



# the dpsa

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## TO ALL NATIONAL AND PROVINCIAL DEPARTMENTS

### AMENDMENTS TO TAXATION ON EMPLOYER CONTRIBUTIONS TO MEDICAL AID SCHEMES AND THE MOTOR VEHICLE ALLOWANCES, EFFECTIVE FROM 1 MARCH 2006: SMS AND MMS MEMBERS

#### INTRODUCTION

The structure of the inclusive flexible remuneration packages of SMS and MMS members is as follows:

##### 1.1. **Members admitted to the GEPF**

The packages consist of three components, namely-

- 1.1.1 the basic salary (pensionable income);
- 1.1.2. the employer's contribution to the GEPF; and
- 1.1.3. the flexible portion (non-pensionable income), which the member may structure according to his/her personal needs (i.e. motor vehicle allowance or an employer's contribution to a registered medical aid scheme) within certain parameters.

##### 1.2. **Members not admitted to the GEPF**

The packages do not consist of any components. A member not admitted to the GEPF may therefore structure the total package according to his/her personal needs (i.e. motor vehicle allowance or an employer's contribution to a registered medical aid scheme) within certain parameters.

2. A member entering the SMS and the MMS 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. In terms of the Dispensations for the SMS and the MMS members may only restructure (change) the flexible component of their packages in the following circumstances:
  - 2.1. One year after the date of implementation of the respective inclusive flexible remuneration package dispensation.
  - 2.2. On promotion to a higher grade (position).
  - 2.3. Adjustment of the remuneration scale.
  - 2.4. On transfer to another post.
  - 2.5. **Substantial changes to tax legislation.**
  - 2.6. Any changes to the total contribution to a registered medical aid scheme.
  - 2.7. On decision by the Minister for the Public Service and Administration.

## **AMENDMENTS TO TAXATION ON MEDICAL AND MOTOR VEHICLE ALLOWANCES**

### **General**

3. The Minister of Finance has announced the following amendments to taxation on the employer contribution to a registered medical aid scheme and the amount of the employee's contribution that may be considered as a deduction for PAYE purposes – therefore deductible from taxable income on a monthly basis – as well as on motor vehicle (travel) allowances.
  - 3.1. Medical
    - 3.1.1. Until 28 February 2006 those SMS and MMS members who have structured for an employer medical aid scheme contribution received a tax benefit up to a maximum of 2/3<sup>rd</sup> of the total medical aid scheme subscription fee. This amount was regarded as non-taxable, and was

therefore deducted from the member's package for tax purposes.

- 3.1.2. The Minister of Finance announced that the tax benefit will be based on the number of dependants covered by the medical aid scheme – therefore the membership profile - with a cap per principal member (and dependants), effective from 1 March 2006. The cap is as follows:

3.1.2.1	Principal member	R500 pm (R6 000 pa)
3.1.2.2	Principal member plus 1 <sup>st</sup> dependant	Additional R500 pm (R6 000 pa)
3.1.2.3	Further dependants	Additional R300 pm (R3 600 pa) per dependant

- 3.1.3. No cap is placed on the number of dependants.
- 3.1.4. This means, for example, that a member plus two dependants in respect of whom the employer makes a contribution will not be taxed on the first R1 300 pm of the employer contribution. Any employer contribution above the capped amount, depending on the membership profile, is regarded as a fringe benefit and is therefore subject to tax.
- 3.1.5. The Minister of Finance has also announced that, as a new provision, a certain portion of the employee's contribution to a registered medical aid scheme may, effective from 1 March 2006, be taken into account for PAYE purposes – therefore the employee would not be liable for tax on a monthly basis for a determined amount (portion) of his/her own contribution. SARS indicated that **if the employer contribution is less than the SARS capped amount referred to, based on the member's membership profile, then the difference is deductible from the member's income for PAYE purposes.**
- 3.1.6. The determining of the amount of the member's contribution which will qualify as a deduction from his/her taxable income is best illustrated by means of the following practical example:

<b>Details</b>	<b>Amount (pa)</b>
Total medical aid scheme subscription fee	R30 000
Membership profile	Member plus 3 dependants
Maximum amount that member may structure in the form of an employer contribution, based on membership profile – SARS capped amount	R19 200
Amount structured by member as employer contribution	R10 000
Member's own contribution	R20 000
Amount deductible from member's taxable income for PAYE purposes - difference between capped amount and amount structured as employer contribution	R9 200

