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Tax-benefit reforms and the benefits of microsimulation

The worry about taxes.

- Generally we ‘worry’ about taxes for different reasons
- Revenue –
 - How much will the tax policy bring in (out)
- Distributional effects
 - Who pays the most?
- Consumption/Welfare effects
 - Does it reduce disposable income



Social Protection (benefits) Beckons...

- The need for social protection is for
 - Building resilience by managing
 - Poverty
 - Vulnerability
 - **Help HH graduate from poverty**
- Examples include, LEAP, Capitation grants (free SHS), School feeding, National Health insurance, etc



Why social protection?

	School Feeding	Cash Transfers
Protection	Nutrition support to malnourished children	Increase income and food security
Prevention	Children remain in school during crises; more food at home for other children	Prevent hunger, malnutrition and other negative coping strategies (sale of assets)
Promotion	Enrolment surges, improved attendance, less dropouts	Increase school attendance, less drop out, improve health service uptake
Transformation	Education can help reverse intergenerational poverty	Encourages social inclusion of minority groups, girls, etc



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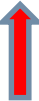



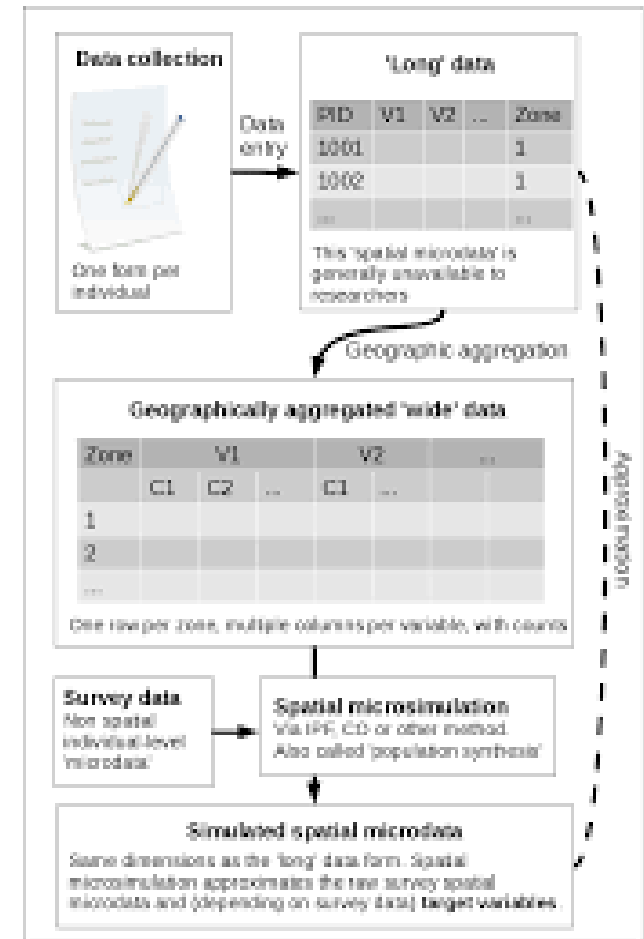
The marriage proposal... Tax-benefit reforms

- So social protection is good
- However, it is an expenditure that has to be paid for by 'someone'.
- That someone is the Minister for Finance
- His worry is 'the how'
 - Given the limited purse how can he raise resources to finance
 - Does it matter in which way the money is raised?



