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## HEADS: NATIONAL AND PROVINCIAL DEPARTMENTS AND PROVINCIAL ADMINISTRATIONS

### AMENDMENTS TO TAXATION WITH EFFECT FROM 1 MARCH 2012: ~~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:

- **Members admitted to the GEPF**

The packages consist of three components, namely-

- 1..1. the basic salary (pensionable income);
- 1..2. the employer's contribution to the GEPF; and
- 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.

- **Members not admitted to the GEPF**

The packages do not consist of any components. A member not admitted to the GEPF therefore may 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 initial structuring entails 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 applicable dispensations:
- One year after the date of implementation of the respective inclusive flexible remuneration package dispensation.
  - On promotion to a higher grade (position).
  - Adjustment of the remuneration scale.
  - On transfer to another post.
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- **Substantial changes to tax legislation.**
  - **Any changes to the total contribution to a registered medical aid scheme.**
  - On decision by the Minister for the Public Service and Administration.

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

### **Personal income tax rates**

3. The Minister of Finance has amended the personal income tax rates with effect from 1 March 2012 (2013 tax year). The details are available from the SA Revenue Service (SARS).

### **Introduction of medical scheme contribution tax credit**

4. Taxpayer contributions to medical schemes, up to a specified monetary threshold (so-called capped amount), were deductible against taxable income in terms of the SARS medical scheme contribution tax deduction scheme that applied until 29 February 2012. The contribution that a member could have structured in the form of an employer contribution towards a registered medical aid scheme was subsequently aligned with the prescribed SARS cap.
5. In an effort to achieve greater equality in the treatment of medical expenses across income groups, the said deduction scheme is, for taxpayers aged below 65, replaced by a medical scheme contribution tax credit, effective from 1 March 2012. The number of persons (dependants) for whom the member makes a contribution towards a registered medical aid scheme determines the value of the credit, and is deductible as "rebate" from **tax payable** by the member. The tax credit is set at the following fixed amounts:

- R230 per month (R2 760 per annum) for the principal member of the medical aid scheme.
  - R230 per month (R2 760 per annum) for the 1<sup>st</sup> dependant.
  - R154 per month (R1 848 per annum) in respect of each additional dependant.
6. Therefore, the tax benefit is now solely based on the number of dependents registered on the member's registered medical aid scheme. However, members **may** continue to structure for a contribution in the form of an employer contribution towards a registered medical aid scheme, although it would not affect their tax credit. The amount that may be structured is delinked from the tax credit, but limited to the total annual medical aid subscription fee.
7. SARS indicated that the introduction of the new medical tax credit will not negatively affect eligible taxpayers' net salaries with effect from 1 March 2012.

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

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8. Due to these amendments, approval is granted to SMS members (with effect from 1 April 2012 due to the amendment to the percentage that constitutes the basic (pensionable) salary in the package) and MMS members and affected OSD employees (with effect from 1 March 2012), **who so wish**, to restructure the flexible portion of their packages.

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

9. The 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 DPISA website ([www.dpisa.gov.za](http://www.dpisa.gov.za)) (following the links to document archives; Circulars; Remuneration Policy).
10. The SMS, MMS and OSD package dispensations have been amended accordingly and posted on the DPISA website.

### **CONCLUSION**

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



**DIRECTOR-GENERAL**

Date: 23/3/2012.