



Financial
SAFEGUARD



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Savings:
Banking products

Introduction

All around the world, banks offer basic banking services such as:

- Debit cards
- Money transfers
- Access to ATMs
- Branch and internet banking
- Basic bank accounts, e.g. current / cheque accounts
- Investment products, e.g. fixed deposits, money market products and savings accounts





1. Current / Cheque and Savings Account

Most people have some form of current / cheque account or savings account – you probably do too. All banks have variations of similar products and generally refer to them by their own branded name. These accounts are referred to as transactional accounts.

The difference between a current / cheque account and a savings account:

Current / cheque accounts	Savings account
Designed for transacting	Designed for saving
Low-interest rate on positive balance	Higher interest rate than that of a current / cheque account
Usually requires a minimum balance to be maintained or a minimum income	Anyone can open a savings account, regardless of income
Most current / cheque accounts charge a monthly management fee and often include free services such as a certain number of free cash withdrawals a month, swiping for purchases, subscriptions to online and cell phone banking, debit orders, SMS notifications, electronic transfers and payments	Using your savings account as your daily transactional account could become expensive as a small fee is deducted per transaction that you make
Optional features that come with a current / cheque account: Cheque book Overdraft facility	

How will you benefit?

Current and savings accounts:

- are simple and easy to understand
- are quick and easy to open at your local bank
- are usually used for day-to-day purchases and withdrawals
- allow traditional branch banking to advanced electronic services (Automatic Teller Machine (ATM) and online) to making deposits, withdrawals and payments
- generally, have tiered interest rates on a positive balance (the higher your balance, the higher the interest rate)
- charges vary from one bank to another but are usually low and may include fees like administration fees, deposit and withdrawal fees

All banks issue debit cards which allow you to use ATMs and point-of-sale machines at most retailers provided that you have enough money in your bank account, so you won't accumulate debt.

Who can help you with this?

The staff at your local bank branch will be able to open an account for you. They can advise the transactional products available.



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What is the investment amount?

Some banks do require a minimum amount to be deposited when opening a transactional account. You may also be required to maintain a minimum balance in your account.

What is the risks?

These are very low-risk investment accounts.

What are the tax implications?

Interest earned on credit balances must be reported to the South African Revenue Service (SARS) when submitting your annual tax return. SARS declares a tax rebate periodically on interest income.

1.1 Tax-free savings account

Tax-free savings accounts were approved by the National Treasury on 1st March 2015 to encourage South Africans to save more. These accounts range from savings accounts and fixed deposits to unit trusts and endowment policies.

How you will benefit?

No tax is paid on your savings or investment. That means that no tax is payable on any interest earned, dividends received and capital gains tax does not apply.

- You have immediate access to your capital as well as the income
- Long-term saving will get you the benefits of tax-free growth

Who can help you with this?

- Your bank
- Life insurance and investment companies
- Your financial planner can help you to make sure that you select the right product for your financial needs

What is the investment amount?

You are now able to contribute a maximum of R33,000 per tax year, and a maximum of R500,000 during your lifetime completely tax-free. These limits are governed by legislation and may change.

You are able to withdraw your funds from your account but note that these funds cannot be replaced. Funds withdrawn from a Tax-Free Savings Account and transferred into another Tax-Free Savings Account will be deemed as a contribution.

What are the risks?

However, should you exceed the investment amount limits, you will be penalised 40% on contributions above the limits by SARS. It is your responsibility to monitor and ensure that you do not contribute more than the prescribed limits.

What are the tax implications?

You will not be taxed on your investment or on the dividends that you earn from your return on investment subject to the investment minimum and maximum.



1.2 Call account

A call account offers the advantages of a savings and a current account and is good for funds that you may need in the future. Individuals, as well as businesses, can open a call account.

How you will benefit?

- Immediate access to your savings
- Unlimited withdrawals and deposits
- The higher your balance, the higher your interest rate; interest is calculated on your daily balance and re-invested monthly (you gain from compound interest)
- Most banks will only charge cash deposit fees on these accounts

Who can help you with this?

The staff at your local bank branch will be able to open a call account for you and advise you of the product features and benefits and the costs involved.

What is the investment amount?

Most call accounts have a minimum amount to be deposited.

What are the risks?

These are low-risk investment accounts.

What are the tax implications?

Interest earned must be reported to SARS when submitting your annual tax return.

Fixed-term deposits

A fixed-term deposit is an investment account which allows you to invest a lump sum within a predetermined timeframe. The investor cannot access the funds before the maturity date, in an event the investor withdraws before maturity date, a penalty will be applied by the bank.

How you will benefit?

- A specified investment timeframe of usually 3 months to 5 years stops you from withdrawing funds during the investment period; a forced savings account.
- The interest rate is higher than on a transactional account but lower than other investment options (e.g. property, shares, bonds etc.).
- You will know exactly what you will get back at the end of the term.

Who can help you with this?

The staff at your local bank branch will be able to open a fixed-term deposit account for you and advise you of the product features and benefit, the costs involved and the amount you will get out at maturity.

What is the investment amount?

- You would have to deposit a minimum amount
- You cannot add to the investment
- Interest is usually paid out monthly, quarterly, annually or at the end of the investment period (on maturity)



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What are the risks?

These are low risk, conservative investment accounts as your capital is secured during the term of the investment.

These accounts offer poor protection against inflation (e.g. if your fixed deposit interest rate is 3.5%, and the current inflation rate is 3%, the value of your money has effectively only increased by 0.5%).

There is no flexibility to access your money if you need it. You will be penalised for early withdrawal of your money.

What are the tax implications?

Interest earned must be reported to SARS when submitting your annual tax return.

1.3 Notice deposits

Notice deposits allow you to invest a lump sum or to make ad hoc monthly deposits into an investment account. A notice deposit is an investment account in which you earn interest on your investment. You must give notice before you access your investment. The notice period is predetermined and typically ranges from 7 days to 32 days.

How you will benefit?

- Tiered interest rates which means that the higher your balance is, the higher the interest rate that you will earn
- Interest is usually calculated daily and invested back into the same account (re-invested), so you benefit from compound interest
- Your money is protected as you need to give the bank notice (usually 32 days) if you intend to withdraw part of or your full investment – thus forcing you to be a little more disciplined in your saving

Who can help you with this?

The staff at your local bank branch will be able to open a notice deposit account for you and advise you of the product features and benefits and the costs involved.

What is the investment amount?

You'll need a minimum amount to invest which varies from bank to bank. You can invest a lump sum, make ad hoc deposits or deposit a monthly amount.

What are the risks?

Your capital is secured during the term of the investment making it a low risk, conservative investment.

What are the tax implications?

Interest earned must be reported to SARS when submitting your annual tax return.