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An explanatory study on benefits of implementing progressive Wealth Tax in South Africa

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An explanatory study on benefits of implementing progressive Wealth Tax in South Africa

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Abstract

In the history of South Africa, there has been a growing imbalance between social behaviours and economic growth. Over the years, the government has promised to build a South Africa free of poverty, inequality, and unemployment. Low economic growth, budget deficits, rising government debts, corruption, and the global Coronavirus pandemic are contributing factors to poverty, imbalances, and economic stagnation. The history of injustices in South Africa and economic marginalisation makes it imperative to address economic challenges and inequalities using the tax policy. The wealth tax conversation has been abandoned in South Africa. Further research on the topic can make an important contribution by deepening the various aspects of wealth tax. This study explores alternative models by considering international experiences on wealth tax and adapting successful strategies to the unique context of South Africa.

Wealth taxes, focusing on taxing the wealthy, are seen as a possible solution for redistributing resources to the poor. Introducing a new wealth tax carries unknown risks, particularly in terms of its potential impact on the already fragile economy that cannot afford to lose capital and investment. The lack of research on wealth tax in the South African context, as well as the limited literature on the perspective of wealthy individuals, underscores the importance of this qualitative study. The whole idea of wealth tax is that taxing those who are wealthier will provide much-needed resources for the marginalised group and be seen as a perfect tool to redistribute wealth.

In general theory, the wealth tax is described as a levy imposed on an individual's net wealth, that is on the market value of all individual assets minus liabilities, this kind of tax has been ignored or not given as much attention as the other means of government revenue tax collection. Such a tax can be fraught with risks, and not all of them are known. There is fear that those affected parties may feel vulnerable and resort to tax immorality or tax evasion, which is also a great concern as it could negatively impact the economy and lead to loss of capital and investment. There is not much research on the wealth tax that focuses on the issues faced by South Africans.

The aim of this study is to examine whether there will be a benefit to introducing a progressive wealth tax in the existing revenue stream, looking at possible tax relief by broadening the tax base over a period of time, evaluating the existing wealth tax, and identifying the methods that could be used to avoid the double taxation, tax evasion, and avoidance.The research is conducted using a qualitative method by analysing various literature reviews on wealth tax data, to determine the advantages and disadvantages of introducing a progressive wealth tax.

The report is intended for the purpose of analysing existing wealth tax theories to see if the introduction of a progressive wealth tax would benefit South Africans. The study also contributes to ongoing political and economic debates and potentially forms part of future changes in tax policy.

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Key Words

Wealth Tax, Wealth Distribution, Inequality, Capital Gains.

Declaration

I, Thobela Dudumashe, hereby declare that this research study is my own unaided work. It is submitted in partial fulfillment for the degree of Master in Commerce (Taxation) at the University of Witwatersrand Johannesburg. It has not been submitted before, for any other degree or examination in any other University.

Thobela Dudumashe

Glossary of terms and abbreviations

BEPS	Base Erosion And Profit Shifting
BRICS	Brazil, Russia, India, China, and South Africa
CPI	Corruption Perception Index
Covid19	Coronavirus disease pandemic ,started in 2019
GDP	Gross Domestic Product
HUF	Hindu Undivided Family
IMF	International Monetary Fund
IGF	*Impôt sur les Grandes Fortunes (*"Tax on Great Fortune")
ISF	*Impôt de Solidarité sur la Fortunes ("*The Solidarity Wealth Tax")
OECD	Organisation for Economic Co-operation and Development
OXFAM	An independent global movement focusing on the alleviation of global poverty
IMF	International Monetary Fund
SARS	South African Revenue Services
SMME	Small Medium and Micro Enterprise
TRC	The Truth and Reconciliation Commission
UNICEF	The United Nations International Children's Fund
VAT	Value Added Tax
WHT	Withholding Tax

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Chapter 1: Introduction

1.1 Background

Tax collection revenue is one of the means to finance government spending. The government is responsible for the improvement and maintenance of public infrastructure, including the roads we travel on, and funding public services, such as schools, emergency services, hospitals, and welfare programmes, all that is meant to better the lives of the people (SARS, RP96/2020). Historically, taxes were originally used in times of urgency and primarily used to finance specific needs, such as the costs arising from wars or unforeseen disasters. In this context, taxes were seen and enforced as a financial instrument to cover urgent needs. The history of wealth distribution has always been deeply political and cannot be reduced to purely economic mechanisms (Piketty, 2014).

According to Adam Smith (1776), wealth can be shared through taxation; he outlined the requirements for an effective tax system to govern any economy and identified certain principles known as the canons of taxation. One such canon is equality, which advocates a fair distribution of the tax burden among contributors to ensure justice. It stipulates that while everyone may not contribute the same amount, the burden should be equitable, for example, rich people will have a greater ability to pay than poor people (Smith,1776; Mill,1848).

The focus of this study is to examine whether there is a possibility of utilising the progressive wealth tax as a means of sharing the wealth to bridge the historic inequality gaps while responding to the economic issues caused by the Coronavirus pandemic. Currently, South Africa has three different types of taxes commonly paid by South African residents' larger population group, income tax, value added tax and taxes on assets.

Income tax serves as the primary revenue stream for the government and is imposed on the taxable income of entities, such as companies, trusts, and individuals. The second type is the consumption tax known as VAT, which is a tax on the purchase of goods or services. The third one is taxes on assets or capital and may be referred to as wealth tax. The wealth tax could be added as the additional revenue stream along with other tax types. These taxes may share a common tax base, but they differ in their timing; income tax is applied when the income is earned, consumption tax is imposed on consumption and the wealth tax is applied throughout the asset's life cycle (SARS, 2020b; Tax Administration Laws Amendment Act 21 of 2021, 2022).

Wealth tax differs from other types of taxes in that, it is imposed on the accumulated value of assets or capital owned by an individual. Whereas income tax is levied on the income earned, and consumption tax is triggered by the purchase of goods and services, wealth is more comprehensive, covering the individual's total wealth. This tax enforces the citizens to disclose their accumulated wealth annually.

South Africa has a history of inequality and socio-economic differences, but the wealth tax has never been an option to address those differences and imbalances. The attention has always been on income earned or generated taxes and others, not taxes on net wealth accumulated. Studies emphasise the importance of considering wealth taxes as opposed to just income taxes to address economic inequality. Policies related to net wealth accumulation are gaining attention in discussions about creating a more equitable tax system (Piketty & Zucman, 2013).

The benefits in introducing a wealth tax to reduce the inequality gaps in South Africa and wealth tax, in general, have also been featured in discussions of academics as an aid to assist the government to respond to the Covid19 pandemic. This study suggests that the revenue collected rather be directed towards the programmes that will assist the government to reduce the inequality gaps between the rich and the poor and find creative ways of Involving citizens in the country's economic activities. Critics of wealth taxes, demonstrated by academic studies, are based on different factors such as administration difficulties in accessing data from wealthy individuals, tax policy design issues, and the political and economic aspects (Saez & Zucman, 2019; IMF, 2014a; Davis Tax Committee, 2018).

1.1.1 Wealth tax explained

Wealth tax is described as a levy imposed on an individual's net wealth or the market value of the total owned individual assets minus liabilities; it is commonly used to redistribute wealth more equitably. Wealth tax is often charged above a certain threshold designed by the government for its citizens. It differs from taxes levied on the profit from the sale of an asset, such as capital gains and dividends tax. It can also be separated from other taxes on property, such as levies by local municipalities, based on the property value. It differs from inheritance or estate taxes, which are only levied when recipients inherit wealth. Compared to these other taxes, net wealth taxes are levied annually in the hands of the wealth owner.

The introduction of a new wealth tax in South Africa may lead to debates and discussions. Debates should include the community of academics, businesses, and political circles to weigh the pros and cons, considering factors such as economic efficiency, equity, and the potential impact on the taxpayer's behaviours. This process may allow for a comprehensive review of the implications and ensures that the introduction of such a change in tax policy is well-informed. The research suggests that continuous discussions are necessary on a wealth tax because of its impact as an additional burden within the current tax framework. Critics argue that the introduction of such a tax poses acceptance problems as it requires adjustments to existing tax policy and potentially affects taxpayers' behaviour and economic dynamics.

South Africa has never had net wealth taxes, some countries have introduced a wealth tax, it exists in other countries and several countries have repealed the wealth tax due to many factors discussed in this study (Perret, 2021; OECD, 2018).

Net wealth is a complex term requiring a clear definition of its components, such as, assets and liabilities. Compared to the existing taxes, net wealth taxes are levied on a broad range of movable and immovable assets, such as bank balances, life insurances with surrender values, cars, boats aeroplanes, expensive art collections, and real estate, with the deduction of associated debts. An essential aspect of net wealth taxes is the mandatory annual disclosure of these assets to accurately calculate the tax obligation (Perret, 2020).

The Davis Tax Committee (2018) indicates that South Africa has wealth taxes, such as transfer duty, estate duty, and donations tax. The fiscal contribution from these taxes is relatively small and the reports have suggested a range of tax reforms aimed at greater equity and increased revenue. One of the proposed reforms is the introduction of a wealth tax in South Africa, aiming to address wealth disparities. This study suggests that comprehensive tax reform should be considered and implemented, considering the relatively small contribution of the existing wealth taxes. This could include rethinking the current structure and the introduction of a well-designed wealth tax reform.

Adam Smith (1776), in his renowned work "*The Wealth of Nations*" emphasises the concept of the ability to pay is a crucial aspect of the fair tax system including taxing wealth. Smith argues that for taxpayers to be comfortable with their tax burden, a certain threshold must be established to identify those who can afford to pay for the benefit of the country. He provides an example by highlighting the necessities to which every individual should have access. Neglecting the potential of wealth tax as an additional source of government income may have some negative consequences including exacerbation of inequality and missed opportunity for the government to generate revenue for essential public services. Failing to address wealth redistribution through taxation may result in social and economic instability, potentially may further widen the gap between the rich and the poor, hindering investment in critical government infrastructure and social programmes (Oxfam, 2017/2018; Himanshu, 2017).

1.2 Purpose and approach

This research investigates whether a progressive wealth tax could be used by the government to help reduce poverty, and social disparities, and aid in the recovery of the global economy after the Coronavirus pandemic. The study also additionally investigates potential avenues for tax relief and assesses the correlation between existing wealth in South Africa and the proposed implementation of a wealth tax. This involves scrutinising the existing landscape of wealth taxes and establishing critical connections with the proposed introduction of a net wealth tax. This study also aims to examine historical encounters with wealth taxes within the OECD countries, analysing the factors contributed to the repeal thereof in most countries. The insight into these factors is imperative for the comprehensive conclusion of this research. The report concludes with tax policy recommendations, effectiveness, and the concept of fair tax on net wealth. The aim is to offer a comprehensive analysis of the potential benefits and challenges associated with implementing a progressive wealth tax in the context of addressing pressing societal and economic issues.

1.2.1 Existing wealth tax impact on South African Revenue collection

Although the Davis Committee report suggests the potential for a wealth tax in South Africa based on the limited revenue from existing wealth-related taxes, it is essential to consider other factors. Critics argue that implementing a wealth tax could lead to capital flight, discouraging investments and hindering economic growth. Additionally, wealth taxes have faced challenges in various countries, such as difficulties in accurately valuing assets and potential negative impacts on job creation. The practical implementation of a wealth tax requires addressing these concerns and carefully assessing its economic repercussions (Prabhakar, 2021).

It is worth noting that South Africa should consider several strategies to overcome the challenges associated with the introduction of a wealth tax. Careful wealth tax design and thresholds to avoid burdening a broad spectrum of taxpayers and minimising negative impacts on economic growth are necessary. Gradual implementation of a wealth tax may allow individuals and businesses to adjust and can help prevent sudden capital flight and economic disruptions. Identifying specific exemptions or deductions that can help address concerns related to asset valuation challenges, for example, exemptions for a certain type of assets would be useful. Collaboration with other countries to address challenges related to capital flight and international co-operation can help prevent taxpayers from easily relocating assets to jurisdictions with more favourable tax conditions. Investment in robust systems for accurate asset valuation and data collection, and advanced technology may enhance the effectiveness of wealth tax administration. Establishment of mechanisms for regular review and adjustment of wealth tax policies based on their economic and social impact should be considered. Transparent communication about the goals, benefits and fairness of tax can help build public trust. The authorities should avoid double taxation, by co-ordinating with other existing taxes, such as income and capital gains taxes, to achieve a balanced and fair tax system, and implement measures to encourage compliance and discourage tax evasion. Implementing measures that encourage wealth redistribution without negatively impacting entrepreneurship, job creation, and investments should be considered by learning from the international community and tailoring tax policies aligned to the South African context.

Throughout the Covid-19 pandemic, it became increasingly evident that a significant portion of the South African population faced economic hardship, with many having little to no income. Even those fortunate enough to have jobs often found themselves financially responsible for supporting unemployed family members. This economic burden on working individuals exacerbated existing inequalities which were rooted in social and other historical injustices. In light of these challenges, there is a growing consensus that the introduction of a wealth tax could play a pivotal role in addressing the wealth distribution disparities and bridging the expanding wealth gap in South Africa. This study examines the potential benefits of introducing a wealth tax as a means of increasing the tax revenue stream and effectively addressing the socio-economic problems it faces (Davis Tax Committee, 2017; Schotte, Zizzamia, & Leibbrandt, 2022).

The consideration of a wealth tax raises essential questions about its desirability and fairness in addressing these inequalities. Some argue that it might be a fair and viable solution, while others express uncertainty about its effectiveness or potential drawbacks (Adam & Miller, 2021; Gers, 2017).

A detailed analysis of the existing wealth tax in South Africa is discussed in chapter 4 of this study. This examination serves as a valuable resource for policy makers and stakeholders as they weigh the pros and cons of wealth tax as a tool to address socio-economic challenges in South Africa.

1.3 Research method and design

The study adopts a qualitative approach method to collect the data, using a comparison of collected literature reviews, books, journal articles, reports, online discussions, webinars and the Constitution and Law.

1.4 Delimitations

The scope of this study is mostly focused on those countries who are members of the OECD, as the principles established by the OECD serve as a global reference (Wolfe, 2008).

1.5 Limitations

The study will not detail the technical implementations and legalities involved in this research. This study excludes the data information from human interactions; there are no interviews and surveys when in obtaining the data due to time constraints.

Reliable collected data is limited to countries that are OECD members and other sources that could have outdated information that is no longer the case as the world is evolving and situations are moving with time. This research is dependent on literature reviews and explanatory theory, which could predict facts. The limitation might mean not achieving the desired results.

1.6 Research problems and chapter outline

1.6.1 The statement of the problem

This research ascertains the viability of implementing a progressive wealth tax to address the inequalities and socio-economic issues in South Africa. The study also focuses on alleviating the tax burden for individuals facing financial strain. The investigation includes an exploration of potential issues, such as double taxation, tax evasion, and tax avoidance, with an emphasis on establishing a fair tax system that incorporates wealth tax into the current revenue collection framework.

Furthermore, the study involves an examination of countries with existing wealth taxes, those that implemented and subsequently abandoned the tax, and the impact on investor behaviours, particularly instances of migration resulting from wealth tax implementation in their country of residence.

1.6.2 The sub-problems

This chapter provides the background and importance of the research topic and also outlines the scope of this study.

