

Tax directive simulations

4 August 2023

It is our practical experience that many taxpayers underestimate the impact on their retirement or withdrawal amount, and that tax simulation is an essential step in the process. The South African Revenue Services (SARS) allows administrators to request a *simulated* tax directive prior to applying for an *actual* tax directive.

Tax directive simulations are available for the following instructions/events relating to retirement fund solutions and living annuities:

- Retirement or death
- Full and partial cash withdrawals from preservation funds
- Commutations of living annuities and retirement annuities

What is a tax directive simulation?

SARS refers to this as a tax directive *simulation*, because it is not an actual tax directive. The actual tax directive will only be requested once a client has made their final selection and provided the administrator with the completed option form.

Why make use of the tax directive simulation?

The purpose of the tax directive simulation is to receive a simulated (illustrative) response from SARS in terms of the tax to be deducted from the lump sum. It gives an estimate of the tax to help you and your client make an informed decision when selecting an option.

Glacier will only proceed with the transaction once we receive the relevant option form (available on request from the Glacier Communication Centre). Once Glacier has requested the tax directive, we will not be able to reverse your transaction option, even if the actual tax amount differs from the estimated amount reflected on the simulation.

Please note that if you do not agree with the simulation, you need to contact SARS directly to query the outcome before you inform Glacier to proceed with the transaction. The transaction is final once processed.

What you should know about the simulation

- Tax directive simulations will be limited to one request per transaction.
- If SARS declines the request for the simulated directive, a reason will be provided.
- The estimated tax to be deducted for a specific transaction is determined by SARS and not by the administrator or retirement fund.
- In general, it takes up to two business days to receive the simulations from SARS. The response is returned to the administrator as the requestor.
- If the client is in the process of applying for a tax directive for another transaction, the tax simulation may not be accurate, and the tax indicated on the simulation may differ from the tax on the actual directive.
- If the client has any outstanding tax (such as an IT88, etc.) SARS will not be able to provide these amounts on the simulation estimate. There will only be an indication on the simulation that there are outstanding debts on the taxpayer's account.
- The amount of tax estimated could change at any stage, based on the client's standing with SARS and as a result of the factors mentioned above. The administrator and retirement fund cannot guarantee that the actual tax payable will be in line with the simulation estimate. The administrator or retirement fund will also not be able to reverse a client's selection if the tax amount on the actual directive differs from the estimate on the simulation.

How to derive the best value from the tax simulation

- It is important to make sure that the client's taxes and personal details are up to date at SARS, and that SARS has all contribution details.
- If the client intends on retiring or making a withdrawal from more than one retirement fund, the transactions should be co-ordinated so that they follow one another. Clients should avoid requesting actual tax directives and simulations at the same time.

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