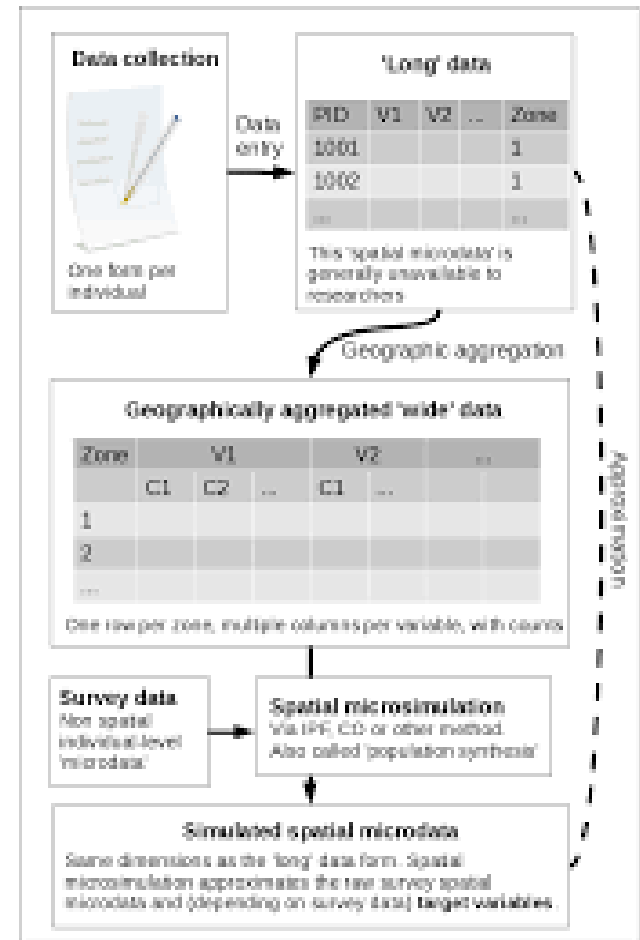
The marriage counselor... Microsimulation 1

-  Taxes impact on households
-  Benefits impact households
- Microsimulation essentially enables us to analyse the impact of the policy changes on both the level and distribution of key variables
- So we can analyse the individual policies above



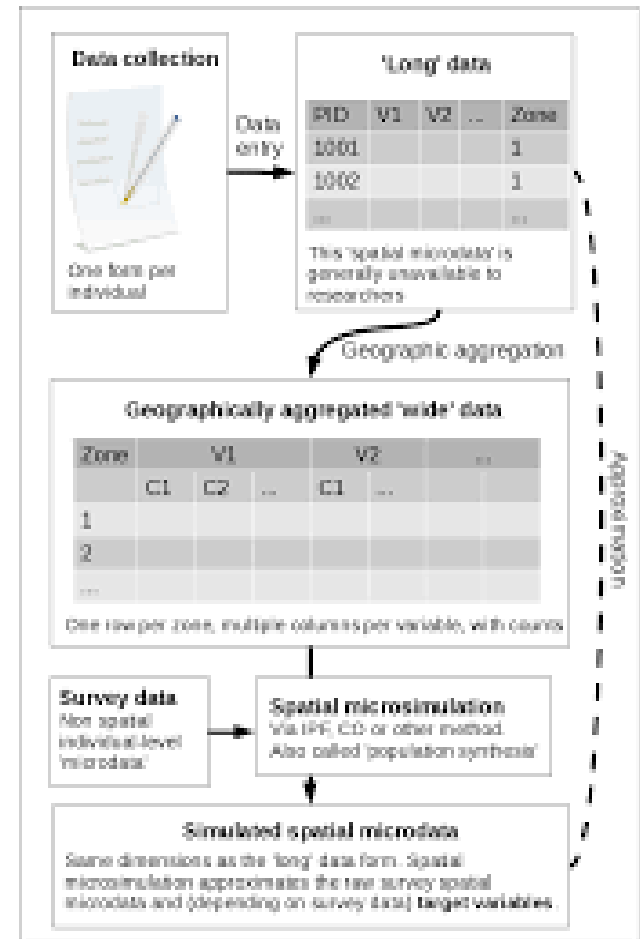
The marriage counselor... Microsimulation 2

- We are able to say what happens to **poverty** and **inequality** with the *Free SHS*
 - What will be the cost of the free SHS if each child gets GHS X - expenditure to the state
- If we were to increase VAT by 1 percentage point,
 - what will be the revenue
 - What will be the **poverty** and **inequality** impact



The marriage counselor... Microsimulation 3

- We are able to say what happens to **poverty** and **inequality** with the **Free SHS** and **income tax**
 - *Free SHS increase disposable income of HH but income tax can reduce it*
 - The distribution of course will depend on who's income tax goes up.
 - Microsimulation is able to give a guide on what the fiscal and distributional effects are



Conclusion

- The microsimulation models presents a good handle to examine tax-benefit reforms
- It provides a holistic way of looking at fiscal and welfare impacts of benefits and taxes
- However it does have drawbacks and so it must be recognized as such

