



# the dpsa

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## **HEADS: NATIONAL AND PROVINCIAL DEPARTMENTS AND PROVINCIAL ADMINISTRATIONS**

### **AMENDMENTS TO TAXATION WITH EFFECT FROM 1 MARCH 2008: IMPACT ON SMS AND MMS MEMBERS**

1. The **dpsa** letters 1/7/1/4/1 dated 24 March 2006 and 18/1/3 over 18/1/4 dated 19 March 2007 refers. These letters are available on **the dpsa** website for departments' convenience.

#### **INTRODUCTION**

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

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

The packages consist of three components, namely-

- 2.1.1. the basic salary (pensionable income);
- 2.1.2. the employer's contribution to the GEPF; and
- 2.1.3. 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.

## 2.2. **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.

3. 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. Members may only restructure (change) the flexible component of their packages in the following circumstances in terms of the SMS and MMS Dispensations:
  - 3.1. One year after the date of implementation of the respective inclusive flexible remuneration package dispensation.
  - 3.2. On promotion to a higher grade (position).
  - 3.3. Adjustment of the remuneration scale.
  - 3.4. On transfer to another post.
  - 3.5. **Substantial changes to tax legislation.**
  - 3.6. Any changes to the total contribution to a registered medical aid scheme.
  - 3.7. On decision by the Minister for the Public Service and Administration.

## **TAX AMENDMENTS WITH EFFECT FROM 1 MARCH 2008**

### **Personal income tax rates and tax bracket structure**

4. The Minister of Finance has amended the personal income tax rates and tax bracket structure with effect from 1 March 2008 for the 2009 tax year. The details are available from the SA Revenue Service (SARS).

### **Amendments to monetary caps for tax-free medical scheme contributions**

5. The Minister of Finance has amended the SARS capped amounts as follows with effect from 1 March 2008 for the 2009 tax year:

<b>Membership profile</b>	<b>With effect from 1 March 2002008 tax year</b>
Principal member	R570 pm (R6 840 pa)
Principal member plus 1 <sup>st</sup> dependant (irrespective the age of the dependant)	Additional R570 pm (R6 840 pa)
Further dependants (irrespective the age of the dependant)	Additional R345 pm (R4 140 pa) per dependant

### **Traveling allowances**

6. The Minister of Finance has amended the deemed cost tables (rates per kilometer which may be used in determining the allowable deduction for business (official) traveling) where no records of actual costs are kept with effect from 1 March 2008 for the 2009 tax year. The amendment is due to inflation and higher interest rates and fuel prices. The details are available from the SA Revenue Service (SARS).

## **IMPLICATIONS OF THE REVISED BASIS ON WHICH MEMBERS QUALIFY FOR A TAX BENEFIT ON THE EMPLOYER CONTRIBUTION TO A REGISTERED MEDICAL AID SCHEME**

### **Background**

7. 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.
8. The Minister of Finance amended this basis with effect from 1 March 2006 (2007 tax year). With effect from the said date the tax benefit is based on the medical aid scheme **membership profile** (i.e. member together with the number of dependants registered on the scheme), capped to certain pre-determined amounts per member/additional dependant. This had the result that the employer contribution, up to and including the appropriate capped amount, is exempted from tax. If the employer contribution is more than the appropriate capped amount, the (positive) difference between the employer contribution and the appropriate SARS capped amount is subject to tax.
9. The maximum amount to be structured as an employer contribution, as contained in the SMS and MMS dispensations, were subsequently

aligned with the SARS capped amounts, effective from 1 March 2006. These amendments were conveyed to departments in the **dpsa** letter 1/7/1/4/1 dated 24 March 2006.

10. The Minister of Finance also determined, with effect from 1 March 2006, that if the employer contribution to a registered medical aid scheme is less than the appropriate capped amount, based on the member's membership profile, the (negative) difference is taken into account for PAYE purposes – therefore the difference is deducted from the member's income for PAYE purposes.

#### **Implications for SMS and MMS members who are remunerated by means of a total remuneration package**

11. These amendments referred to in paragraphs 7 to 10 above had/has implicit implications for SMS and MMS members who have the flexibility to structure for an employer contribution (out of their packages) towards a registered medical aid scheme. This means that if a SMS or MMS member, who is a member of a registered medical aid scheme, decides not to structure for an employer contribution, he/she is still eligible for the tax benefit based on their membership profile – therefore the difference between zero and the appropriate SARS capped amount is deducted from members' income for PAYE purposes.
12. Therefore, a SMS or MMS member, who is a member of a registered medical aid scheme, who does not structure for an employer contribution towards the scheme, still qualify for the tax benefit based on his/her membership profile, limited to a maximum of the relevant SARS capped amount.

#### **RESTRUCTURING OF THE FLEXIBLE PORTION OF PACKAGES**

13. Due to these amendments, approval is granted to SMS and MMS members to restructure the flexible portion of their packages under the following circumstances, effective from 1 March 2008:
  - 13.1. Members of a registered medical aid scheme **may** restructure the employer contribution **up to and including the maximum of the revised SARS capped amounts referred to in paragraph 5 above**, depending on their membership profile, effective from 1 March 2008. As only a maximum amount is set which the member **may** structure for this purpose in terms of the respective SMS and MMS dispensations, it means that members are not be obliged to restructure for this purpose – they may retain the employer contribution at the pre-1 March 2008 levels.

13.2. Members who have structured for a motor vehicle allowance, or who contemplate to structure for a motor vehicle allowance.

### **SMS AND MMS MODELS (ACTIVE EXCEL SPREADSHEETS) AND DISPENSATIONS**

14. The relevant SMS and MMS Models, which serve as tools to members to structure their packages, have been updated to incorporate the revised determinations by the Minister of Finance and the subsequent amendments to these Dispensations. These Models are available on 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:

14.1. Theresa Maile : [teresam@dpsa.gov.za](mailto:teresam@dpsa.gov.za)  
14.2. Esther Nkosi : [esther@dpsa.gov.za](mailto:esther@dpsa.gov.za)  
14.3. Braam van der Walt : [braam@dpsa.gov.za](mailto:braam@dpsa.gov.za)

15. The SMS and MMS Dispensations are amended accordingly to include the revised maximum amount that may be structured as an employer contribution to a registered medical aid scheme, effective from 1 March 2008. The amended SMS and MMS dispensations are available on the DPSA website.

### **CONCLUSION**

16. Departments are requested to inform all SMS and MMS members regarding these amendments and to afford those who wish to restructure the opportunity to restructure accordingly.



**DIRECTOR-GENERAL**  
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