

COMMISSION OF INQUIRY INTO HIGHER EDUCATION FUNDING THE FEES COMMISSION

SUBMISSION BY LEARNING STRATEGIES (PTY) LTD

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M A WEBER

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1 Introduction

The #FeesMustFall campaign has highlighted the difficulties of access to tertiary education for a large portion of South Africa's youth. The old economic adage of "there is no free lunch" supports the view that someone still has to pay for the education. Already, a portion of the cost of higher education is funded by national taxes, collected from the current tax base. Free tertiary education for all is likely to be unaffordable for our developing economic especially in light of the very low forecast economic growth rate and the limited options available to the National Treasury to raise higher or additional taxes.

On the assumption that tertiary education will not be free for all sectors of society, it is likely that a mechanism of government loan funding will inevitably be required. Loan funding should however be just that, a loan that is repaid, with the funds recovered being available to fund future students.

The submission focuses on the options for the recovery of study loans referred to as a "study advance". The paper suggests that it would be more effective to link the funding of education to the ability to repay in the future as a result of the education received, rather than linking it to historical access to funding. Furthermore, the paper suggests that the existing recovery mechanisms through SARS should be the most effective mechanism for this recovery.

The concepts put forward in this submission were in fact submitted to the Department of Education as long ago as the late 1990's from the PwC Higher Education Focus Group, led by Chris Elfick at that time. A position paper suggesting the use of SARS as the NSFAS loan recovery mechanism was prepared based on research undertaken internationally and particularly based on concepts put forward in the Australian and New Zealand funding mechanisms. While these mechanisms have changed somewhat over time, the concepts remain applicable.

2 Background

The current funding crisis, in particular the limited resources of NSFAS, has highlighted three broad categories of potential students, termed for the purpose of this paper as follows:

- **The Poor** – being those students with no access to funding to make any meaningful contribution to the cost of tertiary education and barely in a position to meet their own living costs.
- **The Missing Middle** – those students with access to some funding from family income, making them (mostly) ineligible for the limited pot of government funding, but with insufficient funds within the family to meet the costs of tertiary education and living expenses.
- **The Rich** – being all students that fall, for these purposes, into the category of those able to afford the current costs of tertiary education and the living expenses.

It is important to note that increasing the tax burden to fund “free” higher education would probably affect the Poor (if taxes are raised in VAT), the Missing Middle (in all options of an increased tax burden) and would probably push some portion of the Rich into the Missing Middle group.

While the #FeesMustFall campaign has focused on free tertiary education, the response from government has been aimed at achieving free education for the poor, while those that can afford it should pay. This implies that fees will still be charged and that portions of society, particularly the missing middle may still face difficulties with access to higher education.

Furthermore, the sustainability of higher education without access to the significant contribution from fees would threaten the existence of higher education as we know it and significantly impact the significant strides towards access to higher education which have been made over the last few years, unless alternative funding sources can be secured.

While the question of fees and the level of fees remains a problem to be dealt with, this submission focuses on the opportunity for funding of students with a more rigorous and competent mechanism of recovery of these loans, so as to create a sustainable fund for funding future generation of students.

3 Higher Education Funding Through NSFAS

NSFAS has faced many challenges in the past and is currently undertaking a further significant project to convert to a student centric funding approach where each student will become an effective customer of NSFAS and where funding is provided directly to the students to meet fee and tertiary education costs.

The student will be directly indebted to NSFAS for these funds and other than the circumstances where these funds may be converted into a bursary and effectively written-off, the recovery of these funds remains a high priority.

The record of the recovery of NSFAS loans in the past can best be described as dismal. Repayment of funds to government is notoriously difficult due to the perception of limited consequences of failure to pay, as experienced in rent collection for public housing stock and other government fund activities such as open road tolling. In the case of NSFAS, the complexity of tracing and remaining in contact with individuals who have completed studies and moved on into society, eventually finding employment, some only after a number of years, is a massive task and one which has clearly proved to be beyond the scope and capacity of NSFAS in the past.

The above-mentioned student-centric approach should start to address this process but is unlikely to fully resolve this matter. An alternative mechanism of tracing students and particularly insuring compliance with loan agreements and the repayment of NSFAS loans is necessary.

4 Collections by the SARS - Civil vs Criminal Sanction

It is well accepted that South Africa has a world-class revenue agency. The agency has transformed itself into a highly efficient service-oriented entity which has developed competent systems and efficient processes for the collection of taxes and funds. The implementation of the National Skills Levy some years ago is one example of an additional mechanism added to the tax collection process which has now been effectively embedded in everyday business processes. A further example is the Employment Tax Incentive (ETI) which has also been implemented and automated. This incentive is dependent on the circumstances of individual employees and demonstrates the capability of the Agency to manage individual level payment exceptions.

The South African Revenue Service also has the support of the threat of criminal action as opposed to merely civil action. The non-payment of taxes can result in criminal procedures against the tax payer while any individual refusing to pay either a bank or other funder or even NSFAS can only be approached via civil claim. In the eyes of the Tax Payer, there are consequences to a failure to pay taxes, and the collection of taxes of most individual Tax Payers is achieved “automatically” through

payroll deductions and VAT collection, and therefore compliance to pay the tax obligation is much higher.

