DAVEY'S Locker

Retirement savings

Making use of the tax incentives

by Tony Davey

Harmonization deferred
The proposal contained in the National Treasury's paper entitled 'Improving tax incentives for retirement savings' to simplify the current tax regime by harmonizing the tax treatment of contributions to all retirement funds (115 *TSH* 2012) has been further deferred until 1 March 2015.

Thus the current, three separate tax dispensations for the treatment of contributions to and benefits from retirement funds, namely, pension funds, provident funds and retirement annuity funds, will continue until then.

Contribution tax relief (effective 1 March 2015)
The original proposal on changing the tax deduction for contributions to retirement funds was made in the 2011 Budget, while a more refined proposal was announced in the 2012 Budget.

The main elements of the 2012 Budget proposal (cited with approval in the Treasury paper) are:

- Contributions by employers to all types of retirement funds will be taxed as fringe benefits in the hands of employees, subject to the reliefs listed here.
- Employees will be permitted a deduction for employer and employee contributions to all types of retirement fund equal to 27,5% of the greater of employment and taxable income, although annual deductions will be limited to a maximum of R350 000.

Excess contributions
Those who have neglected their retirement savings plans and wish to boost their contributions in excess of the maximum annual tax deduction will be interested in these future reliefs:

- Excess contributions may be carried forward indefinitely to succeeding tax years.
- To the extent that the tax relief has not been used, the accumulated balance of contributions may be added to the tax-free lump sum upon retirement or death. A balance in excess of the lump sum may be set off against the compulsory annuity (112 *TSH* 2012).
- There is no tax levied on retirement funds; thus the compounded investment growth is achieved gross of tax. (Dividends are also received gross of the 15% tax.)

Estate duty exemption
Retirement fund benefits, whether in the form of a lump

sum or annuity, are exempt from estate duty, resulting in a 20% saving.

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