national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

PRESS RELEASE

Publication of the draft Notice and Regulations for tax free savings accounts to encourage individuals to save

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The National Treasury today publishes the draft Notice and Regulations required to allow the introduction of tax free savings accounts from 1 March 2015. The draft Notice lists the service providers that may offer tax free savings and investments to the public and administer those accounts on their behalf.

The draft Regulations detail the products that will qualify as 'tax free investments' to be included in the tax free savings accounts, the disclosure requirements in respect of those products and the process for transferring amounts within a tax free savings account to a different service provider.

The objective of introducing the tax free saving accounts is to encourage individuals to save, which would reduce their financial vulnerability and reliance on debt when there are unexpected shocks to their normal income or sudden large expenditures. A secondary objective is to increase the overall level of savings in the economy, which would bring wider macroeconomic benefits.

The Taxation Laws Amendment Bill 2014 (TLAB) includes a new section 12T that defines a 'tax free investment' to be a savings product, financial instrument or policy that must comply with these Regulations. The new provision also states that all returns from such products will be tax free in the hands of the individual who owns them. An individual may contribute up to R30 000 per year in tax free savings and investments with a lifetime contribution limit of R500 000.

Eligible service providers in the draft Notice

Licenced banks, long term insurance companies, managers of registered collective investment schemes, authorised users, linked investment service providers and the National Government will be able to offer tax free savings accounts.

Products that qualify as tax free investments according to the draft Regulations

The draft Regulations follow the principle that products qualifying as tax free savings and investments should be *simple* to understand, *transparent* in their disclosure and *suitable* for the majority of individuals making use of such savings and investment products.

The draft Regulations allow for products that are issued by banks, long term insurance companies and managers of collective investment schemes. However those products may not have restrictions on when those returns are paid or on the level of returns paid to the individual. Products with performance fees will also not qualify as tax free investments.

In a similar obligation to those imposed on collective investment schemes (Unit Trusts), products that expose an investor to an excessive level of market risk are excluded. Products must allow individuals to be able to access their savings and investment within seven business days after they request it. In the case of fixed deposits (or policies with a guaranteed return) early withdrawal penalties are allowed, but they may not exceed the amount specified in the draft Regulations.

Requirements with respect to product disclosure

Service providers must be transparent in how they offer tax free savings and investments and will have to comply with existing disclosure parameters outlined in the Financial Advisory and Intermediary Services Act of 2002 and the Collective Investment Schemes Control Act of 2002 and their subordinate legislations.

Requirements with respect to transfers

In order to enhance competition and flexibility, individuals with tax free savings accounts will be permitted to transfer any portion of the value in that account to another service provider and service providers must be able to facilitate such a transfer. The draft Regulations state that the service provider must provide the individual with a certificate indicating the details of the transfer (such as the value to be transferred, the date of transfer and the new service provider to which the transfer is being made). The individual then has two weeks to transfer the amount to the new service provider and the transferred amount will not count towards the annual contribution limit.

Due date for comments

Written comments should be submitted to Ms Janice Stoddart at (janice.stoddart@treasury.gov.za) and are due by the close of business on Wednesday 03 December 2014.

Issued by: National Treasury
Date: 14 November 2014