

An Investigation into the Introduction of a New Wealth Tax in South Africa

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Abstract

In a world of economic uncertainty and manifold social problems, South Africa has its own unique challenges of low economic growth, persistent budget deficits that produce increasing government debt and the highest level of economic inequality in the world. The history of injustice and economic marginalisation and the failure of the economy to provide inclusive growth drives an urgent need to address economic inequality through tax policy, placing ever more focus on wealth taxes as a possible solution. There is a hope is that taxing the wealthy may provide the opportunity to redistribute desperately-needed resources to those denied the opportunity to build wealth and who are trapped in the cycle of poverty. Yet, as appealing as a new wealth tax may seem, the introduction of such a tax carries with it a range of risks, not all of which are known. Of great concern is the possible effect on the economy, which, in its vulnerable state, cannot afford any loss of capital and investment. Very little research has been done on wealth tax in the South African context and there is a dearth of literature focusing on the views and perceptions of the wealthy individuals themselves. This qualitative study investigates the merits and disadvantages of a new wealth tax and seeks to identify any unintended consequences that could result from the implementation of a new wealth tax in South Africa, drawing from historical and international experience and primary data obtained from interviews with individuals likely to be affected by such a tax. Having explored the literature and international experiences with wealth tax and having probed the thinking of wealthy individuals who would be the payers of a wealth tax, the study finds that a new wealth tax may contribute towards the progressivity of the tax system, but it is doubtful whether such a tax would provide a sustainable revenue stream that would be sufficient to address economic inequality and there is a risk of causing harm to the economy. Recognising that the motivation for wealth taxes is often driven more by political argument and public perception than by rational quantitative analysis, the study also anticipates the introduction of a new wealth tax and suggests guidelines for the design of such a tax within the framework for evaluating a good tax system. This study informs the debate on wealth taxes in South Africa and contributes to the design of such a tax, should it be implemented.

Keywords: Taxation, wealth tax, inequality, tax policy, South Africa

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Chapter 1. Introduction

Taxes exist mainly as a means of raising revenue to fund government expenditure (AICPA, 2017; Bird, 1992). Having originated in times of despair, with the main objective of funding specific needs, such as the costs of war, taxes have become much more prevalent over the last century as governments' funding needs have become ever more demanding (Thuronyi, 1996; Vivian, 2006). In the modern milieu, taxes are being used increasingly as economic policy tools that seek to drive and constrain certain behaviour and economic choices, and to address economic deficiencies (Acheson & Lynch, 2017; Bird & Zolt, 2003; Leicester, Levell, & Rasul, 2012). As the role of taxes has become more pivotal in economies, tax systems have become more complex, with an ever-expanding range of different forms of taxes (Mendel & Bevacqua, 2010). Generally, taxes fall into three main categories, being taxes on revenue, taxes on consumption and taxes on assets, or wealth taxes (Thuronyi, 1996).

This thesis is a study of wealth taxes in the South African context. The study is relevant in an era of an increasing focus on wealth taxes for the dual purpose of providing additional tax revenue and as a solution to long-existing economic imbalances. Both needs drive tax policy decisions in many countries around the world and are particularly prevalent in South Africa, which has increasing government debt due to ongoing budget deficits (Republic of South Africa, National Treasury, 2016) and the highest level of economic inequality in the world (World Bank, 2014).

A wealth tax is a tax on assets. The term “wealth tax” has been well-described by Ernst and Young (2015:12) 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.

This Chapter establishes the context of a study of wealth taxes in South Africa with a literature review that explores existing knowledge on the topic, starting with a description of wealth taxes and explaining the focus on wealth taxes in South Africa. It then explains the research goals of the study, the scope and limitations of the study and the methods, procedures and techniques

that were used in the study. The starting point of a study in wealth taxes is to explain what is meant by “wealth taxes”.

1.1 Wealth taxes described

Wealth taxes are unique and distinct from taxes on income and consumption. This section of the Chapter provides a foundation for the ensuing study. It explains the nature and definition of wealth taxes for the purposes providing a background for this study, considers the arguments in favour of and against wealth taxes and explores the role of wealth taxes in addressing economic inequality. The first and most fundamental question to be addressed in the foundational discussion is “what is a wealth tax”? This is discussed below.

1.1.1 What is a wealth tax?

The essence of a wealth tax is that it is levied on a person’s net wealth. Much of the structural debate hinges on the scope of the wealth tax and more specifically, which assets are included, which liabilities may be deducted and what exemptions and rebates may apply. There are various types of wealth taxes, as described in the following paragraphs.

1.1.2 Wealth taxes compared to other forms of taxation

The different types of taxes can be classified into three main groups. The most common tax base is income. The next is consumption taxes, which include taxes on specific items such as carbon emissions, fuel, imports and exports, electricity usage, plastic bags and cigarettes. Lastly, there are taxes on assets or capital. These taxes take various forms and in the broad sense, may be referred to as wealth taxes, being taxes on the net assets of individuals and, in some cases, privately-held companies. Although wealth has been used as a basis for taxation in some countries, to a greater or lesser extent, wealth taxes are nowhere near as pervasive as taxes on income and consumption. Although there have been renewed calls for a more comprehensive network of wealth taxes around the world, these taxes are often controversial and are not widespread, as is discussed in Chapter 5. As observed by Roine and Waldenström (2014:7), “though information on the distribution of wealth has been collected throughout history (the

Doomsday Book from 1086 in England being an early and well-known example) wealth holdings have not typically been taxed in a systematic way”.

Income taxes, consumption taxes and wealth taxes have a common basis in that they are all taxes on property (Davies, 1984) but they are differentiated by the timing of the tax, with income taxes being a tax on revenue, thus effectively being a tax on property when it is first received, consumption tax being a tax on property when it is consumed (at the end of the ownership cycle) and wealth tax being a tax on property during the course of ownership. Wealth taxes may be levied on a recurrent basis or upon the happening of an event such as death. Income and consumption taxes work well together in many tax systems; however, how successfully wealth taxes work together with income and consumption taxes is subject to debate. Shakow and Shuldiner (2000:503) argue that wealth taxes have a complementary role in a tax system as they provide a means of taxing “substantial income from wealth [that] effectively goes untaxed under the current income tax system”. Nonetheless, wealth taxes imposed in conjunction with income taxes, are sometimes perceived as a double tax because the same income that has been the subject of the income tax is then subject to wealth tax once it is invested. Wealth taxes can also have a negative effect on consumption tax as they deplete the property of the taxpayer, thereby depleting the consumption tax base. Vivian (2006:83) argues that “once income is taxed directly, all other taxes are paid out of after-tax income, and thus become forms of double taxation”.

Whilst there are benefits and disadvantages of wealth taxes, there are also disadvantages of *not* having wealth taxes. The absence of a wealth tax allows unconsumed property to remain untaxed and even allows the property to be transferred, untaxed, from one generation to the next, facilitating the preservation of pockets of wealth, which contributes to ongoing or even increased economic inequality. Wealth taxes are seen to have a pivotal role in breaking repeated transfers of wealth holdings as they serve to redistribute wealth away from family dynasties, towards the broader benefit of society. It is recognised that, as with any redistribution policy, the extent to which wealth taxes are progressive and effective in reducing economic inequality depends very much on how the tax revenue is spent. The present study, is, of necessity, focused on the tax or revenue side of the budget and does not evaluate the expenditure side.

The next section provides a description of the various types of wealth taxes.

1.1.3 Types of wealth taxes

Wealth taxes take various forms but mostly fit into three categories: taxes on existing wealth or net wealth holdings; taxes on the transfer of wealth; and taxes on the increase in value of wealth (Chatalova & Evans, 2013:436). These three types of wealth taxes are explained in broad terms in the following paragraphs.

Taxes on existing wealth are usually applied by way of either a once-off levy (for example, Bach, Beznoska & Steiner, 2014) or a recurrent tax on net assets (see for example, McDonnell, 2013). South Africa has never had a tax on net wealth holdings and few countries internationally currently have such a wealth tax in place, as is demonstrated in the more detailed discussion on the international experience with wealth taxes, which follows in the next section of this Chapter.

Taxes on wealth transfers include estate and inheritance taxes. Inheritance taxes are generally seen as less distortionary than recurrent taxes on net wealth as they are levied on unconsumed assets at the end of a person's lifetime, thus avoiding the taxation of life-cycle savings, and as most inheritances are unplanned (Auerbach, 2006) there is little opportunity for arbitrage. These taxes are more prevalent than taxes on net wealth holdings, but they have decreased in popularity in developed countries in recent times, mainly as a result of low tax revenue yields and administrative complexities and enforcement capability. Whereas all countries in the Organisation for Economic Cooperation and Development (OECD) had wealth transfer taxes in the 1960s, only two thirds of these countries have retained them (Evans, 2013). Australia and Canada, for example, abolished death taxes in the late twentieth century (Bird, 1991). The reduced prevalence of wealth transfer taxes is also evident in developing countries, with Bangladesh, Indonesia and Pakistan being examples of countries that have abolished these taxes in recent years (Evans, 2013). The international experience of wealth taxes is discussed in Chapter 5. Although wealth taxes have declined in use internationally, they remain in South Africa in the form of estate duty levied in terms of the Estate Duty Act, No. 45 of 1955 (Estate Duty Act), donations tax levied in terms of sections 54 to 56 of the Income Tax Act, No. 58 of 1962 (Income Tax Act) and wealth transfer taxes in the form of transfer duty levied in terms of the Transfer Duty Act, No. 40 of 1949 (Transfer Duty Act) and securities transfer tax levied in terms of the Securities Transfer Tax Act, No. 25 of 2007 (Securities Transfer Tax Act).

Inheritance taxes can be levied on the deceased person's estate, as occurs in South Africa's estate duty, or on the inheritors. The International Monetary Fund (IMF) postulates that the latter approach is preferred as it encourages distribution to a wider range of inheritors, each with their own exemption and it allows the rates to vary between inheritors (Johansson *et al.*, 2008). The advantage of estate duties is that they have little effect on economic decisions and are thus seen as efficient (Duff, 1993). The role of estate duty in South Africa is discussed in detail in Chapter 4.

Taxes on capital appreciation generally take the form of capital gains tax, which is levied when the asset is sold (Paragraph 11 of the Eighth Schedule to the Income Tax Act). As capital gains tax is levied on an increase in value of an asset, albeit when the asset is realised, there is an argument that capital gains tax is a tax on income rather than a tax on wealth (Chatalova & Evans, 2013). The inclusion of capital gains tax in the category of income taxes rather than wealth taxes is based on the Schanz-Haig-Simons definition of income, described as "the gold standard of income tax theory and tax policy discussion" (Dodge, 2013:1), which posits that income consists of an individual's consumption plus net increases in wealth over a period, or stated differently: "income is the total accretion to wealth over a period of time consisting of monetary increases in wealth plus imputed income and consumption expenditure for the time period" (Minas & Lim, 2013:192). In South Africa, as is the case in various other countries such as Australia, capital gains tax is levied not only on disposals of assets but also on other events, often referred to as "deemed disposals", where a person has not actually disposed of his or her assets, but a certain event has occurred, such as death or emigration (sections 9H and 9HA of the Income Tax Act). Furthermore, whereas taxable capital gains are added to a person's taxable income (section 26A of the Income Tax Act), capital losses may not be deducted from taxable income; they may only be set off against capital gains (paragraph 9 of the Eighth Schedule to the Income Tax Act) and such set-off is disallowed in certain circumstances (for example, paragraphs 19 and 39 of the Eighth Schedule to the Income Tax Act). These rules, which extend the reach of taxable capital gains and limit the relief available for capital losses, take capital gains tax beyond a pure income tax and into the realm of wealth taxes. For this reason, although capital gains tax is often excluded from wealth taxes *per se*, this study includes a discussion of capital gains tax within its scope.

There are arguments both for and against the use of wealth taxes.

1.1.4 Motivations for and against wealth taxes

Wealth taxes are generally motivated by two main objectives: to raise additional tax revenue that contribute towards meeting the demands of government spending, and as a redistribution tool to address economic inequality.

Proponents of wealth taxes typically argue that such taxes provide a solution to the challenges of ongoing continued budget deficits and low economic growth and address the huge economic imbalance that exists in most parts of the world by shifting the tax burden away from labour and consumption towards wealth (Bach, Beznoska and Steiner, 2014). Boadway, Chamberlain and Emmerson (2010:786) identify that a wealth tax can reduce economic inequality and promote equity in complementing the income tax system as “taxing income itself is an inadequate yardstick for determining ability to pay taxes and does not take account of the benefits from holding capital over and above the income derived from it”. Wealth taxes can also support compliance as they provide the opportunity for obtaining disclosures from taxpayers that can be cross-checked with information provided in other tax returns (Boadway *et al.*, 2010:786; Shakow, 2000:531; McDonnell, 2013:7; and Rudnick & Gordon, 1996:4).

Evans (2013) lists five arguments in support of wealth taxes. First, he opines that wealth taxes provide an opportunity to achieve horizontal equity, which is the equal treatment of those with equal capacity, by supplementing income tax in the case of those who have taxable wealth capacity. Secondly, wealth taxes promote vertical equity through progressive taxation of those with wealth. Thirdly, wealth taxes promote efficiency in that imposing a charge on wealth regardless of the income generated by the underlying assets encourages assets to be used more productively. Fourthly, wealth taxes assist in tax administration by providing useful information on assets, which aids in reducing evasion of other taxes. Lastly, wealth taxes can provide useful signals for society that the poor have not been overlooked. These attributes are valid in themselves, but their value can only be realised if the wealth taxes yield an economically viable amount of tax revenue and it is on the point of revenue-creating potential that much of the criticism of wealth taxes is focused.

Opponents of wealth taxes argue that the implementation of such a tax would not make any significant contribution towards addressing economic imbalances that have prevailed for

decades, if not centuries, and may not be economically justified due to the very small tax base in terms of both the number of potential taxpayers and the asset base that would remain after taking into account the inevitable exemptions and exclusions (Duff, 1993) and the leakage of revenue through the associated administration and collection costs (Rakowski, 1999; and Schnellenbach, 2012). In a sense, wealth taxes could become self-defeating as the desired effect of reducing pockets of wealth is achieved. Duff (1993) notes that the more effective wealth taxes become in achieving their purpose (of reducing wealth), the less the revenue that would be generated by those taxes.

Schnellenbach (2012:376) warns that “taxpayers, as natural persons, will be tempted to conceal ownership of assets, and if companies or trusts are used for this purpose, the tax administration will often find it difficult to correctly attribute ownership to natural persons.” The capital flight and emigration that may result from the introduction of a new wealth tax could have a compounding effect as they would also reduce the other tax bases, including income tax and consumption taxes.

Both the need for additional tax revenue and the economic inequality in society are emotive issues. Oxfam (Hardoon, 2015:3) observes that the wealth of the 80 richest individuals in the world “is now the same as that owned by the bottom 50% of the global population, such that 3.5 billion people share between them the same amount of wealth as that of these extremely wealthy 80 people”, which highlights the need for economic inequality to be addressed and inevitably there is an increasing focus on wealth taxes as a possible panacea for the problem. Whilst this study is not focused on finding solutions to economic inequality, it is important to provide some background on economic inequality, why it matters and what can be done to rectify it in order to contextualise the interrogation of wealth taxes, as there is an undeniable link between economic inequality and wealth taxes.

