

Law Navigator



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Pension-backed housing loan deductions

This edition of Law Navigator builds on Law Navigator 6 – 2025, which gave an overview of the protection of benefits and the different types of deductions allowed for in the Pension Funds Act. This is the second edition in a series focusing on allowable deductions.

What the Pension Funds Act allows

Section 19(5) of the Pension Funds Act allows a fund to provide a direct housing loan to a member or to issue a guarantee in favour of a third party who provides such a loan (if the fund's rules allow for it). The loan must be used to build, buy or maintain a property owned by the member and/or the member's spouse in which the member or a dependant of the member lives. The maximum percentage of a member's retirement benefit against which the loan or guarantee can be granted as prescribed in section 19(5) is 65%.

Section 37D(1)(a) allows for the deduction of an outstanding pension-backed housing loan.

What SURF allows

SURF's general rules do not permit direct housing loans but allow the fund to furnish a housing loan guarantee in favour of a third party.

The SURF trustees have partnered with Standard Bank and FNB and negotiated preferential interest rates with them. The repayment period of the loan is linked to the member's outstanding term to retirement, limited to the maximum home loan period allowed by banks, which is 20 years.

The banks have entered into agreements with SURF and will enter into an agreement with the participating employer of a member who wants to make use of this facility.

The purpose of the three-party agreement is firstly to compel the employer to deduct the monthly instalment of the housing loan provided by the bank from the member's salary and pay it to the bank, and secondly for SURF to guarantee the pension-backed loan in the

event of a default by the member or of the member leaving SURF before the full housing loan has been repaid.

Deduction of outstanding loan amount

In line with section 37D(1)(a) of the Pension Funds Act, SURF may deduct an outstanding loan amount under certain conditions.

Member action	SURF deduction
Default on the repayment of their housing loan instalments	From the benefit the member would have received on termination of their SURF membership on the date of default
Transfer to another fund	From the transfer amount
Termination of SURF membership before the full pension-backed housing loan has been repaid	From the benefit the member or beneficiary becomes entitled to

If a maintenance or divorce amount must be deducted from a member's benefit at the same time as the housing loan deduction, the pension-backed housing loan deduction will rank first, (after the tax payable under the Income Tax Act).

The deduction must be made proportionately across the member's vested, savings and retirement components.

Tax payable on housing loan deduction

If a deduction in favour of the bank that provided the pension-backed housing loan is made while the member is still a member of SURF, the tax-on-tax principle will apply. SURF will first apply for a tax directive on the outstanding housing loan amount. The tax on this deduction will be calculated on the withdrawal tax table.

SURF will then apply for a second tax directive for the tax payable on the tax reflected in the first directive. The second tax is calculated using a SARS-prescribed formula to ensure the correct amount of tax is paid, thereby avoiding underpayment or potential issues for the member in future. For example, if the tax reflected in the first directive is R18,000 and the effective tax rate is 27%, the amount for the second tax directive will be calculated by dividing R18,000 by (100 minus 27)

and then multiplying by 100, resulting in R24,657.53. Both the tax indicated on the first directive and the tax-on-tax set out in the second directive will be deducted proportionately across the member's vested, savings and retirement components, and the bank will receive the full outstanding amount instead of an after-tax amount.

Where the deduction is made at the same time as termination of the member's SURF membership, the deduction amount will be taxed on the withdrawal tax table, and SURF will only apply for the first tax directive referred to above.

Restrictions on pension-backed housing loans

If SURF is notified and receives proof that the member is involved in divorce proceedings that will lead to a claim against their pension interest, SURF is not allowed to grant a pension-backed housing loan to that member unless the non-member spouse agrees to it.

If a member already has a pension-backed housing loan, SURF cannot process a withdrawal from their savings component if the amount remaining after the granting of the loan will be insufficient to settle their housing loan balance.

Next edition of Law Navigator

The next edition of Law Navigator will focus on maintenance order deductions.