# INCOME TAX: RETIREMENT FUNDS AND RELATED BENEFITS UPDATE

**Tax deductibility of contributions, subject to the latest legislation:**

| | Pension Fund | Provident Fund | Retirement Annuity |
|---|---|---|---|
| Employee Contributions Section 11(k) | 27.5% of total remuneration (subject to a maximum of R430 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 | | |

**Boosting retirement savings**

Instead of taking out a separate retirement annuity to boost your retirement savings, a member may decide to make an additional voluntary contribution (AVC) to their Verso Umbrella Retirement Provident Fund and make optimal use of the maximum tax deduction on their retirement fund contributions. A member may find that an AVC of 5% does not necessarily mean that their take-home pay will decrease by 5%. Take the following as an example.

*A member with an annual pensionable salary of R240 000 contributes 10% (R24 000 per annum) towards his pension fund. He does not have any other taxable deductions. His taxable income after the deduction of R24 000 is R216 000, if that member decided to increase his contributions to 15% (R36 000) his taxable income is R204 000.*

Members should consider taking full advantage of the maximum tax deductions for contributions, in consultation with their financial adviser.

Something to keep in mind: AVC's within a retirement fund do not incur administration and advice fees (under an individual retirement annuity administration and advice fees will apply). The full amount is invested for retirement (investment management fees will apply).

**Withdrawal from the Fund (resignation/dismissal)**

When leaving the service of the employer before retirement members will be entitled to the money in their vested pot (if applicable) and savings pot. This can be taken in cash or transferred to another approved fund. If cash is taken, the amount in the vested pot will be taxable according to the following table:
https://www.sars.gov.za/tax-rates/income-tax/retirement-lump-sum-benefits/

If cash is taken, the money in the savings pot will be taxed according to the individual's marginal tax rate at the applicable time.

If the member transfers his/her full fund 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 the money in their vested pot (if applicable) and savings pot. This can be taken in cash or transferred to another approved fund. If cash is taken, the amount in the vested pot will be taxable according to the following table:
https://www.sars.gov.za/tax-rates/income-tax/retirement-lump-sum-benefits/

If cash is taken, the money in the savings pot will be taxed according to the individual's marginal tax rate at the applicable time.

If the member transfers his/her full fund benefit to another approved fund, no tax will be payable. The "tax-free portion" is a once-off concession which a member can only receive once (either at retrenchment or retirement).

**Retirement**

At retirement members have access to their vested pot (if applicable), savings pot and retirement pot. Each pot has its own rules and tax applications.

If cash is taken the amount payable from the vested pot (if applicable) will be taxed according to the following table: https://www.sars.gov.za/tax-rates/income-tax/retirement-lump-sum-benefits/

**If cash is taken, the money in the savings pot will be taxed according to the individual's marginal tax rate at the applicable time.**

The amount in the retirement pot may be taken in cash if it is less than the prescribed amount at the time of retirement. If the amount in the retirement pot is more than the prescribed amount at the time of retirement members must purchase a monthly income from a registered insurer with the full amount in the retirement pot. The monthly income will be taxable at the individual's marginal tax rate at the applicable time.

**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 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. These death benefits may be subject to estate duty.

**Disability**

There are two types of disability covers, namely (1) a lump sum and (2) a monthly income cover – 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 cover (PHI) are not tax deductible and are seen as a fringe benefit in the hands of the employee. The monthly income payable to a member, if a claim is approved, is tax-free.

**Verso Employee Benefits Consulting (Pty) Ltd**