



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

DRAFT EXPLANATORY MEMORANDUM

ON THE

REVENUE LAWS AMENDMENT BILL, 2024

10 December 2024

[W.P. – '24]

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1. INCOME TAX: INDIVIDUALS, SAVINGS AND EMPLOYMENT

1.1 SEEDING DATE AND OPT-IN IN FOR PROVIDENT FUND MEMBERS OVER AGE 55 ON 1 MARCH 2021

[Applicable provision: section 1 of the Income Tax Act, No. 58 of 1962 (“the Act”)]

I. Background

The 2024 Revenue Laws Amendment Bill provides for any individual who was a member of a provident fund or provident preservation fund and was 55 years or older on 1 March 2021 to remain in the same fund unless the member chooses to contribute to the 'savings component' within 12 months after 1 September 2024. If the member elects to opt in, a one-time seeding amount of 10% of the value of the vested component will be calculated and the date of seeding will be the last day of the month in which the election is made, but capped at R30,000. The seeding amount is then allocated from the vested component to the savings component on the last day of the month in which the election is made. However, current legislation specifies that for provident fund and provident preservation fund members who were 55 or older on 1 March 2021 and choose to opt-in to benefit from the two-pot retirement system, the seeding amount must be calculated based on the value of their vested component as of 31 August 2024.

II. Reasons for change

It has come to Government’s attention that a number of funds drafted their rules to refer to 31 August 2024, and communicated this date to fund members, and as a result, have done the seeding calculation as of 31 August 2024 for those members who have already opted in. Therefore, this has created an anomaly for funds as two versions have been communicated to their members and incorporated into the fund’s rules, i.e., due to the anomaly, for some members the seeding calculation was done on 31 August 2024, and for others on the last day of the month the member elected to opt-in.

In addition, the current rules, effective from 1 September 2024, do not require for provident preservation members who were 55 or older on 1 March 2021 to stay in the same fund.

A change to the legislation is required to give clarity to retirement fund members and administrators regarding the timing aspect of the seeding amount calculation.

III. III. Proposal

It is proposed that, for members of provident funds and provident preservation funds who were 55 years old on 1 March 2021, the seeding date and calculation method allows for some level of flexibility. This proposal will allow for alignment between the law and fund rules, as communicated to retirement fund members.

IV. IV. Effective date

The proposed amendment will come into operation on 1 September 2024

2. CLAUSE BY CLAUSE

CLAUSE 1

Income Tax Act: Amendments to section 1

Sub-clauses (a) – (c): The proposed amendments aim to correct the reference to include not only section 37D(1)(d)(iA), but also section 37D(1)(d)(iB) and section 37D(1)(e), insofar as the deduction under section 37D(1)(e) results from a deduction mentioned in section 37D(1)(d)(iA) or section 37D(1)(d)(iB).

Sub-clauses (d) – (e): Definitions of “*retirement component*” and “*savings component*”: See notes on **SEEDING DATE AND OPT-IN IN FOR PROVIDENT FUND MEMBERS OVER AGE 55 ON 1 MARCH 2021**