



THE LONG WALK TO... HEALTHCARE — NHI

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1. Background

Following on from the efforts of his predecessor, the Minister of Finance, Mr Pravin Gordhan, once again, delivered a reasonable Budget on 23 February 2011.

However, much has been deferred until the 2012 Budget and with good reason. Making major proposals to changes in our tax system at a time of such economic uncertainty warranted a budget which erred, if anything, on the side of caution.

It is noteworthy that when the 2012 Budget is delivered, our Income Tax Act will effectively turn 50. The fact that our country has changed so significantly since the Katz Commission, it is now well and truly time for our tax system to be reviewed and appropriately consolidated.

Notwithstanding this, the National Health Insurance (NHI) should not be delayed until any such tax consolidation takes place.

The NHI has been spoken and written about for some time now and it has been stated, announcements about specific funding instruments will be made in the 2012 Budget.

Inextricably linked to the NHI are the current complex income tax provisions relating to the tax deduction for medical expenses. It was announced in the 2011 Budget that medical expense deductions (as contemplated in section 18 of the Act) will be converted into tax credits, effective 1 March 2012. It was noted that a discussion paper regarding the conversion would be issued by the end of March 2011. At the time of writing, the discussion paper has not yet been published and I am unable to express an opinion.

The purpose of this article is to highlight what I believe are some of the macro issues which could be considered in order to create better healthcare for the majority of South Africans. I make these respectful submissions in my capacity as a specialist tax law adviser in the area of healthcare and am in no way privy to any plans which the government may, or may not, have regarding financing the NHI.

Furthermore, as an independent tax law adviser, I am an entirely neutral commentator. Any opinions, suggestions, ideas and observations expressed are solely mine and made in the hope that South Africa can create a viable, sustainable and successful State healthcare system for the benefit of all

South Africans.

It is clear that the government is not promising South Africans an overnight fix to our State healthcare which is desperately in need of immediate antidotes. Haste, however, will not achieve the intended results. The government's pragmatic and conservative approach is thus commendable.

Government is expecting to phase in the NHI over 14 years. Such period may seem a long-time to many commentators and, more appropriately, to the millions of South Africans who are in desperate need and deserving of better healthcare.

Realism, however, has to be the order of the day as South Africa has a considerable way to go in achieving a well financed, sustainable and good healthcare system.

Even the most developed countries around the world have grappled, at pains, with healthcare reforms. As the title of this article alludes, South Africa's position is considerably different to that of America, the United Kingdom and France, for example. Accordingly, any comparison to the healthcare systems and any reforms made (or proposed) in those countries are considered inappropriate in the South African context. This in no way suggests that South Africa cannot learn from healthcare systems around world, however, our continued emergence from the dark days of apartheid places South Africa at the other end of the spectrum when dealing with State healthcare, among many other issues (such as job creation, education, housing).

2. Financing the NHI

Addressing some specifics about financing the NHI, government is contemplating an increase in the rate of VAT to partially fund the NHI. Such an increase would be counter-productive. This is because any increase is likely to affect those most in need of health care. For this reason, I have not assessed what percentage increase in VAT would be required in any event to make a significant contribution to the financing of the NHI.

The precise mechanism for raising finance and adequately allocating expenditure which the government has in mind is unclear. An NHI fund should be introduced onto our statute books as soon as possible.

2.1 Public-private partnership

Any successful NHI fund will require a public-private partnership. In

this context, contributors to the NHI should include private hospitals, pharmaceutical companies and suppliers to the healthcare industry. Possible by an indirect tax based on a predetermined percentage of turnover, or any other more appropriate measure.

Notwithstanding the fact that such indirect taxation would appear to be detrimental to the various sectors of the healthcare fraternity, the salient benefits are noteworthy of comment.

Once the NHI is adequately funded, State patients (or those patients not covered by medical schemes) should be able to receive medical care in private hospitals, paid for out of the NHI fund, where no suitable State healthcare facility is available or provided.

For the pharmaceutical and medical supply industries, any increase in investment, with the concomitant increase and improvement in the State healthcare system should have a positive impact on their businesses. It stands to reason that the demand from the State will increase exponentially for their product offerings.

2.2 Increased funding for the Road Accident Fund

The first area of consolidation (bearing in mind the stated requirement for tax consolidation referred to in point 1 above) is the amalgamation of the Road Accident Fund (RAF) into the NHI fund.

A considerable amount of the State's healthcare costs is expended on road accidents – it is understood that the RAF is inadequately funded. Such position is, wholly unsurprising as the financial contributor to the fund is the fuel levy. When reflecting on the sources and causes of road accidents, there are many other sectors of the economy which should be contributors to the fund. These include (but are not limited to):

Motor manufacturers, motor dealers, suppliers to the motor industry, car rental companies, vehicle financiers, motor vehicle insurers, construction companies and the alcohol industry (notwithstanding the considerable efforts that companies like

SAB Miller make in discouraging drinking and driving, the sad reality is that many road accidents are caused by drivers who are under the influence of alcohol).

2.3 Tax incentives

Two additional but significant financing instruments could include incentivised savings.

Firstly, it is recognised that historically disadvantaged individuals (HDI) are not saving sufficiently for their futures. Viewed in isolation, such position will create a substantial social security burden on our State for future generations. It is, therefore, submitted that an incentive that could be considered. For example; for every R100 which an HDI invests in the NHI fund will be supplemented by, say R5, by the government. Time limits as to investments (and early withdrawal issues) in the NHI fund and the definition of a HDI would need to be carefully considered.

The second incentive could be for a further tax-free interest exemption to be made available for funds invested in the NHI fund. Probably more beneficial for the country, as a whole, would be converting

the current interest exemption for savings only made in the NHI fund – the current exemption could also be increased. It is clearly envisaged that interest paid on any savings made in the NHI would be at market-related interest rates, or slightly higher in order to attract sufficient investments.

An initial public bond offering in this regard could also be considered. This should provide the NHI with the proverbial shot-in-the-arm so as to allow government to make some relatively short-term decisions (and funding allocations) for the benefit of a much improved State healthcare system.

3. Summary

I have set out a limited number of my submissions and potential ideas which could be considered in relation to creating a successful NHI. Many of the ideas and submissions made above may be unworkable, unpractical or plain and simply inappropriate. In any event, each and every one of them will require substantial thought and consideration.

The Minister of Finance said, when delivering his Budget on 23 February 2011, that the Treasury would carefully consider the pros and cons of each of their ideas regarding the NHI. As with any major changes in tax law, there will be winners and losers.

I am aware that many of the submissions made above raise cons, such as any perceived negative impact the indirect tax could have on the construction industry. But the salient features do need to be considered when making assessments as the construction industry will benefit from greater investment in building hospitals and/or improving existing healthcare facilities.

I am also acutely aware that the road to a good State healthcare system will, out of necessity, be a long and winding one. Time will tell as to how the government approaches the matter and the Minister's 2012 Budget will no doubt come under close scrutiny, quite aside from it being a 50th anniversary Budget – I believe we can expect no gifts in the 2012 Budget.

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