Do you or your dependant have a medical disability?

Author: Ilsa Groenewald, Associate Director, Tax, BDO Durban

Tax expert offers guidance on SARS changes to tax claims for medical disabilities

06 August 2015 – Taxpayers who have a disability, or who have a spouse or child with a disability, should be aware of the claims that can be made when completing their 2015 income tax return.

'The medical tax calculation has changed for the 2015 tax year', said Ilsa Groenewald, Associate Director for tax at the Durban office of audit, advisory and tax firm, BDO South Africa.

According to Groenewald, a Medical Tax Credit (MTC) can now be claimed by taxpayers for themselves or their dependants, for each month in the year of assessment for which the contributions are paid.

An allowance for the medical expenses may also be claimed, equal to the sum of the following:

• All permitted out-of-pocket and prescribed disability or physical impairment expenses.

• Medical scheme contributions paid by the taxpayer to a registered medical scheme that exceed four times the MTC that the taxpayer is entitled to.

‘Only expenditure prescribed by the Commissioner, that was paid by you in respect of the disability, will be able to be claimed by you,’ Groenewald said.

She went on to say that it was important to note that the prescribed expense must be necessary and in consequence of the disability.

‘An example used by SARS is that, if you are in a wheelchair and you purchase a hand-held GPS, the cost of the hand-held GPS will not qualify as a disability expenditure. This is because the hand-held GPS is not directly connected to your disability,’ Groenewald explained. ‘However, if you are visually impaired, the cost of the hand-held GPS may qualify as disability expenditure.’

Groenewald said that the word “disability” was defined as a moderate to severe limitation of a person’s ability to function or perform daily activities as a result of a physical, sensory, communication, intellectual or mental impairment. The limitation must have lasted, or have a prognosis of lasting more than a year, and it must have been diagnosed by a registered medical practitioner in accordance with criteria prescribed by the Commissioner. See Table 1.

She said that the 7,5% limitation did not apply if the disability was in accordance with the published criteria.

‘It is important to note that the full allowance may only be claimed if you, your spouse or your child has the disability. Disability expenses incurred in respect of a foster child, for example, would be subject to the 7,5% limitation.’

‘SARS is also very clear on the prescribed diagnostics criteria for a certain disability,’ she said. ‘This is based on assessing the functional impact of the impairment on a person’s ability to perform his or her daily activities, and not on the diagnosis of a medical condition.’ See Table 2.

‘Another noteworthy detail is that SARS regards a disability as “temporary” if that disability is expected to last less than 5 years.’

Groenewald said that anyone wishing to make a medical allowance claim should complete the ITR-DD form available on the SARS website –www.sars.gov.za.

‘Care must be taken to complete all three parts (A, B and C) of this form as SARS will reject the claim if it is incomplete. I would advise people to consult a certified tax practitioner before submitting the claim to ensure that the process is problem-free.’

‘It is also important to be aware that the ITR-DD form must be endorsed and signed by a registered medical practitioner,’ Groenewald said.

The form must also be signed by the person with the disability. The parent, guardian or court-appointed curator may also sign if the taxpayer is a minor, or the person is physically or mentally unable to do so.

‘It is essential that the taxpayer retains all documentation for audit purposes as SARS could call for proof at any time. This includes proof of contributions paid to the medical scheme as well as a tax certificate from the scheme, indicating the total amount of claims paid. It also includes a complete list of amounts not submitted, but paid by the taxpayer as well as a letter from the medical scheme stating that the benefits allocated to certain medical procedures were exhausted.’

Groenewald said that if taxpayers who could benefit from this additional medical deduction were unsure about how to complete the documentation, they should consult a reputable tax practitioner. She said that they were welcome to contact her at BDO Durban onigroenewald@bdo.co.za or 01010606771.

