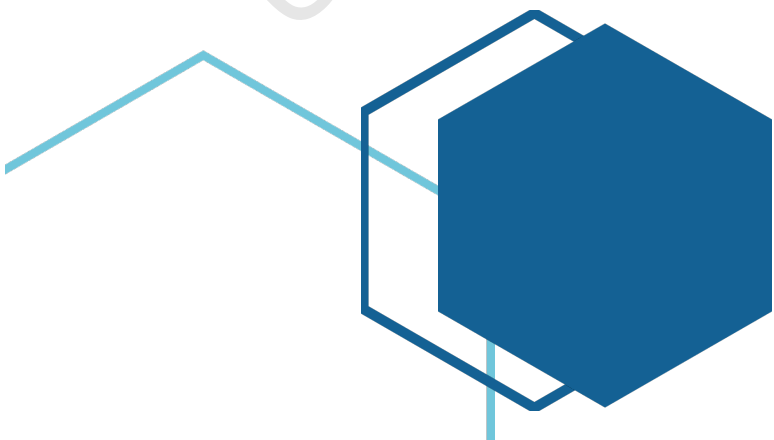


An Investigative Discussion on the Feasibility of an annual wealth tax in South Africa

Are South African Taxpayers ready for a wealth tax?

Simphiwe Mili
MLSIM002

Submitted to the University of Cape Town for the completion of the Masters in South African Income Tax



The copyright of this thesis vests in the author. No quotation from it or information derived from it is to be published without full acknowledgement of the source. The thesis is to be used for private study or non-commercial research purposes only.

Published by the University of Cape Town (UCT) in terms of the non-exclusive license granted to UCT by the author.

Table of Contents

Plagiarism declaration	3
Acknowledgements	4
Abstract	5
Glossary/Tables/Figures	6
Definition of key terms	6
List of tables	7
List of Figures	7
Chapter One: Introduction	8
1.1. Background	8
1.2. Problem Statement.....	11
1.3. Research objectives	12
1.4. Limitations of Scope.....	12
1.5. Research Method	12
1.6. Chapter Summary.....	13
Chapter Two: Lessons from international countries	15
2.1 India.....	17
2.2 France	18
2.3 Germany.....	20
2.4 Conclusion of the lessons from other countries.....	22
Chapter Three: The Principles Of A Good Tax System	24
3. The three canons of a good tax system	25
3.1. Simplicity.....	25
3.2. Efficiency.....	26
3.3. Equity	28
3.3.1. Horizontal equity.....	28
3.3.2. Vertical equity	32
3.3.3. Summary for vertical and horizontal equity	33
3.4. Conclusions drawn from the chapter.....	34
Chapter Four: The Advantages and Disadvantages of a Wealth Tax	36
4.1. Advantages of a wealth tax.....	36
4.2. Disadvantages of a wealth tax.....	39
4.3. Conclusions On The Advantages And Disadvantages Of Imposing A Wealth Tax.....	46
Chapter five: The Efficacy of existing Wealth Taxes in SA	48
5.1. Donations Tax	49
5.2. Transfer Duty	50
5.4. Estate Duty.....	52
5.4.1. The inefficiency of Estate Duty	53



5.4.2. The raising of limited revenue compared to the administrative burden 55
5.5. Conclusions on the efficacy of existing wealth taxes in South Africa 58

Chapter Six: Conclusion 60

References 62

Plagiarism declaration

1. I know that plagiarism is wrong. Plagiarism is to use another's work and pretend that it is one's own.
2. I have used the Harvard convention for citation and referencing. Each contribution to, and quotation in, this dissertation from the work(s) of other people has been attributed, and has been cited and referenced.
3. This dissertation is my own work.
4. I have not allowed, and will not allow, anyone to copy my work with the intention of passing it off as his or her own work.
5. I acknowledge that copying someone else's assignment or essay, or part of it, is wrong, and declare that this is my own work.

Signature _____

Signed by candidate

Acknowledgements

Dedication

This dissertation is dedicated to my late brother Siyasanga, who I tragically lost on 30 August 2019. Writing this paper and continuing with my life without you is by far the most difficult thing I have had to do. I know how much you believed in me and how much my success meant to you and so I have gathered strength from that to honour you through this paper. Mourning you and honouring my professional and academic commitments have not been easy but sometimes it feels like I can hear you cheering for me in heaven. I miss you terribly and I will love you always, Tshonyane wam.

Until we see each other again, I will continue to fight the good fight and taking care of our parents.

Gratitude

- To my supervisor, Professor Deborah Tickle, thank you so much for all that you have done for me throughout this period. Your willingness to help me with not only the dissertation but the coursework as well has not gone unnoticed. You sympathized with me during my heartache and have been very patient with me with throughout this process. Your dedication to my development through this paper has inspired me to pay it forward and invest in others who wish to further their studies in taxation. Thank you, Prof.
- To my boss and mentor, Graeme Saggars. Thank you very much for being extremely patient with me always. There are times where I have dismally failed to honour my professional commitments because of personal and academic reasons but you have always been so understanding. I promise to now raise the dedication to my professional work not only for the success of the firm, but because I know you prioritize our professional development as well.
- I would like to say a big thank you to my sister Luthando Mili who has seen me at my worst during this time. We were both grieving but you somehow still managed to hold me up. You know you mean the world to me and live in the centre of my heart. Enkosi MamTshonyane.
- Mama and Tata. You may have lost a child but you have gained an angel. Thank you for encouraging me to keep pushing even at the times when I was ready to give up. I aim to make you proud all the time. Even though we do not have much, I have never lacked anything with the two of you around. I love the two of you with everything I have and promise to always take care of you.

Abstract

In 2018 the Davis Tax Committee was tasked with the responsibility of investigating the feasibility of introducing an annual wealth tax in South Africa. This wealth tax would serve as a replacement for the existing wealth taxes that are Estate Duty, Donations Tax, Security Transfer Tax and Transfer Duty. There has since been great debate around this topic and the aim of this dissertation is to collate all the literature that has been researched on the wealth tax both nationally and internationally to conclude as to whether or not a wealth tax will be suitable for South Africa currently

The two main reasons behind the proposal of a wealth tax are firstly, to increase tax contributions to the South African revenue. Secondly, it is as a measure of redress given that South Africa has great disparities in wealth with the wealth Gini coefficient currently reported to be 0.9.

The wealth tax has not only been a contentious topic in South Africa, but has been debated globally. The OECD reported that initially 12 countries had implemented an annual wealth tax and now only 4 still have the tax operating in their economies. This dissertation focuses on lessons that can be learnt from international countries by conducting a country review on France, Germany and India. India is the only other BRICS country that had previously implemented the annual wealth tax and has since abolished it in 2015.

Furthermore, it is important for the introduction of any tax in an economy to align with the principles of a good tax system. Adam Smith set out the canons of a good tax system such as simplicity, efficiency and equity and this dissertation assesses whether the wealth tax aligns with these ideals and investigates whether it would be fair to implement this tax as per the principles of vertical and horizontal equity. As mentioned above, South Africa already has existing wealth taxes. This study therefore interrogates whether the annual wealth tax is necessary since there are already wealth taxes that exist and whether these existing taxes on wealth meet the intended ideals of the wealth tax.

There are advantages and disadvantages associated with the implementation of this tax. It was therefore important for this dissertation to juxtapose these. The dissertation concludes that the disadvantages outweigh the advantages of implementing a wealth tax in South Africa at the moment.

The introduction of a wealth tax would therefore not be feasible in South Africa at the moment.

Glossary/Tables/Figures

Definition of key terms

- **Wealth**

Wealth refers to all forms of accumulated marketable assets held and owned by individuals or households through savings or the preservation of inherited wealth (Trotman-Dickenson, 1996). Net wealth (which is synonymously termed as wealth in this dissertation) is the difference between gross wealth and total debt.
- **Annual Wealth tax ('wealth tax' or 'net wealth tax')**

A wealth tax is a tax that is imposed on all the net wealth of the taxpayer. This tax may be imposed annually and is not dependent on the flow of cash, transfer of ownership or an economic transaction (Sanford et al., 1975:5)
- **Estate Duty**

Estate Duty is the tax that is payable by the estate of a deceased person on all the assets owned by the deceased on the day of death (Section 2 and 3 of the Estate Duty Act (45/1995), hereinafter referred to as the Estate Duty Act).
- **Security Transfer Tax**

Securities Transfer Tax is a tax that is levied on the transfer of a security. A security is any:

 - Share or depository in a company; or
 - Members interest in a close corporation (CC).
- **Transfer Duty**

Transfer Duty is a tax levied on the value of any property acquired by any person by way of a transaction or in any other way. Property for Transfer Duty purposes is any:

 - Land and fixtures
 - Real rights in land and minerals
 - Share of interest in a residential property
 - Share in a share-block company
- **Donations Tax**

Donations Tax is a tax payable by the donor on the gratuitous transfer of certain assets (Section 54-55 of the Income Tax Act).
- **Horizontal equity**



Horizontal equity is a tax theory that states that people with the same ability to pay taxes should be taxed at more or less the same rates.

- **Vertical equity**

Vertical equity is a tax theory that states that large income earners should bear a greater burden of tax.

List of tables

Table 1: Tax revenue by main category between 2014/15-2018/19

Table 2: Percentage collections of wealth taxes between 2015-2019

List of Figures

Figure 1: The average wealth of taxpayers leaving France between 2002-2013

Figure 2: The average self-employment rates with and without a wealth tax between 1980-2003

Chapter One: Introduction

1.1. Background

In as early as 1992, Gordon Young published a book called 'The Price for Apartheid: The wealth tax and how it can pay for the re-construction of black communities'¹ where he points out that Apartheid is the starting point for the predicament of inequality in South Africa. Prior to 1994 some South Africans found themselves being favoured to acquire wealth based on the colour of their skin. The State, the law and institutions of every kind were favourable to white South Africans and enabled them to create an environment that was favourable for the creation of wealth by themselves and for themselves. Black South Africans, however, were excluded from this narrative and were only privy to opportunities to serve in a menial capacity. This is what conceived the ongoing disparity in wealth amongst South Africans and has continued to re-invent itself throughout the generations. Where the initial cause of the unequal distribution in wealth was colour, we now see the same thing happening through class and gender within all the racial groups.

The question Young said that South Africans were then faced with was whether the holders of this wealth can imagine the transfer of political power not being accompanied by a further re-distribution in wealth through a wealth tax? This question is still relevant today, over 26 years after that political power transferred. A further question is, will the ANC government satisfy the demand for re-distribution without 'killing the goose that lays the golden eggs'? This was a key point in the Davis Tax Committee ("DTC") submissions - that a new wealth tax could inhibit investment and was unlikely to generate much revenue. This is a great concern as was also supported by Orthofer (2015) when she said that 'given that the wealth-income ratio is so much lower in South Africa than it is in richer countries, capital related taxes not only have a much lower revenue potential than elsewhere, but might also undermine the country's simultaneous efforts of encouraging capital formation and lowering the dependency on foreign capital inflows'.

Various initiatives have been introduced to solve this conundrum, such as the programmes that are aimed at "uplifting" poor communities, social grants etc inequality has barely changed. A more recent suggestion for solving this issue is the introduction of an additional net wealth tax in South Africa.

¹ Young, Gordon. *The Price for Apartheid: the Wealth Tax and How It Can Pay for the Re-Construction of Black Communities*. Salt River (South Africa): Labour Research Service, 1992.



In 2016 the then Minister of Finance, Mr Pravin Gordhan, tasked the DTC with looking into the feasibility of introducing a wealth tax in South Africa. The DTC then released a report in March 2018 setting out its findings. An interesting point to note is that the DTC also looked into the performance of other forms taxes on wealth in South Africa in order to assess the need to introduce a new, additional or alternative, form of wealth taxation into the system. The taxes on wealth that already exist in South Africa are Estate Duty, Donations Tax, Transfer Duty and Security Transfer Tax.

The DTC report looked specifically at Donations Tax and Estate Duty and found that the contributions of these taxes to overall National Revenue had decreased and amounted to 0.17% of all the revenue collected. The DTC had also previously issued two reports on Estate Duty that showed that this tax had been underperforming and this further led to the Committee interrogating new ways of increasing its performance. The DTC further suggested that the system for attempting to increase the effectiveness of these taxes needed to be improved. The sentiment behind targeting Estate Duty and Donations Tax specifically was that since they were already taxes on wealth that were functioning in the South African economy, it should not be necessary to implement new forms of wealth tax while still achieving the objective of bridging the inequality gap. Improvements have since been made to these taxes as well as the taxation of trusts, but the impact of these changes is not yet clear.

“When measuring inequality, we are not just concerned with the consumption of the rich-important though this may be-but also with the power that wealth can convey. This power may be exercised over one’s family, as with the passing on of wealth to heirs, or more generally in such ways as control of the media or influence with political parties” (Anthony Atkinson, 2015:37).

These words remain true. While many may be reluctant to admit it, wealth does allow one a certain amount of power or influence as well as access to resources. The Mail and Guardian released an article on 19 November 2019 titled, ‘Why South Africa is the most unequal society’². It provides a summary of information provided by The Inequality Trends Report published by Stats SA and The South African Labour and Development Research Unit (SALDRU) at the University of Cape Town. This article provided insights with regards to the statistics around the issue of inequality in South Africa.

“Wealth is measured through the financial value of all the assets owned by an individual or a household. According to the Inequality Trends Report wealth inequality is considerably higher than income inequality. The wealth Gini coefficient was reported to be 0.94 in 2014/2015.

² Webster, D (2019) ‘Why South Africa is the most unequal society’ 19 November 2019. Available at <https://mg.co.za/article/2019-11-19-why-sa-is-the-worlds-most-unequal-society/> 19 December 2019



Moreover, the top 10% of the country earn between 56-58% of the income and simultaneously possess approximately 95% of the wealth in South Africa” (Inequality Trends Report, 2019:56).

The article also shows that the ownership of financial capital is a key contributor in the widening gap of inequality in South Africa. Between 2003 and 2016 the economy grew by 4%, however, the income received by the top 5% of the population from assets like shares as well as capital gains grew by 20%. The top 1% obtains almost half of their income from shares and capital gains.

Spatial inequality is also a reality in South Africa. This has persisted, even 25 years after South Africa became a democracy, owing to enduring colonial and apartheid geographies. This disadvantages some South Africans in terms of finding work, as was stated by the Socio-Economic Rights Institute (SERI), thus restricting them access to opportunities to acquiring wealth (SERI report, 2016:10).

The article provides statistics around how the peripheral homes of many black communities directly disadvantages them in terms of opportunities to find work. The Bantustan borders that were put in place by apartheid law still mark contours around access in the countryside and, according to the Inequality Trends Report there are still great pockets of deprivation that persist in South Africa’s former homelands, predominantly in rural Eastern Cape and Kwa-Zulu Natal. The only tangible form of improvement was an increase, by 41.8%, in access to sanitation in impoverished Limpopo homes ie: Venda, Lebowa and Gazankulu. The above statistics emphasise how inequality is a crisis in South Africa and further validates the government’s attempts at seeking solutions to this issue (Mail and Guardian,2019).

It is, however, important to clearly define what constitutes ‘wealth’ and who is considered to fall within the term ‘the wealthy’. An important point to note is the fact that a tax on wealth and a tax on the wealthy are different things (DTC report, 2018:8). This is because the income stream that is produced from wealth is taxed via the income tax system. Wealth, however, as stated by Atkinson in his statement above, allows a person access to certain benefits that exceed the rate of return that it generates and it is thus argued that wealth is a tax base in its own right (DTC report, 2018:8).

“Wealth, as defined for tax purposes, refers to different forms of accumulated marketable assets by individuals or households through savings or the preservation of inherited wealth. Net wealth would therefore be the difference between gross wealth and total debt” (Trotman-Dickenson, 1996).

In an attempt to establish who qualifies as “the wealthy” and to emphasise the disparities that exist in global wealth distribution since the 1970’s, many wealth-to-income studies have been performed. Amongst other things these studies have shown that the ratio of private wealth to

national income have almost doubled (DTC, 2018:15). As stated earlier in this chapter, the top 10% of South Africa's population owns 95% of the country's wealth and this, on its own, reinforces the theoretical argument that wealth distribution is often more unequal than income distribution. Therefore, for the purposes of this paper the top 10% will then be described as 'the wealthy'.

