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## A Look At The New Medical Tax Credit

Changes to the treatment of medical expenditure were proposed during the 2011 budget speech.

The monthly deductions for contributions to medical schemes and for qualifying out-of-pocket medical expenses will be converted to tax credits, effective 1 March 2012. This is as per the Taxation Laws Amendment Act (no 24 of 2011) which was promulgated on the 10<sup>th</sup> January 2012.

A tax credit provides for more equitable tax relief, as the relative value of the relief does not increase as the marginal tax rate of the individual increases, (as is currently the case).

Currently, a person paying tax at a marginal rate of 40% will receive a cap amount deduction worth 40% of the deduction, whereas a person paying tax at 18%, the deduction will be worth only 18% of the deduction.

The rationale behind the change is that the treatment of medical expenditure was inequitable in that it afforded a greater benefit to higher income tax payers – for necessary services like health – through the effect of the progressive marginal rate structure.

So, as from 1 March 2012, the deductibility of medical expenses is to be replaced by tax credits, the value of which would be unrelated to a taxpayer's income bracket. The new tax credit system will benefit taxpayers with equivalent medical expenses equally, without regard to their taxable income levels.

Before we take a look at the new medical tax credit system, let's have a look at the current treatment of medical expenditure:

**Medical**

## CURRENT TREATMENT OF MEDICAL EXPENDITURE:

### Those under 65 years of age

Relief in the form of deductions from taxable income is afforded to taxpayers for medical scheme contributions and out-of-pocket medical expenses. Medical scheme contributions by an employer on behalf of an employee are included as fringe benefits in the hands of the employee (taxpayer).

Contributions to registered medical schemes are allowed as a deduction up to prescribed monthly capped amounts (R720 for each of the first two dependants on their medical scheme and R440 for each additional dependant). Medical scheme contributions in excess of the caps, plus qualifying out-of-pocket medical expenses, can be claimed as a further deduction to the extent that they exceed 7.5 per cent of taxable income.

### Those 65 years of age and older, and those with a disability (or have an immediate family member with a disability)

Taxpayers aged 65 and above, or those who have a disability (or have an immediate family member with a disability), may deduct their medical expenses in full, with no capped amounts restriction (includes medical scheme contributions and qualifying medical expenses).

## NEW MEDICAL SCHEME FEES TAX CREDIT:

### As from 1 March 2012, for taxpayers aged below 65 years:

- The medical aid capped deduction amount will fall away, and be replaced by the medical scheme fees tax credit, which is in the form of a **rebate**. Current medical deduction allowances from *taxable income* will thus be replaced with medical tax credits, deductible from *normal tax payable*.
- The amount of the credit or rebate is:
  - R216 for the contributor
  - R216 for the first dependant
  - R144 for each additional dependant

for each month in that year of assessment in respect of which those fees are paid. (2011/2012 figures).



## DIFFERENCE BETWEEN DEDUCTION AND CREDIT

The principle difference between a tax deduction and tax credit is that medical tax credits reduce a taxpayer's tax liability, whereas deductions reduce a taxpayer's taxable income. Lower income taxpayers will therefore gain from such change, whereas higher income earners will benefit less than at present.

The underlying principle behind the proposed change is fairness, and the new system is proposed as a step towards an equitable fiscal contribution to health insurance for all South Africans. In this respect, the proposal also facilitates the longer term goal of universal National Health Insurance (NHI). The Department of Treasury has said that introducing a tax credit system for medical expenses was a step towards implementing the NHI system, as it would achieve greater equity in the tax treatment of medical expenses. The underlying idea is that the fiscus should contribute to household medical expenditure on the basis of health needs, irrespective of income or economic output.

## NON-REFUNDABLE?

The Treasury's proposal was that the medical tax credits should be non-refundable, but it was envisaged that once the proposed risk equalisation fund was in place as part of the NHI, consideration would be given to the possibility of extending the benefit of the medical scheme contribution tax credit to those who fell below the tax threshold.

This table illustrates the proposed monthly and annual medical scheme contribution credit for a family of four:

	Taxpayer & Dependents	Medical Scheme Tax Credit	
		per month	per annum
		R	R
Medical Scheme Contributions	1	216	2,592
	2	216	2,592
	3	144	1,728
	4	144	1,728
		<b>720</b>	<b>8,640</b>

[Source: page 16, National Treasury document for public discussion June 2011]

2012 promises to be a busy year in terms of tax law for medical expenses, as the new SARS list of physical impairment and disability expenditure will also become effective from 1 March 2012.

For further assistance or more information on the topic, please contact our offices.

