Tax-free bank deposit advice

I was in two minds whether to write this article criticising the banks for promoting their tax-free savings products for fear of discouraging the act of saving in a country where the savings rate is negative, which means “we don’t save”, but nevertheless read on…

The banks aggressively market their tax-free savings products based on the tax saving, knowing full well that the average tax-free saver is most likely saving no tax. This is thanks to an annual taxable deductible interest exemption of R23 800 under the age 65 and R34 300 if you are older than 65.

At current interest rates (c.4%) the exemption means you will only benefit from an interest-bearing tax-free savings account if you have more than R595 000 invested under the age of 65 years or R857 500 over 65 years. If you consider tax-free savings account annual contributions are limited to R36 000 per annum and tax-free savings accounts have only been around for five years, there is no-one with nearly this amount in a tax- free savings account.

Keep in mind the interest from all your investments is aggregated for tax, so there will still be a tax benefit if you are earning interest from other investments exceeding the applicable tax exemption.

Money Matters

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For Mr Joe Average, if you are going to benefit from a tax-free savings investment then I recommend the investment be 100% growth focused, which means an investment in shares and/or property and not an interest-bearing investment.

As a side note with interest rates at 50-year lows, if you are relying on a bank account to grow your wealth then you are saving yourself poor, as inflation will eat-up most if not all your interest. – *www.mwwealth.co.za*