



General Notes
Second Schedule to the Income Tax Act, 1962
General Note 21
(Issue 2 with effect from 1 March 2006)

GENERAL SUBJECT: SECOND SCHEDULE TO THE INCOME TAX ACT, 1962

SPECIFIC ASPECT: APPLICATION FOR TAX DIRECTIVES
(Regarding benefits that include pre-1 March 1998 vested rights)

STATUS: DECISION

BACKGROUND: Following the introduction of legislation to subject lump sum payments from public sector retirement funds to income tax, these funds are bound by the provisions of the Fourth Schedule to the Income Tax Act, 1962 (the Act) to apply for employees' tax directives when making lump sum payments to members.

DECISION: The portion of a lump sum benefit paid by a pension fund as contemplated by paragraphs (a) and (b) of the definition of "pension fund" in section 1 of the Act (popularly referred to as public sector funds) which is to be included in the provisions of the Second Schedule to the Act, is determined by reference to "formula C" as defined in paragraph 1 of the Second Schedule to the Act. Symbol "B" in this formula has to have a value greater than zero, failing which the said formula has no value.

In the case of a fund, the rules of which take into account the number of completed years of employment for purposes of determining the amount of benefits, Symbol "B" can have a value greater than zero in either one of the following circumstances:

- If the lump sum benefit is payable on or after 1 March 1999.
- If previous or other periods of service are approved as pensionable service on or after 1 March 1998.

In the case of a fund, the rules of which do not take into account the number of completed years of employment for purposes of determining the benefits, Symbol "B" can have a value of greater than zero in only one instance, namely:

- If the lump sum benefit is payable on or after 1 March 1999.

It follows that, in circumstances where no previous or other periods of service have been approved or recognised as pensionable service on or after 1 March 1998, no taxable benefit arises until at least 1 March 1999.

The administrator of the fund must complete forms A and D, in the case of retirement or death, or form B, in the case of resignation or retrenchment from employment.

This Note applies if the member or deceased member was a member of a public sector fund on 1 March 1998 and continued to be a member of a public sector fund until the date on which the lump sum benefit accrued or if the member transferred

his/her withdrawal benefit (including his/her pre-1 March 1998 vested right) to another approved fund on or after 1 March 2006 and exited the transferee fund subsequent to the transfer date.

A *Guide on the Taxation of Lump Sum Benefits* is available on the SARS website (www.sars.gov.za).

Reviewed by
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