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Aloe goodbye

NATIONAL BUDGET 2021
RETIREMENT AND RELATED EMPLOYEE BENEFITS

Minister Mboweni delivered undoubtedly his toughest Budget yet in Parliament on 24 February 2021. Unlike previous years his muse, the Aloe Ferox plant, was conspicuous by its absence, hopefully self-isolating at home and potting about.

This note briefly sets out the implications for retirement fund stakeholders in particular and savers in general.

Tax deductibility of contributions unchanged, Rand limit remains at R350,000 p.a.

Tax on retirement fund investment growth unchanged and remains at nil

Tax rates on benefits payable from funds are unchanged

Rand limit on tax free savings account deposits unchanged at R36,000 p.a.

Regulation 28 changes to be tabled to encourage investments in infrastructure

Continued talks on compulsory preservation / early access to funds in emergencies

Other retirement reform initiatives push ahead

RETIREMENT SPECIFICS

In the retirement fund space, there were hardly any changes.

The maximum value beneath which you can cash in a paid-up retirement annuity will increase for the first time in many years, from R7,000 to R15,000 from 1 March 2021.

BOOSTING INFRASTUCTURE INVESTMENTS

National Treasury will publish draft amendments to Regulation 28 of the Pension Funds Act (1956) for public comment. The proposals seek to make it easier for retirement funds to increase investment in infrastructure and improve the measurement of infrastructure investment by the Financial Sector Conduct Authority. The amendments refer to infrastructure investment already permitted through various asset classes and suggest delinking the asset category related to “hedge funds, private equity funds and other assets”. This would make private equity a separate asset class with a higher investment limit and a likely favoured asset class for infrastructure investments.

As things stand, funds and their boards will be able to make voluntary decisions about such investments keeping members’ interests in mind, so it stops short of being the introduction of ‘prescribed assets’.

RETIREMENT FUND REFORM

Government continues to engage with trade unions, regulators and other stakeholders to discuss how to allow individuals access their retirement savings as an interim relief measure in the event of disasters (such as the COVID-19 pandemic). These talks are linked to ongoing discussion of possible future mandatory preservation requirements when changing jobs.

Other noteworthy retirement-related issues under consideration include more flexibility when purchasing annuities at retirement, auto-enrolment into retirement funds for all employed workers, and the establishment of a fund to cater for workers currently excluded from pension coverage.

WITHDRAWING RETIREMENT FUNDS ON EMIGRATION

Further changes are proposed to the treatment of retirement benefits on emigration, in order to ensure equitable tax treatment. This is a specialised area that applies to very few members – you are advised to seek financial advice should you require further details.

OTHER MATTERS

The social old age grant increases by 1.6% to R1,890 per month, and to R1,910 for those age 75 or older.

The Budget announced no major tax increases. In fact as was the case last year, personal income tax brackets and rebates were adjusted by more than inflation, by around 5%.

On the investments side there were no changes to the taxation of capital gains, dividends, or interest.

In a welcome and surprising turn of events a future corporate income tax reduction (from 28% to 27%) was even mooted.

MARKETS

Markets responded positively to the Budget with the rand, local bonds and stocks ending the day in a stronger position.

WHAT DOES THIS MEAN FOR YOU?

> *Other than some relief from tax bracket changes (offset by higher-than-inflation increases in sin taxes) it's business as usual for retirement savers*

Your Robson Savage consultant will be glad to provide any further input you might require.

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