TAX SHOCK, HORROR NEWSLETTER

DAVEY'S Locker

April 2014

Medical scheme credits & PAYE

Over-65s face a cash-flow anomaly

by Tony Davey

In the last issue (132 *TSH* 2014), I showed how, as from 1 March 2014, tax credits replace deductions.

A reader has asked that I expand on this matter, so as to consider the cash-flow implications of this new tax regime for employees who are over 65.

This is wider group than it might seem, since, an 'employee' for PAYE purposes is not limited to working persons but is broadly defined, so as, effectively, to include retirees receiving an annuity from a pension, provident, preservation or retirement annuity fund, thanks to the definitions of the terms 'employee' and 'remuneration' in para 1 of the Fourth Schedule to the Income Tax Act.

Paragraph 9(6), read with the revised s 6A of the act, ensures that, as from 1 March 2014, over-65s fall within the ambit of s 6A and therefore benefit from PAYE relief, but on a limited basis. In essence, the results are as follows:

Tax credits for the over-65s

Credit 1: Medical scheme contributions: R257 a month for the member plus R257 for the first dependent plus R172 for each further dependent. These will be recognized for PAYE purposes.

Credit 2: 33,3% of any medical scheme contributions paid that exceed 3 times Credit 1. This will **not** be recognized for PAYE purposes.

Credit 3: 33,3% of qualifying medical expenses that are not reimbursed by the medical scheme. This, too, will **not** be recognized for PAYE purposes.

Credits 2 and 3 will be recognized as a tax credit upon assessment only.