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# **Retirement Tax Reform: T- day 1 March 2016**

## **South African Payroll Association Conference September 2016:**

**Presented by Andrew Mothibi**

# What is Retirement Reform?



Government's proposed retirement reforms are aimed at ensuring that retirement fund members are better **protected**, can **retire comfortably**, and to encourage a **culture of saving**.

National Treasury has issued five policy papers:

- A. Charges in South African retirement funds
- B. Enabling a better income in retirement
- C. Preservation, portability and governance for retirement funds
- D. Incentivising non-retirement savings
- E. Improving tax incentives for retirement savings

The above policy papers seek to:

- i. Encourage employees to **save adequately** for retirement
- ii. Encourage **employers to provide** retirement savings plans to their employees
- iii. Ensure employees receive good value for money for their retirement savings and are **treated fairly**
- iv. Improve standards of retirement **fund governance**



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# Retirement Reform Changes (T-day)

# Retirement Reform Changes (T-day)



The Retirement Reform tax changes, also known as T-day, that became effective from 01 March 2016:

1. Deductibility of retirement fund contributions
2. Increase in commutation amount



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# Deductibility of retirement fund contributions

# Deductibility of Retirement Fund Contributions



## DEDUCTIBILITY OF RETIREMENT FUND CONTRIBUTIONS

	Previous position prior to T-day: Separate deduction for each retirement fund contribution	Changes effective from T-day: Combined deduction for all retirement fund contributions
<b>Member Contributions</b>	The tax deduction that a member of a retirement fund could claim for his/her contributions differed, depending on whether he/she was a member of a retirement annuity fund, pension or provident fund.	A member's contributions to a retirement fund are now tax deductible irrespective of whether the contributions are made to a retirement annuity, pension or provident fund.
<b>Employer Contributions</b>	Employer contributions to pension and provident funds were tax deductible up to 10% of approved remuneration.	Employer contributions to pension, provident and retirement annuity funds now have unlimited tax deductibility.

# Deductibility of Retirement Fund Contributions



## DEDUCTIBILITY OF RETIREMENT FUND CONTRIBUTIONS

Fund type	Previous position : Separate deduction for each retirement fund contribution	Changes effective from T-day: Combined deduction for all retirement fund contributions
<b>Retirement Annuity</b>	<p><b>Member tax deduction:</b> The greater of:</p> <p><b>15%</b> of non-retirement funding income or <b>R3500</b> minus deductible pension fund contributions or <b>R1750</b></p>	<p><b>Member:</b></p> <ul style="list-style-type: none"> <li>Any payments made by an <b>employer</b> will be <b>taxed as fringe benefit</b> in the hands of the employee-member</li> <li>Members can claim a <b>corresponding tax deduction</b> of up to <b>27.5%</b> of the greater of 'remuneration' or 'taxable income', with a yearly cap of <b>R350 000</b></li> <li>Members are able to <b>deduct both</b> their and their employer's payments</li> </ul>
<b>Pension Fund</b>	<p><b>Member tax deduction:</b> The greater of:</p> <p>7.5% of retirement funding income or R1750</p>	
<b>Provident Fund</b>	<p><b>Member:</b> None</p>	

## Valuation of Defined Benefits Contributions

DC fringe benefit value from 1 March 2016	DB fringe benefit value from 1 March 2016
Value of employer contributions	$X = (A \times B) - C$ <p><b>X = the amount of the fringe benefit</b></p> <p>A = 'fund member category'*</p> <p>B = retirement funding employment income</p> <p>C = sum of amounts contributed by employee to the fund</p>

\*A 'fund member category' is a group of members of a fund whose entitlement to receive benefits and the value of those benefits when they are received are determined by the same rules, and in respect of whom the same contributions are paid as a proportion of pensionable salary by them and by their employer.

## Contribution Certificate

- The contribution certificate must be prepared by the Board in consultation with the valuator
- The valuator, 2 board members and the PO must sign the contribution certificate
- Contribution certificate must be prepared for each fund member category
- The fund will initially be required to send a contribution certificate to the employer one month before the 2016/17 year of assessment and then each time that the fund submits their statutory actuarial valuations
- An updated contribution certificate must also be completed at any time that fund rule changes will impact any aspect of the contribution certificate
- The regulations have been published which outline the information that the contribution certificate must contain



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**Increase in  
commutation amount**

# Increase in commutation amount



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The minimum Rand threshold (commutation threshold) at which a member of a pension fund can take a retirement benefit as a full cash lump sum, and not be required to buy a pension, has been increased from R75 000 to **R247 500** for pension funds and retirement annuity funds.

**End: Questions / Comments?  
Thank you for staying awake!**



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