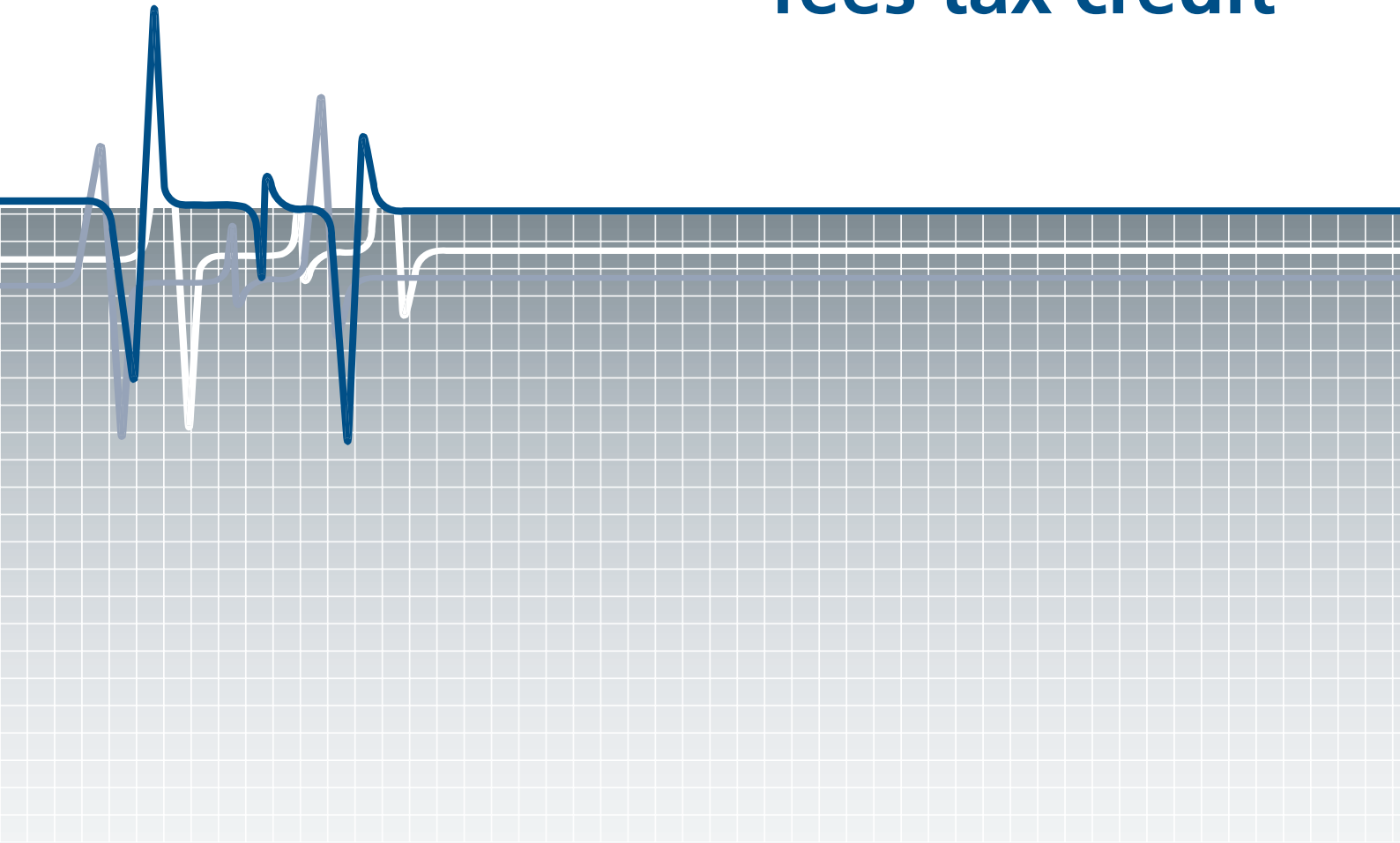


# A guide to understanding the medical scheme fees tax credit



## TABLE OF CONTENTS

1.	INTRODUCTION.....	3
2.	WHAT ARE THE CHANGES?.....	3
3.	THE CHANGES EXPLAINED .....	3
3.1	TAXPAYERS BELOW THE AGE OF 65 WITH NO DISABILITY .....	3
3.2	PERSONS WITH A DISABILITY BELOW THE AGE OF 65 .....	4
3.3	TAXPAYERS AGED 65 AND OLDER.....	5
4.	HOW WILL MY MONTHLY SALARY BE AFFECTED? .....	5
4.1	GENERAL .....	5
4.2	ILLUSTRATIVE EXAMPLES.....	5
	EXAMPLE 1 .....	5
	EXAMPLE 2 .....	6
	EXAMPLE 3 .....	7
5.	MORE INFORMATION.....	8
6.	GLOSSARY OF TERMS.....	8

## 1. INTRODUCTION

In an effort to achieve greater equality in the treatment of medical expenses across income groups, the current medical scheme contribution deduction (limited to a prescribed capped amount) will, for taxpayers aged below 65, be replaced by a medical scheme contribution tax credit. This will be effective from **1 March 2012**, that is the commencement date of the 2013 year of assessment (1 March 2012 to 28 February 2013) onwards.

