BUDGET 2018
RETIREMENT AND RELATED EMPLOYEE BENEFITS

"It is a good thing that we do not get as much government as we pay for."
(Will Rogers)

Minister of Finance Malusi Knowledge Nkanyezi Gigaba tabled his first National Budget in parliament on 21 February 2018. This note covers the implications for retirement fund stakeholders.

No changes to retirement fund:

- *tax deductibility of contributions*
- *tax-free investment returns*
- *tax rates on benefits*

Changes to:

- *retirement fund offshore investment limits increased by 5%*
- *increase in VAT will affect fees and commissions*

Watch out for:

- *increased estate duty means estate planning is more important than ever*

The general savings reform process will continue

OFFSHORE INVESTMENT LIMITS

To increase investment in diverse assets, the offshore limit for funds under management by institutional investors, which includes retirement funds, is increased by 5 percentage points for all categories, including the African allowance. The revised limit will thus be up to 30% offshore, with up to an additional 10% invested in Africa.

VAT

The increase in VAT from 14% to 15% will increase the cost of fees, charges and commissions, as retirement funds are unable to reclaim VAT expenditures.

This highlights more than ever the need to structure fund investments through linked insurance policies, where policy charges are not subject to VAT, compared to Collective Investment Scheme (unit trust) structures where investment charges are VAT-able.

RETIREMENT REFORM

Government's retirement reform programme will continue in 2018.

Progress on the annuitisation of provident fund benefits and preservation has been slower than anticipated because of a delay in the release of the discussion paper on comprehensive social security reform. As a result, consultations in the National Economic Development and Labour Council are still in progress and expected to be completed 'by the end of the year'. The next step would then be the finalisation of a set of recommendations. With 2019 being an election year, it may thus be some time yet before anything is implemented.

Other issues to be referred to NEDLAC include broadening coverage to low-income earners who fall outside the collective bargaining system or work for small employers, and bringing all public retirement funds within the same regulatory framework as private funds.

Government has also directed the Financial Services Board to proceed with the following reforms:

- *Lowering costs and consolidating funds:* A key driver of costs is the large number of very small and uneconomical retirement funds (there are currently 5,144 funds, of which 1,651 are active). The Financial Services Board will oversee a significant reduction in number of funds (preferably to less than 200).
- *Modernising and improving the governance of all retirement funds to King IV standards:* It is proposed that retirement funds not currently required to submit annual audited financial statements will now have to do so. Further, funds may be required to include a minimum number of independent trustees.
- *Ensuring benefits are claimed:* The Financial Services Board estimates that, in 2016, over R40 billion in pension and provident fund benefits was unclaimed. Working with government, the Financial Services Board will consult with NEDLAC on more efficient measures to find beneficiaries, including centralising data and funds.
- *Strengthening enforcement measures to deal with criminal and unethical practices:* The Financial Services Board will publish directives in 2018 to improve disclosures by both retirement funds and administrators, and to outlaw unethical practices.

All of our clients have discussed the issue of umbrella versus stand-alone fund structures, backed up with relevant cost ratios and analysis. We will continue to engage clients in such discussions.

All funds administered by Robson Savage are already subject to audit.

We have actively included Governance as a specific topic for discussion and action at every trustee meeting.

Further, the topic of unclaimed benefits features at every trustee meeting, including full data, and proactive steps taken to manage this.

Being a company that has always avoided any unethical practices, we welcome any measures to stamp out such conduct.

Other matters that will receive attention include:

- *Allowing transfers to pension and provident preservation funds after retirement:* this will give improved financial planning opportunities to those who, for example, continue to work and postpone retirement at older ages.
- *Rectifying tax anomalies on the transfer of retirement funds:* Some inadvertent, and rarely encountered, tax consequences of current legislation will be addressed.
- *Tax treatment of contributions to retirement funds situated outside South Africa:* While this is not an issue that arises too often, the principle of allowing deductible contributions only in cases where benefits are taxable will be addressed.
- *Align tax treatment of preservation funds upon emigration:* Upon formal emigration an individual is able to withdraw the full value of their retirement annuities, after paying the applicable taxes. Government will consider aligning the tax treatment of different types of retirement fund withdrawals in such circumstances.

We emphasise that these are all ***proposals*** *at this stage, and further communication will be made as and when any changes are actually effected.*

ESTATE DUTY

The increase in the rate of Estate Duty from 20% to 25% on amounts in excess of R30 million highlights the need for proper estate planning. A qualified financial planner will be able to assist with this.

TAX-FREE SAVINGS ACCOUNTS

Whilst not strictly a retirement fund matter, we note in passing that the amount that can be contributed to a 'tax-free' savings account remains at R33,000 per tax year. *Reminder: contributions to such accounts are made from after-tax money but no tax is payable on investment income and withdrawals.*

OTHER THINGS

Medical tax credits will be reduced over time. 'Bracket creep' means more tax payable, other things remaining equal. A tax on 'sugary beverages' will be introduced on 1 April 2018. Such developments all reduce the capacity of South Africans to save for their eventual retirement and avoid relying on …

… the State old age grant, which increases in March 2018 from R1,600 to R1,695 per month for pensioners over age 60, and from R1,620 to R1,715 for those over 75.

VALUE ADDED FACTS

"The point to remember is that what the government gives it must first take away."
(John S. Coleman)

Searching the full 299 pages of the budget review we note that the expression 'tax-free' appears precisely once.

Tighten those belts julle!

WHAT DOES THIS MEAN FOR YOU?

Robson Savage clients are already well-placed to make use of the prevailing tax opportunities, and have been well-advised regarding the various structures.

Members should be encouraged to take full advantage of what remains simply the best way to save money in South Africa.

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

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