



FINANCING A UNIVERSAL BASIC INCOME GUARENTEE

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MAIN POINTS

1. UBIG in the context of austerity
2. Financing vs net financing costs
3. Financing sources
4. Part of a package

1. AUSTERITY CONTEXT

- Austerity context means threats and opportunities.



2. NET FINANCING COSTS - UBIG

Table 1: Total annual cost of UBIG at different levels (R billion)

| GROUPS (18 – 59) | NUMBER OF PEOPLE | FPL (R585 PM) | LBPL (R840 PM) | UBPL (R1268 PM) | R2500 PM | R3500 PM |
|-------------------------------|------------------|---------------|----------------|-----------------|----------|----------|
| All | 34.1m | 239 | 343 | 519 | 1 023 | 1 432 |
| All (80%) | 27.3m | 192 | 275 | 415 | 818 | 1 146 |
| All (60%) | 20.5m | 144 | 206 | 311 | 614 | 859 |
| Informal Workers ⁴ | 2.5m | 18 | 25 | 38 | 76 | 106 |
| Unemployed ⁵ | 11m | 78 | 111 | 168 | 332 | 464 |
| NEA ⁶ | 13.4m | 94 | 135 | 203 | 401 | 561 |
| NFE ⁷ | 22.4m | 157 | 226 | 341 | 672 | 940 |

Note: The Food Poverty Line (FPL), Lower-bound Poverty Line (LBPL), and Upper-bound Poverty Line (UBPL) listed are from 2020.⁸ Updated poverty lines should be used when determining the cost in the short to medium term.⁹

2. NET FINANCING COSTS

| | |
|---|---|
| UBIG for all at FPL | R239.0 billion |
| Recoup - Social Security Tax | - R67.0 billion |
| Increased tax intake from higher economic growth due to multipliers (R100 billion addition funds, with R150 billion stimulus at 25% tax/GDP) | - R37.5 billion |
| Increased tax intake from higher economic growth due to reduction in poverty and inequality and increased investment in population | (financing source dependent) |
| Recoup - VAT expenditure | (financing source dependent) |

2. NET FINANCING COSTS – SST

Table 3: SST options by income bracket for 2022/23 (R billion)

| EARNINGS (R) | NUMBER OF TAXPAYERS | TAXABLE INCOME | 1.50% | 2% | 2.50% | 3% |
|--------------|---------------------|----------------|-------|-------|-------|-------|
| 0 - 80k | 6 822 326 | 230.8 | 3.46 | 4.62 | 5.77 | 6.92 |
| 80k - 350k | 4 927 667 | 957.7 | 14.37 | 19.15 | 23.94 | 28.73 |
| 350k - 1m | 1 910 855 | 1073.7 | 16.11 | 21.47 | 26.84 | 32.21 |
| 1m + | 307 912 | 626.1 | 9.39 | 12.52 | 15.65 | 18.78 |

Source: Own calculations based off IEJ Policy Brief. 2021. Introducing a Universal Basic Income Guarantee for South Africa.

Table 5: SST Revenue Potential

| Additional revenue | | |
|--------------------|--------------------|--------------------|
| 2022/23 (billions) | 2023/24 (billions) | 2024/25 (billions) |
| R67.29 | R69.10 | R70.97 |

Source: Own calculations using DNA Economics. 2021. Universal Basic Income Guarantee: Financing options analysis and IEJ Policy Brief. 2021. Introducing a Universal Basic Income Guarantee for South Africa.

Table 4: Net benefit / contribution for SST by income

| EARNINGS PER YEAR | 35 000 | 70 000 | 150 000 | 250 000 | 340 000 | 500 000 | 1 000 000 |
|------------------------------|--------|--------|---------|---------|---------|---------|-----------|
| SST rate (%) | 1.5% | 1.5% | 2.0% | 2.0% | 2.0% | 2.5% | 3.0% |
| SST tax paid (R) | 525 | 1 050 | 3 000 | 5 000 | 6 800 | 12 500 | 30 000 |
| Total UBI received (R585 pm) | 7 020 | 7 020 | 7 020 | 7 020 | 7 020 | 7 020 | 7 020 |
| Net benefit / contribution | 6 495 | 5 970 | 4 020 | 2 020 | 220 | -5 480 | -22 980 |
| Total UBI received (R840 pm) | 10 080 | 10 080 | 10 080 | 10 080 | 10 080 | 10 080 | 10 080 |
| Net benefit / contribution | 9 555 | 9 030 | 7 080 | 5 080 | 3 280 | -2 420 | -19 920 |

