



## Additional retirement fund contributions

This Legal Update must be read together with Legal Update 3 of 2016. It sets out the impact of increased contributions to a pension or provident fund on a member's take-home pay, depending on whether his remuneration is determined on a basic salary or a cost to company basis.

### A. The salary structures

#### 1. Basic Salary

This is the employee's basic earnings, excluding additional benefits such as the employer's medical aid and retirement fund contributions, bonuses, overtime, allowances and any premiums and other amounts paid by the employer for the employee's benefit. The basic salary is the same every month.

#### 2. Cost to Company

This is what it costs the employer to employ the employee; the total costs associated with the employee's employment contract. It includes both the employee and his employer's medical aid and retirement fund contributions, bonuses, overtime, allowances and any premiums and other amounts paid by the employer for the employee's benefit.

### B. Tax treatment of contributions

#### 1. Before 1 March 2016

Up to 1 March 2016, the member was not taxed on the employer contribution, nor did he qualify for a tax deduction on this contribution. If he was a member of a pension fund, he would have qualified for a tax deduction on his own contributions, up to 7,5% of his retirement-funding employment income (typically, 7,5% of the member's pensionable salary).

#### 2. After 1 March 2016

From 1 March 2016, a member of both a pension and a provident fund qualifies for a tax deduction on their own contribution. On both funds, the employer's contribution is taxed in the hands of the member, but at the same time qualifies for a tax deduction along with the member's own contributions. As far as the employer contribution is concerned, the member should be in a tax neutral position.

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## C. Increased contributions from 1 March 2016

If a member increases his contributions to his pension or provident fund from R10 000 to R15 000, it does not necessarily mean that his take-home pay will decrease by R5 000. This can be illustrated with the following examples.

### 1. The facts

Basic salary: R250 000

Pensionable salary: R200 000 (80% of basic salary)

Employer contribution: 5% (R10 000)

Member contribution: 5% (R10 000)

Total cost to company: R260 000 (basic salary + employer contribution)

No other taxable benefits or deductions.

Tax table for the 2017 tax year (1 March 2016 to 29 February 2017):

Taxable income (R)	Rates of tax (R)
188 001 – 293 600	33 840 + 26% of taxable income above 188 000

Primary rebate: R13 500.

### 2. Basic salary

In this scenario, the member's remuneration package consists of a basic salary of R250 000 and an employer contribution of R10 000.

Before 1 March 2016, the member would not have been taxed on the employer contribution, nor would he have qualified for a tax deduction on this contribution. If he was a member of a pension fund, he would only have been taxed on R240 000, which represents his basic salary of R250 000 less his own contribution of R10 000. If he was in a provident fund, his taxable income would have been R250 000, since he would not have qualified for a tax deduction on his own contribution.

From 1 March 2016, a member of both a pension and a provident fund qualifies for a tax deduction on their own contribution. On both funds, the employer's contribution is taxed in the hands of the member, but at the same time qualifies for a tax deduction as if made by the employee. As far as the employer contribution is concerned, the member will be in a tax neutral position.

#### a. Member contribution of R10 000

Taxable income after the deduction of the member's R10 000 contribution: R240 000.

The tax payable would then be R33 860, calculated as follows:

Basic tax under the current tax table	R33 840
<i>plus</i>	
26% on R52 000 (R240 000 – R188 000)	R13 520
Total	R47 360
<i>minus</i>	
Primary rebate	R13 500
Total tax	R33 860

This leaves the member with a net salary of R206 140.

**b. Member increases his contribution from R10 000 to R15 000**

Taxable income after the deduction of the member's R15 000 contribution: R235 000.

The tax payable would then be R32 560, calculated as follows:

Basic tax under the current tax table	R33 840
<i>plus</i>	
26% on R47 000 (R235 000 – R188 000)	R12 220
Total	R46 060
<i>minus</i>	
Primary rebate	R13 500
Total tax	R32 560

This leaves the member with a net salary of R202 440.

