PRESS RELEASE

Implementation of Tax Harmonisation of Retirement Fund Contributions and Benefits

National Treasury would like to inform all members of the public that the tax harmonisation reforms of retirement funds will be implemented from 1 March 2016. This is in terms of the current law legislated in 2013, and amended in 2014 by shifting the effective date to 1 March 2016 (i.e. the Taxation Laws Amendment Act, No. 39 of 2013, as amended by Act No. 43 of 2014). It should be noted that the 2015 Taxation Laws Amendment Bill does not amend the scheduled implementation date, but only amends the R150 000 *de minimis* threshold to R247 500; closes certain coverage gaps; and requires a review of the legislation after two years from the effective date, and to report this review to Parliament.

Both Houses of Parliament have now passed the Taxation Laws Amendment Bill, 2015, which now only awaits the assent of the President, expected to be later this month or early January 2016. The National Council of Provinces (NCOP) passed the Bill on 1 December 2015, after the National Assembly passed the Bill on Thursday, 26 November 2015.

This note is released by National Treasury to ensure that all members of retirement funds, trustees, principal officers, the retirement industry, payroll administrators and employers, are fully aware of the law and are able to prepare for implementation, including informing all members of retirement funds of the changes. All individual taxpayers who contribute towards a retirement fund (pension or provident fund or retirement annuity) after 1 March 2016 (i.e. from the next tax year), will qualify for a tax deduction up to 27.5% of the greater of taxable income or remuneration, up to a limit of R350 000.

The law also allows one-third of the retirement saving to be cashed out as a lump sum, with the remaining two-thirds to be annuitised. This law already applies to all pension fund and retirement annuity fund members, but will now be extended to members of provident funds. Hence, all new contributions into provident funds after 1 March 2016 by those younger than 55 years will be subject to the two-thirds annuitisation requirement, but only once the amount at retirement exceeds the *de minimis* threshold. It will take several years before many provident fund members under the age of 55 years reach this higher limit.

National Treasury would like to extend its gratitude to all the various stakeholders, including trade unions and industry, who provided invaluable comments at short-notice. National Treasury will continue the dialogue with all parties and stakeholders, as also required by Parliament.

The sections that follow below provide more detail to specific points made above.

Pension funds already annuitise, so they will not be affected by new law

Pension funds and retirement annuities are already required to annuitise two-thirds of retirement benefits and hence will not be affected by the 2013 or 2015 laws regarding the annuitisation requirement. The Government Employees Pension Fund (GEPF) is a pension fund, and hence will also not be affected by the 2013 or 2015 laws. However, GEPF members will be subject to the same tax deductibility limits on retirement contributions contained in the above tax legislation. The rules applicable to the GEPF will continue to apply, as is the case for most pension funds.

It should be noted that all members of pension funds will also benefit from the 27.5% tax deduction, up to a limit of R350 000. Except for very high-income taxpayers who tended to claim a higher than proportionate deduction, this limit will, in most cases afford members of pension funds to save more through a retirement fund.

Dispelling the myths and false statements

a) Pension and provident funds will remain under control and management of boards' trustees, and Government cannot touch those funds;
b) Government has no intentions of introducing preservation "through the back door". The law has <u>not</u> changed to prevent members of provident and pension funds from accessing their retirement savings upon resignations, including also upon dismissals or retrenchments.
c) Government has increased the tax deduction on retirement contributions to encourage and not force workers to save.
d) Government remains committed to releasing the social security paper despite its complexity. Even with the advent of social security, retirement funds will still need to be improved to ensure that the outcome for members is better than at present.
e) Government is currently working on various reforms to lower charges on annuities and assist members with accessing suitable annuities to deal with their various concerns.

Government advises workers not to risk losing their jobs

In the current difficult economic environment which makes employment difficult and retrenchments likely, workers are advised not to cash in their retirement funds as they would face a higher risk of not being re-employed. Government cautions workers against any rumours or false information that indicates that workers will not be able to access any of their retirement money when they change jobs. Another false rumour is that Government wants to takeover or nationalise pension and provident funds. The fact that provident fund members whose retirement savings exceed R247 500 will be required to annuitise two-thirds of their saving does not mean that these savings are lost to retirees or members. Instead, the annuitisation requirement simply means that those affected workers will have to use their retirement savings slowly in retirement by receiving a regular income rather than a cash-lump sum.

Government advises workers <u>not</u> to rush and resign from their jobs if they have any concerns, and should rather check with their retirement funds (with their trustees or principal officers) or registered financial advisors to assess any information on whether it is correct or not. Those cashing out their pension or provident fund savings will not only pay significant amounts of

unnecessary taxation, but will lose out the growth on their savings and will need to save significantly more in future years if they wish to safeguard their standard of living in retirement.

Treasury will assist with communication and information

The Treasury will be working closely with principal officers, trustees, employers, trade unions, payroll administrators and the retirement industry to ensure that workers are properly informed and assisted when making decisions on their retirement policies. The National Treasury will be communicating extensively in the coming weeks and months to inform the public on the benefits of these tax harmonisation and retirement reforms.

The Taxation Laws Amendment Bill, 2015, as well as other useful documents on the benefits of the tax and retirement reform related changes and a Q&A (questions and answers) are available on the National Treasury website for those who seek further detail on these changes.

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