TAX FREE INVESTMENTS

What is it?

Tax Free Investments were introduced as an incentive to encourage household savings. This incentive is available from 1 March 2015.

How will it work?

The tax free investments may only be provided by a licenced bank, long-term insurers, a manager of registered collective schemes (with certain exceptions), the National Government, a mutual bank and a co-operative bank. Service providers must be designated by the Minister in the Gazette. As per the current Regulation, only the above are designated.

This is how it will work:

- You dont have to pay income tax, dividends tax or capital gains tax on the returns from these investments.
- You can only contribute a maximum of R33 000 per tax year (annual limit). The amount increased from R30 000 to R33 000 from 1 March 2017.
  - Note that any portion of unused annual limit is forfeited (that is, it is not carried forward to the new tax year). Example: Taxpayer X invests R27 000 in year 1. The unused portion of R6000 is NOT roll-over to year 2. In year 2, the taxpayer can only invest R33 000 as per the annual limits.

- There is a life time limit of R500 000 per person.
- If a person exceeds the limits, there is a penalty of 40% of the excess amount. Example: Taxpayer X invests R35 000 exceeded the annual limit by R2000, 40% of R2000 = R 800 must be paid to SARS. This penalty is added to the normal tax payable on assessment.
- A personcan have more than one tax free investment, however, you are limited to the annual limits per tax year.This meansyou can invest for example R11 000 (Old Mutual), R11 000 (Investec) and R11 000 (Absa). The same will apply if for example you invest in your minor childs name.
- Note that when returns on investment are added to the capital contributed, the balance may exceed both the annual and/or lifetime limit. The capitalisation of these returns within the account does not affect the annual or lifetime limit. E.g. If you invest R33 000 for the year and receive a return of investment of R5 000, which you have chosen to capitalise, the total amount in the account will be R38 000. The following year, you will still be able to invest your full R33 000 for year.
- However, where a person withdraws the returns and reinvests the same amount, that amount is regarded as a new contribution and impacts on both the annual and lifetime limits. Note that any withdrawals made cannot be replaced, be it returns or capital.
- In a media statement dated 1 March 2017, National Treasury announced that the transfers will be effective only from 1 March 2018. The Regulation will be amended accordingly.
- Parents can invest on behalf of their minor child. The minor child will use his/her own annual or lifetime limits.
- Tax free investment accounts cannot be used as transactional accounts.
- Debit or stop orders and ATM transactions will not be possible from these accounts.

- Only new accounts will qualify as the idea is to encourage new savings, in other words existing accounts may not be converted.

Which accounts will qualify as TFI?

- Fixed deposits
- Unit trusts (collective investment schemes)
- Retail savings bonds
- Certain endowment policies issued by long-term insurers
- Linked investment products
- Exchange traded funds (ETFs) that are classified as collective investment schemes.

What must I do next?

Enquire from a service provider aboutinvesting ina tax free investment.
Service providers will provide SARS, twice a year, with the following info:

- Total contributions per tax year;
- Total amounts withdrawn per tax year;
- Total amounts transferred per tax year;
- Total returns on investment for example: interest, dividends, capital losses and capital gains.

The service providers will provide these taxpayers with this information by issuing an IT3(s) Tax Free Investment certificate annually.