

PAYE fixed percentage tax rate issued by SARS

**Frequently Asked
Questions:
Paragraph 2(2B)**

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01. What is the new legislative change to paragraph 2(2B) in the fourth schedule of the Income Tax Act 58 of 1962 where SARS introduced directives?

Pensioners who receive more than one source of income are often left with a hefty tax liability at the end of the tax year.

The South African Revenue Service (SARS) combines all the income received, which effectively places the annuitant in a higher tax bracket resulting in a tax shortfall.

To prevent this shortfall, SARS has put a new process in place where **employers, fund administrators or insurers will receive** a directive confirming **the pay as you earn (PAYE) tax rate that must be applied** to the income of affected pensioners and annuitants for a specific tax year.

02. Did SARS communicate this change to taxpayers (pensioners and annuitants)?

Yes, on Wednesday, 19 January 2022 SARS began distributing letters to affected taxpayers.

- The SARS letters to affected clients did not contain the PAYE fixed percentage tax rate.
- SARS communicated the SARS fixed percentage tax rate only to fund administrators, employers and insurers.
- Not all taxpayers receiving income from annuities will be affected. Approximately one million taxpayers will be affected across the industry.

03. Who calculates the fixed tax rate?

SARS calculates the fixed tax rate and provides it to us.

04. What options are available to the client/taxpayer?

Affected taxpayers have the option to opt out of this paragraph 2(2B) directive and must inform the insurer, fund administrator or employer in writing.

We have created the **SARS PAYE deduction percentage paragraph 2(2B) directive opt-out instruction** form [Momentum](#).

Under section 2 of the form, the client must **select either**:

- 4.1 Option 1 – SARS standard PAYE tax tables:** The normal tax aggregation will apply as per previous years.
- 4.2 Option 2 – My preferred tax rate:** We will apply the tax rate subject to it being higher than the normal tax aggregation rate. No verification or approval from SARS is required.
- 4.3 Option 3 – Apply the attached tax directive:** We will apply the tax percentage as confirmed by SARS on the tax directive that the client supplies to us.

NO form is required when the client accepts this paragraph 2(2B) SARS fixed tax percentage rate.

No action is required from the client.

The new tax rate applies to the 2023 tax year (March 2022 to February 2023) as per the paragraph 2(2B) directive we received from SARS.

05. | When the client does not send us an instruction to opt out does it mean they accept the fixed rate?

Yes, it means the client accepts the fixed tax rate that SARS gave us.

If the fixed rate does not affect them, based on the file from SARS, they cannot opt in.

06. | Can the client send us the opt-out form while they await the reduced rate directive?

Yes, but the client will be taxed according to normal tax tables until the reduced rate directive has been received.

07. | Is a financial adviser with a Category II mandate able to sign the opt-out form on behalf of the client?

No, only if the financial adviser has a Special Power of Attorney to Tax Practitioner (TPPOA) can they sign the opt-out form on behalf of the client.

08. | A client is receiving income from both a RIO and a life annuity. The fixed tax rate provided by SARS is, for example, 30%. Will this tax rate be applied to all the client's annuity incomes?

Yes, this tax rate will be applied across all the annuity incomes the client receives from Momentum.

The fixed rate of 30% will apply on all Wealth, Investo, traditional and annuity policies, only if affected.

09. | If I have more than one annuity product with Momentum, for example Wealth and Investo, am I required to complete more than one opt-out instruction?

No. Only one opt-out instruction is required to be completed, which will then be applied to all affected annuity income policies.

10. | Does this fixed percentage tax rate apply to a policy or a client?

The fixed percentage tax rate applies to the client/taxpayer, which will then be applied to all affected client annuity income policies.

11. Can a client select a preferred rate option on the opt-out instruction?

Yes, the client can select the preferred rate option, but the normal preferred rate process applies.

Internal process note

- The opt-out form should be used first to select the opt out 'Yes' indicator, and then the transaction or a new transaction must be assigned to the RIO team as per normal to action the preferred tax rate instruction.
- If the preferred rate is lower than the tax tables rate, Momentum will apply the highest of the tax tables rate and the preferred rate.

