




## **HUMAN RESOURCE CIRCULAR 17/2007**

**TO ALL HEADS OF PROVINCIAL DEPARTMENTS**

### **AMENDMENTS TO TAXATION ON EMPLOYER CONTRIBUTIONS TO REGISTERED MEDICAL AID SCHEMES: 1 MARCH 2007: SMS AND MMS MEMBERS**

The above-mentioned circular from the Department of Public Service and Administration is attached for your information. The content thereof should be brought to the attention of all relevant staff.

  
**DEPARTMENT OF THE PREMIER**  
DATE: 02/04/2007

Department of the Premier    Departement van die Premier    Lefapha La Tonakgolo

**Human Resource Advice, Co-ordination and Management Directorate**



**the dpsa**

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## **TO ALL NATIONAL AND PROVINCIAL DEPARTMENTS**

### **AMENDMENTS TO TAXATION ON EMPLOYER CONTRIBUTIONS TO REGISTERED MEDICAL AID SCHEMES: 1 MARCH 2007: SMS AND MMS MEMBERS**

#### **INTRODUCTION**

1. The **dpsa** letter 1/7/1/4/1 dated 24 March 2006 refers.
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.

## **AMENDMENTS TO TAXATION ON THE EMPLOYER CONTRIBUTION TO A REGISTERED MEDICAL AID SCHEME**

### **Tax amendments with effect from 1 March 2006**

4. Prior to 1 March 2006, the tax benefit for a SMS and MMS member who structured for an employer contribution (subsidy) towards a registered medical aid scheme was based on the amount structured for this purpose (i.e. an employer contribution up to and including 2/3<sup>rd</sup> of the total subscription fee was exempted from tax).
5. 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.

6. 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.
7. The amendment referred to in paragraph 6 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 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.
8. 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.

#### **Tax amendments with effect from 1 March 2007**

9. The Minister of Finance has amended the SARS capped amounts as follows, with effect from 1 March 2007 for the 2008 tax year:

<b>Membership profile</b>	<b>2007 Tax year</b>	<b>2008 tax year</b>
Principal member	R500 pm (R6 000 pa)	<b>R530 pm (R6 360 pa)</b>
Principal member plus 1 <sup>st</sup> dependant	Additional R500 pm (R6 000 pa)	<b>Additional R530 pm (R6 360 pa)</b>
Further dependants	Additional R300 pm (R3 600 pa) per dependant	<b>Additional R320 pm (R3 840 pa) per dependant</b>

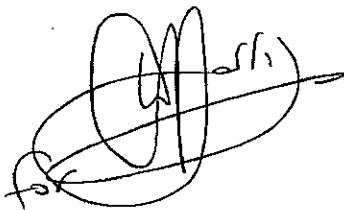
10. Due to this amendment, approval is granted that SMS and MMS members, who are members of a registered medical aid scheme, may restructure employer contribution **up to and including the maximum of the revised SARS capped amounts referred to in paragraph 9**

**above**, depending on their membership profile, effective from 1 March 2007. 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 structure for this purpose if they so wish.

11. As indicated in paragraph 7 above, 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, will qualify for the tax benefit based on his/her membership profile.
12. The SMS and MMS Dispensations are amended accordingly with effect from 1 March 2007. The amended SMS and MMS dispensations will be made available in due course.
13. 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:

13.1. Theresa Maile : [teresam@dpsa.gov.za](mailto:teresam@dpsa.gov.za)  
 13.2. Esther Nkosi : [esther@dpsa.gov.za](mailto:esther@dpsa.gov.za)  
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14. 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 their packages accordingly.



**DIRECTOR-GENERAL**

DATE: 19/03/2007