

Retirement reform – 01 March 2016

A single set of rules apply to all payroll related retirement fund contributions.

The aggregate of all pension, provident and RA contributions is deductible from the taxable income before calculating tax. The following two limits apply:

- 27.5% of remuneration or taxable income – whichever is higher
- An annual limit of R350 000.00

The 1 March 2016 legislation does not make provision for arrear contributions (IRP5 code 4002). The IRP5 codes for arrear contributions have also fallen away.

All employer contributions are taxable. The employer contribution is deemed to be an employee contribution.

A deemed contribution means that if the employer pays R1 000.00 and the employee pays R1 000.00, the amount that will reflect on the IRP5 as an employee contribution, as well as the amount taken into consideration for the 27.5% or R350 000.00 limit, is R2 000.00.

Determining the taxable company contribution depends on the type of retirement fund. There are three types of funds: Defined Contribution funds, Defined Benefit funds and a combination of the two called Hybrid funds.

Defined Contribution funds (DC)

In a DC fund, the contribution plus investment growth, determines the amount of pension an individual is entitled to at retirement age.

In the case of a DC fund, the employer's contribution to the fund is taxable.

Defined Benefit funds (DB)

In a DB fund, the salary just before retirement and the years of service determine the amount of pension an individual is entitled to at retirement age.

In the case of a DB fund, the fund must provide a contribution certificate to the employer indicating the taxable employer contribution. The fund must calculate the taxable employer contribution by using a prescribed Seventh Schedule formula. The fund must provide these certificates to the employers no later than one month before the commencement of a tax year – in practice, January each year.

Hybrid funds

Hybrid funds have elements of both DC and DB funds.

In the case of a Hybrid fund, the two components of the fund must be split. The same rules as described above apply to each portion of the fund. The fund must provide a contribution certificate to the employer indicating the taxable employer contribution.

382 Rossouw Street, Murrayfield, 0814
P. O. Box 75189, Lynnwood Ridge, 0040
Tel: (012) 803 7730
Fax: (012) 803 7734 / 086 502 7007
Email: payday@payday.co.za

Since 1989
Co. Reg. No.: 2006/010098/07
VAT No.:4850106677



It is advised that HR and payroll managers familiarise themselves with the type of fund/s operated by the employer. If uncertain, contact the fund.

SARS have made it clear that the issue of an accurate Contribution Certificate for DB and Hybrid funds is a matter between the employer and the fund.

If the fund is incorrectly classified as a DC or DB fund (including a Hybrid fund) and therefore applied incorrectly in the payroll, the employer will ultimately be held responsible for any incorrect PAYE deductions and payments to SARS. It might also affect an employee's net salary.

Please note: The widely publicised postponement of retirement reform to 1 March 2018 only applies to the annuitisation and pay-out of provident funds and does not affect the implementation of the payroll related retirement reforms.

To accommodate the new retirement reform, the user must be on **PayDay release 4.9** or later. The 2016/2017 RSA tax changes are also included in release 4.9.

- All active payroll companies **MUST** be in March 2016 before release 4.9 can be loaded.
- Some adjustments on the payroll are required. Follow the instructions, as described in the rest of this guide, to do the adjustments.

Company - Deduction Definition Screen

Change the *Deduction Type* of all pension, provident and RA lines to the new *C-Retirement* type.

NB: Some companies use 'windows' such as *Insurance* or *W - Extra 5* etc. to capture retirement annuities. If there are no company contributions on these windows and it is only an employee's policy deduction, do not change these lines to the new *C-Retirement* type and leave the *Deduction Type* as they are.

Change *Deduct for Tax* fields to **Yes** and *Tax CC* fields to **No** on these lines.

