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.

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.

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Contact Us

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