

Redistribution of Income through Taxation and Spending in South Africa



Two Main Questions

- How well do taxes and spending in South Africa redistribute income between the rich and poor?
- What is the impact of taxes and spending on poverty and inequality in South Africa?

Innovations

- Uses the 2010/11 Income and Expenditure Survey (IES).
- Assesses both taxes and spending at the same time.
- Applies the Commitment to Equity (CEQ) methodology, allowing for cross-country comparability.

For more details, see <http://www.commitmenttoequity.org>.

Key results

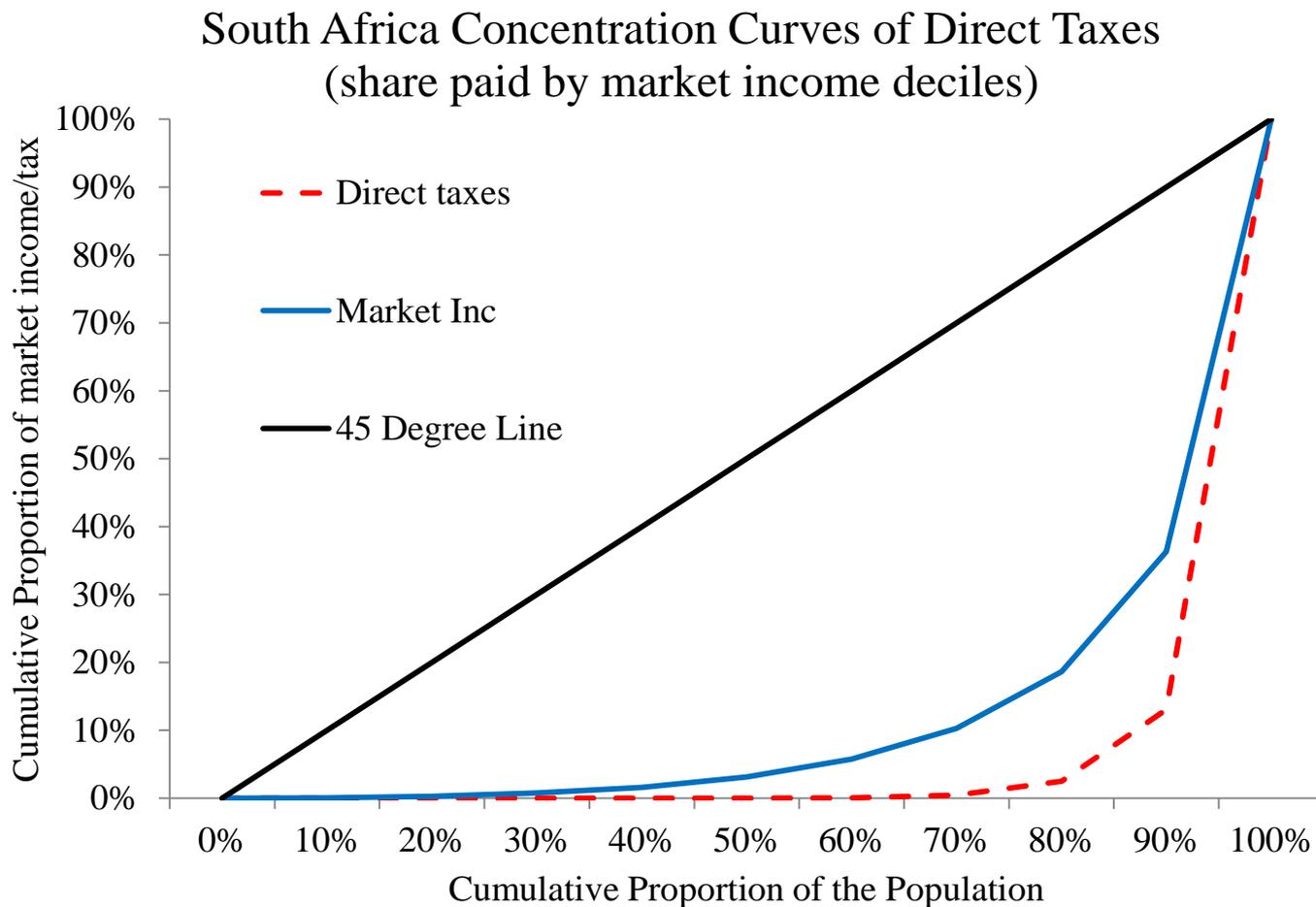
1. The tax and social spending system is overall progressive.
2. Fiscal policy leads to reductions in poverty and inequality that are the largest achieved in the set of 12 middle income countries.

Further poverty and inequality reductions will require more inclusive economic growth.

Taxes

- Personal income tax
- Payroll taxes: UIF and SDL
- VAT
- Excise duties on alcohol and tobacco
- Fuel levy

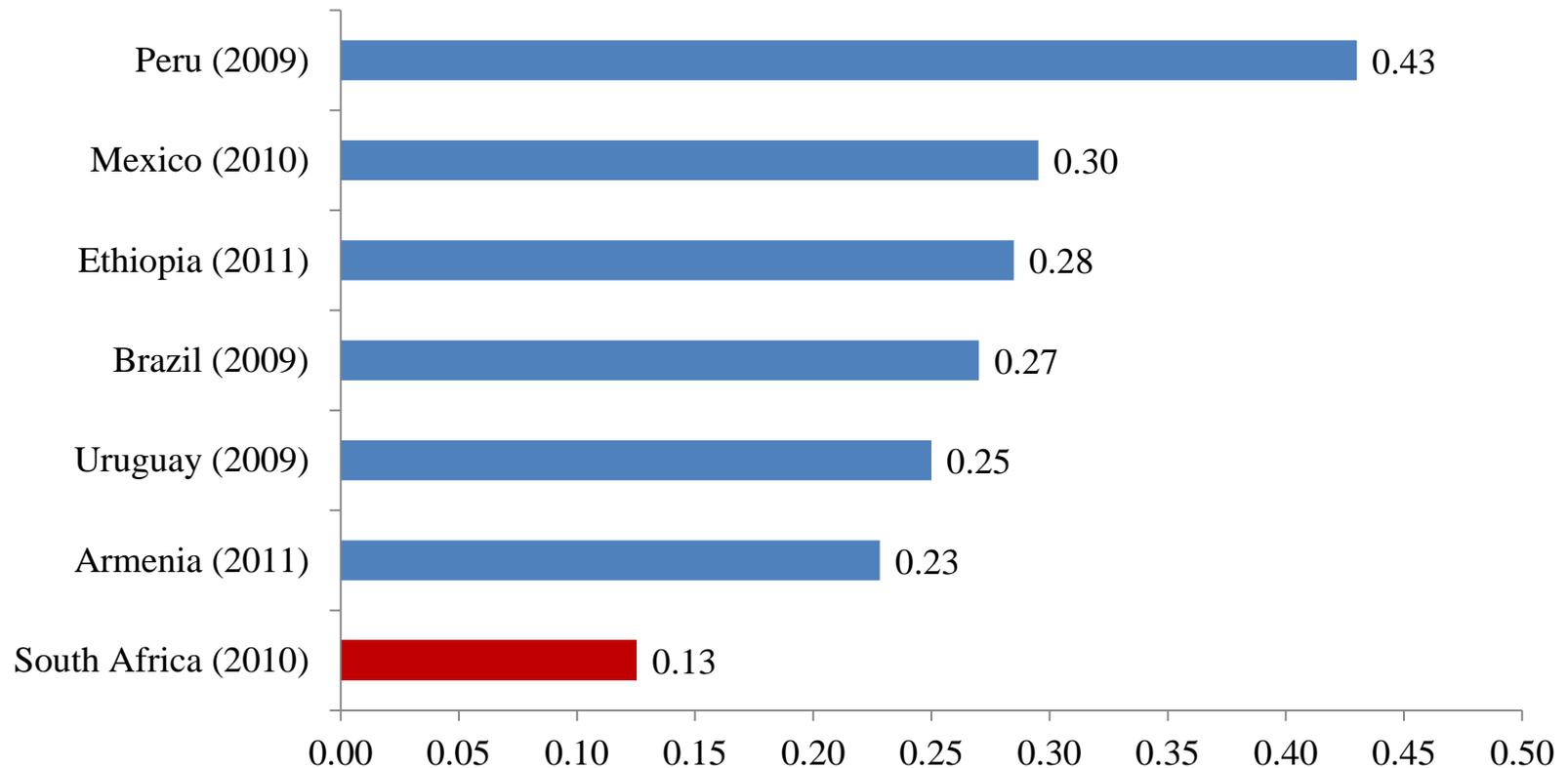
Direct taxes are absolutely progressive.