It is therefore proposed that mechanisms be investigated whereby funding of higher education could be done by way of an advance against an individual's tax account, ensuring that the process of recovery of these funds is made through the regular tax payments and annual tax assessments.

This approach would require the following steps:

- Any individual wishing to apply for funding for higher education studies would first need to register as a tax payer with SARS. This process is already in place and both efficient and highly regulated. It also requires the individual to stay in regular contact with SARS at least annually through the submission of an annual return.
- An application for funding would then be submitted to NSFAS which, if approved based on NSFAS's assessment of eligibility, would be advanced to the individual for the purpose of tertiary education and effectively be debited to the individual's tax account. It is possible that registration as a tax payer is automated in the NSFAS application processes, at least partially.
- The annual tax assessment for that individual would show the amount of loan due to be paid in future.
- Once the individual completes their studies (either successfully or not) and enters the "world of work", the individual will automatically fall within the tax net and begin to pay tax based on their income.
- The inherent knowledge of SARS regarding the individual's income makes it possible for an affordability based assessment to be performed in terms of the amount to be repaid against the "study advance".

5 Responsibility for Repayment

While the #FeesMustFall campaign maintains that no fees should be charged, this option is in all likelihood unaffordable in the South African context.

The government's current view that those that can afford it should pay discriminates against those that may have access to alternative funding at the time of study.

In effect, tertiary education should be considered an investment in the future and similarly, the South African government should be prepared to invest in students who would otherwise not be able to fund higher education with the objective of recovering value to the economy (and the individual) in the future.

It is therefore proposed that education should in fact only be free for those for whom the education never results in the capability of to earn income in the future. A student who remains unemployed and never earns income above the tax threshold should therefore, it is proposed, not be responsible for the repayment of study costs incurred.

All students, however, who, based on the investment made in them in terms of access to higher education, are able to generate income through work or self-employment which results in taxes being payable, should equally be in a position to repay the investment made in them in terms of tertiary education.

Repayment of fees should therefore be future based not historically based and should be linked to earnings ability in the future.

6 Advantages and Disadvantages

This mechanism of advancing funds and managing the recovery of these funds has the following advantages and disadvantages:

6.1 Advantages

- **SARS Process Efficiency** - The SARS collection process is highly efficient and regulated.
- **Criminal Sanction** - Non-payment of taxes and amounts due to SARS is a criminal offence and non-payment of study advance could be included as a tax for this purpose, equally making such non-payment a criminal offence.
- **Affordability Based repayment** - Integral knowledge of an individual's earnings through the PAYE system and the annual tax returns makes the linking of recovery to affordability easy to manage.
- **Established Payment Mechanism** - The payment mechanisms are in place for payment deductions to be made from salaries along with PAYE, avoiding the complexity of unpaid debit orders or recurring payments when these are made at the discretion of the debtor.
- **Outstanding fees do not result in abandoned studies** – one of the key problems currently experienced by partly funded students (mostly the Missing Middle) is that they are prevented from continuing their studies due to outstanding fees, and then often abandoned their studies altogether. This proposal could overcome this problem by shifting payment of student funding to earnings ability.

6.2 Disadvantages

- **Informal Sector** - While a potential disadvantage is that individuals may take loans to study and then not enter formal employment, and therefore escape the tax net, this is a problem not just for tertiary education but for the entire expanding of the tax base as any income earned by these individuals should in fact be taxable. If the tax net is widened to include the informal economy and self-employed individuals, the problem of recovering study investments in students through the study advance would also be addressed.
- **Emigration** - Students that leave the country clearly have the potential to escape the tax net and pose a risk to the recovery of loans. Should they ever return to SA, and earn an income, they will immediately become liable. This disadvantage is no different to the current problem of students escaping liability by leaving the country after completing their studies.
- **High proportion of students who never earn an income** – Students who receive funding but never earn an income would not make repayments on the investment made in them. This problem exists currently, and should anyway be addressed by attempting to align study programmes and student registrations with projected economic requirements, and will also be reduced by a reduction in abandoned studies due to outstanding fees.
- **Legislative Mandate** - It is acknowledged that these proposals may require amendments to the tax legislation in order to include the potential for an advance against a tax account and the recovery of these loans as taxes through the tax collection mechanism. The capacity and capability is believed to be in place, it would, however, require the political will to make these amendments.

7 Conclusion

It is believed that full recovery of loan amounts could lead to the creation to a sustainable fund for student funding. Repayment is however critical and the most efficient and effective method should be use. Converting advances into taxes to be repaid and using the tax system and SARS to manage this process could be a solution.

Submission Requirements

(a) The full names and contact details of the person/s or entity making the submission;

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(b) An indication of the person and/ or entity on whose behalf the submission is being made;

Submitted on behalf of Learning Strategies (Pty) Ltd

(c) A full list of source documents referred to in the submissions;

No source documents have been utilised

(d) An indication of the willingness of such person or institution to present oral submission to the Commission, if called upon to do so;

Yes, we would be willing to present to the commission.

(e) The language in which such person or institution shall prefer to make oral submission and

English

(f) The convenient timeframe and venue on which such person or institution shall be available to present oral evidence.

We will make time available at your convenience