



**LIBERTY**

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## **Taxation at a Glance.**

A guide to the tax treatment of contributions made to, and benefits paid from, retirement funds.

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# Tax treatment of contributions made to retirement funds

## Deductibility of Retirement Fund Contributions

<b>Member contributions</b>	<p>Effective from 1 March 2016, a Member's contributions to a retirement fund are tax deductible (subject to annual limits) irrespective of whether the contributions are made to a retirement annuity, pension or provident fund.</p> <p>Members can claim a deduction on all their combined annual contributions to retirement funds up to 27.5% of the greater of their 'remuneration' or 'taxable income', subject to an annual monetary cap of R350 000.</p> <p>If any contributions exceeding the limitations ('non-deductible contributions') are not utilised during any year of assessment, they can be carried forward to succeeding years of assessment and claimed as deductions in those years accordingly. Non-deductible contributions which are not utilised as tax deductions in any year of assessment can ultimately be claimed as 'tax-free amounts' against any retirement fund lump sums and annuities taken by that Member.</p>
<b>Employer contributions</b>	<p>With effect from 1 March 2016, employer contributions to pension, provident and retirement annuity funds will be fully tax deductible in the hands of that employer.</p> <p>Contributions made by an employer to a retirement fund on behalf of a Member will be regarded as a fringe benefit in the hands of that Member. The employer's contribution is deemed to have been made by the Member, so that Member can claim a tax deduction against the value of the fringe benefit arising from that contribution. The value of the fringe benefit, together with that Member's own combined contributions to any retirement funds will be subject to the same tax deduction limits outlined above.</p>

# Determination of the taxable cash lump sum taken at retirement:

Prior to 1 March 2021, the rules of Provident Funds and Provident Preservation Funds allowed members to take their retirement benefits as taxable cash lump sums in full at retirement. The rule requirements of these funds were amended in the Income Tax Act.

From 1 March 2021, members of Provident Funds and Provident Preservation Funds are now required to 'annuitise' their retirement benefits i.e. take a portion of their benefits in the form of annuity income at retirement. The rules of Provident Funds and Provident Preservation Funds are now aligned to those of Pension Funds, Pension Preservation Funds and Retirement Annuity Funds.

Members of Provident Funds and Provident Preservation Funds who accumulated benefits prior to 1 March 2021 will still have the right to access those accumulated benefits as taxable cash lump sums at retirement. Benefits subject to vested rights are referred to "Vested Benefits" and can continue to be taken as taxable cash lump sums at retirement.

This means that if a member belongs to a Provident Fund or a Provident Preservation Fund and, on 1 March 2021, they are:

- Younger than 55 years: all benefits accumulated in their fund prior to 1 March 2021 (plus all investment returns on those accumulated benefits, up to retirement date) will comprise 'Vested Benefits'; or
- Age 55 or older: all benefits accumulated prior to 1 March 2021, as well as contributions (net of fees, charges or risk premiums) made to that same fund after 1 March 2021 (plus all investment returns on those accumulated benefits and contributions up to retirement date) will comprise 'Vested Benefits'.

Those benefits that do not qualify for vested rights are referred to as "Non-Vested Benefits".

## What does it mean if benefits are vested?

Members will be able to take the full value of their 'Vested Benefits' as taxable cash lump sums at retirement.

## What does it mean if benefits are non-vested?

Non-vested benefits are subject to 'annuitisation' at retirement. Up to 1/3 of Non-Vested Benefits can be taken as a taxable cash lump sum but at least 2/3 must be taken as annuity income. If the total value of the Non-Vested Benefits is R247 500 or less, the full amount of that benefit can also be taken as a taxable cash lump sum at retirement.

