

# ASAP

## Legal and Technical Update

### Employer provided employee benefits

Many employers wish to provide their employees with certain benefits to motivate and retain them. The following is often considered:

- Medical scheme membership;
- Retirement funds for each employee;
- Group life benefits.

The purpose of this document is to highlight the different funding mechanisms used to allow for an informed decision.

	Effect on Employer	Effect on Employee
<b>Medical scheme</b>		
Procedure to implement	<p>Negotiations must be entered into between the employee and employer before implementing the scheme. The advice of a human resources specialist should be obtained.</p> <p>An addendum has to be made to the employee's employment contract to make medical scheme membership compulsory/not.</p> <p>The funding method of the scheme must be stipulated and agreed to by the employee and employer.</p>	
Employer pays contribution on behalf of the employee	Contributions are tax deductible under section 11(a) of the ITA.	<p>The contributions paid by the employer on behalf of the employee are taxed in the hands of the employee as a fringe benefit.</p> <p>The employee will enjoy tax relief in respect of the medical scheme tax credits that is deducted against tax payable.</p> <p>The employee can also deduct additional medical expenses within the prescribed limits.</p>

	<b>Effect on Employer</b>	<b>Effect on Employee</b>
Employer increases the salary of the employee and the employee pays the contribution	Salary increase is tax deductible under section 11(a) of the ITA.	<p>The salary increase will increase the taxable income and therefore it is subject to income tax.</p> <p>The employee will enjoy tax relief in respect of the medical scheme tax credits that is deducted against tax payable.</p> <p>The employee can also deduct additional medical expenses within the prescribed limits.</p>
Conclusion	The net effect of both options is exactly the same.	
<b>Pension funds, provident funds, Retirement annuity funds</b> <b>(Approved group life benefit premiums attached to pension and provident funds is included)</b>		
Procedure to implement	<p>Negotiations must be entered into between the employee and employer before implementing the scheme. The advice of a human resources specialist should be obtained.</p> <p>An addendum has to be made to the employee's employment contract to outline the implementation of the fund and the benefits the employee is entitled to.</p> <p>The funding method of the scheme must be stipulated and agreed to by the employee and employer.</p>	
Employer pays contribution on behalf of the employee	Contributions are tax deductible under section 11(l) of the ITA.	<p>The salary increase will increase the taxable income and therefore it is subject to income tax.</p> <p>The employee will enjoy a tax deduction in respect of the retirement fund contributions paid by the employer and the employee. Subject to the legislated limits as provided for in section 11(k) of the ITA.</p> <p>Any contribution that is not deductible will roll-over to the following year of assessment.</p> <p>The proceeds will be subject to tax in terms of the Second Schedule to the ITA.</p>

<p>Employer increases the salary of the employee and the employee pays the contribution</p>	<p>Salary increase is tax deductible under section 11(a) of the ITA.</p>	<p>The salary increase will increase the taxable income and therefore it is subject to income tax.</p> <p>The employee will enjoy a tax deduction in respect of the retirement fund contributions paid by the employer and the employee. Subject to the legislated limits as provided for in section 11(k) of the ITA.</p> <p>Any contribution that is not deductible will roll-over to the following year of assessment.</p> <p>The proceeds will be subject to tax in terms of the Second Schedule to the ITA.</p>
<p>Conclusion</p>	<p>The net effect of both options is exactly the same.</p>	
<p><b>Unapproved group life benefits (not linked to a retirement fund)</b></p>		
<p>Procedure to implement</p>	<p>Negotiations must be entered into between the employee and employer before implementing the scheme. The advice of a human resources specialist should be obtained.</p> <p>An addendum has to be made to the employee's employment contract to outline the implementation of the benefits and the extent of the benefits.</p>	
<p>Employer pays contribution on behalf of the employee</p>	<p>Contributions are tax deductible under section 11(w)(i) of the ITA.</p>	<p>The contributions paid by the employer on behalf of the employee are taxed in the hands of the employee as a fringe benefit.</p>
<p>Employer increases the salary of the employee and the employee pays the contribution</p>	<p>Salary increase is tax deductible under section 11(a) of the ITA.</p>	<p>The salary increase will increase the taxable income and therefore it is subject to income tax.</p>
<p>Conclusion</p>	<p>The net effect of both options is exactly the same.</p>	