YOUR OASIS

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VIEWS FROM OUR CEO

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In this publication we cover how saving for retirement enables you to save tax; the tax treatment of withdrawal and retirement lump sums; and the extent to which the 2018 Budget amendments impact upon your retirement investment.

The importance of providing adequately for retirement cannot be overstated. It is generally accepted that a retirement income of at least 75% of one's final pre-retirement remuneration will be needed to facilitate a comfortable retirement. Assuming a reasonable rate of return over time, it means that 30-year old Joe Ntini, who has not yet begun saving for retirement, will immediately have to start saving approximately 22% of his remuneration to retire comfortably. To a 30-year old, this may seem like a tall order because retirement appears a long way off, but if Joe defers providing for retirement until the age of 35, the retirement saving percentage increases to 30% of his remuneration. Moral of the story: it's never too early to start saving for retirement.

HOW SAVING FOR RETIREMENT ENABLES YOU TO SAVE TAX

With effect from 1 March 2016, tax deductions for retirement savings, through contributions to pension, provident and/or retirement annuity funds (collectively, "retirement funds") increased from 15% to 27.5% of taxable income or remuneration. Consequently it is has become possible to save more for your retirement in a tax efficient manner. All contributions you make to retirement funds, up to the lesser of 27.5% of your annual taxable income or remuneration; or R350 000; will be deductible in the determination of your taxable income.

30-year old Joe may ask why he should contribute as much as 27.5% as opposed to 22% of his remuneration to a retirement fund, when contributing more will mean less disposable income for him now.

Let's assume, for the year 1 March 2018 – 28 February 2019, Joe earns R550 000 per annum. If he contributes the minimum required to secure a comfortable retirement i.e. R121 000 (R550 000 x 22%), the outcome will be as follows:

Remuneration	R550 000
Tax deductible retirement contributions	(121 000)
Taxable income	429 000
2019 Income Tax for individuals	102 315
Less primary rebate	(14 067)
Tax due to SARS	88 248
Disposable income:	R340 752

What happens if Joe contributes the maximum tax deductible retirement funding contribution i.e. R151 250 (R550 000 x 27.5%), the outcome will be as follows:

Remuneration	R550 000
Tax deductible retirement contributions	(151 250)
Taxable income	398 750
2019 Income Tax for individuals	92 652
Less primary rebate	(14 067)
Tax due to SARS	78 585
Disposable income:	R320 165

By taking advantage of the full 27.5% tax deduction available for contributions to retirement funds, Joe can reduce his annual tax liability by R9 663. Although contributing more to a retirement fund results in a decrease in Joe's annual disposable income; less of his money will be paid in tax. Remember Joe's retirement contributions are still his; he just can't access the funds in the immediate term. Tax paid effectively belongs to the State. Whatever your maximum marginal tax rate; it constitutes the percentage in tax you will save on every extra rand you contribute to a retirement fund provided it does not exceed the annual R350 000 cap on the deduction of retirement fund contributions.

Should Joe elect to contribute in excess of R151 250; the excess contributions can be used to increase the amount of any tax exempt lump sum he commutes before or on retirement; or to reduce the taxable portion of his living annuity income during retirement. Excess contributions in one year are also available for carry over and deduction in the following year of assessment. If Joe's employer directly contributes in excess of 27.5% of Joe's remuneration to a retirement fund on his behalf, the excess contributions will constitute a taxable fringe benefit in his hands. However this will be deemed to be Joe's contributions for purposes of increasing the amount of any tax exempt lump sum he commutes before or on retirement; or for reducing the taxable portion of his living annuity income during retirement.

Note that even if you are a member of your employer's pension or provident fund, you are entitled to set up and contribute to a retirement annuity. Oasis offers a range of retirement annuity fund options, which facilitate tax efficient retirement saving.

TAX TREATMENT OF WITHDRAWAL LUMP SUM BENEFITS

If you withdraw from a pension or provident fund before retirement and you do not elect a tax neutral transfer of your pre-retirement lump sum to another like retirement fund or equivalent preservation retirement fund; your withdrawal lump sum benefit will be taxed in accordance with the following table:

WITHDRAWAL LUMP SUM BENEFIT	TAX
R0 – R25 000	0%
R25 001 – R660 000	18% of amount > R25 000
R660 001 – R990 000	R114 300 + 27% of amount > R660 000
R990 001 -	R203 400 + 36% of amount > R990 000

Your tax liability will be determined by applying the tax table to the aggregate of your pre-retirement lump sum plus all other retirement fund lump sum withdrawal benefits that have accrued to you since 1 March 2009.

TAX TREATMENT OF RETIREMENT FUND LUMP SUM BENEFITS

On retirement (currently age 55) or death, the tax on a retirement lump sum is determined by calculating the taxable portion of the lump sum plus the taxable portion of all lump sums previously received (as from 1 October 2007) less any contributions which have not been allowed as tax deductions. The amount so determined is then subject to tax according to the table below, which tax liability is reduced by any tax on previous lump sums calculated at the rates in the table below, regardless of the tax that was actually paid at the time.

RETIREMENT LUMP SUM BENEFIT	TAX
R0 – R500 000	0%
R500 001 – R700 000	18% of amount > R500 000
R700 001 – R1 050 000	R36 000 + 27% of amount > R700 000
R1 050 001 -	R130 500 + 36% of amount > R1 050 000

WHAT'S NEW

With effect from 1 March 2019 the treatment of lump sums from provident funds, which may still be commuted as to 100%; will be aligned with the ⅓ lump sum, ⅔ annuity rules that apply to pension and retirement annuity funds, unless the lump sum is less than R247 500, in which case the entire amount may be taken as a lump sum.

Contributions made to provident funds prior to 1 March 2019, and the growth thereon, will not be subject to annuitisation, which ensures that the legislative amendments are not implemented retrospectively. Also, if you are a provident fund member and you are at least 55 on 1 March 2019, your provident fund lump sum will not be subject to annuitisation at all.

Please look out for our next publication when we will shed light on the default living annuity regulations.

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