GRAYISSUE

More for the future you, less for the tax man

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The tides are changing in the retirement savings space, with National Treasury encouraging us to save more for retirement by significantly increasing the tax incentives. This is one of several important changes that will go ahead from March this year, now that the President has approved the Taxation Laws Amendment Bill, 2015, which was passed by both Houses of Parliament at the end of last year.

Gifts from SARS

The wait is over for retirement fund members, who will enjoy increased tax deductions from their contributions to retirement funds. This includes provident funds, for which members were not previously able to claim a deduction. The tax deduction of up to 27.5% of the greater of taxable income or employment income, subject to an annual ceiling of R350 000, will come into effect.

Another change is that employer contributions to occupational pension and provident funds will be included in the gross income of employees as a fringe benefit. This means that employees will be able to treat these contributions as their own when calculating their tax deductions. These deductions are subject to the limits mentioned above.

You will have to buy an income-providing product…

Retirement funds will also be aligned, ironing out some of the differences between the different products. One of the key changes is around 'annuitisation' – the process of converting retirement savings into a stream of future income. From 1 March, provident fund members, like retirement annuity and pension fund members, will only be allowed to take one-third of their retirement savings as cash and they will have to use the rest of their nest egg to buy a product that pays them an income during retirement.

Treasury has stressed that vested rights will be protected – i.e. the new rules will not apply to historic savings or to growth on those contributions.

…unless you are about to turn 55…

If a provident fund member is 55 or older on 1 March, the new requirement will not apply. Any accumulated retirement savings as at 1 March, as well as new contributions and growth after 1 March, can still be taken as a cash lump sum at retirement.

…or you have saved under R247 500

Members with a retirement benefit at retirement less than or equal to R247 500 will be allowed to withdraw the entire amount without the need to purchase an annuity, as of March. This is an increase on the current value of R75 000.

Other changes

Changes around estate duty

National Treasury is also changing the way tax is handled between retirement funds and estates.

- **Included in the dutiable value of the estate for estate duty purposes:** Contributions that were made on or after 1 March 2015 to a retirement fund that did not receive a tax deduction.

- **Excluded from the dutiable value of the estate for estate duty purposes to avoid any potential double counting:** Contributions that did not receive a tax deduction that have been included as part of any lump sum pay outs to the member, or that have been used to offset the tax liability for annuity payments.

These amendments came into effect on 1 January 2016 and apply to the estates of members who die on or after that date. The changes will only apply to contributions made on or after 1 March 2015.

Pay outs to expats

National Treasury is changing the definition of 'retirement annuity fund' to allow expatriates to withdraw a lump sum from their RAs if:

- The expat is no longer a tax resident and leaves South Africa, or
- The expat leaves South Africa at the end of their work visa

These amendments will also come into effect from 1 March.

Commentary by Carla Rossouw, tax specialist, Allan Gray

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