

Tax certificates

Practice Note 10 version 2 July 2019

IRP5/IT3a/IT3b



Introduction

The Operations & Administration division (O&A) issue practice notes to:

Increase awareness and provide insight into the best practices and procedures adopted by AlexForbes for the effective administration of your fund

- Clarify our administration role
- Align expectation between AlexForbes, trustees, employers and members of the retirement funds.

Please note that in an event of a conflict, the fund's rules, applicable legislation or the signed service level agreement will take precedence over the processes set out in this practice note.

In this issue, we deal with the current practice of issuing tax certificates for exits from the fund.

Background

In terms of the current Income Tax Act, all benefits that are paid out to a member/beneficiary must be taxed by the South African Revenue Services (SARS) before the benefit is paid out. Before SARS issues a tax directive (IRP3) for the benefit, SARS would recoup any arrear tax (IT88 tax directive) that the member owes SARS from the balance of the benefit (post-tax).

Different types of tax certificates issued by the fund

IRP5 tax certificate

Issued where the fund needs to deduct tax from a cash lump sum benefit and pay over to SARS. The tax deducted is reflected on the tax certificate.

IT3a tax certificate

Issued where no tax must be deducted. This normally occurs where the benefit to be paid out is within the

tax-free portion or the benefit is transferred to another approved fund e.g. new employers retirement fund, retirement annuity fund or preservation fund.

IT3b tax certificate

Issued where late payment interest is paid from the date of calculating the benefit (tax directive application) to the date the benefit was paid out. This interest was not subject to taxation previously and the interest must be declared on the member's annual tax return as additional income received.

It is imperative to note that at the end of every tax year, AlexForbes collates all the details of the individual tax certificates into a formatted file and this file is sent to SARS to update the tax certificate details on the individual member's tax files.

Issuing tax certificates

In order to improve the efficiency of collating the letters and tax certificates and notifying the member/beneficiary timeously, the following process was adopted by AlexForbes:

- All withdrawal claim letters for South African defined contribution funds will be centrally printed on pre-printed letterheads, sealed and posted directly to the member. This would be similar to standard payslips and there would be no delay in posting the letters as there would be no manual intervention in the process. The turnaround time to post these letters is within 5 working days of the letters being printed.
- The letter will provide the member with the value of his/her benefit and the late payment interest accrued to date of payment as well as a breakdown of the payments made to settle the claim.
- The letter will also direct the member to contact the Client Interaction Centre to obtain copies of the relevant tax certificates, if a hard copy is required. Client Interaction Centre contact number: 0860 100 333.
- The IRP5/IT3a/IT3b tax certificates will not be printed automatically when the claim is paid out. These tax certificates would be available on the administration system for printing when the member requests it, which is generally at the end of the current tax year.