CONSEQUENCE
PRIVATE WEALTH

INVESTING FOR THE NEXT GENERATION WITH TAX FREE SAVINGS ACCOUNTS

Consequence Private Wealth invites clients to consult with us to discuss Tax Free Savings Accounts (TFSAs). Although Treasury approved TFSAs in March, we have taken our time in selecting a preferred service partner with whom we can structure investment options on accounts for clients. We are also now confident that legislative and tax detail is clear.

The new accounts present a unique investment opportunity for minor children in particular given that contributions and all growth thereon are untaxed throughout the investor's lifetime. The longer the investment period, the greater the compounding untaxed growth. Parents, grandparents and godparents can therefore invest individually or as families for children in a meaningful way.

Annual contribution caps are R 30 000 (R 2 500pm) and a R 500 000 total lifetime cap applies. You may contribute to as many TFSAs as you like and to whatever value, but each individual may only have R30 000 contributed annually to their own TFSA. Contributions to minors' TFSAs constitute a donation so they must fall within the annual R 100 000 exemption value to avoid donations tax.

Using the current cap as a guide it would take 16 years and 8 months for a new- born whose parents invested from birth to reach the cap.

A simple example illustrates the long term tax benefits: *

Assuming an annual net 9% average investment return (currently avg. inflation plus 3.5%), the value after 16 years and 8 months on all contributions plus growth would be R 1 119 759. No additional contributions are then made as the lifetime cap applies. We then assume the investment is left to grow at that average annual rate of 9% -untaxed- for a further 40 years when the minor now turned pensioner wishes to begin drawing income in retirement.

The future value of R 35 170 981 would be available to draw on as a tax free income and – importantly – supplement taxable income from annuities and discretionary investments. A conventional taxed investment with the same inputs would return R25 243 660 if we assume even a conservative average annual tax rate estimate of 10%pa on investment switches and underlying dividend, interest and capital gain growth, and allowing for reasonable exemptions.

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Further estate and tax planning opportunities could follow. The TFSA value forms part of the investor's estate and is potentially dutiable but the young adult investor whose TFSA contributions have already been funded could then direct their own investments to a trust to reduce future estate duty liability.

Most important is that this should be treated as an investment opportunity for all. We note some media comments implying that this is only a cash account or at best a simple 'buy and forget' option. We disagree; this as a long term investment which will benefit from ongoing management, particularly since capital gains tax will not apply on underlying fund switches.

We would be pleased to discuss this opportunity and other important details with you and your family. Please contact us on info@consequence.co.za or call 021 674 2222.

**Please note that the example above is indicative only and that investment returns are not guaranteed. This document should not be construed as financial advice, please contact us or your financial advisor for further information before making investment decisions.*

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