

Creating tax efficiency for optimal income and growth

Diane Seccombe, national head of Taxation at Mazars Academy, discussed tax efficiency in the context of income-producing solutions, both before and after retirement.

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The tax tables and how they are applied when earning an income from a solution, is crucial to financial planning. It is important to understand the workings of the individual tax tables that both have a marginal rate and an average rate of tax, as well as the retirement fund lump sum tables and when to use the withdrawal table or the retirement, retrenchment and/or death tables.

The difference between a compulsory and voluntary annuity is important when it comes to tax efficiency. In the case of compulsory annuity income (the income from the two-thirds retirement interest that legally must be annuitised), there is a possible tax break in terms of Section 10C of the Income Tax Act available if the retiree has some previously disallowed contributions to retirement funds available. However, it is important to understand how Section 10C works and that the available disallowed contributions firstly will be available for deduction against annual gross income, then in the event of retirement, retrenchment or death (the second Schedule of the Income Tax Act). Only after this, could the available disallowed contributions to a retirement fund possibly offer some tax efficient annuity income.

In the case of voluntary annuity income, Section 10A of the Income Tax Act could exempt the capital portion of each annuity payment from tax, annually. There are requirements that must be met to be entitled to this tax exemption. When a client earns a voluntary annuity income, it is important to know that the exemption is only available to the original purchaser of the policy and that person's spouse (or either of their insolvent or deceased estates). The Income Tax Act defines the purchaser for the purposes of this tax benefit. The value of tax planning both in the case of income tax and estate duties again was highlighted in this very insightful session.

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