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UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

An appraisal of a direct wealth tax as a mechanism to reduce financial inequality.

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In partial fulfilment of the requirements for the degree of Master of Commerce(Accounting (Specialising in taxation))

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Abstract

With the COVID-19 pandemic leading to increasing questions around wealth inequality, the role that tax reform has in addressing inequality has been a key question. With the slogan “tax the rich” increasing in popularity internationally, wealth tax proposals have been made in developed and developing countries. This study examines the approaches to wealth taxes in different countries that form part of the Organisation for Economic Co-operation and Development (OECD) in order to understand an appropriate wealth tax design. This research aims to analyse the history of tax reform in South Africa by examining the recommendations of the Katz and Davis committees relating to wealth taxes. This report includes an examination of how wealth tax revenues can be used to reduce inequality by analysing the public spending landscape in order to determine whether wealth tax revenues would be appropriately used. The research finds that the adequate design of a wealth tax is theoretically possible, however South Africa has flaws in public spending that need to be corrected prior to increasing the tax burden of taxpayers.

Key words: COVID-19, Tax evasion, Inequality, Wealth tax, OECD, Tax base, Public Spending

Declaration

I declare that this research report is my own unaided work. It is submitted for the degree of Master of Commerce at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination at any other university.

Lerato Mashishi

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Chapter 1: Introduction

1.1 Background

The challenge of wealth inequality has been debated over many decades. According to Fowler (2021), in 1919, Irving Fisher, the president of the American Economic Association spoke to the problem of inequality and highlighted the increasing concentration of wealth as a concern. Irving Fisher addressed the economic association and raised a concern that 2 percent of the population held a large proportion of the wealth at over 50 percent. Irving Fisher proposed to levy taxes on large inheritances rather than attempting to restrict returns on capital. It can be observed that politicians, economists, and philosophers have debated the challenge of inequality and the role of tax policy for decades.

The present views on inequality such as Durán-Cabré and Esteller Moré (2021) have highlighted the adverse impact of inequality on not only those who are worse off but also contributing negatively to economic growth. In most OECD countries, there have been increases in Gini coefficients. Cingano (2014) observed that the wealthiest 10 percent of the population in the countries that make up the OECD earn 9.5 times the income of the impoverished 10 percent. Cingano (2014) found that the ratio has increased in comparison to the 1980s which was 7 to 1 at that time. More recent data by Davies, Lluberus and Shorrocks (2022) shows that at the end of 2021, the Gini coefficient for wealth was 0.88 in South Africa, up from 0.80 since 2000 which is significantly high and points to huge disparities in wealth. For context in interpreting Gini coefficients, a Gini index of less than 0.2 corresponds with ideal income equality, Gini index between 0.2 and 0.3 corresponds with proportional equality, 0.3–0.4 corresponds with a decent income gap, and 0.4–0.5 corresponds with high income inequality, above 0.5 corresponds to severe income inequality, according to UNICEF (2017). The high Gini-coefficient from a South African perspective highlights the importance of considering the role that a wealth tax can play in reducing the wealth gap.

With the COVID-19 pandemic giving rise to increasing questions around wealth inequality, the role that tax policies, specifically a wealth tax, has in addressing inequality has been a key question. This indicates that wealth taxes are a topical issue, and with South Africa not having a direct wealth tax, leads to the opportunity to provide further research on this debate. In the context to inequality post-pandemic, Thériault and Torres Leclercq (2022) found that the world's ten richest men increased their wealth by more

than 100 percent to $1.5 trillion from the beginning of the pandemic in 2020. The wealth of the ten richest men increased by $1.3 billion a day in comparison to people who became poverty stricken during the pandemic. In terms of numbers, 160 million more people fell below the poverty line internationally. Due to the clear disparities that have worsened during the pandemic, this justifies why this study investigates the implementation and design of a wealth tax post-pandemic.

From a South African perspective, National Treasury and the South African Revenue Services (SARS) Commissioner agreed in the 2023 budget that there is no need to introduce a wealth tax due to improved tax compliance and the expected high tax revenue for the 2022/23 fiscal year. Although the Commissioner has put the conversation on a wealth tax to bed, it may resurge in the future. In 2023, additional funds amounting to R227 billion have been allocated to maintain the COVID-19 social relief grant up until 2025. From the 2023 budget review, South Africa is highly indebted and spends more of public finances on paying interest on debt rather than on other areas that could improve the lives of citizens, such as health, security, and social development. Wealthier South Africans who would have a wealth tax imposed may view the tax as a double bill due to additional money that they spend on private health care and private security rather than relying on the government. According to O'Neill (2023), the national debt of South Africa has also been forecast to increase in the next five years with the estimated amount to be 447,36 billion US dollars. The rise in public debt is likely to generate discussions around the introduction of a wealth tax with SARS already placing the focus on wealthy taxpayers with the introduction of a new tax unit in 2021.

Wealth tax can be described as a tax imposed on wealth as opposed to a tax on income or consumption. A wealth tax, defined by Ernst and Young as cited by Arendse and Stack (2018: 2) is described as *"a levy based on the aggregate value or stock of all assets belonging to an individual (or in some cases, a household), including housing, cash and other bank deposits, money funds, savings in insurance and pension plans, investment in non-owner-occupied real estate, unincorporated businesses, corporate stock, financial securities and personal trusts. In other words, the assets typically accumulated by the wealthy."* The definition points to wealth taxes being taxes on capital rather than taxes on income.

Arendse and Stack (2018) categorise wealth taxes into three types: tax on the transfer of wealth which would be donations tax, Estate Duty Act No.45 of 1955, Transfer Duty Act No.40 of 1949, tax on the increased value of wealth which includes unrealised gains, as well as taxes on recurring taxes on net wealth. Currently, South Africa has wealth taxes on the transfer of wealth, such as the previously mentioned taxes, as well as capital gains tax. According to the statistics released by the South African Revenue Services for the 2021/22 fiscal year[1], Capital gains tax of R16.2 billion was raised which comprises R7.7 billion relating to individual taxpayers and trusts and R8.5 billion collected from companies. A total amount of R189.3 billion has been raised since the introduction of capital gains tax in October 2001, with R88.6 billion collected from individuals and trusts and R100.6 billion from companies. Transfer Duty collected amounted to R10.5 billion for 2021/22 which was an increase from the R7.6 billion collected in the previous year. The Department of Social Development has a mandate to provide social protection services for vulnerable individuals, groups, and communities in order to improve development. The budget for the department for 2021/2022 amounts to R205 billion, the total tax revenue collected from capital gains tax and transfer duty (R26,7 billion) only makes up 13 percent of the department's total budget. The assumption is that, for every R1 spent on social development, only 13 cents of CGT and Transfer Duty would contribute. This indicates how much additional wealth tax revenues could contribute to the overall pool that is allocated to government institutions during budget allocations.

Typically, some countries in the OECD have implemented net-wealth taxes at some point in their histories, such as France, Greece, and Italy. Perret (2021:pp 540) describes net wealth taxes as follows: "*Net wealth taxes are recurrent taxes on individual net wealth stocks. They are distinct from taxes on capital income, which are levied on the flow of income generated by assets (e.g., dividends, capital gains, interest income). They can also be distinguished from other taxes on property. They differ from inheritance or estate taxes, which are only levied when wealth is inherited by heirs. Compared with recurrent taxes on immovable property, they are taxes on a broad range of movable and immovable property, net of debt*." Arendse and Stack (2018) explain that tax on the net wealth holdings may be non-recurrent which would be levied once off on specific date, or net-wealth taxes can be recurrent such as on an annual basis which is similar to the current net wealth taxes levied in the few countries that still have net wealth taxes.

[1] The 15th annual edition of the tax statistics were released on the 3rd of March 2023 for the 2021/22 fiscal year.

According to Thoresen et al. (2022), only three countries that form part of the OECD currently levy a recurring net wealth tax, namely, Spain, Switzerland, and Norway .The 2021 GDPs for the countries that currently levy a net-wealth tax are Spain with a GDP per capita of $30 103,5, Norway with a GDP per capita of $89,154.3 and Switzerland with a GDP per capita of $91,991.6, according to the World Bank (2021). South Africa only has a GDP per capita of $7,055.0, according to the World Bank (2021) which is much lower in comparison to the three countries mentioned. The countries all have in common being part of the OECD with South Africa and, being the only three countries who currently implement a net wealth tax, these countries are used as a case study in this research report. Durán-Cabré and Esteller Moré (2021) explain that due to economic challenges that impacted public finances, policy changes were required which resulted in a net wealth tax being re-introduced in 2011; it is important to highlight that Spain had previously had a net wealth tax that had been abandoned. Eckert (2020) notes that Switzerland introduced a wealth tax as a means to curb public finance challenges that were as a result of the First World War. The wealth taxes were introduced as non-recurrent by the Swiss Confederation in 1915, with maximum tax rates of 0.15 percent on individuals. Norway introduced wealth taxes to fund public finances. According to Halverson and O'Thoreson (2021), Norway has less wealth inequality and individuals are able to increase their wealth across generations. Norway has had a wealth tax for over a century, according to Banoun (2020). Owing to Norway having low wealth inequality levels, the redistributive impacts of a wealth tax could be used with Norway as a case study that has low inequality and has had a wealth tax imposed.

Halverson and O'Thoreson (2021), and Durán-Cabré and Esteller Moré (2021) consider that a wealth tax has a positive impact on wealth redistribution in the long-run. However, there are challenges identified with the implementation of wealth taxes. Administrative challenges relating to defining the tax base have been cited as a reason why certain wealth taxes have been abandoned by Perett (2021). The implementation challenges, as well as the redisitributive impact on inequality that wealth taxes has, are examined in this research report.

The Davis Tax Committee was tasked with investigating the feasibility of a wealth tax in South Africa. The Davis Tax Committee provided a recommendation in 2018 on further work that needs to be done on determining an appropriate tax base and which forms of

wealth would be included in the scope. The current gap in wealth tax research is investigating how a tax base could be defined post-pandemic and the design of a wealth tax from a South African perspective. The Committee also provided a recommendation on evaluating whether the revenue received from a wealth tax would exceed the cost and administrative burden on taxpayers as well as on the South African Revenue Service. This report aims to evaluate wealth tax designs, including those that have been successfully implemented, such as in Norway and how a South African wealth tax could be designed. The evaluation considers a wealth tax design that will mitigate the implementation challenges that have been experienced in the past (such as administrative issues, tax evasion and tax avoidance, as well as capital flight).

An interesting proposal by Saez and Zucman (2022) proposes taxing equity wealth at source for listed companies. From a South African perspective, a further examination is performed to consider the possibility of a wealth tax designed for top JSE listed companies and whether it could reduce the administrative and tax evasion/avoidance challenges.

Based on the research reviewed, the studies of redistributive impacts of a wealth tax have not taken into account which areas a wealth tax can finance in government spending to reduce inequality. An examination is performed on whether certain government institutions (Department of Social Development, SASSA) meet their pre-determined objectives[2] that relate to the improvement of inequality. The study further explores the areas in which a wealth tax can assist these government institutions in contributing to their pre-determined objectives.

1.2 Purpose and approach

With the slogan “tax the rich” increasing in popularity internationally, wealth tax proposals have been made in developed and developing countries. The purpose of this paper is to examine the possibility of a wealth tax in a South African context by firstly, closing the gap in defining the tax base for a wealth tax in South Africa post pandemic. The research analyses both present and past net wealth taxes, including the implementation challenges. The findings from this further assist in how a wealth tax

[2] Pre-determined objectives are set based on the mandate of government institutions. For Instance, The Department of Education has an objective of ‘Service Delivery Environment’ which includes a target of ‘Access to Pre-schooling‘.

could be designed in a South African context by learning lessons from other countries which have experienced these implementation challenges. The research further aims to identify the feasibility of a wealth tax on JSE listed companies by examining whether a wealth tax could be levied on the equity of these companies. In order to assess whether a wealth tax would reduce inequality in a South African context, the redistributive impact from a government spending perspective is examined.

1.3 Research method and design

The research is qualitative in nature. The primary sources analysed include journal articles and research reports. These sources address the main objective of the report on whether a wealth tax can be implemented to positively impact inequality.

Other source material include OECD reports on net-wealth taxes such as '*The Role and Design of Net Wealth Taxes',* as well as legislation to understand government spending, such as the Public Audit Amendment Act and the Public Finance Management Act, 1 of 1999.

1.4 Delimitations

The study excludes taxes that are not taxation on wealth or transfers of wealth, specifically, Pay As You Earn, Dividends taxes, Securities transfer taxes and Value Added Tax.

1.5 Limitations

Owing to the study being qualitative in nature, the study does not gain inputs by means of a survey to consider South African's taxpayer's perspective on an introduction of a wealth tax. Research is examined on overall tax avoidance and the challenges of tax avoidance identified by countries that have had a wealth tax implemented, either in the past or at present.

1.6 Research Problems

1.6.1 The Statement of the Problem

Can wealth tax be used as a tool to close the gap with wealth inequality? The research report examines whether wealth taxes can be successfully introduced to positively impact wealth inequality. A comparative analysis is performed by looking at net-wealth taxes in OECD countries who have either abandoned them or currently have them implemented.

1.6.2 The sub-problems

The sub-questions/Chapter outlines

i. There are various ways in which taxes are structured to tax capital associated with wealth, each creating various consequences. For this chapter, an evaluation of net-wealth tax designs is performed. The countries looked at are OECD countries that have implemented a net wealth tax in the past or at present.

ii. The second sub-problem includes an analysis aimed in understanding the history of tax reform in South Africa, including findings from the Davis Committee on the implementation of a wealth tax. An examination is performed on how the tax base for a wealth tax could be defined in a South African context, post-pandemic.

iii. The third sub-problem analyses the possibility of a wealth tax on JSE listed companies' equity as a means to reduce financial inequality.

iv. David Ricardo's concern on taxing capital was regarding the government consuming the tax revenue instead of accumulating it; in Thomas Piketty's view, the opposite is true where the fiscal state played a central role in the development of the economy. The fourth chapter examines whether government institutions meet their pre-determined objectives in areas that improve inequality and how a wealth tax could be used to reach these objectives. The aim of this chapter is to identify the areas in which a wealth tax can be used through government spending.

