African Bank Ltd press release

March 2020

A savings option you can't ignore

Shortly after the budget speech it was announced that South Africa is in a technical recession. This has left many South African families and individuals wracking their brains thinking of ways to save money to survive the coming year.

Sarika Maharaj, Investment Product Manager at African Bank, says the state of the economy has in fact made it very difficult for the average South African to save money. She says the situation is exacerbated by the increasing tax burden as well as the high rate of inflation.

Maharaj says under the circumstances, one very good option to invest in is the tax-free savings account. It allows you the benefit of saving for your long term goals without having the burden of paying any taxes on the interest earned.

Maharaj says with the limit increased to R36 000 per annum, as announced at the last budget speech, anyone with even the smallest amount available to save should be taking full advantage of a tax-free savings account. "It is an excellent alternative to even a regular savings account if you are looking to grow your savings over a period of time."

Although the annual limit on a tax-free account has been lifted from R33 000 to R36 000, the lifetime limit of R500 000 has remained constant. "What's great is the flexibility that the tax-free savings offers. You don't have to commit to future contributions; you have access to your money and you pay no tax when you withdraw your funds."

'Like with every other decision in life', Maharaj says that 'making a decision to invest in a tax-free account comes with a few key points to consider. Here are your most important three':

- Your Contributions
  You can start saving with as little as R50 a month and make as many contributions as you like, provided that you do not exceed the R36 000 annual limit and R500 000 lifetime limit.
  You can also have numerous tax-free accounts (across many banks), provided the sum total of all those accounts does not exceed the annual R36 000 limit.
  You can also transfer from a tax-free account held at another bank but you have to adhere to the transfer process and procedures very strictly so that you do not exceed the annual limit.
  Exceeding either of these limits will incur a 40% tax penalty levied by the South African Revenue Services on the amount above the limits.

- Your withdrawals
  While you are able to withdraw the funds in your tax-free account, it stands to reason that the longer you leave your money in the account, the more you benefit

from the effects of compound interest. Reinvesting the interest rather than withdrawing it allows you to earn additional interest on this reinvested portion, thus accumulating savings at a faster rate. “Remember that your initial invested sum and the accumulated interest earned are both untaxed,” says Maharaj.

Consider this example: If you make a once off investment of R20 000 then at the current rate of 8.25%, you would earn R1651.39 in interest every year. If you withdrew this amount annually then after 20 years you would have withdrawn R33 027.80 in interest.But if you do not withdraw any of this interest, and allow it to reinvest, then, with the effect of compounding interest, after 20 years you would have earned a total interest amount of R77 756.08. Your total pay-out after 20 years will be a whopping R97 756.08!

- Investing for your children and grandchildren
  A tax-free account is a great tool to use for investing on behalf your child or grandchild. You can use the account to accumulate non-taxed savings towards your child’s education for or to just get them started on a path of financial stability. “But it is important to remember that if you open the account and invest up to your child’s lifetime limit, then he/she is unable to contribute further into a tax-free account.

“It’s a no brainer. This has to be one of the easiest and smartest ways to save money. So if you have some money to save, make sure you take advantage of an account that is created specifically to help you save,” concludes Maharaj.

ENDS

Visit the African Bank website or like them on Facebook , Twitter and LinkedIn

PREPARED ON BEHALF OF AFRICAN BANK BY CATHY FINDLEY PR. CONTACT JACQUI MOLOI ON JACQUI@FINDLEYPR.CO.ZA OR (011) 463-6372 WITH ANY CONSUMER PR QUERIES.