TAX BREAKS

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THIS MONTH

CARBON TAX

Three ways SA businesses can save, and even earn

The first step involves determining your tax liability

Those who are not liable to pay carbon tax can potentially financially benefit under the tax regime if they invest in products and processes with lower carbon footprints.
Picture credit: Pixabay.com (https://pixabay.com/photos/power-station-chimneys-smoke-4350592/)

By: **MALCOLM ROODS**

ON 1 JUNE 2019, South Africa joined numerous countries around the world in implementing a carbon tax, following years of delays and postponements. At its heart, the carbon tax adopts a 'polluter-pays' principle to reduce greenhouse gas (GHG) emissions.

The tax will target all companies that are liable to report their GHG emissions to government. GHG-emitting activities include emissions from the likes of coal or biomass fuelled boilers, fluorochemical production, or the flaring of mine methane.

The introduction of the tax comes at a time when South Africa is obliged to meet its commitments under the 2015 Paris Agreement to reduce its GHG emissions. Despite being a developing country, South Africa is the world's 14th largest emitter of GHGs, according to climate science experts at Carbon Brief. South Africa's high level of CO2 emissions are principally linked to its heavy reliance on coal.

In a bid to reduce its greenhouse gas levels, the first phase of the carbon tax will be implemented from June 2019 to December 2022 with a tax rate of R120 per tonne of CO_2 equivalent (CO_2e).

The tax rate is subject to a number of breaks in the form of allowances and performance incentives. The initial tax-free allowance provides a baseline tax break of 60%, and a maximum tax break

of 95% during phase one. This equates to an effective initial tax rate of only R6 to R48 per tonne.

While the carbon tax in South Africa has sparked debate (including an argument that the introduction of the tax is unconstitutional—see box below), it includes several mechanisms with which local businesses and industry can reduce their tax liability. Companies which are not liable to pay carbon tax can even create revenue-generating opportunities from the sale of carbon offsets.

To start reducing carbon tax exposure and to start realising the benefits of carbon tax, there are three key ways that local businesses and industry can start to address their carbon tax liability.

Find out your tax liability; identify your energy sources

The first step involves determining what your tax liability is by establishing your facility's carbon footprint.

This further entails identifying your major energy sources and products that are at risk of high GHG emissions. Energy sources would include significant on-site fuel combustion such as coal-fired boilers, or industrial products that are associated with the release of fugitive GHG emissions.

It's important to bear in mind that the tax is designed to trickle-down through the economy as marginally-hiked product or service costs, putting pressure on primary suppliers to clean up their offering. This could mean that even if your energy sources or source products are not directly taxable, their prices could start to rise.

Reduce your tax liability

If your business is not exempt from carbon tax and you've identified the biggest carbon footprint sources, you can then move on to actively reducing your tax liability.

You can do this by (for example) switching to fuels that are not taxed directly, or products with lower carbon footprints. You can also use the likes of renewable energy projects to lower your tax liability.

It is in our experience that energy efficiency measures can significantly reduce fuel use, and the resultant carbon footprint. These energy efficiency measures are usually very cost-effective, and don't take much downtime in production facilities. Upgrading to more modern technologies will also go a long way in helping in this regard.

Another way to reduce exposure to carbon tax is through the use of renewable energies, such as biomass in coal boilers, biodiesel in diesel generators, and solar electricity to reduce exposure to carbon tax passed on through Eskom.

It's clear, then, that investing in cleaner production will save you on carbon tax. Carbon tax is also improving the pay-back period of energy efficiency and renewable energy technologies.

Start to earn from carbon tax

If you're not liable to pay carbon tax, you can actually financially benefit under the tax regime if you invest in products and processes with lower carbon footprints. This

New carbon tax is unconstitutional

Should be challenged ...

By: **MATTHEW BURNELL**

The constitutionality of the new Carbon Tax Act, signed into law by the President on 1 June 2019, should be challenged on the basis of flawed procedural grounds.

The law's fatal constitutional flaw lies in the fact that, despite its name, the carbon tax is not a tax at all. Rather, it is a regulatory tool aimed at changing the public's behaviour and nudging South Africa into a low-carbon economy. While this distinction may be considered by some to be semantics, it is the chink in the Carbon Tax Act's armour that can be used to successfully challenge its constitutionality.