Ensure the correct IRP5 codes are captured on these lines:

Pension = 4001

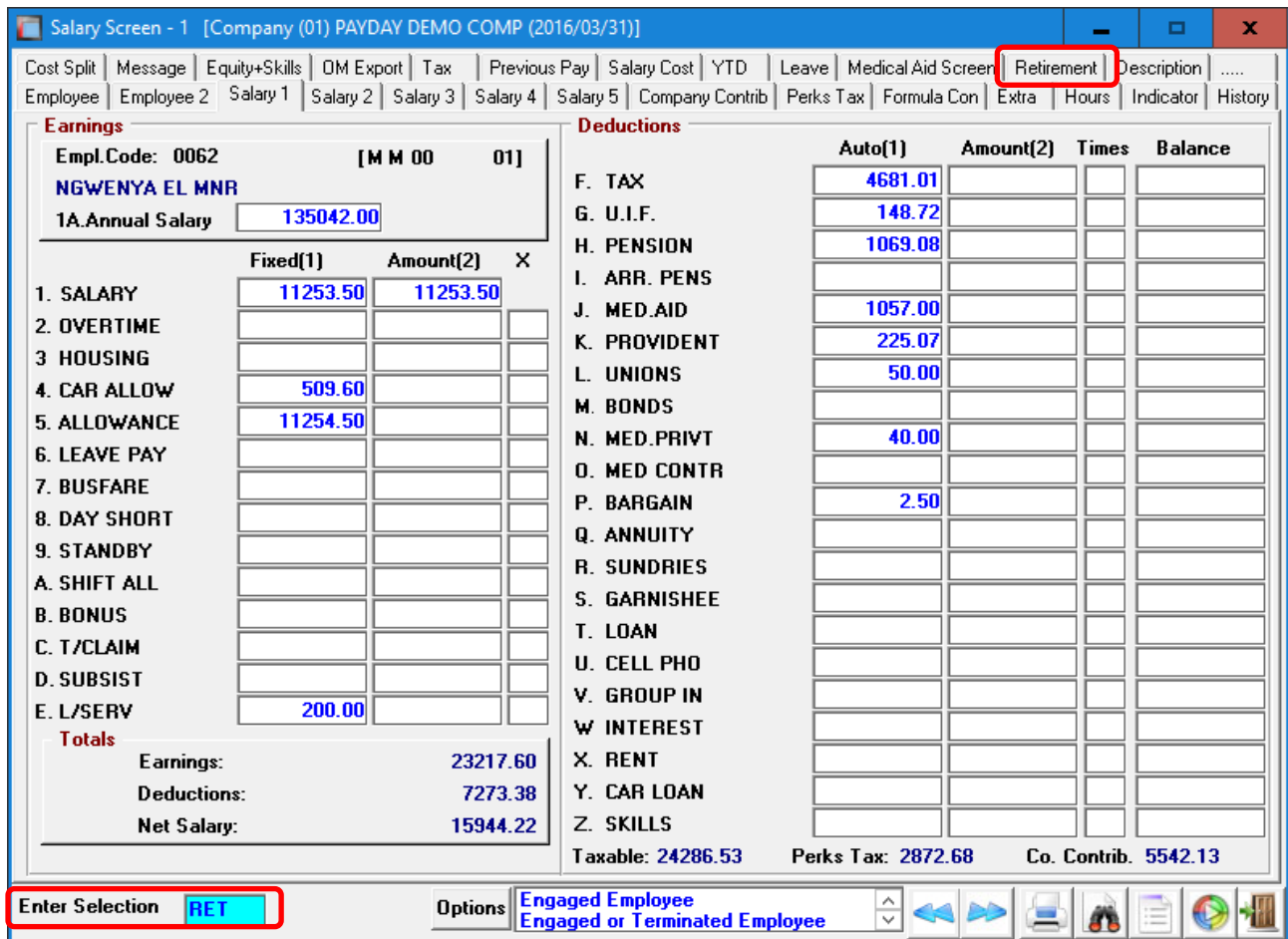
Provident = 4003

Retirement Annuity = 4006

Deduction Definitions [Company (01) PAYDAY DEMO COMP (2016/03/31)]									
Deduction Definitions 1		Deduction Definitions 2		Deduction Definitions 3		Deduction Definitions 4		Deduction Definitions 5	
Screen Description	Deduction Type	Deduct for Tax	Tax CC.	Payslip Descriptions		TAX CODE			
				English	Other				
F	TAX	No	No	P.A.Y.E./SITE	L.B.S./SIBW	4103			
G	U.I.F.	No	No	U.I.F.	W.V.F.				
H	PENSION	Yes	No	PENSION	PENSIOEN	4001			
I	ARR. PENS	No	No	ARREAR PENSION	AGTER.PENSIOEN	4002			
J	MED.AID	No	No	MEDICAL AID	MEDIESE FONDS	4005			
K	PROVIDENT	Yes	No	PROVIDENT FUND	VOORSORGFONDS	4003			
L	UNIONS	No	No	UNIONS	VAKBONDE				
M	BONDS	No	No	BONDS	VERBANDE				
N	MED.PRIYT	No	No	MED.AID PRIVATE	MEDIES PRIVAAT	4005			
O	MED CONTR	No	No	MED.AID CONTRA	MEDIES KONTRA				
P	BARGAIN	No	No	BARGAINING COUNC	BEDINGINGSRAAD				
Q	ANNUITY	Yes	No	R/ANNUITY	R/ANNUITY	4006			
R	SUNDRIES	No	No	SUNDRIES	DIVERSE				
S	GARNISHEE	No	No	SUNDRIES	DIVERSE				
T	LOAN	No	No	STUDY LOAN	STUDIELENING				
U	CELL PHO	No	No	CELL PHONE	SELFOON				
V	GROUP IN	No	Yes	GROUP INSURANCE	GROEPSVERSEKER				
W	INTEREST	No	No	INTEREST ON LOAN	RENTE OP LENDING				
X	RENT	No	No	HOUSE RENT	HUISHUUR				
Y	CAR LOAN	No	No	CAR LOAN 1	MOTORLENING				
Z	SKILLS	No	No	SKILLS LEVY	VAARDIGHEIDSHEF.				

New Retirement Screen