The Davis Tax Committee issued a report on Tax Administration in 2017. This report contained a chapter on High Net Worth Individuals ("HNWI's") wherein it sets out how SARS defined who qualifies as a high net worth individual, for its purposes, as: Those individuals whose "income exceeds R7 million per annum or they have net assets worth more than R40 million. They represent 18% of the HNWI register. Of the 6 545 individuals in this segment, about 557 have only net assets that meet the criteria i.e. in excess of R40m, without income in excess of R7m, and around 5 824 qualify under the income criteria, but not the assets criteria. Therefore, around 164 people in this sub-segment meet both the income and net asset criteria i.e. income in excess of R7m and net assets in excess of R40m" (DTC report on TAA, 2017:41). The report goes on to further state that: "Less than 1% of the individuals (234) on the HNWI register can be classified as Ultra HNWIs. These individuals have net assets exceeding R75 million. There is no income criteria for this sub-segment" (DTC report on TAA, 2017:41).

1.2. Problem Statement

There are clearly compelling arguments for taxing the wealthy in South Africa. However, there are still some valid arguments as to why a new or alternative wealth tax would not be feasible in the current South African landscape. One of these arguments is that it would erode the capital base in the economy. Professor Deborah Tickle published an article in the September/October 2019 (issue 78) offering of the Tax Talk Magazine, published by the SA Institute of Tax Practitioners. In this article she brings to the fore very important arguments around why the annual wealth tax would not be feasible for the South African economy as it stands and bases her arguments on The DTC report as well as other literature that has been published on the matter. This dissertation will collate the arguments from the proponents and opponents of the annual wealth tax to come to an answer to the problem statement:

Is the introduction of an annual wealth tax feasible in the current South African landscape?

As mentioned above, South Africa already has taxes on wealth. The question can thus be expanded to become:

Should an annual wealth tax be introduced in addition to the existing wealth taxes, or should they be abolished and an annual wealth tax be instated?

As mentioned earlier on in this chapter the Finance Ministry tasked the DTC to look at the possibility of introducing an annual wealth tax in South Africa. The main reasons behind this

request was that all other attempts that have been made to bridge inequality have only done so on a small scale, if at all. The further questions, however, that arise, given the current economic climate in South Africa, are: will an annual wealth tax aid South Africans or leave South Africans worse off? Who will this tax affect? How and on what will the tax be levied?

1.3. Research objectives

The main objective of this dissertation is to do an in-depth analysis of the literature from the proponents and opponents of an annual wealth tax, particularly as the literature applies to South Africa. This dissertation will aim to balance these views. Further to this, it will aim to arrive at a conclusion regarding whether the proposed tax would be better suited for South Africa than the existing wealth taxes. This dissertation will by no means aim to provide a novel solution as that extends beyond the chosen scope.

1.4. Limitations of Scope

There are many methods and avenues that could be explored in order to achieve the objective of decreasing the inequalities in wealth in South Africa. Taxation is by no means the only viable method that can achieve it. However, the scope of this particular paper is limited to taxation. It is important to note that the arguments put forward in the paper do not promote taxation as the 'silver bullet' to the wealth and income disparities that exist in the South African economy. There are other aspects that can be considered, such as land reform, programs on the expenditure side of the fiscal budget and, perhaps, even making important alterations to national and global policies.

This dissertation is not oblivious to the fact that tax as a stand-alone component of the national budget will not provide a complete solution to the wealth inequality issue in South Africa, but seeks to look at what impact the introduction of an annual wealth tax could potentially have. The main aim of this dissertation will be to objectively balance the views that are in favour of a tax of this nature and those that oppose it and to further explain the justifications for both views.

As mentioned earlier in this dissertation, there are wealth taxes that already exist in South Africa. Chapter five will provide information on these wealth taxes with the exception of Securities Transfer Tax. The dissertation does acknowledge this tax but will not provide an in-depth analysis on it.

1.5. Research Method

The research method will be a literature review. This will be conducted on secondary literature in order to obtain a theoretical point of view for the study and to establish a basic understanding of what an annual wealth tax would mean for South Africa. The research will review both local and international literature with regard to this topic.

This will include review and comparison of a country which has considered an annual wealth tax and opted not to implement it, a country that has since abolished the tax and one that has implemented such a tax and retained it. These countries are Germany, India and France respectively.

There were two main reasons behind the decision to analyse the abovementioned countries. Firstly, fundamentally analyse the history of these countries to establish the processes and difficulties these countries went through that resulted in the non-adoption or abolishment of their wealth tax. Secondly to gain an understanding of what alternatives there are in the event of South Africa opting not to implement an annual wealth tax.

The dissertation acknowledges that France and Germany are developed countries and therefore their economic context, compared to South Africa, may differ. However, the aim of the country review is to gather information around the successes and failures that these countries have experienced with regards to the implementation of an annual wealth tax and to provide South Africa with a with a blueprint to work on to guide the decision.

1.6. Chapter Summary

This, chapter (one) begins with introduction of the topic of a wealth tax and the rationale behind the proposal of introducing it in South Africa. The chapter provides insights into the status quo with regards to inequality and how wealth is currently distributed in the country. It furthermore sets out the research question and methodology.

Chapter two will look at international literature about France, India and Germany which have successfully implemented a wealth tax, abolished the annual wealth tax and still considering to do so, respectively. This chapter will serve as a means to provide an international example of the challenges and the benefits of an annual wealth tax at these different stages.

Chapter three will interrogate whether the introduction of an annual wealth tax aligns with the ideals of a good tax system. It will assess this proposal against the backdrop of some of the canons of a good tax system put forward by Adam Smith. These are simplicity, efficiency and equity. It will look further into the canon of equity mainly under the two basic tax principles of, firstly, ability to pay and, secondly, the benefit principle relative to horizontal and vertical equity.

Chapter four will review literature that has been published by the proponents and the opponents of an annual wealth tax. This chapter will then juxtapose this literature and will



conclude on whether it would be advantageous or not to administer an annual wealth tax in South Africa.

Chapter five will analyse statistics that have been published on the existing wealth taxes in South Africa. It will take an even closer look at Estate Duty, in particular, and analyse whether it would be in the best interests of the country to replace it with an annual wealth tax.

Chapter six will then summarise and conclude.

Chapter Two: Lessons from international countries

The Organisation for Economic Co-operation and Development (OECD) published a report titled. “The Role and Design of Net Wealth Taxes in the OECD”³ in which net wealth taxes and the design thereof are examined and analysed. The OECD provides good background to wealth taxes and how their role has transformed and developed in different OECD countries over time. This part of the dissertation is designed to look at how different countries have responded to the annual wealth tax and to highlight the challenges faced by these countries, as well as how an annual wealth tax may have benefited others. The OECD report states that in 1990 there were twelve OECD countries that had implemented an annual wealth tax but that this has reduced to, now, only four that still maintain the regime.

Although there were a number, the most common two reasons provided, for why eight of the countries demolished their annual net wealth tax regime, were that it did not bring enough revenue income and that it had high administration costs..

It is important to note that the debate around the annual wealth tax will differ from country to country. This is owing to the fact that each country has its unique context, particularly when it comes to socio-economic and political dynamics. Chapter one of this dissertation provided the particular context of South Africa in this regard and will thus not be repeated here. There are, however, lessons that can be learned by South Africa from other countries who have reached various stages in their implementation of the annual wealth tax, so as to determine if the annual wealth tax will be feasible for South Africa.

Examples of these are the costs and extent of administration and enforceability needed for the annual wealth tax. These two issues arise especially when assets that are either highly mobile or easily hidden from tax authorities are removed from the base. Extensive monitoring will then be required. (DTC,2018:37). Another more prominent example is the question of whether the tax would yield sufficient revenue to support its costs. If not, then would the tax would be merely symbolic. (DTC, 2018:37).

As indicated above, both the OECD and DTC reports highlight that the number of OECD countries that levy an annual wealth tax has decreased from twelve to four between 1990 and 2017. Some of the countries that have repealed the annual wealth tax are Austria (1994), Denmark (1997), Germany (1997), the Netherlands (2001), Finland (2006), Iceland (2006), Luxemburg (2006), Sweden (2007) and Spain (2008). Once the financial crises had subsided Spain and Iceland decided to re-introduce their net wealth taxes as a temporary fiscal consolidation measure. According to the OECD report, at the time of its issue, in 2018, the only OECD countries that still maintain an annual wealth tax are France, Norway, Switzerland and

³ *The role and design of Net Wealth Taxes in the OECD, OECD Tax Policy Studies, No 26, OECD Publishing, Paris,2018*



Spain. The OECD report of 2018 states that the annual wealth taxes in these countries raise very little revenue with the exception of Switzerland that managed to attribute 3.5% of its revenue to annual wealth taxes in 2015. The other three countries all reported less than 1% of their total tax revenue as being derived from net wealth taxes (OECD,2018:16).

In CP Basson's dissertation, titled "The implication of wealth transfer taxation in the absence of Estate Duty" he references an article by E Law (1994), titled "The Purpose of Wealth Taxes". He states that, in the article, the author reviewed Western Australia State tax and discovered that, among the OECD countries, there was very little consensus on the purpose of wealth taxes. What he found to be most common was that countries that did levy a wealth tax did so in an effort to increase revenue. Other countries stated that their reasons were horizontal equity and taxing according to the ability to pay (CP Basson, 2015: 28).

Politically induced exemptions on net wealth taxes have created a platform for tax avoidance, especially among the very wealthy, who can afford expert tax advice. "In a country with a narrow wealth tax base, wealth taxation can be meaningful only if the tax rate is high. A high tax rate, however, imposes a very large burden on taxpayers, and in particular, taxpayers without the means to exploit tax loopholes through seeking expensive tax advice as well as adequate cash flow if the tax is levied on assets that are not liquid" (Mbewe S and Woolard I,2016)⁴. In the South African context this would hold the potential of eroding the tax base.

The purpose of this section of the dissertation is to observe what challenges and benefits of an annual wealth tax have been observed in Germany, India and France and to compare them to the South African context. The dissertation does acknowledge that two of the OECD countries mentioned in this section, France and Germany, are developed countries compared to South Africa. As a developing country, India is more likely to have an economy similar to South Africa with regards to inequality.

However, this section is concerned with the challenges and benefits of an annual wealth tax in these countries regardless of how the socioeconomic and political statuses compare. The aim was, thus, to select a sample that reflects the complete spectrum of countries being from those that have abolished the tax to those that have successfully implemented the tax and one that is in the process of debating the tax.

It is worth noting that India is the only BRICS country (Brazil, Russia, India, China, South Africa) that has implemented an annual wealth tax and subsequently abolished it (in 2015). It replaced it with a less complex additional 2% surcharge on specified income of the 'super-rich',

⁴ Mbewe S and Woolard I (2016) *Cross-sectional features of wealth inequality in South Africa: Evidence from the National Income Dynamics Study*. SALDRU Working Paper No. 185, South African Labour and Development Research Unit, University of Cape Town

which was considered more efficient and equitable, particularly as many of the wealthy were able to evade wealth taxation by obtaining expensive tax advice” (DTC, 2015:50). This dissertation will not explore the details behind why India is the only country to follow this route, however, it is worth noting as the BRICS countries share similar circumstances with South Africa with regards to inequality.

2.1 India

India agreed to the implementation of an annual wealth tax in 1956 at the instance of the Kaldor Committee (DTC, 2018:48). According to the Kaldor Commission ‘the main recommendation was to broaden the tax base through the introduction of a net wealth tax, a capital gains tax, an expenditure tax and a general gift tax’ (DTC,2018:48). It is worth pointing out that capital gains tax is not a wealth tax. It is an income tax on capital income (DTC, 2016:20). This viewpoint was also supported by the International Monetary Fund (IMF) in December 2000 in the review of the CGT proposals. Following the Kaldor Commission recommendations, the gift and net wealth tax were introduced as part of the Indian Wealth Tax Act of 1957 and the Gift Tax Act of 1958. However, these taxes did not yield a great amount of revenue for India. The wealth tax yielded R.10 cr from 1956 to 1966, the Gift Tax yielded R1.5cr and the Expenditure Tax R4.5cr⁵

The Kaldor committee stated its reasons for its recommendations as: “firstly to reduce the possibility of tax evasion. Secondly, it was to properly account for an individual’s ability to pay. Lastly, it was to promote an egalitarian society through the use of redistributive measures that provide no disincentive effects both conceptually and operational” (DTC, 2018:49).

The Indian Tax Reform Committee (“TRC”) recommended that the annual wealth tax should be restricted to wealth that was unproductive. The distinction between which assets would qualify as productive and unproductive wealth was set out in the 1992/1993 budget (Pandey, 2006).

However, according to Pandey (2006), over time, there had been quite a few challenges with the administration of the net wealth tax in India. Firstly, there were certain inequities that were created by the problem of valuation of assets, as there were some assets that were exempt from taxation. “Secondly, tax authorities did not account for the indexation of wealth taxation with respect to inflation. Thirdly, the tax burden of the collective incidence of the net wealth tax, income and other forms of taxes (such as property tax) imposed a heavy burden on the taxpayers” (DTC,2018:49).

⁵ John Toye, *Cambridge Journal of Economics*, Vol. 13, No. 1 (March 1989), pp. 183-200

In 2001 the Controller and Auditor General of India (“CAG”) took to investigate the net wealth tax in India with specific objectives (DTC, 2018:49). These objectives were the following.

- “to examine the efficiency with which the provisions of the Wealth Tax Act were implemented”;
- “to examine the quality standards of wealth tax assessments”; and
- “to examine if there was tax leakage at any stage of the wealth tax assessment”.

The report indicated that “the number of wealth assessees had decreased while the number of income assessees had increased — suggesting that certain taxpayers did not file their wealth tax returns, despite having taxable assets liable for wealth taxation” (DTC, 2018:49). The report further showed

“the persistent case of lapses by tax assessing officers to establish a relationship and correlate income, as well as wealth tax records, to ensure there was no tax evasion, despite receiving directives from the Central Board of Direct Taxes. Hence, there was a fall in revenue during the period (1994 to 1995 and 1998 to 1999) from the annual wealth tax — suggesting that taxpayers were either not filing wealth tax returns or not disclosing the true value of their wealth and could have possibly even migrated or lost their wealth due to how incredibly extensive the taxes were” (DTC, 2018:49).

The DTC indicated that although the Indian government was successful in enacting the Wealth Taxation Act in 1957, the “nominal revenue collected was inadequate to match the administrative burden on the tax authority and the compliance cost on the taxpayer”. The tax was levied on unproductive assets, luxury cars, jewelry etc, which are difficult to locate and equally difficult to fairly value. “As a result, wealth tax collection had not presented substantial progress” (DTC,2018:49).

2.2 France

The ‘Tax on Great Fortunes’ was the first form of net wealth tax in France and was introduced in 1982 (DTC, 2018:38). The net wealth tax was abolished between 1987 and 1989 and re-introduced again later in 1989 as ‘the Solidarity Tax on Wealth’ (Impôt de Solidarité sur la Fortune, ISF) (DTC, 2018:38).

According to the DTC report “France has a long history of annual wealth taxes and it was only during World War I that France introduced taxes on income” (DTC, 2018:38). “Indeed, from 1791 to 1914 a property tax constituted the central tool of government finance”.

