Retirement Tax Reform
Frequently Asked Questions
Index

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERAL INFORMATION</td>
<td>3</td>
</tr>
<tr>
<td>IMPACT ON RETIREMENT FUND MEMBERS</td>
<td>3</td>
</tr>
<tr>
<td>DEDUCTIBILITY OF RETIREMENT FUND CONTRIBUTIONS</td>
<td>4</td>
</tr>
<tr>
<td>EMPLOYEES AND FRINGE BENEFITS</td>
<td>4</td>
</tr>
<tr>
<td>EMPLOYERS</td>
<td>5</td>
</tr>
<tr>
<td>PORTABILITY OF BENEFITS</td>
<td>6</td>
</tr>
<tr>
<td>INCREASE IN COMMUTATION LIMIT</td>
<td>6</td>
</tr>
<tr>
<td>P-DAY</td>
<td>6</td>
</tr>
</tbody>
</table>
GENERAL INFORMATION

1. **What is retirement tax reform?**
   Retirement tax reform is a Government initiative which seeks to:
   - Encourage members of retirement funds to save and provide adequately for retirement
   - Encourage employers to structure retirement saving plans for their employees as part of their employment contract
   - Ensure that members of retirement funds receive good value for money for their retirement savings and are treated fairly
   - Improve standards of retirement fund governance.

2. **How will Government implement the retirement tax reform?**
   The retirement tax reform will be implemented through changes to the Income Tax Act and its regulations. These changes will also require retirement funds to change their rules.

3. **What is meant by T-day?**
   The effective date of the tax changes is 1 March 2016. This date is known as T-day.

4. **What will change on T-day?**
   There are four major tax changes which come into effect on T-day:
   - There will be changes to the tax deductions that employers and members/employees can claim when contributing towards a retirement fund
   - Provident fund retirement benefits will be aligned with retirement benefits from pension funds and retirement annuity funds
   - The ability to transfer retirement savings between different retirement funds will be enhanced
   - The value of retirement benefits that can be accessed as a lump sum will be increased.

5. **What will not change on T-day?**
   There are four major factors which will not change on T-day:
   - A member’s continued membership in a retirement fund.
   - The amount that a member can contribute to a retirement fund. The new deductible limits effectively entitle most individuals to a larger tax deduction, which should incentivise even greater contributions towards retirement savings. If members have a choice and are able to, they should consider increasing their contributions in order to benefit from the greater tax relief offered by the tax changes.
   - Members’ ability to take their retirement savings as a cash lump sum on resignation, dismissal or retrenchment will not change. Although members will still be allowed to withdraw their retirement savings in full, this is not advisable and they should aim to preserve their retirement savings.

6. **Which types of investment vehicles will be affected by T-day?**
   The T-day changes will affect the following retirement funds:
   - Pension Funds
   - Provident Funds
   - Pension Preservation Funds
   - Provident Preservation Funds
   - Retirement Annuity Funds

7. **Which types of investment vehicles will not be affected by T-day?**
   The T-day changes will not affect:
   - Bank accounts
   - Unit Trusts (Collective Investments)
   - Tax Free Investment
   - Bonds
   - Long-term policies- endowments, life policies, voluntary purchase annuities
   - Unapproved group life policies

IMPACT ON RETIREMENT FUND MEMBERS

8. **How are pension fund members affected?**
   - The deductibility limits for member and employer contributions to a pension fund will change.
   - The retirement benefits paid to a member will not change. Members will still be able to get 1/3 as a cash lump sum and will be still required to purchase an annuity with at least two thirds of their retirement benefit.
   - The rules of the pension fund will be revised to ensure that it caters for the new tax changes.

9. **How are retirement annuity fund members affected?**
   - The deductibility limits for member contributions to a retirement annuity will change.
   - The retirement benefits paid to a member will not change. Members will still be able to get 1/3 as a cash lump sum and will be still required to purchase an annuity with at least two thirds of their retirement benefit.
   - The rules of the retirement annuity will be revised to ensure that it caters for the new tax changes.
10. How are preservation fund members affected?
• The retirement benefits paid to a member of a preservation fund will not change.
  • Existing members of pension preservation funds will still be able to get 1/3 as a lump sum and will be required to purchase an annuity with at least two thirds of their retirement benefit.
  • Existing members of provident preservation funds will still be able to get their full retirement benefit as a cash lump sum.
• The rules of the preservation fund will be revised to ensure that it caters for the new tax changes.

11. How are provident fund members affected?
Provident funds will be the most affected of the retirement funds. Currently, when a member retires from a provident fund he/she is able to take their full retirement benefit as a cash lump sum. From T-day the retirement benefits paid from a provident fund will be aligned with a pension, pension preservation and retirement annuity fund.

