PRUDENTIAL **INSIGHTS**

Prudential Investment Managers

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Tips for the end of the tax year

There's no need to fear the tax man if you're well prepared! The end of the tax year is approaching at the end of February 2019, and these simple tax tips will help you to make the most of the tax breaks offered within certain investment products.

Tax-free investments

A tax-free investment is a great way to invest towards a long-term goal or to supplement your existing retirement savings. The main benefit is that the growth within the underlying funds is free of all local tax – including tax on interest, capital gains and dividend withholding tax. This effectively "supercharges" the positive effect of compound growth, as the value of your investment isn't reduced by tax over time.

Another benefit is that you aren't restricted in terms of your asset allocation, which means that you can invest 100% of your savings into growth assets like equities and property. You can also diversify your investment by adding offshore exposure to your overall portfolio, which is a great way to hedge against emerging market risks inherent to countries like South Africa. More information about Prudential's tax-free investment options can be found on the tax-free section of our website.

So if you haven't yet invested your maximum of R33,000 for the year into a tax-free fund, be sure to do so in order not to miss out on the savings. It's actually best to invest at the beginning of the tax year so that your savings has the maximum amount of time to compound, but any time is better than not at all.

Retirement annuities
A retirement annuity (RA) is a great tax-efficient way to save for retirement, either as a standalone savings vehicle or as a supplement to your existing pension or provident fund. Arguably, one of the main benefits of investing in an RA is that your contributions are tax deductible up to certain limits. The government allows you to contribute the greater of 27.5% of your remuneration or taxable income as a tax deduction, up to a maximum or R350,000.

Both remuneration and taxable income are regarded as "defined terms", which means that there are certain pre-existing requirements that they'll need to meet. To find out more it's best to chat to a qualified financial adviser, a tax practitioner or SARS directly.

Another benefit of investing in an RA is that the growth within the investment is also free of tax; however, tax is essentially deferred until when you leave the product. So at retirement when you move your investment to a pension-providing vehicle, such as a living annuity, the income that you draw is taxable. One potential downside of an RA is that you are restricted in terms of your asset allocation – which limits the amount of growth assets that you can invest in. For example, Regulation 28 of the Pension Funds Act allows RA investors to hold a maximum of 75% in equities, 30% offshore and 10% in Africa. Over time, these limitations could restrict the overall growth of your retirement savings compared to other "tax-friendly" products like tax-free investments.

At Prudential we offer a range of Regulation 28-compliant funds which are available either directly from us or from a variety of third-party investment platforms. So if you currently have an RA and you're thinking about "topping up", or if you are considering opening up a new RA investment, chat to your provider to see which Prudential funds are available on their investment platform.

Don't undo your good work

If you've done your homework as detailed above and do end up getting a "tax break", don't undo your good work by spending your tax savings irrationally. Consider reinvesting whatever the tax man gives back to you, or use it to possibly pay off unwanted debt.

To find out more, speak to your financial adviser or contact our client services team on **0860 105 775** or email us at query@prudential.co.za.

https://www.prudential.co.za/insights/articlesreleases/tips-for-the-end-of-the-tax-year/