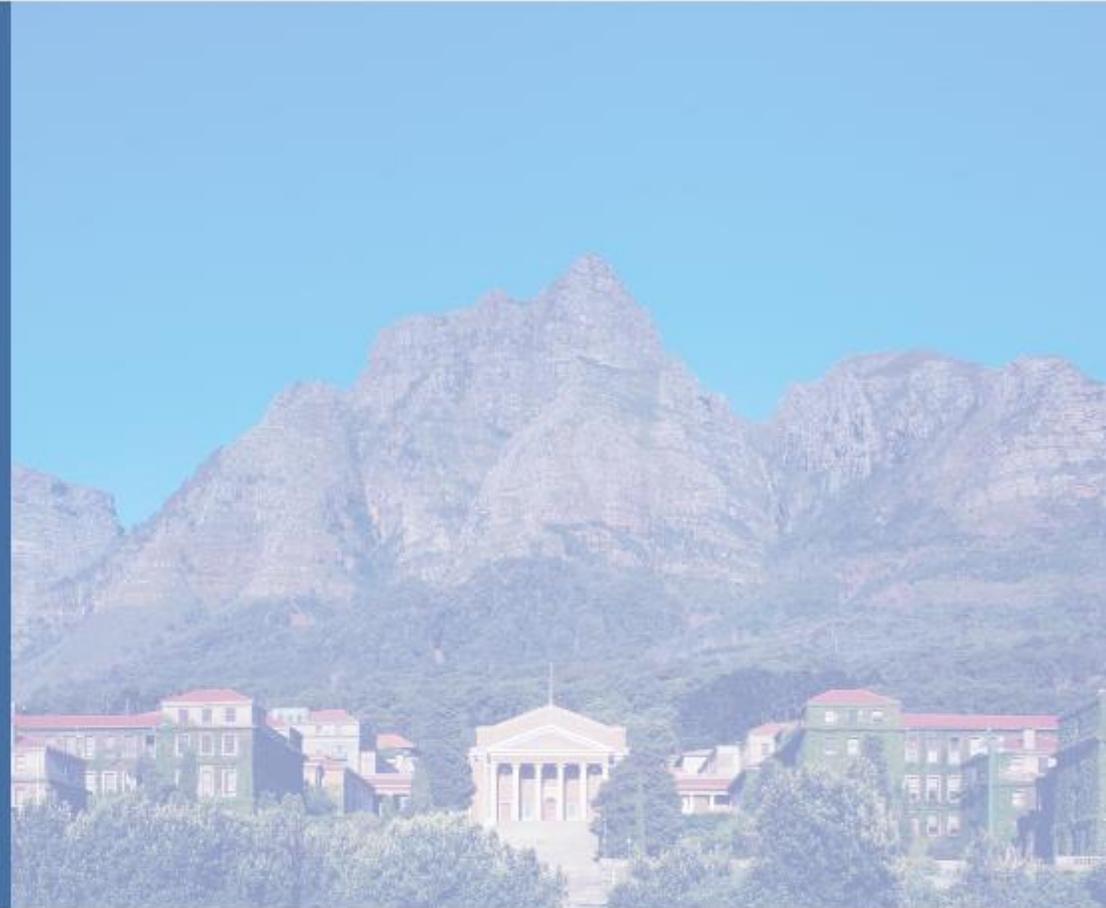




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Tax & Retirement

10 July 2019

A/Prof Craig West

Original slides by Tracy Johnson



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Agenda

- What are the tax consequences of:
 - Your contributions to the retirement fund?
 - Retirement from the retirement fund?
 - Withdrawal from the retirement fund?
- Questions



Do you know how much you are contributing?

22.5% of
DPA

20.192% of
DPA

But what is your Deemed Pensionable Amount (DPA)?

DPA is
70%

DPA is
50%

DPA is
80%

DPA is
???



Deemed pensionable amount standard ranges

R0 to R150000	70%
R150001 to R250000	75%
R250001 to R400000	78%
R400001 +	80%

The percentage may vary between 50% and 100%. Staff may elect to change this percentage whenever their COE changes.



