

Why Medical Scheme Tax Credits must stay

The recent announcement by Finance Minister Enoch Godongwana in his budget speech that medical scheme tax credits will remain intact is a tacit acknowledgment of their vital role in sustaining South Africa's healthcare system.

"The retention of medical scheme tax credits is a clear recognition by government that these incentives help keep people on private medical schemes, reducing the strain on public hospitals and clinics," says Thoneshan Naidoo, CEO of the Health Funders Association (HFA).

Addressing the misconception: Who benefits from Tax Credits?

A common misconception is that medical scheme tax credits—amounting to approximately R30 billion annually—primarily benefit high-income earners. However, data from National Treasury tells a different story:

- **21% (R6.3 billion) of the R30 billion benefits individuals earning below R250,000 per annum.**
- **64% (R19 billion) supports those earning below R500,000 per annum** – including a wide range of professionals such as teachers, nurses, civil servants, call centre agents, plumbers, electricians, and other skilled tradespeople.

According to SARS, 80% of all South Africans earn less than R500 000 per year. Although not all individuals in this income bracket are members of a medical scheme, among those who are, the tax credit serves as a crucial financial relief mechanism. These figures underscore that medical scheme tax credits are not just a benefit for the wealthy but rather a progressive intervention that provides targeted assistance to middle- and lower-income earners.

"The principle of medical tax credits is well-established in developed countries like Australia, where tax rebates incentivise individuals to take out private health insurance. By ensuring that a significant portion of the population finances their own healthcare, the government can allocate public healthcare funds more effectively to the poor and vulnerable, reducing strain on the public healthcare system," says Naidoo.

The financial and systemic benefits

Currently, the medical scheme tax credit stands at R364 per month for the main scheme member and the first dependent, with an additional R246 per month for each subsequent dependent. This equates to an annual reduction of R4,368 in personal income tax for a medical scheme member.

"Aside from easing pressure on public healthcare facilities, the tax credit is financially beneficial to the government," Naidoo explains. "The cost of this tax credit is significantly lower than what the government would spend if the same individual required treatment in the public healthcare system. Keeping this incentive in place makes financial sense."

Tax Credits as a policy tool

Governments use tax incentives to influence behaviour, not just to generate revenue. For example:

- The sugar tax serves both as a revenue stream and as a deterrent against excessive sugar consumption, helping combat diabetes and obesity.
- Likewise high cigarette taxes act as both a source of government income and a public health measure to discourage smoking.

Similarly, medical scheme tax credits encourage individuals to maintain private healthcare coverage, reducing demand on public healthcare services.

The flawed argument for using Tax Credits to fund NHI

“There is a misconception that medical scheme tax credits are a revenue stream that can be repurposed for NHI funding,” Naidoo clarifies. “In reality, this is a tax liability for SARS, not a budgeted expenditure. It is not a pool of funds that the government collects and redistributes.

Even if these credits were removed and the additional tax revenue redirected to NHI, the financial benefit would be minimal. Given the scale of government healthcare expenditure, the recovered funds would barely make a dent in the resources required for a fully functional NHI.

In fact, removing the tax credits would increase personal tax for medical scheme members and have unintended consequences, potentially leading to an exodus of members from private healthcare and an increased burden on public hospitals and clinics,” concludes Naidoo.

Strengthening access to healthcare through LCBOs

By retaining medical scheme tax credits, the government is ensuring that the healthcare system remains balanced—supporting private healthcare while safeguarding public healthcare resources for those who need them most.

South Africa has 9.1 million medical scheme members who benefit from these tax credits. However, there are also 11 million uninsured individuals who rely on private healthcare as their first point of contact, paying out of pocket for services.

Leveraging medical scheme tax credits alongside the introduction of Low-Cost Benefit Options (LCBOs) could extend private healthcare access to an additional 6 million low-income South Africans. This would allow government resources to be reallocated to essential services for the most vulnerable populations.

Conclusion

Medical scheme tax credits play a vital role in sustaining South Africa’s healthcare ecosystem. They help sustain private medical scheme membership, reduce strain on public healthcare resources, and offer financial benefits to both individuals and the state. Removing them could lead to unintended consequences, including an exodus from private healthcare and increased pressure on an already overburdened public facilities.

“By maintaining medical scheme tax credits, the government is reinforcing a system that balances public and private healthcare,” concludes Naidoo. “Instead of dismantling this system, policymakers should prioritise reforms like LCBOs that expand healthcare access while maintaining financial sustainability.”

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About HFA:

The Health Funders Association (HFA) is a non-profit organisation representing key stakeholders in the private healthcare funding sector in South Africa. Formed by a collective of industry professionals, the HFA proactively advocates for a sustainable and vibrant health funding industry within an equitable healthcare system.

HFA represents 21 medical schemes and 3 administrators, covering 46% of the private healthcare market (4.1 million beneficiaries).

HFA's role includes representing member interests in critical industry discussions, providing access to key resources and expertise, and advocacy on regulatory and policy matters through submissions and engagement with key stakeholders.