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TAX FREE INVESTMENT ACCOUNTS (TFIA)

1. What are they?

Government is trying to encourage savings, so they have introduced tax free savings accounts. This means your investment will grow more rapidly as investments in this account do not attract income tax (tax on interest rate products), dividends tax (tax on investments that pay dividends) or capital gains tax (tax on the difference between your purchase price, and sale price when your investment grows in value over time). Consequently your savings will grow faster than in a taxed account because you are not paying tax on your investment return.

2. Who qualifies?

Any SA Citizen, of any age is eligible for a TFIA. Accordingly, you can open your own one, one for your spouse, for your children & grandchildren.

3. What financial products can you invest in?

The universe of financial products that you can invest in is limited. Extremely risky investments are excluded as the government wants to encourage savings rather than risky bets. You cannot invest in hedge funds or any fund that charges performance fees. However, there is a broad range of funds you can invest in, ranging from low risk to high risk. Exposure to specific asset classes like money market (like a typical bank savings account), fixed income, property, equity or offshore investments is also possible.

4. How much can you invest in TFIA?

Each individual may invest up to R36 000 per annum. This may be done on a lump sum basis or via monthly debits. Your maximum lifetime **contributions** may not exceed R500 000. The value of your investment over time should be considerably larger than your contributions owing to growth. I would expect these limits to be raised periodically, owing to inflation.

You may make your contributions via monthly debit order, subject to a R1000 minimum and R3000 maximum. Alternatively, you can make a lump sum payment of between R20 000 & R36 000. You may also make your annual contributions via a mix of both a lump sum and debit orders, but be very careful not to exceed your annual contribution cap of R36 000.

5. Big penalties if you exceed your annual contribution limit.

Each individual may invest up to R36 000 per annum. Because these are tax free, exceeding these limits means you are guilty of tax evasion. You will be fined 40% of your excess contributions into your TFIA. So don't exceed your limit.

6. Do I have to invest it in a single product, or can I spread my investment across more than one fund?

You may invest in different products in order to give you exposure to the risks & markets you wish. You may also switch from one investment product to another whenever you wish, with no cost implications. Signal can assist you with these decisions.

7. Are there any restrictions on withdrawals from your account?

You may make withdrawals, tax free at any time. However no replacement of your withdrawals is permitted.

8. What happens if you die?

TFIA's are structured like a life policy and you are able to nominate one or more beneficiary. On death, your TFIA is immediately paid over to your beneficiaries. This is of immense benefit to beneficiaries who find themselves in a cash bind while your estate is being wound up over several months. However, be aware, your TFIA now forms part of your estate. Consequently, it will attract the standard estate duty but it is exempt from executor's fees.

9. How do I open a tax free savings account?

Licensed banks, long-term insurance companies, managers of registered collective investment schemes (unit trusts), linked investment service providers and national government will be able to offer the account.

Signal Asset Management is licensed to offer you advice in selecting products suitable for your risk profile. Additionally, we will assist with the paperwork. As discretionary investment managers, we are able to switch your investments on your behalf as market sentiment shifts, should you so wish.