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# CIRCULAR



**NO: 03/2016**

**DATED: 19 February 2016**

**TO ALL PARTICIPANTS IN THE MOTOR INDUSTRY**

**TAX REFORM – AUTO WORKER’S PROVIDENT FUND.**

**CONTRIBUTION CERTIFICATE TO BE PROVIDED TO THE EMPLOYER IN  
RESPECT OF THE VALUATION OF CONTRIBUTIONS MADE BY THE  
EMPLOYER TO THE FUND**

## **Introduction**

From 1 March 2016, employer contributions to retirement funds will be taxed as fringe benefits in the hands of the members, however members have a tax-free contribution allowance of the lower of 27.5% of taxable income or R 350 000.

For defined contribution (DC) funds, the employer contribution rate is defined in terms of the rules. However, where a defined contribution fund self-insures the risk benefits, such as in the Auto Workers’ Provident Fund, it is regarded as a defined benefit fund and the taxable value of the death and disability benefits accruing to the member are calculated by way of a prescribed formula and may differ from the contributions actually being paid by the employer.

Please use the deemed contribution rate as set out in the attached certificate(s) to determine the value of the fringe benefit for your employees.

**Question: Why does the fringe benefit rate differ from what the employer is contributing?**

## **Answer:**

National Treasury drafted the regulations as to how to determine the value of the taxable fringe benefit in respect of employer contributions. In a defined contribution fund where the death and disability benefits are fully covered by an insurance policy, the taxable fringe benefit is the actual employer contribution e.g. 8% of the member’s pensionable salary, say.

However, for a defined contribution where the fund self-insures the death and disability benefits, and does not reinsure it with an insurer, such as in the Auto Workers’ Provident Fund, National Treasury regards such as fund as a defined benefit fund and requires that the taxable value of the death and disability benefits be calculated by way of a prescribed formula in

terms of Paragraph 12D of the Seventh Schedule per the Taxation Laws Amendment Act of 2014.

In the case of members of the Auto Workers' Provident Fund this is actually a positive result as members will be taxed on a lower "deemed" employer contribution.

Let us look at an example:

Members contribute 7.5% in terms of the Rules  
Employer contributes 8% in terms of the Rules  
So 15.5% in total goes into the Fund for the member's benefit  
The death and disability benefits are 3 times salary (plus member fund credits).  
The 3 times salary benefits currently cost 2.03% of salary, so 5.97% (8% less 2.03%) of the employer contribution goes to the member's retirement benefits and expenses (in addition to the member's 7.5%)  
The regulations require that we value the risk benefit component as the death multiple (3 times in our example) times 0.5%, so  $3 \times 0.5\% = 1.5\%$   
The regulations then determine value of the taxable fringe benefit in respect of employer contributions as the retirement component (5.97%) plus the risk benefit component (1.5%) = 7.47%  
Which is less than what the employer is actually contributing (8.0%)

Examples to illustrate this:

- (1) Employee's taxable remuneration R 250 000;  
pensionable salary R 225 000;  
member contribution (7.5% of pensionable salary) = R 16 875;  
employer actual contribution (at 8%) = R 8 000;  
but employer deemed contribution for taxable fringe benefit purposes = 7.47% of pensionable salary = R 16 807.50  
so total taxable contribution for the member = R 33 682.50  
The member is allowed a total deduction of 27.50% of taxable remuneration = 27.5% of R 250 000 here = R 68 750;  
so no tax needs to be deducted from the member on this case;  
and the member can make contributions to other funds, such as a retirement annuity, to use the full allowance of 27.50% of taxable remuneration – so an extra R 35 067.50
- (2) Employee's taxable remuneration R 1 500 000;  
pensionable salary R 1 000 000;  
member contribution (7.5% of pensionable salary) = R 75 000;  
employer actual contribution (at 8%) = R 80 000;  
but employer deemed contribution (7.47% of pensionable salary) = R 74 700; so total taxable contribution = R 149 700;  
member allowed total deduction of 27.50% of taxable remuneration, but subject to a cap of R 350 000,  
so no tax needs to be deducted from the member on this case

**From the Auto Workers' Provident Fund  
February 21016**

# Contribution Certificate

## Auto Workers' Provident Fund (12/8/32783/1)

Year of assessment ending: 28 February 2017

This certificate is issued by the above mentioned fund in terms of paragraph 12D(4) of the Seventh Schedule to the Income Tax Act, 1962

Employers: All employers participating in the Fund

Member Fund Category: All Active Members

Member category and category factor composition:

Benefit Component	Rule number	Factor
Defined contribution	Rule 5(4)	13.47%
Defined benefit	Not Applicable	Not Applicable
Underpin	Not Applicable	Not Applicable
Risk benefit	Rule 6 (7)	1.50%

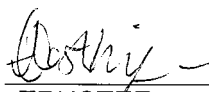
Composition of the actual contributions:

Current Employee Contribution Rate:	7.5%
Current Employer Contribution Rate:	8.0%

The fund member category factor for the fund member category, before deducting the member/employee contribution rate, in respect of which the contribution certificate is issued is **14.97%**.

The net employer contribution for fringe benefit purposes is: **7.47%**.

  
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TRUSTEE

  
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TRUSTEE

  
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PRINCIPAL OFFICER

10/2/2016  
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Andre Pienaar  
Valuator of the Fund

8 February 2016