As far back as 2011, the South African government announced its intention to promote a culture of retirement savings through extensive retirement tax reform. In December 2015, it was confirmed that the retirement tax reform changes will come into effect on 1 March 2016. This date is also known as ‘T-day’.

This legislation is aimed at encouraging retirement fund members to save enough to retire comfortably; reduce the costs of saving for retirement and improve the governance of retirement funds. Doing so not only helps individuals retire better, but also lessens the burden on the state to look after people in their old age.

This retirement tax reform thus includes enhanced tax relief on contributions to retirement funds, an alignment of different types of retirement funds, as well as greater portability between retirement funds.

These changes are detailed and can be complicated to understand. We would therefore encourage you to get in touch with your financial adviser to better understand their implications on your retirement investments.

It is important to note that this legislation has no impact on how your funds are invested. What is affected is how much you can put into your retirement vehicles and how you ultimately receive your benefits.

Summary

Effective date
The changes will come into effect on 1 March 2016 (T-day).

Deductibility
- All member/employee contributions to all retirement funds will be tax deductible subject to new revised limits of 27.5% of remuneration or taxable income, capped at R350 000 per annum
- Employer contributions to retirement funds will be treated as fringe benefits but employers will be able to give employees a corresponding deduction up to the new revised deductible limits
- Employers will be able to claim unlimited deductions on their retirement fund contributions

Fund alignment
- Retirement benefits from provident funds and provident preservation funds will be aligned with pension, pension preservation and retirement annuity funds
- Provident fund benefits up to 1 March 2016, plus growth, will still be allowed to be taken out as a cash lump sum at retirement. These will be regarded as “vested benefits”
- Contributions and growth after 1 March 2016 will have to be annuitised at retirement i.e. provident fund members will only be allowed to access 1/3 of these ‘non-vested’ benefits as a lump sum and the remaining 2/3 must be used to buy an annuity, subject to the minimum Rand threshold amount of R247 500
- Members of provident funds who are 55 on 1 March 2016 will not be required to annuitise any of their retirement benefits if they stay in the same provident fund they were members of on 1 March 2016

Portability
- Tax-free transfers will now be possible between different types of retirement funds which previously did not allow such transfers
- Transfers from retirement annuity funds however will only be possible to other retirement annuity funds
Commutation

- The minimum Rand threshold at which you can take your retirement benefit as a full cash lump at retirement will be increased from R75 000 to R247 500
- Members of all retirement funds with retirement benefits below R247 500 will not be required to purchase an annuity at retirement

Deductibility of retirement fund contributions

There are substantial changes to the tax deductibility of retirement fund contributions for both employees and employers from 1 March 2016 (T-day). These are summarised in the table below:

<table>
<thead>
<tr>
<th>Deductibility of retirement fund contributions</th>
<th>Changes effective from T-day</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Position</strong></td>
<td><strong>Member contributions</strong></td>
</tr>
<tr>
<td>The tax deduction that a member of a retirement fund can claim for his/her contributions will differ, depending on whether he/she is a member of a retirement annuity, pension or provident fund.</td>
<td>A member’s contributions will be tax deductible irrespective of whether the contributions are made to a retirement annuity, pension or provident fund.</td>
</tr>
<tr>
<td><strong>Employer contributions</strong></td>
<td>Employer contributions to pension and provident funds are tax deductible up to 20% of approved remuneration.</td>
</tr>
<tr>
<td><strong>Retirement Annuity</strong></td>
<td><strong>Member tax deduction</strong></td>
</tr>
<tr>
<td>The greater of: 15% of non-retirement funding income or R3500 minus deductible pension fund contributions or R1750</td>
<td>Members can claim a deduction on all their combined contributions to retirement funds up to 27.5% of the greater of remuneration or taxable income, subject to an annual monetary cap of R350 000</td>
</tr>
<tr>
<td><strong>Pension Fund</strong></td>
<td><strong>Member tax deduction</strong></td>
</tr>
<tr>
<td>The greater of: 75% of retirement funding income or R1750</td>
<td>Any payments made by an employer will be regarded as a fringe benefit in the hands of the employee-member</td>
</tr>
<tr>
<td><strong>Provident Fund</strong></td>
<td><strong>Member</strong></td>
</tr>
<tr>
<td>None</td>
<td>Members can claim a corresponding tax deduction against the value of the fringe benefit of up to the new deductible limits</td>
</tr>
<tr>
<td></td>
<td>Members will be able to deduct both their and their employer’s contributions</td>
</tr>
</tbody>
</table>