The flaw in the constitutional process, in respect of the Carbon Tax Act, arose when the Carbon Tax Bill was first introduced into Parliament. Any new bill must be classified as a national bill, a bill affecting the provinces, a money bill, or a bill amending the constitution. The consultation and voting processes associated with each of these classifications varies. As a result, the Constitutional Court has held that any bill that is incorrectly classified and passed by Parliament in terms of the incorrect process will always be unconstitutional and invalid, irrespective of whether or not Parliament acted in good faith.

The Carbon Tax Bill was introduced into Parliament by the Minister of Finance and classified and passed by Parliament as a money bill. Bills, however, may only be tagged as money bills in circumstances where their 'dominant object' is to raise revenue for the State. The Constitutional Court has previously held that a bill is not considered a money bill where its primary object is to regulate behaviour or conduct.

The Act's dominant purpose, however, is not to generate revenue. Its sole purpose is to shift consumers into a low-carbon economy and reduce pollution in order to meet the Government's undertakings in terms of the Paris Agreement. This is clear from the Act's preamble and the explanatory memorandum published with the Carbon Tax Bill. As a result, the Carbon Tax Bill was incorrectly tagged as a money bill and has been passed through Parliament in terms of the wrong procedure.

Whilst the objectives of the Act may ultimately result in a low carbon economy, the timing of the tax is inappropriate, given the current state of the economy and the unresolved practical difficulties associated with the tax. Major issues impacting on the implementation of the Act include the fact that the associated regulations have not been finalised, and the conflicts between the Bill and the proposed climate change legislation have not been resolved. In fact, the greenhouse gas emission levels are well below predicted levels due to a sluggish economy.

Since then, the practicalities of trying to implement, budget, and cater for the tax are becoming a reality for many companies. On their behalf, business and industry associations are expressing opposition to the tax for the grounds set out above. However, National Treasury has remained resolute in its decision to implement the tax, indicating that the concerns mentioned will be resolved by the time the tax is payable.

Although these concerns—and the effect that they may have on business—were raised by various industries during the limited public engagement processes, they appear to have been ignored by Parliament. A challenge to the Act based on the flawed procedure may afford industry a second chance at having their interests properly considered, and therefore, the constitutionality of the Act should be challenged in court.

Matthew Burnell is an environmental law expert at law firm Herbert Smith Freehills.

is because National Treasury's carbon credit system allows for the selling of carbon credits to help fund projects that reduce GHG emissions. The carbon savings would need to be certified by an internationally recognised accreditation scheme, but they can then be used locally for carbon trading.

Eligibility criteria include that projects must be located in South Africa. In addition, renewable energy projects—such as solar farms—have been excluded from the carbon offset scheme. This is to avoid the risk of double-counting benefits where these projects have already been incentivised through the renewable energy independent power producer programme (REIPPP).

In closing, if you decide to start reducing your carbon tax liability, getting the right advice from experts in the field can save you time and money in the long run.

Malcolm Roods is an environmental services knowledge group leader at Royal Haskoning DHV.

FILING SEASON 2019

Teething problems with new-look eFiling

Taxpayers battle with glitches after eFiling modernisation

By: **AMANDA VISSER**

SARS HAS had to do a "number of fixes" to its electronic filing (eFiling) system over the weekend immediately following the opening of Filing Season 2019, after receiving complaints from taxpayers.

Since the start of this year's filing season for individual taxpayers on 1 July 2019, major enhancements to eFiling have caused problems for tax practitioners in the linking of accounts, accessing eFiling, as well as with the registration of new taxpayers on the system.

The South African Institute of Tax Professionals (SAIT) says that tax practitioners were also unable to access certain forms, tax types, and returns, and experienced challenges with the uploading of supporting documentation.

A case of bad timing

The South African Institute of Chartered Accountants (SAICA) says that the fact that the technology update was launched at the start of filing season and in the week of June payroll submissions "may have compounded the system problems".