Source: Own estimates for South Africa based on IES 2010/11.

...but less so than in other countries.

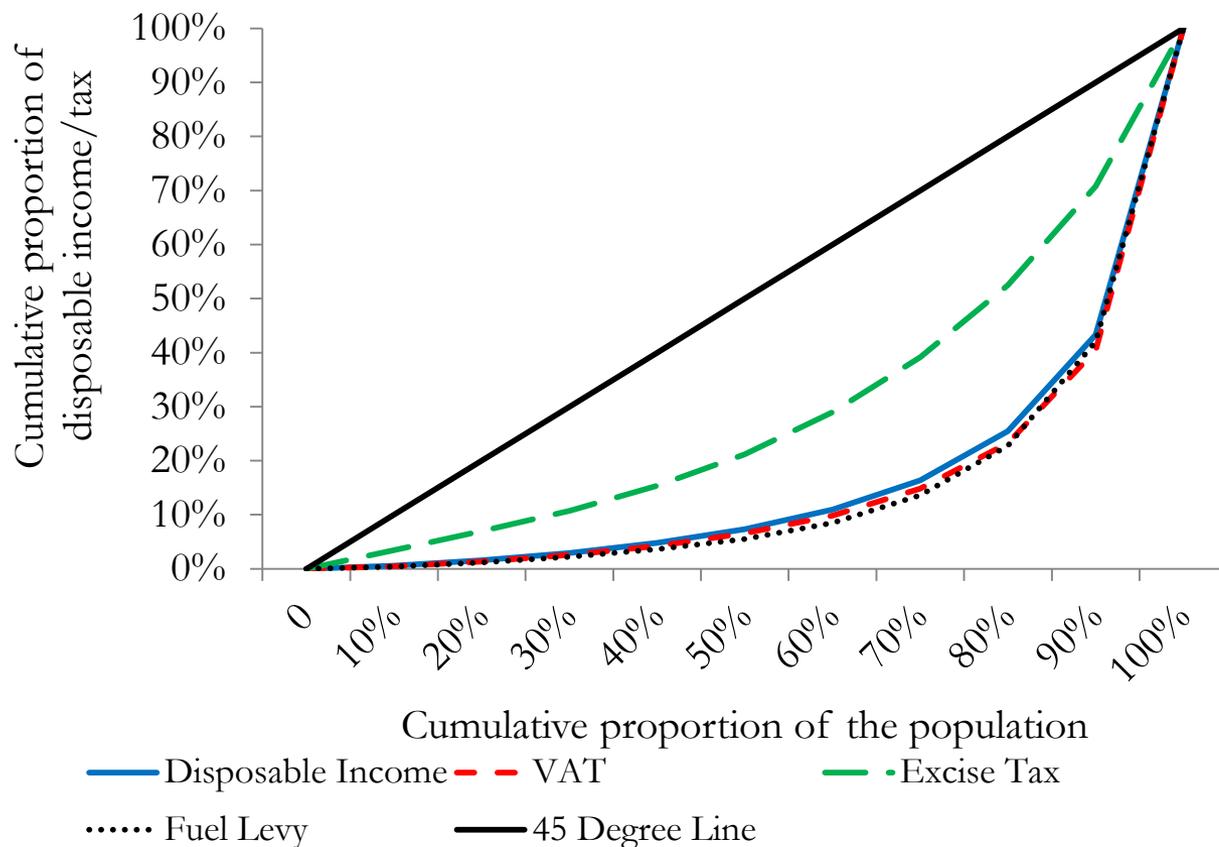
Progressivity of South Africa's Direct Tax System: The Kakwani Coefficient



Sources: Armenia (Younger et al, 2014), Bolivia (Paz et al, 2014), Brazil (Higgins and Pereira, 2014), Ethiopia (Hill et al, 2014), Indonesia (Jellema et al 2014), Mexico (Scott, 2014), Peru (Jaramillo, 2014), Uruguay (Bucheli et al, 2014), and own estimates for South Africa based on IES 2010/11.

In contrast, indirect taxes are slightly regressive on account of excise taxes

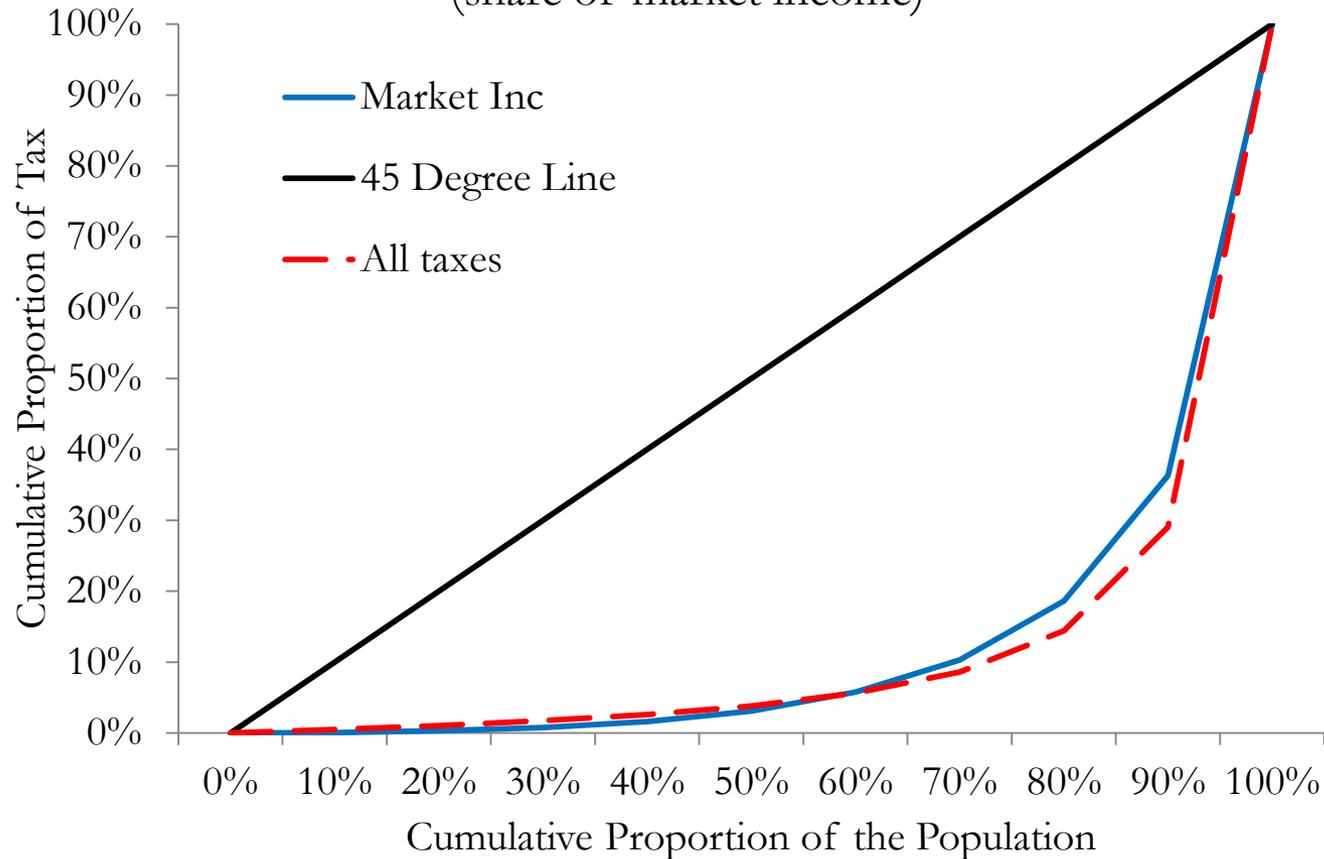
South Africa Concentration Curves of Indirect Taxes
(share paid by disposable income deciles)



Source: Own estimates for South Africa based on IES 2010/11.