12. Can a client select more than one option on the opt-out instruction?

No, the client can only select one option. The opt-out instruction form has been updated to cater for only one selection.

Internal process note

- If a handwritten opt-out form is received where more than one option is selected, it should be sent back for clarity.
- If option 1 is selected and a tax rate is captured or written in the option 2 rate section, the instruction is invalid and should be sent back for clarity.

13. Can the client opt out at any time?

The client has the option to opt out at any stage during the tax year (1 March to 28 February).

Scenario 1: On quarterly, bi-annual and yearly incomes that have not been paid out, the client can still opt out. If the income is already paid out, the client may not opt out as the income and tax have already been paid.

Scenario 2: On a monthly income, the client can opt out at any time within the tax year (tax aggregation will work out the tax over the remainder of the tax year, considering the option chosen). This is limited to the income of the remaining period.

For example, if the remaining income for the tax year is R5 000 and the tax recoverable is R6 000, the tax rate will convert to zero percent. No manual adjustment should be processed. In such a scenario, the client will have to wait for a refund from SARS as per their normal assessment process.

14. I would like to verify this fixed tax rate.

The client or their tax practitioner can contact SARS to verify what was considered when calculating the fixed tax rate. Any disputes around the SARS issued tax rate must be taken up with SARS directly.

15. What is the impact for a foreigner receiving an annuity income, where double taxation agreements apply between South Africa and the foreign country?

The same rules apply in respect of the opt-out instruction.

If the foreigner requests a reduced rate directive, the reduced rate directive should be provided as supporting documentation to the opt-out form.

16. To which tax year does the SARS fixed percentage tax rate apply and how frequently will SARS update the tax rate?

The current SARS fixed percentage tax rate applies to the current tax year, being 1 March 2022 to February 2023.

SARS will provide the fixed percentage tax rates annually, which will then apply to the applicable tax year.

17. When a client opts out, can the client provide an approved SARS tax directive relating to a commission earner?

No, in this case the tax directive applies to commission that the client earns and not the annuity income.

Internal process note

Should the client require us to apply the commission directive percentage, they will have to follow the preferred tax rate process.

18. What must be completed on the opt-out instruction form?

1. Contract number: Only one investment/policy number is required.
2. Notes are available to help clients understand the requirements to complete the instruction, together with email communication and/or SMS.
3. Annuitant details.
4. Communication details.

5. Annuitant instruction: Only one option can be selected.
6. Annuitant instruction from date: It can only be applied to future income and not backdated.
7. Annuitant declaration and signature.
8. The opt-out instruction must be emailed to the respective business support teams.

19. On which platforms can the opt-out instruction form be found?

1. VIA, under Investo, traditional, Wealth and annuities.
2. CCF.
3. momentum.co.za

20. Where will advisers/consultants be able to view affected clients?

On **VIA**, under the **PowerBI platform**.

A financial adviser will only be able to see their affected clients and not the clients of other financial advisers.

21. A financial adviser requests an explanation of the various rates applied on the Power BI report.

Explanatory notes are available on Power BI under Tax Report, Explanatory Notes.

The screenshot displays the 'Tax Report - Power BI' dashboard. The left sidebar lists various reports under 'MDS Channel Insights'. The main content area is titled 'Explanatory Notes' and contains the following sections:

- Purpose for the Report:** The report is aimed at actively monitoring affected annuitants impacted (Annuities, Wealth, Traditional and Investo) by the new Paragraph 2 (2B) of the Fourth Schedule to the Income Tax Act, who receive more than one source of income and are often left with a tax liability at the end of a tax year. SARS has put a process in place where employers, fund administrators and insurers will receive a directive, requiring them to apply a specified tax rate against affected taxpayers' income. The process implemented by SARS commenced on 1 March 22 and will be required to be done on an annual basis.
- Support:**
 - Wealth contact centre:** ShareCall: 0860 546 533, Telephone: +27 32 675 3000, Email: sars@wealth@momentum.co.za
 - Annuities contact centre:** ShareCall: 0860 260 843, Telephone: +27 32 675 3000, Email: sars@annuities@momentum.co.za
 - Investment contact centre:** ShareCall: 0860 664 921, Telephone: +27 32 675 3034, Email: sars@investments@momentum.co.za
 - Traditional contact centre:** ShareCall: 0860 665 876, Telephone: +27 32 675 3056, Email: sars@traditional@momentum.co.za
- Explanatory Notes:**
 - Tax Applied Rate % - This is the tax rate applied to the latest income event.** The rate is determined by the tax aggregation engine where we compare the different rates captured with their relevant rule settings, and then apply the relevant rate accordingly. This rate might differ from the SARS Fixed rate and from the clients preferred rate depending on the combined tax state of the client. In principle, the tax applied rate applicable to the Client and Policy, will be the highest of the Fixed tax rate %, the Income tax table rate % and the Client Preferred tax rate %.
 - SARS Fixed Tax Rate % - This is the fixed rate issued by SARS on an annual basis (Feb and March)** The SARS Fixed tax rate % as provided by SARS in terms of Paragraph 2 (2B) of the Fourth Schedule to the Income Tax Act will be applicable to annuity income earners where multiple sources of income have been identified by SARS. Therefore, not all annuity income earners are potentially impacted.
 - Client Preferred tax rate % - The preferred tax rate % as selected by the Client** This rate should in principle always be higher than the income tax table rate % calculated by default on all annuity income transactions. Note however that should this rate at any stage during the tax year become less than the income tax table rate %, our system will automatically convert to the income tax table rate %.
 - Reduced Tax Directive Rate % - This is not your paragraph 2(2B) tax rate directive that SARS sent to us.** Instead, it is a directive that you received from SARS and that is usually lower than the SARS standard Pay-As-You-Earn tax tables % and only applies to Double Taxation Agreements. The client will need to follow the R201 process with SARS to apply for such directive. NOTE: a commission income directive does not qualify as a reduced tax directive on annuity income.
 - Income Tax Tables Tax Rate % - Tax rate % based on the SARS standard Pay-As-You-Earn tax tables.** The Momentum Tax aggregation calculator combines all the annuity income linked to a client's ID across his Momentum Investments and Momentum Retail portfolio and then applies the exceeded annual income to the SARS standard Pay-As-You-Earn tax tables.
 - Opt out Status - This status will reflect if Momentum received and processed an opt out instruction on the relevant client. This status should apply to all annuity contracts for the client.** The Status of the client in respect of either choosing not to have the SARS Fixed tax rate % applied or if failing, accepting the SARS Fixed tax rate %.

22. What errors have been encountered when receiving the opt-out instruction forms?

- 22.1 Option 1 – SARS standard PAYE tax tables: The normal tax aggregation will apply as per 24.1 Not all client details included, such as income tax number and identity number.
- 22.2 No 'From Date' has been included.
- 22.3 More than one option has been selected. Only one option can be selected now.
- 22.4 Opt-out instruction form not sent to correct email address.
- 22.5 Instruction not being captured under the correct source document type – TAXOPTOUT on Activity Viewer.

23. Can a client who is affected by the fixed percentage tax rate opt back in after having opted out?

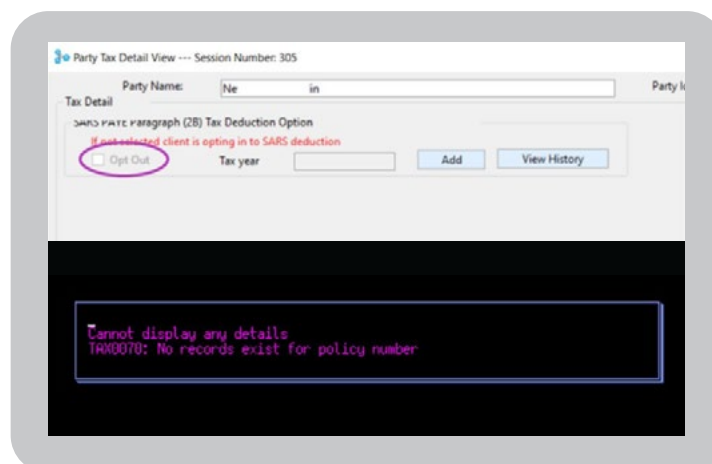
Yes, the client can.

