Legal Counsel

Income Tax

Guide on the calculation of the tax payable on lump sum benefits
(Issue 3)

SARS
South African Revenue Service

Guide on the calculation of the tax payable on lump sum benefits

Preface

This guide provides general guidance on the calculation of the tax payable on the taxable portion of lump sum benefits from retirement funds in South Africa.

This guide does not reflect on every scenario that could possibly exist, but provides clarity on the majority of issues that are likely to arise in practice. Issues not specifically addressed may be taken up with the South African Revenue Service (SARS) National Contact Centre, or your nearest SARS branch office.

This guide is not an “official publication” as defined in section 1 of the Tax Administration Act 28 of 2011 and accordingly does not create a practice generally prevailing under section 5 of that Act. It is also not a binding general ruling under section 89 of the Tax Administration Act. Should an advance tax ruling be required, kindly visit the **SARS website** for details of the application procedure.

This guide includes the amendments effected by the Tax Administration Laws Amendment Act 16 of 2016 and the Taxation Laws Amendment Act 15 of 2016, both promulgated on 19 January 2017, and the Rates and Monetary Amounts and Amendment of Revenue Laws Act 14 of 2017, promulgated on 14 December 2017. As the year of assessment of an individual ends on the last day of February, these amendments are applicable to the years of assessment commencing on or after 1 March 2017 and ending on 28 February 2018 (that is, the 2018 year of assessment).

Should you require additional information concerning any aspect of taxation you may –

- visit your nearest SARS branch;
- visit the SARS website at **www.sars.gov.za**;
- contact your tax advisor or tax practitioner; or
- contact the SARS National Contact Centre –
  - ➢ if calling locally, on 0800 00 7277; or
  - ➢ if calling from abroad, on +27 11 602 2093 (only between 8am and 4pm South African time).

Comments on this guide may be sent to **policycomments@sars.gov.za**.

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Contents

Glossary

In this guide unless the context indicates otherwise –

- **“lump sum benefit”** refers to a retirement benefit or a withdrawal benefit;
- **“minimum individual reserve”** refers to a member’s share of value in a retirement fund at a specific date while he or she is still a member of that retirement fund;
- **“paragraph”** means a paragraph of the Second Schedule;
- **“Second Schedule”** means the Second Schedule to the Act;
- **“section”** means a section of the Act;
- **“Republic”** refers to the “Republic of South Africa” as defined in section 1(1);
- **“retirement fund”** refers collectively to a pension fund, provident fund, pension preservation fund, provident preservation fund and retirement annuity fund, all of which are approved under their separate definitions in section 1(1);
- **“retirement benefit”** refers to a “retirement fund lump sum benefit”, as defined in section 1(1), which is an amount that becomes payable by a retirement fund to a member as a result of death, or when the member elects to retire from that retirement fund after he has reached retirement age or has been retrenched;
- **“retirement interest”** as defined in section 1(1), means the member’s share of the value of a retirement fund as determined in terms of the rules of the retirement fund on the date on which he or she elects to retire;
- **“the Act”** means the Income Tax Act 58 of 1962;
- **“winding-up”** or **“wound-up”** means the termination of a retirement fund through liquidation, cancellation or by court;
- **“withdrawal benefit”** refers to a “retirement fund lump sum withdrawal benefit”, as defined in section 1(1), which is an amount payable by the retirement fund to a member when a member elects to terminate his or her membership in that retirement fund before reaching retirement age, for any reason other than retirement, death or retrenchment;
- **“withdrawal interest”** as defined in section 1(1), means the member’s share of the value of a retirement fund, as determined in terms of the rules of the retirement fund, immediately before the date on which the member becomes entitled to a benefit from the retirement fund because of an event other than the member attaining normal retirement age; and
- any other word or expression bears the meaning ascribed to it in the Act.

1. Introduction

A member of a retirement fund becomes entitled to a lump sum benefit when his or her membership of that retirement fund terminates. The taxable portion of the lump sum benefit is determined under the provisions of the Second Schedule, which takes into account certain allowable deductions. Once determined under the Second Schedule, the taxable portion of the lump sum benefit is included in the taxpayer's gross income[1] and is subject to the rates of tax applicable to lump sum benefits.

This guide focuses on the determination of the tax payable on the taxable portion of the lump sum benefit, and not on the actual calculation of the taxable portion in terms of the Second Schedule.

2. Lump sum benefit

A lump sum benefit is any amount payable by a retirement fund to a member or former member in consequence of his or her membership or past membership in that specific retirement fund.

Types of lump sum benefits payable by a retirement fund are –

- withdrawal benefits; and
- retirement benefits.

A "severance benefit", is not a lump sum benefit as it is an amount payable by an employer to an employee and not an amount payable by a retirement fund to a member or former member of that retirement fund.[2]

3. Withdrawal benefits

A withdrawal benefit is an amount that becomes payable[3] when a member elects to terminate his or her membership in that retirement fund before reaching retirement age, for any reason other than retirement, death or retrenchment. Depending on the rules of the retirement fund, this may include an amount payable when the retirement fund is wound-up or liquidated. The reason for the termination depends on the type of retirement fund involved, each of which is briefly discussed below.

3.1 Pension funds and provident funds

A withdrawal benefit accrues to or is payable to a member of a pension fund or provident fund when the member elects to terminate his or her membership in that fund after resignation or dismissal from employment or upon the winding-up of that pension fund or provident fund.

