Media release

Retirement planning opportunities in flux

By Allan Haynen, Director at BDO Wealth Advisors

Johannesburg, 27 February 2015 – The 2015 budget has referred to various changes which will affect retirement planning opportunities for individuals.

The widely publicised changes to taxation of contributions to retirement funds was due to take effect as from 01 March 2015 but had been postponed during the past year to 01 March 2016 (i.e. the 2017 tax year).

It appears as if the following proposals will indeed take effect as from 01 March 2016:

1. Contributions to retirement funds will be increased to 27,5% of the greater of taxable income or remuneration for the year

2. Contributions will be capped at R350,000 per tax year

3. In 2008 the upper age limit of 70 for membership of a RA was removed, enabling members to remain invested and keep contributing to RA funds for an indefinite period. This provided attractive tax planning opportunities, as investors could remain invested in RAs without having to trigger withdrawals which may have been subject to income tax. This also provided estate planning opportunities, as RA funds are excluded from a dutiable estate upon death.

   To limit these tax planning opportunities, it is now proposed that a maximum age be re-introduced at which withdrawals may be taken. This will affect income tax and estate planning for many Retirement Fund members.

4. Whilst the maximum marginal tax rate for individuals' taxation has been increased to 41%, the maximum tax rate for Retirement Fund lump sum withdrawals has remained at 36%, widening the gap in tax rates applicable at retirement. Because of the differentials in these tax rates, careful planning is required when electing the retirement lump sum withdrawal at retirement.

5. For high net worth individuals, there has been a tax planning opportunity to avoid estate duty by transferring assets into a retirement annuity before death, which excludes the assets in the Retirement annuity from the estate duty calculation. Changes are proposed to eliminate the estate duty avoidance.

Whilst retirement funds remain a very attractive mechanism for accumulating savings in a tax efficient manner, proposed changes call for the structure of many retirement plans to be revisited.

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