nmg SmartFund

The Connector Newsletter

March 2018

Budget highlights: retirement funds

In this newsletter

We set out a high level summary of the 2018 SA Budget highlights, which affect retirement funds. We also include a short piece on fund benefits' tax as well as comments on the 2018 tax tables for individuals. Although retirement fund reform developments have not come into law, we also provide updates which were mentioned in the Budget Speech. Finally, we outline the default regulations for retirement funds, which will become law on 1 March 2019.

Budget highlights: retirement funds

Funds have restrictions on where their investments can be invested. The limit on how much can be invested in global / offshore investments has been increased from 25% to 30% of retirement funds' investments and from 5% to 10% for investments in Africa

From 1 March 2018, members who postpone their retirement after normal retirement age are allowed to transfer their shares of fund to retirement annuity funds. The Budget also refers to allowing these deferred retirees to transfer their shares of fund to preservation funds

When fund members formally immigrate to another country, they can withdraw their full value out of their retirement annuity funds. Government is also considering allowing emigrating members to withdraw their full value out of their preservation funds, subject to normal retirement fund tax conditions

There have been no changes to the tax free lump sum amounts when members leave their funds on withdrawal or retirement. There has also not been any change to members' tax free contribution limit of 27.5% of remuneration / taxable income to retirement funds (capped at R350 000 per year).

Reminder on retirement fund tax tables

Lump sum benefits: tax on retirement, death benefits and involuntary retrenchment

Up to R500,000 of your lump sum is tax free - you will not pay any tax if your benefit is lower than R500 000. If your lump sum benefit is higher than R500 000, the rest of your benefit will be taxed as follows:

Less than R500 000	0%
R500 001 – R700 000	18% of the amount above R500 000
R700 001 – R1 050 000	R36 000 + 27% of the amount above R700 000
R1 050 001 and above	R130 500 + 36% of the amount above R1 050 000

Note:
If you change jobs during your working life and take your withdrawal benefit from a previous retirement fund in cash, then SARS will offset the value of your cash withdrawal benefit against the above tax allowances, on your retirement. This is why you should not take your withdrawal benefit in cash when changing jobs.

Tax on withdrawal benefits

If you resign, are dismissed or opt for a voluntary retrenchment package and take your withdrawal benefit in cash, your benefit will be taxed as follows:

R0 – R25 000	0%
R25 001 – R660 000	18% of the amount above R25 000
R660 001 – R990 000	R114 300 + 27% of the amount above R660 000
R990 001 and above	R203 400 + 36% of the amount above R990 000

Any amount that you take as cash on leaving your fund before retirement, may be tax free if the benefit is below R25 000.

However, you must be very sure you need this amount in cash. Any amount you take in cash will reduce your tax free lump sum on retirement.

Budget 2018: tax tables for individuals and bracket creep

The following tax tables apply to individuals, with effect from 1 March 2018 to 28 February 2019:

Taxable income	Tax rates
0 – R195 850	18% of taxable income
R195 851 – R305 850	R35 253 + 26% of taxable income above R195 850
R305 851 – R423 300	R63 853 + 31% of taxable income above R305 850
R423 301 – R555 600	R100 263 + 36% of taxable income above R423 300
R555 601 – R708 310	R147 891 + 39% of taxable income above R555 600
R708 311 – R1 500 000	R207 448 + 41% of taxable income above R708 310
R1 500 001 and above	R532 041 + 45% of taxable income above R1 500 000

Lower income earners: have been given some tax relief in these 2018/2019 tax tables

Middle to upper income earners: there has been little adjustment for bracket creep. This means that when receiving salary increases, a large portion of the increases will be paid to SARS in the form of tax.

Update on retirement fund reform: Budget Speech 2018

We highlight the most interesting retirement fund reform updates for members in the 2018 Budget speech, below:

Provident fund annuitisation

Government has said that progress on the annuitisation of provident funds and compulsory preservation has been slower than expected, because of their delay in releasing a discussion paper on social security reform.

Consultations in the National Economic Development and Labour Council ("NEDLAC") are still taking place and expected to be completed by the end of 2018.

Making sure fund benefits are claimed

The Financial Services Board ("FSB"), which oversees retirement funds, estimates that in 2016 there were over R40 billion in benefits which had not been claimed by members from their retirement funds.
The FSB is going to consult with NEDLAC on better ways to find beneficiaries, including centralising data of all funds.

Some unclaimed benefits have been loaded onto the FSB's website. If you are looking for a benefit that you haven't claimed from a previous retirement fund, log onto the FSB's search engine on: http://www.fsb.co.za/Magic94Scripts/mgrqispi94.dll?APPNAME=Web&PRGNAME=UB_Partial_Search.

Toughening up on fund corruption

The FSB has already published directives, to improve the way funds and their administrators release information to the public. The reason for this is to outlaw corrupt / unethical fund practices.

Default Regulations for retirement funds

Funds must put the following default regulations in place by 1 March 2019:

Default investment portfolios

If funds offer their members choice in their investments portfolios, the funds must set up default investment portfolios. These default portfolios must be put in place for members who don't want to make their own investment choice.

The FSB has given specific guidelines to funds on how these default investment portfolios must be set up, including guidance on fees, member communication and investment monitoring.

Default preservation and portability

Funds will need to allow members who withdraw from funds before retirement, to leave their savings in their funds. Members will however have the right to take their savings out of the fund.

These Regulations provide for withdrawing members to be given retirement benefit counselling and paid-up membership certificates. They also regulate the fees which can be charged on paid-up benefits and their investments.

Annuity Strategy

Funds will need to have annuities in place for members who are retiring. These annuities can be offered inside the fund or from an insurance company. Members will retain the choice of which type of annuity to use.

These fund annuities can either be life annuities (guaranteed by an insurance company) or living annuities (monthly income depends on investment returns earned). The Regulations also set out how these annuities must be monitored by funds and communicated to members.

You will be receiving further information on this, closer to March 2019.