

Taking the logical next step – invest your savings money

During these unpredictable times, it is now more vital than ever for people to take the first step in changing their spending habits, and the next step to investing their money smartly.

There are still people who continue to embrace remote work, which has led to decreased expenses on fuel, takeaway coffee and meals at the office. Channelling these modest amounts into investments for a variety of needs, forming a habit of spending less and investing the money not spent can gradually become an integral part of one's financial journey to success. Unfortunately, it seems as though the skill of proper budgeting has been largely forgotten in South Africa, with many opting for short-term credit instead of stashing away money for the future.

Financial advisors have a significant role in guiding clients who might be wary of saving and investing due to apprehensions about schemes gone wrong they saw in the media or simply because they do not know where to start. Financial advisors can support clients in crafting a budget, making smarter financial choices and efficiently allocating any newfound savings that could be channelled towards suitable investments. Solid financial advice is invaluable, as only a handful of individuals can express their investment goals in monetary terms or determine how much money they will need and by when.

Advisors can help clients put together plans for short-term necessities such as emergency funds, medium-term needs like buying a vehicle or securing a home deposit and long-term objectives such as paying for their children's tertiary education. The most crucial long-term goal for most people is to provide for financial independence which many people still refer to as retirement. Even though it is possible for anyone to reach a point of financial independence by properly planning for it, it is disheartening that so few people can maintain their standard of living once they stop working either by choice or because of circumstances.

To guide clients on their financial journey, financial advisors should discuss the different investment options, from starting a basic investment through unit trusts to using products or tax wrappers such as an endowment or a retirement annuity to optimise the tax efficiency of their plan. Out of a diverse range of investment choices, advisors can help clients choose the most suitable strategies that align with their individual needs and circumstances.

A popular choice for long-term investing remains a retirement annuity because of its tax efficiency. For younger clients, this approach fosters the habit of regularly investing money and offers a tax-savvy way to do it. Every tax year a person can claim a tax deduction for the money invested in a retirement fund. To make the most of this deduction, clients can invest up to 27.5% of their taxable income or remuneration, whichever is

The deduction is limited to 27.5% of the greater of the amount of remuneration for PAYE purposes or taxable income (both excluding retirement fund lump sums and severance benefits). The deduction is further limited to the lower of R350 000 or 27.5% of taxable income, before the inclusion of a taxable capital gain.

higher, in a retirement fund. The maximum deduction a person can claim in a tax year is R350 000.

An increasing number of people are also exploring tax-free investment products, which present an excellent opportunity to supplement their provision for future financial independence. Although clients don't get a tax deduction for money they invest in a tax-free investment, they still enjoy tax-free growth. And they won't pay any tax on the proceeds when they decide to take money out of the investment. Since the 2021 tax year, clients can invest up to R36 000 every tax year in a tax-free investment, limited to R500 000 over their lifetime. Before this change, the yearly limit was R33 000. Government may adjust these limits from time to time.

It is essential for financial advisors to assist clients in maximising their tax incentives and consistently leveraging them over time while also optimising the tax efficiency of their overall investment portfolio by blending the use of the available investment products or tax wrappers.

This tactic minimises the impact of tax on financial plans and boosts the growth potential of investments. By providing personalised financial plans and investment strategies, financial advisors can enhance their clients' chances of achieving their financial goals on the journey to success.

Momentum Wealth offers a comprehensive range of tax wrappers that financial advisors can use to help clients structure their personal investment portfolios for optimal tax efficiency and craft them to suit their unique circumstances and goals. For more on Momentum Wealth, visit our website momentum.co.za. ■



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