

GENERAL NOTE GN 16

Addendum B

GENERAL SUBJECT: RETIREMENT FROM EMPLOYMENT

SPECIFIC ASPECT: COMMUTATION OF SMALL ANNUITIES

STATUS: DECISION

PURPOSE: The purpose of this addendum is to replace the contents of General Note GN16 as well as Addendum A of GN16 with the contents of this Addendum with effect from 1 October 2007.

BACKGROUND: The Taxation Laws Amendment Act (No 8 of 2007) amended paragraphs (c)(ii)(dd) and (b)(ii) of the definitions of "pension fund" and "retirement annuity fund" respectively, to provide as follows in the case of a pension fund:

"not more than one-third of the total value of the annuity or annuities to which any employee becomes entitled, may be commuted for a single payment, except where two-thirds of the total value does not exceed R50 000;"

and as follows in the case of a retirement annuity fund:

"not more than one-third of the total value of any annuities to which any person becomes entitled, may be commuted for a single payment, except where two-thirds of the total value does not exceed R50 000;"

DECISION: **New annuities**

A member of a pension fund or retirement annuity fund may ordinarily commute up to a maximum of one-third of his or her pension interest on retirement for a lump sum. In addition to the one-third commutation, the member may commute the remaining two-thirds of the total value if the value of the remaining two-thirds does not exceed R50 000. Effectively, this means that a member whose total pension interest in a fund on retirement is R75 000 or less will be able to commute the full amount for a lump sum. To give effect to this, the rules of the fund must provide for the commutation of small annuities on this basis.

Existing annuities

The opportunity to commute an annuity for a lump sum arises on retirement from the fund. However, where the trustees of a retirement fund are satisfied that a member or former member that is in receipt of an existing annuity did not commute any portion of the total value of the annuity or annuities to which he or she became entitled, the rules of the fund may permit the member to commute the total value of the annuity for a lump sum on condition that the total value on the date of commutation does not exceed R75 000. Where the trustees cannot satisfy themselves that a member or former member has not commuted before, the rules of the fund may permit the commutation of the remaining total value of the annuity for a lump sum on condition that the total value on the date of commutation does not exceed R50 000.

ISSUED BY THE SOUTH AFRICAN REVENUE SERVICE

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