TABLE 1: SARS-APPROVED MEDICAL PRACTITIONERS
Vision: Optometrist or ophthalmologist
Hearing: Ear, nose and throat specialist or audiologist
Speech: Speech language pathologist
Physical: Orthopaedic surgeon, neurosurgeon, physiotherapist or occupational therapist
Intellectual: Psychiatrist or clinical psychologist
Mental: Psychiatrist or clinical psychologist

TABLE 2: SARS DIAGNOSTIC CRITERIA FOR DIFFERENT DISABILITIES
Vision
The minimum requirement for a person to be classified as a “blind” person is:
1) Visual acuity in the better eye with best possible correction, less than 6/18(0,3)
2) Visual field, 10 degrees or less around central fixation.
“Best possible correction” refers to the position AFTER a person’s vision has been corrected by means of spectacles, contact lenses or intraocular (implanted) lenses.
The figure 6/18 means that, what a person with normal vision can read at 18 metres, the person tested can only read at 6 metres.
Communication
A person is regarded as having a moderate to severe communication disability if, despite appropriate therapy, medication or suitable devices, one or more life activities is substantially limited if:
1) They are unable to make themselves self-understood to familiar communication partners using speech in a quiet setting.
2) They are unable to make themselves self-understood to both familiar and non-familiar communication partners. Also, they are unable to meet the appropriate communication needs for their age by using less than 30 intelligible words.
3) They have a problem understanding meaningful language by familiar communication partners that leads to substantial difficulty in communicating.

4) They need to reply on AAC (augmentative or alternative communication) including unaided (eg. sign language) or aided means of communication such as communication boards and speech generating devices.

Physical

Someone is regarded as a person with a disability, if they are:

1) Unable to walk (need to use a wheelchair)
2) Only able to walk with the use of assistive devices, such as callipers, crutches, walking frames and other similar devices.
3) Able to walk without the use of assistive devices, but with a degree of difficulty, for example people with cerebral palsy and polio.
4) Functionally limited in the use of the upper limbs.

Mental

With the exclusion of intellectual disability, a person is regarded as having a mental disability if they have been diagnosed by a mental health care practitioner who is authorised to make the diagnosis in accordance with the diagnostic criteria prescribed in the Diagnostic and Statistical Manual IV-TR (DSM-IV-TR). This diagnosis must indicate that the mental impairment disrupts the daily functioning of a person, which moderately or severely interferes with or limits the performance of major life activities such as learning, thinking, communicating and sleeping.

To understand the terms moderate and severely, these are described as follows:

1) Moderate: A global assessment functioning (GAF) score of 31-60.
2) Severe: A GAF score of 30 and below.

Hearing

The term “hearing disability” refers to the functional limitations resulting from a hearing impairment. It is a sensory impairment that will influence verbal communication between the speaker and the listener. There is also a

difference between an adult and a child.
A person is considered moderately to severely hearing impaired, when the hearing loss without any amplification device is:

1) Bilateral: pure tone average in each ear is equal to or greater than 24dBHL for an adult and 15dBHL for a child.

2) Unilateral: pure tone average in the affected ear is equal to or greater than 40dBHL for an adult and 20dBHL for a child.

Intellectual
A person is regarded as having an intellectual disability if they have a moderate to severe impairment in intellectual functioning that is accompanied by a significant limitation in adaptive functioning in at least TWO of the following skill areas:

– Communication
– Self-care
– Home living
– Social or interpersonal skills
– Use of community resources
– Self-direction
– Functional academic skills, work, leisure, health and safety

1) Moderate impairment: IQ of 35 to 49
2) Severe impairment: IQ of 34 and below

About BDO South Africa:
BDO South Africa won Best Tax Firm of the Year in the 2015 Finance Monthly Global Awards, its South African Tax practice plays a leading role in the co-ordination of the Tax practices within the firm’s Sub-Saharan region and its well established Africa Desk.

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Wearing glasses in the eyes of SARS

Author: Mark Bechard (Iol)

The fact that you wear glasses or contact lenses does not in itself mean you have a physical impairment and can claim tax relief for related medical expenses.

The medical expense section of your South African Revenue Service (SARS) tax return has a field for “any physical impairment expenses not recovered from your medical scheme”.

For tax purposes, there is a distinction between a physical impairment and a disability. A person diagnosed by a registered medical practitioner as having a disability, as defined in the Income Tax Act, is entitled to greater tax relief than a person with a physical impairment.

The Act defines “disability” as “a moderate to severe limitation of any person’s ability to function or perform daily activities as a result of a physical, sensory, communication, intellectual or mental impairment, if the limitation has lasted or has a prognosis of lasting more than a year and is diagnosed by a registered medical practitioner”.

The Act does not define “physical impairment”.

