TAX ALLOWANCES FOR INVESTORS

11 MARCH 2021

Investors qualify for the following investment-related tax breaks:

1. **Marginal tax**
   Individuals pay a lower marginal tax rate on capital gains (18%) and dividend income (20%) compared to interest, property rental income and salary income (45%). This means that investors not using tax-advantaged vehicles are, all other things being equal, better off holding equities in their portfolios than other assets.

2. **Tax-free investments**
   Tax-advantaged contributions to tax-free investment accounts remain unchanged at **R36 000** per year. This arguably remains the best tax break available to individual investors with long time horizons. While you use after-tax money to invest in a tax-free investment, all income and growth earned from the underlying funds are not subject to local tax, and all proceeds at the time of withdrawal will also not be taxed. There are no investment restrictions for tax-free investments, allowing a full allocation to growth and/or offshore assets. Just do not over-contribute – contributions in excess of the annual limit are taxed very punitively.

3. **Retirement funds**
   Tax-deductible contributions to retirement funds remain at the lower of **27.5%** of taxable income (excluding retirement benefits and capital gains) or **R350 000** annually. Your capital and reinvested income will grow tax free while it remains in the retirement fund, and you will only pay tax on the way out when you start to withdraw from your retirement fund (at the then-prevailing tax rate). The first R500,000 of any lump sum withdrawn at retirement is tax-free. Your underlying investments must comply with Regulation 28 of the Pension Funds Act, which sets a limit on the level of exposure you can have to equity, property and offshore assets.

4. **Interest exemption**
   The general interest exemption remains **R23 800** for investors younger than 65, and R34 500 for investors older than 65. At the current yield of around 6% on managed income funds such as Coronation Strategic Income, this means that you can invest approximately R400 000 if you are under 65 or R575 000 if you are over 65 before starting to pay tax on interest earned.

5. **Capital gains**
   The annual capital gains exclusion of the first **R40 000** of realised gain is unchanged. This exclusion makes it more efficient to stagger the realisation of capital gains over different tax years.

6. **Endowments**
   Endowment policies also remain attractive for certain long-term investors. Individual investors in these investment policies currently pay effective tax rates of 30% on interest and property rental income, 20% on dividend income and 12% on capital gains.