



Tax and Legal News



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Medical tax credits: What are the concessions for taxpayers with disabilities or physical impairments? What to know for the 2021 tax year.

Introduction

Many years ago, a taxpayer was able to claim medical expenses (within certain parameters) as a tax deduction in their tax return (form ITR12) in order to determine their net taxable income. It was a so-called “above the line” tax deduction.

Effective 1 March 2012, South Africa applies has a tax credit system whereby relief for medical expenditure is granted as a reduction when determining the tax payable to the South African Revenue Service (“SARS”). Whilst medical tax credits are applied in respect of qualifying contributions to a medical scheme; an additional medical tax credit applies in respect of other qualifying medical expenses. Qualifying medical expenses are any amounts that are paid by a taxpayer during the relevant tax year e.g. costs incurred in relation to a duly registered medical practitioner, dentist etc.

What's new?

SARS has released a [list of specific qualifying medical expenses](#) which are incurred and paid for in relation to a physical impairment or disability of the taxpayer or his/her dependants for application from 1 March 2020 (the 2021 South African tax year). The prescribed of list of expenditure, effective 1 March 2020, is very specific and covers the following types of expenses:

- Personal care attendant expenses;
- Travel and transportation;
- Insurance, maintenance, repairs and supplies;
- Prosthetics;
- Aids & other devices;
- Services;
- Continence products;
- Service animals; and
- Alterations or modifications to assets acquired or to be acquired.

What is a disability?

A disability as defined in the Income Tax Act No. 58 of 1962 (“The Act”)

“is a moderate to severe limitation of a person’s ability to function or perform daily activities as a result of a physical, sensory, communication, intellectual or mental impairment if the limitation:

- (a) Has lasted or has a prognosis of lasting more than a year; **and***
- (b) Is diagnosed by a duly registered medical practitioner in accordance with criteria prescribed by the Commissioner.”*

What documentation must a taxpayer obtain and retain for a valid claim in relation to a disability (as defined)?

A taxpayer will be able to claim qualifying medical expenses as an additional medical tax credit for disability expenses by completing the “Confirmation of Diagnosis of Disability form” (“ITR - DD”).

The [ITR-DD](#) must be completed by the registered medical practitioner who diagnosed the disability before the taxpayer submits an income tax return (form ITR12). The ITR-DD is not required to be submitted with the annual income tax return, but must be retained for tax compliance purposes in the event of a SARS verification or audit process.

The ITR-DD needs to also be completed and endorsed by a duly registered medical practitioner every five years where the disability is of a more permanent nature. If the disability is temporary, the ITR-DD will only be valid for one year, which effectively means that a new ITR-DD must be completed for each year of assessment during which a disability claim is made. It is our experience that SARS will often request the duly completed ITR-DD especially where expenses claimed are considered to be significant.

What is a physical impairment?

A physical impairment is not defined in the Act, however it has been interpreted to be less *restraining* than a “disability” as defined. It is a restriction or limitation on a person’s ability to function or perform daily activities.

A taxpayer will be able to claim an additional medical tax credit if he/she or any of his/her dependants has a physical impairment that is not a “disability” as defined. These qualifying expenses will, however, be subject to the 7.5% limitation (Please refer to the SARS Guide on the [Determination of Medical Tax Credits \(Issue 10\)](#)).

How can I claim the qualifying medical expenses?

The categories of taxpayers who may claim:

1. Taxpayers under 65 years of age (who may or may not have out of pocket expenditure);
2. Taxpayers who are older than 65 years of age (who may or may not have out of pocket medical expenditure; or
3. Taxpayers who have dependents who have disabilities or physical impairments

Example

Ross (45 years) is married to Rachel (43 years). They have three children, Chandler (16 years of age), Monica (14 years of age) and Phoebe (6 years of age) and dog called Joey.

