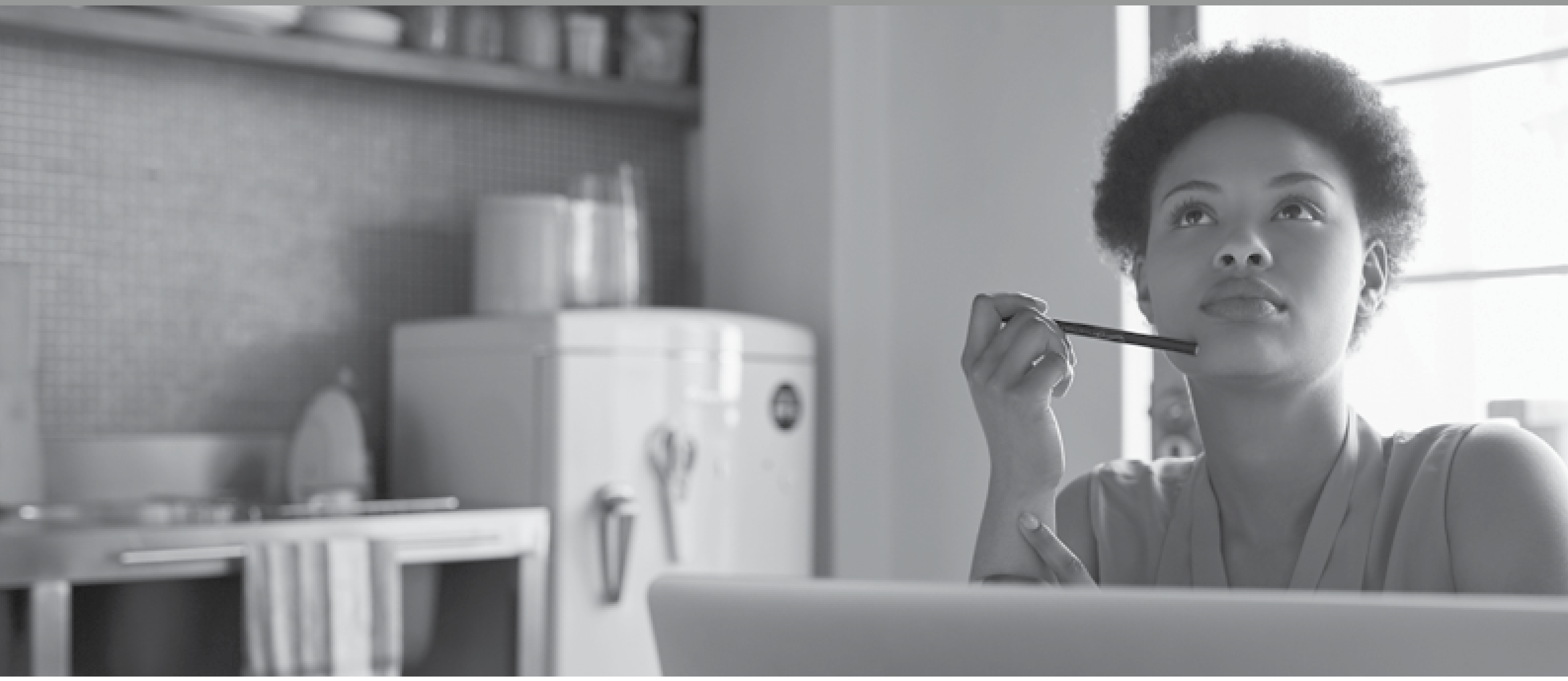
TAX IMPLICATIONS IF YOU LEAVE THE FUND BECAUSE YOU RESIGNED, WERE RETRENCHED, DISMISSED OR RETIRED

Partners for the future

KZN

MUNICIPAL PENSION FUND



If you transfer your benefit to an approved pension fund, preservation pension fund or retirement annuity fund, or you retain your benefit in the fund as a deferred benefit, you won't have to pay tax on your benefit until you withdraw from that fund. This table tells you how much tax you must pay on any lump sum exit benefit by way of resignation, dismissal, compulsory retrenchment, death or retirement you receive from the fund. On Compulsory Retrenchment, Retirement or Death you qualify for a bigger tax-free cash amount than if you resign or are dismissed.