Chapter 2: Literature Reviewed

The literature review covers wealth taxes from an historical perspective as well as a current perspective. The literature includes a review of the implementation challenges of a wealth tax, including countries that currently have a wealth tax and countries that have abandoned wealth taxes. The literature covered also includes the redistributive impacts of a wealth tax. The literature review consists of 17 journal articles and five books. The literature review also consists of South African reports such as the Davis Committee's '*Feasibility of Wealth Tax in South Africa'.*

2.1 Introduction of a Wealth Tax

2.1.1 Historical Perspective

Adam Smith, as the founder of the four taxation canons, believed that the fruit (income) should be taxed rather than the seeds (capital). David Ricardo and John Stuart Mill had similar views concerning tax not being levied on capital. John Stuart Mill who was a philosopher and political economist in the 1800's published his book '*Principles of Political Economy'*. John Stuart Mill examined the system of taxation and reproduced the principles of taxation by Adam Smith. According to Shailesh (2021), John Stuart Mill considered taxation as the means with the help of which greater inequalities of wealth could be reduced, particularly taxation on income. John Stuart Mill believed that the taxation of capital results in double taxation, firstly on the capital as well as the interest earned on savings. From an historical perspective, although tax policy has been seen as a means to reduce inequalities, the taxation of capital has been shunned due to landowners (individuals with capital) seen as carrying an extra burden that would diminish their profits as well as government interfering with the liberty of individuals.

2.1.2 Current Perspectives

A common theme from current research is the considerations of a wealth tax to curb inequality. Arendse and Stack (2018) described two reasons for the introduction of a wealth tax in South Africa, mainly increasing tax revenue to finance public spending due to the decline in economic growth and the increase in government debt, as well the problem of inequality in South Africa being one of the most unequal countries in the world. This is in line with remarks made by some citizens on taxing the rich in an article written by Gilili (2023).

Halverson and O'Thoreson (2021) indicate that the importance of wealth taxes as a topical issue has been reinforced by important researchers such as Piketty and Atkinson, who highlight the role of wealth taxes as a re-distributive tool to aid in the international inequality challenge. Saez and Zucman (2022) identify that governments worldwide have reacted to the COVID-19 pandemic by introducing measures to support individuals and businesses. This is similar to the South African perspective where a grant of R350 was introduced at the beginning of the pandemic to support unemployed individuals. Civil society organisations were seen at the Union Buildings in February of 2023 with posters written 'tax the rich to increase grants' (Gilili, 2023). The current economic state in South Africa highlights the importance of considering wealth tax proposals post-pandemic. Nguyen and Khieu (2021) found that taxing the rich is generally an appropriate policy to reduce inequality. As stated by Saez and Zucman (2022), it is imperative to reconcile global economic growth with tax justice in order to ensure that the wealthy who benefit, pay considerable taxation. The above highlights the importance of a wealth tax proposal as redistributive justice.

2.2 Challenges of Wealth Taxes

2.2.1 Administrative challenges

The abandonment of wealth taxes has been associated with administrative challenges by a number of researchers. Administrative challenges identified by Saez and Zucman (2022) include the issue of valuing certain assets. The Davis Committee (2018) attributes the administrative challenges of implementing a wealth tax to defining the tax base and specifically mentions the compilation of the legislation, valuation of assets and ensuring compliance from taxpayers in declaring their assets to determine how much wealth tax should be levied. The Committee highlights that the above considerations result in considerable administrative costs for countries. As described by Arendse and Stack (2018), some countries have abandoned wealth taxes due to the significant administrative costs. Findings from Perret (2021) have also attributed the abandonment of wealth taxes due to compliance costs. The above administration challenges lead to three components to consider for the design of a wealth tax, the assets to be included in the tax base, how these assets should be valued and whether the compliance costs would exceed the benefit of implementing a wealth tax.

Some research does indicate contradictions to some of the administrative challenges raised. Durán-Cabré and Esteller Moré (2021) found that innovations and improvement

in technology can assist in the valuation of wealth including the strides made in information sharing from an international tax perspective. Saez and Zucman (2022) proposes taxing equity wealth at source for listed companies and large private companies headquartered in G20 countries which eliminates the valuation challenge. The idea is to levy the tax on the equity of listed corporations like Amazon or Tesla, which have a listed share price and would have an observable value. Each of these companies would have to pay 0.2 percent of the value of its equity in taxes each year. Wealth taxes have shared characteristics across different countries with the taxes being levied on individuals. According to Perret (2021), residents are taxed on their worldwide net assets whereas non-residents are taxed on assets that fall within the country's tax jurisdiction, such as immovable property. It is imperative to highlight that the majority of wealth taxes that have been implemented in the past relate to individuals or households (Switzerland, Norway, Spain, Germany). The proposal by Saez and Zucman (2022) considers the possibility of further research on a wealth tax designed for JSE companies in a South African context.

Some wealth taxes are designed in a way where taxpayers self-report assets which often leads tax evasion opportunities, according to Thoresen et al. (2022). The current net-wealth tax in Spain is designed by taxpayers performing self-assessments of all the assets they have on the 31st of December. The net-wealth tax in Spain has a solution for self-reporting challenges that enable opportunities for tax evasion. According to Durán-Cabré and Esteller Moré (2021), in order to reduce tax avoidance opportunities, the value of certain assets is determined by looking at the average amount over the latest reporting quarter. The market price is typically used to value assets, however there are specific valuation guidelines provided by legislation for assets that have values that are distinguishable from the market price. The design of the wealth tax in Spain creates the opportunity to reduce misreporting with the specific valuation criteria. The self-reporting does however raise the question on how tax evasion and tax avoidance opportunities could be mitigated.

Thoresen et al. (2022) described the design of the Norway tax system as a third-party valuation system with the exception of unlisted companies where their values are determined by using the book value of the underlying assets. Chatterjee (2020) describes a proposal for a wealth tax based on South Africa's third-party reporting by financial institutions, such as banks and other financial service providers who provide

information to the South African Revenue Service. For example, tax certificates from companies, such as Easy Equities, which show share ownership and transactions, are provided to the revenue service. Municipal valuations that are publicly available could be used to value immovable assets for purposes of wealth taxes. In Chatterjee's (2020) view, this would cover the administrative challenge of valuing assets for a wealth tax. Saez and Zucman (2022) emphasise the major contributor in maintaining wealth taxes in Norway relate to the immense third-party reporting system developed by the tax revenue authorities. Saez and Zucman (2022) describe third-party reporting as a contributor to the reliability of information about taxpayer assets and adds to the equity and fairness of the tax system which also reduces the administrative burden on taxpayers. The above highlights a solution to the valuation challenges raised around wealth taxes by improving the reliability of information systems to ensure accuracy of taxpayer information reported. From a South African perspective, e-filing has prepopulated information received directly from third parties, such as banks or retirement/pension funds, this a good example of how information systems can reduce the administrative compliance burden on taxpayers.

In contrast, Switzerland has bank secrecy, there is no third-party reporting of financial assets[3] which constrains enforcement (Scheuer & Slemrod, 2021). The Swiss tax regime has 27 tax jurisdictions which comprises each of the 26 cantons, as well as the federal tax system. Each canton has autonomy and has differing tax legislation. Most of the cantons levy wealth taxes, such as inheritance and gift taxes. The timing of valuing assets for purposes of wealth taxes is at the end of each tax period. The federal harmonisation rules provide broad guidelines on valuation of assets. The guidelines on valuation is also common with Spain's wealth taxes, this aids the consideration of valuation guidelines for a proposed wealth tax in a South African context.

2.2.2 Tax avoidance and Tax evasion challenges

Durán-Cabré and Esteller Moré (2021) found that tax evasion reduces potential wealth tax revenues but also has an impact on the redistribution of wealth it plans to achieve. The purpose of imposing a wealth tax is to increase public finance but also to reduce the

[3] According to Deloitte (2022: pp 1), IAS 32 paragraph 11 defines a financial asset as "any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments."

wealth inequality; if tax evasion and tax avoidance are not curbed then the main objective for a wealth tax would not be achieved.

Kassa (2021) highlights that as the world progresses, taxpayers aim to use opportunities for tax avoidance and tax evasion with compliance not being imperative. Alleyne and Harris (2017: 2) defines tax avoidance as "*the use of legal means to reduce one's tax liability while tax evasion is the use of illegal means to reduce that tax liability*."

Previous studies by Seim (2017) performed research on how taxpayers behave during tax reforms. The researcher found that taxpayers react progressively by how they choose to report their tax information This would be instances where taxpayers under-report their wealth. Taxpayers resort to real responses such as moving capital where opportunities for tax avoidance and tax evasion are limited. According to the Tax Justice Network (2021), South Africa lost $3,561,186,536 (R55 billion) in tax revenue due to global tax abuse**.** The split accounts for $3 billion (R45 billion) lost due to tax abuse committed by multinational corporations, and $649 million (just over R10 billion) lost to global tax evasion committed by private individuals. This points to the challenges of tax evasion and avoidance and how, if a wealth tax were to be introduced, it would need to be designed in a manner that would limit the opportunities for tax abuse.

Historically, John Stuart Mill highlighted that to achieve the taxation of capital, there would need to be an agreement of the nations of the world of how wealth would be taxed. Saez and Zucman (2022) agree with John Stuart Mill's sentiment. In their vision, the wealth tax that they propose should be co-ordinated across countries. The advantage of an international agreement is that the companies where a wealth tax is proposed would not be able to evade or avoid the taxes by moving their listing to a different country. In the present world, countries form part of organisations such as the OECD to assist in comprehensive policies.

Seim (2017) performed a study based on Sweden by comparing assets reported by taxpayers to the information available to the tax authority. The study revealed that around a third of the elasticity estimates are due to under-reporting of asset values. The findings from the study reflect the challenges of a wealth tax designed when taxpayers self-assess their assets. This ties back to the importance of third-party reporting.

Rowlingson, Sood and Tu (2021) explain that for the implementation of a wealth tax to

function, there needs to be taxpayer buy-in. It is therefore imperative to comprehend taxpayer's perceptions on the options of wealth tax reforms. O'Donovan (2021) found that in contrast to non-recurrent wealth taxes that would be levied once off as the need arises, recurring wealth taxes that are levied annually have a significant impact on how taxpayers behave. Wealthy individuals aim to minimise their wealth taxation by shifting their assets to different countries, consume their wealth rather than invest, find loopholes in the tax design and exploit exemptions or evasion opportunities, or taxpayers could emigrate to countries that do not have wealth taxes implemented.

The eight OECD countries that abandoned wealth taxes include Australia, Austria, Canada, Mexico, New Zealand, Portugal, the Slovak Republic, and Sweden. These countries abandoned wealth tax due to increased avoidance and evasion. According to Schnellenbach (2012), these taxpayer behaviours ultimately also had an impact on the income tax base. Although 6000 people emigrated from South Africa in 2022, the SARS Commissioner, Edward Kieswetter, mentions that emigration has not resulted in a massive shrinking tax base (BusinessTech, 8 February 2023. The statistics by SARS show that a smaller number of wealthy South Africans earning more than R500 000 per annum emigrated. The statistics also highlight that the number of South Africans who have ceased to be tax residents is declining (BusinessTech, 6 March 2023). Although the tax base has not significantly been reduced, there are high levels of non-compliance from those who are still in South Africa, as highlighted by the SARS Commissioner (BusinessTech, 8 February 2023) . This questions whether a wealth tax could be successfully implemented if the collection of the tax revenue would be a challenge due to non-compliance.

Thoresen et al. (2022) observe that wealth tax creates issues around distinguishing between real effects versus tax avoidance and tax evasion behaviour. An example would be taxpayers using valuation methods that result in a lower value of assets in order to reduce their wealth tax liability. Researchers, such as O'Donovan (2021), identify emigration as a way to avoid tax with wealth taxes imposed. This phenomenon has been observed in Switzerland and Spain. Consideration should be given on exit provisions, specifically South Africa, which currently has S9H for individuals who emigrate.

O'Donovan (2021) identifies that the solution for an appropriately designed wealth tax includes using an international approach to taxing wealth, including appropriate

residence definitions, as well as suitable emigration provisions for taxpayers who choose to move to more favourable tax jurisdictions. This global approach has historically been seen as a utopia by the 1800's philosopher, John Stuart Smith.

According to Robert, as cited by Kassa (2021: 14), taxpayers may argue "I Do Not Receive Benefits, Therefore I Do Not Have to Pay". The observation made by the research aligns to the benefit principle identified by Adam Smith (1776) for a functioning tax system. The benefit principle is where the individual who pays taxes subsequently benefits from receiving governmental activities. Fowler (2021) described Thomas Piketty's *'Capital and Ideology'* and identified that the economist explores the rise of the fiscal state. The fiscal state was the principal in the development of economies in the western world. This was achieved by using new tax revenues to improve the lives of their citizens by spending on health, education, pensions, as well as unemployment insurance during difficult economic times, such as recessions. The role of the fiscal state, as highlighted, emphasises the importance of tax policy in order for public spending to benefit people.

