The Tax Base in South Africa

This policy brief deals with the tax base in South Africa using data published by the National Treasury and the South African Revenue Service (SARS). The Minister of Finance said in February 2011: “Proposals are under review for a national health insurance system, as part of the broader restructuring and enhancement of health services. There will be substantial cost implications. We will consider and consult on options for meeting the funding requirements, including a payroll tax (payable by employers), an increase in the VAT rate and a surcharge on individuals’ taxable income. The fiscal and financial implications of health system reform, and alternative revenue sources, will be examined in the year ahead.” SARS says that

The three largest parts of tax revenue are Personal Income Tax (PIT) at 34.3%, Corporate Income Tax (CIT) at 22.5% and Value-Added Tax (VAT) at 24.7% in 2009/10. In the same tax year, SARS had on register close to 5.9 million individual taxpayers, almost 1.9 million companies and 685,523 VAT vendors.

The SARS data is particularly useful in that it gives, for the first time, reliable information on the number of taxpayers, taxable income and tax assessed by income band as illustrated in Figure 1. In 2009 only 10% of taxpayers had a taxable income above R400,000 per annum (R33,333 per month), yet these taxpayers accounted for 55% of tax assessed. While 55 % of taxpayers had taxable income below R150,000 per annum (R12,500 per month), they accounted for only 10% of tax assessed.

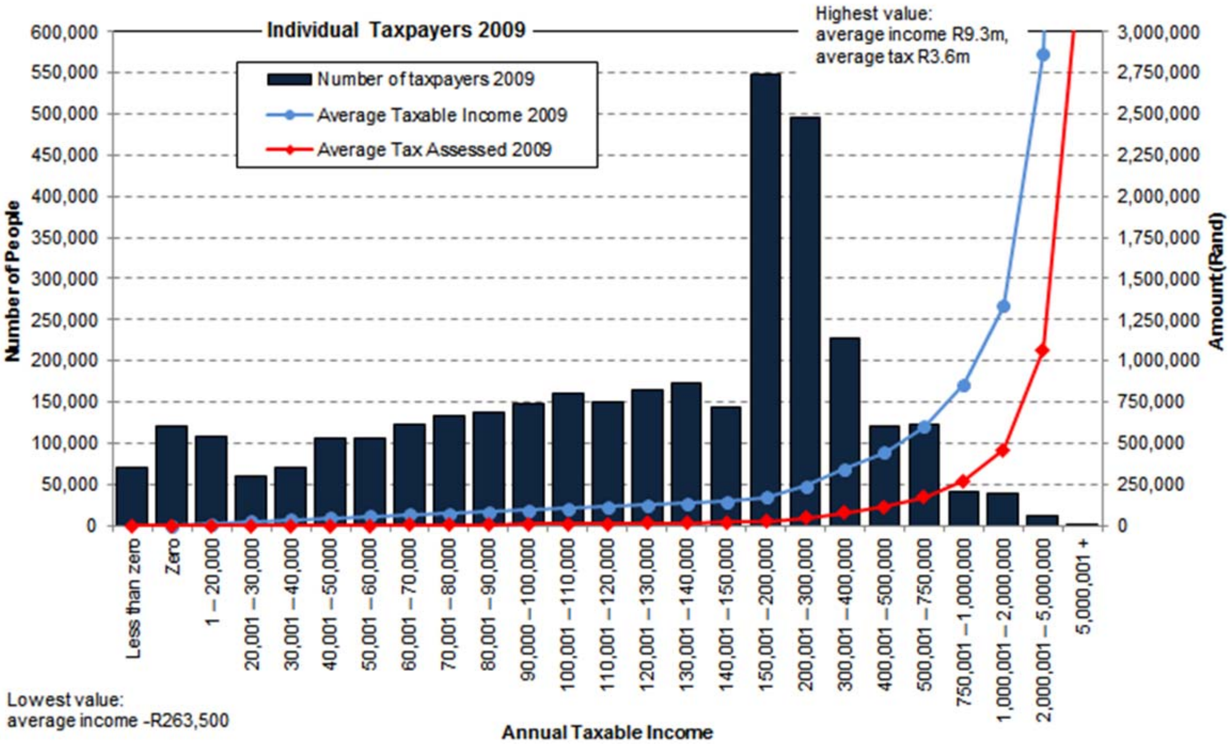

Figure 1: Personal Income Tax for Tax Year 2009

Overall, all individual taxpayers were found to collectively contribute 22.0% of taxable income by way of personal income tax. The graph below shows the tax assessed as a proportion of taxable income for each income band and illustrates the steepness of the tax structure. The large group of people earning in the band “R150,001 to R200,000” (R12,500 to R16,667 per month) pay 15.1% of taxable income while those in the band “R200,001 to R300,000” per annum (R16,667 to R25,000 per month) pay 18.9% of taxable income in personal income tax.

