GrayIssue

Retiring or withdrawing? Think carefully before sending us the form

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After a lifetime of work retirement is often a welcome change of pace, but many people rush into a decision to retire or withdraw from their retirement fund. You need to ensure you understand and carefully consider the tax implications of your decision before submitting an instruction.

Once we receive your completed form it is too late to change your mind. This is according to the Income Tax Act - not Allan Gray processes.

We can all learn from Mr Williams' story:
Mr Williams decided to retire from his Allan Gray Retirement Annuity Fund when he turned 60. He submitted his retirement notification to us, informing us he wanted to withdraw R400 000, and transfer the remainder of his investment to a living annuity.

He chose R400 000 as his lump sum, assuming that because it was below the R500 000 retirement lump sum amount, which may be taxed at 0%, he would not have to pay tax. Mr Williams intended to use his money for home repairs and a dream round-the-world trip.

Mr Williams was hit with an unexpected R121 500 tax bill.

Why did Mr Williams get this so wrong and how can you avoid the same situation?
The tax bill on your retirement cash lump sum takes all previous taxable cash lump sums you have received into account, including severance benefits (see info box) and cash lump sums withdrawn from a living annuity (which is allowed if the value of your account falls below the prescribed limits).

Mr Williams had made a withdrawal from his retirement fund of R200 000 in 2010 and received a severance package of R600 000 in 2016, i.e. he had already used up his once-off tax concession of R500 000. SARS took these amounts into account when calculating his tax bill.

With his plans in tatters, Mr Williams asked us to reverse his retirement transaction. We were legally unable to do so.

Why can't we undo retirement requests or withdrawals?
The moment we receive a retirement notification or a retirement fund withdrawal form we are legally required to inform SARS of this by way of a tax directive. The purpose of the tax directive is to determine the tax to be withheld from the lump sum before it is paid out. When SARS receives the tax directive they calculate the tax you owe on the lump sum, taking previous taxable cash lump sums into account.

The Income Tax Act states that SARS' determination of the amount of tax to be withheld, as indicated on the directive, is final. This means we have no wiggle room to undo or redo an application to retire or withdraw money from a retirement fund from the moment we receive an application.

What if I want to increase my cash lump sum amount?
After we explained all of this to Mr Williams he asked us to rather just increase his cash lump sum withdrawal so that he would get R400 000 after tax. We were legally unable to do so.

SARS is very clear on this point: there can be no amendments. In the eyes of SARS Mr Williams becomes entitled to his cash lump sum amount on the day he submits his retirement notification form to Allan Gray, which means we cannot change any detail of his transaction after the fact.

Consider this checklist before retiring or withdrawing from a retirement fund:

1. **Ask SARS to give you a tax estimate before submitting any instructions to the fund**
SARS is the best place to start when you are thinking about retiring or making a cash lump sum withdrawal from a retirement fund. They can give you an accurate picture of the tax you can expect to pay by confirming which previous taxable lump sums they have on record for you.

2. **Check your age and the fund you are in**
Understand the options available to you. If you have not taken any previous lump sums and you are over the age of 55 years, in most cases you will be better off retiring from your preservation fund rather than taking a withdrawal.

3. **Check if you have excess retirement fund contributions you may be able to use**
If you have contributed above the tax deductible limit (currently 27.5% of the greater of taxable income or remuneration, with an annual deduction ceiling of R350 000), your excess contributions can reduce your taxable cash lump sum amount. Make sure you fill in the relevant section on your retirement or withdrawal form and submit your supporting documents.

4. **Talk to a tax practitioner or your financial adviser**
If you want more certainty, talk to a tax practitioner or your financial adviser. They will be able to help you calculate your tax liability before sending us an instruction.

If you are unsure, please contact us before sending in your forms. Once we have received them, our hands are unfortunately tied.

What is a severance benefit and why does it count?

A severance benefit is a cash amount paid to you directly by your employer when you are retrenched. It is not a payment from a retirement fund. When certain criteria are met in terms of the Income Tax Act, the severance benefit amount you receive may be taxed according to the retirement tax tables, rather than according to the marginal tax rates for the tax year. In this case, the severance benefit will be taken into account as a previous lump sum amount when you take any cash from a retirement fund in the future. This means that a severance benefit can reduce your lifetime R500 000 tax concession.

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