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# Nailing down a wealthtax

## **BOTTOM LINE:** COSTS TO IMPLEMENT MAY EXCEED INCOME

» Getting money out of the wealthy has never been easy, as submissions on a proposed wealth tax demonstrate.

#### **Inge Lamprecht**

s attractive as it may be to tax the wealthy, proposed wealth tax options before the Davis Tax Committee (DTC) would be extremely complex and difficult to administer, the Fiduciary Institute of Southern Africa (Fisa) has submitted.

"While a country like South Africa cannot afford a perception that the tax system fails to tax the rich adequately, care should be taken to avoid hurting the middle class and future high net worth individuals," Louis van Vuren, CEO of Fisa, notes.

### Three choices

The DTC in April called for submissions on three forms of wealth taxes – a land tax, a national tax on the value of property (over and above municipal rates) and an annual wealth tax.

Some tax practitioners have expressed concern that the compliance cost and market distortions associated with a wealth tax may exceed the benefits. Van Vuren says much research must be done to determine the costs and efficiencies of the proposals.

"The existing taxes in South Africa are already highly progressive. Just in terms of income tax, those taxpayers with a taxable income in excess of R1 million make

up only 3.5% of the total number of taxpayers, while contributing

38.5% of the income tax revenue.

"The poor do not pay any estate

capital gains tax or income tax. In fact, it is submitted that the high level of inequality is not due to a lack of redistribution through the tax system, but more the result of lack of economic growth and the failure of the education system to produce entrepreneurs and employable individuals."

Fisa's submission notes that all private owners of land are not necessarily wealthy individuals, which means that a threshold value will have to be used.

"As a result of a need to discriminate between wealthy and not-so-wealthy land owners, a land tax will have to be so complex that it is doubtful whether it will be an efficient source of fiscal revenue."

Van Vuren also argues that a national tax on the value of property will suffer from some of the same deficiencies as an annual land tax.

Thresholds will have to be introduced and a very wealthy individual may own several pieces of property, which will all fall under the threshold, he says.

"The required level of complexity raises serious questions about the compliance and enforcement cost, as well as the ability to enforce."

The South African Institute of Professional Accountants (Saipa), argues the tax base will grow by introducing wealth taxes. "It is more likely to shrink the

existing tax base."

## **Oriental** wisdom

Countries like India have abolished wealth taxes and replaced them with a surcharge on wealthy technical executive, notes.

taxpayers. This can be a lesson to South Africa, Faith Ngwenya, its Erika de Villiers, head of tax policy at the South African Institute of Tax Professionals, says "more time is needed to com-

ment on a wholly new tax, on

which there are sharply divided

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