



Prudential Investment Managers
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All you need to know about tax-free investments

Tax-free investments are a great way to save - whether putting money aside for a rainy day, saving towards something specific like your child's education, or as a supplement to your existing retirement savings. However, given that this product is still relatively new (it's only been around for four years), there are still many people who aren't exactly sure how tax-free investments work and for this reason may be avoiding it altogether.

The good news is that tax-free investments aren't at all complicated, and given that the end of the tax year is just around the corner (it closes on the 28th of February 2019), now may be the perfect time to get to grips with how they work and maximise your contributions before the tax year ends. So if you're looking to find out more, we've put together a list of frequently asked questions that highlight some of the main features of this fantastic investment vehicle.

What are tax-free investments?

Tax-free investments were launched in 2015 as part of the government's initiative to encourage South Africans to save more.

Unlike normal unit trusts, your investment returns are exempt from local income tax, dividends tax and capital gains tax.

Who can invest in tax-free investments?

Tax-free investment are only available to individuals (including minors) who are South African residents.

How much can I invest?

The maximum amount that you can invest for the tax year is R33,000 (your annual limit), while the maximum amount that you can currently invest over the course of your lifetime is R500,000 (your lifetime limit).

What happens if I contribute more than the maximum limits?

SARS will tax your excess contributions (i.e. the amount above the maximum limits) at a rate of 40%.

What happens if I contribute less than my annual limit?

While you won't be penalised in any way, it's important to remember that the unused portion of your annual limit will fall away and not get carried over to the next tax year.

Does the growth on my investment count towards my maximum limits?

No. Your investment growth (including income distributions) does not count towards your maximum limits.

Are contributions to tax-free investments deductible for income tax purposes?

No. While tax-free investments are a great way to supplement your retirement savings, unlike contributions towards an approved retirement fund, your contributions towards a tax-free investment are not regarded as deductible for income tax purposes.

Can I withdraw from my investment?

Yes. You can withdraw from your investment at any time and without penalties.

Can I set up a regular withdrawal from my investment?

No. While ad hoc withdrawals are allowed, regular withdrawals defeat the savings objective of the product.

What happens to my maximum limits if I withdraw from my investment?

Withdrawals are not taken into account when determining your maximum limits. To better understand this, it's important to have a look at how your maximum limits are calculated:

Annual limits

R33,000 – This is a fixed limit, so any contributions you make will be deducted from this total during the course of the tax year. Any withdrawals you make have no impact on this calculation.

Lifetime limits

R500,000 - This is a fixed limit, so your total contributions made over the course of your lifetime will be gradually deducted from this total. Any withdrawals you make have no impact on this calculation.

For example: Joe starts a new tax-free investment with a lump sum contribution of R33,000 for the tax year. His remaining maximum limits are calculated as follows:

- Annual limit: $R33,000 - R33,000 = R0$ remaining for year
- Lifetime limit: $R500,000 - R33,000 = R467,000$ remaining

Joe decides to withdraw R10,000 from his investment later in the same tax year. His remaining maximum limits remain unchanged at R0 (annual limit) and R467,000 (lifetime limit). The reason for this is that withdrawals are not taken into account when determining his maximum limits (as shown in the formulas above). So when he withdraws R10,000, he is never allowed to “replace” that R10,000 above the R33,000 contribution limit.

Can I invest on behalf of my children?

Yes. You can invest on behalf of your children regardless of their age. However, it's important to note the following:

- Contributions to their investments are counted towards their annual and lifetime limits.
- Contributions above the maximum limits are subject to 40% tax.

- Withdrawals from their investments can only be made to a bank account held in their name.
- Contributions made on their behalf are regarded as donations and may be liable for donations tax. Currently, SARS exempts the first R100,000 donated by an individual from donations tax.

Can I transfer my tax-free investment from one provider to another?

Yes. Transfers between providers came into effect on 1 March 2018.

What happens to my investment when I die?

Your investment will form part of your estate upon your death and be subject to estate duty. As tax-free investments cannot be transferred from one individual to another, your investment will need be liquidated and paid to either your nominated beneficiaries or retained within your estate and distributed according to your last will and testament.

Tax-free Fund	Class	Risk Profile	Annual Management Fee (excl.VAT)	Minimum Investment Amount	Income Distribution Frequency
Prudential Enhanced Income Fund	T	Low/Med	0.60%	R1 000 p/m or R10 000 lump sum	Quarterly
Prudential Inflation Plus Fund	T	Low/Med	0.80%		Bi-annually
Prudential Balanced Fund	T	Med	0.80%		Bi-annually
Prudential Enhanced SA Property Tracker Fund	T	Med/High	0.60%		Quarterly
Prudential Dividend Maximiser Fund	T	High	1.25%		Bi-annually
Prudential Global Inflation Plus Feeder Fund	A	Low/Med	0.50%	R500 p/m or R2 000 lump sum	Bi-annually

Prudential Global Balanced Feeder Fund	A	Med	0.50%	R1 000 p/m or R20 000 lump sum	Bi- annually
Prudential Global Equity Feeder Fund	A	High	0.50%	R500 p/m or R2 000 lump sum	Bi- annually

How do I invest in a Prudential tax-free investment?

If you are a new investor, simply **complete the application process online** or download the **tax-free application form**. If you are an existing tax-free investor and would like to add to your investment, you can **send us your instruction online** or complete the **tax-free additional contribution form**.

Which funds can I invest in and how much does it cost?

As shown in the table below, we've hand-selected our top funds for you to invest in as tax-free investments at a reduced cost.

To find out more, contact our client services team on 0860 105 775 or email us at query@prudential.co.za.

<https://www.prudential.co.za/insights/articlesreleases/all-you-need-to-know-about-tax-free-investments/>