Experts warn wealth tax 'a complex issue'

By Linda Ensor

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Wealth taxes, now under consideration by the Davis tax committee, are notoriously complicated and expensive both to administer and to comply with, tax practitioners say.

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On Tuesday, they were commenting on the committee's call for submissions on the desirability and feasibility of a wealth tax, more particularly on a land tax, a national tax on the value of property (over and above municipal rates) and an annual wealth tax.

The introduction of a wealth tax would come on top of the sharp hike in the tax rate of high-income earners announced in the 2017-18 budget, which created a new tax bracket of 45% for those earning more than R1.5m. It is expected to raise about R127bn.

Government's need for additional sources of tax revenue is likely to be heightened if the recent credit-ratings downgrades of SA to junk status have a significant effect on government's borrowing costs and on the rate of economic growth.

PwC tax policy leader Kyle Mandy said that the trouble with net wealth taxes was that they were "extraordinarily expensive both to administer from a tax authority's perspective and to comply with from a taxpayer perspective because of their complexity".

This was because they required the valuation of assets.

Secondly, these types of taxes did not generate significant tax revenue because they generally only applied to relatively high thresholds. Very few people were liable for the tax and there were usually a lot of exemptions to exclude certain assets.

Thirdly, wealth taxes could be "highly distorting" in a global context in which wealth was highly mobile.

South African Institute of Chartered Accountants senior executive for tax Pieter Faber said the wisdom of introducing a wealth tax in SA would have to be evaluated on the basis of the country's tax mix as a whole and what maximum tax to GDP ratio should be applied.

"A tax on assets would be equivalent to imposing an estate duty on the living, who would probably find many innovative ways to avoid paying the tax by having the use of their assets without owning them"

Assets would have to be valued either on an annual basis or once off.

"The more complicated tax laws are, the easier they are to get around," Faber noted.

Questions would have to be asked as to whether a wealth tax was the most effective way of raising money for the fiscus and whether the fiscus had an income problem or a spending problem, he said.

"At the moment, we are only looking at the issue as if we only have an income problem. We first have to sort out the bigger problem," Faber said.

The committee's inquiry into a wealth tax is based on a request by former finance minister Pravin Gordhan for it to investigate whether it would be appropriate for the government to introduce additional forms of wealth taxation.

The committee noted that SA has three forms of wealth taxes - estate duty, transfer duty and donations tax - which together bring in about 1% of the country's tax revenue.

The committee does not consider capital gains tax a form of wealth tax.

Source: *Business Day*