ALLAN GRAY

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 amount of tax from an individual's lump sum payment.

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)

WHY DO WE APPLY FOR A TAX DIRECTIVE?

We are required under the 4th Schedule of the Income Tax Act 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

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 a dependant or nominated beneficiary relating to the allocation of a death benefit
- An instruction from an individual relating to a divorce order
- An emigration notification
- A notification from a non-resident leaving South Africa at the expiry of a work visa or end of a visit visa

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 (as described below) where we have to apply for a tax directive manually. Manual tax directives take a minimum of 21 business days to be issued.

WHAT INFORMATION DOES SARS REQUIRE TO ISSUE A TAX DIRECTIVE?

SARS requires the following information to be completed on the tax directive application form before it can issue a tax directive:

- Full name
- Date of birth
- ID/passport number (If an individual previously changed their ID number, both ID numbers are required.)
- Physical address and postal code
- Postal address and postal code
- Income tax reference number
- Annual income
- Bank details

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, SARS 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.

CAN A TAX DIRECTIVE BE CANCELLED?

No. Once we have submitted an application to SARS for a 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.

DOES SARS TAKE INTO ACCOUNT PREVIOUS LUMP SUM PAYMENTS WHEN ISSUING A TAX DIRECTIVE?

Yes. SARS takes into account all previous withdrawal, retirement and severance payments received when issuing a tax directive. These include:

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

*When an individual dies, the lump sum that the dependant or nominated beneficiary receives is regarded as a retirement lump sum benefit and is taxed in the hands of the deceased individual.

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.

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

Example 1

Mr A is a member of two pension funds. He resigns from his employer and decides to withdraw from one of his funds (as opposed to preserving his savings until retirement). Mr A receives a R250 000 withdrawal benefit from the fund. The tax he has to pay on the R250 000 is calculated as follows:

Apply the withdrawal benefit table (Table 1) to the withdrawal amount:
18% x (R250 000 – R25 000) Tax payable: R40 500

Using Table 1, Mr A need not pay any tax on the first R25 000 of the R250 000. The remaining R225 000 is taxed at a rate of 18%. Based on the above calculation, he must pay a n amount of R40 500 on his withdrawal benefit.

Example 2

Mr A subsequently decides to withdraw R350 000 from his second pension fund. Using Table 1, the tax that he must pay on the subsequent R350 000 withdrawal benefit is calculated as follows:

Step 1: Add up the withdrawal benefits received:
R250 000 + R350 000 = R600 000

Step 2: Apply the withdrawal benefit table (Table 1) to the full amount:
18% x (R600 000 – R25 000) = R103 500

Step 3: Subtract the tax Mr A had to pay on all withdrawal benefits he received prior to the withdrawal benefit of R350 000. We have already calculated this in Example 1 as being R40 500:
R103 500 – R40 500 = R63 000

Mr A must therefore pay a total of R63 000 in tax for his second withdrawal benefit.

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

Example 3

Mr A now decides to retire from his retirement fund and receives a retirement benefit of R100 000. Taking into account that he has already received two withdrawal benefits (see Examples 1 and 2), the tax he must pay on the R100 000 is calculated as follows:

Step 1: Add up the retirement and withdrawal benefits Mr A received:
R250 000 + R350 000 + R100 000 = R700 000

Step 2: Apply the retirement benefit rate table (Table 2) to the full amount:
18% x (R700 000 – R500 000) = R36 000

Step 3: Add up the withdrawal benefits received before retirement (i.e. from Examples 1 and 2) and apply the amount to the retirement benefit table (Table 2):
R250 000 + R350 000 = R600 000

Tax payable: 18% x (R600 000 – R500 000) = R18 000

Step 4: To calculate the total tax payable on the retirement benefit of R100 000, subtract the tax payable in Step 3 from the tax payable in Step 2:
R36 000 – R18 000 = R18 000

The R18 000 in Step 3 is not the actual tax paid on the previous withdrawal benefits, but rather the amount of tax Mr A would have paid on his withdrawal benefits had he postponed them until his retirement. The difference between the solutions in Step 2 and Step 3 (i.e. R18 000), is the actual tax payable on the R100 000 retirement benefit that Mr A received. If Mr A had deferred his two withdrawals and taken the full R700 000 at retirement he would have saved R85 500 in tax as displayed in Table 4.

Table 3: Summary

BENEFITS RECEIVED IN EXAMPLES 1 - 3	AMOUNT	TAX PAID
Initial withdrawal	R250 000	R40 500
Subsequent withdrawal	R350 000	R63 000
At retirement	R100 000	R18 000
Total	**R700 000**	**R121 500**

Table 4: Reduction in tax payable

RETIREMENT BENEFITS ONLY	AMOUNT	TAX PAID
At retirement	R700 000	R36 000
Tax reduction		R85 500

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). 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.

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.

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.

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. Important to note is 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.

3/2017/FN