

## Before the tax year ends.

January 2025

**2026 has arrived and as we start off the new year, we would like to highlight some important financial planning considerations before the 2025/26 tax year ends in February.**

### Retirement Savings

During any given tax year, an individual taxpayer can contribute up to 27.5% (max R350 000) of the greater of their taxable income and remuneration to their 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 grow tax free 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, and taxation of retirement income) and may not be ideal for everyone, they certainly deserve consideration.

The Two-pot system reminder: Since the 1<sup>st</sup> of September 2024 all contributions towards one's retirement funds will now be split between the Savings Component (1/3rd) and the Retirement Component (2/3rd). Retirement investors now have access to this Savings Component (or "pot") as a pre-retirement lump sum withdrawal option, note that these withdrawals are taxed at your marginal income tax rate. For more detail contact your financial planner as it is case by case dependent.

### Tax Free Savings/Investment Accounts

These accounts allow you to save a limited amount of money every tax year (R36 000) and over your lifetime (R500 000) into a vehicle that remains 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 gross capital gains limits or those who would like to supplement their long-term investments 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. These accounts are best used for the long term considering that withdrawals do not reinstate your annual and lifetime limits.

### Annual Capital Gain Exclusion

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 exclusion 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.

### Other noteworthy points

- For Provisional taxpayers the end of February represents a deadline for their Provisional tax submissions. Please let us know if you need any help with compiling the provisional information.
- The total tax-free Donation limit of R100 000 per taxpayer also follows the tax year and those seeking to use the limit still have time to do so until end February. It is useful to use when contributing capital towards a trust, forgiving certain debts, donating funds to a loved one, etc.
- The Foreign Discretionary Allowance limit of R1mil per person, resets with the calendar year so this allowance is available again for the new year. So too the R10mil foreign investment allowance limit which is however subject to an approval process from SARS.

### The Deadline

While the deadline to take advantage of many of the points above is the end of February, transaction timeframes should also 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 admin requirements by the 17<sup>th</sup> of February 2025.

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**