A new *Retirement* screen was added to each employee record. The user must be on an employee's *Salary* or *Employee* screen to access this screen. Click on the *Retirement* tab or type *RET* at the *Enter Selection* field en <enter>



Salary Screen - 1 [Company (01) PAYDAY DEMO COMP (2016/03/31)]

Cost Split | Message | Equity+Skills | OM Export | Tax | Previous Pay | Salary Cost | YTD | Leave | Medical Aid Screen | **Retirement** | Description |

Employee | Employee 2 | Salary 1 | Salary 2 | Salary 3 | Salary 4 | Salary 5 | Company Contrib | Perks Tax | Formula Con | Extra | Hours | Indicator | History

Earnings

Empl.Code: 0062 [M M 00 01]
NGWENYA EL MNR
1A. Annual Salary 135042.00

	Fixed(1)	Amount(2)	X
1. SALARY	11253.50	11253.50	
2. OVERTIME			
3. HOUSING			
4. CAR ALLOW	509.60		
5. ALLOWANCE	11254.50		
6. LEAVE PAY			
7. BUSFARE			
8. DAY SHORT			
9. STANDBY			
A. SHIFT ALL			
B. BONUS			
C. T/CLAIM			
D. SUBSIST			
E. L/SERV		200.00	
Totals			
Earnings:		23217.60	
Deductions:		7273.38	
Net Salary:		15944.22	

Deductions

	Auto(1)	Amount(2)	Times	Balance
F. TAX	4681.01			
G. U.I.F.	148.72			
H. PENSION	1069.08			
I. ARR. PENS				
J. MED.AID	1057.00			
K. PROVIDENT	225.07			
L. UNIONS	50.00			
M. BONDS				
N. MED.PRIVT	40.00			
O. MED CONTR				
P. BARGAIN	2.50			
Q. ANNUITY				
R. SUNDRIES				
S. GARNISHEE				
T. LOAN				
U. CELL PHO				
V. GROUP IN				
W. INTEREST				
X. RENT				
Y. CAR LOAN				
Z. SKILLS				

Taxable: 24286.53 Perks Tax: 2872.68 Co. Contrib. 5542.13

Enter Selection **RET** Options Engaged Employee Engaged or Terminated Employee

The following screen will display.

