

## Before the tax year ends.

31 January 2021

**As a new year kicks off, we would like to highlight some important financial planning points to consider before the tax year comes to an end on the 28<sup>th</sup> of February.**

### Life Insurance Considerations

With Covid-19 dark shadow remaining for the foreseeable future, it is more important than ever to ensure that your risk planning (life- and other long-term insurance) is up to date and apt. We have seen an increase in claims and it's best to ensure that all your details are up to date with your insurer. We therefore invite our clients to contact us to review their current provision and ensure that they are adequately covered with the latest relevant personal details listed on their policies and cover. This may not be linked to the tax year end, but it is an important consideration for the new year.

### Retirement Funds

During any given tax year you can contribute up to 27.5% (max R350 000) of the greater of your taxable income and remuneration to your retirement funds and obtain a tax break (any excess contributions carry forward). This 27.5% limit applies for the total of all your combined retirement savings into retirement annuities, pension funds and provident funds. Returns inside retirement funds are free of tax while in the fund and this improves the compounding of returns over time. While retirement funds have certain drawbacks (such as liquidity constraints, taxability of withdrawals, prescribed asset risk & taxation of retirement income) and may not be ideal for everyone, they certainly deserve consideration.

### Tax Free Savings/Investment Accounts

By now we have all heard of tax-free savings/investment accounts. These allow you to save a limited amount of money every tax year (now R36 000) and over your lifetime (R500 000) into a vehicle that remains fairly liquid and provides returns that are fully tax free. You do not even pay the dividend withholding tax if your investment earns dividends. These accounts are ideal for investors who have already reached their annual tax-free interest and capital gains limits or those who would like to supplement their long-term or retirement savings. Importantly the annual contribution limit is applied as a total across all your various tax-free accounts if you have more than one, excess contributions carry heavy tax penalties. Minor children may also open these accounts with the assistance of their parents.

### Annual Capital Gain Abatement

Investors who have built up significant capital gains within their investments can consider triggering (by partially switching or selling) the remainder of their annual tax-free capital gain abatement before the tax year ends. This is R40 000 in Gross Capital Gain every tax year and it is a simple way of diminishing your capital gains over time. This R40 000 tax free amount is however applied as a total across all your relevant capital gains for the year. While this is often a useful tool, the particular investment considerations remain important.

**The Deadline**

While the deadline to take advantage of the points above is the end of February, transaction timeframes should be considered. To ensure that we fall within this tax year with any amendments, additions, or changes, it would be best to submit any transaction documents and requirements by the 22nd of February 2021.

There is still time to take advantage of these options before the tax year ends and we would be happy to assist you to make the most of these concessions and opportunities. There are always some considerations, pros and cons which we would be happy to discuss with you in more detail.

Yours Sincerely

**The FinPlanCo Team**