VERBATIM

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HOW ARE GROUP LIFE PREMIUMS AND BENEFITS TAXED?

1. DEATH BENEFITS

Insuring the lives of a group of employees of an employer can be done in the following way:

- The tax-approved pension or provident fund that the employer participates in (there is no distinction between a standalone or an umbrella fund), provided that death cover is incorporated into the rules of such tax approved fund is known as "approved cover"; and/or
- A group life insurance policy issued by an insurer to the employer in respect of its employees. This insurance is separate from or outside the fund rules is known as "unapproved cover".

The difference between approved and unapproved cover is explained below:

WHEN CAN CONTRIBUTIONS/PREMIUMS BE DEDUCTED?

<u>EMPLOYER CONTRIBUTION/PREMIUM</u>

APPROVED COVER I.E. THROUGH A PENSION OR PROVIDENT FUND

- Taxed as a fringe benefit in the member's hands and then deemed to have been made by the employee. Employer contributions together with member contributions are tax deductible by the member subject to a maximum of 27.5% of the greater of the member's remuneration or taxable income (subject to an annual cap of R350 000).
- Tax deductible for the employer.

UNAPPROVED COVER I.E. NOT THROUGH A PENSION OR PROVIDENT FUND

- Taxed as a fringe benefit in the employee's hands. It is not tax deductible for the employee.
- Tax deductible for the employer.

<u>EMPLOYEE CONTRIBUTION/PREMIUM</u>

APPROVED COVER I.E. THROUGH A PENSION OR PROVIDENT FUND

- Employee contributions, together with employer contributions (i.e. deemed employee contributions) are tax deductible subject to a maximum of 27.5% of the greater of the member's remuneration or taxable income (subject to an annual cap of R350 000).
- Not tax deductible for the employee.

UNAPPROVED COVER I.E. NOT THROUGH A PENSION OR PROVIDENT FUND

- It is not tax deductible for the employee.

TAXATION OF LUMP SUM DEATH BENEFITS

APPROVED COVER I.E. THROUGH A PENSION OR PROVIDENT FUND

- R0 - R500 000
  0% of taxable income;
- R 500 001 - R 700 000
  18% of taxable income above R500 000;
- R 700 001 - R 1 050 000
  R36 000 + 27% of taxable income above R700 000;
- R 1 050 001 and above
  R130 500 + 36% of taxable income above R1 050 000.

HOW ARE GROUP LIFE PREMIUMS AND BENEFITS TAXED?

It must be noted that any amounts received on previous withdrawals (from a retirement fund) and the tax paid on such withdrawals will be taken into account when applying the tax table on the previous page, i.e. it is cumulative.

Approved lump sum benefits (as well as pensions) are not subject to estate duty.

UNAPPROVED COVER I.E. NOT THROUGH A PENSION OR PROVIDENT FUND

- Full benefit tax-free.
- Unapproved lump sum benefits are subject to estate duty.

PAYMENT OF BENEFITS

APPROVED COVER I.E. THROUGH A PENSION OR PROVIDENT FUND

- Benefits are paid to one or more of the dependants and/or nominees of the member, as deemed equitable by the board of trustees of the fund.
- Section 37C of the Pension Funds Act, 1956 governs the payment of death benefits by a retirement fund.

UNAPPROVED COVER I.E. NOT THROUGH A PENSION OR PROVIDENT FUND

- The payment of benefits is not subject to the Pension Funds Act. Benefits are paid in accordance with the terms and conditions of the particular policy. For example, the policy may state that the benefit must be paid to the nominees of the deceased, failing which to the deceased's estate.
- The employer and insurer are bound by the policy wording.

2. DISABILITY BENEFITS

Temporary disability insurance/cover, also known as PHI, may not be provided under a retirement fund. Permanent disability insurance/cover, provided as an accelerated death benefit, may however be provided under a retirement fund and is treated as a retirement benefit and taxed according to the scales in paragraph 1 on the previous page (i.e. the same scales that apply to approved lump sum death benefits).

Where permanent disability cover is provided under an unapproved group life insurance policy, the tax treatment of premiums and lump sum benefits is as indicated in the first two tables in paragraph 1 above (unapproved cover).

As of 1 March 2015 the tax treatment of premiums to a temporary disability (PHI) policy and premiums to an unapproved group life insurance is the same, namely:

- If in terms of the employment contract the employer is liable to pay the premiums, these must be taxed in the hands of the employee as a fringe benefit;
- If in terms of the employment contract the employee is liable to pay the premiums, these must be taxed in the hands of the employee and must be deducted from the after-tax salary of the employee;
- There is no tax deduction for employees in respect of premiums to a PHI policy, but from 1 March 2015, PHI benefits are no longer taxable.