# Determination of the taxable portion of a retirement fund lump sum:

## Step 1: Calculate the total taxable lump sum

Take the value of the lump sum (for retirement, death, retrenchment\* or withdrawal)

**Minus** Member's own contributions not previously allowed as a deduction

**Minus** Allowable transfers to another approved retirement fund on or after 1 March 2009

**Minus** Pension interest transferred to a non-member spouse's retirement fund as a consequence of a decree of divorce or decree for the dissolution of a customary marriage

**Minus** Previously taxed unclaimed benefits transferred to preservation funds

**Minus** Pre-1998 tax free portion of public sector fund benefit\*\*

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= **Total taxable lump sum**

### \* Retrenchment pre-retirement withdrawals

Where a member is retrenched and elects to receive his/her withdrawal benefit from the fund, this lump sum will be treated in the same manner as a retirement benefit in respect of determining the tax-free portion. It is important however, to note that this tax relief is only available to the taxpayer if the retrenchment was due to:

1. The employer ceasing to continue trading, or
2. The taxpayer (member) becoming redundant as a result of the employer reducing personnel.
3. The tax relief is not available to a taxpayer who was, at any time, a director of the employer company, or at the time held more than 5% of the issued share capital or member's interest in that company.

### \*\* Determination of pre-1998 tax-free portion of public sector fund benefit

Prior to 1 March 1998 ('pre-1998 benefits'), lump sum benefits paid to members of public sector funds (such as the Government Employees Pension Fund) were tax-free. After 1 March 1998, these lump sum benefits became taxable. However, to preserve the tax-free nature of pre-1998 benefits, specific "phase-in" provisions were introduced to ensure pre-1998 'tax-free' benefits retained their tax-free nature on withdrawal or retirement. Former members of public sector funds who transfer their benefits to private sector funds are entitled to take their pre-1998 benefits as 'tax-free' when they exit from the private sector funds.

The pre-1998 tax-free portion is determined as follows:

1. Establish the value for the public sector benefit that was transferred into the public sector fund;
2. Determine the taxable portion of the public sector benefit that was transferred using paragraph 2A of the Second Schedule to the ITA; and
3. Subtract the taxable portion determined in paragraph 2A above from the value of the public sector benefit that was transferred in order to determine the pre-1998 tax-free portion of the benefit.



## Step 2: Apply the relevant tax table to the balance calculated in Step 1

For lump sums on:	Treatment:
<b>Retirement, Death or Retrenchment</b>	Refer to the retirement, death or retrenchment benefits tax table below, where the first R 550 000 of the lump sum may be taken tax free.
<b>Withdrawal</b>	Refer to the withdrawal tax table below, where the first R 27 500 of the lump sum may be taken tax free.

Tax Tables		
Retirement/Death/ Retrenchment benefits	No rebates will be allowed when taxing a lump sum	
	Lump sum amount	Rates of tax
	R 0 - R 550 000	0%
	R 550 000 - R 770 000	18% of each Taxable income R above R 550 000
	R 770 001 - R 1 155 000	R 39 600 + 27% of each Taxable Income R above R 770 000
	R 1 155 001 and above	R 143 550 + 36% of each Taxable Income R above R 1 155 000
Resignation/fund liquidation/withdrawal benefits	R 0 - R 27 500	0%
	R 27 501 - R 726 000	18% of each R above R 27 500
	R 726 001 - R 1 089 000	R 125 730 + 27% of each R above R 726 000
	R 1 089 001 and above	R 223 740 + 36% of each R above R 1 089 000

### Notes:

- Annuities (pensions) are taxed as income at the member's marginal rate.
- On retirement, death or withdrawal, any lump sum in excess of the tax free portion will be taxed at the rates described in the table above.
- The above tax tables apply to the cumulative value of:
  - all retirement fund lump sum benefits accruing from 1 October 2007,
  - retirement fund lump sum withdrawal benefits accruing from 1 March 2009 and,
  - severance benefits accruing from 1 March 2011.





## Taxation of unapproved employer group insurance schemes (unapproved risk benefits)

### Tax Treatment

Employer	<ol style="list-style-type: none"><li>1. IPP – from 1 March 2015 employer premiums can only be deducted under section 11(w)(i) provided the premiums are included in an employee's 'gross income as a fringe benefit taxes (paragraph 2(k) of the Seventh Schedule).</li><li>2. Other unapproved benefits - from 1 March 2012 a deduction is permitted in terms of section 11(w)(i) for the employer premiums on pure risk policies (insurance policy directly or indirectly for the benefit of the employee or his or her spouse, child, dependent or nominee), provided there is a fringe benefit on the employer paid premium for the employee.</li></ol>
Employee	<ol style="list-style-type: none"><li>1. Fringe benefits tax is applicable on all employer-paid insurance policies where the employee directly or indirectly benefits (paragraph 2(k) to the Seventh Schedule of the Income Tax Act).</li></ol>
Benefit	<p>Benefit payments are tax free.</p> <p>*IPP benefit payments became tax free effective from 1 March 2015.</p>

# Transferral of funds between retirement funds

The rule requirements for Provident Funds and Provident Preservation Funds were amended in the Income Tax Act to allow for the alignment of tax-free transferability between retirement funds.