In a South African context, there have been concerns raised of a tax revolt due to citizens not receiving the benefit of their tax revenues as a result of corruption; this raises the importance of the benefit principle raised by Adam Smith for a functioning tax system, including the implementation of a wealth tax. Historically, Ricardo (1821) was against the taxation of capital due to the government consuming the tax revenue instead of accumulating it. In Thomas Piketty's view, the opposite is true where government plays a pivotal role in developing the economy. It can be argued that the profits arising from capital are positively influenced by government spending on infrastructure, such as bridges, roads, and education. From a South African perspective, the Public Finance Management Act of 1999 governs the spending of state funds. Madue (2007) described the Public Finance Management Act, 1 of 1999 as legislation that aims to improve financial management in order to support the processes of public administration which assists in achieving service delivery. Historically, Adam Smith's (1776) fourth principle for a functioning tax system refers to taxes being administered by an accountable authority. The Auditor General of South Africa performs the audit of predetermined objectives[4] for all public institutions, including SARS; based on this, Adam Smith's

[4] The audit is separate from a financial statement compliance audit and includes obtaining evidence on whether the reported performance against predetermined objectives is reliable, accurate and complete.

principle for an accountable authority is in place. A question can be asked on whether a wealth tax could be successfully implemented in South Africa, given the challenges with the benefit principle, as derived by Adam Smith, which links to taxpayers rationalising tax evasion and avoidance.

2.2.3 Capital flight and low economic growth

David Ricardo (1821) in the '*Principles of Political Economy and Taxation'* distinguishes between the taxation of land (capital) and the taxation of rent. David Ricardo's view around the taxation of capital was that if landowners pay tax, the market prices will rise. Due to market prices rising, the landowner would need to increase their wages, thus diminishing profits for the capitalists.

Capital flight is described by Kant (2002: 341) as the "*outflows of investible funds or productive resources by residents of a developing country due to either short-term or long-term and continuing/changing risks and uncertainties at home.*"

According to Chatalova and Evans (2013), in more recent times, Austria abandoned inheritance taxes in 2008 mainly due to challenges with capital flight. The tax was replaced with taxation on capital returns. According to Chatalova and Evans (2013), the Netherlands also abandoned recurrent net wealth tax due to issues with capital flight. Other researchers, such as Arendse and Stack (2018), observe that the Swedish wealth tax was abandoned due to capital flight to offshore tax havens. Discussions regarding capital flight in South Africa are not new, the impact of capital flight should be considered when implementing a wealth tax.

O'Donovan (2021) found that contrary to the above, the French and German post-WWII wealth taxes did not appear to have triggered significant capital flight. The taxpayers at that time also did not lose confidence in the tax system which is often cited as a reason to avoid non-recurrent wealth taxes. As a mitigating factor to capital flight, O'Donovan (2021) observes a retrospective wealth assessment date for one-off wealth taxes, reduces the opportunity for taxpayers to shift assets, resulting in capital flight when new tax changes are announced.

The above highlights the importance, especially in South Africa with emigrations, consideration of a how a wealth tax could lead to capital flight and in turn, reduce the

benefits of the tax imposed.

2.3 Redistribution Impacts of a Wealth Tax

Given that the proposals and debates for a wealth tax relate to how the tax can improve inequality, it should be studied whether the imposition of a wealth tax actually has redistribution benefits.

According to Durán-Cabré and Esteller Moré (2021), Spain's wealth tax was abandoned by the socialist government in 2008 as it had failed to meet its redistributive objectives. The wealth tax was re-introduced in 2011 due to budget shortfalls relating to public finances. The aim of the re-introduction was to target wealthier individuals to contribute to the recovery of the economy and to reduce the wealth inequality gap. The reason for the reintroduction of the tax to reinforce equity relates to the research problem, that is, how a wealth tax can be used to positively impact inequality.

Seim (2017) compared the welfare effects of wealth taxes to those of progressive income taxes, his findings suggests that the social surplus is 24 percent higher when redistribution is accomplished by wealth taxation.

Durán-Cabré and Esteller Moré (2021) found that in the short term, wealth tax does not necessarily have a redistributive impact. From a long-term perspective, the level of redistribution significantly increases with wealth concentration[5] ratios falling to 19.23 percent after five years and to 18.14 percent after 25 years. This supports the rationale behind why the introduction of a wealth tax is important to curb inequality.

Other contributors to the field have a similar view on a wealth tax having a positive impact on inequality from a long-term perspective. Halverson and O'Thoreson's (2021) study from a Norway perspective was performed by looking at an income concept based on the lifetime income of a family dynasty.

[5]William Graham Sumner who was a social scientist, in his writing on "*On the Concentration of Wealth*" described wealth concentration as the state of economic distribution of wealth, that is the nation's wealth belonging to a small number of people.

The above findings suggest that a wealth tax is redistributive from a longer time perspective. The findings point to analysing the impacts on equality of a wealth tax from a South African perspective by looking at the long-term picture.

2.4 Conclusion

Tax policy has been seen as a tool to curb inequality, both historically and at present. The 1800s philosopher, John Stuart Mill, viewed taxation as a means to curb inequality, however, he viewed the taxation of capital, which is wealth, as utopian. Similar to other philosophers during John Stuart Mill's time, such as David Ricardo, the taxation of capital is viewed as inequitable and prevents the growth of capital and profits for the owners of capital.

Inequality has existed over the centuries however, it has increased alarmingly during the COVID-19 pandemic. South Africa, with a Gini-coefficient of 0,88, points to the increasing questions around taxing the rich. A key question around the taxation of wealth considers which assets are taxed and how these assets should be taxed. South Africa has current taxes on the transfer of wealth, such as capital gains tax and transfer duty. Based on the tax revenue collected for the two taxes in 2021/22, the amounts can be seen as a drop in the ocean with 1 cent of CGT and transfer duty equating to R1 of the budget for the Department of Social Development. This leads to the proposal of a direct wealth tax as additional tax revenue.

There are similar themes in the challenges experienced from wealth taxes. One of the administrative challenges is determining the tax base. the Davis Committee (2018) recommended that additional work needs to be performed on this, in determining the feasibility of a wealth tax in South Africa. This study examines how a tax base can be defined from a South African perspective post-pandemic. The second administrative challenge seen to lead to the abandonment of net-wealth taxes includes the valuing of assets, explored by Saez and Zucman (2022). This considers the valuation guidelines in the design of a wealth tax for assets to be included in the tax base. The use of the third-party reporting system from a South African perspective can be used from a valuation perspective.

The proposal by Saez and Zucman (2022) on the taxation of equity for G20 companies, provides the opportunity to examine the possibility of a wealth tax on the equity of top

JSE listed companies. JSE listed companies have a share price that is directly observable, hence reduces the challenges of valuation. The third administrative challenge has been identified as compliance costs by researchers, such as Perret (2021). As mentioned by the SARS Commissioner, the greatest challenge currently experienced is non-compliance. Consideration in the design of the wealth tax needs to take into account the opportunities for non-compliance as well as whether the costs of ensuring compliance would exceed the tax revenue collected from the wealth tax.

The second theme in the implementation challenges of a wealth tax relates to tax avoidance and tax evasion. Researchers, such as Durán-Cabré & Esteller Moré (2021), found that tax evasion impacts the redistibutive power of a wealth tax. The study analyses mitigating factors in the design of a wealth tax to avoid instances of tax evasion and tax avoidance. The Tax Justice Network found that South Africa lost R55 billion for 2021 due to tax evasion and tax avoidance; this indicates that the implementation of a wealth tax needs to be adequately designed to minimise opportunities of tax evasion and avoidance. It has been highlighted by philosophers, such as John Stuart Mill, that a wealth tax would need international agreements, an international agreement would mitigate the possibility of tax emigration to avoid a wealth tax. Seim (2017) identifies that reporting is used for tax avoidance and evasion. Solutions that have been identified by researchers, such as O' Donovan (2021), include retrospective assessments for a once-off wealth tax. A retrospective assessment using third party reporting would limit the opportunity to under-report assets. Countries such as Portugal, New Zealand and Canada abandoned wealth taxes due to tax evasion and tax avoidance. The wealth tax design for a country like Norway that has had a wealth tax implemented for decades can be used, specifically how the tax avoidance and tax evasion has been limited. The founder (Adam Smith) of the four tax canons addresses the benefit principle where a taxpayer subsequently benefits from governmental activities. This is a particular challenge in South Africa with individuals who view the current government as corrupt. South Africa is ranked 72 out of 180 countries in terms of corruption (Trading Economics, 2022). It is imperative to observe whether the pre-determined objectives of government institutions are met to ensure that the requirement for a functioning tax system as per the benefit principle is in place when proposing to introduce a new wealth tax. This study examines whether the fiscal state plays a role in the improvement of inequality by government institutions performing their functions.

The third theme highlighted in the implementation challenges of a wealth tax refers to capital flight and low economic growth. Researchers, such as Chatalova and Evans (2013), have identified the abolishment of wealth taxes in Austria due to capital flight. South Africa is no stranger to capital flight, consideration can be given for international agreements to avoid capital flight for the introduction of a wealth tax, or as previously mentioned, a retrospective assessment of assets for a once-off wealth tax.

With the debates around the implementation challenges of a wealth tax, it needs to be determined on whether a wealth tax could curb inequality. A common theme amongst researchers, such as Halverson and O' Thoreson (2021), as well as Durán-Cabré and Esteller Moré (2021) identified that a wealth tax has a redistributive impact on inequality from a long-term perspective. Consideration needs to be given on whether South Africa could experience the above implementation challenges before being able to fully realise the benefits of a wealth tax in the long-term. South Africa is no stranger to tax reform with one of the most progressive tax systems. An analysis is performed to determine the types of challenges experienced during the design of our current tax system and whether lessons could be learned from that when implementing a wealth tax. Further, an examination in which service delivery areas of government institutions can a wealth tax be used to reduce inequality.

The overall importance of the research relates to the problem of inequality post-pandemic and how tax policy (specifically a wealth tax) can be used to close this gap in South Africa. The research closes the gap in defining the tax base from a South African tax base as well as identifying whether a wealth tax should be designed for individuals or rather a wealth tax designed, based on the equity of JSE listed companies. The research further aims to analyse which government institutions wealth tax revenues could assist in meeting their pre-determined objectives in improving inequality for South Africans. This study specifically excludes quantitative inputs of South African taxpayers' perspectives and opinions on a wealth tax, however historic examples from countries who have had a wealth tax in the past or the present assist in understanding taxpayer behaviour when a wealth tax is introduced.

Chapter 3: Wealth tax designs in OECD Countries

The purpose of this chapter is to examine wealth tax designs based on tax residency, the tax base and valuation considerations. The countries examined relate to OECD countries, specifically countries which currently have a wealth tax, that is, Switzerland, Norway, and Spain. This chapter achieves an understanding of wealth tax designs in order to assist with the design of a wealth tax from a South African perspective.

3.1 Tax Residency Principle

3.1.1 Switzerland

According to the Federal Act on Direct Federal Taxation (1990, article 3), Swiss resident individuals are subject to wealth tax on their worldwide assets. Individuals meet the definition of being Swiss resident if they spend a period of time without interruption of at least 30 days for employment purposes or a period of 90 days for other purposes in the country or if they have a domicile in Switzerland.

Wealth tax is levied, starting from day one of becoming a tax resident and ends once a person ceases to be a resident. The wealth tax is also measured on a pro rata basis in instances where a person does not complete a full tax period. South Africa has similar tax residency principles in the Income Tax Act No. 58 of 1962 as a natural person who is 'ordinarily resident' in the republic. Ordinarily resident is not defined in the income tax act, however case law such as CIR v Kuttel (1992) established that an ordinarily resident is considered a person where they have their principal residence and would describe it as their real home. Cohen v CIR (1946) also established that ordinarily resident is a place where a person would return from their wandering. This is similar to Switzerland's definition of resident being linked to a person's 'domicile'. South Africa also has the physical presence test in determining residency which takes into account whether the person has been physically present in South Africa for more than 91 days during the tax period, as well as the previous five years, the legislation also includes the person being in the country for a total period of more than 915 days for the last five years.

According to Aebi and Eckert (2020), in terms of international taxing rights, the wealth tax regimes are based on cantons[6] assets that are attributable to permanent

[6] A Swiss canton is similar to a state in the United States. Swiss cantons operate be enforcing their own laws and taxes as well as providing service delivery, such as healthcare and education.

establishments, and immovable property situated outside of the country are excluded from the tax base for the wealth tax. It should be noted that these assets are still included when determining the wealth tax rate. The exemption of the assets is applicable irrespective of whether the other country imposes a wealth tax.

On the opposite spectrum, the Swiss cantons levy a recurring net wealth tax on non-resident individuals with assets attributable to a permanent establishment in Switzerland, as well immovable property in Switzerland. This is similar to South Africa where in the Eighth Schedule of the Income Tax Act No. 58 of 1962 relating to capital gains tax, immovable property situated in the country, as well as assets that are effectively connected with a permanent establishment, are taxed. The applicable tax rates for Switzerland are dependent on the worldwide net assets. Non-residents who own movable assets in Switzerland do not pay a wealth tax on these items. Aebi and Eckert (2020) provide an example of funds deposited with a Swiss bank that is not effectively connected to a permanent establishment for non-residents. This cements the same principle in South African tax law where only immovable property or assets effectively connected with a permanent establishment would be taxed.

Research performed by Aebi and Eckert (2020) identified that sixty-three of Switzerland's international tax agreements have provided guidance on wealth taxation. The international tax agreements are aligned with Article 22 of the OECD Model Convention. Exit provisions with regards to wealth taxes limit taxpayers using emigration as a tax avoidance strategy. There are no specific tax provisions for new tax residents other than for taxpayers who choose to be taxed on a lump-sum basis. Some of the Swiss cantons, which have mostly abolished being taxed on a lump-sum basis, have the highest wealth tax rates. In terms of married couples, if one spouse is a tax resident and the other spouse is not a resident, the married couple is treated as separate tax persons. The Swiss tax resident will be subject to wealth taxation, however both of the married couples' assets are included when establishing the appropriate wealth tax rate.