Overall, the tax system is globally progressive.

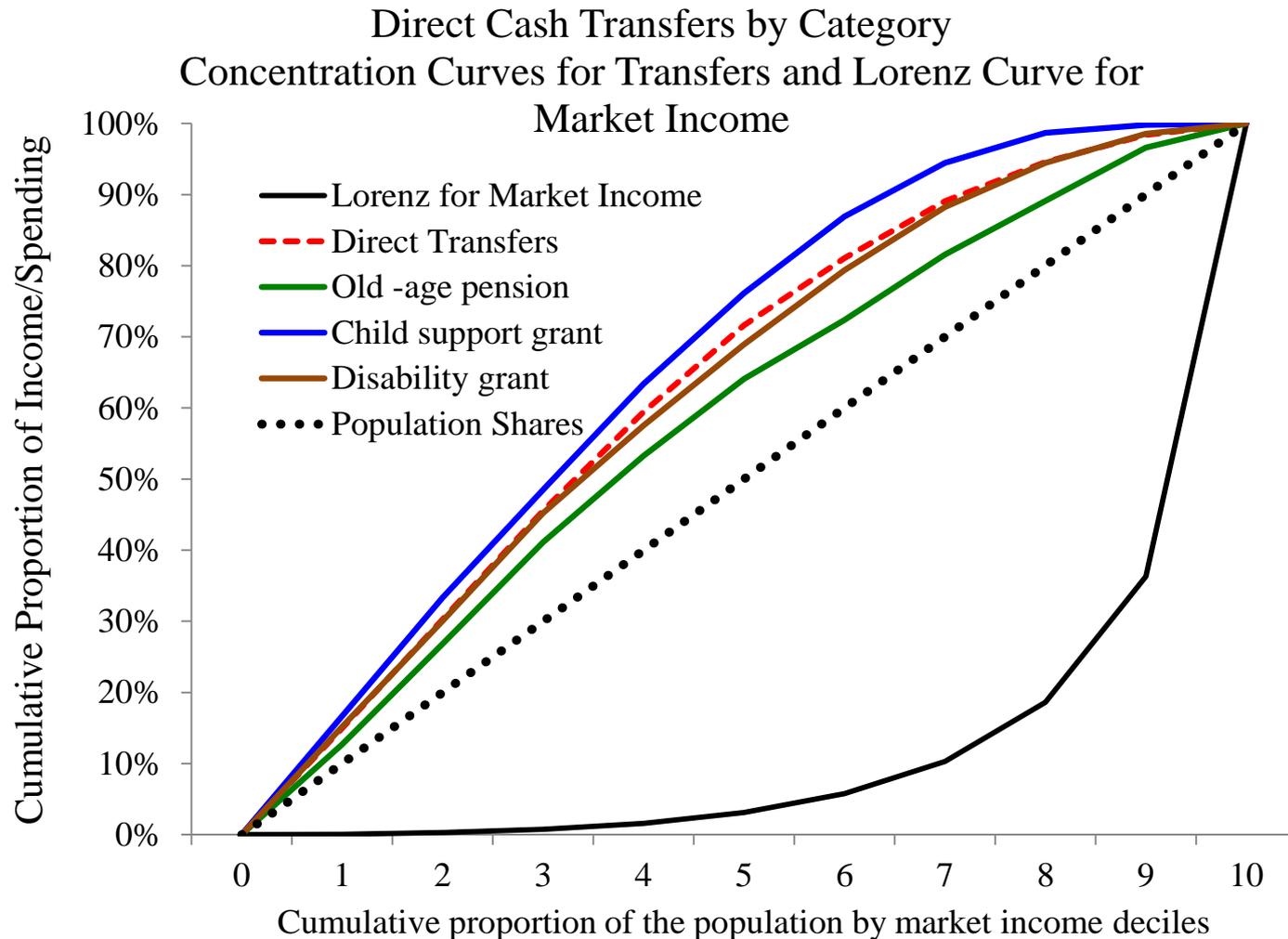
South Africa. Concentration Curves of All Taxes, 2010
(share of market income)



How progressive is social spending in South Africa?

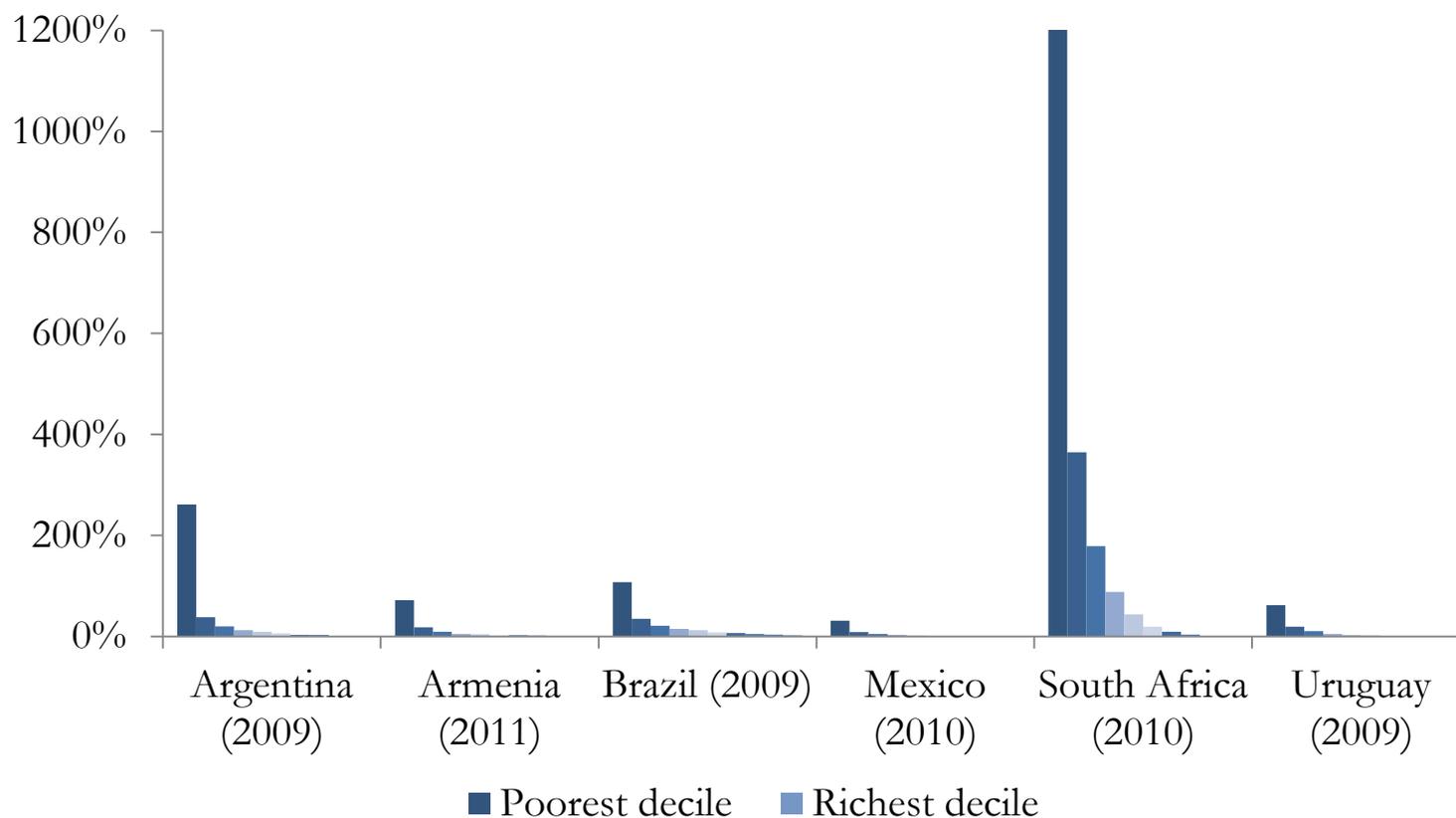
- Direct cash transfers
- Health
- Education
- Free basic services

Direct cash transfers are absolutely progressive...



