FRIDAY, 26 JANUARY 2024

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

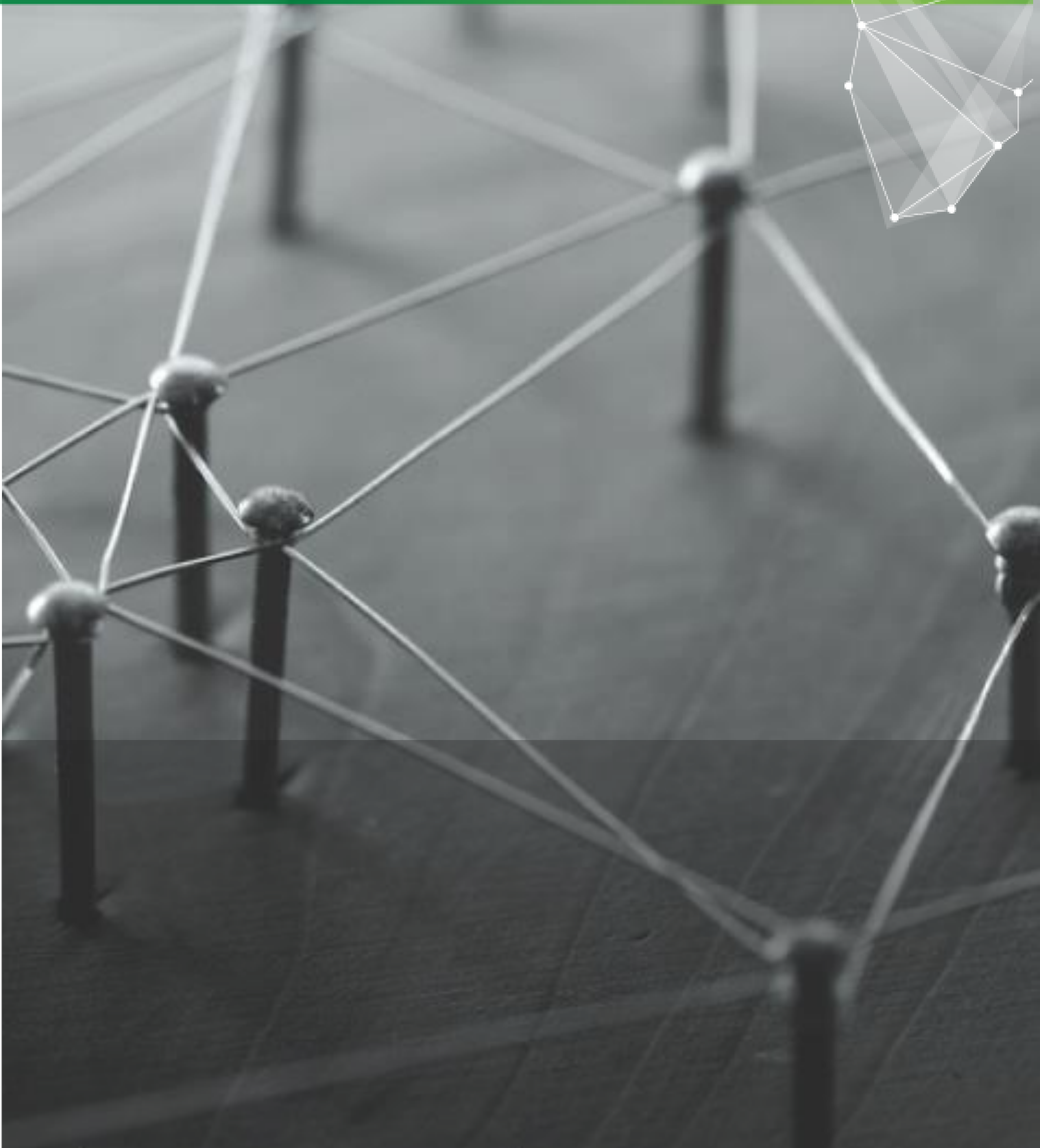


TABLE OF CONTENT

LOCAL NEWS

Danger of rushing implementation of two-pot retirement system

Parliament's finance portfolio committee agreed to an implementation date of 1 September 2024 for the two-pot retirement system.

