FAQ – Tax on leave credits paid out

A Fin24 user wants to know about tax paid on leave credits due to be paid out to him when he retires. He writes:

I consider retirement at the age of 61. On retirement leave credits will be paid out. The total leave credit will be equivalent to approximately 18 months.

I assume that the leave payout will be taxed. Will it be taxe as gross income or will it be regarded as a lump sum and be taxed at R135 000+ 36% above R600 000?

Willem Oberholzer of Probity Advisory responds.

The legislation was amended and is effective from March 1 2013.

Leave pay is considered to be "variable remuneration", which is a defined term and is therefore specifically included in gross income.

There are specific anti-avoidance measures in place to stop people from “dressing up” leave pay to look like some other lump sum benefit subject to reduced rates.

In essence you will have to pay tax on it. The tax is only due and payable when the lump sum is actually paid across to you.

In so far as the amount, it will be at your marginal rate specific to your income bracket. (See the table below.)

Please note that there is specific tax relief for other forms of lump sum payments, which we have not covered in this brief response.

2014 tax year (1 Marchh 2013 to 28 Feb 2014)

Taxable income rates of:
R 0 – R165 600 18% of taxable income
R165 601 – R258 750 R 29 808 + 25% of the amount over R165 600
R258 751 – R358 110 R 53 096 + 30% of the amount over R258 750
R358 111 – R500 940 R 82 904 + 35% of the amount over R358 110
R500 941 – R638 600 R132 894 + 38% of the amount over R500 940
R638 601 + R185 205 + 40% of the amount over R638 600

– Fin24