The Chairperson: Mr Yunus Carrim

c/o The Committee Secretary

Standing Committee on Finance

Parliament of the Republic of South Africa

Per e-mail: awicomb@parliament.gov.za

16 August 2018

Dear Mr Carrim,

**ANNUITISATION FOR PROVIDENT FUND MEMBERS**

ASISA understands that during your Committee’s deliberations on the Taxation Laws Amendment Bill, 2018, it may be that an amendment to the Income Tax Act is proposed in respect of the annuitisation of Provident Fund members’ retirement benefits. These annuitisation provisions are due to become effective with effect from 1 March 2019. In the event that the issue is raised, ASISA members would like to draw the information below to the attention of the Honourable Committee members. A letter with this same message has been sent to National Treasury.

The 16 July 2018 Media Statement on the Publication of the 2018 Draft Taxation Laws Amendment Bill states, in relation to the annuitisation for provident fund members (the effective date of which is 1 March 2019) that: “The process of consultation within NEDLAC is taking longer than anticipated following the release of the paper on comprehensive social security on 25 November 2016. Government may introduce further legislative amendments related to the start-date of 1 March 2019 once the NEDLAC process is completed or provides any recommendation, expected to be no later than end-October. In the meantime, comments related to this tax deduction can be submitted to National Treasury”.

ASISA has repeatedly communicated that our members have always supported the harmonisation of the tax treatment of retirement funds as well as the annuitisation of provident fund retirement benefits and continue to believe that this is in the best interests of all South Africans. However, the signals from the NEDLAC process have not been positive and ASISA members have understood that it is inevitable that the effective date of annuitisation for provident fund members will need to be postponed once again. This can in no way be attributed to the lack of willingness on the part of ASISA to seek resolution of this issue, and the inability to even commence the discussions about annuitisation in the NEDLAC forum has been a source of great frustration for us.

ASISA has also communicated that the processes required to introduce annuitisation are not insignificant. Substantial costs have already been incurred in respect of the implementation/non-implementation of annuitisation:

* Systems-building in 2014
* “Unbuilding” systems in 2014/2015 after the initial postponement of the effective date
* Systems-building in 2015
* “Unbuilding” in 2016
* Fund rule amendments to introduce annuitisation / further rule amendments to change back again
* Fund member statements reflecting vested and unvested provident fund benefits – needed to be redone
* Extensive training of & communication with staff, advisers, fund trustees, fund members – then re-training and re-communication as a result of the postponement to 2019.

We have previously communicated in detail, the processes that need to be followed when changes to retirement fund structures are legislated. As previously explained, in order to do the necessary work to introduce provident fund annuitisation (or any other similar change), advance notice of at least six months is required. Ahead of those six months, absolute certainty is necessary so that accurate systems specifications can be prepared.

The systems changes and other work necessary will involve investment of much time and resources. Given the history and the recent indications from NEDLAC, ASISA members have not planned this work and need to know urgently whether they are to commence work or not. The implications of the 16 July Media Statement are that they should not.

Any changes other than a further postponement – such as changes to the tax deductability of provident fund contributions - cannot be accommodated by the vast majority of retirement fund administrators at this late stage. End-October will be far too late. The amendments would first need to be consulted on, resolved, understood, communicated to members, trustees, administration and call-centre staff, training put in place, trustee resolutions for rule amendments passed, rule amendments submitted to the FSCA and registered by them and SARS – all of which will be of little account given that the systems will not be ready to process the changes.

Apart from this, the member confusion and lack of certainty should not be underestimated, especially given that once the NEDLAC process finally reaches resolution, the annuitisation will presumably be back on track and the temporary changes reversed. Tax certainty, along with faith and trust in the retirement system will be seriously undermined. If consideration is being given to the removal or reduction of the tax deductibility of contributions to provident funds, this would be most unfair to provident fund members, who are the innocent by-standers in the NEDLAC impasse.

In the circumstance, it is submitted that the only legislative amendments related to the start-date of 1 March 2019 that will reasonable or equitable, will be a further postponement of the effective date.

Kind regards,

 

Leon Campher Rosemary Lightbody

CEO ASISA Senior Policy Advisor

cc: Mr Ismail Momoniat; National Treasury