1.1.5 Economic inequality and the role of wealth taxes

Measures and studies of economic equality typically focus on income equality, often blurring the distinction between income inequality and wealth inequality (Berman, Ben-Jacob, & Shapira, 2016:2). Wealth inequality is less frequently mentioned in the literature, primarily because of the difficulties in defining and measuring wealth (Mbewe & Woolard, 2016:3; Orthofer, 2016:2). As a

result, and to avoid confusion, references in this report to “inequality” generally mean income inequality, unless otherwise stated.

Income equality is evaluated using the Gini coefficient, which measures the extent to which actual income distribution differs from a hypothetical uniform distribution, with zero representing absolute equality, where each individual or household receives an identical share of income, and 100 representing perfect inequality, where one person or household receives all the income (World Bank, 2014). The World Bank’s 2015 list of Gini coefficients across 157 countries shows that South Africa has the highest Gini coefficient at 63 (compared to 59 in 1993). The average coefficient across all the countries in the study is 39 and the country with the lowest coefficient is Azerbaijan with a coefficient of 17 (World Bank, 2014; and Landman, 2014). There are many reasons for the wide variation of coefficients across the range of countries but in South Africa the high level of inequality has its roots in the racially segregated policies that dominated the social and political landscape for more than two centuries (Republic of South Africa, National Planning Commission, 2012:354). Inequality is therefore a particularly contentious and emotive issue in the South African context and it is understandable that much emphasis is focused on wealth taxes as a possible means of rectifying these imbalances (see, for example, Terreblanche, 2018:3). A study of wealth taxes in South Africa is uniquely relevant at this time, as, in the third decade of democracy, overall inequality continues to rise despite the focus that government has placed on redistributive policies. The author suggests that wealth taxes are therefore increasingly being looked to as a panacea for economic inequality, or at least as a means of accelerating the rate of redistribution of wealth.

A foundational long-term study of income inequality was undertaken by Kuznets (1955), who developed the hypothesis that inequality increases as an economy develops but then declines after a certain point (referred to as “Kuznet’s hypothesis” or “Kuznet’s curve”), with the result that developed countries have lower inequality than those that are still developing. Whilst this theory was supported by empirical evidence through the 1970s, economic data analysed over the last few decades indicates that inequality has increased in many developed countries and that there is very little evidence of the Kuznet’s curve (Deininger & Squire, 1997; and Keeton, 2014). The seminal work of Piketty (2014b) has challenged Kuznet’s hypothesis and raised the concern that

inequality will continue to increase over the long term as returns on capital exceed economic growth rates.

Whilst, to some extent, inequality may be seen as an inevitable part of economic growth and necessary for incentivising people to work harder and improve their economic situation (Keeton, 2014; Milanovic, 2010; and Ravallion, 2016), extreme inequality is viewed as reprehensible and in need of correction (for example Deininger & Squire, 1997; Keeton, 2014; and Polman, 2015). Polman states that inequality (2015: online) “undermines the fabric of society” and describes it as “the biggest obstacle we face to creating a sustainable and equitable future”. Other literature supports the view that inequality has a limiting effect on economic growth (Deininger & Squire, 1997; and OECD, 2014). Keeton (2014) lists three reasons why inequality is problematic: First, rising inequality is incongruent with the democratic right to equality, which includes the right to access equal opportunities. He states (Keeton, 2014:27) that “the equality of opportunity principle ... provides a powerful platform for the formulation of social and economic policy” and describes differences of opportunity as “morally reprehensible”. Secondly, he postulates that economic and social development is retarded when some of a country’s citizens are precluded from developing to their full potential and thirdly, that inequality masks real socio-economic problems and enables politicians to (Keeton, 2014:27) “dodge difficult economic questions” on complex problems such as low growth rates, joblessness, service delivery and poverty, effectively putting the blame on inequality rather than working at finding real, workable solutions.

Consistently high levels of inequality are undesirable if they result in the poor becoming poorer, or being trapped in poverty, which is the main concern highlighted by Piketty (2014b). The OECD (2014:2) reports that “income inequality has a negative and statistically significant impact on medium-term growth” and estimates that rising inequality over the two decades from 1985 to 2005 has “knocked more than ten percentage points off growth in Mexico and New Zealand, nearly nine points in the United Kingdom, Finland and Norway and between six and seven points in the United States, Italy and Sweden”. Solutions to achieve equality or reduce inequality are difficult to find, particularly as long-held economic hypotheses such as the Kuznets Curve have been highly contested. The main policy tool to address inequality has generally been to redistribute from the wealthy to the poor.

In South Africa, redistribution policies have focused on two main areas: fiscal policy through the progressive tax system and increasing the reach of social assistance grants, which has seen the number of beneficiaries increase from 2,9 million in 1997 (van der Berg & Siebrits, 2010:7) to 16,5 million in 2015, and this number is projected to increase to 18,1 million by 2020 (Republic of South Africa, National Treasury, 2017:59). Despite government's strong focus on redistribution, overall inequality has continued to increase. The increase in inequality seems counter-intuitive in light of these policies but this reality is better understood when it is recognised that policies that address inequality must be distinguished from policies that address poverty, although the distinction is sometimes blurred. Many policies that are believed to address inequality actually address poverty and may not actually have much impact on inequality. This is true of the redistribution policies implemented by the South African government since 1994. Leibbrandt, Wegner and Finn (2011), in a study of trends in poverty and inequality and the impact of social policies on each over the period from 1993 to 2008, conclude that (2011:15) "(t)here has been some success with reducing poverty levels since 1993 but none with decreasing inequality, which has even increased since South Africa's transition to democracy". They suggest that tackling poverty is more one-dimensional and, in a sense, simpler, requiring a focus only on the socio-economic conditions of the poor, whereas addressing inequality requires (2011:15) "a 'rearrangement' of the positions of the poor and the rich in the income distribution", which becomes "more complicated and politically contentious". Such a rearrangement between the rich and the poor is a complex matter and requires more than the government policies that have been introduced to date. Solutions proposed in the literature are focused on four main areas: progressive income tax (Donaldson, 2014), wealth tax (Piketty, 2015), property taxes (Lipton, 2014) and improving education (Leibbrandt *et al.*, 2011).

Donaldson (2014) advocates that inequality could be reduced through a more progressive income tax system and by centralising service delivery in the areas of education, health, transport and communication services. His rationale for the latter is that having dual systems with private providers for the rich and the public sector serving the poor further entrenches inequality and destabilises development. He observes that South Africa already has a well-established, progressive income tax system, which has been achieved through the phasing out of many exemptions and allowances since 1994 and introducing other base-broadening measures such as the introduction of capital gains tax and the residence basis of tax, which have reinforced the

reach, effectiveness and equity of the tax system. Improved tax administration has also contributed to the distributional fairness of the tax system. He suggests that the tax burden on high-income earners, deceased estates and donations could be increased but concedes that, whilst these interventions might assist in reinforcing fiscal redistribution, wealth and capital are mobile and difficult to tax and these proposals are therefore not pursued further in his paper. He proposes that the tax base could be expanded by further limiting tax deductions and exemptions available to high-income taxpayers and greater horizontal equity could be brought into the tax system through the introduction of a child allowance, which would possibly be similar to the child rebates that applied prior to 1994. It is noteworthy that wealth taxes are not a specific area of focus in his recommendations.

Piketty advocates wealth taxes and higher income tax rates as solutions to inequality, arguing that in the absence of wealth taxes the rich are able to hide their true income (Keeton, 2014), thus avoiding income tax. Piketty (2015) suggests that what is needed to address inequality in South Africa is a combination of a higher statutory minimum wage and a wealth tax. His proposal for a wealth tax is, however, motivated mainly by the benefits that he believes would be derived by way of access to information on wealth, rather than the revenue that would be derived from such a tax, which he concedes would have a low yield, particularly as he recommends that the tax be implemented at a very low rate initially. Whether a wealth tax is needed to obtain such data on wealth in South Africa is debatable, as many taxpayers, and most wealthy individuals among them, are already required to submit statements of assets and liabilities with their annual tax returns and this process of disclosure could perhaps be modified or expanded to obtain better quality data. Piketty is inconclusive therefore on how wealth tax would have a direct influence on inequality in South Africa.

Lipton (2014) suggests that wealth taxes in the form of property taxes could be a source of additional tax revenue that could be used as a redistributive tool. South Africa already has two well-established property tax systems in the form of transfer duty and municipal property taxes. An increase in the maximum transfer duty rate on high-value properties in both the 2015 and 2016 Budget proposals (Republic of South Africa, National Treasury, 2015; and National Treasury, 2016) demonstrates that government is already utilising transfer duty as a form of wealth tax. The municipal property tax system has been operating at municipal level for many years and is a form

of wealth tax, in that it is a tax on assets, but its efficiency is restricted because the system is fraught with administrative and collection problems. Whilst property taxes are not always seen as wealth taxes, they are levied on the value of property owned by the private sector and, to this end, fall within the ambit of wealth taxes that are evaluated in this study. Whether there is scope for expanding property taxes is explored in Chapter 4.

Leibbrandt *et al.* (2011) identify education as having a pivotal role in addressing inequality. They observe that more progressive spending on education had a positive effect in reducing inequality in South Africa over the period from 1993 to 2008. During these fifteen years, overall spending on education remained at a fairly constant level of 6% of gross domestic product (GDP) (Republic of South Africa, National Treasury, 2015:58) but the allocation of spending has been rebalanced to achieve more equality of spending between the various provinces. Leibbrandt *et al.* observed that the shift in education spending is associated with (2011:10) “a clear trend ... that those households headed by individuals with tertiary education have become increasingly more likely to be in the top quintile” and the probability of being in the richest decile increased from 17.51% in 1993 to 40.59% in 2008. For all other households, including those headed by a person with a matriculation qualification, there was an increased likelihood of being in one of the lower income groups. Thus, whilst Leibbrandt *et al.* showed that (2011: 9) “education plays an important role in predicting an individual’s position in the income distribution”, their conclusion is that a greater number of people with tertiary education is needed in the country to make an impact on equality. The achievement of this goal is more of a spending issue than a tax revenue issue and places the spotlight on how effectively the money spent on education is actually managed. Government spending on education over the last twenty years has sought to address the wide disparities that developed during the time of Apartheid between rich and poor schools, and specifically between schools in rich provinces (such as Gauteng and Western Cape) versus poor provinces (such as Limpopo and Eastern Cape). What emerges from Leibbrandt *et al.*’s study is that (2011: 15) “given the high disparities in the quality of ... schools at the moment of transition ... policies that are directed only at the poor will take a long time to bridge the gap between schools [and] the same might be true for inequality in general”.

The conclusion that can be drawn is that, given the long-embedded economic disparity that exists in South Africa, the immediate priority should be to reduce poverty, and whilst addressing

inequality is fundamentally important, it is of necessity a longer-term goal and one that can realistically only be achieved on the back of effective poverty reduction. Addressing poverty requires policies that promote economic growth and job creation, improved education and access to housing and the careful management of financial resources (van der Berg & Siebrits, 2010:13). Government has placed much focus on education, housing and social upliftment since 1994 and, indeed, there has been a positive impact in these areas, but much is still needed (Republic of South Africa, National Planning Commission, 2012:218). It is submitted that, to a large extent, the solution to addressing poverty lies in the proper management of financial resources rather than seeking new sources of tax revenue and it becomes evident that wealth taxes are not specifically targeted as a vehicle for poverty alleviation and their role is framed in terms of benefits that would be derived over a much longer-term horizon, focusing more on restoring equality. However, even here the likely contribution to be made by wealth taxes is uncertain. England's Select Committee on a Wealth Tax (1975) (cited in Davies, 1984:870) reported that the tax rate would have to approach 100% of income before a wealth tax would actually redistribute wealth.

What becomes clear from these discussions is that the real effect and the role of wealth taxes in addressing inequality have not been clearly defined. The question then arises: if wealth taxes have such limited capacity to address redistribution and inequality, what then is the motivation for having such taxes? This is important to clarify, as shifting the focus to a wealth tax, with the consequential risk of driving away investment and entrepreneurship and without any assurance of how the additional taxes would make a meaningful impact on inequality in the medium term, needs to be carefully considered.

Much of the argument for wealth taxes falls along political lines (Menon, 2017). In the absence of wealth taxes, the perception exists that the wealthy are exploiting the poor and are not making a proper contribution to the country, a concern that grows as the gap between the rich and poor continues to widen. When properly implemented, wealth taxes convey a message to the population at large that the wealthy are making an over-and-above contribution to tax collections and the real benefit of wealth tax collections is realised if these additional taxes are spent wisely on effective redistributive policies such as social grants, housing and education (Duff, 1993). Applied too aggressively, wealth taxes become a disincentive to building wealth, investing and entrepreneurship (Hansson, 2008). The key is balance. The challenge is how to find this balance,

especially in the context of government's ongoing quest for additional tax revenue to cover government spending, the growing fiscal deficit and the economic slowdown, which results in even greater inequality. This challenge is not restricted to South Africa: internationally, there has been renewed focus on wealth taxes as a possible means of generating additional tax revenue although historically, wealth taxes have not been significant contributors to total tax collections (Condie, Evans & Phillips, 2017:2). The following discussion provides a brief overview of the international history of wealth taxes. This topic is explored in more detail in Chapter 5.

1.1.6 The international experience of wealth taxes

Among the OECD countries, only France, Luxembourg, Norway and Switzerland currently levy an annual wealth tax (Chatalova & Evans, 2013). The number of countries with such a tax has increased and then dwindled over the last few decades as several countries have introduced and later abolished these taxes for various reasons, including the costs of administration and compliance (Schnellenbach, 2012), increased avoidance and evasion that has even threatened the income tax base (Schnellenbach, 2012), increased capital mobility (McDonnell, 2013) and constitutional challenges (Chatalova & Evans, 2013). Iceland, for example, temporarily reintroduced wealth taxes in 2010, but only for a limited period, after having abolished them in 2006 (Escolano, 2010; and Evans, 2013). Spain temporarily reintroduced a net wealth tax in 2011 after abandoning it in 2008 (Evans, 2013).

