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Submission File

30 June 2017

Davis Tax Committee
Hatfield Gardens (Block A)
333 Grosvenor Street
Hatfield, Pretoria, 0083

Per e-mail: taxcom@sars.gov.za

Dear Sirs/Madam

COMMENT ON THE CALL FOR POSSIBLE WEALTH TAXES IN SOUTH AFRICA

1. We set out below, on behalf of the National Tax Committee (the NTC) of the South African Institute of Chartered Accountants (SAICA), our comments and submissions to the Davis Tax Committee (the DTC) in response to the Media Statement issued by the DTC on the 25th of April 2017, calling for comment on possible wealth taxes in South Africa (the DTC's media statement).
2. We would like to thank the DTC for the opportunity to participate in providing input and for the extension granted until the 30th of June 2017.
3. Should you require any further clarification on any of the matters raised please do not hesitate to contact us.

Yours sincerely

Pieter Faber
Senior Executive: Tax

Tracy Brophy
Chairperson of the National Tax Committee

The South African Institute of Chartered Accountants

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Reducing inequality with Wealth Taxes

Introduction

1. The enormity of the challenges faced by government in rectifying and normalising social and structural challenges, such as the income and wealth gap, must be acknowledged as a point of departure.
2. South Africa ranks at the bottom end of the world in both the *Gini* and *Palma* income inequality index rankings¹, although we compare much better in an African context in mixed ratings, such as the World Happiness Report² with its six aggregated metrics.
3. We acknowledge and support government's view that a progressive tax system is a good instrument for creating a better society and more balanced economy, but we also are not remiss to the fact that this instrument on its own has limits.
4. In a global and digitised economy, with great ease of mobility of labour and wealth, tax as a blunt instrument for progressiveness, has in our view become increasingly less effective, as reflected by the current global 'race to the bottom' in protecting tax bases and reducing corporate income tax rates.
5. The nature of 'asset wealth' has also changed in the last 20 years and should serve as a material consideration in informing any decision to introduce any additional wealth taxes. The relevance of land as a major form of wealth is regressing whereas intellectual property (IP) as a wealth asset is progressively growing. For example, the USA has an estimated US\$5,8 trillion in IP wealth, which is more than any other country's GDP, and innovation contributes 40% to its economic growth³.
6. The question posed by the DTC to commentators was on the **desirability and feasibility** of wealth taxes in the form of a land tax (i.e. size of land), a tax on land value and an annual asset wealth tax.
7. Our comments will seek to address these matters in the context of them reducing inequality as opposed to forming part of the tax mix for the fiscus.

Taxes as a policy instrument for inequality

8. "Fiscal policy" is the sister strategy to monetary policy and is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy⁴ (our emphasis).

¹ <https://www.theguardian.com/inequality/datablog/2017/apr/26/inequality-index-where-are-the-worlds-most-unequal-countries>

² <http://worldhappiness.report/ed/2017/> Six index metrics: GDP per capita, social support, healthy life expectancy, freedom to make life choices, generosity, and freedom from corruption

³ <https://morningconsult.com/opinions/protecting-americas-no-1-asset-intellectual-property/>

⁴ <http://www.investopedia.com/articles/04/051904.asp>

9. According to National Treasury in the 2017 Budget, the central fiscal policy objective is to stabilise the national debt-to-GDP ratio by closing the budget deficit⁵.
10. As noted by National Treasury, taxes and how they are spent can narrow the income gap and also address poverty⁶. However, as they also conclude, job creation will have a greater impact on correcting income inequality.
11. Furthermore, the long-term sustainability of using such a large proportion of the fiscal budget to pay cash grants is also questionable.

12. Submission: As a primary question, as to the feasibility and desirability of any wealth tax, as a country we should be sure as to *what* we are seeking to achieve. If it is merely additional revenue, then the discussion should be on matters such as the current tax mix and tax extraction rates and the actual impact of the collection of this tax is of lesser concern.
13. However, if we are primarily or only focusing on its use to address inequality, then questions pertinent to that discussion should be addressed, as raised below. We should therefore be very clear on the objective of the proposal under discussion and not confuse the one with the other, even if the one may be primary and the other secondary.

14. The primary focus of government's current fiscal policy, and many other policies, is seemingly on spending and income planning and management rather on what the object of such spending should be, namely the positive influencing of the economy in the interests of the broader society.
15. This, in our view, must be a central question to this enquiry, namely is fiscal policy sufficiently focussed on positively influencing the economy so that ratios of inequality reduce, rather than just focussed on a collect versus spend policy that seeks to collect more from current wealth to redistribute to those lacking wealth.
16. In our view, even though government faces significant socio-economic challenges of wealth concentration, it faces an even bigger problem in that the total concentrated wealth is not sufficient to empower everyone. This creates a policy dilemma as to what it should address first, namely wealth concentration or broad wealth creation. The question arises whether government can really prioritise both of these objectives simultaneously in an effective manner with its own limited resources.
17. Fundamentally, just 'cutting the current cake' differently is clearly not going to suffice in addressing the country's growing needs. In fact, with South Africa in a technical economic recession, the cake is shrinking and even those with current wealth will feel the effects of this in the medium and long term.
18. Policymakers and academics frequently call for heavier taxes on the wealthy, especially those that seem to target concentrated wealth and high income, as a blunt instrument to solve this important socio-economic problem.

⁵ <http://www.treasury.gov.za/documents/national%20budget/2017/review/Chapter%203.pdf>

⁶ [http://www.treasury.gov.za/comm_media/presentations/Making%20Fiscal%20Policy%20Work_5%20Nov%202015.p
df](http://www.treasury.gov.za/comm_media/presentations/Making%20Fiscal%20Policy%20Work_5%20Nov%202015.pdf)

19. However, as noted in the DTC's media statement, South Africa currently does have various wealth taxes, which only contribute about 1% of tax revenues. Certain commentators have noted that an annual wealth tax will for instance only raise about R5 billion, which is less than 0.5% of the current budget and less than 5% of the current spend on social grants, though this may be a substantial understatement of the potential of such a tax and its impact.
20. If this estimate is correct, this is totally inadequate to address the inequality problem facing South Africa, and would just result in placing emphasis on the adverse aspects of such a tax in instances where the benefit, in addressing the problem, is seen as negligible.
21. As discussed below, recent models of wealth taxes have also not been too successful in other countries, as either a revenue generator or as an instrument in rectifying inequality, as the implementation of a wealth tax has generally provided limited additional tax revenue, in fact yielding less than 1% of total tax income in most countries⁷. This means that wealth taxes globally have become a mere token of action rather than being a really effective instrument for addressing inequality or even income collection.
22. Lastly, it has been noted that a substantial impact on inequality requires significant changes to a tax system⁸, which may suggest that taxation is not the ideal tool to address the issue of inequality through minor tax system changes.