The first sub-problem is to determine if there is enough justification for the tax systems to be used as a tool to address wealth inequalities. The studies suggest that there has been overwhelming evidence that wealth inequalities have increased in recent decades, not only in South Africa but worldwide, the wealth accumulation by certain classes could be one of the main reasons for these growing inequality gaps. Those who have been fortunate enough to be the heirs of wealth from their ancestors, those individuals who were favoured by the apartheid laws in South Africa. Mr Terreblanche (2018), during the Truth and Reconciliation Commission, gave insight on his view on the inequalities and causes thereof in South Africa, he recommended the introduction of wealth tax on those who benefited during the apartheid era, continued by saying there must be a system that will force them to disclose their assets (SCIS Working,1, 2018; Piketty & Zucman, 2015; Monday & Williamson, 2022; Adam & Miller, 2021).

"In his testimony, Professor Terreblanche argued persuasively and forcefully that a symbiotic relationship existed between white business and the apartheid state. Businesses, he argued, were direct beneficiaries of the centuries-long system of white supremacy. They should confess and acknowledge this by agreeing to a wealth tax on their assets". (SCIS Terreblanche, 2018, p.3).

The second sub-problem is to evaluate if there is possible convincing evidence proving that the wealth tax could be the most suitable instrument to contribute towards the elimination of wealth inequalities. One can argue that the system would be seen as the acceptable method to penalise those who save more than the affordability factor as indicated by Adam Smith on canons of taxation (Vivian, 2006; Adam & Miller, 2021). The reality is that high-income earners can save more and accumulate more wealth and accumulate more assets than low-income earners. There are existing tax policies designed to levy tax assets, meaning there is no refusal, but how it is designed is the question (OECD, 2018b; Bearer-Friend *et al.*, 2022).

The third sub-problem is to evaluate existing methods that are used in obtaining the data information by OECD countries currently implementing wealth tax from their wealthy individuals. In most countries, the tax authorities are dependent on wealthy taxpayers to disclose their assets, it is not the case with the tax levied on salaries as the employers are required to report the employee information data to the tax authorities. The studies reveals that wealthy individuals in countries like Colombia have opted to hide their wealth through offshore entities (Londoño-Vélez & Avila-Mahecha, 2018;Perret, 2020).

The fourth sub-problem deals with concerns of inclusive economic growth, which also contribute to existing wealth gaps. It is evident that the wealth tax revenue from the OECD countries that implemented wealth and those that repealed this, has not contributed significantly towards their GDP,

there is a small percentage of wealth tax revenue collected. Adam Smith explains the characteristics of the fair tax system for the governance of the economy in any country, equality is one of them, meaning the fair tax system should include the element of sharing, must be designed in a way that those who have the ability to carry more tax burden must do so, those who cannot afford to carry the burden must be taken care of, in a manner that will uplift them to enter into the tax system (Adam & Miller, 2021; Drometer *et al.*, 2018).

1.7 Chapter Outline

Chapter two: Global perspectives on wealth

This chapter provides an in-depth examination of how wealth tax is perceived in the context of OECD countries that have currently implemented it. It analyses the various approaches taken in its implementation and examines the sustainability of these measures over the decades. To illustrate these points, the focus is placed on two countries, Switzerland, and Colombia.

Chapter three: The Dynamics of Wealth Tax Implementation

This chapter provides a detailed understanding by exploring the reasons of implementing the wealth tax and abandoning it, chosen countries are India and France.

Chapter four: Wealth Tax in South Africa

In this chapter, the focus is on South Africa's existing wealth tax, examining its existing framework for wealth tax and its contribution to the country's revenue. The chapter also look at the elements of the South African approach to wealth taxation.

Chapter five: Potential Benefits of Wealth Tax in South Africa

This chapter is concentrated on forward-looking analysis, assessing the potential benefits and contributions that could result from the introduction of wealth tax in South Africa, drawing on OECD recommendations and best practice.

Chapter 2: Global perspective on wealth tax

The wealth tax has been in existence for decades and is shown to have declined over the years across the OECD countries. The number of OECD countries levying individual net wealth taxes dropped from 12 in 1990 to four in 2017.There are many OECD countries that used to have wealth taxes but that repealed them in the 1990s and 2000s, including Austria (in 1994), Denmark (in 1997), Germany (in 1997), the Netherlands (in 2001), Finland, Iceland, Luxembourg (all three in 2006) and Sweden (in 2007). In 2008, although it did not technically repeal its wealth tax, Spain introduced a 100% tax credit, reducing all taxpayers' wealth tax liabilities to zero. After the crisis, however, both Iceland and Spain reinstated net wealth taxes as temporary fiscal consolidation measures. In 2017, France, Norway, Spain and Switzerland were the only OECD countries that levied net wealth taxes. France was the last country to repeal its wealth tax in 2018, replacing it with a tax on high-value immovable property real estate wealth tax with effect from 01 January 2018. In 2020, Norway, Spain, and Switzerland were the only OECD countries that still levied individual net wealth taxes (Perret, 2020; OECD, 2018a).

The global trends in wealth taxation may impact South Africa's policy considerations and discussions on socio-economic equality. The experiences of countries that repealed or modified their wealth taxes provide insights into potential challenges and benefits. South Africa can draw insights from the international community while tailoring its approach to address economic domestic challenges on wealth redistribution and growing inequalities.

The Wealth Tax Act, of 1957, is an act of the parliament of India that provides for the levying of wealth tax on an individual, a Hindu undivided family, or corporations. The tax was levied on the net wealth owned by a person on a valuation date. It was introduced in India in 1957 and was abolished in 2016 and details are discussed in chapter 3 of the report (Finance Act, 2016).

Wealth taxes have generally accounted for a very small share of tax revenues. In 2018, tax revenues from individual net wealth taxes ranged from 0.2% of GDP in Spain to 1.1% of GDP in Switzerland. As a share of total tax revenues, they ranged from 0.5% in Spain to 3.9% in Switzerland. Looking at longer-term trends, Switzerland has always stood out as an exception, with tax revenues from individual net wealth taxes that have been consistently higher than the average (Perret, 2020).

This study also reviews the available international wealth tax data information and trends available in OECD countries. The first identified wealth tax revenues are not significantly the main source contributor on revenue tax collection in all the countries. The studies show that the net wealth taxes have not been increasing even though the number of individual wealthy people is showing a significant increase (Piketty & Zucman, 2013).

Investigating the impact of net wealth as a significant contributor to the international community's GDP, the OECD used the available data to compare the individual net wealth tax revenue from 1980 to 2017 to categorise the portion it contributes towards the GDP percentage of each international country. The

selected individual net wealth data is from four countries, namely, Switzerland, Spain, France, and Norway.

Figure 1 shows individual the net wealth trends from different countries; it indicates that over three decades these countries have contributed towards individual net wealth tax, Switzerland has contributed between 0.6% and 1% towards GDP and other countries contribute from 0.1% to 0.5% towards their GDP percentage. Switzerland is gradually showing an increase and stability in its wealth tax collection, and on a higher scale than other countries. The studies suggest that the lower exemption threshold in international comparison and broader tax base is fairly influencing the outcomes on their net wealth tax, and their wealth tax is raised at canton and municipality levels, not wealth tax ats a federal wealth tax.

Figure 2.1

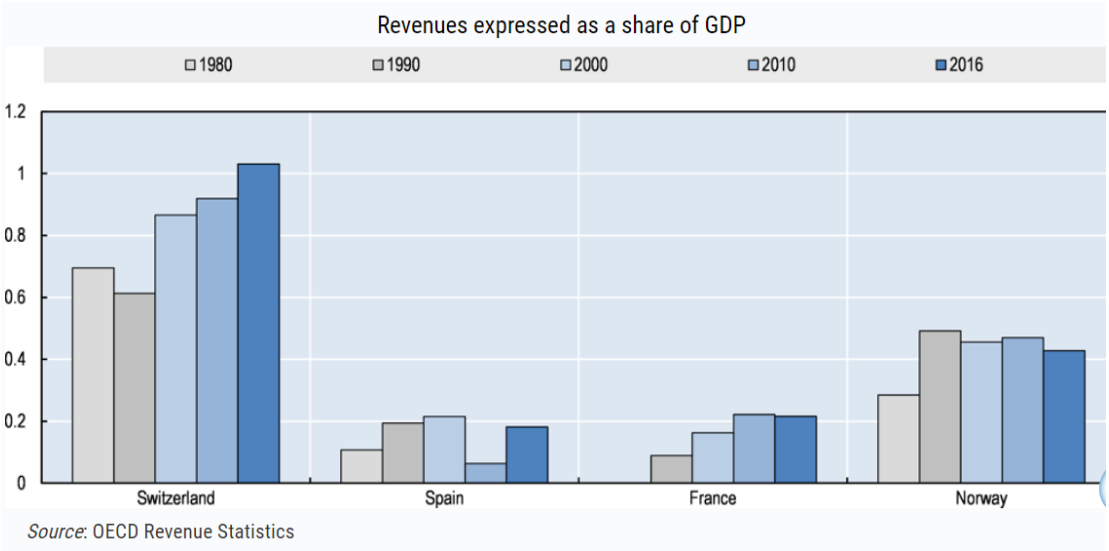

Figure 2.1: Revenues from individual new wealth taxes in Frances, Norway, Spain and Switzerland in different years

The World Economic Forum report found that wealthy households respond very well to wealth taxation. Firstly, the countries agree that the inequalities are beyond the limit, studies produce trends that the rich become richer, and the poor become poorer, with the COVID-19 pandemic pushing the poor to the extreme poverty conditions. Secondly, global fiscal budgets are squeezed to elevated levels, considering that during the time when economic activities were at a standstill due to Covid-19 requirements, funds had to be redirected to save the lives of the people, provide health care, financial relief to individuals and businesses. Thirdly, the stock market has gone into a frenzy for stocks that offer a reliable and growing bundle of returns. Fourthly, improved systems are required to prevent tax evasion, most countries are coming to the party, because they are tired of being cheated of what is rightfully theirs, now 125 countries are members of the BEPS steering committee. The society is evaluating the social contracts (World Bank, 2021).

The global acknowledgement of the above-mentioned factors collectively creates a compelling context for considering wealth tax consideration in countries like South Africa. The success of convincing South Africa to implement wealth tax would require effective communication of how such a tax aligns with the country's values, addresses the inequality challenges and sustainable economic framework.

2.1 OECD countries currently implemented wealth tax

Switzerland and Colombia differ significantly, particularly in their approach to wealth taxation. Switzerland is in Western Europe, has long embraced and integrated wealth taxes, showcasing a robust and advanced system. In contrast, Colombia, situated in South America, is still in the early stages of establishing the wealth tax framework. Recent developments indicate a step towards the reintroduction of wealth tax permanently in Colombia. These two countries are situated far apart geographically, also exhibit contrasting levels of quality of life, with Switzerland outperforming Colombia, as per the World Data Information Centre (Londoño-Vélez & Avila-Mahecha, 2018; Fergusson & Hofstetter, 2022).

Beyond geographical and quality of life distinctions, the implementation of wealth tax structures varies substantially between the two countries. Switzerland boasts a well-established and complex system, whereas Colombia is currently undergoing transformative changes in its wealth tax policies. Consequently, attempting a direct comparison between the two countries in terms of the wealth tax becomes challenging due to their notable differences in their economic, geographic, and policy landscapes.

2.1.1 Switzerland's wealth tax

The resilience of Switzerland's wealth tax system and the groundwork for a comprehensive analysis make Switzerland's wealth tax a unique and enduring model in the global landscape.

Switzerland, as a member of the OECD, has successfully maintained a wealth tax for decades, overcoming initial challenges through a combination of political maturity and a substantial population of affluent citizens. The implementation of wealth tax, though met with barriers, has received widespread acceptance among the Swiss population. A 2015 Deloitte research report on Taxation and Investment in Switzerland highlighted the country's stable economic and political environment. Despite facing both advantages and disadvantages, Switzerland's approach to wealth taxation appeared effective. According to the OECD wealth tax revenue statistics, Switzerland is positioned at the forefront, reporting rising revenues and stability in wealth tax implementation (OECD, 2018).

In contrast, the study found no similarities between Switzerland and South Africa regarding wealth tax implementation. The absence of a wealth tax in South Africa makes it distinct from Switzerland, which demonstrates a dissimilarity in the economic structures of the two countries, particularly in wealth tax and socio-economic issues. Despite this disparity, the literature review aimed to explore the historical context of wealth tax in other countries, examining various systems and approaches adopted. The clear

focus of Switzerland on wealth tax collection reflects a commitment to achieving specific objectives. As illustrated by the OECD data, Switzerland's success in maintaining stable wealth tax revenue highlights its unique position in comparison to other countries (Kollamparambil, 2021).

Historical background – a wealth tax in Switzerland was first introduced in the times of Helveticism (1789-1803), at the time when Switzerland was one state with a uniform tax system. When the Helveticism disbanded, the cantons took control of the system, and introduced a different tax system design. The transformation to the Swiss Federal State in 1848 marked a pivotal shift, leading to a comprehensive overhaul of the tax system. At that time, only the newly created Swiss Confederation was competent to levy customs and the cantons saw themselves forced to find alternative tax sources to compensate for the loss of tax revenue, namely, the taxation of wealth and income. Following the First World War in 1915, confronted with budgetary shortfalls, the Swiss Confederation embraced the taxation of individual wealth as an option, amongst others, up to a maximum tax rate of 0.15%. This marked the inaugural imposition of a direct tax by the Swiss Confederation. Remarkably, in 1959, the Federal wealth tax on individual was eradicated, while the cantons retained their authority to levy wealth taxes, a practice that endures to the present. Most importantly, the wealth taxes extend beyond the wealthiest households, impacting a substantial portion of the middle-class population thus contributing to the fiscal landscape of Switzerland (Perret, 2020; Eckert & Aebi, 2020).

Switzerland's wealth tax is structured to be administered at both the canton and municipal levels. Although most municipalities within various cantons have chosen to adopt the canton-level tax schedule rate, the majority of Swiss cantons have implemented progressive tax rates that correspond to the increase of the individual net wealth. Notably, Switzerland still collects higher tax revenues from its net wealth class than other countries. Research studies indicate that the effectiveness of the wealth tax administration in Switzerland is significantly influenced by its tax design structures. This includes features like relatively low tax exemption thresholds, extensive tax bases, and a high level of political maturity.

In the Swiss tax system, residents are obligated to disclose all their assets, both domestic and foreign, on their tax returns for the purpose of wealth taxation. Even individuals falling below the threshold are mandated to submit an annual declaration. The assets subjected to taxation encompass a wide range, including cash exceeding the household threshold, shares, unit trusts, private equity, precious metals like gold, silver, and platinum, real estate, land, and valuable collections, such as art and coins. The comprehensive approach to wealth taxation outlined in the research studies by a number of studies, highlights the thorough and inclusive nature of Switzerland's wealth tax administration (Perret, 2020; Wong, 2015).

In Switzerland, there is a notable discrepancy between the tax exemption thresholds in individual cantons, with figures ranging from USD 55,000 in Jura to USD 250,000 in Schwyz for married couples in 2018. These differences illustrate the nuanced tax landscape within the country. One interesting

aspect is that despite these regional differences, Switzerland has relatively low tax exemption threshold compared to other countries. The implications are significant, particularly for the middle class, as these relatively low thresholds mean that a substantial portion of this demographic is affected by Swiss wealth taxes. Examining the net wealth trends across OECD countries, it becomes apparent that Switzerland stands out by generating higher revenue from its net wealth in comparison to many other countries. The fiscal success can be attributed in part, to the Swiss tax system's strategic measures, including the introduction of low exemption thresholds and a broader tax base. Furthermore, the Swiss tax system has garnered acceptance and support by adopting a comprehensive approach, combining low exemption thresholds with a wider tax base. This approach has proven effective in not only capturing revenue but also in attracting attention for a notable number of affluent individuals. This has resulted to Switzerland positioning itself as country with a tax framework that not only sustains fiscal stability but also resonates with a diverse spectrum of wealth contributors (Scheuer & Slemrod, 2020).

