The tax system and redistribution
Need to consider the system holistically

• In achieving the overall objectives of the tax system, it is important to consider all taxes (and transfer payments) together as a system; and at the same time being clear about the role of each tax within the system.
CEQ Methodology

- Comprehensive framework to analyze the effect of taxation and public spending on inequality and poverty

- Method: Fiscal Incidence analysis and qualitative diagnostic approach

- Application of a common methodology across countries makes cross-country comparisons more accurate

- Methodology is designed to be as comprehensive as possible without sacrificing detail in any particular component of the analysis
CEQ Assessment: Income Concepts

1. Market Income
2. Plus Direct Transfers Minus Direct Taxes
3. Disposable Income
4. Minus Net Indirect Taxes
5. Post-Fiscal or Consumable Income
6. Plus Monetized Value of Public Services: Education & Health
7. Final Income
Allocation Methods

Direct Identification in microdata

If direct identification not possible then:

- (micro) Simulation: with tax shifting and transfer take-up assumptions
- Imputation
- Inference
- Alternate Survey
- Secondary Sources
Tax Shifting and Tax Evasion

Assumptions

- Burden of direct personal income taxes is borne by the recipient of income
- Burden of payroll and social security taxes falls entirely on workers
- Consumption taxes are assumed to be shifted forward to consumers

Taxes considered in the SA CEQ study

- Personal income tax
- Payroll taxes
- VAT
- Excise duties on alcohol and tobacco
- Fuel levy
Direct taxes are absolutely progressive.
...but less so than in other countries...

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.
Overall, the tax system is globally progressive
Direct cash transfers are absolutely progressive…

Direct Cash Transfers by Category
Concentration Curves for Transfers and Lorenz Curve for Market Income

Cumulative proportion of the population by market income deciles

Sources: Own estimates for South Africa based on IES 2010/11.
What is the net impact of taxes and government transfers on inequality and poverty?
Gini falls substantially with Government interventions…

- Market Income
- Net Market Income
- Disposable Income
- Post-Fiscal Income
- Final Income

- direct taxes
- + transfers & FBS
- VAT, Fuel, excise
- + Educ, +Health
...more so than in other middle-income countries...

Change in Gini: Disposable vs Market Income
(in Gini points)

Source: Armenia (Younger et al, 2014); Bolivia (Paz et al, 2014); Brazil (Higgins and Pereira, 2014); Ethiopia (Woldehanna et al, 2014); Indonesia (Jellem 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

- direct taxes
- VAT, Fuel, Excise
+ transfers & FBS
+ Educ, Health
Poverty also declines substantially…

Market Income | Net Market Income | Disposable Income | Post-fiscal Income
--- | --- | --- | ---
52.5% | 52.5% | 45.1% | 50.1%
46.7% | 46.7% | 34.2% | 39.6%
41.0% | 32.2% | 23.4% | 29.0%
40.8% | | |}

- National food poverty line 1
- National lower bound poverty line 2
- Official consumption based (lower bound)
- National upper bound poverty line 3

- direct taxes
+ direct transfers
- Indirect taxes + indirect subsidies
With the effect on poverty larger than other middle income countries.
Concluding remarks

• Progressivity in the overall tax system is an important consideration and we recognise the need to enhance this.

• If increased revenue becomes important, trade-offs associated with the choice of tax mix should be carefully considered in terms of their impact on inclusive growth.

• The tax system cannot be used to offset pathologies in other parts of the system (e.g. in respect of property rights or labour market challenges).