3.1.2 Norway

According to Banoun (2020), individual taxpayers who meet the residency principles in Norway are subject to wealth taxation. Tax is levied per individual with married couples being taxed as a household. Parents are taxed on their minor (under 17) children's

wealth. From a South African perspective, in terms of paragraph 68 of the Eighth Schedule, capital gains tax is only attributable to spouses as an anti-avoidance provision if the capital gain can be attributed to a donation or transaction made mainly for the purposes of a tax avoidance strategy. From a children perspective, South African capital gains taxes attribute the capitals gain to the parent of the minor in terms of paragraph 69 of the Eighth Schedule.

According to Banoun (2020), non-residents mainly pay wealth taxation on immovable property situated in Norway. This principle is also similar to the South African capital gains tax on immovable property owned by non-residents being subject to tax.

3.1.3 Spain

According to the wealth tax legislation in Spain, non-resident individuals have wealth taxes imposed on assets that are within Spain or on rights that are exercised in the country. Tax residents in Spain are responsible for wealth tax on their worldwide assets. The same principle applies in terms of South African residents who are taxed on worldwide income and assets. The wealth tax in Spain is similar to Switzerland where cantons levy their own taxes. From a Spanish perspective, non-resident individuals are subject to wealth taxation on national rates which translates to non-resident taxpayers not receiving the benefit of lower tax rates in certain regions of Spain. Non-residents are subject to wealth taxes on immovable property located in Spain, bank accounts and equity in Spanish companies. There are international tax agreements in place for instances where certain assets, such as shares or money in bank accounts, are excluded from being taxed in Spain. Furthermore, the international tax agreements assist in taxing immovable property situated in Spain or assets attributable to a permanent establishment.

From the above, it can be observed that the countries have similar tax residency principles including similarities being drawn with South Africa. South Africa does have tax treaties in place for instances where double taxation occurs based on the tax residency principles which promotes the effectiveness and fairness fundamental principle by the OECD.

3.2 Tax Base

The tax bases for wealth taxes vary between different countries with some exemptions

being put in place. This paragraph describes the different assets taxed in Switzerland, Norway and Spain which currently levy a wealth tax. Perret (2021) notes that pensions' assets are mostly exempt from wealth taxation. According to Perret (2021: 549), "these are justified on social grounds, because of the social benefits that come from retirement income, but also because it is difficult to justify, both socially and politically, taxing individuals on wealth that is not within their present control and from which they cannot withdraw funds to pay for the tax." Governments do make provisions for retirement funds in order to provide tax incentives and to minimise the portion of public financing that would need to be attributed to pensions. The exemption of pension assets is in line with the OECD's fundamental principles of taxation including effectiveness and fairness.[7]

3.2.1 Switzerland

The wealth taxes in Switzerland are levied on an asset less liabilities basis. There are a few distinguishing factors between residents and non-residents relating to mortgage loans not being deductible for non-residents versus residents who do enjoy the deduction against their immovable property.

3.2.2 Norway

Wealth taxation in Norway mainly includes all assets owned by the tax resident at the end of the tax period which is the 31st of December. All types of assets are included irrespective of their location for Norway residents (worldwide wealth tax principle). Norwegian tax legislation has provisions for wealth taxes being levied, based on the use of another person's assets. The tax legislation taxes the use of another person's assets whether it is as a result of a will or legal agreement.

According to Banoun (2020), Norway has a number of assets that are exempt from wealth tax such as conditional rights, time-limited rights of use, time-limited rights to periodical benefits, goodwill, interest or dividends on shares, securities fund units and other securities, provided that such claims have not fallen due for payment, in terms of section 4-2 of the Norwegian Tax Act. Other assets also excluded are patents, intellectual property, life insurance policies and pension funds.

The above exemptions highlight that there are a number of assets that are not subject to

[7] The OECD has defined the fundamental principles of taxation to promote good tax administration for countries when developing their taxation systems.

wealth tax, hence narrowing the tax base. The exceptions result in certain tax persons being taxed significantly more wealth tax than persons who hold their wealth in assets that are mainly exempt. For example, a research company whose main assets would be rights and patents would have less wealth taxation than a manufacturer whose main assets would be property, plant, and equipment.

3.2.3 Spain

Spain levies a wealth tax on immovable property with the type of immovable property impacting whether there is an exemption received. For instance, buildings and land are fully taxed however main residence and woods and forests have a tax preference. Movable property, such as vehicles and jewelry, are fully taxed with furniture, and agricultural assets having tax preference. Financial assets have a wealth tax levied such as life insurance, bonds and liquidities which are fully taxed. On the contrary, pension savings, business assets and IP rights are fully exempt from a wealth tax.

Research conducted by Perret (2021) displays comparisons between which assets are fully taxed, which assets are fully exempt and which assets have tax preference, that is preferential valuation rules or lower tax rates, for the three countries below;

Table 1: Tax rules per country

Assets	Norway	Spain	Switzerland
Immovable property			
Buildings	PR	FT	PR
Main residence	PR	PR	PR
Woods and forests	PR	PR	PR
Land	PR	FT	PR
Movable property			
Agricultural or rural assets	PR	PR	PR
Furniture	PR	PR	E
Artwork and antiques	PR	PR	PR
Jewelry	PR	FT	FT
Vehicles	PR	FT	PR
Financial assets			
Listed shares	PR	PR	FT
Life insurance	E	FT	FT
Bonds	FT	FT	FT
Liquidities	FT	FT	FT
IP rights	E	E	FT
Pension savings	E	E	E
Business assets	PR	E	PR

PR=preferential tax rules, FT=Fully Taxed, E= Exempt

Source: Perret (2021)

3.3 Inheritance, capital gains tax, gifts tax

3.3.1 Switzerland

Capital tax is levied separately to a wealth tax but is levied on corporations in Switzerland. The capital tax is similar to wealth taxation and is levied by the cantons at tax rates between 0.001 percent to 0.525 percent. Immovable property situated in foreign countries, as well as foreign permanent establishments, is not subject to the capital tax. Some cantons are lenient and allow corporate income tax to be applied against the capital tax. The capital tax is levied on the net equity of the corporation. Similarly in South

Africa, dividends tax is levied on income received in respect of owning shares over and above the income tax paid based on the corporate tax rate.

The inheritance and gift tax are similar to the wealth tax and is levied by the cantons. The taxation may be levied on the individuals making the donations or on the individuals receiving the assets. Inheritance tax is not levied on transfers between spouses. Donations made to charities or public organisations are exempt from inheritance and gift tax. This is similar to South Africa where donations to registered public benefit organisations is exempt. According to Aebi and Eckert (2020), the tax base of the inheritance and gift taxes is not necessarily significant with the cantons not allowing any wealth taxation to be set off against the inheritance and gift tax.

3.3.2 Norway

Norway has had wealth tax, gift tax, inheritance tax, property tax, capital gains tax and income tax. The conservative government in Norway eradicated the inheritance tax and gift tax in 2014, due to the complexities of the inheritance tax legislation as well as the administrative costs. There have been discussions on the possible re-introduction of inheritance taxes. Property taxes have been on the rise in Norway during recent times. Norway does not allow deductions of wealth tax to be made against other taxes. Similarly to Switzerland, the wealth taxation cannot be applied against other taxes such as the inheritance or gift tax. Taxpayers in Norway do not enjoy the benefit of a tax exemption when making donations to charities or public organisations. This is different to Switzerland where charitable donations are exempt in all cantons. From a South African perspective, paragraph 62 of the Eighth Schedule exempts capital gains on donations made to public benefit organisations.

3.3.3 Spain

Inheritance and gift tax is levied on resident individuals on a world-wide basis with non-tax residents only having these taxes levied on assets situated in Spain or on rights which are exercised and fulfilled within the country. The main valuation guidelines for assets that have wealth tax levied are measured on the fair market value with deductions being allowed on the value of the assets, such as charges and debts. The tax rates depend on the value of assets and range between 7.65 percent to 34 percent. As with wealth tax, the autonomous communities, or cantons, such as in Switzerland, do decide on certain legislation with regards to the inheritance and gift taxes. An example of autonomy on

deciding on tax legislation includes Madrid, which provides tax relief on inheritance and gift tax if the recipients are descendants or the spouse of the deceased. The taxes in Spain are similar to Switzerland with their tax cantons.

3.4 Valuation rules

3.4.1 Switzerland

Swiss wealth taxation consists of an annual valuation which takes place at the end of each tax period. Due to Swiss wealth taxes being levied on a canton level, the federal harmonisation rules are extensive which in turn, leaves room for the cantons to be flexible with their valuation rules. Non-business assets are measured at market value with business assets using the book values. Wealth taxes are not deductible against income tax across Switzerland.

The real estate asset class in Switzerland is a good example of the cantons having flexibility with determining valuation rules as they each apply different methodologies. For example, in Geneva, property experts determine the valuation of the principal residence. There are practical expedients due to the administrative burden such as the previous value being increased at annual intervals by a measurement factor. Taxpayers who have lived in their primary residence for a longer period of time enjoy the benefits of a tax allowance which reduces their wealth tax liability. According to Aebi and Eckert (2020), the valuation of investment properties is calculated by multiplying the rental income by a capitalisation rate . Another tax canton, such as Zurich, values real estate by using a formula valuation. If the formula value is higher than 100 percent or lower than 70 percent of the market value which is determined by an independent property valuer or the latest purchase price, then the taxable value is determined on an individual basis. A capitalisation rate of 7.05 percent applies in Zurich.

Switzerland does not levy capital gains tax on non-business assets across the board, which is on a federal level as well as a cantonal level. According to Aebi and Eckert (2020), there is an exception to the rule relating to the sale of real estate property which are subject to a cantonal level real-estate gains tax. Due to the lack of capital gains tax, the wealth tax may be seen as a compensative measure. Taxpayers in Switzerland use the opportunity of non-taxable capital gains as a tax avoidance strategy to sell their assets which results in challenges with distinguishing between capital gains versus. An

example is when corporations opt to not pay out dividends and rather sell their equity in an attempt to enjoy the non-taxable capital gains.

3.4.2 Norway

The tax legislation in Norway has a valuation guideline that requires assets to be measured at their market value. Specific assets, such as property and shares in unlisted companies have their own valuation requirements.

According to Banoun (2020), property as well as unlisted shares have separate valuation rules in order to provide tax relief. The tax relief is provided in the form of valuation discounts in order to minimise the tax levied on 'working capital'[8].

The valuation of real estate, such as the primary residence, is mainly valued based on the latest selling price of similar properties. Commercial property is valued, based on the estimated rental income per square meter. From a South African perspective, there are valuation standards and best practices in place for valuing properties where valuers need to be registered with the South African Council for the Property Valuers Profession (SACPVP). From a taxation perspective, paragraph 29 of the Eighth Schedule in the Income Tax Act provides guidance on establishing the value of assets for the purpose of capital gains tax. The values of properties are also available in municipal valuation rolls, however, these valuations are performed on a large scale and only take place on a 4-year rolling basis, according to the Municipal Property Rates Act No 6 of 2004, as amended; this leads to the challenge of whether there is readily accessible and up to date information for the valuation of property that would reduce the compliance burden on taxpayers.

According to PwC (2023), in Norway, individuals pay wealth taxes on two levels, the municipal level as well as the state level. Municipalities levy a wealth tax rate at 0.7 percent which is determined based on assets that exceed an amount of NOK 1.7 million for individuals. Married people are taxed based on assets that exceed NOK 3.4 million. The national wealth tax rate is lower than the rate charged by municipalities at 0.3 and has the same threshold being NOK 1.7 for individuals and NOK 3.4 million for people who are married.

[8] Nwankwo and Osho (2010: 4) defined working capital as "the amount of funds which a company needs to finance day-to-day operations. Gross working capital is defined as the firm's total current asset."

3.4.3 Spain

According to Ramallo (2021), there are valuation guidelines in place for different types of assets. The following table depicts the valuation guidelines per asset type:

Table 2: Valuation rules per asset type

Asset Type	**Valuation Guideline**
Real Estate	Higher of; a) Acquisition value b) Administrative value c) Value assigned by tax authority based on a tax proceeding
Business Assets including rights	Accounting book value
Bank Deposits	Higher of; a) Bank balance as at the end of the tax period (31 December) b) Taking into account the average bank balance of the quarter 4
Listed bonds	The average listing price of the last quarter.
Non-listed credit rights or loans	Nominal value which excludes accrued interest
Listed shares	The average listing price of the last quarter.
Non-listed shares	a) If the company has an unqualified audit report, the value taken is the net book value of the shares b) If the company has not been audited or if the audit opinion has not been unqualified, the value will be the higher of the three following values; i. share capital; ii. net book value; or iii. the amount resulting from capitalising at 20 percent the average of the profits derived from the last three years.

Life Insurance	Surrender Value
Jewelry, vehicles, and other transportation	a) Market value b) The tax authority has an official list for values of some types of transport.
Artworks and antiques (exempt in certain parts of Spain)	Market value
Other assets	a) Residual rule to be applied to non-explicitly included assets or rights: market value.

Source: Ramallo (2021)

Debts that are applied against the taxable assets for a wealth tax are measured at their face value. The debt is split into two categories, being the interest portion and the principal. The principal portion is deducted from the assets to determine net wealth with the interest portion not being deductible. Taxpayers need to provide verifiable evidence in order to be able to make the deduction. The liability arising as a result of personal income tax is considered as debt and is deductible against the wealth tax liability for Spanish tax residents. Non- resident taxpayers are only allowed to deduct debts if the capital relates to taxable assets. .Non-resident taxpayers cannot deduct any Spanish personal income tax due against the wealth tax.

Spain has a progressive sliding scale for wealth taxes. South Africa has progressive sliding scales in place for income tax purposes, hence consideration can be given on how to emulate a similar progressive sliding scale for wealth taxes.

