

Personal Income Tax – MEDICAL SCHEME FEES TAX CREDIT

What is it?

The medical tax credit [MTC] is a fixed amount that will be deducted from the taxpayer's normal tax payable. It applies in respect of years of assessment commencing on or after 1 March 2012. In other words, it is applicable from the 2013 year of assessment for individuals.

Who is it for?

The MTC effectively replaces part of the tax deduction that was granted specifically for medical scheme contributions, and applies to fees paid by a taxpayer to a registered medical scheme (or similar scheme outside South Africa) in respect of that taxpayer and any dependant.

This new tax credit seeks to bring about greater fairness and help achieve greater equality in the treatment of medical expenses across all income groups.

Note that the MTC does not apply to a person who is 65 years of age and older, since this category of taxpayers is still entitled to a deduction (in respect of medical scheme contributions) in full. For all other taxpayers, the MTC is a fixed monthly amount which increases according to the number of dependants.

How and when should this be paid?

The introduction of a MTC will impact both the employer and the employee with effect from 1 March 2012.

Paragraph 9(6) of the Fourth Schedule to the Income Tax Act of 1962, requires the employer to account for the MTC when determining the employees' tax to be withheld or deducted from

an employee. This may also impact the employee, since the employees' tax may differ from that withheld or deducted prior to the introduction of the MTC.