

Huge tax relief for retrenched

Those facing retrenchment or retirement can look forward to better tax breaks from this year, with retrenchment or retirement tax-free payments increasing from R30 000 in a lifetime to R315 000 effective from the 2012 tax year.

This is according to Ron Warren, executive chairman of payroll software company NuQ, who says that prior to March 2011, if an employee was retrenched or put on retirement, the extra payments made to the employee because of the retirement or retrenchment were tax-free up to a specified limit of R30 000. Anything in excess of this limit was taxed at the employee's average rate of tax for that year.

Warren says that it was only the additional payments due to such an employee that were tax-free, and not the normal salary and leave pay due to the employee up to the date of retirement/retrenchment. "Such additional payments were tax-free up to an aggregate amount of R30 000," he explains. "That was a lifetime aggregate, so that if an employee was retrenched twice and used up R20 000 on the first retrenchment, he or she would only be entitled to R10 000 tax-free on the second retrenchment or, if he was retrenched only once, on retirement."

Payments up to R315 000 tax-free

From March 2012 such payments are treated as though they were payments from a pension or retirement fund on death or retirement. Warren says that this means that such payments are tax-free up to an aggregate amount of R315 000.

"In other words, all retrenchment payments, plus retirement payments, plus lump sum payments from a pension or retirement fund on retirement or death are tax-free until the combined total of such payments reaches R315 000," he adds. "Once this limit is reached, all future payments are taxed in accordance with the rates applicable to lump sum payments from a pension or retirement fund on retirement or death. These tax rates are much more favourable than normal income tax rates."