Defining the base of a 'Wealth Tax'

23. Broadly defined, wealth taxes are taxes that are imposed on either the 'use values' or the 'market values' of all or specific assets (or net assets) possessed by individuals or are a tax on 'asset wealth'.
24. Net wealth taxes are progressive taxes, which are generally levied annually on net estates exceeding a specific threshold. In contrast with a property tax (which is levied on gross value), a net wealth tax is usually levied on a person's net assets after reducing it with related debts and liabilities. Normally, such a tax is imposed on a recurrent basis on all local and foreign assets owned by a person.
25. Seen from this perspective, the following are the main types of wealth taxes currently in South Africa:
 - Estate Duty;
 - Donations Tax;
 - Transfer Duty imposed on the purchase of immovable property at a graduated rate;
 - Securities Transfer Tax;
 - Capital Gains Tax (which is effectively a tax on the transfer of wealth and not a wealth tax as such) on the disposal or deemed disposal of property of a capital nature at a

⁷ Luminița Ristea, Adina Trandafir Annals of the University of Petroșani, Economics, 10(2), 2010, 299-306 299 Wealth Tax Within Europe in the Context of a Possible Implementation in Romania– The Existing Wealth Tax and its Decline in Europe

⁸ Kamin, D. (2013), Reducing Poverty, Not Inequality: What Changes in the Tax System Can Achieve, at 638.

maximum of 22,4% effective rate on companies (and which excludes the additional burden of dividends tax) and 18% effective rate on individuals; and

- Property rates and taxes imposed by local government, as a percentage of the value of the immovable property, which is inconsistently applied to either include or exclude the value of improvements.

26. The above-mentioned wealth taxes are dependent on the happening of an event, i.e. based on a transaction, for example in the case of capital gains tax, upon the disposal of an asset of a capital nature, whilst we assume that the proposed wealth taxes will not be dependent on the happening of an event but levied annually.
27. The current wealth taxes also usually have some form of base or deduction to ensure that actual wealth and not nominal wealth is the basis of the tax.
28. It would therefore only be reasonable to expect that any additional wealth tax would apply the same principle as nominal or gross wealth would in our view be grossly misleading and punitive. For example, a person who owns a R5 million house that has a R4.9 million bond does not have more wealth than a person who owns a fully paid house of R300 000.

29. Submission: We submit that there are already a number of wealth taxes in South Africa and therefore it must be considered how a further wealth tax, in addition to existing wealth taxes, would be defined. We also submit that the only potentially acceptable manner of defining such a wealth tax would be on a 'net' basis to ensure actual wealth is taxed.

Lack of empirical evidence around Wealth Tax

30. One of the essential attributes of a properly implemented tax system is the ability to achieve societal equity, which suggests that taxes should be imposed in accordance with taxpayers' economic payment capacity. For normal tax purposes, the income and profits earned by a person during a year of assessment is normally used as a proxy to measure this ability.
31. Nevertheless, proponents of wealth taxes argue that many high net worth taxpayers manage to minimise their tax burden on income to such an extent that it is entirely disproportionate to their earnings in net wealth, as extracted from asset value. This phenomenon, it is argued, may result in greater inequality over time, particularly since greater wealth generated has the potential to generate higher returns and therefore increase the inequality gap.
32. The most notable proponent of global wealth taxes in recent years has been Thomas Piketty.
33. In his work, *Capital in the Twenty-first Century*, Piketty recommends among other things, the introduction of global wealth taxes of 2% but later suggests a rate of 5% to 10%, depending on the rate of return, for the very largest fortunes. His recommendations arise from the central argument in the work, namely that in times of low growth, wealth tends to accumulate more quickly from **returns of capital** than from labour and tends to accumulate more among the top 10% of persons, thereby increasing inequality.
34. Thus, the fundamental force for divergence and greater wealth inequality can be summed up in the inequality $r > g$, where 'r' is 'return on capital' and 'g' is 'economic growth'. To remedy this situation, Piketty recommends the imposition of a wealth tax on the **net capital** owned

by certain individuals.⁹ However, the work provides no formal empirical testing in support of its theoretical causal chain and also does not indicate the consequence in times of high economic growth (i.e. $r < g$), the latter of which is exactly our policy intent.

35. It should however be noted that economist Carlos Góes has researched the basic hypothesis proposed by the work, namely that, over the long term, when the rate of return on capital (r) is greater than the rate of economic growth (g), the result is concentration of wealth. In a working paper published by the International Monetary Fund, he states that his in-depth analysis of 19 economies spanning 30 years, found no empirical evidence to support this. On the other hand, results were in fact robust to several alternative estimates of $r-g$.¹⁰
36. The connection between return on capital and other aspects is also of importance. National Treasury, the DTC and SARS, in a joint presentation to the World Bank, acknowledged that job creation is the only sustainable means of reducing inequality and then also noted the findings of research confirming the relationship between the reduced cost of capital (i.e. increase in return on capital), including taxes, and the increase in investment¹¹ to create wealth. Every additional tax is a cost of capital and therefore has the exact opposite effect of attracting investment that results in economic growth.

37. Submission: We submit that since there is no conclusive evidence to support the theoretical advantages of wealth taxes, empirical research must be conducted to prove that the introduction of a further wealth tax will have the desired economic effect of reducing inequality, will be sustainable and will not in fact be counter-productive in the long run by increasing the cost of capital and reducing investment and economic growth. Only then can policy be sufficiently justified as to whether or not many of the advantages of a proposed wealth tax are not already being achieved by the current tax system.

General considerations in a South African context

38. In considering the possible introduction of further wealth taxes in South Africa, we set out below the various factors of a more general nature that must be borne in mind.

The socio-economic purpose of a wealth tax to address inequality

39. The purpose of a wealth tax on assets is important as this lays the foundation for which form of wealth tax should be adopted, how it should be implemented and how the revenue funds raised are optimally channelled and utilised best to achieve the desired goal.
40. Within the South African context, it is considered that this fundamental underlying socio-economic purpose for the introduction of any additional wealth taxes is to address inequality.
41. If it is for another purpose, this fundamentally changes the design and policy of the new tax. If, for example, increased revenues are sought merely for immediate revenue cash flow purposes, this will not be sustainable and will even within the short-term result in considerable

⁹ Piketty, T. (2014), *Capital in the Twenty-First Century*, at 367.

¹⁰ Góes, C. (2016), Testing Piketty's Hypothesis on the Drivers of Income Inequality: Evidence from Panel VARs with Heterogeneous Dynamics.

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http://www.treasury.gov.za/comm_media/presentations/Making%20Fiscal%20Policy%20Work_5%20Nov%202015.pdf

economic distortion, something which South Africa can ill afford in addressing the fundamental purpose of reducing inequality.