According to PwC (2023), the general tax scale included in the wealth tax law, applicable if the relevant region has not passed its own tax rates, and also by non-Spanish tax residents, is as follows:

Table 3: Wealth Tax Sliding Scale in Spain

Taxable base (€)	Tax quote (€)	Excess of taxable base	Tax rate (percent)
0.00	*0.00*	*167,129.45*	*0.20*
167,129.45	*334.26*	*167,123.43*	*0.30*
334,252.88	*835.63*	*334,246.87*	*0.50*
668,499.75	*2,506.86*	*668,499.76*	*0.90*
1,336,999.51	*8,523.36*	*1,336,999.50*	*1.30*
2,673,999.01	*25,904.35*	*2,673,999.02*	*1.70*
5,347,998.03	*71,362.33*	*5,347,998.03*	*2.10*
10,695,996.06	*183,670.29*	*Excess*	*3.50*

Source: PwC (2023)

According to PwC (2023), due to Spain being similar as Switzerland with regional wealth taxes, some regions have their own wealth tax scales, such as Andalucía, Asturias, Baleares, Cantabria, Cataluña, Extremadura, Región de Murcia or Comunidad Valenciana. The regional tax scales are higher than the national wealth tax law.

3.5 Countries that have abandoned wealth taxes

Countries such as France, Sweden and the Netherlands previously included immovable property as part of the tax base for a wealth tax. Sweden and the Netherlands have exempted woods and forests, with France only giving a tax preference for that type of property. Sweden exempted a number of immovable properties (such as agricultural assets, furniture, artwork and antiques and jewelry except for vehicles). In contrast, France has wealth taxes levied on immovable assets, except for artwork and antiques.

3.6 Observations

The challenge of taxpayers moving their assets to other countries due to the introduction of a wealth tax places importance on how a wealth tax is designed, specifically international tax agreements, as well as tax residency principles. Based on the examination performed, Switzerland, Norway and Spain subject wealth taxes on all assets owned, including worldwide assets. There are double taxation agreements in place that exclude wealth tax being levied on assets that are attributable to foreign

permanent establishments and immovable properties in foreign countries. From a South African perspective, specific requirements need to be met in order to meet the definition of a permanent establishment as an anti-avoidance measure. For example, individuals could establish operations in countries with lower tax rates such as Mauritius, however upon further investigation of the facts and circumstances, the true decision making, and effective management would be in South Africa. The above example of anti-avoidance strategies highlights the importance of an accountable authority and the implementation of compliance in order to fully benefit from the introduction of a wealth tax.

The challenge of narrow tax bases has been seen as a contributor by researchers such as Perret (2021), to the abandonment of wealth taxes. Preferential tax rules, exemptions and reliefs do assist with taxpayers' buy-in for a wealth tax, however it reduces the tax revenues collected, as well as the progressivity of wealth taxes. Perret (2021) points to exemptions resulting in wealth taxes being less equitable. The reason the exemptions result in a wealth tax that is not equitable is due to reliefs being provided for assets that are owned by wealthier taxpayers, such as business wealth. The exemptions also result in tax avoidance opportunities where wealthier taxpayers are able to structure their asset holdings in order to reduce their tax liability. Although the tax exemptions have resulted in a narrowing tax base, the data over time has shown that countries who implement wealth taxes have slowly expanded their tax exemptions, which has resulted in reduced tax revenue and has diminished the progressiveness of the wealth taxes. In introducing a wealth tax, it is important to ensure the wealth tax is progressive and is equitable in order to achieve the main objective of reducing financial inequality. It is also important to ensure the design of a wealth tax is in line with the OECD's fundamental principles of taxation. From the above examination from countries such as Switzerland, Norway and Spain, there are a number of asset types that have preferential rules with most of the assets being movable property such as furniture, jewelry and artworks and antiques. This is a consideration for South Africa in terms of which assets will have preferential rules and whether these would negatively harm the tax base for a wealth tax. However, consideration should be made that these assets are at risk of being undervalued by taxpayers and are also difficult to cross-check values by authorities in comparison to immovable property.

As previously mentioned, narrow tax bases have been one of the factors providing tax avoidance opportunities. An example of tax avoidance has been identified by Perret

(2021) where taxpayers avoid taxes through the exemptions of business assets. Alvaredo and Saez (2009) performed research on the introduction of a net wealth tax exemption for the owners of shares and equity and observed that wealthy business owners restructured their assets and activities in order to minimise the wealth tax required to be paid by taking advantage of the tax exemptions provided. This behaviour addresses tax avoidance opportunities arising; thus the question around how a wealth tax should be designed from a South African perspective including which exemptions would apply. The following chapter examines how the tax base should be defined for the introduction of a wealth tax.

Further to defining the tax base for a wealth tax, consideration should be given on the valuation rules. The Spanish progressive sliding scale table is a good example of how the tax rates could be determined from a South African perspective. In terms of the valuation, similar principles applicable in the tax legislation for capital gains tax from a South African perspective could be applied. According to Aebi and Eckert (2020), Switzerland provides broad guidelines but does not define what the market value of assets would be, however in contrast to the South African Revenue Services, there is a guide for determining the market value of assets for capital gains purposes. The onus rests on the taxpayer for determining the valuation of assets. There is a compliance burden if the onus rests on the taxpayer to determine the value of assets as well as additional compliance costs required for cross-checking performed by the South African Revenue Services to ensure that assets are not being undervalued. Countries, such as India, who previously had a wealth tax, discontinued the wealth tax due to the high compliance costs. In defining the tax base from a South African perspective in the following chapter, the examination includes whether the assets to incur a wealth tax would have accessible valuation guidelines that could easily be cross-checked by the South African Revenue Services.

Chapter 4: Wealth Tax Reforms in South Africa

4.1 Introduction

Post-apartheid South Africa required a process of tax reform to achieve the goals of developing the economy, as well as aiding in the alleviation of poverty. Tax policy has been used as a fiscal tool to assist in economic challenges in South Africa and across the world. The democratic transition in South Africa required work to be performed on the tax system which resulted in the Katz Commission being formed. The Katz Commission (1996) took into account the fundamental tax principles of good tax administration, including equity, neutrality, simplicity, and efficiency. The Joint Standing Committee on Finance that formed part of the post-apartheid tax reform, viewed the use of tax as a tool for assisting sustainable economic growth, as well as funding the socio-economic initiatives that form part of the redistributive function of government. This study examines the redistributive impacts that a wealth tax could have through government spending as part of chapter six. This chapter examines the Katz Commission's recommendations on forms of wealth taxes, such as land tax, capital gains taxes and capital transfer taxes. Furthermore, this chapter examines the Davis Committee's recommendations on the possible introduction of a wealth tax with the aim of defining the tax base for a wealth tax from a South African perspective.

4.2 Katz Commission Recommendations

4.2.1 Land Tax

The Katz Commission (1996) recommended a rural land tax at local government level based on the evidence obtained from their investigations. The Katz Commission did recognise that further work would be required on the merits of a local level land tax and whether the implementation would not have negative consequences. The following displays a summary of the issues raised by the Katz Commission (1996) for further investigation;

a) Whether there would be benefits derived from a local level rural tax;
b) Owing to the land tax being recommended on a local level, what roles would the national and provincial governments fulfil;
c) What framework would be used for the implementation of the land tax;
d) How would the tax base be defined, including who would be liable for the tax, the determination of the value, the applicable tax rate, which tax

exemptions and reliefs should apply as well as administration considerations, such as tax collection and enforcing compliance;

e) the relationship between the proposed land tax and RSC levies[9];
f) whether the proposed land tax would be an additional new tax or if it would replace existing taxes, and
g) The relationship between the land tax and municipal tax systems, including compliance with valuation methodology.

The above points raised by the Katz Commission address the same considerations made for the implementation of a wealth tax. For example, the benefit principle pointed out by the Katz Commission for a land tax concerns the consideration of a wealth tax depending on whether there would be any benefit, which would be an increase in tax revenue to fund the fiscal framework and for the redistribution of wealth. Other considerations for the land tax that consider how the tax base would be defined, as well as the assessment of the taxable value that are also current challenges for wealth tax proposals, as discussed in previous chapters. In terms of the considerations by the Katz Commission relating to a local tax and the role that national and provincial government could play, would have been similar to the Swiss and Spain cantons who levy their own wealth taxes, as discussed in Chapter 3.

The public submissions in relation to the rural land tax raised concerns around the investigation performed by the Katz Commission. Industries, such as mining and farming, viewed the proposed rural land tax as a barrier to entry for new landowners with high collection costs, hence resulting in the land tax not meeting its redistributive efforts. Similarly, based on the examination performed of wealth tax designs with regard to Spain and Norway, there are preferential tax rules associated to woods and forests (which can be seen as rural land) as well as land when it comes to the wealth tax implemented. The public perceived that the valuation of land would have a measure of subjectivity and potentially result in assets being overvalued by local government with the proposal of land valuation being revised to a national standard for rural land. The concerns raised

[9] RSC Levies related to the Regional Services Councils Act, 109 of 1985 where businesses were required to pay two levies. The levies consisted of the 'turnover levy', being a percentage of gross turnover derived by a business as well as the regional services levy or the 'payroll levy', being a levy payable on remuneration. RSC levies were eradicated in 2006 due to impacting equity. Highly commercialised cities, such as Johannesburg and Cape Town, would receive more levies as an example of the tax being inequitable.

by the public on local government overvaluing land underlines the importance of having an 'accountable authority' as described by Smith (1904) for the fundamentals of an appropriate tax system. The proposal for valuation guidelines is similar to the current wealth tax designs in Norway and Spain who having valuation guidelines in place.

4.2.2 Capital Gains Tax

At the time of the recommendations of the Katz Commission, capital gains tax was not recommended owing to the lack of capacity for tax administration at that point in time. The South African Revenue Service later implemented capital gains tax with effect from October 2001. The reasons cited by the South African Revenue Service addressed the absence of a capital gains tax providing tax avoidance opportunities to wealthy taxpayers who convert their taxable income into tax-free capital gains. The conversions had resulted in the erosion of tax bases from both corporates and individuals. In the view of the South African Revenue Service, the tax erosion reduced the efficiency and equity of the tax system which contravenes the fundamental principles of taxation.

Similar to the current reservations of introducing a direct wealth tax, the introduction of a capital gains tax had concerns with regard to impacting taxpayers' investment preferences. The South African Revenue Services viewed the options considering the opening values of the base cost, exemptions, rollover relief and the inclusion rate as mitigating factors in lessening the impact on capital investment decisions.

Capital gains tax has exemptions in place that assists taxpayers who are not wealthy such as the R2 million exemption for primary residence. This type of exemption promotes equity in line with the fundamental principles of taxation.

4.2.3 Capital Transfer Tax

The Katz Commission (1996) maintained and encouraged estate duty and donations tax as a form of a capital transfer tax. In the view of the Commission, the objectives of the tax system are two-fold, namely these objectives can be met both simultaneously and comprehensively. The Commission views that there is an opportunity cost between meeting the objectives of an efficient, reliable tax with administrative simplicity and equitable taxes with certain trade-offs being inevitable. In the view of the Commission, a wealth tax in the form of a capital transfer tax positively impacts the fairness of taxes including individuals who are disadvantaged, compared to other taxes in place. The Commission considered that income taxes and value added taxes are not sufficient

hence the need for the inclusion of wealth taxes in the system. The Commission however still recognised that there are flaws in wealth taxes. The view by the Commission addressed the main research problem of whether a wealth tax can positively impact wealth inequality. The view by the Commission also highlights that although there are challenges associated with the proposal of a direct wealth tax such as administration, capital flight, and tax avoidance, there can be mitigating factors in place that may not fully eliminate the challenges, however, may reduce the challenges to a reasonable level where the trade-off for introducing a wealth tax is beneficial.

The Commission performed comparative investigations by looking at research within South Africa, as well as other countries. The investigations performed by the Commission identified certain disadvantages with a capital transfer tax such as;

i. The complexities of capital transfer taxes resulting in challenges with administration and high costs of collection;
ii. Anti-avoidance measures to be put in place;
iii. Whether the revenue collected from capital taxes outweighs the costs of administration;
iv. Internationally, it has been observed that capital transfer taxes lead to an unproductive estate planning industry.

The above disadvantages recognised by the Commission in the 1990's are similar to the same challenges of wealth taxes from recent studies, as examined in the literature review section of this report. Researchers, such as Saez and Zucman (2022), identified administrative challenges with a wealth tax and tax avoidance challenges identified by Durán-Cabré and Esteller Moré (2021). At the time of this report, the Katz Commission (1996) observed that the countries used in their investigation had sophisticated methods of tax collection and still experienced challenges with achieving an effective capital transfer tax. The Commission viewed that South Africa should avoid putting effort into re-designing a capital transfer tax owing to the infancy of establishing an effective tax revenue services department. Much has changed in South Africa since the time of this report with South Africa having one of the top tax systems internationally. Research performed by Abdo et al. (2022) found that South Africa comes at the top of the rankings which reflects a tax system which is relatively progressive and has appropriate tax collection, which results in a tax system that can have a positive impact in reducing

inequality. Owing to the effectiveness of South Africa's current system, consideration can be given on the implementation of a wealth tax.

According to the Katz Commission (1996), a capital transfer tax that is appropriately designed would not be too complex, hence resulting in no administrative burden; the tax should be designed in such a way that the tax authority's resources would be able to ensure compliance as well as the tax achieving equity in the tax system.

It is the view of the Commission, based on the investigations performed, that South Africa should have a capital transfer tax to achieve horizontal and vertical equity. The Commission recognised the disadvantages, however owing to the concentration of wealth, the Commission viewed the introduction of a capital transfer tax as a trade-off. The above factors are similar to considerations for the introduction of a wealth tax.

At the time of the Katz Commission report (1996), South Africa already had in place capital transfer tax legislation and the Commission viewed the repeal of estate duty impacting the equity of the tax system. The Commission agreed with the view that estate duty taxes are ideal as they do not impact investment decisions. The opposite has been identified for net-wealth taxes by researchers, such as Chatalova and Evans (2013), that have cited capital flight as a reason why certain countries have abandoned wealth taxes. The Commission's report concluded that both estate duty and donations taxes are relevant and should remain.

