South Africa Details Pensions Consultation

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Further details have been provided of the Government's public consultation on its proposals to reform the retirement industry in South Africa, with a focus on the taxation, governance and harmonization of retirement funds.

The revised proposals and new consultation were announced by Pravin Gordhan, the South African Minister of Finance, in his 2013 Budget Speech on February 27. The proposals follow a series of technical discussion papers with draft proposals that were issued in 2012, after the Minister's 2012 Budget announcements.

Both formal and informal consultations were held with stakeholders during 2012 in respect of those papers, and the Government has now developed the revised policy proposals for further consultation with a closing date of May 31, 2013. Following that, draft legislation to give effect to the proposals will be introduced over the course of 2013.

Firstly, it was pointed out that South Africa is an "outlier" among countries of a similar income level in that it does not have a statutory requirement for pension provision and, as a consequence, a large number of employers provide retirement and insurance funds as a condition of employment.

However, coverage of such arrangements is uneven, with workers' access to an occupational fund dependent on factors such as income, employer size and economic sector. According to research based on the 2010 Labor Force Survey, only 32% of people earning below the tax threshold and only 36% of workers at companies with fewer than 50 employees have access to an occupational retirement fund.

The Government’s contribution to occupational and individual retirement arrangements is seen as incentivizing contributions via the tax system, and regulating retirement funds. The reforms now being proposed are, in fact, also intended to lay the foundation for the eventual introduction of a mandatory part of a comprehensive social security system that provides retirement cover to all workers.

With regard to the taxation of retirement funds, from an effective date in or after 2015, called T-day, employer contributions to retirement funds will become a fringe benefit in the hands of employees for tax purposes.

Individuals will be able to receive a tax deduction on employer and employee contributions to a pension fund, provident fund or retirement annuity fund up to 27.5% of the greater of remuneration and taxable income. For equity reasons, an annual ceiling of ZAR350,000 (USD39,600) will apply.

The tax treatment of contributions to pension, retirement annuity and provident funds will be harmonized, allowing provident fund members also to receive a tax deduction on their own contributions. Vested benefits would be protected in provident funds at the date of implementation.

However, it is proposed, subject to public consultation, that future contributions made to provident funds after an agreed date would be subject to the same annuity requirements applicable to retirement annuity and pension funds. That requirement would not apply to provident fund members older than 55 years at the date of implementation.

Contributions in excess of the annual caps may be rolled over to future years. At retirement, where any non-deductible contributions remain, they would be set off against any lump sum or annuity income before tax is calculated, to avoid double taxation.

With regard to non-retirement savings, the Government intends to proceed with the implementation of tax-preferred savings and investment accounts. All returns accrued within these accounts and any withdrawals would be exempt from tax.

The account will have an initial annual contribution limit of ZAR30,000 and a lifetime limit of ZAR500,000, to be increased regularly in line with inflation. The new accounts will be introduced by 2015, and will co-exist with the current tax-free interest income dispensation.

With effect from March 1, 2013, tax-free interest-income annual thresholds will be increased from ZAR33,000 to ZAR34,500 for individuals 65 years and over, and from ZAR22,800 to ZAR23,800 for individuals below 65 years. These thresholds may not be adjusted for inflation in future years.