The danger of rushing the implementation of the two-pot retirement system puts South Africa's retirement fund system at a critical juncture. While a successful implementation promises to address key long-standing deficiencies in the current retirement framework, an unsuccessful or rushed implementation runs the risk of destabilising or undermining confidence in a crucial sector of the economy. The two-pot retirement system divides retirement fund contributions into a retirement pot and a savings pot. The retirement pot will hold two-thirds of contributions and will be strictly preserved for retirement, while the savings pot, holding the remaining one-third, can be accessed before retirement to use for financial emergencies.

However, Rael Bloom, product development actuary at Coronation, says while this six-month reprieve provides additional time for industry stakeholders to prepare for the change, the deadline remains challenging due to several key issues that must be resolved, including:

- A raft of regulatory changes are required to give legal effect to this new system and provide clarity about the changes required. This includes changes to the Income Tax Act and Pension Fund Act that must still be finalised and promulgated.
- Sars must adjust its systems and processes to accommodate the tax requirements.
- The Financial Services Conduct Authority (FSCA) must approve enabling rule amendments for all retirement funds affected.
- Administrators must make necessary system upgrades and adjustments to meet the requirements of the new system.
- Funds must make necessary preparations, such as ensuring that they have the correct bank details for all members.
- Member education about the new system must be conducted to help members understand how the new two-pot system works, dispel any myths about it, and clarify what will happen to the accumulated savings pots.

He says if the system is not implemented properly, there is a risk of member discontent, which could undermine confidence in the retirement industry. There are three key risks that need to be carefully managed: execution risk, risks related to the initial seed capital payment, and risks to retirement savings stability.

#1: Execution risk in two-pot retirement system

The two-pot system is the largest reform of the South African retirement system in its history. Bloom says the aggressive timeline introduces the risk of delays, errors, and a lack of member understanding about the benefits they are entitled under the new system. “The practical challenges of implementing a reform as substantial as this means that the revised deadline of 1 September 2024 will still be tight but much more manageable than the initial 1 March 2024 target. “To ensure a smooth transition to the new system, clear and effective communication with members about the upcoming changes is vital, alongside operational changes that are required for industry stakeholders to be able to deliver on their respective obligations under the new system.”

#2: Risks regarding the initial seed capital payment

There is a very real risk of significant member unhappiness regarding an initial “seed capital” lump sum that will be available to members when the two-pot system is introduced, Bloom says. “The first area of possible discontent is around how much members will receive when the new system is implemented. Throughout the two-pot deliberations, there has been a strong push for an initial lump-sum payment to be made to members at inception of the system in the form of a seed capital payment.

“While this is technically classified as a seed transfer from their vested pots (existing savings) into the new savings pot (which can then be accessed immediately), it will practically be seen as an initial once-off lump sum withdrawal that members will be allowed to take from their current retirement savings.” According to Bloom, advocates for the payment of seed capital emphasise the urgent need for members to access a portion of their capital, highlighting the financial hardships many consumers face in the aftermath of Covid-19 and the ongoing economic challenges in South Africa.

Amount of seed capital in two-pot retirement system

He says the amount of seed capital is expected to be set at 10% of a member’s retirement balance, subject to a maximum of R30 000. This is a gross amount and the actual amount that members will receive will be lower because it will be reduced by tax and administration costs. “There is a risk that some members may not have a full understanding of the actual amount that they will receive when their seed capital is paid out.” Secondly, some members are likely to expect that they will receive their initial seed payments on, or shortly after, the implementation date of 1 September 2024, but there is a risk that it may take longer for all stakeholders to have the necessary processes in place so that funds can make these payments to all their members, Bloom points out. In the current system, most funds only pay a small percentage of their member base for life events such as retirement or resignation. In contrast, all members of retirement funds will be entitled to a seed capital withdrawal at inception, putting a huge administrative burden on funds, their administrators and other industry stakeholders such as Sars and the FSCA, he says. "This risk of the seed capital payouts not meeting member expectations is compounded by the significant financial difficulties many South Africans face, coupled with the fact that funds have limited time to educate members about the new system."