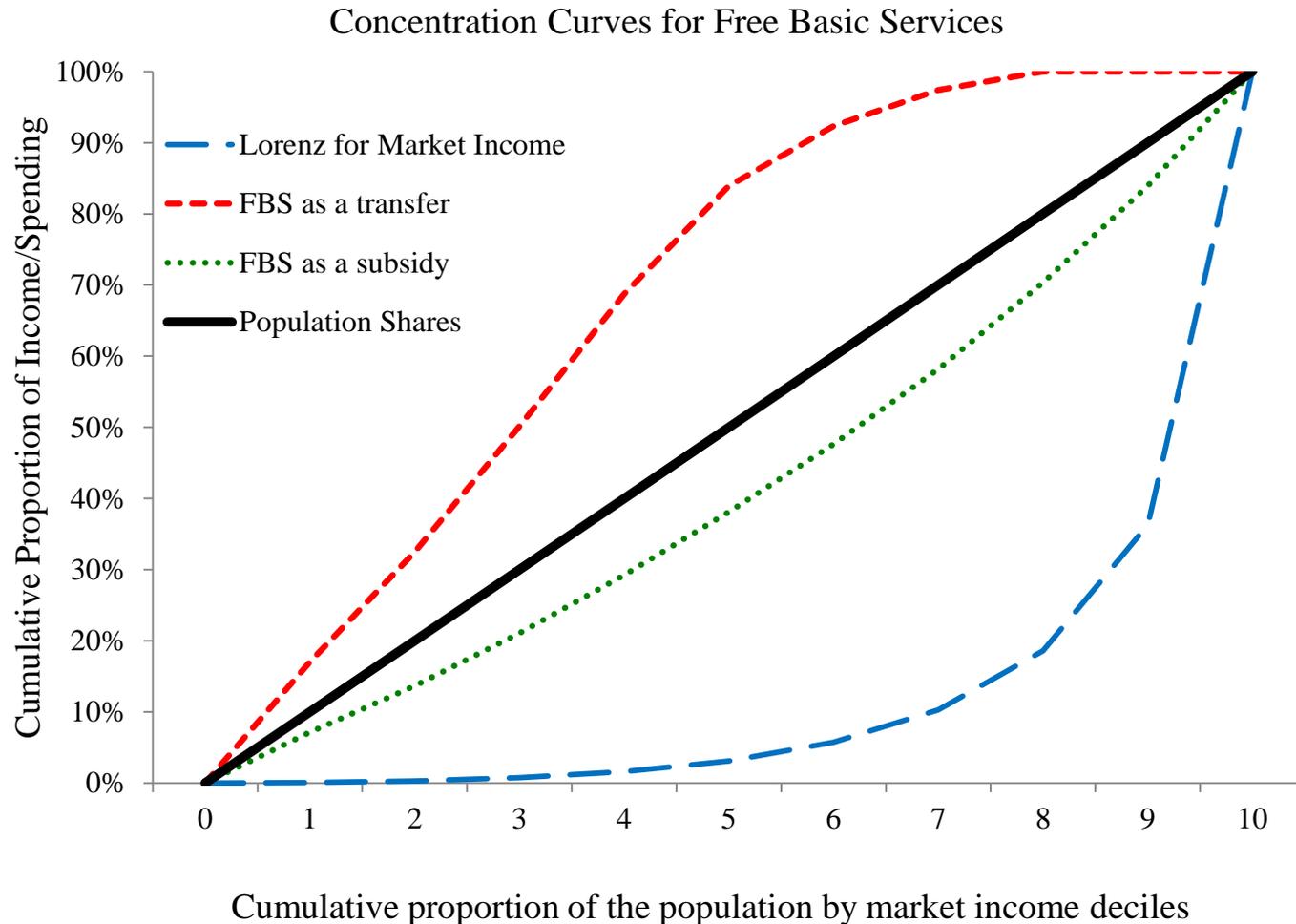
Cash transfers are large relative to the incomes of the poor

Incidence of Direct Cash Transfers
(share of market income deciles)



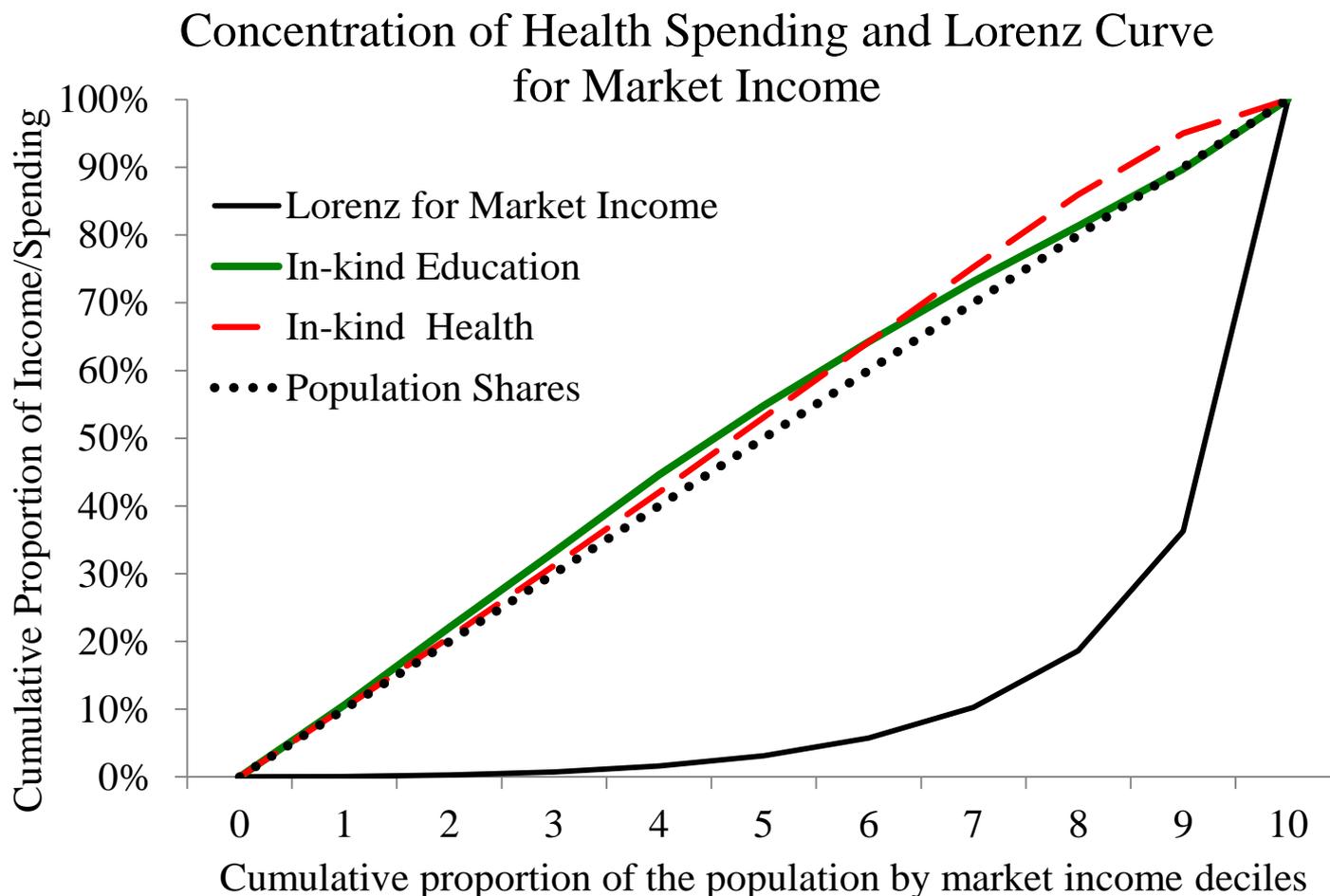
Sources: Argentina (Lustig and Pessino, 2014), Armenia (Younger et al, 2014); Brazil (Higgins and Pereira, 2014), Mexico (Scott, 2014), Uruguay (Bucheli et al, 2014), and own estimates for South Africa based on IES 2010/11.

FBS are more progressive when targeted



Source: Own estimates based on IES (2010/11).