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[1] Paragraph (*e*) of the definition of "gross income" in section 1(1).
[2] Defined in section 1(1).
[3] Under paragraph 2(1)(*b*).

3.2 Pension preservation funds and provident preservation funds

A member may, once during the period of his or her membership of a pension preservation or provident preservation fund, request such fund to pay a lump sum benefit before retiring from that fund. This withdrawal benefit is subject to the tax table applicable to withdrawal benefits[4] and is generally referred to as a member's "once-off withdrawal benefit".[5]

A withdrawal benefit will also become payable to a member of a pension preservation fund or provident preservation fund if that fund is wound-up.

3.3 Retirement annuity funds

A member is not allowed to withdraw from a retirement annuity fund unless specific circumstances are present. A member of a retirement annuity fund, who is no longer contributing to the retirement annuity fund, can only access his or her total benefit in the retirement annuity fund as a withdrawal benefit before retirement if –

- the total value of all benefits in that fund is below R7 000;[6]
- the member has emigrated from the Republic and that emigration is formally recognised by the South African Reserve Bank for purposes of exchange control;[7] or
- the member leaves the Republic upon expiry of his or her work visa or visitor's visa previously granted (for example, a visitor's visa granted for educational or charitable purposes) and the member is not regarded as a resident by the South African Reserve Bank for purposes of exchange control.[8]

Once the taxable portion of a withdrawal benefit has been determined under the Second Schedule, the tax on the withdrawal benefit will be calculated by applying the tax table applicable to withdrawal benefits.[9]

4. Retirement benefits

A retirement benefit is an amount that becomes payable[10] by a retirement fund to a member as a result of death, or when the member elects to retire from that retirement fund after he or she has reached retirement age or has been retrenched.

The lump sum benefit payable depends on the type of retirement fund involved as discussed briefly below.

4.1 Pension funds, pension preservation funds and retirement annuity funds

A member who has elected to retire from his or her pension fund, pension preservation fund or retirement annuity fund may choose to receive up to one-third of the value of his or her total retirement interest in that fund as a lump sum benefit. The balance of that retirement

4 Paragraph 9(a)(i) of Schedule 1 of the Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2017.

5 Paragraph (*c*) of the "pension preservation fund" and "provident preservation fund" definitions in section 1(1).

6 Government Notice 467 in *Government Gazette* 29913 of 1 June 2007.

7 Paragraph (*b*)(ii)(*b*)(x)(*dd*)(A) of the definition of "retirement annuity fund" in section 1(1).

8 Paragraph (*b*)(ii)(*b*)(x)(*dd*)(B) of the definition of "retirement annuity fund" in section 1(1).

9 Paragraph 9(*a*)(i) of Schedule 1 of the Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2017.

10 Under paragraph 2(1)(*a*).

interest must be used by the pension fund, pension preservation fund or retirement annuity fund to provide a pension to the member or to purchase an annuity (including a living annuity) from a registered insurer, subject to the *de minimis* rule.[11]

The *de minimus* rule means the total value of the retirement interest in the fund may be commuted for a single lump sum benefit at retirement, if the value of the remaining two-thirds of the retirement interest in the fund does not exceed R165 000, as shown in **Example 1**.

Example 1 – Application of the *de minimus* rule at retirement

Facts:

X's membership in ABC Pension Fund ended on 31 October 2017 because of retirement. The total value of X's retirement interest in the ABC Pension Fund on 31 October 2017 was R549 000.

Result:

The following steps must be followed to determine whether the *de minimus* rule is applicable at retirement.

Step 1: Calculate the value of two-thirds of the retirement interest of R549 000 as at the date of accrual (31 October 2017)

= retirement interest × ⅔

= R549 000 × ⅔

= R366 000

Step 2: Determine whether the value calculated in Step 1 exceeds R165 000

The value of R366 000 calculated in Step 1 exceeds R165 000.

ABC Pension Fund must either provide a pension or purchase an annuity at retirement to the value of R366 000 as two-thirds of X's retirement interest is greater than R165 000.

4.2 Provident funds and provident preservation funds

A member of a provident fund or a provident preservation fund may commute the total value of his or her retirement interest in that fund for a lump sum benefit on retirement, subject to the provisions of the rules of that fund.

Once the taxable portion of the retirement benefit has been determined under the Second Schedule, the tax on the retirement benefit is calculated by applying the tax table applicable to retirement benefits.[12]

[11] Paragraph (*c*)(ii)(*dd*) of the definition of "pension fund", paragraph (*e*) of the definition of "pension preservation fund" and paragraph (*b*)(ii) of the definition of "retirement annuity fund" in section 1(1).

[12] Paragraph 9(*b*)(i) of Schedule 1 of the Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2017.

5. Severance benefits

A "severance benefit"[13] refers to a lump sum received by or accrued to a person from that person's employer. It is paid as a result of the relinquishment, termination, loss, repudiation, cancellation or variation of that person's office, employment or appointment. Common severance benefits include retrenchment packages or gratuities for employees who lose their jobs because of, for example, restructuring. In order to qualify as a severance benefit, in addition to the requirements above, one or more of the following requirements should also be met:

- The person receiving the lump sum, must have reached the age of 55 years at the time the lump sum was paid; or
- The relinquishment, termination, loss, repudiation, cancellation or variation must be as a result of the person becoming permanently incapable of holding office or employment because of sickness, accident, injury or incapacity; or
- The termination or loss must have been because the person's employer ceased trading or that person having become redundant because of a general reduction in personnel carried out by the person's employer.