42. The ability of a wealth tax to be impactful in reducing inequality is also a consideration.

43. Submission: Wealth taxes historically, both in South Africa and internationally, have not been large revenue drivers. The question on the one hand is whether the wealth taxes generated will be significant enough to impact sufficiently on the extent of wealth inequality in South Africa rather than just having negative perception costs to the economy such as discouraging wealth creation.

44. On the other hand, if the wealth taxes derived are significant, the question must be asked to what extent an economic distortion is created at the expense of those bearing the liability for the wealth taxes. This means that the more likely the raising of sufficient wealth taxes are in securing significant change in inequality, the more likely it is that this exponentially increases its distortive qualities that have to be considered.

Efficient and effective transfer of wealth

45. Whilst it is noted in the DTC's media statement that the distribution of wealth and income in South Africa are both highly unequal, with a Gini coefficient of about 0.95 for wealth and 0.67 for income, the *manner in which equality is sought* is of cardinal importance.

46. One of the key objectives of the National Development Plan (the NDP) is to alleviate unemployment and poverty predominantly through economic growth.¹² The NDP articulates the need for structural change to make the economy sustainable and inclusive, capable of bringing about the long-term social gains which our diverse society requires. This means that any structural changes, including structural tax changes must support this overall strategic socio-economic intent. Chapter 6 of the NDP provides that we need to accelerate land reform but without distorting business confidence in the agricultural sector as well as the land market. Land reform *per se*, and the way in which it is achieved, must not distort business confidence.

47. Submission: Whether a wealth tax will succeed in reducing inequality is dependent on two factors. Firstly, whether the transfer of wealth is achieved effectively and efficiently (i.e. it will be required to be done via government and the manner in which this is done will be of particular importance). Secondly, the recipients of the wealth transferred need to be able to generate more wealth for themselves (i.e. more wealth than the payor can generate for them) rather than just consuming it. Where wealth transferred is merely consumed by government or recipients, it results in a net loss of wealth for the economy and this does not reduce or address wealth inequality.

Focussing governments efforts

48. It must further be recognised that fiscal policy can only go so far in driving socio economic change and in improving the living conditions of the whole of society. To enable inclusive growth, one must not only focus on increasing economic growth but economic growth which

¹² South Africa: National Planning Commission, National Development Plan, at 25.

empowers people through economic participation opportunities (i.e. not just employment) and sustainable welfare.

49. Whilst the introduction of a wealth tax may take the path of fiscal expansion, it is considered that fiscal expansion without fiscal discipline will subsequently lead to fiscal erosion, which in turn means a real adverse socio economic impact. Fiscal policy must be applied together with monetary policy, as well as an underlying structural socio economic reform, to achieve the desired sustainable result. The fiscal rules should be reviewed in light of the constitutional mandate also noting the opportunities for revenue streams, the functions of provincial government and how it relates to domestic resource mobilisation.
50. Government should therefore not be interventionist, but should create an enabling environment through levers such as reducing red tape, providing energy security, promoting productivity and enabling skills development.
51. Although taxes are generally partially used for redistributive purposes, for example for the provision of services to the poor, such purposes are only advanced over the long term if the tax base is sustained and, as noted in the NDP, if real economic growth is fostered.¹³
52. It is noted that there is an alarming loss of tax revenue due to fruitless and wasteful expenditure. This issue is well documented in reports by the Auditor-General (AG) and counteracts the effectiveness of raising tax revenues of any kind as a means of addressing inequality. From the latest AG report, issued in June 2017, it is clear that there is a decline in the control over state spending and this implies that a channelling of any new tax, such as a wealth tax, will also be capable of being employed in an unproductive and wasteful manner, which will essentially defeat the purpose of improving equality ratios.

53. Submission: We submit that we need a clear fiscal policy agenda, within the context of monetary policy and the underlying structural reforms, articulating the framework to change South Africa's current low-growth path and reduce unemployment, and that this must properly inform any decision to introduce any form of new tax, including any form of wealth tax.

54. Even where it is considered that the correct fiscal policies are in place, we submit that the implementation requires considerable focus. In this regard, it is clear that current economic realities and developments do not seem to correlate with what the NDP set out to achieve. It is imperative that fiscal policy principles should underpin the objectives of the NDP, whilst including in its focus the need for properly observing the constitutional values and fundamental rights.

The Katz Commission Reports

55. In its Eighth Interim Report, the Katz Commission concluded that there was no reason in principle why a rural land tax should not be given serious consideration. The main reasons were that a rural land tax would have the potential of raising revenues for rural local authorities, and provide rural authorities with greater fiscal authority while it would also seek to entrench horizontal equity principles in tax, levelling the position between urban and rural taxpayers.

¹³ Ibid.

56. The Katz Commission supported the broad principles but was reluctant to provide its full support to the immediate imposition of a rural land tax without having the benefit of a further detailed analysis that would among other things quantify the implications of a land tax on the agricultural sector, assess whether such a tax would create certain economic dislocations and whether it would exceed the capacity of rural local municipalities.
57. The Katz Commission mandated a subcommittee to conduct the investigation and received the report in September 1998.
58. The subcommittee noted that the capacity to implement such a tax and the impact on citizens were vital issues underlying the assessment of recommendations for a rural land tax.
59. Whilst the Katz Commission supported most of the recommendations of the subcommittee, it disagreed on certain key aspects, namely:
 - 59.1 A key concern was in regard to the valuation of property, particularly since the market value of property is detached from its productive value. Stakeholders from the agricultural sector further stated that higher tax rates may reduce the value of land, which would discourage banks from providing finance for farming activities and thereby reduce investment and production activities. It may further deprive workers from benefits such as free housing provided by employers.¹⁴
 - 59.2 Although the Katz Commission supported the introduction of a rural land tax at local governmental level (such as a national tax on agricultural land), it cautioned that it required comprehensive research to detect any undesirable adverse consequences. In addition, the proposed introduction of a land tax received considerable opposition from the South African public, who raised various fundamental concerns. In particular, the mining sector warned against the potential disincentive to prospective first-time land owners and criticized a land tax for being an insignificant source of tax revenue, whilst posing excessive administrative challenges.
 - 59.3 Further specific issues raised were the appropriate valuation methods to be adopted (market value versus use value), the optimal valuation intervals as well as the status of the rural taxes (also referred to as rural rates) and whether these charges should be provisional tax payments.

60. Submission: We submit that the recommendations of the Katz Commission must be properly contextualised and carefully considered in the decision making process as to whether any additional form of wealth tax should be introduced in South Africa, as well as deciding whether any existing form of wealth tax should be replaced by any other form of wealth tax. Consideration must therefore be given particularly as to whether any wealth tax must be introduced *in lieu of* or in addition to existing wealth or other taxes.

