clients make has a tax implication.

Just as fuel efficiency is one of the important aspects to consider when buying a car, so should tax be an important consideration for any financial plan and investment strategy. With the smart use of tax-incentivised investment products, your clients can create significant wealth with help from the taxman.

Tax can be complicated and confusing and for most people it is a sensitive and personal subject they choose to avoid. But with a few smart moves, especially when planning for financial independence or retirement, they can benefit significantly from tax incentives and increase the probability of them achieving their investment goals.

They can use two tax-efficient ways to create wealth over time: a retirement annuity and a tax-free investment (also known as a tax-free savings account). If they are already using one or both, they can invest more into them, within the limits, to make full use of the available tax opportunities.

## RETIREMENT ANNUITY

Every tax year a person can claim a tax deduction for the money invested in a retirement fund. The tax deduction is limited to 27.5% of their taxable income or remuneration before any deductions are made, whichever is higher, subject to a maximum of R350 000.

They can do this whether they are self-employed or earning a salary but not contributing the full amount to their employer's retirement fund.

If clients have not yet used the full tax deduction available to them for the tax year, they can make an additional lump sum payment to their retirement annuity before the tax year ends on 28 February 2023.

In addition to the tax break clients get on the money they invest, they also enjoy tax-free growth in their retirement annuity – they don't pay income tax, dividends tax or capital gains tax while the money is growing.

But, some people say, when you retire you will pay tax on the income. This is true, but after the age of 65 clients could pay less tax because of lower income levels in retirement, higher rebates and higher deductions for medical expenses.

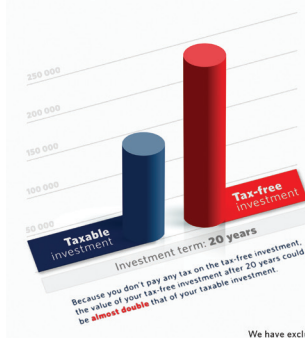
## TAX-FREE INVESTMENT

Although clients don't get a tax deduction for money they invest in a tax-free investment, they still enjoy tax-free growth. And they won't pay any tax on the proceeds when they decide to take money out of the investment.

## Tax-free investing

Let's say you invest R36 000 as a lump sum amount in a typical tax-free investment and also R36 000 in a typical taxable investment.

We assume that you leave the money to grow for 20 years and get growth of 10% a year from the investment fund you chose for the two investments.



We have excluded the impact of fees for this illustration.

To calculate the impact of tax on the taxable investment, we assume:

- ✓ That your income is R600 000 a year
- ✓ That you use the full interest exemption and capital gains tax exclusion every year on other investments
- ✓ That you take your money out after 20 years
- ✓ That you use the same investment fund for both investments

Since the 2021 tax year, clients can invest up to R36 000 every tax year (R3 000 per month) in a tax-free investment, limited to R500 000 over their lifetime. Before this, the yearly limit was R33 000. Government may adjust these limits from time to time. The illustration (above) shows the significant effect that tax-free growth, coupled with the wonder of compounding, could have on an investment over the longer term. Although a tax-free investment gives clients the opportunity to withdraw money at any time, the benefit of leaving the money to grow for as long as possible should outweigh the urge to withdraw money unless it is for an extreme financial emergency.

## OPTIMISE AVAILABLE TAX INCENTIVES

Investing is personal and each client's circumstances unique. The secret is to make sure that clients use these tax incentives optimally according to their specific situation every year and consistently over time. By doing this they can reduce the effect of tax on their investments and increase the growth potential on their journey to success. Using the Retirement Annuity Option and the Flexible Tax-free Option on the Momentum Wealth local platform can help you implement tax-efficient investment solutions for your clients so that they can reap the full benefits of tax incentives available to all taxpayers every year. ■



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