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RETIREMENT REFORM - WHAT YOU NEED TO KNOW

The retirement space is evolving, with National Treasury introducing several changes to the rules around retirement fund contributions and retirement (amongst others). To help you when advising your clients, below is a brief summary of the changes that came into effect on 1 March 2016 and the impact they may have on your clients' investments.

RETIREMENT FUND CONTRIBUTIONS

The maximum amount members can claim as a tax deduction has increased

Members are now allowed to claim a tax deduction for retirement fund contributions to the greater of the following amounts:

- Up to 27.5% of their total taxable income
- Up to 27.5% of their total remuneration

The maximum amount that a member will be allowed to claim is R350 000 per tax year. There will no longer be a distinction between retirement funding income and non-retirement funding income.

Excess contributions are carried forward

Contributions in excess of the 27.5% will be carried forward to the next tax year. Any remaining contributions at retirement will be deducted from the member's taxable lump sum and/or annuity when they withdraw or retire from their retirement fund.

Employee contributions to provident funds are tax deductible

All contributions to an approved retirement fund will be consolidated into one deduction (i.e. the 27.5% mentioned above). This means that employee contributions to provident funds have become tax deductible.

Employer contributions are taxed as a fringe benefit

Retirement fund contributions made by employers on behalf of their employees will be taxed as a fringe benefit (i.e. included in the employee's gross income). Employees may treat these contributions as their own when calculating their tax deductions.

The treatment of contributions to the different types of retirement products can be summarised as follows:

<table>
<tr><th>RETIREMENT PRODUCT</th><th>BEFORE 1 MARCH 2016</th><th>AFTER 1 MARCH 2016</th></tr>
<tr><td>Provident fund</td><td>Employers are permitted to deduct contributions to a provident fund (between 10% and 20% of an employee's 'approved remuneration') as a business expense.

Members may not claim a tax deduction for their contributions to a provident fund.</td><td rowspan="3">Members will receive a maximum tax deduction of up to 27.5% of their total taxable income or 27.5% of their total remuneration (depending on which amount is higher) for employer and employee contributions to retirement funds. The maximum amount that members will be allowed to claim is R350 000 per year.

An employer may deduct the amount that it has contributed to an employee's retirement annuity (RA) during a year of assessment as a general deduction.</td></tr>
<tr><td>Pension fund</td><td>Employers are permitted to deduct contributions to a pension fund (between 10% and 20% of an employee's approved remuneration) as a business expense.

Members may claim a tax deduction of up to 7.5% of their 'retirement funding' income on contributions to a pension fund.</td></tr>
<tr><td>Retirement annuity</td><td>Members can claim the greater of the following amounts as a deduction:

▪ 15% of their 'non-retirement funding' income, or
▪ R3 500 less their allowable pension fund contributions, or
▪ R1 750</td></tr>
</table>

OPTIONS AT RETIREMENT

Increase to the commutation threshold

The maximum amount members can take as a cash lump sum without having to purchase an annuity will increase from R75 000 to R247 500 for all retirement funds. This means that members will be able to take the full amount in cash if their total benefit in the fund at retirement is less than or equal to R247 500.

The treatment at retirement of the different types of retirement products can be summarised as follows:

<table>
<tr><th>RETIREMENT PRODUCT</th><th>BEFORE 1 MARCH 2016</th><th>AFTER 1 MARCH 2016</th></tr>
<tr><td>Provident fund</td><td>Members can take up to 100% in cash. If a member takes a portion in cash, they are required to transfer the remaining balance to a living annuity or a guaranteed life annuity.</td><td>Unchanged</td></tr>
<tr><td>Pension fund</td><td rowspan="2">Members can take up to one-third in cash and transfer the remaining balance to a living annuity or purchase a guaranteed life annuity. If the value of the investment is less than or equal to R75 000 they are able to take the full portion in cash.</td><td rowspan="2">Members can take up to one-third in cash and transfer the remaining balance to a living annuity or purchase a guaranteed life annuity. If the value of the investment is less than or equal to R247 500 they are able to take the full portion in cash.</td></tr>
<tr><td>Retirement annuity</td></tr>
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ANNUITISATION OF PROVIDENT FUND BENEFITS

A core principle of retirement reform is that the new tax deductions are provided on the condition that there is annuitisation, i.e. at retirement, members have to use at least two thirds of their retirement fund benefits to buy an annuity that will pay them an income in their old age. In the case of provident funds, the requirement to annuitise has been postponed from 1 March 2016 to 1 March 2018. The new tax deductions will, however, still be allowed while the review of this requirement is underway. If no agreement is reached in the next two years regarding annuitisation, this tax benefit to provident fund members may be reviewed.