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The Connecter Fund Newsletter

April 2016

Need to know

In our newsletter of February 2016, we set out questions and answers that members of funds were asking about the retirement reform changes which were due to come into place on 1 March 2016 (called the "T-Day Changes"). Some of these changes did become law on 1 March 2016. However some of the changes have been postponed by government, after discussions with industry stakeholders. This newsletter explains which of these T-Day changes have become law from 1 March 2016, and which have been put on hold.

T-Day Changes which are law from 1 March 2016

For everyone: change in tax deductible contributions

From 1 March 2016, no matter which fund you belong to, you can make tax deductible member contributions of up to 27.5% of the greater of your remuneration, or your taxable income. However, contributions will only be tax deductible up to R350,000 per year. This tax deductible limit applies to all your retirement funds: pension, provident and retirement annuity funds.

Only member contributions are tax deductible. Your employer may still continue to make contributions to the Fund, depending on what the rules of your Fund say. The contributions paid to the Fund for you won't be reduced. The employer contributions will be added to your salary as a taxable fringe benefit. However, contributions paid by the employer will be deemed to be member contributions and will therefore be tax neutral if they fall within the R350,000 limit per year.

If your contributions are higher than R350,000 per annum, please read this:
R350,000 is the limit on tax deductible contributions per annum. If your monthly contributions are higher than R29,166 or your pensionable salary is higher than R1,272,727 per annum or R106,061 per month (on a contribution of 27.5%), then you will not be able to receive a tax deduction on these excess contributions. Please speak to your employer to understand what your options are, if this affects you.

News for everyone
Tax deductible contributions have been increased. This means that you can make higher contributions towards your retirement and still receive a tax deduction on these increased contributions. Check your member booklet or fund communication to see if your Fund offers contribution choice or allows you to make additional voluntary contributions to your Fund. If your Fund does not allow this, you can make extra tax deductible contributions to your own retirement annuity fund.

Excellent reasons for increasing your contributions towards retirement
- ✓ You save higher amounts towards your retirement, which means a higher benefit when you do retire
- ✓ You lower your total taxable income or remuneration by increasing your contributions

News for provident fund members
If you are a provident fund member, please remember that before 1 March 2016, your member contributions to your provident fund were not tax deductible. From 1 March 2016, these contributions will now be tax deductible. **This means for many provident fund members, your take home pay may be higher after March 2016 or in the next few months after March 2016 (when your employer's payroll implements these changes).**

A reminder for provident fund members: Example of how tax deductible contributions work (changes include tax rebates)

Thembeni is a member of a provident fund. She earns a monthly **salary** of R17,000 or R204,000 over a one year period. She makes monthly member contributions of 7.5% to her fund every month.

Have a look at the difference between Thembeni's monthly take home pay before and after the T-Day changes:

Thembeni's take home pay before 1 March 2016		Thembeni's take home pay after 1 March 2016 (or in the next few months when her employer's payroll implements these changes)	
Thembeni's monthly salary: R17,000		Thembeni's monthly salary:	R17,000
Less monthly tax:	R2,042	Less provident Fund contributions of 7.5%:	R1,275
Less provident Fund contributions of 7.5%:	R1,275	Less monthly tax:	R1,710
Thembeni's take home pay: R13,683		**Thembeni's take home pay:**	**R14,015**

Thembeni's provident fund member contributions were not tax deductible before 1 March 2016. From 1 March 2016 onwards (or in the next few months when her employer's payroll implements these changes), Thembeni's provident fund member contributions became tax deductible.

Increase in allowable lump sum on retirement

If you are a provident fund member, you will continue to be able to take your full share of fund in cash, on retirement - the law changing this has been postponed (please read the next section for more on this).

News for pension fund members

As you know, on retirement you need to take at least 2/3s of your share of fund as a pension or an annuity. This has not changed.

The good news is that if you retire after 1 March 2016, you can take your full share of fund as cash, if your share of fund is R247,500 or less (this limit has increased from R75,000 to R247,500).

Reminder:
What is my share of fund?

Your "share of fund", also known as your "fund credit", is your savings in the fund, together with investment returns.

It includes all the money which has been transferred into the fund for you.

Your share of fund is paid out whenever you leave the fund – whether you resign, are retrenched, dismissed, retire or die while in service with your employer.

T-Day Changes which have been postponed

The following changes have been postponed:

Provident fund members only: annuitisation

In our last newsletter we explained how government was planning to phase in annuitisation on retirement for new contributions made after 1 March 2016. In other words, the administrators would have set up two accounts for each provident fund member: one account with your full share of fund and investment returns up to 29 February 2016 and a second account with your full share of fund and investment returns from 1 March 2016, onwards. If your share of fund (plus investment returns) in your second account was above R247,500, then you would have had to take at least 2/3s of your second account as a pension or an annuity, when you retired.

Government has announced that the above provident fund annuitisation has been postponed until 1 March 2018. If all industry stakeholders don't agree to implement the above by 1 March 2018, then government says that they will take away some or all of the 27.5% contribution tax deductibility, from provident fund members.

Transfers from pension funds to provident funds will not be tax free

Because provident fund annuitisation was not implemented, government will not be allowing tax free transfers from pension funds to provident funds, at this point in time. This means that if you transfer from a pension fund to a provident fund, your share of fund will be fully taxed on this transfer.

If you have any questions or comments, please contact your human resources department, your Trustees / Management Committee or NMG on (011) 509-3000.