Summary of Report 3: Financial Feasibility of BIG

Report 3: Financial Feasibility of the Basic Income Grant

The purpose of this research was to assess the fiscal feasibility of providing income support to individuals who are between the ages of 18 to 59 in South Africa, considering the following:

- The nature of income support (universal or means tested, and conditional or unconditional);
- The value of income support (cover nutritional needs, reduce poverty or provide a certain standard of living);
- Links to the labour market;
- The macroeconomic and socio-economic impacts; and
- The delivery mechanisms.

Despite, the fiscal significance of implementing the Basic Income Grant (BIG), the BIG should be viewed as a means to restructuring income in South Africa which suffers from the triple challenge of poverty, unemployment and inequality. It is widely recognised that social assistance, particularly through the Old Age Grant (OAG) and Child Support Grant (CSG), has contributed significantly towards the reduction of poverty levels in South Africa.

Findings of the study:

- Implementing a BIG has the potential to make significant inroads into improved income equality in South Africa and possible economic gains through the multiplier effect.

- Implementation of a universal BIG at the level of the current special COVID-19 Social Relief of Distress Grant has the potential to reduce the concentration of income of the top 10% to 49.9% in 2019/2020 on an income per capita basis to just below 47.1% by 2024/2025. The share of household income per capita as a percentage of the total in the lowest income decile is projected to increase from 0.8% in 2019/2020 on an income per capita basis to 7.0% by 2024/2025. The corresponding income per capita Gini co-efficient decreases from 0.61 to 0.49, representing a 20% decrease.

- A BIG could impact macro-level economic growth directly, through increasing household productivity and employment, stimulating aggregate demand, affecting labour force participation, and influencing savings and taxation. Based on analysis of the multiplier effects of the BIG at the level of the current special COVID-19 Social Relief of Distress Grant, the grant has the potential to positively contribute around 0.5% to GDP growth over the forecast period through improved household demand as well increase employment by 4.0% by the end of the projection period.

- Basic income assistance supports investment into human capital development, for example: improved nutrition, health care, housing and transportation. The importance of human capital, in particular with respect to health education, in social and economic development is widely accepted. There is a strong correlation between Gross Domestic Product (GDP) per capita and education levels and life expectancy as a proxy for the level of health in a population.

- If funded through Personal Income Tax (PIT), a universal BIG at the level of the special COVID-19 Social Relief of Distress Grant would result in an approximate average increase in effective tax rates of 8.2% across taxable income bands considered for 2023/24. A universal BIG at the LBPL would result in an approximate average increase in effective tax rates of 19.8% across taxable income bands considered for 2023/24. A universal BIG at the UBPL would result in an approximate average increase in effective tax rates of 30.0% across taxable income bands considered for 2020/21. Similar results arise under the High Road Scenario.

- The projected clawback of the cost of implementing the BIG through PIT under the universal scenario represents approximately 5% of the cost of a universal BIG (at all levels of BIG considered). This relatively small clawback is a result of the large number of recipients that fall in the lowest taxable income band (including those that who do not earn any taxable income) and hence are not subject to PIT, reinforcing South Africa's relatively small tax base. This small tax base is a symptom of South Africa's high and persistent inequality. Inequality in South Africa, as measured by the consumption Gini coefficient, was 0.61 in 1996, increasing to 0.63 in 2014[1]. This is despite the efforts to reduce inequality that the government has made since 1994.

- The Inequality Trends Report by Statistics South Africa (StatsSA) found that labour market activity largely influenced the level of inequality within the economy, stating that about 67% of total inequality was driven by inequality in earnings. Income from the labour market had accounted for the largest proportion of income inequality at about 77.2% in 2006, decreasing to 74.2% in 2015. Wage distributions of South African income earners was found to have a "long upper tail" – highlighting that the bulk of the population was comprised of low-income earners, while the top decile of income earners held a substantial majority of the national income.

- That economic effect of COVID-19 will include reduced revenue collection. PIT, Corporate Income Tax (CIT) and Value Added Tax (VAT) collections are expected to fall substantially over 2020/21. Given the economic impact of COVID-19, the capacity to raise PIT, CIT and VAT tax rates is limited. National Treasury has signalled the possibility of an inheritance tax and a "solidarity tax", which is regarded as a wealth tax, in a bid to raise additional finances for the fiscus.[2] The Davis Tax Commission (DAC) investigated the feasibility of a wealth tax. It was concluded that with the highly unequal levels of wealth in South Africa, a taxation system that ignores such inequalities in wealth, lacks legitimacy in the tax system.[3] It further concluded, however, that the introduction of a wealth tax cannot be implemented in the short-term.

Recommendations of the study:

- It is recommended that cost benefit analysis, determination of an appropriate tax base and provision of comprehensive data on the pattern of wealth ownership in South Africa should be undertaken before a decision on BIG can be made. This is to asses whether the tax revenue generated would exceed the administrative and economic burden on taxpayers and the South African Revenue Service (SARS).

- Given the significance of the cost of a universal BIG, alternative sources of taxation such as those mentioned above, should be assessed for viability in financing (partially or wholly) the implementation of a BIG. However, such alternative sources of taxation may only be practically implemented over the medium term, therefore PIT, CIT and VAT remain the alternatives over the short-term if implementation of a BIG takes place within the short-term.

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[1] https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZA&most_recent_year_desc=true
[2] https://businesstech.co.za/news/finance/411919/the-taxes-which-are-likely-to-increase-in-south-africa-and-those-that-wont/
[3] https://www.taxcom.org.za/docs/20180329%20Final%20DTC%20Wealth%20Tax%20Report%20-%20To%20Minister.pdf

- the furthermore, the implementation of a universal BIG lends itself to a financing base that is as broad as possible, in the interests of social solidarity. The cumulative effect of the combination of tax instruments should be progressive. The importance of social solidarity is in line with International Labour Organization (ILO) recommendation No. 202, which refers specifically to the principle of solidarity of financing.

- Implementing a targeted BIG will reduce the resulting cost and hence consequent funding requirements that will likely need to be met through taxation. Various scenarios are considered in this respect. However, targeting is associated with the administration burden and cost created by applying this targeting in practice. It is noted that certain the scenarios presented may not be practical to implement in relation to targeting and therefore should be considered for illustrative purposes only.

- Alternatively, the cost of implementing the BIG can be funded through the reallocation of public expenditure. However, reallocating public expenditure comes with trade-offs. Spending on health, education and social development currently accounts for 56% of government expenditure, as per the 2020 Budget Statement. Furthermore, the implementation of NHI is a policy priority, which will result in additional demands on the fiscus. Ultimately, the introduction of a BIG will require trade-offs with other development programmes, including other social security reforms and tertiary education.