Chandler has a physical impairment in consequence of a rugby injury. Phoebe has advanced stage of multiple sclerosis and is wheel-chair bound and needs a night nurse. Ross pays R8 000 per month in total to Perfect Health medical aid. Ross's taxable income for the 2020 tax year is R2 million. Chandler's physical impairment costs came to R12 000 for the year and Phoebe's costs came to R120 000 per the year.

Calculate the tax credits if:

- (a) Ross did not have family with disabilities; and
- (b) if Ross claims the medical tax credits for his dependents' physical impairment and disability respectively.

Scenario (a)	
<p><i>As Ross is under the age of 65 and neither he nor his dependents are physically impaired and disabled, he is allowed to claim the medical tax credit only as he has no other qualifying medical expenses for the year of assessment. All amounts are in ZAR.</i></p>	
Tax Credit for the first 2 beneficiaries (R310 x 2)	620.00
Plus: Tax Credit for each additional beneficiary (R209 x 2)	418.00
Multiply by number of months for which medical fund contributions were made:	12
	<hr style="width: 20%; margin-left: auto; margin-right: 0;"/>
Medical Tax Credit	12 456
<p><i>How does this impact Ross' 2021 annual tax liability? 2020 tax year rate applied</i></p>	
Taxable income	2 000 000.00
Normal Tax (as per tax tables)	757 041.00

<u>Less: Primary Rebate (under the age of 65)</u>	-14 220.00
<u>Less: Medical Tax Credit</u>	-12 456.00
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Net Normal Tax Due	730 365.00
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Scenario (b)

As Ross is under the age of 65 and has dependents who are physically impaired and disabled, he is allowed to claim both the medical tax credit and additional medical tax credit. All values are in ZAR

The Additional Medical Tax Credit is calculated using the following formula:

$$33,3\% \times \{[A - (3 \times B)] + C\}$$

A = R 96 000 (R 8000 x 12 months) - Contributions made to the Medical Fund for the year of assessment.

B = R 12 456 (Medical Tax Credit for the year of assessment).

C = R 132 000 (Qualifying Medical Expenses of R 12 000 + R 120 000 paid during the year of assessment).

$$= 33,3\% \times [R96\ 000 - (3 \times R12\ 456)] + R132\ 000$$

$$= 33,3\% \times [R96\ 000 - R37\ 368] + R132\ 000$$

$$= 33,3\% \times (R58\ 632 + R132\ 000)$$

$$= 33,3\% \times R\ 190\ 632$$

$$= \underline{\underline{R63\ 480.46}}$$

How does this impact Ross' 2021 annual tax liability? 2020 tax rates applied

Taxable income	2 000 000.00
Normal Tax (as per tax tables)	757 041.00
<u>Less: Primary Rebate (under the age of 65)</u>	-14 220.00
<u>Less: Medical Tax Credit (as per Scenario (a))</u>	-12 456.00
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Net Normal Tax Due	730 365.00
<i>Less: Additional Medical Tax Credit</i>	<i>-63 480.46</i>
Tax Due	666 884.54

Why is this important?

A prescribed expense will **not** automatically be treated as a qualifying physical impairment or disability expense even if listed on the SARS list. The expense must also be proven to be necessary for the alleviation of the restrictions on a person's ability to perform daily functions. Therefore, it is important that both taxpayers with disabilities and/or physical impairments as well as taxpayers caring for others in relevant situations, read and understand the nature of the expenses listed together with the limitations, prior to claiming any expenses.

Advice can also be sought to ensure the following, so as not to disadvantage taxpayers who have qualifying medical expenses:

- o The additional medical tax credit calculations are completed correctly; and
- o In the event of a SARS verification or audit process, the relevant and correct information must be supplied to SARS.

If you have any queries, require assistance or need more information, please contact us:



Melissa Duffy

Director: Global Mobility Services &

Employment Tax Advisory
KPMG South Africa
M: +2782 448 1989

E: melissa.duffy@kpmg.co.za



Kima Porun

Senior Manager: Global Mobility Services &

Employment Tax Advisory
KPMG South Africa
M: +27827195679

E: kima.porun@kpmg.co.za

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