Amount of cash you take when you change jobs or are Dismissed	Tax rate on Resignation or Dismissal	Amount of cash you take on Compulsory Retrenchment, Death or Retirement	Tax rate on Compulsory Retrenchment
R0 – R25 000	0%*	R0 – R500 000	0%*
R25 001 – R660 000	18% on amount above R 25 000	R500 001 – R700 000	18% on amount above R500 000
R660 001 – R990 000	R114 300 + 27% on amount above R 660 000	R700 001 – R1 050 000	R36 000 + 27% on amount above R700 000
R990 001 and more	R203 400 + 36% on amount above R990 000	R1 050 001 and more	R130 500 + 36% on amount above R1 050 000
Remember: You can't take R25 000 tax-free every time you change jobs – **this amount is for your lifetime.**		**Remember:** **The R500 000 tax-free amount is for your lifetime.** So if you get a tax-free qualifying retrenchment benefit before you retire, you'll have to take less (or nothing) tax-free when you retire. For more information on qualifying retrenchments, please speak to the Fund's Front Office.	

This table applies to the combined exit benefits that become available to you on or after 1 March 2014. Note that any tax free amounts previously taken reduce the tax free amounts available the next time you exit a fund.

* In addition to the R25 000 tax free amount on withdrawal or dismissal or R 500 000 on compulsory retrenchment, or retirement or death, you will also be entitled to get any pre-March 1998 tax-free amounts which you are entitled to, based on the following formula:

$$A = \frac{B \times D}{C}$$

A Taxable portion.
B Represents completed years of membership from 1 March 1998 until date of exit from the public sector fund.
C Represents the total number of completed membership years in the public sector fund until the exit date from the public sector fund.
D Represents the lump sum paid when you exit the fund.

Below is an example of how the tax is applied if you exit the fund (don't worry if you do not understand the workings as we have you covered and will do the calculations for you).