This will affect the calculation of Employees' Tax to be withheld by employers from employees remuneration paid, payable from 1 March 2012 and the Income Tax assessments of taxpayers when their 2013 Income Tax Returns (ITR12's) are processed.

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## 2. WHAT ARE THE CHANGES?

Effective 1 March 2012 the following changes will be introduced:

- A medical scheme contribution tax credit will be available to taxpayers who belong to a medical scheme and are **below the age of 65 (including persons with a disability)**, set at fixed amounts per month:
  - R230 per month for contributions made by the taxpayer and R230 for the first dependant; plus
  - R154 per month in respect of each additional dependant.

Please note the following:

- ***The medical tax credit may vary from time to time and changes will be announced by the Minister of Finance during his Budget Speech each year.***
- ***The medical tax credit is not refundable, and cannot exceed the amount of tax to be deducted.***
- The non-taxable fringe benefit in respect of medical scheme contributions paid by the employer on behalf of a taxpayer who is **65 years and older** and who has not retired from that employer has been repealed. This means that the contribution amount paid by an employer on behalf of a taxpayer who is 65 years and older and has not retired from the employer, will now be a taxable fringe benefit. This is aligned to the treatment of all other taxpayers. **However, a person 65 years and older is still entitled to the full medical scheme contribution paid as a deduction. The net effect on such a person's tax due is therefore nil.**
- Where a taxpayer has **retired** from an employer, and the employer continues to pay contributions on behalf of the retired taxpayer, the fringe benefit will still be non-taxable.

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## 3. THE CHANGES EXPLAINED

In the **current tax** framework, relief in the form of deductions from taxable income is afforded to taxpayers for medical scheme contributions and out-of-pocket medical expenses, while the **new tax** framework foresees the conversion into medical tax credits, the value of which will be unrelated to a taxpayer's income bracket, and are designed to benefit taxpayers with equivalent medical expenses equally and without regard to their taxable income levels.

Taxpayers will still be permitted to deduct qualifying out-of-pocket medical expenses:

- actually paid, and such expenses have not been covered by a medical scheme, or
- which appears as "claims not covered by scheme" on the medical tax certificate and the necessary receipts can be produced as proof of payment.
- Examples of these qualifying out-of-pocket medical expenses are:
  - Services rendered and medicines supplied by a registered medical practitioner, dentist, optometrist, homeopath, naturopath, osteopath, herbalist, physiotherapist, chiropractor or orthopaedist.
  - Hospitalisation in a registered hospital or nursing clinic.
  - Home nursing by a registered nurse, midwife or nursing assistant, including when supplied by any nursing agency.
  - Medicines prescribed by a registered physician and acquired from a pharmacist.
  - Medical expenses incurred and paid outside South Africa.

### 3.1 TAXPAYERS BELOW THE AGE OF 65 WITH NO DISABILITY

- If you are below the age of 65 years, with no disability, you will be granted a deduction as well as a medical tax credit based on:
  - A **tax credit** in respect of **contributions made by you**
    - The number of persons (dependants) for whom you make contributions to a medical scheme will determine the value of the credit.
  - A **deduction** in respect of **contributions made by you**
    - All contributions as exceeds four (4) times the medical tax credit as determined
  - A **deduction** in respect of **contributions and out-of-pocket medical expenses (qualifying expenses) paid by you**
    - All contributions as exceeds four (4) times the medical tax credit as determined and other medical expenditure not recoverable from the medical scheme that, in aggregate, exceeds 7.5% of your taxable income (excluding retirement fund lump sum and retirement fund lump sum withdrawal benefits) before this deduction. as exceeds four (4) times the medical tax credit as determined.

