Briefing Paper 347

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Taxes, the Budget and the Family

1. Introduction

Families are the fundamental building block of society. Social cohesion and stability are founded upon healthy, functional families. The nurturing and raising of children is performed by families, and just as importantly, the reproduction of culture and values is carried out within the family unit. This is a principle that has been reiterated in diverse places, including the African Charter on Human and People's Rights, and the South African government's White Paper on the Family[1].

Families in South Africa face serious stresses and problems, and the recent budget, while fiscally responsible, does little to address these. However, the government appears to be moving towards a coherent strategy to dealing with family issues. The White Paper was released in 2012 and is currently being fast- tracked for implementation.

The 2014 budget can be summed up as fiscal discipline, infrastructure spending, and small business support. It contains some grant increases, but as is explained in this paper, these will do little to improve the circumstances of the recipients. This paper also discusses the current tax regime in relation to families, and addresses some of the philosophical questions around justifying tax credits for raising children.

2. Grants–Standing Still or Moving Backwards?

The South African government does not provide social security to all impoverished persons, but it does provide grants to specific categories of individuals. These include a child support grant, an old age pension and a disability grant. In the latest budget these grants were all increased, but none of these increases were much above inflation. Old age and disability grants went up from R1270 to R1350 a month, an increase of about 6.2%. The foster care grant rose from R800 to R830, a 3.75% increase, and the child support grant will go up from R300 to R320 in 2014. This represents a 6.7% increase, albeit one that will be introduced in two stages, with a R10 increase in April, and a further R10 increase in October[2]. Given that the Consumer Price Index (CPI)[3] is running at around 6%, these increases cannot be seen as a major gain in real terms for the poor.

Indeed, there is evidence that strongly suggests that the CPI does not accurately reflect increased living costs for the poor. In 2013 the Pietermaritzburg Agency for Christian Social Awareness released its Food Price Barometer, which calculates food prices by taking samples from retail outlets patronised by lower income households, based on the type of food that they actually consume. According to the barometer, food prices for the poor increased by around 8% in the year ending October 2013. In particular, "the core staples of maize meal, rice, four, bread, sugar and oil are becoming more expensive and increasingly unaffordable"[4].

The disjuncture between CPI and the actual living costs of the poor derives from the fact that the CPI is based on measuring the prices of a very wide array of goods, not just those that are commonly used by the poor. By way of illustration, if the prices of iPads, imported olive oil, and yoga classes happen to go down, this will only really matter to middle and upper class households, whereas for poorer households, the price of maize meal, taxi fares and school fees is far more pertinent. However, all of these goods will be included in the CPI, since the CPI is meant to be a broad reflection of consumer price trends within the economy.

In effect, all of this means that the grant increases at best represent no real gain for poor households, and it is quite likely that they will have less purchasing power from grants in 2014 than they did in 2013.

The impact of this extends far beyond the direct grant recipients, since significant numbers of people are dependent on the grants of others. Quite often, an entire family will depend on one or more grants for the majority of their income. A grandmother's old age grant might pay for school fees, while a child support grant might allow a young mother to pay for transport in order to seek employment; and a disabled parent may be supporting a whole family from his or her disability grant. Thus, grants can have a significant ripple effect, where multiple people rely on a grant drawn by one person.

3. A Grant for Expectant Mothers

A new avenue has been opened in the discussion around grants, with Witwatersrand University Professor Alex van den Heever suggesting that a new grant should be provided for impoverished pregnant mothers. Professor van den Heever points out that these expectant mothers are often unable to access adequate prenatal care and nutrition due to a lack of finances. Even when medical care is free, mothers often cannot afford transport to the clinic, or they are not able to give up a day's wages. As a result, inadequate prenatal care results in greatly increased infant mortality and maternal deaths, because doctors are unable to identify potential complications before the mother gives birth.

A lack of prenatal medical care and nutrition for the mother can also result in stunting and poor development, which has a lifelong impact on the child's ability to learn and grow. Early interventions are both more effective and more efficient than later ones. In education, assisting children in Grade R and Grade 1 is better than waiting until Grade 11 and 12 to intervene.

