FINFLASH

WILL I BE PAYING MORE TAX?

Tax Deductions (PAYE) on your Pension or Annuity

SARS has decided that what is sauce for the goose, is also sauce for the gander.

In tax terms this means, that if pensioners or annuitants receive their income from more than one source, they will be taxed on this total income on an ongoing basis, just like they were taxed on their monthly income when they received salaries, before they retired.

Currently the situation is as follows:

Where a pensioner has one source of income during a tax year, SARS's employees' tax (PAYE) deduction system ensures the correct monthly PAYE deductions from their pension or annuity.

However, when a pensioner is in receipt of more than one source of income, the pensioner's total monthly income increases. Previously, at the end of the tax year, SARS combined the different sources of income earned by a pensioner to determine the correct amount of tax due, since this calculation reflected the pensioner's actual income. This meant a pensioner might have been liable for more tax at the end of the tax year, because SARS was not aware of the ongoing higher income that the pensioner had received during the year.

As an employee, a person paid tax on the salary that was earned throughout the year. If the salary increased during the year, the tax deducted by the employer (and paid over to SARS) also increased. This was not the case with pensioners receiving income from more than one source. SARS has therefore now decided that what applied to a person during his/her working life, should also apply during retirement. There should therefore be an ongoing deduction of the appropriate tax on the true income the pensioner is earning. This is not a new principle and it applies to everyone, not only pensioners. The only change is that there will now be an ongoing monthly deduction of tax and not a lump-sum contribution required when submitting provisional tax returns.

Previously pensioners could request their retirement fund administrator to deduct a higher amount of PAYE so that any tax due at year-end was adequately covered. However, human nature being what it is, not many pensioners made use of this option. This caused an unpleasant and often unexpected tax liability at year-end.

To assist pensioners with more than one source of income, recently introduced legislation makes provision for SARS to determine a more accurate PAYE deduction amount. SARS does this by using the latest data available which combine the pension and annuity income sources of any one individual. The retirement fund administrator will therefore be able to deduct a more accurate amount of PAYE from the pensions or annuities any one person receives.

There is a big advantage associated with the new system. The tax has always been due to be paid. Now the pensioner pays it as he/she receives ongoing monthly payments, irrespective of how many different sources are paying out the pension or annuities. Come February, the pensioner avoids a nasty surprise when it becomes clear that more income was received (and spent) and that SARS, being entitled to more than was previously anticipated, now need to be paid.

In short, the answer to 'will I be paying more tax?' is NO—tax payments will just be spread out more evenly over the year.

According to the SARS website the following will go into effect from 1 March 2022.

In practice, this will mean the following:

1. You do not have to do anything, because SARS will provide your retirement fund administrator with the PAYE deduction percentage;

2. For pensions or annuities payable during March 2022 and for the periods thereafter, your retirement fund administrators will use this rate to deduct PAYE from your pension or annuity;

3. The rate provided by SARS will be valid for the whole tax year, unless circumstances that influence your year-end tax liability change – such as a possible annual change in income due to a different income level chosen from a Living Annuity. In such a case, your retirement fund administrator may revert to applying the normal PAYE deduction rate, with effect from the month in which he/she becomes aware of the change in circumstances;

4. The PAYE deducted from your pension may be slightly higher, but in return, you are unlikely to be faced with an unexpected tax bill at the end of the tax year;

5. You may, at any time, request your retirement fund administrator, or continue with an arrangement, to deduct PAYE at a rate higher than the rate provided by SARS;

6. You may also request your retirement fund administrator to use the normal PAYE deduction rate, and not the one provided by SARS. This may put you back into a position where you can expect a high tax bill at year-end.

All retirement fund administrators are already aware of all the above.

If you would like to know more about any of the above, especially if you have pension or annuity income from different product providers, please contact your financial advisor. Contact us.

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