# 2012 – A Busy Year Ahead For Payroll And Labour Incentives

## Part 1 – Promoting Skills Development and Job Creation

The mid-year population estimate for 2011 as per Statistics South Africa's census results, reveals that the population in South Africa is around 50, 59 million people. The quarterly labour force survey dated November 011 (also a Statistics SA document) states that 25% of the population are unemployed, and that 60,2% of the job seekers do not have a matric pass.

There have been a number of initiatives recently in the form of proposed legislation both in the labour and the taxation arena's which have been designed to try and alleviate some of the unemployment and also to assist low-income earners.

Some of these (expected to be introduced during 2012) are as follows:

### YOUTH SUBSIDY PROJECT

The proposal as per the 2011 budget speech was that a youth employment subsidy in the form of a tax credit costing R5 billion over three years would be introduced. It will be administered by the South African Revenue Service (SARS) through the PAYE system. The aim is to support job creation and to expand jobs for young work seekers by 178 000 over three years.

It is widely expected that this scheme will be implemented during 2012, posing some challenges for both SARS and employers and payroll systems.

### LEARNERSHIP TAX INCENTIVE

This has been extended for another five years until 1 October 2016 (it expired in September 2011).

Learnerships provide a route for learners to obtain an occupational or professional NQF Qualification with a strong emphasis on workplace experience, and holds several benefits for both employers and employees. For the learner, (s)he is able to obtain a formal qualification while gaining relevant workplace experience, and for employers, it means that employees are equipped to "hit the ground running" when they arrive in the workplace.

### WHAT YOU NEED TO KNOW ABOUT LEARNERSHIP TAX INCENTIVES:

The quantum of the learnership allowance depends on various factors, and an employer will only qualify for the

learnership allowance if a registered learnership agreement (that is, a learnership agreement entered into before 1 October 2011 and registered with a SETA or a contract of apprenticeship registered with the Department of Labour) was entered into or completed on or after 1 October 2001.

The more favourable allowance, for learnerships entered into with disabled persons, are applicable to those learnership agreements entered into on or after 1 July 2006.

### TWO LEVELS OF LEARNERSHIP ALLOWANCES:

Section 12H of the Income Tax Act:

According to the current legislation employers are entitled to claim a minimum of R30 000 in commencement allowances for every full 12 month period. They are also entitled to another R30 000 successful completion allowance for every full 12 month period of the completed learnership in the year that the learnership agreement is concluded - where it exceeds 24 months.

Where the allowance is in relation to learners with disabilities, employers are entitled to claim a minimum of R50 000 in commencement allowances for every full 12 month period, and another R50 000 successful completion allowance for every full 12 month period of the completed learnership in the year that the learnership agreement is concluded as per above.

### SETA LEARNERSHIP GRANTS:

Employers can apply for learnership grants from the SETA. Certain qualifying criteria apply as it relates to employment equity and compliance to Skills Development legislation. Grant amounts need to be confirmed with the relevant SETA.

Significantly, small- and medium-sized enterprises stand to benefit the most from the extension of the initiative. The Minister of Finance, Pravin Gordhan has highlighted that small businesses are an important source of jobs, and has told Parliament that:

*".....businesses with fewer than 50 staff account for more than two-thirds of private sector employment. Imagine how many people could be trained if more of these businesses took up the allowance."*

## Part 2 – Social Security, Retirement and Labour Law Reforms

### RETIREMENT REFORMS

As per the February 2011 budget, the proposal is to standardise the provisions for pension and provident funds to resemble that of retirement annuities with a combined contribution deduction limit of 22,5% of taxable income.

In other words, an employer's contribution on behalf of an employee will be deemed a taxable fringe benefit in the hands of the employee. Individuals will be allowed to deduct up to 22.5 % of their taxable income for contributions to pension, provident and retirement annuity funds.

To ensure greater equity, two thresholds will be established – a minimum annual deduction of R12 000 and an annual maximum of R200 000.

### NATIONAL RETIREMENT FUND

In addition, there is the prospect of a national retirement fund that will have compulsory membership, however it is expected that it will be a number of years before this is implemented.

### SOCIAL SECURITY TAX

Based on the premise that a society should share jointly in the basic safety net that protects everyone against poverty, we currently we have the old age and the social assistance grants (including child support grant and disability grants). These will remain in place, as they provide a basic "safety net" protecting the poor. These grants are paid for out of general revenue, being a *redistributive* arrangement.