According to the OECD statistics that track tax collections as a percentage of gross domestic product for 34 countries, over the period from 1965 to 2014, no OECD country levying wealth taxes reported significant tax revenue collections (OECD, 2015c). The highest contributions were realised by Luxembourg, with wealth taxes comprising 2,33%¹ of gross domestic product (GDP) in 2014 and averaging 1,62% of GDP over the 49-year period. The next highest is Switzerland with wealth taxes comprising 1,28% of GDP in 2014 and averaging 1,34% of GDP over the period. The contribution of other countries lags quite far behind the top two. Germany's wealth tax

¹ Most of Luxembourg's wealth taxes are derived from a wealth tax on companies.

revenues dwindled from 1,15% of GDP in 1965 to 0,2% by 2014 and Austria experienced a similar trend, with wealth tax revenue as a percentage of GDP declining from 0,64% in 1965 to 0% by 2014. Australia's wealth taxes, in the form of inheritance tax, contributed 0,56% of GDP in 1965 but the inheritance tax was abolished in 1989. Sweden's wealth taxes contributed 0,41% of GDP in 1965 but were scrapped in 2007. Some OECD countries have experienced an increase in wealth tax contributions over the period, but these increases have not been significant. For example, Belgium's inheritance and gift tax collections have increased, resulting in the wealth tax contribution increasing from 0,36% of GDP in 1965 to 0,85% of GDP in 2014. Chile introduced inheritance and gift taxes in 1990 and saw wealth taxes grow from a zero base to 0,05% of GDP in 2001, but wealth tax revenue has since dwindled to 0,02% of GDP in 2014. France's wealth tax contributions have increased from 0,20% of GDP in 1965 to 0,72% of GDP in 2014 on the back of an increase in the rates of inheritance and gift taxes. Greece saw an increase in its wealth tax revenue from 0,16% of GDP in 1965 to 0,65% of GDP in 2013. Inheritance taxes in Hungary have caused wealth taxes to contribute 0,45% of GDP in 2014 from a zero base prior to 2010. Iceland's wealth tax revenue has fluctuated over the last five decades, producing revenue of only 0,61% of GDP in 2014. Two of the countries, Estonia and Israel, have had zero wealth tax collections over the period.

Wealth tax collections were more significant in the early twentieth century, but the revenue generated from wealth taxes has been eclipsed by the exponential growth of income and consumption taxes over the ensuing years. Duff (1993:7) observes that "British estate tax revenues accounted for 16,1% of total revenues from 1908 to 1915, and United States gift and estate taxes totalled roughly 10% of federal revenues in 1936", but post-war trends have seen wealth taxes dwindle in terms of their contribution to total tax revenue. As indicated by the OECD statistics discussed above, wealth tax collections hover below 1% of GDP and if viewed in isolation, without taking into account any other macroeconomic or political factors, these taxes could arguably be replaced with other types of tax or by increasing other tax rates, for example by increasing normal tax rates on individuals or the value-added tax rate. The motivation for wealth taxes is seldom based on quantitative arguments, however, but is rather driven by other factors, most forceful of which is the political argument, or the perception created by the existence of wealth taxes that the wealthy should be paying taxes over and above those paid by the general population (Rakowski, 1999). In some respects, it could be said that wealth taxes "punch above

their weight” as their significance is not so much in the quantum of tax collected, but rather in terms of their influence on the economy of the country, from the points of view of both a redistribution of resources and also investment. In both cases, perception is a driving force in determining whether a wealth tax regime is justified, necessary and useful.

Despite the abolition in recent years of inheritance and net wealth taxes in countries such as Sweden, New Zealand and Australia, the interest in wealth taxes continues to simmer, as is evident from calls for a global or European wealth tax (Piketty, 2013), motivations for the introduction of a recurrent wealth tax in Ireland (McDonnell, 2013), Germany (Bach *et al.*, 2014), Spain (Durán-Cabré & Esteller-Moré, 2010) and a debate on the possible introduction of a similar tax in the United Kingdom (Evans, 2013). Similar debates have emerged in South Africa, which are discussed below.

1.2 The focus on wealth taxes in South Africa

Wealth taxes have come under the spotlight in South Africa in recent years following the release of the National Development Plan (Republic of South Africa, National Planning Commission, 2012), which sets the strategic economic direction of South Africa for the next two decades and has as its primary objective the elimination of poverty and inequality by the year 2030 (National Planning Commission, 2012:1). Whilst the National Development Plan does not specifically refer to wealth taxes, it is openly critical of the prevailing inequality of income, wealth and opportunity, stating that (National Planning Commission, 2012:78), "(w)ealth and income disparities ... threaten economic development as well as social and political stability" and the report envisages that the achievement of the National Development Plan goals will involve a holistic readjustment with both a restructuring of ownership and a reduction of poverty and inequality (National Planning Commission, 2012:27). Several commentators and economists (for example Williams, 2011; and Zerbst, 2013) have predicted that such restructuring will involve a greater focus on wealth taxes.

The 2014 Budget Speech of the Minister of Finance, Honourable Minister Nhlanhla Nene (Republic of South Africa, National Treasury, 2014b), centred on the implementation of the National Development Plan and made several references to government's commitment to reduce

poverty and inequality, again giving rise to speculation that increased or new wealth taxes were likely to be introduced (for example Jooste, 2014; Lamprecht, 2014; and Teuchert, 2014). The 2014 Budget Speech was presented at a time when the economy was starting to show signs of weakness and prompted a programme of fiscal consolidation, the implementation of which has focused on increased personal taxes for higher income earners and a renewed focus on the taxation of the wealthy. Tax amendments effected since 2014 have focused largely on increasing the tax burden on the wealthy. These include amendments to increase the estate duty tax base (National Treasury, 2015), a deemed disposal rule that creates a donations tax liability on interest-free loans to trusts (National Treasury, 2016), the introduction of a higher transfer duty rate on high-value properties (National Treasury, 2016), an increase in the effective capital gains tax rate (National Treasury, 2016), an increase in the dividends tax rate (National Treasury, 2017) and an increase in the maximum marginal income tax rate to 45% on taxable income exceeding R1,5 million (National Treasury, 2017) (as discussed in Chapter 4). Although these amendments are expected to result in a greater tax burden on the wealthy, there remains the question whether a new wealth tax is needed to complement the existing tax system. Whilst the implementation of a new wealth tax carries with it the hope that it will address economic imbalances in the South African economy, it also carries with it inherent risks that must be carefully and thoroughly deliberated.

A review of wealth taxes is necessary at this time because, although wealth taxes are used to generate tax revenue and are widely seen as a means of correcting economic imbalances, the fiscal benefits that are likely to be produced from new or increased wealth taxes must be realistically projected and evaluated against the risks, the most threatening of which is the possibility of damaging the growth potential of the economy. This risk arises because the wealth that is the target of wealth taxes is highly mobile and owners of that wealth have access to many different opportunities and choices as to where and how to hold their wealth, or indeed whether to create or hold wealth in the first place. Thus, the possible negative impact that a new wealth tax may have on the economy could nullify any potential monetary or redistribution benefits from such taxes.

Piketty noted, in his address at the Nelson Mandela Memorial Lecture (Piketty, 2015: online), that “it is important to realise that issues of inequality, income, wealth, capital and public debt are not

technical issues – these are issues in which everybody must have an opinion because ultimately they are what determine political change”. The present study recognises the decision-making power of wealthy taxpayers who are the target of wealth taxes, and the influence they have on economic performance, and it therefore seeks to obtain their views on wealth taxes, not only in an attempt to anticipate at least some of their behavioural responses to new or increased wealth taxes in South Africa, but also to enquire into their recommendations on how the broader objectives of the National Development Plan may be addressed, with or without new or increased wealth taxes.

This study explores the principles underpinning wealth taxes, evaluates the motivations for and against wealth taxes, explains the scope and nature of wealth taxes, compares the international experience with wealth taxes, evaluates why wealth taxes or a change to existing wealth taxes may be needed in South Africa and proposes a framework that could be applied in designing an effective wealth tax system in South Africa, drawing from the foregoing study and the interviews with wealthy individuals. The ultimate goal of the study is to formulate recommendations that can be considered by policy-makers in making their decisions regarding future wealth taxes in South Africa. The study contributes to the literature on wealth taxes, and specifically in the context of a developing country.

A study of wealth taxes is carried out within the complex landscape of existing taxes. The economic imperatives of South Africa may indicate a need for wealth taxes, yet the international precedence does not provide a strong basis for arguing that wealth taxes will provide the necessary sustainable source of tax revenue to effectively address these needs. This study seeks to investigate in more detail whether a new wealth tax is likely to provide a solution to some of South Africa’s economic challenges. The goal of the research is described in the next section of this Chapter.

1.3 Goals of the research

The focus on wealth taxes as a panacea for South Africa’s unique economic challenges provides the opportunity to investigate aspects that could inform the debate around a new wealth tax in

South Africa and, as part of considering the implementation of a new wealth tax, to design a framework against which a new wealth tax system could be evaluated.

The overall goal of this study is therefore to evaluate the merits, disadvantages and unintended consequences that could result from the implementation of a new wealth tax in South Africa. The research objective was pursued by addressing the following specific research goals:

1. Provide a conceptual background that explains what a wealth tax is, how a wealth tax differs from income and consumption taxes, the role played by wealth taxes in addressing inequality and the various arguments for and against taxing wealth. This discussion includes an explanatory overview of the following: what is wealth, what is the wealth gap and why does it need to be addressed; the concepts of wealth versus income for the purposes of imposing taxes. This is explored in the literature review in this Chapter.
2. Identify the key principles that are inherent in a wealth tax system: what types of assets should be taxed, and which should be excluded (for example, human capital, property, pension savings, foreigners' investments, offshore assets, artwork, jewellery, and self-generated wealth versus inherited wealth); exemptions and thresholds; the tax rate; and the regularity of the tax (annual, intermittent and once-off and the pros and cons of each). These key design features of a new wealth tax are aligned with the framework for evaluating a good tax system. This aspect of the study is discussed in Chapter 3.
3. Describe how wealth and capital have been taxed in South Africa in the past; outline the various recommendations that have been made by the three tax reform Commissions (the Franzsen (1968), Margo (1987) and Katz (1994) Commissions) and the Davis Tax Committee (2013) and analyse the implementation or abandonment of the various proposals; evaluate the revenue yield that has been generated from proposals that have been adopted and the potential revenue yield that could be achieved based on available statistical information. This is discussed in detail in Chapter 4.
4. Explore the international experience of wealth taxes, including some of the wealth tax models used and the history of wealth taxes that have been introduced and later abandoned. This part of the study seeks to identify the factors that drove the success or failure in the international experience, to find lessons that can be learnt for consideration in South African tax policy decisions. The international experience of wealth taxes is discussed in Chapter 5.

5. Extract and analyse primary data by interviewing wealthy individuals and their advisors to solicit their views on wealth taxes in general and their likely reaction to the possible implementation of a new wealth tax in South Africa. Their views were sought regarding how they perceive wealth taxes; what would be their likely reaction to a new tax or an increase in existing wealth taxes; how do they think a new wealth tax would affect their decisions regarding savings and investment, donating, philanthropy, supporting social projects and starting up new businesses; is there a tolerance level for a new wealth tax and if so, what is it? This part of the study seeks to solicit the views of individuals who are likely to be most immediately affected by a change in the wealth tax regime. Such information provides primary data that is vital to understanding and anticipating how the implementation of a new a wealth tax or making amendments to existing wealth taxes could affect capital flows, entrepreneurship and investment decisions, which in turn have a critical effect on the economy. The research method applied in the collection of the data is discussed in Chapter 6 and the analysis of the interview data is discussed in Chapter 7.
6. Make recommendations for the design of a new wealth tax in the South African context, taking into account the principles of a good tax system, the existing tax system and the country's economic and social circumstances. This is discussed in the conclusion in Chapter 8.

Much of the policy debate around wealth taxes is concerned with the questions of the scope of the tax, or simply “what is wealth?”. Generally, “wealth” for this purpose is concerned with a person's total assets with certain exclusions such as the primary home, primary motor vehicle, household assets, personal effects including clothing and jewellery, and retirement savings. Determining which assets come within the scope of a wealth tax is one of the fundamental components of the framework of a wealth tax system and this is more fully explored later in this study together with an exploration of “what is wealth”. Another policy challenge is how to determine the value of the assets that are the subject of a wealth tax. A third challenge is the rate that should apply and how regularly the tax should be levied. A fourth challenge is how to ensure that all assets and values are disclosed by taxpayers, as many forms of wealth, such as paintings, jewellery, diamonds and coin collections, are easy to hide and undervalue. Policy compromises such as excluding household assets make compliance easier to achieve but reduce the tax base (Evans, 2013). These aspects are explored throughout the study and the outcome of the research culminates in recommendations for the framework in the final Chapter. As part of a quest to find

an optimal framework for a wealth tax in South Africa, the study focused on historical experiences and international comparisons of various types of wealth taxes.

The information gleaned from the study informs policy-makers on lessons learnt from failed or abandoned wealth tax systems, perceptions of wealth taxes, and key risk factors and possible unintended consequences that could be inherent in and undermine the overall success of new wealth taxes if appropriate precautionary measures are not implemented. The research is relevant in informing tax policy in South Africa and adds to the body of knowledge, particularly as very little research exists on wealth taxes in developing countries (Chatalova & Evans, 2013).

Whilst the study seeks to make a meaningful contribution to the development of tax policy in the area of wealth taxes, it is of necessity, focused, and has certain limitations, which are discussed below.

1.4 Scope and limitations of the study

This study is concerned with the taxation of the wealth of South African residents who are individuals. It does not consider corporate wealth or corporate taxes, trusts, non-residents or foreign taxes on South African residents.

The study does not interrogate how wealth taxes are likely to be spent, as it is concerned only with the revenue aspect.

The research methodology and design are discussed below.

1.5 Methods, procedures and techniques

The research methodology applied in this study can be described as falling within the interpretive paradigm, as it seeks to understand, explain and compare (Babbie & Mouton, 2009). As with most legal interpretive research, the research also adopted a *doctrinal* research methodology. This methodology, as described by McKerchar (2008: 18), provides a systematic exposition of the rules

governing a specific legal category, analyses the relationships between the rules, explains areas of difficulty and is based on documentary data. This study therefore adopted a qualitative approach. The research design used a literature study and semi-structured interviews. The design is sequential, with the literature study in the first phase providing the framework, which then partly informs the structure of the interviews in the second phase.

Semi-structured interviews were conducted to solicit the opinions and attitudes of wealthy individuals regarding existing wealth taxes and the possible implementation of a new wealth tax. The interviews were recorded and transcribed. The transcripts were subjected to a content and theme analysis. The sample of interviewees comprised both wealthy individuals and their advisors.

The interview process and related ethical considerations are discussed in more detail in Chapters 2 and 6.

The research was conducted in the form of an extended argument, supported by the analysis of interview data and documentary evidence in the form of legislation, relevant case law, documents published by the various commissions of enquiry in the tax system of South Africa, minutes of parliamentary meetings, discussion papers and other documents published by the National Treasury and SARS, statistics published by SARS, StatsSA, the OECD, the World Bank and others, articles in recognised academic journals, academic textbooks and other writings.

The validity and reliability of the research and the conclusions drawn was ensured by placing greater evidential weight on legislation and the writings of acknowledged experts in the field, discussing opposing viewpoints and concluding, based on a preponderance of credible evidence and the rigour of the arguments.

Ethical clearance was obtained from the Rhodes University Ethical Standards Committee as described in Chapter 2.

The research adds to the literature and body of knowledge as it is the first study of its kind to include the assimilation and analysis of the views of wealthy investors and their advisors on the

question of new wealth taxes and the first to develop a framework for wealth taxes in a developing country.

1.6 Structure of the thesis

The structure of the thesis is as follows:

Chapter 1 – Introduction and literature review

This Chapter has provided the background to the study and the first part of the literature review. It identified the research questions and broadly described the approach followed in answering the research questions. The literature review continues in Chapters 3 to 5.

Chapter 2 – Research methodology

The research methodology, design and ethical considerations are described in Chapter 2.

