



Columbus Retirement Funds



Tax legislation has changed **1 MARCH 2016**

IMPORTANT: CHANGES THAT WILL AFFECT YOU

Government is busy with an initiative that will assist South Africans to save more for retirement. This is referred to as the Retirement Reforms. From 1 March 2016 there will be a few important changes, which will affect you. Make sure you read this article carefully.

THE FINAL
UPDATE:

2016

1 Taxation of contributions

What has changed from 1 March 2016?

- Employer and Member contributions to retirement funds (pension, provident, retirement annuities) will now be added together. Members will be allowed a tax-free total annual contribution of 27.5% or R350 000.
- These changes align the tax treatment of retirement funds so that everyone gets a fair tax benefit. Employer contributions are now taxed (as a fringe benefit); but you will also get tax relief on the combined contributions, which will put you in a tax neutral position. So the tax benefit for retirement savings is given to you and it is capped to ensure that it is not abused.
- The way your contributions and tax are shown on your payslip will be different, but it should not affect your take-home pay.

What was the situation before?

- Members only received a small tax deduction on their contributions to Pension Funds.
- Only the employer could deduct employer contributions from an employee's income before it was taxed, so this deduction did not benefit members directly.

WHAT IS TAXABLE INCOME?

Your total taxable income includes your remuneration, rental income, dividends, other investment income and any other sources of income that you submit when you complete your annual tax return.

EXAMPLE

Let's assume Cedrick's total taxable income is **R300 000**; his Pensionable Earnings are **R250 000**.

Your pensionable earnings amount is calculated as a percentage of your Total Cost To Company. This is the amount used to calculate your contributions. This depends on the rules of your Fund.

How much does Cedrick contribute? His contributions are as follows:

EMPLOYER CONTRIBUTIONS

His total employer contributions including costs are :

10.6%

$R250\,000 \times 10.6\% =$

R26 500

+

MEMBER CONTRIBUTIONS

His member contributions to the Pension Section are:

7.5%

$R250\,000 \times 7.5\% =$

R18 750

+

RETIREMENT ANNUITY CONTRIBUTIONS (IF ANY)

These are contributions you make from your bank account. Cedrick must provide proof to Columbus of these contributions or submit these in his annual tax return.

R51 000



TOTAL
CONTRIBUTIONS:

= R96 250

The MAXIMUM amount he can deduct from tax: 27.5% of the greater of his taxable income or remuneration.

27.5% of R300 000 (taxable income): **R82 500**

EXAMPLE (CONTINUED)

What does this mean?

AMOUNT HE WILL NOW BE TAXED ON

Cedrick will be taxed on the employer contribution as a fringe benefit at his normal tax rate .

R26 500

AMOUNT HE CAN DEDUCT FROM TAX THIS YEAR

He will be able to deduct all these contributions (R96 250) from his income before it is taxed, but only 27.5% this year.

R82 500

AMOUNT HE CAN DEDUCT FROM TAX IN FUTURE YEARS

He can deduct all his contributions over and above the 27.5%, in future years or at retirement (max R350 000 allowed per year).

R96 250 - R82 500 =

R13 750

2 How will this affect me as Columbus Retirement Fund member?

PRIOR TO 1 MARCH 2016

Pensionable Earnings	R250 000
Plus Other Allowances	R3 500
Less Member Contributions	R18 750
You will be taxed on	R234 750

AFTER 1 MARCH 2016

Pensionable Earnings	R250 000
Plus Other Allowances	R3 500
Plus Employer Contributions	R26 500 (fringe benefit)
You will be taxed on	R234 750
Less Total Contributions	R45 250
You will still be taxed on	R234 750

Your total contributions will not change

R45 250



Member Contributions

R18 750



Employer Contributions

R26 500

3 Options at Retirement: NO CHANGE UNTIL 2018

PROVIDENT FUND MEMBERS CAN STILL TAKE THE FULL AMOUNT IN CASH AT RETIREMENT

PENSION PROVIDENT FUNDS

WHAT IS THE CURRENT SITUATION?

Members can currently **take the entire amount in cash**, or only a portion if they wish.

Full Benefit in Cash

ONLY IN 2018!

THIS WILL NOT CHANGE UNTIL 2018!

Members will be allowed **one third** of any savings made from 1 March 2018, in cash, and the balance must be used to purchase a monthly pension.

Max 1/3 Cash

Members can take only one third of their benefit in cash and the balance has to be used to purchase a monthly pension.

Max 1/3 Cash

Nothing changes, either now or later: you can still only take one third in cash and the balance has to be used to purchase a monthly pension.

Max 1/3 Cash

! IMPORTANT, THIS WILL NOT AFFECT YOUR WITHDRAWAL BENEFIT: YOU WILL STILL BE ABLE TO TAKE IT IN CASH IF YOU WANT.



- Q: Why was this change postponed until 2018?**
- A: There is a need for further discussions with key stakeholders. Government and labour agreed to discuss this change and its impact in more detail.