Based on the recommendations and observations from the Katz Commission, an understanding of the history of how certain capital taxes have been brought in South Africa and the challenges faced at the time assists with how a new wealth tax could be introduced and implemented.

4.3 Davis Committee Recommendations

The Davis Committee was entrusted by the Minister of Finance to investigate the feasibility of a wealth tax in South Africa. The Davis Committee released a report in 2018 with their findings from the investigations performed as part of tax policy considerations.

The Davis Committee looked at certain asset classes for consideration of the tax base for a wealth tax in South Africa. The investigations considered the current taxes in place when determining whether a wealth tax would be appropriate.

4.3.1 Cash and savings

The Committee considered that interest returns on savings and cash have income tax levied as they are included within the definition of gross income and that interest returns are also taxable in terms of s24J of the Income Tax Act. The Income Tax Act does provide some relief for taxpayers where there is an annual exemption on interest. The interest exemption has remained the same at R23 800 (for taxpayers below 65 years old) and R34 500 (for taxpayers above 65 years old) as far back as 2015. Interest rates were at an all-time low at the beginning of the pandemic, with the South African Reserve bank increasing interest rates to stabilise inflation as well as to re-instate interest rates to pre-Covid levels. The Davis Committee (2018) was of the view that if cash and savings are subjected to wealth tax, there would be a decline experienced of the real growth rate of savings. The wealth tax on savings would also impact South African retired individuals who live on savings. The Davis Committee (2018) believed that government has implemented savings incentives in the form of interest exemptions, tax-free savings and retirement funds hence taxing this asset type would be the opposite of what government would like to achieve. Economists have mentioned that South Africans are largely in debt, have little savings and may not have enough to live on when they reach their retirement age, based on this, the observations by the Davis Committee can be agreed on, with wealth tax preferably not being levied on savings and cash.

4.3.2 Listed investments and collective investment schemes

In considering a wealth tax for listed and collective scheme investments, the Davis Committee (2018) analysed which taxes are already levied on this asset type. As observed from the initial Katz Commission report, South Africa previously did not have a capital gains tax hence disposals on listed investments and collective investment schemes were previously not taxable other than marketable securities taxes. Since the introduction of capital gains tax from October 2001, disposals on listed investments and collective investment schemes have been taxable. The capital gains inclusion rate has increased since the inception of the taxation. Dividends received by virtue of being a beneficial owner of shares is included as part of the gross income definition and is taxed at a rate of 20 percent. Some beneficial owners of dividends are however entitled to an exemption.

With the current existing taxes for this asset type, the Davis Committee (2018) observed that the imposition of a wealth tax would result in discouraging taxpayers from capital investments. The Committee also viewed an additional wealth tax on this asset type to result in South African capital being invested overseas, resulting in capital flight. Taxpayers would use the opportunity to move assets legally or illegally as a tax avoidance strategy. The observation by the Davis Committee is aligned with other literature reviewed in this report such as Chatalova and Evans (2013) on capital flight, as well as observations made by the Katz Commission.

4.3.3 Retirement funds

At the time of the Davis Committee report, South Africa's wealth of about R2,2 trillion was held in retirement funds. Retirement funds are exempt for capital gains tax and retirement fund death benefits are also exempt from estate duty. Changes have been made to the tax legislation with regards to retirement funds in order to allow taxpayers to accumulate wealth. The estate duty exemption that applies to retirement funds allows for the transfer of wealth to future generations.

South African wealthy taxpayers have been using retirement funds as a tax shelter when compared to other asset types such as privately held investments and savings. The Committee opposed the implementation of a wealth tax on retirement funds, citing the administrative burden. The Committee does view a solution to the administrative complexities by implementing a flat tax rate to retirement funds. The downside with the above proposal by the Committee would be that the flat rate would apply to wealthy individuals and individuals who are worse off hence impacting equity. Consideration can be given on introducing a sliding scale for a wealth tax on retirement funds, that way poor pension fund members would not be impacted. A study performed by Genesis Analytics, in conjunction with the Financial Sector Conduct Authority (2022: 50), found that "Under-saving for retirement is an issue in South Africa, as only 12 percent of the 3.6 million individuals in the retired age group received a form of income in 2020. More than 90 percent of retirees are unable to maintain their standard of living prior to retirement and two thirds of members have less than R50,000 in their retirement funds." Based on these statistics, it is important to consider that South Africans have substantial retirement funding gaps, hence the implementation of a wealth tax on retirement funds may be undesirable.

4.3.4 Immovable property (including land taxes)

At the time of the Davis Committee report, immovable property had transfer duty as a form of a capital transfer wealth tax. At the time of the Davis Committee report, the Committee highlighted that the consideration of a wealth tax on immovable property, specifically land, is a sensitive topic given the historical implications of Apartheid. The debates on the wealth taxation would need to consider the socio-political environment and cannot be discussed in isolation of the challenges. As at 2023, land debates are still taking place, hence there is still special consideration required on taxes on land.

South Africa currently has capital gains tax, transfer duty or VAT for newly acquired properties in terms of the Income Tax Act 58 of 1962. Individuals who own immovable property also have municipal property rates which are taxed on a local government level in terms of the Municipal Property Rates Act of 2004.

The Davis Committee (2018) identified the following benefits of a recurrent wealth tax on immovable property (specifically a land tax);

a) Owing to the supply of land being constant and not changing, economic efficiency would not be diminished if there was taxation levied on the land. Ricardo (1821) viewed the taxation of land resulting in market prices rising which would result in landowners requiring to increase their wages and in turn, diminishing the profits for landowners.
b) The ownership of land is easily identifiable hence establishing the taxpayer liable for the taxes would be easy.
c) The taxation on the land regardless of whether the land is being operated would incentivise the efficient use of land.
d) The taxation of land diminishes the possibility of inflating land prices hence resulting in a property market with more stable prices.

Based on the above, a recurrent wealth tax on immovable property would be appropriate as it has a smaller effect on investment decisions and that there could be rebates and sliding scales depending on the value of the land. A challenge to wealth taxes has been tax avoidance in the form of emigration (O'Donovan, 2021). Immovable property situated in South Africa has capital gains tax levied even for non-residents hence this particular tax avoidance strategy would not be a challenge.

The challenge with wealth taxes is whether taxpayers are liquid enough to pay over the tax as wealth is held in their assets and not as income. It would not be feasible for taxpayers to sell a portion of their land in order to pay over their tax liability to the South African Revenue Service. Mitigating factors to be put in place in order to ensure equity may include excluding farmers who are previously disadvantaged groups who have benefited from land redistribution policies, individuals who have retired, hence do not receive salaries, and instances where the land is owned by a tribe such as the Royal Bafokeng. According to the Davis Committee (2018), the listed exemptions may reduce the efficiency of the taxation on land hence would diminish the tax revenues collected. From observations by the Katz Commission (1996), certain trade-offs may need to be made in order for wealth redistribution, hence a wealth tax on land excluding previously disadvantaged groups, retired individuals and tribal land ownerships could still achieve the objective of closing the large wealth inequality gap.

Another challenge identified by the Davis Committee (2018) is the valuation of land. Municipal valuation rolls exist, however as previously discussed, municipal valuation are performed on a large scale with inconsistent techniques across municipalities. The Davis Committee (2018) is of the view that given the challenges that municipalities face in terms of the collection of the municipal rates and the misappropriation of funds in municipalities, it may be difficult to implement this tax on a national level. However, on a national level, consideration can be given as the South African Revenue Service is an independent chapter 9 institution and is one of the top functioning government institutions in the country, resulting in South Africa having one of the most efficient tax systems internationally. In terms of the misappropriation of funds once in the government pool, the sixth chapter of this research report examines whether government institutions meet their pre-determined objectives.

4.3.5 Recurrent taxes on net wealth

At the time of the Davis Committee report, only 3,8% of the submissions were in favour of the implementation of a recurrent net wealth tax. The Congress of South African Trade Unions (COSATU) and the Southern African Clothing and Textile Workers' Union (SACTWU) made a submission which advocated for a recurrent net wealth tax. The unions brought forward an idea of the tax rate ranging between 0,5 percent and 2.5 percent. The unions considered whether the wealth tax would be equitable and proposed to exempt persons with less than R1m in net wealth. COSATU and SACTWU highlighted

some considerations for what would need to be investigated prior to the introduction of a net wealth tax, namely;

a) Which assets should be included and whether it would be appropriate to tax retirement savings?
b) Which debts would be included in determining the net wealth?
c) What tax unit would be used, that is, would the wealth tax be levied on individuals or households?
d) How should persons be taxed depending on their residency?

To attempt to answer the questions, the analysis from Chapter three is used on current wealth tax designs in Spain, Norway, and Switzerland.

4.3.6 Which wealth to be included?

Pension savings or retirement savings are fully exempt from wealth taxes in Spain, Norway, and Switzerland. According to Perret (2021), the exclusion of retirement savings is justifiable on social grounds. As observed, tax systems should consider equity as one of the fundamental principles. Furthermore, based on the statistics observed from Genesis and the Financial Sector Conduct Authority on South Africans not having sufficient retirement savings, it is justifiable to exclude retirement savings from a net wealth tax.

Business assets are fully exempt from wealth taxes in Spain and have preferential tax rules in Norway and Switzerland. According to Statistics South Africa, the unemployment rate at Quarter 4 of 2022 amounted to 32,7 percent. With a high unemployment rate, it would not be desirable to levy a wealth tax on business assets as this may hinder entrepreneurs starting businesses that contribute to hiring more South Africans that could assist with unemployment. Similarly with IP rights that are exempt from wealth tax in Norway and Spain, South Africa as a country with high unemployment, assets as a result of innovation should not have a wealth tax levied.

According to the OECD (2018), providing tax relief to persons who live in their primary residences reduces the tax burden that would be experienced by middle class families whose substantial asset holding is their home. Income is also not generated from owner-occupied property hence the liquidity to pay the wealth tax liability would not be sufficient. The OECD (2018) identified that wealth tax treatment that provides preference to owner-

occupied housing may result in taxpayers moving their assets from productive economic activities such as commercial property to residential property. From a South African perspective, primary residence exemption of up to R2 million is applicable for capital gains tax which protects middle class taxpayers.

Artworks and antiques have preferential tax rules for Norway, Spain and Switzerland as identified in the previous chapter. Artworks and antiques should preferably be exempt from wealth taxes as the valuation of this asset type would have some subjectivity and would result in undervaluing of assets by taxpayers as a tax avoidance strategy.

4.3.7 Debt deductibility?

According to the Davis Committee (2018), the COSATU/SACTWU submission explained that the wealth tax liability should be unable to be reduced by assets that are exempt from taxation, such as primary residences, vehicles, jewellery, antiques, and interest-free loans, According to the OECD (2018), taxing net wealth is more equitable as it reflects the taxpayer's ability to pay. From the OECD's perspective, debt deductibility provides some tax avoidance incentive resulting in the narrowing of the wealth tax base. A strategy to reduce tax avoidance includes debt only being deductible when incurred to acquire taxable assets; according to the OECD, this will reduce taxpayers' incentive to invest in assets that are exempt from taxation and financing their savings in taxable assets by using debt, for example, Spain is a country that has excluded debts incurred to purchase exempt assets from deductible debts.

4.3.8 Tax Unit?

In certain cantons in Switzerland such as Zurich, there are specific tax tables for single individuals versus married individuals with children. The same applies in Norway where net wealth taxes are calculated differently for single taxpayers versus married taxpayers. In terms of the Income Tax Act, from a South African perspective where people are married in community of property a 50:50 split is done between the individuals on the taxes payable. The same principle can be applied in consideration of a net-wealth tax with tax being levied on individuals rather than households being the tax unit. The OECD (2018) assessed net wealth design tax design issues and found that there is a compelling case for using a household as the tax unit. Children who are dependents and have wealth would have it allocated to one of the parents. Taxing spouses separately also requires monitoring the transfer of assets between spouses. Currently the Eighth Schedule has

provisions in place for attributions of capital gains to spouses; if South Africa applied individuals as the tax unit, a similar attribution rule can be put in place for a net-wealth tax. South Africa has in place marriage regimes, such as out of community of property, hence assets may be able to be split to relevant spouses. Anti-avoidance provisions such as attribution rules with dependents in the Eighth Schedule can also be put in place for a net-wealth tax. South Africa has individual-based income taxation hence household taxation for wealth taxes would not be desirable.

4.3.9 Tax Residency?

Based on the analysis performed, Switzerland, Spain, and Norway levy wealth taxes on resident individuals for worldwide assets. Switzerland levies taxes on non-resident individuals on net assets that are attributable to permanent establishments in the country or immovable property owned in Switzerland. In terms of Spanish wealth tax law, non-residents are subject to wealth taxes located in Spain as well as rights that are exercised or fulfilled in Spain. In Norway , non-residents do not pay Norwegian wealth tax except for immovable property in Norway. The above principles are in line with OECD requirements in terms of residency principles. South Africa has similar tax residency principles in place for capital gains tax where non-residents are subject to capital gains on immovable property situated in South Africa and assets effectively connected with a permanent establishment in the country. The same residency principles can be applied for the implementation of a net-wealth tax.

Based on the above, a net-wealth tax may be possible from a South African perspective if countries such as Norway, Spain and Switzerland have been able to successfully implement a wealth tax. The possibility of a net-wealth tax is not out of reach, however taxpayers' perceptions on the implementation of a wealth tax will pay a role in the successful implementation. The next chapter considers a wealth tax on the equity of JSE listed companies and large private companies.

