BRENTHURST GLOBAL WEALTH

INVEST BETTER with BRENTHURST

BUILDING WEALTH SINCE 2004

IN THIS ISSUE

Choosing the wrong offshore investment structure can cost investors thousands in unnecessary tax each year.

By aligning the investment wrapper with long-term goals, investors can improve tax efficiency, simplify estate planning, reduce administration, and preserve wealth for future generations.

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ARE YOU LOSING R30 000 A YEAR IN UNNECESSARY TAX?

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Here's a question I hear regularly from clients who are serious about building long-term wealth: **"Should I be investing my money in a retirement annuity (RA) or in a discretionary unit trust?"**

It's not a simple either-or decision, and the answer depends on what you're trying to achieve. Both can help you grow wealth, but they work in fundamentally different ways. One offers complete flexibility with less tax efficiency. The other locks your money away, but has powerful tax benefits that compound over time.

Balancing immediate flexibility with long-term tax efficiency is what separates a well-chosen structure from one that quietly erodes value over time.

WHAT YOU'RE REALLY CHOOSING BETWEEN

A unit trust gives you maximum control. There's no minimum investment period, no restrictions on contributions or withdrawals, and no regulatory limits on where your money is invested.

This flexibility has real value, especially if your finances are uncertain or you're building reserves alongside retirement savings.

A retirement annuity operates under different rules. Your annuity is locked in until you reach age 55, with limited early-access options.

The fund must comply with Regulation 28 of the Pension Funds Act, which sets limits on the amounts that can be invested in equities, property, offshore assets, and other assets.

The reason for this is to diversify your risk by spreading your retirement savings across different asset classes and investment types.

While these limitations may appear restrictive at first, they're offset by meaningful tax advantages. Even better, those benefits are realised both upfront and over the full life of the investment.

HOW TAX TREATMENT SAVES YOU R30 000 A YEAR

Let's look at how tax treatment differs from a unit trust to an RA, since this is what results in the R30 000 annual savings.

Unit trusts are taxed yearly on the growth.
Here's what that means:

- Interest income is taxed at your marginal rate, though the first R23 800 per year is exempt.
- Dividends from South African companies are subject to a 20% withholding tax.
- When you sell units at a profit, capital gains tax (CGT) applies on 40% of any gain above the annual R50 000 exclusion.

Retirement annuities work differently. Your monthly contributions qualify for an annual tax deduction, which is the lesser of R430 000 per year or 27.5% of your remuneration or taxable income. Any contributions above that limit carry forward to future tax years.

On top of this tax deduction, another great benefit of RAs is that all growth is tax-free, as is any interest or dividend income.

The only time you pay tax on these investments is when you retire and start withdrawing income. And even then, a portion of your retirement lump sum is tax-free.

This means that if you're earning a reasonable income and paying tax at a high marginal rate, the deduction will provide immediate relief. For example, a R100 000 contribution to an RA by an individual with a 30% marginal tax rate saves that person R30 000 in tax in that year.

WHAT THAT LOOKS LIKE AFTER 10 YEARS

Let's say you start with a R100 000 lump sum and contribute R1 000 per month for 10 years, earning 8% per year. For both a unit trust and RA, you'd end up with a pre-tax amount of around R406 000.

However, the difference becomes clear after tax.

When withdrawing the unit trust after 10 years, you'll be liable for capital gains tax. In this case, your total contributions (R100 000 initial + R120 000 from your monthly contribution) amount to R220 000. This leaves you with a taxable gain of R186 000. After the R50 000 annual exclusion and the 40% CGT inclusion rate, R54 400 gets added to your taxable income for that year, which is taxed at your marginal tax rate.

In the case of a retirement annuity, none of the growth is taxed during accumulation. In other words, you pay no capital gains tax, no interest tax and, along the way, you've benefited yearly from the income tax deduction.

WHEN EACH STRUCTURE MAKES SENSE FOR YOU

As with all investment decisions, you need to consider the options best suited to your specific circumstances. **So, if you need liquidity for emergencies, short-term goals, or funds you might need before retirement, a unit trust is the right vehicle. The flexibility justifies the tax cost.**

However, if you're building long-term retirement capital and you're earning enough to benefit from the tax deduction, a retirement annuity is difficult to beat. The combination of upfront relief and tax-free compounding creates a meaningful advantage over time.

The mistake is treating them as competing options. Most investors need both: unit trusts for accessible capital and RAs for retirement savings, where the tax benefits amplify growth.

The real decision is how much to allocate to each, based on your cash flow, tax position and time horizon. That's not a one-size answer. It depends on where you are financially and what you're trying to build.

If you're not sure which structure makes sense for your situation, that's a conversation worth having. The earlier you get the allocation right, the more time you give your money to work efficiently.

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