



South African Revenue Service

Retirement Reform 1 March 2016

Points of discussion

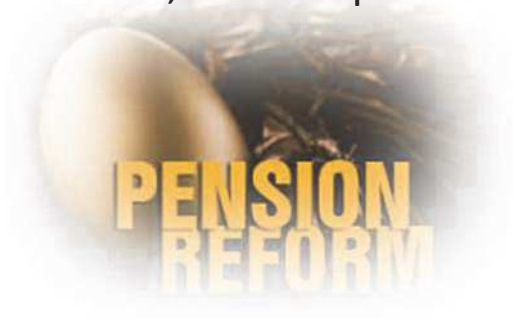
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Introduction

Retirement reform is a process whereby government, through policies, seeks to:

- Encourage employees to save and provide adequately for retirement to ensure that they retire comfortably and have income that lasts for their lives in retirement.
- Encourage employers to provide retirement saving plans to their employees as part of the employment contract.
- Ensure that employees receive good value for money for their retirement savings and are treated fairly, and that their savings are prudently and diligently managed, and are kept informed of their retirement savings.
- Improve standards of retirement fund governance, including trustee knowledge and conduct, and the protection of members' interest.



New Rules from 1 March 2016

New Rules 1 March 2016

- From 1 March 2016, there will be a uniform deduction for retirement fund contributions. The deduction is 27.5% of the greater of remuneration or taxable income (excluding retirement lump sum benefits, withdrawal lump sum benefits and severance benefits in respect of both remuneration and taxable income), subject to a cap of R350 000 for the tax year.
- This rate applies to the aggregate of contributions made to an individual's pension, provident and retirement annuity funds.
- Previously, different tax deductions and limits applied to contributions made by a member to pension and retirement funds respectively.
- Contributions to provident funds were not tax deductible.



New Rules 1 March 2016

- The annual deduction cap is R350 000 .
- Individuals who contribute more than the cap of R350 000 in any tax year, the contributions in excess of the cap is rolled over to the next tax year and rank for a deduction, subject to deduction limits.
- Any balance of excess contributions on exit of the fund by the member, is deducted against the lump sum(i.e. not subject to tax).



New Rules 1 March 2016

- Only the employee may claim contributions (both in respect of the employer and the employee contributions).
- The PAYE liability must take into account the allowable tax deduction in respect of contributions made to retirement funds (i.e. pension and provident funds with retirement annuity at the option of the employer.)
- The employer contributions to these funds are a taxable fringe benefit at the hands of the employee, but the employee can claim a tax deduction on these contributions. (Taxed contributions deemed to be the employee's contribution and ranks for a deduction subject to limits)



Changes that affect All members

Changes that affect all members

- Members will benefit from the new definition of the base against which the deduction is measured.
- This base is now the higher of “remuneration or taxable income” (excluding retirement lump sum benefits, withdrawal lump sum benefits and severance benefits in respect of both remuneration and taxable income)
- The base was previously retirement funding income (i.e. pensionable income) for pension and non-retirement funding income for retirement annuity.
- Both were lower base compared to the greater of remuneration or taxable income.



Changes that affect all members

- The reference to “taxable income” effectively enables pension and provident fund members who receive non-employment income (e.g. rental income, alternate employment or investments income) to claim a retirement fund deduction against such income.
- Previously such “non-employment” income could only be used to claim deductions on retirement annuity contributions.



Changes that affect Pension Fund members

Pension fund members

	Before 1 March 2016	From 1 March 2016
Employer Contributions	➤ The employer may deduct contributions to a pension fund up to 20% of an employees "approved remuneration" for tax. ➤ This does not lead to fringe benefit tax in the hands of the employees	➤ The employer may deduct unlimited contributions to their employees' pension fund ➤ The contributions made by the employer will however be taxed as a fringe benefit in the hands of the employee
Member Contributions	➤ The employee may deduct contributions to a pension fund up to 7.5% of retirement funding income (i.e. pensionable income).	➤ The employee may deduct contributions to their pension fund up to 27,5% of taxable income or remuneration (whichever is the higher) for tax (excluding retirement lump sum benefits, withdrawal lump sum benefits and severance benefits in respect of both remuneration and taxable income) ➤ The 27,5% limit applies to the aggregate of contributions to all funds (pension, provident and RA) ➤ There will be an overall tax deductible limit of R350 000 p.a. ➤ Contributions over the annual limits are rolled over to the next tax year, but will be subject to the limits applicable in those years.
On Withdrawal	➤ The full amount may be taken as a lump sum.	➤ The full amount may be taken as a lump sum.
At Retirement	➤ Up to one third may be taken as a cash lump sum; at least two thirds must be used to buy compulsory annuity. ➤ Compulsory annuitisation applies to total value of retirement interest above R75 000	➤ Up to one third may be taken as a cash lump sum; at least two thirds must be used to purchase a compulsory annuity. ➤ Compulsory annuitisation applies to total value of retirement interest above R247 500