Chapter 5: Wealth Tax on JSE Listed Companies

Research performed by Saez and Zucman (2022) proposes taxing equity for all publicly listed companies and large private companies headquartered in G20 countries. The researchers propose taxing the companies at a rate of 0.2 percent of the value of its equity as an annual recurrent tax. The proposal considers equity owners as wealthy individuals, hence the proposed tax being progressive. Due to equity not necessarily being liquid, the proposal considers paying over the tax in cash or in kind by issuing new equity. Certain investors may be concerned of equity dilution due to new stock being issued, however at a rate of 0.2 percent, Saez and Zucman (2022) view the impact on dilution as minimal. As discussed in previous chapters, South Africa lost R45 billion in tax avoidance and tax evasion committed by multinational corporations. This indicates the need for a wealth tax on companies that is adequately designed to mitigate tax avoidance and tax evasion opportunities.

G20 members include Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States of America, and the European Union. The G20 has been designated as a “premier forum for international economic co-operation” after the financial crisis in 2007 and in 2009. As observed in the literature review, historically, philosophers such as Stuart Mill, viewed a global tax on capital as an utopian idea as agreements on a global scale were out of reach at that time. The G20 members make up 67 percent of the world population, 75 percent of the global trade and 85 percent of the global GDP. The global reach of the G20 countries makes a global wealth tax on equity possible, as it minimises the risk of certain corporations changing their listings to other countries as a tax avoidance strategy.

A key question arises from a South African perspective on firstly, which JSE companies would be liable for paying a wealth tax on their equity as well as who will be liable for the tax, that is, the equity holders or the companies. As identified from the Katz and Davis committee, an introduction of a wealth tax should consider the fundamental principles of taxation. For instance, would a wealth tax levied on JSE listed companies be considered equitable. The JSE currently has approximately 400 listed companies. There are certain disadvantages to listing, namely, the cost of listing and requirements beyond the Companies Act which may be expensive in terms of cost and management time. Companies may view a wealth tax on equity for JSE listed companies as an additional

disadvantage and may result in companies delisting.

Saez and Zucman (2022) suggest that companies headquartered in the G20 represent a substantial percentage or 90 percent of global stock market value. The tax to be paid would be based on the market value of the companies which would mean the largest companies would pay the most tax, this does make the wealth tax proposed equitable.

Part of the challenges of wealth taxes is the valuation. Listed equities have an observable up to date price hence eliminating the valuation challenges. The following table displays the market value of the top 40 JSE companies and their latest trade price as of March 2023.

Table 4: JSE Top 40 Share price

No.	Company	Market Value	Last Trade Price
1	BHP Group Limited (JSE: BHG)	R 2 658 070 000 000	543.23
2	Prosus N.V. (JSE:PRX)	R 2 490 750 000 000	1295.5
3	Anheuser-Busch Inbev (JSE: ANH)	R 1 918 330 000 000	1115.62
4	British American Tobacco (JSE: BTI)	R 1 616 740 000 000	666
5	Glencore plc (JSE: GLN)	R 1 396 050 000 000	102.16
6	Compagnie Fin Richemont (JSE: CFR)	R 1 359 910 000 000	273.52
7	Naspers Limited – N (JSE: NPN)	R 1 300 030 000 000	3095.92
8	Anglo American plc (JSE: AGL)	R 746 235 000 000	593.52
9	Firstrand Limited (JSE: FSR)	R 344 647 000 000	61.01
10	Standard Bank Group (JSE: SBK)	R 277 863 000 000	164.8
11	Anglo American Platinum Ltd (JSE: AMS)	R 266 438 000 000	1043.2
12	Vodacom Group Limited (JSE: VOD)	R 259 418 000 000	122.27
13	MTN Group Limited (JSE: MTN)	R 237 550 000 000	123.12
14	South32 Limited (JSE: S32)	R 231 313 000 000	51.07
15	Gold Fields Limited (JSE: GFI)	R 186 989 000 000	218.83
16	Capitec Bank Holdings (JSE: CPI)	R 185 754 000 000	1595.34
17	Anglogold Ashanti (JSE: ANG)	R 156 825 000 000	388.65
18	Sasol Limited (JSE:SOL)	R 146 722 000 000	232
19	Absa Group Limited (JSE: ABG)	R 145 576 000 000	173.01
20	Impala Platinum Holdings Limited (JSE: IMP)	R 145 322 000 000	173.77
21	Mondi plc (JSE: MNP)	R 137 975 000 000	294.01

No.	Company	Market Value	Last Trade Price
22	Kumba Iron Ore (JSE: KIO)	R 134 532 000 000	437.68
23	Bid Corporation Limited (JSE: BID)	R 128 758 000 000	385.65
24	Shoprite Holdings Limited (JSE:SHP)	R 127 362 000 000	217.32
25	Sanlam Limited (JSE: SLM)	R 120 012 000 000	54.53
26	Nedbank Group Limited (JSE: NED)	R 108 423 000 000	209
27	Sibanye Stillwater Limited (JSE: SSW)	R 105 892 000 000	37.89
28	Discovery Limited (JSE: DSY)	R 92 308 600 000	136.2
29	Bidvest Group (JSE: BVT)	R 86 892 500 000	255.07
30	Mediclinic International plc (JSE: MEI)	R 81 082 100 000	112.56
31	Aspen Pharmacare Holdings Limited (JSE: APN)	R 79 138 400 000	177.14
32	Northam Platinum Limited (JSE: NHM)	R 76 416 600 000	173.99
33	Remgro Limited (JSE: REM)	R 68 517 700 000	130.59
34	Investec plc (JSE: INP)	R 68 494 500 000	100.15
35	Reinet Investments S.C.A. (JSE: RNI)	R 68 213 000 000	352.13
36	Woolworths Holdings Limited (JSE: WHL)	R 65 097 000 000	64.33
37	Pepkor Holdings Limited (JSE: PPH)	R 63 820 000 000	17.27
38	Exxaro Resources Limited (JSE: EXX)	R 63 751 700 000	184.99
39	Nepi Rockcastle plc (JSE: NRP)	R 63 219 000 000	105.25
40	Clicks Group Limited (JSE: CLS)	R 61 934 100 000	252.59

Source: JSE Top 40

The top 40 JSE listed companies are across different industries, such as consumer goods, basic materials, technology, financial services, industrials, and telecommunications. The total market value for the top 40 JSE listed companies amounts to R17 872 371 200 000; if an annual wealth tax were to be levied at a rate of 0,2 percent wealth tax revenue raised would amount to R35 744 742 400 per annum.

Saez and Zucman (2022) view a rate of 0.2 percent as a rate that gradually socialises companies into paying a wealth tax. The concerns around the state owning companies would be reduced, the private ownership would merely be diluted on a year-on-year basis. The dilution would however be minimal due to the lower percentage. South Africa has the Public Investment Corporation SOC Limited (PIC) which is a 100 percent state owned asset management entity. The PIC focuses on social security which includes pension for employees of the state, as well as the unemployment insurance fund. If

companies opted to pay the wealth tax in kind, the PIC could be used as the public corporation who would be responsible for maintaining and monitoring the equity. Owing to the purpose of the wealth tax being to benefit South African citizens as well as to reduce inequality, the equity issued to the PIC should be placed in a separate fund for socio-economic benefits.

The downside with a tax solely on JSE listed companies would be the motivation for companies to delist. Saez and Zucman (2022) illustrate a solution which would be taxing the largest private businesses. The challenge from a South African perspective is that the financial statements for large private businesses are not always available to the public, however, may be made available to the South African Revenue Service. Section 30 of the *Companies Act no. 71 of 2008: 39,* prescribes the following;

"(1) Each year, a company must prepare annual financial statements within six months after the end of its financial year, or such shorter period as may be appropriate to provide the required notice of an annual general meeting.

(2) The annual financial statements must—

(a) be audited, in the case of a public company; or

(b) in the case of any other company—

(i) be audited, if so required by the regulations made in terms of subsection (7) taking into account whether it is desirable in the public interest, having regard to the economic or social significance of the company, as indicated by—

(aa) its annual turnover;

(bb) the size of its workforce; or

(cc) the nature and extent of its activities; or

(i) be either—

(aa) audited voluntarily at the option of the company; or

(bb) independently reviewed in a manner that satisfies the regulations made in terms of subsection (7) unless exempted if it is a private company."

According to Deloitte (2014: 2), the Public Interest Score (PIS) is calculated as the following;

"*a) Points equal to the average number of employees during the financial year;*

b) one point for every R 1 million in third party liability of the company, at the financial year end;

c) one point for every R1 million in turnover during the financial year, and

d) one point for every individual who, at the end of the financial year, is known by the company

(i) in the case of a profit company, to have a beneficial interest directly or indirectly in any of the company's issued securities; or

(ii) *in the case of a non-profit company, to be a member of the company, or a member of an association that is a member of the company.*"

With the Companies Act prescribing all public companies to be audited and certain companies with a high PIS score to be audited, this allows for reliability in terms of financial statement results as well as the market value of the equity to be used for the calculation of a wealth tax payable. As a suggestion on how to value the private companies for a wealth tax, Saez and Zucman (2022) propose using the valuations multiple of listed firms to comparable private firms. The valuation of private companies does lead to the question of whether the South African Revenue Service would have sufficient resources to perform the required valuations for these private companies and whether deploying these resources will have a benefit in comparison to the costs. Saez and Zucman (2022) propose that for large private companies with a single shareholder which may not have liquidity to pay the wealth tax in cash, the equity can be issued with the public shareholder being a notional shareholder and may redeem the share upon the sale of the company, stock issuance to new shareholders or when the company becomes public.

It is important to note that equity value does not necessarily correlate with current profits. Saez and Zucman (2022) provided an example with companies like Amazon and Tesla who would pay taxes sooner with a wealth tax rather than on corporate income tax. The wealth tax would be a tool that impacts wealthy shareholders and may reduce the proportion of the accumulation of wealth. As discussed previously, the world's ten richest men increased their fortunes by more than 50 percent from $700 billion to $1.5 trillion at a rate of $15,000 per day during the pandemic, hence this wealth tax proposed can be seen as progressive. With the tax having the opportunity to be paid in equity, it results in the taxes not impacting operational cash flows for running the company.

From a South African perspective, the issuing of debt results in incentives by companies in order to deduct interest on loans in terms of s24J and hence reducing the tax liability.

Saez and Zucman (2022) identified that a wealth tax on equity may result in contributing to the current tax bias of companies favouring debt. In order to mitigate this challenge, Saez and Zucman (2022) propose taxing corporate bonds as well, that way companies would not restructure their capital arrangement as a tax avoidance strategy.

Another challenge with implementing such a wealth tax is whether companies would buy into the implementation. Saez and Zucman (2022) found that corporate tax rates have significantly been reduced over the last four decades due to countries trying to attract investment by providing lower tax rates. South Africa reduced their tax rate to 27 percent with effect for years of assessment ending on or after 31 March 2023. South Africa's corporate income tax rate is relatively high with tax collections from companies being above the OECD average of 23 percent but is relatively low compared to other emerging economies, such as Brazil, India, and Mexico. South African company taxes are also highly concentrated among large companies with a very small number of companies being the main contributors of tax revenue collected from corporate income tax. Taxes collected from individuals and goods and services exceed taxes collected from companies. Corporate income tax revenues have been declining with GDP since the 2008 Global Financial Crisis, as per the following table from National Treasury;

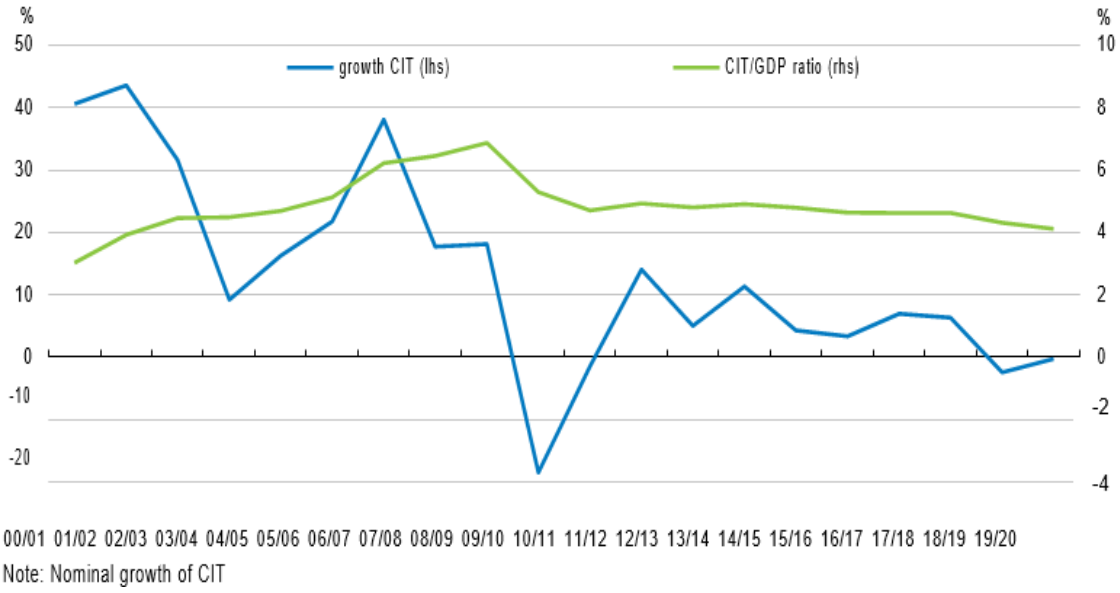


Figure 1: Growth of Corporate Income Tax

Source: OECD (2022)

With corporate taxes declining, there is an opportunity for a wealth tax to be imposed on companies. Further work would need to be performed on the feasibility of a wealth tax on companies, specifically on how the markets would perceive a wealth tax on

companies. It is important to note that the success of a wealth tax being imposed is dependent on international agreements in order to avoid capital flight. National Treasury has pointed out that corporate tax rates have been reduced to encourage business and to make South Africa competitive due to corporate taxes declining internationally; this further highlights the importance of such a wealth tax being imposed with international agreements in order to not disadvantage South Africa.