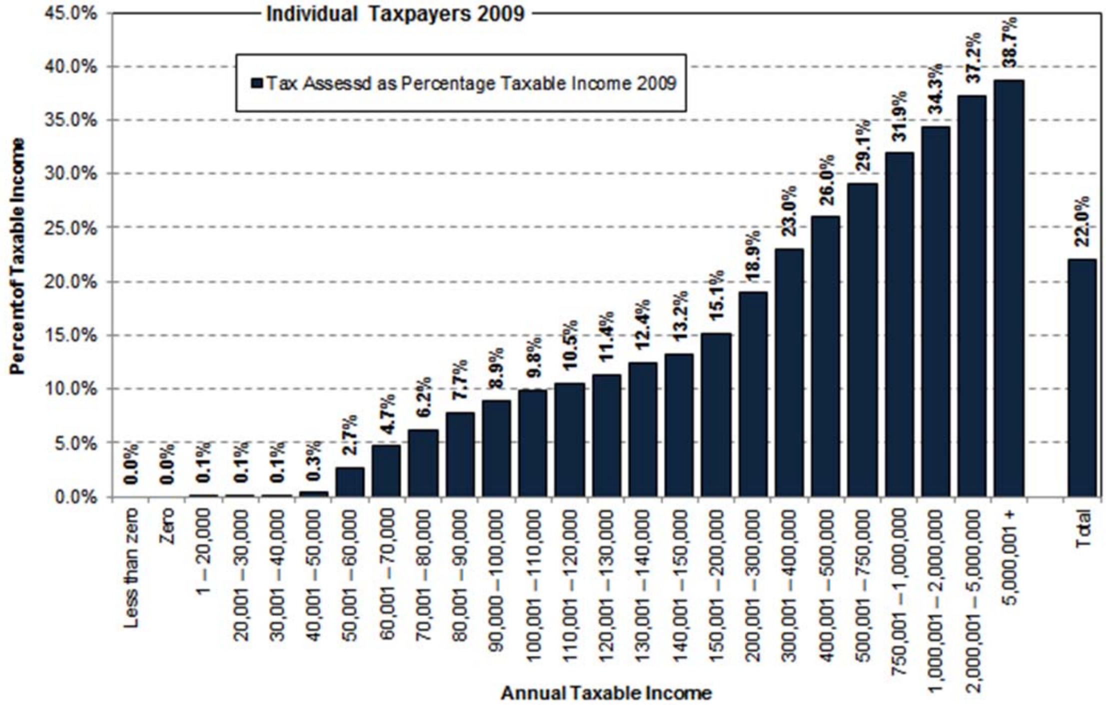

Figure 2: Tax Assessed as Percentage of Taxable Income for Tax Year 2009

It would be a substantial burden to families if an additional 8% of taxable income were to be imposed to fund NHI, as suggested by the ANC proposals. It would effectively increase the tax burden of the largest two groups (together from R12,500 to R25,000 taxable income per month) by some 50%.

The SARS data showed that an additional 1% of taxable income would have raised R7.005 billion, for tax year 2009. The Skills Development Levy of 1% of payroll raised R7.828 billion in tax year 2010. While the quantum of these two approaches is roughly similar, there is a substantial difference in who would be impacted by a decision to charge as a percent of taxable income compared to a percent of payroll. Charging on payroll would exclude other forms of earnings like commission, rental income, interest and investment earnings.

There remains much work to be done to determine how best to fund the national health system and National Health Insurance in the future. The question of how to pay for the envisaged health system and how to spread the payments across different income groups is likely to be contentious. Unions, employers and other stakeholders should be building models now in order to be able to provide informed feedback once the funding proposals are made public. The National Budget Review dated February 2011 says: "Announcements about specific funding instruments will be made in the 2012 Budget."

Summarised for IMSA by **Prof Heather McLeod**
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New resources on the IMSA NHI web-site

http://www.innovativemedicines.co.za/national_health_insurance.html

- The full policy brief and slides used.
- A spreadsheet on personal income tax assessed in 2009, giving an extract from the SARS data by income band.