

How to gain the most from your tax-free investment plan

It's been six years since National Treasury introduced tax-free savings accounts (TFSAs) to encourage South Africans to invest. With a TFSA there is no tax on interest or dividends received, and no capital gains tax (CGT) on funds withdrawn.

Annual limit remains at R36 000

Although there was no increase to the annual limit in this year's budget speech, the limit was increased from R33 000 to R36 000 last year, effective 1 March 2020. The overall lifetime limit has, however, remained unchanged since 2015, at R500 000.

Maximising your TFSA

To take full advantage of the tax-free growth, investors who already have an existing monthly recurring contribution into a TFSA would benefit by utilising the full allowance of R3 000 a month.

Roenica Tyson, Investment Product Manager at Glacier by Sanlam, says that those who prefer to invest via a lump sum will benefit by doing so at the beginning – rather than the end – of the tax year, giving their investment an extra 12 months of tax-free growth.

Example:

A R36 000 lump sum investment on 1 March can grow by R3 600 over the year (assuming a balanced fund investment with CPI+4% return). Tax on interest, dividends and capital gains in a such a portfolio would amount to R600*. By rather allowing this lump sum to grow in the TFSA from day one, the investor gets to keep and further grow this R600, which will have a meaningful impact over a long investment horizon.

*Assumes: CPI at 6%; 30% marginal tax rate; portfolio return consists of 15% interest, 25% dividends and 60% capital; interest and capital exemptions are not taken into account.

Three tips to maximise your TFSA

- 1) Increase your regular contribution to R3 000 per month
- 2) Invest your lump sum now to enjoy a full year of tax-free growth
- 3) Include sufficient growth assets (no limits apply) to maximise long-term growth

Less tax means happy clients

While National Treasury has been generous with the TFSA, interest and capital gains exemptions have not been adjusted in recent years. The R23 800 / R34 500 annual interest exemption amounts have remained unchanged since 2014 and the R40 000 annual exclusion from capital gains has been in force since 2017.

To maximise the tax efficiency of an investor's discretionary investments, the TFSA is becoming an integral part of a financial plan.

A long-term investment

While investors can access the money at any time, any amount withdrawn will be regarded as a further contribution (towards your lifetime contribution limit) when re-invested in the TFSA. Given this restriction, investors should view their TFSA as more of a long-term investment. There are other investment vehicles more suited to short-term savings or emergency funds.

A TFSA has no limits on how much may be invested in growth assets, such as equity, foreign equity and property. This further enables investors to maximise their growth, tax-free, over the long term.

Top-up an existing investment on your phone

Clients with an existing TFSA, and who are registered on Secure Services, can now use the top-up functionality via their mobile device to add to their investment.

Investors should consult with a qualified financial adviser to ensure their investment portfolio is in line with their personal circumstances and risk profile.

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Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group

Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Reg No 1999/025360/07

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Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com *|*Reg No 2002/030939/07

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