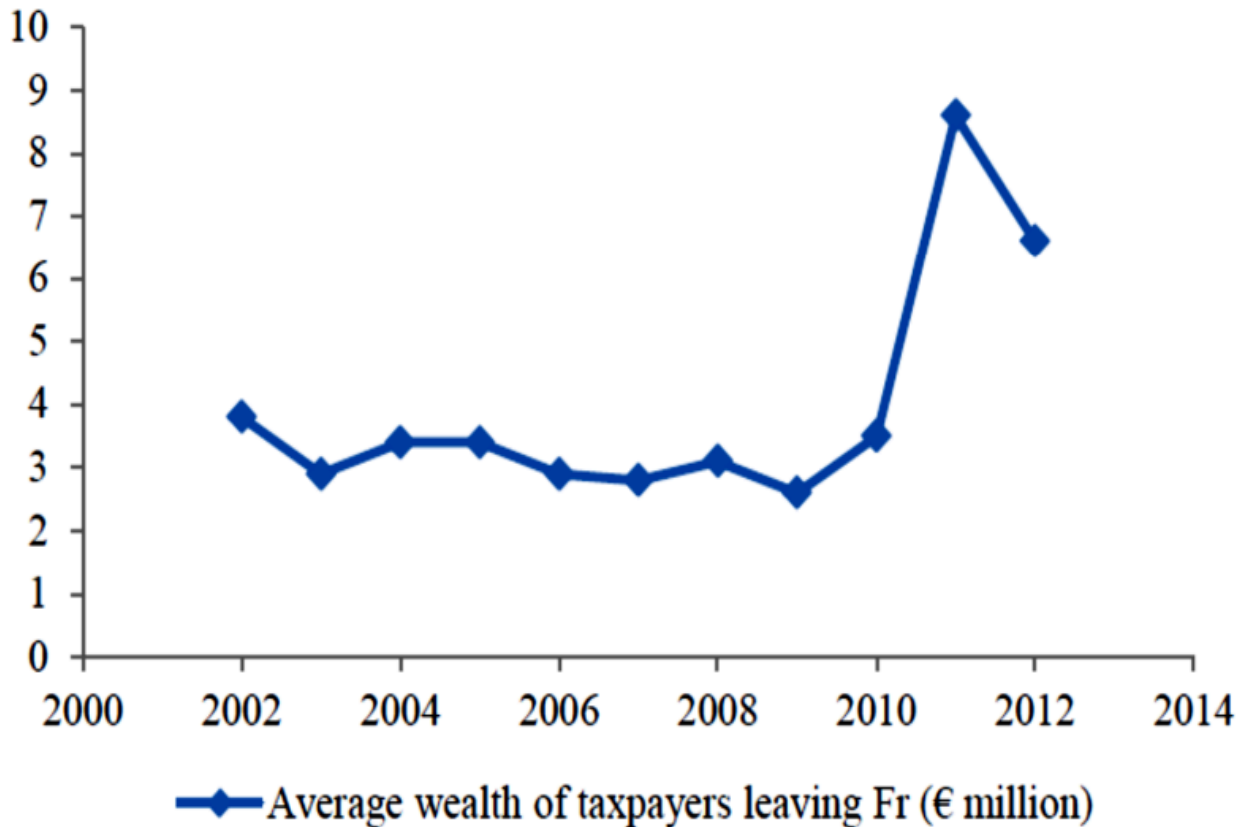


France also has other forms of taxes on wealth. These include a property tax and an estate tax. An interesting point to note is that the ISF contributions have continued to increase over the past two decades (DTC, 2018:40).

A profound argument in the public debate about the ISF in France is an increasing concern that ISF has resulted in tax migration. The DTC report states that while there has been no successful way of quantifying the effect that the ISF has had on migration in France, given other tax changes that occurred at the same time as well as non-tax reasons for migration, there is evidence that suggests a link between the reintroduction of the ISF and increased migration (DTC,2018:40).

Astarita (2015) plots data from the French national treasury drawing a distinction between gross and net outflows.

Figure 1: The average wealth of taxpayers migrating from France



Source: DTC report 2018

Statistical evidence, provided in the DTC report, indicates that people moving abroad are generally wealthier than the average ISF taxpayer. The countries that the migrants emigrate to have been reported to include Switzerland and Belgium (DTC, 2018:41)

In 2011 there was a spike in the number of people who were reported to have emigrated from France.

There have been estimates by the media that suggest that “one third of French billionaires either live in – or at least hold substantial residential or financial assets in - Switzerland and Belgium” (DTC, 2018:41). “Interestingly, almost no wealthy French citizens resided in Belgium prior to 1981”. This brings to the fore the question of whether different wealth taxation systems between countries influence how people choose their country of residence? And, if this is the case, can a country like South Africa, that is already struggling economically, afford to lose more wealthy people to more ‘tax friendly’ countries? It is submitted that South Africa cannot afford to lose wealthy citizens as there are government reform measures that depend on tax revenue from these individuals for funding. Initiatives such as the social grants for the elderly, disabled and children would suffer as this would empty the funding coffers.

2.3 Germany

“In a number of OECD countries, particularly Germany, both income and wealth inequality have been on the rise. From the late 1990s to 2005, Germany’s Gini coefficient rose substantially by four percentage points (Grabka & Groebel, 2013; OECD, 2014). The Gini coefficient for the asset index ranges from 0 to 1 and its interpretation is no different. As the coefficient approaches zero, the more equal the population gets; and as it shifts towards one, the more unequal the population gets. The Gini coefficient value of zero denotes perfect equality while the Gini coefficient value of one implies absolute inequality” (Inequality Trends Report,2019:49).

The Household Finance and Consumption Survey of 2013 found that Germany has the most unequal distribution of personal wealth in Europe (DTC, 2018:41). At the same time, taxes have become less progressive due to increased international tax competition. What followed was a reduction in business and capital income taxes, as well as personal income taxes, while taxes on personal wealth have been discarded. Taxes on inheritance remain insignificant (DTC, 2018:41)

Much like in South Africa there has recently been a contentious debate around the introduction of the taxation of capital income and wealth in Germany. Politically, higher taxes on the “rich” have been proposed and endorsed by left-wing parties (DTC, 2018:41). The discussion has included the reintroduction of a recurrent or annual net wealth tax, a once off capital levy aimed at reducing government debt, or decreasing tax privileges for company succession and other tax breaks by reinforcing inheritance taxes (Mbewe S and Woolard I,2016:177).



It has been reported that the contribution of property and wealth-related taxes to German taxes over the last decade has been minimal, compared to other countries in Europe (Mbewe S and Woolard I, 2016:177). According to the IMF (2013) they “account for less than 1 per cent of GDP, with the largest contribution coming from taxes on real estate property, and in particular, from local property taxes and taxes on the transfer of individual property between states” (Mbewe S and Woolard I, 2016:177).

The IMF (2013) reported that inheritance and gift tax is the only existing tax that focuses on taxing the “rich” or “wealthy strata of the population” though it contributes less than 0.2% of Germany’s GDP (Mbewe S and Woolard I, 2016:179).

A justification for this is the argument that the main reason for the low revenue generation of wealth taxation in Germany over the last few decades was the outdated “standard values” of real estate properties. These properties are reported to not have been updated since the 1960’s and are thus unattractive to place on the market to sell. “In 1997, the recurrent wealth tax system was suspended after the constitutional court ruled that the undervaluation of real estate and business property (relative to other assets) was unconstitutional” (Mbewe S and Woolard I, 2016:176).

Since 1997, however, there has been great debate in German tax policy discussions around the re-introduction of wealth taxation. There have been various proposals that have emerged that either favour or oppose the introduction of this tax in Germany, much as is the current case in South Africa. In the case of Germany, however, there have been two profound proposals at the forefront of the net wealth taxation debate.

“The first proposal was endorsed by the parliamentary group of the Bündnis 90/Die Grünen Party (2012). The party advocates for the introduction of a one-time capital levy which would be used to service the debt incurred during the global financial crisis” (Mbewe S and Woolard I, 2016:177). Ideally, only individuals with a net wealth greater than 1 million euros would be subject to the once-off levy. Corporations would be exempt from this levy since shareholders are subject to personal income tax. Following historical practices, payment of this levy would be made in instalments over a period of 10 years, subject to a standard interest rate for public debt (Mbewe S and Woolard I, 2016:178).

The Sozialdemokratische Partei Deutschlands (SPD, Social Democratic Party of Germany) and several governments of individual states, governed by Social Democrats, put forward a second proposal on personal wealth taxation. They submitted a draft bill proposing the re-introduction of recurrent taxation (DTC, 2018:43). Both corporations and individuals (including shareholders of corporations) would be legally responsible for wealth taxation. The issue of double taxation would be resolved by exempting half of any taxable wealth of corporations, as well as each shareholder’s corporate shares (DTC, 2018:44).

According to the DTC report

“an important aspect of the taxation of personal wealth entails determining which assets, such as financial, business, real estate and some household assets (less any liabilities), are taxable. In order to ascertain and appraise the tax base, reliance has been placed on improved valuation procedures for gift and inheritance taxes since 2009. Although the aim of improved valuation procedures is to capture the market value closely for tax commitments, standardised appraisals are a complex process (especially for small firms and real estate properties). Some level of tax evasion will still be prevalent in respect of foreign-held assets as international cooperation among tax authorities is still inadequate” (DTC, 2018:44).

Moreover, there are significant costs that are associated with constantly valuing assets and, it could be argued that, until realization or transfer of assets, wealth is ‘fictitious’ based on the fact that the value of assets fluctuate and can reduce to a minimal figure or nil, due to economic conditions and unforeseen events, at any time (Tickle, 2019)

The DTC report states that Bach et al. (2014) have analysed the revenue and distributional impact of a net wealth tax for Germany. The data presented by Bach et al. indicates that, based on the fact that net wealth tends to be highly concentrated at the top end of the distribution, the data suggest that a personal wealth tax would raise significant revenue albeit that high personal allowances are granted; thereby limiting the number of persons to a reduced fraction of taxpayers (DTC, 2018:44). This, to a certain extent, undermines some of the canons that were introduced by Adam Smith in his book titled: *The Wealth of Nations*. This, however, will be explained in further detail in Chapter three of this dissertation.

Tax experts also highlight that wealth tax administration and compliance has been rather a heavily contested issue not only in Germany, but in other countries as well (DTC, 2018:44)

The paper published by Mbewe and Woolard in 2016 states that a significant downside of an annual net wealth tax lies in its potential nature to discourage capital accumulation, which tends to cause several behavioural responses by economic agents towards decisions made in relation to investment and location, financing, tax evasion, administration, legal form and other strategies associated with wealth tax avoidance (Mbewe and Woolard I, 2016:169-183)

2.4 Conclusion of the lessons from other countries

India based its decision to abolish wealth taxes on the fact that they were not efficient and did not produce a significant amount of tax revenue for the country. Moreover, the choice to focus on ‘unproductive’ assets such as jewellery and luxury goods proved very difficult to value for

the purpose of taxing wealth (Mbewe S and Woolard I, 2016:180). Additional challenges arise when identifying the tax base.

The risk that the wealth tax will be paid mainly by the ‘fairly wealthy’, whose key assets are residential property in their country of residence, increases because the wealthiest people tend to hold an intricate and diverse set of assets, often abroad or through intricate structures that remove their holdings, like trusts – thereby making it easier for them to avoid taxes. At the extreme, there is some evidence that tax migration may even occur. Given such difficulties, public support for wealth taxation has often been unfavourable (Mbewe S and Woolard I, 2016:169-183).

The French experience in this regard is particularly enlightening. As mentioned earlier on in this chapter, the ‘the solidarity tax on wealth’ (impôt de solidarité sur la fortune [ISF]) contributed one-tenth of overall tax revenue by 2014. In addition to the ISF, France also has a property tax and an estate tax (Mbewe S and Woolard I, 2016:176).

The key take-aways from the public debate about the ISF in France are the concerns the effects of the ISF on tax migration. The evidence supporting this claim is, however, difficult to obtain due to the fact that there are various issues outside of the wealth tax that result in emigration and deriving those that do indeed result from the wealth tax alone is a near impossible task (DTC, 2018:39).

However, what is well established is that the wealth of people moving abroad was generally greater than that of the average ISF taxpayer. This is profound, as it then shifts the tax burden onto the middle class and retirees as those would now be the so called ‘wealthy’ left in France. An important point to note is the fact that most of the tax migrants migrate to Belgium and Switzerland, due to relatively low wealth taxes there. It can also be noted that the complexities surrounding tax administration, as well as enforceability, can result in part of the tax base either becoming highly mobile or easily hidden from tax authorities – an issue which requires careful policy consideration.

It is estimated that 65 French billionaires (who make up a third of the wealthiest French citizens) now either live abroad or hold substantial residential or financial assets in Switzerland and Belgium. This has impacted France negatively as it has lost the tax revenue from these citizens as well as their investments in the country (DTC, 2018:51).

In Germany, the introduction of wealth taxation has also been the subject of tax policy debate in recent years. A number of proposals have emerged, arguing for or against the introduction of wealth taxation. The two main proposals that have been given great attention are the introduction of a once-off capital levy and the second being the re-introduction of a recurrent wealth taxation. However, neither have been implemented so far and the debate rages on.

Chapter Three: The Principles Of A Good Tax System

The design of a tax system should be grounded on a clear set of economic principles. The economic principles that are prioritized in each economy are all relative based on the particular economy. This statement was supported by Memon Najeeb⁶ when he stated that a system should adhere to the principles of a good tax system by order of priority and these priorities will differ based on the objectives of the tax system in question. Conventionally, what constitutes a 'good tax system' is assessed against the blueprint that was set by Adam Smith in his book titled 'The wealth of Nations' where he speaks about the 'canons of a good tax system'. In his book, Smith states that the core canons of a good tax system are simplicity, efficiency and equity.

The aim of this section of the dissertation is to look at the proposal of an annual wealth tax in South Africa and assess whether this would align with the virtues of a good tax system. This chapter will, firstly, look at what constitutes a good tax system by expanding on the three core canons mentioned above. This section will provide a definition of each of simplicity, efficiency and equity in the tax context and will then apply them to the proposal of an annual wealth tax in South Africa. Secondly, this chapter will look further into the canon of equity by exploring the principles of horizontal and vertical equity, as these are important principles when assessing the 'fairness' of a good tax system. Lastly, the chapter will look at the wealth tax proposal against the 'benefit' and 'ability to pay' principles to further explore whether or not the proposal aligns with the ideals of a good tax system. The chapter will then conclude on whether the introduction of a wealth tax would add to or disturb the balance of a good tax system.

"The motivation for annual wealth taxes lies in two factors: first, the desire to seek redress on non-income benefits associated with the accumulation of personal wealth. This idea of seeking redress is based on the welfarist criterion or utility-based approach. Briefly, this principle assumes that the welfare of an individual depends on the consumption of goods and services, as well as the amount of leisure time they 'consume'. This then means that government's goal should be to select a tax structure that aims to maximize social welfare at large, bearing in mind that, although there is a need to raise revenue to finance public expenditure, individuals are also sensitive to changes in the tax system. The core argument of the welfarist criterion is based on the idea that achieving improved social welfare requires an improvement in the well-being of individuals" (DTC,2018:29).

⁶ Memon, Najeeb. "Prioritizing Principles of a Good Tax System for Small Business in Informal Economies." *Australian Tax Forum* 25.1 (2010): 57–94. Web.

The potential that an annual wealth tax possesses to generate additional revenue income is put forward by the DTC only as a second motivation (DTC, 2018:29).

3. The three canons of a good tax system

3.1. Simplicity

Smith defined simplicity by stating that ‘the amount that each individual pays should be certain and not arbitrary’⁷. Part of this canon is the suggestion that compliance costs should remain low, which Smith deems to be a very important facet of simplicity (Memon, 2010:68). Smith also states that administration costs should also be kept low, which reinforces the statement that the operational costs of a tax system should be kept low (Memon, 2010:68). The Meade Report⁸ also reiterates the sentiments expressed by Smith, by stating that the principle of simplicity in a tax system promotes acceptability for the tax system in the eyes of taxpayers. A tax system needs to be acceptable to the public and one of the main reasons for its acceptability is the system’s simplicity and it should be simple in all facets (Memon, 2010:69).

The OECD also concurs with this opinion by stating that the ‘the tax rule should be simple to understand, so that taxpayers can anticipate the tax consequences in advance of a transaction’⁹.

The American Institute of Certified Public accountants has added a further facet to the definition of simplicity which is ‘convenience of payment’. In its 2009 report it states that this principle refers to the fact that ‘a tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer’¹⁰.

“In general, taxes on wealth and wealth transfers are less convenient for taxpayers to pay in comparison to other forms of taxes. In certain cases, especially with annual taxes, servicing the tax liability requires the sale of an asset in order to achieve the required liquidity to make the tax payment. Selling assets, however, may not be easy when demand is low or the economy is in a recession. In this case, the taxpayer would have to sell assets in a depressed market just to finance a tax liability. This

⁷ Adam Smith, ‘An inquiry into the Nature and Causes of the wealth of Nations’ ed. Kathryn Sutherland (1993) 451-454.

⁸ *The Structure and reform of Direct Taxation, Report of a Committee chaired by J.E> meade, The Institute of fiscal Studies, 1978 (London: George Allen and Unwin), 7-22.*

⁹ ‘The implementation of the Ottawa Taxation Framework Conditions: The 2003 Report’ 2003,12 <http://www.oecd.org/dataoecd/45/19/20499630.pdf> at 12 october 2009.

¹⁰ ‘Guiding principles of a good tax policy’ A framework for evaluating tax proposals, Tax policy statement, American Institute of Certified Public Accountants at <http://ftp.aicpa.org/public/download/members/div/tax/3-10.pdf> at 24 March 2009,12.

presents an unintended loss to the taxpayer over and above the tax payment” (DTC,2018:36).

