



# Lower your marginal tax rate by contributing to a retirement annuity (RA)

R14 067

The Income Tax Act permits taxpayers to deduct the contributions made to retirement funds, including retirement annuity (RA) contributions, for income tax purposes within certain limits.

The maximum tax deductible contribution in a year of assessment (to all retirement funds) is equal to the lesser of:

- R350 000, or
- 27.5% of the greater of:
  - remuneration (as defined in the Fourth Schedule to the Income Tax Act and excluding retirement fund lump sums and severance benefits), or
  - taxable income (as defined by the Income Tax Act, but excluding retirement fund lump sums, severance benefits and disregarding the tax deduction claimed for donations made to public benefit organisations, but including taxable capital gains), or
- Taxable income excluding taxable capital gains.

## Example

John and Carin each earn R220 000 remuneration per annum.

John contributes R33 000 per annum to his RA. The maximum tax deductible contribution that John is entitled to per annum is R60 500 (27.5 % x R220 000).

Therefore, the total contribution of R33 000 is tax deductible.

Carin does not contribute to an RA or any other retirement fund.

Carin pays tax on a taxable income of R220 000 while John, with the same remuneration, has a taxable income (after the deduction of the RA contribution) of R187 000.

|                         | Carin    | John     |
|-------------------------|----------|----------|
| Gross income            | R220 000 | R220 000 |
| RA contribution         | R0       | R33 000  |
| Taxable income          | R220 000 | R187 000 |
| Tax per scale (2018/19) | R41 532  | R33 660  |
| Less rebate             | R14 067  | R14 067  |
| Tax payable             | R27 465  | R19 593  |

Thus, by making a tax-deductible RA contribution, John pays R7 872 less tax than Carin. Carin's marginal tax rate is 26% and John's marginal tax rate is 18%.

If we assume a growth rate of 8% per annum, John would have built up a retirement fund worth R35 640 for a net outlay of only R27 060 (R33 000 less R7 872 tax) by the end of that year.

**Carin would still have nothing!**

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