### 3.2. Motor vehicle allowance

- 3.2.1. Currently those SMS and MMS members who do not maintain a log sheet of official travelling qualify for a claim against the travel allowance for kilometres (combination of private and official travelling) travelled in excess of 16 000 kilometres (2006 tax year). This means that all the kilometres in excess of 16 000 was deemed as official travelling by SARS for tax purposes. The Minister of Finance has announced that this threshold is lifted to 18 000 kilometres, effective from 1 March 2006 for the 2007 tax year.
- 3.2.2. The claim per "official kilometre" is based on 3 factors, namely the fixed, maintenance and fuel rates. The Minister of Finance has also amended (increased) these rates in line with recent increases to fuel and maintenance costs. Overall, these adjusted rates would benefit SMS and MMS members.
- 3.2.3. Currently only 50% of the monthly motor vehicle allowance is subject to PAYE. The tax on the remaining portion of the motor vehicle allowance is "set-off" as a claim against the allowance on assessment of the member's annual tax return, which (normally) reduces the tax liability on the remainder of the motor vehicle allowance, depending on the member's travelling profile. The Minister of Finance has determined that 60% of the

motor vehicle allowance will be subject to PAYE, effective from 1 March 2006. This will have a significant impact on member's nett salaries.

#### **Amendments to the SMS and MMS dispensations**

4. With regard to the employer contribution to a registered medical aid scheme, these dispensations have been aligned with the tax amendments, effective from 1 March 2006. **Therefore SMS and MMS members who are members of a registered medical aid scheme, may structure any amount to a maximum of the SARS capped amounts referred to in paragraph 3.1.2 above, depending on their membership profile, in the form of an employer contribution, effective from 1 March 2006.** As only a maximum amount is set which the member may structure for this purpose, it means that members are not be obliged to structure for this purpose if they so wish.
5. The **maximum** amount that a member, therefore, may structure in this regard is best illustrated in the following table:

<b>Membership profile</b>	<b><u>Maximum</u> amount that may be structured as an employer contribution to a registered medical aid scheme `</b>
Member	R6 000 pa (R500 pm)
Member plus 1 dependant	R12 000 pa (R1 000 pm)
Member plus 2 dependants	R15 600 pa (R1 300 pm)
Member plus 3 dependants	R19 200 pa (R1 600 pm)
Member plus 4 dependants	R22 800 pa (R1 900 pm)
Member plus 5 dependants	R26 400 pa (R2 200 pm)
Member plus 6 dependants	R30 000 pa (R2 500 pm)
Member plus 7 dependants	R33 600 pa (R2 800 pm)
Member plus 8 dependants	R37 200 pa (R3 100 pm)
Member plus 9 dependants	R40 800 pa (R3 400 pm)
Member plus 10 dependants	R44 400 pa (R3 700 pm)

6. With regard to the tax amendments to the motor vehicle allowance, it should be noted that these amendments do not necessitate any amendments to the SMS and MMS dispensations, but it would affect members' nett salaries (i.e. 60% of the motor vehicle allowance is subject to PAYE (on a monthly basis) compared to 50% prior to 1 March 2006).

## Restructuring of packages

7. Due to the implications of the revised tax regime on the employer contribution to a registered medical aid scheme and the motor vehicle allowance, as well as the amendment to these dispensations regarding the maximum amount that may be structured as an employer contribution to a registered medical aid scheme, the following is approved:

7.1. Members who, prior to 1 March 2006, have structured for an employer contribution to a registered medical aid scheme

7.1.1. These SMS and MMS members are affected by the amendment to the maximum amount that may be structured in the form of an employer contribution to a registered medical aid scheme. Such members **must** therefore restructure their packages (revisit the employer contribution to a registered medical aid scheme), effective from 1 March 2006.

7.1.2. These members may also revisit the amount that they have structured as motor vehicle allowance (if applicable), taking into account the effect of amendments to taxation on motor vehicle allowances.

7.2. SMS and MMS members who, prior to 1 March 2006, where not members of registered medical aid schemes, and who subsequently did not structure for an employer contribution to a registered medical aid scheme

These SMS and MMS members are only affected by the SARS amendments to taxation on the motor vehicle allowance. Such member **may** therefore restructure their packages (i.e. revisit the amount structured as a motor vehicle allowance), effective from 1 March 2006.


8. Departments' attention is drawn thereto that the restructuring in terms of this approval is effective from 1 March 2006.

9. The relevant SMS and MMS Models, that serve as tools to members, have been updated to incorporate the amendments to these dispensations, as well as the amendments to the taxation on motor vehicle allowance, and can be obtained from, either, the DPSA website ([www.dpsa.gov.za](http://www.dpsa.gov.za)) (following the links to document archives; Circulars; Remuneration Policy) or the following officials:

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9.2. Braam van der Walt [braam@dpsa.gov.za](mailto:braam@dpsa.gov.za)

#### **Implementation on PERSAL**

10. Departments are requested to inform all SMS and MMS members regarding these amendments and to afford them the opportunity to restructure their packages accordingly by using the provided SMS and MMS Models. PERSAL has indicated that it will inform departments when the PERSAL system has been aligned to implement (accept) members' revised structuring, effective from 1 March 2006.



**DIRECTOR-GENERAL**  
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