

Retrenchment survival kit

(Revised February 2019)

This document summarises the most frequently asked questions by employees and financial advisers when faced with retrenchment. It also provides some practical examples to highlight the most common errors that are made in practice.

This document is not intended to be nor is it financial or tax advice. Please consult with a licensed financial service provider or a registered tax practitioner for specific tax and financial advice.

Frequently asked questions (FAQs)

1. What is the typical lump sum amounts payable on retrenchment?

Most retrenchment packages will consist of the following lump sum payments:

- A **severance benefit** calculated in relation to the years of service and the salary of the employee at retrenchment. Generally, each completed year service equates to a number of weeks' salary that will be payable.
- Any **leave pay** due.
- A pro rata **bonus**.
- **Notice pay**, which is generally an amount paid in lieu of a notice period that should be given in terms of an employment contract. For example, the employment contract determines that the employer must give the employee two calendar months' notice when terminating the services of the employee due to retrenchment and the employer opts to pay the employee the two months' salary upfront without the employee having to work the actual two months' notice period.

Note - In some instances employers add all the above lump sums together when communicating with the employee. Make sure the employer provides a breakdown of the benefits so that the income tax implications are correctly planned for.

2. How are these amounts taxed?

Severance benefit

The Income Tax Act provides for preferential tax treatment in respect of severance benefits. It is defined as follows:

- it is any amount received by or accrued to a person,
- by way of a lump sum from the person's employer,
- **excluding** lump sums as contemplated in Paragraph (d) of the gross income definition (which includes unapproved group life cover and deferred compensation benefits),
- in respect of the relinquishment, termination, loss, repudiation, cancellation or variation of a person's employment, if:

- such a person is 55 years old, or
- such relinquishment, termination, loss, repudiation, cancellation or variation is due to the person becoming permanently incapable of holding the person's office or employment due to sickness, accident, injury or incapacity through infirmity of mind or body, or
- such termination or loss is due to the person's employer having ceased to carry on or intending to cease carrying on the trade in respect of which the person was employed or appointed, or the person having become redundant in consequence of a general reduction in personnel or a reduction in personnel of a particular class by the person's employer, **unless**, where the person's employer is a company or close corporation, the person at any time held more than 5% of the issued share capital or members' interest in the company or close corporation.

Therefore, where an employee receives a lump sum from their employer, that lump sum will qualify as a severance benefit if:

- The person is over 55 years of age, irrespective of the reason for the termination of employment;
- If the person's employment is terminated due to ill health or permanent disability, irrespective of the person's age;
- If the employment is terminated due to retrenchment, irrespective of the age of the person and the person never owned more than 5% of the equity in the employer (the company or close corporation that is the employer entity). This includes voluntary and involuntary retrenchment.

If an amount qualifies as a severance benefit and it accrues to the taxpayer on or after **1 March 2011**, the amount will be taxed according to the tax table applicable to retirement fund lump sums payable upon retirement or death.

Any lump sum withdrawal made from the **employer pension or provident fund** as a consequence to retrenchment will also be taxed in terms of the retirement tax table (on condition that the taxpayer did not hold more than 5% of the equity of the employer at any time) and not the withdrawal tax table. It is imperative that the withdrawal is made when leaving the employer retirement fund due to the retrenchment. It cannot be delayed until a later stage. This will not apply in respect of a retirement annuity fund as access to the fund is restricted until retirement, disability, death, emigration or the paid up value is less than R7 000 as a retirement annuity is not linked to the employment status of an individual.

The reason why this beneficial tax treatment is afforded is because the retrenched worker would need immediate cash to support their normal living expenses until new employment is secured.

Note – where the taxpayer held more than 5% of the equity in the employer at any time:

- The retrenchment benefit will not be taxed as a severance benefit but as part of gross income, and
- The withdrawal made from the retirement fund will not qualify for the preferential tax treatment and will be taxed according to the withdrawal tax table.

The current retirement lump sum tax table is as follows:

Taxable portion	Tax rates 2018/2019
R0–R500 000	Nil
R500 001–R700 000	18% of amount in excess of R500 000
R700 001–R1 050 000	R36 000 plus 27% of amount in excess of R700 000
R1 050 001 +	R130 500 plus 36% of amount in excess of R1 050 000

The withdrawal lump sum tax table is as follows:

Taxable portion	Tax rates 2018/2019
R0–R25 000	Nil
R25 001–R660 000	18% of amount in excess of R25 000
R660 001–R990 000	R114 300 plus 27% of amount in excess of R660 000
R990 001 +	R203 400 plus 36% of amount in excess of R990 000

NB - Please confirm that the tax table has not changed before advising a client.

