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TIME TO WAKE UP YOUR LAZY CASH

CHARIZE BEUKES | CERTIFIED FINANCIAL PLANNER®, BRENTHURST PRETORIA

In the world of personal finance, cash is often seen as the safe haven – a reliable cushion for emergencies or opportunities. But all too often, it sits in the corner of your bank account like a snoozing employee on a Monday morning, earning little more than a polite pat on the back from the bank.

In South Africa, this "lazy cash" phenomenon is widespread, with millions of rands languishing in bank accounts earning a fraction of interest. If your cash is stuck in a low-interest account, it's time to give it a wake-up call and put it to work – and maybe even save on tax while you're at it.

WHY LAZY CASH IS HOLDING YOU BACK

South African banks typically offer interest rates on savings and call accounts ranging anywhere from about 3% to 8%, depending on the size of your balance and the account type. That might sound reasonable, but with inflation currently around 3%-5%, you're barely keeping pace with the rising cost of living.

Even worse, if you're in a higher tax bracket, the interest you earn is taxed at your marginal tax rate, which can be as high as 45% for top earners. That means your after-tax return on cash might struggle to outpace inflation, leaving your money effectively losing value in real terms.

IN THIS ISSUE

Leaving cash in low-interest accounts is like paying an employee to nap. Shift idle funds into higher-yield, tax-efficient vehicles and let your money work for you. Keep enough for emergencies, but make sure every rand earns its keep. Your future self will thank you.

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THE TAX DRAG ON CASH

Thanks to the interest exemption, the first R23 800 (under age 65) or R34 500 (over age 65) of interest income each year is tax-free. But any interest above those thresholds is taxed at your personal income tax rate.

For example, if you're earning R50 000 in interest and your marginal tax rate is 36%, you'll pay tax on R26 200 of that interest – costing you over R9 400 in tax. Suddenly, your "safe" cash doesn't look so safe after all.

Let me explain further by way of the following comparison:

Lazy Cash Investment	**R5,000,000**	
Interest rate	**8.0%**	
Interest earned	R400,000	
Interest earned after interest exemption (under 65)	R376,200	
Marginal Tax Rate	**45%**	
Income tax payable to SARS	R169,290	
Total Growth After Tax (Year 1)	**R230,710**	
Real net return after income tax	**4.61%**	
Investment amount after income tax	**R230,710**	
Real return (after tax)	**4.61%**	
Invested over a period of 5 years		
5 Year term	**Amount**	**Income Tax Paid**
Year 1	R5,400,000	R169,290
Year 2	R5,832,000	R183,690
Year 3	R6,298,560	R199,242
Year 4	R6,802,445	R216,038
Year 5	R7,346,640	R234,178
Total Capital Return	**R7,346,640**	**R1,002,438**
Net Capital Return After Income Tax	**R6,344,202**	
Net Capital Return After Income Tax	**R6,344,202**	

Wrapper Investment	**R5,000,000**
Rate of retrun	**8.0%**
Capital growth	R400,000
Interest earned	R0
Marginal Tax Rate inside wrapper	**30%**
Income Tax Payable to SARS	R0
Total capital growth	**R400,000**
Real net return after income tax	**8.00%**
Total capital gain	R400,000
Inclusion rate (40%)	R160,000
X Marginal tax rate (30%)	R48,000
Total growth	R400,000
Minus Intrest earned	R0
Minus Capital gains tax	R48,000
Investment amount after income tax and CGT	**R352,000**
Real return (after tax)	**7.04%**
5 Year term	**Amount**
Year 1	R5,400,000
Year 2	R5,832,000
Year 3	R6,298,560
Year 4	R6,802,445
Year 5	R7,346,640
Total Capital Return	**R7,346,640**
Net Capital Return After Income Tax	**R7,346,640**
CGT after 5 years	
Total Capital growth	**R2,346,640**
Inclusion rate 40%	**R938,656**
X Marginal tax rate	**R281,597**
Total CGT after 5 years	**R281,597**
Total growth after 5 years	**R7,346,640**
Minus CGT	**R7,065,044**
Net Capital Return After Taxes	**R7,065,044**

HOW TO GET YOUR CASH WORKING HARDER

Instead of letting your cash snooze in a low-interest account, consider these smarter options:

MONEY MARKET FUNDS

These funds typically offer higher yields than bank accounts – currently around 7%-9% – while remaining highly liquid and relatively low risk. Plus, they're managed by professionals who actively seek better rates across the money market.

TAX-FREE INVESTMENTS

A tax-free investment account (TFSA) lets you invest up to R36 000 per year (to a lifetime limit of R500 000) in approved investment products. Interest, dividends and capital gains earned inside a TFSA are completely tax-free, which can significantly boost your after-tax returns over time.

INCOME OR BALANCED FUNDS

If you can tolerate a little more risk, consider allocating some cash to conservative income funds or balanced funds, which aim to beat inflation while offering some diversification. Over the medium to long term, these funds can help your cash grow faster than inflation, preserving your spending power.

WRAPPER FUNDS (ENDOWMENTS)

Wrapper products, such as endowments, can be a tax-efficient way to invest larger sums of cash for the medium to long term. Interest, dividends and capital gains inside a wrapper are taxed at a flat rate of 30% (for individuals), which can be significantly lower than your personal marginal rate if you're a high-income earner. Wrappers also simplify tax administration because you don't have to declare the income annually on your tax return. They do, however, come with some restrictions on liquidity, so they're best suited for money you can set aside for at least five years.

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