Richard Rogers, the director of Bendels Consulting, a tax firm that assists taxpayers with disabilities, says that, according to SARS, a physical impairment is regarded as less restraining than a disability, as defined. This means there must be some form of restriction on your ability to function or perform daily activities, but it is less than a “moderate to severe limitation”.

Rogers says SARS does not require a physical impairment to be diagnosed as prescribed, as required in the case of a disability. This means that if the limitation on your ability to function or perform daily activities is less restricting than a disability, you do not need to submit an ITR-DD (confirmation of diagnosis of disability) form to qualify for the tax relief associated with a physical impairment.

Rogers cautions that, in terms of the Tax Administration Act, the taxpayer bears the burden of proving that an amount qualifies as a reduction of tax payable or as a deduction. So, if you are seeking tax relief for a physical impairment, you need proof of that your ability to function or perform daily activities is limited – for example, a letter from a doctor or a therapist.

Rogers says the ITR-DD form indicates for each type of impairment whether or not that impairment should be assessed before or after maximum correction. “Maximum correction” means appropriate therapy, medication or the use of devices.

Regarding visual impairment, Rogers says that if your ability to see is not at all limited when you wear glasses or contact lenses, you are not considered to have a physical impairment for tax purposes, because your ability to see is no longer limited after maximum correction. If, even when you wear glasses or contact lenses, you have some limitation on your ability to see, but that limitation is less than moderate to severe, you would be considered to have a physical impairment.

Rogers notes that when it comes to a hearing impairment, on the other hand, your impairment needs to be assessed without you making use of an amplification device such as a hearing aid – that is, before maximum correction.

This article first appeared on iol.co.za.

How to calculate your medical tax credit

Author: Ingé Lamprecht (Moneyweb)

New system less beneficial to higher income earners.

JOHANNESBURG – In an effort to improve the fairness and equity of the tax system, tax deductions for medical aid contributions and expenses have gradually been replaced with a tax credit system over the last few years.

Whereas a deduction reduces an individual’s taxable income, a credit (rebate) lowers an their tax liability. This means that all taxpayers enjoy the same rand benefit regardless of their marginal tax rate. In the past a medical deduction was more beneficial to a taxpayer with a higher marginal tax rate.

The tax year that started on March 1 2014 marks the first time medical aid contributions and expenses for all categories of taxpayers fall within the tax credit system.

Categories of taxpayers

- Taxpayers younger than 65
- Taxpayers 65 years and older, or younger than 65 but with a disability or a disabled dependent

Types of medical expenses

Two types of medical expenses qualify for a medical tax credit:

- Medical aid contributions (Section 6A – Medical scheme contributions tax credit)
- Qualifying out-of-pocket medical expenses (Section 6B – Additional medical expenses tax credit)

From the tax year starting March 1 2014, the monthly medical scheme contribution tax credit in terms of Section 6A is R257 per month for the taxpayer and his/her first dependent and R172 per month for each additional dependent. This is applicable to all categories of taxpayers, regardless of their age or disability status.

In addition to the section 6A rebate, taxpayers could also qualify for the section 6B rebate.

The following examples on the section 6B rebate were supplied by the South African Institute of Chartered Accountants (Saica) from its Tax Suite.

Example 1 – Taxpayer younger than 65, no disability

The rebate (credit) is limited to so much of the aggregate of 25% of:

- The amount of the medical aid contributions paid by the person during the year of assessment as exceeds four times the amount of the section 6A (medical aid contribution) rebate to which he or she is entitled; and
- The amount of qualifying medical expenses paid by the person during the year of assessment, as exceeds 7.5% of the person’s taxable income for the year of assessment.

Ms Y is 38 years old. She contributes R4 000 per month to her medical aid, in respect of herself and three dependents. Other qualifying medical expenditure incurred by Ms Y during the 2015 year is R42 000. Ms Y’s taxable income for the 2015 year, prior to the medical expense deduction is R450 000.

2015 Rebate (credit) calculated	R
Medical aid contributions (R4 000 x 12)	48 000
Less: 4 times section 6A rebate (4 x 12 x ((257 x 2) + (172 x 2))	(41 184)
Difference	6 816
Plus: Qualifying medical expenses	42 000

Subtotal	48 816
Less: 7.5% of taxable income	(33 750)
Medical contributions/expenses subject to 25% rebate	15 066
Section 6B rebate = 25% of above medical contributions/expenses	**3 767**

Example 2 – Taxpayer 65 years and older, or younger than 65 but with a disability or a disabled dependent

The rebate (credit) is limited to the aggregate of 33.33% of:

- So much of the amount of the medical aid contributions paid by the person during the year as exceeds three times the amount of the section 6A rebate to which he or she is entitled; and
- The amount of qualifying medical expenses paid by the person during the year of assessment.

