

Government's review of alcohol taxes is a good start to help save the public health system

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Over the next week tax practitioners and interest groups are likely to be preparing various submissions to South Africa's National Treasury to amend to the country's tax structures.

Next February Finance Minister Enoch Godongwana will be making pronouncements on the new tax proposals in his budget speech, with a budget review accompanying the budget to provide detail on the tax proposals and proposed changes to tax legislation.

In the meanwhile National Treasury has invited South Africans to participate in the budget process by submitting tax proposals for the 2025 budget as part of its policy review.

These technical tax proposals must be limited to unintended anomalies, revenue leakages, loopholes and technical matters applicable to the current tax legislation that require correction and will in all likelihood cover issues like VAT, carbon tax and income tax.

In the run up to this, National Treasury has issued a proposed alcohol taxation review to help them develop a "sensible excise policy framework" that could reduce the harmful use of alcohol as a public health priority.

The review notes that their current framework is no longer fit for purpose because excise duties on alcohol has increased above inflation while the price has remained lower.

The proposals include adjusting the guideline excise incidence by 5%, a targeted band adjustment on the excise duties as well as the implementation of minimum unit pricing to form part of the package of interventions.

The review must be applauded as an attempt by National Treasury to acknowledge the impact of alcohol on the public health system. It's a step in the right direction and we believe similar reviews should be done for tobacco and sugar taxes.

Globally high health taxes are recognised as an ideal tool to help the government reduce the consumption of harmful products. In the case of alcohol and tobacco taxes this increase has been below or at inflation levels for the past 15 years. In the last three years increases in the new sugar tax have been halted.

An increase in these taxes presents a win-win situation for South Africa, particularly following the outlook presented by Minister Godongwana recently in his Medium-Term Budget Policy Statement.

Delivering the policy statement Minister Godongwana painted a bleak fiscal outlook for South Africa over the next three years citing high debt repayments, reduced revenue and restrained spending.

He emphasised the financial pressure the government is experiencing as a result of growth that was lower than predicted earlier this year.

He also highlighted the challenge of fiscal slippage with a warning that the tax revenue being collected is expected to be R22.3 billion lower than what National Treasury estimated in the February budget.

Traditionally the policy statement is a critical part of the overall budget process, providing the country with an update on the National Treasury's economic forecasts, adjusting the budgets of government departments, and making emergency changes to spending. This year SANRAL's debt repayment for the Gauteng Freeway Improvement Project and increased public sector wage bill was part of his R5.12 billion special appropriations.

Despite several red flags being raised in recent months about the rising health costs of provinces, Minister Godongwana made no adjustments for the health sector. He mentioned two hospital projects and data transparency projects linked to the National Health Insurance. Beyond those, health made no feature.

Following his speech, there was much criticism on his spend with civil society organisations warning that it reflected a reluctance to spend on health and education.

The criticism is not unwarranted.

In reality what his outlook reveals is that in the face of reduced revenue, increased debt and an increased public sector wage bill, the government finds itself in the difficult situation of having less money available to allocate to programmes like health and

education. What this means for health is that the government will need to reduce its per person spend.

This is concerning.

The burden of disease

The truth is that South Africa has one of the highest Non-communicable diseases (NCD) prevalence rates in sub-Saharan Africa, according to the 2018/2019 District Health Barometer published last year.

Close to 60% of the more than 450 000 deaths recorded in 2016 were due to NCDs.

NCDs are disproportionately and increasingly affecting low- and middle-income countries and governments – including South Africa – are struggling to keep pace with the rapidly growing number of people affected.

One of the biggest challenges is that we still don't have the full direct and indirect cost of all the diseases attributed to the NCD burden.

The other challenge is that since the dawn of democracy government has had a curative approach to healthcare, instead of putting measures in place to prevent them. Much more effort needs to be made to promote primary prevention of diseases.

However, the lower provincial budget allocations would make it difficult for provinces to deliver curative services while also navigating high TB burdens and the roll out of antiretrovirals to more than 7 million people.

This places the onus on provinces to be more accountable in the way they spend their money as well as how they manage their resources.

There is a solution

Increasing the health taxes offer a multi-pronged solution to the challenge. It reduces the consumption of products that lead to these diseases. The rise in the cost of tobacco or alcohol is unlikely to yield a complete halt to the use of these products. However, it is likely to motivate users to reduce their consumption to navigate the increased cost with resulting reduced burden of disease and an improvement for the overburdened public health sector.

There is, however, another benefit aside from these public health benefits. Increasing health taxes also yields an increase in revenue for government.

Excise taxes on tobacco products and alcohol is not new -and have been around since before 1994. A health promotion levy on sugar sweetened beverages was introduced recently. The challenge with the government's approach is that excise taxes levied have been in line with annual inflation increases despite calls by the World Health Organisation to governments to increase taxes significantly as a way of saving lives and raising revenue.

Evidence shows that are many benefits to increases in health taxes. In the case of South Africa, this increase could be used to reorientate funds to fix primary health care services. It can create an opportunity to create a preventative healthcare strategy that seeks to attend the high burden of disease instead of an approach where the state responds to the disease burden.

This would be a good way to reduce and tackle the growing NCD burden that affects South Africa.

But unless Godongwana takes the steps to use health taxes to do this, the status quo will remain.

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