

Increase in tax-exempt portion of lumpsum payments

A positive impact on pension lumpsum payments, severance pay, gratuity and retrenchment packages

Tax exempt portion of lump sum pension payments, severance pay, gratuities and retrenchment packages increased, effective 15 January 2024.

With effect from the 15 January 2024 the Income Tax Act (Cap 50:01), was amended, through the Income Tax (Amendment) Act, 2024, to increase the tax-exempt portions of lump sum payments from pension entitlement, contractual bonus and gratuity, severance pay, etc. The Act was also amended to exempt from tax, amounts withdrawn from pension entitlement for the purposes of medical treatment or for settling a loan. A summary of specific exemptions is given below

Income Tax Act Section /Schedule	Nature of income	Persons affected	Portion / amount of lump sum payment exempt from income tax	
			Prior to 15 January 2024	Effective 15 January 2024
Section 32 (7)	Approved service gratuity and severance pay not invested in an approved pension or retirement fund	Citizens	One third	50%
Section 32 (10)	Contractual gratuity	Citizens (other than specified government employees)	One third	50%
Section 32 (11)	Contractual bonus or gratuity deemed reasonable by the Commissioner General	Non-citizens	One third	50%
Section 32 (12)	Severance pay	Citizens and non-citizens	One third	50%
Section 32 (14)	Retrenchment Package	Citizens and non-citizens	One third or amount equivalent to the individuals tax threshold (currently P48,000) whichever is the greater	50% or amount equivalent to the non-taxable threshold (currently P48,000) whichever is the greater
Second Schedule, Part II (xvii)	Commutated pension	Citizen and non-citizen employees	An amount not exceeding one third of the pension entitlement at the date of retirement	An amount not exceeding 50% of the pension entitlement at the date of retirement
Second Schedule, Part II (xviii)	Commutated pension or annuity	Citizens and non-citizens (other than an employee qualifying for exemption under Part II (xvii))	An amount not exceeding one third of the full pension or annuity entitlement at the date of retirement	An amount not exceeding 50% of the full pension or annuity entitlement at the date of retirement
Second Schedule, Part II (xxix)	Annual pension or annuity	Citizens and non-citizens excluding persons qualifying for exemption under (xvii) and (xviii) of Part II of the Second Schedule (see above)	Where the annual pension or annuity does not exceed P5,000, the actuarially calculated sum representing the commutation of the pension or annuity	Where the annual pension or annuity does not exceed P20,000, the actuarially calculated sum representing the commutation of the pension or annuity
Second Schedule, Part II (xliv)	Amount withdrawn from pension entitlement for medical treatment	Deferred member under the Retirement Funds Act	No exemption	100%
Second Schedule, Part II (xlv)	Amount withdrawn from pension entitlement for the purposes of settling a loan	Deferred pension fund member	No exemption	50% of amount withdrawn, OR 100% of amount withdrawn where, due to tax, the deferred amount is less than the loan payable

This is a welcome development that positively impacts employees prior to and after retirement. The increase in exemptions results in an increase in the after-tax payout of commuted pension, gratuity and severance pay, etc. In addition, the exemption of pension withdrawals allows pensioners to utilise savings made in their lifetime for more immediate health or loan repayment needs.

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