

## **Gigaba decides not to scrap medical tax deductions - yet**

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Cape Town - Finance Minister Malusi Gigaba in his mini budget speech hinted at higher taxes to come in February, but has not given details about possibly ditching medical tax deductions as was expected.

One of the ways in which Gigaba can increase revenue to the state coffers in an attempt to deal with the tax revenue shortfall is to scrap medical tax deductions. He has chosen not to do this – yet. But all signs are there that these tax deductions are likely to go next year.

There have been many changes to the tax deductions you can make for medical costs in the past few years. Find out how these changes are likely to affect you by taking a look at these questions and answers.

### **What is the medical scheme fees tax credit (MTC)?**

This is a tax rebate (it is deducted from the amount of tax that you owe SA Revenue Service in any given tax year), which is calculated per month that you paid your medical scheme membership contribution.

### **How much is the MTC?**

Up until February 28, 2018, in other words, the current tax year, the maximum amount that can be deducted, regardless of the amount you paid for your medical scheme contribution, is R303 for the taxpayer who paid the contribution, R303 for the first dependant, and R204 for each additional dependant. In the past, the size of your contribution determined the size of your possible deduction, but that amount has now become fixed for everyone, regardless of their scheme contributions.

### **Who qualifies for the MTC?**

The taxpayer who pays the scheme contribution, whether they are the principal member or not. Only one taxpayer can claim the MTC with regards to a family's scheme contribution.

### **Does it make any difference whether I have a hospital plan or a full medical scheme?**

No. The MTC is not a percentage of your contribution – it is a fixed rand amount, which is the same for everyone, whether you are paying R1000 or R4000 per month. The only difference lies in the number of dependants for whom you can claim.

### **How is the MTC currently calculated?**

If you are the principal member of the scheme, and your partner and two children are registered as dependants, you will be able to claim R303 per month for yourself, R303 for the first dependant, and R204 for each additional dependant. This will come to R1014 per month, and R12168 for the full tax year.

### **How does it work if my employer pays a portion of my medical scheme contribution?**

An employee is taxed on the portion of the medical scheme contribution paid by his/her employer. This is seen as a taxable benefit. But when calculating the monthly tax paid by the employee, the MTC has to be taken into account.

### **Is the MTC going to be scrapped?**

Based on what Health Minister Aaron Motsoaledi has said, it certainly looks as if the scrapping of medical tax credits is on the cards.

Gigaba has hinted at increased taxes on Wednesday, but no details were provided. In 2015 the government provided R20bn in tax credits to members of medical schemes – funds that appear to be earmarked for the first set of benefits to be made available under the proposed National Health Insurance (NHI). Taxpayers will have to wait until February for details on changes to the MTC.

### **What sort of contribution would the scrapping of these credits make to the funding of the NHI?**

According to the South African Institute of Chartered Accountants (SAICA), about 7% of the estimated R256bn the NHI is calculated to cost the taxpayer. The reasoning goes that under the NHI, the medical needs of the lower-income earners, who were set to benefit most from the MTC, will be catered for by the state system, and they would no longer need to pay such high medical scheme contributions.

### **What is the difference between a medical tax deduction (also known as an additional medical expenses tax credit) and a medical tax credit?**

A tax credit reduces the amount of tax that someone has to pay. If you have to pay R50 000 in tax for a tax year, and your medical tax credits come to R10 000, you only have to pay R40 000. A tax deduction (such as certain medical expenses not covered by your scheme, or paid by you privately if you are not a scheme member) is taken off the total amount of your taxable income. So if your taxable income for the year is R200 000, and you have medical tax deductions of R10 000, your tax is calculated as if you earned only R190 000.

### **What qualifies as a medical expense for tax deductions purposes?**

Any services rendered and medication supplied by a registered health practitioner; hospitalisation in a registered nursing home or hospital; professional home nursing; medication prescribed by a registered healthcare practitioner and bought at a pharmacy; medical treatment similar to that mentioned above obtained in a foreign country; certain qualifying expenses with regards to impairment or disability.

### **Why was the system changed from a variable MTC to a fixed amount?**

The rationalisation behind this was ostensibly that the previous system, where variable amounts could be deducted based on the size of one's contribution, was only really to the tax benefit of higher income earners.

Now lower income earners would also benefit. But until the NHI is actually up and running, many lower-income earners would presumably still be paying medical scheme contributions.

If the MTC were scrapped in February before the NHI is operational, these lower-income earners will be the ones most severely affected.

*Sources: The South African Revenue Service; The South African Institute of Tax Professionals; The South African institute of Chartered Accountants.*

*By Susan Erasmus*