NHI benefits could outweigh its costs

FINDINGS of a study by KMPG to be released this week suggest that the long-term economic benefits of the planned National Health Insurance (NHI) could outweigh the negative effect of possible tax increases, provided that the NHI is implemented efficiently. The treasury has so far not said outright whether the NHI will be funded by extra taxes, despite speculation about where the additional R140.5-billion the NHI is budgeted to cost between 2012 and 2025 will come from. The KPMG study considered developed and developing economies with similar funding mechanisms such as payroll taxes, general taxes and social security taxes on revenue. The study quotes an Australian report which estimated healthcare expenditure creates a five percent multiplier effect, with every R1 extra spent on healthcare creating R0.05 extra economic activity in the long run. Some of the potential benefits from increased spending on healthcare include increased life expectancy and increased labour productivity. According to Lullu Krugel, senior economist at KPMG, a 10 percent increase in productivity of the South African workforce could mean an increase of between R1 500 and R2 000 in GDP per capita over the period 2012-2018. This is the equivalent of a net increase of 0.2 to 0.3 percentage points in the projected GDP growth rate of 4.6 percent. Krugel said if it were implemented correctly the benefits of the NHI could be more than the costs, however, the extent of potential benefits would depend on the source of funding for the NHI. At an average cost of R10.4-billion a year between 2012 and 2025, a 1.1 percentage point increase in the average personal income tax rate or a 0.8 percentage point increase in VAT would be needed. According to the study, an increase in VAT would have a marginally less negative effect than an increase in personal income tax. Apart from the fact that VAT was easier and less costly to administer, Krugel said the narrow income tax base made it difficult to increase personal income taxes. An increase in personal income taxes would reduce the consumption expenditure of the taxpayers, she said. KPMG also considered the possibility of raising so-called sin taxes. To collect R10.4-billion a year, revenue from excise duties on alcohol and cigarettes would have to increase by 46 percent. This translates into a R4.47 increase in the price of a packet of 20 cigarettes, an 80c increase in the price of a bottle of unfortified wine and a R12.82 increase in the price of a bottle of spirits. Krugel said the risk when increasing these taxes was an increase in illegal trade. Also, sin taxes were not supposed to be a revenue generator, but are rather aimed at discouraging consumption, she said. Krugel said if extra taxes were to be charged to the NHI, it might be good for them to be ring-fenced. She said ring-fencing an income stream for the NHI might put pressure on officials to spend money efficiently and taxpayers might be less unwilling to contribute.

René Vollgraaff: The Business Times, 6 November 2011