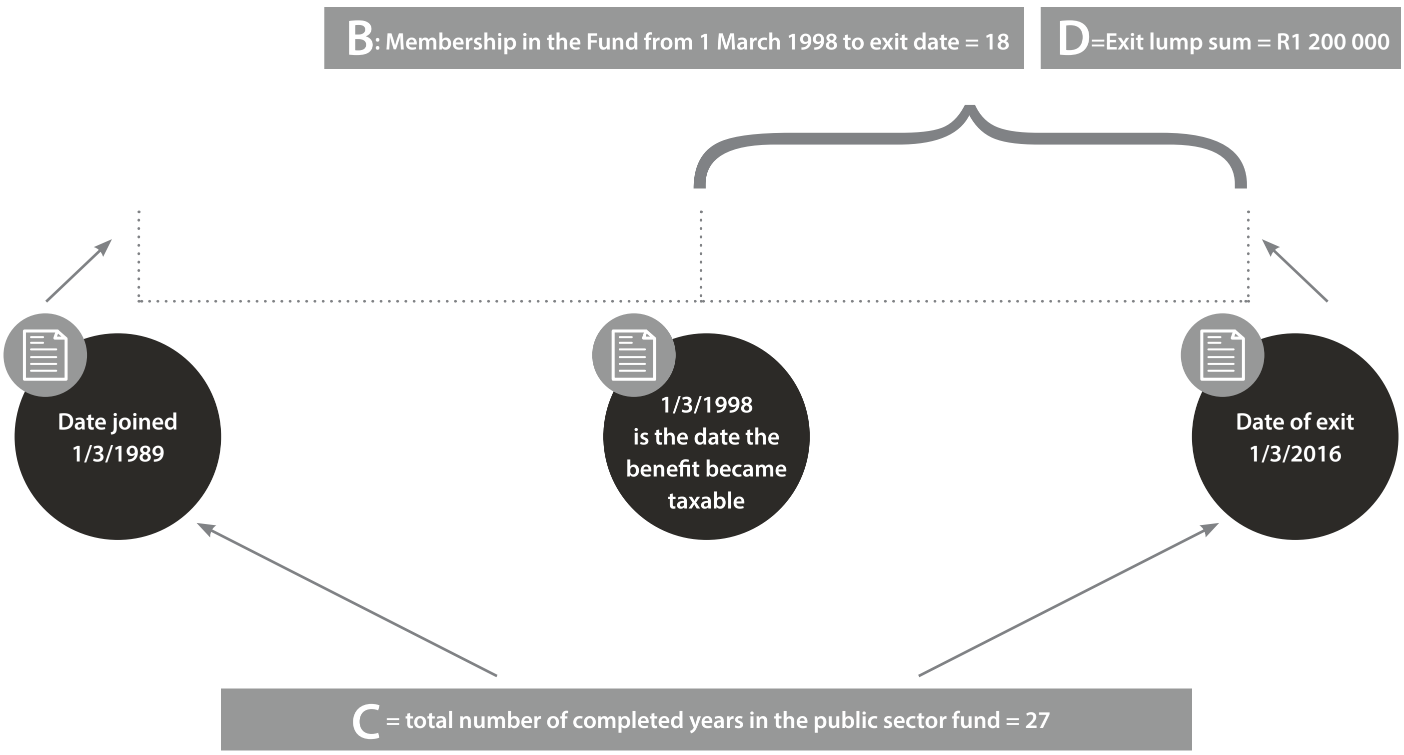
EXAMPLE OF TAX CALCULATION ON RESIGNATION FROM THE KZN MUNICIPAL PENSION FUND

A member joined on 1 March 1989 and exited the fund on 1 March 2016 with a lump sum of R 1 200 000 (note the member cannot take more than 1/3 of his fund credit as a lump sum). The member did not previously resign from another pension or provident fund.

Therefore in the above formulae the taxable portion (A) needs to be determined:

B is 18 years (service from 1 March 1998 to 1 March 2016)
C is 27 years (service from 1 March 1989 to 1 March 2016) and

D is R 1 200 000 (fund credit payable before tax at date of exit per the example).



This can be illustrated in the form of the following time line:
In this example therefore the Taxable portion (A) is

$$A = \frac{B \times D}{C}$$

$$= \frac{18 \times 1\ 200\ 000}{27}$$

$$= R\ 800\ 000$$

calculated as follows:
Therefore if the member withdrew from the fund on 1 March 2016 the Taxable Portion would be R 800 000 and the remaining fund credit balance of R 400 000 is not taxable. We need to then break down the R 800 000 per the bands in the tax brackets – refer to tax tables above:

R 114 300 + 27% on amount above R 660 000
= R114 300 = 27% x (R800 000 - R660 000)
=R 152 100

Therefore in the above example if the above member resigned from the Fund then the tax payable would be R 152 100 per the above calculation.

The net amount payable to the member after deducting tax would be R 1 047 900 (1 200 00-152 100)

Example of Tax Calculation on compulsory retrenchment from the KZN Municipal Pension Fund

Using the same example above but this time assuming this is a compulsory retrenchment, then in the above example the taxable portion remains R 800 000 and the remaining fund credit balance of R 400 000 is non taxable . We need to then break down the R 800 000 in the tax brackets above but this time using the figures applicable to compulsory retrenchment:

R36 000 + 27% x (800 000-700 000)
= R63 000

Therefore in the above example if the above member is retrenched from the Fund then the tax payable would be R 63 000 and the amount payable on compulsory retrenchment after tax would be R 1 137 000 (1 200 000- 63 000).

TAX IMPLICATIONS WHEN YOU RETIRE FROM THE FUND

You can choose to take up to one-third of your fund credit as a cash lump sum. The balance of your fund credit must be used to buy an annuity. The amount taken in cash is taxable with the first R500 000 of this benefit being tax-free (subject to the note reflected in the tax table above) as issued by the South African Revenue Services.

The tax payment on retirement is the same as on retrenchment and the example above for retrenchment applies to retirement.