Existing taxes on wealth in South Africa

61. As noted above, South Africa already has wealth taxes in the form of donations tax and estate duty, both at the rate of 20 per cent, transfer duty at a maximum rate of 13%, property rates and taxes and securities transfer tax.

¹⁴ The Katz Commission. Eighth Interim Report of the Commission of Inquiry into certain Aspects of the Tax Structure of South Africa, at 20.

62. In addition, South Africa imposes capital gains tax on a fictional deemed disposal of, with minor exceptions, a deceased person's entire asset base at market value upon death. Such fictional disposal can impose an additional charge of up to 18% on the deceased's asset base (depending on the significance of the base cost of the relevant assets and rollovers) upon death.
63. We note that the First Interim Report of the DTC on Estate Duty regarded the capital gains tax as a tax upon income rather than a form of wealth tax because the tax only takes effect when a disposal results in the realisation of a capital gain. From a purely theoretical perspective, this classification may arguably be correct. However, there is doubt whether this principle applies in a system where nominal gains, as opposed to real gains, are subject to capital gains tax as such gains result from the mere holding (possession) of assets, which is one of the characteristics of a wealth tax. In addition, no account is taken of inflationary gains as no indexing is applied.
64. However, both estate duty and a fictional capital gain on death impose a tax burden on the deceased estate and both are computed on the market value of assets in the estate. The only important difference, besides exclusions, rebates and rates in the computation of the taxes is the subtraction of base cost from proceeds (ordinarily at market value) when computing the capital gain subject to tax. Both forms of tax result in a diminution in the amount available to be passed on to heirs of the estate.
65. Submission: We submit that the above rates of tax are substantial and that if any new wealth tax were to be introduced in South Africa, such new tax should be implemented in substitution of, at least, donations tax and estate duty and not in addition to all of the existing wealth taxes.

66. Furthermore, any proposed wealth tax model must take into account practical considerations and must guard against a theoretical approach that is not supported by empirical evidence.

67. The current wealth taxes also demonstrate that these type of taxes are cost inefficient and result in a significant tax administration cost burden for very little financial benefit in reducing inequality.

The global experience

68. As discussed in far more detail below, the global experience has been that countries that have net wealth, estate, inheritance or gift taxes collect low yields from such taxes and that the number of countries which have adopted such taxes has declined over time. The disadvantages to countries that have implemented wealth taxes, further explored below, are probably the reasons for the decline in the number of countries which tax wealth.
69. Furthermore, countries with which the South African tax system is often compared, such as Australia, New Zealand and Canada have no inheritance, estate or gift taxes, or recurring wealth taxes whereas South Africa already has various wealth taxes as noted above and one should therefore guard against an over-simplistic comparative analysis.
70. Globally, and in South Africa, the trend is to increase capital gains taxes (including on non-resident individuals), increase taxes on immovable property (including residential property)

and an increase in the scrutiny of high net worth individuals' (HNWIs) tax affairs by tax administrations as more effective tax policies.

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| 71. | <u>Submission:</u> The global experience, with regard to the implementation and subsequent abolition of wealth taxes, needs to be seriously considered by the DTC when considering the implementation of any form of new wealth tax in South Africa. |
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Valuation and administration issues

72. Valuation issues are a significant barrier to the introduction of a wealth tax in South Africa.
73. The first area of consideration is what valuation method should be used?
74. Currently the law requires a determination of value objectively, using a willing buyer and willing seller methodology. The design of the valuation rules and formulae for any wealth tax requires careful consideration and must balance the three main objectives when seeking a valuation, which are:
- 74.1 obtaining the best possible values;
 - 74.2 minimising administration and compliance costs; and
 - 74.3 minimising uncertainty and delay¹⁵.
75. On the one hand, the need for regular valuations imposes additional compliance and administration costs on taxpayers and on the other hand valuing assets only periodically has the risk that relative changes could be large which may create inequities for taxpayers.
76. A further complexity of the proposed wealth tax is that a large number of resources are required by the South African Revenue Service (SARS) to implement the tax. It was this complexity which, as early as 1976, made Germany's Union Fiscal Civil Servants demand the abolition of their wealth tax. In Austria, the complexity and lack of clarity around the tax also played a decisive part in its abolishment.
77. A wealth tax is also likely to generate a much higher number of valuation disputes with the revenue authorities due to firstly, the annual nature of the tax and, secondly, due to the fact that all individuals with accumulated wealth (presumably over a certain threshold) will be liable for the wealth tax as opposed to being based on the happening of an event i.e. being levied on a transaction only. Valuation disputes often take long to resolve and will therefore have a knock-on effect on the valuation of that asset in the following year of assessment. As Deborah Schenk and Noel Cunningham have remarked in a similar context, "*[a]ny system requiring appraisals is likely to be a loss for the government because it does not have the resources to win.*"¹⁶

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| 78. | <u>Submission:</u> The complexities surrounding how 'wealth' will be valued needs to be seriously considered by the DTC when considering the implementation of any form of new wealth tax in South Africa. |
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¹⁵ Miranda Perry Fleischer, Nomos Wealth Volume (2016) Not So Fast: The Hidden Difficulties Of Taxing Wealth

¹⁶ Noel B. Cunningham & Deborah H. Schenk, (1992) Taxation Without Realization: A "Revolutionary" Approach to Ownership, 47 TAX L. REV. 725, 743 n. 78.

Wealth Taxes under consideration by the DTC

79. We discuss below the desirability and feasibility of the following possible forms of wealth tax under consideration in more detail, namely:
- a. A land tax;
 - b. A national tax on the value of property (over and above municipal rates); and
 - c. An annual wealth tax.

A Land Tax

Tax policy considerations

Current wealth taxes – Tax mix

80. A land tax disregards value and focuses on the actual area, i.e. tax on each square metre of land owned.
81. The value of land is already included in the tax base for estate duty, donations tax, transfer duty and property rates and taxes if held by taxpayers directly or indirectly (for example as reflected in the value of shares held by a taxpayer). As such, the introduction of such a tax would amount to yet another form of wealth tax *on the same underlying asset* and therefore be burdensome on taxpayers.
82. If based on a ‘municipal rates’ model, it should be noted that municipal rates currently extract about **R49 billion** from a small number of ratepayers and such an amount will definitely have a significant impact¹⁷ if applied even more broadly, based merely on land size than payment capacity.

