Banks the main recipients of tax-free savings

Banks held the bulk of cash in tax-free savings accounts - 41% of the R5.2bn in these facilities - as at the end of February.

Life insurance companies held 26.5% of assets, followed by collective investment schemes (20.9%) and stockbrokers (11.9%), Intellidex said in a report surveying the universe of suppliers of these accounts.

Money in these tax-free savings accounts was held mainly in cash (R2.4bn), followed by equity (R2bn), bonds, property and then commodities.

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"This is causing some consternation in that interest rates are low, so real returns are negligible or even negative," Intellidex said. "Respondents also point out that banks have a huge advantage in that they have an extensive client base from which to mine for tax-free accounts, and they already have those clients' [Financial Intelligence Centre Act] registrations on hand, making it far easier for them to open new accounts."

In an effort to encourage South Africans to save, the Treasury introduced tax-free accounts in March 2015. Account holders pay no tax on the returns. Individual contributions are capped at R500,000 over a lifetime.

Nearly 460,000 accounts had been opened, Intellidex found. For the year to February, 207,172 new accounts were opened, 13% of which were estimated to have been opened by first-time savers.

This indicated "that the accounts do have a reasonable effect in galvanising people to become savers", Intellidex said.

About 70% of the assets held in tax-free savings accounts were new to the firms that managed them, indicating that these accounts provided a means for firms to attract new assets.

While banks had the largest share of total assets, the largest amounts were placed in collective investment schemes, with an average of R27,193 per account. "This category is likely to include many clients who are being advised by financial advisers, with [tax-free savings accounts] being incorporated into a larger savings plan."

Individuals saving with banks contributed an average of R6,841 per account.

One respondent suggested distinquishing between the bank-type accounts, which simply earned interest, versus the investment/brokerage products, which invested in equity products. The latter could be called tax-free investment accounts to highlight this.

Source: *Business Day*