DAVEY'S Locker

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New retirement fund contribution deduction

Capital gains inclusion

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New s 11(*k*)

The new retirement fund contribution-deduction-regime became effective on 1 March 2016 (151, 153 *TSH* 2015).

In essence, the deduction in each year is, under s 11(*k*) of the Income Tax Act, 27,5% of the greater of remuneration and taxable income.

The reference to 'taxable income' represents a departure from the previous wording, in that the previous provision (s 11(*n*)) referred to 15% of 'income'.

Tax formula

A condensed version of the general tax formula to calculate taxable income on income account looks like this:

'Gross income'
    Less exempt (tax-free) income
Equals 'income'
    Less allowable deductions
Equals 'taxable income'

To this taxable income on income account is added your taxable capital gain (being 40% of the actual gain for an individual), in order to establish your total taxable income.

New contribution deduction base

It follows, given that taxable income includes the taxable portion of the capital gain, that the 27,5% deduction can now be applied to such a gain, as distinct from the position prevailing before 1 March 2016, when the reference to 'income' (as distinct from 'taxable income') excluded the capital gains inclusion portion.

Conclusion

The outcome is a greater base against which the deduction can be applied, with a resultant greater contribution deduction.

There is nevertheless an annual cap on the contribution deduction, of R350 000, although any excess can be carried forward and claimed in a succeeding tax-year and, if not so absorbed, upon retirement or death.

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