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# Exploring options for delivering and financing a universal child benefit in South Africa

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# Outline

- The South African Child Support Grant and why there is interest in a universal child benefit
- Options for delivering a universal child benefit
- Simulating the current Child Support Grant using SAMOD
- Cost of a universal child benefit
- Options for financing a universal child benefit
- Recommendations



# The Child Support Grant

- The CSG is social assistance which is paid to primary caregivers aged 16 or above, and is subject to a means test of the caregiver, including their spouse if they have one (RSA, 2016c).
- It is paid for dependent children under 18 who are not in receipt of the Foster Child Grant or Care Dependency Grant,
- In 2016 it was payable at R350 per child per month. There is no limit on the number of biological children that a caregiver can claim for but a maximum of six non-biological children can be claimed for (SASSA, 2015).
- There is a so-called 'soft conditionality' requiring school attendance.
- Means test is set at 10 times the value of the grant (3500 Rand per month in 2016)



# Why there is interest in a universal child benefit

- 80% of all children are eligible for the current CSG
- About a fifth of eligible children do not receive the CSG
- The means-test has been shown to impede take-up of CSG: onerous process to demonstrate income status; financial and time demands for applicant; cultural barriers to early application; application process can be stressful and erosive of dignity; the means-tested element promotes stigma and a pejorative attitudes towards recipients.
- Goal: move from CSG as emblematic of poverty to child benefit as a social right of citizenship and expression of social solidarity



# A Universal Child Benefit: additional issues for consideration

- Compatibility with the South African Constitution
- Compatibility with institutional mandates
- **Definition of 'universal'**
- Conditions but not conditionality
- Age criteria of the child
- Cap for the number of non-biological children
- Citizenship status of the child
- **Intersection with other child grants**
- Amount of the universal child benefit
- Applicant for the universal child benefit
- Route onto (and off if applicable) the universal child benefit system



# Definition of 'universal'

- Important to define what is meant by 'universal' in this study, as internationally the term is used and interpreted in various ways
- It 'carries some idea of wholeness, unity, totality and sameness' (Anttonen et al., 2012:3).
- For the purposes of this study 'universal' is understood to mean that the universal child benefit is payable for each child in South Africa irrespective of the income status of the child, their caregivers, present or absent parents or any other person.



# Intersection with other child grants

- How will the universal child benefit intersect with FCG and CDG? At present a child cannot receive the CSG if in receipt of the CDG, and cannot receive the FCG and the CSG concurrently, but can receive the FCG and the CDG concurrently.
- As the universal child benefit would be universal then by definition it must be possible to claim both the child benefit and the FCG, or child benefit and the CDG concurrently
- But FCG and CDG might be a top-up to CB



# Delivery options

- Prioritise simplicity, accessibility (especially for poor people) and speed
- Deliver the universal child benefit through Department of Social Development (rather than SARS)
  - There is intuitive, institutional and legislative appeal in retaining the delivery of a universal child benefit within DSD
  - National DSD has a mandate to address poverty through the social security system
  - Simply remove the means-test from the existing non-contributory CSG. The universal child benefit would be payable to primary caregivers of children aged under 18.
  - The mode of delivery is already in place, and an extensive network exists across South Africa to deliver the grants through SASSA.





# Financing Options using PIT

- Increase tax rates and/or restructure the tax bands
- Decrease the minimum tax threshold
- Reduce tax rebates
- Fiscal drag
- An hypothecated tax (designated for a particular purpose)
- Also consider whether to define the UCB as taxable income (claw-back)



# PIT and redistribution

‘The shape of the rate schedule is the most political part of the tax system – the forum in which different views about the trade-off between achieving higher average living standards and achieving a more equal distribution of living standards plays out. Indeed, we see **direct taxes and benefits as the key part of the system for achieving the redistribution society desires.**’ (Mirrlees et al., 2011: 120).



