Corporate retirement annuity

One of the most valuable assets of any business is its employees, especially those with the relevant knowledge, skills and experience. Many small and medium sized businesses wish to provide their employees with retirement benefits but due to the costs involved with setting up and administering a retirement fund, it is often left to the discretion of the employee. This often results in no or non-sufficient retirement funding available at retirement.

A corporate retirement annuity is the solution for small and medium businesses.

How the plan works

Each employee becomes the owner of his/her own retirement annuity policy. The employer is the premium payer on the scheme. The employer may choose the following funding options:

- The retirement annuity is totally employee funded; or
- The employer and employee both contribute to the retirement annuities.

Should the employee leave the service of the employer prior to retirement, the benefits will remain the property of the employee, as with all defined contribution retirement funds. In addition, the employee can continue to contribute to the retirement annuity until retirement age.

The employer's administration is limited to the premium payment, the deduction of the correct tax from each employee and maintaining the employee register for the benefit of the insurer who will be deducting the premiums from the employer's account.

Benefits to the employer

1. It provides a simple yet effective retirement solution to employees;
2. It aids with the retention of employees;
3. The total amount paid by the employer is tax deductible, as it is part of the remuneration of the employee;
4. The costs and the administration burdens are limited.

Benefits to the employee

1. The employee receives a retirement benefit;
2. The employee is the owner of the policy and therefore it will retain portability. Simply stated: It leaves with the employee;
3. This is a forced saving, making provision for future needs easier to the employee;
4. The retirement annuity is managed and funds are selected to suit each individual employee and they are involved in the fund selection;
5. The retirement annuity will be payable to either the dependents or nominated beneficiaries of the employee;
6. The employee can retire from a retirement annuity any time after the age of 55 since it is not linked to his formal retirement age from employment.

Retirement annuity

Technical information

Income tax implications to the employer

Any contribution made to the retirement annuity by the employer will be part of the gross income of the employee. The employer will be entitled to a tax deduction under section 11(a) of the Income Tax Act and the employee will pay tax on this amount.

Income tax implications to the employee in respect of premiums payable

In terms of section 11F of the Income Tax Act the employee is entitled to a tax deduction in respect of the contributions made to retirement funds, including retirement annuities, by the employee as well as contributions made by the employer on the employee's behalf.

Any contributions that are disallowed due to it being in excess of the limit, will roll-over to the following year of assessment.

Income tax implications to the employee in respect of proceeds received

Upon retirement, the employee will be entitled to receive a maximum of 1/3 as a cash lump sum. This lump sum can be taxable in terms of the tax table applicable to retirement fund lump sums on death or retirement of the member. This allows for a maximum tax-free amount of R500 000 during the lifetime of the member on all retirement fund lump sums received.

The remaining 2/3 of the proceeds will be invested to provide the employee with a monthly pension which is fully taxable.

Please note – Consideration should be given to employees who already have retirement annuities in their personal capacity and the impact that the scheme may have on their "after tax income".

Implications upon death of the employee

In terms of section 37C of the Pension Fund Act, the trustees of the fund will have to ascertain who the dependents (as defined by the Act) of the employee are before paying to the nominated beneficiary(s). A dependent is generally a spouse, children and those that can prove financial dependency. Where the dependents and the nominated beneficiary is not the same person, the trustees are obliged to make payment, in part or in full, to the dependents before considering the beneficiary.

Upon the death of the employee his/her membership to the retirement annuity comes to an end and the funds become payable to the dependents or beneficiaries. The Income Tax Act determines that it is assumed that the fund value accrues to the deceased, the day before death and will be taxed in the hands of the deceased (according to the retirement tax table). The dependents or beneficiaries will therefore receive the "after tax" funds.

The Estate Duty Act excludes retirement funds from the dutiable estate and therefore the fund value will not be subject to estate duty.