Chapter 3 – Wealth tax principles

The Chapter establishes the theoretical framework for the thesis. It starts by explaining what is meant by a wealth tax and distinguishes a wealth tax from other taxes. It then identifies the principles for evaluating a good tax system and considers how these principles should apply to a new wealth tax in the South African context. Lastly, the maxims for a good tax system are then applied in identifying the design features of a new wealth tax.

Chapter 4 – Wealth taxes in South Africa

The Chapter provides an historical overview of how wealth has been taxed in South Africa in the past and then considers the recommendations made by the various Commissions of Inquiry and the Davis Tax Committee.

Chapter 5 – The international experience with wealth taxes

The Chapter provides an international comparison of wealth taxes, with an evaluation of current practice and lessons learnt from past experiences.

Chapter 6 – Interview sample selection

This Chapter describes how the interviews were conducted, including the selection of the sample of interviewees and how the ethical considerations were addressed.

Chapter 7 – Interview data analysis

The results of the interviews are analysed in this Chapter. The Chapter provides a detailed description of how the interview data was analysed and sets out the initial findings from the interviews.

Chapter 8 - Conclusion

The findings of the interviews are evaluated against the literature review conducted in Chapters 1 and 3 to 5. The Chapter concludes on the findings of the study, with recommendations to inform fiscal policy decision-making regarding the possible introduction of a new net wealth tax in South Africa.

Chapter 2. Research Method and Design

Introduction

Babbie and Mouton (2009:xxvi) describe the designing of research as involving the following:

1. Formulating a research problem.
2. Selecting an appropriate research design.
 - a. Design: plan of how you intend to conduct the research.
 - b. Methodology: methods, techniques and procedures used in implementing the research design.
3. Implementing that design in the process of research.
4. Drawing valid conclusions.

The goal of this study is to evaluate the merits and disadvantages and the unintended consequences that could result from the implementation of a new wealth tax in South Africa.

The study is in the field of taxation and more specifically, tax policy, and it seeks to build knowledge in tax policy in South Africa by considering the possible consequences that may follow the introduction of such a new tax. In pursuit of the research goal, an interpretive paradigm is followed as it seeks to understand, explain and compare (Babbie & Mouton, 2009:xx).

The study has two main components, each with a unique research method as discussed later in this Chapter. The research method is common to the whole study and is discussed in the next section.

2.1 Research methodology

The study falls within the realm of social research as it looks at the human element as one aspect within a broad range of necessary aspects to be considered in evaluating whether a new wealth tax should be implemented in South Africa at this time. Babbie and Mouton (2009:xxi) describe social research as “the systematic observation of social life for the purposes of finding and understanding patterns in what is observed” with the objective of seeking “to discover the nature of human relations”. The research method was selected with reference to the underlying epistemological and ontological orientations of the discipline and the related theoretical and conceptual frameworks.

Ontology is concerned with the researcher’s world-view, how social phenomena are developed and “the form and nature of reality” (Stack, 2012:15). Constructionism or constructivism (the terms are used interchangeably) views social phenomena as being “developed or constructed from the perceptions and actions of social actors” (Bryman & Bell, 2014:16). This study adopts a constructionist ontological position as it views social phenomena in the field of taxation as being continuously developed by the contributions of the various participants in the tax community, including the authors of literature in the field; government, including those responsible for setting tax policy and those responsible for administering tax policy; the legislature and those involved in the judicial process; and the taxpayers. As described by Bryman and Bell (2014:7) this reality is “in a constant state of flux ... it is subjective and ... multiple realities co-exist”.

Epistemology is concerned with knowledge in the discipline and how that is constructed. Stack (2012:15) describes this enquiry as exploring “the relationship between the knower (the researcher, in our case) and what can be known” Bryman and Bell (2014:12) identify three epistemological positions: “positivism, realism and interpretivism”. In pursuit of the research goal, this study adopts an interpretive paradigm as it seeks to understand, explain and compare (Babbie & Mouton, 2009:xx). Stack (2012:15) observes that in an interpretivist epistemological study “research findings are usually specific and unique and cannot be generalised”, a characteristic that is true in the existing study and which is discussed further in the research design.

Bryman and Bell (2014:31) indicate that a qualitative methodology is appropriate where the principal orientation to the role of theory is inductive, the epistemological orientation is interpretivist and the ontological orientation is constructionist. A qualitative methodology is used in the study as it “uses words or descriptions to record aspects of the world” rather than “precise measurements” (Bless, Higson-Smith & Sithole, 2016). An inductive approach places the emphasis “on generating rather than proving theories” (Bryman & Bell, 2014:31).

Babbie and Mouton (2009:xxvi) identify the three most common research objectives as exploration, description and explanation. This study has both a descriptive and an exploratory component. The first part of the study establishes the theoretical framework for the study. The second part of the study is exploratory as it seeks to probe the views of wealthy individuals on a wealth tax in South Africa, a subject on which there is a limited amount of information.

The study seeks to increase human understanding and involves both primary and secondary data (Bless, Higson-Smith & Sithole:2016). The study seeks to anticipate part of the impact that such a change in tax policy may have on investments, entrepreneurship and wealth-building in South Africa, as these factors have an important bearing on the economic prosperity of the country. Some of the unique characteristics of the South African economy are that it is small, it has experienced several years of very low growth and there is little prospect of this improving significantly in the future. It is very unequal, with one of the highest gini coefficients in the world, where much of the country’s wealth is held by a small number of people. In this context, there is a great risk that the introduction of a new wealth tax could cause those wealthy individuals, or a number of them, to relocate their investments offshore or become less inclined to start new businesses or pursue the building of wealth in this country, or a combination of these. Such a reaction would have a significant, negative effect on the economy and may even cause permanent damage to the growth potential of the economy. As the country’s economy would become increasingly vulnerable as a result of outflows of capital and loss of business confidence, the likelihood of such a reaction needs to be considered in the overall debate and research into the viability of a new wealth tax.

2.2 Research design

The research design follows the framework described by Bless, Higson-Smith and Sithole (2016:21) and each stage is described in the following sections.

2.2.1 Area of study and the research questions

The study is in the field of taxation more specifically, tax policy. The overall goal of the study is to evaluate the merits, disadvantages and unintended consequences that could result from the implementation of a new wealth tax in South Africa. The research objective was pursued by addressing the following specific research goals:

1. Provide a conceptual background that explains what a wealth tax is, how a wealth tax differs from income and consumption taxes, the role played by wealth taxes in addressing inequality and the various arguments for and against taxing wealth. This discussion includes an explanatory overview of the following: what is wealth, what is the wealth gap and why does it need to be addressed; the concepts of wealth versus income for the purposes of imposing taxes. This was explored in the literature review in Chapter 1.
2. Identify the key principles that are inherent in a wealth tax system: what types of assets should be taxed and which should be excluded (for example, human capital, property, pension savings, foreigners' investments, offshore assets, artwork, jewellery, and self-generated wealth versus inherited wealth), exemptions and thresholds, the tax rate, regularity (annual, intermittent and once-off and the pros and cons of each). This aspect of the study is discussed in Chapter 3.
3. Describe how wealth and capital have been taxed in South Africa in the past; outline the various recommendations that have been made by the three tax reform Commissions of Inquiry (the Franzsen (1968), Margo (1987) and Katz (1994) Commissions) and the Davis Tax Committee (2013) critically analyse the implementation or abandonment of the various proposals; evaluate the revenue yield that has been generated from proposals that have been adopted and the potential revenue yield that could be achieved based on available statistical information. This is discussed in Chapter 4.
4. Explore the international experience of wealth taxes, including some of the wealth tax models used and the history of wealth taxes that have been introduced and later abandoned. This

part of the study seeks to identify the factors that drove the success or failure in the international experience, to find lessons that can be learnt for consideration in South African tax policy decisions. The international experience of wealth taxes is discussed in Chapter 5.

5. Extract and analyse primary data by interviewing wealthy individuals and their advisors to solicit their views on wealth taxes in general and their likely reaction to the possible implementation of a new wealth tax in South Africa. The research method used for the interviews is discussed in Chapter 6 and the results of the interview data analysis are discussed in Chapter 7.
6. Make recommendations for the design of a new wealth tax in the South African context, taking into account the principles of a good tax system, the existing tax system and the country's economic and social circumstances. This goal is addressed in the conclusion in Chapter 8.

2.2.2 Literature review

The documentary data used for the literature review consists of -

- legislation;
- relevant case law;
- documents published by the various Commissions of Inquiry in the tax system of South Africa and other government documents;
- minutes of parliamentary meetings;
- discussion papers and other documents issued by National Treasury;
- government statistical data;
- online publications and data;
- articles in accredited journals; and
- textbooks and other writings.

The documents were obtained through extensive internet and library searches, making use of the Rhodes University library and research databases and search engines such as EBSCO-Host, Google Scholar, Emerald Insight and LexisNexis. Because the tax environment is constantly changing, searches focused on journal articles published in the last five years, but older articles that provided useful historical or policy information were also used. In studying the tax and economic history of South Africa, older documents were used, for example, the reports of the various Commissions of Inquiry, which date back as far as the 1960s. The researcher also made use of personal knowledge of the professional firms, banks, organisations such as the OECD and the IMF, and government departments in South Africa to select websites that were then searched to find additional relevant information. Searches were conducted using words such as “taxation”, “tax policy”, “wealth taxes”, “inequality” and “super-rich”. The search did not uncover any studies that replicated the present study. Invariably, articles on the impact of wealth taxes focused on the use of quantitative studies involving economic models.

Articles and documents were sourced online, through libraries and from personal collections. The OECD Statistics (2015c), extensively used in Chapter 5, were sourced online. The statistics were prepared (OECD, 2015c:online) “under the auspices of the Working Party on Tax Policy Analysis and Tax Statistics of the Committee on Fiscal Affairs and is published under the responsibility of the Secretary-General of the OECD”.

A satisfactory spread of resources provided sufficient information to construct a foundation for the active research phase, which involved interviews between the researcher and wealthy individuals.

2.2.3 Research method

The research was conducted using a doctrinal approach for the first part and interviews in the second part.

2.2.4 Data collection instruments

The overarching objective of the research is to provide a strong foundation of data that informs the deliberations and debates around the introduction of a new wealth tax in South Africa. Secondary data was collected from an in-depth analysis of the literature relating to wealth taxes

and their impact, both in South Africa and internationally, and primary data was derived from interviews that seek to obtain input directly from the group of people who would be directly affected by such a tax: wealthy individuals in South Africa.

An extensive literature survey was undertaken to understand conceptual arguments around wealth taxes, explain and contextualise wealth taxes, the South African economic and fiscal context, the international experience of wealth taxes and the merits and disadvantages of wealth taxes. Journal articles, reports, commentaries, government statistics and other suitable resources, utilising primary data as much as possible, form the basis for the initial research.

In the second part of the study, semi-structured interviews were conducted to elicit the opinions and attitudes of wealthy individuals about existing wealth taxes and the possible implementation of a new wealth tax. In this study the unit of analysis is individual wealthy people and advisors to such individuals in South Africa. In a study involving research on wealthy individuals, Barnard *et al.* (2007:7) found it pragmatic to include advisors in the sample of participants and selected these advisors “on the basis of the level of wealth of the clients they serviced”. Babbie (2009:xxvi) notes that research design requires the identification of “the unit of analysis”, which “in social research is the individual human being”.

2.2.5 Sampling methods

In constructing the research design, it is necessary to define what is meant by “wealthy”. Barnard *et al* (2007:9) breaks the definition of wealth down into two parts: the type of assets to be considered and the value of assets held. For the purposes of this study, wealth incorporates all assets owned by an individual, net of liabilities (net wealth). The asset value threshold for a “wealthy individual” fluctuates according to the different wealth reports. For example, the Forbes 400 list of most wealthy Americans starts with net wealth of \$1billion (Page, Bartels, & Seawright, 2011:4). Credit Suisse’s wealth report (Credit Suisse, 2016b) classifies individuals into various categories of net wealth from \$1million and upwards. In the South African context, there is no specific definition of “wealthy”. Knight Frank (2016) defines ultra-high net worth individuals as those with net wealth of \$30 million or more and counts 639 individuals in this group in South Africa (Knight Frank, 2016: 67). Using an exchange rate of \$1 = R14.1426 (Travelex:online) this equates to a Rand equivalent of R424 million as at 30 November 2016. The South African

Revenue Service (SARS) (2016b) defines “high net worth individuals” as those with an annual income of R7 million or more or gross wealth of R75 million or more or both, and have listed 5 951 individuals in this group (2016b:online). Using the SARS threshold as a guideline, net wealth of R50 million was used as the threshold for defining “wealthy individuals in South Africa” for the purposes of this study.

Multiple sampling methods were used to select wealthy individuals and their advisors for the interviews. The first stage used purposive sampling to select the wealthiest individuals and exclude those with political connections. This was followed by a second-stage sample using both purposive sampling and snowball sampling, also referred to as chain or referral sampling. This is discussed in detail in Chapter 6.

2.2.6 Data collection process

The study adopts a qualitative approach and the method of collecting data involves two procedures, applied sequentially.

The first part of the research was conducted by gathering archival documentary evidence to conduct an in-depth analysis of wealth taxes, including a conceptual framework that describes what wealth taxes are, the motivations for and against wealth tax and the need for wealth taxes, and a review of the experience of wealth taxes in South Africa and internationally. As with most legal interpretive research, the research also adopts a *doctrinal* research methodology. This methodology, as described by McKerchar (2008:18), provides a systematic exposition of the rules governing a particular legal category, analyses the relationships between the rules, explains areas of difficulty and is based on documentary data. This study follows the approach of critical realism, using historical data derived from the literature to provide the history and context and interviews to reflect empirical experience.

The second part of the study used interviews to generate primary data. Interviews were used as they provide the most appropriate method of obtaining primary data directly from the wealthy individuals themselves and from people who advise wealthy individuals. Interviews are preferred over the completion of surveys or questionnaires as the topic being discussed is very broad and complex and peoples’ views may vary considerably, with the risk that much of the richness of the

responses would be lost in questionnaires. Babbie notes that (2009:250) “interview surveys typically attain higher response rates than mail surveys”, “the presence of an interviewer ... generally decreases the number of ‘don’t knows’ and ‘no answers’” and (2009:262) “although self-administered questionnaires may be more effective for sensitive issues, interview surveys are definitely more effective for complicated ones”.

Page *et al.* (2011:4) notes several methodological challenges in interviewing the wealthy, sharing the view that surveying a representative sample of wealthy Americans was “extraordinarily difficult (with) serious problems at every stage of such an endeavour”.

Thus, there are both benefits and risks of using interviews to obtain the data for the study. Boyce and Neale (2006:3) identify the pitfalls as being: prone to bias; time-intensive; dependent upon the suitability of the interviewer; and whether the results are generalisable. The risk of bias was mitigated in the interview design. It is recognised that any research involving taxpayers will have an inherent bias as people do not like paying tax. A suitable number of interviews was undertaken, each limited to one hour. The researcher conducted the interviews personally and the interviews were in-depth to ensure that valuable information was obtained to provide a rich pool of data. The research did not seek to generalise the findings from the interviews but sought to use the findings to anticipate a possible reaction to the introduction of a new wealth tax.