If a member retires from a provident preservation fund after T-day the following will apply:
• Fund values (retirement savings) already accumulated in the provident fund BEFORE T-day as well as the growth on these funds subsequent to T-day may be paid out as a cash lump benefit at retirement. These are called vested benefits.
• All contributions and growth on new contributions which accumulate AFTER T-day will have to be annuitised i.e. members will only be able to take out 1/3 of the benefits accumulated after 1 March 2016 as a cash lump sum payment. The remaining 2/3 must be used to buy an annuity.
• Members of a provident fund who are 55 or older at T-day will not be required to annuitize any portion of their annuity when they retire. Even contributions and growth accumulated after T-day. The full value of their retirement benefit will be a vested benefit and they will be able to take out their retirement benefit in full as a cash lump sum at retirement. If, however, they transfer their benefit to another retirement fund, only the value of the benefit on the date of transfer will comprise a vested benefit.

12. Will I lose my vested benefit in my provident fund or provident preservation fund if I transfer it to a new retirement fund?
No. Your vested benefit plus growth will continue to remain vested even if it is transferred to another retirement fund after T-day.

13. Will I lose my vested benefit even if I keep transferring it to successive funds?
• No. Each successive fund will need to record the vested benefit plus the growth on it.

DEDUCTIBILITY OF RETIREMENT FUND CONTRIBUTIONS

14. How will members’ tax deductions change?
• Members currently have a different deductibility regime depending on the nature of the retirement fund they contribute to:
  • Pension funds: greater of 7.5% of retirement funding income or R1750
  • Retirement Annuities: Greater of 15% of non-retirement funding income or R3500 – pension fund contributions or R1750
  • Provident funds: No deduction
• From T-day member contributions to pension, provident and retirement annuity funds will all be deductible up to 27.5% of the greater of total remuneration or taxable income capped at R350 000 per year.

15. How will employer’s tax deductions change?
• Employers can currently claim a deduction for their contributions up to 20% of approved remuneration.
• From T-day the deductions that employers can contribute to retirement funds will be unlimited.

EMPLOYEES AND FRINGE BENEFITS

16. How will employer contributions to retirement annuities be treated at T-day?
• Currently, employer contributions are treated as fringe benefits.
• Employer contributions will continue to be treated as fringe benefits from T-day.

17. How will employer contributions to pension and provident funds be treated at T-day?
• Currently, employer contributions to pension and provident funds do not form part of an employee’s remuneration.
• From T-day, employer contributions to a pension and provident fund will be treated as a fringe benefit.

18. How will the fringe benefit work?
• From T-day employer contributions to retirement funds will have to be reflected as fringe benefits in the employer’s payroll.
• The employer will give the employee a corresponding deduction against that fringe benefit based on the new deductibility limits of 27.5% of the greater of remuneration/taxable income capped at R350 000 per year.

• The fringe benefit calculation as well as the corresponding retirement fund deduction (subject to deductible limits) will be applied monthly in the employer’s payroll system.

19. How will the fringe benefit tax on employer retirement contributions affect members’ take home pay?
Most members should be in a tax neutral position, meaning their take home pay will not be affected by the changes T-day is introducing. The new deductible limits effectively entitle most members to a larger tax deduction. Fringe benefit tax will only be payable by the member to the extent that the value of the employer contributions exceed the new deductible limits, ie. 27.5% of their ‘remuneration’ or ‘taxable income’, whichever is greater, capped at R350 000 per year. Please refer to www.libertycorporate.co.za for further details.

20. Will the T-day changes push employees into a different tax bracket?
The majority of employees will not be pushed into a higher tax bracket because of the corresponding deduction. Only those employees whose employer contributions are in excess of the deductible limits will be affected.

21. Does it make sense to have employer contributions going forward?
This will depend on the financial circumstances of each employer and its employees, as well as what has been agreed to in terms of the conditions of employment in place. Generally the changes aim to bring about simplification of retirement fund structures. The changes to the Income Tax Act are not prescriptive on the contribution structure that should be used. Providing retirement and risk solutions is one of the key considerations for an employer to attract and retain staff members. It is therefore prudent that the employer and its employees, in consultation with their financial adviser, understand these changes and decide how best to maximise the revised contribution deductibility limits.

22. What will employers have to do to their payrolls?
Employers and their payroll administrators will have to make the following changes to their payrolls:
• Employer contributions will have to be reflected as fringe benefits on a monthly basis.

• An allowable deduction from ‘remuneration’ must be calculated on a monthly basis.

• The allowable deduction must factor in both employer and employee contributions subject to the new deductible limits.

23. How will the retirement tax reform changes affect tax certificates?
Employers and their payroll administrators must make the following changes to their tax certificates (IRPS’s/IT3(a)’s):
• Tax certificates will no longer refer to ‘retirement funding income’ or ‘non-retirement funding income’ as the new deductible limits are based on ‘remuneration’ and/or ‘taxable income’.