Mr X is 67 years old. He contributes R1 900 per month to his medical aid. Other qualifying medical expenditure incurred by Mr X during the 2015 year, is R40 000.

2015 Rebate (credit) calculated	R
Medical aid contributions (R1 900 x 12)	22 800
Less: Three times section 6A rebate (3 x 12 x 257)	(9 252)
Difference	13 548
Plus: Qualifying medical expenses	40 000
Medical contributions/expenses subject to the section 6B rebate	53 548

Section 6B rebate = 33.33% of above medical contributions/expenses	17 848

This article was originally posted on Moneyweb website:

http://www.moneyweb.co.za/moneyweb-tax/how-to-calculate-your-medical-tax-credit

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Which medical expenses are tax deductible?

Author: Ingé Lamprecht (Moneyweb)

Deductions soon to be replaced by credits.

JOHANNESBURG – The current tax filing season, which covers the 2014 tax year, marks the last time individuals will be able to claim a tax deduction for qualifying medical expenses.(

From next year, this deduction will be replaced with a medical tax credit, similar to the one already applicable to medical aid contributions for taxpayers below the age of 65.

Over the last few years tax deductions for medical aid contributions and expenses have gradually been replaced with a credit system. While a deduction lowers a person's taxable income, a credit (rebate) reduces the tax liability.

Somaya Khaki, project director for Tax Suite at the South African Institute of Chartered Accountants (Saica), explains that in the current filing season, taxpayers over the age of 65 will be able to claim a full deduction for all medical expenses paid in the 2014 tax year (March 1, 2013 to February 28, 2014).

Taxpayers under 65 with no disability or disabled dependent will be allowed to deduct only part of the excess medical expenses based on a formula in the Income Tax Act, she says.

Where the taxpayer is under 65 with a disability or a disabled dependent, qualifying medical expenses will be fully deductible.

But what types of medical expenses are allowed?

Khaki explains that taxpayers may claim out-of-pocket expenses for amounts actually paid, but not recovered from their medical scheme.

Examples of qualifying out-of-pocket expenses include services and medicine supplied by registered medical practitioners, as well as specialists and homeopaths. Expenses for hospitalisation in a registered hospital or nursing clinic and home nursing by a registered nurse, midwife or nursing assistant are also allowed, she says.

The deduction also covers prescribed medicines from a pharmacist and medical expenses incurred and paid outside South Africa, but does not include over-the-counter medication, she says.

Taxpayers have to be able to provide proof of payment for these expenses during the tax year. The deduction won't be allowed if it was merely incurred and not also paid during the year.

Moreover, it is fairly common for the South African Revenue Service (Sars) to request supporting documents for medical expenses during its verification process.

Khaki says taxpayers will need the income tax certificate from their medical scheme for the period March 1, 2013 to February 28, 2014 as well as receipts of qualifying medical expenses paid and not recovered from their medical scheme.

If the taxpayer or one of his dependents has a disability, the taxpayer would also need a completed Confirmation of Diagnosis of Disability form (ITR-DD).

"The form is available on the Sars website and must be completed by a registered medical practitioner. All receipts for expenses incurred in respect of a disabled dependent must be kept for at least five years," Khaki notes.

This article was originally posted on Moneyweb website:

http://www.moneyweb.co.za/moneyweb-tax/which-medical-expenses-are-tax-deductible

How to calculate your medical tax credit

Author: Ingé Lamprecht

New system less beneficial to higher income earners.

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The tax year that started on March 1 2014 marks the first time medical aid contributions and expenses for all categories of taxpayers fall within the tax credit system.

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From the tax year starting March 1 2014, the monthly medical scheme contribution tax credit in terms of Section 6A is R257 per month for the taxpayer and his/her first dependent and R172 per month for each additional dependent. This is applicable to all categories of taxpayers, regardless of their age or disability status.

In addition to the section 6A rebate, taxpayers could also qualify for the section 6B rebate.

The following examples on the section 6B rebate were supplied by the South African Institute of Chartered Accountants (Saica) from its Tax Suite.

