

What Are Tax-Free Investments?



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South Africans are notoriously bad at saving. We overspend regularly and invest too little. To encourage us to manage our money better, government is introducing tax-free investments. These accounts are intended to be long term savings vehicles, designed to help us invest for the future and boost our retirement savings.



What do I need to know?



There are a few things to note when talking about tax-free investments. The first is that all gains within the investments are tax-free. That means whether it's interest, dividends or capital gain, once your money is in you will not pay tax.

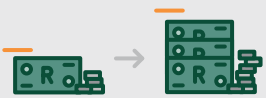
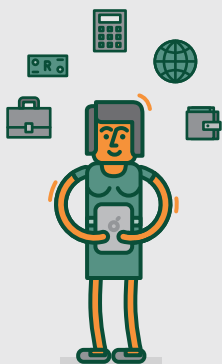


Secondly, and most importantly, these investments harness the power of long-term capital gains. Tax-free investments are designed to work best over the long term; so the longer you leave your money in your investment, the more it grows. However, if you do require your money in an emergency, it is easy to access it.

Take Thandi for example:

She chooses a low-cost unit trust investment and saves R2 000 per month for 20 years. After this period her contributions adds up to R480 000. But because she's paying less fees, more of her money compounds during this period and earns an extra R192 000.

Her investment will grow over time. This income will be tax-free as this is the benefit of this type of financial product. Over 20 years this could amount to an additional 35% or R166 000.



Her total investment will equal 3.4 times her initial investment, thanks to compounding, growth, low fees and tax savings over the period.

In the above example, Thandi is a high marginal tax payer, saves 1.2% per annum in cost on this fund and earns inflation plus 5% (i.e. 11%) per annum on her investments.

How do I get a tax-free investment?



Step 1: Speak to your financial planner

They will be able to advise you on your investment.



Step 2: Decide how much you can invest

Government has set a limit of R33 000 on contributions per year and R500 000 in contributions to the fund over your lifetime. (Penalties apply when exceeding these limits)



Step 3: Understand how to make best of this opportunity

This is a good way to boost your savings plans as the longer you invest, the more time your money has to compound and grow. Less money spent on taxes means more that will work towards your savings goal. Also remember, over the long term, volatility in the market evens out.



Step 4: Ask for a low cost fund.

Because you save on costs, there is more of your money that can compound over a long period of time.



Step 5: Download a form at www.nedgroupinvestments.co.za/InvestWithUs