Moreover, the fact that wealth taxes are very comprehensive in their nature means that there will be high costs associated with their administration. Collection costs are high because the assets need to be inspected and valued (DTC report, 2018:36). More specifically, as Memon¹¹ suggests, while analysing a tax system for large informal economies, simplicity should be given the highest priority because the high compliance cost arising from complex tax codes is one of the major causes for the large size of the informal economy in developing countries (Memon, 2010:71).

3.2. Efficiency

‘The power to tax involves power to destroy’. These were the words of Justice John Marshall¹² in 2009 when he was commenting on the importance of an efficient tax system (Memon,2010:73). Though the extent of the power may vary from one type of tax to another, it is widely admitted that all taxes reduce the economic wellbeing of the people who ultimately bear their burden. Sometimes, it is even said that a perversely distorted system does more damage to all the citizens’ economic wellbeing than any foreign enemy ever could. Applying this to the context of an efficient tax system it is said that ‘a tax interferes with choice and thus causes a loss in utility by pushing the choice patterns of consumers and producers away from the ideal’¹³.

All taxes thus have the potential to distort the choices of the three main players in an economy, namely: the consumers, producers and workers. This distortion takes place in the form of substitutive effects and leads to a misallocation of resources. To explain the substitution effect in an example is if a consumer would utilize one product in preference to another while the worker may have to seek different employment. However, the full extent of the substitutive effect depends upon how one actor (more likely to be the investor) shifts that tax burden to another actor (usually the consumer) and the impact this has on overall economy and the people in it. This brings about another issue which is tax-shifting which will be explained later in this chapter.

¹¹ Memon Najeeb, (2010) 'Prioritizing Principles of a Good Tax System for Small Businesses in Informal Economies' 25:1 Australian Tax Forum, Taxation Institute of Australia, 88.

¹² David E. Wildasin, 'Tax Reform in Kentucky: Principles and Practice' Chapter 1 In *Financing State and Local Government: Future Challenges and opportunities*, Kentucky Long Term Policy Research Centre, November 2001, 1
http://www.kltprc.net/books/financinggov/Chpt_1.htm at 12 June 2009.

¹³ Keith Bain 'The Principles of Taxation-Part I'Notes on Public Finance, University of East London, Department of Economics, 2000
<http://homepages.uel.ac.uk/K.Bain/tax1.pdf> at 6 January 2009.



An annual wealth tax can be classified as either additive or substitutive, depending on how the government requires taxpayers to meet the tax liability. An additive annual wealth tax is a tax paid only when an asset of market value is sold or disposed of due to e.g. death, whereas a substitutive tax is a fixed tax payment from either capital or annual income earned by owning an asset (Memon, 2010:75)

To obtain the effective distribution of the tax burden, it is necessary to identify as accurately as possible the people who will end up bearing the burden of the tax in question and the extent of their share of that burden. In general, taxes are imposed on economic transactions along the production and distribution chain. Tax shifting reflects the fact that the imposition of a tax at a particular point on this chain may end up affecting the economic welfare of people at different points. The possibility of shifting the tax burden stems from the fact that socioeconomic agents can change their behavior in response to a tax, subject to the prevailing institutional arrangements. In a market economy, the burden of taxation is channeled mainly through changes in the prices of traded goods and services. Thus, people bear the burden of a tax when the imposition of the tax induces a change in the relative prices of the goods and services they buy and sell. In addition, a tax may affect the prices of untaxed goods and services that are substitutes or complements of the taxed ones. Such price changes are interpreted as “implicit” taxation¹⁴.

Boadway et al stated in 2010 that, unlike other forms of taxation (such as income and consumption taxes), there still is very little theoretical guidance around the design of wealth tax policies around the world. This assists in explaining why there remains very little consensus globally on the best way of approaching the topic of an annual wealth tax.

The requirements of developed and developing countries differ, hence the ranking of these principles to cater for requirements of large informal economies should be taken into account while assessing a tax system (Memon, 2010:76).

Boadway et al. (2010) offer a comprehensive discussion on the taxation of wealth. They outline that the three main constraints associated with the process of designing a tax system include efficiency, administrative costs and political constraints. Firstly, achieving tax efficiency becomes difficult when the extent to which the introduction of an annual wealth tax not only creates distortions on people’s willingness to work but also distorts the decisions associated with wealth accumulation and disposal. Secondly, as

¹⁴ *The World Bank Poverty Reduction and Economic Management Network Poverty Reduction Group April 2008*

opposed to taxes on wealth transfer, the administrative costs involved in administering a net wealth tax can be substantial, especially as some forms of wealth are hard to measure and/or easy to conceal. A failure to tax some forms of wealth results in inequitable tax treatment. “Thirdly, tax reform or implementation inevitably produces winners and losers. The introduction or abolition of a new tax provides opportunities for some individuals to exploit the changes in the tax regime” (Memon, 2010:77).

3.3. Equity

The term equity speaks to the even-handed treatment of taxpayers in a tax system and conventionally has two facets. The first is known as horizontal equity, which says that taxpayers under similar economic circumstances should be taxed similarly¹⁵. The second is called vertical equity, which postulates that those taxpayers, who have better economic circumstances (i.e. higher ability to pay), should contribute more than others to the revenue.

3.3.1. Horizontal equity

“Horizontal equity is a synonym for fairness of a tax system¹⁶. In any fair tax system, people with the same ability to pay taxes should be taxed at more or less the same rates. Income is often used as a way to measure a person’s ability to pay. Income by itself is however not the only item that determines a person’s ability to pay. A person with a large asset base has additional benefits that arise from the ownership of these assets, over and above the normal income derived from the assets. These assets can serve as security and provide the holder with independence and peace of mind simply for owning these assets” (Sandford et al., 1975:5).

This is an important fact in the discussion of the feasibility of a wealth tax as it commands attention to be drawn to the fact that wealth provides certain advantages and these advantages hold economic value and should be taxed.

Horizontal equity is also important in a tax system for a number of reasons. The first of these being that it promotes a perception of fairness about the system and

¹⁵ ‘Reform of the Australian Tax system’ Draft White Paper Australian Government Publishing Service Canberra, 1985, 14.

¹⁶ Memon, N., 2012. Looking for suitable presumptive income tax design for large informal economies in terms of principles of a good tax system. *Austl. Tax F.*, 27, p.907.



assists in the upliftment of the tax morale. This equitable treatment in a tax system is synonymous with fairness of the tax system and is considered to be a cornerstone for encouraging voluntary compliance amongst taxpayers. This is an important concept that aligns itself with the values of the OECD which states that “the potential for evasion should be minimized”¹⁷.

An equitable tax system is particularly important in the tax system of a developing country because a perception of unfairness and lack of legitimacy of the tax system could lead to resistance in the form of non-compliance (Memon, 2010:79). Furthermore, the perception of unfairness could even lead to the disruption of the social and political fabric of the country¹⁸. If individuals feel that that they are being taxed unfairly, it is more likely than not that they will offer some type of resistance by either evading tax, confronting the government via protest action, or deliberately disadvantage those that they feel are being favored by the tax system.

In addition, judgement about horizontal equity in a tax system needs to be adjusted to the types of taxpayers, income levels vis-a-vis cost of administration and the extent of non-compliance in a country. This is because any attempt to capture minor income differences of small businesses in large informal economies in order to tax equals equally could result in increased complexity in the tax code, which ultimately would reduce compliance and undermine horizontal equity. Taxpayers are more likely to be non-compliant if they are made to constantly pay immaterial amounts and the revenue obtained from collecting these amounts may be less than the cost to collect the tax. More aptly, for small business in developing countries, it appears that a simple tax can encourage compliance and improve the perception of fairness and equity (Memon, 2010:80).

Neutrality is a key feature of horizontal equity. However, like efficiency, neutrality in the context of equity might also not be secured under a wealth tax system. With regards to wealth taxes the following three aspects of neutrality could be undermined (Memon, 2012:937):

i. Neutrality in tax treatment of losses and income

¹⁷ OECD e-Commerce Report: Taxation Framework Conditions; A report by Committee on Fiscal Affairs; OECD, 8 October 1998, 6
<<http://www.oecd.org/dataoecd/46/3/1923256.pdf>>

¹⁸ David F Burg, 'A world History of Tax Rebellions: An Encyclopedia of Tax Rebels, Revolts and Riots from Antiquity to the Present'(2004) 128-130.



- ii. Neutrality of tax burden irrespective of the risk in the sectors
- iii. Neutrality in respect of even the compliance procedures and related costs

Equity, as a criterion of consideration when designing a tax system, requires a comprehensive understanding of two guiding principles: the 'benefit' principle and the 'ability to pay' principle. In practice, these two principles produce different policy recommendations and offer different measures of tax reform. Achieving equality requires the alignment of a taxpayer's willingness to pay with the benefits he or she will derive. Taxpayers are also willing to pay tax if there are no personal benefits associated with their tax payments, as long as they are privy to what the tax is being utilized for. The converse of this, however, is that where taxpayers are constantly required to pay additional taxes, with no significant change to the state of the economy, then there could be potential resistance from those taxpayers. Despite this, the 'benefit' principle is a significant and individualistic standard that is applicable when evaluating a tax system because it mirrors the idea of public policy and the role of voluntary exchange (DTC, 2018:32-33)

3.3.1.1 The benefit principle

"In practice it is often difficult to gain consensus on what taxpayers are willing to pay versus what they stand to benefit. Often, economic literature faces confrontation with discussions on the problem of substituting actual consent by hypothetical consent. An advocate of wealth taxation, for instance, may contend that an individual holding a vast stock of wealth accrues more benefits in the form of protection of property rights than a neighbour who earns a modest amount of labour income who has little without wealth. It appears evident that possessing assets, and not merely the incomes that flow from them, must be a valid consideration for taxation in accordance with the benefit principle" (DTC, 2018:33).

A counterargument to the above, however, would be the fact that this leans towards continually taxing the same amounts. Wealthy individuals are more likely to have a diverse portfolio of assets. Each of these assets are taxed depending on the types of transfers that the taxpayer decides to make. Adding a wealth tax to this has the potential of double taxation on these assets and would be inherently unfair. This is why wealth tax in the form of Estate Duty would be more favourable than the annual wealth tax, as the assets would only be taxed once -



upon the death of the taxpayer (DTC,2018:34). This will be elaborated on in Chapter five of this dissertation.

In the discussion on the benefit principle, it is important to note that, at minimum, the benefit principle offers some meaning when evaluating proposals to do with introducing a net wealth tax. The applicability of the benefit principle, however, requires caution, as it applies to specific cases, as well as economies; therefore, a decision to adopt a wealth tax should not rely only on the benefit principle. Owning assets or property need not mean that the holder is able to pay taxes on wealth or wealth transfer.

3.3.1.2. The ability to pay principle

In practice, the ability-to-pay principle makes use of stocks of wealth and income to proxy for an individual's ability to pay. These proxies, however, not only provide an incomplete picture of actual welfare, but the tax payments are also not a full representation of the actual welfare losses. A wealth tax that provides exemptions on some assets (e.g. pension funds or owner-occupied housing) can create horizontal inequities. When taxes on wealth are levied, one of the intended goals is to ensure that the tax is progressive in nature — implying that a larger estate should pay more tax relative to a smaller estate. This can be achieved through a tax-free threshold or through setting representation of the actual welfare losses.

By only using the ability-to-pay principle, it is not easy to arrive at a recommendation for the design of an annual wealth tax. For instance, complexities arise when individual A inherits wealth, such as a government bond, but does not have a job and relies on interest payments for consumption while Individual B has a job, owing to his university degree, but has neither wealth nor savings. Therefore, imposing a wealth tax becomes complicated especially when factoring in human capital in the wealth tax base (in the case of B). At the same time, introducing a wealth tax that focuses only on taxing financial assets sets A at a disadvantage because he or she will not be able to sustain the same level of consumption after wealth taxation (DTC, 2018:34).

The taxpayer needs to have the ability to bear a tax's burden and not merely the ability to pay it (Smith, 1776; Vivian, 2006:84). A balance is necessary between the state's 'inexorable' pursuit of revenue and the citizen's right to survive (Vivian, 2006:84-85; Montesquieu, 1748:XIII.1). In other words, the equity theory is relevant. Taxpayers in equal positions should have equal tax commitments

(horizontal equity) while wealthier taxpayers ought to shoulder a larger tax load (vertical equity) (Farrar, 2011; Vivian, 2006).

Equity has been achieved by ensuring that vast amounts of capital are not left untaxed in the hands of a wealthy minority and by taking cognizance of the need for the wealthy to spare the poor an undue tax burden (Katz Commission, 1997:46; Meade, 1978:12; Stiglitz, 1976; SARS, 2000).

Boadway, Chamberlain and Emmerson (2010:777-786) concur with this argument for wealth taxes. According to them, wealth can be seen as an opportunity to enhance one's well-being and a fair and just tax system should therefore seek to ensure equality in opportunities. In other words, a fair tax system will ensure that the benefits that accrue to the individual that is a holder of wealth should also be taxed.

To clarify this statement, Sandford et al. (1975:6) use an example first recognized by Lord Kaldor, the Indian Minister of Finance in 1956. He compares a beggar to a man that holds his entire fortune in gold. Neither of them earns any income for as long as the man decides not to sell his gold. The man owning the gold has a far greater ability to pay taxes. This man can use his gold as security to finance other personal needs, while the beggar has no such option. It seems only fair that the man owning the gold should be taxed on this benefit that he can use to his advantage. From this example it is clear that a wealth tax will improve horizontal equity

3.3.2. Vertical equity

Adam Smith states the following with regards to vertical equity:

'The subjects of every state ought to contribute towards the support of the government, as nearly as possible in the proportion to their respective abilities.'

This principle suggests that, in order for the country to raise more income from tax, those that earn relatively more income should pay proportionally more. The objective of this is to achieve income and wealth redistribution between the wealthy and the poor (Memon, 2010:78).

Additionally, progressivity in wealth tax designs is almost an unachievable task. In turnover-based tax regimes, the high turnover does not necessarily yield high margins and, beyond that, any attempt to introduce progressivity in this design requires the creation of more categories through grading in the tax rates. Consequently, a progressive turnover-based design would not result in simplicity,

the reason for which it was introduced in the first place. In an asset-based tax regime, each extra Rand of investment (increase in assets) yields extra revenue and therefore by default, taxes those proportionally more who have more assets: a form of vertical equity (Memon, 2012:938).

Moreover, any attempt to achieve vertical equity by charging very high rates of tax may cause further loss of neutrality. In particular, it runs the risk of losing neutrality in the following two facets: neutrality in loss/income; risk and compliance burden. Consequently, the harmful effects of such an approach may outweigh the merits. On the other hand, using constant marginal tax rates secures a reasonable degree of vertical equity through a proportionate increase in tax burden with increasing income. This also reduces tax planning incentives and consequent inequities. Further, a constant marginal tax rate is also relatively easy to incorporate into an asset-based tax regime because it is difficult to find a single tax rate for all business sectors in other tax designs.

It has, however, been argued that vertical equity penalises the economically efficient to the detriment of the tax base. A wealth tax's ability to redistribute wealth and achieve vertical equity becomes tantamount to the state 'turning the strong into the weak; the healthy into the sick and the wise into the stupid to make them equal' (Voster, 2000:125). In this way, equity may be dismissed as lacking pragmatism. Indeed, the quantification of households' abilities to pay taxes may be too difficult to be a feasible justification for a wealth tax (Coetzee, 1998:10-12).

3.3.3. Summary for vertical and horizontal equity

Horizontal equity is essential for the perception of fairness so as to encourage compliance, while vertical equity is essential for distribution of wealth. However, as Memon points out, vertical equity is a difficult task to achieve in large developing economies and, therefore, may be given the least preference (Memon,2010:79).

For taking decisions regarding the horizontal equity in a tax system, it may be conceded from the outset that 'measuring equity is not easy'. Qualitative evaluation is not possible due to the multiplicity of the variables involved and innumerable categories and levels of income in an economy. Nevertheless, since neutrality of a tax measure (as neutrality ensures uniform treatment for all persons and industrial sectors) is the basis for both efficiency and equity principles, the findings of the analysis regarding the efficiency principle will be

relevant to horizontal equity. Vertical equity, on the other hand, can be assessed by observing the extent of progressivity in a tax system.

