



## Member Information

Technical advisor: Medical Tax Credits

## **Medical tax credits**

On 1 March 2012, the tax treatment of medical scheme contributions for taxpayers changed from the previous system. Where the additional tax relief was previously in the form of a reduction in taxable income, it is now applied as a tax credit – effectively reducing the amount of tax paid by the member.

The purpose of the current tax credit system is to promote equity across income groups – all taxpayers, regardless of their income, derive an equal tax benefit (fixed in rands) for their medical scheme contributions. It is believed this has the effect of making medical scheme cover more accessible to low income earners.

Taxpayers affected by disabilities have also been granted tax credits on medical scheme contributions and out-of-pocket medical expenses across all age groups. This is in contrast with the previous system where only taxpayers affected by disabilities below the age of 65 benefited.

## **Impact of the change in tax treatment of medical scheme contributions**

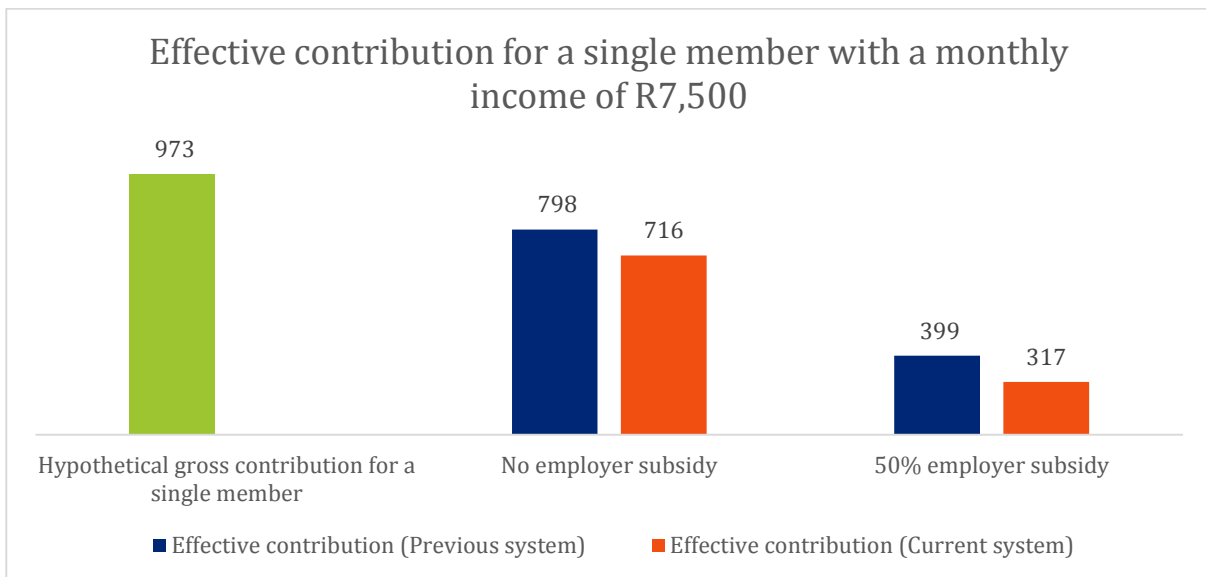
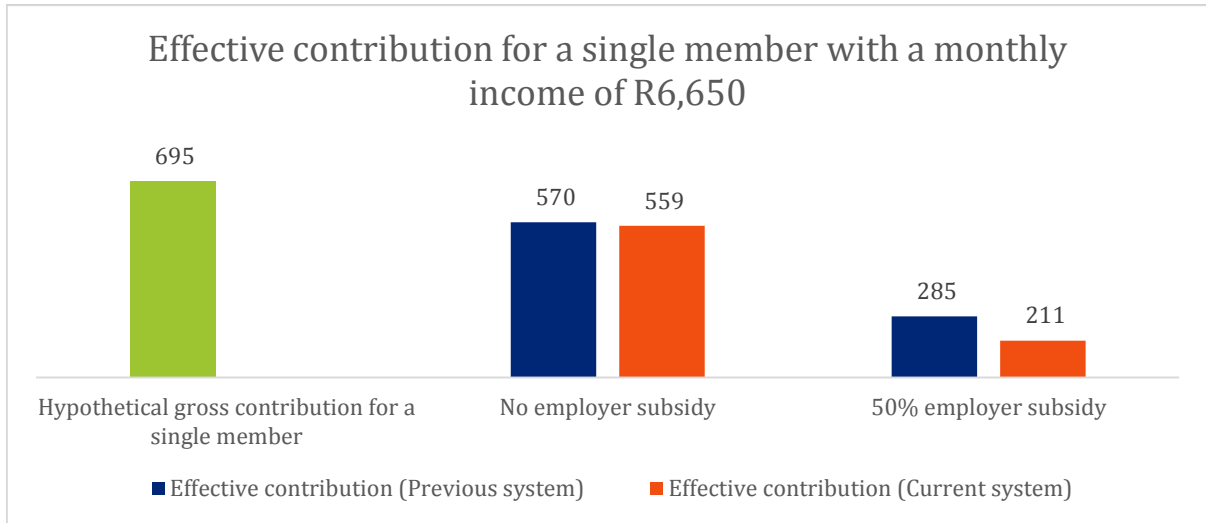
The impact the new medical tax credit system has on individuals depends on their age, medical scheme contributions and family composition. The key observations outlined below give a broad indication of how individuals are affected by the changes:

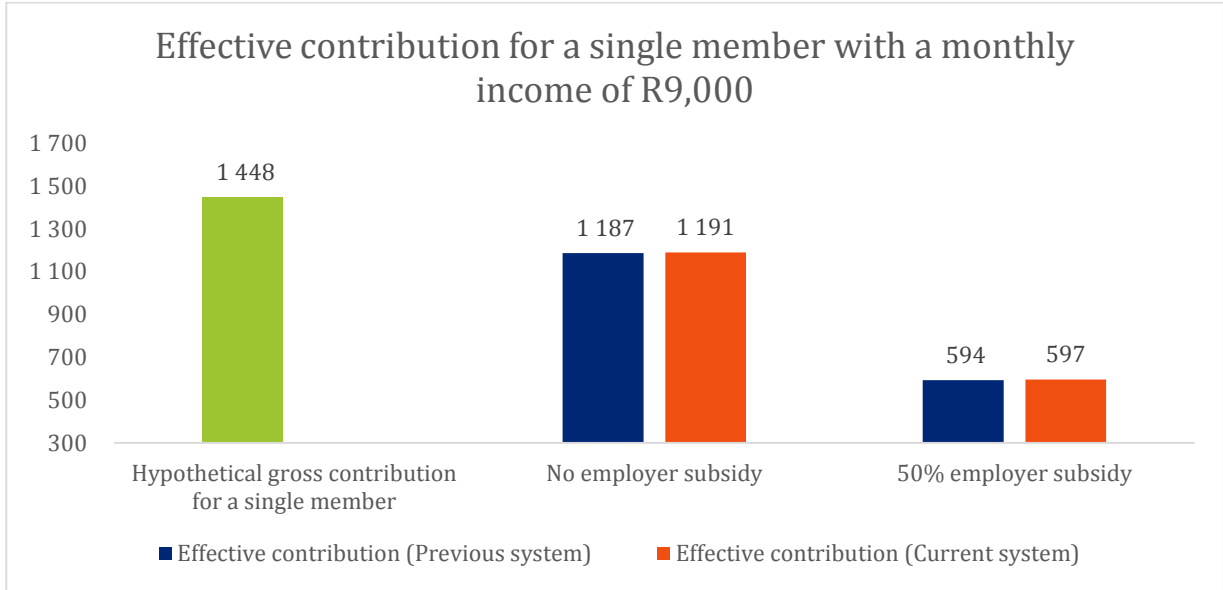
1. Individuals whose taxable income falls below the tax threshold and who belong to a medical scheme are unaffected by the change, as they do not pay any tax.
2. Taxpayers receive an effective reduction in the amount of tax that they pay for an individual on their medical scheme policy. The reduction is equal to R257 per month in respect of contributions paid for the principal member, R257 per month for the first dependant and R172 per month for each additional dependant.
3. Taxpayers receive tax credits on excess medical scheme fees, where a percentage of the excess of medical scheme contributions over a certain multiple of initial tax credit (specified in the previous point) results in additional savings in the amount of tax that the member pays.
4. Tax credits are also awarded on qualifying out-of-pocket medical expenses (excluding medical scheme contributions).

