

RA vs TFI

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Retirement Annuity Fund vs Tax Free Investment

As the following table will show, Retirement Annuity Funds (RAFs) and Tax Free Investments (TFIs) do not necessarily fulfil the same financial planning and investment needs and they can easily co-exist in a financial portfolio. Both investments characteristics should be reviewed and compared to the client's financial needs to determine which is most appropriate. There is no right or wrong answer and each client's situation can result in a different outcome.

Retirement Annuity	Tax-Free Investment (Endowment Based)
Liquidity/Accessibility	
The minimum term is linked to the retirement age of the member - which is from 55. There is limited access before retirement: - Disability - Death - Where the paid-up fund value is less than R15 000 - Formal emigration/visa expiry - Divorce and maintenance orders	No minimum term and no fixed investment term - fully liquid investment. The restrictions applicable to endowment policies do not apply to tax-free investments. Where funds are withdrawn from the investment, it can be replaced, but will fall under the annual and lifetime limits. That tax-free investment opportunity for that withdrawal is then lost.
Investment Risk	
The fund selection will dictate the investment risk. Regulation 28 guidelines must be followed, which limits investment into certain asset classes.	The fund selection will dictate the investment risk. The Regulations pertaining to tax free investments contain certain restrictions to limit risk.
Tax in the RA/TFI	
No income, capital gains tax or dividend withholding tax in the RA. All returns are free from income tax while still invested in the RA.	No income, capital gains tax or dividend withholding tax in the TFI. All returns are free from income tax.
Tax upon maturity/withdrawal/retirement	
The withdrawal or retirement lump sum benefit is subject to tax in terms of the Second Schedule to the Income Tax Act. Upon withdrawal, the lump sum will be taxed based on the withdrawal tax table. Upon retirement/death, the lump sum will be taxed based on the retirement tax table. The monthly pension is generally fully taxable. Remember that any disallowed contribution will be offset against lump sums or compulsory annuity income.	The investment value will pay out tax-free.
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Creditor Protection	

During the lifetime of the member, whilst the funds are invested in the retirement fund, it is protected against the member's creditors (other than those provided for in the Pension Fund Act, eg. maintenance orders). Once the member retires, any lump sum and pension received can be attached by creditors. Upon the death of the member prior to retirement, the retirement fund proceeds will be protected as long as there is a dependant to receive the proceeds. If there is no dependant and the benefit is payable to a nominated beneficiary (who is not a dependent), the trustees will be obliged to first settle any debts (insofar the aggregate liabilities exceed the aggregate assets) before making payment to that nominee.

Where the investment is underpinned by an endowment policy, the protection applicable to long term insurance policies will also apply towards the tax-free investment.

Estate Duty

Retirement funds are excluded from the estate for estate duty purposes.

All disallowed contributions made to retirement funds after 1 March 2015 will be part of the deceased member's dutiable estate insofar it is used as a tax deduction when a beneficiary opt for a lump sum from the deceased member's death benefit.

The cash value of the investment will be an asset in the estate of the investor and can be subject to estate duty.

Death of the investor

The member can nominate a beneficiary.

However, the trustees have to follow the provisions of section 37C of the Pension Funds Act to determine who the beneficiaries are.

Therefore the member does not have total control over who benefits from the RA.

The policyholder may nominate a beneficiary. The insurer is obliged to make payment to the beneficiary in terms of the policy contract upon the death of the policyholder.

Investing on behalf of minor children

A parent can invest in an RA on behalf of their minor child.

However, neither the parent nor the child will enjoy a tax deduction in respect of the contributions made.

The child will only have access to the benefit upon reaching retirement age.

A parent can invest in a TFI on behalf of a minor child. The R36 000 annual limit and the R500 000 lifetime limit applies per person.

Once the lifetime limit is reached, the child will not be entitled to make any additional tax-free investments (unless the limit is increased over time).

The contribution made by the parent could be treated as a donation (depends on circumstances and if any of the exemptions apply in terms of section 56 of the Income Tax Act).