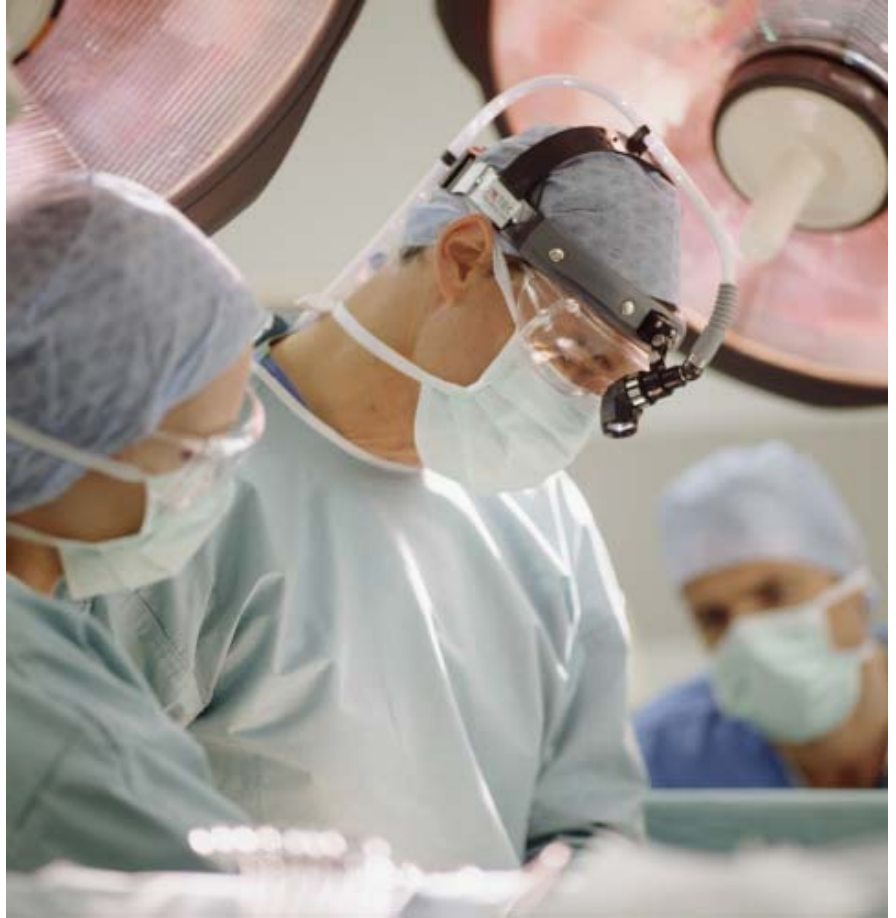


Tax Alert

03 November 2010

Mini Budget Speech 2010- Tax Deduction of Medical Expenses

In the 2009 Budget Review the Minister of Finance announced a new policy stance on the tax deduction of medical expenses. It was proposed that the current system, aggregating the capped medical aid contributions and any additional medical expenses over a threshold amount of 7.5% of taxable income, be replaced with a non-refundable tax credit equal to 30% of the allowable medical expenses. This proposal was intended to be largely revenue neutral to the fiscus. This announcement was followed by another in the 2010 Budget Review where the Minister postponed the introduction of the proposed system to 1 March 2012.



The Minister has again in the 2010 mini budget speech raised the issue of the tax deduction of medical expenses by noting that amendments to improve the fairness of the current tax treatment of medical scheme contributions will be introduced. No detail has been provided as to

what form these amendments will take. Taxpayers will have to wait for further announcements in this respect. It is not certain that these amendments will be those postulated in 2009 or will take some other form. However, the fact that the latest announcement was made in the context of preparatory

Tax Deduction of Medical Expenses

steps for the national health insurance may be indicative that the proposed reform may be more far-reaching than that proposed in 2009. We speculate that the latest proposal may see the demise of the beneficial tax treatment afforded to medical scheme contributions in its entirety with such contributions being subject to the threshold applicable to other medical expenses in order to level the playing field between those taxpayers that are medical scheme members and those that are not and to increase tax revenues. Nevertheless, the details are likely only to be revealed in the 2011 Budget Review.

No other significant announcements were made in relation to tax policy. However, the Minister did sound a warning that higher taxes would be considered over the longer term if the current mix of tax instruments cannot provide sufficient resources to finance spending commitments.

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