This point was recently made by Stellenbosch University researcher Nic Spaull in a presentation on Grade R, and is strongly supported by the available academic literature[5]. Children who receive inadequate prenatal and early nutrition often begin their education with deficits, and these can carry through for the rest of their schooling. The earlier the interventions, the better the child's prospects later on. This is a process that begins during the womb, with adequate medical attention and nutrition for the expectant mother. Indeed, Professor van den Heever argues that inadequate early nutrition and stunting can cause "irreversible damage" – damage that "can't be made up by the educational system, and can't be made up by people having better nutrition later on in life"[6].

The government, in the form of the Department of Health and the Department of Social Development, is cognisant of these issues. Its approach to early childhood development is based on the concept of the 'first 1000 days', which seeks to highlight the importance of first period of a child's development by providing adequate support and nutrition during the time period between conception and the child's 2nd birthday. Indeed, this approach has also been adopted by global organizations, with international NGOs and UNESCO organising campaigns around this theme.

The importance of optimum health during pregnancy and early childhood is clear, but the question of a grant is far more exploratory, and would require a significant amount of policy development, political buy-in and lobbying to implement. In the current fiscal climate it is doubtful whether proposals for new grants are likely to find favour in the halls of power. Concerns have already been raised about the sustainability of current expenditure on social grants. These concerns have been broadly dismissed by the Human Sciences Research Council[7], which has found that while the tax base certainly needs to be increased – primarily through increased employment and economic growth – the current level of grant payments is in fact sustainable. Whether social grants can be sustainably expanded is a legitimate question, but it is also important to seek interventions that are efficient, and in this light there is a case to be made for exploring a pregnancy grant. If early childhood interventions are more efficient than later ones, then the earliest intervention of all – supporting expectant mothers – is definitely worth exploring.

Additionally, while fiscal sustainability is important, it must be balanced against issues such as social sustainability. Stunted and malnourished children are a tragedy in themselves, and a poor basis for a better future. In the context of South Africa's serious developmental deficit and poor educational outcomes it is important to explore measures that can help address these problems.

4. Taxes and the Family

The role of tax policy on family life and wellbeing is not a particularly dramatic or attention getting topic, but it is an important one. Tax codes can make a dramatic difference in how much money is brought home by a family, and rebates for children can significantly impact the financial position of people with children.

Philosophically, a question that needs to be addressed is whether the tax code should address child-raising at all. Is raising children something that should be subsidised by the State? From the perspective of taxation, how is choosing to have children any different from choosing to engage in any other expensive and time consuming activities? Is it fair to non-child raising people to charge them higher taxes than their child-raising peers?

The State can be said to have a legitimate interest in the fact that people choose to become parents. Children are essential to the reproduction of society in general, and the State in particular. In countries where birth rates are too low (such as Japan and South Korea), it is widely believed that this will result in significant long term economic and social problems. The 'demographic winters' in these countries are commonly blamed on a combination of high living costs (making it expensive to raise children), as well as the difficulty of balancing extremely demanding careers with child-raising.

Although such a trend can have positive environmental implications – by reducing pressure on land and natural resources – a rapidly aging population will have too few productive young people to support the elderly financially and to care for them. The Japanese response to this problem has been to aggressively invest in automation and robotics technology, but this is an uncertain project.

It must be understood that South Africa's demographic profile is very different to Japan's or South Korea's. Fears of a demographic winter are inappropriate in the South African context. For a society to maintain itself, a fertility rate of approximately 2.1 children per adult woman is needed – South Africa is currently at 2.42[8]. Thus, although South Africa has the lowest fertility rate on the continent, there is still little need to be concerned about a demographic winter at this stage.

Nevertheless, it is still legitimate to propose that the State has an interest in how well the children are raised. Education is subsidised in a direct fashion, but assisting parents in other ways could help to contribute to the stability and effectiveness of the family. Families are the building blocks of society, and child- rearing is a difficult and resource intensive activity. Consequently, it may be appropriate for the State to use taxation, among other measures, in order to assist parents in raising their children.

In terms of the specifics of taxation, South Africa historically had a provision for people with dependents to pay lower taxes, but this has been stripped from the modern tax code. In other words, South Africa does not treat parents any differently from their non-childbearing peers[9].

