LAURIUMCAPITAL

Tax Free Savings Investments – Onward March!

As Chris Rock, the US comedian said, "You don't pay taxes--they take taxes". Yet the South African government has given you a pass on some of your future taxes. History shows, by proactively investing in a Tax-Free Savings Account on 1 March each year instead of waiting for the tax year end, one could be R108 000 (21%)* better off.

On 1 March 2015, the South African government introduced a new savings vehicle that aimed to incentivise saving outside of the regular retirement savings route. The Tax-Free Savings Account (TFSA) allows investors to maximise tax relief on their investments. All proceeds from the investments in a TFSA, including interest income, capital gains and dividends, are exempt from tax. In 2015, the annual contribution limit was set at R30 000 whilst the lifetime contribution was limited to R500 000. This was then adjusted to R33 000 in March 2017 and then to R36 000 in March 2020, with no change to the R500 000 lifetime limit. At the current parameters, one could maximise the contribution rate for a period of just over 15 years before reaching the lifetime limit. For individuals, proactive and fortunate enough to have begun investing in 2015 in a TFSA, they could have contributed R309 000 to 29 February 2024. To use an example of a family of four, this equates to R1 236 000 of after-tax contributions from 2015 to the end of February 2024 that are compounding tax free.

When considering the various savings avenues, some serious considerations are returns, costs, tax and liquidity. A TFSA investment option ticks all these boxes and makes sense as a first port of call for individuals trying to save for their future.

- An individual can access a wide variety of asset classes and investment strategies via TFSA unit trusts provided by the asset management industry.
- The gains, interest and dividends generated by the investments are not subject to tax.
- An individual may withdraw from the tax-free investment at any time, up to any amount.
- TFSA investments may not levy performance fees and therefore any outperformance by the investment is retained (untaxed) excluding the flat management fee.

There are some caveats to TFSA accounts, however these have been put in place to try to encourage individuals to stay invested and to invest as soon as possible.

- There is no carry over of your annual allowance into the following year. By way of example, if one did not make any TFSA investment in the tax year ending 28 February 2024, they could not carry the R36 000 allowance into the 2025 tax year. You remain limited to the R36 000 per annum until reaching the lifetime limit of R500 000.
- Any withdrawals made from a TFSA cannot be replenished. If you have contributed the R309 000 to date and choose to withdraw R100 000, your overall lifetime limit will then drop from R500 000 to R400 000.
- Contributing in excess of the annual R36 000 and lifetime limit R500 000 will result in tax penalties. TFSA is targeted at the average South African saver, trying to encourage saving beyond their bank accounts and under their mattresses.

There are several incentives to use a Tax-Free Savings Account.

