DEFINED CONTRIBUTION FUND TAX CHANGES
PENSION, PROVIDENT AND RETIREMENT ANNUITY FUNDS

QUESTIONS AND ANSWERS

From 1 March 2016 there will be changes in the taxation of retirement savings contributions and also the benefits on retirement for some provident fund members. The government’s intention is to encourage people to save more and to use their accumulated capital wisely when they retire.

**In short, there will in future be no difference in the tax treatment of contributions to defined contribution pension, provident and retirement annuity funds, and the retirement benefits that accumulate from future contributions to a provident fund will be aligned with pension and retirement annuity funds for most members.**

Below are some questions and answers to assist fund stakeholders in further understanding these changes.

**WHAT IS THE NEW LIMIT ON TAX-EFFECTIVE CONTRIBUTIONS TO A FUND?**

From 1 March 2016, all member and employer contributions to all pension, provident and retirement annuity funds of which you are a member will be tax-deductible in any given tax year up to 27.5% of the greater of remuneration and taxable income for that year, with an annual deductibility limit of R350,000. Any contributions in excess of the limit can be carried forward for deduction in a future tax year, or paid back to you tax-free when you eventually take your benefits from the fund.

**DOES THIS MEAN MY TAKE HOME PAY WILL INCREASE?**

If you are a member of a provident fund and the fund requires you to make a member contribution, then if you earn enough to pay tax on your income you should see your take home pay increase from 1 March 2016. This is because you will be saving tax at your marginal rate on your provident fund contribution.

If you are a member of a pension fund, there will be no change as your fund contributions are already tax-deductible.
DO ALL OF MY BENEFITS CHANGE AFTER 1 MARCH 2016?

No, the only change applies on retirement from a provident fund for some members as set out below.

For all provident fund members, your accumulated provident fund value at 29 February 2016 and all the future investment growth thereon can still be taken as a full lump sum cash payment on retirement from a provident fund.

If you have not attained age 55 on 1 March 2016 then in respect of new provident fund retirement savings contributions made from that date and all the future investment growth thereon, if this amount does not exceed R247,500 when you retire it can all be taken as a lump sum cash payment. Otherwise, at least two-thirds of this money must be used to buy a pension on retirement and the remaining amount that is not used to buy a pension can be taken as a lump sum cash payment.

If you have attained age 55 on 1 March 2016 then in respect of new provident fund retirement savings contributions made to the provident fund of which you are a member on 1 March 2016 and all the future investment growth thereon, this can be taken as a full lump sum cash payment on retirement.

WHAT WILL HAPPEN IF MY EMPLOYER MAKES A CONTRIBUTION TO MY FUND?

From 1 March 2016, any contribution your employer makes to a fund, will be added to your income as a fringe benefit. You will then enjoy tax relief on that amount up to the new limits, so there will be no effect overall.

IF I TAKE A CASH LUMP SUM ON RETIREMENT, WILL I PAY TAX ON IT?

Yes. Any amount taken as a cash lump sum at retirement will have tax deducted at the time, no matter what type of fund you belong to. The tax rates are announced each year as part of the national budget process.

Any contributions that you made to a fund out of after-tax money, such as member contributions to a provident fund before 1 March 2016, will however not be taxed when eventually paid to you as a benefit.

WHAT IS “REMUNERATION”?

“Remuneration” is defined in the Income Tax Act and in short means all salary or wages and any other pay whether paid in cash or otherwise.

WHAT IS “TAXABLE INCOME”?

“Taxable income” is set out in the Income Tax Act and in short is what is left from all of your income after making any deductions allowed by that Act. Income for this purpose would include all taxable income from any source.

WILL MY MONEY BE MOVED OUT OF MY FUND ON 1 MARCH 2016?

No! All money will remain where it is. It is only the tax treatment of future contributions and the future benefits on retirement from a provident fund that will change.
IS THE GOVERNMENT TAKING CONTROL OVER MY RETIREMENT FUND SAVINGS?
No! In fact the government is simply making it more attractive to save for retirement, from a tax point of view, and also requiring people to use their capital at retirement to provide an income (but with the protection for your existing rights as at 29 February 2016).

DO I HAVE TO TAKE PART OF MY FUND AT RETIREMENT AS A CASH BENEFIT?
No. It has always been the case that you are free to use your fund benefit at retirement to buy a pension that suits your circumstances. In fact this is often the best thing that you can do for yourself, as a regular monthly income allows you to budget properly and is how we have learned to live during our working lives.

In many cases, however, people like to take some of their money as a lump sum in order to meet their financial commitments and also to take advantage of the preferential tax rates.

