30 June 2017

The Davis Tax Committee

Hatfield Gardens (Block A)

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BY EMAIL: taxcom@sars.gov.za

RE: POSSIBLE WEALTH TAXES FOR SOUTH AFRICA

Dear Davis Tax Committee

We make this submission in response to the committee's call for submissions regarding possible wealth taxes for South Africa, specifically the desirability and feasibility of the following possible forms of wealth tax:

1. A land tax
2. A national tax on the value of property (over and above municipal rates)
3. An annual wealth tax

As mentioned in the call for submissions, there are already a number of wealth taxes in the South African tax system. These include donations tax, estate duty and transfer duty, which are incurred on the transfer of wealth/property. Capital Gains Tax (CGT) is incurred on the transfer of assets at a capital profit. Individuals are subject to income tax on a progressive basis on their taxable income, including capital profits and income of a revenue nature (such as remuneration, business profits and interest). Therefore, the combination of the existing wealth taxes as well as the taxation of the income of individuals on a progressive basis, already contributes towards the broad tax-policy objectives of revenue raising and the redistribution of resources. In other words, another wealth tax is just a more complex way of adding another quantum of tax on high-income individuals.

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We also note that the total quantum of wealth taxes have a natural limit. The total combination of taxes now exceed more than 50 per cent of income for many wealthier individuals. South Africa is already known to have a tax system that has levelled the rich-poor gap more than any other. There comes a point when pushing further begins to have other detrimental effects of deterring growth. History has further shown that the wealthiest have the best means of manipulating their holdings to reduce any tax burden with the upper middle bearing the greatest practical burden.

We question whether the introduction of new wealth taxes is merited when considered, amongst others, that:

1. Implementing any of these wealth taxes is likely to give rise to a disproportionate administrative burden on taxpayers and SARS. The administration of these wealth taxes will be dependent on annual/periodic valuations of the relevant assets and/or liabilities. The valuation of many assets (such as land, property and unlisted shares) is complex and subject to judgement. The valuations will, therefore, be open to manipulation and dispute. The cost of administration, including valuations, will be inefficiently spent.
2. In addition, a national list of all immovable properties subject to the land tax will have to be compiled and maintained. Given that such a list does not currently exist, it will be a momentous task. While urbanised areas have electronic data to draw upon in terms of commercial services, rural land lacks any meaningful reliance to be drawn upon.
3. Any land/property tax will result in a decrease in the value of the land/property. This could have a serious impact on the economy. These taxes also seem to fall on the gross value of the land without taking into account debt. This failure to account for debt is unfair because wealth must account for associated debt to be a true (net) wealth tax. Surely, a R10 million property is worth less if subject to R10 million debt. Failure to account for debt could easily distort a number of sectors in the economy (including agricultural, mining and property) as well as the financial system if a land/property tax is announced.
4. Municipalities receive a significant portion of their revenues from property rates. Introducing a property tax at national revenue, will "crowd out" municipalities and their ability to raise revenues from property rates. This, in turn, could impact the financial position of the municipalities.

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5. Very few countries levy an annual wealth tax and some have tried it an abandoned it due to the high administrative cost compared to the tax yield as well as the negative impact on investment.
6. These wealth taxes could have unintended adverse consequences on people who possess valuable properties but do not earn significant income such as the elderly, emerging entrepreneurs and subsistence farmers. This could include the inability to pay the wealth tax unless they sell their property/land.
7. South Africa has low levels of savings and a weak culture of savings. The current recession is likely to make it more difficult for people to save. Tax measures have been put in place to encourage savings such as the tax-free savings account. However, taxing people when they earn their income from which they can make their savings and then to tax them on the wealth built up through savings, will push the savings equation in the opposite direction.

We are of the view that efficient taxes should be used to achieve the objectives of the tax system. We agree with the Davis Tax Committee's statement in its April 2016 Executive Summary of the Second and Final Report on Macro Analysis of the Tax System And Inclusive Growth in South Africa that:

"The tax system must not be used to offset pathologies in other parts of the system (e.g. in respect of property rights or labour market challenges)."

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We thank the Davis Tax Committee for continuing the process of dialogue and welcome the next opportunity to engage.

Yours sincerely

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