

General Notes - Second Schedule to the Income Tax Act

General Note 3

GENERAL SUBJECT: SECOND SCHEDULE TO THE INCOME TAX ACT

SPECIFIC ASPECT: PRESERVATION FUNDS AND THE "N-FACTOR"

STATUS: DECISION

BACKGROUND: In terms of practice note RF1/93 the years of service or years of membership, depending on whether the benefits of the so-called existing fund are determinable according to either one, are recognised in the preservation fund to which the member transfers. The minimum value of "N" in both formulae A and B in the Second Schedule to the Act will, as a result, be equal to the value so recognised. The question has been asked whether "N" in either or both the formulae will continue to grow for as long as the member remains a member of the preservation fund.

DECISION: In terms of Formula A as defined in the Second Schedule to the Income Tax Act, "N" is described to include either the completed years in the period of employment of the taxpayer which in terms of the rules of the fund is taken into account in determining the benefits payable or, if the period of employment is not taken into account (in the case of defined contribution funds mostly), the number of years membership during which the member contributed to the fund. A preservation fund may, in terms of the aforementioned practice note, not receive contributions from members or employers and it follows that "N" in a preservation fund (the rules of which determine benefits on a "share of fund" or a similar basis) will never be greater than the value transferred and recognised mentioned above. (The minimum value).

In terms of Formula B as defined in the Second Schedule to the Act the years of membership of the preservation fund may be added to the minimum value of "N" mentioned above.

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