



# INSIGHT

Investment perspectives from the Harvard House Group

# TAX FREE SAVINGS ACCOUNTS

## A New Era in Investment

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Harvard House Investment Management

March 2015





## Harvard House BCI Flexible Income Fund

Certificate : Best SA Multi-Asset Income Fund

Raging Bull : Best SA Interest Bearing Fund



# RAGING BULL AWARDS

Celebrating the stars of SA investment

## Harvard House BCI General Equity Fund

Raging Bull : Best SA Equity General Fund



**2015  
Best  
SA Equity Fund**



Recognizing Outstanding Achievement  
in Investment Management



Awards™

# Why Tax Free Savings Accounts? (TSA's)

Part of Retirement Reform Initiatives

*“This incentive is an important tool to encourage South Africans to save more and to reduce household indebtedness and vulnerability. It complements initiatives and incentives to promote retirement savings and will also support long-term economic growth.”*

**National Treasury Media Statement  
20 February 2015**

# What is a TSA

## Fundamental Concepts



### Eligibility

- Must be a natural person,
- a registered taxpayer,
- not limited by age.



### Contribution Limits

- **Contributions limited to a maximum of R 30,000 per year and a cumulative maximum limit of R 500,000 per lifetime.**



### Penalties


- Any contribution in excess of contribution limits will be taxed at 40%



# What is a TSA

## Fundamental Concepts

 A TSA is not really a **product**, but rather administration of a **tax regime**

 The investments associated with TSA's are excluded from traditional tax events or income streams including:

- Income Tax on Interest and Taxable Dividends (Listed Property)
- Dividends Withholding Tax (DWT)
- Capital Gains Tax (CGT)

 Forms of Product that may enjoy TSA status include:

- Savings Accounts
- Fixed Deposits
- Collective Investment Schemes (Unit Trusts)
- Retail Savings Bonds
- Endowment Policy
- Linked Investment Product (LISP)
- ETF's classified as Collective Investment Schemes

# What is a TSA

## Other important details



### No Contribution Roll-Over

- Investors may not roll-over contributions from one year to the next e.g. You may not contribute R 15,000 in year 1 and then R 45,000 in year 2.



### Estate Duty

- TSA's are INCLUDED for the purposes of calculating an individuals' Estate. On death, the product retains its tax free nature until the Executor distributes to an heir, then it reverts to the product's original characteristics.



### Performance Fees

- No underlying Investment portfolio is permitted to have performance fees.



# What is a TSA

## Other important details



### Withdrawals

- Withdrawals can be made at any time.
- Withdrawals are free of tax.
- Withdrawals may not be returned to the product (investment limits apply i.e. must then be part of R 30,000 annual or R 500,000 overall)
- **Example:**

Investor Invests

Year 1 to 10 R 30,000 per year = R 300,000

In year 11 he withdraws R 50,000

He may still only invest a further R 200,000 (R 500,000 – R 300,000) **not**  
R 500,000 – (300,000 - R 50,000) = R 250,000.

This remaining R 200,000 in this example, is still limited to a maximum of R 30,000 per any given year.





# Should Harvard House Clients Consider TSAs?

A lot has changed for retirees.....



**Dividends Withholding Tax (DWT)** introduced at **15%**.



Listed Property changed from Companies and Collective Investments to REITs. Income nature changed from **Interest** to **Taxable Dividends**.



With the introduction of TSAs, Interest Exemption to remain unchanged

–	2013	R 33,000
–	2014	R 34,500
–	2015	R 34,500



# Should Harvard House Client's Consider TSAs?

A lot has changed for retirees.....

If we consider a Retired Client in the 2012 Tax Year with the following (client is aged between 65 & 75)



Living Annuity or Pension payment of R 12,500pm



A R 1,500,000 portfolio invested 60% in Equity and 40% in listed property.



# Should Harvard House Client's Consider TSAs?

A lot has changed for retirees.....

	Tax Position 2012 Tax Year	Tax Position for 2013 Year	Tax Position for 2014 Year
Pension	R 150,000	R 150,000	R 150,000
Dividends	R 90,000	R 76,500	R 76,500
Interest	R 39,000	R 39,000	*R 39,000
<b>Gross Taxable Income</b>	<b>R 279,000</b>	<b>R 265,500</b>	<b>R 265,500</b>
LESS: Interest Exemption	R 33,000	R 33,000	R Nil
LESS: Exempt Dividends	R 90,000	R 76,500	R 76,500
<b>Net Taxable Income</b>	<b>R 156,000</b>	<b>R 156,000</b>	<b>R 189,000</b>
Tax Due	R 11,732	R 10,250	R 16,828
<b>Nett Income</b>	<b>R 267,268</b>	<b>R 255,250</b>	<b>R 248,672</b>
<b>Change in Net Income</b>		<b>-4.5%</b>	<b>-7.0%</b>

