Is wealth tax just a plaster for an ailing economy?

By Samantha Lance

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The state of the South African economy and the shortfall in tax collection has raised the debate once more of whether affluent South Africans should be contributing more to the country's coffers through wealth tax.

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South Africa already has a long history of wealth transfer tax in the form of estate duty, donations tax and capital gains tax, but there has never been a tax on the net wealth holdings of individuals.

The idea of implementing a wealth tax is not a new idea, it has been on the table for almost three decades since the Katz Commission addressed it in 1994. The commission, however, recommended against the introduction of wealth tax.

When the Davis Tax Committee was tasked with investigating wealth taxes, it recommended a review of estate duties, and we subsequently saw a higher scale of estate duty implemented for estates larger than R30m. The duty on these high-net-worth estates was increased to 25%.

Crisis measure

Internationally, wealth tax has been utilised in many jurisdictions for decades, and existed in various forms, including inheritance tax, gift tax, recurrent wealth tax and non-recurrent wealth tax. Experience, though, has shown that wealth tax does not always meet its goals and several countries have introduced a wealth tax only to abandon it some years later. With experience under the belt, most countries have rather levied a wealth tax as a crisis measure to generate additional revenue in the face of an economic setback, but the tax usually has a short lifespan.

Currently South Africa is in a state of economic crisis. On top of an existing tough economy, South Africa must now mitigate the effects of lockdown and a global health crisis. This raises the question of whether a new solidarity wealth tax is the answer, and who would have to pay?

It is understood that a solidarity wealth tax would apply to people like our dollar-millionaires and other high-net-worth individuals. However, the exact definition of who falls into this category could be expanded, but it remains unclear at this stage. Aroop Chatterjee, research manager: wealth inequality, Southern Centre for Inequality Studies at the University of the Witwatersrand, proposed the following sliding scale:

- All wealth between R3.6 million and R27 million to be taxed at 3%;
- All wealth between R27m and R119m to be taxed at 5%;
- All wealth above R119m to be taxed at 7%;
- Individuals worth less than R3.6m would be exempt.

This is a complex structure, and a plan would be needed to ensure that wealth tax is accurately valued. In addition, administrative costs in a system that levies taxes on net wealth holdings can be prohibitive. Then, some forms of wealth are hard to measure, such as intellectual property and shares in unlisted companies, where other forms of wealth are easy to hide or to convert into asset classes that fall outside a defined base.

> *"The reality is that the creation of proper infrastructure to levy a solidarity wealth tax could take years, it would not simply happen with the press of a button"*

Given the vulnerability of South Africa's economy, with its low economic growth rates and little indication of any significant improvement in the near future, it would not seem appropriate to introduce a new wealth tax. We believe the measure could damage an already vulnerable economy. Rather than simply looking for new ways to transfer wealth via the tax system, the economy needs more jobs, education and economic growth if it wants to lift people out of poverty and thereby broaden the tax base.

ABOUT THE AUTHOR

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