Retirement Reform Changes

The two-pot retirement system

How will withdrawals from the savings component be taxed?

This content is based on the Revenue Laws Amendment Act 12 of 2024, the Draft Revenue Laws Amendment Bill of 2024 and the Pension Funds Amendment Act 31 of 2024, read together. All information speaks to generic changes and not to any Fund-specific implementation of the new rules.

Tax on withdrawals from the savings component

From 1 September 2024, retirement fund members are allowed one withdrawal of at least R2 000 from their savings component per tax year (1 March to 28 February). This savings withdrawal benefit (SWB) grants members-controlled access to a portion of their retirement savings, which can be used to assist in times of financial hardship while preserving the majority of their future savings in the retirement component.

Reminder: Section 11F of the Income Tax Act which provides the deduction for contributions to a retirement fund still applies to 100% of the contribution made to a retirement fund (i.e. 1/3 savings component + 2/3s to retirement component).

Members must be registered as a taxpayer to make a withdrawal from the savings component

- If a member is not currently registered as a taxpayer with SARS, they will need to register before applying for a withdrawal.
- A member can register for a tax number on the SARS eFiling system.

Withdrawals from the savinsgs component will be taxed at marginal tax rates

- The value of the SWB will be included in the member's taxable income for the tax year and taxed accordingly at their marginal tax rate.
- Any tax already paid at the point of withdrawal will be deducted upon assessment.

The SARS Two-Pot Retirement System Calculator can be used to generate a tax directive simulation

- Members can request a simulation for SWBs directly from SARS via the SARS Two-Pot Retirement System Calculator.
- The calculator provides a simulated response from SARS in terms of the tax amount to be deducted. It is not an official directive.
- Please note that the calculator/simulation will not necessarily include outstanding debt to SARS or correctly use the higher amount between the annual remuneration declared and the taxable income value available to SARS. These factors should be included in the final tax directive received.

The fund administrator will apply for a final tax directive from SARS

- Once a member has elected to take a SWB, the fund administrator will apply for a tax directive.
- The tax directive cannot be cancelled. Members will therefore need to understand the tax consequences of a savings withdrawal and be aware that their choice to make a savings withdrawal cannot be reversed.

Tax will be deducted at the point of withdrawal based on the the higher of the annual remuneration declared by the member and the information available to SARS

- Members will be required to indicate their annual remuneration when requesting a SWB.
  - ***Remuneration*** *refers to income paid for services and includes, amongst others, things like salary, monetary benefits, bonuses, commission, fees, allowances, advances, commission and even pension income. Therefore, amounts earned that one must pay tax on. It is important that the correct value is provided as an understatement will result in an annual assessment debt when too low a tax value was withheld at the time of the savings withdrawal benefit.*
- The tax directive from SARS will inform the administrator how much tax must be deducted from the withdrawal amount.The tax calculation is based on the marginal tax related to the withdrawal amount and the higher of the annual remuneration declared by the member and the information available to SARS at the time of the directive application request.
- Any outstanding tax may also be deducted from the withdrawal amount.

A withdrawal from the savings component could push the member into a higher tax bracket

- Taking a SWB could result in a member falling into a higher tax bracket with a higher marginal tax rate.

Read more about the tax practicalities when withdrawing from the savings component.

The marginal tax rates and tax rebates for the 2024/2025 tax year

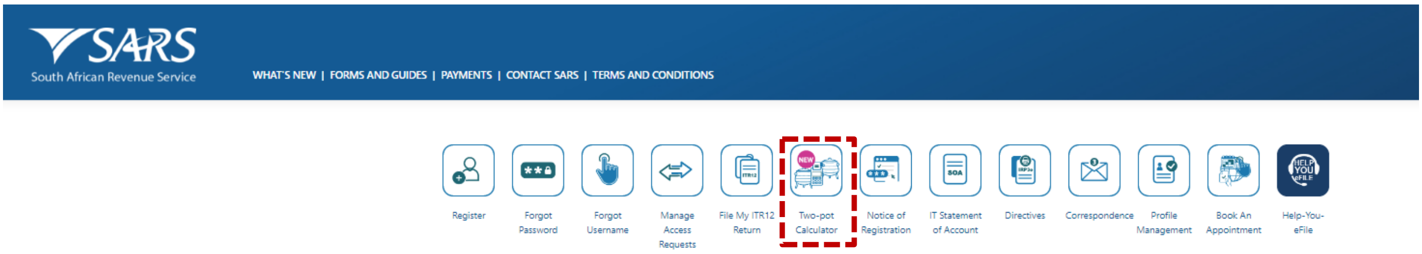
The tables below reflect the marginal tax rates applicable to a member's taxable income and the respective tax rebates. These two tables together are used to determine a taxpayer's tax liability for the year.