# How to address the position?

A medium term strategy

## Redeem R 30,000 per year from the Listed Property Portion

- Since the gain will likely be less than the R30,000, you will likely pay no CGT

## Invest in the Harvard House Prescient TSA

- Harvard House & BCI will be launching our Third Collective Investment Scheme in around August 2015
- The Harvard House BCI Property Fund

## Draw the Income from the TSA annually tax-free!

# TSA in 5 years time

Making the Opportunity work for you

	Tax Position for 2014 Year	Tax Position for 2020 Year (using 2015 tables)
Pension	R 150,000	R 150,000
Dividends	R 76,500	R 76,500
Taxable Dividends	R 39,000	R 29,250
TSA Withdrawal		R 9,750
<b>Gross Taxable Income</b>	<b>R 265,500</b>	<b>R 265,500</b>
LESS: Interest Exemption	R Nil	R Nil
LESS: Exempt Dividends	R 76,500	R 76,500
LESS: TSA Withdrawal	-	R 9,750
<b>Net Taxable Income</b>	<b>R 189,000</b>	<b>R 179,250</b>
Tax Due	R 16,828	R 12,805
<b>Nett Income</b>	<b>R 248,672</b>	<b>R 252,695</b>
<b>Change in Net Income</b>		<b>1.6%</b>

# Retirees – Reasons to Consider

Relevant considerations



## Creating a Tax free Income Stream

- Taxable Dividends or Interest



## CGT Minimisation in your Estate

- Leave the TSA to your children.
- No CGT on sale
- Create an Inheritance Pool



## Invest in Growth Portfolio with a medium term strategy to convert to an Income Portfolio

- There will be no CGT at the point of switching



## Consider your options by discussing this with one of the Harvard House Advisory Team



# A Longer Term Example

## Pre-Retirement Strategy



Consider a 50 year old



Compare Investing in a TSA vs Direct (R 30,000 per year)



At 65 Switches from Growth to Income



Then draws Income through to 95



# Using a TSA as a Longer Term Planning Vehicle

Retirement Planning with a TSA

	Direct Investment	TSA
Starting Age	50	50
Annual Contributions	R 30,000	R 30,000
Total Invested	R 500,000	R 500,000
Dividends Reinvested (3.5% yield)	R 352,220	R 364,958
<b>Value at age 66 (10% Market and Dividend Growth)</b>	<b>R 1,598,346</b>	<b>R 1,680,787</b>



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Dividends Reinvested (3.5% yield)	R 352,220	R 364,958
<b>Value at age 66 (10% Market and Dividend Growth)</b>	<b>R 1,598,346</b>	<b>R 1,680,787</b>
Capital Gains Tax on Switch to Property Investment	R 32,188	Nil
Net Investment for Income	R 1,566,158	R 1,680,787
Starting Yield @ 6.5%	<b>R 101,800</b>	<b>R 109,251</b>

# Using a TSA as a Longer Term Planning Vehicle

## Retirement Planning with a TSA

2016 Tax Tables Used	Direct	TSA
Pension	R 150,000	R 150,000
Taxable Dividends	R 101,500	R Nil
TSA Withdrawal		R 109,251
<b>Gross Taxable Income</b>	<b>R 251,500</b>	<b>R 259,251</b>
LESS: Interest Exemption	R Nil	R Nil
LESS: TSA Withdrawal	-	R 109,251
<b>Net Taxable Income</b>	<b>R 251,500</b>	<b>R 150,000</b>
Tax Due	R 31,002	R 7,164
<b>Nett Income</b>	<b>R 220,498</b>	<b>R 252,087</b>
<b>Change in Net Income</b>		<b>14%</b>

# Harvard House TSA Offering

Great Value



Available through a **Harvard House Prescient White Label TSA.**



No commissions, no adviser ongoing charges.



*Prescient* Admin Fee **0.25% per annum.**



Harvard House BCI Collective Investment Schemes charged at just **0.95% per annum:**

- *Harvard House BCI General Equity Fund*
- *Harvard House BCI Flexible Income Fund*
- *Harvard House BCI Property Fund (available August 2016)*



Reporting via *Prescient* Web Portal on Harvard House Website  
[www.hhgroup.co.za](http://www.hhgroup.co.za)



Minimum Contribution **R 500pm** or **R 10,000** Lump Sum



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## Q & A

Please feel free to ask questions

Thank you for listening