Changes that affect Provident Fund members

Provident Fund Changes

- The requirement to annuitise is postponed until 1 March 2018, however, from 1 March 2016, members can claim the monthly deduction in terms of new section 11(k).
- Government remains of the view that the principle of annuitisation is in the best interest of all members of retirement funds as it can alleviate old-age poverty.
- On **Resignation**, the full amount can still be claimed as a lump sum, irrespective of whether you belong to a pension or provident fund (or to the GEPP)



Provident Fund Changes

- Provident fund members who are 55 or older on 1 March 2018 are exempt from these provisions.
- Only contributions made to the fund of which that person is a member on 1 March 2018 are protected. If they transfer to another retirement fund, then any future contributions to that fund would not be exempt from annuitisation. It is the intention of Treasury to ensure that forced transfers do not affect the vested rights (2016 Budget announcements)
- On retirement, if the non vested portion of the value of the retirement interest is equal to or less than R247,500 the annuitisation does not apply.(previously R75 000).



Provident Fund members

	Before 1 March 2016	From 1 March 2016
Employer Contributions	➤ The employer may deduct contributions to a pension fund up to 20% of an employees "approved remuneration" for tax. ➤ This does not lead to fringe benefit tax in the hands of the employees	➤ The employer may deduct unlimited contributions to their employees' provident fund ➤ The contributions made by the employer will however be taxed as a fringe benefit in the hands of the employee
Member Contributions	➤ The employee may not deduct contributions to a provident fund for tax. ➤ Employee contributions are not taxed at exit	➤ The employee may deduct contributions to their provident fund up to 27,5% of taxable income or gross remuneration (whichever is the higher) for tax (excluding retirement lump sum benefits, withdrawal lump sum benefits and severance benefits in respect of both remuneration and taxable income.) ➤ The 27,5% limit applies to the aggregate of contributions to all funds (pension, provident and RA) ➤ There will be an overall tax deductible limit of R350 000 pa. ➤ Contributions over the annual limits may be rolled over to future years, but will be subject to the limits applicable in those years.
On Withdrawal	➤ The full amount may be taken as a lump sum.	➤ The full amount may be taken as a lump sum.
At Retirement	➤ The full amount may be taken as a cash lump sum. ➤ No compulsory annuitisation	➤ The full amount may be taken as a cash lump sum. ➤ the requirement to annuitize is to be postponed until 1 March 2018

Changes that affect Retirement Annuity members

RA members

	Before 1 March 2016	From 1 March 2016
Employer Contributions	➤ The employer may deduct unlimited contributions to a their employees annuity fund. ➤ The contributions made by the employer are taxed as a fringe benefit in the hands of the employee	➤ The employer may deduct unlimited contributions to their employees' RA fund ➤ The contributions made by the employer will however be taxed as a fringe benefit in the hands of the employee
Member Contributions	➤ The employee may deduct contributions of the greater of : ▪ R1750 ▪ R3500 less pension deduction ▪ 15% of the non retirement funding income after certain allowable deduction ➤ Pensionable income is the income used by the employer to calculate contributions to the company's pension or provident fund. ➤ Excess contributions over the annual limits may be rolled over to future years, but will be subject to the limits applicable in those years. ➤ Excess contributions are not subject to tax at retirement or even when you withdraw from the fund.	➤ The employee may deduct contributions to their RA fund up to 27,5% of taxable income or gross remuneration (whichever is the higher) for tax. ➤ The 27,5% limit applies to the aggregate of contributions to all funds (pension, provident and RA) excluding retirement lump sum benefits, withdrawal lump sum benefits and severance benefits in respect of both remuneration and taxable income. ➤ The overall tax deductible limit is R350 000 pa. ➤ Contributions over the annual rand limits may be rolled over to future years, but will be subject to the limits applicable in those years.
On Withdrawal	➤ It is not possible to withdraw from a RA other than on early retirement due to ill health, or on formal emigration, or if the fund balance is less than R7 000 ➤ In those circumstances, the full amount may be taken as a cash lump sum.	➤ It will still not be possible to withdraw from a RA other than early retirement due to ill- health, or on formal emigration or if the balance is less than R7 000 ➤ In those circumstances, the full amount may be taken as a cash lump sum.
At Retirement	➤ Up to one third may be taken as a cash lump sum at least two thirds must be used to purchase compulsory annuity. ➤ Compulsory annuitisation applies to fund balances above R75 000	➤ Up to one third may be taken as a cash lump sum at least two thirds must go towards a compulsory annuity. ➤ Compulsory annuitisation applies to fund balances above R247 500

How will the changes affect Employers?

