Health tax credit plan 'progressive'

HEALTH analysts have said that the conversion of medical tax rebates to tax credits could be a game changer for the country's health system and will benefit lower-income individuals who belong to medical aid schemes. At the end of discussions on the National Treasury's proposed conversion of tax rebates on medical expenses to tax credits, Econex chief economist Cobus Venter said the idea was more progressive than the current system and would go a long way towards guaranteeing equity of tax relief. He said the idea was that it should not be proportional to one's income anymore, but was a flat amount and from an economic point of view was a lot more progressive. The Treasury released a discussion document on the proposal in June. The document proposes that the rebate on monthly deductions for contributions to medical aid schemes and qualifying out-of-pocket medical expenses be converted into tax credits effective from March 1 next year. The Treasury said introducing a tax credit system for medical expense deductions was a step towards implementing the National Health Insurance (NHI) system as it would achieve greater equity in the tax treatment of medical expenses. A tax credit on medical scheme contributions of R216 a month for each medical scheme member or taxpayer and first dependant, and R144 each for up to two additional dependants, is being discussed. This is broadly equivalent to the medical scheme contribution deduction for taxpayers in the 30 percent marginal tax rate bracket, or people earning between R235 001 and R325 000 a year, and more favourable for lower-income taxpayers. It acknowledged that this was less favourable for taxpayers in higher income brackets with marginal tax rates between 35 percent and 40 percent. The proposed medical tax credit system will be governed broadly by similar qualifying rules as the current medical deductions system. A medical scheme contribution credit will be available only to taxpayers who belong to a medical scheme, set at a fixed amount a month for the taxpayer and first dependant, and two-thirds of this amount for additional dependants, adjusted annually for inflation. A supplementary medical scheme contribution credit of R216 a month was proposed for members or dependants aged 65 and above, and members and dependants with disabilities. The Treasury said the necessity arose from the fact that the current system provided relief inequitably in that the tax benefit associated with deductible allowances was greater for taxpayers in higher income brackets. A tax credit would benefit taxpayers with equivalent medical expenses equally, without increasing tax liability for low-income earners. The Treasury's proposal is that the medical tax credits be non-refundable, but it is envisaged that once the proposed risk equalisation fund is in place as part of the NHI, consideration will be given to the possibility of extending the benefit of the medical scheme contribution tax credit to those who fall below the tax threshold. It said the implications for the tax system were not yet clear and the tax treatment of income-related contributions was yet to be determined. But Venter and Alex van den Heever, a health economist at the centre for health policy at Wits University, said the system should not have any major implications for the fiscus because this would be a tax subsidy. Van den Heever said it was not a payment, but a benefit that people would receive and it was effectively a rand amount. If anything, it would encourage people who could not afford medical aid - but had to pay 100 percent at public hospitals - to join a medical aid, he said

Londiwe Buthelezi: Business Report, 12 December 2011