Taxpayer + dependants	Capped deduction (1 March 2011 until 29 February 2012)	
	per month	per annum
Taxpayer (1)	R 720.00	R 8,640.00
Taxpayer + 1 dependant	R 1,440.00	R 17,280.00
Taxpayer + 2 dependants	R 1,880.00	R 22,560.00
Taxpayer + 3 dependants	R 2,320.00	R 27,840.00
Taxpayer + 4 dependants	R 2,760.00	R 33,120.00

Taxpayer + dependants	Medical tax credit (1 March 2012 until 28 February 2013)	
	per month	per annum
Taxpayer (1)	R 230.00	R 2,760.00
Taxpayer + 1 dependant	R 460.00	R 5,520.00
Taxpayer + 2 dependants	R 614.00	R 7,368.00
Taxpayer + 3 dependants	R 768.00	R 9,216.00
Taxpayer + 4 dependants	R 922.00	R 11,064.00

*Note: The tables are for illustration purposes only, and the amounts may vary depending on the number of months in the tax year that a taxpayer and dependents are members of a medical scheme fund.*

### 3.2 PERSONS WITH A DISABILITY BELOW THE AGE OF 65

- Persons with a disability as defined, below the age of 65 years, will be granted a credit based on:
  - A **tax credit** in respect of **contributions made by you**
    - The number of persons (dependants) for whom you make contributions to a medical scheme will determine the value of the credit.
  - A **deduction** in respect of **contributions made by you**
    - All contributions as exceeds four (4) times the medical tax credit as determined
  - A **deduction** in respect of **out-of-pocket medical expenses (qualifying expenses) paid by you**
    - No limitations will be placed on the medical expenses that may be deducted.

**Please note:** Where the disability has not been confirmed by a duly registered medical practitioner, on the ITR-DD - Confirmation of Diagnosis of Disability, you **will not** be able to claim the qualifying expenses in full and will be subject to the 7.5% limitation, as stated above in 3.1.

**Please note:** The ITR-DD can be obtained by visiting the SARS website [www.sars.gov.za](http://www.sars.gov.za) calling the SARS Contact Centre on 0800 00 SARS (7277), or visiting your local SARS branch.

### 3.3 TAXPAYERS AGED 65 AND OLDER

The medical tax credit does not apply to a person who is 65 years and older. Such persons are still entitled to the full medical scheme contribution paid as a deduction. The net effect on such a person's tax due is therefore nil.

## 4. HOW WILL MY MONTHLY SALARY BE AFFECTED?

### 4.1 GENERAL

**AMOUNTS MAY VARY DUE TO CHANGE IN CIRCUMSTANCES OR LEGISLATIVE CHANGES ETC. ALL EXAMPLES AND AMOUNTS ARE USED FOR ILLUSTRATIVE PURPOSES ONLY.**

The following examples illustrate the effect on a person's monthly salary.

- *The examples have been based on the assumption that the employer does not make any contributions on behalf of the employee.*

### 4.2 ILLUSTRATIVE EXAMPLES

#### EXAMPLE 1

Mr Taxpayer, who is under the age of 65, earns a monthly salary of R16 040 and makes monthly contributions of:

- R937 to a pension fund, and
- R2 563 to a medical scheme in respect of himself and three dependants.

MEDICAL DEDUCTION – February 2012		MEDICAL TAX CREDIT – March 2013	
Salary	R 16,040	Salary	R 16,040
Pension contribution	R 937	Pension contribution	R 937
Medical scheme contribution	R 2,563	Medical scheme contribution	R 2,563
Scheme dependants (incl. taxpayer)	4	Scheme dependants (incl. taxpayer)	4
Monthly Capped Amount calculated as (R720 X 2) + (R440 X 2)	R 2,320	Tax credit calculated as (R230 X 2) + (R154 X 2)	R 768
<b>Tax calculation</b>		<b>Tax calculation</b>	
Salary	R 16,040	Salary	R 16,040
Deductions	R -3,257	Deductions	R -937
Pension (limited to R16 040 X 7,5% = R1 203)	R 937	Pension (limited to R16 040 X 7,5% = R1 203)	R 937
Medical scheme contribution - capped amount	R 2,320		
Taxable income	R 12,783	Taxable income	R 15,103
Tax payable (incl. rebates) as per tax deduction tables	R 1,424	Tax payable (incl. rebates bases) - before tax credit	R 1,889
		Less: tax credit	R -768
		Final tax payable	R 1,121
<b>Net take home pay</b>		<b>Net take home pay</b>	
Salary	R 16,040	Salary	R 16,040
Less:	R -4,924	Less:	R -4,621
Pension contribution	R 937	Pension contribution	R 937
Medical scheme contribution	R 2,563	Medical scheme contribution	R 2,563
Tax payable	R 1,424	Tax payable	R 1,121
<b>Net salary</b>	<b>R 11,116</b>	<b>Net salary</b>	<b>R 11,419</b>

Therefore Mr Taxpayer will receive an additional R303 (R 11 419 – R11 116) included in his net salary received for March 2012.

## EXAMPLE 2

Mr Taxpayer, who is under the age of 65, earns a monthly salary of R27 083 and makes monthly contributions of:

- R3 000 to a pension fund, and
- R4 623 to a medical scheme in respect of himself and three dependants.