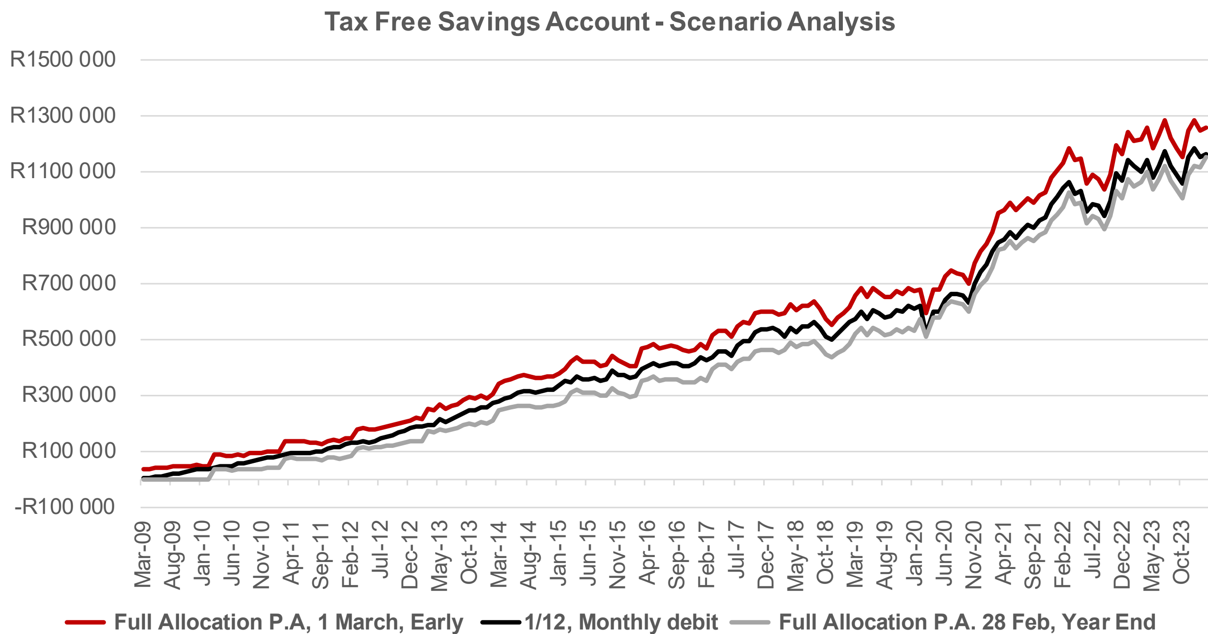
- For younger investors, a TFSA allows one to invest tax effectively in a liquid investment vehicle towards a future event. This may include buying a house or affording a wedding.
- Unlike retirement savings, TFSA is not subject to Regulation 28, allowing one to invest more aggressively in equities (above the 75% limit) or at higher offshore exposures than the 45% offshore.
- Should one's investment strategy or objective change, switches between TFSA unit trusts may be made without triggering a CGT event (introduced in 1 March 2018). There is no limit on the number of tax-free accounts one can have.
- Down the line, in retirement, drawing down on one's TFSA account can be used to offset the withdrawals needed from a living annuity. This will result in an overall tax saving until such time as the TFSA is depleted.

LAURIUM CAPITAL (PTY) LTD
Reg no.: 2007/026029/07
Ninth Floor 90Grayston 90 Grayston Drive Sandown Johannesburg South Africa
T +27 11 263 7700 F +27 11 784 0773 E laurium@lauriumcapital.com W www.lauriumcapital.com
Directors: M Winckler G Vorwerg B Thomas M Preston

Laurium Capital is an authorised financial services provider (FSB 34142)

So, for those who have just topped up their TFSA accounts at the end of February 2024, why delay to the end of February 2025 for the next allocation? Switching ones investing behaviour to proactively investing on 1 March each year as opposed to by 28 February can accelerate your growth potential by a year.

The chart below illustrates three TFSA investment scenarios utilising the 15-year performance history of the South African FTSE JSE ALSI (TR) equity index. It compares the scenario of investing at the earliest possible date each year (1 March) versus investing at year end (28 February), and lastly utilising a monthly debit order. Each scenario has an equal total value invested of **R500 000**, just at different timings.



Start date	Frequency	Contribution	Total Invested	Value at 29 February 2024*
1 March 2009	1 March, lump sum	R36 000	R500 000	R 1 260 000
28 February 2010	28 Feb, lump sum	R36 000	R500 000	R 1 165 000
1 March 2009	Monthly payments	R 3 000 pm	R500 000	R 1 152 000

**The SA Equity Index Performance for the month of February 2024 is estimated at 1.0%.*

In the above example, simply by investing early, one could have been ahead by 21% or R 108 000, tax free!

At Laurium, we offer all of our long only funds on a TFSA basis, at a flat fee. Please see the Laurium Funds listed below.

- Laurium Flexible Prescient Fund
- Laurium BCI Strategic Income Fund
- Laurium Africa Bond USD Prescient Fund
- Laurium Stable Prescient Fund
- Amplify SCI Balanced Fund (Managed by Laurium)
- Nedgroup Investments SA Equity Fund (Managed by Laurium)

These can be accessed directly via our website (www.lauriumcapital.com).
Good growth return prospects with no lock ups, no tax, no performance fees - Invest today! The 8th wonder of the world, compounding, is on offer, tax-free in one of our TFSA unit trusts.

Mike Titley
Laurium Capital, Business Development