While, for instance, the OTP feature has been introduced to ensure additional safety for eFiling users, this has not been without its issues. SAICA's project director of tax advocacy, Sharon Smulders,

KEY UPCOMING TAX SUBMISSION DATES

Personal income tax returns, 2019 tax year

1 Aug 2019	Tax Season opens
31 Oct 2019	Personal income tax returns (filed at a SARS branch)
4 Dec 2019	Personal income tax returns (e-filing, non-provisional taxpayers)
31 Jan 2020	Personal income tax returns (e-filing, provisional taxpayers)

Provisional tax returns

31 Aug 2019	First period, 2020 tax year
30 Sep 2019	Voluntary top-up payment, 2019 tax year

TAXING ISSUES

by Steven Jones—Editor

Another year, another Filing Season—and, as always, I normally do my own return first so that I can be the proverbial 'guinea pig' when it comes to testing out any new changes to SARS' systems or the forms themselves, rather than battling with potential issues when submitting returns for my clients.

This year's new-look eFiling platform came as a bit of a surprise. I'd not noticed any announcements about the change before 1 July as I sat down at my desk to complete my 2019 return—but to be honest, my mind was elsewhere as this is the first year that I'm completing a return since finalising my formal emigration to the UK.

My first impression was a pleasant surprise. Previous iterations of eFiling did not like to play too nicely with Microsoft's Edge browser, forcing me to retain the archaic Internet Explorer solely for eFiling submissions, but the new version has been written for Edge and is no longer compatible with IE.

The only thing, though, is that my IT guru over here has indicated that there are rumours that Microsoft could be ditching Edge in the near future. None of the reports I've seen indicate any timeframes, but it would be unfortunate if SARS has spent all the time and money involved in developing an Edge-compatible platform, only to have the tech giant whip the rug out from under its feet at some point.

That said, the eFiling platform itself has not been without its problems. The ones that I've found include an inability to save partially-completed returns. It seems that the SARS boffins have made the forms a bit **too** clever, in that they are designed not to allow you to submit the form unless all of the required fields have been populated. That's all well and good, but having the ability save partially-completed forms whilst waiting for additional information from clients is actually a useful feature to have!

The calculator feature also appears to be broken, throwing up a message to the effect that the calculation cannot be performed due to possibly having captured incorrect information. I checked this particular form three times so I know that the problem is not between my seat and my keyboard. However, given that I've only completed two returns so far this year, I cannot say for certain whether this only happens with more complex returns, or whether the calculation feature has fallen over completely.

Another minor irritation is that while in previous years the printed version of the completed form only included those fields that had been populated, on the new platform you get all the blank pages as well.

Many taxpayers who decided to file their returns early this season have encountered challenges due to the enhancements to the SARS eFiling system.
Picture credit: Steven Jones (screenshot from SARS eFiling landing page taken on 30 Aug 2019)

says that the challenges started with the registration process related to the new primary user function. "These challenges included problems with the OTP [one-time pin] not working, not being able to save data inserted on the return, or pre-populated data disappearing from the return, certain forms not being accessible on certain browsers, the inability to print returns or download assessments, and incorrect assessments being issued."

Problems seem limited to the taxpayer interface

Mulder adds that SARS' main system integrity does not seem to be compromised, despite the numerous challenges with the taxpayer interface.

SARS responded in a statement that it was working closely with tax practitioners through the recognised controlling bodies such as SAIT and SAICA. However, SAIT head of stakeholder management Beatrie Gouws says that while some of the glitches have been resolved, tax practitioners were still reporting areas that needed some tweaking.

She added that the introduction of the primary users and portfolio management features are aimed at simplifying the way tax practitioners interact with SARS. "The introduction of these features affects current users who have multiple SARS eFiling login names linked to the IDs, requiring them to link these tax profiles. The user will select a default primary user in order to access eFiling going forward."

Table 4.4 Personal income tax rates and bracket adjustments

2018/19 Taxable income (R)	2018/19 Rates of tax	2019/20 Taxable income (R)	2019/20 Rates of tax
R0 - R195 850	18% of each R1	R0 - R195 850	18% of each R1
R195 851 - R305 850	R35 253 + 26% of the amount above R195 850	R195 851 - R305 850	R35 253 + 26% of the amount above R195 850
R305 851 - R423 300	R63 853 + 31% of the amount above R305 850	R305 851 - R423 300	R63 853 + 31% of the amount above R305 850
R423 301 - R555 600	R100 263 + 36% of the amount above R423 300	R423 301 - R555 600	R100 263 + 36% of the amount above R423 300
R555 601 - R708 310	R147 891 + 39% of the amount above R555 600	R555 601 - R708 310	R147 891 + 39% of the amount above R555 600
R708 311 - R1 500 000	R207 448 + 41% of the amount above R708 310	R708 311 - R1 500 000	R207 448 + 41% of the amount above R708 310
R1 500 001 and above	R532 041 + 45% of the amount above R1 500 000	R1 500 001 and above	R532 041 + 45% of the amount above R1 500 000
Rebates		**Rebates**	
Primary	R14 067	Primary	R14 220
Secondary	R7 713	Secondary	R7 794
Tertiary	R2 574	Tertiary	R2 601
Tax threshold		**Tax threshold**	
Below age 65	R78 150	Below age 65	R79 000
Age 65 and over	R121 000	Age 65 and over	R122 300
Age 75 and over	R135 300	Age 75 and over	R136 750