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EMPLOYEE NAME: Ms University Staff Member		EMPLOYEE NUMBER: 01234567			
Tax Ref Number	ID Number	Department	Medical Aid Dependents		Payment Date
1122334455	8007115566778	Centre for Research	Adults: 00	Children: 00	25.06.2017
EARNINGS		QUANTITY	AMOUNT	DEDUCTION	AMOUNT
Cash Salary			41,435.90	Total Tax	9,369.08
				UIF EE Contribution	148.72
				MA Discovery Health - EE	2,007.00
				Parking UCT	79.65
				Vitality	219.00
TOTAL EARNINGS			41,435.90	TOTAL DEDUCTIONS	11,823.45
COST OF EMPLOYMENT			AMOUNT	TAX YEAR ACCUMULATIONS (IRP5)	AMOUNT
COE: Monthly			50,531.58	3601 Income - Taxable	165,743.60
UCTRF Total ER			9,095.68	3808 Payment of EEs Debt	338.59
Cash Salary			41,435.90	Prov. DC Taxable Benefit	35,335.76
				ER paid Ins Fringe Benfit	810.79
				Retirement Funding	204,970.32
				3699 Gross Remuneration	204,970.32
				Tax	38,464.45
				MA Tax Credit Deducted	1,212.00
				Prov. Fund Tax Exemption	35,335.76
DPA (Monthly)		75.00	40,425.26		
Bank: 012001 / Bank of South Africa		Account Number	123456789	NET PAY	29,612.45
Annual Leave: Compulsory	0.00	Study & Research Leave	0.00	Payslip Queries To	HR Administrator
Annual Leave: Accumulative	7.83			Telephone Extension	1234
Message:					



So what is your effective contribution rate? Examples:

$$\begin{array}{c} \text{DPA is} \\ 70\% \end{array} \times \begin{array}{c} 22.5\% \text{ of} \\ \text{DPA} \end{array} = \text{15.75\% of your salary goes} \\ \text{towards your contributions.}^*$$

$$\begin{array}{c} \text{DPA is} \\ 80\% \end{array} \times \begin{array}{c} 22.5\% \text{ of} \\ \text{DPA} \end{array} = \text{18\% of your salary goes} \\ \text{towards your contributions.}^*$$

$$\begin{array}{c} \text{DPA is} \\ 50\% \end{array} \times \begin{array}{c} 20.192\% \text{ of} \\ \text{DPA} \end{array} = \text{10\% of your salary goes} \\ \text{towards your contributions.}^*$$

** Approximation. Need to adjust for risk and admin costs to get exact % for retirement savings.*



So what is your effective contribution rate? Example:

Example

Miss Q's cost of employment is R150,000 per year. She selected a DPA of 70% when she joined UCT. She is a permanent staff member. What percentage of her salary is she currently contributing to the retirement fund?

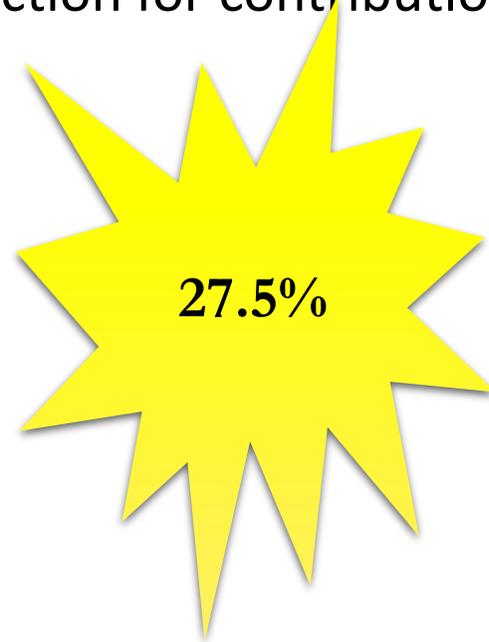
Solution

$$\begin{aligned} \text{R150,000} \times 70\% \times 22.5\% &= \\ &\text{R23,625} \\ \text{R23,623} / \text{R150,000} &= \mathbf{15.75\%} \end{aligned}$$



Did you know?

Tax deduction for contributions up to...



27.5%

Of remuneration or taxable income (whichever is higher)

Limited to a max of R350,000



Should I increase my contributions?



↓ in take-home pay

VS

↑ in retirement savings

Example:

Mrs. X is 30 years old and has just started working at UCT. Her COE is R360,000. On joining she selected a DPA of 70%. So her effective contribution rate is about 15.75%. She is considering increasing her DPA to 100% so that her effective contribution rate is 22.5%.

