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DON'T GET TAXED OUT:
HIGH INTEREST RATES COULD MEAN HIGH TAX BILLS

BY AIDAN FRESWICK | REGISTERED FINANCIAL PRACTITIONER™

The new tax year started with a harsh awakening for some investors who had taken advantage of high interest rates and invested in money market and fixed deposit accounts. High interest rates offered on money market accounts, while seemingly good news at first glance, have translated into hefty tax bills for many. This is a crucial reminder that taxes must be factored in when evaluating returns, especially for high-income earners.

THE ALLURE OF HIGH RATES

Recent hikes in the repo rate have sent interest rates soaring. This means attractive returns on savings accounts, bonds and other fixed-income investments. However, the South African Revenue Service (SARS) isn't oblivious to this windfall.

The tax-free threshold for interest income hasn't kept pace with rising rates. This means a larger chunk of your earnings gets clawed back by SARS. For high-income taxpayers, the marginal tax rate can further diminish the appeal of these seemingly high returns.

AFTER-TAX RETURNS: THE TRUE STORY

Let's say you invest R1 million at a new interest rate of 10%. That sounds great until you factor in a 45% tax bracket. Your after-tax return shrinks to a much less impressive 5.5%. Suddenly, that high interest rate doesn't seem quite as attractive. For simplicity, this example excludes interest exemption values, as this varies depending on age.

IN THIS ISSUE

High interest rates can be beneficial, but taxes significantly impact your bottom line. Before chasing those seemingly attractive rates, consult a financial advisor to create a tax-smart investment strategy that aligns with your goals.

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SO, WHAT'S AN INVESTOR TO DO? HERE ARE SOME TIPS:

1. **FOCUS ON TAX-EFFICIENT INVESTMENTS:** Explore options like tax-free savings accounts, endowments and sinking funds.
2. **MAKE CONTRIBUTIONS TO A RETIREMENT ANNUITY (RA):** Investors have an allowable tax deduction of 27.5% of their total income for their contribution to an RA. Make use of this vehicle to reduce your tax liability.
3. **CONSIDER THE TOTAL RETURN:** Look beyond just the interest rate. Factor in inflation and taxes to get a clearer picture of your actual return.
4. **DIVERSIFY YOUR PORTFOLIO:** Don't put all your eggs in the high-interest basket. Spread your investments across different asset classes to manage risk and tax obligations. Offshore investments serve as great diversification strategy, and for long-term capital, one should take a global view of asset allocation.

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AIDAN is a REGISTERED FINANCIAL PRACTITIONER™ and is a member of the Financial Planning Institute of SA (FPI). He has been active in the financial services industry since 2017 and joined the Brenthurst Wealth team in August 2020.

Aidan is an experienced financial professional who has expertise in various aspects of wealth management, including offshore investing, foreign exchange, investment management, and retirement planning. He holds a Bachelor of Commerce degree in financial planning and economics.

He completed the First Level Regulatory Examination for Representatives, permitting him to advise clients on a wide range of investment-related matters. Aidan diligently pursues the esteemed CFP® designation, demonstrating his commitment to continuous professional growth and providing the highest level of service to his clients. He is based in our Tyger Valley office and serves clients throughout the Western Cape Region.

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