national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

President signs Revenue Laws Amendment Act into law to postpone annuitisation for provident funds

The Revenue Laws Amendment Act (no 2 of 2016), which relates to provident fund members was promulgated by the President last week and gazetted (Gazette No 40006 of 20 May 2016 and Notice No 561).

The new Act only affects provident fund members, by delaying both with the requirement for provident fund members to purchase an annuity at retirement and the ability to transfer accumulated retirement savings between all retirement funds tax free until 1 March 2018. All other aspects of the retirement reform amendments that were contained in the Taxation Laws Amendment Acts of 2013, 2014 and 2015 proceeded as scheduled on 1 March 2016.

The amendments that became effective on 1 March 2016 aligned the tax deduction between all retirement funds, with increases in the available deductions for retirement annuity funds and provident funds to encourage individuals to save for their retirement. The changes include a deduction for employee contributions to provident funds for the first time, and <u>many members of provident funds who make their own contribution to their provident fund would have seen an increase in their net pay position due to this additional tax deduction.</u> A monetary cap on the deduction was included to ensure that the benefit is distributed equitably.

As a result of the postponement, provident fund members will now, for the first time, enjoy a tax deduction on all contributions made by the member, without being required to annuitise for the next two years. The two year delay is to allow for further consultations at NEDLAC and with other stakeholders. The requirement to purchase an annuity with two-thirds of your retirement assets at retirement for provident fund members would have completely aligned the tax and annuitisation treatment across all retirement funds.

However, this Act has delayed this particular provision on annuitisation due to considerable confusion and misinformation amongst the public and opposition from some of the labour unions. The Standing Committee on Finance (SCoF) included an additional amendment in the Act to compel a consultations process whereby Government must continue to engage with all relevant stakeholders on the annuitisation requirement and formally report back to Parliament before end of August 2017.

Government is committed to further detailed and constructive engagement with labour unions and other stakeholders on the requirement to purchase an annuity for provident fund members, and will facilitate these discussions by publishing the paper on Comprehensive Social Security.

While engaging on the details of a suitable arrangement that will benefit members in retirement, Government must also safeguard the principles of the tax system, and therefore continuing to allow a full tax deduction for contributions to particular retirement funds that are not required to purchase an annuity upon retirement would be inequitable.

Members who have resigned from their employment after 1 March 2016 would also have noticed that they were still able to take their accumulated retirement savings as a cash lump sum (although they would pay tax on that amount).

The objective of the current retirement reforms remains to ensure that retirees are able to save enough for their retirement, receive good value for their savings and can retire comfortably, with limited risk of old-age poverty.

Issued by National Treasury

Date: 24 May 2016