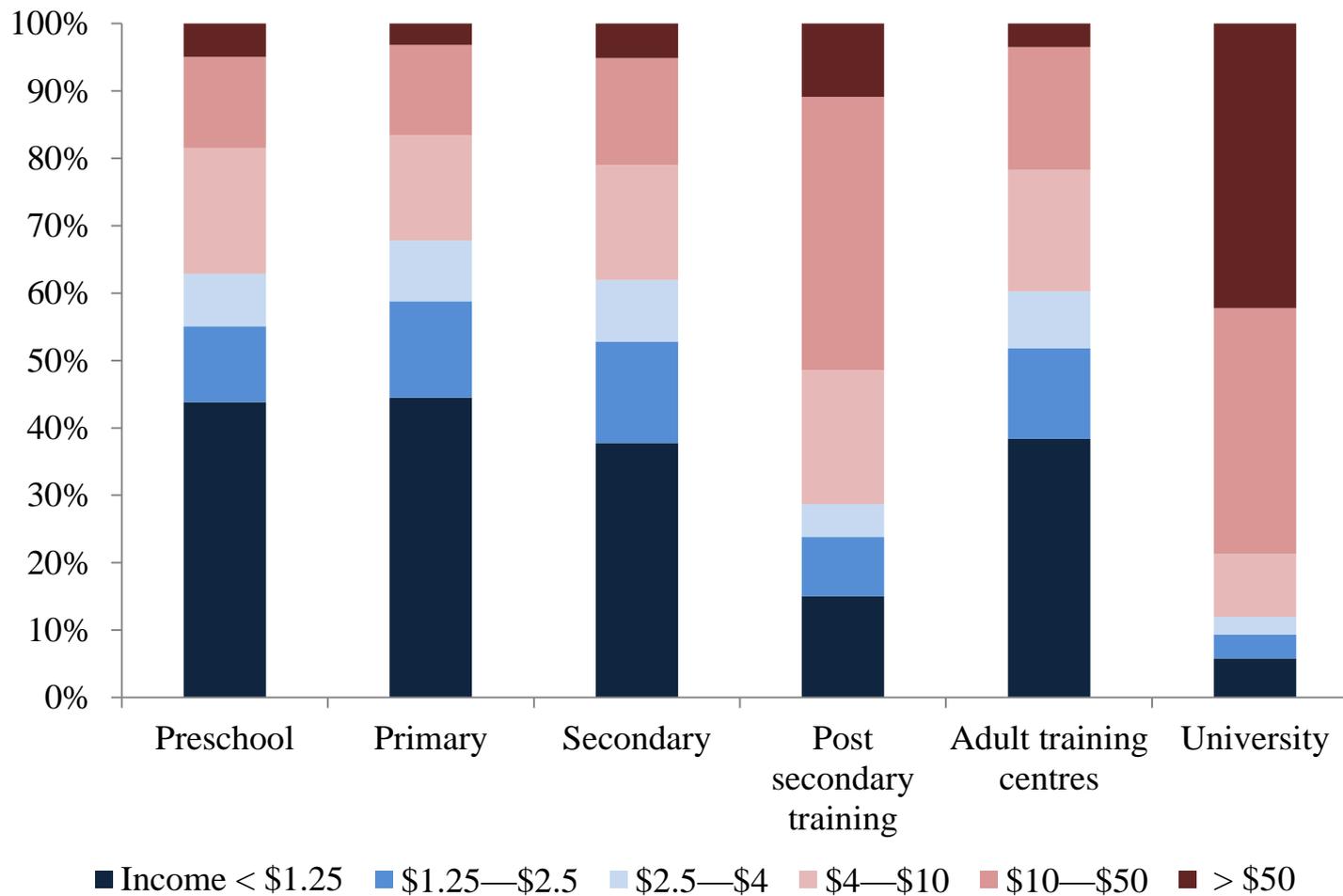
Health and education spending are progressive in absolute terms..



Source: Own estimates using IES, 2010/11 and NIDS 2008w1.

However, the results vary according to the level of education

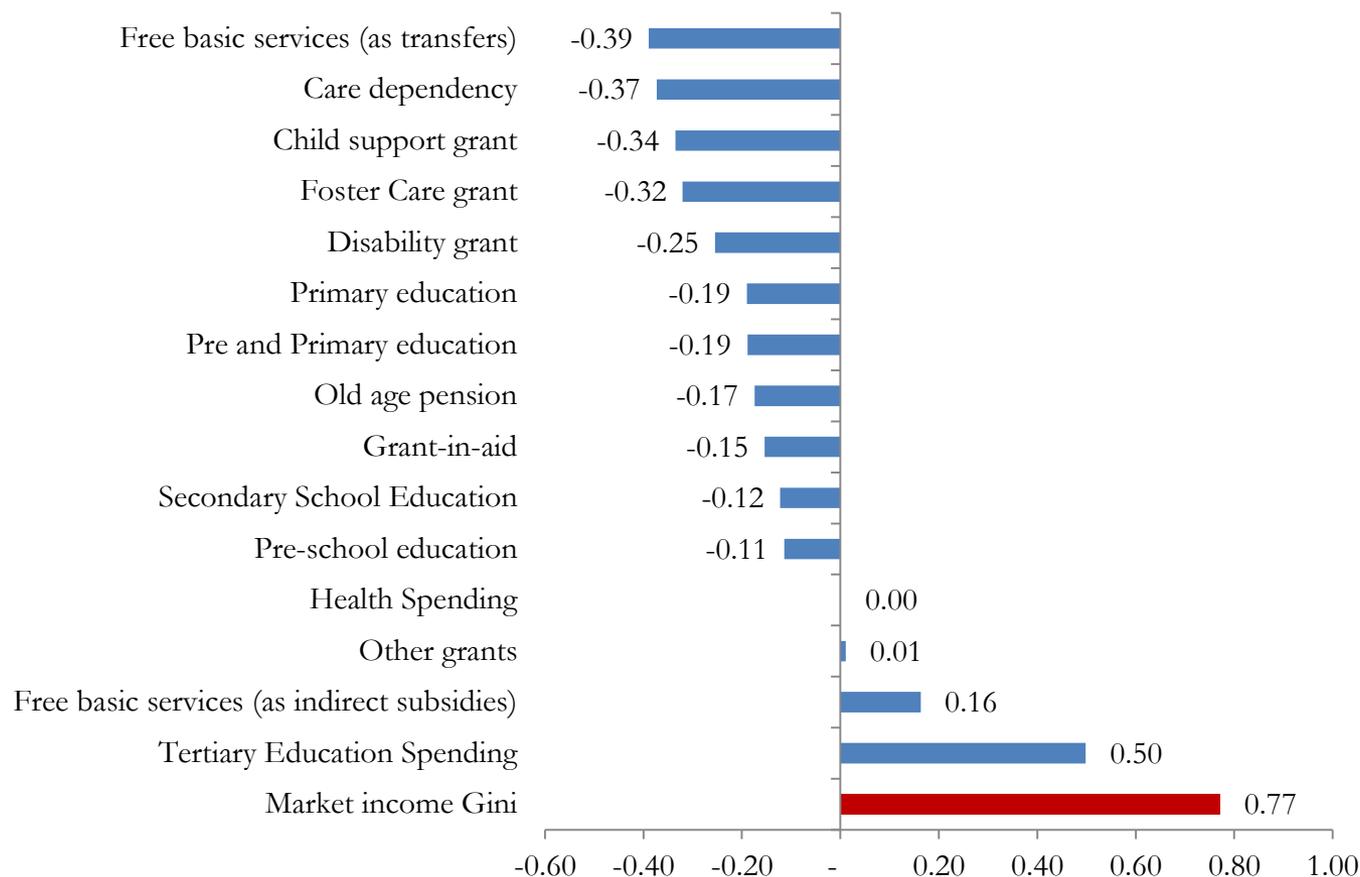
South Africa. Percent of Target Population



Source: Own estimates using IES, 2010/11.

