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SUBMISSION ON POSSIBLE WEALTH TAXES FOR SOUTH AFRICA

The Davis Tax Committee (DTC) in its first interim report on estate duty recommended that it would not be advantageous to impose an annual wealth tax or similar form of taxation. It is unfortunate that the former Minister of Finance did not accept that recommendation and instead requested the DTC to reconsider the matter. That implies a rejection of the Committee's report and that the Minister considered a wealth tax to be imperative.

The following submissions are made to support the recommendation of the DTC that a wealth tax would not be advantageous:-

1. Annexed to this memorandum is the current article on wealth tax from Wikipedia. It contains many pertinent points which need not be repeated in this memorandum.

2. It is important to note however that six European countries have in recent years discontinued this kind of tax. It is also important to note the harm caused in France by a wealth tax and the view that ultimately it resulted in a net loss in tax revenue.

3. From the comments made by the proponents of a wealth tax it is apparent that the primary goal of a wealth tax is to achieve a redistribution of wealth. Redistribution of wealth is a long established canard of socialism. Accordingly it was implemented in communist countries such as Russia and China. Politically these countries still claim to be communist but their economies have allowed and encouraged the growth of capital.

4. A study of the Russian and Chinese tax systems as well as India should provide a helpful assessment of the impact of a wealth tax in South Africa. Those three countries together with South Africa are members of BRICS:-

   (a) According to "Taxation and Investment in China 2016" by Deloitte, paragraph 6.4 "China does not levy net wealth tax"
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   (b) In an article in Wikipedia entitled "Taxation in Russia" there is no mention of a wealth tax save for a Corporate Property Tax on certain assets but excluding land which is subject to a land tax or municipal rates similar to those charged locally in South Africa.

   (c) India had a wealth tax but with effect from April 2016 abolished it and instead increased a surcharge on a minority of taxpayers referred to as the "super-rich". In an article published on the internet under bankbazaar.com\tax\wealth-tax the reasons why the wealth tax was abolished are set out.

South Africa should learn from these countries.

5. Wealth is defined in the dictionary as riches or abundant possessions. It is less emotive to talk of capital or a capital tax. Capital is defined as money or the assets used to start a business. In earlier submissions the writer made to the DTC on its first interim report, the undermentioned comments were recorded and are repeated here as applicable to the present enquiry:-

(d) The accumulation of capital is a slow process requiring disciplined saving and sacrifice. Capital is needed for the purchase of a home, the high cost of educating children and grandchildren and to provide retirement income. Those in the private sector do not enjoy the security of State pensions and must make provision for themselves. For the State to appropriate further savings of capital to achieve a redistribution to others is unlikely to assist in achieving economic growth.

(e) The biggest engine for growth is the promotion and development of small businesses. The building of factories, the establishment of businesses and the running of farms require capital. Entrepreneurs risk their capital in ventures which are not always successful and entrepreneurs provide employment. Capital, land, labour and enterprise are the well known four components of economic growth. Remove one and the others totter.

6. Most taxpayers achieve an attractive level of capital accumulation only around the time of their retirement. The Wikipedia article quotes a 2013 Forbes article which makes the point that a wealth tax has a disproportionate effect on seniors. It can put retirement plans in jeopardy.

7. To constrict the supply of money by imposing a wealth tax is to constrict economic development and to limit employment of workers. It is notable that in both Russia and China significant numbers of entrepreneurs have accumulated capital which they have invested in further development but more conspicuously have used to acquire properties and businesses in other countries. In Australia the buoyant property boom continues unabated, largely because it is fuelled by individuals and corporates from China who transfer funds to Australia for the purchase of properties and businesses. The same trend has been experienced with investment from China into the United States of America and Canada.

8. In South Africa a wealth tax exists through estate duty payable on death as well as a capital gains tax. From a fiscal point of view, the DTC may consider CGT to be part of income tax - probably because the gain is

included in the income tax calculation. However in economic terms it can only be a tax on capital as it results in a contraction of capital.

9. Because dividends tax is imposed not only on income but also on capital distributions made by a company, it too is a component of capital gains or wealth tax. A company which realises a capital gain pays a total of 37.9% of such gain in CGT and dividend tax. This is a clear redistribution of accumulated wealth and has proved a disincentive to the realisation of assets because the investment of the nett proceeds often is unable to achieve similar returns to the returns achieved by the assets disposed of. Furthermore CGT does not take inflation into account. A notional gain in numerical terms does not translate into a gain in purchasing power.

10. Estate duty, CGT and dividends tax are transactional in nature in that money is generated to pay the tax. A wealth tax would be wholly different. It would be imposed on the value of assets and a portion of those assets would need to be disposed of to provide funds for the payment of the wealth tax. The disposal itself would give rise to the payment of CGT and possibly dividends tax. The imposition of a wealth tax on an annual basis would lead to a diminution of the assets owned by a taxpayer and would place a limitation on the entrepreneur's ability to expand a business and provide further work opportunities. Therefore a wealth tax would be self-defeating in many respects. That has been the experience of other countries.

11. A wealth tax would also require assets to be valued on an annual basis. This could be an expensive exercise and the valuation of assets such as shares in a private company would be difficult for a valuer to assess and difficult for SARS to question.

12. Most employees and in particular State employees are obliged to contribute towards a pension or provident fund which guarantees them an income during retirement. Persons working in the private sector have no such obligation to contribute towards a pension or retirement fund and many persons in business endeavour to grow capital to provide a fund for their retirement. Capital is not accumulated because of avarice but to generate income during retirement. To punish those who assiduously save to take care of themselves would be senseless.

13. The concept of the redistribution of wealth has at its kernel the fallacious view that those who have, through education, hard work and sacrifice, saved money to provide for their wellbeing, should be obliged to apportion some of that money to those who have not been able to save money. Existing taxes already result in a significant redistribution of wealth. It is well known that a small minority of taxpayers pay a large percentage of income tax. The top marginal income tax rate of 45% plus the Vat payable on the spend of the residual income totals close on 52%. That borders on confiscatory.

14. Those who have been able to accumulate capital for their retirement already face progressively high marginal tax rates both on capital gains

and on income. In addition, property owners pay a land tax in the form of municipal rates and pay fuel levies and other indirect taxes including Vat on most items of expenditure. If a wealth tax is imposed on assets, the tax must also be imposed on pension funds, provident funds and retirement annuities. Why should those who have not accumulated capital but have bolstered their retirement savings escape the net?

15. The greatest crisis facing the country is the growing rate of unemployment. The State is not equipped to meet the demand. Unemployment can be abated only by increased economic growth and by greater investment by those who hold capital. To expropriate that capital on a progressive basis will curtail growth.

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