New tax reforms protect retirees

The Tax Amendment legislation will come into effect on 1 March 2016 and will change the tax treatment of retirement funds.

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Liberty's senior tax manager James Couthino says, "Very few South Africans have enough savings to retire comfortably. The government has introduced a number of tax reforms to make it more attractive to invest in retirement funds. The majority of members in retirement funds will enjoy larger tax deductions on their contributions to a pension fund, provident fund or retirement annuity.

"The government has also levelled the playing fields between the different types of retirement funds, so provident fund members will have to take their benefits in the form of a pension at retirement as opposed to a cash lump sum.

"The total of provident fund benefits up to 1 March 2016 plus growth, however, will be regarded as 'vested' and may still be taken as a cash lump sum at retirement, should investors choose. These retirement tax reforms are a positive step in protecting retirement savings so members should rest assured that their benefits remain secure."

Four major tax changes

1. There will be changes to the tax deductions that employers and members/employees can claim when contributing towards a retirement fund
2. Provident fund retirement benefits will be brought into line with retirement benefits from pension funds and retirement annuity funds
3. The ability to transfer retirement savings tax-free between different types of retirement funds will be improved
4. The minimum value of retirement benefits that can be accessed as a lump sum will be increased

The major factors that will not change on the applicable date are:

- Continued membership in a retirement fund (provided one is already a member)
- The amount that a member can contribute to a retirement fund
- A member's ability to take retirement savings as a cash lump sum on resignation, dismissal or retrenchment will not change. It is not advisable to take a lump sum payout, so aim to preserve retirement savings in a preservation fund.

"As a member of a pension/provident/retirement annuity fund, you will be able to claim a deduction of up to 27.5% of your income. This means that if you are contributing to more than one fund, the limit will apply to the total of all the contributions you make. For example, if you currently contribute 7.5% towards your pension fund, you can contribute a further 20% to a retirement annuity. This new tax limit is, however, subject to an annual maximum limit of R350,000," concludes Couthino.