

Tax-free savings account or tax-free investment?

People's perceptions and actions towards an idea or product are greatly influenced by the words we use to describe them. The wording used to describe tax-free products can significantly affect how people view them and how they use them.

Understanding how language impacts the brain and behaviour is made possible by the fields of study known as neurolinguistics and behavioural linguistics.

Behavioural linguistics focuses on how language influences behaviour and decision-making, while neurolinguistics investigates how the brain interprets and processes language.

In South Africa, we often see people in general and even product providers referring to tax-free savings accounts (TFSAs). Although National Treasury introduced these products as 'Tax Free Savings and Investment Accounts ("TFSAs")' in 2015, it seems that the media and industry got stuck on the TFSA naming convention. Because the word 'savings' is in the name, our brains might bring up images of conservatism and may influence how we behave when using these products. Because we think it is a savings account, we might use the money in the account for shorter-term expenses like holidays, weddings or children's education.

When we refer to these products as investments, specifically tax-free investments, the picture changes. We now look through a longer-term lens. We start thinking that growth asset classes might be a better option for our tax-free investment, that maybe we should not dip into our money for shorter-term expenses, and that maybe this investment is better suited for our retirement planning needs. Overall, it promotes a more long-term and aspirational picture of tax-free investments by using the phrase 'investment' rather than 'savings account'.

Some basic investing principles also come to the fore when thinking 'investing' versus 'saving'. Principles such as starting early and staying invested for a long time to benefit from the positive effect of compounding over time and not dipping into the investment when you need money that is intended for other purposes.

PIERRE JEAN MARAIS

Retail Marketing at
Momentum Investments



Specifically for a tax-free investment, it is a good idea to start investing as early as possible to reach the R500 000 lifetime limit sooner so that your money works for you for as long as possible, tax-free. Also, the earlier in the tax year you can invest the maximum allowable yearly amount into your tax-free investment, the more chance your money has to participate in any market growth for longer.

How our brain

interprets and processes the words we see and hear is very personal. This is why at Momentum Wealth we prefer to refer to our Flexible Tax-free Option as a tax-free investment. Because with us, investing is personal.

Introduced in 2015, natural persons can invest in approved investment products, tax-free. These investments are subject to a lifetime investment limit of R500 000, and a yearly investment limit of R36 000 (2020: R33 000). The growth and the proceeds from a tax-free investment are fully exempt from South African tax, with no capital gains tax and no tax on dividends and interest. Investments of more than the yearly and lifetime limits are taxed at 40%.

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