Source: National Treasury

Engaging with SARS

Although there are some teething problems, initial reports suggest that the enhancements will indeed ease the communication between SARS and their clients that make use of eFiling," says Gouws.

Smulders says that SAICA has been engaging with SARS since the start of the filing season on 1 July, and notes that many of their problems have been resolved.

SARS has indicated that it had received more than 450 000 personal income tax submissions through eFiling within the first two weeks of July, as well as 36 600 submissions through its MobiApp.

SARS apologises

The revenue service apologised for the challenges taxpayers have been experiencing with the payment of refunds and the inspection, verification, or audit processes.

SARS has "endeavoured" to pay the current period's refunds within seven business days of finalising the final assessment, if there is no other debt and all the taxpayer's obligations have been met.

It also endeavoured to notify taxpayers within 15 business days of the submission of a return if they have been selected for an inspection, verification, or audit, adding that it will conclude verifications within 21 business days of all required supporting documents having been received, and 90 business days in the case of audits.

Filing season for taxpayers making use of the electronic platforms will run from 1 July until 4 December, while those making use of branch offices can do so from 1 August until 31 October. Provisional taxpayers using the electronic platforms have until the end of January next year to submit their returns.

Amanda Visser is from Moneyweb.

A 12J investment tax boost

How SARS helps leverage your investment back into SA's economy

By: **DARRYN FAULDS**

NEGATIVITY AROUND South Africa Inc. has been building for some time with questions swirling over the performance of the country's economy, its struggling equities market, corporate scandals, as well as heated politics.

Amid strained performances for many stocks on the JSE, a growing chorus of commentators have called on wealthy South Africans to move more of their money offshore and to do this as quickly as possible. However, while having offshore exposure is always advisable and critical to diversifying portfolio risk, being over-reliant on global markets can also knock local investors. One just needs to look at the strength of the South African rand in recent weeks to realise this.

At this point, these same commentators may argue that increasing your offshore investment portfolio still has benefits as other jurisdictions like Mauritius offer more tax breaks. While this may be true, the reality is that South Africa also has an encouraging piece of tax legislation that rewards and incentivises investors for taking a risk in the local SME space.

This regime is called Section 12J and it's becoming a fast-growing alternative asset class in South Africa that puts your money to work in an economy that needs more enterprises and jobs than ever before.

The likes of large financial institutions such as Investec have already started offering this asset class to their clients—and for those of us working in the 12J space, we expect more financial institutions to come aboard in the years to come.

What is 12J, and how does it work?

Section 12J is woven into South Africa's Income Tax Act and enables investors to provide much-needed capital to Small-to-Medium Enterprises (SMEs). With Section 12J funds, investors have 100% of their investment value deducted from their taxable income in the year of assessment in which the investment is made.

This type of investment is open to all South African taxpayers—including corporates, trusts, and retail investors. High income earners, in particular, can obtain up to a 45% return in the form of tax savings in the first year of their investment.

Furthermore, a Section 12J fund can provide regular future investment returns, thanks to an already established business model. In addition to this, an SME has access to the capital it needs in order to grow. Since 2015, a cumulative R6 billion was ploughed into Section 12J funds, with more growth expected in years ahead.

A strong alternative for investors

At a time when financial advisors are under pressure to prove their value to clients, 12J can become a viable alternative. Because the 12J space is highly regulated and audited, it is equivalent in many ways to the listed small-caps space in South Africa.

The 12J industry has also been maturing rapidly with an ever-growing array of options for the investor—options that suit a more moderate risk appetite into attractive sectors of the economy.