Please note that the *Fringe Benefit* amounts on this screenshot are for illustration purposes only and are not a true reflection of the actual fringe benefit calculation.

Retirement Screen - [Company (01) PAYDAY DEMO COMP (2016/03/31)]

Employee | Employee2 | Salary 1 | Salary 2 | Salary 3 | Salary 4 | Salary 5 | Company Contrib | Perks Tax | Formula Con | Extra | Hours | Indicator | History
Cost Split | Message | Equity+Skills | OM Export | Tax | Previous Pay | Salary Cost | YTD | Leave | Medical Aid Screen | Retirement | Description |

Empl.Code: 0062
NGWENYA EL MNR
[MM00 01]

Retirement

Retirement Remuneration

Fund Type	Company Contrib.	Empl. Contrib.	Fringe Benefit	YTD- Fringe Ben.	Total Tax Relief/Benefit
1. Pension Fund	<input type="text" value="2700.84"/>	<input type="text" value="1069.08"/>	<input type="text" value="5064.08"/>	<input type="text" value=".00"/>	<input type="text" value="6133.16"/>
2. Provident Fund	<input type="text" value="225.07"/>	<input type="text" value="225.07"/>	<input type="text" value="225.07"/>	<input type="text" value=".00"/>	<input type="text" value="450.14"/>
3. Retirement Annuity	<input type="text" value=".00"/>	<input type="text" value=".00"/>	<input type="text" value=".00"/>	<input type="text" value=".00"/>	<input type="text" value=".00"/>
4. Own Retirement	<input type="text" value=".00"/>	<input type="text" value=".00"/>	<input type="text" value=".00"/>	<input type="text" value=".00"/>	<input type="text" value=".00"/>
Totals	<input type="text" value="2925.91"/>	<input type="text" value="1294.15"/>	<input type="text" value="5289.15"/>	<input type="text" value=".00"/>	<input type="text" value="6583.30"/>

Excess Taxable

Enter Selection
Engaged Employee
Engaged or Terminated Employee

Retirement Remuneration

This is the taxable remuneration amount that is used to calculate the prescribed maximums. It includes all earnings mark as *Monthly* or *Periodic* taxable on the *Company - Earning Definitions* screen. Only 80% of travelling allowances and 80% of the use of motor vehicle is included in this amount.

Fund Type

The type of fund (Pension, Provident and Retirement Annuity) is listed. The consolidated amount for each fund type is reflected on this screen, should there be multiple lines per fund type.

Company Contribution

The system populates this amount from the *Company Contribution* screen.

Employee Contribution

The system populates this amount from the *Employee's Salary* screen.

Note:

All lines marked on the *Company – Deduction Definitions* screen with the same IRP5 code will consolidate those amounts. The consolidated company contribution amount will reflect on this screen under the *Company Contribution* field. The consolidated employee amount will reflect on this screen under the *Employee Contribution* field.

Lines marked with IRP5 code 4001 will reflect on the fields for *Pension Fund*.

Lines marked with IRP5 code 4003 will reflect on the fields for *Provident Fund*.

Lines marked with IRP5 code 4006 will reflect on the field for *Retirement Annuity*.

The amount on line ZS - *Retirement Annuity* on the *Perks Tax* screen will reflect on the *Own Retirement* field.

Fringe Benefit

The monthly taxable company contribution is captured on this field. If there is no company contribution, there is no fringe benefit and this field should be zero.

In the case of a DC fund, this amount must be equal to the company contribution.

In the case of a DB or Hybrid fund, this amount is the calculated amount supplied by the fund.

