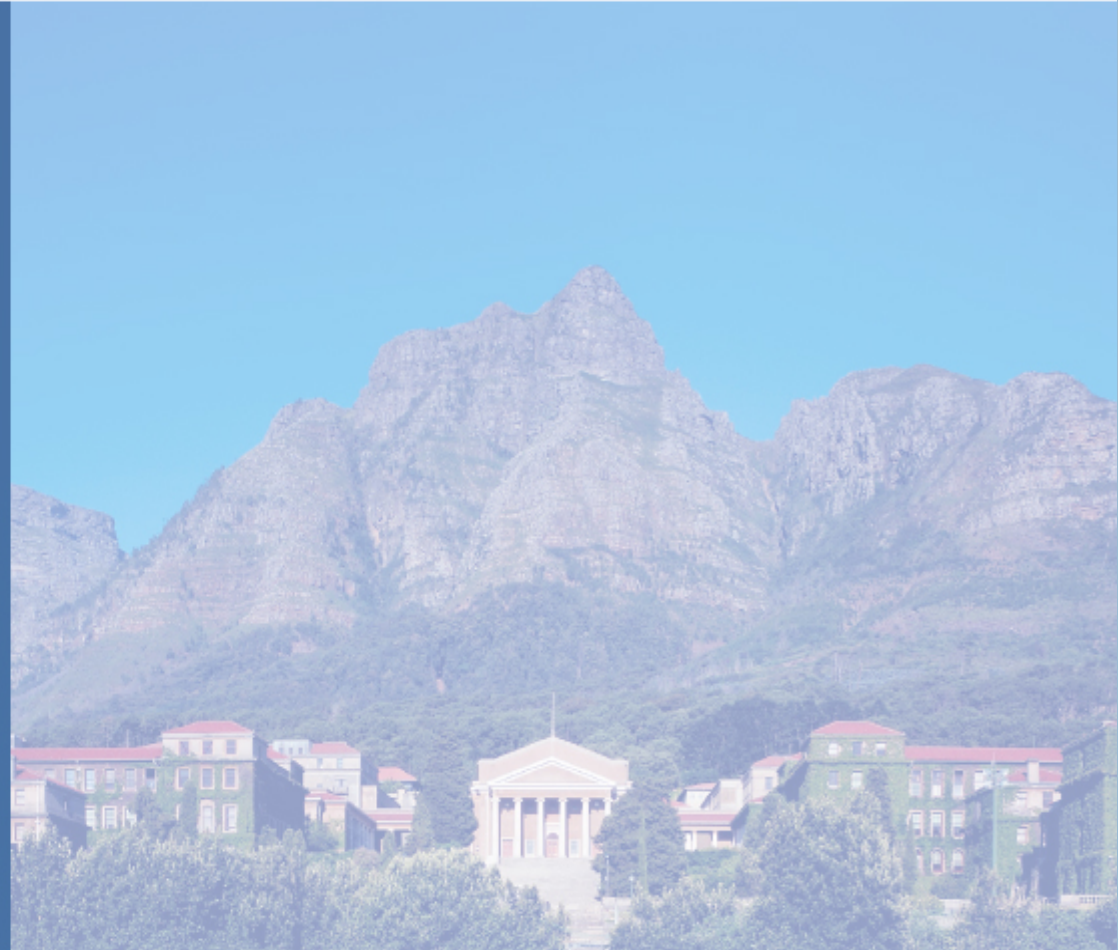




UCTRF



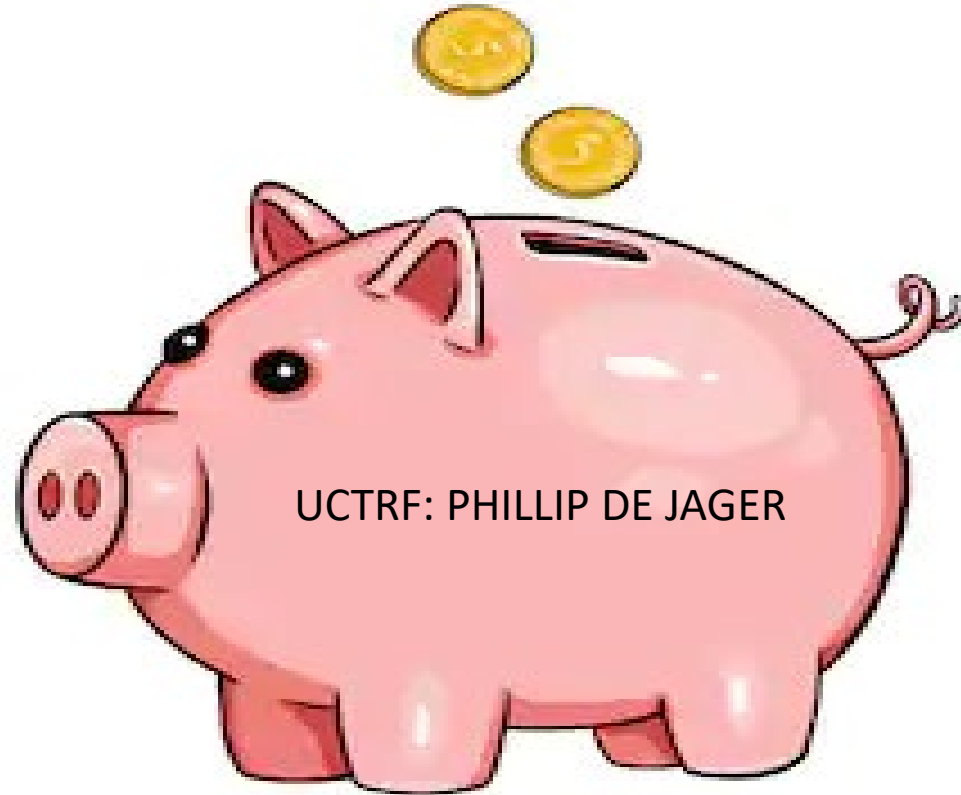
**TAX PLANNING**

**PROFESSOR PHILLIP DE JAGER**

**JULY 2019**



UCTRF



UCTRF: PHILLIP DE JAGER



## Why invest in a retirement fund?

- Much cheaper
- Protected against creditors
- Access to skills
- **Tax advantages**



## **Tax advantage when putting money in**

For every extra Rand saved into UCTF you pay less tax on your salary; for example: I pay 41 cents less tax for every Rand that I save.