An example of the ongoing maturity within the asset class is that of an aggregated offering called MeTTa Capital. MeTTa Capital is similar to a unit trust or mutual fund where investors, through a single entry point, can invest in a basket of market-leading Section 12J companies—at no additional fees. The funds within MeTTa Capital operate in a variety of sectors, ranging from renewable energy to hospitality.

It's clear then that rather than looking to cash or offshore options, financial advisors and wealth managers can offer their client base an alternative, tax-efficient 12J product that is diversified and well regulated. There's no doubt that the next big wave for 12J investments will come from forward thinking wealth institutions who look to offer be-

Section 12J boost not only your investment returns, but also the South African economy.
Picture credit: Pixabay (https://pixabay.com/photos/rocket-launch-smoke-rocket-take-off-67723/)

spoke solutions to their clients that allow them to maximise the high-yielding opportunities in this space.

Section 12J has the potential to create a win-win situation for all, and it's time that local investors start considering it more seriously, especially as it's becomes ever easier to invest in.

Darryn Faulds is a fund manager at MeTTa Capital.

Editor's note

While extolling the advantages of a tax break of up to 45% in the first year of making the investment, the article omits to mention the sting in the tail—being that the 'base cost' for Capital Gains Tax (CGT) purposes, which would normally be the initial amount of the investment, is deemed to be zero in the case of a Section 12J investment.

In other words, you will pay CGT on the full value of the investment upon maturity or disposal thereof. Using the 45% marginal rate as an example, this means that 18% of the investment proceeds will end up being paid over to SARS.

That said, Section 12J can still provide an incredible boost to one's returns when compared to a similar investment made outside of the 12J wrapper. In next month's issue, we will run some tax calculations to illustrate just to what extent this incentive enhances your returns.

A great tax break for school or university staff members

Are you a staff member at an educational institution? Negotiate this valuable benefit—but get solid advice first, and move quickly in case Treasury decides to slam the door ...

University is tough enough without the added stress of figuring out how to pay the fees. Fortunately, if Mom or Dad works for the university you are attending, you may be able to study for free, tax-efficiently to boot! Picture credit: Pixabay (https://pixabay.com/photos/woman-library-books-study-read-3435842/)

By: **STEVEN JONES**

IT IS one of those ironies of life that while the cost of education is becoming ever-more expensive, educators at all levels earn salary packages that are often far lower than what similarly-qualified professionals can earn elsewhere. However, there is an upside in that educators could take advantage of a valuable perk—and if it is structured correctly, this perk could even be tax-free!

Many (if not most) individuals working for an educational institution have children who at some point will pass through that particular educational stage. Given the high cost of education, the institution concerned can, by providing a discount on tuition to children of their employees, provide meaningful relief in this area—often at minimal additional cost to the institution concerned.

But what about the tax treatment, you may ask?

In terms of Paragraph 2(e) and 10 of the Seventh Schedule to the Income Tax Act, the recipient of a free or cheap service will be taxed on the value of such service. However, when it comes to free or cheap tuition, the 'value' is based on the marginal cost of providing the service to the person concerned—not the price normally charged to outsiders.

According to Version 8 of the *SARS Guide for Employers in Respect of Fringe Benefits* (SARS document PAYE-GEN-01-G02, updated 2018), "[i]f an educational institution such as a university or technikon provides free or cheap tuition to the children of personnel, a taxable benefit arises. The value that must be placed on the benefit is the marginal cost involved in the tuition of the additional person. If the employee makes a contribution that is equal to or more than the marginal cost, no taxable benefit accrues."

In the case of an educational

Moment of truth

A good tax consultant finds the loopholes, while a great tax consultant has a loophole named after them.

Source unknown, but probably some bored trainee accountant who came up with this gem while checking yet another client's SARS assessment ...

institution such as a school, there is no additional cost in terms of the teacher's salary if the teacher has 19 learners in the class instead of 18. The additional learner also has no impact on the consumption of utilities such as water and electricity. How much can one or two extra flushes of the toilets *really* cost? The additional wear and tear arising from the additional learner would also be negligible.

The implications of this is that provided that the staff member pays an amount equivalent to the cost of materials used, and adds about 10% for miscellaneous costs (additional admin, etc.), then the "marginal cost" will most probably have been covered, and based on the wording in the *SARS Guide*, no taxable benefit should arise.

When I first came across this provision about 12 years ago, the above wording appeared in the 2007 version of the *SARS Guide*. My first thought at the time was that this was an incredible loophole which SARS was bound to close sooner rather than later.

