national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT ON PROPOSED INCENTIVES FOR HOUSEHOLD SAVINGS AND TAX TREATMENT OF RETIREMENT SAVINGS

The National Treasury has today released for public comment and consultation two papers on promoting household savings. The two papers, *Incentivising non-retirement savings*, and *Improving tax incentives for retirement savings*, (Papers D and E, respectively), are available from the National Treasury website: www.treasury.gov.za.

Incentivising non-retirement savings

This paper sets out proposals for a non-retirement savings product which is supported by tax incentives. The aim of the savings product is to support voluntary (discretionary) savings by households and complement retirement savings.

Household savings play an important role in the economic policy agenda of Government. Higher levels of discretionary household savings help to reduce the financial vulnerability of households, especially those in the low and middle income segments. Higher levels of savings can strengthen the resilience of households to unexpected declines in income, enabling them to smooth their expenditures. Savings also help households avoid excessive reliance on debt. Lastly, an increase in domestic savings will reduce the country's reliance on volatile short-term inflows of foreign capital.

The paper proposes:

- Tax free returns, growth and withdrawals;
- Limiting contributions to R30 000 per year and R500 000 over the lifetime of an individual. These limits may be adjusted from time to time to take into account inflation.
- Expanding on the current tax-free interest income regime by replacing it with products that will offer more investment options.

During a transition period of two years from the date of implementation of these proposals, taxpayers aged 45 to 49 years may be allowed to invest up to a quarter of their lifetime limit, those aged 50 to 59 years to invest up to half of their lifetime limit, those aged 60 to 65 years to invest three quarters, and those above 65 may be allowed to invest up to the full lifetime limit.

Among the products that will qualify for tax incentives will be a range of Collective Investment Schemes (i.e. unit trusts), savings accounts offered by banks, and retail savings bonds.

Improving tax incentives for retirement savings

This paper proposes to simplify the current tax regime by harmonising the tax treatment of contributions to retirement funds. The current regime is complex, results in increased administrative costs, and is open to abuse through excessive contributions by employers and high-income individuals. Proposals to simplify the current regime and thereby address its deficiencies were initially announced in the 2011 and 2012 Budgets.

The paper proposes that:

- Contributions by employers to retirement funds remain tax deductible for taxable employers;
- Employer contributions be taxed as a fringe benefit in the hands of the employee; and
- Employee contribution, for tax purposes, be deemed to be made up of both the employee and the employer contributions, and the total contribution be capped at R250 000 or 22.5% of taxable income for taxpayers 44 years and younger. A cap of R300 000 or 27.5% of taxable income will apply to those aged 45 years and above.

The treatment of defined benefit and hybrid funds, as well as the exact definition of the income base to which the percentage and monetary thresholds will be applied, is still under consideration.

The closing date for comment on these two papers is 30 November 2012. Comments on these papers can be submitted as follows:

Submissions on the *Incentivising non-retirement savings* paper can be addressed to: Mr Johan Lamprecht, Director: Economic Tax Analysis, Private Bag X115, Pretoria, 0001; or by fax to 012 315 5516; or by email to savings.incentive@treasury.gov.za

Submissions on the *Improving tax incentives for retirement savings* paper can be addressed to: Ms Beatrie Gouws, Director: Legal Tax Design, Private Bag X115, Pretoria, 0001; or by fax to 012 315 5516; or by email to retirement.tax@treasury.gov.za

BACKGROUND

The two discussion papers being released today, the papers (*Enabling a better income in retirement* and *Preservation, portability and governance of retirement funds*) that were released on 21 September 2012, and the fifth paper scheduled for publication later this year, expand on issues raised in the overview document on retirement reform, *Strengthening Retirement Savings: An overview of the 2012 Budget proposals*, which was published on 14 May 2012.

At its meeting of 19 September 2012, Cabinet noted that the promotion of household savings and the reform of the retirement industry were aimed at assisting and incentivising South African households to save more, particularly for their retirement, and to better preserve and grow their pensions.

Cabinet said: “Final proposals will only be made after the consultation processes are completed, and will also consider how best to protect vested or accrued rights of current retirement fund members. These urgent interim retirement reform measures will complement the more fundamental and comprehensive social security reforms.”

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