

INTEREST ON LATE PAYMENT OF RETIREMENT BENEFITS

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A retirement fund does not pay lump sum benefits on the date of receipt of notification of the claim.

A lump sum is either paid on the date provided therefore in the rules of the fund, or in the case of default, after the date so provided in the rules.

It seems that confusion exists among administrators as to how interest on such lump sum benefit should then be treated, whether the lump sum paid before or after the date on which the fund is obliged to pay the lump sum.

Some administrators include the interest in the lump sum benefit payable to a member, whereas other administrators pay the amount separately to the member as interest.

SARS' General Note (GN) 32 attempted to align administrators' treatment of interest in the case of late payment of benefits.

GN 32 provided the following:

- Where late payment interest increases a fund's benefit liability it is accepted that the interest does not form a component separate from the benefit that is payable to the member. As such, the increased benefit will, in the case of a lump sum benefit, be subject to the provisions of the Second Schedule to the Income Tax Act and, in the case of a pension, be subject to normal tax as an annuity.
- However where an interest liability arises in addition and separate from the benefit liability the fund must annually issue an IT3(b) in respect of the beneficiary, a copy of which must be submitted to SARS.

GN 32 has been replaced by Binding General Ruling (BGR) 31 and the position is now clearer.

BGR 31 now provides the following:

- Where an amount is calculated for the period from receipt of notification of the claim form until the date that the fund is obliged to pay the benefit in terms of the rules of the

fund, such amount is to be regarded to form part of the lump sum benefit.

- Where a fund fails to make payment of the lump sum benefit on the date the fund is obliged to make the payment, an additional amount that may become payable in these circumstances would constitute interest and is not part of the lump sum benefit. The fund must issue an IT3(b) to the member and send a copy to SARS.

For any queries on the above, please contact:

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