The Swiss tax system is different in several ways, which partly explains the low thresholds. A distinctive aspect of the Swiss tax system lies in the exemptions of almost all capital gains derived from the sale of non-business assets from both federal and cantonal income taxes. It is also important to note an exception that capital gains from real estate sales or majority stakes in real estate companies are subject to a special cantonal real-estate gains tax. Some studies argue that the absence of a capital gains tax is compensated for by the wealth tax, which unlike a capital gains tax, taxes a person's wealth annually without it being realised. The absence of capital gains tax creates an incentive for taxpayers to capitalise on the increased value of an asset through a sale, raising critical questions about distinguishing between taxable income and tax-exempt capital gains. Recognising the potential for abuse, specific anti-abuse rules have been implemented to address these dynamics. (Eckert & Aebi, 2020).

In Switzerland, a noteworthy trend among its cantons is the elimination of inheritance and gift taxes, when it comes to transfers directed to immediate descendants. As outlined by the OECD in 2018, this shift has prompted a partial reliance on net wealth taxes as a substitute for these abolished taxes. Another distinctive feature within the Swiss taxation framework is the treatment of foreign nationals who established tax residency in the country. These individuals have the option to opt for a favourable lump-sum tax arrangement in numerous cantons, provided they refrain from engaging in any paid employment within Switzerland. Unlike conventional taxation models that consider global income and assets, this lump-sum tax is calculating based on an individual's expenditure patterns and standard of living (OECD, 2018).

In recent years, there has been a notable shift in tax policies, with a prevailing pattern of escalating tax exemption thresholds and diminishing tax rates. According to the studies, over the past decade, several countries, such as France, Norway, and Spain, have opted to raise the tax exemption thresholds. This strategic move is often attributed to the desire to alleviate the financial burden on the middle class, and upper-middle classes, especially in the light of surges in asset values, notably within the housing

market. Furthermore, a broader trend has emerged since the early 2000s, wherein various countries, including Switzerland, have embraced a path of reducing tax rates. Switzerland, for instance, has witnessed substantial tax cuts concentrated in its central cantons, spurred by intense tax competition during the early 2000s. This trend extends beyond the central cantons, as several other regions have also significantly lowered their wealth tax rates. This nuanced evolution in the tax policies reflected a dynamic response to economic changes and competition among jurisdictions (Perret, 2020).

Switzerland has a progressive tax system for households that includes both worldwide income tax and wealth tax in most canons. In particular, the wealth tax rate correlates with the increase in net wealth, creating a dynamic tax structure. Although both income and wealth are taxed worldwide, there are differences in their treatment. Income is levied on income and administered at the federal level, while wealth tax is levied on wealth and administered at the cantonal levels and municipal levels. Each canton and municipality independently determines their wealth tax rate, along with tax exemptions, and incentives limits; universally applicable is the concept of a taxable threshold for net wealth, if an individual's net assets fall below the threshold, no tax is imposed. The net wealth tax rate differs across cantons, ranging from 0.02% to 1.01%, reflecting the diverse fiscal policies adopted at the cantonal level (PwC, 2023).

The progressive household tax system in Switzerland, with its emphasis on worldwide income and wealth, plays a crucial role in addressing wealth inequality. The approach of linking the wealth tax rate to the increase in net wealth, the system inherently targets those with higher levels of wealth. This serves as a mechanism for redistributing wealth and curbing the concentration of economic resources among a selected few. Furthermore, the distinction in the treatment of income and wealth taxes acknowledges the multifaceted nature of wealth accumulation. Although the income tax focuses on earnings at the federal level, the wealth tax, administered locally, recognises the broader spectrum of assets contributing to an individual's financial standing. This approach enables a more comprehensive assessment of one's overall economic well-being.

The independent determination of wealth tax rates by cantons and municipalities reflects a decentralisation response to address regional economic disparities. By allowing local authorities to tailor tax policies based on their unique socio-economic landscapes, the system contributes to a more equitable distribution of resources.

The incorporation of tax exemptions and thresholds ensures that those with more modest net assets are not unduly burdened, promoting fairness within the taxation framework. The variable net wealth tax rates across cantons, ranging from 0.02% to 1.01%, underscore the adaptability of the system to local need and economic conditions. Switzerland's progressive household tax system, especially concerning wealth tax, serves as a tool to mitigate wealth inequalities by targeting higher net wealth, recognising the diverse sources of economic prosperity, and allowing for localised adjustments to promote fairness and inclusivity.

Even if the Swiss study points to a stable income distribution over the past century, it is crucial to recognise that despite this stability, there is still much to be done to address existing inequalities. The fact that the richest 10% consistently earn around one-third of the total national revenue, both before and after government redistribution, highlights the persistent economic disparities, although it can be observed, that this does not necessary indicate an equitable distribution, but emphasises the need for continued efforts to bridge the income gap and enhance socio-economic fairness in Switzerland (Turuban, 2022).

Switzerland imposes both inheritance and wealth taxes, with inheritance and gift tax being assessed at the canton level. Currently, there is no federal inheritance and gift tax. The tax rates are progressive and depend on the degree of relationship between the deceased or donor and the beneficiary. Notably, exemptions are granted for spouses, children, siblings, and close relatives. Additional, net wealth tax is levied at both canton and municipal levels. The assets subject to wealth tax include bank balances, bonds, shares, and other equities. Furthermore, life insurances with surrender values, as well as tangible assets, such as cars, boats, aeroplanes, and properties, including real estate, are considered in the calculation of wealth tax. It is essential for taxpayers to be aware of these regulations and exemptions to navigate the complex landscape of inheritance and wealth taxation in Switzerland. Gifts to charitable organisations are also tax-exempt, however, if it is transferred to an unrelated party, gift tax is applicable, reaching up to 56%, depending on the taxpayer's canton location (Eckert & Aebi, 2020).

The Swiss dual taxation system, encompassing both inheritance and wealth taxes, reflects a nuanced approach to fiscal policy. The argument could be that the impositions of inheritance and gift tax at the canton level allows for regional flexibility, tailoring tax rates to the specific socio-economic conditions of each canton. The absence of a federal inheritance and gift tax streamlines the taxation process and avoids potential inconsistences across the diverse cantonal landscape. As part of the argument is the progressive nature of the tax rates based on the relationship between the deceased, or the donor and the beneficiary that introduces a layer of fairness. Granting exemptions to spouses, children, siblings, and close relatives acknowledges the importance of preserving family wealth and provides a measure of financial security during times of transition. Likewise, the imposition of net wealth tax at the canton and municipal levels highlights the decentralisation nature of Swiss governance. The exclusions of federal wealth tax promote independence among the cantons and municipalities to address their unique financial needs and priorities.

The thorough categorisation of assets subject to wealth tax, ranging from financial instruments like bank balances and equities to tangible assets such as cars, boats, aeroplanes, and real estate, ensures a comprehensive and equitable assessment of an individual's net wealth.

2.1.2 Deductions and incentives

In Switzerland, certain expenditures, such as interest, social charges, educational costs, and commuting expenses, fall under the category of deductions, as defined by federal laws. By embracing a broader spectrum of deductions, taxpayers may perceive it as a strategic flexibility, allowing them a role in contributing to the country's economy. Wealthy individuals, particularly mindful of financial control, appreciate the control over how and where their money is spent. For instance, permitting deductions for social charity activities indirectly motivates individuals to engage in philanthropy. Similarly, the educational deduction allowance serves as an incentive to send more children to school, with the government offering benefits, thereby promoting wealth sharing and inclusivity, especially for children from disadvantaged families (Dreier, 2023).

The practical example in the South African context, taxpayers are allowed to claim deductions of tax credits for medical costs incurred on behalf of family members dependent on the taxpayers for care, such as mothers, siblings, and grandparents. This practice not only eases the healthcare burden on the government but also embodies a form of wealth sharing integrated into the system. It is a mechanism where those who have the means contribute to the well-being of those less fortunate, creating a mutually beneficial system that encourages participation in social welfare. In Switzerland, the principle of social welfare tax deduction is practiced, and application mechanisms may differ from South Africa. The underlying principle extends to various other permissible deductions, fostering a symbolic relationship between taxpayers and the broader community (SARS, 2016; PwC, 2023).

2.1.3 Dividends deductions in Switzerland

Earned dividends are taxed together with other taxable income; the companies distributing the dividends withhold the taxes. The taxpayers could claim rebates by accurately declaring the dividend amount declared on their tax return. By doing so, the full 35% WHT can be fully refunded if the correct amount is declared. The integration of earned dividends into the broader taxable income framework, together with the provision for reclaiming withholding taxes through accurate declaration on tax returns, offers a strategic avenue for wealth accumulation. By engaging in capital investments and holding shares, individuals stand to benefit not only from potential dividend income but also from the opportunity to reclaim a portion of withholding taxes. This creates a scenario where proactive participation in the economy, through investments and accurate financial reporting, can contribute to the accumulation of wealth. The system, in essence, aligns the interests of individuals with the economic goals, providing a pathway for wealth accumulation through responsible financial engagement and adherence to regulatory guidelines (Sanders, 2022; Deloittes, 2015).

2.1.4 Capital gains on shares.

When it comes to capital gains in Switzerland, residents selling shares held as private holdings are exempt from the capital gains tax, provided they meet a criterion of being a private seller rather than a

professional one. This distinction between private and professional sellers reflects the government recognition of different economic roles and risks profile, furthermore, this encourages private investment that is aligned with the Swiss historical emphasis on protecting individual wealth. Capital gains are typically imposed when selling non-movable property and are administered at the canton level, with tax rates varying among cantons (Deloittes, 2015; Sanders, 2022).

The journey of enforcing the wealth tax in Switzerland has not been easy, when it was first introduced to address the budget deficits as a result of the world war in 1915. The Federation administered and had control over its revenue collection, and it was abolished in 1959, that is when the cantons found a way to take control and efficiently manage the tax, as part of other methods of raising additional income for their jurisdictions. The wealth tax rate is kept at the lowest scale possible. There have been rising political talks at Swiss federal level to reform the wealth tax to no avail. In 2019, the federal parliament filed a motion calling for federal councils to abolish wealth tax and introduce capital gains tax at 10% rate. In Switzerland, the wealth tax is respected by the taxpayers, the wealthy people are responsive to wealth tax behaviours, the research study findings on behavioural responses to wealth taxes shows that the 1% drop on wealth tax rate increased the wealth reported data in 2009 by 43%; several cantons were tested and came to this conclusion (Seim, 2017).

Switzerland is one of the richest countries in the world and a stable economy. According to the World Atlas data on their website, the country has gained a remarkable investment attraction over the years that has led to progressive economy growth; the studies believe that the tax structure and political maturity contributed to this growth. The country is ranked one of the highest with the quality of life due to the satisfaction of its citizens. Although the high cost of living may seem daunting, favourable tax rates have successful attracted foreign investment, is reflected in the country's robust GDP, largely fuelled by remarkable exports. Switzerland is also known by producing high quality products, including cheese, chocolate, jewellery and furniture, demonstrating expertise and commitment to using locally sourced material (World Atlas, 2023).

2.1.5 Law of taxation

All taxpayers are required to submit their returns reflecting personal income and wealth, no threshold is applicable for the purposes of monitoring the movements on net wealth; it is a requirement and empirical to disclose annual income and wealth and from where it is generated. Additional assets are filed separately, and also banks assist the preparation of information on income and wealth for tax purposes, however the banking institutions are not obliged to report to the tax authorities as third parties (Eckert & Aebi, 2020).

Swiss taxation may be described as complicated due to the elements to be included and the length of time that may be required for the final assessment. The tax return may be kept open for one to two years depending on the complexity, and if there are audits required, litigations or queries raised, the tax

authorities may keep the return open for up to a period of ten years (Eckert & Aebi, 2020; Thuronyi, 1996).

Stretched tax assessment periods are not a usual practice in countries like South Africa where there are no wealth tax complexities in the return, as tax returns are allowed to be open for a period of six months. The application of the Swiss wealth tax approach may be somewhat frustrating in the introductory stages and can be gradually accepted, if enforced.

It would be inaccurate to say that the taxation of individuals in South Africa is no more complex than in Switzerland. Even though South Africa may not have an explicit wealth tax, it does have a complex tax system with various elements, such as income tax, capital gains tax and others. South African tax laws are constantly changing, and it can be a challenge to understand and navigate these regulations. The tax system in Switzerland has become more complex due to the inclusion of wealth tax processes. Equally, both countries have their own intricacies, and a comparison based solely on the presence or absence of certain taxes (wealth tax) might over-simplify the broader context of the respective tax structures. A comparison analysis would involve examining multiple factors, including tax rates, deductions, and administrative procedures.

2.2 Colombia's wealth tax

Colombia introduced a wealth tax in 1935, underwent reforms, abolished it in 1992, and reintroduced it in 2002. The tax evolved with various changes in rates and bases, impacting both individuals and companies. In particular, President Uribe introduced a "special tax for Democratic Security " in 2002, affecting individuals with gross wealth above a certain threshold. Subsequent reforms included adjustments to tax rates and thresholds, as well as a one-off tax in 2009. In 2014, a permanent wealth tax was introduced, with rates based on net wealth. The reform affected a significant percentage of taxpayers, mainly companies (Londoño-Vélez & Avila-Mahecha, 2018).

Colombia, as a developing country, faces significant challenges related to social and wealth inequality. It is worth noting that Colombia joined the OECD in April 2020, but the availability of its wealth tax data in the OECD database remains somewhat limited. In a 2015 report by the OECD, it was suggested that Colombia would benefit from a comprehensive future tax reform to promote investment opportunities and foster a more inclusive economic growth environment. Over the past few decades, Colombia has been diligently working towards implementing more attractive tax reforms. One notable tax was the introduction of a temporary 1% wealth tax levy in 2019, which was set to operate until 2022. This move represented a step in the right direction for Colombia's pursuit of a fairer and more balanced taxed system, aimed at addressing wealth disparities and boosting its economic diversification (OECD, 2018b).

Colombia's journey towards addressing social and wealth inequalities is evident in its commitment to tax reforms. The introduction of a temporary 1% wealth tax levy in 2019 reflects a tangible effort to

create a fairer and more balanced tax system. This move aligns with the OECD's recommendations in 2015 for Colombia to pursue comprehensive tax reforms to promote investment opportunities and inclusive economic growth. Even though challenges persist, the fact that Colombia joined the OECD in April 2020 signifies its commitment to international standards and collaboration.

The history of high tax rates in Colombia underlines that the government has recognised the need for comprehensive reform. The 2019 wealth tax initiative is a positive step that indicates a strategic focus on reducing wealth inequality and promoting economic diversification. This step may be seen as a genuine effort to address social and economic challenges and lay the foundation for a more equitable and prosperous future.

Wealth taxation in Colombia, including its advantages, disadvantages, successes, and failures.
Colombian tax revenues have been comparatively low, prompting discussions on the necessity of increasing tax rates to align with international standards. At present, the wealthiest individuals in the country often exploit the weakness in the existing tax system by claiming various deductions, leading to growing calls for comprehensive tax reforms. With Colombia's recent membership in the OECD, there is a growing consensus among academics that the country's tax laws should be revamped to enhance its competitiveness on the global stage. Over the years, certain sources of income, such as dividends, have been taxed at a flat rate of 10%, and there is no taxation on pensions. This has resulted in significant gaps in tax collections in Colombia. In the light of these issues, it became evident that Colombia's tax policy is in dire need of improvement. Many experts advocate a shift towards progressive taxation to ensure a fair distribution of the tax burden. This aligns with the findings of Fergusson and Hofstetter (2022), who emphasise the importance of addressing these taxation challenges. However, it is worth noting that some studies, like Audelo (2022), caution against overreliance on taxes as a tool to address market failures. Balancing these perspectives is crucial for shaping an effective and equitable tax policy in Colombia.

