

# NEW TAX LAWS – WHAT YOU NEED TO KNOW



THE NEW TAX LAW SIGNED BY THE PRESIDENT WILL COME INTO EFFECT FROM **1 MARCH 2016**.

These changes affect retirement provisions in the following ways:

- The tax deductions for all forms of retirement provisions (retirement annuities, pension and provident funds) have been increased drastically to 27% of a person's income.
- Provident funds will now be treated the same way as pension funds which means:
  - Contributions will be tax deductible, which it was not in the past.
  - Only one third of the money will be available in cash on retirement. The two thirds will become as an annuity income meaning a monthly amount will be available for pensioners to live off.

## WHAT IS THE ADVANTAGE?

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This measure guarantees a monthly income for people who have retired.

## WHAT IS THE DISADVANTAGE?

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When the pensioner passes away, the benefits may stop as well (depending on the terms under which the annuity was purchased). However, if you received a lump sum as one did in the past, and invested it in a bank, your spouse or children would inherit the money.

## WHAT ELSE YOU NEED TO KNOW?

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- All money saved in a provident fund until the 29th of February 2016 will still be paid out as a lump sum. From then on, the new rules will apply.
- This will not affect people that are 55 years or older at this date.

## A WORD FROM JOHAN SWART, TAX EXPERT AT LEGAL&TAX:

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- This new law has led to many resignations in order for people to be able to access their provident funds. Taking this action is hugely detrimental to your finances and may have negative tax implications.
- For some people these changes will be good, for others not. Some people are natural entrepreneurs and a lump sum payment, that a provident fund would have provided in the past, is all they would have needed to set them on the road to success. On the other hand, giving a full lump sum payment to another person can lead to disaster. The Government had to sit and consider all options and the changes had to be passed within the existing law that governs pensions.

## WHAT IS A PROVIDENT FUND?

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A **provident fund** is way to help employees when they retire. Employees must contribute a portion of their salaries to the fund and employers must contribute on behalf of their workers as well. The money in the fund is then paid out to employees upon retirement.

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