



IMPORTANT AND URGENT ANNOUNCEMENT PPS Tax Status Determined.

After three years of intense discussions with SARS, the tax position of PPS policies and benefits has been resolved.

The tax position of the sickness, partial and permanent incapacity benefits are:

1. Taxation of benefits

- **Sickness benefits** are of a **capital nature** and are therefore **not taxable** in the hands of the PPS Insurance policyholders.
- **Permanent incapacity benefits** are regarded as an **annuity** and are therefore **taxable** in the hands of the policyholder.
- **Partial incapacity benefits** are also regarded as an **annuity** even if the policyholder returns to work after a period of sickness but who has satisfied the board that he/she is unable to work normal hours or perform normal duties. This partial benefit is therefore also **taxable** in the hands of the policyholder.

2. Deductibility of premiums

Premiums paid by PPS Insurance policyholders are **not tax deductible** regardless of whether policyholders are in receipt of sickness or incapacity (partial or permanent) benefits.

3. Apportionment account and special benefit account (Surplus Rebate Account)

Like in the past, payment of benefits from the surplus rebate account remains of a capital nature and will continue to be paid tax-free to policyholders on cessation.



4. Practical implications for policyholders

Incapacity benefits

- PPS Insurance will now only provide policyholders who received incapacity (partial or permanent) benefits during the previous tax year with a certificate for income tax purposes.
- The certificates for the 2003 tax year were posted on 4th June 2003.
- An amended tax certificate for policyholders in receipt of incapacity benefits during the 2001 and 2002 tax years will be posted, together with a covering letter explaining the ruling from SARS, by no later than 20th June 2003.
- With immediate effect, PAYE will be deducted from the amounts paid to policyholders in receipt of such benefits.

Sickness benefits

- Policyholders who received sickness benefits during the 2003 tax year will not be receiving a tax certificate, as sickness benefits are not taxable.
- Policyholders will receive a letter to inform them that their sickness benefits are no longer taxable and the letter will be posted no later than 13th June 2003.
- In respect of the 2001 and 2002 tax years, policyholders who received sickness benefits during either of these years, will receive a letter reflecting the amount of sickness benefits received for each respective tax year.
- The reason for the letter is to bring to the attention of these policyholders, the exact amount that was previously taxable and potentially taxed and now no longer is. Note that this will be a letter and NOT a tax certificate.
- With immediate effect, statements for policyholders receiving sickness benefits will have a note on their statements indicating that sickness benefits are not taxable.

5. Communication

- Relevant information will be published on the PPS website by 10th June 2003.
- A comprehensive article explaining the ruling to all policyholders will be published in the July edition of Professional Profile.
- All relevant training manuals and product guides will be updated to reflect the impact of the tax ruling on PPS Insurance benefits and premiums.



6. Duplicate tax certificates

- The certificate reflecting premiums paid on units of benefits, and life assurance will with immediate effect be changed to clearly indicate that it is not a certificate for tax purposes and merely a recording of premiums paid.
- Sickness benefits – no certificate will be available, but a letter regarding the amount will be sent.
- Incapacity benefits and Profmed (claims and premiums) – a duplicate certificate will be produced with the relevant amounts received for these benefits on request.

Please note that an electronic copy of the ruling from SARS is available on request from Bernice Levin (blevin@pps.co.za). This ruling will also be available at a later stage on the PPS website.