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TAX AND RETIREMENT REFORM – 'COMPULSORY ANNUITISATION' TO BE POSTPONED FOR 2 YEARS

The Minister of Finance has confirmed the postponement of certain elements of the Taxation Laws Amendment Act, 2015 which was set for implementation on 1 March 2016 ('T' day).

You will recall that the following changes were delayed / postponed from the original 1 March 2015 effective date (as per the Taxation Laws Amendment Act, 2013) to an effective date of 1 March 2016 (as per the Taxation Laws Amendment Act, 2014 and the Taxation Laws Amendment Act, 2015):

1. Simplifying the tax treatment of contributions – total tax deduction of 27.5% in respect of contributions to pension funds, retirement annuity funds and provident funds;
2. The 'compulsory annuitisation' of provident fund benefits based on contributions made after 'T' day;
3. The tax-free transfers between funds;
4. Increasing the 'de minimis' threshold from R75 000 to R247 500 (a retirement benefit under this limit may be taken in cash);
5. Amending the valuation of Defined Benefit Fund contributions.

National Treasury is now proposing that the 'compulsory annuitisation' element affecting provident funds and the tax-free transfer between pension and provident funds (points 2 and 3 above) be postponed for two years. The postponement is in response to some stakeholders' call for a deferral of implementation of the Taxation Laws Amendment Act.

The Minister, in a proposal document dated 16 February 2016, proposed the following points as the way forward:

1) Social Security Reform Paper
The Minister agreed that a Social Security Reform Paper is needed. He noted that this paper was ready to be published at the end of his last term and he will follow up on its status. He confirmed that the broad thrust of retirement reform remains in place and will continue.

2) Annuitisation
Government is flexible on the implementation of annuitisation for provident funds and proposes to postpone implementation for two years, from 1 March 2016 to 1 March 2018. With the postponement of the annuitisation requirement, to prevent tax abuse, it is proposed that no tax-free transfers from pension funds to provident funds be allowed for the next two years.

3) Tax deduction
Government will look at a technically appropriate way to allow the tax deduction to provident fund members for two years. All tax related measures, including the harmonised 27.5% tax deductions (up to R350 000 per annum) on contributions to any retirement fund, will be implemented for all retirement funds from 1 March 2016.

If by the end of the two years there is no agreement between stakeholders and Government, the tax deduction for provident fund members will fall away.

4) **Means Test**
Government will review the Means Test.

The next step for Government is to make a formal announcement in the Budget Speech and to then make the necessary changes to the legislation, which will need to be fast-tracked.

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