

Dear Employer

CONVERSION OF MEDICAL SCHEME CONTRIBUTION DEDUCTIONS TO MEDICAL SCHEME CONTRIBUTION TAX CREDITS

In an effort to achieve greater equality in the treatment of medical expenses across income groups, the current medical scheme contribution deduction will, for taxpayers aged below 65, be replaced by a medical scheme contribution tax credit. This will be effective from **1 March 2012** as announced by the Minister of Finance, Mr Pravin Gordhan, in the 2011 Budget Speech.

WHAT IS THE PURPOSE OF THE CONVERSION?

The purpose of the conversion is to achieve fairness, as tax relief 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.

WHAT ARE THE CHANGES?

Effective 1 March 2012 the following changes will be introduced:

- A medical scheme contribution tax credit will be available to taxpayers who belong to a medical scheme and are **below the age of 65**, set at fixed amounts per month:
 - R216 each per month for contributions made in respect of the employee and one dependant, plus
 - R144 per month in respect of each additional dependant.
- 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employer on behalf of an employee who is **65 years and older** and who has **not retired** from that employer has been repealed. This means that the contribution amount 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 aligned to the treatment of all other taxpayers. **However, a person 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 due is therefore nil.**
- Where an employee has **retired** from an employer and the employer continues to pay contributions on behalf of the retired employee, the fringe benefit will still be non-taxable.

HOW WILL THIS AFFECT EMPLOYERS?

Employers will be required to:

- Update their payroll systems as from 1 March 2012 in order to ensure the correct calculation and deduction of payroll taxes – Employees’ tax (PAYE), Unemployment Insurance Fund contributions (UIF) and Skills Development Levies (SDL).
- Inform employees of the impact of these changes on their monthly salary received.

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.

The descriptions of the two existing source codes have been modified:

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.
	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 Income [the source codes denoted in (brackets)].

CATEGORY	CODE	DESCRIPTION
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)

For more information and the explanation of each of these source codes, refer to the Business Requirements Specification (BRS): Medical Scheme Fees Tax Credit available on www.sars.gov.za > Tax Types > Pay-As-You-Earn (PAYE) > What's New

HOW WILL THIS AFFECT EMPLOYEES (INDIVIDUAL TAXPAYERS)?

Employees may observe an adjusted net take home salary. This adjustment will be due to the medical tax credit which may impact the amount of tax withheld by the employer. Employees may therefore be required to pay more or less employees' tax on a monthly basis with the implementation of the medical tax credit.

The above changes will become effective from the 2013 year of assessment (1 March 2012 to 28 February 2013) and will effect 2013 Employees Tax Certificates [IRP5/IT3(a)] to be submitted by Employers and 2013 Income Tax Returns (ITR12) to be submitted by taxpayers during the 2013 Personal Income Tax (PIT) Filing Season commencing on 1 July 2013.

FURTHER INFORMATION

For more information on the conversion of medical scheme contribution deductions to medical tax credits, visit the SARS website www.sars.gov.za, call the SARS Contact Centre on 0800 00 SARS (7277), or visit your local SARS branch.

Sincerely

ISSUED ON BEHALF OF THE COMMISSIONER FOR THE SOUTH AFRICAN REVENUE SERVICE

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