Full Article: ***Danger of rushing implementation of two-pot retirement system (citizen.co.za)***

The Citizen | 23 January 2024

Maximising wealth, minimising tax: a comparative look at retirement annuities versus tax-free savings accounts

When it comes to personal finance, every individual has different needs, dreams and financial goals, as well as different pathways to achieving those objectives. One of the most common long-term ambitions shared by many South Africans is to retire comfortably – to live confidently, knowing that there are enough funds available to cover your basic needs. Making regular contributions to a retirement annuity (RA) and supplementing it with a tax-free savings account (TFSA) can be an effective way of getting there.

The golden thread: cashing in on the tax benefits

RAs and TFSAs are two very different financial instruments, but they share one powerful advantage: tax efficiency. An important part of structuring a savings and investment portfolio for maximum returns involves choosing products that attract less tax. Making tax-efficient choices can help you save more and plan effectively for a successful financial future. Current South African legislation allow individuals to deduct up to 27.5% from their taxable income (capped at R350 000 per tax year) to retirement funds, which includes retirement annuities. What this means in practice is that instead of being taxed on 100% of your yearly income or remuneration, you could be taxed on only 72.5%, if you contributed the maximum during the tax year.

Moreover, growth on assets in RAs is tax-free, allowing individuals to earn interest income, dividends or capital gains from their contributions, which are exempt from tax. The lump sum withdrawn at retirement age, however, will be taxed according to the relevant retirement lump sum tax table. Likewise, annuity income received will be taxed as normal income at your marginal income tax rate. In this context, a lump sum refers to one-time, larger withdrawal, whereas annuity income refers to regular (typically monthly) payments received from a living annuity or guaranteed annuity as a stream of income over time.

Withdrawal options: when timing matters

Likewise, a tax-free savings account (TFSA) is one of the most effective vehicles for making your money grow and maximising the tax-free portion of your investment portfolio. Currently, South Africans are allowed to allocate up to R36 000 per tax year to a TFSA or R500 000 over the lifetime of the investor. Any amount earned or withdrawn from these products have no capital gains or income tax implications. One of the main differences between RAs and TFSAs involves whether the investment or any returns made on the investment can be accessed and when. In the case of an RA, the lump sum as well as any returns earned can, generally, be accessed at the age of 55 or upon early retirement due to permanent disability.

In contrast, investors can withdraw from their TFSAs at any time, although it's important to remember that if funds are withdrawn, they cannot be replaced. If investors choose to withdraw funds and reinvest them at a later date, this will count as an additional contribution towards the lifetime allowance of R500 000.Choosing the right avenue to follow when planning for retirement, as well as the most tax-efficient financial instruments, relies on being able to make informed decisions. This is where having the help of an adviser can make all the difference – work closely with yours to align your financial plan with your goals as your life changes and evolves. Decisions made today, can have a big impact on your tomorrow.

FA News | 23 January 2024

Retirement Annuities: The season of opportunity

The period following the festive season to the end of the tax year known as 'RA season' is probably the busiest time in the calendar year for the platform industry. Marc Lindley, product specialist on the Ninety One Investment Platform team, reflects on the many benefits that retirement annuities (RAs) offer investors.

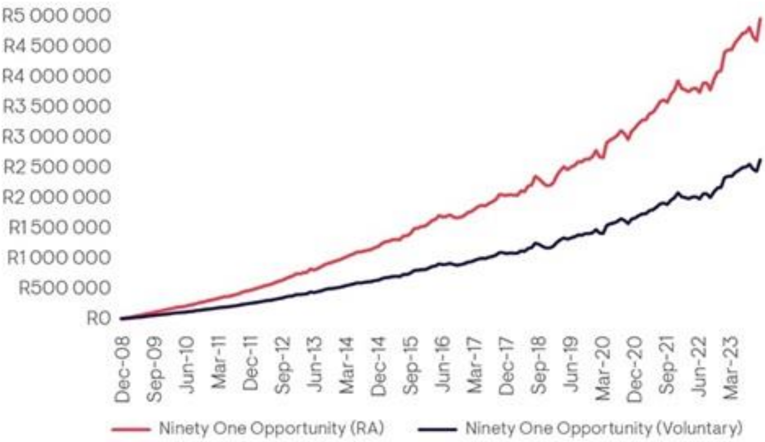
A gift from me to me

The deductibility of contributions to an RA (subject to certain limits) can help ensure that a smaller portion of an individual's total earnings is taxed by the South African Revenue Service. Current legislation allows for a maximum retirement fund deduction of the lesser of R350,000;

