IRR Submission to the Treasury: On National Health Insurance (NHI)

Applicable categories: i) Income tax – individuals, employment, and savings and vi) Tax administration.

IRR recommendation:

- Quantify the revenue impact of taxpayer flight resulting from the introduction of NHI.
- Focus government resources on providing health subsidies or health vouchers to low-income individuals.
- Recognising that the existing public healthcare system already offers universal health coverage, albeit of low quality, address corruption and mismanagement in existing public healthcare facilities.
- Refer the NHI Act back to the National Assembly for reconsideration.

Background

The shortcomings of the public healthcare system prompted the proposal for a National Health Insurance (NHI). However, addressing the public sector's shortcomings by making the state the primary buyer and provider of all healthcare services through the NHI Fund will further burden South Africa's narrow and fragile tax base. It will also subject the world-class private healthcare system to all the vices of South Africa's public administration, jeopardising its functioning. This will in turn trigger negative second-order effects, including on the nation's fiscus, that overwhelm any gains from the introduction of the NHI Fund as envisaged by the NHI Act.

The purpose of this submission is to argue that a tax-funded NHI will adversely impact fiscal revenue and to call on Treasury to quantify that impact. To substantiate this point, this submission evaluates the fiscal implications of a tax-funded NHI, with a focus on technical consequences and unintended fiscal risks. This submission also argues that the desire to provide universal healthcare does not justify introducing the NHI, as South Africa's existing public healthcare system already provides universal access.

Legal Nature of the Problem

The Constitution secures a series of "progressive" rights, such as "access to adequate housing", "health care services, including reproductive health care", "sufficient food and water", "social security, including appropriate social assistance for those unable to support themselves and their dependants", and both "basic education" and "further education". This mandates the state to take reasonable measures to deliver on these rights over time. These rights are explicitly qualified by the requirement that their fulfilment occurs "within available resources". Progress here is scarcity-indexed, meaning government policies are grounded in fiscal reality and progress is pursued responsibly, without overextending the state's capacity. The proposed NHI Fund, in its current form, fails this test because it is fiscally unfeasible in practice.

The principle of progressive realisation also covers healthcare services, in that it cannot be expanded through unsustainable measures. The NHI Fund amounts to precisely this. It is a promise of universal healthcare but is unsupported by the fiscus.

Furthermore, current economic and fiscal constraints make the NHI Fund impractical. This is especially true if the fiscus continues to be burdened by Black Economic Empowerment (BEE) premiums and the second-order waste associated with it.

Detailed factual description:

The NHI Fund is established by the NHI Act under Schedule 3A of the Public Finance Management Act (PFMA), meaning that it is not primarily an income-generating business or entity. Section 49 of the NHI Act concerns the "Chief source of income" of the NHI Fund, listing "general tax revenue" first in 49(2)(a)(i) followed by (ii) a "reallocation" of current medical tax credits, (iii) "payroll tax", and (iv) "surcharge on personal income tax". This has direct implications for taxpayers, and for the country's revenue base.

Understanding the interaction between taxes and the factors of production – capital, labour, and productivity – is the most important step in assessing the efficiency and sustainability of the policy that requires the tax reforms.

High capital gains taxes and corporate income taxes reduce the profitability of investments by increasing the user cost of capital – the total cost of using capital for production. Just as higher income taxes discourage individual productivity, higher corporate taxes limit investment activity, and can discourage firms from expanding. Investment is particularly sensitive to tax policy. Higher user cost means that the return on investments is lower, which discourages investments, both in expansions and in research and development.

Taxes also distort factor prices which affect the total factor productivity (TFP). Corporate taxes can reduce TFP, especially in industries with high corporate profitability. High marginal personal income tax rates have a similar impeding effect on entrepreneurial activity, which also weakens productivity.

Possibly the most important cost consideration to make regarding the NHI is that the Fund will need to procure goods and services, such as medicines and medical equipment, under government procurement rules. These rules are currently governed by the Preferential Policy Framework Act (PPPFA), but this will be replaced by the Public Procurement Act (PPA), which has been passed but is not yet in effect. Both laws require procurement processes to include BEE premiums. These add extra costs to favour suppliers who meet certain empowerment criteria.