To be honest, I was surprised to see that not a single word has been altered in the 2018 version, which indicates one of three things: Either (a) the method of calculating the value varied so widely from one institution to the next that there was no objective way of determining this, (b) the calculations were so complicated that making a clear ruling would be impossible, or (c) so few people took advantage of this provision that it clearly wasn't worth the effort on SARS' part to change it.

Or, in the classic tradition of most multiple-choice questions, the answer is (d) all of the above.

Of course, now that I've called attention to this valuable benefit via the pages of *Tax Breaks*, I'll probably be elevated to that rarefied breed of tax practitioners who gets to have a loophole named after them ... yeah, right! The more-likely outcome is that National Treasury will muster their troops to slam the door shut on this opportunity, and I'll probably have my name removed from Edward Kieswetter's Christmas card list—in which case, you have this year and possibly next to take advantage thereof, which (if the timing is right) should cover two years' worth of varsity fees!

Steven Jones, Hons B Compt M Com B Th, is a registered SARS tax practitioner, a practicing member of the South African Institute of Professional Accountants, and the editor of **Tax Breaks** and **Personal Finance**.

SARS makes changes to payroll tax statements

By: **SOUTH AFRICAN REVENUE SERVICE**

ON 26 April 2019 SARS introduced changes to the Payroll Taxes Statement of Account (SOA) in an attempt to address complaints received from employers about errors occurring on the SOA.

The SOA shows the balance and detailed transactions for a tax year for Pay-As-You-Earn (PAYE), the Skills Development Levy (SDL), the Unemployment Insurance Fund (UIF) and the Employer Tax Incentive (ETI). The purpose of this statement is to supply the employer with an overview of the financial transactions for the various payroll taxes, and to ultimately enable employers to complete and submit their Employer Reconciliation Declaration bi-annually.

To ensure that the information contained in this statement is clear and comprehensible, we have amended the manner in which financial transactions are being displayed. Some of the key enhancements include:

- Descriptions were enhanced to provide employers with a better understanding of the two types of transactions reflected i.e. liability and non-liability transactions
- All liability transactions are now grouped together and sorted in transaction date order, with the exception of non-financial transactions with a date earlier than the first day of the period
- The addition of a receipt number for payments and journals will allow employers to uniquely identify payments and reconcile them back to their bank statements.

ETI transactions, which have no impact on the PAYE account, have been grouped together and will reflect at the bottom of the Statement of Account.

We are continuously striving to enhance our systems and forms, and trust that the enhancements made to the SOA will promote ease of doing business with us. For more information on the Payroll Taxes Statement of Account, visit the SARS website on www.sars.gov.za, or follow the path: www.sars.gov.za > Types of Tax > PAYE > Managing your Employer Account, or call the SARS Contact Centre on 0800 00 7277.

Editor's note

An example of the enhanced SOA appears below. The transaction reference number has been blanked out to protect the taxpayer's confidentiality, but this field comprises the taxpayer's PAYE reference number, followed by the letters 'LC', a six-digit YYYYMM code indicting the tax period, and finally a check digit. This particular taxpayer is also exempt from SDL, hence no values appear.

Note that when you request a SOA, the e-filing system still requires you to select a tax year. The 'tax year' in question refers to the employees' tax year that runs from Mar-Feb each year, and is not to be confused with the entity's financial year. Also, this means that if you have requested a Tax Compliance Status Update and the results show non-compliance due to outstanding PAYE, you need to drill down to find the relevant tax period, then run an SOA relating to the employees' tax year into which such non-compliant period falls.

Transaction details

Date	Transaction Reference	Transaction description	Transaction value	Transaction allocation information			Account balance
				PAYE	SDL	UIF	
2017/04/07		DECLARATION	1 363.75	1 023.75	0.00	340.00	1 363.75
2017/10/31		RECON RETURN	0.00	0.00	0.00	0.00	1 363.75
2017/04/07		PAYMENT (RECEIPT NO.E43622996)	-1 363.75	-1 023.75	0.00	-340.00	0.00
		TOTAL LIABILITY	1 363.75	0.00	0.00	0.00	0.00
		FINANCIAL MOVEMENT	-1 363.75	0.00	0.00	0.00	0.00
		BALANCE: TAX PERIOD 201703		**0.00**	**0.00**	**0.00**	**0.00**
2017/05/05		DECLARATION	1 363.75	1 023.75	0.00	340.00	1 363.75
2017/10/31		RECON RETURN	0.00	0.00	0.00	0.00	1 363.75
2017/05/05		PAYMENT (RECEIPT NO.E43971280)	-1 363.75	-1 023.75	0.00	-340.00	0.00
		TOTAL LIABILITY	1 363.75	0.00	0.00	0.00	0.00
		FINANCIAL MOVEMENT	-1 363.75	0.00	0.00	0.00	0.00
		BALANCE: TAX PERIOD 201704		**0.00**	**0.00**	**0.00**	**0.00**

