Dear Sirs

CALL FOR COMMENT: DRAFT TAX GUIDE ON THE DEDUCTION OF MEDICAL EXPENSES

We refer to your call for comment regarding the above. Set out below, please find SAICA’s submission regarding the above.

1. General comment

1.1. Expenditure incurred as contributions to a medical aid in respect of a dependant are deductible to the extent provided. However, it seems that actual expenditure that would normally qualify is only deductible if incurred in respect of the taxpayer, spouse and qualifying children but not dependants. This anomaly seems obscure, and should be rectified. It is understood that in practice this distinction is not always recognised.

1.2. Point 3.1.1 states that “contributions paid by you to any other funds which are registered under similar provisions contained in the laws of any other country, may also be taken into account.” Due to the strict wording of this paragraph the South African Revenue Service (SARS) will not allow contributions made to funds in other countries as their legislation might not differentiate between benefits provided under Medical Schemes and Health Care insurance.

1.3. It is suggested that the wording be made broader to cover contributions to a foreign fund which provides the same or substantially similar services to those provided by South African medical health companies registered in terms of the Medical Schemes Act.
2. Example 3 page 8

2.1. Either the monthly contributions should change to R2 000 or the annual to R12 000.

3. Heading (b) “Deemed contributions” page 8

3.1. The whole issue of employers making part of the contributions on behalf of employees is confusing. On this page the guide states that these contributions will be deductible if that payment made by the employer is deemed to be a taxable benefit received by the employee. However, later in the guide it implies that it will not be deductible.

4. Example 5 page 9

4.1. Under the heading “Determination of the total contributions to be taken into account:’ AF’s contributions for the year should read R500 x 12 (not R1 500).
4.2. A bracket should be inserted after the word “benefit” as the explanation for “Deemed contributions”.

5. Example 6 page 10

The explanation of the allowance should stipulate the taxpayer as “AG” and not “BB”.

6. Example 8 page 12

The last line of the first paragraph should read “AI” instead of “BE” as the taxpayer.

7. Example 9 to 11 page 13

7.1. These are so obvious that they are not really worthwhile including as examples - the commentary stated that the expenditure must be paid in the year.
7.2. Furthermore, example 10 first line refers to “B” instead of “BB”

8. Example 16 page 19

8.1. Brackets should be added to the last section’s amounts R4 300 and R19 200 to be consistent with other example’s format.
8.2. The explanation of the amount of R4 300 is incorrect. The computation should be revised as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable income before medical deduction</td>
<td>R220 000</td>
</tr>
<tr>
<td>Less: Amount subject to the 7.5% rule</td>
<td>R20 800</td>
</tr>
<tr>
<td>Less 7.5% rule (R220 000 x 7.5%)</td>
<td>R16 500</td>
</tr>
<tr>
<td>Less: Contributions limited to capped amount</td>
<td>R 19 200</td>
</tr>
<tr>
<td>Taxable income after taking into account allowable medical expenses</td>
<td>R196 500</td>
</tr>
</tbody>
</table>

9. Example 18 page 21

The taxpayer is “doubly qualified” being over 65 and blind.

10. Paragraph 7.2 page 27

In relation to paragraphs 6 and 7.1, paragraph 7.2 would seem to be out of place and is definitely not relevant to the medical deduction.

Please do not hesitate to contact me should you require further information.

Yours faithfully

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The South African Institute of Chartered Accountants