Impact on land values

83. Another important issue is the impact of such a tax on the value of the land itself. Generally, immovable property can only be valued with professional assistance at a cost, although values may be obtained from other sources i.e. municipal property tax assessments.
84. Immovable property, as an asset class, is likely to suffer a decline in value as a result of forced sales of properties in order to be able to pay the tax. The introduction of such a tax would also make immovable property a less attractive investment than other asset classes, for example shares. Since banks rely on immovable property as security for lending, the introduction of such a tax is likely to reduce the borrowing capacity of new borrowers with negative implications for the economy. In the case of existing bank loans, a decline in the value of security held by banks in the form of mortgages over immovable property may result in the re-negotiation of existing bank loans. In addition, banks perform an affordability analysis of clients before granting them credit and the existence of any additional liabilities,

¹⁷ <http://citizen.co.za/news/1554999/billions-municipal-coffers-stats-sa/>

such as a new land tax, may reduce the amount which a bank may be willing to lend to a client, thereby making access to credit more difficult in South Africa.

85. Even with a small percentage of land tax, the likely economic impact namely to take money out of the economy, which will then have a further compounding adverse economic effect which can be ill afforded in the current recessionary economic circumstances. In theory, if the land taxes are spent effectively on the productive side of the economy, this will not have the same adverse impact, but this is not likely to be the case given the current irregular and wasteful spending practices of the government.
86. Under this regime, either the land itself without improvements (i.e. excluding any buildings erected thereon) or the land and the improvements fall within the tax base. Where the tax is imposed on land only, it may be perceived to be more effective than a comprehensive property tax as it encourages the productive use of land (which can promote economic growth), whereas property tax (discussed below) may be perceived to discourage investment in buildings and improvements.

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| 87. | <u>Submission:</u> For the above reasons, we are strongly of the view that such a tax should not be introduced. |
| 88. | We further submit that the DTC must take into account key policy considerations with the introduction of a land tax. These include the financial impact that such a tax will have on the economy and the possible negative impact on the financial system by reducing access to credit in South Africa. |

Legal considerations

89. The current ownership structure of land and immovable property will determine the manner in which a land tax will be capable of being implemented from a legal perspective. There are various forms of land ownership that will need to be considered, and include among other things real rights, leasehold rights, bare dominium and *fideicommissum* structures. Furthermore, land may currently be privately or publically held.
90. The definition of immovable property will, for example, need to be considered. The definition of immovable property as provided in paragraph 2 of the Eighth Schedule to the Income Tax Act, 1962 (the Act) previously distinguished between residents and non-residents for purposes of determining a capital gains tax liability. Insofar as residents are concerned, CGT applied to any capital gain derived from the disposal of any capital asset irrespective of where the asset is situated. As far as non-residents are concerned, the CGT liability was only triggered if the assets were capital in nature and constituted fixed (immovable) property in South Africa, any interest or right of whatever nature of that non-resident to or in immovable property situated in South Africa, or any asset which was attributable to a permanent establishment of that non-resident in South Africa.
91. Paragraph 2(2) of the Eighth Schedule defined an 'interest in immovable property' situated in South Africa as equity shares held by a person in a company or a vested interest in the assets of a trust if more than 80% of the market value of those equity shares is attributable to immovable property situated in South Africa, and in the case of a company or other entity, that person directly or indirectly holds at least 20% of the equity shares in that company or ownership or right to ownership of that other entity.

92. According to paragraph 2 of Article 6 of the Organisation for Economic Co-operation and Development (OECD) Model Tax Treaty, the term “immovable property” is defined to include the *“rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources;...”*
93. Having regard to the above, it became clear that the definition of ‘immovable property’ in paragraph 2(2) of the Eighth Schedule was not aligned with the definition of ‘immovable property’ in the OECD Model Tax Treaty in that the definition did not include the right to mine, prospecting rights, and the right to work mineral deposits and other natural resources. Given South Africa's vast treaty network, the Explanatory Memorandum to the Draft TLAB proposed that the definition of the term ‘immovable property’ in paragraph 2(2) of the Eighth Schedule be closely aligned to that provided in paragraph 2 of Article 6 of the OECD Model Tax Treaty, to include the right to variable payments or fixed payment as consideration for the working of or right to work mineral deposits, sources and other natural resources.
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| 94. | <u>Submission:</u> We submit that considerable empirical evidence will need to be obtained to determine the likely legal impact of a land tax on various sectors of the economy. |
| 95. | We submit that the definitions of immovable property and interest in immovable property will need to be properly aligned to ensure that anomalies do not arise, as was the case with the previous wording of paragraph 2(2) of the Eighth Schedule. |

Tax administrative considerations

96. A key consideration for implementing any new tax type is the tax administrative considerations. In this regard, even proponents of a land tax acknowledge the practical difficulties with the implementation and ongoing management of a land tax. The challenge for SARS will be the requirement to design a new system to accommodate a new tax type, which will be over and above SARS' current challenges in administering the existing system.
97. Although the Katz Commission supported the introduction of a rural land tax to be administered at local governmental level (such as a national tax on agricultural land), it cautioned that it required comprehensive research to detect any undesirable adverse consequences. In addition, the proposed introduction of a land tax received considerable opposition from the South African public, who raised various concerns. In particular, the mining sector warned against the potential disincentive to prospective first-time land owners and criticized a land tax for being an insignificant source of tax revenue, whilst posing excessive administrative challenges.
98. The compliance and collection costs of such a tax are likely to be high, which is an important consideration, especially given the current constraints on the economy as well as SARS.
99. For example, the effective use of small amounts, should revenue be low, can be the funding model for a student on the SAICA Thuthuka Model (as being piloted for the Missing Middle ISFAP project) with regard to fees, accommodation and support, and an additional R5 billion collected may enable another 33 333 students (i.e. equal to the total number of students of any of either FSU, Wits or Stellenbosch University) to participate, which will make a significant difference in enabling young people to take the first step in creating wealth. Such a direct channelling of funds will also reduce any negative perceptions of wastage or bureaucracy as

it creates direct benefits to society as a whole. Therefore, if the new wealth tax is aimed at achieving such a specific goal, this may prove to be beneficial to South Africa as a whole. However, we are quite cognisant of National Treasury's policy against ring fenced taxes, such as the directing of taxes to a student funding model as explained above.

100. Taxpayer's rejection of a perceived unfair system is also a concern, as seen in e-tolls and municipal rates. In the latter, it is noted that R128 billion in debt is owed to municipalities and that is with many people excluded from the system, hence rates only equal 14,7% of municipal income¹⁸.

