The estate planning benefit of retirement funds

Money Matters

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Retirement funds are well known for their income tax benefit, in that contributions to retirement funds are tax-deductible based on 27,5% of a person's taxable income, capped on R350 000 per annum.

Often overlooked, however, is the estate planning benefit of retirement funds, which are excluded from the estate for estate duty.

The estate duty exclusion is limited to deductible contributions, any excess contributions made, which did not qualify for a tax deduction are included for calculating estate duty. This means if you contribute R500 000 per annum to a retirement annuity, the R150 000 above the R350 000 deduction cap is dutiable in your estate.

But that doesn't mean you are not getting an estate planning benefit by contributing more than the deductible amount. Let me explain further.

All the growth on contributions within the retirement fund is excluded from estate duty; it is only the initial contribution amount which is added back for estate duty.

So by contributing more than the deductible amount you have effectively capped the dutiable amount in your estate and excluded all future growth from estate duty on it.

Importantly, all non-deducted contributions can be withdrawn tax-free at retirement either as part of the lump sum and/or offset against the pension income. Simply stated, anything you invest in the retirement fund for which you do not get an upfront tax deduction, can be taken out tax free post retirement.

Without wanting to sound like a television salesperson saying, "But wait, there's even more"... You are generating tax-free income and growth within the fund as retirement funds are exempted from taxation.

What better vehicle to grow wealth, which can be passed seamlessly to the next generation on death without incurring any estate duty?

The seamless passing refers to the nomination of a beneficiary, which adds yet another benefit of investing in retirement funds and that is bypassing the estate for executor fees via a beneficiary nomination.

I recommend that high-net-worth-individuals and aspiring high-net-worth-individuals give serious consideration to their broader estate planning and contribute more than the maximum deductible limit to retirement funds.

This provides for the same estate duty saving as other expensive estate planning structures like trusts. – *www.mwwealth.co.za*

Lump sum contribution to retirement fund	
Retirement annuity	R10 000 000
Value after 10 years at 10%	R25 937 425
Tax deductible – R350 000 at 10	R3 500 000
Estate dutiable amount	R6 500 000
Excluded from estate duty	R19 437 425
Estate duty saving at 25%	R4 859 356