# South Africa's Personal Income Tax System 2016/17

Taxable income (R)	2016/17 Rates of tax
R0 - R188 000	18% of each R1
R188 001 - R293 600	R33 840 + 26% of the amount above R188 000
R293 601 - R406 400	R61 296 + 31% of the amount above R293 600
R406 401 - R550 100	R96 264 + 36% of the amount above R406 400
R550 101 - R701 300	R147 996 + 39% of the amount above R550 100
R701 301 and above	R206 964 + 41% of the amount above R701 300

## Rebates

Primary	R13 500
Secondary	R7 407
Tertiary	R2 466

## Tax threshold

Below age 65	R75 000	$75\,000 \times 18\% = 13\,500$
Age 65 and over	R116 150	$116\,150 \times 18\% = 20\,907 = 13\,500 + 7\,407$
Age 75 and over	R129 850	$129\,850 \times 18\% = 23\,373 = 13\,500 + 7\,407 + 2\,466$



# What is SAMOD?

- SAMOD is a static tax-benefit microsimulation model, uses the EUROMOD software
- EUROMOD has been developed over a twenty year period by Prof Sutherland and colleagues at the University of Essex and is currently used in over 25 countries in Europe
- SAMOD has been developed over a ten year period, and was most recently updated as part of the SOUTHMOD programme (Wright et al., 2016)
- Version used for this study (v5.1a) is underpinned by National Income Dynamics Study (NIDS) Wave 4 data

Southern Africa Labour and Development Research Unit (SALDRU) (2016) National Income Dynamics Study 2014 - 2015, Wave 4 [dataset].Version 1.0. Cape Town: Southern Africa Labour and Development Research Unit [producer], 2016. Cape Town: DataFirst [distributor], 2016. Pretoria: Department of Planning Monitoring and Evaluation [commissioner], 2014.



# SAMOD policies

- The policies that are currently simulated in SAMOD are:

## **Social grants and social insurance**

- Child Support Grant
- Foster Child Grant
- Care Dependency Grant
- Disability Grant
- Old Age Grant
- (Grant-in-Aid)
- UIF contributions and benefits

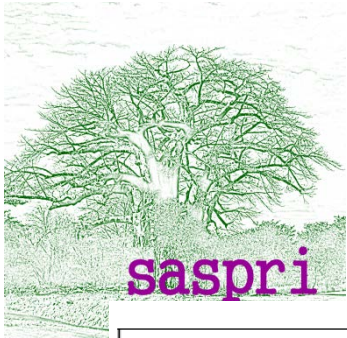
## **Direct and indirect taxes**

- Income tax
- (VAT)
- (Excise)
- (Fuel levies)



# Simulating the current CSG

- Using SAMOD Version 5.1a, with 2016 tax-benefit policies, it is estimated that delivery of the **current** child grants (CSG, FCG and CDG) in a situation of full-take up (i.e. no exclusion errors or inclusion errors) would cost R72.1 Billion
- This is R12 Billion more than the amount allocated in DSD's MTEF for 2016/17 (R60.1 Billion).
- This distinction is important, as whilst the CSG is paid to nearly 64% of all children in South Africa under 18, with conditions of full take-up the current CSG would be received by 78% of children, which is almost four children out of five.



# Costs of implementing the UCB

<b>Grant</b>	<b>DSD MTEF Allocation 2016/17 (R Bn) (A)</b>	<b>SAMOD Cost for 2016 under existing system (R Bn) (B)</b>	<b>SAMOD Cost for 2016 under new system (R Bn) (C)</b>
CSG/Universal child benefit	51.951	63.469	81.359
CDG	2.677	2.776	2.148
FCG	5.522	5.867	3.560
<b>Total</b>	<b>60.149</b>	<b>72.112</b>	<b>87.067</b>

- Cost of UCB assuming **full take-up of all existing child grants, (i.e. C-B)**. All children are assigned UCB. No change to the numbers of children receiving FCG and CDG (but amount reduced by UCB). Additional revenue needed: **R15 Bn (or R13.3 if UCB taxable)**
- Cost of UCB assuming **status quo i.e. non-full take-up of all existing child grants (i.e. C-A)**. Additional revenue needed: **R27 Bn (or R25.3 if UCB taxable)**