- What will the impact be on her take-home pay?
- What will the impact be on her retirement contributions?



Should I increase my contributions?

↓ in take-home pay

↑ in retirement savings

Solution using COE Calculator (<http://www.hruct.co.za/>)

Monthly take-home pay at 70% DPA:	R21,026
Monthly take-home pay at 100% DPA:	R19,520
Decrease in monthly take-home pay	↓ (R1,506)

Monthly retirement contrib at 70% DPA:	R4,725
Monthly retirement contrib at 100% DPA:	R6,750
Increase in monthly retirement contrib	↑ R2,025



Difference of R519 per month is the benefit of the tax deduction

!



Tax consequences of retirement

What happens at retirement?

- Currently, total balance may be paid out as a lump sum
- These lump sums are taxed per a special tax table as follows:

Taxable portion	Rates 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 plus 27% of taxable income above R700 000
R1 050 001 +	R130 500 + 36% of taxable income above R1 050 000

First R500,000
is tax free!



Examples: Lump sum at retirement

Example 1:

Q: On retirement, Mr. Y's retirement fund balance is R450,000 and he decides to take all in cash. How much tax would he pay on lump sum?

A: Zero (assuming this is the first lump sum he has received).

Example 2:

Q: On retirement, Ms. Z's retirement fund balance is R1,450,000 and she decides to take all in cash. How much tax would she pay on lump sum?

A: R274,500 (applying the table on previous slide) i.e. R1,175,500 left for retirement.



Tax consequences of retirement

What happens at retirement?

- Compulsory annuitisation from 1 March 2021 for provident funds (by law)...
 - $\frac{2}{3}$ must be used to purchase an annuity (i.e. 'pension').
 - $\frac{1}{3}$ may be taken as a lump sum.
- But, you can still take the total balance as a lump sum if:
 - if you are 55+ on 1 March 2021; or
 - if the total of your retirement savings is R247,500 when you retire.



Tax consequences of retirement

What happens at retirement?

- If you purchase an annuity ('pension'), the tax consequences are:
 - No immediate tax on the balance used to purchase an annuity.
 - The monthly annuity income is taxed per the normal tax tables.

Taxable income (R)	Rates of tax (R)	[2020 tax table]
0 – 195 850		18% of taxable income
195 851 – 305 850		35 253 + 26% of taxable income above 195 850
305 851 – 423 300		63 853 + 31% of taxable income above 305 850
423 301 – 555 600		100 263 + 36% of taxable income above 423 300
555 601 – 708 310		147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000		207 448 + 41% of taxable income above 708 310
1 500 001 and above		532 041 + 45% of taxable income above 1 500 000

[2020]: Rebate of R14,220 (primary) + R7,794 (secondary); Tax threshold: R79,000 if < 65 or R122,300 if >65



Tax consequences of withdrawal

- If you transfer your retirement funds into your new employer's fund:
 - No tax
- If you transfer your funds into a preservation fund:
 - No tax
- If you take the cash:
 - Tax! Per a special tax table as follows:

Taxable portion	Rates 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 plus 27% of taxable income above R660 000
R990 001 +	R203 400 + 36% of taxable income above R990 000

Only R25,000
is tax free!



Examples: Lump sum at withdrawal

Example 1:

Q: On withdrawal, Mr A's retirement fund balance is R450,000 and he decides to take all in cash. How much tax would he pay on lump sum?

A: R76,500 (applying the table on previous slide) i.e. R373,500 left for retirement.

Example 2:

Q: On withdrawal, Ms B's retirement fund balance is R1,450,000 and she decides to take all in cash. How much tax would she pay on lump sum?

A: R369,000 (applying the table on previous slide) i.e. R1,081,000 left for retirement.



Quick Recap

- You can get a tax deduction for contributions up to 27.5% of your salary (or taxable income if higher) to a max of R350,000 per annum.
- At retirement, if you take cash, the first R500,000 lump sum is tax free, provided no previous lump sums. Thereafter, tax applies per a special table.
- If you get an annuity ('pension') it is taxed as you receive the income, per the normal tax tables.
- At withdrawal, if you take cash, only the first R25,000 lump sum is tax free. Thereafter, tax applies per another special (unfavorable!) table. AVOID early withdrawal – best to wait for retirement.



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Thank You!

Questions?