An interview guide was developed, which set out the format of the interviews, the target range of people to be interviewed, how the sample would be selected, the communication to be sent to the potential interviewees, details of the ethical clearance requirements and how the interviews would be recorded and transcribed.

Details of the interview process are described in Chapter 6. The researcher was very careful not to influence the responses of the interviewees or introduce bias in any way. As noted by Babbie (2009:249), “the role of the interviewer is indispensable, as data collection is one of the most critical phases in the research process”. The interviews provided the researcher with a unique opportunity to communicate with the participants and the quality of the interaction during the interview contributed to the depth of responses and added to the richness of the data that produced by the interviews.

Bryman and Bell (2014:41) note that qualitative research involves “the collection and analysis of primarily non-numerical data (words, pictures and actions)”. The interviews provided the opportunity to collect such data in the form of words. The data was then analysed as described below.

2.2.7 Data analysis

The study sought to find patterns by identifying themes that may emerge (Bryman & Bell, 2014:43) from the literature and the opinions of wealthy individuals regarding wealth taxes and possible consequences following the introduction of a new wealth tax in South Africa.

The interview data was analysed using coding and axial coding, as described in detail in Chapter 7.

The results of the literature survey and interview responses were collated and analysed with the objective of identifying the main factors that should be considered in evaluating a new wealth tax system for South Africa, forming the basis for the conclusions in Chapter 8.

2.3 Limitations

The validity and reliability of the research and the conclusions have been promoted by placing greater evidential weight on legislation and the writings of acknowledged experts in the field; discussing opposing viewpoints; obtaining the input of the targeted group of taxpayers, directly from wealthy individuals and indirectly from their advisors; evaluating the rigour of the arguments and then concluding, based on a preponderance of credible evidence.

Although interviews have some benefits for obtaining data, it is recognised that there are also risks and weaknesses inherent in this approach, some directly associated with the sample of people being interviewed. To be specific: rich people don't like being interviewed.

The results obtained from the small number of interviewees cannot be assumed to represent the views of the South African population at large nor the wealthy sector of that population; however, the objective of this study is not to represent the views a group or sector of society.

Surveying wealthy individuals also has limitations, including accessibility, willingness to be interviewed, the likelihood of providing honest answers, considering the sensitivities relating to taxation and the protection of information about one's personal wealth.

2.4 Reliability and validity of the study

Bryman and Bell (2014:44) identify trustworthiness as the primary criterion for evaluating qualitative research and define trustworthiness using four underlying criteria: credibility, transferability, dependability and confirmability. Elfsberg (2009:26) adds authenticity to this list. In the following paragraphs, each of these five criteria is discussed, with a description of how each criterion was addressed in the research design.

2.4.1 Credibility

Bless *et al* (2016:131) describe credibility, also referred to as internal validity, as the measure of “whether the researcher’s method of data collection and analysis addresses the research question adequately” and whether the researcher is “able to develop a convincing argument in answer to the research question from the study design”.

In this study, credibility was maintained by developing a carefully planned approach, ensuring that the research is conducted in accordance with “the canons of good practice” (Bryman & Bell, 2014:44).

Various points of validation exist throughout the study. In each part of the study the research question was kept as the focal point of reference, ensuring that all readings, enquiries, comparisons and discoveries relate to the research question.

The need for credibility in the research and the conclusions was taken into account by ensuring a comprehensive review of the literature and by conducting a reasonable number of interviews.

In the interview process, the interview questions were designed with close integrity to, and with the objective of answering, the main research question. With a view to maintaining credibility

through the process, the interview questions were sent to the potential interviewees well ahead of the interviews, providing them the opportunity to read, ensure understanding and think about their answers. Elfsberg found that this approach (2009:26) “helps to ease the interview procedure for both the respondent and the interviewer”. Further validation was done by checking the transcripts against the interview recordings and confirming the transcripts of interviews with the interviewees. The interview process was designed to ensure that the researcher did not influence the interviewees’ responses so that the data was obtained in as objective as possible. Checks were put in place to ensure that all responses that related to the research question were considered in the data analysis. The interview process is discussed in greater detail in Chapter 6.

2.4.2 Transferability

Elfsberg (2009:26) noted that the concept of transferability is not a key quality issue in a qualitative study such as this one. Bryman and Bell (2003:289), cited by Elfsberg (2009:27), state that “the importance of qualitative issues lies within possessing sufficient depth in the interview”; thus, as the interviews are conducted in a suitable fashion as discussed above, the requirement of transferability was satisfied.

The study meets the requirement of transferability, albeit to a limited extent. Bryman and Bell (2014:43 and 44) acknowledge that external validity may not be achieved by qualitative researchers “because of their tendency to employ case studies and small samples” and note that “qualitative findings therefore tend to be orientated to the contextual uniqueness and significance of the aspect of the social world being studied”. This describes the present research appropriately, as the focus is on a small group of interviewees who cannot be construed as being representative of all wealthy people in South Africa. Nonetheless, the strategy is appropriate in achieving the objective of obtaining the views of at least some of the wealthy people in the country.

The research therefore takes a pragmatic approach, recognising that trying to interview all, or even a representative sample, of all wealthy people in the country would be time-consuming, expensive and practically very difficult due to the natural reluctance of individuals to be interviewed about their financial affairs. Barnard *et al.* (2007:16) recognised that interviewing the agents of wealthy people was more realistic a goal than seeking to interview the wealthy

individuals themselves. This study seeks to maintain validity by including both wealthy individuals and those who advise wealthy individuals in the sample frame.

2.4.3 Replicability

Writers on qualitative research indicate that (Fournier, 2017:online) “studies ought to be replicable, meaning that a study should produce the same results if repeated exactly”. This has ensured by describing the data and research in sufficient detail in this thesis to enable another researcher to carry out the same research and reach a similar result, depending on the country-context in which the research is done.

2.4.4 Dependability

The approach recommended by Bryman and Bell (2014) was followed to ensure dependability of the study. Bryman and Bell (2014:45) propose that “researchers should adopt an ‘auditing’ approach” by maintaining “complete records ... of all phases of the research process ... in an accessible manner”. This was achieved by documenting how the sample was selected, how interviewees were contacted to request interviews, how and where the interviews were conducted, and the questions asked during the interviews. The interview process was documented as it progressed, including keeping copies of email correspondence, making notes of any obstacles and other experiences that are encountered in the field work process. The interviews were recorded (subject to agreement by the participants), using two recording devices to mitigate against a technical malfunction. The interview transcripts were fully checked and validated. No participant refused to be recorded. The researcher made notes during the interviews to ensure that what was said by the interviewees, and any other indicators such as body language, were fully and accurately reported. The recordings and transcripts were securely saved in electronic form.

2.4.5 Confirmability

Confirmability, or objectivity, was ensured by not allowing the researcher’s own ideas or personal values to interfere with the integrity of the research. Bryman and Bell (2014:43 and 44) recognise that, whilst “complete objectivity is impossible in social research”, the researcher should

demonstrate that she “has not knowingly allowed personal values or theoretical inclinations to influence the research”.

In the interview, the researcher read the interview questions from the list of questions that had been shared with the interviewee prior to the interview, thus ensuring that she did not introduce her personal bias in asking the question, nor did she share her personal values or opinions in the interviews. This adherence to objectivity allowed the voice of the interviewees to be heard. The integrity of the transcribing and coding processes allowed the interview responses to be reported factually with no alterations. A clear audit trail was maintained to show the flow from the full, original transcript to the final coded analysis, so that any content that was reorganised or moved could be identified.

2.4.6 Authenticity

This has been achieved by having an acceptable number of interviews and a representative spread of participants. Most wealthy people in South Africa are white and male and this is represented in the spread of interviewees; however, it was ensured that interviewees included other demographic groups. The analysis of interviewee demographics is provided in Chapter 6.

The research design has ensured that all the quality control criteria have been adequately addressed. The ethical considerations of the study are discussed in the next section.

2.5 Ethical considerations

All documentary data used in this study is publicly available and therefore no ethical considerations arose in relation to their use. Ethical considerations arose in the part of the study that uses interviews as these were conducted with human participants.

The ethical standards set by Rhodes University (the university) were used as the benchmark for the ethical considerations in the study. The university requires that all research involving human

participants must be formally reviewed by the university's Ethical Standards Committee (RUESC) in accordance with the National Health Act, No. 61 of 2003 (National Health Act) which requires in section 71 that all research involving human subjects be subject to ethical review and approval by a registered research ethics committee. The RUESC Handbook (2014:21) specifies that research on human participants includes "humans partaking in data collections of an individual or a community through methods such as observation, surveys, interviews or focus groups". Each department in the university is required to have a research ethics committee, which has direct representation on the RUESC and these departmental research ethics committees are responsible for facilitating the ethics review and recommend approval of research projects. The research to be undertaken in this study therefore falls within the scope of section 71 of the National Health Act must comply with the university's ethics clearance policies and procedures. Approval from the Accounting Department Ethical Standards Sub-committee of the RUESC was obtained before any interviews are conducted. This approval was ratified by the RUESC.

The guiding ethical principles contained in the RUESC Handbook are (2014:23): respect and dignity; transparency and honesty; accountability and responsibility; and integrity and academic professionalism. These principles align with the four main areas of risk in ethical principles as identified by Bryman and Bell (2014:120): potential for harm to participants; informed consent; respect of privacy; and the possibility for deception. The manner in which these risk areas in relation to the study were addressed is described in the following paragraphs.

2.5.1 Harm to the participants

Considering people's sensitivities regarding taxation and the possible fear that the researcher may be connected to government or the South African Revenue Service, the invitation to participate made it clear that the researcher was independent, and that no personal information of any interviewee obtained at any stage during the data collection process, would be made available to the government or the tax authorities.

All of the interviewees were adults who consented to being interviewed and the interviews took place in their offices or an alternative venue selected by them.

The interviews were semi-structured and the questions to be posed were approved by the RUESC before the invitations for interviews are sent out. In terms of power dynamics, the interviewees were all adults, many of whom are wealthy individuals in powerful positions and the others of whom were accomplished advisors and therefore the power dynamic was well balanced.

In light of these precautions and the nature of the people to be interviewed, there was no risk of any harm being caused to the human participants in the study.

2.5.2 Informed consent

Interviews were conducted with preselected wealthy individuals and advisors who manage the funds or financial affairs of wealthy individuals. The interviewees were invited to participate on a voluntary basis and the purpose and structure of the interviews were explained in advance.

Potential interviewees listed on the sample frame were contacted by an email in which the researcher introduced herself, explained the background and process of the research, provided the ethical clearance from the university, including the consent form to be signed, the list of core questions to be asked and the assurance of anonymity. The interviewees were asked to respond by a certain date with an indication of whether they would be willing to be interviewed. The RUESC requires that all the information listed below must be made available to all participants in the study (RUESC Handbook, 2014:24):

- a) the nature of the research, its purpose and usefulness;
- b) a precise description of the procedures in which the participant will be asked to participate;
- c) the anticipated personal risks, including direct physical, psychological or social harm;
- d) the expected benefits of the research;
- e) the methods for protecting confidentiality and anonymity, which will be observed;
- f) the fact that the participant is free to withdraw from the project at any time without penalty or reason;
- g) details of the person to be contacted in the event of a query or research-related harm or injury; and
- h) the ethics committee which approved the research project and contact details for the committee, to which comments on the project may be directed.

The content of the interview invitation is provided in Annexure A to the thesis.

Although sending an unsolicited email could be regarded as an invasion of privacy, the subject line was descriptive of the nature of the email so that there was full disclosure of the nature of the communication. Where a reply to the email was not received by the date requested, one follow-up email was sent and, if necessary, the person was telephoned. The benefit of sending an email is that it is impersonal, non-threatening and allows the recipient the opportunity to either accept or decline behind the anonymity of an email, which ensures that there is no coercion on the part of the researcher. The risk of this approach is that it makes it very easy for potential interviewees to simply decline the invitation, which could result in an unacceptably small sample size. To mitigate against this risk, the researcher requested the advisors who were interviewed in the early stages of the field work, to assist by personally requesting some of their clients to agree to be interviewed and offering the client the option of having the interview conducted in the presence of the advisor.

Each interviewee was asked to sign a consent form before the interview commenced.

2.5.3 Privacy

The interview invitation offered anonymity to the potential participants and where anonymity was requested, it was preserved by refraining from using the name or referring to any unique identifying characteristics of the individual. Each interviewee was identified using letters of the alphabet and no description of the person's specific industry or social profile was provided.

The privacy of the individual was also respected by conducting the interviews at the person's office or an alternative venue of their choice (participants were offered Skype® or a similar electronic conferencing tool as an alternative if this was preferred by the participant). In the interview invitation, a time limit of one hour per interview was indicated and the researcher ensured that this time limit was respected.

Any secondary data reported with the interview transcript, such as a brief biography, which may have been necessary to provide some context to the interview data, was derived from sources that are publicly available.

The data obtained from the interviews was only used by the researcher for the purposes of the study and was not made available to other researchers or interested parties.

2.5.4 Risk of deception

Bryman and Bell (2014:120) explain that “deception occurs when researchers represent their research as something other than what it is”. The invitation to participate in the interviews was provided to each potential interviewee with information explaining the type of research being conducted, the questions to be asked, the opportunity for anonymity and how the research would be used. At the start of each interview, these aspects were reiterated, and the participants were asked to indicate whether they were satisfied with what was communicated and whether they had any concerns. Providing such full disclosure to the participants in advance of their consent to be interviewed and again at the start of the interview, ensured that there was no possibility of deception. The interviews were recorded, and the transcripts were checked against the recordings, thus ensuring that the interviews were accurately reported. The interviewees were offered the opportunity of checking the accuracy of the transcript and some did so, although only minor edits were made by them.

All the ethical principles were addressed in the research design.

2.6 Conclusion

Several economic studies have sought to project the impact of new wealth taxes and whilst such studies have value, they are based on a set of assumptions and rigid mathematical models and are therefore not entirely realistic or accurate. Very little research has focused on the experiences of wealthy individuals themselves and a true representation of this group cannot be constructed without going to the source and obtaining primary data from the wealthy individuals themselves. Barnard *et al.* noted that (2007:6) several factors cause “changes in the way very wealthy individuals manage their assets and their behaviour with regard to taxation”.

This study obtained primary data to inform on and enable the likely consequences of introducing a new wealth tax in South Africa to be anticipated with some accuracy. This study attempts to add

to the body of knowledge by obtaining such primary data, eliciting information from those who would be most directly impacted by new wealth taxes. Data obtained directly from wealthy individuals provides empirical evidence that is more valuable and reliable than assumptions. The data obtained from the study adds to the existing knowledge: it is not intended to prove or challenge any existing theories, or to create any new theories.

No studies of this nature are known in South Africa and very few have been found internationally. Page *et al.* (2011), in the context of studying very wealthy Americans, observe that (2011:3) “the social and political attitudes of the very wealthy have never, as far as we know, been studied in a systematic, representative way”. This study sought to uncover the truth regarding what the views of wealthy people are about wealth taxes and what their responses are likely to be, should a new wealth tax be introduced in South Africa. Babbie and Mouton (2009:xxii) describe truth, rationality and objectivity as “the pillars on which the scientific enterprise is built”. Obtaining data from this section of society, as it forms part of fabric of South African society, is important in the pursuit of the truth regarding tax policy and particularly wealth taxes. Other studies, particularly economic studies involving mathematical theories, do not provide the whole truth regarding the views of society on tax policy. Moore states that truth is (2004:154) “necessarily relative to the context within which it is constructed” and assumptions involving all of society do not necessarily portray the true picture of the views of the wealthy.

