

GENERAL SUBJECT: SECOND SCHEDULE TO THE INCOME TAX ACT

SPECIFIC ASPECT: LATE PAYMENT INTEREST

STATUS: OPINION

BACKGROUND: Different practices relating to the payment of interest on late payment of benefits currently exist in the retirement fund industry. In some cases interest is included to form part of the lump sum benefit payable to a beneficiary, and in other cases the interest is paid separately to the beneficiary as interest.

OPINION: Where late payment interest increases a fund's benefit liability it is accepted that the interest does not form a component separate from the benefit that is payable to the member. As such, the increased benefit will, in the case of a lump sum benefit, be subject to the provisions of the Second Schedule to the Income Tax Act and, in the case of a pension, be subject to normal tax as an annuity.

Where an interest liability arises in addition and separate from the benefit liability the fund must annually issue an IT3(b) in respect of the beneficiary, a copy of which must be submitted to the South African Revenue Service.

ISSUED BY THE SOUTH AFRICAN REVENUE SERVICE

24 March 2004