

Tax-free savings plans: ticking many good investment boxes

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Putting some money away in a long-term savings account should be a bit like dental hygiene – something of a non-negotiable to help with your financial wellbeing. There are many good reasons to deposit a percentage of your income into a savings plan that yields good returns.

Zaheer Bhikha, Executive Head of Product Development at Glacier by Sanlam, believes that tax-free savings and investment accounts (TFSAs) tick many positive boxes, as part of a diversified investment plan. He encourages investors to consider including one in their portfolios and to take advantage of the opportunity to grow their savings without paying any tax on the interest, dividends or capital gains earned. Glacier offers access to a wide range of investment funds, catering for all investor risk profiles by offering a wide selection of top funds in South Africa.

Reasons to invest in a TFSA

Perhaps you're saving for your child's tertiary education. Maybe you want to start or boost your business. Or perhaps there's an investment property you hope to own, or you simply want to increase your retirement savings. These are some pretty sound reasons to start – and keep moving – on the journey of long-term, high-earning savings. The three key elements around long-term savings are tax efficiency, discipline, and patience. All are required for a successful investment plan.

Step away from your savings account

Saving in a long-term account, where early and frequent access is discouraged, is a good idea for a bunch of reasons. In South Africa, our government thinks so too, hence National Treasury in 2015 introduced a tax-free investment and defined it to be a savings where all returns from that product will be tax-free in the hands of the individual who owns it, provided the product meets the criteria as set out in legislation. The intention by National Treasury is to encourage long-term saving by allowing individuals to invest up to R36 000 per year (with a lifetime contribution limit of R500 000)

of their disposable income in a tax-free account. There are no age limits for the owner of the tax-free account, so it could be a favourable option for parents wanting to start a nest-egg for their minor children.

Unlike traditional long-term savings vehicles such as retirement funds or endowment products, where withdrawals are not permitted or are subject to early-termination penalties, investors are able to access savings in a TFSA at any point in time to cover, for example, unforeseen emergency expenses. Thus, TFSA provides a good balance between long-term savings and liquidity.

All good things come to those who wait

As with creating things that are worthwhile in life, patience and discipline are vital. Regarding tax-free savings, the longer you remain invested, the greater the benefit from tax-free growth, so target an investment term of five to ten years, at least. Also, the limitations on contributions are quite strict; one cannot carry their annual contribution over to another year and while withdrawals are allowed, any withdrawn amount will be regarded as a contribution when re-invested. So, be disciplined in maximising your contribution each year, and if possible, avoid dipping into this savings pot.

Make your dreams a reality

We all have dreams and goals, and to achieve them starts with having a saving plan. What's great about tax-free savings plans is that while you're saving to make your dreams a reality, they could also save you money along the way.

Talk to Glacier by Sanlam or an appropriately authorised [financial adviser](#) about the [Glacier Tax-Free Investment Plan](#). Investment income earned within the Plan, as well as capital gains are tax-free; and you can adjust your portfolio when your needs and risk tolerance change.

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