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| <ol style="list-style-type: none">101. <u>Submission:</u> We submit that the cost of administration versus the benefit of introducing a land tax must be carefully weighed up.102. If a specific goal is set out to be achieved with the revenue received from a new wealth tax, such as making a direct contribution towards the education of students and thereby creating an opportunity for their future wealth creation, then the new wealth tax would appear justifiable (subject to close monitoring and transparency in terms of the actual results achieved). |
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A Property Tax

Tax policy considerations

103. This form of tax is generally levied on the market value of property, *without reducing it with related debt* and is typically confined to specific types of property.¹⁹ Immovable property falling within the tax base varies by country and may be limited to land or buildings or a combination of both.²⁰ Globally, this form of tax is often favoured by tax authorities since immovable property cannot be moved offshore, which makes it difficult to circumvent this tax.²¹
104. Nevertheless, evidence from Sweden, which abolished property tax in 2008, shows that it is highly inequitable and creates severe financial hardship for taxpayers, especially retirees. A major difficulty experienced was the rapid growth in property value relative to expendable income, which made property tax unaffordable.²² Furthermore, significant difficulties and costs are associated with identifying, measuring and valuing assets, which often induce tax avoidance.²³
105. It is further likely that a land tax will increase the price of food and rent which will ultimately adversely impact the poor.

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| <ol style="list-style-type: none">106. <u>Submission:</u> We are opposed to any form of tax on the gross value, rather than the net value, of property. In terms of the global experience, the gross taxation basis has been the cause |
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¹⁸ <http://citizen.co.za/news/1554999/billions-municipal-coffers-stats-sa/>

¹⁹ Ristea, L. & Trandafir, A. (2010). Wealth tax within Europe in the context of a possible implementation in Romania – the existing wealth tax and its decline in Europe, at 2.

²⁰ Bird, R.M. & Slack, E. (2002), Land and Property Taxation: A Review, at 12.

²¹ Ristea, L. & Trandafir, A., *supra* note 8, at 300.

²² European Commission (2014), Cross-country Review of Taxes on Wealth and Transfers of Wealth, at 387.

²³ Fleischer, M.P. (2012), Not So Fast: The Hidden Difficulties of Taxing Wealth, at 15.

for 'capital flight' since residents have sold up and left the country on the basis that they could not afford the tax.

Legal considerations

107. There is currently no single valuation methodology that can be relied on in valuing immovable property. The various methods adopted in practice are highly complex and require the expert knowledge of highly skilled persons, and as such will result in significant costs.

108. Submission: We submit that due consideration must be given to the costs associated with obtaining valuations, and the appropriate methodology to adopt. We therefore submit that considerable empirical evidence will need to be obtained to determine the likely legal impact of a property tax on various sectors of the economy.

109. We submit that although values may be available from other sources, e.g. municipal property tax assessments, the best evidence of accurate valuations of immovable property comes from purchase and sales in the open market. However, there are many properties where it is difficult to identify comparable assets that have recently been sold, therefore valuations at certain yearly intervals or a valuation formulae might be a practical approach to determining value for land and buildings.

Tax administrative considerations

110. As with a land tax, the compliance and collection costs of such a tax should not be underestimated, especially given the current constraints on the economy as well as SARS.

111. Furthermore, as noted above in respect of municipalities, compliance with current property rates in SA is quite low and is further aggravated by government's lack of accurate data on land ownership in South Africa. Any organ of state, even SARS, will have an impossible task of then determining who should be liable for the tax and this in itself will contribute to the number of disputes.

112. Submission: We submit that in-depth cost benefit studies will need to be done to determine whether the tax revenue raised will be significant enough to warrant the costs required in administering the tax.

113. The ability of SARS to properly administer a wealth tax must be considered, especially where the value of the asset is not matched to the ability to pay the cost of ownership through productive use.

Socio-economic impact

114. Another important issue is the impact of such a property tax on the value of the land itself. Immoveable property as an asset class is likely to suffer a decline in value, as a result of forced sales of properties in order to be able to pay the tax.

115. Assets subject to the tax will generally be illiquid. The underlying asset, or an alternative asset, may have to be disposed in order to fund the tax, thus also potentially giving rise to a further CGT burden.

116. As mentioned, the introduction of a property tax would also make immovable property less attractive as an investment than other asset classes, for example shares. Consideration must be given thereto that the majority of home and land owners finance their property acquisitions through loan funding (mortgage loans). A property tax is likely to have a spiral effect which will adversely impact especially the entry level property owners, which means that the ability of low-income earners to own immovable property will be challenged even more than what is currently the case.
117. Since banks rely on immovable property as security for lending, the introduction of a property tax is likely to reduce the borrowing capacity of new borrowers with negative implications for the economy. As noted above, in the case of existing borrowings, due to a decline in the value of security held by banks in the form of mortgages over immovable property, (i.e. banks financing less than 100% of the market value of the property) the introduction of such a tax may result in banks entering into new financing arrangements with clients as a result of a decline in the value of their security, alternatively requesting additional security to be provided to compensate for the decline in the value of immovable property held as security.
118. Furthermore, as adverse economic activity also impacts land values, it means that as an annual revenue collection tool this tax is not very reliable and will require a rate adjustment in times when taxpayers can least afford such burden.
119. Submission: For the above reasons, particularly the adverse impact on property values, we are strongly of the view that such a tax should not be introduced.
120. The adverse impact that the above-mentioned spiral effect is likely to have on entry level property owners will defeat the purpose of a property tax to achieve better equality.

An annual wealth tax

Tax policy considerations

121. At present, recurring taxes on accumulated wealth are fairly uncommon and have been phased out by several countries in the last few decades. Statistics from the OECD indicate a significant decline in member countries imposing an annual tax on net wealth. For instance, in 1985, there were fifteen member countries that imposed an annual wealth tax, whereas only five of these countries still levied this tax in 2012.²⁴
122. Over the years, several countries, including Austria, Denmark, Germany, Finland, Iceland, Luxembourg, Sweden and Spain, have abolished annual wealth taxes due to its adverse consequences and concerns over the global mobility of human and financial capital.²⁵ It is further argued that this form of tax can be highly inequitable. This led to the abolishment of an annual wealth tax in Germany as the Constitutional Court found that it imposed an excessive burden on certain taxpayers, which could not be justified by its objective to reduce wealth inequalities.²⁶

²⁴ OECD (2014), Trends in Top Incomes and their Taxation in OECD Countries, at 56.

²⁵ Glennerster, H. (2011). Why was a wealth tax for the UK abandoned?: lessons for the policy process and tackling wealth inequality, at 2-3.

²⁶ Ristea, L. & Trandafir, A., *supra* note 8, at 305.

