

GMS Flash Alert

2025-169 | 19 September 2025

South Africa – Removal of Income Tax Exemption for Foreign Retirement Fund Pay-Outs

Foreign retirement benefits received by South African tax residents will be taxable in terms of domestic legislation from 1 March 2026 (with 1 March being the commencement of the South African tax year).

The terms “pension” and “lump sum” are not defined in local South African tax legislation. However, per the OECD commentary on “The Model Tax Convention on Income and Gains” (21 November 2017), “pension” refers to periodic (or recurring) payments from a retirement fund. That said, a “lump sum” would be regarded as a one-time payment.

WHY THIS MATTERS

Under this proposal, South Africa will be allowed to tax these retirement fund benefit payments. While under current rules, an income tax exemption applies, this proposed change will remove that exemption and affect South African globally mobile employees who have built up foreign retirement funds while having worked abroad as well as foreign nationals who have become South African tax residents and will receive pay-outs (both one-time payments and recurring payments) from their foreign retirement funds.

Moreover, this proposed amendment will potentially have a significant material impact on the cash flows of South African tax residents.

Also, it is expected to broaden the tax base and address the issues of double non-taxation and lost treaty rights.

More Details

Background

Section 10(1)(gC)(ii) of the *Income Tax Act No.58 of 1962* (“the ITA”) currently provides an income tax exemption in South Africa for any lump sum, pension, or annuity received by or accrued to a South African tax resident from a foreign source, provided it relates to past employment outside of South Africa.

© 2025 KPMG Services Proprietary Limited, a South African company with registration number 1999/012876/07 and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

2025-169 | 19 September 2025

New Rules

The *Draft Taxation Laws Amendment Bill, 2025*,¹ proposes the deletion of section 10(1)(gC)(ii) of the ITA (in its entirety).

This amendment will remove the current exemption for foreign retirement benefits received by South African tax residents for services rendered outside South Africa. As a result, such lump sums, pensions, and annuities from foreign jurisdictions will become taxable in South Africa in line with its residence-based tax system.

Why?

The provision was originally intended to prevent double taxation on retirement income already taxed in the foreign jurisdiction or earned while the individual was not subject to South African taxation. Over time, however, the exemption has led to unintended tax outcomes (e.g., double non-taxation) and revenue loss for the South African fisc.

Key Measure: Taxation of Retirement Lump Sums

- Where a person receives a lump sum (where the lump sum is a withdrawal benefit or a lump sum upon retirement) from a pension fund, pension preservation fund, provident fund, provident preservation fund, or a retirement annuity fund (all defined terms in the ITA), special concessionary tax rates apply to these lump sums to the extent that the retirement fund falls within the ambit of retirement funds for South African tax purposes. Generally speaking, the retirement funds are South African retirement funds.
- It is not clear whether these concessionary tax rates will apply to lump sums from foreign retirement funds.
- To the extent that any applicable double taxation agreement in place does not offer any relief from double taxation, the taxpayer may rely on the domestic tax provisions for unilateral tax relief (i.e., the application of foreign tax credits, which will be applied to reduce any South African taxes due on foreign retirement income).

KPMG INSIGHTS

Steps to Consider

The removal of the income tax exemption for foreign retirement benefits received by South African tax residents for services rendered outside South Africa changes the tax landscape for such payments. In light of the upcoming changes (starting 1 March 2026), individuals and entities within the scope of the amendment may wish to consider reviewing their retirement planning strategies and assessing the potential tax implications well in advance of the effective date.

This proposed amendment will potentially have a significant material impact on the cash flows of South African tax residents. It will broaden the tax base and address the issues of double non-taxation and lost treaty rights.

(The South African Revenue Service (“SARS”) had invited stakeholders to provide feedback on the proposed amendment.)

If assignees and/or their programme managers have any questions or concerns about how to handle their foreign retirement plan benefits pay-outs (timing, place, form, etc.) and questions about being/becoming South African tax resident and the tax implications in respect of such pay-outs, they should consult with their qualified tax professional or a member of the GMS tax team with KPMG in South Africa (see the Contacts section).

FOOTNOTE:

1 *Draft [Taxation Amendment Bill 2025](#)* and Explanatory Memorandum, National Treasury, Republic of South Africa, published on 16 August 2025.

* * * *

Contact Us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in South Africa:



Melissa Duffy
Associate Director
Tax GMS
Tel. + 27 (0) 82 448 1989
melissa.duffy@kpmg.co.za



Vanessa Raath
Senior Tax Manager
Tax GMS
Tel. + 27 (0) 82 719 3555
vanessa.raath@kpmg.co.za



Zohra De Villiers
Partner
Tax GMS
Tel. + 27 (0) 82 719 0279
zohra.devilliers@kpmg.co.za

The information contained in this newsletter was submitted by the KPMG International member firm in South Africa.

© 2025 KPMG Services Proprietary Limited, a South African company with registration number 1999/012876/07 and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

www.kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us:



kpmg.com

© 2025 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in the U.S.A. USCS001250-2F

The KPMG name and logo are registered trademarks or trademarks of KPMG International. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG LLP is the U.S. firm of the KPMG global organization of independent professional services firms providing Audit, Tax and Advisory services. The KPMG global organization operates in 147 countries and territories and has more than 219,000 people working in member firms around the world.

Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

GMS Flash Alert is a publication of the KPMG LLP Washington National Tax practice.

KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.