Each member’s circumstances will differ, and obtaining professional financial advice will assist in making the right decisions at the time.

SHOULD I TAKE ALL MY MONEY OUT OF THE FUND AND START AGAIN FROM 1 MARCH 2016?
No, this is definitely not what you should do! The only way to get hold of your fund benefit is to leave the service of your employer. Apart from the obvious risks in such a course of action, surveys have shown that most South Africans do not save enough money for retirement – if you take out your fund savings then you will destroy the good work that has been done so far in accumulating money for your retirement.

WHAT WILL HAPPEN TO MY FUND HOME LOAN?
Nothing. If you have a home loan from your fund or the fund is providing a guarantee to allow you to access a home loan from a bank, the arrangement will continue unchanged from 1 March 2016.

I AM A TRUSTEE OF A PROVIDENT FUND – WHAT CHANGES DO I NEED TO MAKE?
Firstly, we recommend that fund members receive good communication regarding the changes.

Secondly, the rules of your fund should be reviewed to reflect the new structure of the retirement benefits from 1 March 2016. Consideration can also be given to revising the contribution rules to allow members to take advantage of the increased tax deductible contribution limits. Your Robson Savage fund consultant can assist you with this review.

I AM A TRUSTEE OF A PENSION FUND – WHAT CHANGES DO I NEED TO MAKE?
Firstly, we recommend that fund members receive good communication regarding the changes.

Secondly, consideration can be given to revising the contribution rules to allow members to take advantage of the increased tax deductible contribution limits for pension funds. Your Robson Savage fund consultant can assist you with this review.

HOW DO MY BENEFITS CHANGE IF I LEAVE SERVICE BEFORE RETIREMENT?
There are no changes to the benefits if you leave service before retirement.
I AM CLOSE TO RETIREMENT AGE AND I AM WORRIED THAT MY BENEFITS ARE NOW CHANGING

If you are a member of a pension fund then there are no changes to your benefits on retirement.

If you are a member of a provident fund and on 1 March 2016 you are age 55 or older, then there will be no changes to your retirement benefits as long as you keep contributing to the same provident fund.

SHOULD I ARRANGE THAT I DO NOT PAY MORE THAN R350,000 IN CONTRIBUTIONS?

If you contribute more than R350,000 in any tax year to all pension, provident and retirement annuity funds of which you are a member, then the excess will not be tax-deductible.

You can however claim such amounts as a tax deduction in a future tax year if you find that your contributions in that year fall below the limit.

When you eventually take your benefits from a fund, any contributions that have not enjoyed tax deductibility will be paid tax-free as part of your benefit.

In principle it is usually advisable to save as much as you can while you are earning an income, in order to provide for a comfortable retirement when you are no longer employed.

HOW DOES THE AMOUNT OF R247,500 AFFECT ME?

If you are a member of a pension fund or a retirement annuity fund, then on retirement it has always been the case that you must use at least two thirds of your benefit to provide a pension income. If the total amount of your benefit is not however big enough to provide a meaningful amount of pension, then in terms of the Income Tax Act you are allowed to cash in the full amount for a lump sum cash payment. From 1 March 2016, benefits that are not greater than R247,500 in total value may be taken fully in cash.

If you are a member of a provident fund and are under age 55 on 1 March 2016, then in respect of new provident fund retirement savings contributions made after 29 February 2016 and all the future investment growth thereon, on retirement you must use at least two thirds of that part of your benefit to provide a pension income. Once again however the R247,500 limit applies – if the total amount of such benefit is not big enough to provide a meaningful amount of pension, then in terms of the Income Tax Act you are allowed to cash in the full amount for a lump sum cash payment. From 1 March 2016, any such benefits that are not greater than R247,500 in total value may be taken fully in cash.
WHAT DOES ALL THIS MEAN FOR MEMBERS?

The changes will have a different effect depending on the type of funds of which you are a member, your age, your income level, your individual financial circumstances, and so on.

With the new definitions of income applying uniformly across all types of fund, it is possible that your contributions to your employer’s fund may leave you with excess available deductibility in any given tax year. It would be worth enquiring whether your fund rules allow you to make additional contributions – from 1 March 2016 there is no reason not to take advantage of the higher limits.

Each taxpayer’s circumstances will be different and members are advised to seek expert financial planning advice when making decisions about how much to contribute to any tax-approved retirement savings arrangement, or how they wish their benefits to be paid.

If you have a financial plan in place, you should consult your financial planner to review your arrangements in light of the changes.

Your Robson Savage consultant will be glad to provide any further input you might require.

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