

General Notes - Second Schedule to the Income Tax Act

General Note 19

GENERAL SUBJECT: DEFINITIONS OF PENSION FUND AND PROVIDENT FUND

SPECIFIC ASPECT: PURCHASE OF MORE THAN ONE ANNUITY AT RETIREMENT

STATUS: DECISION

BACKGROUND: Following discussions with representatives of the organised retirement fund industry, General Note GN8, which prohibits a pension or provident fund (retirement fund) from purchasing or insuring more than one annuity in respect of a retiring member, is replaced by this Note.

DECISION: The concern raised by the South African Revenue Service was that the purchase or insurance of more than one annuity for a retiring member threatened the Standard Tax on Employees (SITE) tax base.

To address the concern, retirement funds who wish to purchase, insure or pay more than one annuity in respect of a retiring member, must comply with the following additional requirements:

1. One of the annuities so purchased or insured must at all times during its existence produce income in excess of the annual equivalent of R150 000.
2. For purposes of avoiding small annuities from being commuted in full, none of the annuities so purchased, insured or paid may have a capital value of less than R25 000.
3. For purposes of efficient tax administration and as an anti-avoidance measure, not more than four annuities may be purchased, insured or paid by a retirement fund in respect of a member.
4. The retirement fund must inform the Receiver of Revenue (where the member is resident or registered) that more than one annuity has been purchased, insured or are being paid in respect of a retiring member, and must provide the Receiver of Revenue with the annuitant's full names, income tax number, ID number, physical address, postal address, the date of retirement, the minimum annual income of each annuity, the capital value of each annuity referred to in (2) above, and the name and postal address of the insurance companies from or at which the annuities were purchased or insured.
5. If the trustees of a retirement fund wish to permit the purchase, insurance or payment by the fund of more than one annuity in respect of a retiring member, the rules of the fund must allow for it.
6. Should a retirement fund for any reason not be able to provide all the required information in respect of a member to the Receiver of Revenue, the fund may not purchase, insure or pay more than one annuity.
7. This arrangement and the contents of this note will be reviewed should the current annual equivalent of R60000 as provided for in the Fourth Schedule to the Act for Standard Tax on Employees (SITE) purposes be raised.

ISSUED BY THE SOUTH AFRICAN REVENUE SERVICE
19 December 1997