Lump sum payments and tax directives

A tax directive is a notice from the South African Revenue Service (SARS) instructing us to deduct a fixed tax amount from an individual's lump sum payment.

A. Who is regarded as an individual?

Depending on the product and instruction type, the term 'individual' refers to:

- A member (i.e. an investor in the Allan Gray Pension Preservation, Provident Preservation, Retirement Annuity, or Umbrella Retirement Fund)
- A non-member spouse (i.e. the member's ex-spouse)
- An annuitant (i.e. an investor in the Allan Gray Living Annuity)
- An executor of an estate (i.e. the person appointed by the Master of the High Court to handle the deceased member's estate)

B. Why do we apply for a tax directive?

We are legally required to apply for a tax directive before making a lump sum payment from the following products:

- Allan Gray Pension Preservation Fund
- Allan Gray Provident Preservation Fund
- Allan Gray Retirement Annuity Fund
- Allan Gray Umbrella Retirement Fund
- Allan Gray Living Annuity

The purpose of a tax directive is to determine the tax to be withheld from a lump sum before it is paid out. We are also required to apply for a tax directive for transfers between retirement funds and full transfers to a living annuity, even though these transfers may be tax neutral (i.e. 0% tax).

C. When do we apply for a tax directive?

We will start the application process as soon as we receive one of the following:

- A withdrawal instruction
- A retirement notification
- An instruction from beneficiary relating to the allocation of a death benefit
- An instruction from an individual relating to a divorce order

Once we have received your instruction, we are required to apply for the tax directive. SARS sees the taxpayer as being entitled to the lump sum amount when the Fund receives a completed instruction form. This means you need to ensure you understand and carefully consider the tax implications of your decision before submitting an instruction.

D. How long does it take SARS to issue a tax directive?

We will apply for a tax directive as soon as we receive your instruction and supporting documents. Although it usually takes SARS two business days to issue a tax directive, there are instances where we have to apply for a tax directive manually. Manual tax directives take a minimum of 21 business days to be issued.

E. Does SARS take in to account previous lump sum payments when issuing a tax directive?

Yes. SARS takes into account all previous taxable withdrawal and retirement lump sums and severance benefits received when issuing a tax directive. These include:

- All retirement lump sum benefits (this includes death benefits* and cash lump sum withdrawals from a living annuity that do not form part of the regular annuity income payments) accruing from 1 October 2007
- All withdrawal lump sum benefits accruing from 1 March 2009
- All severance benefits accruing from 1 March 2011

*When an individual dies, the cash lump sum that the beneficiary chooses to take is regarded as a retirement lump sum benefit and is taxed in the hands of the deceased individual.

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To obtain a tax estimate requires a holistic understanding of an individual's previous lump sum payments. Individuals are encouraged to consult a tax practitioner or contact SARS to establish the probable tax impact before exercising their decision to take a cash lump sum. Alternatively, an individual may request a simulation by submitting a completed SARS Tax Directive Simulation Request form to Allan Gray which will provide an estimated tax liability on the cash lump sum they wish to take. See below for more details with regards to the SARS Tax Directive Simulator.

F. What is the SARS tax directive simulator?

The SARS Tax Directive Simulator enables the fund administrator or insurer to request a simulation of the tax directive result before submitting the actual directive, in order to determine the estimated tax liability on the retirement or withdrawal lump sum benefit. This will assist the member, non-member or beneficiary in making an informed decision before an election is made in respect of the benefit.

It is important to note that the tax directive simulation result is based on the information which exists on the SARS system when the simulation is requested, and therefore the tax amount when the actual tax directive is requested may differ from the simulation request if additional actual directive requests are received after the simulation response was issued and before the actual directive is processed.

A simulation request does not constitute an election/accrual, and you will not be compelled to proceed with an exit (retirement or withdrawal) instruction once you have received the results of the simulation. The simulation response must be accepted within 2 business days of receipt if you want to proceed with your exit.

Please note that SARS will indicate if there are outstanding taxes (IT88L) on the member's tax record, but no outstanding tax amounts will be made available on the Tax Directive Simulation response. The actual outstanding tax amounts will only be available when the actual directive is processed.