123. Moreover, a specific concern in Finland was the inequitable impact of wealth tax on businesses and the susceptibility of related legislation to evasion.²⁷ Developments in Luxembourg further suggest that an annual wealth tax discourages foreign investment, as this country particularly abolished this tax in order to create a favourable tax environment for foreign investors.²⁸ Furthermore, evidence from Sweden indicates that a wealth tax may inadvertently fail to redistribute income from the rich to the poor, as many of the wealthiest taxpayers in this country managed to avoid this tax by utilising exemptions. It was also perceived to be unfair to levy tax on unrealised property, which consequently led to its abolishment in 2007.²⁹
124. In addition, India (a developing country like South Africa, which strives to alleviate unemployment, poverty and to promote economic growth)³⁰ has repealed its annual wealth tax provisions. This was mainly because it resulted in high collection costs, whilst it generated low returns in tax revenue. Consequently, it was replaced with a 2% surcharge on taxable income exceeding a particular threshold.³¹ Wealth tax has also been withdrawn in Hungary as it encouraged many taxpayers to transfer wealth offshore, whilst others emigrated. It is also noteworthy that wealth tax in this country resulted in tax avoidance schemes and that the taxation of unrealised profits was largely perceived inappropriate. In order to prevent prospective emigrations and a further decline in tax revenue, the Hungarian authorities replaced their annual wealth tax with a tax on notional yields of 4% on net wealth.³²
125. Evidence from member countries in the European Union further shows that even when combined with inheritance tax, taxes levied on net wealth generates an insignificant share of these countries' total tax revenue, which also represents a low percentage of GDP.³³ Moreover, the introduction of an annual wealth tax may reduce a country's tax-to-GDP ratio, as it encourages productive capital to exit the country and simultaneously discourage foreign investment, which thereby impede economic activity.³⁴ Even in 1974, when the international mobility of assets was much more restricted, authorities in the United Kingdom found that an annual wealth tax would have a major influence on the efficiency and stability of an economy, particularly by discouraging savings, small business development and an outflow of money and assets from a country.³⁵
126. Schuyler³⁶ further analysed the potential impact of introducing an annual tax on wealth in the United States and found that even if it is levied in a conservative manner (i.e. starting at a higher threshold at a minimum rate), it will weaken the country's entire economy by reducing employment, wages and the output of goods and services. The cost of this tax will therefore not be borne by the wealthiest citizens alone, but will extend to families in all income classes, thereby resulting in greater inequality. In addition, smaller businesses and investors in immovable property will be at risk of suffering liquidity problems, which may impede economic growth.³⁷

²⁷ European Commission, *supra* note 11, at 382.

²⁸ European Commission, *supra* note 11, at 270.

²⁹ European Commission, *supra* note 11, at 388.

³⁰ India Ministry of Finance (2014), Budget Speech: 2015-2016, at 1.

³¹ India Ministry of Finance, *supra* note 19, at 23-24.

³² European Commission, *supra* note 11, at 302.

³³ European Commission, *supra* note 11, at 7.

³⁴ Ristea, L. & Trandafir, A., *supra* note 8, at 304.

³⁵ Glennerster, H., *supra* note 14, at 12-14.

³⁶ Schuyler, M. (2014). The Impact of Piketty's Wealth Tax on the Poor, the Rich, and the Middle Class (at 27).

³⁷ Bach, S., Beznoska, M. & Steiner, V. (2011), A Wealth Tax on the Rich to Bring Down Public Debt? Revenue and Distributional Effects of a Capital Levy in Germany, at 72.

127. A further disadvantage of a net wealth tax is that it discourages investment and savings.³⁸
 128. As an annual wealth tax is essentially a tax on accumulated savings, a net wealth tax with a high effective rate will therefore discourage savings in South Africa and will be contrary to the government's current efforts to encourage savings in the country.
 129. A reduction in the savings rate will in turn reduce the flow of investment funds available to the private sector³⁹. The combined weight of the net wealth tax and income tax will depend on the rate of return on wealth and will therefore be inconstant from year to year. If the net wealth tax is additive then dis-saving is inevitable.
 130. For example, a wealth tax of 2% applied to an investment yielding 4%, is equivalent to an income tax of 50%. If the rate of income tax is 45% then the combined weight of the wealth tax and income tax is 95%, which is untenable.⁴⁰
 131. It also poses a disincentive to entrepreneurship, which is in direct conflict with one of the key objectives stated in the NPD. Foreign jurisdictions further report that this tax results in high compliance and collection costs, which generally outweigh the tax revenue generated.⁴¹
 132. A further distortionary effect of wealth tax is that to the extent that it is additive, it necessitates a realisation of assets and/or holding of assets in liquid form to pay the tax and/or increases in borrowings to pay the tax.⁴² An additive wealth tax is a tax which cannot be met out of income when it is 'added' to the existing income tax rate, i.e. the tax can only be met by the sale of assets. Net saving becomes impossible where the combined average rate of income tax and wealth tax exceeds 100%.
 133. Even Piketty acknowledges that the imposition of tax on unrealised profits may have a distortive impact on taxpayers (especially companies in financial distress) as it may impose a tax burden on capital even in periods where losses are incurred. Nevertheless, he asserts that countries can address this problem by maintaining an appropriate balance between tax on inheritance, income and capital.⁴³ The optimal relationship in the context of a developing country is, however, unclear since there is no official research providing guidance in this regard and existing literature proof that the global experience with this tax had been largely unsuccessful.
134. Submission: As already submitted, the global experience, with regard to the implementation and subsequent abolition of wealth taxes, needs to be seriously considered by the DTC when considering the implementation of any form of new wealth tax in South Africa.
 135. As a result of all of the reasons noted above, we are strongly of the view that such a tax should not be introduced.

³⁸ Sewalk, S. & Leaman, R. (2014), A Comprehensive Net Wealth Tax: The Solution to Tax Simplification, Fairness, Equity & Saving Social Security, at 26.

³⁹ Thomas A. McDonnell (2013), TASC NERI Working Paper Series Wealth Tax: Options for its Implementation In the Republic of Ireland

⁴⁰ Sewalk, S. & Leaman, R. (2014), A Comprehensive Net Wealth Tax: The Solution to Tax Simplification, Fairness, Equity & Saving Social Security, at 26.

⁴¹ European Commission (2014), *supra* note 11, at 9.

⁴² OECD (2010), Tax Policy Reform and Economic Growth and Wealth Tax: Options for its Implementation in the Republic of Ireland.

⁴³ Piketty, T. (2014), *supra* note 2, at 368.

Legal considerations

136. From a legal perspective, specialised rules for the valuation of many different assets would be required. A date on which wealth tax is to be ascertained must be chosen for all taxpayers (which presumably must be the same date or else debts claimed to be owing to other taxpayers could not be audited), which would mean that an additional balance sheet would have to be produced by taxpayers. The date of payment of the wealth tax must also be considered, given that the asset or part thereof must be realised in order to meet the tax liability.

137. Submission: We submit that the consideration of the implementation issues associated with a wealth tax, give rise to questions which must be explored to assess the feasibility of such tax.

Tax Administrative considerations

138. The introduction of an annual wealth tax may prove to be more onerous on taxpayers than any of the other possible wealth taxes, as a result of the repetitive nature of the submissions to be made to SARS.