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The rebate (credit) is limited to so much of the aggregate of 25% of:

- The amount of the medical aid contributions paid by the person during the year of assessment as exceeds four times the amount of the section 6A (medical aid contribution) rebate to which he or she is entitled; and
- The amount of qualifying medical expenses paid by the person during the year of assessment, as exceeds 7.5% of the person's taxable income for the year of assessment.

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Less: 7.5% of taxable income	(33 750)

Medical contributions/expenses subject to 25% rebate	15 066
Section 6B rebate = 25% of above medical contributions/expenses	**3 767**

Example 2 – Taxpayer 65 years and older, or younger than 65 but with a disability or a disabled dependent

The rebate (credit) is limited to the aggregate of 33.33% of:

- So much of the amount of the medical aid contributions paid by the person during the year as exceeds three times the amount of the section 6A rebate to which he or she is entitled; and
- The amount of qualifying medical expenses paid by the person during the year of assessment.

Mr X is 67 years old. He contributes R1 900 per month to his medical aid. Other qualifying medical expenditure incurred by Mr X during the 2015 year, is R40 000.

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Difference	13 548
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Medical contributions/expenses subject to the section 6B rebate	53 548
Section 6B rebate = 33.33% of above medical contributions/expenses	17 848

End of medical tax deductions won’t hurt all pensioners

By Laura du Preez

Taxpayers over the age of 65 who earn less than R400 000 a year may pay less tax as a result of the introduction of the medical tax credits system.

Some pensioners are angrily accusing government of not caring about the plight of the elderly after it was highlighted in the Budget last week that over-65s will lose the tax deduction for medical scheme contributions and medical expenses in the 2014/15 tax year.

But, depending on their contributions, expenses and family size, the scrapping of the tax deduction is bad news only for over-65s who earn more than about R400 000 a year, National Treasury says. Those who earn less should be better off.

The implementation of the tax credits could affect the amount of pay-as-you-earn (PAYE) tax that some pensioners will pay at the end of this month. But many pensioners with an income of less than about R400 000 a year will benefit from the tax credits when their tax for the 2014/15 tax year is assessed in 2015.

Taxpayers under the age of 65 with a disabled family member who earn more than about R386 650 a year may also pay more tax when they are assessed after this tax year ends in 2015, Treasury says.

Taxpayers under 65 who earn more than about R270 000 a year will also pay more tax next year than they would have if they had still been able to claim a tax deduction for medical expenses not recovered from their medical schemes.

The introduction of the tax credits for over-65s is the final step in the phased implementation of the tax credit system, which replaces the deduction for medical scheme contributions and for expenses not recovered from a medical scheme. It was announced in the 2012 Budget.

A tax deduction reduces the taxable income on which your tax is calculated, while a tax credit reduces the tax you will pay after the tax has been calculated.

The deductions benefited taxpayers according to their marginal rate of tax, whereas tax credits are more equitable, because everyone benefits at the same rate, regardless of their income. This helps to make medical scheme membership more affordable for lower earners.

From March 1, a tax credit will apply to taxpayers over 65 for contributions paid to a medical scheme. These taxpayers may also qualify for an additional credit if their contributions exceed three times the tax credit. There is a third credit for expenses not recovered from a scheme.

Until February this year, over-65s could deduct from their taxable income all their contributions and unrecovered expenses. Those who proved to their pension providers that they were paying medical scheme contributions could benefit from the deduction for contributions when PAYE was calculated on their pensions.

Now, pension providers will be able to deduct the credit only for pensioners who prove they are paying contributions, David Warneke, a partner at tax and auditing firm BDO, says. This could affect you negatively if you are a high earner, but you may get back some of what you pay in now when your tax is assessed next year. (The 2013/14 tax year, the last tax year for which over-65s will be able to claim a deduction for all their contributions and medical expenses, will be assessed this year.)

The introduction of tax credits for contributions has benefited some taxpayers under the age of 65 – including those with a disabled family member – who earn less than R270 000 a year.

In the 2011/12 tax year, you could deduct R720 for contributions paid for the member and the first dependant, and R440 for each additional dependant, such as a child.

In the 2012/13 tax year, the tax credits were introduced for contributions paid by taxpayers under 65, including those with a disabled family member. The credits were at a rate of 30 percent of the rand amount previously allowed as a deduction for contributions, but adjusted for inflation.

