

Goals for 2010 & beyond

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2010 PLA CONFERENCE - SPIER - WESTERN CAPE
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Topic Pension Tax Certainty: Fiction or Fact

Principles of Sound Tax Policy

- **Transparency**
 - Taxpayers must know how tax legislation and tax collection system works
- **Neutral**
 - Minimal distortions
- **Simple**
 - Tax legislation must be simple
- **Stability (no retroactivity)**
 - Few changes and changes must be permanent
- **Low tax burden**
 - How much bang for your buck

Table Mountain



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What has happened on the Pension Tax front

- Tax on growth (RFT)
 - Introduced in 1996
 - Rate change
 - Abolished in 2007

- How does this meet sound tax policy criteria?
 - Transparent
 - Neutral
 - Simple
 - Stable
 - Tax burden lower

What has happened on the Pension Tax front (2)

- Tax on lump sum withdrawals
 - Previously R1,800 tax-free and average rate
 - Now R22,500 tax-free and stand-alone tables apply
- How does this meet sound tax policy criteria?
 - Transparent
 - Neutral
 - Simple
 - Stable

What has happened on the Pension Tax front (3)

- Tax on lump sum retirement benefits
 - Previously tax-free amount uncertain and average rate
 - Now R300,000 tax-free and stand-alone tables apply
- How does this meet sound tax policy criteria?
 - Transparent
 - Neutral
 - Simple
 - Stable

But what about the future?

- Living annuities
 - Certain aspects of living annuities are unclear
 - How is tax levied if the annuitant dies and a lump sum is paid out?
 - How is tax levied if 2nd and 3rd generation annuitants die and a lump sum is paid out?
- Aim is to create certainty where tax law is unclear.

But what about the future? (2)

- Retrenchments
 - Government policy to alleviate hardship
 - Maintain principles of sound tax policy
- Lump sum withdrawal benefits payable upon certain “involuntary” retrenchments, taxed as retirement lump sums
- In 2010, certain “involuntary” retrenchments will result in amounts paid by employer to also receive beneficial tax treatment

But what about the future? (3)

- Preservation funds as stand alone funds introduced
 - All “old generation” pres funds should now be “new generation” pres funds
 - More portability between different types of funds
- More recognition for umbrella funds

...and even further into the future?

- Portability between funds
 - Full, tax-free portability between most funds
 - Subject to 'safe guards' being built into the system
- Tax certainty on all aspects of annuities and living annuities
- Alignment of tax treatment:
 - Fund policies
 - Employer policies

...and even further into the future?

- Contributions

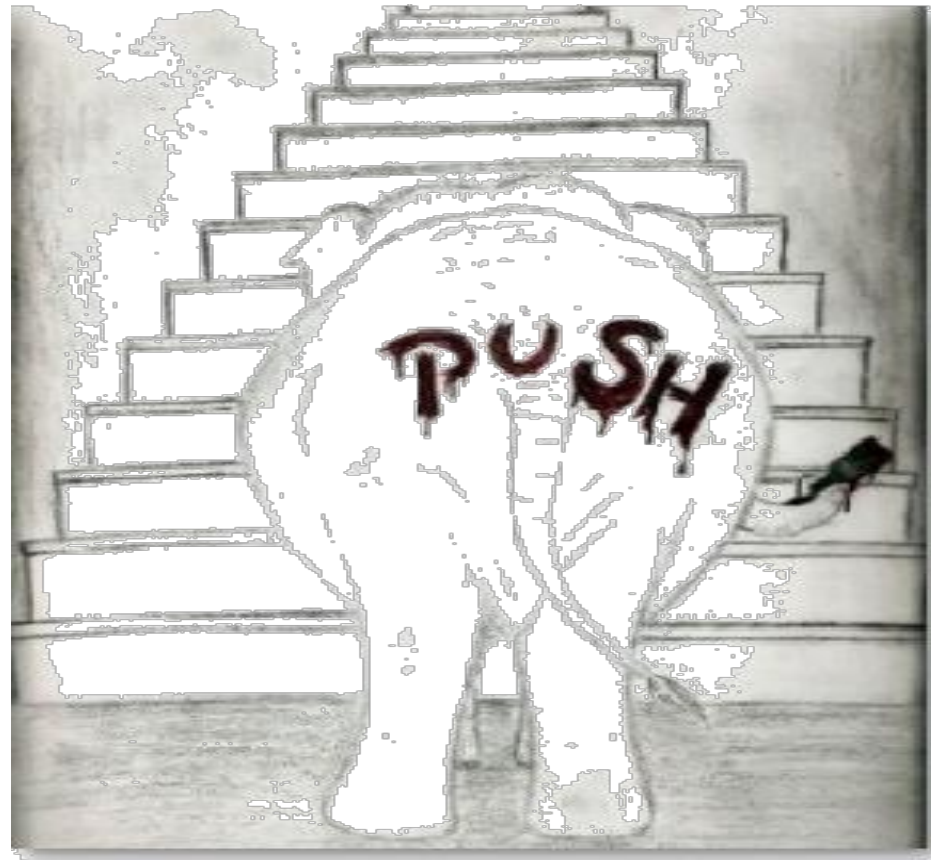
- Employer and employee contributions combined
- Uniform tax deductible amount
- Expected rate 20 – 25%
- Maybe a “top-up” for late starters or previously unemployed
- Tax-free growth to remain
- More certainty on distinction between retirement and withdrawal lump sums
- Retirement and withdrawal lump sum regime to remain (tax-free amounts and tables to be adjusted for inflation)
- Annuities to be taxed as income (current regime remain)

So, what is the verdict?

It may seem as if there is no Retirement Tax certainty and that the picture looks like this.



But keep the faith...the picture may look more like this



Thank you

QUESTIONS ARE WELCOME

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