

## **No tax on 100% employer-borne medical excesses in Botswana**

Employee turnover creates work disruptions and at times, it impacts the employers' overall capacity to execute their mandate. It is difficult for an entity to devise a standard retention policy that works well enough to retain the best talent. John Bersin, a Human Resources expert, explained employee retention through his version of Maslow's Hierarchy of Needs. According to him, the first basic need is to 'make people feel "financially safe"'. Minimising employees' tax liability is one way to ensure employees feel 'financially safe'. This can be achieved by an employer contributing 100% of due costs to a medical aid fund on behalf of employees. Alternatively, employers can also bear medical excesses for employees, with no additional tax burden on staff. In this article, words importing masculine should be deemed to include the feminine.

### **Enter tax**

Employer contributions to a medical aid benefit fund display commitment to employee welfare and serve as a tax minimisation tool. This is because employers' medical aid contributions are tax-exempt benefits in the employees' hands. Although the legislation does not specifically exempt employers' medical aid contributions, it nevertheless exempts 'the value of any free medical attention provided or medical attention paid for by the employer.' The exemption is extended to employers' medical aid contributions because the employer contributions are eventually used to enable employees to obtain free medical attention. In addition, this is also the section which exonerates employees from tax on medical excesses. In other words, if an employer has a policy or a clause in employees' contracts which states that the former can bear the costs of such excesses, then the employee will not suffer any tax from such a benefit. To minimize on the cost-to-company of such expenses, employees must be willing to sacrifice part of their cash payments such as salary or allowances, which practice legally reduces PAYE.

BURS further issued a guidance on the tax treatment of such costs by stating in its PAYE Tables that there is no tax on 100% of medical aid costs borne by an employer on behalf of employees. It is a common practice that the employer's contribution percentage differs with the job level. In this case, the exemption applies only to the employer portion. Therefore, a higher employer contribution percentage results in the lowest tax payable to the employee. For example, if an employer contributes 50%, the exemption is granted to 50% only. Resultantly, to take full advantage, the employer should make a 100% medical aid contribution because this yields lower tax than the 50% contribution. This then allows the employee to enjoy a higher benefit with lower PAYE, especially if the employee allows the employer to cut part of salary or allowances to maintain his cost-to-company constant.

### **Conclusion**

Making employees feel financially safe is key to reducing turnover. Employers can achieve this by contributing to medical aid funds on behalf of their employees. This act reduces employee tax whilst increasing employment benefits. Employer contributions to medical aid funds are exempt, in the hands of the employee, resulting in the lowest tax possible. Therefore, employers could contribute 100% to employees' medical aid funds to maximise on the said tax breaks.

**Tax hint:** If you have never had a tax audit/review conducted by a tax consultancy firm to check whether you are tax compliant or should it be apparent that you are not certain that your tax affairs are in good order, then don't wait for the taxman to pounce on you as that can be very costly. Contact us today so we can help you fix your tax affairs whilst you still have time.

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