Taxable income (R)	Rates of tax (R)
1 – 237 100	18% of taxable income
237 101 – 370 500	42 678 + 26% of taxable income above 237 100
370 501 – 512 800	77 362 + 31% of taxable income above 370 500
512 801 – 673 000	121 475 + 36% of taxable income above 512 800
673 001 – 857 900	179 147 + 39% of taxable income above 673 000
857 901 – 1 817 000	251 258 + 41% of taxable income above 857 900
1 817 001 and above	644 489 + 45% of taxable income above 1 817 000

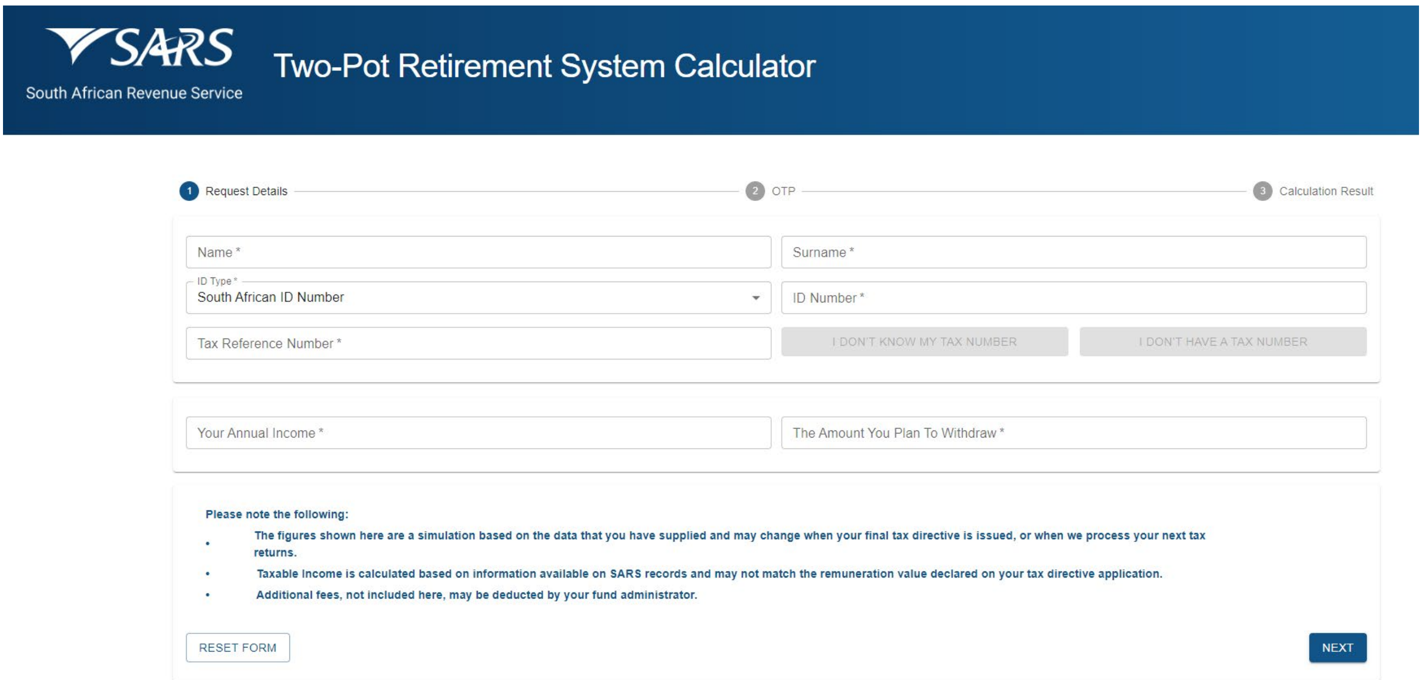
Tax Rebate	2024/2025 tax year
Primary	R17 235
Secondary (65 and older)	R9 444
Tertiary (75 and older)	R3 145

