

TAXATION OF BENEFITS

In this section, the tax treatment of the following benefits is explained:

- Contribution allocation towards retirement savings
- Retirement benefits
- Death benefits
- Disability benefits
- Resignation benefits

Disclaimers

In the event of a conflict of the following with the Income Tax Act, the Act will apply. The Income Tax Act is complicated and it is very important that you seek specialist advice if you have questions about taxation of your retirement benefits.

CONTRIBUTION ALLOCATION TOWARDS RETIREMENT SAVINGS

Amended Tax Laws 2016: Harmonisation of tax treatment of contributions

This was primarily intended to allow for tax harmonisation of retirement fund contributions and benefits and it introduces a cap on contributions for tax purposes.

The tax deduction for contributions is limited to 27.5% (of the greater of taxable income or remuneration), up to an annual limit of R350 000. This is to the benefit of most members and allows members, in terms of tax deductibility, to save more towards retirement and would only negatively affect the tax of members of Funds who are very high earners.

It is meant to create fairness in tax harmonization of contributions and to clamp down on very high earners who contribute larger amounts to retirement funds in order to reduce their tax commitments.

RETIREMENT BENEFITS

Taxation of the cash lump sum payment

Any amount of your retirement benefit that you take in cash is subject to tax. The Tax-Exempt (tax-free) portion is:

Up to R550 000 (plus such portion of your AIPF transfer value that was subjected to a zero tax rate) of the retirement benefit will be exempt from tax.

This tax exempt amount of R550 000 will be reduced by any tax-exempt amounts that you have received previously on withdrawal from a Pension or Provident fund. Any contributions that have been made by the member that were not previously tax-exempt will also be taken into account and will be added to the R550 000, thus increasing the tax-free portion of R550 000.

If a member has previously received lump sum cash payments from a Retirement Fund, these amounts will be taken into account (at the tax rates applicable at retirement) thereby reducing the R550 000 tax-exempt portion.

Any amount of the retirement benefit that is taken in cash and that exceeds the limits stated above will be taxed as follows:

Lump sum death or retirement benefit	Tax liability
R0 to R 550 000	0%
From R550 001 to R770 000	18% of taxable income exceeding R550 000
From R770 001 to R1 150 000	R 39 600 plus 27% of taxable income exceeding R770 000
Exceeding R1 150 001	R143 550 plus 36% of taxable income exceeding R1 155 000

NOTE: The same tax-table applies to a withdrawal from a **Retirement Annuity Fund**.

Taxation of your pension benefit – for both Life Annuitants and Living Annuitants

You will pay income tax in the usual way on the monthly pension you receive. Income tax (PAYE) will be calculated and deducted each month, when paying you the pension. It is important to note that, if you have income from more than one source (e.g. pensions arising from two different retirement funds), you may have to pay extra tax when you are assessed by SARS – this is because SARS will combine the two incomes when calculating how much tax you owe.

DEATH-IN-SERVICE BENEFITS

Taxation of the cash lump sum payment

Taxation of death benefit is treated on the same basis as taxation on retirement so please refer to the details above.

DISABILITY INCOME BENEFITS

- The premium paid for this insured benefit is regarded as a fringe benefit in your hands, so you will be taxed on the amount of the premium each month. This means that in effect the premium will be paid out of your after-tax income.
- However, should you become entitled to a disability income benefit, the monthly benefit you receive will be paid to you free of tax.

RESIGNATION, RETRENCHMENT OR DISMISSAL BENEFITS

The taxation of your resignation or dismissal benefit is rather complex and depends on how you elect to receive your benefit. In this regard you have the following option:

- You may elect to receive your benefit in cash
- You may elect to transfer your benefit to your new Employer's Fund or to a Preservation Fund or Retirement Annuity Fund

Taxation of any cash benefit

The tax-free amount in respect of withdrawal benefits is such portion of your original AIPF value that was subject to a zero tax rate (if applicable) plus R 27 500. However, the R 27 500 is a 'once-off' cumulative value and once the limit of R 27 500 is reached, tax-exemption on future withdrawals is not available.

Very important to also note that the tax-exempt amount of R 27 500 reduces the once-off tax exempt amount of R550 000 at retirement. Also note that the tax rates at withdrawal are higher in certain brackets than those applicable at retirement.

Lump sum resignation benefit	Tax liability
R0 to R 27 500	0%
From R27 501 to R726 000	18% of amount above R 27 500
From R726 001 to R1 089 000	R 125 730 plus 27% of amount above R 726 000
R1 089 001 and above	R223 740 plus 36% of amount above R1 089 000

Taxation if you transfer to your new Employer or to a Preservation Fund or Retirement Annuity Fund

In this case no tax is payable at this time. You will, however, pay tax on the benefit you ultimately receive from your new Fund.