

VAT increase won't impact on medical aid contributions

There has been much debate around the 1% value-added tax (VAT), its impact on consumers and just how this will affect the money left in their pockets at the end of the month. With the revised general fuel levy, it's clear that consumers will have to tighten their belts and adhere to stricter budgets.



Gerhard van Emmenis, principal officer of Bonitas Medical Fund

The rising costs of healthcare

One area of concern is the cost of private medical aid and VAT. For years increasing healthcare inflation and economic pressures have been a challenge for the industry. "The reality is that when consumers are struggling, medical aid, which is essentially a grudge purchase, is often viewed as unaffordable," says Gerhard van Emmenis, principal officer of Bonitas Medical Fund. "In addition healthcare costs are not regulated which is why it is crucial for medical aid schemes to continue to explore ways to contain costs without compromising the level of health care offered to members."

Members' contributions

However, he says, because the 1% increase will not impact monthly contributions or annual benefits. "Many members are confused as to whether VAT is payable on medical aid contributions but let me reassure you it is not," says Van Emmenis. "The VAT increase will have no effect on members directly and what they pay every month. Medical aid contributions for 2018 are already. So, while the increase in VAT may influence the price of services, it will not impact benefits."

"If your plan covers you at 100% of a scheme's rate, you are still covered at 100% of that rate, no matter what the cost to the scheme because the scheme will absorb the VAT when paying for member's benefits. The only impact is when it comes to savings and day-to-day benefits with members having a 1% lower buying power."

The Council for Medical Schemes

In fact, changing contributions in the middle of the year can only be done with the permission of the Council for Medical Schemes following a request from the trustees of the medical scheme. This is a rare occurrence and most schemes generally put through contribution increases in January each year.

The law

VAT is never the property of any private entity but belongs to the government. “We are therefore only vendors that collect the monies on their behalf. From April 1, we will increase the VAT to all providers of the scheme by 1%. However, although this will have a direct impact on the budget for 2018 it will be absorbed by operational surpluses and not passed on to members.’

Tax credit

One positive announcement out of the budget speech regarding medical aid was around tax credits.

“Medical tax credits are effectively used as an ‘expense’ when calculating tax and reduces the amount of tax payable by a household belonging to a medical aid,” says Van Emmenis. ‘There are eight-million people who rely on these credits to make medical aid more affordable. Speculation was rife that the tax credit would be removed but it is a relief that private medical aid members have some reprieve.”

The bottom line: The 1% VAT increase and the additional 52 cents general fuel levy will have a knock-on effect for South African consumers, things will cost more. However, it will not affect monthly medical aid premiums or member benefits although it will have an indirect impact in terms of healthcare services being more expensive, which will reduce buying power.

For more, visit: <https://www.bizcommunity.com>