



TWO-POT SYSTEM: LATEST DEVELOPMENTS

Dear Valued Client

In an unexpected development on Wednesday, 25 October 2023, the National Treasury (NT) and the South African Revenue Service (SARS) made several proposals to the Parliamentary Standing Committee on Finance (Committee). If these proposals are accepted by Parliament, they will result in changes to the implementation process of the two-pot system when compared with the final draft of the Taxation Laws Amendment Bill.

After considering public and stakeholder comments on the draft Bill, the NT proposed the following to the Committee:

- + To postpone the implementation date of 1 March 2024 to 1 March 2025.
- + To increase the initial maximum seeding capital amount of R25 000 to the Savings Pot from a member's Vested Pot to R30 000. The seeding capital will still be equal to 10% of a member's accrued value in the Vested Pot as on 28 February 2025 but the new maximum amount of R30 000 will apply. This capital transfer to the Savings Pot will result in an equal reduction in the value of a member's Vested Pot on 28 February 2025.
- + All cash lumpsums withdrawn from the Savings Pot after 1 March 2025 and before retirement will be taxed at a member's marginal tax rate. This includes the seeding capital that will be transferred from a member's Vested Pot on 28 February 2025 to the member's Savings Pot.
- + SARS to implement a type of withholding tax process on withdrawals from the Savings Pot instead of the expected tax directive process that currently applies to cash withdrawals at termination of membership of a retirement fund. This implies that SARS will indicate the correct tax rate to be applied by a fund administrator and deducted from a Savings Pot cash withdrawal.
- + Provident fund members who were older than 55 years on 1 March 2021 will be able to apply to opt in to the two-pot system and will not automatically be included in the system. This will allow those who wish to participate in the two-pot system to apply for participation.

The two-pot system is probably the most significant retirement reform that South Africa has seen during the past 20 years. Efficient Benefit Consulting supports the two-pot system and firmly believes that it will result in better retirement outcomes for South African retirement fund members, especially for new entrants into the retirement fund space from 1 March 2025.

Efficient Benefit Consulting maintains its view that retirement funds must not be regarded as savings vehicles for emergency funds and members must be discouraged from withdrawing any funds before retirement. However, we do acknowledge that significant financial hardship exists in South Africa owing to current economic conditions, such as the high cost of living, high inflation, and high interest rates. We, therefore, welcome the relief that this system will bring to families in financial distress.

Note that the proposed changes by the NT must still be accepted and approved by Parliament before they will be written into legislation. Efficient Benefit Consulting will issue further communications once this has been confirmed. Should you have any questions regarding the proposed changes, please do not hesitate to contact Efficient Benefit Consulting who will gladly assist with answering your questions.

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