INVESTMENT REPORT

FEBRUARY 2020 • ISSUE 342

BRENTHURST
THE HOME OF WEALTH

THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

"The tax-free savings account offers a host of benefits that will complement any balanced investment portfolio, preferably over the long run."

FOR MORE INFO CONTACT US
www.brenthurstwealth.co.za

BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017 AND RUNNER-UP IN 2018 AT INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD

JHB (HQ)	+27 (0) 11 799 8100
JHB (SANDTON)	+27 (0) 10 035 1391
PTA	+27 (0) 12 347 8240
CAPE TOWN	+27 (0) 21 418 1236
BELLVILLE	+27 (0) 21 914 9646
NEWLANDS	+27 (0) 21 418 1236
STELLENBOSCH	+27 (0) 21 882 8706
MAURITIUS	+ 230 5843 5215

THE TAX-FREE SAVINGS ACCOUNT HAS VALUE IN AN OVERALL FINANCIAL PLAN

By Gavin Butchart, Financial Director and Head of Mauritius office at Brenthurst Wealth

The tax-free savings account (TFSA) is yet to be taken seriously as an investment option for adults. It is considered a start-out kit for kids with a tax benefit that dwarfs the relief provided by retirement annuities, for example.

But it is a jaded perception and not a technically sound argument.

TFSAs are serious contenders. It offers a host of benefits that will complement any balanced investment portfolio, preferably over the long run.

This discretionary investment product is only available to individuals in South Africa and was introduced by the State to encourage a greater savings culture in the country.

What sweetens the deal, are the tax exemptions that comes with it from withholding tax on dividends or interest to income and capital gains tax on any switches or withdrawals from the account.

The only drawback of the product is the R33,000 limit in annual contribution and R500,000 over an investor's lifetime.

But the view that a tax-friendly saving of R33,000 per annum is pocket change is a fallacy, as a built-up kitty eventually shows significant growth.

If an investor utilizes the maximum benefit allocation every year, it will take just over 15 years to reach the lifetime limit. At a rate of 12% in capital over 12 months the value added every year, the investment should be worth approximately R1.4 million in 15 years' time or R580 000 in today's money terms (assuming 6% average inflation).

That shows great value for money and is a plausible portfolio filler for any family member in any age range. It is a fantastic starter-solution and a tax haven where investors can hoard their cash, and just forget about it as it takes care of itself in years to come.

There is an abundance of TFSAs available in the market. They come in all kinds of shapes and sizes and are offered by anybody ranging from a commercial bank to an asset manager.

TFSAs can take the form of money market or fixed-term bank accounts, a unit trust investment or a JSE-listed exchange traded fund. TFSAs can be issued by banks, long-term insurers, unit trust managers, mutual banks or cooperative banks.

TFSAs are very flexible in its structure and allows investors to cease or increase contributions at will, whether monthly, quarterly, annually or on an ad hoc basis, however some providers insist on a minimum contribution level for administrative purposes.

While the investor is free to withdraw funds from a TFSA at any time, early withdrawals penalties do apply and differ between providers.

It is essential to understand the longer-term implications of early withdrawals that compromise investment returns. Any withdrawal made from a TFSA is deducted from the lifetime contribution limit.

For example, if R200,000 has been saved in a TFSA and a full fund withdrawal is made, the total remaining lifetime contribution will reduce to R300,000.

TFSA are offered from banks and Linked investment services providers (LISP). A LISP offers better variety as most banks only offer money market funds while most LISP's offer a wider selection of money market and growth unit trust funds both locally and offshore.

Even though the capital will never be invested for a fixed term and will always remain fully liquid, here are the other specifications of the TFSA:

Parents may make contributions to a TFSA on behalf of a minor, however, proceeds from withdrawals must be paid into a bank account in the minor's name.

When accessing the investment, funds will be available within three business days, but this may also depend on the financial institution's processes.

Any amounts exceeding the R33 000 annual limit will be taxed at a rate of 40%. This means, if the investor paid R1, 000 over the limit, he or she will be liable for R400 tax. Should investors have more than one savings account, it will remain their responsibility to ensure that they do not over-contribute to their tax-free savings accounts they may have with various financial service providers.

When it comes to estate planning the full value of the investment is paid to an investor's estate in the unfortunate event of death and unfortunately cannot be paid out directly to a beneficiary.

The TFSA will be frozen; and beneficiaries will not have immediate access to this investment until the Estate is wound up. This means a beneficiary should be nominated in the Will and full estate duty and executor's fees will be applicable.

BENEFITS OF INVESTING IN A TFSA

0%
TAX-FREE SAVINGS

Both the growth and income you receive on your investment are tax free – no capital gains tax (CGT) or income tax are levied on the dividends and interest received.

POWER OF COMPOUNDING

A convenient and flexible way to accumulate savings over time – as you won't incur tax, more of your money is available to benefit from the power of compounding.

LIFETIME ALLOWANCE

You can invest from as little as R500 per month or as lump sums. Your lifetime allowance is R500,000 for yourself or on behalf of a minor.

THE END OF THE TAX YEAR IS 29 FEBRUARY 2020.

TO OPEN OR ADD TO A TAX-FREE SAVINGS ACCOUNT ACT IMMEDIATELY. Payments and supporting documents need to be signed and submitted by 26 Feb 2020 in order to process and finalize application.

Our team at all offices nationwide can assist investors interested to add this option to their investment strategies. Contact details: Brenthurst Wealth. https://www.bwm.co.za/investment-strategist-planners/
More about tax efficiency here: Tax planning Tax planning

PLEASE DO NOT HESITATE TO CONTACT ANY ONE OF OUR 13 HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR OFFICE COUNTRYWIDE.

ADVISOR PROFILE: GAVIN BUTCHART - FINANCIAL DIRECTOR AND HEAD OF MAURITIUS OFFICE

Gavin Butchart is the Financial Director and Head of Mauritius office at Brenthurst Wealth.

He started his career in accounting and tax at law firms and joined Brenthurst in 2007. Gavin is a registered General Tax Practitioner (SA) and a member of the South African Institute of Tax Professionals.

Email: gavinb@brenthurstwealth.co.za
Mobile: + 27 73 180 1219

Johannesburg	+27 (0) 11 799 8100	**Claremont**	+27 (0) 21 418 1236
Sandton	+27 (0) 10 035 1391	**Bellville**	+27 (0) 21 914 9646
Pretoria	+27 (0) 12 347 8240	**Stellenbosch**	+27 (0) 21 882 8706
Cape Town	+27 (0) 21 418 1236	**Mauritius**	00 230 5843 5215