SARS Two-Pot Retirement System Calculator

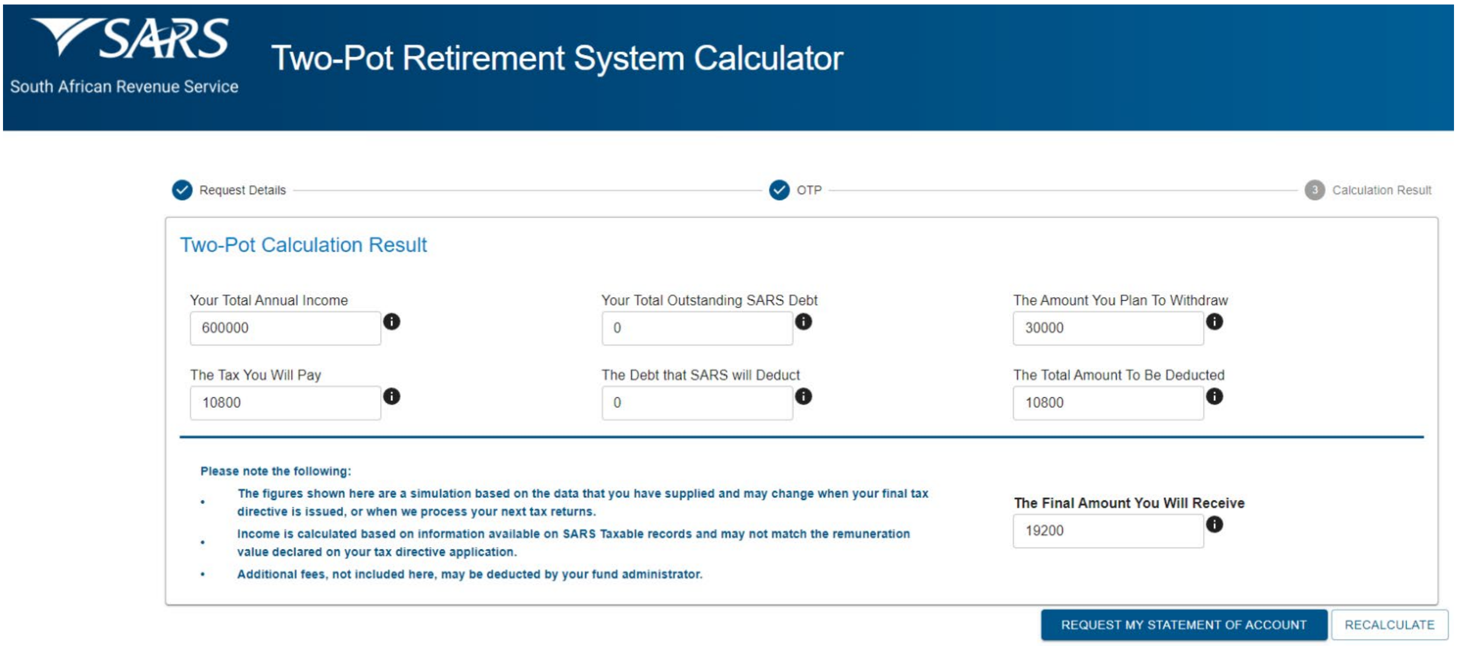
The SARS Two-Pot Calculator, which can be used to obtain a simulated response regarding the tax payable on a savings withdrawal benefit, can accessed at: https://tools.sars.gov.za/sarsonlinequery/Savings-Pot-Calculator



1. To receive the simulated tax result, members will need to input their details



2. Members will receive a simulation result based on the details provided.



Examples of the difference in a member's tax liability for the 2024/2025 tax year of assessment, if they withdraw from their savings component

In the examples below we illustrate the impact a SWB will have on a member's tax liability for the tax year. In these examples, we base the tax calculations on a member's actual taxable income for the tax year.

Remember that the amount of tax that will be withheld at the point of withdrawal will be based on:

1. the higher of the annual remuneration declared by the member and
2. the information available to SARS at the time of the directive application request.

This means that if the remuneration reported by the member or the information available to SARS at the time of the directive application differs from the member's actual taxable income, there may be a tax debt due to SARS on assessment.

Fatima's situation

Fatima is 40 years old and has a taxable income of R600 000 for the 2024/2025 tax year.

	Fatima does not withdraw from her savings component	Fatima withdraws R30 000 from her savings component
Taxable income	R600 000	R630 000
Marginal tax rate	36%	36%
Tax calculation = Tax per tax tables less the primary rebate	R121 475 + 36% of (R600 000 – R512 800) – R17 235	R121 475 + 36% of (R630 000 – R512 800) – R17 235
Tax liability	**R135 632**	**R146 432**
Difference in tax liability	**R10 800**	

In Fatima's case, the withdrawal of R30 000 from her savings component in the 2024/2025 year of assessment will **cost her R10 800 in tax**. This R10 800 could also potentially be higher if Fatima owes SARS money. At the point of withdrawal, SARS would have informed the administrator to withhold an amount of tax from the withdrawal benefit based on the annual remuneration Fatima reported or any information on their record at the time. The amount of tax that was withheld at the point of withdrawal will be deducted from the tax liability upon assessment. Depending on the amount withheld at the point of withdrawal, there may be an additional amount payable to SARS.