A severance benefit, although a lump sum, is not a "lump sum benefit" as defined, as it is paid by the employer and not the person's retirement fund. The lump sum benefit payable by the person's retirement fund as a result of his or her retrenchment falls within the definition of "retirement fund lump sum benefit" and is discussed in **4**. "Severance benefit" is a defined term and the amounts paid by an employer in respect of the severance benefit are unrelated to amounts paid by the person's retirement fund. The Second Schedule does not apply to severance benefits, as is the case with retirement benefits and withdrawal benefits. A severance benefit is subject tax in accordance with the tax table applicable specifically to severance benefits,[14] where the first R500 000 is taxed at 0%.

A detailed analysis of the legislation pertaining to a severance benefit is not the subject of this guide. However, it is necessary to have a brief background of what a severance benefit is, as a severance benefit must be taken into consideration in the accumulation of lump sums for purposes of determining the tax liability. The manner in which the accumulation is done is discussed in **6**.

6. Calculation of tax payable on lump sums

The amount of tax payable on a lump sum is calculated on a cumulative basis. This means that the following lump sums must be taken into account in determining the tax rate applicable to the current lump sum benefit:

- Retirement benefits received or which accrued on or after 1 October 2007.
- Withdrawal benefits received or which accrued on or after 1 March 2009.
- Severance benefits received or which accrued on or after 1 March 2011.

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[13] As defined in section 1(1).

[14] Paragraph 9(*c*)(i) of Schedule 1 of the Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2017.

The methodology followed when calculating the tax payable on a lump sum is based on the wording of the legislation contained in section 5(1), read with the Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2017. The relevant rates of tax applicable for the 2018 year of assessment are quoted in the **Annexure** and are different for each type of lump sum. The **current** lump sum payable determines which tax rate must be used. The actual tax paid on previous lump sums does not form part of the calculation.

The following steps should be followed in order to calculate the tax liability on the current lump sum:

Step 1: ***Determine the total taxable income of all lump sums received or accrued (including the current lump sum benefit) by:***

A. Adding together –

- the **current** withdrawal benefit, retirement benefit or severance benefit;
- all previous withdrawal benefits (that were received by or accrued on or after 1 March 2009);
- all previous retirement benefits (that were received by or accrued on or after 1 October 2007); and
- all previous severance benefits (that were received by or accrued on or after 1 March 2011).

B. Deducting the value of any contributions to any retirement fund, which were not allowed under sections 11F, 11(*k*) or 11(*n*) based on the last year assessed, or against any previous lump sums, if any.

Step 2: ***Apply the rate of tax applicable to the current lump sum to the total lump sum amount calculated in Step 1.***

Step 3: ***Determine the total taxable income of all previous lump sums (excluding the current lump sum) by:***

A. Adding together –

- all previous withdrawal benefits (accrued on or after 1 March 2009);
- all previous retirement benefits (accrued on or after 1 October 2007); and
- all previous severance benefits (accrued on or after 1 March 2011).

B. Deducting the value of any contributions to any retirement fund, which were allowed as a deduction against any previous lump sums, if any.

Step 4: ***Apply the rate of tax applicable to the current type of lump sum to the total lump sum amount calculated in Step 3, irrespective of whether the previous lump sum was of a different type of lump sum.***

Step 5: ***Deduct the tax calculated in Step 4 from the value in Step 2 to determine the tax payable on the current lump sum.***

Steps 3 to 5 do not need to be followed in cases where a lump sum benefit or severance benefit was not previously received by or accrued to the person.

The following examples illustrate how the tax is determined on any lump sum payable to a member.

Example 2 – Member receives a withdrawal benefit and received no prior lump sums

Facts:

On 30 April 2017 (date of accrual), F's withdrawal interest in the ABC Provident Fund was R45 000. F indicated that the total withdrawal benefit must be paid as a lump sum.

Result:

The following steps must be followed in order to calculate the tax payable on the withdrawal benefit payable to F:

Step 1: Determine the total taxable income of all lump sums received or accrued (including the current lump sum benefit).

	R
Current withdrawal benefit	45 000
All withdrawal benefits (on or after 1 March 2009)	0
All retirement benefits (on or after 1 October 2007)	0
All severance benefits (on or after 1 March 2011)	0
Total taxable income	45 000

Step 2: Apply the rate of tax applicable to withdrawal benefits to the total lump sum amount calculated in Step 1.

The total taxable income of R45 000, as determined in Step 1, falls within the tax bracket of:

"18% of the amount by which the taxable income exceeds R25 000"

This is because the amount of R45 000[15] exceeds R25 000 but does not exceed R660 000. The tax will be calculated as follows:

18% of the amount by which the taxable income exceeds R25 000

= 18% of (R45 000 less R25 000)
= 18% of R20 000
= R3 600

The first R25 000 is tax free.

Tax amounting to R3 600 is payable in respect of the withdrawal benefit of R45 000.

[15] The value calculated in Step 1 must be used to determine which tax bracket is applicable.

Example 3 – Member receives a withdrawal benefit and previously received a retirement benefit

Facts:

C previously received a retirement benefit from the GHI Retirement Annuity Fund. The accrual date was 31 October 2015 and the retirement interest in the GHI Retirement Annuity Fund was R1 836 000. C commuted one-third of that retirement interest (R1 836 000 / 3 = R612 000) as a lump sum, and purchased an annuity with the remaining balance of R1 224 000. The tax in respect of the retirement benefit of R612 000 was already paid.