# Funding Options: Least Progressive

**Less progressive** (tax increases across all/most bands in fairly even-handed way):

- *Scenario 1a*: increase tax rates by 2 percentage points for all bands except band 1
- *Scenario 1b*: increase tax rates by 2 percentage points for all bands except band 1 AND include the new child benefit as taxable income (Delivery Option D1b)
- *Scenario 1c*: increase tax rates by 1 percentage point for all bands
- *Scenario 1d*: increase tax rates by 1 percentage point for all bands AND include the new child benefit as taxable income
- *Scenario 1e*: increase tax rates by 1 percentage point for all bands except band 1
- *Scenario 1f*: increase tax rates by 1 percentage point for all bands except band 1 AND include the new child benefit as taxable income





# Funding Options: Middle Way

- *Scenario 2a*: increase the tax rate for bands 3 and 4 by 2 percentage points and for bands 5 and 6 by 4 percentage points
- *Scenario 2b*: increase the tax rate for bands 3 and 4 by 2 percentage points and for bands 5 and 6 by 4 percentage points AND include the new child benefit as taxable income



# Funding Options: More Progressive

- **More Progressive** (taxing those with highest incomes):
- *Scenario 3a*: add an additional tax band of 45% for the highest earners (over R1 million)
- *Scenario 3b*: add an additional tax band of 45% for the highest earners (over R1 million) AND include the new child benefit as taxable income
- *Scenario 3c*: add an additional tax band of 45% for the highest earners (over R1 million) and increase the tax rate for band 3 by 1 percentage point, band 4 by 2 percentage points, band 5 by 3 percentage points, and band 6 also by 3 percentage points
- *Scenario 3d*: add an additional tax band of 45% for the highest earners (over R1 million) and increase the tax rate for band 3 by 1 percentage point, band 4 by 2 percentage points, band 5 by 3 percentage points, and band 6 also by 3 percentage points AND include the new child benefit as taxable income



# Additional revenue generated by different funding scenarios

Scenario	Additional revenue generated (R Bn)
1a	13.018
1b	14.814
1c	14.857
1d	16.743
1e	6.509
1f	8.274
2a	15.914
2b	17.684
3a	8.550
3b	10.288
3c	13.958
3d	15.719

- Scenarios shaded grey generate sufficient (or almost sufficient) revenue to finance the UCB assuming starting point of full take up.
- None of the scenarios will finance the UCB starting with partial take up of existing benefits: resort to fiscal drag?



# A cautionary tale about tinkering with Band 1

- Scenario 1c (generates R14.9Bn) and Scenario 1e (generates R6.5Bn) are identical except that all tax bands are adjusted in 1c whereas the lowest tax band is left untouched in Scenario 1e
- It illustrates the fact that 57% of taxpayers fall only within tax band 1
- Any adjustment to the first tax band will disproportionately affect relatively low income tax payers and so such options are inherently 'less progressive'.



# Implementing fiscal drag for 2017

- An updated version of the current 2016 system was created for 2017 in SAMOD using a hypothetical CPI inflator of 5%: all salaries and other income were inflated by 5%, all tax thresholds and rebates were inflated by 5%, and all grant amounts and means tests were inflated by 5%.
- The UCB was introduced to the 2017 system, in the same way as for 2016 but at a higher level of payment: R367.50 per month as it was also inflated by 5%.
- The amount required to implement UCB in 2017 was therefore more than in 2016 rising to **R19 Bn in 2017** rather than R15 Bn in 2016 assuming full take-up, and **R31.7 Bn in 2017** rather than R27 Bn in 2016 assuming partial take-up



## Simulated options for financing the universal child benefit in 2017 using fiscal drag

*Scenario FD2017:* One year of fiscal drag with salaries and other income inflated at 5%, but tax thresholds and personal rebates held constant at 2016 levels.

*Scenario FD2017T:* One year of fiscal drag with salaries and other income inflated at 5%, but tax thresholds and personal rebates held constant at 2016 levels AND including the new child benefit as taxable income.