Own or private retirement annuities do not have a fringe benefit component.

YTD- Fringe Benefit

This is the tax year-to-date fringe benefit amount until the previous pay period. The system will update this field automatically.

Total Tax Relief/Benefit

This amount is the sum of the employee contribution and the fringe benefit amounts. This amount is used for calculation of the tax deductible benefit (27.5% or R350 000). This amount will also reflect on the IRP5 as an employee contribution.

Excess Taxable

Should the total Tax Relief/Benefit exceed the prescribed SARS limits, the excess amount will reflect in this field.

Example:

Retirement Remuneration	23 115.68
	Total Tax Relief/ Benefit
1. Pension Fund	6 133.16
2. Provident Fund	450.14
3. Retirement Annuity	0.00
4. Own Retirement	0.00
Total	6 583.30
Excess Taxable	226.49

Calculate the maximum allowable tax deduction:

$$350\,000.00 \div 12 = 29\,166.66$$

or

$$23\,115.68 \times 27.5\% = 6\,356.81$$

The 27.5% calculation is smaller, therefore a maximum of 6 356.81 is allowed.

Tax Relief/Benefit 6 583.30 - 6 356.81 = 226.49 (excess).

Should the *Total Tax Relief/Benefit* amount be less than the calculated 6 356.81, the lesser amount would be allowed for reduction of taxable remuneration.

Populating of the Fringe Benefit fields

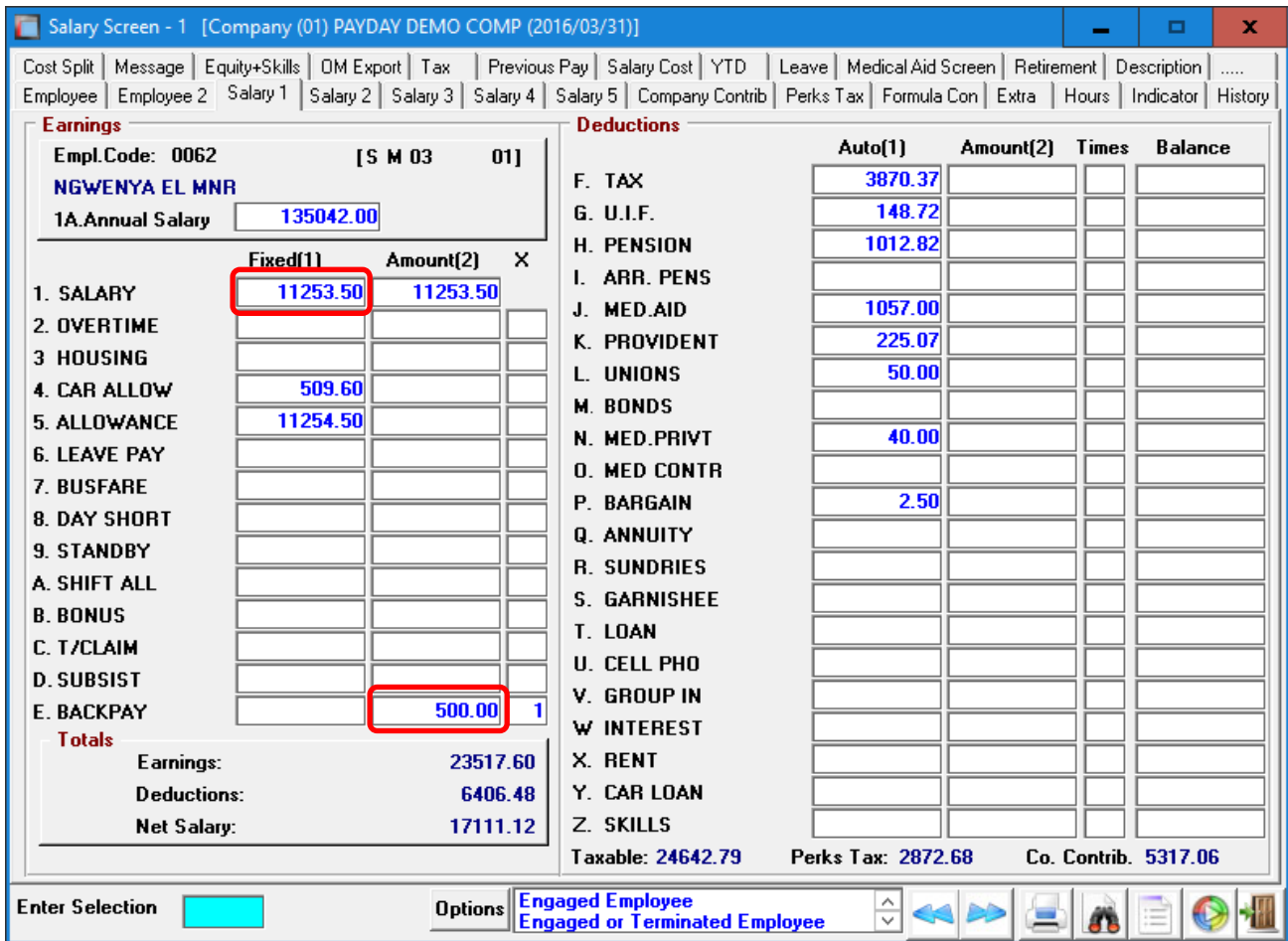
The *Fringe Benefit* fields can be populated by using 3 different options:

1. Capture the taxable company contribution. Not recommended as future changes such as salary increases and DB fund percentage adjustments would not automatically update these fields.
2. Import of amounts to these fields. Also not recommended for the same reason as point 1.
3. Use formulae to update these fields. This is the recommended option. Any salary changes would automatically update these fields and DB fund percentage adjustments can be done by changing one field on the formula.

Retirement Formulae

Some companies have only one pension fund. They do not use formulas to calculate the contributions but captured the pension percentages on the *Employee Screen*. These companies must switch to formulas.

In the following examples the *Fixed Salary* and the *Backpay* lines are used to calculate the retirement contributions.



Earnings		Deductions					
	Fixed(1)	Amount(2)	X	Auto(1)	Amount(2)	Times	Balance
1. SALARY	11253.50	11253.50					
2. OVERTIME							
3. HOUSING							
4. CAR ALLOW	509.60						
5. ALLOWANCE	11254.50						
6. LEAVE PAY							
7. BUSFARE							
8. DAY SHORT							
9. STANDBY							
A. SHIFT ALL							
B. BONUS							
C. T/CLAIM							
D. SUBSIST							
E. BACKPAY		500.00	1				
Totals							
Earnings:		23517.60					
Deductions:		6406.48					
Net Salary:		17111.12					

Taxable: 24642.79 Perks Tax: 2872.68 Co. Contrib. 5317.06

This company's setup has pension (Line H), provident (Line K) and retirement annuity lines (Line Q). Link the applicable formulas to the individual employees by typing **FC** in the *Enter Selection* block and <enter>.

Link the applicable fund's formula to the applicable line as per the next screenshot.

Formula Connection Screen - 1 of 5 [Company (01) PAYDAY DEMO COMP (2016/03/31)]

Cost Split | Message | Equity+Skills | OM Export | Tax | Previous Pay | Salary Cost | YTD | Leave | Medical Aid Screen | Retirement | Description |

Employee | Employee 2 | Salary 1 | Salary 2 | Salary 3 | Salary 4 | Salary 5 | Company Contrib | Perks Tax | Formula Con | Extra | Hours | Indicator | History

Earnings

Empl.Code: 0062
 NGWENYA EL MNR
 [S M 03 01]

