

# Annuity income tax directives

## Subparagraph (2B) of paragraph 2 of the Fourth Schedule to the Income Tax Act

SARS has published a letter\* on their website, and is distributing this letter directly to affected taxpayers.

\*Click [here](#) to read the letter.

The letter clarifies the implementation of the amendment to subparagraph (2B) of paragraph 2 of the Fourth Schedule to the Income Tax Act. The draft Taxation Laws Amendment Bill 2021 proposed implementation on 1 March 2022 and SARS has confirmed their intention to introduce the service from 1 March 2022.

As explained in the SARS letter, the intention of providing retirement funds, retirement fund administrators and insurers with alternative tax rates per retiree/annuitant, is to assist those taxpayers who receive more than one source of income, in determining a more accurate PAYE deduction amount, which should alleviate a high tax bill upon assessment.

Please note that only annuitants who have more than one source of income will be affected. This will apply to both compulsory and voluntary annuities.

## Implementation of SARS tax directives enhancements

PAYE withholding rate percentages for qualifying annuitants will be provided by SARS

SARS will provide the PAYE withholding rates electronically, via e@syFile™. Glacier is currently still awaiting the file from SARS.

### Effective 1 March 2022

Retirement funds, administrators and insurers will be required to use the rate provided by SARS in respect of remuneration paid or payable from 1 March 2022. At Glacier the scheduled income date

for some annuitants is early March, but they may receive their income during the latter part of February already. In these cases, the March income (paid in February) will be affected if the SARS directive applies.

## Normal PAYE withholding rates will apply where no directive is provided by SARS

Where a PAYE withholding rate has not been provided by SARS in respect of a particular annuitant, the retirement funds, administrators and insurers must continue to apply the normal PAYE withholding rates. (Therefore, if a taxpayer does not receive a letter from SARS, the normal PAYE rates will apply.)

## An annual tax directive will be issued

Where SARS provides a PAYE withholding rate, it will be by way of an annual tax directive. As stated in the SARS letter, the PAYE on the new tax directive might be slightly higher but application thereof should decrease the risk of an unexpected tax bill upon assessment.

## Affected annuitants will still have a choice:

### Annuitants will still be allowed to choose a higher withholding rate

As is currently the practice, an annuitant may at any time request his or her retirement fund, administrator, or insurer to withhold PAYE at a rate higher than that provided by SARS.

### Annuitants are allowed to choose to opt out of the higher PAYE rate

Annuitants may request the retirement fund, retirement fund administrator or insurer to use the normal PAYE deduction rate as opposed to the rate supplied by SARS. This will carry the risk of a higher tax bill upon assessment. At Glacier we will accept this instruction from an annuitant in a written format via email or posted letter.

## Frequently asked questions

- a. Will trust-owned annuitants be impacted by this amendment?

The subparagraph 2B amendment does not apply to trusts that receive annuity income.

- What will happen in instances where an impacted annuitant has a valid reduced rate tax directive (e.g. DTA directive)?

In principle, any valid and applicable DTA directives and hardship directives will supersede fixed rate directives.

- Will the fixed rate provided by SARS take into account the normal rebates?

Yes, SARS will take into account normal rebates and fund administrators will apply the fixed rate to the gross annuity income.

## In conclusion

We are ready to implement this at Glacier and the system developments have been completed in anticipation of the file from SARS. As soon as we receive this file, we will send a communication to all affected taxpayers and their intermediaries, indicating the SARS fixed rate for the year.

We will only be able to receive instructions to opt out of this rate (should the annuitant choose to do so) once the letter has been received by the taxpayer and intermediary.

Kindly note that Glacier will not be able to provide any input currently on the impact of the new rate on the net income of a taxpayer. Glacier will unfortunately also not be able to advise taxpayers on the decision to opt out or not.

No action is needed from you or your clients at this stage. We will keep you updated as new information becomes available.

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