

TAXATION OF SURVIVING SPOUSES

Presentation to the Parliamentary Womens Caucus

PRESENTED BY:

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Background

- 2019: Budget Review contained proposal to alleviate the burden in cases where a surviving spouse receives more than 1 income
 - An option considered at the time was that rebates are not taken into account for withholding of tax by retirement funds– so that big tax bills do not become due at the end of the year
 - Stakeholders requested delayed implementation
- 2022: Amendment came to effect

Why are survivor pension benefits taxed?

- Our retirement system has a specific design where contributions to retirement funds are tax free, returns in the fund are tax free, and the benefits are taxed once the recipient receives them in retirement / withdrawal (the “EET” system).
- All income an individual receives is included in gross income, with specific exclusions or thresholds to arrive at taxable income – with higher incomes attracting higher rates.
- The progressivity is supported by the age-related rebates that set tax thresholds, which is the main mechanism to alleviate tax for older taxpayers (age being the main criteria, not the specific source of the income).
- It also ensures that people of similar circumstances (i.e. the same level of income, the same age) is taxed similarly
- If we don't include all incomes, it becomes easier to hide income
 - Widows with survivor benefits are not the only taxpayers who have multiple sources of income, for example people with two jobs, people with more than one pension fund or people who are “semi-retired” (i.e. receive some remuneration and a pension).

What did we do to avoid a large tax liability after the end of the tax year?

- The PAYE system is meant to help people to spread their tax payments across the year, so that they don't have to pay everything at the end.
- If the pension fund is not aware that this is a second income, then they will likely deduct too little tax for PAYE, so a big amount becomes due at the end.
- To give retirees a way to make sure that the correct amount is withheld from the pension payment right from the start. To do this, we changed the tax law so that SARS can indicate the correct rate to the retirement fund. This spreads the payment over the year.
 - Amendment of paragraph 2(2B) of the Income Tax Act, effective 1 March 2022

How can taxpayers be assisted?

- Taxpayers can “opt out” of using the more accurate tax rate provided by SARS, by asking their retirement fund to use standard tax table and rates – but with the risk of a big payment on assessment
- Taxpayers can also request retirement fund to withhold more tax during the year, to minimise impacts at the end of the year
- If large tax debts accrued in the past, best remedy is for taxpayer to approach SARS to find a solution to settle the debt
 - Blanket amnesties set precedents for other taxpayers and future behaviour
 - National Treasury does not become involved in any individual taxpayer matters protected by secrecy provisions