RETIREMENT REFORM CHANGES

– WHAT YOU NEED TO KNOW

You will remember that the Minister of Finance announced proposals in the 2013 Budget Speech aimed at reforming the retirement industry. Some of these proposals were accepted and the ***Taxation Laws Amendment Act, 2013*** was signed into legislation on 12 December 2013.

These changes will impact all members from 1 March 2015. Let's take a closer look at each of these:

TAX DEDUCTIBILITY OF CONTRIBUTIONS

What will change from 1 March 2015?

- Employer contributions to retirement funds will now be taxed as fringe benefits in the hands of Employees.
- Not to worry, Employees will be able to deduct contributions up to 27.5% of the greater of their remuneration, or taxable income from tax.
- This includes both Employer and Employee contributions made to Pension, Provident and Retirement Annuity Funds.
- These contributions are subject to an annual maximum of R350 000.
- If your contributions exceed the R350 000 in one year, you will be able to deduct the balance, which you could not claim, the following year.

What is the situation currently?

- Members can currently deduct only a small percentage of their Pension Fund contributions from tax.
- The Employer contributions are only tax deductible in the hands of the Employer, so this deduction does not benefit members directly.

Example:

Let's assume John's total Cost to Company is R300 000; his Pensionable Salary is R250 000.

How much does John contribute?

His contributions are as follows:

Employer contribution to his Provident Fund of 10%:	R250 000 x 10% = **R25 000**
Employee contribution to his Pension Fund of 7%:	R250 000 x 7% = **R17 500**
Employee contribution to a Retirement Annuity:	**R51 000** (John must provide proof to his Employer in this regard)
Total contributions =	**R93 500**

What is the maximum that John can deduct this tax year?

His maximum deduction will be calculated as follows:

27.5% of R300 000 (total Cost to Company) = **R82 500**

In this example, although John will be taxed on the R25 000 Employer contribution as a fringe benefit, he will also be permitted to claim the total of the Employee, Employer and Retirement Annuity contributions listed above (R93 500) as potential contribution deductions, as long as this does not exceed the 27.5% of remuneration maximum.

What will John be able to deduct in subsequent years, which he could not claim this year?

He will be unable to deduct the remaining R11 000.00 in the current year of assessment, but it will be available for deduction in future years subject to the percentage and monetary limits applicable in those years.

R93 500 - R82 500 (maximum for this year) = R11 000

OPTIONS AT RETIREMENT

PROVIDENT FUND MEMBERS CAN NO LONGER TAKE THE FULL AMOUNT IN CASH

What will change from 1 March 2015?

- With effect from 1 March 2015, members who retire from **both** a Pension and a Provident Fund will be able to take not more than one third of the retirement benefit in cash. The balance must be used to purchase a monthly pension.
- This rule does not apply to your balance (including growth thereon) in the Provident Fund on the first day of March 2015. The Fund will therefore have to keep a separate Member account for each Member: one for pre-March 2015 contributions and growth, and an account for post-March 2015 contributions and growth.
- However, Provident Fund Members who are **55 years old or older** on 1 March 2015 will be able to take their full retirement benefit in cash, including contributions made after 1 March 2015 and growth thereon.
- If your two thirds benefit in the Fund available to purchase a pension is R100 000 or less, you will be able to take the full amount in cash.

What is the situation currently?

- When members retire from a **Pension Fund**, they can currently take only one third of their benefit in cash and the balance has to be used to purchase a monthly pension.
- When members retire from a **Provident Fund**, they can currently take the entire amount in cash, or only a portion if they wish.
- If your two thirds benefit in the Fund available to purchase a pension is R50 000 or less, you will be able to take the full amount in cash.

DISABILITY PREMIUMS

PREMIUMS WILL BE TAXED, BUT BENEFITS WILL BE PAID TAX FREE

What will change from 1 March 2015?

- Disability premiums will now be taxed as fringe benefits in the hands of Employees. This will reduce your take-home pay.
- The good news is that should you become disabled, this benefit will now be paid to you tax free. This will also apply to existing claimants receiving these income benefits.

What is the situation currently?

- Disability premiums are currently tax deductible, but the benefits are taxed.

Your payslip will be restructured from 1 March 2015 to incorporate the aforementioned changes. Please contact your HR department for more information.