



General Notes - Second Schedule to the Income Tax Act, 1962

General Note 9

GENERAL SUBJECT: DEFINITIONS OF PENSION AND PROVIDENT FUNDS

SPECIFIC ASPECT: PURCHASE OF ANNUITIES AND TRANSFER TO RETIREMENT ANNUITY FUND AT RETIREMENT

STATUS: DECISION

BACKGROUND: To confirm the Commissioner for Inland Revenue's policy of not allowing a pension fund or, if it provides annuities, a provident fund to purchase or insure a pension (annuity) at an institution or fund other than a South African registered insurer or to permit such a fund to transfer monies out of the fund for the benefit of a member who did not become entitled to a withdrawal benefit in terms of the rules of the fund.

DECISION: The definitions of "pension fund" and "provident fund" in section 1 of the Income Tax Act require such funds to provide the annuity (for life) to a member on retirement from employment. My office accepts that, to comply with the requirement to provide the annuity, the fund may purchase or insure a member's compulsory life annuity at a South African registered insurer.

The rules of some pension and provident funds provide, however, for a transfer of monies to a retirement annuity fund on a member's retirement from employment or before retirement from employment in circumstances other than when a member becomes entitled to a withdrawal benefit, which is not acceptable. Should such a fund transfer monies on this basis or on any other basis which is not directly related to a member's withdrawal from the fund as a result of resignation from or termination of service (other than on retirement from employment) or as a result of the winding up of the fund or in accordance with the provisions of section 19 of the Pension Funds Act or in accordance with the 14 September 1990 arrangement, the approval of the fund, notwithstanding its rules, will be withdrawn.

DISTRIBUTED BY THE OFFICE OF THE COMMISSIONER FOR INLAND REVENUE ON 20 JULY 1995

Reviewed by the

Legal and Policy Division of SARS on

01 March 2007

No changes made