

# The R256bn question: Where is NHI going to get its money from?

The idea behind National Health Insurance (NHI) is that it will operate as a single publicly financed and administered fund to which all South Africans will make compulsory contributions, based on their ability to pay. It would therefore promote cross-subsidisation on a bigger scale than is currently the case with individual medical aid schemes.



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“The intention behind the NHI is said to provide free access to healthcare at the point of service for all South Africans and legal residents,” says Christel van Wyk, South African Institute of Chartered Accountants (Saica) project director: tax. “The primary long-term objective is to provide access to healthcare based on individual need, instead of financial ability, and to cover unplanned health events for everyone.”

The 2018/19 Budget outlines a number of transitional arrangements, although not as many as was originally anticipated in the run up to the speech.

## Medical tax credits

In the meantime, whilst the plans for implementing the NHI are being streamlined, taxpayers have for the past few years been given some benefit in the form of medical tax credits, which have been the topic of much controversy in itself. This takes the form of rebate and has provided some tax relief for defraying expensive medical costs. It was always known that this would be an interim measure until such time that the NHI is fully operational, but there have even been talks of a complete scrapping of this rebate in the months before leading up to the Budget, but there were no such drastic measures, which is somewhat of a relief for the moment.

It was noted in the Budget, in relation to these medical tax credits, that some individuals are excessively benefitting from the medical schemes contribution rebate, specifically where multiple taxpayers contribute toward the medical scheme or expenses of another person. The example used is where adult children jointly contribute to their elderly mother’s medical scheme and where each contributor currently enjoys a full rebate, although the joint cost is for a single beneficiary. The Budget proposes that in such cases the medical tax credit should also be apportioned between the various contributors.

## Increase

The monthly medical scheme fees tax credit will, from 1 March 2018, be slightly increased from R303 to R310 per month for the first two beneficiaries. For each additional beneficiary, the increase will be from R204 to R209. It is important to note that these increases are by design below inflation, the purpose being that government has earmarked the additional revenue that will flow from the below inflationary rebate to contribute towards funding of the NHI.

The expected impact is additional revenue of R700m in 2018/19, R640m in 2019/20 and R586m in 2020/21, and these benefits are therefore projected over a three-year period. While this proposal is in line with the proposals made in the NHI White Paper released in June 2017, it seems that this will not have a significant impact on the NHI cost, given that the 2025 estimated cost is in the region of R256bn. In the 2017/18 Budget, the then Minister of Finance, Pravin Gordhan set aside R5.2bn for the NHI fund, which although much more than this year, is still not significant considering the overall funding need," concludes Van Wyk.

The NHI is therefore still pretty much a work in progress and significantly more work needs to be done before it goes live.

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