

BHF concerned by tax credit changes

THE Board of Healthcare Funders (BHF) has raised concerns about the state's tax credits on medical aid schemes, saying these will fail the government in its aim to benefit low-income earners. Rajesh Patel, head of benefit and risk at BHF, said the board was concerned that tax credits would fail to positively affect low-income employees if the credit could only be used to offset a tax liability in the year of assessment. He said low-income earners needed the money upfront, and these credits did not translate into stepping up into a higher benefit. Patel said the state decided to ignore all the BHF's advice. The credit system was introduced on March 1 this year, at a rate of R230 a month for the first two beneficiaries and R154 for every further beneficiary. Up to March this year, taxpayers qualified for a set monthly deduction on their taxable income, based on their family composition. It was contended that these monthly deductions were more rewarding to wealthier taxpayers. According to Johan Lombard, actuarial specialist at Momentum Health, the new tax credit system ensures the same monetary benefit to everyone in the form of tax credits. He said this would operate in a similar fashion to the tax rebates afforded to individuals, in that it reduced the tax payable by an individual (and not the taxable income). Lombard said the tax credit amounts had been set to closely replicate the level of benefit a taxpayer in the 30 percent tax bracket was receiving within the 2011/2012 tax deduction system. Therefore, according to Lombard, individuals in lower tax brackets would receive slightly more than before and individuals in higher tax brackets slightly less in monetary terms. In addition, the National Treasury introduced tax credits for medical aid contributions as a first taxation step towards the introduction of the national health insurance (NHI). These tax credits have been described as a first step in preparing for a proper base for the later introduction of the NHI. Patel said the stated rationale that the proposed tax reform was required to harmonise the tax system with the proposed NHI was, in the BHF's view, premature and potentially confusing. He said the NHI policy document did not point to any form of preferential tax treatment for medical scheme members. On the contrary, he said, the ultimate objective of the NHI as outlined in the green paper implied that medical schemes (and hence, related tax initiatives) were likely to function outside and independently of the NHI. In his budget speech earlier this year, Finance Minister Pravin Gordhan said the state would need an extra R6bn for the NHI in 2014/15. He said this could be funded through an increase in VAT, a payroll tax on employers or a surcharge on the taxable income of individuals.

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