The introduction of the tax credits for taxpayers under the age of 65 therefore resulted in those on a marginal tax rate of less than 30 percent paying less tax than they did under the tax deduction system, whereas those whose marginal rate was more than 30 percent paid more tax.

From March 1, new tax credits will also apply to all taxpayers for contributions that exceed certain amounts and for medical expenses not recovered from a scheme.

The additional tax credit could result in taxpayers under 65 on a marginal rate of less than 25 percent (annual income of up to R272 700 in the 2014/15 tax year) paying less tax than they did under the deduction system, but under-65s on a higher marginal rate could pay more tax, Warneke says.

Many taxpayers who belong to medical schemes are paying tax at a rate of 30 percent, and the tax credit rate is possibly too low, he says.

If a member of your family is disabled, the second tier of the tax credits system means you will pay more tax if you are on a marginal tax rate of more than 33.3 percent, but you will pay less tax if your marginal rate is below 33.3 percent.

Over-65s and families with disabled members, whose contributions have to exceed three times the tax credit before the contributions qualify for a further credit, may benefit from the widening gap between the tax credits, which increased 6.2 percent this year, and medical scheme contributions, which, in many cases, rose by almost nine percent or more on average.

HOW THE TAX CREDITS WILL APPLY

This is how the change-over to the tax credits system has affected, or will affect, different categories of taxpayer:

Taxpayers over the age of 65 (including those with a disabled family member)

2013/14 tax year

* A tax deduction for all medical scheme contributions; and

* A tax deduction for all qualifying medical expenses not recovered from a medical scheme.

2014/15 tax year

* A tax credit for medical scheme contributions: R257 a month each for contributions paid for the member and the first dependant, and R172 a month for each dependant thereafter.

* An additional tax credit of 33.3 percent of any contributions paid that exceed three times the tax credit for contributions. That is, 33.3 percent of all contributions above R771 a month for a single member, or R1 542 a month for a couple.

* A further tax credit of 33.3 percent of all unrecovered qualifying medical expenses.

Taxpayers under the age of 65

2013/14 tax year

* A tax credit for medical scheme contributions: R242 a month each for contributions paid for the member and the first dependant, and R162 a month for each dependant thereafter; and

* A deduction for medical scheme contributions that exceed four times the tax credit and unrecovered expenses, but only to the extent that the total of these amounts exceeds 7.5 percent of your taxable income (excluding retirement fund lump sums).

2014/15 tax year

* A tax credit for medical scheme contributions: R257 a month for contributions paid for the member and the first dependant, and R172 a month for each dependant thereafter; and

* A tax credit of 25 percent of the total medical scheme contributions that exceed four times the tax credit and unrecovered expenses, but only to the extent that the combined total of these amounts exceeds 7.5 percent of your taxable income (excluding retirement fund lump sums).

Taxpayers under the age of 65 with a disabled family member

A different tax regime applies if you or one of your family members has a disability. The tax system that applied in the 2013/14 tax year has been tweaked again for the 2014/15 tax year.

2013/14 tax year

* A tax credit for medical scheme contributions: R242 a month for contributions paid for the member and the first dependant,

and R162 a month for each dependant thereafter; and

* A tax deduction equal to all unrecovered expenses, plus those contributions that exceed four times the tax credit.

2014/15 tax year

* A tax credit for medical scheme contributions: R257 a month each for contributions paid for the member and the first dependant, and R172 a month for each dependant thereafter.

* An additional tax credit of 33.3 percent of contributions that exceed three times the tax credit for contributions. That is, 33.3 percent of contributions above R771 a month for a single member, R1 542 a month for a couple, or R2 574 a month for a family of four.

* A further tax credit of 33.3 percent of all unrecovered qualifying medical expenses.

EXAMPLES OF HOW THE CHANGE TO TAX CREDITS COULD AFFECT YOU

Here are some examples that show how the revised tax credit system may affect the tax paid by different taxpayers in the 2014/15 tax year.

The medical scheme contributions are either those of Momentum Health's Extender option, for a high-income taxpayer, or its Incentive option, for a low-income taxpayer (both using network hospitals and chronic medicine providers).

We have assumed that the contributions will increase by nine percent from the current rates from January 1, 2015. We have also assumed that the taxpayers could not recover medical expenses of R20 000 from the scheme.

