

# *Goals for 2010 & beyond*

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2010 PLA CONFERENCE - SPIER - WESTERN CAPE  
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*Speaker* Mientjie Botha

*Company* Alexander Forbes

*Topic* Pension Tax Certainty: Fiction or Fact

# Principles of Sound Tax Policy

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- **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

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- 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)

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- 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)

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- 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?

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- 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 2<sup>nd</sup> and 3<sup>rd</sup> 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)

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- 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)

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- 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?

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- 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?

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- 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?

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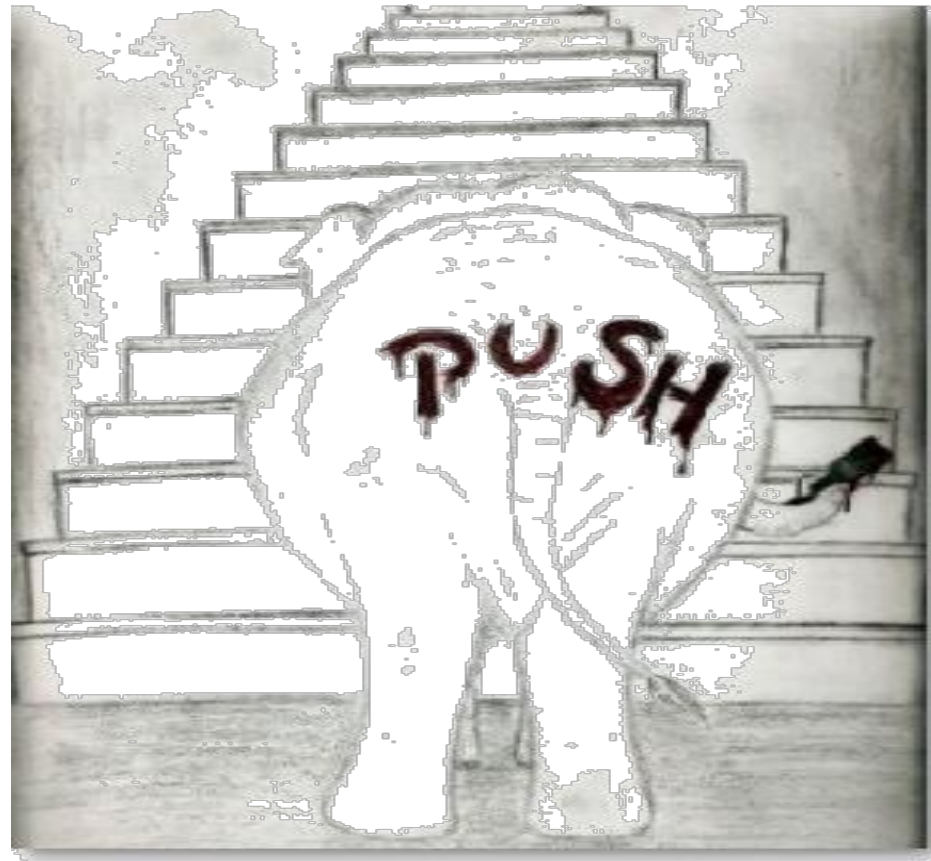
It may seem as if there is no Retirement Tax certainty and that the picture looks like this.





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

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*Thank you*

QUESTIONS ARE WELCOME

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