The rationale behind the introduction of the social security tax is that as a society, we also need to encourage saving and basic social *insurance*, which is the goal of an earnings-related *contributory* arrangement. It is not enough just to provide a grant, it is also important that people who can afford to do so, should save during their working years and provide for their children in the event of death or disability. Society as a whole is better off if everybody contributes to saving and social insurance arrangements. For these arrangements to be fair and equitable, the basic minimum standards of social insurance need to be compulsory.

The social security tax is therefore about *contributory* insurance – ensuring that everybody participates in an agreed basic social insurance arrangement to protect household incomes in the event of death, disability or unemployment.



The proposal is that everyone in formal employment will pay a social security contribution of a percentage of their earnings, up to an agreed threshold. This will finance an individual savings account for retirement, and death and disability benefits. It will, in effect, be a standardised insurance contribution, collected by SARS, but it will pay for benefits that belong to each individual contributor.

The social security tax will be capped, in the same way that the present UIF scheme is capped – everyone contributes and is entitled to claim benefits, but up to an agreed threshold. Above the threshold, employees will be able to choose between further contributions to the social security scheme, or participation in an occupational or individual retirement fund.

In essence, it is proposed that the legislation will combine UIF, the road accident fund, social grants and the compensation fund under one umbrella, streamlining the process. The legislation is still on the table, perhaps will take a few more years to wind its way through Parliament. Once implemented, this will all have an impact on HR and payroll administration for employers.

### POTENTIAL LABOUR LAW CHANGES TO LOOK OUT FOR IN 2012

There are a number of other aspects surrounding labour legislation that are currently under review, for example the regulation (or complete closing down) of labour brokers, the re-defining of an "employer", as well as widening the definition of an "employee". In addition, the proposed introduction of a national 'job placement' system. It is expected that this legislation should be in draft format within the first quarter of 2012, and could be promulgated into law by the end of the year.

The Protection of Private Information Bill (2009) may have substantial implications for HR functions once promulgated. The Bill proposes that information on employees be obtained and retained in a lawful manner. For example, employers will be required to develop a policy relating to retaining private personal information on employees and on applicants for jobs (whose application has failed). If the employer decides to keep the information for future reference, then the consent of the applicant would first need to be obtained.

# Social Media And Your Business

Think about these social media statistics for a moment:

- Over 50% of the world's population is under 30 years of age
- 96% of these "millennials" (or Generation Y) have joined a social network
- 1 out of 8 couples married in the United States of America in 2009 met via social media
- If Facebook were a country, it would be the 4<sup>th</sup> largest in the world
- 80% of companies use social media (mainly LinkedIn) for recruitment purposes
- 1 in 6 higher education students are enrolled in online curriculum
- There are over 200,000,000 Blogs
- 34% of bloggers post opinions about products and brands
- 78% of consumers trust peer recommendations
- In the near future we will no longer search for products and services - they will find us via social media

[Source of data: <http://www.socialnomics.net/>]

In addition, the Harvard Business Review Analytics Services recently conducted a survey of 2,100 organisations and discovered that 79% are currently using social media channels. They also asked them what they saw as the benefits of social media and here are some of those results:

## BENEFITS OF SOCIAL MEDIA IN BUSINESS:

1. Increased awareness of the organisation
2. Increased traffic to website
3. Greater favourable perceptions of the brand
4. Able to monitor conversations about the organisation
5. Able to develop targeted marketing activities
6. Better understanding of customers perceptions of the brand
7. Improved insights about target markets

8. Identification of both positive and negative comments
9. Increase new business
10. Identification of new product or service opportunities
11. Ability to measure the frequency of the discussion about the brand
12. Early warning of potential product or service issues

On the flipside, there is the potential that a dissatisfied customer now has the means to tell a great many people.

As Paul Gillin (author of "The New Influencers") states: *"Conventional marketing wisdom long held that a dissatisfied customer tells ten people. But...in the new age of social media, he or she has the tools to tell ten million."*

It's everywhere – and if you are in business today, you can't ignore the potential impact of social media on your business – both positive and negative.

As we get fully into 2012, ask yourself the following questions:

Is your company getting the maximum benefit from social media? Do you have a social media strategy in place? Do you have a policy in place about the use of social media in the workplace from both a business use perspective and a "private use at the office" perspective?



Fine, you can have an account. But if you end up with more followers than I have, I'm deleting your furry ass.

**IMPORTANT NOTE:** *The information contained in this newsletter is of a general nature, and may in certain circumstances be subject to misinterpretation. Consequently, we recommend that our advice be sought when acting upon the information contained herein. While every care has been taken in the compilation of this newsletter, no responsibility of any nature whatsoever shall be accepted for any inaccuracies, errors or omissions. All references to the masculine gender shall include the feminine (and vice versa).*