Social spending as a whole is strongly progressive

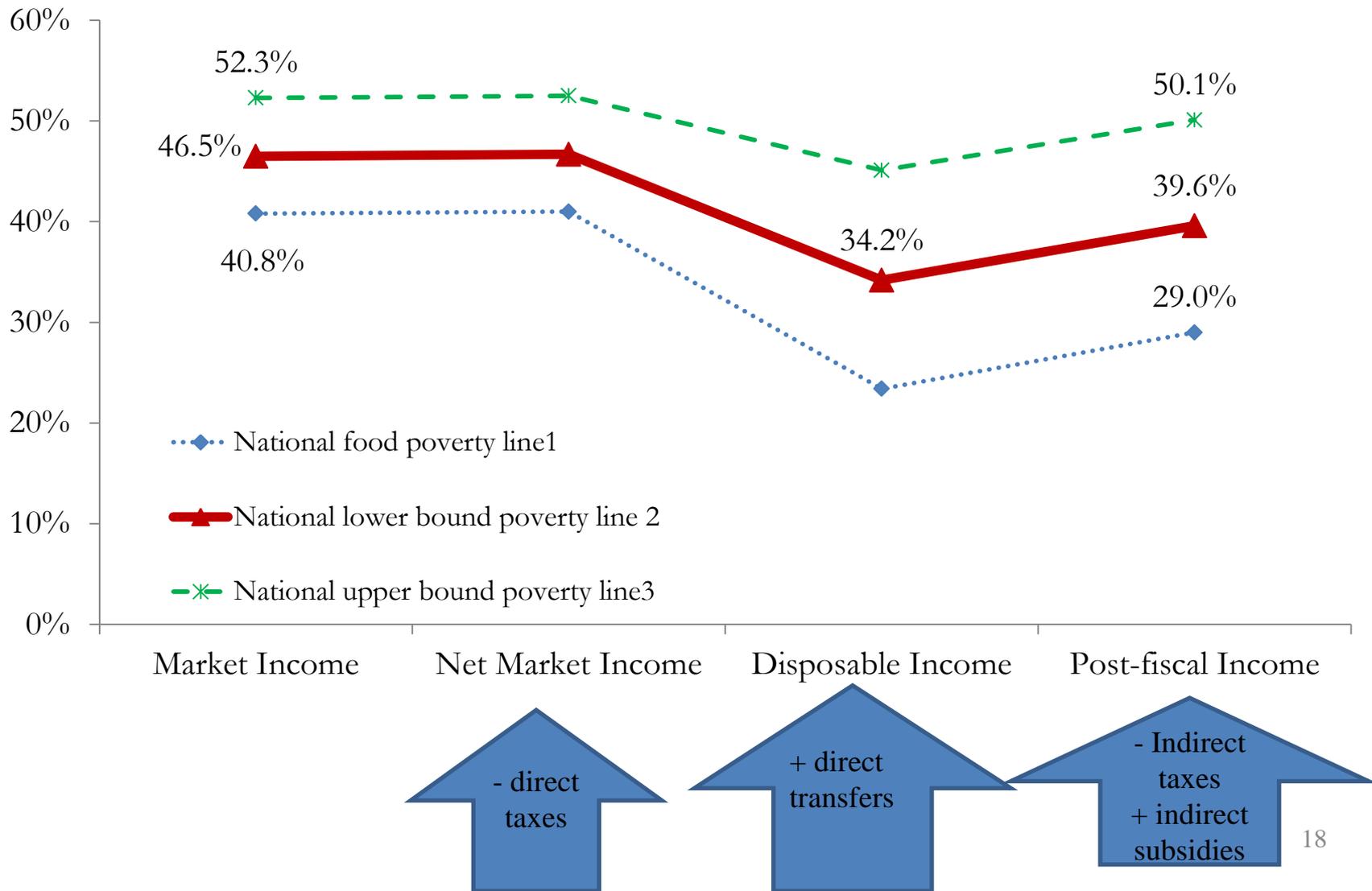
South Africa. Concentration coefficients for Spending



Source: Own estimates using IES, 2010/11.

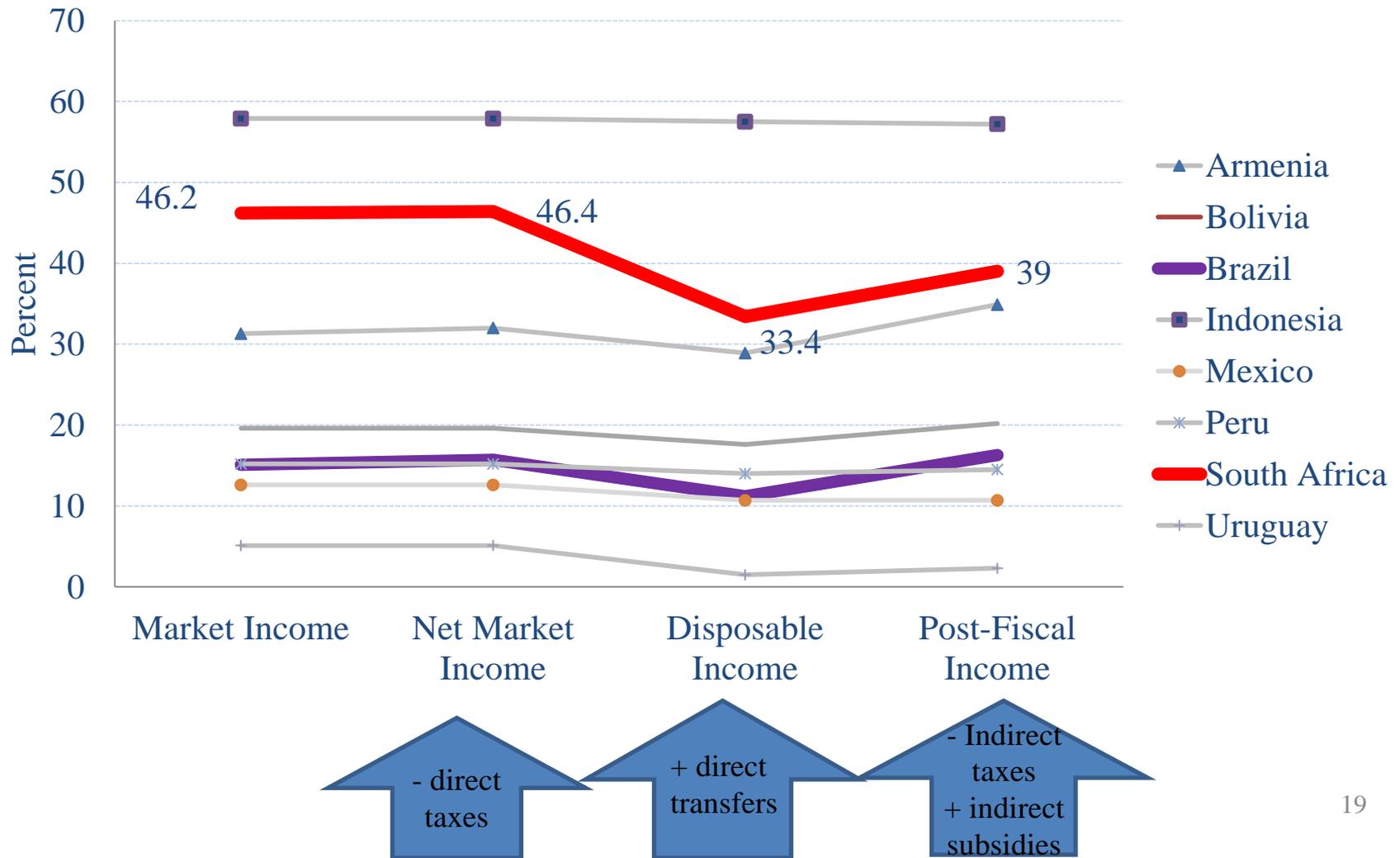
What is the net impact of taxes and government transfers on poverty and inequality?

