



Incorporating:



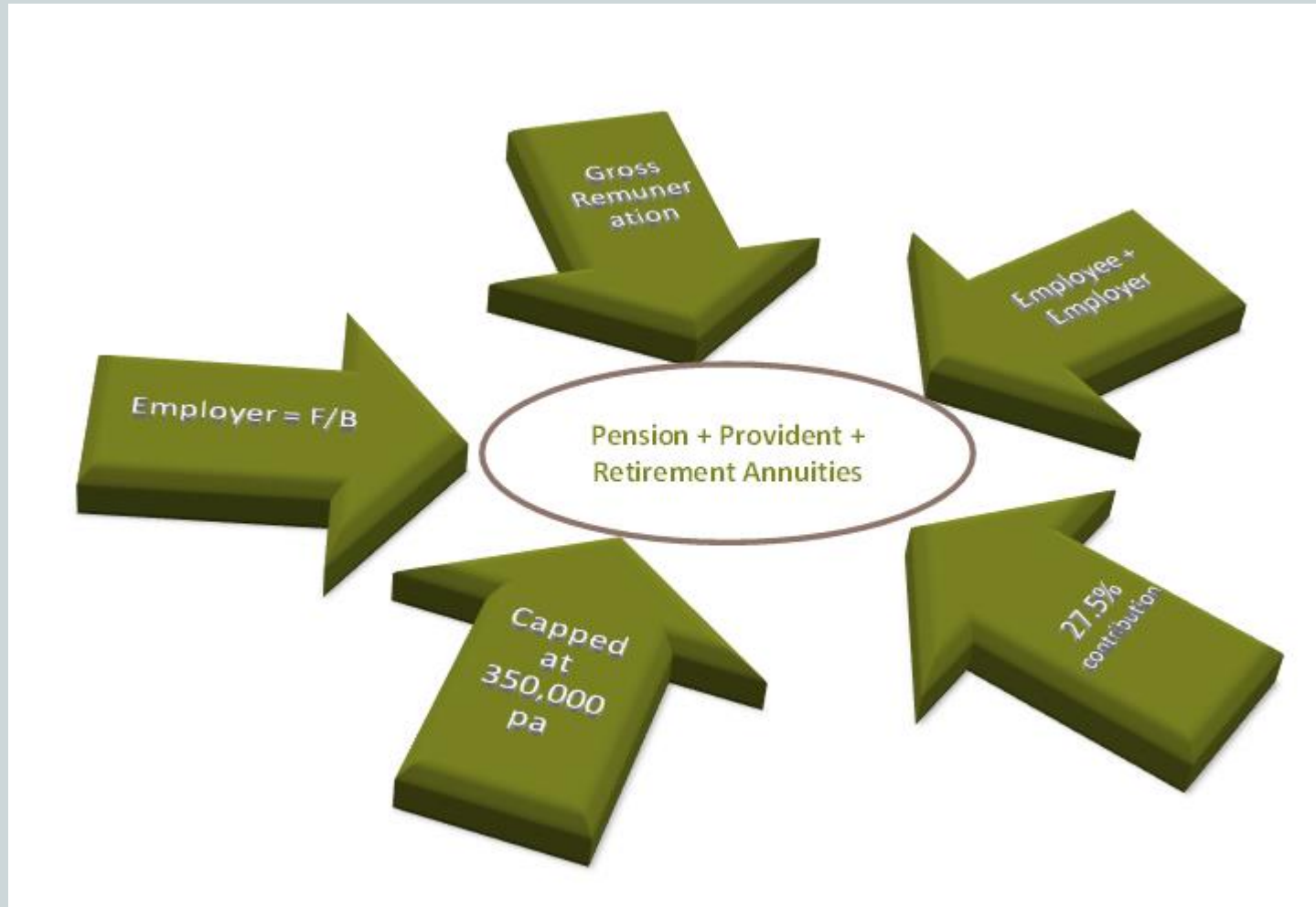
# RETIREMENT REFORM

## Payroll Consideration

3 March 2016

Nicolette Nicholson

# PAYROLL CONSIDERATIONS



Any amount that is contributed to a retirement fund in terms of that fund's rules is seen to be a 'contribution' by the Income Tax Act irrespective of the type of contribution, and the payroll must apply the fringe benefit and deduction tax rules to that contribution