27.5% of the greater of remuneration or taxable income; or taxable income before the inclusion of any taxable capital gain. Therefore, to calculate the maximum tax-deductible RA contribution, other retirement fund contributions must be considered and deducted from the total maximum calculated. The subsequent tax saving received in respect of RA contributions can be re-invested in the RA. This ensures that the full gross contribution value is employed in the retirement vehicle. To demonstrate the benefit this provides, we have compared the effect of taking a pre-tax amount of R10 000 per month from a salary and investing it in an RA versus a discretionary investment. Essentially, for a taxpayer whose marginal tax rate is 45%, a discretionary investment only receives R5 500 for every R10 000 that can be invested into an RA because the discretionary investment can only be made with after-tax monies.

The RA's extra contribution value can be seen as a free 'gift from me to me', or from the taxman, depending on how you prefer to look at it. Compound growth on the additional capital provides a material advantage and the longer the investment time horizon, the bigger this advantage becomes. Secondly, once invested, there is no tax on the growth within the RA. The discretionary investment, however, is subject to tax on the income portion of the return and capital gains tax on any disposals that are made, including switches, which serves to reduce the value of the investment. Figure 1 demonstrates the combined benefit of these tax savings over time for RA investors.

Figure 1: The benefit of RA contributions



*Source: Morningstar and Ninety One, performance NAV to NAV net of fees, as at 30.11.2023.**

Maximising the value received by dependents on death

As Figure 1 shows, the RA provides a tax-efficient vehicle that can maximise the value available at retirement to convert into an annuity. It also provides considerable estate planning benefits as any lump sums or annuities received by dependents on death are exempt from estate duty, capital gains tax and executor fees. However, any remaining previous contributions which did not rank for deduction ('disallowed contributions' or 'DCs'), made after 1 March 2016, can be dutiable in the RA investor's estate. A beneficiary can choose to take the benefit as cash or in the form of a compulsory annuity (or a combination of the two). When taking the benefit in cash, the lump sum is taxed according to the retirement tax tables in the hands of the deceased, considering previous lump sums received by the deceased. This may reduce the value of the benefit received. Any DCs remaining for the deceased will be deducted (and will therefore be free of retirement tax) before the retirement tax tables are applied. The DC portion will however be subject to estate duty. Where a beneficiary chooses to take the benefit as an annuity, they can receive the benefit without any retirement tax being deducted and without creating an estate duty liability. Even though annuity income is taxed at the beneficiary's marginal rate, this allows preservation of a more significant portion of the death benefit while also providing a supplementary income.

Disallowed contributions present an opportunity The cap on deductibility of contributions at R350 000 p.a. poses a challenge for high-net-worth individuals. After all, retirement funds are designed as tax-efficient savings vehicles, helping individuals to replace their income when they retire. For many wealthy individuals the tax-deductible portion of their retirement fund contribution has declined materially due to the R350 000 cap. However, it is important that these individuals save beyond the R350 000 limit p.a. to ensure that they can meet their monthly expenses from their savings when they reach retirement. Tax-free savings accounts (TFSAs) can help to cover some of the savings shortfall. However, the annual allowance of R36 000 may not be enough to close the deficit entirely. Rather than investing the shortfall in a voluntary investment, an alternative could be to allocate to an RA instead, even though the annual maximum deductible contribution of R350 000 has already been reached. The over-contribution builds up a balance of DCs over time and this strategy can provide key benefits:

• No tax on the subsequent growth within the RA, whereas a voluntary investment would be subject to income and capital gains tax.
• If the DCs remain at retirement, they can be used to potentially increase the tax-free portion of the retirement lump sum.
• If a smaller or no lump sum is required at retirement, any remaining balance of DCs can be used to reduce or even neutralise the income tax paid on living annuity incomes received after retirement.
• While the contribution value of DCs is estate dutiable (where the beneficiary takes the benefit as cash), the growth on them is not. DCs can therefore serve to reduce the total amount of estate duty payable on death when compared to a voluntary investment, where the capital plus the growth is estate dutiable.
• As annuity income is received after retirement, the value of the DCs reduces, thus reducing the estate duty consequences. ***Full Article**: **Retirement Annuities: The season of opportunity (fanews.co.za)***

FA News | 23 January 2024

Give your child a head start by kickstarting their retirement savings

With the new year in full swing, now is the perfect time to set goals and establish positive financial habits for both us and our family members – especially our children. We are heading towards the end of the tax year - a period in which we once again consider how investors can take advantage of the tax benefits available to them. Much of the focus during this time rightly draws attention to how investors can take advantage of the benefits of retirement annuities (RAs) and tax-free savings accounts (TFSAs). In this article however, I'd like to look at an important consideration that tends to not receive as much of the limelight, namely saving for a child's retirement.