C withdrew from the occupational fund, ALM Pension Fund. C's withdrawal interest on 30 June 2017 (date of accrual) was R450 000. C indicated that the total withdrawal benefit must be paid as a lump sum.

Result:

The following steps must be followed in order to calculate the tax payable on the withdrawal benefit payable to C:

Step 1: Determine the total taxable income of all lump sums received or accrued (including the current lump sum benefit).

	R
Current withdrawal benefit	450 000
All withdrawal benefits (on or after 1 March 2009)	0
All retirement benefits (on or after 1 October 2007)	612 000
All severance benefits (on or after 1 March 2011)	0
Total taxable income	1 062 000

Step 2: Apply the rate of tax applicable to withdrawal benefits to the total lump sum amount calculated in Step 1.

The total taxable income of R1 062 000, as determined in Step 1, falls within the tax bracket of:

> *"R203 400 plus 36% of the amount by which the taxable income exceeds R990 000"*

This is because the amount of R1 062 000 exceeds R990 000.

	R
Taxable income (R1 062 000 – R990 000)	72 000
Multiply: Applicable tax rate in the withdrawal benefit tax table (36%)	25 920
Tax on R990 000	203 400
Tax on total taxable income	229 320

Step 3: Determine the total taxable income of all previous lump sums received or accrued (excluding the current lump sum benefit).

	R
All withdrawal benefits (on or after 1 March 2009)	0
All retirement benefits (on or after 1 October 2007)	612 000
All severance benefits (on or after 1 March 2011)	0
Total of previous lump sums	612 000

Step 4: Apply the rate of tax applicable to withdrawal benefits to the total lump sum amount calculated in Step 3.

The total taxable income of R612 000, as determined in Step 3, does exceed R25 000 but not R660 000.

	R
Total taxable income of previous lump sum benefits (R612 000 – R25 000)	587 000
Multiply: Applicable tax rate in the withdrawal benefit tax table	18%
Tax on previous lump sum benefits	105 660

Step 5: Deduct the tax calculated in Step 4 from the tax calculated in Step 2 to determine the tax payable on the current withdrawal benefit.

	R
Tax on all lump sums (Step 2)	229 320
Less: Tax on previous lump sums (Step 4)	(105 660)
Tax on current withdrawal benefit	123 660

Tax amounting to R123 660 is payable on the current withdrawal benefit of R450 000.

Example 4 – Member receives a withdrawal benefit and previously received a retirement benefit and a withdrawal benefit

Facts:

S previously received a R40 000 withdrawal benefit from the ACD Provident Fund. The date of accrual of this lump sum was 31 July 2009 and a value of R20 000 was allowed as a deduction against this lump sum for contributions, which were not previously allowed as a deduction under section 11(*k*) during his 2009 year of assessment. There was no tax payable in respect of the retirement benefit of R40 000.

S also previously received a R240 000 retirement benefit from the KEF Retirement Annuity Fund (date of accrual 30 August 2016) on which there was no tax payable.

S withdrew from the occupational fund, QST Pension Fund, on 30 June 2017 (date of accrual). The value of the withdrawal benefit is R750 000.The value of S's excess fund contributions for contributions not previously taken into account during previous years of assessment as at the date of accrual is R30 000.

Result:

The following steps must be followed in order to calculate the tax payable on the withdrawal benefit payable to S:

Step 1: Determine the total taxable income of all lump sums received or accrued (including the current lump sum benefit).

	R
Current withdrawal benefit	750 000
All withdrawal benefits (on or after 1 March 2009)	40 000
All retirement benefits (on or after 1 October 2007)	240 000
All severance benefits (on or after 1 March 2011)	0
Less: Excess fund contributions [paragraph 6(1)(*b*)(i)] (R20 000 + R30 000)	(50 000)
Total taxable income	980 000

Step 2: Apply the rate of tax applicable to withdrawal benefits to the total lump sum amount calculated in Step 1.

The total taxable income of R980 000, as determined in Step 1, falls within the tax bracket of:

> *"R114 300 plus 27% of the amount by which the taxable income exceeds R660 000"*

This is because the amount of R980 000 exceeds R660 000.

	R
Taxable income (R980 000 – R660 000)	320 000
Multiply: Applicable tax rate in the withdrawal benefit tax table (27%)	86 400
Tax on R660 000	114 300
Tax on total taxable income	200 700

Step 3: Determine the total taxable income of all previous lump sums received or accrued (excluding the current lump sum benefit).

	R
All withdrawal benefits (on or after 1 March 2009)	40 000
All retirement benefits (on or after 1 October 2007)	240 000
All severance benefits (on or after 1 March 2011)	0
Less: Value of contributions previously allowed as a deduction [paragraph 6(1)(*b*)(i)]	(20 000)
Total of previous lump sums	260 000

Step 4: Apply the rate of tax applicable to withdrawal benefits to the total lump sum amount calculated in Step 3.

The total taxable income of R260 000, as determined in Step 3, falls within the tax bracket of:

> *"18% of the amount by which the taxable income exceeds R25 000"*

This is because the amount of R260 000 exceeds R25 000 but not R660 000.