The research findings indicate that affluent individuals in Colombia tend to provide inaccurate information about their wealth when they are required to disclose their assets for wealth tax purposes. Following the introduction of the wealth tax in 2009, there was a significant drop in the reported wealth figures during the 2010 tax reporting year. Many people intentionally underreported their assets to remain below the taxation threshold. In Colombia, a significant portion of financial wealth records are subject to third party reporting, which means that tax authorities have access to this financial data. It is important to note that when it comes to reporting non-financial wealth, the responsibility lies with the taxpayers themselves. This makes it more challenging for authorities to effectively monitor and verify non-financial assets for tax assessment. Additionally, the use of offshore entities and offshore tax havens has been identified as common practice to conceal wealth and assets, which further complicates efforts to ensure accurate reporting and fair taxation. This is a complex issue with implications for tax enforcement and equity in the Colombian tax system (Londoño-Vélez & Avila-Mahecha, 2018; OECD, 2018b; Seim, 2017).

Colombian citizens have an annual obligation to disclose their financial assets and liabilities. This obligation entails not only the declaration of taxable earnings but also the inclusion of non-taxable income sources when submitting their annual tax returns. Starting from January 2023, Colombia is set to permanently reintroduce a progressive wealth tax, making a significant change in their tax regulations. The wealth tax will be levied at rates ranging from 0.5% to 1.5%, signifying a pivotal development in the country's fiscal policy landscape, as detailed in the PWC report *titled "Colombia passes major tax reform effective January 1"*. This move is poised to have a notable impact on the financial landscape of the nation, influencing both individual taxpayers and the broader economic framework (Pwc Colombia, 2023).

2.2.1 Tax evasion in Colombia

Tax evasion poses a significant challenge and is detrimental to Colombia's economic wellbeing. Numerous studies consistently indicate that affluent individuals employ strategies to conceal their wealth by directing investments towards offshore financial entities. Moreover, these studies have revealed a concerning trend, showcasing a notable surge in the offshoring of assets within Colombia over the past years. Regrettably, Colombia has earned a notorious reputation for being one of the foremost countries in terms of tax evasion, primarily achieved through the practice of relocating their wealth to tax havens. The persistent issue may not only affect the nation's fiscal stability but also raises important questions about equitable taxation and economic transparency (Londoño-Vélez & Avila-Mahecha, 2018).

The Panama papers broke the news by leaking some information about Colombia's wealthy individuals who were hiding their assets using offshore entities to hide a portion of their wealth, and some even inflated their liabilities to fall under the threshold. The Colombian government, after the news broke, offered some amnesty for the citizens to come forward and disclose their offshore hidden assets; quite a few citizens came forward and others refused to come forward and this resulted in high penalties imposed for tax evasion, and tax evasion was criminalised in Colombia and Panama and Colombia entered into an agreement for sharing of information. Taxpayers intentionally under-reported their wealth in order to fall below the threshold (Saez & Zucman, 2019; Alstadsæter, Johannesen & Zucman, 2019; Londoño-Vélez & Avila-Mahecha, 2018).

2.2.2 Capital gains taxes in Colombia

Extraordinary income received by an individual through significant economic transactions is classified as capital gains. Colombian tax recognises various forms of capital gains, including gains from the sale of assets, such as bonds and shares, which have been held for at least two years, gains from the liquidation of a company that has been in existence for at least two years and gains from inheritances, legacies, or gifts. Capital gains from lotteries or games of chance are also recognised (Pwc Colombia, 2023).

A general tax rate of 15% is imposed on most capital gains, while gains from lotteries, gaming or similar ventures are subject to a 20% tax rate, based on the profit earned. The rationale behind the lower tax rate on capital gains in Colombia may be rooted in fostering investment, economic growth, and incentivising long-term investments. The lower tax burden acts as an economic incentive as it rewards investors who commit patient capital and contribute to the stability of the financial markets. The requirement to hold certain assets for two years before benefiting from the reduced tax rate reflects the intention to encourage sustainable investment and discourage short-term thought. In principle, the lower tax rates in Colombia can be seen as a strategic fiscal measure to strike a balance between revenue generation and creating an environment conducive to responsible long-term investment practices.
High taxes on capital gains can have potential negative effects. Competitiveness concerns, countries with lower capital gains tax rates may attract more international investment compared to those with higher rates. Higher tax rates could make a country less competitive globally, potential deterring foreign direct investment (Gravelle,1994).

Progressive tax rates on capital gains is not commonly regarded as a viable option for taxing capital gains (OECD). By not imposing a progressive tax rate on capital gains means that individuals would be taxed at a flat rate, regardless of their income levels. This could lead to a situation where lower and higher income individuals are taxed at the same rate on their capital gains, potentially exacerbating income inequality. Progressive tax rates are designed to distribute the tax burden more equitably by taxing higher income earners at a higher rate, encouraging a fairer taxations system. Ignoring progressivity, richer individuals may benefit more disproportionately from capital gains.

In Colombia, inheritance and gift taxes are not imposed, yet the beneficiary is liable to pay capital gains tax on transfer; these are considered as extraordinary income and fall under the capital gains tax umbrella. It is important to note that there exists a distinction in the tax treatment between capital gains and wealth tax. In Colombia, when an individual receives an inheritance or a gift, it is considered as extraordinary income. The taxation is applied through the capital gains framework. Capital gains tax is calculated, based on the increase in the value of the inherited or gifted assets. The authorities will assess the initial value of the inherited or gifted assets; this is often referred to as the base cost. Calculation of capital gains occurs when the beneficiary decides to sell or transfer the inherited assets, which is the selling price minus the base cost. Furthermore, a financial transaction tax is applied, adding to the complexity of the taxation system. It is noteworthy that this particular tax, along with complexities related to wealth tax, lies beyond the scope of the current study (Pwc Colombia, 2023; Lozano-Espitia, Vargas-Herrera & Rodríguez-Niño, 2017).

By subjecting inherited assets to capital gains tax, governments may indirectly encourage beneficiaries to hold onto their inheritance for a certain period before transferring or selling. This approach aligns with the idea of promoting long-term ownership and discouraging quick transfers of wealth. The encouragement of long-term holdings can contribute to economic stability and promoting sustainable

investment practices, also wealth preservation. However, not taxing inheritance or gift assets could have several potential disadvantages and challenges for the government. One of them is missed revenue opportunities for the asset with guaranteed present value in the hands of the original owner and non-guaranteed future value in the hands of the new owner. Passing down substantial wealth through generations without taxation may contribute to the concentration of wealth in certain families, potentially leading to social and economic imbalances. The other challenge could be encouraging tax evasion, if inherited or gifted assets are not subjected to taxation, individuals might be more inclined to engage in strategies to avoid other forms of taxation by disguising taxable transactions as gifts or inheritances.

In South Africa, the inheritance and donations tax are referred to as wealth tax (Davis Tax Committee, 2018).

The ideal integration of inheritance and gift taxes into a wealth tax, incorporating inherited and gift taxes into a broader wealth tax framework can offer several benefits. Firstly, it can promote a more equitable distribution of wealth by ensuring that substantial transfers of assets, whether through inheritance or gifts, are subject to taxation. This may help to counteract the concentration of wealth within certain families or individuals. Secondly, including inheritance and gift taxes in a wealth tax system may contribute to a more comprehensive and fair revenue collection strategy. That can allow the government to capture wealth transfers that might otherwise go untaxed, providing a sustainable source of funding for public services and initiatives. Moreover, the integration of these taxes enhances transparency in wealth transactions, discouraging tax evasion. However, in South Africa, there is no compelling law for individuals to disclose their wealth annually on their tax returns. The idea would be to include these assets for the purpose of progressive wealth tax, not to wait for the transfer. By treating inherited and gifted wealth as part of an individual's overall net worth, may help mitigate potential loopholes that could be exploited to reduce tax liabilities. The adoption of such a comprehensive approach aligns with the principle of taxing individuals based on their overall wealth, ensuring that those who have benefited from intergenerational wealth transfers contribute their fair share to the society's economic well-being. The inclusion of inheritance and gift tax in a wealth tax framework can promote a fairer, more transparent, and more effective approach to wealth distribution and taxation.

Chapter 3: The dynamics of wealth tax implementation

The chapter explores the motive for implementing the wealth tax that was later repealed. The main objective of this chapter is to examine previous experiences with wealth taxes in the OECD and to look at the reasons that led to their withdrawal. It is evident that there has been a deterioration in OECD countries with a net wealth tax. According to the OECD tax policy report in 2018, the wealth tax is becoming unpopular and no longer appealing to most countries, inefficiencies such as administration costs and less revenues generated, apparently the common reasons for repeal, however, this chapter looks at individual countries independently and compares their conclusions. The inefficiencies of wealth tax have been observed in several cases, for instance, Sweden, which had a long history of wealth taxation, gradually reduced such taxes due to the perceived negative impact on economic growth; the data from other countries like Germany showcased the lower revenue that was anticipated (Perret, 2020; OECD, 2018a).

The selected countries for this research study are India and France, strategically chosen for their distinct economic affiliations. India, a BRICS member alongside South Africa, represents emerging economies while France, as the member of the OECD, is part of the group emphasising economic development and co-operation among other countries. The common factor between India and France in the context of wealth sharing is the repeal of the wealth tax. Both countries have undergone significant policy changes related to wealth taxation. In India, the wealth tax was abolished in 2015, resulting in a shift in the approach to wealth distribution. Similarly, France implemented reforms, including the transformation of its wealth tax into a tax on real estate assets. Analysing the repercussions and effectiveness of these tax repeals in both countries provides valuable insights into the evolving strategies for wealth distribution and economic development (Finance Act, 2016; OECD,2018).

3.1 India

India and South Africa are both members of BRICS and have close economic relations and both their parliaments are governed by a constitution. According to the Oxfam reports, India is one of the countries with huge inequalities, and this has been increasing in the past three decades; rich people are getting richer while the poor are getting poorer and struggling to access basic needs, like education and healthcare services with their minimum wage. India is one of the countries in the world with a large population, only the top 10% of Indian population hold 77% of the Indian total national wealth (Oxfam, 2023 ; Himanshu, 2017). India and South also feature with high levels of corruption in the public sector. According to the CPI (2021) report, out of the 180 countries, India ranked number 40 and South Africa number 44 (Lucia, 2021).

A Wealth tax in India was introduced in the Wealth Tax Act (1957); the motive was to bridge the large gap on inequalities; the tax treatment was the same as other countries and the net wealth tax was levied on the individual's net wealth, the Hindu Undivided Family (HUF) and companies on the

evaluation date (India, 2018).

The experiences of a wealth tax in India were not perceived as a great solution for raising additional taxes and the idea of taxing the net wealth diminished, losses were incurred and frustrations as a result of the wealth tax system were reported yearly and pointed to the direction of net wealth tax rejection by the wealthy individuals, increased litigations, compliance burdens, unavoidable administration costs by the government.

The minister of finance, Arun Jaitley, in 2015 announced the abandonment of the wealth tax effective form 01 April 2016, and the losses of wealth tax revenue would be replaced by a levy on the additional surcharge on high income earners; he opted for the levy that is easy to administer and removed the burden of worrying about wealth tax compliance, such as asset evaluation, that was expensive for the taxpayer as only registered valuers were used, with every tax year-end becoming a burden for the taxpayers. According to the reports, the cost of maintaining the administration for the government was too expensive and their revenue collections were not yielding the desired outcome. India chose to simplify the tax processes, as there were no efficient systems in place to manage the process at a minimal cost. The studies attest that the other reason for the net wealth tax not having an impact on India's tax revenue might be the lack of awareness. India is a developing country and having to access sophisticated systems would have been a challenge. In principle, taxation is the only means of raising revenue for the government spending; the cost of raising those taxes must not be excessive or result in revenue shortfalls, and the methods used in the tax system must be as simple as possible. Adam Smith explained in one of his canons, that the taxpayers must find the tax system easy to understand, complicated tax systems might be seen as burdensome by the citizens, and for the government to achieve the desired results, it will have to spend or invest on expensive systems and have more skilled people employed. Formulating the fair and efficient tax system is not an easy task for developing countries like India, especial when that system must be incorporated or aligned to the developed countries with advance tax systems, the wealth tax system was problematic for the Indian government and as a result, was abandoned (Income Tax Department in India, 2015; Scheuer & Slemrod, 2021).

The Indian government, like other developing countries, had to find alternatives for the loss of revenue, the said complicated wealth tax system was removed from their revenue stream and replaced by the easy revenue tax option. The introduced additional surcharge was implemented and has been reported to have a positive contribution towards the revenue compared to the wealth tax. The government managed to raise more revenue; there are no elements of wealth tax on the tax base, however the surcharge is easy to apply. Developing countries strive to be incorporated into the world economy, and the drive for higher taxes is inevitable as they rely on foreign trade tax in a pool with developed countries; these high taxes are generally imposed on personal income which is the popular form of taxes and the easiest target for policymakers to implement and adjust at any given time. According to the IMF report, the tax structures are a challenge for most developing countries and the abuse of tax laws has become a norm for those who are rich and can afford this abuse (Tanzi, 2022).

Economically, India has a larger GDP and a more diverse economy, compared to South Africa. Politically, both countries have democratic systems but with distinct political landscapes. Despite differences, the two countries share challenges, such as socio-economic inequality and a history marked by struggles for independence (World Bank,2022: Chatterjee, Czajka & Gethin, 2022).

India and South Africa are members of the BRICS economic community which promotes co-operation and dialogue among its member countries on issues related to economic development, political influence, and global governance. India's decision to repeal the wealth tax may be noted by South Africa as a fellow BRICS member; each country's tax policies are influenced by its unique economic conditions, fiscal priorities, and domestic considerations. South Africa can learn from the experiences of BRICS members to refine its own policies. Analysing the outcomes and challenges that influenced India to repeal the wealth tax can provide valuable insights. Learning from the experiences of global counterparts can inform policy discussions and reforms, helping South Africa tailor its approach to wealth tax implementation.

The studies show that there have been ongoing discussions, and calls the for government to bring back the wealth tax in India since the Coronavirus pandemic. The economy is affected like all the countries in the world, as a result, there is a cry for wealth tax implementation to assist in alleviating the long-existing inequalities and the economic struggles brought by Covid19. India has the highest number of poor people in the world, according to the World Inequality report (2022). India is on the list of countries with high unequal incomes as the organisation has reported on the broader income inequal data from almost all the countries worldwide. The richest countries have doubled their wealth during the Coronavirus pandemic as highlighted by Oxfam (2022). The academics in India are pointing out to their government not to ignore or underestimate the possible welfare relief that could be brought by taxing the super-rich, and also to reconsider the exclusion of inheritance tax from the revenue stream; not having an inheritance tax is seen as an encouragement for inequality gaps as the current inheritance system is designed to benefit the wealthy individual generations, to enable them to channel their wealth to their loved ones. It grows with their descendants without being taxed or paying any levy towards the government. The intention is to redescribe the wealth as zero with the current system; with countries like South Africa, an inheritance is taxed, and this also forms part of the existing wealth taxes (Oxfam, 2023).

