

Tax-Free Savings Accounts

Product Description

A tax-free savings account in unit trusts is a collective savings vehicle managed on behalf of its unit holders by professional investment managers.

Suitability

A tax-free savings account in unit trusts are suitable for investors who want to invest after-taxed capital over the medium to long term and benefit from a totally tax-free return.

How does it work?

The investor buys units in the collection of unit trusts, which is held on behalf of the owner by trustees. A maximum of R 36, 000 per year may be contributed to a tax-free savings account to a maximum of R 500, 000. It allows individual investors to diversify their portfolios between different asset classes and fund managers and earn a totally tax-free return over the long term.

Registered with the authorities?

In order to qualify for tax-free status, a collection of unit trusts must meet certain requirements and may only invest in certain funds.

Different unit trust categories

Unit trusts are classified according to many different categories and investors will learn much from the minimum disclosure documents of the various unit trust funds. It is the role of the advisor to explain the terms, conditions and risks of the funds. Each fund's disclosure document highlights important information such as the objective of the fund, its benchmark, investment horizon, risk profile and fund manager fees.

Nature of returns

Dependent on the underlying asset classes used in the fund, it can earn interest, dividends and have capital gains or losses.

Guarantees

Investment capital and investment returns in unit trusts cannot be guaranteed.

Taxation

Interest earned, dividends received, and any capital gains made when the units are sold are totally tax-free.

Accessibility of funds

Money invested in a tax-free savings unit trust account is easily accessible and can usually be withdrawn within days. However, this is one investment vehicle where investors would want to keep their funds invested for as long as possible, because all returns over the long term is tax-free and investors can benefit from the compounding of annual tax-free returns.