Leave pay, bonuses, notice pay

These amounts will be included in the taxpayer's gross income and be subject to income tax as per normal. Therefore, the full amount is subject to income tax at the taxpayer's marginal tax rate.

Example: John Smit is 54 years old and he is retrenched. Upon termination of service he receives the following amounts:

Salary in lieu of notice	R100 000
Leave pay	R 35 000
Pro rata bonus	R 60 000
Retrenchment package	R689 000

He has a pension fund with his employer and the resignation benefit at the time of his retrenchment is R980 000. He decides to withdraw R180 000 and to transfer the balance of R700 000 to a preservation fund.

John has never received any retirement fund lump sums during his lifetime and his marginal tax rate is 41%.

The tax consequences will be as follows:

Gross income taxed at marginal rate:

Salary, leave pay, bonus	R195 000
Less tax at 41%	R 79 950
Net amount	R115 050

Retirement lump sum tax table:

Retrenchment package	R689 000
Retirement fund lump sum withdrawal	R180 000
Total amount	R869 000
Tax according to tax table	R 81 630
Net amount	R787 370

Tax calculation - $(R36\ 000 + ((R869\ 000 - R700\ 000) \times 27\%)) = R81\ 630$

The total amount received by John after tax is R902 420.

Example: John Smit is 54 years old and he is retrenched. John held 12% shares in the company that is retrenching him in 1989, which he sold to his son in 2003. Upon termination of service he receives the following amounts:

Salary in lieu of notice	R100 000
Leave pay	R 35 000
Pro rata bonus	R 60 000
Retrenchment package	R689 000

He has a pension fund with his employer and the resignation benefit at the time of his retrenchment is R980 000. He decides to withdraw R180 000 and to transfer the balance of R700 000 to a preservation fund.

John has never received any retirement fund lump sums during his lifetime and his marginal tax rate is 41%.

The tax consequences will be as follows:

Gross income taxed at marginal rate:

Salary, leave pay, bonus	R195 000
Retrenchment package	R689 000
Total	R884 000
Less tax at 41%	R362 440
Net amount	R521 560

Withdrawal lump sum tax table:

Retirement fund lump sum withdrawal	R180 000
Tax according to tax table	R 27 900
Net amount	R152 100

Tax calculation - $(R180\ 000 - R25\ 000) \times 18\% = R27\ 900$

The total amount received by John is R673 660.

In this example John's retrenchment benefit was taxed as part of his gross income at his marginal tax rate and not according to the retirement tax table due to him holding more than 5% of the shares in the company that retrenched him. As a result of this the withdrawal made from his retirement fund at the time of the retrenchment is taxed according to the withdrawal tax table and not the retirement tax table.

Example: John Smit is 58 years old and he is retrenched and has not reached retirement age yet. In 1989 John held 12% of the shares in the company that is retrenching him, which he sold to his son in 2003. Upon termination of service he receives the following amounts:

Salary in lieu of notice	R100 000
Leave pay	R 35 000
Pro rata bonus	R 60 000
Retrenchment package	R689 000

He has a pension fund with his employer and the resignation benefit at the time of his retrenchment is R980 000. He decides to withdraw R180 000 and to transfer the balance of R700 000 to a preservation fund.

John has never received any retirement fund lump sums during his lifetime and his marginal tax rate is 41%.

The tax consequences will be as follows:

Gross income taxed at marginal rate:

Salary, leave pay, bonus	R195 000
Less tax at 41%	R 79 950
Net amount	R115 050

Retirement lump sum tax table:

Retrenchment package	R689 000
Tax according to tax table	R 34 020
Net amount	R654 980

Tax calculation - $(R689\,000 - R500\,000) \times 18\% = R34\,020$

Withdrawal lump sum tax table:

Retirement fund lump sum withdrawal	R180 000
Tax according to tax table	R 27 900
Net amount	R152 100

Tax calculation - $(R180\,000 - R25\,000) \times 18\% = R27\,900$

The total amount received by John is R874 520.

In this example John's retrenchment benefit was taxed as a severance benefit due to him being over the age of 55. The fact that he held more than 5% of the shares in the company that retrenched him will not impact this as it will still qualify as a severance benefit. However, the withdrawal made from his retirement fund at the time of the retrenchment is taxed according to the withdrawal tax table and not the retirement tax table due to the shareholding he had.