**The tax change represents an important opportunity to extend medical scheme cover to the currently uncovered**

The tax change represents an important opportunity for employees who were previously uncovered, because medical scheme cover is now significantly more affordable for lower-income earners than before. Table 1 shows the effective cost of belonging to a medical scheme for a single member, with and without an employer subsidy:

**Impact of medical tax credits and employer subsidies on the cost of medical scheme cover**





Taking into account the medical tax credits, the effective cost of belonging to a medical scheme in the example for an individual earning R6 650 each month is R559. Under a scenario where their employer contributes 50%, the same individual can get access to private healthcare cover for only R211 each month.

Please refer to Annexure A for a detailed explanation of the changes.

**Annexure A: Detailed explanation of the changes in the tax system**

**Table 1: Explanation of the tax changes**

The previous system: 2012/2013 tax year	The current system: 2014/2015 tax year
<p><b>Taxpayers below the age of 65 with no disability:</b></p> <p>Tax credits are used to directly reduce the amount of tax payable by taxpayers who contribute to a medical scheme. These tax credits are the same amount for all taxpayers, and are unaffected by the marginal rate of tax paid by the taxpayer.</p> <p>The tax credits are calculated as follows:</p> <ul style="list-style-type: none"> <li>• R230 each per month for contributions made in respect of the principal member and one dependant, plus</li> <li>• R154 per month in respect of each additional dependant.</li> </ul> <p>Tax credits are not linked to or capped by the amount of the medical scheme contribution in any way.</p> <p>Where the combined total of medical scheme contributions in excess of four times the total tax credits and out-of-pocket medical expenses exceeds 7.5% of taxable income, the excess can be claimed as a deduction against taxable income.</p>	<p><b>Taxpayers below the age of 65:</b></p> <p>Tax credits are used to directly reduce the amount of tax payable by taxpayers who contribute to a medical scheme. These tax credits are of the same amount for all taxpayers, and are unaffected by the marginal rate of tax paid by the taxpayer.</p> <p>The tax credits are calculated as follows:</p> <ul style="list-style-type: none"> <li>• R257 each per month for contributions made in respect of the principal member and one dependant, plus</li> <li>• R172 per month in respect of each additional dependant.</li> </ul> <p>Tax credits are not linked to or capped by the amount of the medical scheme contribution in any way.</p> <p>Additional medical expenses tax credit: The combined total of 25% of the aggregate of medical scheme contributions in excess of four times the total tax credits plus all other qualifying out-of-pocket medical expenses exceeding 7.5% of taxable income (excluding retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit and severance benefit).</p>
<p><b>Taxpayers below the age of 65 affected by a disability:</b></p> <p>For taxpayers with a disability or with dependants with a disability, the tax credit system applies in respect of medical scheme contributions as per taxpayers below the age of 65 with no disability.</p> <p>Medical scheme contributions in excess of four times the total credits, as well as <b>all</b> out-of-pocket medical expenses can be claimed as a deduction against taxable income.</p> <p>Therefore all out-of-pocket expenses are still fully deductible as before.</p> <p>However, this group must be aware that this will change in March 2014.</p>	<p><b>Taxpayers over the age of 65 or taxpayers affected by a disability (irrespective of their age):</b></p> <p>For taxpayers over the age of 65 or taxpayers with a disability, or both, who may also have dependants with a disability, the tax credit system applies in respect of medical scheme contributions as per taxpayers under the age of 65, except in the instance mentioned below.</p> <p><b>Additional medical expenses tax credit:</b> The combined total of 33.3% of the aggregate of medical scheme contributions in excess of three times the total tax credits plus 33.3% of all other qualifying out-of-pocket medical expenses.</p>
<p><b>Taxpayers over the age of 65:</b></p> <p>The medical tax credits do not apply to taxpayers over the age of 65 – they are still entitled to claim the full medical scheme contribution and any out-of-pocket medical expenses paid as a deduction against taxable income.</p>	



### **A note on employers**

Employers receive a tax deduction for contributions made to a medical scheme on behalf of their employees as before – this is in terms of section 11(l) of the Income Tax Act. In addition, they **are required** to update their payroll systems in order to ensure the correct application of the new tax credit system.