

DAVIS TAX COMMITTEE PUBLIC HEARINGS



WEALTH TAXES IN SA

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WEALTH TAX OVERVIEW

DISCUSSION POINTS TODAY

General views on Wealth Taxes

DTC proposed forms of Wealth Taxes

Crisp issues to address



01

General views on Wealth Taxes

“The wealthy have more than me and the poor have less than me”

Addressing wealth inequality



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GENERAL VIEWS ON WEALTH TAXES

POLICY RATIONALE

- Addressing wealth inequality
 - SA is a wealth and income unequal society
 - Progressive tax system is a rational policy
 - Critical to understand limitations of tax collection (of any tax) as instrument
 - Critical to understand global changes in nature of wealth (IP more relevant than land) and wealth mobility
 - Acknowledging that SA is already a high tax country

Does a wealth tax address this problem and is it desirable and feasible?

GENERAL VIEWS ON WEALTH TAXES

TAX AS A POLICY INSTRUMENT FOR INEQUALITY

- **Best policy and instrument**

- Fiscal and monetary policy objectives should be economic growth centric
- Fiscal policy seems more focussed on spending and income management
- NT's view:
 - Taxes and how they are spent can address poverty and income gap
 - But, job creation has a greater impact on income inequality

Is current fiscal policy focus hampering addressing inequality?



GENERAL VIEWS ON WEALTH TAXES

TAX AS A POLICY INSTRUMENT FOR INEQUALITY

- **Challenges to consider**
 - Wealth concentration but insufficient concentrated wealth for distribution
 - Wealth tax global failures
 - Significant tax system changes required if primary instrument to address inequality/poverty
 - Defining a net wealth tax base
 - Lessons from current ineffectual wealth taxes
 - Empirical evidence lacking to support wealth tax effects on inequality



GENERAL VIEWS ON WEALTH TAXES

CONSIDERATIONS IN A SA CONTEXT

- **Socio economic purpose**
 - Purpose of wealth taxes stated to address inequality
 - Unclear how this will be achieved, as current wealth taxes derive questionably low amounts



GENERAL VIEWS ON WEALTH TAXES

CONSIDERATIONS IN A SA CONTEXT

- Other challenges
 - Transfer of wealth through government must be effective and efficient
 - Fiscal discipline currently lacking
 - Can beneficiaries create more wealth with wealth transferred (as opposed to merely consuming it)?



GENERAL VIEWS ON WEALTH TAXES

CONSIDERATIONS IN A SA CONTEXT

- Existing wealth taxes
 - Multiple wealth taxes already in place
 - Donations tax, Estate Duty, Transfer Duty, Property rates & taxes and STT
 - High rates, low taxpayer base & low return
 - Highly cost inefficient



GENERAL VIEWS ON WEALTH TAXES

CONSIDERATIONS IN A SA CONTEXT

- **Global experience**

- Global decline in use of wealth taxes
- Confirms SA trend of low yield / high administration
- Valuation complexity results in failure

“[a]ny system requiring appraisals is likely to be a loss for the government because it does not have the resources to win

Taxation without Realisation: Schenk & Cunningham

GENERAL VIEWS ON WEALTH TAXES

CONSIDERATIONS IN A SA CONTEXT

- **Who are the wealthy?**

SARS Statistics

- 19 075 270 taxpayers on register in 2015 (SARS Stats)
- 4 788 334 are liable for assessment
- **Top 5%:** Earnings in excess of R350 000 pa
- **Top 1%:** Earnings in excess of R1m pa

Credit Suisse Global Wealth Report 2016

Global top 10%: US\$ 71 600 (R930 800) net assets

- 1,29 million persons in this band

Global Top 1% US\$ 744 000 (R9 672 000) net assets

- 66 000 persons in this band
- **65%** of household wealth in SA is **financial assets**

GENERAL VIEWS ON WEALTH TAXES

CONSIDERATIONS IN A SA CONTEXT

- Who are the wealthy?
 - Income Wealth: Middle Class and Wealthy
 - John Simpson UCT:*
 - Middle class Income between US\$1500-4800pm*
 - SA has 1 576 342 taxpayers in this band (\$13/ZAR)
 - Wealthy above US\$4800 pm*
 - SA has 245 052 taxpayers in this band ((\$13/ZAR))
 - Credit Suisse: Middle class have assets \$50K-\$500K*
 - Estimated SA has 4.3 million people in this band

How many middle class and wealthy in shadow economy?



02

Wealth taxes considered by DTC

Making an impossible choice

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DTC WEALTH TAXES CONSIDERED

CHOOSING THE RIGHT TAX

Land Tax

Property tax

Annual wealth tax

DTC WEALTH TAXES CONSIDERED

PROPOSED TAXES AND CONSIDERATIONS

Land tax

Property tax

Annual wealth tax

Policy considerations

Legal considerations

Tax administration

Socio economic impact



DTC WEALTH TAXES CONSIDERED

LAND TAX – POLICY CONSIDERATIONS

Current tax mix

- Double tax: Already included in current wealth taxes
- Municipal rates have already small base and high impact

Impact on land values

- Professional cost vs. value rolls
- Decline in asset value and affordability



DTC WEALTH TAXES CONSIDERED

LAND TAX – LEGAL CONSIDERATIONS

- Types of land ownership rights
- Private vs. publicly held land
- Impact on mining and agriculture: What is land, does that include mineral rights, long leases & aqua culture rights (sea and river beds)?