Tax-free savings accounts: Should I invest a lump sum, or contribute monthly?

The amount of time you spend in the market and the frequency with which you invest are two important factors to consider

QUESTION

I am considering starting a tax-free savings investment before the end of the current tax season. I am able to contribute the maximum allotted yearly payment, and would like full offshore exposure. Is it wise to contribute this lump sum considering the state of the global economy at the moment, or should one rather contribute monthly to distribute the risk (forfeiting the 2019/20 allocation). I will be able to contribute the full amount again in the next tax season. Some guidance on what investment products to choose from will also be great.

Answer provided by GARETH COLLIER B Com CFP®, a director at Crue Invest (Pty) Ltd.

TO CLARIFY, your contribution to a tax-free savings account (TFSA) is not dependent on the tax season but rather on the tax year, currently being 1 March 2019 to end-February 2020. During this period, you are able to contribute a maximum of R33 000 towards your TFSA. These contributions may be made monthly, as a lump sum, or a combination of both.

There are two important factors to consider when investing. The first is the amount of time you spend in the investment markets. The longer you are invested, the more time you have for your money to grow and compound. The second factor is the frequency with which you invest in the markets, bearing in mind that markets fluctuate all the time.

Time

Spending time in the markets is important when investing in a defined, fixed-income fund—such as a money market or income fund—as the returns are known and the earlier you enter the market, the greater the effects of compounding will be over time. When investing in either the local or global stock market, it is important to bear in mind that, in spite of short-term market fluctuations, positive long-term growth does happen in time.

For example, if you had invested a single lump sum onto the New York Stock Exchange index tracker in October 2007 (just before the global financial crisis), it would have taken you until November 2013 to recover your initial investment. On the other hand, if you had invested your single lump sum at the bottom of the crisis, being March 2009, you would have seen a total investment growth of about 132% by November 2013 – nearly two-and-a-half times your initial investment.

Frequency

Investing frequently in the markets—whether weekly, monthly, quarterly or on an ad hoc basis—allows investors to achieve an aggregated purchase of the underlying units, rather than at a single point in time. In our local markets this is colloquially known as 'rand cost averaging'.

If you have a lump sum available to invest, you may wish to consider using a phasing-in approach. Although you can make the full contribution in a single payment, you can instruct the financial institution to buy into chosen fund(s) over a set period. The result is that your money will be more slowly exposed to the markets. The full balance is held in cash, while a portion of your money will be used to buy into the fund at a predetermined point in time, usually monthly.

Attempting to time the market and/or anticipate when to buy in works in an extremely small number of cases – and most of those can be attributed to pure luck. Had you made a lump sum investment in October 2007, would you have remained invested until 2013? If you were investing on a monthly basis, would you have continued making regular investments while watching the markets rapidly decline? An investor's ability to stay calm and keep their emotions in check is an all-important criterion for successful long-term investing.

In terms of where to invest to gain full offshore exposure within a TFSA, bear in mind that you are not able to invest directly offshore where your investment is in hard currencies such as US dollars, UK pounds or euro, and you will need to use a global feeder fund. These feeder funds are domiciled in rands. This means that your investment will be made in rands and any withdrawals will be received in rands, but the underlying investments are held 100% offshore. When selecting a fund be aware of who the underlying asset managers are, as well as the geographical allocation of the funds. The global market is a big place and threats in one area may lead to opportunities in others.

Finally, be aware of the annual and lifetime contribution limits (R33 000 and R500 000 respectively). Go over these, and SARS will hit you with a 40% penalty on any excess contributions made.

Do you have a tax question? Pop us an e-mail to info@bellanmedia.co.za. We will select one answer for publication in Tax Breaks each month. Unfortunately, we will not be able to respond to questions individually.

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