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COVID-19

LIVING ANNUITY RESTRICTIONS TO BE LIFTED TO EASE CASH FLOW

The proposed relief measure will assist pensioners battling to deal with Covid-19

BusinessDay - 23 April 2020 - 14:29 Linda Ensor

The National Treasury is proposing a change to the law governing living annuities to help retired people experiencing cash-flow problems due to the Covid-19 pandemic.

Now, those with a living annuity are only entitled to change their withdrawal rate once a year on the anniversary date of the policy and are limited to withdrawals at the lowest limit of 2.5% of the capital amount and at an upper limit of 17.5%.

On a capital amount of R10m, this would equate to an upper annual withdrawal limit of R1.75m and a lower limit of R250,000.

This means that pensioners are locked into a fixed amount for the whole year, even though their circumstances may have changed, for example, having other sources of income dry up or facing a sharp increase in living costs.

On the other hand, the sharp drop in stock markets and interest rates has negatively affected the value of their capital investments and they may want to reduce their annual withdrawal amount to preserve their capital.

Treasury chief director of economic tax analysis Chris Axelson told a joint virtual meeting of parliament's standing and select committees of finance on Thursday that, in terms of the proposals, these limitations will be changed temporarily until August 31.

The once-a-year change rule will be amended to allow policy holders to make changes immediately. The lower withdrawal limit of 2.5% will be lowered to 0.5% and the upper withdrawal limit to 20% to allow policyholders to withdraw a greater amount. On a R10m capital amount this would mean an upper withdrawal annual limit of R2m and a lower withdrawal limit of R50 000.

Axelson's comments on the proposed changes are part of a presentation by the Treasury and SARS officials on the draft Disaster Management Tax Relief Bill and the draft Disaster Management Tax Relief Administration Bill, which give effect to the initial tax measures to address problems arising from Covid-19, announced by finance minister Tito Mboweni on March 29.

The Treasury delegation is led by deputy director-general Ismail Momoniat.

These bills do not take account of the additional tax relief announced by President Cyril Ramaphosa two days ago and will have to be amended.

EFF MP Floyd Shivambu remarked that parliament's role in approving legislation has been overlooked in the announcement by Ramaphosa of Covid-19 tax relief. He said parliament has been presented with a fait accompli and is expected to simply rubber stamp it.

Momoniat said it is often the case with tax amendments that they take effect before parliament has approved them.'