national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Publication of the final Notice and Regulations for Tax Free Savings and Investment Accounts

The final Notice and Regulations that allow for the introduction of Tax Free Savings and Investment Accounts ("TFSAs") with effect from 1 March 2015 (the start of the new tax year) have been approved by the Minister of Finance. The *Gazette* will be published in the next week, but a copy submitted for publication in the *Government Gazette* is attached[1].

These final Notice and Regulations follows an extensive consultative process on the first draft Notice and Regulations which were issued on 14 November 2014 for public comment.

This incentive is an important tool to encourage South Africans to save more and to reduce household indebtedness and vulnerability. It complements initiatives and incentives to promote retirement savings and will also support long-term economic growth.

This tax incentive is enabled through section 12T of the Income Tax Act and these Notice and the Regulations. The earnings (interests and dividends) and growth (capital gains) on these products will not attract income, dividends or capital gains tax.

The Regulations aim to ensure that appropriate financial products are developed and market conduct practices are in line with the objectives of financial sector regulatory reform. In this respect, it is important that customers are treated fairly, and that the charge structure is kept relatively low to ensure that customers derive maximum benefits from such savings and investments.

Eligible service providers and products

TFSAs may only be **issued** by regulated institutions such as registered banks, long-term insurers, managers responsible for collective investment schemes, the government (through the retail savings bond scheme), mutual banks and co-operative banks. It follows that the above institutions may also **administer** TFSAs for purposes of section 12T of the Income Tax Act. In addition, an authorised user (stockbrokerage firms) and a linked investment service provider may also administer TFSAs.

[1] The version published in the *Government Gazette* will be legally binding.

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Product providers (issuers and administrators) must ensure that the saving and investment products are *simple* to understand, adequately *transparent* and *suitable* for investors. The following products will be eligible as TFSAs; most savings accounts with banks, fixed deposits, unit trusts (collective investment schemes), retail savings bonds, certain endowment policies issued by long-term insurers, linked investment products, and exchange traded funds (ETFs) that are classified as collective investment schemes.

Contribution limits

Contributions to all tax free savings accounts will be limited to R30 000 during any year and R500 000 over the life of an individual. However, over time the balance in these accounts may exceed the R500 000 limit due to accumulated earnings and capital gains.

Product providers (i.e. issuers and administrators) must disclose these contribution limits and the consequences for breaching them when marketing products as TFSAs to investors. Service providers are not allowed to accept amounts in excess of the contribution limits. It remains the responsibility of the investor to ensure that he or she adheres to the annual and lifetime limits or else face the penalties for breaching these limits.

Diversification requirements

TFSAs that give investors exposure to the equity market (shares, including shares in REITs) must be adequately diversified. This follows from the stated product principle of suitability. Direct share trading (including shares in REITs) or products that otherwise do not comply with the diversification requirements in the Regulations will not be permitted.

Transfers

To enable a smooth introduction of tax free savings, transfers of tax free savings accounts will initially not be allowed, during the first year of the incentive, until 1 March 2016.

National Treasury intends to expand the Regulations next year to allow individuals to transfer any amount in a tax free savings and investment account (through a set procedure) from one institution or product provider to another.

A transfer of tax free savings and investment accounts between investors, however, will not be allowed.

Conversion of pre-existing products into TFSAs

The final Regulations provide that existing investor products may not be converted into TFSAs, implying that all TFSAs must be originated with new contributions from the investor. The aim of this requirement is to encourage new savings.

However, many low income individuals have invested in products that might not be suitable for their circumstances and are taxed at a higher rate than their individual marginal personal income tax rates (e.g. endowments policies for an individual with taxable income that is taxed at marginal tax rate lower than 30 per cent).

The National Treasury is investigating the possibility to allow individuals to convert their savings or investment in current products into tax free investments where the accumulated value in such products does not exceed the annual limit of R30 000. Such a possibility, if deemed feasible, will only be finalised later this year.

Performance fees

Performance fees will not be allowable for TFSAs. This current approach will be reviewed in the future as part of other reviews, for example, the currently discussed Retail Distribution Review. This will be done taking into account the need to treat customers fairly and lower charges in the financial industry.

Structured products

Products that have market exposure, but limit, in any way, the earnings accruing to investors will be excluded in the current 'phase one' of eligible products. This would entail products with structured or conditional pay-off terms and smoothing characteristics.

The National Treasury and the Financial Services Board will develop a regulatory framework that is more appropriate for these relatively complex products by the end of this year, following consultations with industry. Once such a customer-friendly framework is developed, some of these products could be considered for eligibility.

Disclosure requirements

All product providers (issuers and administrators) must comply with disclosure requirements as specified under the Financial Advisory and Intermediary Services Act.

Access

All savings and investment products that have a term of maturity must be accessible within 32 business days from the time that the money is requested, while in the case of other products it must be paid out within 7 business days.

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Transactional accounts

Savings products that can be used as transactional accounts are not allowed. Debit or Stop Orders, and ATM transactions will not be permitted features of TFSAs.

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