

## *Funding of the NHI: What are the options?*

THE subject of National Health Insurance has recently reared its head again at the time of the medium-term budget statement. The money involved is, at this planning stage, insignificant - just under R21 million for the current financial year. It also seems clear that the NHI will be phased in over a lengthy period (14 years). The first phase will focus on primary healthcare, health promotion and preventative care. However, costs are set to escalate rapidly. The Finance Minister indicated recently that next year's budget might have an initial allocation of R500 million for 10 pilot projects. It has been estimated that the initial phase of the NHI might require as much as R140 billion between 2012 and 2025. Exactly how the NHI will look, and how much it will cost, is by no means clear at this stage. However, what is an unavoidable truth is that it will result in an additional need for tax revenue. At the moment the extra funds required can be provided out of existing tax collections. But as the cost of the NHI rises into the billions, additional taxes are likely to be necessary. The options that were mooted by the Minister at the time of his annual budget speech in February were "a payroll tax (payable by employers), an increase in the VAT rate and a surcharge on individuals' taxable income." It was stated that these were merely options and that a process of consultation would be followed in order to determine optimum funding solutions. The choice of these options is by no means surprising. At present we derive about 80 percent of our total tax revenue from - in descending order - individual income tax, VAT and corporate income tax. Therefore, in looking to fund an ambitious and expensive project like the NHI, it is inevitable that the Minister would look first to new sources of revenue close to these three areas. Tax is, of course, a very emotional subject - particularly when it hits the pockets of individuals, as at least two of these options would do. The suggestion that the VAT rate might be increased can be seen as particularly controversial - since VAT is perceived to be a tax on the poor. It may be that Minister Gordhan was flying a kite - or flying three kites - to gauge the emotional response to these suggestions. Given the lack of certainty regarding the NHI, the tax options are still no clearer than they were at the time of the budget speech. However, the three options suggested then probably remain the most likely sources for future tax revenue for the NHI. The three options are underpinned by very different philosophical approaches to the issue of public health.

The decision as to which tax - or combination of taxes - should fund the NHI says much about who the powers-that-be feel should be paying for public health. VAT is perhaps the form of taxation most closely related to the main intended beneficiaries of the NHI. It seems safe to say that NHI is intended primarily for the benefit of the poorer sectors of our community. Therefore, to the (limited) extent that it can really be said that VAT is a tax on the poor, at least an increase in the VAT rate to fund the NHI will mean that the poor are making a contribution to the cost of the scheme. Of course, VAT is actually a tax on anyone - rich or poor - who spends money. Most basic goods and services are either zero rated (such as basic foodstuffs) or exempt from VAT (such as education and residential accommodation). It follows that a poor person who spends his or her limited resources only on basics can remain largely outside the VAT net. Therefore the view that VAT is a tax on the poor is rather misplaced. However, it is true that the poor

contribute to VAT collections (since even the poorest of people will find it hard to avoid incurring some VAT). Funding the NHI by means of a surcharge on individual tax will have a significantly redistributive effect (from the people who are better off to the poor). This is because the individuals who pay income tax tend to be people who are able to afford private medical cover and are therefore less likely to be reliant on the NHI. Of course, the whole individual tax system is essentially redistributive in nature - since tax revenue is derived from the more affluent individuals to fund, amongst other things, essential services provided, and grants paid, to poorer people. In assessing this option it is relevant to reflect that individuals (mainly those in employment) already bear an enormous share of the overall tax burden. Tax collected from individuals is already by far the biggest single contributor to our overall tax revenue. Taxing companies is probably placing the burden for the NHI furthest from the people who benefit from it. The fact is that most companies will not benefit directly from the NHI. Their own employees, on the whole, currently probably enjoy private medical cover. And, while companies face many challenges in their commercial worlds, they are, as artificial entities, exempt from the medical problems faced by human beings! Therefore it can be argued that, from a philosophical point of view, an increase in corporate taxation (even if it disguised as a payroll tax) is probably the least appropriate way of funding the NHI. An advantage of taxing companies is that they don't take to the streets and protest about having to pay more tax. However, they tend to vote with their feet - so to speak - by simply not investing into the country. And scaring off investment - or causing disinvestment - is probably the last thing we want to do at the moment. So it is clear that the minister faces an unenviable task in trying to decide how to fund the NHI. There is simply no pretty - or popular - way of raising a big chunk of extra tax revenue. Perhaps the most important consideration is that, however additional tax revenue is raised, it is spent productively. This is particularly so in view of recent revelations by the Auditor-General that wasteful, fruitless and irregular expenditure by government had amounted to more than R26-billion between April 2010 and March 2011. This amount would go a long way to funding the NHI. Therefore it is undoubtedly wise of the government to proceed very gradually towards the implementation of the NHI.

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