	R
Total taxable income of previous lump sum benefits (R260 000 – R25 000)	235 000
Multiply: Applicable tax rate in the withdrawal benefit tax table	18%
Tax on previous lump sum benefits	42 300

Step 5: Deduct the tax calculated in Step 4 from the tax calculated in Step 2 to determine the tax payable on the current withdrawal benefit.

	R
Tax on all lump sums (Step 2)	200 700
Less: Tax on previous lump sums (Step 4)	(42 300)
Tax on current withdrawal benefit	158 400

Tax amounting to R158 400 is payable on the current withdrawal benefit of R750 000.

Example 5 – Member receives a retirement benefit with no prior lump sum benefits

Facts:

On 31 July 2017 (date of accrual), Y's retirement interest in the LMK Pension Fund was R2 728 200. Y commuted one-third of the retirement interest (R2 728 200 / 3 = R909 400) as a lump sum, and an annuity was purchased by the LMK Pension Fund with the remaining balance of R1 818 800. The value of Y's excess fund contributions for contributions not previously taken into account during previous years of assessment as at the date of accrual was R150 000.

Result:

The following steps must be followed in order to calculate the tax payable on the retirement benefit payable to Y:

Step 1: Determine the total taxable income of all lump sums received or accrued (including the current lump sum benefit).

	R
Current retirement benefit	909 400
All withdrawal benefits (on or after 1 March 2009)	0
All retirement benefits (on or after 1 October 2007)	0
All severance benefits (on or after 1 March 2011)	0
Less: Excess fund contributions [paragraph 5(1)(*a*)]	(150 000)
Total taxable income	759 400

Step 2: Apply the rate of tax applicable to retirement benefits to the total lump sum amount calculated in Step 1.

The total taxable income of R759 404, as determined in Step 1, falls within the tax bracket of:

> *"R36 000 plus 27% of the amount by which the taxable income exceeds R700 000"*

This is because the amount of R759 400 exceeds R700 000 but does not exceed R1 050 000.

	R
Taxable income (R909 400 – R150 000 – R700 000)	59 400
Multiply: Applicable tax rate in the retirement benefit tax table (27%)	16 038
Tax on R700 000	36 000
Tax on total taxable income	52 038

Tax amounting to R52 038 is payable in respect of the commuted portion of the retirement benefit of R909 400.

Example 6 – Member receives a retirement benefit and previously received a withdrawal benefit

Facts:

T previously received a withdrawal benefit from the RST Pension Fund of R250 000 on 30 June 2010 (date of accrual) and tax to the amount of R40 950 was already paid in respect of the withdrawal benefit of R250 000.

On 31 April 2017 (date of accrual) T's retirement interest in the DEF Provident Fund was R1 500 000. T commuted the total value of the retirement interest as a lump sum. The value of T's excess fund contributions for contributions not previously taken into account during previous years of assessment as at the date of accrual was R200 000.

Result:

The following steps must be followed in order to calculate the tax payable on the retirement benefit payable to T:

Step 1: Determine the total taxable income of all lump sums received or accrued (including the current lump sum benefit).

	R
Current retirement benefit	1 500 000
All withdrawal benefits (on or after 1 March 2009)	250 000
All retirement benefits (on or after 1 October 2007)	0
All severance benefits (on or after 1 March 2011)	0
Less: Excess fund contributions [paragraph 5(1)(*a*)]	(200 000)
Total taxable income	1 550 000

Step 2: Apply the rate of tax applicable to retirement benefits to the total lump sum amount calculated in Step 1.

The total taxable income of R1 550 000, as determined in Step 1, falls within the tax bracket of:

> *"R130 500 plus 36% of the amount by which the taxable income exceeds R1 050 000"*

This is because the amount of R1 550 000 exceeds R1 050 000.

	R
Taxable income (R1 550 000 – R1 050 000)	500 000
Multiply: Applicable tax rate in retirement benefit tax table (36%)	180 000
Tax on R1 050 000	130 500
Tax on total taxable income	310 500

Step 3: Determine the total taxable income of all previous lump sums received or accrued (excluding the current lump sum benefit).

	R
All withdrawal benefits (on or after 1 March 2009)	250 000
All retirement benefits (on or after 1 October 2007)	0
All severance benefits (on or after 1 March 2011)	0
Previous lump sums	250 000
Less: Excess fund contributions	(0)
Total on previous lump sums	250 000

Step 4: Apply the rate of tax applicable to the retirement benefits to the total lump sum amount calculated in Step 3.

On review of the retirement benefit tax table it is determined that the total taxable income of R250 000, as determined in Step 3, does not exceed R500 000.

	R
Total taxable income of previous lump sum benefits (R250 000 – R500 000)	0 *
Multiply: Applicable tax rate in the retirement benefit tax table	0%
Tax on previous lump sum benefits	0

Step 5: Deduct the tax calculated in Step 4 from the tax calculated in Step 2 to determine the tax payable on the current retirement benefit.

	R
Tax on all lump sums (Step 2)	310 500
Less: Tax on previous lump sums (Step 4)	(0)
Tax on current retirement benefit	310 500

Tax amounting to R310 500 is payable on the current retirement benefit of R1 500 000.

* The deduction may not exceed the value of the lump sum benefit.