Taxpayer over the age of 65: high income

Medical scheme contributions: R67 891 for the year

Taxable income: Between R528 001 and R673 100 a year

Marginal tax rate: 38 percent

Tax saving if the deduction system had remained in place: R33 398

Tax credits: R29 274. This is R4 124 less than you would have saved had the tax deduction system remained in place.

Taxpayer over the age of 65: low income

Medical scheme contributions: R37 197 for the year

Taxable income: Between R174 551 and R272 700 a year

Marginal tax rate: 25 percent

Tax saving if the deduction system had remained in place: R14 299

Tax credit system: R19 052. This is R4 753 more than you would have saved had the deduction system remained.

Taxpayer under the age of 65: high income

Medical scheme contributions: R91 642 a year for a family of four

Taxable income: R550 000 a year (including fringe benefit for any subsidy)

Marginal tax rate: 38 percent

Tax credit for contributions: R10 296

Further tax saving if the deduction system had remained in place: R11 133

Tax credit for excess contributions and expenses: R7 325.50

This is R3 807.50 more in tax than you would have paid if the deduction for excess contributions and unrecovered expenses had remained in place.

Taxpayer under the age of 65: low income

Medical scheme contributions: R52 959 a year for a family of four

Taxable income: R250 000 a year Marginal tax rate: 25 percent

Tax credit for contributions: R10 296

Further tax saving if the deduction system had remained in place: R3 256

Tax credit for excess contributions and medical expenses: R3 256.

You will pay the same tax that you would have paid if the deduction for excess contributions and unrecovered expenses had remained in place.

Changes to tax treatment of medical expenses from 1 March – worked example

Medical tax credits on the spotlight

At present taxpayers aged under 65 years are on a hybrid system with regard to the income tax treatment of their medical expenses. While contributions to medical aids are subject to credit relief, medical expenses in excess of 7.5 % of taxable income are claimed as a deduction. On the other hand, taxpayers aged 65 years or older are on a deduction-only system.

From 1 March 2014, all taxpayers regardless of age will be on a credit-only system.

As is currently the case, contributions to medical aids or medical expenses by the taxpayer’s employer are a taxable fringe benefit in the hands of the employee but the amount of the fringe benefit is treated as if it was a contribution or expense paid by the employee for purposes of the conversion to credits referred to below.

The main points regarding the workings of the credit-only scheme are as follows. For further clarity we have also provided a worked example.

For taxpayers aged under 65 years without a disabled dependant: Contribution to a medical aid (without regard to the quantum of the contribution) will qualify the taxpayer to receive a credit of fixed monthly amount, based on the number of the taxpayer’s dependants on the medical aid scheme.

However, to the extent that the sum of:

- qualifying medical expenses and
- medical aid contributions in excess of four times the fixed credit above

exceeds 7.5 % of the taxpayer’s taxable income, an additional credit arises. This additional credit is calculated by multiplying the excess amount by 25%.

For taxpayers aged 65 years and older or for taxpayers with a disabled dependant:

- Contribution to a medical aid (without regard to the quantum of the contribution) will qualify the taxpayer to receive a credit of fixed amount, based on the number of the taxpayer’s dependants on the medical aid scheme.
- However, medical aid contributions in excess of three

times the fixed credit amount above will be converted to additional credits at the rate of 33.3%

- Qualifying medical expenses (with no threshold requirement) will also be converted to credits at the rate of 33.3%.

For PAYE purposes the employer may only take the fixed monthly credit amount into account and not the additional credits. Where the employer does not effect payment of the medical aid contributions it may only take the fixed monthly credit amount into account if proof of payment of such contributions has been furnished.

