

Medical tax credits to go?

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There has been talk for some time now about the National Health Insurance (NHI) and how it will be funded. In his Budget Speech in February 2017, former finance minister, Pravin Gordhan, alluded to an adjustment to medical tax credits to partly fund the system.

“The rationale behind replacing the tax deduction system with the credits/rebates was to address the inequality that the deduction system gave rise to,” says Somaya Khaki, South African Institute of Chartered Accountants (Saica) project director: tax. “In terms of the deduction system, higher income earners enjoyed a greater benefit through the effect of the progressive marginal income tax rates. With the more recently introduced medical credit system, lower income taxpayers now gain with the effect of reducing their overall tax liability with the medical tax credit, whilst higher income earners benefit less in comparison to the former regime, given that the rebate is a fixed amount regardless of earnings level.”

Medical tax credits reallocated

This was followed by the NHI White Paper in June this year, which proposes that the medical tax credits be ‘reallocated’ to fund the NHI to ensure an inclusive health system for all South Africans – that is, the credits currently enabling lower income earners access to private healthcare is likely to be scrapped. Whilst we hope to move to a society where all citizens have access to quality healthcare, one has to ask, how much revenue are we talking about and how much will it contribute towards the cost of NHI which will apparently only fully be implemented by 2025? Furthermore, what are the risks with increasing the tax liability on an already overburdened relatively small community of taxpayers?”

According to the 2017 Budget Review document released by National Treasury in February, the medical tax credits for the 2014/15 year amounted to approximately R18.5bn, approximately 7% of the R256bn estimated NHI cost in respect of the 2025 year (in 2010 pricing). According to Elize Rich from Econex, when adjusted to 2017 prices, the estimated NHI cost for 2025 is more in the region of R369bn. Considering these numbers, scrapping the medical tax credits will not make much of a dent in recovering such costs in the long term. These plans also appear contradictory to the state’s intent when it introduced the medical tax credits – namely to allow lower income earners access to high quality healthcare which the public healthcare system is not ready to provide and may not be ready for years to come.

Taxpayer morale

“One also needs to consider taxpayer morale and attitude to yet again increasing the tax burden on individual taxpayers, by taking away the benefit of the medical tax credit and possibly increasing other taxes to fund the NHI - such increases which are not considered in this article,” says Khaki. “If one has to consider that unlawful and wasteful expenditure in 2016 was, at R48bn, almost three times the amount

expended on medical tax credits in 2014/15, according to the auditor general's report, the question must be asked as to whether government is really acting responsibly and in the best interests of the citizens.

Addressing the unlawful and wasteful expenditure challenge would realise far more revenue than scrapping the medical tax credits and will go a long way to improving taxpayer morale and therefore taxpayer compliance and willingness to pay if there is a view that the monies are used responsibly.

This is supported by research performed by the Organisation for Economic Cooperation and Development as well as that presented at the recent International Symposium on Tax and Corruption hosted by the Saica, wherein it was identified that factors that influence tax morale amongst citizens especially in developing countries include: satisfaction with public services and expenditures; trust in government; and perceptions of corruption.

Tax increases unsustainable

Given the numerous service delivery protests, current media focus on corruption and the lack of trust that citizens have in general with respect to governance in South Africa – whilst taxpayers should always act ethically, the levels of unhappiness with the current state of affairs definitely raises the question: how much more tax will taxpayers be willing to pay before there is a revolt and will it be worthwhile to risk this for the additional R18bn a year?

The ongoing increase in taxes is clearly unsustainable and we anxiously await the medium-term budget policy statement where we will hopefully hear more on governments proposals for growing the economy, addressing the high unemployment rate, dealing with corruption and unlawful expenditure within state entities and increasing the tax base without overburdening the already overburdened taxpayers, all of which will go towards creating a more sustainable economy and sustainable funding," concludes Khaki.

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