

Issue 9 - 8 March 2024

Budget Snapshots

Medical and Physical Disability Expenses

A medical scheme contribution tax credit is available to taxpayers who belong to a medical scheme and to those taxpayers who incur qualifying medical expenses.

A medical tax credit in respect of medical scheme contributions is a direct deduction off tax as opposed to a deduction from income.

The amount of the medical tax credit in respect of medical scheme contributions has not been increased from the previous year and is set at fixed amounts per month -

- **R364** each per month for the taxpayer and one dependant (whether a spouse, child or other dependant).
- **R246** per month for each additional dependant.

The amount of medical scheme contributions paid by an employer on behalf of an employee must be treated as a taxable fringe benefit. When an employee has retired from an employer and the employer continues to pay contributions on behalf of the retired employee, the fringe benefit will not be taxable.

These medical tax credits in respect of medical aid contributions can be taken into account for both PAYE and provisional tax purposes.

An example of the calculation appears at the end of this article.

- For those below the age of 65, they will be entitled to the medical tax credits referred to above whether the medical aid contributions are paid by them directly or paid by the employer and taxed in their hands as a fringe benefit.

They are entitled to medical tax credits calculated as follows –

- The standard monthly medical scheme credits for the taxpayer, spouse and dependants; plus
- 25% credits for medical scheme fees paid that exceed four times the standard medical scheme credits; plus
- 25% credits for all qualifying medical expenses (other than medical scheme contributions).

The allowable medical tax credit (in addition to the standard credits) is the amount by which the total of these last 2 items exceeds 7,5% of the taxpayer's taxable income (excluding any retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit and severance benefit).

- For a person 65 years and older (at tax year end) they are entitled to the medical tax credits referred to above whether the medical aid contributions are paid by them directly or paid by the employer and taxed in their hands as a fringe benefit.

Taxpayers of 65 years of age and above are entitled to the standard monthly medical scheme credits, and further credits are set as below at a 33,3% level. More specifically, the medical tax credits will be calculated as follows:

- The standard monthly medical scheme credits for the taxpayer, spouse and dependants; plus
- 33,3% credits for medical scheme fees paid that exceed three times the standard medical scheme credits; plus
- 33,3% credits for all qualifying medical expenses (other than medical scheme contributions).

- Disabled taxpayers or taxpayers who have a spouse or child who is disabled, are treated in the same way as taxpayers 65 years and older.

They are entitled to the standard monthly medical scheme credits, and further credits are set as below at a 33,3% level. More specifically, the medical tax credits will be calculated as follows:

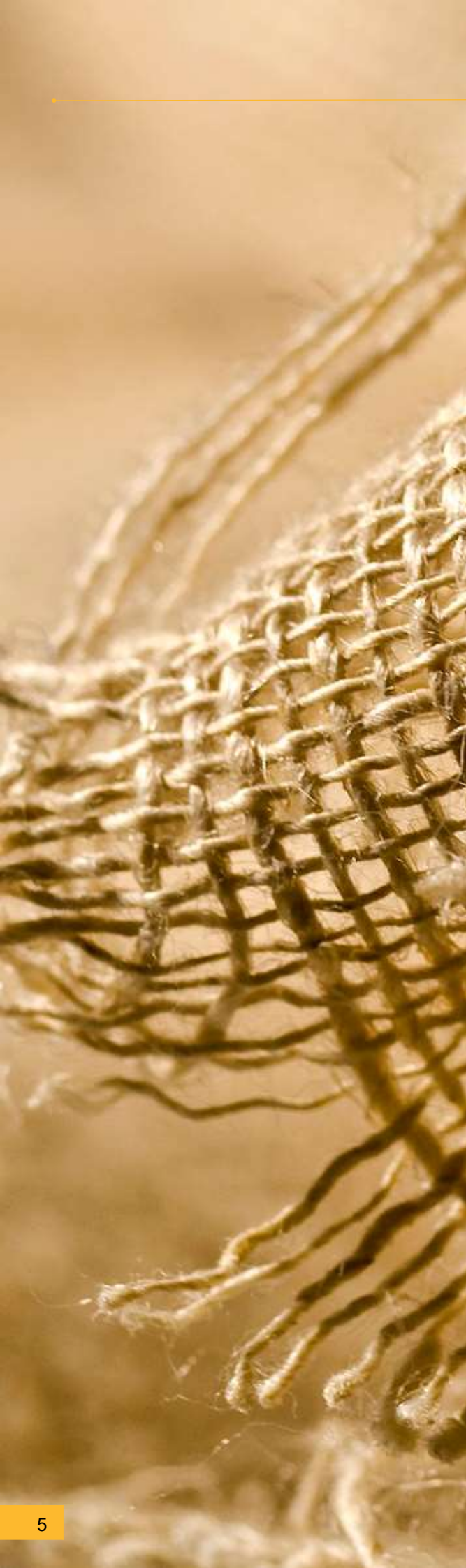
- The standard monthly medical scheme credits for the taxpayer, spouse, and dependants; plus
- 33,3% credits for medical scheme fees paid that exceed three times the standard medical scheme credits; plus
- 33,3% credits for all qualifying medical expenses (other than medical scheme contributions).