Screen 1 | Screen 4
 Screen 2 | Screen 5
 Screen 3

CONNECTION

1. SALARY	0	(Salary)**
2. OVERTIME	0	(Hourly Input)
3. HOUSING	0	(Formula)**
4. CAR ALLOW	1	*(FIXED ALL)
5. ALLOWANCE	0	(Hourly Input)
6. LEAVE PAY	0	(Unit Input)
7. BUSFARE	0	(Formula)**
8. DAY SHORT	0	(Hourly Input)
9. STANDBY	0	(Hourly Input)
A. SHIFT ALL	0	(Hourly Input)
B. BONUS	0	(Annual Bonus)**
C. T/CLAIM	0	(Hourly Input)
D. SUBSIST	0	(Hourly Input)
E. BACKPAY	0	(Formula)**

Deductions

F. TAX	0	(Tax / Paye)
G. U.I.F.	0	(U.I.F.)**
H. PENSION	1	*(JMPF 9%)
I. ARR. PENS	0	(Formula)**
J. MED.AID	A	*(MUNIMED A)
K. PROVIDENT	1	*(GRP PROV)
L. UNIONS	5	*(TRAINING)
M. BONDS	0	(Bonds)**
N. MED.PRIVT	1	*(ANN > 30287)
O. MED CONTR	0	(Formula)**
P. BARGAIN	1	*(IMATU)
Q. ANNUITY	0	
R. SUNDRIES	0	(Extra - 15)**
S. GARNISHEE	0	(Insurance)**
T. LOAN	0	(Loan)
U. CELL PHO	0	(Formula)**
V. GROUP IN	0	(Formula)**
W. INTEREST	0	(Formula)**
X. RENT	0	(Formula)**
Y. CAR LOAN	1	*(CALC LOAN)
Z. SKILLS	0	(Formula)**

FORMULA'S ON FILE

No.	Description
1	JMPF 9%
2	MFP 7.5%
3	GRATUITY 7.5
4	GRATUITY 9.0
5	SAMWU 7.5%
6	NFMW 11 %
7	NFMW 9.5 %
8	NFMW 7.5 %
C	COUNCILLORS
G	GOV PEN 7.5%

Enter Selection

Engaged Employee
 Engaged or Terminated Employee

This employee is linked to formula 1 on line H (pension), formula 1 on line K (Provident) but is not linked to any Annuity (Line Q).

The formula before the new retirement reform calculation is added.

Line No. H
 Form. No. 1

1	B 11	SALARY 01	B 11	SALARY 1
2	+ E	BACKPAY 14	+ E	BACKPAY
3	* VAL	0.0900	* VAL	0.2200
4				
5				
6				
7				
8				
9				
A				

A. Formula:

B. If Answer is LESS Than Retirement %


C. Change Answer To

D. If Answer is GREATER Than Mun. RFS Flag (C/A/G):

E. Change Answer To

F. Description

Enter Selection, ? or <- (. for Next Formula)