Focusing on the future

In our world that is increasingly focused on instant gratification, an approach that is not often talked about is saving for a child's retirement. If you are able to start making contributions to a child's retirement savings, and thereby increase the period over which their retirement savings can be made, the power of compound interest and growth will help ensure that you can make a meaningful contribution to their financial freedom by the time they reach retirement age.

Instilling a culture of saving

Whilst there is no tax deduction that parents can make use of when making such contributions, one of the benefits of doing so that it encourages disciplined savings for the parents as well as the child. Once your child turns 18, they can take over the contributions, and the normal retirement funds rules will apply in terms of the deductibility of contributions and access to retirement funds. The only thing that will have changed is that they will have a substantial head start in respect of reaching their retirement savings goals.

The importance of a defined savings strategy

Having a savings strategy in place also assists with decision making. If family or friends want to spoil your child with presents, you could suggest that they consider contributing a small portion of what they were going to spend towards the child's retirement savings. The numbers tell the rest of the story!

Leaving a legacy for a child

Leaving a legacy is not always as easy as it sounds, especially with the economic challenges we currently face. Many of us would love to leave a legacy for a child and help make their lives a little easier, especially from a financial perspective. Providing a child with a head start in their retirement savings journey is one such option, but it should not be done to the detriment of your own retirement savings plans. Ensuring that you have planned for your own retirement will not only afford you the privilege of retiring comfortably but is also a legacy in itself. Being able to support yourself in your retirement is something your children will be incredibly grateful for, and it will also serve as an example to them when they are planning their own retirement. In such ways we can begin to educate our children on financial matters and encourage a savings culture in our nation.

FA News | **22 January 2024**

What are the benefits of overcontributing to an RA during a tax year?

Two advisors answer this reader's question.

I have a retirement annuity (RA) to which I make occasional contributions. What is the benefit of ‘overpaying’ for a particular year? Let’s say I usually deposit R40 000 into an RA to maximise the tax benefits for that year. But then, instead, I make a payment of R200 000 for that year and nothing the year after. Is the tax benefit automatically rolled over to the next financial year (so I would get the R40 000 back from Sars the next year, even though I made no additional payments), or would I only get this tax benefit when I convert my RA to a living annuity one day (then pay less tax then)? Or is there no benefit?

Thank you for your question.
In answering it, we will discuss how Sars will treat excess contributions above your tax-deductible limit towards your RA. The method by which you calculate your tax-deductible contribution for the tax year is by calculating your total taxable income for the tax year in question. The contribution is limited to 27.5% of the greater of your remuneration or taxable income, and this contribution is capped at an annual limit of R350 000. In a year of assessment where your maximum tax-deductible contribution towards your respective retirement fund is R40 000, and you make a contribution above that, let’s continue with your example above and assume you contribute R200 000 in that tax year, R160 000 would roll over as an overcontribution.

Should your maximum allowable tax-deductible contributions be R40 000 again in the following tax year, R40 000 of your overcontributions would qualify as a tax deduction to reduce your taxable income for the tax year, and R120 000 would roll over into the next tax year, and so on.
Besides locking in future tax deductions while cash flow allows you to, some investors will overcontribute to their RAs in order to benefit from the potential growth that is exempt from all taxes inside the retirement annuity. If, on reaching retirement age, you decide to retire from your RA and you still have an amount that qualifies as an overcontribution, the tax deduction is

calculated slightly differently. This is because the fund rules allow you to take up to one third of the value of the retirement fund in cash only. The cash lump sum decided on will be taxed at the retirement lump sum tax table, where the first R550 000 is taxed at 0%. This tax table is applied over one's lifetime and includes any prior severance benefits received and lump-sum cash withdrawn.The amount that was in excess can be used to offset the tax payable in terms of the retirement lump sum tax tables. This means you can receive more lump sum cash taxed at 0% when retiring from the fund, assuming that this value is still below the one-third maximum that the fund rules allow you to take as cash. If the amount exceeds the one third that you can take, then the remaining overcontributions can be used to offset any tax payable from the taxable income drawn from the annuity that was purchased with the remaining two thirds.

