

100% EMPLOYER-BORNE MEDICAL SCHEMES ARE TAX EFFICIENT: By Jonathan Hore

Any arrangement where an employer does not bear 100% of medical aid costs is not tax efficient. It is common in various sectors of the economy for employers and employees to share the costs of medical aid contributions. Most of them share on a 50%-50% basis whilst some use other ratios such as 60% and 40%. Allow me to shed more light on this aspect in today's article. In this article, words importing the masculine shall be deemed to include the feminine.

Medical aid & tax

It is critical to note that medical aid contributions made by an employer on behalf of employees is a benefit which is potentially taxable. In other words, it is a non-monetary benefit which is enjoyed by employees as the cost is borne by the employer. Note however that BURS, through the Tax Tables and Guidance Notes for Employees Remuneration ruled that, 'the employer's contributions to a medical benefit fund on behalf of his employee up to an amount equal to 100% of the required contributions shall not become taxable in the hands of the employee.' Therefore, the full amount of medical aid contributions made by employers should not give rise to PAYE in the employees' hands. Allow me to now show you why any arrangement in which the employer and employee share medical aid contributions is not tax efficient.

Cost-to-employer stagnant

Considering that medical aid benefits are not taxable to the extent of 100%, employers could therefore bear the full medical aid costs with employees taking reduced salaries to keep the cost-to-employer constant. Arrangements such as these are referred to as salary sacrifice and the Court of Appeal upheld the concept as a genuine business arrangement 4 years ago in the case between Debswana and BURS. The arrangements result in an increase in the concerned employees' take-home.

Tax inefficiency explained

If an employee earns P60 000 and contributes P 3 000 towards a medical aid with the employer contributing the other P3 000, the cost-to-employer of that employee is P 63 000. Whilst the employee earns total remuneration of P 63 000 only P 60 000 is taxed as medical aid benefits are tax-free. Using those figures, the employee pays PAYE of P 13 087.50 and takes home P 43 912.50 (P 60 000 – P 13 087.50 – P 3 000).

If both the employer and employee settle for the employer bearing 100% of medical aid costs, the employer would pay P 6 000 to the medical aid fund and the employee takes a salary of P 57 000. Notice that the cost-to employer remains unchanged at P 63 000 (P 57 000 + P 6 000). Under this arrangement, the employee pays PAYE of P 12 337.50 and takes home P 44 662.50 as opposed to the case above where take home is P 43 912.50. Now, it is axiomatic that the employee who opted for the salary sacrifice will have a monthly take home which is P750 higher than the one who does not. The savings equate to P 9 000 per year or P90 000 over 10years.

Other matters

I know that you may probably be wondering whether that arrangement doesn't result in reduced severance or gratuity for some employees. Yes, it reduces the gratuity and severance amounts but then a Pula today is more valuable than the same Pula 4 or so years later when one gets the gratuity or severance pay.

Conclusion

If an employer is flexible to adjust his remuneration structure as above, then there is no need for an employee to cater for part of the medical aid contributions, as the above clearly demonstrates that a higher take home arises where employers bear 100% of medical aid costs. Now, that is tax efficient. I am certain that shed lots of light and if it did, give me a Big Up, like, 'Boom, Boom, Yours Truly.' Yeah, Big Up too. Am out.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax whatsapp group or know more about our 8 Tax e-books, send me a text on the number below.