INCOME TAX: RETIREMENT FUNDS AND RELATED BENEFITS

What is the difference between a pension and a provident fund?

Under a **pension fund** arrangement, members are entitled to take up to **one third** of their total benefit as a lump sum at retirement and use the balance thereof to purchase a monthly pension outside of the Fund, in their own name with a service provider of their choice. Under a **provident fund**, members are entitled to take their total benefit as a **lump sum** at retirement. Benefits are subject to tax.

As from 1 March 2016 the employer's contributions towards pension and provident funds are seen as a fringe benefit in the hands of the employee. Members are however allowed to deduct all retirement funding contributions, both employer and employee, of up to 27.5% of a member's total remuneration.

Tax deductibility of contributions:

	Pension Fund	Provident Fund	Retirement Annuity
Employee Contributions Section 11(k)	27.5% of total remuneration (subject to a maximum of R350 000 per annum) this includes all Employer and Employee contributions.		
Employer Contributions Section 11(l) or 11(a)	Fully deductible by Employer and taxed as a fringe benefit in the hand of the employee.		
Additional voluntary contributions	Included in the 27.5%% of total remuneration		

Withdrawal from the Fund (resignation/dismissal)

When leaving the service of the employer before retirement members will be entitled to their member share. This can be taken in cash or transferred to another approved fund. If cash is taken, tax will be payable based on the following table:

Taxable lump sum (R)	Rate of tax
0 – 25 000	0%
25 001 – 660 000	18% of amount exceeding R25 000
660 001 – 990 000	R114 300 + 27% of amount exceeding R660 000
990 001 and above	R203 400 + 36% of amount exceeding R990 000

If the member transfers his/her benefit to another approved fund, no tax will be payable. The "tax-free portion" is a once-off concession in your lifetime and includes all lump sums previously received tax free.

Retrenchment

When leaving the service of the employer due to retrenchment, a member will be entitled to his/her member share. This can be taken in cash or transferred to another approved fund. If cash is taken, tax will be payable based on the following table:

Taxable lump sum (R)	Rate of tax
0 – 500 000	0%
500 001 – 700 000	18% of amount exceeding R500 000
700 001 – 1 050 000	R36 000 + 27% of amount exceeding R700 000
1 050 001 and above	R130 500 + 36% of amount exceeding R1 050 000

The "tax-free portion" is a once-off concession which a member can only receive once (either at retrenchment or retirement).

Retirement

Members will be entitled to a portion of their total benefit as a lump sum if they are members of a pension and to their total benefit as lump sum if they are in a provident fund. The member's retirement benefit must be used to purchase a pension with an insurer of the member's choice. Tax will be payable based on the following table:

Taxable lump sum (R)	Rate of tax
0 – 500 000	0%
500 001 – 700 000	18% of amount exceeding R500 000
700 001 – 1 050 000	R36 000 + 27% of amount exceeding R700 000
1 050 001 and above	R130 500 + 36% of amount exceeding R1 050 000

If the total value of the member share is less than R245 000 the whole benefit can be taken in cash. The "tax-free portion" is a once-off concession and includes retirement and / or retrenchment lump sums previously received tax free.

Death

In the unfortunate event of death, the member's fund value under the fund and / or insured lump sum payable via an insurance policy will be payable to his / her dependants and / or nominees. The same tax tables as at retirement (see above) will apply to all these benefits. One must however differentiate between "approved" and "unapproved" group life insurance schemes.

A scheme is described as an **"approved"** scheme if it forms part of the benefits offered in terms of the rules of an approved pension or provident Fund. Contributions to such schemes are generally tax deductible but the benefits are taxable. The fund is therefore the policy owner and entitled to any benefit payments. The reinsured benefit is then paid to a deceased member's dependants and / or nominees in accordance with section 37C of the Pension Funds Act. Death benefits are exempt from estate duty because they are paid by an approved Fund.

A scheme is described as an **"unapproved"** scheme if they provide death benefits in terms of an insurance contract that exists separately from a fund. The group life scheme is an insurance policy entered into by the employer for the benefit of its eligible employees. Contributions are generally not tax deductible but benefits are tax-free. If the contribution payment is made on behalf of members the amount must be reflected as a taxable fringe benefit and therefore taxed in each member's hands as and when the payment is made. These death benefits may be subject to estate duty.

Disability benefits

There are two types of benefits – (1) a lump sum and (2) an income benefit – normally paid from an insurance policy.

Lump sum benefits will be taxed as a death benefit (see above) depending on whether it is an "approved" or "unapproved" benefit scheme.

From 1 March 2015 the premiums payable towards a monthly income benefit (PHI) are not tax deductible and are seen as a fringe benefit in the hands of the employee. The monthly income benefit payable to a member, if a claim is approved, is tax-free.

Verso Financial Services (Pty) Ltd – Consulting Department