3. Can the severance benefit paid by the employer to the employee be paid into a retirement fund tax-free?

No – the severance benefit will be paid as a cash lump sum and will be taxed in terms of the retirement fund tax table applicable to retirement/death.

Where the taxpayer elects to contribute all or a portion of the severance benefit to a retirement fund, it will be the after-tax amount that will be invested in the retirement fund. It will be treated like any other ad hoc contribution to the retirement fund and as a result the taxpayer may enjoy a tax deduction in respect of the contribution made, depending on the type of fund contributed to.

4. Will the severance benefit have an impact on the income tax payable on future retirement fund lump sums a person may receive?

Yes, aggregation rules will apply when calculating the income tax payable on a retirement fund lump sum, either due to a withdrawal made from a fund prior to retirement or upon retirement or upon death prior to retirement.

This means that all lump sums received during one's lifetime will be aggregated to determine the total income tax payable, whilst a tax credit will be enjoyed in respect of past lump sums received.

Aggregation applies in respect of the following lump sums received:

- Retirement lump sums received after 1 October 2007,
- Withdrawal lump sums received after 1 March 2009,
- Severance benefits received after 1 March 2011.

All lump sums received prior to these dates will not be taken into account for aggregation purposes.

Example:

Cindy is retrenched by her employer and will receive a retrenchment package of R495 000.

On 1 October 2014 she resigned from her previous employer at which time she elected to withdraw R25 000 from her pension fund to settle her credit card debt. She did not pay any income tax on that amount as it was equal to the tax-free entitlement for withdrawals.

When determining the income tax on the severance benefit, aggregation will apply. Therefore, the retirement tax table will now be applied to R520 000 (which is made up of the R495 000 severance benefit plus the R25 000 lump sum withdrawn on her previous resignation) and not only the R495 000.

Therefore, she will be liable to pay R3 600 income tax ($R520\,000 - R500\,000 \times 18\%$).

A tax credit can apply in respect of lump sums previously received, however, the credit is calculated using the tax table applicable at this instance and not the tax table that was actually used when that lump sum was actually received.

5. What impact will retrenchment have on the employer provided pension or provident fund?

Generally, retrenchment will terminate the employee's membership to the employer retirement fund, whether it is a pension or provident fund (unless the rules of the fund allows for exceptions). The employee will have the following options in respect of the retirement fund.

The employee is not eligible for retirement – below retirement age

The employee will be entitled to the resignation or withdrawal benefit available in the pension or provident fund.

The alternatives available in respect of the resignation benefit are as follows:

- Withdraw the full amount as a lump sum,
- Transfer the full amount to another approved retirement fund, and
- A combination of the above.

Withdrawal of a lump sum

Where a lump sum is taken, income tax will be levied. As this withdrawal is made as a direct result of the retrenchment (the withdrawal must coincide with the retrenchment), the withdrawal lump sum will be taxed according to the retirement tax table and not the withdrawal tax table – provided that the retirement fund is in fact an employer provided fund.

Note - It is important to note that the withdrawal from the fund must be made at the time of the retrenchment to qualify for the preferential tax treatment. Where a member makes the decision to transfer the retirement fund benefit to another approved fund, like a preservation fund, and a subsequent withdrawal is made from that fund, the preferential treatment will no longer apply. The retirement lump sum withdrawal tax table will apply which is as follows:

Transfer to another approved retirement fund - Where the benefit is transferred to an approved retirement fund, no income tax will be payable upon the transfer. The following transfers can be done tax-free.

From a pension fund to:

- Another pension fund,
- A pension preservation fund, and
- A retirement annuity fund.

From a provident fund to:

- Another provident fund,
- A provident preservation fund,
- A pension fund,
- A pension preservation fund, and
- A retirement annuity fund.

Note – the member will not be entitled to transfer the resignation benefit or any portion thereof to a compulsory annuity.

5.1 If the retirement fund benefit is transferred to a preservation fund, will the individual have access to the funds prior to reaching normal retirement?

When the member is retrenched, the full or a portion of the retirement fund benefit can be transferred to a preservation fund. Preservation funds, irrespective if it is a pension or provident preservation fund, allows for one withdrawal to be made prior to retirement. This can be a partial withdrawal or the full amount in the preservation fund can be withdrawn. Once one withdrawal has been made, no further access will be possible until the member reaches normal retirement.