139. Submission: We submit that the costs of introducing a repetitive obligation on taxpayers to provide annual submissions for purposes of implementing an annual wealth tax must be factored into any wealth tax model, but particularly so for an annual wealth tax.

140. The proposed wealth taxes would place a considerable burden on taxpayers with little perceived benefit. In addition to being costly and complicated, the effectiveness of an annual wealth tax in South Africa may be undermined by taxpayers employing a variety of avoidance strategies to artificially deflate value. A wealth tax is also likely to generate a much higher number of valuation disputes with the revenue authorities, due firstly to the annual nature of the tax, and secondly, due to the fact that all individuals with accumulated wealth (presumably over a certain threshold) will be liable for the wealth tax as opposed to being based on the happening of an event, i.e. being levied on a transaction only. Valuation disputes often take a long time to resolve and will therefore have a knock-on effect on the valuation of that asset in the following year of assessment. Deterrents to and penalties for under valuations would need to be considered.

141. Submission: We submit that even if an annual wealth tax would generate revenue, which could be used to decrease the national debt, the same wealth tax would generally incur high management and administration costs, for both the taxpayer and SARS.

Socio-economic impact – Cost of asset ownership

142. There are many adverse economic consequences as a result of a wealth tax. Firstly, a wealth tax demands a percentage of everything a person has managed to save and thereby discourages savings. Secondly, depending on the impact and rates, in order to pay this wealth tax, people may have to realise their assets, resulting in a flood of selling and a collapse of asset prices which lowers the revenue from the tax as wealth is reduced. Thirdly, the decrease in wealth will likely lead to a recession which will worsen the government's financial situation.

143. Submission: We submit that for the above reasons, particularly the adverse impact on the economy, we are strongly of the view that such a tax should not be introduced.

Other alternatives to consider

144. The policy imperatives on the “One Household One Hectare” and “One Household Two Dairy Cows” initiatives of the Department of Rural Development and Land Reform (DRDLR) must be considered in the context of any rural land initiatives. The DRDLR are currently looking at other practical issues such as the cost factors hindering the Department’s efforts to communicate with poor rural communities. The pilot project was launched on 5 June 2017 and involves a number of initiatives.
145. Instead of using fiscal policy, various funding and ownership models may be considered to enable ready access to property ownership and property funding and thereby enable a broadening of the base of property ownership and improved equality ratios in South Africa.
146. Submission: We submit that the DTC must take into consideration other land redistribution initiatives undertaken by government in terms of a holistic approach. Consideration must in our view be given to mechanisms that are closely aligned to the NDP, and which will cause less uncertainty and less of a disruption in the land market.
147. An example would be a public-private partnership funding model, where grant funding is potentially combined with commercial loans on a 50-50 basis for government to purchase land on the open market that may be transferred to beneficiaries.

Conclusion

148. Although wealth taxes may be seen as redistributive in nature, their impact on market behaviour and the economy as a whole is unpredictable. This is especially true in the case of wealth taxes on land or property.
149. It is probable that the introduction of further wealth taxes in South Africa, in the form of a periodic tax on net wealth, will encourage HNWLs to emigrate or export assets which, due to the ensuing depletion in tax revenue, may further narrow the tax base.
150. Existing research and global experience further indicate that wealth taxes are prone to administrative difficulties and costs for tax authorities and taxpayers alike and represent a minor source of global jurisdictions’ aggregate tax revenue. It is submitted that South Africa would be no exception, particularly since the most recent tax statistics indicate that taxes on property (which include transfer duty, securities transfer tax, donations tax and estate duty) comprises approximately 1.4% of total tax revenue, thereby making it the smallest component of the tax base.⁴⁴
151. It should further be noted that South Africa has recently introduced an additional normal tax bracket of 45% on taxable income exceeding R1 500 000 per annum, which equates to a 4% surcharge on the taxable income of taxpayers with the highest taxable incomes, who are also largely the wealthier taxpayers in South Africa. The impact of this increase on tax revenue will only materialise from the 2018 year of assessment and may potentially eliminate the need

⁴⁴ National Treasury and the South African Revenue Service (2016), 2016 Tax Statistics, at 29.

to introduce the proposed wealth taxes. In addition, the same taxpayers will be paying a 20% withholding tax on dividends received while the maximum global norm is 15%.

152. In this regard, consider the experiences of the United Kingdom (the UK), as noted by EY⁴⁵:

“....where a 5 percentage point reduction in the highest personal income tax rate (from 50% to 45%) was the largest reduction (in overall size) globally in 2013, and which was clearly counter to the trend of a rising tax burden on wealthy individuals elsewhere. The reduction, which moved the UK’s PIT rate from fifth-highest in the European Union (EU) to 11th in 2013, may only have been feasible because the rate had earlier been raised from 40% to 50% in 2010 and because other (wider) policy moves had resulted in the UK returning to economic growth ahead of many other countries.”

153. A review of international literature and the experience of several countries that formerly implemented wealth taxes indicates that such taxes would be a highly ineffective means for achieving the intended objectives. A wealth tax may further risk the attainment of fiscal objectives such as promoting economic growth and alleviating poverty and unemployment.

154. Submission: We are therefore of the view that the introduction of further wealth taxes, in whatever form, would not be an effective means of addressing the problems relating to wealth inequality in South Africa and that wealth inequality must be addressed through other policy avenues than through an expansive fiscal policy.

155. If for some reason the introduction of a wealth tax (such as a land tax or annual wealth tax) is considered appropriate (for example, in order to manage the perception of the lower income groups that this is appropriate), this cannot be imposed *in addition to* any other tax liabilities, but *must be structured to replace existing taxes*, as a liability in addition to existing taxes will be too onerous and hence not sustainable in the medium to long term. It may also lead to avoidance measures being entertained by taxpayers.

156. We submit that *the real problem is the lack of economic growth* which contributes to government’s inability to address the unemployment, poverty and inequality meaningfully. The other major problem of course, is corruption. These real issues should be addressed as a matter of priority rather than extorting further revenue from the already overburdened, and admittedly small, tax base. Supporting the AG by introducing measures to hold delinquent officials to account will go a long way towards achieving financial discipline in public enterprises. Monies wasted or employed for corruption can be better utilised to achieve the NDP’s goals.

157. We further submit that in any event, in order for a wealth tax to be successfully implemented, comprehensive information will need to be available on the composition and distribution of household wealth in South Africa. It is unlikely, in our view, that calculations based on the aggregate wealth of individual households or even individuals on their own will be an accurate indication of how many households will be impacted by such a wealth tax under different wealth tax scenarios and what their likely socio-economic impact might be.

⁴⁵ Per EY publication “Wealth under the Spotlight 2015: How taxing the wealth is changing”, available on www.ey.com