



DATED: 25 MARCH 2019

TO ALL PARTICIPANTS IN THE MOTOR INDUSTRY

BARGAINING COUNCIL EMPLOYER CONTRIBUTION - AHP

The Motor Industry Bargaining Council would like to inform the industry that all of the employer contributions will be a taxable fringe benefit in the hands of the employee effective 1 March 2019.

In 2017, changes were made to the Taxation Law Amendment Act 2017 – in order to grant bargaining councils an opportunity to become tax compliant with the provisions of the Act, a certain level of relief was provided for non-compliance bargaining councils in respect of employee's tax that should have been withheld from the members between 1 March 2012 and 28 February 2017. However going forward, bargaining councils are expected to be fully compliant.

In line with Government's policy to encourage tax compliance, Government had public consultations with various bargaining councils as a result a general consensus emerged that compliance with tax legislation can be accommodated through the PAYE system by the employer in respect of contributions made for the benefit of the employees (who are members of a bargaining council) to the funds administered by the bargaining council.

From the 1 March 2019, employer contribution to a scheme or fund administered by the bargaining council for the benefit of the employee will constitute a taxable fringe benefit in the hands of the employee and must be subject to PAYE. These provisions are not applicable to the extent that the contribution is being made to a retirement fund as the taxation of those contributions are already specifically catered for in the Act.

In the event of bulk contributions made by the employer on behalf of the employees to the funds administered by the bargaining council and the employer is unable to attribute specific contributions to specific employees, the taxable fringe benefit is calculated in respect of the total contributions paid by the employer divided by the number of the employees on behalf of which the contributions are paid.

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Since the employee contribution is made 'after tax money' and the employer contribution is taxed as a fringe benefit, any payment made by the funds administered by the bargaining council to the employee is tax free, except to the extent that the pay-out is from a retirement fund.

Tax certificate reporting change: There are two new IRP5 codes to report these contributions –

- 4584 (employer's bargaining council AHP contributions, and
- 3833 (taxable benefit in respect of employer's bargaining council AHP contributions paid for the benefit of the employee)

Please note that the fringe benefit value must be included in the remuneration for the purpose of UIF, SDL, ETI and remuneration used to calculate the allowable tax deduction limit for contributions towards a retirement fund.

The MIBCO Team

