Tax & Exchange Control

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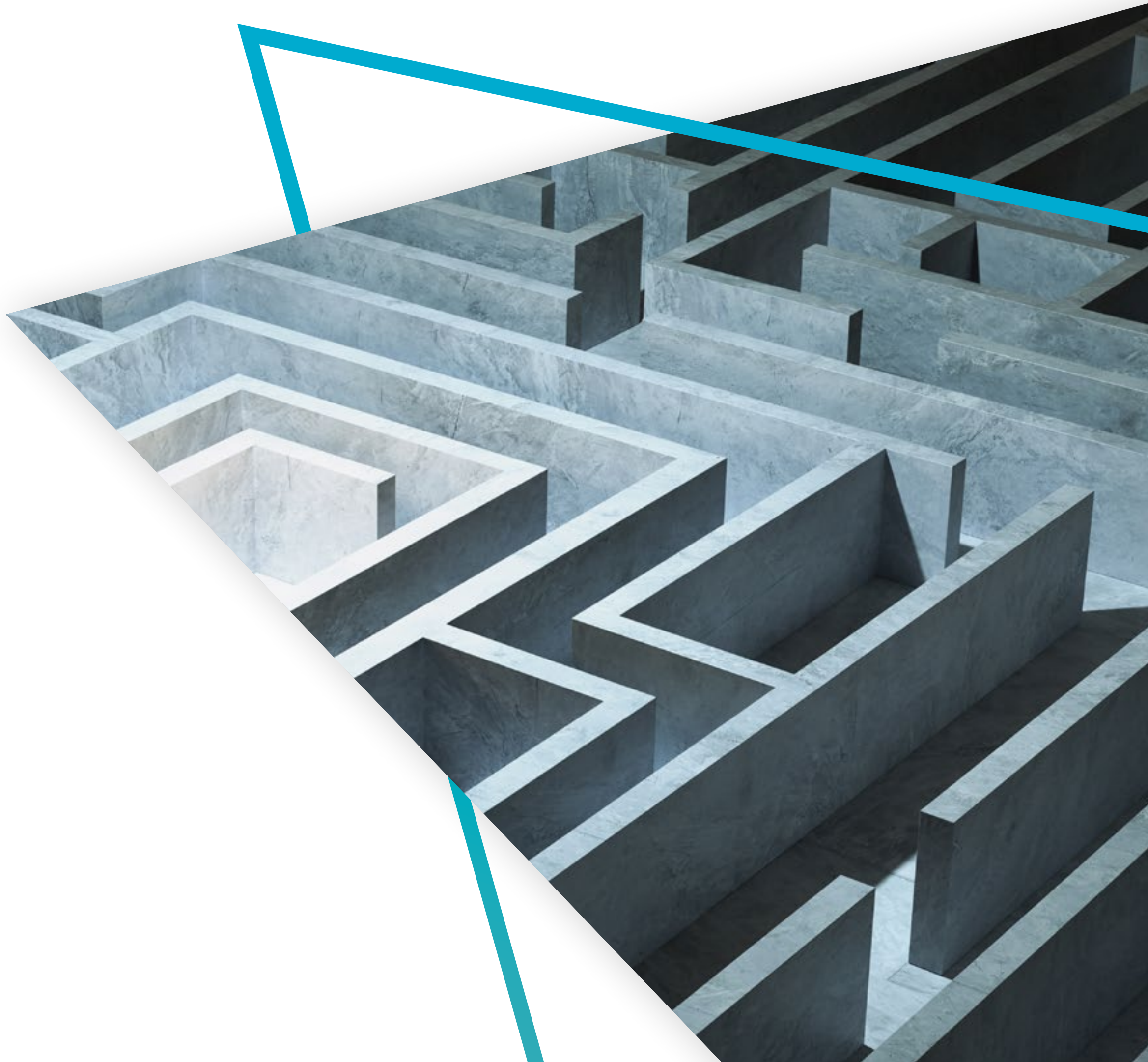

In this issue

SOUTH AFRICA

Funding options and challenges for the NHI

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Funding options and challenges for the NHI

On 15 May 2024, President Cyril Ramaphosa signed the National Health Insurance Bill (National Health Insurance Act 20 of 2023 (NHI Act)) into law.