Notwithstanding the aim of generating revenue and achieving the ideal of an egalitarian society, the design of taxes on wealth and wealth transfers intends to achieve some degree of equity. These taxes, however, fall short of some features of an efficient, effective and equitable tax system. Trotman-Dickenson (1996) relates the various principles of a good taxation system to wealth and wealth transfer taxation: Equity: the benefit principle and the ability-to-pay (DTC, 2018:32-33)

3.4. Conclusions drawn from the chapter

This chapter of the dissertation aimed to assess whether an annual net wealth tax aligns with the principles of a good tax system, as envisioned by Adam Smith. The Chapter looked specifically at the canons of simplicity, efficiency and equity.

Firstly, the canon of simplicity required an assessment of whether the wealth tax would not be onerous on the taxpayer and whether it would not cost the country exorbitant amounts to administer. Cost of compliance and collection as well as convenience to pay are the two most important principles when assessing the simplicity of a tax system.

The cost of compliance was found to be too high for the wealth tax, as it is a comprehensive tax (DTC, 2018:36). Further to this, the wealthy have access to resources that enable them to seek expert tax advice that can lessen their tax burden. In this instance the burden to pay tax falls on those who are less wealthy and have no choice but to pay as they do not have access to such advice or sufficient means to implement it.

Collection costs are also high because the assets would need to be assessed and valued every year. Moreover, in general, the administration costs associated with wealth and wealth transfer are quite high.

Secondly, efficiency of a tax is assessed based on whether it does not leave those that ultimately bear the burden of the tax worse off. Every tax is said to possess the power to distort one's wellbeing to some extent. The burden of wealth tax, in particular, is intended to be shouldered by the wealthy. However, as discussed above, the wealthy have resources that enable them to either avoid the burden of tax or disinvest and migrate. This leaves the middle class or the retired citizens vulnerable to bearing the burden of the tax and this an unfair distortion to their wellbeing.



The wealth tax, therefore, does not align with the canon of efficiency because of the potential it has to shift the tax burden.

Lastly, the term equity usually has two facets to it namely: horizontal and vertical equity.

Horizontal equity speaks to the fairness of the tax system by stating that taxpayers who earn in the same tax bracket should be taxed the same amounts. Horizontal equity is vital in a tax system for a number of reasons. This equitable treatment in a tax system is synonymous with fairness of the tax system and considered to be a cornerstone for encouraging voluntary compliance amongst taxpayers.

The 'ability to pay' and 'benefit' principles are the two cornerstones of horizontal equity. The 'ability to pay' principle prioritizes that an individual need to have the ability bear the tax burden and not merely the ability to pay it. This principle requires that the state strike a fair balance between the need to increase revenue collections and the wellbeing of the taxpayers.

The 'benefit' principle states that taxpayers are always willing to pay taxes where they can observe a benefit from such taxes. The incessant increase in the taxation on the wealthy could see taxpayers losing their morale and more so when they witness misuse of state resources by the government.

An annual net wealth tax does not align with the ideals of horizontal equity on all counts. The tax is an unfair tax as it undermines the fact that taxpayers who do not have the ability to bear the tax burden will be the ones who are ultimately responsible for paying the tax. Furthermore, it discourages the taxpayers morale to continue paying tax where there is no tangible benefit that can be observed.

Vertical equity requires that taxpayers who are wealthy pay proportionally more tax than those who are not. This does not align with the principles of equity as it undermines the tax principle of neutrality and may discourage taxpayers from being compliant.

Chapter Four: The Advantages and Disadvantages of a Wealth Tax

“A wealth tax is usually motivated by the need to address one or both of two primary needs, namely, the need to address economic inequalities and the need for additional tax revenue. South Africa faces a dual challenge of continuing budget deficits in the face of very low economic growth which, in turn, places a substantial amount of pressure on sustainable growth in tax revenue and the ability to deal with the second challenge, being high inequality” (Arendse and Stack, 2017:1).

There are many substantial arguments for an annual wealth tax and, as mentioned above, it is intended that such a tax should address the prevailing economic inequality. However, the introduction of a new wealth tax carries with it some disadvantages as well. Some known disadvantages are the risk of capital flight, low tax yields and increased tax evasion. It is therefore imperative to assess whether the economic set back and costs can be justified as being a necessary and worthwhile investment in pursuit of a greater long-term goal in the overall evaluation of whether such a new tax would be in the best interests of the country.¹⁹

This chapter of the dissertation will look at the arguments for and those against a wealth tax. This chapter will then juxtapose these arguments and form a conclusion with regards to whether a wealth tax would currently be feasible for South Africa, in light of these advantages and disadvantages.

4.1. Advantages of a wealth tax

1. Reducing inequalities

The strongest argument put forward for imposing an annual wealth tax is its potential to reduce inequalities. The main question is whether it is justified that certain people be deprived to rights of life and liberty as a result of extreme poverty? All this while a tax on the world’s wealthiest people possesses the potential to alleviate poverty and reinstate basic human rights to the poor (Glennerster, 2012:324).

It is in developing countries like South Africa that the legacies of colonialism have left repercussions like inequality. As mentioned in chapter one of this dissertation these legacies have led to a myriad of tensions in developing countries. An annual wealth tax is said to have the potential to bridge the inequality gap by taxing the wealthy and utilising the funds therefrom to aid the poor (Gordon & Rudnick, 1996:6). This was the main motivation behind Archbishop Emeritus Desmond Tutu calling for a tax on wealthy South Africans (Beeld, 2011).

¹⁹ Arendse, J. & Stack, L., 2018, 'Investigating a new wealth tax in South Africa: Lessons from international experience', *Journal of Economic and Financial Sciences* 11(1), a175. <http://dx.doi.org/10.4102/jef.v11i1.17>



An annual wealth tax could encourage a more moral society (Gordon & Rudnick, 1996:5). This is in the sense that wealthy citizens will be taking more responsibility by utilizing their wealth to aid in the socioeconomic issues, such as poverty, that are faced by South Africa. Wealth confers non-economic benefits as well as influence over the government and on state decisions. Examples of such influence is the ability that wealth has to buy stakes in state owned enterprises, significant shares in the banking and mining sectors.

Sandford et al. (1975:10) agrees with the argument for an annual wealth tax but only up to a certain extent. According to them the annual wealth tax will have as much or as little impact in the reduction of inequality as a progressive tax system would. Progressive tax systems have been in place in various countries all over the world and yet inequality has been on the rise in the last 30 years.

The annual wealth tax would have a better chance of being successful at reducing inequalities in the event that it is set at extremely high rates so that wealthy individuals cannot meet their tax liabilities in a particular year from the income earned. In the event that an individuals' income and annual wealth tax liability would exceed their earnings in a year, they would have no choice but to realise these assets to meet the obligation. This is hardly a productive suggestion as it would diminish the individuals' wealth and capital flight would be unavoidable (Papp, 2014:17).

An annual wealth tax would also enable inherited wealth to be taxed. It can be said that individuals that are able to live on wealth possess an unfair advantage. In the event that inherited assets are taxed, the beneficiaries would not be left to generate minimal income as they would be forced to work to keep up with inflation as well as the tax to avoid the asset from diminishing. This would also prevent people from permanently leaving the work force and could result in higher productivity and the development of enterprises (Papp, 2014:18). South Africa perhaps needs the older generation in the work force to provide the younger generation with an opportunity to work and generate wealth.

In summary, the reduction of inequalities may be effective where tax on inherited wealth is increased, but this may be achieved through more rigorous death taxes. Any other attempt to reduce inequalities through an high annual wealth tax would possibly force individuals to move elsewhere and would inevitably tax wealth saved from the proceeds of labour and not only inherited wealth.

2. Reducing the risk of tax avoidance

According to Sanford et al (1975:6) tax avoidance can be avoided through the implementation of an annual wealth tax. He states that, if taxpayers are required to declare their assets annually then taxpayers would be less inclined to postpone the realisation of certain assets. Chapter three provided an opposing argument to this, however, by stating the annual wealth tax could encourage the wealthy to evade tax.

The wealthy are more likely to have access to resources such as tax advisors that can assist them with ways to avoid pay tax.

It is very difficult to determine how significant tax evasion and tax planning would be if an annual wealth tax were to be imposed. Certain studies however allude to the fact that this phenomenon might be more substantial than what is to be expected.

The annual wealth tax would ensure that additional information is readily available to the revenue authorities in order to enable them to cross-check the data accumulated from income tax streams (Papp, 2014:15). Papp believes that a person's increase in wealth and his increase in income should closely correlate. Any unprecedented deviations from this relationship should be closely monitored and investigated so as to reduce the practice of tax evasion (Gordon & Rudnick, 1996:3). This could serve as an additional method to also assist the South African Revenue Service ("SARS") of ensuring fair and complete tax returns.

3. Encourage the efficient use of resources

An annual wealth tax could ensure that unproductive assets could be converted into more productive assets. For example, a person who owns a barren piece of land is not generating any income and would be paying the same amount of tax as someone who is utilizing the land to generate income. The owner of the land would be forced to then start cultivating or developing the land so as to generate income to assist in paying the tax based on the value of the land.

However, this argument does not take into consideration the fact that individuals could be using those assets for philanthropic reasons. Tax is not the only way to accomplish redress and assist with socioeconomic issues. To add on to the example above, the farmer of the barren land could be allowing people to live on the land rent-free and by forcing him to generate income, he would be forced to charge indigent people rent in order to pay the wealth tax and on which he would also pay tax.

Assets that earn a low yield will be exchanged for assets that produce a higher return, thus potentially distorting the market. Another example is a cash deposit that is earning a low interest return. Investors could be incentivised to invest their cash in investments that yield higher returns (Sandford, et al 1975:7-8). This could therefore encourage investments and eventually potentially increase the demand for labourers and ultimately address some of the socioeconomic issues faced in South Africa (Papp, 2014:16).

It must be pointed out, however, that this dissertation is not oblivious to the fact that the views expressed in this section are based on a theoretical application of how individuals react to best ensure the retention of the value of their resources. Theory does

sometimes deviate from reality. For instance, in countries where a marginal tax rate is imposed on income along with modest capital gains, a wealth tax might still not be able to lure investors to invest in higher yielding businesses (Sandford et al., 1975:12).

In summary the arguments above would be more likely to hold true in normal market conditions where taxpayers are equipped to optimise their available resources. It then still remains to be determined whether or not imposing an annual wealth tax will be a more efficient use of resources for current South Africa.

4. Source of funding

The ideal scenario would be one where the tax burden would fall on a small part of the society while the income generated therefrom would be enough to finance a large portion of the required government spending. This would be the situation that would arise in the event that wealth was taxed (Schnellenbach, 2007:5). Even though only a small portion of society is impacted, this scenario would cause an unprecedented amount of pressure on the portion of society that is affected by a tax on wealth. This is of course an ideal situation that makes sense theoretically, however, looking at the lessons from international countries in chapter two of this dissertation, annual wealth taxes have not generated enough revenue to make a significant difference.

The ideals of the annual wealth tax are to not only tax newly acquired wealth but to also tax wealth that has been created from many generations before. This would effectively allow for a large tax base which would be likely to contribute a significant amount to SARS even if a low tax rate would be applied (McKinnon,2012).

4.2. Disadvantages of a wealth tax

1. Practical difficulties

The most significant argument presented by the opponents to the introduction of the wealth tax is that it poses many practical administrative difficulties. The main question, when interrogating the practical difficulties associated with administering the wealth tax is: will the benefits attached to implementing the annual wealth tax exceed the costs of implementing the tax? Further, will the benefits outweigh the practical difficulties associated with the implementation of this tax (Papp, 2014:19)?

The most logical practical difficulties are listed below:

- Valuation of assets: "Asset valuation is a critical step for the imposition of the annual wealth tax. Valuation of assets can however prove to be very subjective. Valuations could be susceptible to the risk of being under- or over-stated. The accurate valuation of assets such as private businesses or properties has often proven to be a very difficult task and requires the services of an expert. This in turn results in an additional cost burden for the taxpayer and tax administration



as they would have to expend resources such as time and money to have this done” (Sandford et al., 1975:251). As mentioned before valuation difficulties could cause the fairness of the tax system to be jeopardised as under-valuation could lead to certain individuals still not paying according to their abilities (Sandford et al., 1975:12).

Deborah Tickle makes another important argument regarding the valuation of assets. She states that if assets are then used as a measurement of wealth, then it is only reasonable to use these assets as a measure when these assets have been realised or transferred. She aptly provides an example of shares and property for which the value is prone to the fluctuations in the market. If an annual wealth tax was implemented then individuals who hold such assets would be considered to qualify for the annual wealth tax, however, if, for example, the market crashes the underlying value of those assets may be much less when realised. This means that the wealth that those individuals were perceived to have was not ‘real’ in the first place. A recent example of this in South Africa is the Steinhoff case in 2017. The shares of this company lost about 90% of their value and caused huge losses for investors after it was found that executives in the company had been inflating profit and asset values for years. Such examples of ‘fictitious value’ are not isolated and there have been many similar scenarios over the last decade e.g. Tongaat Hulett, EOH, VBS, Sasol and even Woolworths where there was no fraud involved.

Tickle does acknowledge the fact that South Africa has Estate Duty, donations tax, transfer duty and STT that aptly tax these assets on transfer. However, it is in relation to the annual wealth tax that she makes this point (Prof Deborah Tickle, 2019).

There is thus also still great uncertainty around what the annual wealth tax could be levied on. It is reported that most of South Africa’s wealth is concentrated in retirement funds. This begs the question of whether retirements funds should then be subjected to the tax? How should it be justified that money invested in retirement funds would be exempt and that money in the bank because people either saved for their own retirement or withdrew from their retirement funds would be taxable? Cognisance must also be had of the fact that even though South Africans do prioritize investing their money in retirement funds, it does not mean that they are wealthy (Tickle,2019). Further to these questions is the consideration of whether or not the wealth tax should have an age limit. Or would this tax be levied based only on the extent of one’s “wealth”? These are all considerations that have not yet been dealt with and leave great uncertainty around the architecture of such a tax.



- Ownership of assets: “The uncovering of ownership of assets, specifically in developing countries has been described by different commentators on wealth taxes to be the biggest shortcoming of the wealth tax” (Gordon & Rudnick, 1996:9).
- Double taxation: The wealth tax proponents will have to face the implication of tax on worldwide assets. Today most tax systems focus on worldwide assets or income as the tax base for residents and this is often combined with a source-based tax for non-residents. Furthermore, individuals who are considered to be wealthy will incur an annual wealth tax on their assets and may still incur death taxes on these assets when they die.

These methods of taxing have often led to double or triple taxation for individuals that are residents in one country and own assets or earn income in other countries. This then means that an annual wealth tax might also be based on a taxation of world-wide assets and could impose the risk to double taxation, as described above.

“The double taxation could be prevented through a double tax agreement, the only problem being that very few current double tax agreements include wealth taxes or the timing of when the tax should be administered” (Gordon & Rudnick, 1996:22). This certainly holds true for South African double tax agreements. A huge effort would be required to ensure double tax agreements are updated to include all the aspects of a wealth tax as well (Papp, 2014:20).

- Cost of collection: The administration around effectively imposing a wealth tax would require a hefty effort from a number of different players. A large number of staff is required by the revenue collector (SARS) to check and cross check information provided in these types of returns. Although there are administrators for the current wealth taxes in South Africa, there is still room for improvement with regards to streamlining the administration processes. It has already been mentioned in this dissertation that the revenue expected to be contributed by the wealth tax is negligible and therefore could outweigh the benefit of imposing such a tax. The countries with the highest percentage contribution from wealth taxes are Luxembourg and Switzerland. These countries’ wealth taxes contribute a mere 3.5% of total income from taxes (Hansson, 2002:3).

Given all the practical difficulties mentioned above, the implementation of a wealth tax may be a costly and difficult exercise. The costs of implementing a wealth tax could easily outweigh the benefits of implementing a wealth tax if the tax is aimed at a small group of taxpayers.



2. Reduction in incentive to save

An annual wealth tax could reduce incentives to save (Boadway et al., 2010: 785). This possibility was also acknowledged by Sandford et al. (1975:13). The reason for the argument being that the tax base of an annual wealth tax would be accumulated wealth or, in other words, savings. In fact, in a scenario where individuals are faced with a decision to save and pay taxes on those savings or to spend the money on their own personal needs, the far more likely outcome might be for said individuals saving less and rather spend the money on current personal needs or desires. This might also, to a certain extent, discourage enterprise development in cases where an enterprise has been specifically entered into for purposes of creating future savings (Papp, 2014:22).