Note - Where a retirement fund benefit was transferred to another approved fund at retrenchment, the tax treatment applicable on severance benefits and retirement fund withdrawals due to retrenchment will be forfeited. When a withdrawal is made from the subsequent retirement fund (like a new employer's retirement fund or a preservation fund) that lump sum will be taxed according to the withdrawal lump sum tax table and not the retirement lump sum tax table that would have applied upon retrenchment. The amount withdrawn will also add to the aggregated lump sum when the member eventually retires.

Example: Marcia is retrenched and she receives a retrenchment package of R472 000. She was a member of her employer's provident fund and the fund value at the date of retrenchment is R930 000. The following scenarios can apply:

Scenario 1 - Marcia decides to take her full provident fund value as a lump sum. Therefore the total amount that will be taxed according to the retirement tax table is R472 000 + R930 000 = R1 402 000. Assuming no previous lump sums were received, the income tax liability will be calculated as follows:

$$R130\,500 + ((R1\,402\,000 - R1\,050\,000) \times 36\%) = R257\,220 \text{ tax payable}$$

Scenario 2 - Marcia decides to transfer the full provident fund value to a provident preservation fund. Six months later she decides to make a withdrawal from the preservation fund equal to R450 000. The tax will be as follows:

Tax on retrenchment benefit is calculated using the retirement tax table:
 $(R472\,000 - R500\,000) \times 18\% = R0$

Tax on withdrawal from the preservation fund is calculated using the withdrawal tax table and aggregation will apply in respect of the severance benefit she received:

Withdrawal from preservation fund	R450 000
Plus severance benefit due to aggregation	R472 000
Taxable lump sum	R922 000
Tax ito withdrawal tax table	R185 040
$(R114\,300 + ((R922\,000 - R660\,000) \times 27\%))$	
Tax credit on severance benefit using withdrawal tax table	R80 460
$(R472\,000 - R25\,000) \times 18\%$	
Tax payable on withdrawal from preservation fund	R104 580

This example also illustrates the tax credit calculation using the tax table applicable at the time and not the tax table that the amount was actually taxed against – in this instance Marcia is enjoying a tax credit even though she did not pay tax on the severance benefit when it was received.

Scenario 3 - Marcia decides to take R330 000 of the provident fund value at the time of being retrenched and she transfers the balance of the provident fund value to a provident preservation fund. Two years later she decides to make a withdrawal from the preservation fund equal to R120 000. The tax will be as follows:

Tax on retrenchment benefit and provident fund withdrawal at time of retrenchment is calculated using the retirement tax table:

Retrenchment benefit	R472 000
Provident fund withdrawal	R330 000
Total taxable amount	R802 000
Tax payable	R 63 540
$(R36\ 000 + ((R802\ 000 - R700\ 000) \times 27\%))$	

Tax on withdrawal from the preservation fund is calculated using the withdrawal tax table and aggregation will apply in respect of the severance benefit and previous provident fund lump sum withdrawal she received:

Withdrawal from preservation fund	R120 000
Plus severance benefit due to aggregation	R472 000
Plus provident fund withdrawal	R330 000
Taxable lump sum	R922 000
Tax ito withdrawal tax table	R185 040
$(R114\ 300 + ((R922\ 000 - R660\ 000) \times 27\%))$	
Tax credit on severance benefit using withdrawal tax table	R152 640
$(R114\ 300 + ((R802\ 000 - R660\ 000) \times 27\%))$	
Tax payable on withdrawal from preservation fund	R 32 400

This example also illustrates the tax credit calculation using the tax table applicable at the time and not the tax table that the amount was actually taxed against – in this instance Marcia is enjoying a tax credit of R152 640 even though she only paid tax of R63 540.

It also illustrates that even though Marcia received exactly the same amount from the funds, R922 000 before tax, the fact that she took a part of the provident fund at the time of the retrenchment resulted in the overall tax liability being less if compared to the previous example where the full provident fund value was transferred to the preservation with a subsequent withdrawal. In the first example the total tax liability is equal to R104 580. In the second example the total tax payable is R95 940.

5.2 Can the retirement fund be transferred to an existing preservation fund?

Yes, as long as the types of funds are compatible, meaning that a provident fund can be transferred to a provident preservation fund and a pension preservation fund and a pension fund can only be transferred to a pension preservation fund. The one withdrawal facility mentioned above applies per fund source.