G. How is the tax on withdrawal lump sum benefits calculated?

Withdrawal lump sum benefits are taxed according to the rates shown in Table 1. The first R25 000 of a withdrawal lump sum is taxed at 0%. This is a once-off concession for the duration of the individual's life and applies across all of the individual's retirement funds (including those from Allan Gray and other third-party fund providers).

Table 1: Withdrawal tax table

Taxable income from lump sum benefits	Rate of tax
R0 - R25 000	0% of taxable income
R25 001 - R660 000	18% of taxable income above R25 000
R660 001 - R990 000	R114 300 + 27% of taxable income above R660 000
R990 001 and above	R203 400 + 36% of taxable income above R990 000

H. How is the tax on retirement lump sum benefits calculated?

Retirement lump sum benefits (including death benefits from retirement funds and living annuities), severance benefits and withdrawals from living annuities that are below the prescribed limits, are taxed according to the rates shown in Table 2. The first R500 000 of such a lump sum is taxed at 0%. This is a once-off concession for the duration of the individual's life and applies across all of the individual's retirement funds (including those from Allan Gray and other third-party fund providers).

Table 2: Retirement tax table

Taxable income from lump sum benefits	Rate of tax
R0 - R500 000	0% of taxable income
R500 001 - R700 000	18% of taxable income above R500 000
R700 001 - R1 050 000	R36 000 + 27% of taxable income above R700 000
R1 050 001 and above	R130 500 + 36% of taxable income above R1 050 000

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I. Deciding to withdraw or retire from an Allan Gray preservation fund

Members of the Allan Gray Pension Preservation Fund and the Allan Gray Provident Preservation Fund are allowed a once-off partial or full withdrawal before retirement (assuming there aren't any restrictions from the transferring fund). Pre-retirement withdrawals from a preservation fund reduce the tax-free amount available at retirement and result in the retirement benefit being taxed at a higher rate. As there are different tax implications for withdrawal and retirement lump sums, members over the age of 55 who have not yet taken a once-off withdrawal are encouraged to carefully consider the potential tax implications of each option before making a decision.

J. Can the tax payable on a lump sum benefit be reduced?

Yes. The tax payable on a lump sum benefit can be reduced if you:

Contributed to the Government Employees' Pension Fund (GEPF) or another public sector fund before 1 March 1998

Contributions made to the GEPF or another public sector fund before 1 March 1998 are regarded as tax-free and can be offset against the lump sum benefit. The pre-1 March 1998 tax-free portion is only applicable in the following instances:

- the benefit was transferred directly to Allan Gray from a public sector fund, or
- the benefit was transferred twice: from a public sector fund to another retirement fund and thereafter to Allan Gray after 1 March 2018.

Contributed in excess of the deductible amount (as determined by legislation at the time of contribution)

Contributions that exceeded the deductible amount, i.e. excess contributions, can be offset against the lump sum benefit. To do this we will need to be provided with a schedule of your contributions per year and/or a copy of your ITA34 which reflects these excess contributions. The process will require us to apply for a manual tax directive, which will take a minimum of 21 business days to be issued.

K. What happens if a tax directive is rejected?

If any of the details on your instruction do not match the information SARS has on record for you, they will reject the application. This often happens if an individual receives a new ID number (i.e. where the last three digits have changed) and fails to inform SARS or us. We will not be able to proceed with the lump sum payment and will only be able to re-apply for a new directive once the issue has been resolved.

L. Can a tax directive be cancelled?

No. Once we have submitted an application to SARS for an actual tax directive it cannot be cancelled. This is a SARS requirement to prevent individuals from using the tax directive system to obtain tax estimates. As a tax estimate requires a holistic understanding of your previous lump sum payments, we encourage you to consult a tax practitioner or contact SARS before deciding to take a cash lump sum. Alternatively you may submit a completed SARS Tax Directive Simulation Request form (see section F).

M. What should I do if I have a tax dispute?

If you wish to dispute the tax payable you will need to contact SARS directly. It is important to note that tax legislation requires us to deduct tax according to the tax directive and pay it to SARS regardless of whether or not the dispute has been resolved.