RETIREMENT REFORM

How tax and retirement benefit changes to funds affect you

The tax changes to all retirement funds and retirement benefit changes to provident funds which were originally scheduled for 1 March 2015 will take place on 1 March 2016.

National Treasury confirmed in their press release issued on 3 December 2015 that these long awaited changes will go ahead on 1 March 2016. The 2015 Taxation Laws Amendment Bill has been passed by both Houses of Parliament and now awaits assent of the President.

Why reform is important

Alexander Forbes research shows that most people retire with less than one-third of their final salary to live on in retirement. The reality is that although the South African retirement system has many good features, there are a number of issues to address:

- Protect South Africans in some way against poverty.
- Make sure that every working citizen contributes enough towards their retirement to keep their standard of living in retirement.
- Ensure that the retirement system offers value for money.

One of the aims of retirement reform is to create a uniform retirement fund system for all types of retirement savings vehicles, such as pension, provident and retirement annuity funds. This would allow all members to be treated the same regarding tax on contributions and also how benefits can be paid at retirement. Because pension, provident and retirement annuity funds are currently treated differently, a uniform system would make these easier to understand.

It's been a long journey to get to this point in the reforms. The changes are beneficial for most retirement fund members and encourage greater savings for retirement and address issues in the retirement system.

ALEXANDERFORBES
Securing your financial well-being

CHANGES GOING AHEAD IN 2016

Contribution tax deductibility is the same across all retirement funds

Currently contributions to all retirement funds don't have the same tax treatment. Provident fund members currently receive no tax deductions for their contributions, but pension fund members get a tax deduction of up to 7.5% of retirement funding income (similar to pensionable salary). Members contributing to retirement annuity funds receive a tax deduction of 15% of non-retirement funding income. Employer contributions aren't included in employees' taxable income as a fringe benefit.

From 1 March 2016:

- Future contributions to pension funds, provident funds and retirement annuity funds will be treated in the same way for tax purposes.
- Employer contributions will be included in the taxable income of employees as a fringe benefit, but will be offset by your allowance – see the next point.
- Employees' tax deductibility of contributions will be limited to 27.5% of the greater of remuneration or taxable income, up to a yearly limit of R350 000. This is an overall tax deductible limit that will apply to all retirement funds you contribute to (pension, provident and retirement annuity funds). Both the employee and employer contributions form part of this tax deductible limit. You can roll over any contributions over 27.5% or R350 000 into future tax years. You can claim these on assessment, subject to annual tax deductible limits.

This is a benefit for most members, especially provident fund members as they can deduct more for tax purposes from 1 March 2016. Members should consider paying additional contributions to take advantage of this improvement to boost retirement savings on a tax efficient basis.

This R350 000 limit impacts high earners. Members who have a pensionable salary of more than R1.2 million and contribute 27.5% will be limited by the R350 000 for tax deductibility purposes. Therefore any contribution over the R350 000 will no longer be tax efficient, but this doesn't mean that these members shouldn't continue to contribute more than this amount, as there are many other benefits to saving in a retirement fund. For example these savings will be protected from creditors, and are free from dividends tax and capital gains tax. They are also usually significantly cheaper to administer and invest than typical discretionary investments. Each individual's circumstances may differ and these members could benefit by planning their affairs using an accredited financial adviser.

Buying a pension at retirement

Currently provident fund members can take their retirement benefit as a full cash lump sum and don't have to buy a pension (annuity) from a registered insurer when they retire. However, pension fund members have to use at least two-thirds of their retirement benefit to buy a pension, unless the total benefit is less than R75 000 (this will increase to R247 500 from 1 March 2016).

*

From 1 March 2016 retirement benefits from provident funds will be the same as pension funds, for the benefit based on contributions from 1 March 2016. The changes for provident fund members are:

1 BEFORE

Members could take their retirement benefit as a full cash lump sum

2 AFTER

Members will have to **buy** a pension with at least **two-thirds** of their retirement benefit

unless the total benefit is R247 500 or less.

- Provident funds will have the same annuitisation rules as pension funds. This means that members will have to buy an annuity (pension) from a registered insurer with at least two-thirds of their retirement benefit, unless the total benefit is **R247 500 or less.**
- However, vested rights – protection of retirement savings before the new legislation becomes effective – will be taken into account in the following way:
  - Any provident fund balance saved before 1 March 2016 plus the future growth on this until retirement won't be affected and can be accessed in cash when you retire.
  - If you're 55 years or older on 1 March 2016, you won't be affected by this change at all if you stay a member of the same provident fund until retirement. This means that the retirement benefit will be treated in the same way as it is currently being treated when you retire. If you transfer to another fund, you would still have vested rights, but contributions and growth on this to the new fund will be subject to annuitisation requirements.

Tax-free transfers between approved funds

Transfers from a pension fund, pension preservation fund, provident fund or provident preservation fund to a pension fund, pension preservation fund, provident fund, provident preservation fund or retirement annuity fund will be tax free from 1 March 2016.

The benefit of this is change is that funds can now transfer members' savings in a tax efficient way.

Estate duty will apply to post-tax contributions to funds

Currently, all contributions to retirement funds are excluded from the dutiable estate of a deceased member, regardless of whether the contributions were tax deductible or not. Members typically increased contributions to their funds, sometimes with the only purpose of avoiding estate duty on these retirement savings.

South African Revenue Services (SARS) will be putting an end to this practice by applying estate duty on post-tax contributions. Estate duty will apply to any amount contributed, which was not tax deductible, to a pension fund, provident fund or retirement annuity fund after 1 March 2015 for a person who died on or after1 January 2016.

Essentially a tax loophole is being closed by implementing this change. It's important for members to be aware of this when doing their estate planning.

HOW CAN YOU SAVE MORE BEFORE THE TAX YEAR ENDING 28 FEBRUARY 2016?

Retirement savings into funds

If you've contributed less than the current tax deductible limits, then speak to someone in your human resources department, payroll department, principal officer or administrators of your fund to find out if you can make any voluntary contributions to the fund on a pre-tax basis before 28 February 2016. Alternatively speak to an accredited financial adviser about contributing to a retirement annuity fund – at 15% of non-retirement funding income. You could use your 13th cheque or bonus for this.

Tax-free savings account

New tax-free savings accounts are simple and allow you to save for any financial goal such as education for your children or a deposit on a house. It's a tax efficient option, but all contributions to these accounts are on a post-tax basis. However, any interest and capital gains in these accounts are not taxed. Annual contributions are limited to R30 000 and a lifetime limit of R500 000 applies (any amounts more than this are taxed at 40%). You can withdraw your money from these accounts at any time, although this can affect your lifetime limit.

These accounts are being offered by several providers in the market.

Contact us for more information or advice

Your financial adviser is the best person to take you through the benefits, tax calculations and options available to you. If you don't have a financial adviser then phone 0800 100 983 or email iac@aforbes.co.za and we will put you in touch with an accredited financial adviser who can take you through the process.

Time is limited. Put aside savings before 28 February 2016 and reduce your tax at the same time. Take advantage of this year's unused tax allowances, and in the case of the tax-free savings account the annual allowable contribution.

Produced by Alexander Forbes Communications. Photos: Gallo Images

11169-R&D-Retirement-Reform-Letter-2015-12