

## RETIREMENT FUND TAX REFORM

25 February 2016

### HOW THE LOOMING CHANGES AFFECT YOUR RETIREMENT SAVINGS

#### Why is the tax treatment of retirement funds changing?

The changes to the Tax Administration Laws Amendment Act dealing with retirement funds aim to:

1. Encourage South Africans to save for their retirement;
2. Encourage employers to make retirement funds available to employees;
3. Ensure that retirement funds protect the interests of their investors and keep them informed about the growth of their funds;
4. Standardise the tax treatments of the three different types of retirement savings vehicles, pension funds, provident funds and retirement annuities.

#### When are the changes taking effective?

The changes will be implemented from 1 March 2016.

### WHAT IS CHANGING FOR EMPLOYEES?

#### Changes to contributions and tax deductions

Before the implementation date	After the implementation date
<p><b>Contributions are taxed differently:</b></p> <p>Pension fund contributions made before 1 March 2016 are limited to the greater of -</p> <ul style="list-style-type: none"> <li>• 7,5% of remuneration from retirement funding employment, or</li> <li>• R1 750.</li> </ul> <p>Retirement annuity fund contributions made before 1 March 2016 are limited to the greater of -</p> <ul style="list-style-type: none"> <li>• 15% of taxable income other than from retirement funding employment, or</li> <li>• R3 500 LESS current deductions to a pension fund, or</li> <li>• R1 750.</li> </ul> <p>Provident fund contributions are not tax deductible.</p>	<p><b>All pension funds</b></p> <p>Contributions made on or after 1 March 2016 will be taxed uniformly:</p> <p>Your total contribution to retirement funds (pension funds, retirement annuities and provident funds) will be limited to 27,5% of your taxable income, but capped at an annual limit of R350 000. This includes contributions made by your employer on your behalf. (To reach this threshold you have to earn more than R1 272 727 per year)</p> <p> <b>Good news for most people who will receive greater tax benefits for their retirement savings.</b></p>

## Changes to options at retirement (postponed pending further consultation(est. 2018))

Before the implementation date	After the implementation date
<b>Pension funds and retirement annuities</b> Upon retirement, you can withdraw one third of your fund value and must invest the remaining two-thirds in an annuity of your choice. The income from the annuity is taxable.	<b>All pension funds</b> Withdrawals from pension funds, retirement annuities and provident funds will all be subject to the one third lump-sum and two-thirds annuity rules, except if the lump-sum is less than R247 500, or you are 55-years or older on 1 March 2016.
<b>Provident funds</b> When you retire, you may withdraw the full balance of your provident fund in cash.	For members younger than 55, the changes will only be applicable to NEW contributions or investments.

### What other changes are expected?

At the moment, employees who resign from their job or who are retrenched have the choice to withdraw their contributions to the company's pension or provident fund. There is no obligation to re-invest this money and the taxpayer is taxed upon withdrawal.

It is possible that legislation will change to prevent employees from withdrawing their retirement savings in this way and that taxpayers will be compelled to preserve their retirement savings until they turn 55. At this stage however, government is recommending that fund members should seek financial advice.

### What is staying the same?

These changes only affect funds invested or contributed AFTER the date that changes are implemented (currently unknown). Any contributions to retirement savings, whether to pension or provident funds or retirement annuities, before this date are unaffected.

### Ecsponent's advice

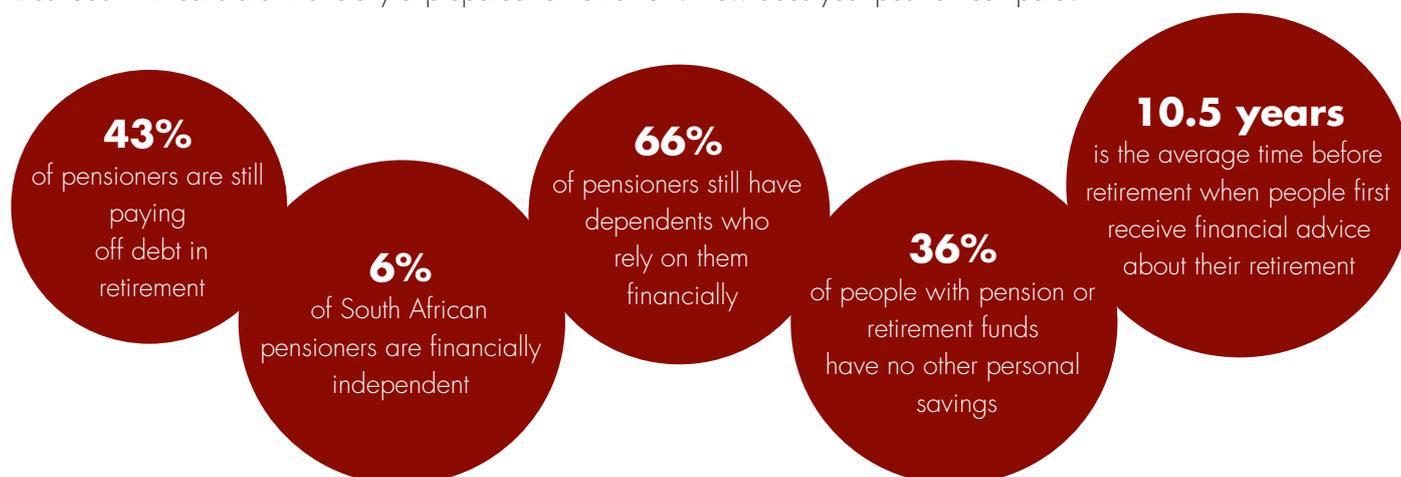
The greatest risk any investor faces is to be uninformed and then – based on rumours – take rash and impulsive decisions. None of the retirement tax reforms place your savings under threat and there is no reason to resign in order to protect your hard-earned savings. However, the changes affect your retirement planning and it is advisable to consult a financial adviser for guidance.

### Ecsponent can support you with

A needs analysis that will determine your cash flow and capital requirements after retirement and advice about suitable investment avenues for retirement. Contact us [info@ecsponent.com](mailto:info@ecsponent.com)

### Did you know?

Most South Africans are financially unprepared for retirement. How does your position compare?



Business Tech: <http://businesstech.co.za/news/wealth/91096/most-south-africans-are-nowhere-near-ready-for-retirement/>

Fin24: <http://www.fin24.com/Savings/News/South-Africans-among-the-worlds-worst-savers-20150707>

Solidariteit Beweging: [https://solidariteit.co.za/wp-content/uploads/2016/01/Altfondshervorming\\_2016\\_Solidariteit.pdf](https://solidariteit.co.za/wp-content/uploads/2016/01/Altfondshervorming_2016_Solidariteit.pdf)