This Chapter has set out the approach to be followed in carrying out this study, following guidelines from the literature and the policies of Rhodes University. The introduction described the study as qualitative, in the area of social research. The method selected is appropriate for the research goals and all quality-control concerns have been addressed.

The research involved an extensive literature review followed by semi-structured interviews. In the final phase of the analysis, the results of the interviews are compared with the findings from the literature to provide a basis for conclusions in Chapter 8.

The limitations of the study have been described and are considered to be acceptable. All ethical considerations have been addressed and the policy of the Rhodes University Ethical Standards Committee has been complied with.

The next Chapter establishes the theoretical framework for the study.

Chapter 3: Wealth Tax Principles

Introduction

Throughout the world, taxes are used to provide revenue to fund government expenditure. The taxes take a variety of forms and the list of tax types expands with the ongoing growth in government spending. Three main types of taxes are income tax, consumption tax and wealth tax. Wealth tax, which is less prevalent than the other two types of taxes, is unique in some respects and shares some common features with other taxes. This Chapter describes what a net wealth tax is and what distinguishes it from other taxes. It then explores the principles that should underpin a net wealth tax, based on Smith's (1776) maxims for a good tax system. Finally, it seeks to identify the main aspects to be considered in the design of a new net wealth tax system in South Africa, taking into account the framework of a good tax system. This Chapter establishes a conceptual framework for a net wealth tax against which the findings of the study are measured in working towards the overall goal of evaluating the merits, disadvantages and unintended consequences that could result from the implementation of a new net wealth tax in South Africa and developing a framework for such a tax system.

The Chapter is arranged to discuss the following:

1. Describe what is meant by a "net wealth tax".
2. Explore how the maxims for a good tax system as identified by Smith (1776) should be applied in a wealth tax system.
3. Identify the key principles that should be present in a net wealth tax system and suggest the best practice that might apply in South Africa, regarding –
 - a. the definition of "wealth";
 - b. what types of assets should be taxed, and which should be excluded;
 - c. the threshold;
 - d. the tax rate;
 - e. the timing of the tax; and
 - f. administration.

The discussion begins with an explanation of what is meant by a net wealth tax, starting with description of wealth taxes and distinguishing wealth taxes from other taxes.

3.1 What is meant by a “net wealth tax”?

A wealth tax is a tax levied on the wealth, or the assets, of a person. A net wealth tax is levied on the net value of the person's assets, after deducting the value of the person's liabilities.

Taxes generally fall into three groups: income taxes, consumption taxes and property taxes (Michalos, 1988:108), with wealth taxes falling into the last group. Thus, a wealth tax is neither an income tax, which is based on a person's income, nor a consumption tax, which is levied on what a person consumes. In any tax system, there is a degree of overlap between these three main tax systems and positioning wealth taxes in relation to income and consumption taxes is therefore useful in differentiating and comparing these categories of taxes.

Sumner (2016:online) sees wealth tax as a form of accelerated consumption tax, if wealth is “the present value of all future consumption by you, your heirs, and anyone you donate money to”. In this study, wealth tax is viewed as a form of tax that is distinct from consumption taxes and is, if anything, a non-consumption tax as it is a tax on what has not yet been consumed. Bird and Zolt (2005:1640) argue that the primary assumption underlying a wealth tax is that “supplies are perfectly inelastic (or demands perfectly elastic)”, which is exactly opposite to the assumption underpinning consumption taxes, that “all demands are perfectly inelastic (or supplies perfectly elastic)”. Nonetheless, a discussion of whether wealth tax is a form of consumption tax, or *vice versa*, is moot as, in South Africa, wealth taxes operate adjacent to income tax, consumption taxes and other taxes that make up the tax system and it is assumed that this positioning of wealth taxes, as an additional form of taxation, will continue.

There is a degree of overlap between wealth taxes and income taxes to the extent that wealth comprises of accumulated after-tax income. If the income tax system applied a comprehensive definition of income in accordance with the Schanz-Haig-Simons concept of income, it would encompass increases in wealth from one year to the next (Barker, 1996:10). Although the scope

of the South African income tax is broad, it does not apply the comprehensive definition. Instead, different forms of income have different tax treatment and appreciations in asset values are only taxed upon realisation or deemed realisation in certain circumstances. This results in a gap between economic income and taxable income, which is accepted in tax legal theory (Barker, 1996:34), but it does leave a question as to whether, and if so, how, this difference should be taxed. Shakow (2000:503) asserts that “substantial income from wealth effectively goes untaxed under the current income tax system”. In this situation, wealth taxes can play a complementary role by taxing wealth appreciation and unexpected gains such as windfalls, gifts and bequests (Rudnick & Gordon, 1996:5), thus bridging the divide between economic income and taxable income.

Wealth taxes also go beyond simply taxing what has been missed in the income tax system. There is a synergy in a wealth tax that arises from taxing what McDonnell (2013:16) describes as “additional taxable capacity beyond that of monetary income”. Boadway *et al.* justify additional taxes on the wealthy on the basis that (2010:768) “wealth confers benefits to individuals over and above its role as a source of income. It might confer status or power, or it might provide opportunities that are otherwise not available to other taxpayers.” This may be referred to as the utility of wealth over and above what is obtained from the use of wealth (Boadway *et al.*, 2010:777). The problem of double taxation that arises when wealth is produced from the investment of after-tax income is justified by Bird (1992:133) on the basis that wealth carries with it “a degree of security, independence, influence, and social power that is not adequately measured by the flow of realized money income to which it gives rise ... wealth constitutes, at least to some extent, an independent tax base that is appropriately tapped by an annual tax on net wealth”. Although double taxation is not ideal (Stelzer, 2008:56), it does occur to some extent in most tax systems.

Wealth taxes are not a recent phenomenon. Bird and Zolt (2005:1633) observe that wealth taxes have existed throughout history and “even in ancient times, countries often have collected proportionally greater taxes from the rich than from the poor through the use of inheritance taxes, property and other forms of wealth taxes, business taxes, and faculty taxes.” An early example of wealth taxes is found in the biblical record in 2 Kings 15: 19-20 (New International Version), which covers events around 800BC (Bible-study.org, 2016:online):

Then Pul king of Assyria invaded the land, and Menahem gave him a thousand talents of silver to gain his support and strengthen his own hold on the kingdom. Menahem exacted this money from Israel. Every wealthy person had to contribute fifty shekels of silver to be given to the king of Assyria. So, the king of Assyria withdrew and stayed in the land no longer.

Although this early account tells of taxes being extracted from the wealthy, there is no explanation of the underlying tax system, other than that each “wealthy person” was required to contribute a fixed sum of money. Modern tax systems have evolved to become much more complex.

Wealth taxes take many different forms. One distinction is between taxes on wealth holdings, which include net wealth taxes, and taxes on wealth transfers (Institute for Fiscal Studies, 2011:347; McDonnell, 2013:10; Rudnick & Gordon, 1996:1). Taxes on wealth transfers may be either recipient- or transferee-based; or transferor-based, depending upon whom the tax liability falls.

A net wealth tax is a tax on accumulated wealth, or what may be referred to as “a stock of wealth”. The Mirrlees Review (Institute for Fiscal Studies, 2011:348) identifies that applying a wealth tax to a stock of wealth yields the same result as applying an income tax to an assumed return on wealth. For example, a 2% tax on R1 million of wealth is equivalent to taxing a 5% return on that investment at a rate of 40%. The Mirrlees Review points out that a wealth tax on a stock of wealth is therefore misplaced as it is limited to taxing assumed returns whereas what should in fact be taxed are excess returns. The Review argues that wealth transfer taxes offer a more suitable basis for taxing wealth, favouring a recipient-based transfer tax that takes into account inheritances and donations received over the recipient’s lifetime, possibly with an incremental rate (Institute for Fiscal Studies, 2011:364). Inheritances and donations perpetuate inequality more than wealth that is worked for (Institute for Fiscal Studies, 2011:351), supporting the argument that estate duty and donations tax are more effective implements to address inequality than a net wealth tax.

Boadway *et al.* (2010:780) suggest that a net wealth tax could possibly coexist with a wealth transfer tax, which would extend the coverage that could be obtained by one or other of these taxes. In this case, the net wealth tax could be applied to a limited range of high-value assets that might otherwise not be taxed under the wealth transfer tax.

South Africa has never had a net wealth tax, but it has wealth transfer taxes in the form of estate duty and donations tax, which are transferor-based tax; and transfer duty and securities transfer tax, which are transferee-based. Internationally, as discussed in Chapter 5, wealth transfer taxes are more widespread than taxes on wealth holdings (Rudnick & Gordon, 1996:3). The wealth transfer taxes in South Africa are once-off taxes that occur on the happening of a certain event. In the case of estate duty that event is death and for the transferee-based taxes, the events are the making of a donation, the transfer of fixed property and the issue and transfer of securities, respectively.

The reasons for net wealth taxes are varied. Two main objectives of a net wealth tax are raising additional revenue for the fiscus and improving horizontal and vertical equity (McDonnell, 2013). The underlying objectives for introducing a wealth tax are fundamental to the actual design of such a tax and as such, must be carefully considered in the early deliberations around the implementation of such a tax. For example, if a net wealth tax is motivated by the need for additional tax revenue, the focus would be on a broad-based tax with few exemptions, possibly trading equity for simplicity and efficiency in the quest to generate the highest possible yield at the lowest cost. On the other hand, if the tax was introduced to promote horizontal and vertical equity, it would be more likely to be targeted at a small group of very wealthy taxpayers, possibly even with incremental rates to achieve greater progressivity in the tax system, thus sacrificing efficiency for equity to some extent. The trade-off between the various principles required for a good tax system is discussed further in 3.2 below.

Any new tax has both foreseen and unforeseen consequences. As far as possible, all consequences should be anticipated and catered for in the design of a new net wealth tax. For example, consequences such as additional administration and compliance costs, economic distortions and capital flight must be anticipated and planned for (McDonnell, 2013:4; Seim, 2014:3). Compromises must inevitably be made in the tax design due to the reality that the quest for the best form of net wealth taxes must accommodate the best possible trade-offs between benefits and costs.

The starting point in the design of a net wealth tax system is the theoretical framework that governs all tax systems, which is based on Smith's (1776) maxims of a fair tax system. Although this study focuses on the implementation of a new net wealth tax, the evaluation of the maxims

of a tax system must always be applied in the context of the tax system as a whole and cannot be done in the isolated context of a single tax. The next part of the Chapter explores how the maxims for a fair tax system should be applied in a net wealth tax system, within the context of the whole tax system in South Africa. Thus, the discussion focuses on net wealth taxes only but the recognition of other aspects of the tax system is implied throughout.

3.2 Principles of a good tax system

Any tax system must achieve a balance between the needs of government and the taxpayers, and some compromises will have to be made in the quest to achieve the best balance for the overall objectives of the tax. The framework for a good tax system is based on principles drawn from Smith's (1776) four maxims which are as follows: ability-to-pay; certainty; convenience; and efficiency. In recent years other principles have been added. The American Institute of Certified Public Accountants (AICPA) (AICPA, 2017) published a list of twelve key principles to be used as indicators of good tax policy, which starts with Smith's four maxims and adds other principles that have evolved from the tax policy work and research of governments, economists and others, including the OECD. The AICPA list is as follows:

1. Equity and fairness, which incorporates Smith's "ability-to-pay" maxim.
2. Certainty.
3. Convenience.
4. Effective tax administration.
5. Information security.
6. Simplicity.
7. Neutrality.
8. Economic growth and efficiency.
9. Transparency and visibility.
10. Minimum tax gap.
11. Accountability to taxpayers.
12. Appropriate government revenues.

The Davis Tax Committee (2016:14) adds another principle, which it describes as “tax buoyancy”.

The discussion explores how Smith’s (1776) four maxims and the additional principles listed above should be addressed in the design of a new net wealth tax system in South Africa.

3.2.1 Ability-to-pay

Smith’s first maxim is as follows (1776:818):

The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to revenue which they respectively enjoy under the protection of the state ... In the observation or neglect of this maxim consists what is called the equality or inequality of taxation.

Usually referred to as the “ability-to-pay” principle, this maxim may also be referred to more broadly as the “equity principle”. Equity is evaluated in two ways: the benefit principle; and the ability-to-pay principle, which encompasses vertical equity and horizontal equity (Muller, 2010: 43).

The benefit principle requires that a person should pay taxes in accordance with the benefits received from government (Duff, 2008:7). At the most direct level, this would apply to pay-as-you-go taxes whereby a tax paid is in direct proportion to an underlying item or service, for example tolls paid for the use of a road or taxes paid on fuel purchases. The benefit principle is more obscure when one considers a wealth tax, first because wealth taxes are unlikely to be directly linked to a particular benefit derived from government and secondly, because the wealthy are likely to be more self-sufficient rather than dependent on government for services such as education, health and even security, thus blurring the link between the taxes paid and benefits derived from government. This is particularly so in South Africa, where private health care, private schools and private security are accessed and paid for mainly by the wealthy, with the result that the wealthy may not perceive that they are deriving a *quid pro quo* benefit for the wealth taxes that they pay. Schnellenbach (2012:380) argues that the benefit principle has limited value in considering a wealth tax, as wealthy individuals have sufficient resources to be able to provide for themselves and are often not as reliant on government services as lower-income households.

A counter-argument is that the benefit principle does not necessarily require a direct link between the tax paid and a specific benefit derived, and the benefit principle can still be met if wealth taxes have an appropriate role in contributing to the overall tax revenue that enables government to meet its socio-economic objectives (Iara, 2015:14). When evaluating a tax system, one cannot focus on one specific tax and a particular maxim, but the whole system must be considered (Chote, 2008:11; Institute for Fiscal Studies, 2011:26). Governments have a broad range of responsibilities and the overall objective of a tax system is to raise sufficient revenue to enable government to operate effectively. In balancing the trade-offs that must be made in reaching the optimal solution for a good tax system, specific taxes may support some maxims more than others. It is submitted that the benefit principle has limited application in the context of wealth taxes (Muller, 2010: 4) and is trumped by the ability-to-pay principle.

The ability-to-pay principle encompasses both horizontal equity and vertical equity. Horizontal equity implies that those at a similar economic level should bear a similar tax burden, whereas vertical equity means that those with more should pay more (Boadway *et al.*, 2010:762).