Example 7 – Member receives a retirement benefit and previously also received a retirement benefit

*Facts***:**

Z retired from the BEC Pension Fund on 31 June 2013 (date of accrual) and the retirement interest was R900 000. Z elected to commute one-third of that retirement interest (R900 000 / 3 = R300 000) as a lump sum, and an annuity was purchased with the remaining balance of R600 000. There was no tax payable in respect of the retirement benefit of R300 000.

A few years later, Z retired from the XYZ Retirement Annuity Fund. Z's retirement interest on 31 January 2017 (date of accrual) was R1 560 000. Z indicated that one-third of the retirement interest (R1 560 000 / 3 = R520 000) must be commuted to a lump sum and the remaining balance of R1 040 000 must be used to purchase a living annuity.

Result:

The following steps must be followed in order to calculate the tax payable on the retirement benefit payable to Z:

Step 1: Determine the total taxable income of all lump sums received or accrued (including the current lump sum benefit).

	R
Current retirement benefit	520 000
All withdrawal benefits (on or after 1 March 2009)	0
All retirement benefits (on or after 1 October 2007)	300 000
All severance benefits (on or after 1 March 2011)	0
Total taxable income	820 000

Step 2: Apply the rate of tax applicable to retirement benefits to the total lump sum amount calculated in Step 1.

On review of the retirement benefit tax table it is determined that the total taxable income of R820 000, as determined in Step 1, falls within the tax bracket of:

"R36 000 plus 27% of the amount by which the taxable income exceeds R700 000"

This is because the amount of R820 000 exceeds R700 000.

	R
Taxable income (R820 000 – R700 000)	120 000
Multiply: Applicable tax rate in the retirement benefit tax table (27%)	32 400
Tax on R700 000	36 000
Tax on total taxable income	68 400

Step 3: Determine the total taxable income of all previous lump sums received or accrued (excluding the current lump sum benefit).

	R
All withdrawal benefits (on or after 1 March 2009)	0
All retirement benefits (on or after 1 October 2007)	300 000
All severance benefits (on or after 1 March 2011)	0
Total previous lump sums	300 000

Step 4: Apply the rate of tax applicable to retirement benefits to the total lump sum amount calculated in Step 3.

On review of the retirement benefit tax table it is determined that the total taxable income of R300 000, as determined in Step 3, does not exceed R500 000.

	R
Total taxable income of previous lump sum benefits (R300 000 – R500 000)	0 *
Multiply: Applicable tax rate in the retirement benefit tax table	0%
Tax on previous lump sum benefits	0

Step 5: Deduct the tax calculated in Step 4 from the tax calculated in Step 2 to determine the tax payable on the current retirement benefit.

	R
Tax on all lump sums (Step 2)	68 400
Less: Tax on previous lump sums (Step 4)	(0)
Tax on current retirement benefit	68 400

Tax amounting to R68 400 is payable on the current retirement benefit of R520 000.

* The deduction may not exceed the value of the lump sum benefit.

Example 8 – Member receives a retirement benefit and previously received a withdrawal benefit and a retirement benefit

Facts:

Previously, on 30 June 2015 (date of accrual), Q received a retirement benefit from the BCS Retirement Fund of R650 000. There was tax paid of R27 000 in respect of the retirement benefit of R650 000. On 30 August 2016 (date of accrual) Q received a withdrawal benefit from the DLH Provident Fund of R320 000. Tax in the amount of R85 500 was paid in respect of the withdrawal benefit of R320 000.

On 31 April 2017 (date of accrual) Q's retirement interest in the PMP Pension Fund was R100 000. Q commuted the total value of the retirement interest as a lump sum. The value of Q's excess fund contributions for contributions that had not previously taken into account during the previous years of assessment as at the date of accrual was R30 000.

Result:

The following steps must be followed in order to calculate the tax payable on the retirement benefit payable to Q:

Step 1: Determine the total taxable income of all lump sums received or accrued (including the current lump sum benefit).

	R
Current retirement benefit	100 000
All withdrawal benefits (on or after 1 March 2009)	320 000
All retirement benefits (on or after 1 October 2007)	650 000
All severance benefits (on or after 1 March 2011)	0
Less: Excess fund contributions [paragraph 5(1)(*a*)]	(30 000)
Total taxable income	1 040 000

Step 2: Apply the rate of tax applicable to retirement benefits to the total lump sum amount calculated in Step 1.

The total taxable income of R1 040 000, as determined in Step 1, falls within the tax bracket of:

> *"R36 000 plus 27% of the amount by which the taxable income exceeds R700 000"*

This is because the amount of R1 040 000 exceeds R700 000.

	R
Taxable income (R1 040 000 – R700 000)	340 000
Multiply: Applicable tax rate in retirement benefit tax table (27%)	91 800
Tax on R700 000	36 000
Tax on total taxable income	127 800

Step 3: Determine the total taxable income of all previous lump sums received or accrued (excluding the current lump sum benefit).

	R
All withdrawal benefits (on or after 1 March 2009)	320 000
All retirement benefits (on or after 1 October 2007)	650 000
All severance benefits (on or after 1 March 2011)	0
Previous lump sums	970 000
Less: Excess fund contributions	(0)
Total previous lump sums	970 000

Step 4: Apply the rate of tax applicable to retirement benefits to the total lump sum amount calculated in Step 3.

The total taxable income of R940 000, as determined in Step 3, falls within the tax bracket of:

> *"R36 000 plus 27% of the amount by which the taxable income exceeds R700 000"*

This is because the amount of R970 000 exceeds R700 000.