If you were to pass away after making these excess contributions to a retirement fund, should your beneficiaries elect to take the benefit as a cash lump sum, the sum is taxed in the name of the deceased according to your retirement lump sum tax tables. Similar to you retiring from the fund, your beneficiaries will be able to elect to take cash and reduce any tax due by any excess contributions that were made before your death. However, excess contributions cannot be carried over to reduce tax payable from the taxable income drawn from the annuity, as the annuity income is now taxed in their hands. As explained above, there are many considerations when making overcontributions towards retirement funds. We hope that this answers your question.

Dear reader,
Contributions to an RA are tax deductible up to a certain limit, currently 27.5% of your taxable income or gross remuneration, with a maximum limit of R350 000 per year. Contributions over these limits will be carried over to the following years of assessment, to be applied to reduce that respective year's taxable income. Should you retire and have excess contributions that have remained 'non-deductible', these contributions can be added to your tax-free lump sum portion. The current tax-free lump sum portion is R550 000. Non-deductible contributions can be added to the tax-free portion and paid out tax-free, provided the lump sum does not exceed one third of the total RA fund value. If it does exceed one third of the RA fund value, then you will be restricted to drawing only one third of the RA fund value as a lump sum.

If the non-deductible contributions are not taken as a tax-free lump sum, then your income drawdown will be tax-free up to the amount of the non-deductible contributions. ***Full Article: What are the benefits of overcontributing to an RA during a tax year? - Moneyweb***

Moneyweb | 23 January 2024

We don’t use ESG to save the world”

The topic of Environmental, Social and Governance (ESG) themed investing has created very robust debate in both global and domestic markets. While the principles of ESG investing aim to align financial goals with ethical and sustainable practices, the growing debate surrounding its implementation has sparked intense discussions about the integrity and authenticity of its underlying concepts. As investors grapple with the intersection of profit and purpose, role players can no longer equate ESG with “doing good”. Prescient Investment Management recently released its latest Responsible Investing Report where it unpacks the relationship between ESG, responsible investing and sustainability – terms that are often used interchangeably or as synonyms for “investing for good”.

At Prescient Investment Management, we have long been sceptical of the way that ESG was being positioned in the market and for us it was critical that we built our own methodology, specifically to address the issue of quantifying what are largely qualitative risks, in a holistic and understandable manner, rather than simply buying off-the-shelf commoditised offerings. And, so we did. This evidence-based systematic approach to ESG analysis allows us to continually adapt and enhance our investment process to capture, assess and mitigate the many risks we face in financial markets and the world at large as we consider investment opportunities across our portfolios. We have firmly embedded our internally-developed ESG scorecard into our investment process.

It has proven to be an invaluable tool in evaluating prospective and existing investments based on ESG risks and opportunities, and to a large extent, it allows us to understand and monitor material long-term sustainability risks for a company. Further to this, it allows us to have meaningful and data-orientated conversations with management teams. Simply put – the evidence suggests that ESG risks do have an impact on a company’s long-term sustainability, and the understanding and consideration (or lack thereof) in a business’s strategy will eventually impact cash-flows. Today, we stand as a prominent systematic investment firm in South Africa, driven by a dual data-centric methodology that seamlessly integrates quantitative and qualitative analyses.

This unique approach empowers us to meticulously process more than 120 million data points on a daily basis, ensuring a thorough analysis while upholding both rigour and efficiency in our operations. A key distinction here is that this process is highly systematic, allowing the data to lead the way, rather than for us to be swayed by perceptions of “doing good” or “delivering impact”, or to be driven by natural human biases. Importantly, this intellectual property has not been limited to theoretical scenarios – we actively use this for risk management across portfolios, and also for the selection and management of securities across our investment universe. Two prime examples of the latter include: The Prescient Clean Energy and Infrastructure Debt Fund (CEIDF) and the Prescient Infrastructure Debt Strategy (PIMIDF). The CEIDF invests in initiatives that facilitate infrastructural, environmental, and socio-economic impact and development in Southern Africa. To date this fund has deployed over R4bn in 30 renewable energy projects and infrastructure opportunities. Launched in 2015 the fund is currently invested in 28 projects, many of which are operational and located across South Africa. The Fund has contributed to the addition of 2.2 GW of clean energy to the grid, which equates to the usage of approximately one million average South African homes. At last count, these projects currently employ 2 125 individuals.