DTC WEALTH TAXES CONSIDERED

LAND TAX – TAX ADMINISTRATION

- SARS administrator: Overburdened already
- Local gov administrator: Property tax collection already dysfunctional
- Cost of compliance?

DTC WEALTH TAXES CONSIDERED

PROPERTY TAX – POLICY CONSIDERATIONS

Tax base

- BASE: Disregards size focus on value
 - Variable but focus on land and buildings
 - Usually gross basis
- Double tax: Already included in current wealth taxes

Swedish experience

- Abolished 2008
- Highly inequitable & creates hardship for retirees

Other

- Problematic when property values increase faster than income
- Affects price of food and rent
- Capital flight due to gross basis
- Decline in value in slow economy will require higher rates



DTC WEALTH TAXES CONSIDERED

PROPERTY TAX – LEGAL CONSIDERATIONS

- No single valuation methodology
- Value principled based: Open market value
- Valuation methods complex
- Valuations rolls may undervalue property and creates cost burden on administrator



DTC WEALTH TAXES CONSIDERED

PROPERTY TAX – TAX ADMINISTRATION

- SARS administrator: Overburdened already especially dispute channel
- Local gov administrator: Property tax collection already dysfunctional and low compliance
- Cost of compliance?



DTC WEALTH TAXES CONSIDERED

PROPERTY TAX – SOCIO ECONOMIC IMPACT

- High level of tax will make property ownership expensive
- Possible impact on property sector as immovable property illiquid
- Reduces buying power of public for property
- Impact on land restitution recipients?

DTC WEALTH TAXES CONSIDERED

ANNUAL WEALTH TAX – POLICY CONSIDERATIONS

No global support

- 1985-2012: Decline from 15 to 5 countries
- Concerns over global mobility of human and financial capital
- German Constitutional court:
 - Imposed excessive burden on certain taxpayers which could not be justified by objective of reduced inequality
- Finland:
 - Effect on business
 - Susceptible to evasion
 - Discouraged FDI
- India
 - High collection cost
 - Low yield
- EU:
 - Resultant capital flight
 - Reduced FDI
 - Discouraged savings



DTC WEALTH TAXES CONSIDERED

ANNUAL WEALTH TAX – LEGAL CONSIDERATIONS

- Special and complex valuation rules
- Annual application period
- Defining “wealthy” and population coverage in SA context



DTC WEALTH TAXES CONSIDERED

ANNUAL WEALTH TAX – TAX ADMINISTRATION

- Most onerous of the all the wealth taxes
- Highly susceptible to avoidance
- High volume of valuation disputes



DTC WEALTH TAXES CONSIDERED

ANNUAL WEALTH TAX – SOCIO ECONOMIC IMPACT

- Discourages savings as taxes wealth retention
- Decrease in FDI and savings impacts economy and return from other taxes



03

The Crisp issues

Is there a right one?

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THE CRISP ISSUES

CONCLUDING ON THE MATTER

Would a wealth tax make a meaningful contribution?

Which wealth tax should be implemented?

Effect of new wealth tax on existing wealth taxes?

At what level should it be implemented?



THE CRISP ISSUES

MEANINGFUL CONTRIBUTION?

Land, property or wealth tax?

- None of the above would make a meaningful contribution to State Revenues

THE CRISP ISSUES

WHAT FORM SHOULD BE IMPLEMENTED?

None

- No empirical evidence to support a reduction in inequality
- Economic growth is a preferable way to address inequality, as NT stated:
 - Taxes and how they are spent can address poverty and income gap
 - But, job creation has a greater impact on income inequality
- Purpose of wealth taxes is stated to address inequality but its unclear how this will be achieved, as current wealth taxes derive questionably low amounts
- ‘Redistributive’ implementation questionable since fiscal discipline is lacking
 - More likely to be used to ‘balance the books’



THE CRISP ISSUES

EFFECT OF A NEW TAX ON EXISTING TAXES?

- All current proposals are a disincentive for:
 - Retaining savings
 - Investment in immovable property
 - Retention of capital in SA
 - Retention of SA tax residence
 - FDI

All taxes, including wealth taxes, that are dependent on the above will be negatively affected



THE CRISP ISSUES

AT WHAT LEVEL SHOULD IT BE IMPLEMENTED?

Still believe no new wealth tax should be imposed,

But, if DTC is in favour, then it should be:

- In substitution of an existing tax, not in addition thereto
- Only ever on a 'net basis'
- In accordance with a wide base aligned to SA statistical context of wealth, not perception



THANK YOU