Poverty declines substantially due to fiscal policy

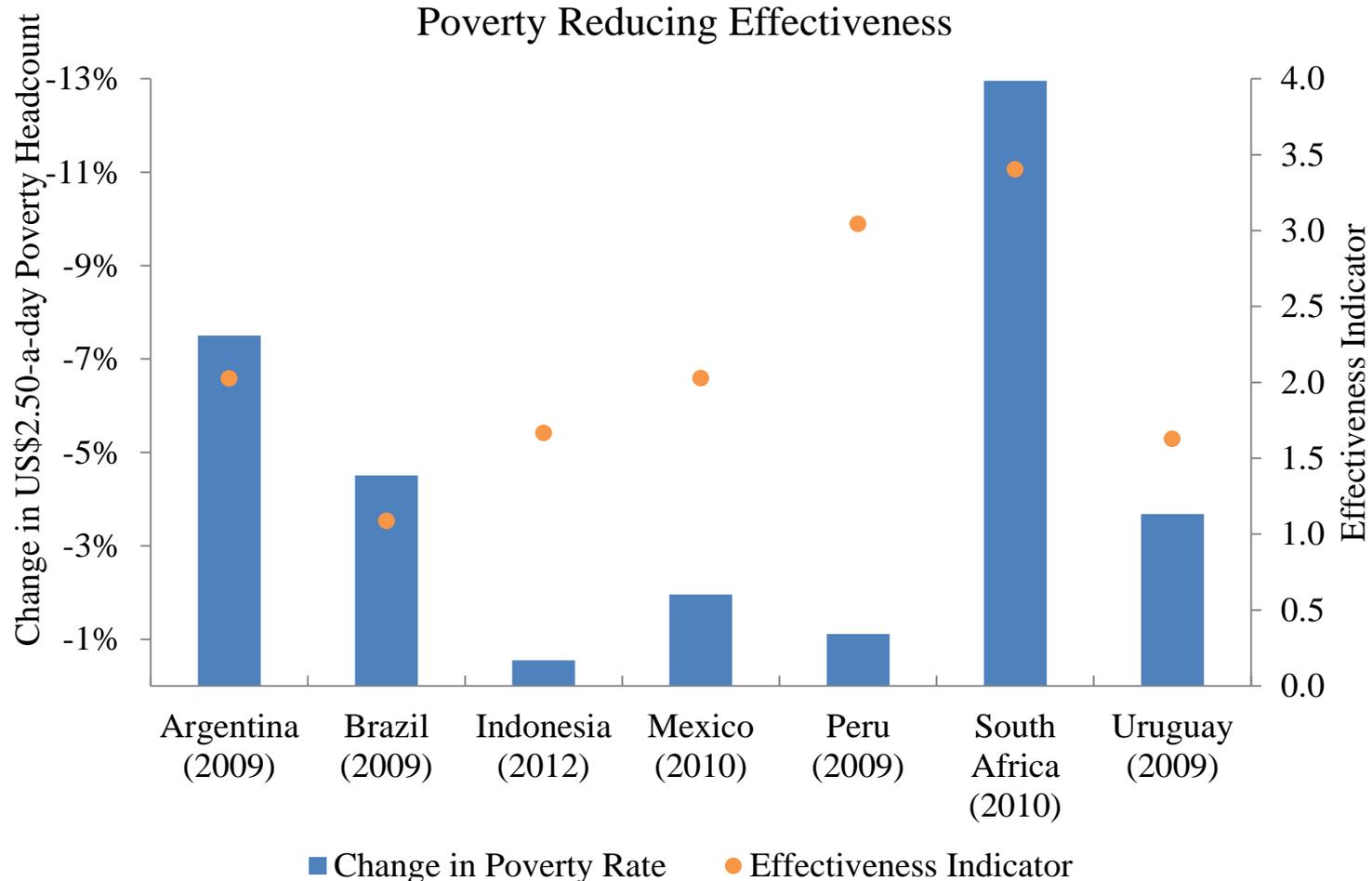


With the effect on poverty larger than other middle income countries.

Poverty Headcount at \$2.50 per day (PPP)



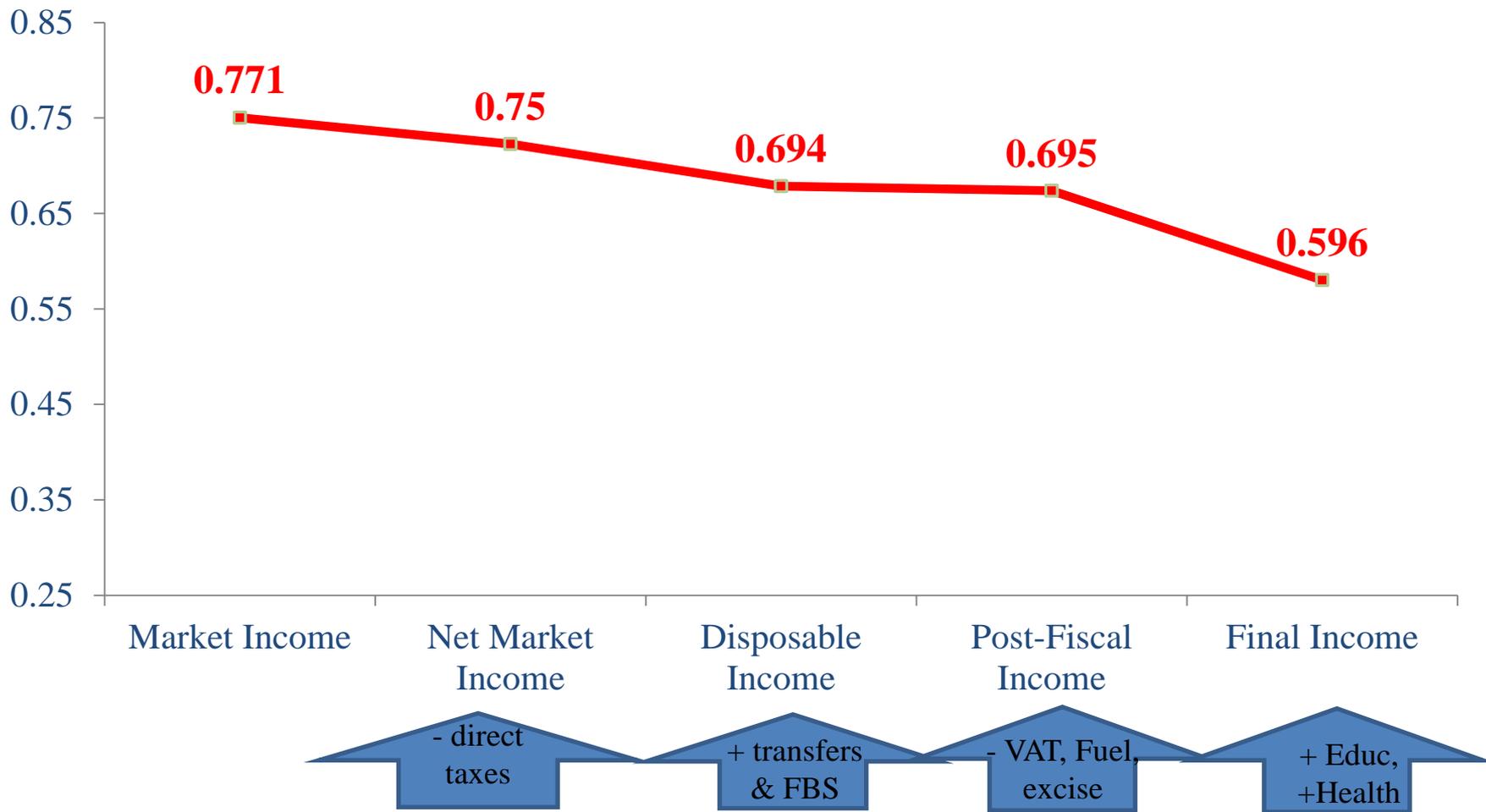
Direct cash transfers are highly effective at redistributing fiscal resources towards the poor.



