

2 November 2015

The National Treasury: Director for Retirement Funds
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PRETORIA
0001

BY EMAIL: retirement.reform@treasury.gov.za

Dear Alvinah

RE: RETIREMENT REFORM INDUSTRY

Request

We refer to the Government's consultation over the following options related to the timing of annuitisation of provident funds, which are covered by clauses 3(k) to (z) and (zB to cD) on pages 4-10 of the 2015 TLAB tabled by the Minister of Finance in the National Assembly on 27 October 2015. We thank you for the opportunity to be part of the consultation process and to provide our opinion with regard to the preferred option.

The options are:

Option 1, which entails proceeding with TLAA 2013 tax and retirement reform provisions on 1 March 2016 as legislated, with the only adjustment being to increase the *de minimis* to R250 000.

Option 2 proposes a phased-in approach for annuitisation, together with limits to the tax deduction for member contributions from year 2 onwards if there is no annuitisation, and other adjustments.

We understand that these clauses were drafted in a way to give effect to the specific option that will be recommended by Government after the consultations. We also understand that the further consultation on the 2015 TLAB was limited to whether, and for how long, the annuitisation of provident funds should be delayed.

It is the view of SAIT that option 1 is the preferred one.

SAIT agrees with the stated intention of Government that ideally, the tax deduction of retirement fund contributions must be related to annuitisation, to reduce vulnerability in retirement by ensuring a secure monthly income for members in retirement. We see no need for the implementation of this to be postponed by another year.

Some additional comments:

The revised version of the section 11(k) deduction limits the deduction in a particular year to the lesser of R350 000 or 27,5% of the higher of remuneration or taxable income limited to R350 000. It is unclear why a cap has been introduced on the taxable income on which the 27,5% is calculated. This discriminates against self-employed individuals and those with income other than remuneration. The original version of the limitation should be used.

The cap of R350000 was set in 2012/2013 and, as the amendment will only come into effect on 1/3/2016 which is more than 3 years later, the amount should be adjusted for inflation. The current value should be at least R400 000.

Having an additional deduction for provident fund contributions seems to over complicate matters. The new section 11(k) now provides in proviso (i) that "the total deduction to be allowed in terms of this paragraph after taking into account the deduction under paragraph (kA) must not exceed..." It is unclear what is meant by this and lead to some problems in interpreting the law and determining the deduction where a person contributes to both a provident and another retirement fund. The wording should be looked at.

Yours sincerely,

Piet Nel

Tax Technical Department