



Living annuity commutation threshold

Government Notice 619 of 2020, published in the Government Gazette No. 43380 of 1 June 2020 raised the commutation threshold for annuities from R50 000 and R75 000 to R125 000.

Frequently asked questions

No	Question	Answer
1.	When does the threshold of R125 000 apply to a living annuity?	<p>The threshold applies only at the point of possible commutation of the underlying value.</p> <p>Consider the definition of a living annuity in section 1 of the Income Tax Act:</p> <p>“living annuity” means a right of a member or former member of a pension fund, pension preservation fund, provident fund, provident preservation fund or retirement annuity fund, or his or her dependant or nominee, or any subsequent nominee, to an annuity purchased from a person or provided by that fund on or after the retirement date of that member or former member in respect of which—</p> <p>(a) <i>the value of the annuity is determined solely by reference to the value of assets which are specified in the annuity agreement and are held for purposes of providing the annuity;</i></p>

		<p>(b) <i>the amount of the annuity is determined in accordance with a method or formula prescribed by the Minister by notice in the Gazette;</i></p> <p>(c) <i>the full remaining value of the assets contemplated in paragraph (a) may be paid as a lump sum when the value of those assets become at any time less than an amount prescribed by the Minister by notice in the Gazette;</i></p> <p>(d) <i>the amount of the annuity is not guaranteed by that person or fund;</i></p> <p>(e) <i>on the death of the member or former member, the value of the assets referred to in paragraph (a) may be paid to a nominee of the member or former member as an annuity or lump sum or as an annuity and a lump sum, or, in the absence of a nominee, to the deceased's estate as a lump sum;</i></p> <p>(eA) <i>in anticipation of the termination of a trust, the value of the assets referred to in paragraph (a) must be paid to the trust as a lump sum pursuant to that termination; and</i></p> <p>(f) <i>further requirements regarding the annuity may be prescribed by the Minister by notice in the Gazette;</i></p> <p>Sub paragraph (c) of the definition makes it clear that a living annuity can only be commuted where the value of the annuity becomes less than an amount determined by the Minister.</p> <p>GN 619 determines the new value referred to in sub paragraph (c) above.</p> <p>There is now only a single threshold.</p>
2.	When is the new threshold effective?	The new threshold is effective 1 June 2020.
3.	How will the threshold be applied to multiple living annuity plans at Glacier?	<p>In June 2021 SARS and National Treasury confirmed that the new prescribed limit is to be applied to the aggregate value of all the living annuity plans per insurer, and not per plan/policy. This means that if the client has more than one living annuity plan held with an insurer, all these living annuity plan values are aggregated.</p> <p>At Glacier, we will aggregate all the living annuity plans held by an annuitant at the Sanlam Group (i.e. Glacier and/or Sanlam), for the purposes of the R125 000 limit, whether the plans are linked or not and regardless of the source. If the combined value of the annuitant's Sanlam</p>

		<p>living annuity plans is above R125 00, the client will not be allowed to commute a lump sum from any of their separate plans.</p> <p>An annuitant may therefore only commute the remaining value of their Glacier living annuity plan when the aggregate value of all living annuities at Sanlam falls below R125 000. The commutation lump sum is taxed according to the retirement lump sum tax table.</p>
4.	<p>What value is used to determine compliance with the threshold?</p>	<p>After verification, we will switch the funds from Unit Trust funds to a Money Market fund. Once the switch transaction has completed, we will use that value to apply for the tax directive.</p> <p>This process is followed to comply with the variable threshold that SARS has implemented.</p>

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