

More retirement tax relief in sight

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Employer funded retirement annuity fund contributions may avoid the tax net.

Good news for taxpayers is that there appears to be more relief in sight. Previously, employer contributions to a retirement annuity fund were taxable in the hands of the employee, however the employee did not get a corresponding tax deduction. Company contributions to a retirement annuity fund, although essentially the same as a company contributions to a pension or provident fund, were treated punitively. During Trevor Manuel's recent budget speech however, it was proposed that these contributions should be deductible, subject to the existing limits, so that they are placed on a par with other retirement annuity fund contributions made directly by the employees.

This proposal is aimed at those employees whose employers do not have a company retirement fund, however employees working for larger businesses should also reap the benefits.

At present, the contributions made by employers to retirement annuity funds on behalf of employees are not tax deductible for either the employer or the employee. The one aspect that is not covered in the minister of finance's proposal is whether the employers are going to get a tax deduction for these contributions in view of the fact that the employee will have the benefit of the tax deduction. It goes without saying that favourable tax treatment of employer contributions to retirement annuity funds will encourage long-term savings, particularly for those employees with irregular earnings. This is in line with the government's initiative to encourage savings by South Africans.

Should this proposal go ahead, it will be a great benefit for taxpayers who will be able to enjoy their savings, courtesy of their employers, by escaping the tax collectors net, ie, the payment of the contributions by the employer will amount to a taxable benefit but the employee will get a corresponding tax deduction despite the fact that no contribution was made by the employee. Congratulations to the Finance Minister!

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Source: Moneyweb Tax

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