SCOA 

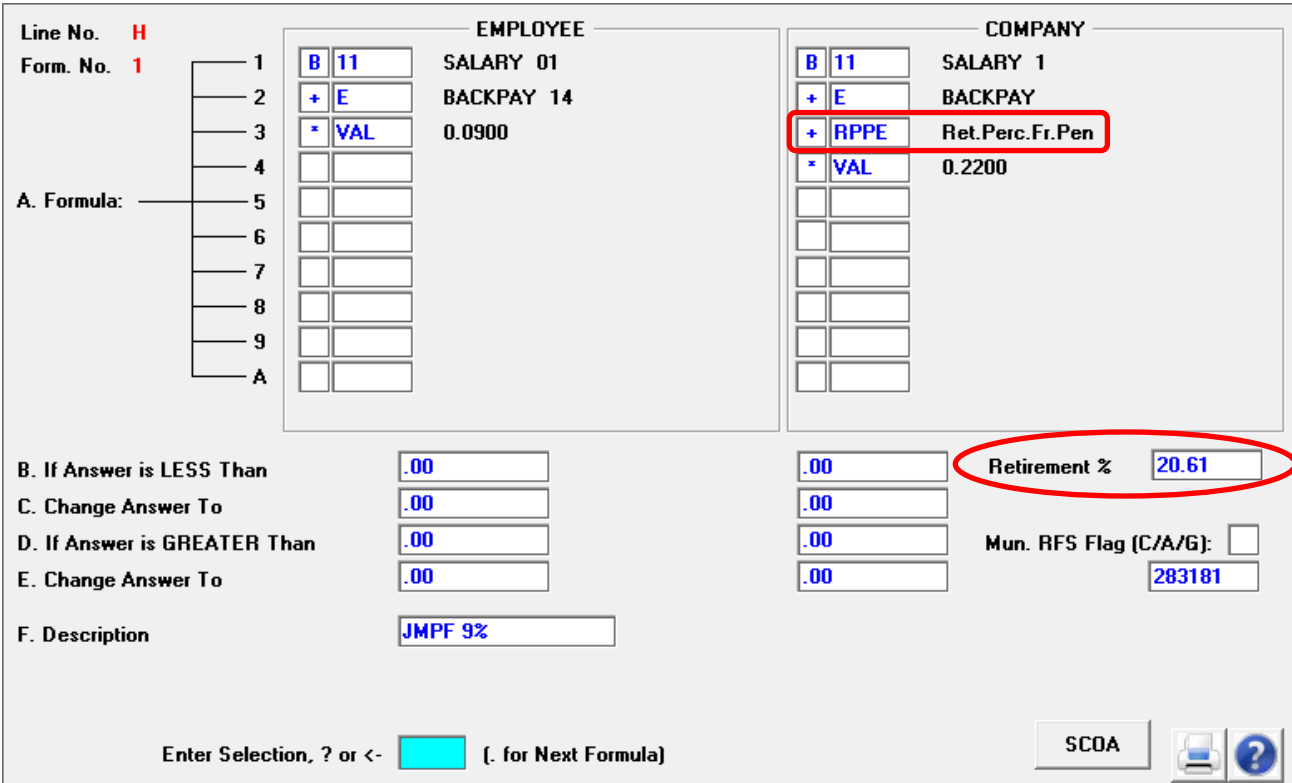
Please note that some companies might add more earnings to the salary, apart from the example's backpay, before calculating the contribution. Others might only use the salary line. Some formulas might stretch over more than one formula. Whatever the situation is at the user's formula setup, **just before the Company percentage calculation, insert a new line.** (If there is no company contribution, there is no fringe benefit – do not insert the new line)

It is recommended that the user make a screen print of the formula or write down the formula before changes are made.

Use the appropriate formula code and capture as per the example - for pension.

The 3 new formula codes to calculate the retirement *Fringe Benefits* are:

- RPPE – Retirement Percentage Fringe Pension. (For lines marked as 4001)
- RPPR – Retirement Percentage Fringe Provident. (For lines marked as 4003)
- RPRA – Retirement Percentage Fringe RA. (For lines marked as 4006)



Line No.	H	EMPLOYEE	COMPANY
1		B 11 SALARY 01	B 11 SALARY 1
2		+ E BACKPAY 14	+ E BACKPAY
3		* VAL 0.0900	+ RPPE Ret.Perc.Fr.Pen
4			* VAL 0.2200
5			
6			
7			
8			
9			
A			

A. Formula:



B. If Answer is LESS Than Retirement %

C. Change Answer To

D. If Answer is GREATER Than Mun. RFS Flag (C/A/G):

E. Change Answer To

F. Description

Enter Selection, ? or <- [for Next Formula]  

There is also a new field on the right bottom half of the screen: **Retirement %**

Capture the taxable fringe benefit percentage here.

- For DC funds - The percentage must be equal to the company percentage (22% in the example).
- For DB and Hybrid funds - The percentage must be the percentage as specified on the fund's certificate (20.61% in the example).

Do a Recalculation when done with the changes on all the applicable formulas.

Please call PayDay's payroll support centre on (012) 803 7730 should you require any additional assistance.