Internationally, a debate is raging in the United Kingdom following revelations that the annual budget includes a major rebate for parents to spend on child care. Critics have slammed this rebate as an 'au pair subsidy' that will primarily assist wealthier families to pay for childcare. Apart from this, the current British tax code does not give breaks to parents. A Christian social charity, CARE, has been advocating for tax breaks for families, arguing that the UK "tax system remains very individualistic and insensitive to family responsibility, compared to most OECD countries"[10].

This debate does not appear to have reached South African shores, with little being written about this topic in the local context. South African tax policy of late has tended to be limited to expanding the tax base, and providing moderate amounts of tax relief for middle income individuals. It also does not appear that South Africa is likely to move towards any tax-based subsidization of child raising. The most recent budget emphasised austerity, infrastructure and small business support. Tax relief for families is not on the agenda at present.

5. Conclusion

The most recent budget has little in it for families, whether in the form of grants for the poor, or tax relief for parents. This is not surprising, given Treasury's fiscally conservative agenda and the backdrop of the massive financial crisis. However, in the long run it is essential that South Africa invest in its families, and in their future. Government policies in support of early childhood development are well intentioned, and the White Paper is an important and valuable tool in this regard. However, supporting families in South Africa needs more than good policies. It also requires vigorous economic growth, in order to generate the wealth needed to fund such projects. Unfortunately, South Africa has not to date developed the dynamic, entrepreneurial economy needed to generate such growth, and it remains to be seen whether it ever will. The government is not unaware of this problem, and the National Development Plan is designed to deal with it. However, success, as always, will depend upon competent execution and political buy in from all sectors of society.

If pro-family advocates wish to take up either the issue of pregnancy grants, or tax credits for families, they should prepare for a long and arduous process. In the current fiscal situation Treasury is not likely to give up revenue streams or provide additional grants. However, beginning a dialogue at this stage may well be a worthwhile endeavour, so that when the fiscal situation improves the groundwork has already been laid.

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[1] For more on this, as well as a detailed discussion of the White Paper, see Briefing Paper 317, *The White Paper on the Family*, March 2013. Similar points were made in a recent Round Table hosted by the CPLO on the State of the Family.
[2] Minister Pravin Gordhan's Budget Speech, p 12 and 14. Percentage calculations are researcher's own.
[3] The CPI is a measure for inflation worked out by Statistics South Africa based on a 'basket' of various goods and services. It is intended to reflect overall inflationary trends in the economy.
[4] Smith, Julie and Adams, Mervyn. 2013 PACSA Food Price Barometer, Executive Summary.
[5] Discussions in this field usually range around initial birth weight of the baby, which is used as a kind of proxy for how the baby has developed in the womb. There is some debate around the precise effects of birth weight on long and short term outcomes, but it is widely regarded as an important indicator of the baby's future prospects. Among others: "Lower birth weight babies have worse outcomes, both short-run in terms of one-year mortality rates and longer run in terms of educational attainment and earnings." Black, Devereaux and Salvanes. *From the cradle to the labor market? The effect of birth weight on adult outcomes.* IZA Discussion Paper No. 1864, November 2005. See also Reichman, Nancy E. *Low birth weight and school readiness.* Journal of School Readiness: Closing racial and ethnic gaps. Volume 15 Number 1 Spring 2005. Princeton University.
[6] Alex Van Den Heever made these statements during a presentation entitled "Cash transfers to address vulnerability during pregnancy: international experience and applicability to SA", during a symposium on maternal health at the University of the Witwatersrand on the 14 March 2014. Audio recording available at: http://www.wits.ac.za/files/mic8s_556403001395048697.mp3
[7] http://www.hsrc.ac.za/en/review/hsrc-review-november-2013/social-grants-fiscas
[8] Japan has a fertility rate of 1.4, and Korea is even lower, at 1.24 births per woman.
[9] Klue, Steven. *Maintaining the integrity of families – from handouts to tax credits?* South African Institute of Tax Professionals. http://www.thesait.org.za/news/96757/Maintaining-the-integrity-of-families-From-Handouts-to-tax-credits.htm
[10] Pearson, Alistair and Binder, David. The taxation of families – international comparisons 2011: pg. 4 http://www.care.org.uk/wp-content/uploads/2013/11/Care_Taxation_of_families_2011-web.pdf