



## THIS SAVINGS MONTH – REMEMBER YOUR TAX-FREE SAVINGS ACCOUNT IS NOT A “SAVINGS” ACCOUNT

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There is really only one problem with a Tax-Free Savings Account (TFSA), and it has nothing to do with the product itself. It's the name. The word “savings” makes it sound like something you dip into when you need cash. In reality, a TFSA is one of the most efficient long-term investment tools available to South Africans. A Tax-Free Retirement Account would have made for a much more fitting title...

### Why a TFSA is not a savings account

A TFSA allows you to contribute up to R46 000 per year, with a lifetime limit of R500 000. The key detail people often miss is what happens when you take money out. If you withdraw R100 000 (for example), you don't just lose the growth on that amount; you also permanently reduce your lifetime contribution cap, and you cannot replace that withdrawal. Every contribution counts towards your R500 000 lifetime limit. Withdrawals do not create new contribution room.

That rule alone should tell you that a TFSA was never designed to be a short-term saving or emergency account. It's designed to be built slowly, left alone, and allowed to compound.

### Why it works best as a long-term investment

At maximum contributions of R46 000 per year, you reach the R500 000 lifetime limit in a little over 10 years. After that, you can't contribute anymore, but the investment itself can keep growing for decades. And importantly, every bit of that growth stays completely tax-free.

Let's illustrate the power of this investment vehicle by means of an example.

Let's assume the following:

- An investor starts at age 35
- He/she contributes R46 000 per year for 10 years, then R40 000 in year 11
- Contributions stop at age 46 (when the R500 000 cap is reached)
- The investor leaves the investment untouched until age 65
- We assume a 10% nominal return per annum

Investment	Value when contributions stop (age 46)	Growth period	Value at age 65
TFSA	R846 434 <sup>1</sup>	20 years at 10% return	R5 694 383

By age 65, this investment grows to R5 694 383. If the investor withdraws this amount in full, the full amount is theirs. No tax. No deductions.

<sup>1</sup> The TFSA reaches a value of approximately R846 434 by the end of Year 11 because each annual contribution begins compounding from the date it is invested, allowing the earlier contributions to grow while subsequent contributions are still being made.



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This becomes an even more powerful example if we consider the same approach, but we change the investment vehicle to a standard balanced unit trust fund (not in a TFSA).

Let's compare this scenario with the same investment held in a standard discretionary balanced unit trust.

At retirement, we assume the investor is in the 41% marginal tax bracket and decides to withdraw the entire investment. The first tax event triggered is Capital Gains Tax (CGT). The capital gain would be:

- Value at retirement: R5 694 383
- Original investment (base cost): R500 000
- Capital gain: R5 194 383
- Less annual exclusion: R50 000
- Net capital gain: R5 144 383
- 40% inclusion rate: R2 057 753
- Tax at a 41% marginal tax rate: R843 679

### The comparison

	TFSA	Discretionary investment
<b>Value at retirement</b>	R5 694 383	R5 694 383
<b>Capital gains tax</b>	R0	R843 679
<b>Amount received by the investor at age 65</b>	R5 694 383	R4 850 704

The investor earns the same investment return in both scenarios, but simply by using a TFSA instead of a taxable discretionary investment, they retain an additional R843 679 at retirement.

For simplicity, we've assumed both portfolios earn the same pre-tax return and only illustrated the final CGT impact. In reality, the taxable investment would likely accumulate less because taxes on dividends, interest and realised gains reduce compounding over time.

### Using tax to fund more tax efficiency

Let's use the same income-tax bracket (41%) to kick off the next example. By contributing approximately R112 000 (which comes down to R9334 per month) to a retirement fund each year, an investor paying tax at a 41% marginal rate could receive roughly R46 000 in tax relief. Instead of spending that tax saving, invest the full R46 000 into your TFSA.

Do that consistently, and within 11 years you've fully funded your R500 000 TFSA limit - without feeling it in your cash flow, because you are contributing to your RA (a win-win). From there, the TFSA is left to do what it does best: sit still and compound.

### The bigger picture – layering the retirement strategy

Let's say an investor uses the above strategy. By investing R112 000 per year into an RA, the investor receives enough tax relief from SARS to fully fund a TFSA contribution (maximum of R46 000) each year. The RA remains an investment that also keeps growing.

Using the same assumptions as the previous example:

- R112 000 is contributed annually for the first 10 years, followed by a final contribution of R97 561 in year 11, generating approximately R40 000 in tax relief at a 41% marginal tax rate.



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- Contributions cease at year 11 <sup>2</sup>
- The investment earns 10% nominal per annum
- The investment is left untouched until age 65

The total value of the RA when the investor reached age 46 is R2 061 052

Value at age 65: Growing R2 061 052 for another 20 years at 10% p.a. = R13 865 725

**Combined outcome**

Add a fully funded Tax-Free Savings Account (built entirely from annual SARS tax refunds), and the picture becomes even more compelling. By retirement at age 65, the investor's combined wealth grows to R19 560 108.

This is achieved from just R1 217 561 in direct contributions to the retirement annuity, while the TFSA receives a further R500 000 in contributions funded through SARS tax relief.

Investment	Value at age 65
Retirement annuity	R13 865 725
Tax-free savings account	R5 694 383
Total wealth	R19 560 108 <sup>3</sup>

It's a powerful illustration of how South Africa's tax incentives, combined with long-term compounding, can significantly enhance retirement wealth. It comes down to three things working together: time in the market, compounding steadily doing its job in the background, and tax efficiency quietly ensuring that more of the growth is kept rather than eroded along the way.

**In closing**

A TFSA isn't complicated, but it is often misunderstood. What becomes clear across all of these examples is that the TFSA was never designed to compete with a savings account. It's there to build wealth in the background, without tax getting in the way.

When it's paired with a Retirement Annuity, the two start working together - one creates the tax benefit, the other protects it. Over time, that combination does something quite powerful: it removes friction from compounding. The RA generates tax relief, which can then be redirected into the TFSA. The TFSA then compounds without friction, as there is no tax on income, no tax on dividends, no tax on growth, and no erosion at exit.

By retirement, the numbers tell their own story. A relatively modest, disciplined annual contribution pattern, structured correctly, builds into multi-million-rand wealth. Not because of aggressive investing or market timing, but because tax inefficiency has been systematically removed from the equation for three decades.

The examples above illustrate that the greatest driver of long-term wealth is not extraordinary investment returns, but allowing compounding to work over decades while systematically reducing unnecessary tax leakage.

The TFSA is not a savings account; it is one of the few tools that allows compounding to remain untouched for as long as you're willing to leave it alone. In the world of investing, that is a rare advantage worth respecting.

<sup>2</sup> Note: To keep the comparison simple and consistent, both the RA and TFSA contributions are assumed to stop after 11 years. This allows the example to isolate the power of long-term compounding and the tax benefits of each investment vehicle. In reality, continuing to contribute to a retirement annuity would generally result in an even larger retirement portfolio, while also providing ongoing tax relief.

<sup>3</sup> Note: Retirement fund deductions are limited to 27.5% of taxable income/remuneration, subject to the annual rand cap. These examples assume the investor qualifies for the full retirement fund tax deduction.



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*Every person's financial circumstances, tax position, goals, risk tolerance and investment time horizon are unique. While the principles discussed in this article highlight the potential benefits of long-term, tax-efficient investing, the most appropriate strategy will differ from one individual to another. Speak to a qualified financial adviser to develop a personalised investment plan that best suits your needs and objectives.*

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