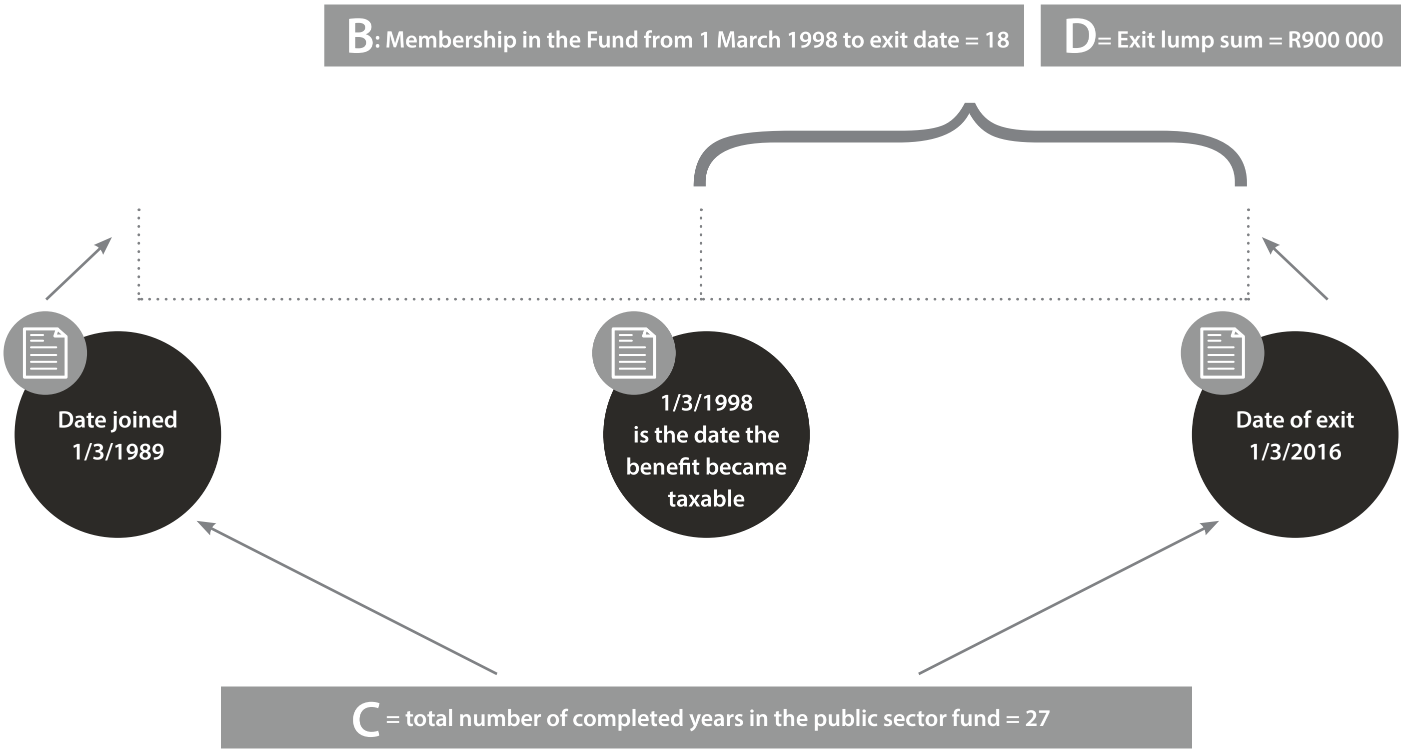
Example of Tax Calculation on retirement from the KZN Municipal Pension Fund

A member joined on 1 March 1989 and retires from the fund on 1 March 2016 with a fund credit R 2 700 000 (note the member cannot take more than 1/3 of his fund credit as a lump sum). The member did not previously resign or retire from another pension or provident fund.

In this example we assume that the member commutes the maximum one third of his fund credit. The maximum commutation amount before applying any tax is therefore R900 000 (2 700 000 x 1/3).

Therefore in the above formulae the taxable portion (A) needs to be determined:

B is 18 years (service from 1 March 1998 to 1 March 2016)
C is 27 years (service from 1 March 1989 to 1 March 2016 and
D is R 900 000 (member elected commuted amount subject to a maximum of one third of the fund credit in this example)
In this example therefore the Taxable portion (A) is calculated as follows:



Therefore if the member retired from the fund on 1 March 2016 the Taxable Portion would be R 600 000 and the remaining

$$A = \frac{B \times D}{C}$$

$$= \frac{18 \times 900\,000}{27}$$

$$= R\ 600\,000$$

balance of the commutation amount of R 300 000 is not taxable. We need to then break down the R 600 000 per the bands in the tax brackets – refer to tax tables above:

18% X (600 000 - 500 000)
= 18 000.

Therefore in this example if the above member retires from the Fund then the tax payable would be R18 000.

Therefore the member will be paid his commutation amount net of tax equal to R 882 000 (900 000 less 18 000).

The balance of the members fund credit of R 1 800 000 (2 700 000 less 900 000) would be available to receive a pension from the fund (as explained in the in-fund living annuitant brochure) or would be used to purchase a pension from a registered insurer.