



Pieter Hugo  
MD Prudential Unit Trusts

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## Tax-free investments: An attractive option for savers

The deadline for tax-free contributions for the 2018/19 tax year is 28 February 2019, so make sure you've maximised your R33,000 annual limit. The benefits can be considerable over time.

Tax-free investments, launched in March 2015, are products that any investor should consider as part of their overall investment portfolio, given that they offer the opportunity to invest tax-free over time. Even though the allowed amounts may appear small, we consider them to be a valuable part of a portfolio for anyone, especially when compounded over time. However, before investing you should consider their benefits and limitations carefully to determine how best to use them.

### What are the benefits?

- All growth in the underlying investment is fully exempt from any SA tax on interest, rental income, dividends or capital gains;
- Investors can withdraw their money at any time (although at Prudential we would encourage our clients to invest for the long term);
- Contributions are flexible – either via a lump sum or debit order;

- Tax-free investments are not subject to retirement investment limits; and
- Parents can open separate accounts for their children.

### **Look after your RA contribution first**

A consideration when deciding whether to invest or not is that contributions to tax-free savings products can only be made from after-income-tax money. If you are investing tax-free for retirement, this leaves you less to invest and to grow compared to retirement annuities (RAs), where all contributions are exempt from income tax (up to a limit of 27.5%), plus growth is exempt from all taxes. This means that, from a maximum return perspective, it would probably be better to exhaust your RA contribution limit every year before investing in a tax-free savings product.

However, if you are investing for a shorter time, or require more accessibility, RA's do not allow you to withdraw your accumulated savings until age 55, whereas tax-free savings products are accessible at any time. RA's are also subject to retirement investment restrictions (limits to how much you can invest per asset class, etc.) governed by Regulation 28, while tax-free investments are not. We would suggest that you consult a financial adviser to ensure you make the most efficient decisions for your unique personal circumstances.

**"Don't forget that the deadline for topping up your tax-free investment for the 2018/19 tax year to the R33,000 annual limit is 28 February 2019."**

### **Think longer term**

In order to maximise the advantages of tax-free investments, you should consider investing in longer-term assets like equities and listed property, or diversified funds like balanced unit trusts with relatively high exposure to these assets. This is because in theory they are likely to deliver better returns than cash and bonds over time, so the effect of compounding returns will be more powerful than other options. Of course these growth assets do come with more risk, so it's best to stay invested for five to 10 years. This

makes tax-free investments more suitable for longer-term goals like your child's education or a home.

### **Be aware of the limits**

A final consideration is that the government has imposed strict contribution limits of R500,000 per individual over a lifetime and R33,000 per year for tax-free savings products. If you exceed these limits, SARS will levy a penalty of 40% of the amount in excess of the limits, so it's important to keep track of your total contributions. And if you withdraw a sum from your tax-free investment, it doesn't change your lifetime or annual limits just because you've made a withdrawal. We would encourage investors to avoid withdrawals if at all possible, because they reduce the compounding growth effect over time.

Don't forget that the deadline for topping up your tax-free investment for the 2018/19 tax year to the R33,000 annual limit is 28 February 2019. Prudential offers a range of [tax-free unit trusts](#) to suit a variety of risk and return requirements. For more information, contact your financial adviser or our Client Services team on 0860 105 775 or at [query@prudential.co.za](mailto:query@prudential.co.za).