

# Tax implications of retirement annuity contributions on behalf of minors

Are there tax benefits for either the parent or the child when a parent contributes to a retirement annuity fund on behalf of the child member of that fund?

By Annalise De Meillon Muller, Manager: Distribution & Sales Support at Glacier by Sanlam

There is no doubt that rather contributing to a retirement annuity (RA) fund on behalf of a minor child will stand that child in better financial stead in the future, than spending the money on yet another birthday present or the latest trend or toy. If the status quo remains, regarding the retirement rules applicable to an RA fund, the power of compound interest and growth will ensure that you give your minor child the gift of a secure retirement when they turn 55 years old.

We have been asked what happens to the over contributions to an RA fund when the member of the fund is a minor child and where the parent of that child is making contributions to the fund on behalf of the minor child. We know that contributions to an RA fund are tax deductible and where the annual contribution is more than the legislated limit, this 'over' contribution (or excess contributions or disallowed contributions) that did not rank for deduction, rolls over to the following tax year, subject to limitations.

Where a parent makes excess contributions on behalf of the minor fund member, does this mean that these excess contributions roll over annually for the tax benefit of the parent? Or does it mean that they continue rolling over for the tax benefit of the minor child, until this same child earns a taxable income and therefore translates into a large deduction against those first salaried years?

For example, if a parent made a R12 000 contribution each year – and did that for 20 years – the child would have built up R240 000 worth of “excess” contributions. Could they then use this as a deduction on their salary?

The short answer is no...

To both the questions, the short answer is no.

The parent will not derive any tax benefit from the excess contributions (or disallowed contributions) made on behalf of the minor child. In order for section 11F of the Income Tax Act to be applicable, the contribution must be made by the member of the fund and in this case the parent is not the member.

The excess contributions (or disallowed contributions) made on behalf of the minor child will also not continue to roll over annually for the tax benefit of the minor fund member either. In order for an amount to roll over to following years, the amount would need to qualify as a deduction and must have exceeded the limit in the year in which the contribution was made. Therefore, since the child has no income and pays no tax, the deduction cannot qualify as there is nothing to rank against. Contributions by a parent on behalf of a child member are therefore not excess contributions and will not roll over.

One possible solution for excess contributions to benefit the minor fund member is for the parent to donate the contribution to the child and make the excess contributions from the child's bank account. However, this would have donations tax implications if the amount donated is more than R100 000 in any given year. Following such a strategy is ideally something that should be discussed with a financial adviser as well as a registered tax practitioner to ensure that all eventualities are considered.

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A member of the Sanlam Group  
Private Bag X5 | Tyger Valley 7536 | Email [client.services@glacier.co.za](mailto:client.services@glacier.co.za) | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 |  
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Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web [www.smmi.com](http://www.smmi.com) \*Reg No 2002/030939/07  
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