3.2 France

The history of a wealth tax in France, the annual tax on individual net wealth tax, is known as "*Impôt sur les Grandes Fortunes"* (IGF) was passed on October 30, 1981, under Francois Mitterrand. It took effect on January 1, 1982, but was later repealed in 1986 by Jacques Chirac upon assuming the presidency. In 1989, Francois Mitterrand was re-elected and reintroduced the wealth tax, now named The Solidarity Tax on Wealth (ISF), showcasing how political dynamics significantly influenced France's tax reform (Verbit, 1991).

This pattern of tax policy shifts with changes in government administration is not unique to France and is observed in various countries, where alterations in leadership promptly lead to adjustments in fiscal policies. Importantly, the imposition of the wealth tax in France was not primarily driven by economic crises but rather served as a means to support broader economic policies (Dupas, 2020).

According to the OECD report on trends on the distribution of wealth and income data used from 1980 to 2015, over thirty years, most of the countries have experienced increasing gaps of inequality, but France has shown a very small change on inequality levels. Some academics are warning for caution when reporting on these data trends as there might be chances of inaccurate reporting due to factors such as illegal offshoring, tax evading and avoidance *"*fraudulent reporting or non-reporting*"* (Piketty & Saez, 2006).

Taxpayers' behaviour response to wealth tax was also a contributing factor to the repeal of wealth tax in France, as the studies show that the wealth rate change led to more than 12 0000 millionaires leaving the country in 2016; the country between the years 2000 to 2016 experienced the loss of more than 60 000 millionaires. When those individuals left the country not only was wealth tax revenue affected, other sources of tax revenues, for example, income tax, vat and others were affected. The French Economics Professor, Eric Pichet (2007) estimated that the IFS wealth tax cost the French government twice the revenue it generated; he suggested that the revenue collected remained low instead it caused an annual fiscal shortfall of 7 billion Euros, the capital flight since the wealth tax inception amounted to 200 billion Euros, the GDP growth was probably reduced by 0.2% per annum, estimated to 3,5 billion Euros, in addition, the IFS wealth fraud on under-assessment of property assets was estimated at 28% of the total revenue, equivalent to the revenue shortfall of 700 billion in the year 2004 alone (Pichet, 2007).

Several wealthy French individuals sought citizenship in other countries as France was no longer appealing to the investors and wealthy individuals, and they felt unneeded in the country by the president, when the taxes targeted their pockets. The principle of increasing the tax exemption threshold was mostly motivated by a desire to take the tax load off the middle class and super-rich. The circumstances led to tough decisions by the government and the wealth tax was repealed in 2015 and replaced by new real estate wealth tax effective from January 1, 2018 (Dupas, 2020).

The theory proposing that reduced taxes for the wealthy could encourage increased investment and potentially lower the risk of capital flight is subject to on-going debate. The academics argue that lower taxes provide an incentive for affluent individuals to channel more resources into domestic investments, encouraging economic growth and job creation. Contrarily, critics contend that such reductions for the rich might exacerbate income inequality, as the benefits may not necessarily get to the poor individuals. Some argue that the correlation between reduced taxes for the wealthy and increased domestic investment is not always straightforward, pointing to cases where tax cuts primarily result in personal wealth accumulation rather than productive investments. Balancing the economic benefits with

concerns about inequality and ensuring that tax policies effectively promote economic development remain a complex challenge, requiring nuanced analysis and consideration of various factors (Thuronyi, 1996; OECD, 2018c).

"We leave to future research the tasks of investigating the causal effect of wealth taxation on capital flight" (Alstadsæter, Johannesen & Zucman, 2019).

The political influence of the wealthiest class often hinders the implementation of tax reforms that force them to share their wealth. The research studies show that in many countries, a minority owns the majority of the wealth, so governments fear that this minority could migrate with their wealth. The wealthy minority could shape government policy to protect their interests, which could lead to an unequal distribution of civil rights. Organisations, such as Oxfam, call for a fair wealth tax system, emphasising generosity from the wealthy, especially in developed countries with sophisticated systems. Thomas Piketty argues for a broader income tax base, encompassing all income sources, without substituting wealth tax. He questions the existing system, citing numerous incentives and deductions benefiting the rich in evading wealth ta. (Tanzi, 2022; Thuronyi, 1996; Schuyler, 2014).

Global wealth reports, such as World Inequality Database, offer concrete evidence supporting the claim that a minority holds a disproportionate amount of the world's wealth. Approaches such as the introduction of stricter capital controls or changes in tax policy in countries such as France are concrete responses by governments to concerns that the wealth are taking their wealth with them. Thomas Piketty's extensive research, especially in his book called *"Capital in the Twenty-First Century,"* includes historical and cross-country data, reinforcing arguments about the need for a broader tax base and addressing issues in wealth taxation.

The decline in the popularity of wealth tax across Europe can be attributed to various economic and political factors. One key reason is the perceived negative impact on economic growth and capital formation. The argument is that wealth taxes may discourage investment and hinder capital accumulation, ultimately affecting economic development. The administrative challenges associated with accurately assessing and valuing individual wealth have played a role in the repeal of wealth taxes. Valuing assets such as real estate, business holdings, and financial assets can be complex and may lead to disputes, making the implementation of wealth taxes logistically difficult. The globalisation nature of wealth has made it easier for individuals to relocate to countries without wealth taxes. Wealthy individuals may choose to move to jurisdictions with more favourable tax policies, reducing the effectiveness of wealth taxes and potentially causing a loss of revenue for the country. Political considerations may also come into play, as wealth taxes can be debateable issues, especially where there is opposition from powerful economic stakeholders. Policymakers may face resistance from affluent individuals and businesses, influencing the decision to repeal. Most of the countries in Europe had wealth tax and reappealed these; currently there are only three countries that still levy a net wealth

tax - Norway ,Spain and Switzerland - the reasons for other countries to repeal the tax are not covered in this study (Perret, 2021; OECD, 2018b).

The implementation of the wealth tax in France is often associated with damage, notably the exodus of millionaires. This phenomenon can be attributed to several factors. Firstly, the wealth tax is perceived to have created a financial burden for high-net-worth individuals, prompting some to seek more favourable tax environments to other countries. This resulted in a loss of substantial capital and investments within the country. Moreover, the wealth tax may have contributed to a decline in economic competitiveness, as the wealthy individuals left, there could be a reduction in job creation, business investments and overall economic growth. The wealth tax might have discouraged entrepreneurship and innovation. High taxation on accumulated wealth could act as a disincentive for individuals to take risks and invest in new ventures. This could stifle economic dynamism and hinder the development of innovative industries.

The intention of wealth tax may have been to address economic issues, its impact on capital flight and exodus of riches can have detrimental consequences for the economy, potentially outweighing the desired outcomes.

Chapter 4: Wealth tax in South Africa

This chapter provides valuable guidelines for assessing the current wealth in South Africa and explores critical principles that might be considered for designing a local wealth tax system (Davis Tax Committee report, 2018).

4.1 The elements of the current wealth tax and history

The current wealth tax in South Africa encompasses Transfer Duty, Estate Duty, Donations Tax, and Capital Gains Tax. This section provides an overview of South Africa's existing wealth taxes, assessing their impact on wealth distribution over the years. It also examines the potential connection between the current net wealth tax and the proposed one, identifying gaps that could positively contribute to the desired progressive wealth tax. The goal is to generate additional tax revenue to address the prevailing inequality gaps in South Africa. Despite the established wealth taxes, such as Transfer Duty, Estate Duty, and Donations Tax, the Davis Tax Committee report suggests that they have not significantly contributed to tax revenue streams. These types of taxes were established to avoid multiple taxation of the same assets.

4.1.1 Transfer duty

The concept of Transfer duty as a tax is imposed on the acquisition of property, including land. 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, the property means land and fixtures and includes real rights in land, rights to minerals, a share or interest in a "residential property company" or a share in a share-block company. Currently, in South Africa, there is a minority of the population, with some individuals owning valuable properties, potentially falling within an ideal wealth tax bracket. The transfer duty is levied once on the acquisition of the property even if the value of the property increases. Imposing a proposed progressive wealth tax on appreciating properties, rather than only during sales, could provide a consistent source of revenue and help address wealth inequality. Taxing the increased property value over time acknowledges the accrual of wealth and ensures that property owners contribute to the fiscus without a new transaction. It is worth noting that challenges may arise in determining and monitoring the ongoing property values accurately. Additionally, implementing such a tax requires careful consideration of its impact on the property owners, economic dynamics, and the overall tax system. A policy approach that aims to capture wealth growth and redistribute resources more equitably needs to be considered. The Deeds office and SARS would play a crucial role in managing the property data and providing the information for wealth statistics. Municipalities, under the Local Government Rates Act, have the authority to perform property valuations within their jurisdiction (SARS,2016; Gazette and Notice 35491, 2011; Local government: Municipal property rates Act, 2004).

4.1.2 Estate duty

Estate duty is the tax that is paid on the transfer of wealth from a deceased estate to the beneficiaries and is levied in terms of the Estate Duty Act of 1955. The challenge arises during the lifetime of the estate owner due to a lack of policies enforcing the disclosure of estate data. There is no routine mechanism for authorities to gather information on the individual's wealth while they are alive. The lack of transparency can make it difficult to assess the true extent of an individual's wealth during their lifetime. Professor Thomas Piketty, in his research on inequality in South Africa, highlighted the difficulty in accessing estate data. He emphasised that even if available, such data only provides information about wealth at the time of death. Piketty argues that an understanding of the wealth of the living is more insightful in understanding persistent economic inequalities. The absence of comprehensive data on the wealth of the living poses a challenge in crafting policies that effectively address wealth inequality. This stresses the need for more robust mechanisms for disclosing and analysing wealth data during individuals' lifetimes to inform equitable economic policies (Piketty, 2015).

4.1.3 Donations tax

Donations tax is tax payable at a flat rate of on the value of property disposed of by the donor in terms of sections 54 to 64 of the Income Tax Act, 1962. The donor is liable to pay the donations tax, however if the donor fails to pay the tax within the payment period, the donor and the persons receiving the donation are jointly and individually liable, per s59. When the property transfer occurs,
transfer duty is payable by the beneficiary who acquires the property and donations tax is levied and is payable by the donor to SARS for property donated (Tax Administration Laws Amendment Act 21 of 2021, 2022).

Donations tax is usually used to close the tax dodging that might occur when in the name of donation for caring, wealthy individuals might decide to shift their wealth of properties for whatever reason to friends and family members thereby avoiding paying taxes. Wealthy individuals have the ability to hide their assets or properties behind the so-called untaxed assets and when they feel like it they can choose to whom they prefer to donate and potentially determine how the donation must be utilised, there is no restriction to whom they must donate; it could be a non-profit organisation that you are affiliated with or have indirect control over or a relative. Donors usually have influence in determining how their money must be spent, who receives it, when, and how it must be utilised. Introducing a wealth tax could prompt a reassessment of the donations tax system, or its potential abolition, as taxpayers would already contribute progressively, based on the values of their assets. Gathering the individual net wealth data would make it easy for the tax man to understand the donor's ability to donate, and the donor would have been vetted and aligned to the individual net wealth data and tax record that already exist at SARS.

4.1.4 Capital gains tax

A capital gain arises when there is a disposal of an asset, as is contained in the Eighth Schedule to the Income Tax Act 58 of 1962 (SARS). The income received from the disposal of an asset must be capital in nature to attract the capital gains tax and it arises when there is a profit gained on the sale of an asset. Capital gains are taxed at a lower tax rate than ordinary income. Different types of assets generate different streams of income. The purpose of this study is not to focus on the description of capital gains and its past experiences but to suggest on possible option that could be considered to contribute towards wealth tax.

Studies indicates that the inequalities in South Africa are extremely high, and this creates a threat to social stability and inclusive economic growth. It is important that the government pays attention to the issues of poverty, designing programmes that will address under-development and inequalities, while also finding tools to finance and support those programmes. South African academics assist by researching a range of methods by which wealth inequality can be reduced. Tax systems exist as a tool to raise revenue for the government to which a progressive wealth tax can be added as part of the revenue stream. The minority of the South African population own the majority of wealth and the tax system cannot disregard those levels of wealth inequality; the fact that such a huge wealth gap exists causes economic instabilities, financial crises and a high inflation rate (Africa, 2021; Chatterjee, Czajka & Gethin, 2022).

4.2 A view on capital taxes

Taxing capital accumulation, rather than waiting for gains upon asset sale, has its merits in promoting a more equitable wealth distribution. This approach can prevent the indefinite deferral of taxes and ensure a more consistent revenue stream for the government. This requires careful consideration of implementation to avoid hindering investment opportunities and economic growth. Balancing the tax burden with incentives for productive investment is crucial for maintaining a healthy economic environment.

John Stuart Mill (1848) suggested a tax may only be imposed on revenue after deducting the necessities of life, not taxing capital. That approach reflects a view on taxation that emphasises fairness and the protection of essential needs. His opinion is that income or revenue should be the primary focus for taxation, rather than taxing the accumulated wealth (capital). The suggested method aims to strike a balance between generating government revenue and ensuring economic equity by protecting people from excessive taxation that could hinder their ability to meet essential needs.

Insights from an OECD webinar, featuring the Head of Tax Policy and Statistics, David Bradbury, Senior Tax Economist, Alastair Thomas, and tax economist, Sarah Perret, highlight the importance of taxes on capital for inclusive economic growth. The research, based on the data from 40 participating countries, highlights that different tax treatment on capital can align with policy objectives, contributing

to overall improved tax policy design. Even though the net wealth taxes are recognised as a viable tool to raise revenue and reduce inequality, they are considered a second- best option. Their study advocates for an holistic approach to the taxation of capital encouraging inclusive growth (OECD, 2018b).

4.3 Asset types that form part of the individual capital investments or savings

The asset types refer to various categories of assets that constitute an individual's investments or savings, such as retirements funds, bank balances, and financial instruments. These may be valuable in forming part of the overall wealth tax calculation in South Africa.

4.3.1 Retirement funds

Completely exempt from capital gains tax (CGT), retirement savings enjoy favourable tax treatment compared to other types. Contributions are deductible from taxable income, capped at 27.5% of the income or a maximum of R350 000 deduction annually. Given the average monthly salary in South Africa at R24 000, most contributors fall below the maximum deduction, promoting tax benefits for retirement savings and aligning with government's aim to encourage citizens to save for retirement without burdening public resources. The 27.5% cap on taxable income and maximum annual deduction of R350 000, reflect a structured approach to balance incentives with fiscal responsibility, promoting long term financial security for individuals and reducing potential future reliance on government resources.(SARS, 2016). It is noted that the pensioners still pay monthly taxes on their pensions, which indicates a possible area for further consideration or discussion in the context of wealth sharing policy. It is essential to consider measures that addresses both short-term financial needs and long-term wealth disparities when discussing wealth-sharing policies. This involves evaluating the effectiveness of existing policies, exploring potential adjustments to tax structures, and incorporating social programs that benefit marginalised communities. Continuous assessment and adaption of these policies are vital to address evolving economic dynamics and promote a more equitable distribution of wealth within society.

4.3.2 Bank deposits and cash

Deposits received by a taxpayer are generally included in the taxpayer's gross income if received by the taxpayer for his or her benefit, excluding receipts and accruals of a capital nature, per Section 1(1) definition of "gross income". The system does not enforce individuals to disclose on their returns all deposit came into their bank accounts annually, only the classified deposits like salaries, dividends, proceeds from assets and monies that are received for serviced rendered by the individual will be known by all three parties that is the individual owner, financial institution and the taxman (SARS), however the unclassified deposit or cash will only be known by the individual owner and the financial institution, the tax authorities will not have knowledge of the deposit unless there is a sharing of information between the financial institution and the taxman (Government Gazette 35491, Tax Administration Act, 2011).

