

Business Tech

‘Large and unpopular’ tax hikes the only way to fund South

Africa’s basic income grant

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The National Treasury is working with the presidency and the Department of Social Development to tackle the poverty gap, and this will include finding an alternative for the R350 SRD grant, says finance minister Enoch Godongwana.

Answering oral questions in the National Assembly on Wednesday (8 September), Godongwana said all options also need to be considered concerning their availability and their financial and revenue implications before a final decision can be made.

He said that in terms of achieving sustainable relief for vulnerable households, the baseline budget for a social assistance grant is R205 billion from 2022 to 2023.

While the government has formally committed to investigating the introduction of a basic income grant, the debate is likely to come back to affordability, scope, and already questionable long-term debt sustainability, said Jeff Schultz, senior economist at BNP Paribas South Africa.

“Paring back the current relief of distress grant of R350 a month to more than 10 million recipients when it is scheduled to end on 31 March 2022 will be challenging.

“Narrowing the scope of the current grant to only those seeking active employment, not making it eligible for existing grant recipients, could be one such compromise.”

Schultz said that this would still come at a non-negligible R25 billion per annum (0.5% GDP). However, Shultz said that this would fall well short of a broader basic income grant that would apply at a minimum of R585 a month at the cost of R75 billion – R150 billion – between 1.3% and 2.5% of GDP per annum.

“(This) is something which looks unaffordable without large and unpopular tax hikes.”

5% of GDP

The Financial and Fiscal Commission (FFC) has indicated that a ‘true’ basic income grant could cost the fiscus even more, depending on how the government plans to implement it.

The FFC is an independent constitutional advisory institution. Its role is to advise and make recommendations to parliament, provincial legislatures, organised local government, and other state organs on financial and fiscal matters.

