Alcohol, cigarette, and payroll taxes – here's what could fund the NHI – Business Tech 29 January 2020

South Africa is expected to spend significantly more on healthcare in the coming decade as the country prepares for the introduction of the National Health Insurance (NHI).

Writing in the latest South African Health Review journal, analysts – including Treasury, World Bank, and legal officials – state that this fund-raising will include a combination of increased government spend and taxes.

They add that this could include the possible earmarking of existing 'sin taxes', with cigarettes and alcohol some of the primary contributors to the chronic diseases impacting South Africans.

"Given that chronic diseases have become the largest national burden of disease, consideration may also be given to increasing excise taxes on unhealthy goods ('sin-taxes'), such as alcohol, tobacco and the recently introduced sugary beverage tax.

"Although a hard earmarking of this revenue is unlikely to be implemented, some international experience shows that public support for such taxes is stronger when a portion of the revenue is allocated to health interventions," the analysts said.

The pros of sin-taxes include reduced consumption of harmful substances, whereas cons include that they often do not raise large enough sums of revenue.

Other long-term options

The analysts believe that other longer-term options might include ultimately raising the tax-to-GDP ratio above 26% of GDP on the main budget or introducing new mandatory social security contributions.

Although the tax-to-GDP ratio in South Africa is already slightly above the average for upper-middle-income countries, it falls below that of high-income countries, and South Africa has a relatively poorly developed mandatory contributory social security system.

"Gradual introduction of a payroll tax may (also) be palatable if it accompanies improved quality and benefits, while the private sector fails to contain costs and therefore loses members.

"Such a tax can be a part of total revenue and need not be ring-fenced for health."

The NHI White Paper projects that public health financing would increase from around 4% of gross domestic product (GDP) to 6.2% of GDP by 2025/26.

Although this will require additional funding, total health expenditure may not grow to the same extent as a result of beneficiaries voluntarily leaving medical schemes and instead using publicly funded services as the NHI matures.

As a result, the White Paper estimates a funding shortfall of R72 billion for NHI by 2025/26, based on an assumption of 3.5% annual economic growth.