In the context of wealth taxes, horizontal equity would require that those with similar levels of wealth should pay similar taxes. Although wealth taxes focus on what may initially seem to be a fairly economically-homogenous group, peoples' circumstances differ and there are degrees of wealth, with the result that what is considered wealthy in one context may not be regarded as wealthy in another (Duff, 1993:13). Complexities arise in determining an individual's economic situation as there are many variables, including business cycles, life cycles, types of assets and family circumstances. For example, a person may have wealth but is there an excess over his requirements for the necessities of life? Is the person responsible only for himself or also for others? If there are two people with similar levels of wealth, but the one is single with no dependants and the other has a number of dependants, the latter can hardly be regarded as being in a similar economic situation to the former. Life-cycle theories indicate that people accumulate wealth as they get older and achieve maximum wealth just before they retire (McGrath, 1982:27). However, it may be unfair to tax individuals most severely just when they are at the stage of life when they need to consolidate and maximise their assets to secure a sustainable source of retirement income. Imposing tax that depletes this asset base would have negative implications

for the government in later years if people run out of retirement capital and then become financially dependent on the state.

Apart from personal circumstances, horizontal equity may also be affected by the type of wealth that is held. One person may have inherited wealth in the form of passive investments whereas another's wealth may comprise the assets of a business which are all productively employed. Whilst the net value of the wealth may be same in both cases, the holder of passive wealth could hardly be regarded as being in the same economic situation as the business-owner. The use of debt also introduces diversity into peoples' economic situations.

Horizontal equity may also be affected by the asset mix of different individuals. For example, wealth tax systems do not include human capital in the tax base, yet this could be a very valuable asset for some (Villios, 2013:8). A highly-trained professional earns income from the application of his or her intellectual ability, whereas a farmer earns income from working the land. Both have assets that may even have been acquired at a similar cost, but wealth tax systems may include the farm but not the intellectual capital in the tax base. The different treatment of assets may be justified on the basis of efficiency, but this would detract from horizontal equity. These aspects would have to be considered in the design of a wealth tax to ensure that wealth is appropriately defined and measured and that the requirements for horizontal equity are appropriately balanced.

The principles of horizontal equity have more relevance to certain types of wealth taxes than others. Iara (2015:51) argues that "estate taxation violates more than other taxes the principles of horizontal equity: for a given estate or inheritance, the amount paid in taxes will depend on the asset structure, tax engineering, but also on the suddenness of death and on how close-knit the family is." Muller (2010:117) supports the view that a transferor-based wealth transfer tax does not support horizontal equity and argues that horizontal equity is achieved in a recipient-based wealth transfer tax. She proposes that a recipient-based wealth transfer tax achieves the same result as a comprehensive income tax and advocates that horizontal equity would be promoted through an income tax system with a comprehensive definition of income, to an extent greater than a separate wealth tax, as the personal circumstances and economic situation of the taxpayer would be taken into consideration.

McDonnell (2013:16) notes that “the only net wealth tax truly consistent with the principle of horizontal equity is a net wealth tax without any exemptions or reliefs”. Thus, whilst individual circumstances would need to be considered, this should be done prudently to ensure that a new net wealth tax is broad-based, with as few exemptions and other forms of relief as possible (Boadway *et al.*, 2010:786; McDonnell, 2013:63; Thuronyi, 1996:37). Where exemptions and other forms of relief are granted, horizontal equity would yield to other maxims such as convenience and efficiency.

The principle of vertical equity must then be considered, which requires that a greater tax burden should be borne by those who have more “reflecting the fact that their marginal social utility of consumption is higher” (Boadway *et al.*, 2010:762). It is widely recognised that wealth taxes contribute towards the progressivity of the tax system (for example, Duff, 1993:9; Rudnick & Gordon, 1996:4; Shakow, 2000:502). Even a flat rate net wealth tax can add to the progressivity of the tax system as it is the tax base that is progressive (Shakow, 2000:503). Duff (1993:9) recognises that wealth transfer taxes promote vertical equity as they contribute to the overall progressivity of the tax system, observing however, that the same or even more progressivity can be achieved through a more progressive income tax system.

Over and above the contribution made towards the progressivity of the tax system, wealth taxes offer the opportunity to promote social justice through the redistribution of wealth (Iara, 2015:21; McDonnell, 2013:15; Stelzer, 2008:61). In recent years, economists have focused on the principle of distributional justice. Iara (2015:21), writing in the context of the European Union, argues that wealth taxes could assist in promoting equity in countries with a greater reliance on indirect taxes, a large divergence in the implicit tax rates on capital and labour and an income taxation that is mildly progressive; or alternatively where there is high after-tax income inequality, which “might also hint at the fact that socio-economic inequality is only moderately attenuated by income taxation: here, asset based taxation at high levels of wealth might have an ancillary role to play.” As South Africa has a very progressive income tax system that contributes a greater proportion of the overall tax revenue than VAT, it is questionable whether a net wealth tax would add significantly to the progressivity of the tax system as a whole. On the other hand, the extreme inequality (both income and wealth inequality) in South Africa supports the use of wealth taxes to achieve redistribution.

Wealth taxes are often most easily justified on the basis that the wealthy enjoy benefits that others do not have access to and can afford to pay more (see, for example: Boadway *et al.*, 2010:834; Duff, 1993:15; Institute for Fiscal Studies, 2011:366; Rudnick & Gordon, 1996:4; and Shakow, 2000:500). Vivian (2006:84) cautions against defaulting too readily to this assumption, arguing that the term “ability-to-pay” is a distortion of what Smith originally advocated, which was actually the concept of “ability-to-bear” and “in modern texts it has meanings far removed from its original formulation”. Vivian asserts that –

the point of departure is the individual taxpayer’s ability to bear the burden of taxation, not the desire of the state for revenue, which is in any event insatiable. This well-known point of departure was the same used by Montesquieu (1748: XIII.1), decades earlier: ‘To fix these [state] revenues in a proper manner, regard should be had both of the necessities of the state and those [i.e. necessities] of the subject. Nothing requires more wisdom and prudence than the regulation of that portion of which the subject is deprived [by taxation] and that which he is suffered [permitted] to retain’.

Vivian (2006:85) observes that tax revolts have been caused by governments misconstruing this meaning in their unquenchable quest for more taxes. An example of a misplaced assumption of taxpayers’ ability-to-pay may be found in the experience of the tax on retirement funds, which was introduced in South Africa in 1996, following a recommendation by the Katz Commission, and was abolished in 2007 (South African Revenue Service, 2014:7). Vivian (2006:92) notes that the Katz Commission had erred when it “simply assumed that all taxpayers can afford to pay additional taxes ... it simply accepted that pensioners could afford the additional tax burden. The Smith Committee (Smith, 1995) showed, however, that most occupational pensioners received less than the state social poor relief pension. Most occupational pensioners cannot afford the additional burden”. The retirement funds tax mistake provides an important lesson, that any new tax must be carefully evaluated. This applies equally in the consideration of a new wealth tax.

The ability-to-pay principle is one of the most important principles in the context of a net wealth tax. Vertical equity, especially in the South African context of extreme economic inequality and the need for social justice, takes precedence over the benefit and horizontal equity principles. All of these principles must be considered together with the other principles. The next part of the discussion considers the principle of certainty.

3.2.2 Certainty

Smith's second maxim is (1776:819): "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."

This principle requires that taxpayers, and indeed, the whole of society, must have certainty regarding how much tax is payable as well as when and how the tax must be paid. This requires thorough and well-drafted legislation that is supported by fair and consistent administration. The tax legislation should be clear, unambiguous and easy to understand, with minimal reliance on subjective criteria or measurements. Muller (2010:50) makes the point that "certainty of law is closely linked to legality ... and is an essential quality of a true democracy where the taxing authorities are accountable to the electorate".

The certainty principle also requires that the government should be able to predict with reasonable certainty, the expected tax revenue that will be collected from a wealth tax. This links to the needs for a sustainable and predictable revenue flow, which is discussed under the principle of appropriate government revenues.

3.2.3 Convenience

Smith's third maxim is (1776:819):

Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same time at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay; or, when he is most likely to have wherewithal to pay.

This maxim requires that the taxes should be levied at the time, or in a manner, that would be the least disruptive for the taxpayer. As wealth taxes are not levied on an underlying cash-based transaction, liquidity is an inherent challenge which must be considered in the tax design (Boadway *et al.*, 2010:788; Brunetti, 2006:1976; Kopczuk, 2012:42; Schenk, 1999:445; Schnellenbach, 2012: 375). There is an argument that death taxes are levied at a convenient time, when assets would in any case be valued, liquidated and/or transferred. On the other hand, as

noted, some regard the timing as inopportune, particularly when the tax liability is imposed on an illiquid estate, adding to the emotional hardship of the bereaved, who may well see the timing as “immoral and heartless” (Muller, 2010:124).

Liquidity problems encountered in paying net wealth taxes may be solved by accessing cash reserves if these are available. In the absence of available cash, the tax liability would have to be funded by selling assets, raising debt or utilising insurance policies, which all have distortionary effects on the economy and therefore undermine neutrality. To avoid such distortive effects on the economy, consideration could be given to measures such as deferred payment arrangements but, whilst these would enhance the convenience of the tax, they would have other implications and would add to the costs of administration, thereby reducing the efficiency of the tax (Institute for Fiscal Studies, 2011:361; McDonnell, 2013:28 & 54; Rudnick & Gordon, 1996:39). This leads to the discussion of the efficiency maxim in the next section.

3.2.4 Efficiency, neutrality and economic growth

Smith’s fourth maxim is (1776:819): “Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.”

The principle of neutrality requires that a tax should have a minimal effect on taxpayers’ decisions as to whether to enter into transactions and in how to structure transactions. The principle of economic growth and efficiency requires that taxes should have a minimal distortionary impact on the smooth functioning of the economy (Muller, 2010:127; Shakow, 2000:506).

The tax should be economical in the sense that it should not be so expensive to collect that the tax is not cost-effective. This incorporates the AICPA’s (2017:6) principle of effective tax administration, which requires that tax collection costs should be minimised. The costs incurred by a tax include the actual collection costs as well as the “dead-weight” costs to the economy as a result of the tax; the costs of the increased avoidance and evasion spurred on by the tax; and the overall costs of administration, including the costs incurred by the taxpayers (Muller, 2010:52). A new net wealth tax would carry significant additional costs, contributed from each of the cost categories listed above and exacerbated by the inherent complexities of such a tax. Some of the

costs could be mitigated by coordinating the timing of the tax to coincide with other events, such as the annual income tax, realisation of assets and the death of a person. These events would in any event require some accounting and reporting, and possibly even valuations of assets, which could be used for the net wealth tax system.

The timing of the tax would impact on the overall cost. Rudnick and Gordon (1996:10) observe that estate or inheritance taxes, which are only collected on death, result in a lower pro rata cost than a net wealth tax that is levied every year; however, estate or inheritance taxes are unpredictable and difficult to plan for.

The cost of administering a net wealth tax could be reduced through a large tax-free or exemption threshold so that the pool of taxpayers is reduced. This would trade equity for efficiency.

Another different aspect of the efficiency principle is that taxes should have a minimal distortionary impact on the smooth functioning of the economy (Muller, 2010:127; Shakow, 2000:506). The extent to which wealth taxes influence individual choices and economic behaviour should be minimised as far as possible (Duff, 1993:10). Muller (2010:123) notes that “the taxation of wealth transfers may have a negative impact on economic behaviour on the micro-economic level, which could ultimately be an impediment to economic growth on the macro-economic level”. Schnellenbach (2012:378) notes that “accidental bequests can be taxed without inducing distortions, while taxation of bequests accumulated for the sake of intergenerational altruism will alter the taxpayers’ behaviour. Similarly, the taxation of a fortune that has been accidentally obtained, e.g. through a lottery or an inheritance, will not cause large distortions.” These considerations may influence the choice of which assets to include in a wealth tax base, which is discussed in more detail in a later part of this Chapter.

The effect of a wealth tax on savings, investment and entrepreneurship must be considered. Several authors have noted concerns that wealth taxes disincentivise savings (Duff, 1993: 5). Some argue that wealth taxes encourage savings (Bach, *et al.*, 2014:87) as investors increase savings to compensate for the tax erosion, whilst others (Ingles, 2016:5) argue that they reduce the propensity to save. There is broad consensus however, that wealth taxes give rise to capital flight unless the rate of return on capital sufficiently exceeds the tax rate (Rudnick & Gordon, 1996:8).

Views are mixed regarding the impact of wealth taxes on entrepreneurship. Some argue that wealth taxes have a less distortive effect on the economy than income taxes because, as they are levied on accumulated capital rather than productivity, they have less influence on the choice between work and leisure (Rudnick & Gordon, 1996:7). A contrary view is that entrepreneurs are focused on building wealth and taxes are unlikely to affect their motivation to do so (Michalos, 1988:118). Schnellenbach (2012:389) asserts that, as entrepreneurs are risk-takers, the introduction of a wealth tax may cause entrepreneurial activity to increase. On the other hand, others argue strongly that tax in general and a wealth tax particularly, is a demotivator to entrepreneurial activity and that it impedes succession (Villios, 2013:7). The Irish and Dutch governments scrapped wealth taxes largely because of the negative impact on the economy caused by capital flight and the disincentive for entrepreneurship (Boadway *et al.*, 2010:787; McDonnell, 2013:25). If it is considered that an efficient tax system is one that encourages economic growth and job creation, it follows that the design of a wealth tax should ensure that entrepreneurship is not discouraged (McDonnell, 2013:17). In this regard, there may need to be an exemption for small business assets, which would sacrifice equity for neutrality.

Efficiency may also be considered in non-economic contexts. Williams (2006:4) describes a politically-efficient tax as one that does not attract a lot of attention and does not cause “resentment amongst taxpayers”. The consequence of causing resentment amongst taxpayers is that there may be a greater inclination on the part of the wealthy to take steps to avoid the tax, resulting in capital flight and possibly, increased emigration, which would deplete the tax base.

3.2.5 Information security

This principle requires that taxpayer information must be protected from all forms of unintended and improper disclosure. In the South African tax context, the provisions of the Tax Administration Act would adequately accommodate a new wealth tax system.

3.2.6 Simplicity

This principle requires tax legislation to be sufficiently simple to enable taxpayers to understand the rules and comply with them correctly and in a cost-efficient manner. In the context of a new wealth tax, the principle of simplicity would likely have to yield to some extent to other principles

as wealth tax systems are generally not simple. Complexities arise in the definition of wealth and are exacerbated in the subjective process of valuing assets. Further complexity arises due to the difficulties in enforcing the full and accurate disclosure of wealth. Measures to prevent tax avoidance will add to the complexity of the legislation. Muller (2010:124) counters the concerns about simplicity by noting that the simplest tax system is not necessarily the fairest and “complexity can achieve a fairer and more efficient system ... legislatures should ... balance the principles of simplicity and equity to arrive at an optimal and workable system”. Thus, a trade-off is required between simplicity and equity, and equity trumps simplicity.

Nonetheless, the design of a new wealth tax system should seek ways of simplifying the legislation and administration where possible (McDonnell, 2013:17) as this promotes compliance and reduce enforcement costs, thus promoting efficiency.

3.2.7 Transparency and visibility

Taxpayers should know that a tax exists and how and when it is imposed upon them and others. This links to Smith’s maxim of certainty, which has been discussed above.

3.2.8 Minimum tax gap

This principle requires that tax laws should ensure that non-compliance is minimised. The design of a new net wealth tax system would need to ensure that full and accurate disclosure is made, with appropriate sanctions to discourage non-compliance.

