Columbus Retirement Fund
Note to Members on Tax Free Savings Accounts

1. Background

On 1 March 2015 government introduced a new type of savings product called a "Tax Free Savings Account".

This was the first new tax-free product introduced by government in over twenty years. Up to now, the only tax-free saving options were Pension Funds, Provident Funds and Retirement Annuities.

Government is keen to encourage people to save and to do so with products that are straightforward and customer-friendly. Government has therefore put in place specific rules that aim to make Tax Free Savings Accounts simple and easy to understand, as well as transparent and lower cost.

2. What makes Tax Free Savings Accounts different?

Government set out a number of rules, with the following being some of the more important ones:

- Tax free contributions (up to certain limits), tax free growth and tax free payouts;
- Tax Free Savings Accounts are not allowed to charge performance fees;
- Fees on these accounts are not allowed to be linked to the length of time a client has had the account in place, in other words, product providers cannot offer incentives such as lower fees or cash back to entice clients to stay with them for longer;
- There is also a limit on the administration fee that can be charged on withdrawals from these accounts;
- Individuals must be able to access their savings within seven business days if they request it, so products with penalties and lock-in periods are not allowed;
- Product providers must be fully transparent in how they disclose the operation of these accounts, their fees and charges and they must also comply with all existing disclosure laws;
- In order to enhance competition and flexibility, individuals must also be allowed to transfer to a different provider if they so choose;
- Product providers are not allowed to add life or disability cover (or any other add-ons) to these accounts.

3. What are the tax benefits?

Amounts invested in a Tax Free Savings Account that are within the limits specified in the regulations (see below) qualify for a full tax deduction. The returns earned in the Tax Free Savings Account are tax-free – there is no capital gains tax, no tax on dividends received and no tax on any interest earned.

There is also no tax on the benefit paid to you when you decide to withdraw money from the account.

4. How do Tax Free Savings Accounts work?

You can pay up to R30,000 each tax year into your Tax Free Savings Account, up to a total of R500,000 over your lifetime. At the end of the tax year you submit confirmation of the deposit (a certificate from the company you are invested with) with your tax return to SARS and SARS will allow you a tax credit for the amount of the contribution up to the limits.

If you pay more than R30,000 in a tax year, you will only receive the tax benefit for the first R30,000 and any amount above this will be taxed. The same applies when you exceed the lifetime R500,000 limit – any amount you pay in above R500,000 will be taxed.

You can pay in money whenever you would like, as a lump sum or regular monthly amounts, as and when or by debit order. Some providers will have minimum amounts, for example a minimum lump sum amount of R5,000 or a minimum debit order of R500 a month. Check these out before deciding on a provider.

You can have more than one Tax Free Savings Account, with different providers for example, but the contribution limits apply across the total. The Tax Free Savings Account allowances are based on each individual and, for example, children also qualify to have a Tax Free Savings Account set up in their name.

5. How long do you need to invest for?

There are no minimum investment periods – you can put money in and take it out a few months later with no penalties. Withdrawals should be paid to you within a matter of a few days after you have provided the required notice to your product provider (maximum of seven business days).

But remember that there are contribution limits each tax year and overall in your lifetime and therefore, if you take money out you will lose the benefit of the tax free returns into the future. For example, if you invest R50,000 and then take out R30,000, your remaining lifetime limit remains at R450,000 and you lose the benefit of tax-free returns into the future on the R30,000 you have withdrawn.

We believe that Tax Free Savings Accounts should be used for long-term savings to maximise the benefit from the tax-free returns.

6. What fees will you be charged?

In some cases product providers will charge an annual administration fee plus an annual investment management fee. In other cases product providers are charging only one combined fee. The fees will also differ depending on the underlying investment product.

If you need a financial advisor to help you, then you can negotiate a fee with your financial advisor and instruct that this fee also be paid from your Tax Free Savings Account.

It is possible that you could be charged an exit fee, but there are many products with no exit fee.

7. What investment options will be offered?

Each product provider will offer clients a range of investment options that comply with the rules for Tax Free Savings Accounts, often based on the existing investment portfolios that they already have in place.

Tax Free Savings Accounts will be allowed to invest in all the major types of assets, including shares, bonds, property and cash. For many product providers the starting point has been a range of existing unit trusts that meet the rules set by government, for example, no performance fees and no rebates.

Some product providers will offer you unit trusts managed by other asset managers, but they may charge you a higher administration fee.

You will also be allowed to switch investments between the different investment options within one Tax Free Savings Account.

8. What happens to your Tax Free Savings Account should you pass away?

The Tax Free Savings Account will form part of your normal estate and will be treated as part of your will. Note also that Tax Free Savings Accounts are not protected from creditors like Pension and Provident Funds.

9. Who can offer Tax Free Savings accounts?

All major asset managers, life assurance companies and banks already have Tax Free Savings Accounts products available, as do other providers. Essentially any company registered with the Financial Service Board to offer investment products to individual consumers will be able to offer a Tax Free Savings Account.

10. What should you watch out for?

Make sure you ask for details of, and compare, <u>all</u> the fees and charges. Although no performance fees are allowed, there is no limit on how much you can be charged. Some providers are charging a higher fixed fee to make up for not being able to charge performance fees.

Compare both the administration fees and the asset management fees. Be careful where there is an extra layer of fees, for example if a product provider offers you investments that are managed by an external asset manager. In some cases there is one all-in fee but in other cases there are two layers of fees. A credible financial advisor will be able to assist you.

11. Conclusion

The annual limit of R30,000 and the lifetime limit of R500,000 means that you will need 17 years of investment into Tax Free Savings Accounts to take full advantage of the tax-free benefit. The longer the period of investment, the larger the benefit. We therefore recommend they be used for medium to long term savings.

In terms of the type of investment portfolio, if the objective is medium to long term savings, then the investment portfolio should contain a high percentage in growth assets, like shares and property, and preferably spread across two to three good investment managers with different investment styles.

You must however consider your own financial position as paying off debt could be a higher priority, depending on your personal circumstances. A credible financial advisor will be able to assist you.

If you have any questions or need any assistance you can contact the Fund's consultant, Gino Boscia, on 011-783-1620.

Cadiant Partners Consultants & Actuaries
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