The PIMIDF, launched in September 2021, currently manages R1.6bn in assets. The offering follows a broad infrastructure mandate, giving investors access to generally inaccessible infrastructure assets which offer returns uncorrelated to traditional South African equity and capital markets. Out approach involves a thorough consideration of both risk and return, with a particular emphasis on ESG factors, recognizing their essential role in the risk management framework. Our proven track record with these funds underscores our adept utilization of ESG as a crucial risk management tool, enabling us to deliver superior risk-adjusted returns for our clients. Furthermore, this strategy ensures our compliance with Regulation 28 requirements, encompassing both "qualitative" and "quantitative" aspects within our investment methodology.

ESG is not about saving the world – it is also not beyond redemption. Rather it needs to follow a data-driven approach where clear returns on investment can be demonstrated and value created. Furthermore, for ESG to enact meaningful change, however, the industry must make a collective effort — there should be a common assessment methodology: a framework that ensures ESG is rigorously evaluated and implemented across the investment spectrum in a standardised and consistent manner for all stakeholders. In this spirit, we are actively seeking collaboration and engagement with the industry to drive this vision forward.

FA News | **22 January 2024**

INTERNATIONAL NEWS

German corporate pension funds see increased liabilities

German companies will likely continue to feel the pain of increasing pension liabilities on their balance sheets if interest rates continue to fall and inflation doesn't decrease. Under the International Financial Reporting Standards (IFRS), if interest rates continue to fall, there will be a significant increase in obligations, and persistently high inflation would continue to lead to sharp increases in liabilities and cash flows for inflation-linked commitments due to the long payout periods of most pension plans, Lutz Specht, partner at consultancy BDO said, commenting on pension liabilities numbers published with pension buyout group Vedra Pensions.

Inflation in Germany rose to 3.7% in December 2023, and by 5.9% for the year on an annual average basis compared with 2022, according to the Federal Statistical Office. The Bundesbank's forecast for the inflation rate is currently 2.70% for 2024. With the moderate increase in average discount rates, instead, the valuation of pension obligations under commercial law could ease slightly in the next few years, he added. German companies are already bearing a higher level of liabilities on their balance sheets due to the combination of inflation and higher interest rates. Corporate pension obligations have already increased by around 17% at the end of 2023 compared with the previous year, mainly due to the discount rate under IFRS falling on average by around 0.5 percentage points, and the consequences of inflation, which continues to be above long-term pension trends, according to figures published by Vedra Pensions and BDO.

Many companies will have to face once again uncertainty with regard to their pension obligations in the current reporting season, both firms said. Vedra Pensions and BDO conducted an assessment of the expected valuation of pension obligations of German companies in the current economic environment. The analysis showed that inflation continues to affect balance sheets and cash flow, especially in the case of inflation-linked pension benefits. "This picture once again illustrates the risks of pension obligations, which, in contrast to other forms of liabilities, entail both balance sheets and cash-flow volatility for companies," said Tilo Kraus, managing director of Vedra Pensions.

He added: "Compared to previous years, both the development of interest rates and the development of inflation were equally negative for companies." A large part of an estimated €650bn in pension provisions in Germany is directly linked to inflation, meaning that an overall increase is likely to be in the high double-digit billions, according to the figures. Risk transfers of pension liabilities can help to protect balance sheets and cash flow planning against such fluctuations, the firms added.