The primary concern is the treatment of deposits in the context of taxpayer's gross income, guided by Section 1(1) of the tax law. Definition of Gross Income S1(1), defines "gross income" as the total income a taxpayer earns before any deduction or exemptions. This means that any money received by a taxpayer that can be considered for their benefit is generally subject to taxation.

Exemption for certain deposits - while most income is included in the gross income, there are exceptions for deposits or receipts of a capital nature. Capital related transactions, such as the sale of assets, may not be immediately considered part of gross income, unless certain laws are in place. The tax system does not obligate individuals to report all deposits that flow into their bank accounts on an annual basis. This reflects a practical consideration, as it would be cumbersome and costly to track every small transaction, instead the system focuses on specific types of income that are easily identifiable.

Certain types of deposits are automatically known to all relevant parties involved, such as the taxpayer, the financial institution where the account is held, and the tax authority, SARS. These include common sources of income like salaries, dividends, proceed from sale of assets, and payments for services rendered. These are straightforward and easily traceable.

The problem lies with unclassified deposits or cash. Deposits that are not easily categorised or are in cash form may only be known to the individual account holder and financial institution. SARS, the tax authority, would not have direct knowledge of these deposits unless there is a mechanism in place for sharing information between financial institutions and tax authorities. This raises concerns about potential under-reporting of income.

The Government Gazette 35491 issued on the 29th of February 2012, documented official regulations and guidelines, however there is no framework outlined for handling different types of deposits for tax purposes. In essence, the issue revolves around the challenge of tracking and taxing all sources of income, especially unclassified deposits and cash transactions, which can potentially escape the tax authority's scrutiny, without proper mechanisms in place for reporting and sharing information. This creates a need for effective tax enforcement and information exchange to ensure compliance with tax laws.

in terms of Section 69 of the Income Tax Act, the notice mandated all financial institution to provide the South African Revenue Services with all the taxpayers' banking information, meaning SARS should have access to all activities of the taxpayers on the reporting institution's client base, however the notice was not clear if SARS will be able to use this information efficiently if there are huge differences between the credit totals of the tax payers' bank account and the total amount declared on the income tax return (SAICA, 2014). The sharing of information by financial institutions for tax purposes would ideally assist in monitoring those unclassified deposits or cash that can potentially escape the tax system and would minimise the money laundering and illegal offshore investments that hide their cash which results in

illegal activities and tax evasion. Unclassified deposits should be disclosed and if the deposit or cash is above the prescribed threshold per individual should be subject to tax. Taxpayers in Switzerland are mandated to disclose all their assets, both domestic and foreign on the tax return and are subjected to tax, such as cash if it exceeds the household threshold (OECD, 2018). South Africa follows a system where deposits are only taxable when received by individuals, generally for services rendered, including salary deposits, reflecting a taxation approach that considers the context of services rather than comprehensive assets disclosure. The rich could potentially exploit the system through financial institutions by shifting funds offshore to evade taxes. Implementing effective deposit tracking measures to prevent such practices to ensure tax compliance becomes crucial in addressing potential loopholes.

Drawing on a unique dataset of leaked customer lists from offshore financial institutions matched to administrative wealth records in Scandinavia, *we show that offshore tax evasion is highly concentrated among the rich. The skewed distribution of offshore wealth implies high rates of tax evasion at the top: we find that the 0.01 percent richest households evade about 25 percent of their taxes. By contrast*, *tax evasion detected in stratified random tax audits is less than 5 percent throughout the distribution. Top wealth shares increase substantially when accounting for unreported assets*, *highlighting the importance of factoring in tax evasion to properly measure inequality* (Alstadsæter, Johannesen & Zucman, 2019,Tax evasion and inequality: *American Economic Review*, *109*(6), pp.2073-2103)
).

4.3.3 Dividends

The dividends tax is levied at 20% before distribution to shareholders, is collected by the company and paid to SARS. Section 64E (1) of the Income Tax Act, 1982 exempts dividends from income tax for individuals from South African companies. The flat rate of 20% applies uniformly, irrespective of the shareholders' investment value. This uniformity potentially contributes to inequality and diminishes the appeal of investments, particularly for those in lower-income brackets. The existing tax structure lacks consideration for income classes, potentially discouraging participation in capital investment. Introducing a progressive tax design could potentially address this disparity and promote a fairer wealth sharing system. The current system may benefit high earners but poses challenges for others, including the risk of no tax recovery from unlisted companies or informal business.

4.4 South Africans on wealth tax

Public opinion on wealth tax can vary, based on the experiences of economic conditions, government policies, and societal perspectives. In this study, it is vital to get a view from different members of the community. Wealth taxes are often proposed as a means of addressing economic inequality and funding public services. However, their acceptance can be contingent on how citizens perceive the fairness, effectiveness and potential impact on the economy.

4.4.1 Politicians' circle

In the early days of South African democracy, during the 1996 Commission of enquiry (TRC) led by Archbishop Desmond Tutu, in Professor Terreblanche's testimony, he proposed the introduction of a wealth tax bridge the inherited inequalities that existed from the apartheid government at that time. To date, the African National Congress has ignored the proposal. As a seasoned political economist involved in crafting the political legislation during the apartheid, he understood the harm those inherited inequalities would do to future generation. More and more people are exposed to poverty conditions and the programmes that have been set up to alleviate the poverty have not seen the light of the day, although a few elite groups have benefited (Padayachee, 2013; SCIS Terreblanche, 2018).

The South African politicians currently may not be as keen to impose a wealth tax as they would have been in the early days of the democracy. Judge Zondo's Commission of Enquiry witnessed that some politicians have corruptly used the public funds to enrich themselves, they are part of the wealthy group. More needs to be done to have the right tax policy that will protects the poor and remain sustainable. The article published by the Daily Investor on August 3, 2022, about the wealth tax discussions in the African National Congress on a wealth tax to fund basic grant, noted that Minister Mukabayi, the head of economic transformation of the ruling party, said the proposal calls for anappropriate structured wealth tax to promote equity and raise revenue.

The question of imposing a wealth tax in South Africa is complex and involves political, economic and social considerations. Although there have been discussions within the African National Congress (ANC) regarding a wealth tax to fund basic grants and address inequality, the decision ultimately rests on the political will of the current leaders. The challenge lies in balancing the need for revenue with the obligation to protect the poor and ensure the tax system is sustainable. The historical context of apartheid's inequalities contributes further depth to the debate. The outcome will depend on various factors, including public sentiment, economic conditions, and political priorities.

4.4.2 Academic community

The Southern Centre for Inequality Studies-Wits University, through comprehensive research, has explored the feasibility of implementing a progressive wealth tax as a strategic measure to mitigate inequalities and navigate economic crises in South Africa. According to their findings, research suggests that the top 1% of the wealthiest individuals could contribute a percentage ranging from 1.5% to 3.5% of the GDP. This highlights a significant opportunity for the adoption of a wealth tax in South Africa. Drawing insights from experiences in other countries, the country demonstrates a readiness to handle the complexities of such taxes. The importance of transparency cannot be overlooked, particularly given the loss of taxpayer's trust due to corruption issues in South Africa (Chatterjee, Czajka & Gethin, 2022).

Wealth taxes are just one tool amongst many to address the pressing problem of inequality in South Africa. As emphasised in the report, the wealth tax is not an isolated solution, rather one among several tools that can be employed to tackle the urgent challenge of inequality in South Africa. Supporting the

perspective, the Tax Davis Committee in 2018 also acknowledged the multifaceted nature of addressing economic disparities and the need for a comprehensive approach (Davis Tax Committee, 2018).

4.4.3 Economists

Thomas Piketty emphasises that wealth inequality is by no means a coincidence but a product of patrimonial capitalism. He further contends that South Africa's situation is distinctive, in addition to patrimonial capitalism. The passive extreme wealth inequality and limited intergenerational mobility of wealth can be attributed to structural imbalances stemming from the historical apartheid system. These disparities persist through generations, creating a cycle of inequality. The wealth tax is seen a solution to distribute the wealth (Adam & Miller, 2021; Piketty, 2014).

Metrics, such as Gini coefficient, which measure income inequality, consistently demonstrate that the country experiences one of the highest levels of wealth inequality globally. This data aligns with Piketty's arguments regarding the magnitude of the issue. The intergenerational wealth mobility in South Africa is a concerning trend. The economic status of individuals is less likely to change across generations. The empirical data supports the assertion that wealth tends to be inherited and sustained within specific families, aligning with Piketty's concept of patrimonial capitalism. Longitudinal studies demonstrate that economic advantages or disadvantages tend to be transmitted from one generation to the next. The generational transfer is a key mechanism through which the inequality created by historical events, such as apartheid, endure over time.

4.4.4 Community stakeholders' organisations

The Free-Market Foundation's publication, titled "*Wealth tax: bad idea*", authored by Sandile Vabaza, discusses the recommendations of the Tax Davis Committee to the National Treasury. The report cautions against the potential drawbacks of implementing a wealth tax, highlighting concerns such as capital flight, reduced incentive to save, and adverse effects on entrepreneurship and employment (Vabaza, 2021).

The validity of these arguments for wealth tax implementation in South Africa depends on various factors, including the specific economic and social context of the country. The concerns raised can be influenced by the local economic conditions, tax structure and policy implementation. In the South African context, wealth tax assessment process should consider the current economic landscape, the effectiveness of existing tax policies and the potential consequences of introducing a wealth tax in that specific environment.

The Helen Suzman Foundation's publication "*Wealth tax III: problems*", emphasises that the significant changes in the tax system should be thoroughly justified to outweigh associated costs. The question is whether the benefits of implementing a wealth tax are substantial enough to warrant the risks involved. Even though the international comparisons are important, the Foundation emphasises the uniqueness

of South African experiences. Engaging with experts to ensure a thorough understanding of potential impact on the economy is required (Collocott, 2018).

Chapter 5: Potential benefits of wealth tax in South Africa

In any country, before formulating tax policies, the adherence to established principles and regulatory guidance is crucial for informed decision making. The collection and expenditure of the national revenue is controlled by the strict rules of law of the country. A comprehensive approach to designing tax policies should consider various economic aspects, including assets, ensuring that fair tax systems are in place to promote economic inclusive growth. (Vivian, 2006).

5.1 The law of taxation in South Africa

South Africa is a constitutional country, and the Constitution is the basis of all other laws of the Republic of South Africa, and all laws are subject to it. Parliament enacts the tax laws, the president of the country authorises and then passed laws, then SARS is responsible for the execution of the authorised tax laws, in terms of the Tax administration Act 28 of 2011 (Gazette Number 45788, Tax Administration Act, 2021;The Constitution of the Republic of South Africa, 1996).

Taxpayers Constitutional Rights include:

- Human dignity (s10)
- Freedom of security and person (s12)
- Right to privacy (s14)
- Promotion of Access to Information Act (s32) (PAIA) Act 2 of 2000
- Promotion of Administrative Justice Act (s33) (PAJA) Act 3 of 2000

The research indicates consensus on the pros and cons on implementing a net wealth tax in countries, both currently using it and those that have repealed it. Ongoing discussions focus on wealth gaps, inequality, and poverty. There is a call for global acknowledgment of the necessity for wealth taxes, urging developed and developing countries to collaborate on effective system designs instead of dismissing the issue. Given South Africa's democratic principles and constitutional protection of the people's rights, one may suggest an open debate on wealth distribution through taxation as a constructive starting point.

5.2 Misfortune of ignoring tax on net wealth

Neglecting the wealth tax may be seen as a benefit for the affluent, aimed at safeguarding their wealth, whereas it poses a disadvantage for the less privileged. Economic downturns disproportionately impact the poorest, leading to setbacks in essential areas like education and healthcare. Global data reveals that the poorest face severe challenges, including shortened life expectancy, which could be mitigated. Disregarding the economic disparities may burden developing countries like South Africa in the events of crisis management, such as Covid19. The developed countries have access to disaster funds to manage the crises, whereas the poor and developing countries rely on global mercy and the accumulation of government debt, further worsening existing deficits. Fiscal policies introduced to countries at the time of the Covid-19 pandemic exposed the social conditions of countries like South

Africa, exacerbated pre-existing challenges of economic hardship, poverty and inequality (World Inequality Database, 2022; Oxfam, 2023b).

The argument that neglecting the wealth tax may benefit the rich can be challenged. Proponents of this view argue that the rich, who want to protect their wealth, may see this as an advantage. Critics, however, argue that such a stance put the impoverished at a significant disadvantage. The literature demonstrates that those who are against the wealth tax are possibly bound to capital flight tendencies. An example is France, which faced revenue deficits and reported capital flight during the implementation of its wealth tax. Emigration is also viewed as a potential risk associated with wealth tax implementation. According to the World Economic Forum report (2022), people often migrate for economic reasons, choosing locations where their resources yield higher returns. Countries like the United States of America manage citizens' relocations through strict emigration policies (Thuronyi, 1996; McLennan, M., 2022. The global risks report 2022 17th edition.).

Emigration is also perceived as a risk on wealth tax implementation, according to the World Economic Forum, 2022, people migrate for different reasons, mostly for economic reasons as they will chose where their resources will reap a high return (Davis Tax Committee, 2018; Hiraguchi, 2019; OECD, 2018a).

5.3 Global socio-economic disparities

The indicators in Table 5.1 provide an overview of economic and social conditions, showcasing disparities among the countries in terms of poverty, economic growth, employment, life expectancy, and inflation.

Table 5.1: World Bank Indicators 2021

WORLD BANK DATA INDICATORS-2021					
		ABANDONED WEALTH TAX		**EXISTING WEALTH TAX**	
INDICATOR	**South Africa**	**India**	**France**	**Colombia**	**Switzerland**
Poverty headcount ratio at $2.15 a day (2017 PPP) (% of population)	20%	10%	0,1%	6,6%	0%
Life expectancy at birth, total (years)	62(yrs.)	67(yrs.)	82(yrs.)	73(yrs.)	84(yrs.)
GDP growth (annual %)	4,9%	8,7%	6,8%	10,7%	4,2%
Unemployment, total (% of total labour force) (modelled ILO estimate)	29,8%	7,3%	7,4%	10,7%	4,2%
Inflation, consumer prices (annual %)	7,0%	5,1%	5,2%	10,2%	2,8%

Comparing the World Bank data between South Africa and other listed countries reveals a clear correlation. Countries facing high poverty exhibit lower life expectancies, underlining the link between poverty and health. Countries where a significant portion grapples with poverty conditions, exacerbated by rising living costs and exclusionary economic policies, heightened vulnerability to illness due to malnutrition and healthcare access. The aftermath of the recent Covid19 pandemic, including job cuts, food and fuel price hikes, has intensified poverty, creating an unmanageable cost of living crisis for many and contributing to the disproportionate growth of wealth among the affluent. UNICEF, 2022 report highlights the stark reality, worldwide, children living in poverty are twice as likely to succumb in their early years compared to their wealthier counterparts. Examining the poverty rate alongside life expectancy, in South Africa (20%; 62 years) and in Switzerland (0%; 84 years), illustrate that addressing poverty can potentially extend population lifespans. Despite both being developing countries, India boasts lower poverty and unemployment rates than South Africa, according to the global data, even though India struggles with significant poverty, with a large segment earning low incomes, yet these low earners contribute productively to the economy.

