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The Taxation Laws Amendment Act Explained!

There are changes to the laws that govern provident and provident preservation funds, which came into effect on 1 March 2021. These changes are part of Treasury's process to 'harmonise' the rules of retirement funds, including pension, provident, preservation and retirement annuity funds and make them more uniform.

Why is Treasury doing this?

- to assist South Africans to create a better savings culture.
- to make sure that people with provident funds preserve their money rather than withdrawing the full amount when they retire.

Previously there were 3 different paths:

- members of a provident or provident preservation fund could take 100% of their retirement benefit as a lump sum when they retired.
- members of pension or pension preservation funds and retirement annuities were only allowed to cash out one-third of their retirement benefit, with the remaining two-thirds being used to purchase an annuity income.
- members with interest that were R247 500 or less were entitled to make a full withdrawal regardless of whether they are invested in a pension, provident or retirement annuity fund.

From 1 March 2021:

Provident funds will be subject to the same rules at retirement as pension funds and retirement annuities! This means that from 1 March, provident fund members must buy a pension with at least 66% of their benefits.

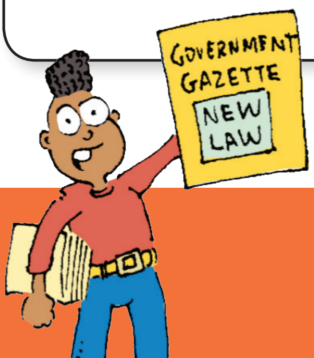
For existing provident and provident preservation fund members, the money they have already accumulated plus any future growth on those benefits as at 28 February 2021 will not be impacted by these changes. When those members retire they will still be entitled to cash out up to 100% of that benefit!

Fund members who are age 55 or older on 1 March 2021:

These members are not affected by this legislation and will be able to withdraw 100% of their provident fund at retirement as long as they remain members of the same provident fund.

Provident fund members who are younger than age 55 on 1 March 2021:

These fund members will only be affected by the new legislation on contributions made from 1 March 2021, onwards. All contributions and growth on those premiums made before this date will be allowed to be withdrawn.



Tax implications?

This legislation will ensure that transfers between various retirement funding options will be tax-free from 1 March 2021. Previously, when a member transferred a benefit from a pension fund to a provident fund there were tax implications.