How are group life premiums and benefits taxed?

1. Death Benefits

Insuring the lives of a group of employees of an employer can be done in the following way:

- Through the tax-approved pension or provident fund sponsored by the employer (there is no distinction between a standalone or an umbrella fund), provided that death cover is incorporated into the rules of such a tax approved fund (this is known as “approved cover”); and/or
- Through a group life insurance policy issued by an insurer to the employer in respect of its employees. This insurance is separate from or outside the fund rules (this is known as “unapproved cover”).

The difference between approved and unapproved cover is explained below:

When can contributions/premiums be deducted?

<table>
<thead>
<tr>
<th>Employer contribution/premium</th>
<th>Approved cover i.e. through a pension or provident fund</th>
<th>Unapproved cover i.e. not through a pension of provident fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee contribution/premium</td>
<td>Taxed as a fringe benefit in the member’s hands and then deemed to have been made by the employee. Employer contributions together with member contributions are tax deductible by the member, subject to a maximum of 27.5% of the greater of the member’s remuneration or taxable income (subject to an annual cap of R350,000). Tax deductible for the employer.</td>
<td>Taxed as a fringe benefit in the employee’s hands. It is not tax deductible for the employee. Tax deductible for the employer.</td>
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<tr>
<td></td>
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<td>It is not tax deductible for the employee.</td>
</tr>
</tbody>
</table>
Taxation of lump sum death benefits

### Approved cover i.e. through a pension or provident fund

<table>
<thead>
<tr>
<th>Amount Range</th>
<th>Tax Rate/Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 - R500 000</td>
<td>0%</td>
</tr>
<tr>
<td>R 500 001 - R 700 000</td>
<td>18%</td>
</tr>
<tr>
<td>R 700 001 - R 1 050 000</td>
<td>R36 000 + 27% of amount above R700 000</td>
</tr>
<tr>
<td>R 1 050 001 and above</td>
<td>R130 500 + 36% of amount above R1 050 000</td>
</tr>
</tbody>
</table>

It must be noted that any amounts received on previous withdrawals (from a retirement fund) will be taken into account when applying the above tax table, i.e. it is cumulative.

Approved lump sum benefits (as well as pensions) are not subject to estate duty.

### Unapproved cover i.e. not through a pension of provident fund

- Full benefit tax-free.
- Unapproved lump sum benefits are subject to estate duty.

Payment of benefits

### Approved cover i.e. through a pension or provident fund

- Benefits are paid to one or more of the dependants and/or nominees of the member, as deemed equitable by the board of trustees of the fund.

- Section 37C of the Pension Funds Act, 1956 governs the payment of death benefits by a retirement fund.

### Unapproved cover i.e. not through a pension of provident fund

- The payment of benefits is not subject to the Pension Funds Act. Benefits are paid in accordance with the terms and conditions of the particular policy. For example, the policy may state that the benefit must be paid to the nominees of the deceased, failing which to the deceased’s estate.

- The employer and insurer are bound by the policy wording.

2. Disability benefits

Temporary disability insurance/cover, also known as PHI, may not be provided under a retirement fund. Permanent disability insurance/cover, provided as an accelerated death benefit, may however be provided under a retirement fund and is treated as a retirement benefit and taxed according to the scales in paragraph 1 above (i.e. the same scales that apply to approved lump sum death benefits).
Where permanent disability cover is provided under an unapproved group life insurance policy, the tax treatment of premiums and lump sum benefits is as indicated in the first two tables in paragraph 1 above (unapproved cover).

Since 1 March 2015 the tax treatment of premiums to a temporary disability (PHI) policy and premiums to unapproved group life insurance is the same, namely:

• If the terms of the employment compel the employer to pay the premiums, these must be taxed in the hands of the employee as a fringe benefit;
• If the terms of the employment compel the employee to pay the premiums, these must be taxed in the hands of the employee and must be deducted from the after-tax salary of the employee;
• There is no tax deduction for employees in respect of premiums to a PHI policy, but from 1 March 2015, PHI benefits are no longer taxable.