Internal process note

- The client would need to provide a new written instruction to Momentum requesting that the fixed percentage tax rate be re-applied to all affected annuity income policies.
- The original SARS fixed rate should then be captured as the preferred tax rate.

24. How do you know if a Wealth contract was not affected by paragraph 2(2B)?

- The opt-out option is greyed out on the Gemstone option, and
- There is no record found on the green screen option.



25.

Aggregation tax rate is 0.00% and the client opted out, but the higher SARS fixed rate was already applied.

- Tax aggregation rate was originally **0%**.
- A SARS fixed percentage tax rate was received from SARS – **17%**.
- The client **opted out after the income** was already paid and tax was deducted.
- The client was taxed at 17% based on the SARS fixed rate.

SARS provided a fixed percentage tax rate in February 2022 and March 2022. This is due to the adjustments that were made to rebates for individuals for the new tax year based on the Budget Speech. Clients would only have received two communications if the rate received in the first SARS communication differed from the rate in the second SARS communication..

Internal process note

- If the client chose to opt out of the SARS fixed rate and the applied tax rate for future tax periods (for example, April 2022) is 0%, a refund can be processed.
- In the case where the client wants to opt out a reversal or TOR (tax on RIO adjustment) will have to be done and the client refunded.

26.

The aggregation rate is 10% and the client opted out, but the higher SARS fixed rate was already applied.

- Tax aggregation rate was originally **10%**.
- A SARS fixed percentage tax rate of 17% was received from SARS.
- The client **opted out after the income** was already paid and tax was deducted.
- The client was taxed at 17% based on the SARS fixed rate.

SARS provided a fixed percentage tax rate in February 2022 and March 2022. This is due to the adjustments that were made to rebates for individuals for the new tax year based on the Budget Speech. Clients would only have received two communications if the rate received in the first SARS communication differed from the rate in the second SARS communication.

Internal process note

- If the client chose to opt out of the SARS fixed rate and the applied tax rate for future tax periods (for example, April 2022) is 10%, the tax aggregation process will correct the tax over the remaining months, until the end of February 2023, to ensure that the correct tax is deducted for the full tax year.
- No further actions will be required in this case.

27.

Momentum sent me a letter confirming the SARS fixed rate of 30%. I accepted this rate by not submitting the opt-out form. I see that on my March income I was taxed at 33%. Why am I not being taxed at the SARS fixed percentage tax rate?

Due to the timing of the SARS information released to the fund administrators, they allowed for a delayed implementation. In most instances, depending on the income date of the annuity, Momentum only started to apply the SARS fixed PAYE rate from April 2022.

- This means that the client would have been taxed based on the normal tax aggregation table rates as per the normal process for March 2022.
- Any over- or under-deduction caused by the delayed implementation would be corrected during the rest of the tax year.

28.

Example: The March income payment with tax deducted at 4.6% with no opt out requested, and the April tax deduction is greater than the SARS fixed tax rate.

If the client has opted out, the instruction can then be processed with a capture date of the same date as the current system date. For example, if the client selected a date of 1 August 2022, the current date that should be captured is 25 April 2022 if the instruction was received on 25 April 2022.

The main factor that must be considered is whether the client opts out or not. If the client chooses to opt out, the transactions can be processed sooner at the requested rate. (It cannot be backdated. For example, if an instruction is received on 25 April 2022, a date earlier than 25 April 2022 cannot be used as transactions should not be backdated.) This limits any corrections at a later stage.

This is, however, being investigated to determine if a future opt out can be applied or not.

29.

Example: The March income payment with tax deducted at 4.6% with no opt out requested, and the April tax deduction is greater than the SARS fixed tax rate.

- Tax rate originally is 4.6%.
- March 2022 income is taxed at 4.6% and paid.
- SARS fixed percentage tax rate = 17%.
- Client has not opted out.
- New tax aggregation rate from April 2022 income = 21%.

The tax aggregation process ensures that the tax is correctly calculated for the full tax year and ensures that the tax deducted over the remainder of the period is correct. The overall tax percentage deducted for the full tax year will be equal the SARS fixed percentage tax rate of 17%.