IPE | 22 January 2024

UK businesses to offload record £60bn of pension obligations

Higher interest rates continue to fuel surge in dealmaking, according to new forecast

UK businesses are expected to offload a record £60bn of pension obligations to insurers this year, according to a new forecast, after a shift to higher interest rates prompted a surge in dealmaking. The rise in market rates in the past few years has dramatically improved the funding levels for company pension schemes, meaning a huge swath can now make a so-called bulk annuity deal with an insurer, where they parcel off some or all of the liabilities, along with the assets backing them. Consultancy Willis Towers Watson said it expected the "turbocharged" market to lead to £60bn worth of transactions this year, up from about £50bn transacted in 2023. "The market has started [the year] as strongly as everyone predicted," said Shelly Beard, the consultancy's head of pensions transactions.

Though rates have dipped since their peak in the middle of last year, with the 10-year UK gilt yield falling back below 4 per cent, many schemes entered into derivative transactions when yields were at highs to protect their funding levels and ability to do a deal, she added. Experts predict hundreds of billions of pounds of liabilities will transfer from company balance sheets to insurance companies as part of a multiyear shift that will redraw the UK's retirement landscape. Advisers, though, have more recently warned of headwinds to the market, as a forthcoming reduction in tax on accessing pension surpluses — and the prospect of new rules that might expand the circumstances under which businesses can access the surplus — improve the attractiveness of keeping a scheme on the corporate balance sheet.

"There is this challenge now whether the right endgame is an insurance contract . . . or whether it would be right for a scheme to run on," said Natalie Winterfrost, chair of the Society of Pension Professionals investment committee, and an independent trustee. "Certainly we now have some sponsors that are talking about running the scheme on." Willis's Beard said some well-funded schemes with big employer backers such as financial firms were thinking "actually this is a very material amount of money and we probably could do something interesting [with it]". The government has promised to look at ways of easing companies' access to their pension scheme surplus, and the industry is awaiting formal proposals. These, experts said, could include allowing employers to move some of their defined benefit pension surplus into their defined contribution pension scheme, or even taking money out for the business. The rethink for some was mostly just taking the sting out of concerns expressed last year around insurer capacity, Beard added, and should not affect the 2024 forecast. But, she said, it might dim the rate of growth in coming years. “It is perhaps just not the exponential growth we might have thought about.” Willis also predicts £20bn of so-called longevity market swaps in 2024, transactions whereby pension schemes hedge out the financial risk of their members living longer than expected, as part of a record £80bn year for pension “de-risking”.

Financial Times | 22 January 2024

OUT OF INTEREST NEWS

Deadline for provisional taxpayers, including trusts, is Wednesday 24 January 2024

The deadline for individual taxpayers and trusts that are provisional taxpayers to file their income tax returns for the 2023 tax year, is Wednesday 24 January 2024. The 2023 year of assessment refers to the period between 01 March 2022 to 28 February 2023. A provisional taxpayer is any person who receives income or to whom income accrues, other than remuneration. A Trust is included under the definition of a “person” in terms of the Income Tax Act, no.58 of 1962 and is therefore regarded as a taxpayer. All Trusts are required to file a tax return annually, including those that are not economically active. A trustee is the representative taxpayer of a Trust and is liable to file on behalf of the Trust or appoint a registered tax practitioner to do so.

The South African Revenue Service (SARS) is taking a zero-tolerance approach to taxpayers not registering for the applicable tax, not filing tax returns, not making accurate declarations in their tax returns and failing to make payments due to SARS where applicable. Non-compliance with these obligations is a criminal offence and will attract penalties and interest. As of the 2023 year of assessment, trustees are required to submit mandatory supporting documents during the filing process. These documents include amongst others, the Trust instrument, Annual Financial Statements, Letters of Authority, resolutions/minutes of trustee meetings and an organogram depicting the Beneficial Ownership of the Trust. Additionally, beneficiaries of Trusts are required to declare their income, including income derived from a Trust, in their personal income tax returns.

SARS has made it easy for taxpayers to comply through online filing solutions. The personal income tax return (ITR12) and Trust income tax return (ITR12T) may be obtained on eFiling while an appointment with a SARS branch may be made on the SARS website. Taxpayers are encouraged to refer to the SARS website for further information on their tax obligations**,** Trusts**,** Tax Filing Season 2023 and Provisional Tax**.**

FA News | 22 January 2024

Switchboard: 011 450 1670 / 081 445 8722
Fax: 011 450 1579
Email: reception@irfa.org.za
Website: www.irf.org.za

3 Williams Road
Bedfordview
Johannesburg 2008