Zethu's request for a SWB to the value of R30 000

Zethu is 45 years old and has a taxable income of R1 800 000 for the 2024/2025 tax year.

	Zethu does not withdraw from her savings component	Zethu withdraws R30 000 from her savings component
Taxable income	R1 800 000	R1 830 000
Marginal tax rate	41%	45%
Tax calculation = Tax per tax tables less the primary rebate	R251 258 + 41% of (R1 800 000 – R857 900) – R17 235	R644 489 + 45% of (R1 830 000 – R1 817 000) – R17 235
Tax liability	**R620 284**	**R633 104**
Difference in tax liability	**R12 820**	

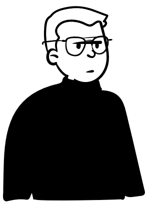
In Zethu's case, withdrawing R30 000 from her savings component in the 2024/2025 year of assessment will **push her into a higher tax bracket and cost her R12 820 in tax**. This R12 820 could also potentially be higher if Zethu owes SARS money. At the point of withdrawal, SARS would have informed the administrator to withhold an amount of tax from the withdrawal benefit based on the annual remuneration Zethu reported or any information on their record at the time. The amount of tax that was withheld at the point of withdrawal will be deducted from the tax liability upon assessment. Depending on the amount withheld at the point of withdrawal, there may be an additional amount payable to SARS.

Andrew has R0 value taxable income but needs to take a SWB to the value of R30 000

Andrew is 35 years old and has a taxable income of R0 for the 2024/2025 tax year as he is unemployed.

	Andrew does not withdraw from his savings component	Andrew withdraws R30 000 from his savings component
Taxable income	R0	R30 000
Marginal tax rate	N/A	18%
Tax calculation = Tax per tax tables less the primary rebate	N/A	18% of R30 000 – R5400* (*The primary rebate of R17 235 is limited to the amount of tax due)
Tax liability	**R0**	**R0**
Difference in tax liability	**R0**	

Note: Members who do not have any income for the tax year will be able to withdraw up to the tax threshold tax-free from the savings component. (The tax threshold for the 2024/2025 tax year is R95 750 for taxpayers under 65, R148 217 for taxpayers under 75 and R165 689 for taxpayers 75 and older.)



In Andrew's case, since he has no other income for the year and the withdrawal is below the tax threshold, withdrawing R30 000 from his savings component in the 2024/2025 year of assessment will not give rise to a tax liability. An amount of tax may however be withheld at the point of withdrawal if required by SARS based on any information on their record at the time. If an amount is withheld, it will be deducted from the tax liability upon assessment and there may be an amount due to the member.

Comparison of tax on an SWB of R30 000 for the three different members in the 2024/2025 tax year

	Fatima	Zethu	Andrew
Taxable income (before withdrawal)	R600 000	R1 800 000	0
Savings component withdrawal	R30 000	R30 000	R30 000
Tax on savings component withdrawal	**R10 800**	**R12 820**	**0**
Effective tax rate	**36%**	**42.7%**	**0%**

In addition to the tax implications illustrated above, and even though some members may pay little/no tax on their savings component withdrawal, it is important to note that if a member withdraws from their savings component before retirement, they will decrease the capital and the related compounding available to support the member when they reach retirement and provide an income during retirement.

Taking money from the savings component before retirement will result in the loss of compound interest in the amount taken and will take money from the member's future self. Members should carefully consider the financial implications before making a withdrawal.

To avoid dipping into the savings component before retirement, alternative investment solutions can be used for emergency savings.

Retirement implications

The balance that a member does not withdraw from their savings component will be available as a cash lump sum when the member retires. At retirement, the nature of the tax on the amount will change. Any cash lump sum taken from the savings component at retirement will be taxed according to the retirement lump sum tax table. The retirement component will have to be used to purchase a compulsory annuity so if the savings component has been depleted, the member might not have any funds available to provide a cash lump at retirement.

Members are encouraged to consult their financial intermediary or tax practitioner before making a withdrawal from their savings component.

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