Professor Deborah Tickle published an article in the September/October issue (issue 78) of the 'Tax Talk' magazine. The article states reasons that substantiate why the wealth tax would not be a great idea for the South African context. One of the reasons she mentions supports the ideas above regarding how the tax could discourage South African taxpayers from saving. Tickle states in her article that if people anticipate the fact that an annual wealth tax will be imposed on them they are far less likely to save any money in the bank or in retirement funds. In fact, as indicated above, a far more likely response will be disinvestment in the country in favour of a country that has more favourable tax incentives which would further erode South Africa's tax base. The less morally inclined citizens might also take the option of hiding their assets and evade the tax altogether.

3. Impact on entrepreneurship

There seems to be a relationship between an annual wealth tax imposed and the rate of self-employment or entrepreneurship. Hansson (2008:141) discovered that there is a relationship that exists between an imposed wealth tax and the rate of self-employment. Hansson was able to discover this after comparing the number of self-employed individuals throughout the OECD.

Hansson's work indicates that countries that imposed a wealth tax showed a 33% lower self-employment rate compared to that of countries that did not impose a wealth tax (Papp, 2014:22).

Figure 2: The average self-employment rates with and without a wealth tax between 1980-2003



Source: Hasson, 2008:145

There were two main reasons which were brought to the fore to serve as a justification for this:

- Start-up companies need a high level of own capital as the risks associated with these kinds of businesses make external financing hard to obtain and very expensive. Availability of own capital is reduced through the introduction of more taxes.
- The main driving force for bearing the risk of starting these types of businesses is the expected after-tax returns. A wealth tax reduces the after-tax return and therefore inhibits the main driving force (Hansson, 2008:141).

Various tests and comparisons indicated that the removal of a wealth tax can realistically have an immediate impact of 0.2% to 0.5% increase in entrepreneurship (Hansson, 2008:156).

4. Unfairness of a wealth tax

One of the main arguments against an annual wealth tax is that it is an unfair tax. This idea was explored in chapter four of this dissertation and presented how the tax could be perceived as unfair when analysing it relative to horizontal equity. One other example to illustrate how an annual wealth tax could be unfair is that certain individuals prefer to earn income early in their lives and work harder during that part of their life cycle. These individuals would aim to accumulate as much as possible and convert this into assets that can ensure an income during a latter part of their life cycle so that they could then sit back and enjoy the fruits of earlier hard labour. An annual wealth tax could potentially discriminate against such individuals that decided on this approach compared to an individual who preferred earning just enough to support his current needs and keep on working until it is no longer possible (Boadway et al., 2010:779-780).

This discrimination could lead to more people preferring not to accumulate wealth and ultimately become state dependent for their most basic needs during old age. Additionally, it would discourage the culture of investing in certain assets that would earn income for them in their later years. Therefore, the implementation of an annual wealth tax would not only be unfair, but would also be counterproductive (Papp, 2014:24).

Another reason why an annual wealth tax is claimed to be unfair is the fact that it erodes wealth. The tax base includes assets and not an increase in assets. Therefore, the same assets are taxed year after year and this gradually erodes wealth (Papp, 2014:24). This tax not only eliminates the economic futures of individuals, but it also hints at communism (Makoti, 2012:73). Such policy can only be justified for political reasons (Schnellenbach, 2007:1). A wealth tax in itself can be seen as an exponential tax as it is levied on assets that were acquired from after tax earnings (Makoti, 2012:73).

“Wealth taxes can also be viewed as discriminating against personal small businesses. It is widely recognised that imposing wealth taxes on both companies and individuals will lead to double tax. However, the imposing of wealth taxes on individuals would only create an unfair disadvantage for these personal businesses competing against other larger companies for the same projects” (Ristea & Trandafir, 2010:304). These personal



businesses would have to charge higher rates to ensure the same after-tax returns as their corporate competitors.

Based on the above an annual wealth tax can be seen as inefficient and unfair in more than one way and to various different individuals. This would be particularly counter-productive in a country such as South Africa, which is currently attempting to encourage entrepreneurship and small business to salvage the economy.

4. Capital drain

The most significant implication of imposing an annual wealth tax on the citizens is the possibility of a capital drain, sometimes also referred to as a “brain drain” (Papp, 2014:24). The modern world is increasingly becoming “smaller”. The cost of travelling and communication is lowering over time. Technology has eliminated barriers to the flow of capital; companies have become multi-national organisations that can easily transfer employees between countries. Workers can now choose where to stay and invest their hard-earned capital. One of the many factors influencing these decisions has been found to be taxes (Edwards & Mitchell, 2008:28).

The extent of the impact of taxes on people’s decisions of where to live is not limited to income tax rates, but also extends to taxes on wealth. In theory any tax on wealth will encourage a capital flight up to the point where the returns on the capital exceeds any taxes thereon (Gordon & Rudnick, 1996:8).

As was mentioned in chapter two of this dissertation many wealthy French citizens stated that the annual wealth tax in France was the reason behind their decision to emigrate to Belgium and Switzerland (Edwards & Mitchell, 2008:42). Countries such as Ireland also attributed the decision to abolish their wealth tax systems to capital drain (Ristea & Trandafir, 2010:304).

Asa Hansson was inspired by this notion of capital flight to study the relationship between economic growth and wealth taxes. The study statistically investigated the correlations between economic growth and annual wealth taxes imposed by the revenue authorities for 20 OECD countries between 1980 and 1999 (Papp,2014:25). The study concluded that economic growth is stifled by between 0.02% and 0.04% for every 1% increase in the wealth tax rate (Hansson, 2002:18). This is ascribed to the fact that wealthy individuals migrate to countries with more favourable tax laws and where foreign assets are given preference over domestic assets (Hansson, 2002:2).

Linda Papp reports that there have been studies that have shown that by increasing a wealth tax, such as estate tax or capital gains tax, the tax bases in the particular instances have shrunk (Papp,2014:25). This is a result of people crafting schemes to avoid paying taxes (Edwards & Mitchell, 2008:36-43). In some instances, the income tax base has also shrunk as a result of increased efforts by citizens to minimise their tax liability. These efforts include migrating to countries where the tax liability would be less onerous. Many economists believe that, due to this fact, a wealth tax does not

necessarily raise additional net revenue for governments (Edwards & Mitchell, 2008:43). This raises great concern in a country such as South Africa that already has wealth taxes, such as Estate Duty (amongst others, as mentioned in Chapter One) that has not been performing well and to replace or add to it with an annual wealth tax would not bode well.

To reiterate, the introduction of annual wealth taxes also adversely affects a country's future growth and job creating capabilities (Makoti, 2012:73). Entrepreneurs not only create their own wealth, they also create jobs and empower communities in the course of their business (Edwards & Mitchell, 2008:89). Alienating these individuals would thus be detrimental to a country. The unemployment rate in South Africa is currently at an all-time high of 29% and introducing any other factors that even possess the potential of worsening this would, thus, be counterproductive.

The alienation of business developers and entrepreneurs was also mentioned as one of the reasons why an annual wealth tax was never implemented in the United Kingdom (UK) (Glennister, 2012:243). The decision not to implement a wealth tax in the UK was underpinned by the following reasons, after various reviews of the intended system (all of these relate in some way to the fact that the country would see a decline in capital invested and business activity):

- “Citizens would be encouraged to seek non-citizen status which would lead to outflow of funds in the form of dividends and interest”.
- “Foreign employees, resident in the UK would also be subject to the tax. This would probably result in a large exodus of major foreign banks, insurance companies and shipping companies to neighbouring countries”.
- “With fewer assets held in the UK the general level of business in the country would reduce”.

“The South African economy cannot afford these negative effects at this point in time, even though South Africa is deemed less vulnerable due to factors such as the high future growth rate forecasted for Africa. It is therefore important to determine the total tax impact on an individual in South Africa, compared to other African countries” (Papp, 2014:26).

4.3. Conclusions on The Advantages And Disadvantages Of Imposing A Wealth Tax

Based purely on the theory presented in this chapter it can be stated that the disadvantages of imposing an annual wealth tax outweigh the advantages thereof. It would seem that the advantages of imposing an annual wealth tax are largely based on theory and very little

evidence exists that these advantages are in fact justifiable in practice (Sandford et al., 1975:12)

The section that detailed the advantages for imposing an annual wealth tax have counter arguments pointing towards the opposite. Some examples are the following:

- the advantage of improving horizontal equity is contradicted by the disadvantage of practical difficulties. This is due to the fact that the fairness would be compromised as a result of certain assets being difficult to value or even easy to omit from returns.
- that the risk of avoidance of taxes would be lowered is countered by the argument that practical difficulties would cause incentive for even further avoidance. This could ultimately lead to tax immorality that affects taxpayer's attitudes towards other types of taxes as well.
- the reduction in inequality would only be effective in cases where wealth taxes are imposed at such high levels that it would cause capital flight.
It does however seem that the additional tax can be politically motivated to try and reduce the effect of inequalities between different groups based on social injustices from the past albeit that, based on the research in this dissertation, this is unlikely to be achieved.

As mentioned under the practical difficulties the reporting of assets for wealth tax purposes might be susceptible to undervaluation. Furthermore, individuals might be enticed to omit certain assets that are difficult to trace such as gold or jewellery from their returns. These factors would put a huge administrative burden on the revenue collector to ensure the accuracy of the returns. Tax evaders would certainly go out of their way to ensure that a cross check between income tax and an annual wealth tax would not reveal obvious substantial inconsistencies. The costs of this administration will prove high, due to the valuation difficulties mentioned above, and will still not provide perfect results (Sandford et al., 1975:12).

A decision not to scrutinise and investigate the accuracy of the returns by the revenue collector could lead to an overall reduction in the level of seriousness and honesty of taxpayers completing any tax returns. Tax evasion creates a general contempt for law and has a tendency to feed itself. Tax immorality could therefore spread to other types of taxes already imposed. Good tax policies should avoid leaving any room for possible evasion. This argument therefore seriously questions the ability of the annual wealth tax to reduce tax evasion.

Sandford et al. (1975:35) also concluded that "the comparison of wealth taxes alone has very little value as the total basket of taxes imposed on an individual should be compared to determine whether a country could justify the addition of another tax". From a South African perspective, the overall basket of taxes imposed currently by South Africa on high net worth individuals will need to be compared.

Chapter five: The Efficacy of existing Wealth Taxes in SA

The historical development of wealth transfer taxes was researched by Muller²⁰ (2010; 86-94) who documented it as follows: Wealth transfer tax first made its appearance in South Africa in the Cape of Good Hope colony during 1864 by way of a recipient-based succession duty. In 1899 the old Zuid-Afrikaanse Republiek introduced a transfer-based duty, while the colonials in the Natal and the Free State introduced a similar succession duty to the Cape of Good Hope in 1905, by way of colonial legislation. The first national wealth transfer tax to be nationally promulgated was the Death Duty Act 29 of 1922 and, with its promulgation, all previous provisional legislation was repealed. This Act was repealed in 1955 when it was replaced by the Estate Duty Act, (No. 45 of 1955) (CP Basson,2015:13).

South Africa currently has wealth taxes in the form of estate duty (levied in terms of the Estate Duty Act, No. 45 of 1955), Donations Tax (levied in terms of sections 54 to 56 of the Income Tax Act, No. 58 of 1962), transfer duty (levied in terms of the Transfer Duty Act, No. 40 of 1949) and securities transfer tax (levied in terms of the Securities Transfer Tax Act, No. 25 of 2007).

The focus of this chapter will be on estate duty and donations tax rather than transfer duty and STT as the latter two are transaction taxes albeit that they fall into the category of wealth taxes. Thus, their retention if an annual wealth tax were to be implemented could be justified, whereas the estate duty and donations tax would generally be replaced by an annual wealth tax order to avoid any double tax effects (see discussion under estate duty in this chapter). Where considered relevant transfer duty and STT will nevertheless be referred to.

In 2015 The DTC was requested to review the relevance of estate duty in South Africa. The first interim report issued by the DTC put forward reasons to justify the repeal of estate duty and listed three proposals as an alternative to this tax. The proposals were as follows:

²⁰ Muller, E. 2010, A framework for wealth transfer taxation in South Africa, LLD thesis, University of Pretoria, Pretoria, viewed 27 August 2014 < <http://upetd.up.ac.za/thesis/available/etd-10092010-142436>>

1. “To repeal the Estate Duty Act completely and cease the concept of treating death as a taxable event”.
2. “To amend the estate duty in order to achieve a simpler and more efficient system”.
3. “To replace the present estate duty system with a new form of wealth tax”.

This chapter of the dissertation will focus on the third proposal i.e. to replace estate duty with an annual wealth tax. It will start by providing a brief description of the South Africa’s current wealth taxes ie: donations Tax, transfer Duty and securities transfer tax. Secondly it will perform an in-depth analysis of estate duty and the literature that has been published suggesting the repeal of the tax and assess reasons behind this suggestion. It will also look at whether the proposal of replacing estate duty with an annual wealth tax would be to South Africa’s benefit.

5.1. Donations Tax

The income Tax Act defines a donation as “any gratuitous disposal of property or any gratuitous waiver or renunciation of a right”. A person becomes responsible for donations tax on any gift that is given or received for no consideration or at below market value without any obligation to pay it in return. The donor of the asset is responsible for the payment of the donations tax and it is payable within three months from the date of the donation. The donee becomes responsible for the payment of the tax in the event that the donor fails to pay the tax.

Donations tax is effectively an advance payment of estate duty, as assets are transferred to beneficiaries throughout life and the tax is intended to prevent taxpayers from disposing their assets prior to death in order to avoid estate duty.

There have been many reports on the fact that estate duty and donations tax collections have declined, both in real terms and in terms of their overall contribution to National Revenue. The total revenue collected from these two taxes is 0.17%. The DTC released two reports on estate duty, in 2015 and 2016, which confirm that,

“South Africa has significantly underperformed in terms of revenue collections in respect of estate duty and donations tax; hence there is scope to increase performance in this regard. Given the massive wealth disparity in South Africa, it is clear that reform is needed in order to enhance the effectiveness of these taxes. The DTC recommended that, with some modification, the estate duty and donations tax regimes could better achieve the objective of reducing wealth inequality without necessarily implementing new forms of wealth taxation” (DTC,2015:6).

This is a key point for the purposes of this dissertation and will be explored more in this section.

One of the amendments that were suggested by the Minister of Finance, in his 2018 speech and based partly on the DTC recommendations, was that the rates of estate duty and donations tax be levied at 25% (as against the current 20%) if the aggregate value of the property exceeded R30 million. If the aggregate value of the property was below R30 million, then donations tax would still be levied at 20% (SILKE, 2019:930). This amendment has been effective since 1 March 2018, however, the impact of this is not yet clear in relation to the total revenue collections.

Another important improvement that was made to the estate duty and donations tax regimes was the introduction of section 7C which, although in a different form, also emanated from the DTC recommendations. The purpose of introducing this section was to prevent the avoidance of estate duty and donations tax through using trusts and interest free loans. Section 7C provides that where certain loans, advances or credit has been provided by a trust (or certain companies) by a connected person to a trust, this may result in the application of the donations tax provisions.

For the provision to apply, the lender needs to be a natural person and if it is a company it must be at the instance of a natural person (who is a connected person to the company) (SILKE, 2019:935). The donations tax is payable on an amount of deemed interest not charged by the lender. In essence, the effect of the change is to negate the effect of transferring assets from the lender to the trust, such that their growth in value was removed from his or her estate and thus not taken to account for estate duty purposes on death.

In line with the DTC recommendations, improvements were also made to the disclosure required in the annual tax returns for trusts, to enable SARS to evaluate in whose hands income earned by the trust should be taxed. This also ensures that SARS is able to verify that those persons' tax returns reflect that income.

Although the DTC recommendations to the amendment of the Donations Tax legislation in its 2016 Estate Duty Interim Report, which also included the review of the inter-spouse abatement and bare dominium and usufructs arrangements (DTC, 2016:21-24) were not incorporated into the South African tax legislation in their recommended forms, the changes nevertheless made significant inroads into the shortfalls that existed in these wealth taxes. They also bear testament to the fact that there is further scope to improve on the current wealth taxes that exist in South Africa, rather than introducing a new annual wealth tax instead.

5.2. Transfer Duty

“Transfer duty is a tax levied at progressive rates on the value of any property that is acquired by any individual or juristic entity, subject to the exemptions provided for in section 9 of the Act. It is the largest source of revenue in the “taxes on property” category as defined in the Government Finance Statistics (GFS)” (National Treasury, 2019:270).