Chapter 6: Overcoming inequality through wealth taxes

6.1 Introduction

As observed in the literature review, historical philosophers, such as David Ricardo, have been against the taxation of capital. Part of the reason was the concern of government consuming tax revenue instead of accumulating it. Adam Smith, as the founder of the pillars for tax systems, highlighted the importance of an 'accountable authority'. South African individual taxpayers contributed R553 951 million for the 2021/2022 tax period and contributed 60,7 percent of the total tax revenue collected[10]. Based on the taxes paid by individuals, the benefit principle is a key matter in taxpayer buy-in for the implementation of a wealth tax. The aim of this chapter is to identify where in government spending can a wealth tax be used to reduce inequality against David Ricardo's reservations. South African taxpayers have reservations in contributing to taxes due to corruption in the country, this chapter also considers whether South Africa has an 'accountable authority'.

6.2 Legislation around Government Spending

According to National Treasury, the *Public Finance Management Act, 1 of 1999(PFMA)* is intended to assist with regulating the management of national public funds which includes financial statement line items, such as the balance sheet (assets and liabilities) as well as the income statement for revenue and expenditures. Researchers, such as Madue (2007), view the legislation as supporting the process of public administration to achieve sustainable development and high-level public services. According to Madue (2007), the legislation introduces uniformity which was a previous challenge due to different legislation applying to different government institutions. The challenges resulted in a lack of accountability in government spending, however, even with the amended legislation, compliance with the Public Finance Management Act remains a challenge. Madue (2007) found that certain compliance strategies may be employed to ensure adequate public financial management that can aid in the successful development of South Africa. The Medium-term Expenditure Framework (MTEF) which is a three year budget for public institutions, should align with compliance strategies and should include key performance indicators that are measurable with clear outcomes (Madue, 2007). The

[10] The latest tax statistics were released as part of the15th annual edition, released on the 3rd of March 2023 for the 2021/22 fiscal year..

Auditor General of South Africa is an independent 'chapter 9' institution of the Constitution of South Africa; part of their audits includes the audit of pre-determined objectives which is ensuring that reliance can be placed in material aspects on the annual performance report of public institutions, including how they meet key performance measures and indicators. The Public Audit Amendment Act was enacted in April 2019 which provided the Auditor General of South Africa more powers beyond reporting, due to the consistent reporting of irregular, unauthorised and fruitless and wasteful expenditure. The powers extended to the Auditor General of South Africa allow for suspected material irregularities to be referred to public bodies such as the Public Protector or the Special Investigating Unit. The powers also allow the Auditor General of South Africa to make recommendations in the audit report on how the material irregularity should be addressed within a specific time period. The legislation in place does indicate an accountable authority for taxpayers in line with the pillars for an adequate tax system by Smith (1904).

6.3 Wealth Tax and Public Finance

Tax revenue generated from wealth taxes can be used in public spending for programmes that positively impact inequality. Thomas Piketty, as cited by Mattauch et al. (2022), recommends using tax policy, specifically taxes on capital, to finance public investment to reduce inequality. Researchers, such as Mattauch et al. (2022), explored Thomas Piketty's idea and found that capital taxation is successful in reducing wealth inequality in the long run if the expenditure is used for public investment.

In assessing the wealth tax impact through government spending, an examination of the Department of Social Development's pre-determined objectives is performed in this chapter. The annual performance report for 2021/2022 has the following programmes in place;

i. The first programme dealt with administration, with the objective of providing working structures to the Department.

ii. 'The second programme dealt with social security, with the objective of providing adequate social assistance, for instance, social relief grants.

iii. The third programme dealt with improving the policy regarding the above two programmes, with the objective of providing better policymaking, administrative efficiencies, and the reduction of erroneous grant payments.

iv. The fourth programme primarily dealt with implementation support with the objective of providing a conducive climate for service delivery.

v. The fifth programme dealt with integration with the objective to align all of the programmes in order to achieve ultimate social development.

Part of the pre-determined objectives includes the department ensuring social security. The department funds the agency that is responsible for administering grants to individuals who require government assistance. This includes child grants, disability grants as well as pension payments to senior citizens. This exercise cost the department R234 billion for the payment of social grants to support qualifying citizens. The unemployment Covid relief grant also required funding of R26.2 billion for 2021/22. The department also aimed to propose policies to assist with income support for risks that citizens face, such as pension, physical and mental incapacity, joblessness, and ill-health. The proposed policies would assist citizens who bear the brunt of inequality in a South African context. Based on the programmes run by the department, these initiatives form part of government spending that assists poorer South Africans.

The following table illustrates the amounts budgeted and spent by the Department of Social Development to meet their pre-determined objectives.

Table 5: Annual report for Department of Social development 2021/2022

Departmental receipts (All in '000 Rands)	Estimate	2021/2022 Actual Amount Collected	(Over)/Under Collection	Estimate	2020/2021 Actual Amount Collected	(Over)/ Under Collection
Administration	474 797	472 269	2 528	426 560	391 451	35 109
Social Assistance	224 542 226	222 717 897	1 824 329	220 606 557	218 945 760	1 660 797
Social Security Policy and Administration	8 072 401	8 052 807	19 594	7 585 831	7 548 537	37 294
Welfare Services Policy Developmentand Implementation Support	1 516 316	1 505 208	11 108	1 842 277	1 718 632	123 645
Social Policy and Integrated ServiceDelivery	366 378	360 751	5 627	346 073	318 322	27 751
Total	**234 972 118**	**233 108 932**	**1 863 186**	**230 807 298**	**228 922 702**	**1 884 596**

Source: Department of Social Development annual report 2021/2022.

A wealth tax collected from the Top 40 JSE listed companies, as discussed in the previous chapter, would amount to R35 744 742 400 per annum. The wealth taxes collected could assist in contributing to the expenditure for social development. During the 2021 adjusted budget, more financial resources were required for the Covid-19 relief grant amounting to R26,2 billion, including R500 million in order to improve the current systems in place used by citizens to apply for the grant as well as to assess eligibility and to process payments to eligible grant recipients. The above additional funds indicate the need for additional tax revenue through a wealth tax. From a South African perspective, the challenges, such as irregular and fruitless expenditure, may lead to taxpayers not experiencing the 'benefit principle' as per one of the tax pillars mentioned by Smith (1904). The department incurred irregular expenditure amounting to R14 667 000 and fruitless and wasteful expenditure amounting to R430 000 for the 2021/2022 period. The irregular expenditure incurred mainly related to non-compliance with the PFMA, specifically supply chain processes. The department has referred cases for investigation in order to implement consequence management for officials who are guilty of incurring irregular, fruitless and wasteful expenditure, as well as implementing consequence management to recoup moneys lost. This may indicate that there is a drive by government to recover from non-compliant expenditure to improve the management of public finances, The drive by government to account for irregular expenditure may

build confidence in the system and may point to the presence of an accountable authority as a tax pillar, however independent reports by the Auditor General of South Africa should be considered to determine the status of public administration.

6.4 Challenges in Public Finances

The Davis Committee (2018) recommended against a wealth tax in the form of land taxes, citing the extent of corruption within some municipalities and agreed with the OECD on the first step for the implementation of wealth taxes being the need to address not only capacity or resources for implementation but also law enforcement. Based on the Auditor General of South Africa's report for 2021/2022 on National and Provincial Audit Outcomes, there is the National Development plan from 2013 with an end date of 2030 and the Medium-Term Strategic Framework from 2019 with an end date of 2024. Departments and public entities also have annual performance plans which consist of targets and indicators to achieve their five-year strategic plan in order to ensure that the public institutions delivers on their promised services. The above plans highlighted by the Auditor General indicate compliance strategies mentioned by researchers such as Madue (2007) to ensure good public administration. The Auditor General (2022) found inadequate annual planning and that many public institutions excluded their key performance indicators from their annual performance plans which has been highlighted by Madue (2007) as an important compliance strategy. According to the Auditor General, the impact is that if the State excludes their performance indicators from their reporting, they are unable to measure their progress in delivering their objectives for the country. It is imperative for targets to be reliably measured and accounted for in order to ensure service delivery. Incomplete annual performance plans also indicate that there is no transparent reporting on how public institutions are performing against their pre-determined objectives, as well as the programmes that they have set out. The Auditor General highlights the importance of accountability where there has been allegations of the misuse of public finances. The Auditor General performed 99 audits on departments and found that just under 50 percent of those audits took more than a quarter of a year to complete investigations of financial misconduct. One out of five departments did not initiate an investigation. Furthermore, just over 10 percent of the departments audited did not implement consequence management. Based on the findings by the Auditor General, the thoughts echoed by the Davis Committee still stand on focusing on building confidence in government institutions prior to introducing a wealth tax.

6.5 Observations

Based on David Ricardo's reservations of taxes on capital, South Africa does have government spending in place that assists in wealth inequality by institutions such as the Department of Social Development. Wealth tax revenues can assist in the government expenditure, as observed that the budget for the Department of Social Development amounts to R233 108 932 000 which points to the need for additional tax revenue. However, based on the tax pillars, consideration should be given to whether the additional tax revenue will be appropriately spent by government and whether there is accountability in public administration. Based on the findings by the Auditor General of South Africa, the outcomes point to additional work being required to improve accountability with public finances. The introduction of a wealth tax with the current state of public finances may result in tax avoidance and tax evasion by taxpayers.

Chapter 7: Conclusion

The proposal for the introduction of a wealth tax is a topical discussion owing to increasing inequality post-Covid internationally. From the observations of tax reform in South Africa, the country has come a long way with regards to our tax system which suggests the possibility of introducing a wealth tax. The SARS Commissioner agreed for the 2023 budget that there is no need to introduce a wealth tax, however with increasing fiscal pressure and high public debt, the discussion around wealth taxes remains relevant.

As observed from the literature review, the challenges of implementing a wealth tax has resulted in some countries abandoning wealth taxes altogether. Anti-avoidance measures can be put in place to mitigate this, such as reducing the chances of undervaluing assets at assessment dates by using averages. For debt deductibility with regards to an annual net-wealth tax, there is a consideration for only allowing debt to be deducted that is incurred to acquire taxable assets. Challenges, such as capital flight, can be reduced for certain asset bases, such as immovable property, as well as international agreements for wealth taxes.

Countries, such as Norway, Spain and Switzerland, have successfully implemented wealth taxes by designing wealth taxes that adequately consider residency rules, tax bases and valuation rules. Spain's progressive sliding scales for their wealth taxes can be implemented by South Africa which would be similar to our individual income tax scales; this will maintain the principle of progressiveness. As identified by defining tax bases and providing exemptions, consideration should be given to not providing excessive exemptions that result in narrowing the wealth tax base thus reducing the redistributive impact of a wealth tax. Other considerations include valuation guidelines for assets that are fair and are accurate in ensuring that taxpayers are not undervaluing assets to reduce their wealth tax liability.

The understanding that has been obtained from South African tax reforms, such as the Katz Commission, as well as investigations by the Davis Committee, has highlighted certain key issues for consideration specific to the South African climate. For instance, the consideration of a land tax takes into account specific implications, such as tribal land as well as land owned by previously disadvantaged groups. This provides nuance in how

to approach a wealth tax to ensure that the objectives of redistribution are met without further disadvantaging certain taxpayers. From the examination performed, it can be confirmed that a wealth tax being levied on retirement funds, business assets and cash and savings would not be ideal given the South African economic climate. Strides have been made from a South African tax system perspective, a case in point, a capital gains tax was not seen as a possibility at the time of the first Katz Commission report. Times are changing and a wealth tax as a tool to redistribute wealth is becoming an option.

The proposal of a wealth tax on the equity of the top 40 JSE listed companies and large private companies does require careful consideration. The positives of this type of wealth tax are that it increases the tax burden to companies rather than individuals, especially considering the decline of corporate taxes, as observed. Other challenges include the cost implications of valuing private companies and whether the South African Revenue Service would need to outsource the expertise required for valuations. Unfortunately, excluding private companies from this type of wealth tax could result in JSE listed companies delisting.to avoid additional taxation. The consideration of a wealth tax on the equity of JSE listed companies and large private companies does require some more research to be performed on the impact this type of tax would have on the South African capital market.

Finally, the burning question remains whether the implementation of a wealth tax would be beneficial in a South African context, given the high corruption. South Africans' concerns have been a consideration dating back to the 1900s by philosophers such as David Ricardo's concern about government merely spending tax revenue. From the examination performed, South Africa has legislation and independent bodies in place to ensure accountability. The Auditor General of South Africa who has been granted extended powers by the amended Public Audit Amendment Act which was enacted in April 2019 does provide some level of comfort on accountability being associated to public finances. From the examination of the Auditor General of South Africa's annual report for 2022, there are indications that there is still work to be done by public institutions to ensure that there is consequence management for irregular expenditure and fraud. As proposed by the OECD, law enforcement should be improved prior to the introduction of a wealth tax. Owing to the Public Audit Amendment Act of South Africa being implemented recently with an initial phased-in approach for significant public

institutions, there is some time required to understand the impact of the amendment on improving public finances.

With the above said, the tax revenue generated from wealth taxes can play a significant role in funding public projects that improve socio-economic circumstances. The examined programme by the Department of Social Development is an example in government that can improve the lives of South Africans who are significantly impacted by inequality. There is room for empirical research to be performed on the perspectives of South African taxpayers on the implementation of a wealth tax in order to gain further insight. Further research to be performed also includes a quantitative analysis on the impact of a wealth tax on the equity of top JSE listed companies and other large companies on the South African markets. The possibility of a wealth tax on the equity of companies would need to be mainly driven in fora such as G20 in line with an international tax agreement, as mentioned by historical philosophers such as John Stuart Mill, in order to prevent investments and capital being moved out of the country.

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