



the dpsa

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AMENDMENTS TO TAXATION WITH EFFECT FROM 1 MARCH 2011: IMPLICATIONS FOR SMS AND MMS MEMBERS AND OSD EMPLOYEES REMUNERATED BY MEANS OF TOTAL REMUNERATION PACKAGES

INTRODUCTION

1. The structure of the inclusive flexible remuneration packages of SMS and MMS members and those OSD employees who are being remunerated by total remuneration packages 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. An affected SMS or MMS member or OSD employee who enters the SMS/MMS/OSD 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/employees may only restructure (change) the flexible component of their packages in the following circumstances in terms of the SMS and MMS Dispensations and OSDs:
 - 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 Public Service and Administration.

TAX AMENDMENTS WITH EFFECT FROM 1 MARCH 2011 (2012 TAX YEAR)

Personal income tax rates

3. The Minister of Finance has amended the personal income tax rates with effect from 1 March 2011 (2012 tax year). The details are available from the SA Revenue Service (SARS).

Amendments to monetary caps for tax-free medical scheme contributions

4. Taxpayer contributions to medical schemes up to a specified monetary threshold – so-called capped amount – are tax deductible, as are qualifying out-of-pocket medical expenses.
5. The Minister of Finance has amended the SARS capped amounts as follows with effect from 1 March 2011 (2012 tax year):

Membership profile	With effect from 1 March 2011
First beneficiary (principal member)	R720 pm (R8 640 pa)
Second beneficiary (irrespective the age of the beneficiary)	Additional R720 pm (R8 640 pa)
Further additional beneficiaries (irrespective the age of the beneficiary)	Additional R440 pm (R5 280 pa) per beneficiary

TAX AMENDMENTS WITH EFFECT FROM 1 MARCH 2012 (2013 TAX YEAR)

6. The Minister of Finance has indicated that the monthly deductions for contributions to registered medical aid schemes and for qualifying out-of-pocket medical expenses will be converted into tax credits with effect from 1 March 2012 (the next tax year).
7. Taxpayers are currently allowed income tax deductions for contributions to pension and retirement annuity funds. In addition, employers may contribute to retirement funds on behalf of employees. These contributions by employers are not currently taxed in the hands of employees.
8. Several changes will be made to improve tax administration regarding pension contributions and promote greater equity in the income tax system. Therefore, with effect from 1 March 2012, the following will apply:
 - 8.1. An employer's contribution on behalf of an employee will be deemed a taxable fringe benefit in the hands of the employee.
 - 8.2. Employees will be allowed to deduct up to 22.5 percent (%) of their taxable income for contributions to pension, provident and annuity funds.
 - 8.3. To ensure greater equity, two thresholds will apply, namely –
 - 8.3.1. A minimum annual deduction of R12 000; and
 - 8.3.2. An annual maximum of R200 000.
9. Departments will be sensitised regarding the impact these changes might have on the SMS/MMS/OSD package dispensations, and the structuring thereof, once SARS has made more details available.

RESTRUCTURING OF THE FLEXIBLE PORTION OF PACKAGES

10. Due to these amendments referred to in paragraphs 3 and 5, approval is granted to SMS and MMS members and affected OSD employees, **who so wish**, to restructure the flexible portion of their packages under the following circumstances, effective from 1 March 2011:

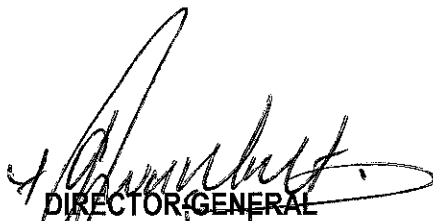
- 10.1. Members of a registered medical aid scheme **may** restructure the employer contribution **up to and including the maximum of the revised SARS capped amounts referred to in paragraph 5 above**, depending on their membership profile, effective from 1 March 2011. As only a maximum amount is set 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 2011 levels.

SMS/MMS/OSD MODELS (ACTIVE EXCEL SPREADSHEETS) AND DISPENSATIONS

11. The relevant SMS, MMS and OSD 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) (following the links to document archives; Circulars; Remuneration Policy).
12. The SMS, MMS and OSD package dispensation 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 2011. The amended dispensations will be posted on the DPSA website in due course.

CONCLUSION

13. Departments are requested to inform all affected members/.employees regarding these amendments and to afford those, who so wish, the opportunity to restructure accordingly.


DIRECTOR GENERAL
Date: 9/03/2011