Changing tax credits will hit elderly, disabled’

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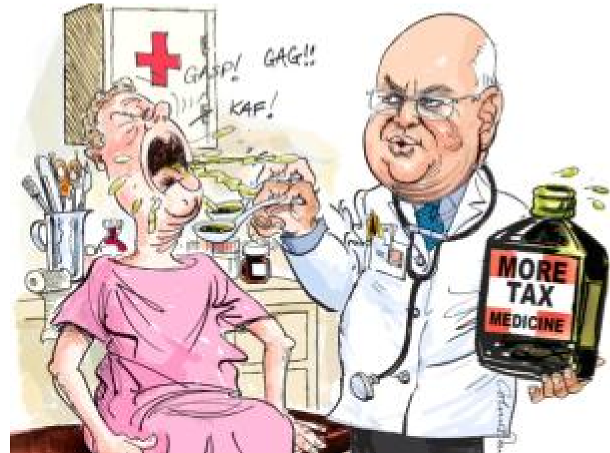

Illustration: Colin Daniel

Proposed changes to the tax credits for medical expenses in the 2014/15 tax year will have an extremely negative impact on taxpayers over the age of 65 and on taxpayers with disabilities, the Association for Savings & Investment SA (Asisa) says.

Asisa says in comments on the proposed changes that taxpayers over 65 and those with disabilities should be allowed to continue to deduct all their medical expenses from their taxable income, or the tax credit should be increased.

The proposed changes are contained in the Taxation Laws Amendment Bill, which has been tabled in Parliament. Asisa responded to the invitation to the public to comment on the bill, and Parliament’s standing committee on finance will hear submissions on the bill next week.

As of March 1 this year (2012/13 tax year), some of the tax deductions allowed for medical expenses, particularly those for taxpayers under the age of 65 and taxpayers with disabilities, were replaced with tax credits for medical expenses.

A tax credit reduces the tax you will pay, whereas a tax deduction reduces the income on which your tax is calculated. The higher your marginal rate of tax, the greater the impact of the deduction, whereas a tax credit is set at a specified tax rate.

The Taxation Laws Amendment Bill proposes that, from the 2014/15 tax year, which starts on March 1, 2014, more tax credits replace the remaining tax deductions for medical expenses.

Taxpayers over the age of 65 are currently allowed to deduct from their taxable income all their contributions to a medical scheme and all the medical expenses that they do not recoup from their medical scheme.

The amendments will remove these deductions for taxpayers over the age of 65 and introduce:

* A tax credit at a rate of 30 percent for medical scheme contributions up to a certain limit; and

* A tax credit at a rate of 33.3 percent for both medical scheme contributions that exceed certain limits and unrecouped healthcare expenses.

Asisa says taxpayers over 65 will definitely be worse off if the proposals are implemented. Asisa has therefore recommended that the proposals are not implemented, or that if they are, the tax credit rate is increased from 33.3 percent to 40 percent.

“Taxpayers over 65 are suffering a double blow: their medical deduction is being reduced and the interest rebate has not been increased this year (and is unlikely to be in future) because of the new proposed tax-free savings vehicle. This is surely not in line with the drive for savings on retirement,” Asisa says in its comments on the bill.

Asisa says that if a taxpayer over the age of 65 has low contributions to a medical scheme, he or she might in 2014 qualify only for the tax credit that is available to all taxpayers, unlike the current situation where all contributions are deductible.

Taxpayers who have disabilities or whose immediate family members (spouse or children) are disabled currently enjoy a tax credit for medical scheme contributions up to a certain amount.

If these taxpayers pay contributions to a scheme that exceed four times the tax credit, they may deduct the excess contributions from their taxable income.

Taxpayers who are disabled or who have family members with disabilities can also currently deduct from their taxable income any medical expenses that are not recouped from a medical scheme.

The amendments propose that, as of March 1, 2014, these taxpayers will be entitled to a tax credit equal to 33.3 percent of their unrecouped medical expenses plus their contributions that exceed three times their initial tax credit.

Asisa believes that people with disabilities or who have a disabled family member should be entitled to deduct all their medical expenses, or the tax credit should be raised to 40 percent.

The proposed changes will also affect taxpayers under the age of 65 who claim medical expenses not recouped from a scheme.

Currently, taxpayers under the age of 65 may deduct from their taxable income unrecouped medical expenses that exceed 7.5 percent of their taxable income.

From the 2014/2015 tax year, taxpayers under the age of 65 will receive a tax credit at a rate of 25 percent for unrecouped medical expenses that exceed 7.5 percent of their taxable income.

Asisa says it accepts it is the prerogative of the policymakers to affect taxpayers under the age of 65 negatively. However, it says, it is harder to accept the negative implications for over 65s and for disabled, vulnerable people who are not in a position to plan their financial affairs.

Asisa says the proposed changes are extremely complex. It says that if the tax credits are implemented as proposed, the medical section of the income tax return should be amended so that there are three different sections: for taxpayers aged 65 and over; for disabled taxpayers or taxpayers with an immediate family member who is disabled; and for taxpayers under 65.

Amending the return will make it easier for taxpayers to complete and understand the return, the organisation says.

Asisa also points out that taxpayers who earn below the tax threshold do not benefit from the tax credit system at all, because the credits are not refundable and cannot be carried over to the following tax year. (For the 2012/13 tax year, the thresholds are: R63 556 if you are under the age of 65; R99 056 if you are 65 to 74; and R110 889 if you are 75 and older.)

Asisa says medical tax credits in excess of tax payable in any tax year should be carried over to subsequent tax years, in the same way as contributions to a retirement annuity fund that are not deductible can be carried over.

This would allow those under the tax threshold to benefit when they one day exceed the threshold and start to pay tax, and it might provide some incentive for them to join a scheme, Asisa says.

EXAMPLE OF HOW THE CREDITS WILL WORK

Taxpayers over the age of 65 who are on marginal tax rates of more than 30 percent are likely to lose some of the tax deductions they can claim currently and are thus likely to pay more tax, whereas for those on marginal rates of less than 30 percent, the effect of the proposed changes depends on your circumstances.

The explanatory memorandum to the Taxation Laws Amendment Bill provides the following example of how the tax credit will work in 2014 for a taxpayer who is 65 years or older: For the 2014/15 tax year, Jack contributed, on his and his wife's behalf, R2 000 a month, or R24 000 for the year, to a medical scheme. Jack also incurred R20 000 in qualifying medical expenses that he did not recoup from his scheme.

Based on the tax credit amounts for the 2012/13 tax year, Jack's tax credit for his medical scheme contributions would be R5 520: R230 for the principal member + R230 for the first dependant x 12 months.

Jack will qualify for a further tax credit, at a rate of 33.3 percent, on his medical scheme contributions that exceed three times his tax credit: annual contributions of R24 000 – R16 560 (R5 520 x 3) = R7 440. Jack's tax credit will be 33.3 percent of this amount: R7 440 x 33.3 percent = R2 478 (rounded off to the nearest rand).

Jack's unrecouped qualifying medical expenses will also be eligible for a tax credit at a rate of 33.3 percent: R20 000 x 33.3 percent = R6 660.

Once all his tax credits are taken into account, Jack will be able to reduce his tax by R14 658: R5 520 + R2 478 + R6 660.

If Jack had spent the same amount on medical care in the 2012/13 tax year, he would reduce his taxable income by R44 000: R24 000 in contributions + R20 000 in unrecouped expenses.

At a marginal tax rate of 35 percent, this reduction would amount to a potential tax saving of R15 400. At a marginal tax rate of 40 percent, the potential tax saving would be R17 600.