



Prudential Investment Managers

JANUARY 2021

## Three tips for tax-free investing in 2021

Since their launch in 2015, tax-free investments have become a popular choice for many investors. The reason for this is relatively simple: the less tax you pay on your investment, the greater your net investment return. As straightforward as this might sound, there are some nuances that investors should be aware of, specifically around how much to invest, the most appropriate timing, and which asset classes to choose. In this article, we take a closer look at these nuances and provide three tips to consider when navigating some of the subtleties of tax-free investing.

### **Tip 1: Stick within the maximum limits**

The maximum amount that the government allows investors to contribute towards a tax-free investment is now R36,000 per tax year and R500,000 over the course of their lifetime. Contributions in excess of these amounts are taxed at a rate of 40%, so it's important to keep an accurate record of all your contributions made over the course of the tax year.

A good tip to stay within these limits is to set up a monthly debit order at the beginning of the tax year. This will not only ensure that you're able to

maximise your contributions over the course of the following 12 months (without exceeding the maximum limit), but also give your investment more time to grow compared to making a once-off lump sum investment at the end of the tax year. Monthly contributions also allow you to “phase in” your investment over time, essentially reducing the risk of capturing the peak of a cycle when investments are at their most expensive.

**Tip 2: Don't miss the February cut-off date**

As mentioned earlier, the government allows investors to contribute a maximum of R36,000 to their tax-free investments every year, between 1 March and 28 February. This makes February a very important month for tax-free investors, as it's basically the last time that they'll be able to maximise their contributions for that tax year. If you fail to contribute the full amount, you can't add it into the new tax year – you would have permanently “lost out” on the shortfall.

While it's difficult to say when the best time is to invest, ensuring that you meet the February deadline should be an important consideration when deciding when to place your investment.

**Tip 3: Invest in growth assets**

While it may seem like a good idea to hold cash inside a tax-free investment due to the relatively high tax savings (because interest is taxed at your marginal tax rate) and low volatility, it may in fact be the least appropriate asset class over the long term.

This is largely due to cash (and other short-term assets) typically being positioned to earn after-inflation annual returns of between 1%-2% over the long term. This is substantially lower than the 6%-8% annual real return offered by growth assets (like equities). In addition, the returns on growth assets compounded over many years will not only smooth out any short-term volatility (if that's a concern to you), but will most likely be much more powerful than cash. The potential long-term investment return of cash is relatively low, making it a less appropriate asset class for a long-term investment strategy.

Many banks utilise cash-type instruments as the underlying investments within the tax-free products that they offer. When deciding where to invest, it's worthwhile doing the necessary due diligence to determine exactly which asset classes you'll have exposure to, if you decide to go the bank route. Alternatively, you may want to choose an underlying unit trust fund that's appropriate for your investment objectives with the help of a

good independent financial adviser. Our [fund selector tool](#) is also a great way to establish which of Prudential's tax-free unit trusts best meet your investment needs, time horizon and risk profile.

**Don't forget that the deadline for topping up your Prudential tax-free investment for the 2020/21 tax year is Friday 26 February 2021.**

For more information and to view our fund range, please read our [Tax-Free Investing Frequently Asked Questions](#). To invest now, simply complete an [online application form](#). alternatively, feel free to contact our Client Services Team on 0860 105 775 or email us at [query@prudential.co.za](mailto:query@prudential.co.za).