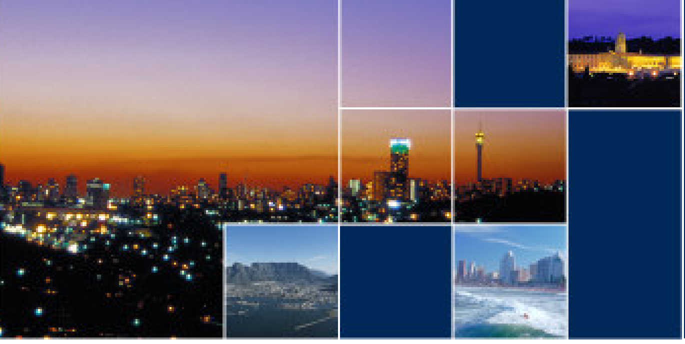

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Tax Consulting

Lump Sum Benefits On Retirement Or Death

Major changes take place with effect from 1 October 2007.

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Amounts payable as lump sums

Lump sum benefits from pension and retirement annuity funds generally cannot exceed one third of the value of the fund. The balance must be converted to an annuity. After 1 October 2007, if the value of the remaining two thirds does not exceed R50 000 (i.e. if 100% is less than R75 000), the full amount will be able to be withdrawn as a lump sum.

Tax treatment of lump sum payouts by Pension and Retirement Annuity Funds on retirement or death

The computation of the tax free portion of the lump sums was previously extremely complicated.

With effect from 1 October 2007

: the first amount up to R300 000 of the lump sum payout will be tax free.
: the next amount from R300 000 to R600 000 will be subject to a flat tax rate of 18%.
: the next amount from R600 000 to R900 000 will be subject to a flat tax rate of 27%.
: the excess over R900 000 will be subject to a flat tax rate of 36%.

The tax computed as above is calculated separately and is unaffected by deductions, assessed losses and annual rebates.
Contributions to such funds which were not previously deducted for tax will remain tax free amounts by deduction from the lump sums.
This new system applies to the aggregate of all retirement lump sums over the lifetime of the retiree that are received on or after 1 October 2007. As in the past, fund administrators will withhold PAYE from amounts paid out.
It is important to realise that no change is proposed in respect of lump sum payouts on early withdrawal from such funds. As in the past, these lump sums will be fully taxable, in excess of the first R1 800 and they will be taxed using an averaging formula. This averaging formula is based on the highest average annual tax rate for the tax year in which the lump sum is payable or in the previous tax year.

Withholding Tax (PAYE)

With effect from 1 October 2007, lump sum payments from retirement funds paid to persons who earned less than the tax threshold in the immediately preceding year of assessment will be exempt from withholding tax.

Extraordinary lump sum payouts

There are three types of such amounts payable to retirement fund members or former members.

: In terms of an arrangement entered into between the Minister of Finance and the insurance industry, minimum values have to be paid to those members who discontinued their contributions prematurely.
: Surplus accounts in retirement funds have to be apportioned to members or former members. These members may receive their portion in cash or as a credit to their member accounts.
: The profits made by fund administrators as a result of bulking member's funds will now be re-channeled to former retirement fund members.

All these payments to current or former members will be exempt from income tax. As a result, retirement fund administrators will not have to apply for a tax directive prior to paying these benefits to current or former fund members.

Tax free payouts to members of public sector funds before 1 March 1998

These are preserved as the tax-free payout of a public pension fund interest before 1 March 1998 will apply to both retirement lump sum benefits and withdrawal benefits from a private sector fund provided the fund interest was rolled over from a public sector fund. The effective date of this change is 1 March 2006.

Conclusion

In most cases, the tax changes referred to above will result in taxpayers being liable for less tax in respect of lump sum payouts received after 1 October 2007 than before that date. In certain cases however, the opposite may be true. If you are at or near retirement, please consult us urgently to check whether or not you should wait to receive a payout after 1 October 2007.