Government plan to scrap tax credit could push 1.9 million people out of medical aid

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ECONEX, a leading economics consultancy, has warned that government's plan to ditch medical aid tax credits is expected to force nearly 2-million people into the already overcrowded state health system. It said that if the tax credit is removed, 20 percent of medical aid users will no longer be able to afford it. It would mean 1.9-million of the 8-million medical aid members, including children, will drop out of the private healthcare system. When the new National Health Insurance policy document was released in July by Health Minister Aaron Motsoaledi, he said he wanted to remove the tax credit to users, which amounts to R20-billion. People on medical aids get a tax reduction of R3 636 a year - or R303 a month. A person with a dependent on the medical aid would pay R606 less tax a month. At the time Motsoaledi said the tax credit was unfair.

Using detailed data from the Income and Expenditure Survey, which asks people about spending on health, Dr Paula Armstrong worked out that the richest 20 percent of South Africans spend a maximum of 12.85 percent of their salaries on medical aid premiums and additional health costs such as visits to doctors, physiotherapists and dentists that are not paid for by medical aid. The lowest 20 percent of medical aid users pay 22 percent of their salaries just on medical aid premiums. The removal of the tax credit would push the poorest medical aid owners into spending 35 percent of their salary on the medical aid premium alone. This would be unaffordable as premiums would then "become excessively expensive", according to Armstrong.

Armstrong warned that eliminating the private sector would not improve the health system, saying the government needs to leverage what the private sector offers to achieve NHI. Frans Cronje, CEO of the South African Institute of Race Relations, said the plan to remove medical aid tax credits was secondary taxation, with the government finding a way to get another R20bn in taxes. But he warned this was a short-term solution to a weakening economy and lower growth and lower tax revenues.

Cronje said that instead of structural reform in order to position SA's economy as competitive and improve growth and tax revenues, government is delaying the inevitable by finding extra taxes. He said this is unsustainable and it is going to end badly, adding that the middle-class had seen sharp drops in living standards and could not afford to lose the tax credit. Cronje said the first 75 percent of a salary goes to debt before all income earned after tax.

By Katharine Child: BusinessLIVE