



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

General Note 6

GENERAL SUBJECT: SECOND SCHEDULE TO THE INCOME TAX ACT

SPECIFIC ASPECT: FORMULA B: MAXIMUMS

STATUS: OPINION

BACKGROUND: Some administrators of retirement funds and Receivers of Revenue interpreted the provisions of paragraph (b)(i) of the definition of "formula B" in the Second Schedule to the Income Tax Act differently.

OPINION: Paragraph (b) of the definition "formula B" in paragraph 1 of the Second Schedule to the Income Tax Act requires "C" in the formula to represent "...an amount equal to the sum of the amounts calculated in accordance with formula A .. and the aggregate of the lump sum benefits received by or accrued to him from retirement annuity funds..". Paragraph (i) of the proviso to paragraph (b) requires that the "...amount determined under this paragraph shall not exceed the greater of R120 000 or an amount equal to R4 500 multiplied by the number of completed years..".

It follows that the amount represented by "C" will always first be equal to the amount determined in accordance with formula A and the aggregate of the lump sum benefits received by or accrued to him from retirement annuity funds, after which the amount is tested by the provisions of paragraph (b)(i) of the definition of "formula B". If it is found that "C" is higher than the greater of R120 000 or

R4500 times the number of years referred to in paragraph 5(6) of the Schedule, then "C" must be limited to either R120 000 or R4 500 times the number of years, whichever is the highest. If it is found that "C" is lower than the greater of R120 000 or R4 500 times the number of years, "C" remains the same and is not altered unless a minimum in terms of paragraph 5(2) of the Schedule is applicable.

The following example illustrates the point:

Lump sum benefit (pension fund)	=R200 000
Number of years membership	= 33
Highest average salary	=R 40 000
Formula A, therefore, equals	=R132 000
"C" in formula B then equals	=R132 000
Greater of R120 000 or R4 500 times number of years	=R148 500

"C" is not higher than R148 500 and remains, as a result, unaltered.

The amount to be included in the taxpayer's gross income is, therefore, R200 000 minus R132 000 which equals R68 000.

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Reviewed by the

Legal and Policy Division of SARS on

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No changes made