Source: Own calculations

3. FINANCING SOURCES

| FINANCING SOURCE | PROS | CONS |
|---------------------------|--|--|
| Tax – higher incomes | Equity-enhancing Available | Pool somewhat constrained Not necessarily all new funds Competing priorities |
| Tax – net wealth | Equity-enhancing Large pools available Injects idle funds into economy | Takes some time |
| Tax – wealth flows | Equity-enhancing Financial stability enhancing Large potential intake | Market implications somewhat uncertain |
| Tax – corporate loopholes | Equity-enhancing Rule-of-law enhancing | Recessionary environment |
| Tax – resource rent | Equity-enhancing Large pools available | Not permanent |
| Market debt | Injects idle funds into economy | Debt debate |
| Quasi-state funds | Reorientates funds toward real economy | Politically contentious? Other uses? |

4. PART OF A PACKAGE

- This isn't just on the expenditure side, but also on the revenue side.
 - Financing, e.g. debt levels, multiple demands on resources
 - Expenditure, e.g. policy package, economic impact part of package

Additional information on IEJ tax proposals

PRINCIPLES OF TAXATION

Must come from a mix of taxation policies including:

1. Recoup the UBIG from those with taxable income.
2. Tax those with middle, high and very high incomes on a sliding scale.
3. Tax wealth and income from wealth.
4. Limit tax breaks for those with higher incomes.
5. Cancel ineffective corporate tax breaks.
6. Tax environmentally damaging behaviour.
7. Reduce wasteful and irregular expenditure.
8. Reduce tax evasion.
9. Must be progressive by design.

INCOME TAXES

| | 2022/23 (billions) | 2023/24 (billions) | 2024/25 (billions) | NOTES |
|--|-----------------------|-----------------------|-----------------------|--|
| INCOME TAXES | | | | |
| Social Security Tax (SST) | R67.29 | R69.10 | R70.97 | <ul style="list-style-type: none"> • 1.5% of taxable income for income between R0 and R80 000 per annum; • 2% of taxable income between R80 000 and R350 000 per annum; • 2.5% of taxable income between R350 000 and R1 million per annum; • 3% of taxable income more than R1 million per annum. |
| Resource Rent Tax | R38.80 | R38.40 | R38.30 | Assuming a tax that can extract 25% of the Natural Resource Rent value in South Africa in line with Ghana and Zambia. |
| Selective removal of pension fund contribution deduction | R22.04 | R22.64 | R23.25 | Removal of deduction for those with taxable income of more than R1 000 000 per annum. |
| Selective removal of Medical Aid Tax Credit | R6.03 | R6.23 | R6.36 | Removal of tax credit for main member & main dependent for those with taxable income > R500 000 per annum. |
| Dividends Tax | R7.70 | R8.10 | R8.60 | Increase rate from 20% to 25%. |

CONSUMPTION TAXES

| CONSUMPTION TAXES | | | | |
|---------------------------|-------|-------|-------|---|
| Implementing a Luxury VAT | R8.41 | R8.78 | R9.17 | 25% VAT rate on luxury goods. |
| Increase in Excise duties | R3.36 | R3.56 | - | 14% annual increase; temporary measure. |
| Carbon Tax | R2 | R2 | R2 | Increase to one-quarter of EU standard. |

WEALTH AND PROPERTY TAXES

| WEALTH AND PROPERTY TAXES | | | | |
|--|-------|-------|-------|--|
| Wealth Tax | - | - | R59 | 1% tax rate for top 1% and 3% tax rate for top 0.1%. Evasion rate of 30% and 20% stock depreciation assumed. |
| Estate Duty Tax | R1.79 | R1.87 | R1.93 | <ul style="list-style-type: none"> • Estates valued between R3.5 million and R30 million are taxed at a rate of 36%. • Estates valued between R30 million and R146.89 million are taxed at a rate of 41%. • Estates above R146.89 million are taxed at a rate of 45%. |
| Currency Transaction Tax ¹² | R3.68 | R3.75 | R3.88 | 0.005% tax on all onshore currency transactions. |
| Securities Transfer Tax (STT) | R1.37 | R1.41 | R1.45 | Increase rate from 0.25% to 0.3% |
| Financial Transaction Tax (FTT) | R41 | R41 | R41 | 0.1% tax rate. |