MEDICAL DEDUCTION – February 2012		MEDICAL TAX CREDIT – March 2013	
Salary	R 27,083	Salary	R 27,083
Pension contribution	R 3,000	Pension contribution	R 3,000
Medical scheme contribution	R 4,623	Medical scheme contribution	R 4,623
Scheme dependants (incl. taxpayer)	4	Scheme dependants (incl. taxpayer)	4
Monthly Capped Amount calculated as (R720 X 2) + (R440 X 2)	R 2,320	Tax credit calculated as (R230 X 2) + (R154 X 2)	R 768
<b>Tax calculation</b>		<b>Tax calculation</b>	
Salary	R 27,083	Salary	R 27,083
Deductions	R -4,351	Deductions	R -2,031
Pension (limited to R27 083 X 7,5% = R2031)	R 2,031	Pension (limited to R27 083 X 7,5% = R2031)	R 2,031
Medical scheme contribution - capped amount	R 2,320		
Taxable income	R 22,732	Taxable income	R 25,052
Tax payable (incl. rebates) as per tax deduction tables	R 4,067	Tax payable (incl. rebates) - before tax credit	R 4,587
		Less: tax credit	R -768
		Final tax payable	R 3,819
<b>Net take home pay</b>		<b>Net take home pay</b>	
Salary	R 27,083	Salary	R 27,083
Less:	R -11,690	Less:	R -11,442
Pension contribution	R 3,000	EE pension contr.	R 3,000
Medical scheme contribution	R 4,623	EE medical scheme contr.	R 4,623
Tax payable	R 4,067	Tax payable	R 3,819
<b>Net salary</b>	<b>R 15,393</b>	<b>Net salary</b>	<b>R 15,641</b>

Therefore Mr Taxpayer will **receive an additional R248** (R15 641 – R15 393) included in his net salary received for March 2012.

### EXAMPLE 3

Mr Taxpayer, who is under the age of 65, earns a monthly salary of R48 750 per month and makes monthly contributions of:

- R3 656 to a pension fund, and
- R5 506 to a medical scheme in respect of himself and three dependants.

MEDICAL DEDUCTION – February 2012		MEDICAL TAX CREDIT – March 2013	
Salary	R 48,750	Salary	R 48,750
Pension contribution	R 3,656	Pension contribution	R 3,656
Medical scheme contribution	R 5,506	Medical scheme contribution	R 5,506
Scheme dependants (incl. taxpayer)	4	Scheme dependants (incl. taxpayer)	4
Monthly Capped Amount calculated as (R720 X 2) + (R440 X 2)	R 2,320	Tax credit calculated as (R230 X 2) + (R154 X 2)	R 768
<b>Tax calculation</b>		<b>Tax calculation</b>	
Salary	R 48,750	Salary	R 48,750
Deductions	R -5,976	Deductions	R -3,656
Pension (limited to R48 750 X 7,5% = R3 656)	R 3,656	Pension (limited to R48 750 X 7,5% = R3 656)	R 3,656
Medical scheme contribution - capped amount	R 2,320		
Taxable income	R 42,774	Taxable income	R 45,094
Tax payable (incl. rebates) as per tax deduction tables	R 11,009	Tax payable (incl. rebates) - before tax credit	R 11,556
		Less: tax credit	R -768
		Final tax payable	R 10,788
<b>Net take home pay</b>		<b>Net take home pay</b>	
Salary	R 48,750	Salary	R 48,750
Less:	R -20,171	Less:	R -19,950
Pension contribution	R 3,656	Pension contribution	R 3,656
Medical scheme contribution	R 5,506	Medical scheme contribution	R 5,506
Tax payable	R 11,009	Tax payable	R 10,788
<b>Net salary</b>	<b>R 28,579</b>	<b>Net salary</b>	<b>R 28,800</b>

Therefore Mr Taxpayer will receive an additional R221 (R 28 800 – R 28 579) in his net salary received for March 2012.

## 5. MORE INFORMATION

For more information on the conversion of medical scheme contribution deductions to medical tax credits, visit the SARS website [www.sars.gov.za](http://www.sars.gov.za) call the SARS Contact Centre on 0800 00 SARS (7277), or visit your local SARS branch.

## 6. GLOSSARY OF TERMS

TERM	DESCRIPTION
IRP5/IT3(a)	Employees' Tax Certificate
ITR12	Income Tax Return for an individual
Disability	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 if the limitation has lasted or is expected to last more than a year, and is diagnosed by a registered medical practitioner
PIT	Personal Income Tax
SARS	South African Revenue Service
Taxpayer	Any person required to be registered with SARS for the purposes of any tax imposed by the Act
The Act	Income Tax Act No.58 of 1962
Year of assessment	1 March to 28/29 February of the next year
Medical tax credit	The tax rebate set out in section 6A of the Act





