DAVEY'S Locker

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Tax incentives & retirement savings

Will the proposed changes make everyone happy?

by Tony Davey

The National Treasury recently released for public comment and consultation two discussion papers on promoting household savings. The two papers, 'Incentivizing non-retirement savings' and 'Improving tax incentives for retirement savings' are listed in the Monthly Listing.

Harmonization

The second paper proposes to simplify the current tax regime by harmonizing the tax treatment of contributions to all retirement funds with effect as from 1 March 2014. There are currently three separate tax dispensations for the treatment of contributions to and benefits from retirement funds, namely, pension funds, provident funds, and retirement annuity funds.

Existing rights under existing provident funds fully to commute will be recognized, if, as a *quid pro quo* for future tax relief, the lump-sum commutation is restricted to a third, as for pension and retirement annuity funds.

Tax relief

The original proposal on changing the tax deduction for contributions was made in the 2011 Budget, while a more refined proposal was announced in the 2012 Budget. The main elements of this second proposal (cited with approval in the discussion paper) are:

- Contributions by employers to all types of retirement funds will be taxed as a fringe benefit in the hands of employees, subject to the following deductions.
- Employees will be permitted a deduction for employer and employee contributions to all types of retirement fund equal to 22,5%—or 27,5% for those aged 45 and above—of the greater of employment and taxable income, although annual deductions will be limited to R250 000, or R300 000 for those aged 45 and above. The definition of the income-base to which these percentages will apply is still under consideration, the debate being whether taxable income or employment income ('remuneration' as defined in the Fourth Schedule) is more suitable.
- A minimum monetary deduction of R20 000 will apply so as to allow low-income earners to contribute in excess of these percentage limits.
- Nondeductible contributions will be exempt from income tax if, on retirement, they are taken either as part of the lump sum or as annuity income (112 TSH 2012).
- A rollover dispensation similar to the one currently applying to retirement annuity contributions will be adopted so as to allow flexibility for those with fluctuating incomes.

Concerns

When this matter first arose in 2011 the retirement industry raised concerns about the levels of the thresholds but to date the Treasury considers these to be adequate.

We wait and see.