

Less tax, more pension

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In financial planning, pre-retirement and the benefits of contributing to a retirement fund enjoy a lot of attention, while the optimisation of tax after retirement sometimes takes a back seat. Here are a few ways in which your clients can cut their tax bill.

1 Medical scheme contributions

After age 65, the 7.5% limit in terms of how much of your medical expenses you can deduct falls away. A third of your qualifying medical expenses are tax-deductible – as long as there's proof of the expense. Urge your clients to keep all medical receipts.

2 RA contributions

After last year's amendment to the Income Tax Act, it's no longer necessary to retire from your employer's fund (if the fund rules now allow for continued membership) or from your personal retirement annuity (RA) when you retire from your job.

This means your clients can phase in their retirement over many years to build up a larger tax-free savings pot and make their money last longer. It will also be technically possible to draw income from an employer fund after retirement and at the same time contribute up to 27.5% of income (from 1 March 2016) to an RA – tax-deductible.

An RA can also be a great estate-planning tool. It has the added benefit of the assets being exempt from estate duty, bar all excess contributions that weren't tax-deductible, as per the Treasury's 2015 proposal.

Professor Lester advised against leaving assets intended for your spouse in an RA, as your spouse already enjoys the 'spouse's rebate' – so you wouldn't reduce the estate duty payable if your spouse is nominated as beneficiary. From an estate duty point of view, your children or any heir other than your spouse would make more sense as a beneficiary. (Bear in mind that the trustees ultimately decide who will get your client's share in the retirement fund. The nomination will guide them, though.)

3 General and age rebates

Fortunately, there are a few things to look forward to as we age. For the 2015/16 tax year, taxpayers under the age of 65 can make use of a R13 257 rebate. Add R7 407 if you're older than 65 and another R2 466 if you're older than 75. This means that, if your client is 75 or older, they would not be paying any income tax on any taxable income up to R128 500.

4 Capital gains exemption

Chances are good that your client has discretionary savings, such as those in a unit trust or personal share portfolio, in addition to her living or life annuity. To optimise her discretionary money drawdowns, you would need to keep a close eye on the value and the type of investment she cashes in. Make sure she uses as much as possible of the annual R30 000 capital gains exemption without

becoming liable for capital gains tax – and not by cashing in investments that lost money because of temporary market adjustments.

5 Donations

Lastly, remind your client that all individuals, irrespective of their age, may deduct donations to public benefit organisations of up to 10% of their taxable income (excluding retirement fund lump sums and severance benefits).

This list is not exhaustive; it simply highlights the most common and easiest ways to minimise your client's tax bill. While tax is unavoidable, the tax alpha a financial planner can add to a client's total portfolio is invaluable.

Source: Fanews.co.za