

While the long-term benefit of saving for a secure retirement may be obvious, investors may not appreciate the extra tax boost available from saving in an approved retirement fund, such as a retirement annuity fund (RA).

Contributions to an RA are tax deductible, subject to the limits described in **Text box 1**. This means that contributing to your RA decreases your total tax bill for the year, as shown in the example in **Table 1**. This remains true even as your salary increases.

Less money to the tax man and more to you

While you naturally come out with less take-home pay per month if you increase your RA contributions to enjoy the maximum tax benefit, a smaller portion of your salary goes to the tax man. Table 1 calculates the monthly tax due for an individual earning R360 000 per year, at different RA contribution levels. In the example, although your take-home pay would be R1 575 less per month if you saved 7.5% in an RA, the RA contribution of R2 250 includes an extra R675 that would otherwise be paid as tax.

In addition to the tax break on contributions, the income and capital growth earned on your investment until you retire are also tax free.

You have until 28 February to benefit from tax savings this tax year

If you haven't contributed 15% of your non-retirement funding income (see **Text box 2**) to your RA in this tax year, you have until the end of the tax year (28 February) to make an additional contribution. This means that when you are assessed for the tax year you can claim the tax deduction – your savings gets a boost, and you get money back from SARS.

Make sure an RA is right for you

While the tax benefits of an RA speak for themselves, there are certain restrictions that may make an RA unsuitable for you, including access to your money and investment limits. To make sure retirement savings are kept for their intended purpose, you cannot access your investment until you retire and the earliest permitted retirement age is currently 55. When you retire, a maximum of one-third of your investment can be taken in cash; the rest must be transferred to a pension-providing product such as a living annuity or a guaranteed annuity. In addition, to make sure that your investment is not exposed to excessive risk, retirement fund regulations limit your exposure to higher risk assets, such as equities.

Text box 1 What portion of your total contributions is tax deductible?

You are allowed the greater of the following three tax deductions:

- Minimum tax deduction: R1 750
- R3 500 less any deductible contributions made to a pension fund
- 15% of your non-retirement funding income (see Text box 2)

Table 1 Tax bill reduced thanks to RA contributions*

	RA contribution (%)		
	0%	7.50%	15%
Gross monthly salary	R 30 000.00	R 30 000.00	R 30 000.00
RA contribution	R 0.00	R 2 250.00	R 4 500.00
Taxable income	R 30 000.00	R 27 750.00	R 25 500.00
Tax	R 5 785.08	R 5 110.08	R 4 435.08
Salary available for spending	R 24 214.92	R 22 639.92	R 21 064.92

*Based on 2014/2015 tax tables. Annual salary R360 000.

Source: Allan Gray

Text box 2 What is retirement funding income?

If you are self-employed, or your employer does not offer a pension or provident fund, your income is considered 'non-retirement funding' or 'non-pensionable'. If you are a member of your employer's pension or provident fund, your income is known as 'pensionable' or 'retirement funding income'. However, you may still earn non-retirement funding income, such as a bonus, car or entertainment allowance. Retirement funding income and non-retirement funding income exclude lump sums received from retirement funds, and severance benefits.

Of course, if these restrictions do not suit your needs, you may be better off using another savings product, such as a straight unit trust investment, or the soon-to-be-launched tax-free savings account, which will be offered by some financial services providers. Different products have different advantages and disadvantages. If you are uncertain what would best suit your circumstances it is worthwhile talking to a good, independent financial adviser.