PSG KONSULT CORPORATE

Linking your healthcare options

NEWSFLASH

'Health is like money, we never have a true idea of its value until we lose it'

Josh Billings

PSG Konsult Corporate 'PSGK Corporate' is part of the PSG Konsult Group - one of the largest independent financial services providers in South Africa today and focused on serving the SME, institutional and public sector markets.

IN THIS ISSUE

JULY 2011

The Introduction of Medical Tax Credits

The National Treasury released a tax policy discussion document for public comment on June 17, which deals with the conversion of the current system of medical aid deductions to the proposed system of medical tax credits. This issue was raised in the Finance Minister's budget in February, and the discussion document is the Treasury's method of consulting with the public. In essence, the current system of getting a deduction for your medical aid scheme contributions, which is capped (at R720 a month for each of the first two dependants and R440 for each additional dependant), will transition to a system whereby, if implemented in 2011-12, deductions will be set at a fixed amount per month for the taxpayer and the first dependant, and two thirds of that amount for each additional dependant, which would be R216 a month for the taxpayer and the first dependant, and R144 a month for each additional dependant. These amounts will be adjusted annually for inflation.

There will be a supplementary medical scheme contribution credit of R216 a month for a member or dependant aged 65 and above or with a disability. The essential issue that will flow from the introduction of this legislation will be that, commencing on March 1 2012, the medical aid contribution will no longer be eligible for a deduction from the taxpayer's income in terms of Section 18. This credit will act like a rebate when the taxpayer files a tax return in or about August 2013. When the taxpayer is given his assessment by the SA Revenue Service, the accumulated credits for his family for the year ending on February 28 2013 will then be akin to a rebate on his tax liability. The government says that it is driven by a need to make tax relief equitable across income groups, and fair in proportion to the average direct government spending on health services for people who do not have medical scheme coverage. They also want to adapt the tax relief for medical expenditure to support the phasing in of national health insurance.

One of the most relevant paragraphs in the writer's view, appearing on page 13 of the document, says that based on public expenditure on health services of R78 billion in 2008-09, this amounts to R1 600 a year per person, or R1 950 a year for South Africans who are not covered by medical scheme membership. The present tax relief deductions, expressed as a tax forgone per medical scheme beneficiary, amounted to an estimated R1 600 rand per person in that fiscal year. The proposed medical scheme contribution credit is based on being broadly equivalent to the present medical scheme contribution deduction for taxpayers in the 30% marginal tax rate bracket (ie, earning between R235 000 and R325 000 rand in this fiscal year).

The Introduction of Medical Tax Credits continued…

The Treasury's estimates are that a contribution tax credit equivalent to about 22% of the current capped amounts would have a similar overall cost to the fiscus as the present deduction, so that in aggregate for the majority of taxpayers, the proposed tax credit brings greater tax relief than the present arrangement. The Treasury is seeking comments on the paper and the deadline for comments has been extended to July 22. The discussion paper deals further with the mechanics of replacing the current tax deduction system with the tax credit system for medical expenditure which exceeds a particular threshold of taxable income. This is a complex fiscal tool, and it appears that Treasury is considering a credit, say, at 25% of such excess expenditure above the threshold. As the Treasury says, this is by design a redistributive tax measure in that, for the same quantum of medical expenses in a year of assessment, the medical expenses tax credit declines as a percentage of taxable income with rising income.

This is clearly a complex proposed change to the tax system, and, in respect of the medical expenses, at this stage Treasury wishes to have further consultation and input. So it will move to implement the new tax credit system in 2013, but the current system on deductibility of medical expenses will continue for the time being. Morphet is a tax director at Cliffe Dekker Hofmeyr

Alastair Morphet: BusinessLIVE, 24 June 2011

July is Mental Illness Awareness month…

- About 1 in 5 South Africans suffer from a mental illness/ disorder severe enough to affect their lives significantly;
- Roughly 25% of all general practitioners' patients are ill due to a psychiatric condition rather than general medical conditions; and
- Nearly 20% of high school students think about fatally harming themselves each year (Mental Health Information Centre, 2002).

Like any other part of the body, the brain can become ill. The American Psychiatric Association lists over 400 disorders that can be referred to as psychiatric illnesses.

With such a diverse number of disorders, treatment is as varied as the symptoms. Sometimes the cause can be traced to chemical imbalances within the brain. Once the balance is restored – and this could mean taking medication every day – the patient may go on to lead a normal life.

Often psychologists and psychiatrists are not able to pinpoint the exact cause - and treatment is not necessarily medicinal, but rather a process of multi-disciplinary psycho-social rehabilitation.

People with psychiatric disorders are often discriminated against in the work place and Mental Illness Awareness Month serves to break the prejudices associated with mental health and educate others on the topic.

Contact the South African Federation for Mental Health or visit their website at www.safmh.org.za for more information, or to find out how you can get involved.

Contact your PSG Konsult Corporate advisor for more information
on any of the topics contained in this newsflash