In more detail, from 1 March 2016 (T-day) the following important changes will affect all employers, retirement fund members and retirement funds:

**The deductible limits for member/employee contributions will change**

- Members will be able to deduct both their and the employer’s contributions to a pension, provident or retirement annuity fund up to 27.5% of their ‘remuneration’ or ‘taxable income’, whichever is greater. There will be a rand cap of R350 000 on the total amount the member may deduct from his/her taxable income in any tax year
- Employers must automatically ‘deduct’ both their contribution and the employee’s contribution (up the revised limits) against the value of the fringe benefit
- The new deductibility limits effectively entitle most members to a larger tax deduction than they had before

**Non-deductible member/employee contributions will roll-over**

- If in a particular year a member contributes more than 27.5% of their ‘remuneration’ or ‘taxable income’ or more than R350 000, the non-deductible portion will be rolled over to the next year. The member will be able to claim a deduction for the amount rolled over in that following year
- Should the member’s contributions be less than the limit in the next year they will be able to claim that rolled over amount as a deduction, subject to the revised deductible limits
- At retirement, the rand value of the non-deductible contributions will be applied to the lump sum and/or annuity benefits as a tax-exempt amount i.e. a portion of the lump sum or annuity will be exempt from tax up to the value of the contributions which the member could not get a deduction off because they were either above the 27.5% or the R350 000
- Your contributions into the STANLIB Retirement Annuity Fund can form part of this 27.5%/R350 000

**Employer contributions will be treated as fringe benefits**

- All employer contributions to retirement funds will be reflected as fringe benefits in the hands of employees
- However, employees will be able to claim a corresponding ‘deduction’ against that fringe benefit. This corresponding deduction will
take place monthly on the payroll system

- The value of the fringe benefit for tax purposes will depend on whether the contributions are made to a defined benefit fund or a defined contribution fund

- It is key to note that fringe benefit tax will only become payable should the value of the employer contributions exceed the new deductibility limits

**Employer contributions to all retirement funds will be fully deductible in the Employers’ hands**

- Employers will now be able to deduct all their retirement fund contributions against their income

- The deduction limit of 20% per annum of ‘approved remuneration’ will fall away

- This may not be applicable for any of the products you have with STANLIB, but it is useful information and we include it for completeness

**Alignment of pension, provident and retirement annuity funds**

From 1 March 2016 (T-day) the retirement benefits paid from provident funds will be aligned with, pension and retirement annuity funds. The table below gives the summary of the changes:

<table>
<thead>
<tr>
<th>Provident fund alignment with pension funds and retirement annuities</th>
<th>Accessing retirement benefits after T-day</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fund type</strong></td>
<td><strong>Current position of accessing benefits at retirement</strong></td>
</tr>
</tbody>
</table>
| Retirement Annuity | → Up to 1/3 cash lump sum  
→ 2/3 pension annuity | Benefits accruing up to T-day plus growth can still be taken as a cash lump sum at retirement.  
Non-vested benefits  
Contributions and growth accruing after T-day: → 1/3 cash lump sum  
→ 2/3 mandatory to purchase an annuity |
| Pension Fund | → Up to 1/3 cash lump sum  
→ 2/3 pension annuity | No change. |
| Provident Fund | Retirement benefits may be taken in full as a lump sum | No change. |

*The vested benefits affect members aged 55 and older differently. The table below aims to explain these differences:

**Position from T-day for retirement benefit payouts in provident funds**

<table>
<thead>
<tr>
<th><strong>Pre-T-day portion of share of fund</strong></th>
<th><strong>Post T-day portion of share of fund</strong></th>
</tr>
</thead>
</table>
| **Member younger than 55 years on T-day** | Fund balances as at T-day, plus any growth from that date on such balances may be taken as a cash lump sum  
→ If retirement benefit is more than the new minimum threshold of R247500, only up to 1/3 of the benefit may be taken as a lump sum  
→ Member is required to buy an annuity with at least 2/3 of the benefit |
| **Member older than 55 years on T-day** | Fund balances as at T-day plus any growth from that date on such balances may be taken as a cash lump sum  
→ Members will be able to take their pre- and post-T-day retirement fund values as a lump sum on retirement, provided they remain within the same provident fund  
→ Should member transfer to another fund, the benefit transferred and growth on benefit after date of transfer will be regarded as vested and any contributions plus growth on the contributions after that date will be subject to annuitisation i.e. up to 1/3 of the benefit can be taken as a lump sum and the member will be required to buy an annuity with at least 2/3 of the benefit, subject to the new minimum threshold amount |

** Provident funds will be subject to certain special rules for ‘vested benefits’ as detailed below:**

- Members of provident funds or preservation provident funds are currently entitled to receive their benefits as cash lump sums at retirement no matter what the value of their benefits is

- The fund benefits (retirement savings) of all provident fund and provident preservation funds which have accumulated up to T-day, plus the future growth on this fund value will be regarded as ‘vested benefits’
All contributions and growth thereon which accumulate after T-day will be ‘non-vested benefits’ and you will only be able to take out 1/3 of the non-vested benefits as a cash lump sum payment if the value of the non-vested benefit is above R247 500. If your non-vested amount is above the minimum threshold of R247 500 and you take 1/3 in cash, the remaining 2/3 must be used to buy an annuity that will pay you a monthly pension.

Members aged 55 years on T-day have the right to additional vested benefits:
- This means if you are 55 years or older on T-day AND you remain a member of the same provident fund, you will not be affected by the part of the legislative changes which make annuitisation compulsory. You may still receive your entire retirement benefit as a cash lump sum at retirement.
- If you transfer out of your provident fund to another retirement fund (even if it is a provident fund) after T-day you will only be entitled to your fund value (retirement savings) as at the time of transfer (plus growth) as a cash lump sum on retirement from that subsequent retirement fund.
- Provident fund benefits which have been preserved in a provident preservation fund before T-Day will not be affected, they can be accessed in full regardless of the value.

Portability of retirement funds
- Portability of retirement savings refers to the transfer of retirement savings between different retirement fund vehicles. These will be simplified on T-Day, as explained below:

| The following types of transfers will be possible on a tax neutral basis after T-day |
|--------------------------------------|----------------------------------|
| From                                | To                               |
| Pension Fund                         | Pension Fund                     |
| Provident Fund                       | Pension Preservation Fund         |
|                                    | Provident Fund                   |
|                                    | Provident Preservation Fund       |
| Pension Preservation Fund            | Pension Preservation Fund         |
| Provident Preservation Fund          | Provident Preservation Fund       |
|                                    | Retirement Annuity Fund           |
| Retirement Annuity Fund              | Retirement Annuity Fund           |

As a result of the tax harmonisation of retirement funds, tax neutral transfers between different retirement funds will be possible from T-Day:
- Transfers between all retirement funds, other than from a retirement annuity fund, will be permitted on a tax neutral basis. This means that transfers from pension to provident funds for instance, will now be allowed without any adverse tax consequence.
- A member in a retirement annuity fund will still only be able to transfer to another retirement annuity fund. The reason for this exception is that a retirement annuity fund has a restriction that no other retirement fund has – a member in this fund can only take a withdrawal before retirement age under very limited circumstances. The limited circumstances are; where member is unable to continue working due to disability or ill-health and where the value of the benefit in the retirement annuity is R7000 or below.

Commutation of benefits
- There are changes from 1 March 2016 (T-day) on how much of your retirement benefit you can access as a full cash lump sum at retirement. These are summarised below:
  - This means that if the unvested portion of your retirement benefit is R247 500 or less, you will be allowed to take your full benefit (commute) as a cash lump sum. You will not be required to buy an annuity with at least two-thirds of this benefit.
  - This will apply to all types of retirement funds.
  - In the case where a person is already receiving a monthly annuity payment, that person is currently allowed to commute their annuity to a cash lump sum payment if the total value of their annuity is R75 000. Subject to confirmation from SARS it is anticipated that from T-day this amount will be also be increased to R247 500.