NET WEALTH TAX

Table 15: Wealth Tax

| GROUP | THRESHOLD | 1% TAX (billions) | 3% TAX (billions) | 5% TAX (billions) |
|----------|-------------|----------------------|----------------------|----------------------|
| Top 1% | R3 665 000 | R31 | R93 | R155 |
| Top 0.1% | R27 314 000 | R14 | R42 | R69 |

Source: IEJ calculations based on wealth tax simulator by Chatterjee, Czajika and Gethin

TAX BREAKS AND WASTE

| REMOVAL OF CORPORATE TAX BREAKS | | | | |
|---|----------------|----------------|----------------|---|
| Reduce profit shifting of MNCs | R5.75 | R5.75 | R5.75 | Target of 25% reduction. |
| Cancel Employment Tax Incentive (ETI) | R4.8 | R4.93 | R5.06 | |
| Reverse Corporate Income Tax (CIT) reduction proposal | R7.6 | R8.2 | R8.2 | Reverse proposed reduction of CIT from 28-27%. |
| REDUCE WASTEFUL AND IRREGULAR EXPENDITURE | | | | |
| Reduce irregular expenditure | R36.4 | R42.5 | R48.5 | Target of 30% of R121.3 billion, reported by Auditor-General in 2021. |
| Reduce wasteful expenditure | R1.85 | R1.85 | R1.85 | A further 2.7% reduction of R68.4 billion spent on "General Public Services". |
| TOTAL | R259.87 | R270.02 | R335.27 | |

FEASIBLE OPTIONS

Table 25: Feasible options

| GROUPS (18 – 59) | NUMBER OF PEOPLE (millions) | FPL (R585 pm) (R billion) | LBPL (R840 pm) (R billion) | UBPL (R1268 pm) (R billion) | R2500 pm (R billion) | R3500 pm (R billion) |
|--------------------------------|-----------------------------|---------------------------|----------------------------|-----------------------------|----------------------|----------------------|
| All | 34.1 | 239 | 343* | 519 | 1023 | 1432 |
| All (80%) | 27.3 | 192 | 275* | 415 | 818 | 1146 |
| All (60%) | 20.5 | 144 | 206 | 311 | 614 | 859 |
| Informal Workers ⁷³ | 2.5 | 18 | 25 | 38 | 76 | 106 |
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| NEA ⁷⁵ | 13.4 | 94 | 135 | 203 | 401 | 561 |
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IMPACT ON EFFECTIVE TAX RATES

Table 10: Pre and post effective tax rates

| DEDUCTIBLES | R500 000 annual income | | R1 000 000 annual income | | IF ONLY SST IS IMPLEMENTED | | | |
|-------------------------------|---------------------------|--------------|-----------------------------|--------------|----------------------------|--------------|-----------------------------|--------------|
| | | | | | R500 000 annual income | | R1 000 000 annual income | |
| Retirement Fund contributions | -37 500 | | -75 000 | | -37 500 | | -75 000 | |
| Taxable income | 462 500 | | 925 000 | | 462 500 | | 925 000 | |
| Medical Aid Tax Credit | 7 968 | | 7 968 | | 7 968 | | 7 968 | |
| SST | -12 500 | | -30 000 | | -12 500 | | -30 000 | |
| | <i>Before</i> | <i>After</i> | <i>Before</i> | <i>After</i> | <i>Before</i> | <i>After</i> | <i>Before</i> | <i>After</i> |
| PIT tax | -101 221 | -121 689 | -279 669 | -348 387 | -101 221 | -113 721 | -279 669 | -309 669 |
| Effective tax rate | 20% | 24% | 28% | 35% | 20% | 23% | 28% | 31% |
| Annual disposable income | 361 279 | 340 811 | 645 331 | 576 613 | 361 279 | 348 779 | 645 331 | 615 331 |

Source: Own calculations based on National Treasury (2021) Budget Review.

IMPACT OF TAXES

- Reduction of private sector investment?
- Ineffective expenditure?
- Economic impact?



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