Raise income tax for the rich to fund a permanent R350 grant, say experts

By Marecia Damons

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A panel of experts has recommended that the Covid Social Relief of Distress (SRD) grant be permanently introduced and financed through income tax.

Queues for social grants in Khayelitsha. Source: Mary-Anne Gontsana/GroundUp

A study which looked at the social, fiscal and economic impact of permanent basic income support to the most vulnerable found that this would reduce poverty for 13.1 million beneficiaries and reduce income inequality.

The study, commissioned by the Department of Social Development in collaboration with the International Labour Organisation, was published on Tuesday, 13 December.

Panellists included Adjunct Professor Alex van den Heever of Wits University's Social Security Systems Administration and Management Studies; Professor Margaret Chitiga-Mabugu, dean of the Faculty of Economic and Management Sciences at the University of Pretoria; Professor Jan van Heerden of the Faculty of Economic and Management Sciences at the University of Pretoria; Professor Michael Noble, director and senior research fellow at the South African Social Policy Research Insights, among others.

The expert panel's first report, published in December 2021, looked at the feasibility of extending basic income support to citizens between 18 and 59 years old. In the second report, the panel focused exclusively on the SRD grant, or a wage subsidy that would cost the same. They looked at the economic, fiscal and social implications of making the grant permanent, up to 2045.

The report looked at the impact of social assistance using four models:

- the SRD Grant, costing a total of R50bn a year, and financed through an increase in VAT;
- the SRD Grant, costing a total of R50bn, financed entirely through an increase in personal income tax on the top three deciles (highest earners in the country);
- a wage subsidy, equivalent to R50bn, financed entirely through personal income tax on the highest earners and allocated to workers in the lowest paid jobs including domestic workers and farm workers; and
- the SRD Grant, costing a total of R50bn, combined with a wage subsidy costing R25bn, both financed entirely through personal income tax.

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Raising income tax of top earners

They found that the wage subsidy showed promise for improving economic output but would be less effective in addressing poverty and inequality than the SRD grant. Using both the wage subsidy and the SRD would have advantages but it would be hard to replicate the wage subsidy model in real life they said.

An SRD grant funded by raising income tax of top earners would raise household spending, wages, and economic growth, and would reduce inflation. Most crucially, it would reduce the number of people living below the "lower bound poverty line" (at present R945 per person per month) by 15% nationally within two years, according to the simulation.

Presenting the findings, Van den Heever said the grant could be introduced "in a manner that is economically and fiscally sustainable while at the same time having a material impact on poverty and inequality".

Negative impact of raising VAT

He said the modelling showed that using VAT to finance the grant would have negative economic effects. "Given South Africa's extreme inequality, revenue-raising options for new redistributive programmes, such as the SRD grant, should make use of progressive taxation options," he said.

Van Heerden said that using VAT to fund grants would be "like giving with one hand and taking it back with the other".

"If you increase VAT by 2%, which we did in the simulation, then all prices go up by 2%. So inflation goes up and that is bad for the economy. It's so clear-cut that we shouldn't even consider VAT."

Van Heerden said that if the grant was funded by increasing income tax for the wealthiest sections of society, it would be “really redistributive because you take away from the rich and give to the poor … The surprise is that it is also much better on the economy,” he said.

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