MY INVESTMENT TIP FOR THE YEAR

I never give investment tips to people nor do I like to predict what investment is going to be the best in the year ahead so this is a rather unusual step for me. I am going to give you the best investment tip you are likely to receive in 2015.

TAX FREE INVESTMENT

The SA Government is likely to raise taxes this year so investors need to take full advantage of any tax-free benefits that are on offer. For those who are earning a taxable income, this means they should make full use of the tax deductions allowed to them for contributions to retirement funds. People who earn very large taxable incomes should assume that this is the last year that they can make large contributions to their retirement funds and receive a tax deduction. When Treasury eventually proceeds with their retirement reforms, they are going to limit the maximum amount that can be used for tax deductions. That is not the investment tip but it is still good advice for those who can benefit from the tax deductions.

My big investment tip for 2015 is that you should start using the Tax Free Savings Account (TSA) launched by the SA Treasury last year. This is a brilliant initiative that offers savers some real benefits. You will be allowed to invest a maximum of R30,000 per year to a limit of R500,000 over your lifetime into an investment which will be completely free of tax. As this is a new initiative, not all the details about TSA's have been finalised yet but we do know that you can use some unit trusts, bank deposits, Exchange Traded Funds and RSA Retail Bonds for your TSA investment. What is clear is that Treasury has designed this to be a long term investment vehicle so if you make any withdrawals from the TSA, you will not be able to re-deposit your money again as part of your lifetime limit of R500,000. In other words, use this as a long term investment only, don't use it for your short term savings.

According to research by Daniel Wessels from www.indexinvestor.co.za if you make full use of the TSA i.e. you invest R500,000, you should have 12% more capital than a normal investment i.e. a normal unit trust or share portfolio. This might not seem like a lot of money but it amounts to R175,344 more capital on your R500,000 lifetime contribution. This is very significant.

WHAT INVESTMENT SHOULD YOU CHOOSE

As you are limited to an annual contribution of R30,000 it makes sense to place your money in investments which are likely to grow the most over time. With shares, you will pay a 15% dividends tax but you are not allowed to buy individual shares in a TSA. This means you would need to invest in a unit trust or Exchange Traded Fund that owns shares. You could also consider a property unit trust as the income from a property fund is normally taxable as income tax and therefore a TSA will help reduce your tax significantly. Property unit trusts generate good capital growth and the income grows significantly faster than inflation so if you invest the maximum allowed over your lifetime, you will have a great tax-free, income generating investment. It will take you 16 years and 8 months to reach the maximum allowed contribution amount of R500,000 so this is really a long term investment but it is still certainly worth it.