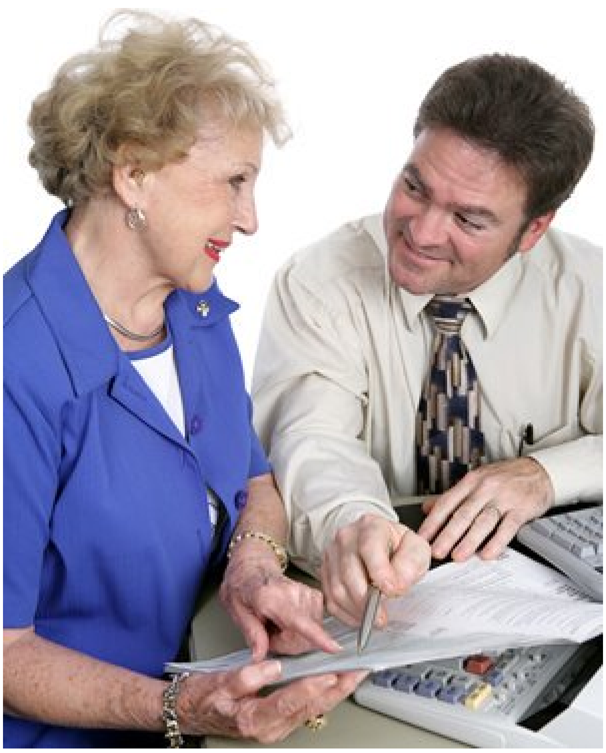
An example to illustrate how this will work in the calculation of tax payable by employees is provided below. We have used the 2014 medical scheme fees tax credit amounts as well as the 2014 tax tables.

The Taxpayers is a natural person with on dependant			
Year of assessment commencing 1 March 2014			
Taxable Income		450 000	
Medical Aid contributions		25 000	
Medical Expenses		40 000	
		Under 65 with	
		Disabled	Over 65 but
Tax Calculation	Under 65	Dependant	under 75
Taxable Income	450 000	450 000	450 000

Tax per tax tables	115066	115066	115066
Medical Scheme credit			
(R242 + R242) * 12 months	-5808	-5808	-5808
Excess Medical fees Credit			
R 25, 000 -(3 * R508) = R7 576			
Converted to tax credit at 33.3%			
Other qualifying medical expenditure			
R40,000 converted to tax credits at 33.3%	N/a	-13 320	-13 320
Excess medical fees and qulifying medical expenditure			
Excess medical scheme fees : R25, 000 – (4 * 5,808) = 1,768			
Excess medical scheme fees : R25, 000 – (4 * 5,808) = 1,768			
Other medical expenditure = 40,000			
=41,768			
less 7.5% of R450,000(taxable income) = 33,750			
=8,018			

Converted to tax credits at 25%	-2005	N/a	N/a
Less primary rabate	-12080	-12080	-12080
Less secondary rabate (over 65’s)	N/a	N/a	-6750
Tax payable	95173	81335	74585

New tax treatment of medical expenses



Johannesburg – At present taxpayers aged under 65 years are on a hybrid system with regard to the income tax treatment of their medical expenses.

While contributions to medical aids are subject to credit relief, medical expenses in excess of 7.5 % of taxable income are claimed as a deduction.

On the other hand, taxpayers aged 65 years or older are on a deduction-only system.

From 1 March 2014, all taxpayers, regardless of age, will be on a credit-only system.

David Warneke of BDO SA explains what this means for taxpayers.

Currently contributions to medical aids or medical expenses by the taxpayer's employer are a taxable fringe benefit in the hands of the employee.

The amount of the fringe benefit is treated as if it was a contribution or expense paid by the employee for purposes of the conversion to credits referred to below.

For taxpayers aged under 65 years without a disabled dependant:

Contributions to a medical aid (without regard to the quantum of the contribution) will qualify the taxpayer to receive a credit of a fixed monthly amount.

This will be based on the number of the taxpayer's dependants on the medical aid scheme.

However, to the extent that the sum of qualifying medical expenses and medical aid contributions in excess of four times the fixed credit above exceeds 7.5% of the taxpayer's taxable income, an additional credit arises.

This additional credit is calculated by multiplying the excess amount by 25%.

For taxpayers aged 65 years and older or for taxpayers with a disabled dependant:

Contribution to a medical aid (without regard to the quantum of the contribution) will qualify the taxpayer to receive a credit of fixed amount, based on the number of the taxpayer's dependants on the medical aid scheme.

However, medical aid contributions in excess of three times the fixed credit amount above will be converted to additional credits at the rate of 33.3%.

Qualifying medical expenses (with no threshold requirement) will also be converted to credits at the rate of 33.3%.

For Pay As You Earn (Paye) purposes, the employer may only take the fixed monthly credit amount into account and not the additional credits.

Where the employer does not effect payment of the medical aid contributions, it may only take the fixed monthly credit amount into account if proof of payment of such contributions has been furnished.