A medical tax credit in respect of medical scheme contributions is a direct deduction off tax.



“Disability” means 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 has a prognosis of lasting more than a year; **and**
- is currently diagnosed by a duly registered medical practitioner in accordance with criteria and in the form prescribed by the Commissioner (form ITRDD).
- The medical tax credit is based on the total amount of such expenses actually paid during the year in respect of the taxpayer, his/her spouse and children (those who previously qualified for child rebates i.e. a child, step-child and legally adopted child who is unmarried at year end and not older than 18 years or not older than 21 years and dependent on you and not liable for income tax for that year or older if a full time student or incapacitated). A child of a taxpayer also refers to any child who was alive during a portion of the year of assessment and who, on the last day of the year of assessment -
 - was incapacitated by a disability from maintaining himself, **and**
 - was wholly or partially dependent for maintenance upon the taxpayer, **and**
 - has not become liable for the payment of normal tax for the year.



A child as defined would however exclude a foster child, a child not yet legally adopted or a child under your custodianship. However such person may be able to be classified as a dependant (see below).

The medical tax credit is based on -

- the amount of contributions paid to South African registered medical schemes (or to any other fund which is registered under any similar law in any other country where such medical scheme is registered) in respect of the taxpayer, his/her spouse and children (as above) and also for dependants (see below)
- as well as payments (including payments outside South Africa) to doctors, dentists, homeopaths, physiotherapists, chiropractors, hospitals, clinics, nurses, nursing agencies, etc in respect of professional services or pharmacists for medicines prescribed by any of the foregoing or other expenditure in consequence of a physical disability of a permanent nature e.g. bad eyesight or hearing, diabetes, asthma, hyperactivity, etc for the above persons (excluding dependants) to the extent not recovered from a medical scheme.

For the purpose of medical scheme contributions, a **dependant** means the spouse or partner, dependant children or other members of the member's immediate family in respect of whom the member is liable for the family care and support, or any other person who, under the rules of the medical scheme, is recognised as a dependant of the member.

The deduction or tax credit is allowed only to the spouse who pays the expenditure (or if paid by his/her employer and treated as a taxable fringe benefit). Great care needs therefore to be taken before deciding which spouse should pay such amounts.

Where medical scheme contributions are shared by taxpayers and each taxpayer pays a share of the medical scheme contributions in respect of dependants, medical scheme fees tax credits must be proportionately allocated between the taxpayers who made the payment of medical scheme contributions. An example would be where children jointly contribute towards their parents medical scheme contributions.

Examples of Medical Expenses Tax Credit Relief (using rates with effect from 1 March 2024)

Assumed Facts –

- 1 Member, wife, 1 child
- 2 Medical aid contribution of R3 500 per month (R42 000 for the year)
- 3 Additional expenses R20 000
- 4 Taxable income R200 000

	Person under 65 A	Person over 65 B	Person with disability C
Tax credit for medical aid contributions [[364 x 2) + (246 x1)] x 12	11 688	11 688	11 688
Credit for excess expenses			
A 42 000 – (11 688 x 4) = -4 752 (ignore) 20 000 – (7,5% of 200 000) = 5 000 x 25%	- 1 250		
B [42 000 – (11 688 x3)] x 33,3% = 2 310 20 000 x 33,3%		2 310 6 660	
C [42 000 – (11 688 x 3)] x 33,3% = 2 310 20 000 x 33,3%			2 310 6 660
Total Medical Tax Credit	R12 938	R20 658	R20 658



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