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 don't have to pay income tax, dividends tax or capital gains tax on the returns from these investments.
- You can only contribute a maximum of R30 000 per tax year (annual limit).
    - 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 R3000 is NOT roll-over to year 2. In year 2, the taxpayer can only invest R30 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 R5000, 40% of R5000 = R2 000 must be paid to SARS. This penalty is added to the normal tax payable on assessment.
- 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 R30 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 R35 000. The following year, you will still be able to invest your full R30 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.
- No transfers are allowed in the first year of investing (1 March 2015 to 29 Feb 2016). This includes both transfers within a service provider or to another service provider. However, in the 2016 Budget, the Minister announced that the transfers will only be allowed from 1 March 2017. 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 about investing in a 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.

Source: SARS