

Inflation gnaws at thresholds – time for adjustments Klaus Schade

Government has implemented various measures to support and protect the poor and low-income earners. These measures include thresholds that either exempt those falling below the threshold from contributing to certain schemes or paying taxes for instance or from benefitting from certain schemes if they exceed the threshold. However, these thresholds are becoming less meaningful if they are not regularly adjusted for at least the inflation rate. A few examples should suffice:

Although the individual income tax system is progressive, inflation adjustments to wages and salaries push more income earners above the tax threshold of NAD50,000 or into higher tax brackets (the so-called fiscal drag), even though their real income might not have increased. Due to inflation, the real value of the current income tax threshold of NAD50,000 has dropped to slightly more than NAD40,000. The same applies to the tax brackets that have not been adjusted since 2013, and hence tax payers are dragged into higher brackets, paying more taxes even though their standard of living has not improved.

The monthly contributions to the Social Security Commission are calculated as a certain percentage of the wage or salary starting at a minimum monthly salary of NAD300 up to a maximum of NAD9,000 per months. These thresholds have not been adjusted for many years. Hence, the real value of these thresholds has at least halved over the years implying that more low-income earners contribute to social security, while those exceeding the maximum threshold contribute a continuously declining share of their income to social security. Consequently, the burden of SSC contributions has been shifted to low-income earners.

Government provides various child grants, namely the Foster Parent Grant, Special Maintenance Grant, Maintenance Grant and Vulnerable Child Grant. The latter two are means tested. Only those parents earning less than NAD1,000 per month are eligible. Besides the fact that these thresholds are even below the minimum wage for domestic workers and that their validation absorbs valuable staff time that could be spent more effectively on providing social welfare services, inflation has eroded the real value to less than halve. Although the coverage of the child grants has increased substantially over the past years the drop in the real value risks leaving out quite a number of poor children.

The Basic Bank Account (BBA) was introduced in June 2013. In order to qualify you may not earn more than NAD2,000 per month. Adjusted for inflation the real value has declined to NAD1,510 in 2018. Consequently fewer low-income earners are eligible for and benefit from the BBA.

While the introduction of thresholds is commendable, the threshold amounts need to be adjusted regularly for inflation. Otherwise, not all of the targeted beneficiaries will be reached and the intended outcome will not be achieved.

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