30.

Example: The March income payment with no tax deducted and no opt out requested, and the April tax deduction is greater than the SARS fixed tax rate.

- March 2022 tax rate = 0%.
- SARS fixed percentage tax rate = 35.99%.
- April 2022 tax rate = 35.99%.

Income from April until the end of the tax year will calculate the tax on 11 months for the annual income based on the SARS fixed rate. This rate will increase to recoup the tax which should have been deducted in March and spread over the remaining 11 months.

In the case where the client wants to opt out, a reversal or TOR (tax on RIO adjustment) will be done and the client refunded as per the normal tax rate tables for 2023TY and is 0% in this scenario.

31.

How do I access the affected clients on the Power BI?

33.1 VIA application:

- **Log into VIA.**
- **Consultant:**
 - **After logged in:**
 - Click on Impersonation.
 - Enter respective details for an FA being Broker Code and House Code.
 - Then click on Search.
 - Then click on Impersonate.
 - On the Insights Block, click on View Reports.
 - Then select Tax Report.
 - All affected clients will then be seen for the impacted adviser.
- **Financial adviser:**
 - After logged in.
 - On the Insights Block, click on View Reports.
 - Then select Tax Report.
 - All affected clients will then be seen for the impacted adviser.

33.2 Power BI application:

- **FA log into Power BI using the link app.powerbi.com**
- **Enter credentials to log in**
- **For MFP:**
 - Search for MFP PC Reports – select.
 - Then select Tax Rate report.

Power BI MFP Channel Reports Tax Report | Data updated 4/28/22

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- Tax Report
- Explanatory Notes**
- Tax Rate Report

Explanatory Notes

Purpose for the Report

The report is aimed at actively monitoring affected annuants impacted (Annuities, Wealth, Traditional and Investo) by the new Paragraph 2 (2B) of the Fourth Schedule to the Income Tax Act, who receive more than one source of income and are often left with a tax liability at the end of a tax year. SARS has put a process in place where employers, fund administrators and insurers will receive a directive, requiring them to apply a specified tax rate against affected taxpayers' income. The process implemented by SARS commenced on 1 March 22 and will be required to be done on an annual basis.

Support

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Traditional contact centre
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Telephone: +27 12 475 3034
Email: trad@momentum.co.za

Explanatory Notes

Tax Applied Rate % - This is the tax rate applied to the latest income event. The rate is determined by the tax aggregation engine where we compare the different rates captured with their relevant rule settings, and then apply the relevant rate accordingly. This rate might differ from the SARS Fixed rate and from the clients preferred rate depending on the combined tax state of the client. In principle, the tax applied rate applicable to the Client and Policy, will be the highest of the Fixed tax rate %, the income tax table rate % and the Client preferred tax rate %.

SARS Fixed Tax Rate % - This is the fixed rate issued by SARS on an annual basis (Feb and March). The SARS fixed tax rate % is provided by SARS in terms of Paragraph 2 (2B) of the Fourth Schedule to the Income Tax Act and will be applicable to annuity income earners where multiple sources of income have been identified by SARS. Therefore, not all annuity income earners are potentially impacted.

Client Preferred Tax Rate % - The preferred tax rate % as selected by the Client. This rate should in principle always be higher than the income tax table rate % calculated by default on all annuity income transactions. No verification or approval from SARS is required. Note however that should this rate at any stage during the tax year become less than the income tax table rate %, our system will automatically convert to the income tax table rate %.

Reduced Tax Directive Rate % - This is not your paragraph 2(2B) tax rate directive that SARS sent to us. Instead, it is a directive that you received from SARS and that is usually lower than the SARS standard Pay-As-You-Earn tax tables and only applies to Double Taxation Agreements. The client will need to follow the SARS process with SARS to apply for such directive. NOTE: a commission income directive does not qualify as a reduced tax directive on annuity income.

Income Tax Tables Tax Rate % - Tax rate % based on the SARS standard Pay-As-You-Earn tax tables. The Momentum Tax aggregation calculator combines all the annuity income linked to a client's ID across his Momentum Investments and Momentum Retail portfolio and then apply the expected annual income to the SARS standard Pay-As-You-Earn tax tables.

