8 Simple Tips to Maximise Your Wealth

Creating long-term wealth is not just about finding a fund manager with a purple patch or picking the next ten-bagger stock. Of course, this is wonderful when it happens and will happen a few times over your lifetime. However, to create wealth, it is also essential to implement an investment strategy over an investor's entire income-producing years and overlay this with astute tactical financial planning.

Here are eight simple financial investment strategies that will significantly improve the probability of you achieving your long-term financial objectives.

1. Make regular investments

If you interviewed the most brilliant money managers of our time and asked them for their best advice for new investors, you would hear the same consistent answer. "Make a monthly investment into a broad-based and low-cost ETF, preferably via a compulsory debit order". Instead of making a lump sum contribution and entering the market at a specific time, investing monthly, called rand/dollar cost averaging, allows you to consistently obtain exposure to financial markets through good times and bad. This strategy also ensures that you buy more assets when prices are low and less when they are high because they invest the same monthly sum. This enables you to mitigate market risk to some degree. Forced savings through a monthly debit order is the most decisive step forward you can make towards financial freedom. The short-term financial sacrifice is quickly forgotten as you become accustomed to your new earnings base. You will be rewarded wonderfully in the years ahead as your investments compound.

2. Open a tax-free savings account

All growth within a tax-free savings account (TFSA) is entirely free from tax. Any interest earned, dividends received, or capital gains are not taxed. You can contribute a maximum of R 36 000 per annum to a TFSA with an overall lifetime contribution limit of R500 000. If you contribute R 36 000 annually, it will take you approximately 14 years to achieve the lifetime maximum of R500 000. Assuming you make annual contributions to a TFSA and stay invested for 14 years at an annualised growth rate of 10%, the value of your investment would be approximately R1,1 million. Unlike retirement fund contributions, the contribution to a TFSA cannot be used as a deduction to reduce your taxable income.

3. Reduce your estate duty by making a tax-free donation every year

You can reduce your estate's ultimate tax liability by making an annual tax-free donation of R100 000. For donations above R100 000, tax is levied at a flat rate of 20% on donations valued at less than R30 million and 25% on those valued at more than R30 million. Estate duty is levied on the same basis as donations tax. For example, suppose you had two children, and you donate R 50 000 annually to each of them for 15 years and achieve a growth rate of 10%. These tax-free donations will have reduced the dutiable value of your estate by R3.5m and saved R700 000 in estate duty. If your spouse replicates this strategy, the benefits are doubled. Please note that all donations between spouses are exempt from donations tax.

4. Tax loss harvesting

Tax loss harvesting allows you to reduce your potential capital gains tax by selling assets with unrealised losses, such as shares, and then offsetting those losses against other capital gains you may have. A capital gain is the difference between the selling and purchase prices, with 40% of that capital gain being taxed according to your income tax table. Individual taxpayers are allowed an annual capital gain exclusion of R 40,000 per tax year. Let's say Peter holds ABC stock. He originally purchased it for R10 000, but it's now worth only R7 000. He could sell those holdings, take an R3 000 loss, and offset it against other capital gains. Be aware of the 'wash sale rule', which states if an investor sells and replaces an asset with the same/equivalent asset within a 45-day period before or after the sale date, the transaction must be treated as having disposed of the asset for an amount equal to the base cost.

5. Distinguishing between trading and capital investments

Section 9C of the Income Tax Act automatically deems any amount accrued (other than dividends) to be of a capital nature, and shares will attract capital gains tax when they have been held for more than three years. For assets held for a period shorter than three years, the amount accrued is not considered a capital investment but trading stock. This means that capital gains tax will not apply and that any realised gain from the sale of the investment will be considered income. Given the significant disparity between income and capital gains tax, you must maintain appropriate accounting records of trading and capital assets. In practice, this is often done by having separate investment accounts.

6. Contributing to your retirement savings

For many people, their retirement savings will be their single largest investment, excluding their home, and the importance of these savings cannot be underestimated. Therefore, consistent monthly contributions are vital for long-term wealth creation. By the same token, you should never withdraw or retire early from a retirement fund because the negative impact on the compounding value of your investments is highly detrimental. The taxation on early withdrawals can also be punitive beyond belief. An incentive for you to save for retirement is that contributions to retirement funds are deductible against your monthly income, thereby reducing the tax you must pay. Annual contributions to retirement funds are tax-deductible to a maximum of 27.5% of your remuneration or taxable income (whichever is higher), and no more than R350,000. Any excess contributions may be carried forward to the following tax year. Upon the member's death, the proceeds from

the retirement funds pass directly to the dependents and are excluded from the deceased estate, and no estate duty is payable. The capital growth, dividends received, and interest earned within a retirement fund are not taxable.

7. Disallowed retirement fund contributions

You can contribute in excess of the annual limit to your retirement fund, and this excess contribution is carried forward to the following year. By accumulating disallowed contributions in a retirement fund or making a lump sum payment into a retirement annuity, you can increase the tax-free portion of your retirement withdrawal at retirement. The excess contributions benefit from not being taxed while they grow inside your retirement fund.

8. Making informed decisions on corporate actions

A corporate action is an event that involves a company's securities and includes dividends (cash and in specie), unbundlings, mergers, acquisitions and stock splits. Generally, shareholders will have options regarding how to respond to a corporate action. For instance, if a company declares dividends, shareholders can often elect to take up additional shares or receive a cash dividend. Cash dividends are subject to dividend withholding tax. No dividend withholding tax is payable if you elect to take up additional shares. However, capital gains tax will be payable at a later stage. The additional shares received will reduce the base cost price of the shares. This means that when the shares are sold, the realised gain on the shares would be greater. The maximum effective tax rate on realised capital gains is 18% for individuals. It is generally better for a shareholder to accept additional shares instead of opting for a cash dividend, as they defer the tax payable, and the effective tax rate is 18% instead of a dividend withholding tax of 20%. Investors must be mindful with corporate actions that they elect the option most beneficial to their tax position.

When making investment decisions, it is critical to partner with a professional to help optimise your investment portfolio in the most tax-efficient way.

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