Transfer duty is levied on a wide range of assets that are defined as property. They include land and fixtures as well as real rights in land, rights to minerals, a share or interest in a residential property company, as well as shares in a share-block company. When property is acquired, transfer duty is imposed on the person acquiring the property. When rights associated with property are renounced, responsibility for the payment of the transfer duty lies with the person in whose favour, or for whose benefit, any interest in, or restriction upon, the use or disposal of property has been renounced.

Transfer duty is payable within six months from the date of acquisition. The sale of a property directly or through a change in shareholding is subject to either VAT or Transfer duty. Where shares are sold, the property is included as part of a fair-valuation of the shares and the transaction is subject to transfer duty under specific anti-avoidance measures. For example, the sale of a vendor’s private residence, or the sale of property used by a vendor for the purposes of employee housing, will be subject to transfer duty as these supplies are made in the course of a VAT exempt activity and not in the course or furtherance of the enterprise carried on by the vendor.

The migration of Transfer Duty payments onto SARS’ electronic e-filing platform in 2013 has improved the accuracy of information on property transactions and associated duties. From 1 March 2015, the threshold of property values liable for transfer duties was increased to R750 000. This was raised to over R900 000 from 1 March 2017. The duty is then levied on a sliding scale with a maximum rate of 13% to the extent that the value of any properties transferred exceeds R10mn. As a form of transactional land tax this rate is considered to be high when viewed against other global rates of property transfer taxes (National Treasury,2019:271).

In 2018/19 a total number of 93 329 properties were transferred at a combined value of R188.9 billion. This represented an increase from the 85 664 properties transferred in 2017/18 at a value of R179.0 billion. This resulted in Transfer Duty collections of R7.2 billion, which was down from the R7.7 billion received in 2017/18, representing 8.9% transaction volume increase year-on-year and a 6.2% decrease in Transfer Duty collections. The transaction volume increase in 2018/19 is surprising considering the tough economic conditions, but did not translate into added Transfer Duty collections as it was the lower value properties that added to the volume. In the current year, 75% (2018 - 74%) of the transfer volume accounted for 20% (2018 - 19%) of the Transfer Duty collected (National Treasury, 2019).

The average value of property transferred was R2 million (2017/18: R2.1 million) and the average Transfer Duty paid on these transfers was R77 606 (2017/18: R90 155). The Pareto analysis of the past two years reveals that 84% of the transaction volume contributed 30% of the transfer duties in 2018/19 while in 2017/18, 82% of the transaction volume contributed 28% toward transfer duties (National Treasury, 2019).

Transfer Duty has performed well despite the poor economic climate and the stagnation of the property market in 2019. This is particularly encouraging and again reiterates the sentiments expressed above with regards to Donations Tax, specifically that there is room to leverage the use of other wealth taxes to increase the overall contributions by wealth taxes. Also, one of the reasons why the current wealth taxes are more efficient than an annual wealth tax is that they occur on transfer and, thus, at a fixed point in time when a fixed value can be determined, rather than taxing someone on variable values (potentially fictitious a.k.a Steinhoff) which over a period of time may bear no relation to the actual/ real amount of 'wealth' that is ultimately realized or seen on disposal of the asset.

This tax aligns very well to the Adam Smith canons as it is simple, efficient and equitable (ie the rate is levied based on ability to pay ie the higher the value property you buy the more tax you pay) and certain (the value is clear on transfer, as third parties negotiate a price). It thus has very low administration costs. The current wealth taxes, in general, are more efficient than an annual wealth tax would be in that they occur on transfer and thus at a fixed point in time when a fixed value can be determined.

5.4. Estate Duty

The Estate Duty Act 45 of 1955, as amended, provides for the imposition of estate duty on the estate of every person who died on or after 1 April 1955.

The Estate Duty Act is administered and collected by the Commissioner of the South African Revenue Service ("SARS"). To enable this Office to perform this function efficiently, the Estate Duty Act has conferred wide powers thereon, particularly as far as control is concerned. SARS carefully examines all returns submitted to it and keeps an eye on the values allocated to estate assets (SILKE,2019). In this respect, section 5 of the Estate Duty Act is particularly important, since it describes how a deceased's property must be valued for purposes of the Act and what monetary value must be attached to these assets. If SARS is not satisfied with the value attached to a particular estate asset, it may increase the value to an amount it considers realistic.

Estate duty is charged upon the dutiable amount of the estate, calculated in accordance with the provisions of this Act. It is levied at the rate set out in the First Schedule (Lexis Nexis). As

indicated above, the rate is currently 20% on the dutiable value below R30mn and 25% above this figure.

The Minister of Finance, Mr Pravin Gordhan, in his Budget Speeches delivered in Parliament in 2010, reiterated that the Revenue Authority was considering a major revamp of (and possibly the abolishment of) Estate Duty. The question that the Davis Tax Committee aimed to answer was the following: ‘What is an equitable combined effective Estate Duty package? (DTC, 2016).

Both estate duty and capital gains tax are payable upon death, which is perceived as giving rise to double taxation. The Estate Duty raises limited revenue and is cumbersome to administer. Moreover, its efficacy is questionable: many wealthy individuals escape estate duty liability through trusts and other means. These two theories will be explored further in this section.

The terms of reference extended to the Davis Tax Committee by the Minister of Finance instructed it to enquire into:

“The progressivity of the tax system and the role and continued relevance of estate duty to support a more equitable and progressive tax system. In this inquiry, the interaction between capital gains tax and the estate duty should be considered. In real terms the contribution of estate duty collections has declined over the past 20 years²¹.”

There is no prospect of capital taxes, in whatever form, being a “silver bullet” which could make a substantial difference to overall revenue from tax in South Africa. However, several other issues affecting donations tax and estate duty have emerged since 1997 that require examination, as part of an overall assessment (DTC, 2016:5).

While South Africa is significantly underperforming in terms of revenue collection in respect of Estate Duty and Donations Tax and, hence, there is scope to increase performance in this regard, this country is, however, not unique regarding the small contribution made by wealth taxes. Many countries have no net wealth taxes, or estate, inheritance or gift taxes. In the Netherlands inheritance and gift tax yield 0.7% of tax revenues and 0.26% of GDP (DTC,2016:5)..

The Katz Commission suggested that a targeted tax contribution for such taxes, of 1 to 1.5% of tax revenues, might be appropriate, which, translated into the context of the total collection for 2013/14, would amount to approximately R10 billion to R15 billion per annum.

5.4.1. The inefficiency of Estate Duty

²¹ *National Treasury 2019 statistics*

“Estate planning in essence is built on the principle of minimising taxes upon death by transferring assets to an entity, such as a trust, in order to ensure that the growth of the assets remain in the trust and not in the individual’s estate, as well as transferring control over the assets to the trustees.

An *inter vivos* trust is the most common vehicle used for estate planning. A donor or founder establishes the trust while he is still alive and transfers all his/her assets to the trust. The control over the assets is then passed on to the trustees who own and manage them according to the provisions of the trust deed. This is done in order to avoid the section 3(3)(d) provision contained within the Estate Duty Act” (CP Basson,2015:19). “As indicated above, the main reason for moving assets into a trust is to avoid the Estate Duty on the growth in the value of the asset. Section 3(3)(d) of the Estate Duty Act states that any property that the deceased was competent to dispose of for his own benefit or for the benefit of his estate immediately prior to his death needs to be included as deemed property in the estate” (CP Basson,2015:19).

The rise and high concentration of income and wealth at the upper end of the distribution have reinforced the call for the need to preserve or increase taxation on inheritance. International organisations such as the International Monetary Fund (2013) have recommended reinforcing property related taxes (such as Estate Duty) and decreasing current taxes on earned income. Family succession and inheritance incentives have been proven to play a role in the accumulation of high capital and corporate assets. Given that Estate Duty is factored into tax planning, this can elicit tax avoidance or the relocation of residents, since Estate Duty is not levied in several OECD countries while net wealth taxes have been eliminated in most countries (Mbewe S et al, 2019:179).

The fact that the annual wealth tax also poses a great risk for tax avoidance and migration by wealthy taxpayers has been one of the major arguments for the opponents of the annual wealth tax in South Africa. However, when determining the burden of Estate Duty, it becomes less relevant to account for economic decisions made during years when the person was economically active because estate duty is only imposed after death. Therefore, most practitioners, tax experts and economists tend to advocate for estate duty over an annual wealth tax. The burden on beneficiaries, especially on those acquiring a large inheritance in which they played no part in acquiring, is considered small, lending support to the idea of taxing inheritance. This is motivated by the premise that inheritance taxation accounts for meritocratic ideas while striving to equalise opportunities between members of individual generations (Mbwew S et al, 2019:179)

However, the introduction of Section 7C, together with increased disclosure requirements for trusts (both local tax returns and the Common Reporting Standards²² for offshore trusts), have imposed limitations on the ability of the wealthy to estate plan through trusts. As mentioned earlier in this dissertation, the introduction of section 7C has prevented the use of trusts to avoid estate duty and donations tax.

5.4.2. The raising of limited revenue compared to the administrative burden

The National Treasury and SARS release a set of statistics on an annual basis. The subsequent analysis of these statistics is always beneficial in providing a well-rounded picture of the *status quo* regarding revenue collections, as well as the issues faced by the National Treasury and SARS with regards to tax. These statistics are collected and collated from SARS' register of taxpayers and tax returns.

Table 2, below, demonstrates the most recent statistics provided by SARS with regards to wealth taxes. Estate duty, transfer duty, securities transfer tax and donations tax are all grouped together in the table below under "taxes on property". The table indicates that the percentage contribution of taxes of property to the revenue received by National Treasury is only 1.2% which is a decline from the 1.4% in the 2017/2018 year. This is a contribution of R15.2 billion overall compared to R16.5 billion in 2017/2018. The total revenue collected in the 2018/19 tax year was R1 287.7 billion which means that property taxes contributed 1,2%% to the South Africa tax revenue (National Treasury, 2019:).

²² These are global disclosure requirements placed on the banking system which enable tax authorities access to information on founders, trustees, and beneficiaries where any of these parties are not resident in the trust's location. Further discussion is beyond the scope of this dissertation.

Table 1: Tax revenue by main category, 2014/15-2018/19

R million	Taxes on income and profits	Taxes on payroll and workforce	Taxes on property ¹	Domestic taxes on goods and services	Taxes on international trade and transactions	State miscellaneous revenue	Total tax revenue
2014/15	561 790	14 032	12 472	356 554	41 463	-16	986 295
2015/16	606 821	15 220	15 044	385 956	46 942	-0	1 069 983
2016/17	664 526	15 315	15 661	402 464	46 102	12	1 144 081
2017/18	711 703	16 012	16 585	422 248	49 939	-24	1 216 464
2018/19	738 741	17 439	15 252	460 545	55 723	-9	1 287 690
Percentage of total							
2014/15	57,0%	1,4%	1,3%	36,2%	4,2%	0,0%	100,0%
2015/16	56,7%	1,4%	1,4%	36,1%	4,4%	0,0%	100,0%
2016/17	58,1%	1,3%	1,4%	35,2%	4,0%	0,0%	100,0%
2017/18	58,5%	1,3%	1,4%	34,7%	4,1%	0,0%	100,0%
2018/19	57,4%	1,4%	1,2%	35,8%	4,3%	0,0%	100,0%
Percentage change year-on-year							
2015/16	8,0%	8,5%	20,6%	8,2%	13,2%	-97,4%	8,5%
2016/17	9,5%	0,6%	4,1%	4,3%	-1,8%	-3 084,4%	6,9%
2017/18	7,1%	4,6%	5,9%	4,9%	8,3%	-297,3%	6,3%
2018/19	3,8%	8,9%	-8,0%	9,1%	11,6%	-63,9%	5,9%

Source: The National Treasury

The table below details the statistics specific to each tax from 2014/2015-2018/2019. The table details the number of transactions under each tax, the percentage total and, most importantly, the percentage year on year growth. The percentage year on year growth is particularly important for the purposes of this dissertation as it is an indication of how effective the tax is.

The highest percentage increase, across all the taxes on wealth, was seen in the 2015/2016 tax year and was 20.6%. The 2017 and 2018 tax years saw a very marginal increase of 4.1% and 5.9%. Interestingly, Section 7C and the amendment to the rates of estate duty and Donations Tax, as mentioned above were introduced with effective from 1 March 2017 and 1 March 2018, respectively. To state that the decrease in the property taxes collection could solely have been a result of these amendments would be inconclusive, however, it does reinforce the fact there is scope to improve on the administration of existing wealth taxes as opposed to the introduction of an annual wealth tax.

Finally, the 2019 year saw a decrease of -8%, which is a concerning statistic as regards the question of how effective these taxes are. The First National Bank weekly economics report, published on 8 March 2019, reported the following

“The FNB national house price index came out this week and showed that prices started the year on a softer note, following a short rising trend stint in the last quarter of 2018 (“4Q18”). This largely reflects increasing supply of homes up for sale and slowing demand, as espoused by FNB Property Valuers’ perceptions. The muted purchasing activity is in line with our expectations, given the drawn out weak economic environment as well as consumers’ unwillingness to commit to big-ticket purchases. Naturally, this consumer reticence is compounded by the customary uncertainties that come with



elections. Positively, however, longer-term trends from the 4Q18 FNB Estate Agents Survey show that there was already an uptick in activity in the high-net-worth and upper income areas. In spite of this, the FNB Valuers' Market Strength Index is still below the neutral mark of 50 index points, against the backdrop of supply outstripping demand. This implies that the market is slightly in favour of buyers" (FNB, economic weekly report, 2019:1).

The property market appeared to be stagnating from the end of 2018 and throughout 2019, which would explain the negative increase from a Transfer Duty perspective. The share market also performed poorly in 2019.

Table 2: Percentage collections of wealth taxes

R million	Donations tax	Estate duty	Securities Transfer Tax (STT)	Transfer duties	Total
2014/15	167	1 489	4 150	6 666	12 472
2015/16	135	1 982	5 531	7 396	15 044
2016/17	280	1 619	5 553	8 208	15 661
2017/18	732	2 292	5 838	7 723	16 585
2018/19	604	2 069	5 335	7 243	15 252
Percentage of total					
2014/15	1.3%	11.9%	33.3%	53.4%	100.0%
2015/16	0.9%	13.2%	36.8%	49.2%	100.0%
2016/17	1.8%	10.3%	35.5%	52.4%	100.0%
2017/18	4.4%	13.8%	35.2%	46.6%	100.0%
2018/19	4.0%	13.6%	35.0%	47.5%	100.0%
Percentage year-on-year growth					
2015/16	-19.3%	33.2%	33.3%	11.0%	20.6%
2016/17	107.9%	-18.3%	0.4%	11.0%	4.1%
2017/18	161.2%	41.5%	5.1%	-5.9%	5.9%
2018/19	-17.4%	-9.7%	-8.6%	-6.2%	-8.0%

Source: National Treasury 2018/19 statistics

The collection of property taxes increased from R12.472 billion in 2015 to R15.252 billion in 2019. However minimal this may be relative to overall revenue collections it does not fair badly relative to other jurisdictions. When looking at the Estate Duty figure, in particular, it can be seen that it has contributed a very low growth percentage of -9.7% in 2018/19. There was no official conclusive figure regarding what the total revenue collections were for this tax, however, it is clear that there were costs that were incurred to collect the tax as this is why it yielded a negative growth amount.

In 2010 it was confirmed, by SARS, that the reason behind the call to review estate duty was the fact that the administrative burden of collecting this tax was high. There are also various stages that are necessary in the processing of an estate's liquidation and distribution and some of these costs are not borne by SARS. An example is that often taxpayers are required to appoint their private lawyers as executors of the estate, who send the information to the Master of the High Court. SARS is then required to liaise with The Master of the High Court.

All the points pertaining to estate duty above have been explored in this paper and it was concluded that compared to estate duty an annual wealth tax would increase the

administrative and cost burden to the relevant taxpayers and SARS as it will apply to all relevant taxpayers throughout their lives and not just at death. An annual wealth tax will require annual valuation, requiring the employing of valuers on an annual basis.

It was stated in this section that estate duty was unable to yield the required revenue and is expensive to administer, which conflicts with the canon of simplicity as discussed in Chapter three. It then poses the question of how effective will an annual wealth tax be as compared to estate duty if both taxes do not align with the principles of a good tax? Furthermore, how is the annual wealth tax expected to exceed the efficacy of the estate duty?