One of the most significant considerations that is unknown at this stage is the manner in which the National Health Insurance (NHI) fund will be funded. To understand the enormity of the funding challenge, in the 2024 National Budget Speech, the Minister of Finance stated that funding of R848 billion was allocated to health under the Medium Term Expenditure Framework. It is unclear exactly how much the introduction of the NHI will increase the need to allocate further national revenue funding to healthcare, however, it can reasonably be expected to be significantly more than the current allocations.

Currently, funding for healthcare services provided by Government are drawn from taxes from the public. Evidently, with a significant increase in funding needs once the NHI is implemented, additional streams of revenue will be required.

In terms of section 49 of the NHI Act, the funding will be derived from additional general tax revenue, a reallocation of funding for medical scheme tax credits paid to various medical schemes towards the funding of the NHI, additional payroll taxes and a surcharge on personal income tax. The exact budget and sources of income for the funding of the NHI will first need to be determined by National Treasury, whereafter appropriate changes would need to be made to the relevant tax provisions if needed.

In this context, a Medical Scheme Fees Tax Credit (MTC) is a type of rebate provided to individuals who make contributions to private medical aid schemes. It is not a refundable amount but instead is used to reduce the normal income tax a person pays. The provision of MTCs results in a lower collection of tax by the Government. However, with the proposed advent of the NHI that is meant to decrease the need for private healthcare and contributions to private medical aid schemes (with corresponding reductions in MTCs), Government appears to have already earmarked this additional revenue stream as one of the funding mechanisms.

However, the MTC is not a significant amount in comparison to the actual contributions made by individuals to their private medical aid schemes. For instance, in the 2025 year of assessment, taxpayers will be allowed an MTC of R364 per month for the taxpayer who paid the medical scheme contributions. However, some medical aid scheme providers' entry-level premiums start at R1,102 per month and can increase to R10,303 at the upper level. This may be indicative of the potential funding gap that may be encountered.

It therefore follows that section 49 sets out additional potential revenue streams and, in this context, the provision is likely intentionally broad. It does not necessarily set out specific details of the parameters of the additional taxes but rather provides the framework for exploring additional taxes and provides some potential examples. For instance, it merely states there could be an additional surcharge on personal income tax rates, but it is unclear exactly what this would look like and how it would reconcile with existing personal income taxes.

Funding options and challenges for the NHI

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The question, however, is what taxes could potentially be raised given the already increased pressure on taxpayers and the tax base in South Africa especially with reference to personal income taxes. In the 2021 National Treasury Budget Review Documents, it was indicated that South Africa has the highest personal income tax share among upper-middle-income countries, alongside one of the highest top personal income tax rates. In a figure presented in those documents, the countries close to South Africa on this graph included the likes of France, Germany, Norway and Sweden which are vastly different to South Africa from a socio-economic perspective. It shows that the potential to add additional taxes on an already pressurised tax base will be challenging if not potentially ineffectual.

More specifically, South Africans continue to feel the pinch of a generally depressed economy (with the latest figures for Q1 2024 emphasising this) and it is often commented that there is a very tight line for Government to walk between raising taxes and increasing growth. In the 2022 National Budget Speech, for example, the Minister of Finance (Minister) said:

> *"Madam Speaker, in these trying times and without compromising our ability to collect revenue, we have managed, through these tax proposals, to keep money in the pockets of South Africans, and to create conditions for greater investment in the economy."*

Despite the call for increased and additional taxes in the NHI Act to fund the NHI, South Africa's fiscus faces different challenges, which were outlined by the Minister in the 2024 National Budget Speech as follows:

> *"Our bigger challenge, as I have stated earlier, is that our pie is not growing fast enough and this limits our ability to generate sufficient revenues to distribute among our priority areas."*

Unfortunately, section 49 of the NHI Act does not appear to address all the above issues and there are no doubt significant challenges ahead as to how the NHI will ultimately be funded. Given these issues, one should keep a close eye on announcements and discussion papers as to how exactly it will be funded.

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BBBEE STATUS: LEVEL ONE CONTRIBUTOR
Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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