*Scenario FD2017Tp:* One year of fiscal drag with salaries and other income inflated at 5%, but tax thresholds and personal rebates held constant at 2016 levels AND including the new child benefit as taxable income. Increasing the tax rate by 2 percentage point for Band 6, and introducing a new band 7 with a R1 million threshold and a tax rate of 45%.

*Scenario FD2017Tpa:* One year of fiscal drag with salaries and other income inflated at 5%, tax thresholds and personal rebates increased by 1%, AND including the new child benefit as taxable income. Increasing the tax rate by 2 percentage point for Band 6, and introducing a new band 7 with a R1 million threshold and a tax rate of 45%.

*Scenario FD2017Tpb:* One year of fiscal drag with salaries and other income inflated at 5%, tax thresholds increased by 2%, personal rebates increased by 1%, AND including the new child benefit as taxable income. Increasing the tax rate by 2 percentage point for Band 6, and introducing a new band 7 with a R1 million threshold and a tax rate of 45%.

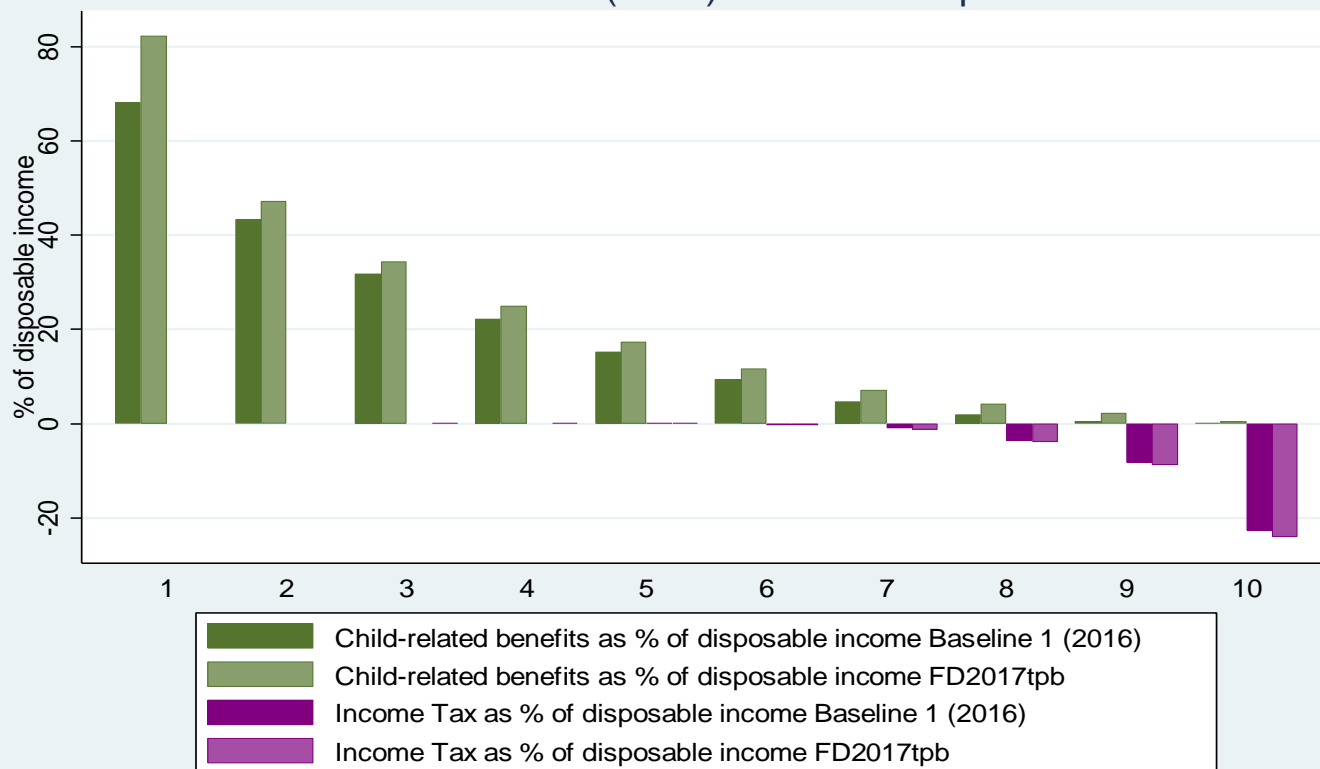


# Additional Revenue Generated

Scenario	Additional revenue generated (R Bn)
FD2017	24.14
FD2017T	26.05
FD2017Tp	37.02
FD2017Tpa	34.85
FD2017Tpb	34.01