5.5. Conclusions on the efficacy of existing wealth taxes in South Africa

One could say that the underlying principle of the Estate Duty Act is its imposition in respect of a deceased estate and the collection thereof, in order to create a source of revenue for the state. However, it now seems as if the Revenue Authorities are acutely aware of the fact that, due to sophisticated estate planning tools (available only to the wealthy), the cost associated with collecting Estate Duty is disproportionately high when compared to the amount of revenue collected for the fiscus. However, Estate Duty is already entrenched and well established in the South African tax system. The abolishment of this tax would result in the forfeiture of the around R15.2 billion of annual revenue that it has been able to fetch with no guarantee that an annual wealth tax could perform any better.

Enforcing both the Estate Duty and an annual wealth tax would also not be efficient as the annual wealth tax is an advance payment of Estate Duty and Donations Tax and to have both would result in double (or if CGT is also included in the consideration, triple) taxation of the same amounts and even more administrative cost.

This chapter aimed at looking at the current wealth taxes and assessed their performance to determine whether there was a need to introduce a new annual wealth tax. The chapter did this by looking at literature that has been published about Donations Tax, Estate Duty and Transfer Duty.

Firstly, the chapter looked at Donations Tax and was able to obtain information on that the tax was not successful in collecting significant revenue. As can be seen in Table 1 above, Property Taxes (wealth taxes) collections have increased from R12.2 billion to R15.5 billion from 2015 to 2019. The total collection of wealth taxes was reported to be 1.2% of the total revenue collections at the end of the 2019 tax year.

Secondly, the chapter reviewed the recent statistics produced by the National Treasury on Transfer Duty and was able to conclude that this wealth tax was performing well. And has seen



steady increases from 1 March 2015 to 28 February 2019. Transfer Duty performed well despite the tough economic climate in 2018/19.

Lastly, the DTC proposed that estate duty could potentially be replaced with a wealth tax in their first interim report. However, its later Estate Duty Report and Wealth Tax reports concluded that the administration of Estate Duty has a great amount of room and potential for improvement. Estate duty could be efficient in South Africa if these improvements could be instated. Amendments have already been instated in the administration of estate duty such as the introduction of Section 7C and the increase of the levy to 25% of property greater than R30 million. This section of the chapter aimed to analyse whether this makes economic sense.

It was discussed that, previously, trusts could be utilized to avoid the burden of estate duty. However, the introduction of Section 7C ensured that this has been limited, by deeming the interest-free portion of any loans provided by individuals, or at their instance, to a trust to be a donation subject to donations tax. While there is no literature available yet on the impact of the section 7C and increased rate improvements to the tax legislation there was a decrease in the total property taxes collections between 2016 and 2019. The section did report that there has been significant stagnation in the property market since 2018 to 2019 as well as the poor performance of the share market in 2019. These factors could have contributed to the negative revenue collections yielded by property taxes overall and negated the benefit of the improved tax regimes.

The chapter concludes that the recommendation, going forward, would be not to replace the existing wealth taxes with an annual wealth tax. Even though the performance of these taxes have been fairly poor, there are recent amendments and improvements that have been made that could promote effective administration of the wealth taxes. Moreover, in the Katz Commission Report ²³ It was suggested that a targeted tax contribution for such taxes, of 1 to 1.5% of tax revenues, might be appropriate. The percentage revenue collections have been reported to be 1.2% in 2019, which is in line with the goal.

The current wealth taxes have been established and entrenched in the South African tax system and, thus, the introduction of a new tax would be a more expensive exercise than improving on the existing taxes, as well as risking a loss of tax when current collections are underperforming, in any event.

²³ *Katz Commission Report 2016*

Chapter Six: Conclusion

In 2018 the Davis Tax Committee was tasked with the responsibility to investigate the feasibility of introducing an annual wealth tax in South Africa. The debates around this topic have since continued to gain momentum and have been a contentious point for some taxpayers. The aim of this dissertation was to collect the literature that has been published on the proposal of an annual wealth tax in South Africa and to reach an objective conclusion as to whether this tax will be feasible for current South Africa. This dissertation took views from the proponents as well as the opponents of an annual wealth tax and analysed the tax against various tax principles, so as to come to a conclusion.

This dissertation did this by, firstly, introducing the concept of the annual wealth tax. It then provided a brief background on the history of South Africa and brought to the fore some events from the country's past that have resulted in the inequality that currently exists.. In particular, the dissertation focuses on the inequality in wealth that is a reality in the country at the moment, with the Gini coefficient currently reported to be 0.9. The focus on wealth inequality is important because one of the major arguments for the wealth tax in South Africa is that it holds the potential to bridge the country's wealth gap.. Ideally, the annual wealth tax would serve as an instrument to redistribute wealth in South Africa and to aid the inequality crisis faced by many South Africans.

Thereafter, the dissertation reviewed actual, proposed or abolished wealth taxes in France, Germany and India. The main aim of this part of the dissertation was to look at lessons that have been experienced by other countries with regards to the wealth tax. The three countries that were looked at are all at different stages of the wealth tax implementation process and each country has had challenges or benefits that have been associated with implementing a form of annual wealth tax.

France still has an annual wealth tax (called the Impôt de Solidarité sur la Fortune, ISF). The implementation of this tax has not come without challenges, the main one being the fact that France has lost some of its wealthy citizens with the reason being attributed to the wealth tax. This is a particularly concerning challenge because South Africa has been facing economic difficulties and losing its wealthy taxpayers would leave it in a more dire situation. The dissertation found that the only way that the wealth tax would be successful in comparison to the wealth taxes that have already been in place in South Africa, is if the tax was imposed at a higher rate. This would have the effect of discouraging South African taxpayers and encouraging them to emigrate, just as most French billionaires migrated to Switzerland.

Germany, like South Africa, is still debating the implementation of an annual wealth tax and such a tax on the rich has been endorsed by the left wing parties in Germany. This is due to the fact that there has been an increase in the need for revenue to cover government spending in the country. However, the existing wealth taxes have not been able to raise significant revenue in South Africa and the same is anticipated for the annual wealth tax.

India abolished its annual wealth tax. India has economic circumstances that are akin to South Africa and is the only BRICS country that has implemented an annual wealth tax. There is much to be said about the fact that the annual wealth tax was not successful in India and it would probably be quite ambitious for South Africa to attempt to impose this tax. The reasons behind the abolishment of the wealth tax in India are the following:

1. " Firstly, there were certain inequities that were created by the problem of valuation of assets as there were some assets that were exempt from taxation".
2. "Secondly, tax authorities did not account for the indexation of wealth taxation with respect to inflation".
3. "Thirdly, the tax burden of the collective incidence of the net wealth tax, income and other forms of taxes (such as property tax) imposed a heavy burden on the taxpayers"(DTC,2018).

The above issues are similar to those that are anticipated to be encountered by South Africa and by this logic it would not make sense for the country to impose the wealth tax.

Thirdly, the dissertation assessed whether the implementation of an annual wealth tax would be aligned to the principles of a good tax system. Particularly it assessed the annual wealth tax against the canons of efficiency, simplicity and equity. It placed a greater focus on the canon of equity and investigated horizontal and vertical equity and concluded that the wealth tax would in fact be unfair.

When looking at the canon of simplicity the annual wealth tax proved to not be feasible for two main reasons. The first being that the valuation of the assets would be a costly and the second that the tax is a comprehensive tax and would be expensive to administer.

In terms of efficiency, the wealthy taxpayers (for who the tax is intended) have access to resources that enable them to disinvest from the country or even migrate. This would mean that the tax burden would shift to the middle class, who do not have the ability to bear the burden of this tax. The wealth tax would, therefore, not be efficient in South Africa.

Lastly, the canon of equity hinges on horizontal and vertical equity. Horizontal equity, in particular, is important because it maintains the fairness of the tax. It maintains the fairness based on two main principles, being the 'ability to pay' and the 'benefit' principles. The 'ability to pay' principle requires that taxpayers are not only able to pay the tax but are able to bear the burden of the tax. Based on this, the wealth tax does not align with the ideals of horizontal equity on all counts. The tax is an unfair tax as it undermines the fact that taxpayers who do not have the ability to bear the tax burden will be the ones who are ultimately responsible for paying the tax. Furthermore, it discourages the taxpayers' morale to continue paying tax where there is no tangible benefit that can be observed.

Fourthly, the dissertation set out the advantages and disadvantages of implementing an annual wealth tax and, from this, concluded that there were more disadvantages than advantages to this tax. Some of the disadvantages that held the most weight were:

1. There are practical difficulties associated with the administration of this tax.



2. The wealth tax is a cumbersome and comprehensive tax and would be expensive to administer.
3. It would result in a reduction in the taxpayer's desire to save. Savings in the bank would be an asset in the taxpayer's hands and would therefore be taxable. This would discourage the taxpayers from saving their money as it would be subject to tax.

Lastly, this dissertation looked donations tax, transfer duty and estate duty, which are the existing wealth taxes in the country. Securities Transfer Tax is also a wealth tax in South Africa, however, the chapter did not analyse it. The chapter assessed what the intended ideals are behind these taxes and looked at whether these taxes are able to accomplish them by contributing to the South African revenue and reducing the inequality in wealth that currently exists.

Donations tax and estate duty have been performing poorly in terms of tax revenue collections and it is estimated that they have contributed 1.2% in total to the tax revenue. Furthermore, estate duty yielded a negative percentage growth in the 2018/19 tax year. Transfer duty seems to be the only wealth tax that has seen steady increases in the percentage contribution to the South African tax revenue from 2015 to date.

This dissertation therefore concludes that an annual wealth tax would not currently be feasible for South Africa. The process of introducing an annual wealth tax would be a costly exercise and there is no guarantee that it will yield substantial tax revenue. The existing wealth taxes, although underperforming, are sufficient for South Africa. Economic factors have to be considered when assessing their performance as well, because the results that these taxes yield are affected by market performance. An example is the stagnation in the property market which will influence the performance of transfer duty. Furthermore, there is great potential for the existing wealth taxes to be improved on and this has already happened via the introduction of section 7C and increasing the tax duty for estate duty. A better alternative would be to look at ways to improve and streamline the administration of these taxes so as to increase their efficiency.

References

1. *The role and design of Net Wealth Taxes in the OECD*, OECD Tax Policy Studies, No 26, OECD Publishing, Paris, 2018
2. Webster, D (2019) 'Why South Africa is the most unequal society' 19 November 2019. Available at <https://mg.co.za/article/2019-11-19-why-sa-is-the-worlds-most-unequal-society/> 19 December 2019
3. Young, Gordon. *The Price for Apartheid: the Wealth Tax and How It Can Pay for the Re-Construction of Black Communities*. Salt River (South Africa): Labour Research Service, 1992. Print.



4. John Toye, *Cambridge Journal of Economics*, Vol. 13, No. 1 (March 1989), pp. 183-200
5. Mbewe S and Woolard I (2016) *Cross-sectional features of wealth inequality in South Africa: Evidence from the National Income Dynamics Study*. SALDRU Working Paper No. 185, South African Labour and Development Research Unit, University of Cape Town
6. Memon, Najeeb. "Prioritizing Principles of a Good Tax System for Small Business in Informal Economies." *Australian Tax Forum* 25.1 (2010): 57–94.
7. Adam Smith, 'An inquiry into the Nature and Causes of the wealth of Nations' ed. Kathryn Sutherland (1993) 451-454.
8. *The Structure and reform of Direct Taxation*, Report of a Committee chaired by J.E> meade, The Institute of fiscal Studies, 1978 (London: George Allen and Unwin), 7-22.
9. 'The implementation of the Ottawa Taxation Framework Conditions: The 2003 Report' 2003,12 <http://www.oecd.org/dataoecd/45/19/20499630.pdf> at 12 october 2009.
10. 'Guiding principles of a good tax policy' A framework for evaluating tax proposals, Tax policy statement, American Institute of Certified Public Accountants at <http://ftp.aicpa.org/public/download/members/div/tax/3-10.pdf> at 24 March 2009,12.
11. David E. Wildasin, 'Tax Reform in Kentucky: Principles and Practice 'Chapter 1 In *Financing State and Local Government: Future Challenges and opportunities*, Kentucky Long Term Policy Research Centre, November 2001, 1 http://www.kltprc.net/books/financinggov/Chpt_1.htm> at 12 June 2009.
12. ¹Keith Bain 'The Principles of Taxation-Part I'Notes on Public Finance, University of East London, Department of Economics, 2000 <http://homepages.uel.ac.uk/K.Bain/tax1.pdf> at 6 January 2009.
13. The World Bank *Poverty Reduction and Economic Management Network Poverty Reduction Group* April 2008
14. OECD e-Commerce Report: *Taxation Framework Conditions; A report by Committee on Fiscal Affairs*; OECD,8 October 1998,6 <<http://www.oecd.org/dataoecd/46/3/1923256.pdf>>...
15. David F Burg, 'A world History of Tax Rebellions: An Encyclopedia of Tax Rebels, Revolts and Riots from Antiquity to the Present'(2004) 128-130.
16. Arendse, J. & Stack, L., 2018, 'Investigating a new wealth tax in South Africa: Lessons from international experience', *Journal of Economic and Financial Sciences* 11(1), a175. <http://dx.doi.org/10.4102/jef.v11i1.17>
17. Muller, E. 2010, *A framework for wealth transfer taxation in South Africa*, LLD thesis, University of Pretoria, Pretoria, viewed 27 August 2014 < <http://upetd.up.ac.za/thesis/available/etd-10092010-142436/>
18. National Treasury, <https://www.sars.gov.za/about/sataxsystem/pages/tax-statistics.aspx>



19. *Roeleveld, J J. "An Argument for Either Excluding Death as a Capital Gains Tax Event or Abolishing Estate Duty." South African Journal of Accounting Research 26.1 (2012): 143–164. Web.*
20. *Papp, L., 2014. The feasibility of the introduction of additional wealth taxes in South Africa: an African perspective (Doctoral dissertation, University of Pretoria).*
21. *Basson, C.P., 2015. The implications of wealth transfer taxation in the absence of Estate Duty (Doctoral dissertation, University of Cape Town).*
22. *Thorpe, L.L., 2015. Is it time to abolish Estate Duty in South Africa? a comparative look at global trends in levying death taxes and the feasibility of suggested changes to South Africa's current regime (Doctoral dissertation, University of Cape Town).*
23. *Katz Commission Report, 2016*
24. *Gopal, M.H., 1970. Wealth tax in India: Its burden and impact. Economic and Scientific Research Foundation, New Delhi.*
25. *O'Rourke, P. J., and Smith, Adam. On The Wealth of Nations. London: Atlantic Books, 2007. Print.*
26. *Journal of Taxation and Economic Development ISSN 1118-6017 Vol. 18(3) December 2019, Pp. 14-36 The Official Publication of the Chartered Institute of Taxation of Nigeria*
27. *Bø, E.E., Lambert, P.J. and Thoresen, T.O., 2012. Horizontal inequity under a dual income tax system: principles and measurement. International Tax and Public Finance, 19(5), pp.625-640.*
28. *Maroun, W., Turner, M. and Sartorius, K., 2011. Does capital gains tax add to or detract from the fairness of the South African tax system? South African Journal of Economic and Management Sciences, 14(4), pp.436-448.*
29. <http://www.statssa.gov.za/publications/Report-03-10-19/Report-03-10-192017.pdf>
30. *Mbewe, S. and Woolard, I., 2016. Cross-sectional features of wealth inequality in South Africa: Evidence from the national income dynamics study.*
31. *Memon, N., 2012. Looking for suitable presumptive income tax design for large informal economies in terms of principles of a good tax system. Austl. Tax F., 27, p.907.*
32. *Poverty and inequality, 'Wealth taxation as an instrument to reduce wealth inequality in South Africa', Samson Mbewe, Ingrid Woolard and Dennis Davis, 169-185*
33. *Davis Tax Committee on Tax Administration, 2017*
34. *Davis Tax Committee first Interim and final report on estate duty, 2015-2016*
35. *Davis Tax Committee report on the Feasibility of Introducing a a Wealth Tax, 2018*
36. *Socio-Economic Rights Institute of South Africa, "Edged Out Spatial Mismatch And Spatial Justice In South Africa's Main Urban Areas", November 2016, https://www.seri-sa.org/images/SERI_Edged_out_report_Final.pdf*
37. *The Estate Duty Act no 45 of 1955*
38. *The Transfer Duty Act of 40 1949*
39. *The Income Tax Act no 58 of 1962*
40. *The Security Transfer Tax Act no 25 of 2007*