

Changes pertaining to Medical Scheme Contributions – 2013

As was announced by the Minister of Finance, Mr Pravin Gordhan, in the 2011 Budget Speech, a conversion of medical scheme contribution deductions to medical scheme contribution tax credits will be implemented with effect from the 1st of March 2012.

The purpose of the conversion is to achieve fairness and equitability, as tax relief in this regard should be impartial across income groups and fair in proportion to the average direct government spending on health services available to people without medical scheme cover.

With effect from the 1st of March 2012, deductions in respect of contributions to registered and qualifying medical schemes made during the year of assessment, by taxpayers who are aged below 65 years of age, will be replaced by a medical scheme contribution tax credit.

This change to legislation pertains only to tax payers within the below 65 years age bracket and the tax credit applies in respect of fees paid by the taxpayer to a registered medical scheme. The amount of the medical scheme contribution tax credit is:

- R230, in respect of taxpayer
- R230, for the first dependant
- R154, for each additional dependent

Individuals 65 years of age and older

The non-taxable fringe benefit, in respect of medical scheme contributions paid by the employer on behalf of an employee who is 65 years and older, and *who has not retired from that employer* has been repealed. Effectively this means that any contribution as stated above, paid by an employer on behalf of an employee who is 65 years and older and has not retired from the employer, will now be a taxable fringe benefit. This is consistent with all other taxpayers.

It must be noted, however, that an individual of age 65 years and older is still entitled to the full medical scheme contribution paid as a deduction. The net effect on such a person's tax liability is therefore zero.

In the instance where an employee has retired from his employment, and the employer continues to pay medical scheme contributions on behalf of such a retired employee, the fringe benefit will still be non-taxable.

Administrative issues pertaining to employers

The legislative changes will necessitate employers to update their payroll systems as from the 1st of March 2012 in order to ensure the correct calculation and deduction of PAYE and the other relevant payroll taxes - Unemployment Insurance Fund contributions (UIF) and Skills Development Levies (SDL).

In addition to updating systems, the burden is also on the human resource departments of employers to inform employees of the impact of these changes on their monthly salary received.

In order to facilitate the EMP501 reconciliations, two new source codes have been introduced as indicated in the table below:

Category	Source Code	Description
Employees' tax deduction and reason code	4116	Medical scheme fees tax credit taken into account by employer for PAYE purposes
Fringe benefit code	3815 (3865)	Non-taxable bursaries and scholarships to employees and their dependents – Section 10(1)q – Exempt portion only.

In addition, the descriptions of the two existing source codes have been changed:

Category	Source Code	Description
Deduction code	4474	Employer's medical scheme contributions in respect of employees not included in code 4493. As of 1 March 2012 the contributions paid by an employer on behalf of an employee 65 years and older and who has not retired from that employer, should also be reflected under this code.
Deduction code	4493	Employer's medical aid contributions in respect of an employee who qualifies for the "no value" provisions in the 7th Schedule.

The following previously de-activated source codes have now been re-activated. These source codes are valid from:

- 1999 – 2009 year of assessment and from the 2013 year of assessment
- 2002 – 2009 year of assessment and from the 2013 year of assessment for the Foreign Service

NORMAL INCOME CODES

- 3603 (3653) Pension (PAYE)
- 3610 (3660) Annuity from a Retirement Annuity Fund (PAYE)

FRINGE BENEFIT CODES

- 3805 (3855) Accommodation (PAYE)
- 3806 (3856) Services (PAYE)
- 3808 (3858) Employee's debt (PAYE)
- 3809 (3859) Taxable bursaries or scholarships (PAYE)

The changed source codes will be provided for in the e@syfile™ Employer software, which will be made available for the August 2012 submission.