Net cost of my saving =  $1.00 - 0.41 = \text{R } 0.59$  for every R1 saved



UCTRF



**UNIVERSITY OF CAPE TOWN**  
IYUNIVESITHI YASEKAPA • UNIVERSITEIT VAN KAAPSTAD

EMPLOYEE NAME : Assoc Professor Phillip Gerhard De Jager				EMPLOYEE NUMBER : 01422030		
Department : Dept. of Finance & Tax				Position : Associate Professor		
Tax Ref No 877065029	ID Number	Pay Scale Grade ASS PROF	Date Engaged 01.04.2009	Payslip Queries to: Sabrina Kalu	Ext No: 4412	Payment Date 25.06.2019
EARNINGS		QUANTITY	AMOUNT	DEDUCTION		AMOUNT
Cash Salary				Total Tax UIF EE Contribution Parking UCT Academic's Union		
TOTAL EARNINGS				TOTAL DEDUCTIONS		
Bank: 580105 / Investec Bank Limited			Account Number	NET PAY		
COST OF EMPLOYMENT			AMOUNT	TAX YEAR ACCUMULATIONS (IRP5)		AMOUNT
COE: Monthly UCTRF Total ER UCTRF Purchased Service UCTRF Additional Savings Cash Salary				3601 Income - Taxable 3808 Payment of ERs Debt Prov. DC Taxable Benefit 3801 ER paid Ins F/B  3699 Gross Remuneration Tax Prov. Fund Tax Exemption		
DPA (Monthly)		60,00		Marginal tax rate		41,00



## Conclusion for now

- You need about R1 million in your UCTRF piggy bank for every R5 000 per month you need at retirement
- Save more now as government helps you: for every R100 you save into UCTRF you only “pay” a maximum of R82 and a minimum of R55



# Tax implications of putting money into UCTRF

## INCOME TAX: INDIVIDUALS AND TRUSTS

Tax rates for the period 1 March 2018 to 28 February 2019

### Individuals and special trusts

Taxable Income (R)	Rate of Tax (R)
0 – 195 850	18% of taxable income
195 851 – 305 850	35 253 + 26% of taxable income above 195 850
305 851 – 423 300	63 853 + 31% of taxable income above 305 850
423 301 – 555 600	100 263 + 36% of taxable income above 423 300
555 601 – 708 310	147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000

### Trusts other than special trusts: rate of tax 45%

#### Rebates

Primary	R14 067
Secondary (Persons 65 and older)	R7 713
Tertiary (Persons 75 and older)	R2 574

#### Age

Below age 65
Age 65 to below 75
Age 75 and over

#### Tax Threshold

R78 150
R121 000
R135 300



## Examples

- R15 000 per month gives R180 000 per year:  
 $(R180\ 000 * 18\%) - R14\ 067 = R18\ 333$   
and marginal tax rate is 18%
- R30 000 per month gives R360 000 per year:  
 $(R360\ 000 - R305\ 850) * 31\% + R63\ 853 - R14\ 067 = R66\ 573$   
and marginal tax rate is 31%





UCTRF

## Retirement!

- Take a monthly pension
- Take a lump sum
- Combination of the above



# Monthly pension

## INCOME TAX: INDIVIDUALS AND TRUSTS

Tax rates for the period 1 March 2018 to 28 February 2019

### Individuals and special trusts

Taxable Income (R)	Rate of Tax (R)
0 – 195 850	18% of taxable income
195 851 – 305 850	35 253 + 26% of taxable income above 195 850
305 851 – 423 300	63 853 + 31% of taxable income above 305 850
423 301 – 555 600	100 263 + 36% of taxable income above 423 300
555 601 – 708 310	147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000

### Trusts other than special trusts: rate of tax 45%

#### Rebates

Primary	R14 067 R14220
Secondary (Persons 65 and older)	R7 713 R7794
Tertiary (Persons 75 and older)	R2 574

#### Age

Below age 65	<b>Tax Threshold</b> R78 150
Age 65 to below 75	R121 000
Age 75 and over	R135 300

Please remember  
this is before  
medical expenses



# Take a lump sum

## Retirement fund lump sum benefits or severance benefits

Taxable Income (R)	Rate of Tax (R)
0 – 500 000	0% of taxable income
500 001 - 700 000	18% of taxable income above 500 000
700 001 – 1 050 000	36 000 + 27% of taxable income above 700 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000

Lump sum = Lump sum – contributions previously not allowed + previous lump sums

Example: R2 000 000:

$$(R2\ 000\ 000 - R1\ 050\ 000) * 36\% + R130\ 500 = R472\ 500 \text{ tax}$$



## Conclusion after lump sum discussion

- Flexibility is important thus most people should take out the 'free' R500 000
- Don't expect 'free' R500 000 if you previously raided your piggy bank – only one R500 000 available
- Tables are structured to discourage taking out further amounts, except very large amounts



## Conclusion

- Complicated
- Try and equalise income between spouses for maximum tax relief
- One tax paying spouse should pay all medical expenses
- Life happens thus flexibility is important
- Good approach to risk is diversification