	R
Total taxable income of previous lump sum benefits (R970 000 – R700 000)	270 000
Multiply: Applicable tax rate in the retirement benefit tax table (27%)	72 900
Tax on R700 000	36 000
Tax on previous lump sum benefits	108 900

Step 5: Deduct the tax calculated in Step 4 from the tax calculated in Step 2 to determine the tax payable on the current retirement benefit.

	R
Tax on all lump sums (Step 2)	127 800
Less: Tax on previous lump sums (Step 4)	(108 900)
Tax on current retirement benefit	18 900

Tax amounting to R18 900 is payable on the current retirement benefit of R100 000.

7. Calculation of tax payable on lump sum benefits from public sector funds

Any pension fund, provident fund, dependants' fund or pension scheme established by law or established for the benefit of the employees of any municipality or local authority are commonly referred to as a "public sector fund".[16]

Before 1 March 1998, all lump sum benefits payable from public sector funds to their members were exempt from tax. This dispensation was amended with effect from 1 March 1998, after which the portion of the lump sum payable to the member of the public sector fund, which related to employment or public sector membership on or after 1 March 1998, was subject to tax.

[16] Paragraph (*a*) and (*b*) of the definition of "pension fund" in section 1(1).

In order to determine the taxable portion of this lump sum benefit, it is necessary to apply a specific formula,[17] which calculates the portion of the lump sum benefit that can be attributed to the completed years of employment or completed years of membership in the public sector fund on or after 1 March 1998. A basic application[18] of this formula is provided below:

$$A = \frac{B}{C} \times D$$

Where:

"A" = the amount to be determined

"B" = the number of completed years of employment or fund membership after 1 March 1998

"C" = the total number of completed years of employment or fund membership

"D" = the lump sum benefit payable to the person

Once the taxable portion of the lump sum benefit is determined ("A" in this case), the tax can be calculated by applying the relevant tax rates applicable to withdrawal benefits or retirement benefits, respectively.

In addition to the five steps discussed in **5** (which now become Steps 2 to 6), the following additional step should be followed at Step 1:

Step 1: Determine the taxable portion of the lump sum benefit, if the member was a member or was employed before 1 March 1998, by using the formula which calculates that portion of the lump sum benefit attributed to completed years of employment or completed years of membership in the public sector fund after 1 March 1998.

The following examples illustrate how the tax is determined on any lump sum payable to a member from a public sector fund.

Example 9 – Member receives a withdrawal benefit from a public sector fund and has no previous lump sum benefits

Facts:

On 1 June 2017 (date of accrual), M received a withdrawal benefit of R650 000 as a result of M's resignation from the KON Municipality Pension Fund, a public sector fund. M became a member of the KON Municipality Pension Fund when becoming an employee of the municipality on 1 June 1980.

The rules of the KON Pension Fund indicate that the number of completed years of employment must be taken into account when determining the lump sum benefit payable by the KON Pension Fund. The lump sum benefit value was determined as R650 000.

The value of M's contributions not previously taken into account during previous years of assessment as at the date of accrual was R30 000 (excess fund contributions).

17 Paragraph 2A of the Second Schedule.

18 The full application is not discussed in this guide.

Result:

The following steps must be followed in order to calculate the tax payable on the withdrawal benefit payable to M:

Step 1: Determine the taxable portion of the lump sum benefit, as M was a member of the public sector fund before 1 March 1998, by using the following formula:

$$A = \frac{B}{C} \times D$$

$$A = \frac{(\text{1 March 1998 – 1 June 2017})}{(\text{1 June 1980 – 1 June 2017})} \times \text{ R 650 000}$$

$$A = \frac{\text{19 completed years of employment}}{\text{37 total completed years}} \times \text{ R650 000}$$

A = R333 783,78

Only R333 783,78 of the lump sum of R650 000 is subject to tax.

Step 2: Determine the total taxable income of all lump sums received or accrued (including the current lump sum benefit).

	R
Current withdrawal benefit	333 783,78
All withdrawal benefits (on or after 1 March 2009)	0
All retirement benefits (on or after 1 October 2007)	0
All severance benefits (on or after 1 March 2011)	0
Less: Excess fund contributions [paragraph 5(1)(*a*)]	(30 000,00)
Total taxable income	303 783,78

Step 3: Apply the rate of tax applicable to withdrawal benefits to the total lump sum amount calculated in Step 2.

The total taxable income of R303 783,78, as determined in Step 2, falls within the tax bracket of:

"18% of the amount by which the taxable income exceeds R25 000"

This is because the amount of R303 783,78 exceeds R25 000.

	R
Taxable income (R303 783,78 – R25 000)	278 783,78
Multiply: Tax rate in the withdrawal benefit tax table	18%
Tax on total taxable income	50 181,08

Tax amounting to R50 181,08 is payable on the taxable portion of the current withdrawal benefit of R650 000.

Example 10 – Member receives a retirement benefit and has a previous retirement benefit

Facts:

P previously received a retirement benefit from the BCS Retirement Annuity Fund of R960 000 on 30 June 2013 (date of accrual). One-third of P's retirement interest in the BCS Retirement Annuity Fund to the value of R320 000 was commuted to a lump sum. There was tax paid of R900 in respect of retirement benefit of R320 000.

