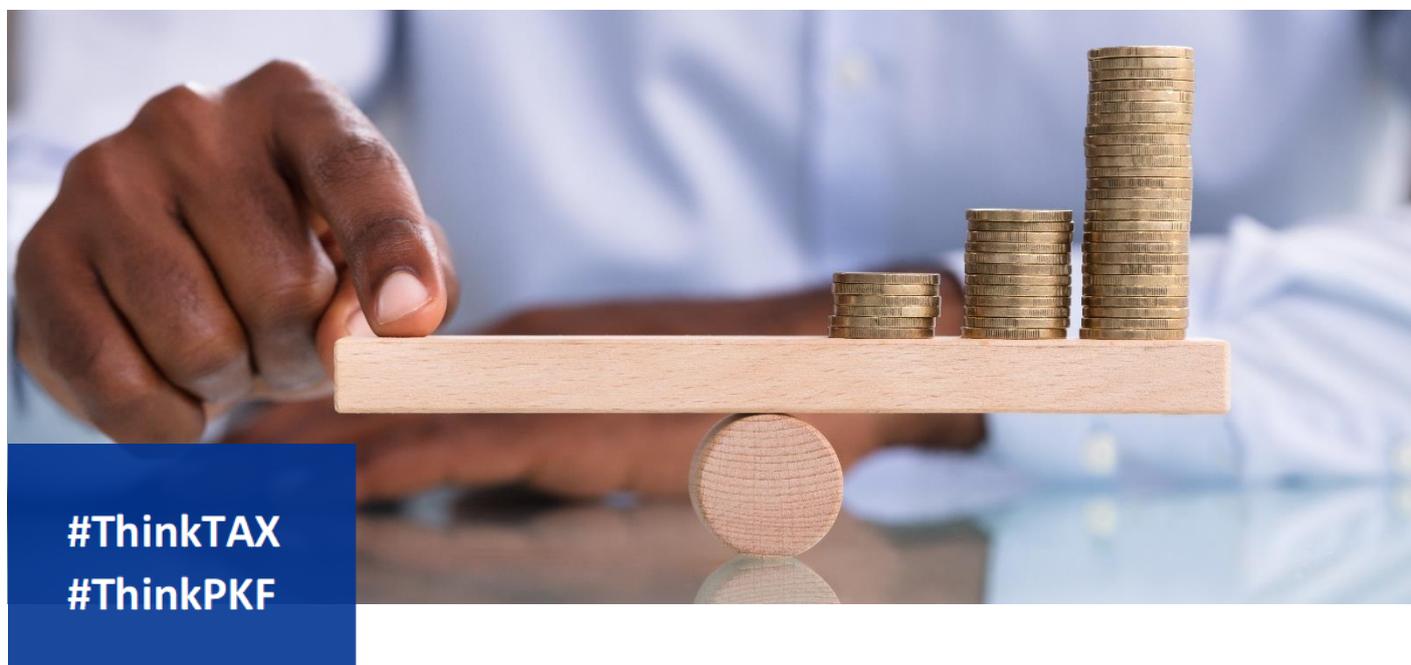


Tax effect on lumpsum benefits received from a provident fund

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The Minister of Finance announced Government's intention to introduce extensive retirement reforms to promote a culture of retirement savings approximately eight years ago. One could argue that the Government is looking to assist protecting retirees by enforcing compulsory preservation and making it difficult for hard-earned savings to be withdrawn by way of a lump sum. Throughout this 8-year period various consultations were undertaken between industry bodies and Government, with a final decision being made that the requirements for provident fund annuitisation will come into effect on **1 March 2021**. This change impacts active members of a provident fund as at 1 March 2021.

The change is aimed at aligning the different types of retirement funds and enabling greater portability of benefits between retirement funds. Therefore, the annuitisation requirements for provident funds will be brought into line with those of pension and retirement annuity funds. From 1 March 2021, on retirement, provident fund members will be able to take a one-third lump sum benefit from their fund and structure a monthly income from the remaining two-thirds.

The above rules only apply to the retirement event. Should a taxpayer exit a provident fund due to resignation, retrenchment or dismissal, a withdrawal option is still available and is unaffected by the annuitisation.

The new requirements will not apply to those benefits accumulated before 1 March 2021 and any investment growth on those benefits after that date (vested benefits).

The new requirements will apply only to the contributions and investment growth on those, which accumulated in the fund after 1 March 2021 (non-vested benefits).

On retirement members will have to purchase an annuity using their non-vested benefits, while their vested benefits can be accessed as a cash lump sum in full.

If the value of the benefits of all retirement annuities at retirement is R247 500 or less, a full cash lump sum can be obtained.

Where the taxpayer / member was at least 55 years old on 1 March 2021, the lump sum from the provident fund is not subject to the annuitisation rules.

Taxpayers must take proper advice in this regard to ensure that there is certainty on the funds that will be made available to them on retirement,

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