Example: Sally resigned from her first employer 10 years ago and transferred her provident fund to a provident preservation fund. She is now being retrenched and she has elected to transfer her provident fund to the existing provident preservation fund – Sally will be able to make two withdrawals from this provident fund – one in respect of the first fund transfer and the second in respect of the new transfer into the fund. The withdrawals are basically ring-fenced to apply per fund source.

5.3 Can additional ad hoc or monthly contributions be made to a preservation fund after the transfer is made?

No, a preservation fund cannot accept contributions on a monthly, annual or ad hoc basis – it can only accept fund transfers from retirement funds where the member has not reached the retirement age.

5.4 If the retirement fund benefit is transferred to a retirement annuity fund, will the individual have access to the funds prior to reaching normal retirement?

A retirement annuity restricts access to the funds until the member reaches the retirement date of 55 years or older. And once the member elects to retire, a maximum of one third will be accessible as a lump sum and the remaining funds must be applied to provide a monthly pension (which is achieved by acquiring a compulsory annuity).

The lump sum will be subject to income tax based on the retirement lump sum tax table. The monthly pension will be fully taxable.

Note - There are very specific circumstances where prior access is allowed, which include the formal emigration of the member, where the paid-up value of the retirement fund is less than the prescribed minimum amount (currently R7 000) and where the member is disabled.

5.5 Can the retirement fund be transferred to an existing retirement annuity fund?

Yes. This amount will then form part of the overall benefit available in the retirement annuity fund and will be subject to the rules of the retirement annuity fund. Therefore access will be limited.

5.6 Can additional ad hoc or monthly contributions be made to a retirement annuity after the transfer is made?

Yes, the retirement annuity can accept monthly, annual or ad hoc contributions without any limitations (there can be minimum premiums). The member can also qualify for a tax deduction in respect of contributions made within the limits prescribed by the Income Tax Act.

5.7 If an employee is a member of a retirement annuity – either in their personal capacity or as part of an employer provided retirement annuity scheme – will the employee be able to access the retirement benefit in the retirement annuity fund upon retrenchment?

No. A retirement annuity fund only provides for access in the following instances:

- If the retirement annuity fund is paid up and has a paid up a value of less than R7 000 (this applies to the registered fund and not the individual policy),
- Upon death,
- Upon disability, and/or
- Upon retirement.

The employee is eligible to retire from the retirement fund

If the member is eligible to retire from the retirement fund as they have reached the normal retirement age as defined by the specific fund or if the fund makes provision for early retirement, the employee will have the following alternatives.

Retirement from pension fund:

- The member can access a maximum of one third of the retirement benefit as a lump sum. The lump sum may be subject to income tax. The retirement lump sum tax table will apply.
- The remaining funds in the pension fund must be invested to provide a monthly pension. This can be achieved by transferring the funds to a conventional life annuity or a living annuity. The transfer of the funds will take place tax-free. The monthly pension will be fully taxable.

Retirement from a provident fund:

- The member can access any portion of the retirement benefit as a lump sum. The lump sum may be subject to income tax. The retirement lump sum tax table will apply.
- In general, the remaining funds in the provident fund must be invested to provide a monthly pension. This can be achieved by transferring the funds to a conventional life annuity or a living annuity. The transfer of the funds will take place tax-free. The monthly pension will be fully taxable.

5.8 If the member has elected to retire from the retirement fund, can the retirement benefit be transferred to a retirement annuity fund?

Yes, from 1 March 2018 retirement benefits can be transferred to retirement annuities to preserve retirement benefits and delay retirement. When transferring from a provident fund to a retirement annuity the rules of the retirement annuity will apply at retirement and therefore the member will be restricted to one third as a maximum lump sum at retirement.

The member will still be able to make additional contributions to the retirement annuity fund until they formally retire from the fund.

5.9 If the member has elected to retire from the retirement fund, can the retirement benefit be transferred to a preservation fund?

Yes, from 1 March 2019 retirement benefits can be transferred to preservation funds to preserve retirement benefits and delay retirement. However, one should note that the one withdrawal will not be available in respect of retirement benefits and therefore no access is possible other than on formal retirement from the preservation fund. To enjoy this benefit, the retirement date should be after 1 March 2019.

5.10 What options are available to provide the member with a monthly pension after retirement?

When retiring from a pension fund, the member will have to apply at least two thirds of the retirement benefit to fund a monthly pension. In the case of a provident fund, the member can elect what portion must be applied for a monthly pension. To fund the monthly pension the member will purchase a life annuity. The transfer from the retirement fund to the annuity does not attract income tax; however, the monthly pension is fully taxable and the administrator will be obliged to withhold Pay As You Earn (PAYE).

