

Tax refund an opportunity to start saving - acsis

With the tax return deadline looming, many consumers are now frantically submitting tax returns with the hope of receiving a tax refund from SARS. According to Jason Garner, management consultant at acsis, South Africans lucky enough to receive tax refunds should look to immediately reinvest the money or use this as an opportunity to settle some debt, before the festive season spending spree starts.

Garner says that consumers shouldn't view a tax refund as a gift, but rather as a wealth creation opportunity. "Receiving a lump sum of cash is a great time to consider investing, as even the smallest of tax refunds can be put to good use if the correct investment is chosen."

He says that saving might not be as fun as shopping, but consumers should consider the fact that investing a tax refund of R5 000 on an annual basis and earning 12% on it annually could amount to R360 000 in 20 years. "This could mean retiring a few years earlier or treating yourself to a trip abroad, instead of wasting it on something small and insignificant."

Deposit into savings account

According to Dirk Groeneveld, Certified Financial Planner at Client Care, South Africa's dismal savings rate is a key constraint of the country's economy. "It is understandable that after all of the financial challenges consumers have had to battle through recently, the idea of saving money doesn't feel very realistic. However, depositing a tax return into a savings account is the perfect opportunity to start saving without taking a chunk out of an already stretched salary."

Garner adds that another insightful method of using a tax refund wisely could be to reduce debt. "According to the most recent Credit Bureau Monitor, the number of consumers with impaired records increased by 170 000 to 9.22 million in the second quarter of 2012. The report states that there were 19.60 million credit-active consumers as of end-June 2012, an increase of 0.6% from the previous quarter.

Increasing debt is worrying

"These increasing levels of debt are extremely worrying for a country like South Africa, which has a very high unemployment rate. Consumers receiving tax returns should thus try to eliminate as much existing debt as possible with this extra capital." Garner says while these options are definitely the most sensible option for financially savvy consumers, it is sometimes difficult to part with the lump sum deposited into a bank account by the tax man. He therefore suggests that consumers keep the long-term financial benefits of investing or reducing debt in mind.

"Instead of blowing the entire tax return on luxuries or a short lived experience, individuals need to bear in mind that the invested money could contribute to something much more significant in the long-term," concludes Garner.

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