

## OVER R5BN INVESTED IN TAX-FREE SAVINGS ACCOUNTS

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Tax-free savings accounts (TFSAs) have proved highly popular with South Africans since their launch by National Treasury just over two years ago, with the number of accounts opened in the second year growing by about 77% on those opened in the first year.

The latest Intellidex/Savetaxfree.co.za survey of tax-free savings shows that the total number of TFSAs opened since March 2015 stands at almost 460 000, and total savings at the end of February this year was R5.174 billion.

The survey covers the universe of TFSA providers: banks, collective investment schemes, linked product providers, life assurance companies and stockbrokers.

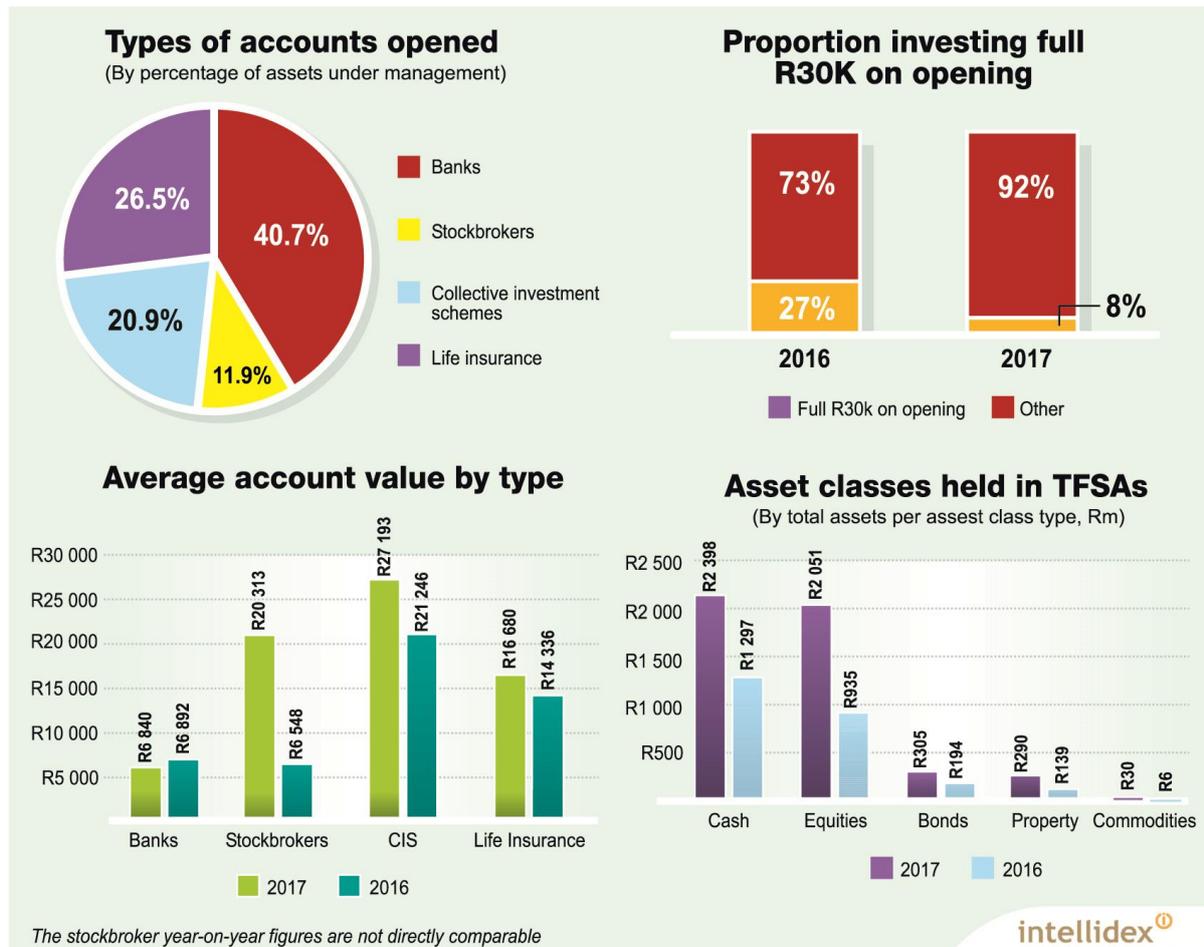
From just over 260 000 TFSAs opened in the 2015/16 tax year, the number rose to 459 848 in the 2016/17 tax year, according to the survey, which measured the period from March 1, 2016 to February 28, 2017.

Of the 207 172 new accounts opened in the past tax year, the product providers surveyed estimated that 13% were opened by first-time savers. Many of these may be TFSAs opened by parents on behalf of their children. (There are no figures on the number of accounts in the names of minors.)

TFSAs were introduced by National Treasury in March 2015 to encourage South Africans to save for the long term by eliminating the three main taxes that regular investments are subject to: dividend withholding tax on investments that pay dividends, tax on interest income, and capital gains tax.

The annual contribution limit until February 28 this year (which includes the survey period) was R30 000. It was increased in this year's Budget to R33 000. The lifetime limit remains R500 000.

There are four main vehicles in which you can invest: bank accounts, unit trust funds, stockbroker accounts that include share portfolios and exchange traded funds (ETFs), and life assurance products such as endowment policies. For the purposes of the survey, ETFs were classified under stockbroker accounts and not under collective investment schemes, which reflect only investments in unit trust funds (see graphic below).



The survey shows that the bulk of the money in TFSA's (40.7%) is in bank savings accounts, with 26.5% in life products, 20.9% in unit trust funds and 11.9% in stockbroker accounts.

This was a point of concern among some respondents, who pointed out that bank-account TFSA's are not ideal as long-term investments, because they yield low returns over the long term that are unlikely to beat inflation. They also said banks have an advantage in that they have an extensive client base they can mine for marketing tax-free accounts, and they have those clients' Fica details on hand, making it far easier for the clients to open TFSA's. Furthermore, they say, there is a

tax exemption for interest earned on cash savings, subject to limits that would easily accommodate savings in a TFSA, thereby defeating the object of using a TFSA.

However, the asset-class breakdown shows that although assets in cash rose from R1.297bn in 2016 to R2.398bn in 2017 (a difference of R1.101bn), assets in listed shares (equities) rose from R935 million to R2.051bn (a difference of R1.116bn). Looked at another way, the proportion of assets held in cash fell from to just over 47% from 51% in 2016, while assets in equities rose from 36% to 40%. This suggests that more investors are opening accounts more appropriate for long-term growth.

In a recent interview on radio station ClassicFM, Intellidex general manager Colin Anthony said the numbers were encouraging, particularly the high percentage of first-time savers, which shows that TFSAs are having the desired goal of making inroads into the target market of people who have not saved before.

Anthony said financial services providers have made their TFSAs attractive in terms of their low costs, but the initiative still needs a concerted education campaign directed at the target market.

## **FAST FACTS**

Between March 1, 2016 and February 28, 2017:

- 207 172 TFSAs were opened, bringing the total to 459 848.
- Of the total number of accounts, 40.7% were cash accounts, 26.5% were life assurance policies, 20.9% were collective investment schemes and 11.9% were stockbroker accounts.
- 12% of new accountholders contributed the maximum annual amount of R30 000.
- The average balance in each TFSA was R11 251.
- Investments in equities rose from 36% to 40% of the total investments.
- 49 841 of the new TFSAs are believed to belong to first-time savers.
- 157 172 clients (76%) held existing accounts with their TFSA provider.

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