Although his member contribution went up by R5 000, his take-home pay only dropped by R3 700 (from R206 140 to R202 440), resulting in a tax benefit of R1 300.

**c. Employer increases its contribution from R10 000 to R15 000**

Because the employer's contribution will be taxed in the member's hands, but will at the same time qualify for a tax deduction, the member's taxable income will remain R240 000. Although the employer's increased contribution will increase the member's retirement savings, \*there will be no impact on the member as far as the taxation and tax deductibility of the employer's contribution is concerned. The employer will qualify for a deduction on the higher contribution.

\*Please note that this is not the case where the total contributions exceed the lower of 27,5% of the member's remuneration or taxable income, whichever is the higher, and R350 000.

**3. Cost to company (CTC)**

In this scenario, the CTC of R260 000 includes the employer's contribution of R10 000.

Taxable income after the deduction of the total contributions of R20 000 (member's R10 000 + employer's R10 000) from the member's CTC of R260 000: R240 000.

The tax payable would then be R33 860, calculated as follows:

Basic tax under the current tax table	R33 840
<i>plus</i>	
26% on R52 000 (R240 000 – R188 000)	R13520
Total	R47 360
<i>minus</i>	
Primary rebate	R13 500
Total tax	R33 860

This leaves the member with a net salary of R206 140.

**a. Member increases his contribution from R10 000 to R15 000**

Taxable income after the deduction of the total contributions of R25 000 (member's R15 000 + employer's R10 000) from the member's CTC of R260 000: R235 000.

The tax payable would then be R32 560, calculated as follows:

Basic tax under the current tax table	R33 840
<i>plus</i>	
26% on R47 000 (R235 000 – R188 000)	R12 220
Total	R46 060
<i>minus</i>	
Primary rebate	R13 500
Total	R32 560

This leaves the member with a net salary of R202 440.

Although his member contribution went up by R5 000, his take-home pay only dropped by R3 700 (from R206 140 to R202 440), resulting in a tax benefit of R1 300.

**b. Employer increases its contribution from R10 000 to R15 000, resulting in a corresponding increase of the member's CTC**

In this scenario, the employer decides to increase the member's CTC with R5 000, representing an increased employer contribution of R5 000.

Total CTC after R5 000 increase = R265 000

Taxable income after the deduction of the total contributions of R25 000 (member's R10 000 + employer's R15 000): R240 000.

The tax payable would then be R33 860, calculated as follows:

Basic tax under the current tax table	R33 840
<i>plus</i>	
26% on R52 000 (R240 000 – R188 000)	R13 520
Total	R47 360
<i>minus</i>	
Primary rebate	R13 500
Total	R33 860

This leaves the member with a net salary of R206 140.

The employer's contribution was added to the member's CTC and the total contribution went up by R5 000. The member's take-home pay is the same as before the employer contribution increase. This shows that in the event of an employer contribution increase with a resultant increase in the CTC, the tax position for the member remains the same. The employer will qualify for a deduction on the higher contribution.

**c. The member decides to increase the employer contribution from R10 000 to R15 000 out of his CTC**

Taxable income after the deduction of the total contributions of R25 000 (member's R10 000 + employer's R15 000) from his CTC of R260 000: R235 000.

The tax payable would then be R32 560, calculated as follows:

Basic tax under the current tax table	R33 840
<i>plus</i>	
26% on R47 000 (R235 000 – R188 000)	R12 220
Total	R46 060
<i>minus</i>	
Primary rebate	R13 500
Total	R32 560

This leaves the member with a net salary of R202 440.

Although the employer contribution went up by R5 000, the member's take-home pay only dropped by R3 700 (from R206 140 to R202 440), resulting in a tax benefit of R1 300. This is the same position as the member would have been in had he made an additional member contribution as opposed to an additional employer contribution. It is therefore irrelevant to the member whether he makes an additional member contribution or an employer contribution from his CTC; his tax position remains the same. There is however an advantage for the employer, as it will qualify for a deduction on the higher contribution.

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