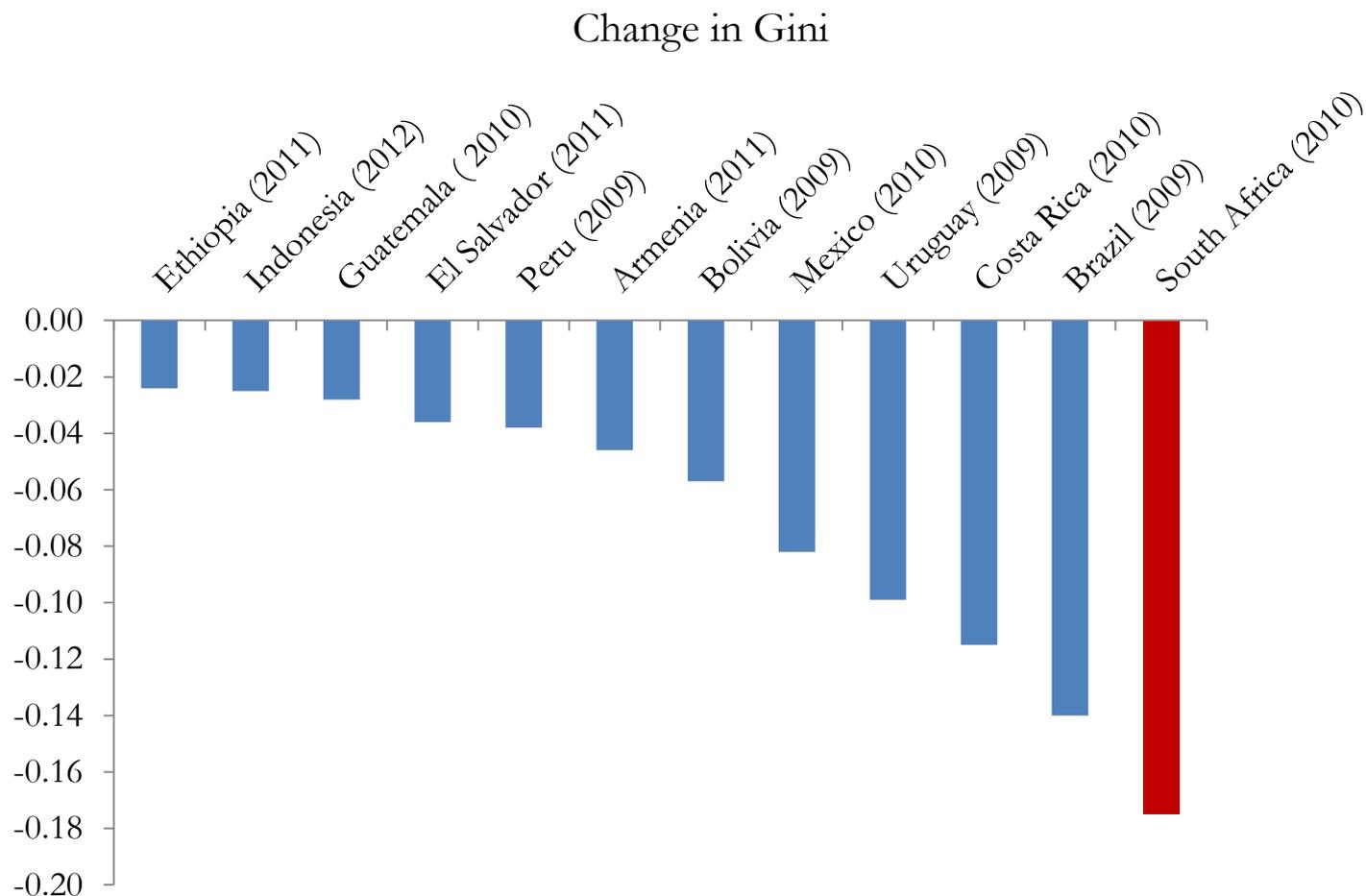
Source: Argentina (Lustig and Pessino, 2014); Brazil (Higgins and Pereira, 2014); Indonesia (Jellema et al), Mexico (Scott, 2014); Peru (Jaramillo, 2014), Uruguay (Bucheli et al, 2014); and Inchauste, Lustig, Maboshe, Purfield and Woolard (2014) for South Africa based on IES 2010/11.

Inequality falls substantially with Government interventions,...

The Gini Coefficient before and after Taxes, Transfers and Free Services, Education and Health Falls by over one-fifth



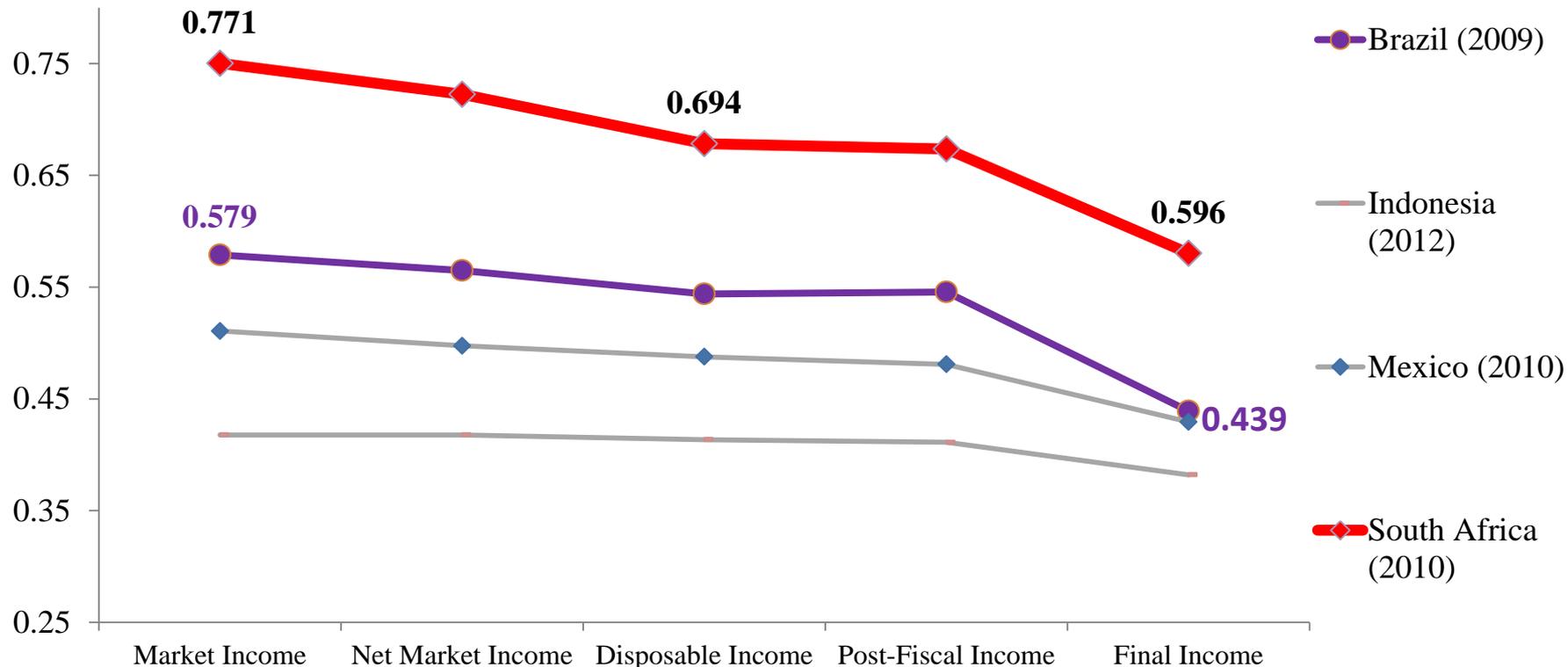
...more so than in other middle-income countries...



Source: Armenia (Younger et al, 2014); Bolivia (Paz et al, 2014); Brazil (Higgins and Pereira, 2014); Ethiopia (Woldehanna et al, 2014); Indonesia (Jellema et al 2014); Mexico (Scott, 2014); Peru (Jaramillo, 2014); Uruguay (Bucheli et al, 2014); Lustig(2014) based on Costa Rica (Sauma et al, 2014), El Salvador (Beneke de Sanfeliu et al, 2014), and Guatemala (Cabrera et al, 2014); and own estimates for South Africa based on IES 2010/11.

...but inequality is still higher *after* fiscal policy than inequality *prior* to fiscal policy in other countries

Gini Coefficient for Each Income Concept



Conclusions

- Taxes are slightly progressive and social spending is highly progressive.
- South Africa performs very well when compared with other middle income countries.
- Further poverty and inequality reductions require more inclusive economic growth.

THANK YOU

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