Wealthier countries tend to allocate a greater portion of their government expenditure to education, health and social protection, while many developing countries struggle to establish budgets for essential initiatives. Recent studies indicate that fiscal policies, particularly during crises, face challenges in safeguarding welfare due to existing large inequalities. The impact of the Covid19 pandemic has exposed these disparities, highlighting the urgent need for significant tax reforms, including the adoption of measures like a wealth tax. According to World Bank data, South Africa grapples with a 29.8% unemployment rate, the highest among surveyed countries. The unemployment rate is 31,9% in the third quarter of 2023, as reported by Statistics South Africa (2023). In a country where 10% of the population owns over 90% of total wealth, prompt intervention for equitable wealth distribution is imperative, making it a priority for the government (Davis Tax Committee, 2018; Oxfam, 2023b).

Government should make these poverty cries a priority; South Africans are currently experiencing load shedding, the inflation has reached its highest in the past five years. Many countries do not fully adapt their tax systems to account for inflation, and in cases of substantial inflation, its effects on the tax system becomes undeniable. The optimal solution is to manage inflation effectively but if that is not feasible, it is often wise to make some adjustments to the tax system to address the impact of the inflation (Thuronyi, 2012).

5.4 Benefits of implementing a wealth tax

Wealth tax policies can have several potential advantages in a country like South Africa, which faces economic and social challenges. It is important to note that the effectiveness and desirability of wealth tax can be a subject of debate.

5.4.1 Raising additional revenue to address inequality gaps

Additional revenue can play a pivotal role in enabling the government to strategically allocate its financial resources to foster inclusive growth. In any state, by prioritising essential needs such as education, healthcare, and social services, and directing fiscal spending towards activities that align with the population's requirements, the government can make an investment that yields returns in the long run. Investing in educational training programmes right from a young age can result in a more skilled and capable workforce, increasing the likelihood that these individuals will contribute their talents to the country's development, and educational outcomes compared to those who do not have this opportunity. In an ideal scenario, the additional income should be channelled with precision and subjected to careful monitoring to ensure it is used wisely for the purpose of reducing inequality gaps. One of the effective ways to achieve this, is by collecting revenue from the wealthy through mechanisms like a wealth tax. Such a tax can provide a substantial source of income for the government, which can then be directed towards funding vital social programmes, infrastructure development, and other public services. This becomes especially crucial in nations like South Africa, where income inequality is high, as it can help address economic disparities and promote a more equitable society.

5.4.2 Budget deficit and economic challenges

Fiscal Sustainability - a wealth tax can enhance the sustainability of public finance by diversifying the tax base. Relying heavily on income and consumption taxes can be volatile, but wealth taxes can provide a more stable source of revenue (IMF Fiscal Monitor, 2015).

A potential avenue to bolster fiscal resources may be positioned in the exploration of wealth tax as an additional financial instrument. Enhancing the current wealth tax mechanisms can significantly bolster revenue streams. The formulation of such policies should be a comprehensive process, considering all factors influencing the decline of the South African economy, the burgeoning budget deficit and the mounting debt burden. It is important to note that while wealth taxes may not be universally applicable to every economic condition, they should be earnestly considered and studied. It is crucial to recognise that the financial crises faced by the government are not solely due to the absence of wealth taxes. Many of these fiscal challenges were inherited, while others are due to mismanagement of public funds, financial market volatility and various other factors. Therefore, addressing these challenges requires a multifaceted approach that goes beyong wealth taxation.

5.4.3 Promotes inclusive fair tax policies in government revenue collection

Wealth Disclosure - wealth taxes can encourage individuals to disclose their true assets and wealth, helping combat tax and underground economy. This can lead to a more transparent and fair tax system (OECD, 2018).

According to Oxfam,2020, a fair tax system encompasses several key elements. Firstly, it involves government transparency, which means that the government should operate openly and provide clear

information about tax policies and how the tax revenues are utilised. Moreover, it should include the active participation of citizens in decisions regarding the allocation of public resources, ensuring that taxpayers have a say in how their money is spent. For a tax system to be considered fair, it is crucial for taxpayers to have confidence in the accountability of government. This trust is essential to assure people that the tax revenue collected is being used in the best interest of the public. Unfortunately, South Africans citizens have faced vulnerability to corruption due to various acts of malfeasance and state capture. These issues prompted the establishment of the Zondo Commission of Inquiry in 2018, which aimed to investigate allegations of state capture, corruption, and fraud within the public sector. Through the implementation of fair tax policies, government may encourage greater citizen engagement in the formation of tax policies. The involvement helps citizens understand the necessity of raising additional taxes through wealth, especially in countries with significant wealth disparities like South Africa. A fair tax system can play a vital role in promoting economic equality and responsible government by fostering transparency, accountability, and citizen participation.

5.4.4 Tax unconsumed property assets

The property values appreciate most of the time, meaning if capital gains tax were to be raised progressively on unconsumed real estate, surely large amount of revenue could be raised. Capital gains has its own challenges, detailed and discussed in chapter 4. The taxpayers will have to disclose the net asset on the tax return and the state will be able to identify unused land that is owned for selfish motives for the purpose of accumulating generational wealth instead of being productive and creating job opportunities for the needy.

5.4.5 Improved estate or inheritance tax

Estate taxation could be better understood and valued if it were imposed on the owner during their lifetime (Piketty, 2015).

Certain countries, such as India, do not impose an inheritance tax. The absence of such tax system might be perceived as potentially hindering the fair distribution of wealth, unintentionally fostering a widening gap between the rich and the poor, a circumstance often criticised and highlighted by organisations such as Oxfam India (2023).

Research indicates that the problem lies in the global structure of inheritance taxes. Pascal Saint-Amans (OECD 2021), the director of the OECD centre for Tax Policy and Administration, notes that while many OECD countries impose these taxes, their effectiveness in generating revenue and addressing inequalities is restricted due to their current design. Saint- Amans emphasises the need for improved design to maximise the potential of inheritance taxes in achieving their intended objectives.

5.4.6 Promotes inclusive growth and encourages wealth distribution

By reducing inequality by targeting the wealthiest individuals, a wealth tax may help reduce wealth and income inequality. This may contribute to a more equitable distribution of resources in the country

(World Inequality Report, 2018). Creating tax policies that will consider the distribution of economic growth fairly amongst the citizens will gradually assist in reducing the minority population who owns the majority of the wealth of the population. The idea that the ability to pay taxes according to your net wealth principle will be addressed, the economic influence and control from the minority on top will decrease, all this will be achieved only if tax policies are changed. The wealth transfer in the form of wealth tax could be viewed as the complement to other form of taxes.

5.4.7 More participants in the economy

Proposing a wealth tax to alleviate poverty and unemployment can benefit the economy if the programmes are tailored for the less affluent, focusing on education, training, and fostering an entrepreneurial mindset. Establishing agile skills centres aligned with economic needs, such as farming and manufacturing, under government ownership, ensures skill retention. Social assistance directed here turns programme participants into long-term investments. Education and skills become assets, contributing to economic activity of the country. Increases workforce participation leads to more jobs, tax revenue, and relief for the burdened middle class through reduced taxes (Schuyler, 2014).

5.4.8 Lowered tax rates

Alternative tax theories propose that factoring in the added tax capacity of wealth could allow a reduction in the marginal tax rate without compromising overall tax progressivity. This rationalises adjustments to the income tax system, incorporating wealth tax, as a potential incentive for taxpayers who have borne the weight of subsidising the less affluent. Despite historical evidence suggesting that wealth tax does not encourage progressivity, it might still make some contribution (Thuronyi, 1996).

5.4.9 Financial instruments tax

Financial instruments are the assets in a form of shares, bonds, mutual funds, valuable coins and others, mostly what is called mobile money, but to wealth tax that is not a concern as it is taxed on assets owned worldwide, the taxes are derived from the equity market value, equity instruments section 8C and 10(1) (nD) and Paragraph 11A of the Fourth Schedule of the Income Tax Act . The wealth tax is comprehensive in nature, the foreign tax treaties for where the assets are located will have to be considered. In South Africa, currently, personal financial instruments are taxed on gain, any losses are deductible. Applying a net wealth tax levy on net financial assets, will be accessing mostly untouched wealth, which could be sensitive to the owners, and it might be a challenge to unlock those investments as they are protected by regulatory bodies controlled by developed countries.

5.4.10 Tax incentive

In general, the taxpayers are happy and motivated when there is a benefit aligned with the tax payment, the tax policy makers should always be mindful of that little something to give back, for example, currently in South Africa if you donate to a s18A institution, you are able to claim a deduction. These incentives will have to be scrutinised to avoid offsetting the wealth tax liability that could end up paying

nothing. There is a need for future research studies to be done on the incentive subject as it has its own complexities.

5.5 Concerns on wealth tax

The studies show that there is uneasiness with regards to wealth tax implementation, not only from the taxpayer's side but also government. Some of these issues are because of the experiences from the countries that implemented wealth taxes and repealed them and in the countries with existing wealth tax, the journey has not been smooth.

5.5.1 Insignificant revenue collection and high administration costs

The OECD countries that had implemented the wealth tax reported small revenue levels collected from the net wealth revenue stream. In most of the countries, it was becoming more expensive for the government to manage as it was comprehensive and required special systems designed for its efficiency. In countries like France, it contributed to the exodus of the rich as the country was losing large numbers of millionaires to other countries (Pichet, 2007).

5.5.2 Fears on wealth tax

The burden on taxpayers - certain assets will require valuation, which is the additional costs as the exercise is carried by an accredited institution or individual. The government could be worried about the investors as this can be seen as a means of pushing the taxes high, especial with the lack of education and training and efficient systems. Hidden assets could not easily be detected as the tax authorities depend on the mercies of the taxpayer to report their wealth, not the third parties involved, according to the reports from the countries that have experienced wealth tax.

5.5.3 Illiquid asset owners considered

Investopedia, a source of financial content, highlighted that wealth tax may create problems for low-income earners and low liquid savings but who own high value illiquid assets like a home; the same applies to farmers who earn a low income but own land with high value, could face a problem of having cash on hand to pay the wealth tax debt. The potential difficulty arises from the fact that the tax is based on the overall values of one's assets, and individuals with substantial but non-liquid wealth may find it challenging to meet tax obligations without selling the assets. This scenario could disproportionately impact those with valuable but difficult to monetise assets, creating financial strain for certain low-income earners (Scott, 2022).

5.5.4 Tax evasion and avoidance

Academic reports demonstrate that tax evasion is common to the rich, the OECD explains the tax evasion as an illegal activity of which the tax liability is hidden or ignored. The findings of Alstads/eter, Johannesen, and Zucman ,2019, suggest that much wealth offshore is related to tax evasion at the top, 1% of wealthy households evade about 25% of their taxes. Tax avoidance is the legal method of

reducing taxable income and can be easily exploited the taxpayer if the systems are not strong and monitored, for example, where a taxpayer underreports net assets for the purpose of net wealth tax, as has been the experience in Colombian wealth tax where systems are weak. The countries see the tax evasion and avoidance as the risks the rich are willing to take, or criminals are willing to commit to hide the assets from being taxed. The wealth tax is taxed on worldwide income, the countries will have to strengthen the sharing of information policies, especially with countries considered tax havens. South Africa is one of the 168 member countries of the Global Forum on Transparency and Exchange of Information for tax purposes; the organisation is working on putting an end to offshore tax evasion, and the tax authorities can request the information with regards to the taxpayers' offshore financial institutions, accounting records, ownership of entities and legal arrangements. It also offers a standard annual automatic exchange of information on offshore financial accounts, and members benefits on capacity building and technical assistance, e-learning on courses on tools used to implement international tax (Global Forum on Transparency and Exchange of Information for Tax Purposes – OECD, 2023).

5.5.5 Asset valuation

Ideally, the assets should be assessed, based on their market value and the valuation rules should be uniform across the asset classes. Assets value need to be updated regularly and that could add to administration costs. Municipal property valuations might be used for net wealth tax purposes.
Valuation for listed shares might be easier than unlisted shares, for listed share values at stock exchange closing could be used whereas for unlisted shares, there is no base unless the shares are earned from the company with audited financial statements. Overall, no matter what approach is adopte, similar approaches are required for administration tax purposes (McDonnell, 2013).

5.5.6 Rich people's behaviour tax evasion and avoidance

The Wealth Tax base needs to be broaden and include all classes of assets accumulated worldwide. Literature shows that rich individuals increasingly utilise offshore investments for their personal wealth to benefit from tax avoidance, seeking jurisdictions that have very low tax "Tax Havens" or to intentionally evade taxes, hide and protect their assets by transferring these assets to offshore institutions.

5.5.7 Corruption impact

South Africa has been the victim of corruption over the past two decades, the levels of corruption have clearly contributed to the inheritance of living imbalances and have threatened the economy's growth opportunities, the ongoing strikes and unrest are signs of the people showing dissatisfaction towards the government, the looting of public funds has become the business of the day in South Africa. Those who are in power seem to have forgotten that their mandate is to take care of the social responsibilities of the country, according to the Zondo Commission that was formed to investigate state capture allegations and corruption and Africa (2012) in his report on the 2021 unrest. There is an undeniable link between public funds and corruption, the revenue taxes that are collected from the citizens are for

the benefit of the country's economy and to better the living conditions of the people of the country. If the taxpayer is educated enough to understand who must benefit from his or her contribution, there will be reluctance to allow the corrupt government to keep on adding taxes to increase revenue. The loss of citizen trust is in the inefficiencies of the politicians who are responsible for the management of public funds, much concerning to the taxpayers.

5.5.8 Lawsuits resulting from the implementation of wealth tax

It is expected that when the taxpayers are aggrieved by the decisions taken on his or her assessment by tax authorities, the taxpayers have got a right to lodge a dispute, the decision of which could result in lawsuits if no amicable conclusion is agreed upon by both parties. Tax courts in South Africa exist to enforce compliance with tax laws and timelines and notices issued. If parties fail to comply with notices, SARS could escalate the matter to the high court with the intention to decide whether there is any remedial action to be taken, or whether the whole process could be subject to appeal. Anyone is entitled to these processes, as part of the constitutional rights of the citizens (South African Revenue Services v Malema (76306/2015) [2017] ZAGPPHC 396 (6 February 2017)). The dignity of the taxpayer is protected, if the taxpayer feels aggrieved and exposed, he has a constitutional right to approach the court, as demonstrated in the Zuma case (The Public Protector V Commissioner of Sars And Others Cct 63/20).

The studies reveal that Switzerland has had a number of lawsuits on wealth tax registered at the Swiss Supreme Court, as noted in the Swiss Supreme Court case BGE 106 Ia 342 (1980), meaning there will always be disputes that intervention of the third party to rule, as processes must be clear and be communicated to the taxpayer all the time (Eckert & Aebi, 2020).

5.5.9 Economic effects

Referring to economic stability, in some cases, a well-designed wealth tax can promote economic stability by reducing excessive wealth concentration, which can lead to social and political unrest. (World Bank, 2022). It is important to mention that wealth taxes also have potential drawbacks, including administrative challenges, capital flight, and potential disincentive to invest and save. There is a strong feeling from the studies that the effectiveness of a wealth tax depends on its design and implementation.

5.5.10 Impact on savings and investment

The main economic argument against net wealth taxes is that, in a way that is comparable to capital income taxes, they distort savings behaviours and could ultimately, reduce long-run capital stocks and growth.

5.5.11 Wealth tax on worldwide net asset

Wealth taxpayers are typically taxed on their worldwide net assets. The main reason for this is that the taxpayer's total net assets, wherever they are based, will determine the ability to pay their net wealth

tax. If the wealth tax is imposed only on domestic assets, taxpayers might relocate globally to completely avoid paying wealth taxes (IMF, 1996).