How will it affect Employers?

- **The impact for the employers (at a high level) is as follows:**
 - In terms of the amendments to the Income Tax Act, contributions paid by an employer for the benefit of an employee to a pension fund, provident fund or retirement annuity fund is a taxable fringe benefit from 1 March 2016.
 - The following new source codes and amendments to descriptions will be implemented to facilitate the reporting requirements in this regard:



Fringe Benefit Codes

Code	Description	Explanation
3817 (3867)	Pension Fund (PAYE)	Value of taxable benefit in respect of Employer's pension fund contributions paid for the benefit of employee Note: ➤ Code 3867 MUST only be used for a taxable benefit in respect of of Employer contributions to a local fund while on foreign service. ➤ This code is valid from the 2017 year of assessment.
3825 (3875)	Provident Fund	Value of taxable benefit in respect of Employer's provident fund contributions paid for the benefit of employee Note: ➤ Code 3875 MUST only be used for a taxable benefit in respect of of Employer contributions to a local fund while on foreign service. ➤ This code is valid from the 2017 year of assessment.
3828 (3878)	Retirement annuity Fund contributions – (PAYE)	Value of taxable benefit in respect of Employer's retirement annuity fund contributions paid in respect of employee. Taxable value = employer contributions. Note: ➤ Code 3878 MUST only be used for a taxable benefit in respect of of Employer contributions to a local fund while on foreign service. ➤ This code is valid from the 2017 year of assessment.

Deduction Codes

Code	Description
4001	Total pension fund contributions paid and/or 'deemed paid' by employee. Note: ➤ 'Deemed paid' by employee is the value of the taxable benefit (code 3817) included in the income of the employee. ➤ Prior to the 2017 year of assessment, this code is only applicable to 'Current pension fund contributions paid by employee'.
4002 Not applicable from 2017	Arrear pension fund contributions paid by employee. Arrear pension fund contributions will be added to code 4001 Note: This code is not applicable from the 2017 year of assessment.
4003	Total provident fund contributions paid and/or 'deemed paid' by employee. Note: ➤ 'Deemed paid' by employee is the value of the taxable benefit (code 3825) included in the income of the employee. ➤ Prior to the 2017 year of assessment, this code is only applicable to 'Current provident fund contributions paid by employee'.
4006	Total retirement annuity fund contributions paid and/or 'deemed paid' by employee. Note: ➤ 'Deemed paid' by employee is the value of the fringe benefit (code 3828) included in the income of the employee. ➤ Prior to the 2017 year of assessment, this code is only applicable to 'Current pension fund contributions paid by employee'.
4007 Not applicable from 2017	Arrear (re--instated) retirement annuity fund contributions. Arrear RA contributions will be added to code 4006 Note: This code is not applicable from the 2017 year of assessment. Renmi
4475	Employer's retirement annuity fund contributions paid for the benefit of employee. Note: This code is valid from the 2017 year of assessment.

How will it affect Employers?

- **The impact for the employers (at a high level) is as follows:**
 - New codes for the IRP5 certificates (e.g. employer contributions fringe benefits)
 - Employers have to determine this new fringe benefit.
 - Payroll update – calculation of the new deduction.
 - Impact contained in the BRS(Business Requirement Specifications). Please consult the BRS



Conclusion

- On **Resignation**, the full amount can still be claimed as a lump sum, irrespective of whether you belong to a **pension** or **provident fund (includes the GEPF)**
- The new laws only affect **provident fund benefits** when
 - ✓ provident fund members **retire**
 - ✓ and it only affects contributions accrued (received) after 1 March 2016..
- On **29 Feb 2016**, any **unused pension** and **retirement annuity** contributions will be carried forward to 1 March 2016 as opening balances.
- The same **does not apply for provident fund** members. The first deduction commences March 2016 and thereafter carry overs will apply to the subsequent tax year.



Thank you



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