



**DEPARTMENT: PUBLIC SERVICE AND ADMINISTRATION  
REPUBLIC OF SOUTH AFRICA**

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**TO ALL HEADS OF NATIONAL/PROVINCIAL DEPARTMENTS AND  
PROVINCIAL ADMINISTRATIONS**

**IMPLICATIONS OF THE NEW TAX PROVISIONS ON THE MOTOR VEHICLE  
ALLOWANCE (2005/06 TAX YEAR) AND THE REVISED EMPLOYER'S  
CONTRIBUTION TO THE GEPF, EFFECTIVE FROM 1 APRIL 2005: MEMBERS  
OF THE SMS**

1. This letter deals with the implications of the new tax provisions on the motor vehicle allowance (2005/06 tax year) and the revised employer's contribution to the GEPF, on the SMS dispensation and on the position of those individual SMS members **who are appointed in terms of the Public Service Act, 1994.**

**Introduction**

2. The inclusive flexible remuneration packages of SMS members admitted to the Government Employees Pension Fund (GEPF) consist of three components, namely the basic salary (pensionable), the employer's contribution to the GEPF and the flexible component. Members are allowed to structure the flexible component into various remunerative allowances (i.e. motor vehicle allowance) or benefits within certain parameters. Members not admitted to the GEPF are allowed to structure the total package into the same remunerative allowances and benefits.
3. A member entering the SMS for the first time must structure the flexible component of his or her inclusive remuneration package. Each change following the original structuring would entail a restructuring (change) to the flexible component.
4. In terms of the Dispensation for the SMS (Annexure C to this Department's Circular 1 of 2005 (paragraph 10)) members may only restructure (change) the flexible component of their packages in the following circumstances:

- (a) One year after the date of implementation of the inclusive flexible remuneration package system.
- (b) On promotion to a higher grade (position).
- (c) Adjustment of the remuneration scale.
- (d) On transfer to another post.
- (e) **Substantial changes to tax legislation.**
- (f) Any changes to the total contribution to a registered medical aid scheme.
- (g) **On decision by the Minister for the Public Service and Administration.**

#### **New tax provisions on the motor vehicle allowance (2005/06 tax year)**

5. The new tax provisions, effective from 1 March 2005 for the 2005/06-tax year, as announced by the Minister of Finance, include the following on claims against motor vehicle allowances, which affect SMS members:
- (a) SMS members who do not maintain/keep a logbook, the following apply:-
    - The first 16 000 kilometres (previously 14 000) to be travelled in the tax year are deemed as private (members may not claim).
    - The next 16 000 kilometres (16 001 to 32 000 kilometres (previously 14 001 to 32 000 kilometres)) to be travelled in the tax year are deemed as official (members may claim).
    - Any kilometres above 32 000 (remain unchanged) to be travelled in the tax year are deemed as private (members may not claim).
  - (b) The calculation of a claim per official kilometre on a motor vehicle is to be capped at a maximum vehicle value of R360 000 for tax purposes, whilst claims on vehicles that are valued at less than R360 000 will still be calculated in terms of their individual (depreciated) purchase price/value.
  - (c) The claim per official kilometre is based on 3 factors, namely the fixed, maintenance and fuel factors. The fixed factor, which was calculated at the original purchase price of the vehicle to determine the claim against the allowance, has been reduced proportionally as a result of the depreciation of the motor vehicle.
  - (d) The Minister of Finance is of the view that five-year old vehicles commonly have a 30% residual value, whereas up to February 2005 the fixed factor

was calculated on the original purchase price. This depreciation is reflected in the revised tables for the fixed, fuel and maintenance factors, which inform a person's claim against his or her motor vehicle allowance - SARS indicated that the table would in future be reviewed on an annual basis. It should be noted that the Minister of Finance has increased the fuel and maintenance factors in the table substantially.

6. These new tax provisions have profound implications for those SMS members who have structured for motor vehicle allowances. A case study has revealed that a SMS member who had purchased a vehicle to the value of R500 000 and has structured an annual amount of R150 000 as a motor vehicle allowance and who anticipates that he or she will drive 30 000 kilometres in the 2005/06 tax year, will have the effect of an increase in the tax liability by approximately R20 000 on assessment of his or her tax return for the said tax year.

#### **AMENDMENTS TO THE EMPLOYER'S CONTRIBUTION TO THE GEPF FOR EMPLOYEES IN THE SO-CALLED SERVICES AND NON-SERVICES DEPARTMENTS**

7. The Minister of Finance has recently announced the adjustment of the rate (employer's contribution) for all employees in the Public Service (including SMS members), effective from 1 April 2005. The particulars of the announcement, which have been communicated to departments by the National Treasury, are as follows:
  - (a) **Public Service Act appointees and Educators in the so-called "non-services departments"**  
GEPF contribution reduction from 15% to 13%.
  - (b) **Members employed in terms of the Defence Act, 2002, the SA Police Act, 1995 and the Correctional Services Act, 1998 in the so-called "services departments"**  
GEPF contribution increase from 15% to 16%.
8. This has the effect that the employer's contribution, which is deducted from the total package, of those SMS members who are appointed in terms of the Public Service Act, 1994 and who are admitted to the GEPF, will reduce with effect from 1 April 2005, with the result that the flexible component of their packages will increase accordingly.

#### **MINISTER FOR PUBLIC SERVICE AND ADMINISTRATION'S APPROVAL THAT SMS MEMBERS MAY RESTRUCTURE THEIR PACKAGES**

9. In view of the implications of the new tax provisions on the structuring for a motor vehicle allowance - the majority of SMS members have structured for a motor vehicle allowance based on the previous tax provisions that prevailed

until 28 February 2005 - and the reduction of the employer's contribution to the GEPF for those SMS members admitted to the GEPF, the Minister for Public Service and Administration has approved that all those SMS members admitted to the GEPF **must**, and those not admitted to the GEPF **may**, restructure (revisit) their packages, effective from 1 April 2005.

10. The Minister for the Public Service and Administration has also indicated that if the employer's contribution is increased in future to the level of 15%, SMS members would not have a claim that their packages be adjusted accordingly (upwards) to accommodate the increase.

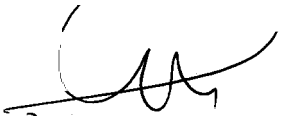
### General

11. This Department's SMS Model (Excel Spreadsheet) to assist members to structure the package has been updated and can be electronically obtained from this Department's website <http://www.dpsa.gov.za> (Documents Archive/Circulars/Remuneration) or from the following e-mail addresses:-

[robertl@dpsa.gov.za](mailto:robertl@dpsa.gov.za)

- [esther@dpsa.gov.za](mailto:esther@dpsa.gov.za)
- [braam@dpsa.gov.za](mailto:braam@dpsa.gov.za)

12. It is imperative that members must confirm their choice on the structuring of their packages in writing before it can be implemented by PERSAL or PERSOL, and should be filed appropriately. The signing of a printout of the main page of the Model (spreadsheet) will be sufficient.
13. National Treasury (PERSAL) has been advised accordingly.

  
D **DIRECTOR-GENERAL**  
Date: 19/04/05