• Tax certificates must reflect employer contributions as fringe benefits and incorporate the deductions as a separate field.

• A new Business Requirement Specification (BRS) for the new codes and validations will be released by the South African Revenue Service (SARS) to enable employees to issue the relevant IRP5/IT3(a) certificates.

24. What should employers who participate in both a pension and provident funds be considering?
Due to the T-day changes and the harmonisation of the tax treatment across all retirement funds it may no longer be necessary to have a separate pension and provident fund for one employer. Each employer needs to determine what is best for their employees, by considering if it would be more cost effective and efficient to participate in one retirement fund instead of both a pension and provident fund.

Should employers choose to consolidate funds careful consideration must be given to which type of retirement fund should remain. Special attention should be given to the ‘vested benefits’ of provident fund members older than 55 years, as only the benefits that accrue in the original fund will remain vested. Clear communication must be provided to affected employees as well as how any section 14 transfer will operate. The special rules of the employer’s participation would need to be revised.

25. What should employers with hybrid funds be considering?
A “Hybrid fund” is understood to be a retirement fund with both a defined benefit (DB) and defined contribution (DC) components. From T-day, employer contributions to a retirement fund for the benefit of an employee will result in a fringe benefit for that employee. The value of the fringe benefit for tax purposes will depend on whether the contributions are made to a defined benefit fund or a defined contribution fund.
Retirement Tax Reform
Frequently Asked Questions

• If the contributions are made to a defined contribution fund, the contribution allocated to the employee will be included as a fringe benefit for that employee at the value of the contribution.
• If the contributions are made to a defined benefit fund, the value of the fringe benefit will be determined through a special formula as provided in the Income Tax Act.

An employer who participates in a hybrid fund should ensure that the payroll system is geared up to cater for both types of calculations and should engage with the Fund and the valuator to ensure the Notional Employer Contribution is prepared in time. A hybrid fund arrangement may need to consider, in conjunction with the employer and valuator, if the DC or DB component should be removed and if the fund should convert to a DC only component. It is very important that these changes are discussed in consultation with your Financial Adviser, Board of Management and valuator of the fund. If you require assistance in understanding the impact on hybrid funds, please contact Liberty Corporate Consultants and Actuaries.

PORTABILITY OF BENEFITS

26. Will members of pension funds be able to transfer their benefits to a provident fund tax-free?
Yes. At T-day members of pension funds will be able to transfer their benefits to provident funds tax-free. Currently these benefits will be taxed when they leave the pension fund.

27. Will members of provident funds be able to transfer their benefits to a pension preservation fund tax-free?
Yes. At T-day members of provident funds will be able to transfer their benefits to a pension preservation fund tax-free. Currently these transfers are not allowed.

28. Will members of retirement annuities be able to transfer their benefits to a pension or provident fund tax-free?
No. The one exception to the portability changes is that benefits of retirement annuities will only be able to be transferred to other retirement annuities.

30. What happens if I have vested and non-vested benefits at retirement? Will I still be able to take the non-vested benefits as a cash lump sum if they fall below R247 500?
Yes. If you have both vested and non-vested benefits at retirement you will be able to take your vested benefits as a cash lump sum. You will also be able to take the non-vested benefits as a cash lump sum if the non-vested benefits are less than R247 500.

P-DAY

31. What is P-day and how does it differ to T-day?
P-day is a date to be determined in the future when compulsory preservation of retirement benefits will be introduced. These policy proposals are still under consideration and National Treasury (NT) is still consulting with the industry on these proposed changes. P-day changes have not been agreed and have not been written into law.

For further information from National Treasury on these changes please click here

INCREASE IN COMMUTATION LIMIT

29. If I am a member of a pension fund, pension preservation fund or provident fund what is the maximum value at which I would be able to take the full retirement benefit as a cash lump sum?
Currently if your retirement benefit is below R75 000 you can take it as a cash lump sum. From T-day, if your benefit is below R247 500 you will be able to take it as a cash lump sum.
For more information please contact
Liberty Group Stakeholder Management
Telephone: 011 408 2118 or email stakeholderrelations@liberty.co.za

Liberty
Libridge Building
Registration number 1957/002788/06
Ameshoff Street, Braamfontein
PO Box 10499, Johannesburg 2000

Disclaimer
The information contained in this document does not constitute advice by Liberty. Any legal, technical, or product information contained in this document is subject to change from time to time. This document is a summary of the features of the product as at the time of publication. If there are any discrepancies between this document and the contractual terms and conditions or, where applicable any fund rules, the latter will prevail.

Any recommendations made must take into consideration your specific needs and unique circumstances.

Liberty Group Ltd is an Authorised Financial Services Provider in terms of the FAIS Act (no 2409).
©Liberty Group Ltd 2015. All rights reserved.