5.5.12 Double taxation

The worldwide net assets that are subject to a net wealth tax levy could be at the risk of double taxation, the double taxation can be avoided by applying tax treaties, if the countries have existing tax treaty agreements, or by individual relief or arrangement. This could be a challenge as most countries do not levy wealth tax and the tax structure of the countries could be totally distinct (Thuronyi, 1996).

5.6 Good tax system

Adam Smith, the economist, philosopher, and author, is still called the father of the modern economics. He had the wisdom to understand the needs of the people, the power of wealth, the power of great economy, the power of great economic policy. He understood that a government with good economic policies, can attract wealth and maintain its investments. Adam Smith, in *The Wealth of Nations* speak about the Canons of taxation. He considered what makes a good tax system. This is equality and fairness, ability to pay**,** the tax must be levied according to the principle of horizontal equity and vertical equity justice, depending on what can be afforded by the taxpayer. This element of fair tax is more applicable to a progressive tax system. Simplicity requires the introduction of a simplified tax system that is easy for taxpayers to understand. Productivity means the tax must generate enough revenue without affecting the production of the economy, the tax collection must not be a burden on the state. Transparency suggests that access to tax collected should be in the public domain, known by the citizens, and show how it will be spent. Certainty, the government should be clear on the method by which the taxes will be collected, if it is monthly or quarterly and tax thresholds or brackets should be communicated to the taxpayer (Samuels, 1973; Berliant & Strauss, 1985).

Chapter 6: Overview on wealth and inequality solutions

There is existing research and ongoing discussions about a wealth tax in South Africa, however, it has not been formally introduced in political and tax policy discussions. The purpose of this study is to find ways to add a progressive wealth tax to the existing government revenue stream, to encourage the wealthy to distribute or share their wealth. Ideally this will contribute to closing the existing poverty and inequalities gaps, that will result in a reduction of the tax base over a period from the working class who are already carried the tax burden in the country.

The study on lessons from international experience by Arendse and Stack suggest that "In recent years, there has been an increasing focus on new sources of taxation, including wealth tax. In South Africa, two phenomena have driven the focus on wealth tax. Firstly, the need for additional tax revenue to fund an ongoing and growing budget deficit, exacerbated by a prolonged period of low economic growth, rising government debt and a very small base of individual taxpayers. Secondly, the fact that South Africa has one of the most unequal societies in the world. The dual demands of increased tax revenue and economic inequality have converged around wealth tax as a possible panacea to both problems. Although South Africa has a long history of wealth transfer tax in the form of estate duty and donations tax, there has never been a tax on the net wealth holdings of individuals during their lifetime. Internationally, numerous countries have used wealth tax in various forms, including inheritance tax, gift tax, recurrent wealth tax and non-recurrent wealth tax" (Arendse & Stack, 2018, pp.1-12).

The *Report of The Expert Panel into The July 2021 Civil Unrest* suggested that there is a need for reimagining the social compact and giving dignity to all. It cannot be that almost three decades into South African democracy, there is still such deep racialised poverty and inequality in the society. If the government continues ignoring these red flags caused by poverty and inequality, South Africa will continue experiencing the behaviours that happened during the July unrest. In South Africa, there is a cry for breaking the poverty and inequality gap, wealth tax could be a valuable tool on addressing those issues (Africa, 2021).

This study contributes to motivating the existing political discussions that will influence revisiting the tax policies and the need to have a wealth tax included in the tax system and an opportunity to increase the tax revenue through a wealth tax. In South Africa, the richest 10% of the population own more than 85% of household wealth, while over half the population have more liabilities than assets, the report showed. That gap is higher than any other country for which sufficient data is available, the group added. The richest 1% in South Africa have likely increased their share of wealth since the end of apartheid, the group said. While Black South Africans have outnumbered Whites in the richest 10% of the population for about seven years, the gap between South Africa's richest and poorest has not narrowed as the decline in racial inequality has been driven almost entirely by a surge in the top Black incomes rather than increased wealth for the poorest, according to World Inequality Lab data (Sguazzin, 2021).

The report was based on data gathered from 1993 to 2017 and was authored by Amory Gethin of the World Inequality Lab, which is linked to the Paris School of Economics, together with Aroop Chatterjee of Johannesburg's University of The Witwatersrand's Southern Centre for Inequality Studies and Leo Czajka of the Universite Catholique de Louvain in Belgium.

The United State of America has ongoing seminars on wealth taxes. In May 2022, the Urban-Brookings Tax Policy Center hosted an event under the topic *Wealth taxation in defence of equal citizenship,* considering wealth taxation as a tool of democratic reform. Jeremy Bearer-Friend, associate professor of law at George Washington University Law School, and Vanessa Williamson, senior fellow in Governance Studies at the Brookings Institution, presented their new paper, exploring and updating an underappreciated wealth tax proposal made by the American revolutionary Thomas Paine, in his 1792 book, "*Rights of Man*." Phyllis Taite addressed the potential effects of wealth taxation on the racial wealth gap, and Rakeen Mabud discussed how taxation fits into a broader reconsideration of economic policy's political and social purposes (Bearer-Friend *et al.*, 2022).

The study by the Davis Tax Committee (2018) on "Feasibility of wealth tax in South Africa" was presented to the Minister of Finance in South Africa. The study discusses the feasibility of implementing a wealth tax in South Africa to address inequality. The focus is on the consideration of an annual net tax, but key decisions require further exploration, including the tax base, comprehensive data on the wealth ownership, and an evaluation of the economic impact. The report recommends improving data quality, proposing that taxpayers disclose market values of a readily ascertainable wealth. Although acknowledging challenges, the study suggests interim measures, such as enhancing estate duty collections and other taxes referred to as wealth tax in South Africa. It also highlights the importance of addressing wasteful government expenditures and tax evasion to reduce inequality.

The working paper published by The Southern Centre for Inequality Studies – Wits, on "*A Wealth Tax for South Africa*" is based on the testimony by Sampie Terreblanche during the Truth and Reconciliation Commission (TRC) in 1997. Terreblanche (1997) proposed a wealth tax to address widespread poverty, which was contributed to by apartheid in South Arica before 1994. The study advocates for a wealth tax as a potential solution to address systemic injustices and challenges the social decay that perpetuates inequality, emphasising the need for a change in social stability. The study also highlights the failure of interventions since the TRC, with economic inequalities deepening and posing a threat to overall social stability.

Chapter 7: Conclusion

This study examined the current literature to determine if there is a possibility of implementing a wealth tax in South Africa to bridge the growing inequity gaps. The focus was to identify how South Africa can benefit from this kind of tax instrument and how can it be implemented and managed, including lessons learnt from the international community that have implemented a wealth tax.

As the theory of wealth tax evolves in response to the long-existing inequality gaps in South Africa and the Coronavirus pandemic economic issues, this study has gathered some empirical evidence that opportunities do exist for the existing tax policy to be re-examined, and modified to accommodate all kinds of social welfare matters that exist in South African communities and also includes the academics insights with the ultimate object of contributing in economic growth inclusion. Although there is a lot of discussion on wealth tax implementation, the academic studies are continuously bringing the discussion forward for the world to consider. It is evident that the wealth tax is growing more in discussions than in implementation; the history at hand demonstrates that most countries that had implemented a wealth tax, subsequently repealed it, and those that still have this tax have found there is little contribution of these taxes towards their GDP.

Professor Terreblanche's suggestion on the wealth tax approach may be seen to be outdated but the facts are still relevant and valid. One can argue that the new generation has emerged and cannot be in a position to carry the apartheid sins or debts, but what about the wealth that was brought by the injustices of system, someone in the new generation has inherited that wealth, and the other disadvantaged group's generation has also inherited injustices that were caused by the apartheid government. The approach might be outdated but that could be revisited when considering the implementation of the wealth tax proposed (SCIS Terreblanche, 2018).

Thomas Piketty, a French economics, author, and an advocate for wealth inequalities, has been very vocal about the net wealth tax levy, suggests that if the world leaders are committed to addressing the inequalities of their population, they must incorporate net wealth tax in their tax policies, as it is a great tool for wealth reduction. He also highlights in his seminars, that the wealth in the world has increased over the years, and on the other side, the inequality gaps are increasing too, and there is no effective plan to improve the quality of life of the poor. He suggests that only the rich are benefiting from the current system, the top small percentage still owns the majority of the wealth. He believes government that allows the system that raises both income and wealth tax promotes equality and inclusive economic growth (Piketty & Saez, 2006).

One of the worrying factors drawn from this study, is the complications and high costs associated with wealth tax administration, as well as the lack of systems enforcing compliance, that make it difficult for the tax authorities to monitor wealth movement and easy for the taxpayer to hide their assets. It is the duty of the government to introduce polices and regulations that will be aligned with the desired

outcomes. This study is meant to contribute to academic discussions of the wealth tax implementation, with the hope that when the time comes, it will be of use to the policy makers.

Wealth power cannot be ignored; powerful individuals seek to have influence in the rules and regulations of the country that will support their interests, and those individuals will resist any attempt to remove their power. The consequences of having large numbers of poor people could potentially destabilise their wealth and the economy of the country because poverty continue pushing the poor people to the corner of vulnerability to basic needs, such as food security and other basic needs. This study explored the literature from different parts of the world on wealth tax and there is a strong feeling that wealth tax can be the best tool to be used for wealth distribution while addressing the poverty economic issues (Oxfam, 2023b).

As the tax continues to be overlooked, the government compensates by increasing the regressive taxes, such as taxes on goods and services (VAT), mostly negatively affecting the poorest people because they spend most of their income on consumption, and that could be avoided by introducing tax reform that will benefit the poor and do not take from the poor. South Africa has introduced social grants, and poor people are the recipients, but in fact, the government takes part of that money back because there is a high chance that the full grant will be spent on food and clothing on which VAT is levied and paid over to government. The South African government in 2018 announced the increase of VAT by 1% from 14% to 15% effective from the 01 April 2018; it was predicted that it would have a negative impact on the poor, including the nutrition of poor children. The fuel increases also have a negative impact on poor communities, the progressive wealth tax could rescue the situation, according to Zane Dangor, (2023) the Chief Operating Officer at the Soul City Institute of Social Justice in Johannesburg South Africa. Oxfam believes that the revenue from a progressive wealth tax has the capacity to fund the basic needs of the country, such as education and healthcare facilities and believes that the government can reduce the VAT rate to ease the burden on the poor (Oxfam, 2023a).

The studies have shown that building a stable economy requires a policy framework that is sensitive to the poor, inclusive economic policies, and this includes the structure of tax policies to be more progressive with the rich contributing more to better the lives of the poor. South African personal income tax is progressive in its nature, the higher income earners pay more taxes, the same principle should be used for the proposed wealth tax. Wealth tax in South Africa could be used to complement the personal income taxes, the two taxes together can contribute greatly to the South African poor communities (Davis Tax Committee, 2018; Saez & Zucman, 2019).

The most popular tax revenue worldwide is levied on labour or salaries and the employer is responsible to share the employee's information with the tax authorities and also to deduct or withhold the tax portion from the employees and pay it over to the tax authorities which make it easy to monitor and enforce some controls through the employer (South African Revenue Service (SARS), 2020a). Unlike the individual income tax, the wealth is in full control of the taxpayer; it might be debatable that the owner

of the wealth can easily decide on which wealth to disclose, and structure it in a way that can result in assets that are untaxable, illegally offshore or tax evasion. South Africa is a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, and this organisation has most of the countries in the world registered. The access to illegal offshore assets could be detected and controls tightened with the implementation of strict immigration rules. The illegal offshore asset is another way of rich people running away from paying taxes but is not an obstacle to wealth tax implementation, exchange of information by countries is vital if they are committed to stopping offshore tax evasion.

The studies show that the system to administer wealth data is not given the attention it deserves by most countries, basically there is no trusted system available to produce accurate individual wealth data and keep it updated (Drometer *et al.*, 2018; Piketty, 2015).

Some countries like Scandinavia obtain their wealth data from third parties (banks, mutual funds, insurance companies and others). The proper system to address how to collect the wealth data will play a vital role as the basis of analysing the available wealth data indicators to achieve wealth distribution through tax policy (Alstadsæter, Johannesen & Zucman, 2019). Some individuals keep their wealth in a form of an unincorporated business of which if there are no records of registered legal entities exists, that could result in having store cash at home which will be difficult for the tax authorities to track and there will be no accountability for that cash, basically that transaction does not exist anywhere. Even though, in Switzerland, the wealth tax revenue collection demonstrates stability and growth, there is no third-party information sharing unless there is a criminal case involved. The financial institutions are not obliged to report the wealth taxpayer's information to the tax authorities (Seim, 2017).

There has been an ongoing discussion about a wealth tax in South Africa, but it has never been used as a tool to address inequalities or redistribution of wealth; having inherited poverty and inequality injustices from the past, this could have been a great vehicle to the new democracy. The wealth tax has been used in other countries as the instrument to assist the economic crises, in Switzerland the first wealth tax was to address the budget deficit existing after the first world war and still pertains (Dicey, 1915).

Switzerland has the most progressive wealth tax in the world and is one of the rich countries in the world with zero percent poverty, according to the World Bank. It is evident that South Africa and Switzerland have different economic histories, however the principle is the same, there is an economic crisis and there are wealthy individuals in the country, and the tax system can be used as an instrument to address the economic crisis.

The existing wealth taxes in the form of Transfer Duty, Estate Duty and Donations Tax were not designed to address the existing economic issues and inequality gaps, and the revenue collected from these taxes is insignificant and possibly will need to be redesigned.

The proposed progressive wealth tax can be assessed in conjunction with the existing taxes, incorporated into the broader tax system in South Africa. The framework must address the inclusive economic growth factor to achieve the purpose of bridging the existing inequality gaps. If the primary objective for adding the wealth tax revenue into the revenue stream is for addressing the inequalities and redistribution of wealth, those should be clearly incorporated into the tax design and also methods should be used to clearly outline elements that will be included in the net wealth, for example, (a) total gross assets, (b) liabilities associated with the assets, (c) deductions like valuations costs, (d) threshold brackets should be clearly outlined, (e) applicable tax rates.

Research has demonstrated the high-cost experiences in administering the wealth tax system, ways of minimising costs and simplicity must be considered when designing the tax system. The research demonstrates that the deficiencies in the design of wealth taxation can lead to large evasion responses. Above all, enforcement is the key.

Government designs fair tax systems that attract more investors to the country, systems that are seen as intended for progressive inclusive growth. Systems that disadvantage most of the population in a country promote the welfare state and a law of dependency mentality because government must include their needs in the government social programme.

In order for the coming generation to benefit more from the wealth tax, they must be made aware that it is not right for the community to have a small percentage of the population controlling the wealth while more than three quarters of the population is poor and unemployed, it is not right to not know where the public money is going. The wealth tax is necessary, now South Africa is ready.

South Africa and other countries grappling with similar challenges could draw valuable lessons from Colombia's experience in addressing social and wealth inequality. The commitment to comprehensive tax reform, as suggested by the OECD, serves as a model for countries to create a more balanced tax system. The temporary wealth tax levy introduced by Colombia in 2019 provides a practical example of a targeted approach to wealth disparities. South Africa might explore implementing similar temporary measures to assess their impact on narrowing economic gaps while avoiding long term rigidity. Moreover, the collaborative approach of joining international organisations, such as the OECD, reflects a commitment to global standards and learning from best practices. South Africa could benefit from engaging with such platforms to access valuable insights, share experiences, and stay aligned with international efforts to address economic inequalities. South Africa can learn from Colombia's proactive stance on tax reform, targeted wealth tax initiatives, and engagement with global organisations to create a more equitable economic landscape. Adapting these strategies could contribute to fostering inclusive growth and addressing social and wealth inequality in South Africa.

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