Therefore, from 1 March 2021, the following transfers may take place on a tax neutral basis (subject to fund rules permitting):

From:		To:
Pension Fund	>	Pension Fund
Pension Preservation Fund		Pension Preservation Fund
Provident Fund		Provident Fund
Provident Preservation Fund		Provident Preservation Fund
		Retirement Annuity Fund

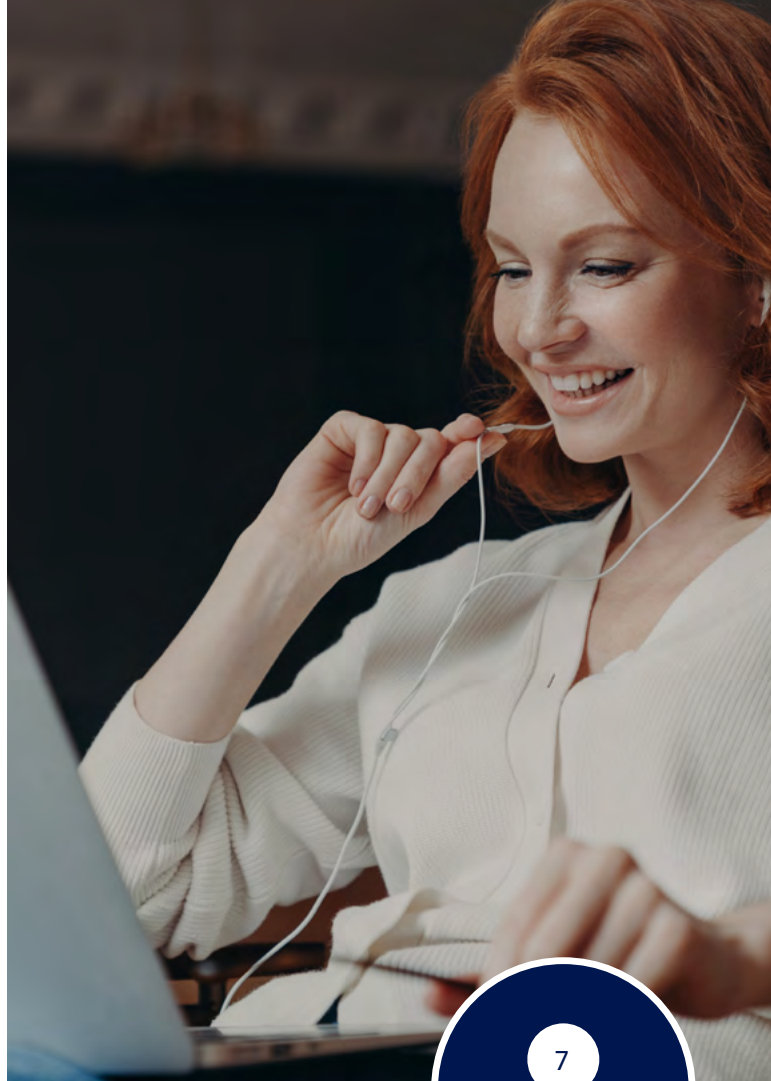
  

From:		To:
Retirement Annuity Fund	>	Retirement Annuity Fund

## What happens if 'Vested' and 'Non-Vested Benefits' are transferred to another fund?

'Vested Benefits' and 'Non-Vested Benefits' transferred to other retirement funds after 1 March 2021 will retain their nature, irrespective of the type of the retirement fund they are transferred to.

However, if the member is age 55 or older on 1 March 2021, any transfers out of the original Provident Fund (to which the member belonged to on 1 March 2021) will mean that all contributions made to the new retirement fund (plus all investment returns on those contributions up to retirement date) will become 'Non-Vested Benefits'.



For more information please contact your Liberty financial adviser or broker, contact our call centre on 0860 327 327 or visit [www.liberty.co.za](http://www.liberty.co.za)

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April 2023