Under the PPPFA, BEE premiums add up to 25% extra for contracts valued under R50 million and 11.1% extra for contracts worth more than R50 million. These premiums make procurement more expensive, meaning the NHI Fund would need to pay substantially more for the same goods and services compared to a system without such premiums.

The PPA, once implemented, will introduce new thresholds and requirements for "set-asides", "prequalification criteria", and "subcontracting".

The first concern here is affordability. The additional expenses from BEE premiums raise questions about whether the NHI Fund can sustain these extra expenses and how it would impact general tax revenue, the reallocation of current medical tax credits, payroll taxes, and surcharges on personal income tax.

The second concern is administration. Managing procurement processes, especially under the national structure of the NHI Fund, could potentially become overly complex and inefficient. This could lead to delays, mismanagement and corruption, and ultimately undermine the goal of improving access to healthcare.

Nature of the business/people impacted

Both concerns carry substantial negative implications, with the most prominent risk being taxpayer flight. South Africa's revenue tax base is reliant on a small group of contributors, with personal and corporate income tax accounting for 57% of all government revenue in 2024/25, and 95% of all personal income tax being paid by just 30% of taxpayers. These taxpayers, predominantly in the middle-income tax bracket (R500,000 – R750,000 per annum) and high-income bracket (R1.5 million and more per annum), and the bracket between, are therefore disproportionately sensitive to tax increases.

Major changes in marginal tax rates could easily prompt behaviour changes, like restructuring income streams to minimise taxable earnings, or emigrating to lower-tax jurisdictions. The latter is especially plausible given that these taxpayers often have high-demand skills and the financial means to relocate. Should this become a trend, it would shrink the tax base and reduce the pool of skilled labour. Because of the narrow tax base, the loss of even a small number of taxpayers or a few big corporations would negatively affect the country's potential to generate revenue and grow the economy.

Higher user cost of capital makes South Africa less attractive to investors, and increases the likelihood of capital flight, with firms relocating operations or reinvesting profits outside the country. This would further weaken the tax base and reduce corporate income tax collections, especially so in industries with high capital intensity, where even marginal increases in tax costs can significantly alter investment decisions.

The taxpayers most likely to leave are those with in-demand skills, who can afford to leave. These are engineers, doctors, finance professionals, etc. These individuals are considered globally mobile, with the qualifications to secure employment in lower-tax jurisdictions. This will in turn affect productivity and economic growth, because it is a key part of the labour force which drives the wheels of the economy.

Small and medium-sized enterprises (SMEs) often operate with narrower profit margins. Higher tax burdens could force SMEs to scale back operations, freeze hiring, or close altogether. This would affect unemployment and further strain the revenue pool.

Meanwhile, multinational corporations with greater flexibility are likely to simply relocate headquarters or major divisions to jurisdictions with more favourable tax regimes. This would have devastating effects on employment and revenue collections.

The exodus of high-demand skills and firms will weaken the tax base, but it will also erode confidence in the economic stability of the country. This would discourage investment and lead to long-term low economic growth.

There are also concerns associated with the administration of the Fund and the associated BEE premiums. An overly complex system will lead to wastage, inefficiency, and corruption.

Conclusion

Relying on higher taxes to fund large-scale initiatives like the NHI Fund risks creating a vicious circle. It is often thought that taxpayers will bear the heaviest burden, which is not entirely inaccurate. But, once they decide to pull out their resources, the fiscus bears the burden – and with it, the country's citizens, who will receive fewer goods and services from a state which now has much fewer resources at its disposal.

To mitigate these risks, a detailed assessment of the likely cost of taxpayer and capital flight in response to the introduction of NHI must be conducted, and the potential impact on both revenue and economic growth modelled. Addressing the shortcomings of public healthcare should not come at the cost of jeopardising the entire fiscus. Instead, the shortcomings in the public healthcare system should be addressed on their own merits, and the private healthcare system preserved as a key factor in South Africa's attractiveness as an investment destination.

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