Paragraph 12D(3) of the Seventh Schedule of the Income Tax Act which specifies the formula  $X = (A \times B) - C$  that payrolls must use to calculate the fringe benefit in respect of employer-paid contributions to a DB fund

- ‘Contribution’ for the purpose of the new taxation rules includes with an exception for the DB fund fringe benefit formula
  - normal monthly contributions,
  - arrears contributions
  - employer contribution
  - voluntary contributionss

- Remuneration for the purposes of calculating the 27.5% percentage cap is defined by the 4<sup>th</sup> Schedule excluding only retirement fund lump sum benefits, retirement fund lump sum withdrawal benefits and severance benefitss

- Included is
  - retirement fund contribution fringe benefit
  - 20% / 80% of the travel allowance
  - Company car fringe benefit,
  - 50% of the public office allowance,
  - Non-employment related items of remuneration
    - annuity income,
    - restraint of trade payments
    - 4<sup>th</sup> schedule share gains

# CALCULATION



# SKILLS & UIF & IRP5

- The new fringe benefit, being Fourth Schedule remuneration, will potentially increase the value of the Skills Development levy if the value of the new fringe benefit exceeds the new deduction value (the skills levy is calculated as 1% of the balance of remuneration)
- Depending on whether or not the UIF limit has been reached, the value of the UIF contribution for both employer and employee will increase by 1% (each) of the fringe benefit value

## Value of 'remuneration' must be included in code 4582

Includes in the following, but limited to

- The portion (80 or 20%) of the allowance and benefit which is subject to PAYE -
  - *Travel allowance (3701/3751),*
  - *Value of the Use of motor vehicle acquired by employer NOT via an Operating Lease (3802/3852)*
  - *Value of the Use of motor vehicle acquired by employer via an Operating Lease (3816/3866)*

- The portion (80 or 20%) of the Re-Imbursive travel allowance (only 3702/3752 and NOT 3703/3753)
- although employers are not required to withhold PAYE from this reimbursement, that portion which represents 'remuneration' (80 or 20%)

- The value of this code represents the total of the amounts reflected under each of the above codes which are 'remuneration' for the purposes of the allowable deduction in respect of pension, provident and retirement fund contributions

Section 11(k) of the Income Tax Act

- Severance, withdrawal lump sums & retirement  
Lump sums excluded
- Restraint of trade and employee shares part of  
4<sup>th</sup> schedule remuneration

## Retirement reforms - Fringe Benefit Codes (resulting from Employer-paid contribution)

- Code 3817 – Pension fund (DC component)
- ~~Code 3818 – Pension fund (DB component)~~
- ~~Code 3819 – Pension fund (DC & DB component)~~ **deleted in the current BRS**

- Code 3825 – Provident fund (DC component)
- ~~Code 3826 – Provident fund (DB component)~~
- ~~Code 3827 – Provident fund (DC & DB component)~~ **deleted in the current BRS**
- Code 3828 – Retirement Annuity fund
- **Retirement reform - Deduction Codes**
- Code 4001 – Pension fund: Employee-paid or ‘deemed paid’
- Code 4002 – Pension fund: Arrears contribution  
- Not applicable from 2017

- Code 4003 – Provident fund: Employee-paid or ‘deemed paid’
- Code 4006 – Retirement Annuity fund: Employee-paid or ‘deemed paid’
- Code 4007 – Retirement Annuity fund: Arrears contribution - Not applicable from 2017





## **Retirement reform – Employer-paid Contribution**

- Code 4472 – Pension fund contribution
- Code 4473 – Provident fund contribution
- Code 4475 – Retirement Annuity fund contribution

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