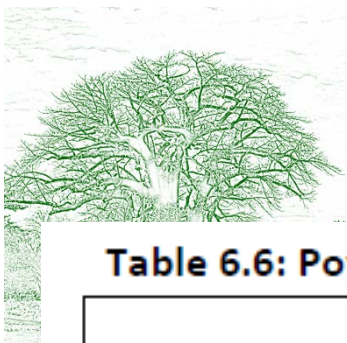
- Scenario FD2017Tp – does generate more than enough revenue. Indeed, some fiscal drag relief can also be accommodated, e.g. FD2017Tpa and FD2017Tpb (see above) and still meet the required amount.

## Child-related benefits and personal income tax as % of disposable income Baseline 1 (2016) and FD2017tpb



Distributional impact of components of the tax-benefit system: the UCB and other current child-related benefits and personal income tax, for Baseline 1 in 2016 (non-full take-up of existing child-related benefits) and a UCB in 2017 with full take up of other child-related benefits and fiscal drag option FD2017tpb



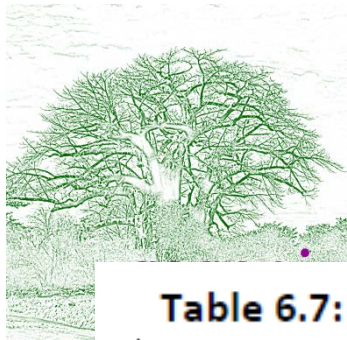


**Table 6.6: Poverty and inequality results**

	SALDRU lower bound			SALDRU upper bound			Gini
	FGT1	FGT2	FGT3	FGT1	FGT2	FGT3	
Baseline 1 (2016 partial take-up)	0.342	0.154	0.095	0.586	0.314	0.207	0.674
Baseline 2 (2016 full take-up)	0.332	0.139	0.080	0.580	0.303	0.194	0.667
Baseline 3 (2016 universal child benefit full take-up)	0.332	0.139	0.079	0.577	0.301	0.193	0.666
FD2017T	0.332	0.139	0.079	0.577	0.301	0.193	0.665
FD2017Tp	0.332	0.139	0.079	0.577	0.301	0.193	0.664
FD2017Tpa	0.332	0.139	0.079	0.577	0.301	0.193	0.664
FD2017Tpb	0.332	0.139	0.079	0.577	0.301	0.193	0.664

Notes:

FGT1 – headcount ratio/poverty rate; FGT2 – poverty gap/depth of poverty; FGT3 – squared poverty gap/severity of poverty



**Table 6.7: Child poverty results**

	SALDRU lower bound			SALDRU upper bound		
	FGT1	FGT2	FGT3	FGT1	FGT2	FGT3
Baseline 1 (2016 partial take-up)	0.452	0.197	0.114	0.719	0.399	0.264
Baseline 2 (2016 full take-up)	0.437	0.172	0.089	0.711	0.381	0.242
Baseline 3 (2016 universal child benefit full take-up)	0.437	0.171	0.087	0.706	0.379	0.240
FD2017	0.432	0.168	0.086	0.698	0.373	0.236
FD2017T	0.437	0.171	0.087	0.707	0.379	0.240

Notes:

FGT1 – headcount ratio/poverty rate; FGT2 – poverty gap/depth of poverty; FGT3 – squared poverty gap/severity of poverty



# Recommendations

- If PIT is used as the financing mechanism then the policy change must be clearly articulated and justified using the principle of fairness.
- Retain SASSA as delivery organisation.
- Ensure registration at birth.
- A number of options would finance a universal child benefit. The selection would depend whether the UCB is rolled out to all ages at once, or starts incrementally e.g. new registrations, or by age e.g. Under-2s, Under-5s.



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# Thank you

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