Opt out Status - This status will reflect if Momentum received and processed an opt out instruction on the relevant client. This status should apply to all annuity contract for the client. The Status of the client in respect of either choosing not to have the SARS Fixed tax rate % applied or if blank, accepting the SARS Fixed tax rate %.

- For MDS:
 - Search for MDS CC Reports - select.
 - Then select Tax Rate report.

Power BI MDS Channel Insights Tax Report | Data updated 4/28/22

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- Maturities Report
- New Business Report
- Tax Report
- Explanatory Notes**
- Tax Rate Report

Explanatory Notes

Purpose for the Report

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Support

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Email: investo@momentum.co.za

Traditional contact centre
ShareCall: 0860 600 876
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Email: trad@momentum.co.za

Explanatory Notes

Tax Applied Rate % - This is the tax rate applied to the latest income event. The rate is determined by the tax aggregation engine where we compare the different rates captured with their relevant rule settings, and then apply the relevant rate accordingly. This rate might differ from the SARS Fixed rate and from the clients preferred rate depending on the combined tax state of the client. In principle, the tax applied rate applicable to the Client and Policy, will be the highest of the Fixed tax rate %, the income tax table rate % and the Client preferred tax rate %.

SARS Fixed Tax Rate % - This is the fixed rate issued by SARS on an annual basis (Feb and March). The SARS fixed tax rate % is provided by SARS in terms of Paragraph 2 (2B) of the Fourth Schedule to the Income Tax Act and will be applicable to annuity income earners where multiple sources of income have been identified by SARS. Therefore, not all annuity income earners are potentially impacted.

Client Preferred Tax Rate % - The preferred tax rate % as selected by the Client. This rate should in principle always be higher than the income tax table rate % calculated by default on all annuity income transactions. No verification or approval from SARS is required. Note however that should this rate at any stage during the tax year become less than the income tax table rate %, our system will automatically convert to the income tax table rate %.

Reduced Tax Directive Rate % - This is not your paragraph 2(2B) tax rate directive that SARS sent to us. Instead, it is a directive that you received from SARS and that is usually lower than the SARS standard Pay-As-You-Earn tax tables and only applies to Double Taxation Agreements. The client will need to follow the SARS process with SARS to apply for such directive. NOTE: a commission income directive does not qualify as a reduced tax directive on annuity income.

Income Tax Tables Tax Rate % - Tax rate % based on the SARS standard Pay-As-You-Earn tax tables. The Momentum Tax aggregation calculator combines all the annuity income linked to a client's ID across his Momentum Investments and Momentum Retail portfolio and then apply the expected annual income to the SARS standard Pay-As-You-Earn tax tables.

Opt out Status - This status will reflect if Momentum received and processed an opt out instruction on the relevant client. This status should apply to all annuity contract for the client. The Status of the client in respect of either choosing not to have the SARS Fixed tax rate % applied or if blank, accepting the SARS Fixed tax rate %.

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Explanatory Notes

Tax Rate Report

Adviser	Tax Year	Policy Number	Initials	First Name	Surname	Date Of Birth	Tax Applied Rate %	Sars Fixed Tax Rate %	Client Preferred Tax Rate %	Reduced Tax Directive Rate %	Income Tax Tables Tax Rate %	Opt out Status

32. What is the impact on new business?

Scenario A – Client exists but new business

1. SARS fixed rate for client and client opted out and client has current annuity income. The system will aggregate the combined income. Aggregation is based on the current tax tables. A preferred rate can be requested by the client but should be higher than the tax tables rate.
2. SARS fixed rate for client and client has not opted out, the SARS fixed rate will be applied if lower/higher than the tax tables rate. Should the client wish to apply a preferred rate higher than the SARS rate, the client would need to opt out.
3. Where a client has opted out and has provided a RST01 directive then the RST01 tax rate will be used.

Scenario B – client does not exist, new business

1. Normal tax tables rates should be applied as we have not received a SARS fixed rate directive. Should the client request a preferred rate, this can be captured as long as the preferred rate is higher than the tax tables rate.