DAVEY'S Locker

TAX SHOCK, HORROR NEWSLETTER

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Retirement tax reforms

On hold

by Tony Davey

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In a media statement of 16 October 2014 (see the Monthly Listing), the National Treasury announced that the long awaited amendments to retirement funds (138 *TSH* 2014) will no longer become effective as from 1 March 2015. The relevant paragraph of the media statement reads as follows:

> With regard to the tax treatment of retirement fund contributions, Government has agreed to delay the implementation of laws which was originally set for 1 March 2015. For now, the delay will be for a year to allow for further consultations at NEDLAC. But should there be no agreement at NEDLAC by end-June 2015, the implementation date may be moved to 1 March 2017. This comes after the labour constituency at NEDLAC requested that the implementation of these laws—enacted last year—be postponed until further consultations between Government and NEDLAC on social security reform.

The main effect of this postponement are that:

- The 27.5% of taxable income tax-deductible contributions for members remains at 15% of nonretirement funding income for retirement annuities, and 7.5% of remuneration for pension funds.
- Provident fund benefits remain fully commutable.

The tax treatment of lump-sum benefits from retirement funds upon withdrawal or retirement under the prescribed tables remains unchanged, in any event not having been effected by the proposed amendments.

Also so unaffected is the existing exemption from estate duty under s 3(2)(*i*) of the Estate Duty Act of lump-sum benefits and annuities from retirement funds.

I have in fact noticed an increasing trend to convert estate-dutiable investments (including bank deposits, collective investment schemes, endowment policies, equities) into single-premium retirement annuities, which are exempt from estate duty.

Although this course of action triggers a liability for the CGT, there will be no future CGT, nor estate duty upon death.