P became a member of the BHI Municipality Pension Fund when becoming an employee of the municipality on 1 April 1970. On 31 May 2017 (date of accrual) P's retirement interest in the BHI Municipality Pension Fund was R2 350 000. The rules of the BHI Municipality Pension Fund indicated that the number of completed years of employment was not taken into account when the value of the lump sum benefit payable by the BHI Municipality Pension Fund was determined. The rules of the fund provide that a member can commute up to one-third of the retirement interest value to a lump sum benefit on retirement. P commuted R780 000 of the total retirement interest as a lump sum.

The value of P's contributions not previously taken into account during previous years of assessment as at the date of accrual was R20 000 (excess fund contributions).

Result:

The following steps must be followed in order to calculate the tax payable on the retirement benefit payable to P:

Step 1: Determine the taxable portion of the lump sum benefit, as P was a member of the public sector fund before 1 March 1998, by using the following formula:

$$A = \frac{B}{C} \times D$$

$$A = \frac{\text{(1 March 1998 – 31 May 2017)}}{\text{(1 April 1970 – 31 May 2017)}} \times \text{R780 000}$$

$$A = \frac{\text{19 completed years of fund membership}}{\text{47 total completed years}} \times \text{R780 000}$$

A = R315 319,15

Only R315 319,15 of the lump sum of R780 000 is subject to tax.

Step 2: Determine the total taxable income of all lump sums received for accrued (including the current lump sum benefit)

	R
Current retirement benefit	315 319,15
All withdrawal benefits (on or after 1 March 2009)	0
All retirement benefits (on or after 1 October 2007)	320 000,00
All severance benefits (on or after 1 March 2011)	0
Less: Excess fund contributions [paragraph 5(1)(*a*)]	(20 000,00)
Total taxable income	615 319,15

Step 3: Apply the rate of tax applicable to retirement benefits to the total lump sum amount calculated in Step 2

The total taxable income of R615 319,15, as determined in Step 2, falls within the tax bracket of:

"18% of the amount by which the taxable income exceeds R500 000"

This is because the amount of R615 319,15 exceeds R500 000.

	R
Taxable income (R615 319,15 – R500 000)	115 319,15
Multiply: Applicable tax rate in the retirement benefit tax table	18%
Tax on total taxable income	20 757,45

Step 4: Determine the total taxable income of all previous lump sums received or accrued (excluding the current lump sum benefit)

	R
All withdrawal benefits (on or after 1 March 2009)	0
All retirement benefits (on or after 1 October 2007)	320 000
All severance benefits (on or after 1 March 2011)	0
Less: Excess fund contributions	(0)
Total of previous lump sums	320 000

Step 5: Apply the rate of tax applicable to retirement benefits to the total lump sum amount calculated in Step 4

The total taxable income of R320 000, as determined in Step 3, does not exceed R500 000.

	R
Total taxable income of previous lump sum benefits (R320 000 – R500 000)	0 *
Multiply: Applicable tax rate in the retirement benefit tax table	0%
Tax on previous lump sum benefits	0

Step 6: Deduct the tax calculated in Step 5 from the tax calculated in Step 3 to determine the tax payable on the current retirement benefit

	R
Tax on all lump sums (Step 3)	20 757,45
Less: Tax on previous lump sums (Step 5)	(0)
Tax on current retirement benefit	20 757,45

Tax amounting to R20 757,45 is payable on the taxable portion of the current retirement benefit of R780 000.

* The deduction may not exceed the value of the lump sum benefit.

Annexure – Tax tables

Tax table for withdrawal benefits[19]

TAXABLE INCOME	RATES OF TAX
Not exceeding R25 000	0 per cent of the taxable income
Exceeding R25 000 but not exceeding R660 000	18 per cent of amount by which taxable income exceeds R25 000
Exceeding R660 000 but not exceeding R990 000	R114 300 plus 27 per cent of amount by which taxable income exceeds R660 000
Exceeding R990 000	R203 400 plus 36 per cent of amount by which taxable income exceeds R990 000

Tax table for retirement benefits[20]

TAXABLE INCOME	RATES OF TAX
Not exceeding R500 000	0 per cent of the taxable income
Exceeding R500 000 but not exceeding R700 000	18 per cent of amount by which taxable income exceeds R500 000
Exceeding R700 000 but not exceeding R1 050 000	R36 000 plus 27 per cent of amount by which taxable income exceeds R700 000
Exceeding R1 050 000	R130 500 plus 36 per cent of amount by which taxable income exceeds R1 050 000

Tax table for severance benefits[21]

TAXABLE INCOME	RATES OF TAX
Not exceeding R500 000	0 per cent of the taxable income
Exceeding R500 000 but not exceeding R700 000	18 per cent of amount by which taxable income exceeds R500 000
Exceeding R700 000 but not exceeding R1 050 000	R36 000 plus 27 per cent of amount by which taxable income exceeds R700 000
Exceeding R1 050 000	R130 500 plus 36 per cent of amount by which taxable income exceeds R1 050 000

[19] Paragraph 9(*a*)(i) of Schedule 1 of the Rates and Monetary Amounts and Amendment of Revenue Laws Act 14 of 2017 (as amended).
[20] Paragraph 9(*b*)(i) of Schedule 1 of the Rates and Monetary Amounts and Amendment of Revenue Laws Act 14 of 2017 (as amended).
[21] Paragraph 9(*c*)(i) of Schedule 1 of the Rates and Monetary Amounts and Amendment of Revenue Laws Act 14 of 2017 (as amended).