

Tax Free Savings Account (TFSA)

If you are investing for the long term, or if you are already paying income and capital gains tax, the tax-free savings account could be the ideal product to boost your investment and retirement savings. All investment returns earned on a tax-free savings account are free from income tax, dividend withholding tax and capital gains tax.



CONTRIBUTION

Your contribution towards a TFSA can be in the form of a lump sum/lump sums, or recurring payments. Minimum amounts that may be invested differ between product providers. The maximum amount that you are allowed to contribute to a tax-free savings account, is currently R36 000 per annum and R500 000 over your entire lifetime. These limits apply to the total value of contributions to all your TFSA's across different companies and are reviewed annually.

TAX BENEFITS

It is important to note that the tax benefits of a TFSA are only truly realised over a longer period of time, due the effect of compound interest growth. Therefore, a TFSA is not suitable for short-term savings or as an emergency funding vehicle. Contributions toward a TFSA are not tax-deductible.

WITHDRAWAL

You have the option to make tax-free lump sum withdrawals, or draw a tax-free income from a TFSA. However, it is very important to note that funds which are withdrawn from a TFSA, can't be replaced. The annual limits of R36 000 per year and R500 000 over your life time, still apply, e.g. if you withdraw R200 000 from your TFSA, you will only have R300 000 available to invest in the future.

RESTRICTIONS

There are limits to the amount of funds you are allowed to invest in a TFSA. The limits apply to the aggregate of the contributions you make towards all the TFSA's you may have, e.g. you can't have two TFSA's and invest R500 000 over a lifetime in each account (a total of R1 000 000). You will, for example, have to invest R200 000 in one account and R300 000 in the other.

INVESTMENT OPTIONS

A tax-free savings account should be set up with a specific goal in mind. It is recommended that you do this with the help of your financial advisor, ideally after he/she has undertaken a full review of your retirement savings and discretionary investments.

There is no limit to the amount of TFSA's a person can have. Keep in mind however, that having more than one TFSA makes it hard to keep track of your contributions. A tax penalty of 40% will be levied on any amount you invest above the maximum allowed contributions. Your financial advisor can assist you with staying within the limits by reviewing your contributions annually.

DEATH

The balance of your TFSA will form part of your estate upon your death and thus subject to estate duty. Some product providers have endowment structures for their TFSA's, which allow you to nominate a beneficiary for the funds.

FEES

- Administration fees
- Asset management fees for managing the investments
- Financial intermediary fees (negotiable with your intermediary)

IS A TFSA SUITABLE FOR ME?



You are already paying tax on your current investment income.



You require investment growth over a longer term (10 – 15 years).



Although you will have immediate access to the funds, your main aim with this investment is not to provide emergency funds.

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This information must not be regarded as advice. Before any decision is taken, please discuss the product with your broker or financial advisor.

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