Please find a comparison of the conventional life annuity and a living annuity at the end of this document.

6. What impact will retrenchment have on my group life benefits?

As retrenchment will terminate the employee's membership to the employer retirement fund, any associated group insurance benefits will also be terminated. In some instances the fund or employer may offer the employee a conversion option – meaning that they can convert the group life policy to an individually-owned life policy at a predetermined rate. It is important to note that future alterations of conversion options are generally very limited.

7. What impact will retrenchment have on my medical scheme?

The medical scheme membership will generally also terminate with employment. In some cases the medical scheme is open to the general public in which case the employee will be able to continue membership in their personal capacity at their own cost. However, there are some medical schemes that are specifically linked to employment in which case a new medical scheme will be needed.

(Comparison on next page)

	Living Annuity	Conventional Life Annuity
Description	This is a compulsory annuity intended to provide the annuitant with a lifelong income whilst providing some income and investment choice flexibility to the annuitant.	This is a compulsory annuity intended to provide the annuitant with a lifelong income whilst providing certain options contractual guarantees.
Income rate	<ul style="list-style-type: none"> The annuitant can select the income rate ranging between 2.5% and 17.5% per annum calculated on the underlying capital amount available in the living annuity. The income rate can be altered on an annual basis on the anniversary date of the living annuity. If the income rate exceeds the investment return in the investment funds it can deplete the capital which can result in a reduction of income. 	<ul style="list-style-type: none"> The income rate is determined by the insurer at the time the investment is made and is based on bond yields, guarantees selected and the age and life expectancy of the annuitant. The income is fixed, except insofar annual escalations are selected by the annuitant at inception of the investment. The income will be paid in terms of the contractual obligation irrespective of market conditions and its impact on the underlying capital investment.
Guarantees	<ul style="list-style-type: none"> There are no investment or income guarantees associated with the living annuity. 	<ul style="list-style-type: none"> The annuitant can select certain guarantees regarding the continued payment of income after their death – a five-year or ten-year guarantee is common, which means that the income will continue for the lifetime of the annuitant or the guaranteed term, whichever is the longest. Therefore, if the annuitant dies within the guaranteed term, the income will continue to the spouse or beneficiary for the duration of the guaranteed term. In some instances the annuitant can also select a spousal guarantee resulting in the income being guaranteed for the lifetime of the annuitant and their spouse. The guarantees will impact the initial income rate provided and the more extensive the guarantee the lower the initial income rate will be.

	Living Annuity	Conventional Life Annuity
Investment risk	<ul style="list-style-type: none"> The annuitant carries the investment risk as the annuitant selects the underlying investment portfolios and is in control of the fund selection at all times. The administrator does not have a say in the investment decisions made by the annuitant. Therefore, if the funds selected perform well, the annuitant will enjoy the benefits of the capital appreciation in the investment and the income will be positively impacted on. If the funds perform poorly the financial losses will have a direct impact on the annuitant and will result in a reduction of their income and possible capital. 	<ul style="list-style-type: none"> The administrator or insurer carries the investment risk – if the insurer has provided the income rates and the contractual guarantees, the insurer is bound by that contractual obligation. Therefore, poor market conditions will be to the detriment of the administrator and not the annuitant. The administrator also carries the mortality risk associated with the life expectancy of the annuitant. On the flipside, positive investment returns will benefit the administrator and not the annuitant.
Impact on death	<ul style="list-style-type: none"> If the annuitant dies the underlying capital will remain available and will benefit the nominated beneficiaries or the deceased estate. The beneficiaries can elect to continue with the income or to withdraw a lump sum or a combination of both. The lump sum will be subject to income tax as if the deceased received it the day immediately prior to death and it is taxed according to the retirement lump sum tax table. Therefore, the living annuity can continue to benefit future generations as long as the underlying capital remains intact. The capital is not included in the deceased estate of the annuitant for estate duty purposes. 	<ul style="list-style-type: none"> The impact of the annuitant's death will depend on the contractual guarantees that were selected at inception of the annuity. If no guarantee was selected the annuity will generally cease upon the death of the annuitant. If a spousal or joint life annuity was selected, the income will continue until the death of the last surviving of them. If a guaranteed term was selected the income will continue for the rest of that guaranteed term, whereafter the annuity will come to an end. As the funds are from a retirement fund, the capital value of the annuity will not be an asset in the estate of the deceased annuitant for estate duty purposes.