3.2.9 Accountability to taxpayers

Taxpayers must have access to tax legislation and information on the development, modification and purpose of tax legislation. This principle can be addressed through the existing platforms that are used to provide information to taxpayers, primarily through the SARS and National Treasury websites.

3.2.10 Appropriate government revenues

This principle requires that tax systems should ensure that tax revenues are predictable, stable and reliable to provide for government's funding needs.

A once-off wealth tax would, by definition, not provide an ongoing source of tax revenue. A recurrent wealth tax however, should be designed to ensure that annual tax revenue yields are likely to be constant and sustainable.

3.2.11 Tax buoyancy

Tax buoyancy requires that “the tax system should raise sufficient revenue during all phases of the business cycle, while simultaneously embodying scope for a counter-cyclical fiscal framework” (Davis Tax Committee, 2016a:14). National Treasury measures tax buoyancy as a ratio of tax revenue growth to nominal GDP growth (Republic of South Africa National Treasury, 2017b:32) and notes that tax buoyancy fell from 1,47 in the 2015/16 fiscal year to 0.88 in the 2016/17 fiscal year due to a combination of lower tax revenue and higher nominal GDP (mainly resulting from falling imports). A new net wealth tax should contribute to tax buoyancy by producing additional tax revenue.

3.2.12 Summary

The overall objective of a tax system is to obtain the optimal tax mix in a specific context, taking into account the socio-economic and political environment of the country in which the tax operates. While all the principles of a good tax system must be considered, not every principle can be given equal status and there will inevitably be trade-offs and concessions in the quest to obtain the optimal tax mix. This was noted by the Davis Tax Committee, that stated (2016a: 14): “In practice, pragmatic tax policy design and administration take place in a ‘second best’ world where trade-offs between these principles are the norm rather than the exception”.

In the same way, the design of an optimal wealth tax within the overall tax system requires a trade-off between different principles to achieve the best possible outcome. In the South African context, wealth taxes may have their greatest justification in the principles of distributive justice (Duff, 1993:18) through the opportunity for redistribution. This can only be realised, however, if

the economic growth potential of the country remains unimpeded. Consequently, equity and neutrality are the most important maxims to be considered in the evaluation of a new wealth tax. If the overall objectives of a new wealth tax are revenue generation and addressing inequality, aspects of horizontal equity, simplicity and convenience may have to take on a secondary role in favour of vertical equity, neutrality and efficiency.

The tax design process must carefully evaluate and balance these maxims to give credence to their relative importance. The key principles to be considered in the design of a new wealth tax system are discussed in the next section.

3.3 Key design principles in a wealth tax system

The objectives of a new net wealth tax are fundamental to the design of the tax as they drive the key decisions in the design process. It is therefore critical to establish the key objectives of a new net wealth tax, within the context of the overall tax policy objectives of the country, before the start of the design process.

The Davis Tax Committee Terms of reference (2013: online) lists the following broad South African tax policy objectives:

- a) The primary objective of taxation is to raise revenue to fund government expenditure.
- b) Meet social objectives, building a cohesive and inclusive society “partially through a progressive tax system and by raising revenue in order to redistribute resources”.
- c) Address market failures “by applying a tax on production and/or consumption to internalise negative externalities”, for example “pollution or consumption of harmful products”.
- d) Influence “behavioural changes by encouraging certain actions (e.g. savings) and discouraging others (e.g. smoking)”.
- e) Use taxes and tax incentives “in targeted ways to encourage higher levels of investment to help facilitate economic growth”.
- f) Promote international competitiveness; however, the Davis Tax Committee notes that (2016a:14) “the tax system is not the main driver of international competitiveness” and

“innovation and productivity improvements are far more important”. Thus, (2016: 14) “we should guard against the ‘race to the bottom’ in our efforts to strive for a competitive tax system”.

In evaluating the objectives for introducing a new net wealth tax, the question to be answered is: why introduce a new net wealth tax? The two main reasons motivating the introduction of such a tax, as discussed in Chapter 1 and in points (a) and (b) above, are the generation of additional tax revenue and as a means of addressing economic inequality. As the revenue generated by a new wealth tax is likely to be low, based on the size and shape of the South African tax base, the main objective of a new net wealth tax would then be to address inequality. Thus, the tax design is influenced by the underlying need to achieve wealth redistribution.

A fundamental consideration in the design of a wealth tax system is the question of what exactly is to be taxed. In answering that question, it is necessary to start with considering why wealth is created. The reasons for accumulating wealth link to how wealth is created, which influences decisions on what aspects of wealth and wealth-building should be encouraged, what types of wealth should be left alone, and which should be taxed. For example, individuals may accumulate wealth over their life-time to provide a source of capital to fund their retirement and these forms of saving should be encouraged. Consequently, investments to fund retirement should not be depleted by a wealth tax as to do so may leave pensioners dependent on government. On the other hand, inherited wealth often perpetuates inequality, especially when the wealth was initially accumulated as a result of unequal opportunity. There is also an argument that inherited wealth may reduce the motivation of the heirs to work. A much-cited phrase, coined the “Carnegie effect” (Carnegie, 1891:56), states: “the parent who leaves his son enormous wealth generally deadens the talents and energies of the son, and tempts him to lead a less useful and less worthy life than he otherwise would ...”. The possible negative effect of inheritances upon the productive labour capacity of an economy is one of the oft-used justifications for inheritance taxes.

It would stand to reason that, in the South African context of extreme inequality, and where the motivation for a new net wealth tax is to reduce the inequality and address past injustices, a new net wealth tax would focus primarily on wealth accumulated through unequal opportunity and wealth that can be redistributed. This focus will inform the questions of tax design in terms of who

is to be taxed, what the tax base will look like, what exemptions should be granted, what rate applies, how frequently is the tax levied and how is the tax to be administered?

Aspects to be considered in the design of a new net wealth tax would have to be evaluated within the South African context. Briefly, South Africa is a constitutional state with well-developed judicial and tax administration systems. There is also strong judicial precedence that can be relied on to interpret statutory provisions and adjudicate on administrative matters. The tax system is residence-based and there is an extensive tax treaty network.

These aspects are considered in the discussion of the various components of tax design in the following sections. The starting point for designing a net wealth tax is conceptualising what is to be taxed. In other words, what is wealth for the purpose of a net wealth tax?

3.3.1 The definition of “wealth”

As stated earlier, a net wealth tax is a tax on net assets. “Net assets” is determined by gross wealth less liabilities and claims against the individual (McDonnell, 2013:7). Gross wealth, as the starting point, takes into account the current value of all assets owned by the individual. In the process of moving from gross wealth to net wealth, the tax design considers which assets should be included within the tax base, how the assets should be valued, whether any exclusions, relief or exemptions will be granted, how liabilities will be valued, and which liabilities may be deducted from the gross wealth so determined.

As a starting point, it is necessary to identify the tax unit, or the person to be taxed.

3.3.2 The tax unit

The tax unit is the individual. Thus, wealth for the purposes of the net wealth tax is measured on an individual basis.

Variations in personal circumstances, such as whether an individual is married or single and the number of dependents, would have to be considered. Some countries view a family unit as the tax unit for wealth taxes (Rudnick & Gordon, 1996:11). In South African tax legislation, the general rule is that the tax unit for personal tax is an individual, regardless of marital status or dependants

(sections 1 and 6 of the Income Tax Act). In accordance with constitutional principles of equality, there is no distinction based on marital status or demographic profile (Davis Tax Committee, 2016a). The income tax is levied on a “person” as defined in section 1 of the Income Tax Act, which has a broad scope, and in the case of natural persons, each individual is a separate tax unit. Special consideration is given to spouses married in community of property, in terms of which assets forming part of the joint estate are treated as being owned jointly. For purposes of determining a taxable capital gain for individuals married in community of property, any disposal of assets forming part of the joint estate is deemed to be made equally by each spouse and any disposal of assets that are excluded from the joint estate is deemed to be made solely by the spouse making the disposal (paragraph 14 of the Eighth Schedule to the Income Tax Act). The tax unit for estate duty is also the individual, as the tax is levied on “the estate of every person” in terms of section 2(1) of the Estate Duty Act. The estate of a person married in community of property includes 50 per cent of the assets in the joint estate at the time of death (section 3(5)(d) of the Estate Duty Act). If these principles are followed in the design of a net wealth tax, the wealth of each individual would be determined without consideration of marital status or the number of dependants. Spouses married in community of property would each include 50 per cent of the assets falling within the joint estate.

A net wealth tax could also be levied on companies and trusts, but the discussion of persons other than natural persons is beyond the scope of this study. Nonetheless, individual holdings in companies and trusts would be included in the wealth tax base.

3.3.3 The tax base

The design of the tax base considers what types of assets should be included in the tax base, which assets should be excluded, how liabilities should be treated and how assets and liabilities should be valued.

As a starting point, the most comprehensive measure of wealth includes all assets (McDonnell, 2013:41; McGrath, 1982:4). The wealth tax base should be broad-based to promote fairness and limit tax avoidance and the distortionary effects on the economy that would result from investment decisions being influenced by different tax treatment on different assets (Institute for Fiscal

Studies, 2011:347). Furthermore, the broader the tax base, the lower the tax rate necessary to achieve the targeted tax revenue.

As South Africa has a residence-plus income tax system, which includes the world-wide income of residents and South African-sourced income of non-residents, the scope of a wealth tax should include, as a starting point, all assets of residents and South African-based assets of non-residents. Including the world-wide assets of residents promotes the maxims of horizontal equity and neutrality (Rudnick & Gordon, 1996:2; Schnellenbach, 2012:373).

It would be administratively expedient to adopt the term “resident” as defined in section 1 of the Income Tax Act. The Estate Duty Act adopts a more restricted approach to the concept of resident as it includes the world-wide assets of a person who was ordinarily resident at the time of death. The Income Tax Act definition of “resident” is broader as it has both an ordinary residence component and a physical presence test. The test of residence would be applied for the year or period for which the tax is levied (Rudnick & Gordon, 1996:18). The deemed disposal provisions in section 9H of the Income Tax Act would provide a deterrent for persons seeking to shift their residence in an attempt to avoid the wealth taxes as it creates a deemed disposal of assets, with a tax liability on the resulting capital gain, when a person ceases to be a resident.

The design of a net wealth tax could adopt the approach followed in the application of capital gains tax as provided for in paragraph 2(1) of the Eighth Schedule to the Income Tax Act, which states that the Schedule applies to any asset of a resident and, in the case of a non-resident, to –

immovable property situated in the Republic held by that person or any interest or right of whatever nature of that person to or in immovable property situated in the Republic including rights to variable or fixed payments as consideration for the working of, or the right to work mineral deposits, sources and other natural resources; or any asset effectively connected with a permanent establishment of that person in the Republic.

Locating international assets of residents may be difficult, especially where intangible assets are concerned. Again, the principles established in the Income Tax Act can be applied and if necessary, adapted, for the purposes of the wealth tax (Rudnick & Gordon, 1996:19).

Taxing worldwide assets of residents and South African assets of non-residents may result in double taxation, for which relief may be given either by way of unilateral relief or relief by way of Double Taxation Agreements (Rudnick & Gordon, 1996:22). It is noted, however, that not many Double Tax Agreements provide for wealth taxes. This may add weight to the argument that capital returns should be subject to an income tax rather than taxing the underlying assets, as the income tax would be recognised under Double Tax Agreements.

The list of assets to be included in the tax base could include, for example, tangible assets, such as land, buildings and vehicles; intangible assets such as human capital and pension rights; financial assets such as listed equities, bonds, promissory notes, futures, options, life assurance policies, bank deposits and savings, interests in exchange-traded funds, collective investment schemes and real estate investment trusts, business interests such as unlisted shares, owner-managed businesses, and other assets such as artwork, furniture, jewellery, collectibles and livestock (McDonnell, 2013:7; Shakow, 2000:532).

As an indication of the asset mix that might emerge in a South African net wealth tax, the portfolio composition of South African household wealth is shown in Table 3.1. This table indicates that most household wealth comprises pension investments and fixed property, mostly private residences. The table reflects the average across all households; however, the portfolio composition of household wealth varies across asset deciles, with a greater concentration of financial assets in the top asset decile.

Table 3.1 Portfolio composition of South African household wealth

Type of asset	%
Pension/life assets	36
Non-pension financial assets	22
Real estate assets	36
Other non-financial assets	6
Total assets	100
Liability: mortgage	57
Liabilities: other	43
Total liabilities	100

Source: (Orthofer, 2016: 39).

Having established the scope of assets to be included in the tax base as a starting point, the next consideration is whether any assets should be excluded.

Exclusions

All wealth tax systems provide for exclusions to a greater or lesser extent, usually based on social or economic objectives (McGrath, 1982:4). In some cases, assets are excluded in the interest of administrative expediency, where assets may be difficult to identify, locate or value (Schnellenbach, 2012:376). Another justification for certain exclusions is that those assets that cannot be transferred to another (McDonnell, 2013:8). Exclusions should be minimised to maintain the principles of horizontal equity and neutrality and to minimise the opportunities for arbitrage and distortion, which undermine the principle of efficiency. McDonnell (2013:42) notes that exemptions and relief “undermine the net wealth tax’s core income redistribution objective”, as wealthy individuals have the means to access tax planning opportunities. This is a risk that must be controlled in the South African context, where the core objective of a net wealth tax is

redistribution and the reduction of inequality. Consequently, the rationale for granting exemptions must be carefully and fairly considered, justified and documented (Rudnick & Gordon, 1996:20).

Some of the more common exclusions are human capital, pension investments and personal assets.

A universal exclusion from the wealth tax base is human capital. The reasons for excluding human capital are that it is extremely difficult to value; it is not property in itself and it cannot be transferred to others; it is a tool for generating income that has no present market value as it has only the potential for earning income in the future, the value of which cannot be determined with any certainty (Boadway *et al.*, 2010:783; Davies, 1984:860; McDonnell, 2013:5; Schnellenbach, 2012:381). The exclusion of human capital discriminates against those who are reliant on physical assets, such as securities or property, to produce their income. However, when the tax system is considered as a whole, there is a balance as the income tax system taxes wages in full whilst there are concessions for investment returns in the form of various exemptions, exclusions and partial taxation. Furthermore, a person's intellect disappears when he or she dies whereas tangible assets remain to be passed on to heirs and beneficiaries. McDonnell (2010:44) asserts that exempting human capital encourages investment in education, which, in the South African context, would support government's policy objectives.

Pension and retirement fund interests are also excluded in most wealth tax systems, justified on the basis that pension rights cannot be sold to others and are often difficult to value (Boadway *et al.*, 2010:783; McDonnell, 2013:43; Shakow, 2000: 549). In the South African context, where retirement fund interests can be transferred to others upon death or divorce, and there are income tax incentives for investing in retirement funds, there is some argument for including them in the tax base, particularly where a person's retirement benefits exceed what one would normally need for retirement. The valuation of interests in South African retirement funds is not a deterrent to including these interests in the wealth tax base. Retirement fund interests in defined contribution funds are linked to the market value of the underlying investments in the funds and are therefore relatively easy to value. The valuation of an interest in a defined benefit fund is more complex as it requires an actuarial valuation, but as such a valuation is needed for the purpose of valuing the fringe benefit for income tax purposes of the employer's contribution to the fund, this valuation could be used for the net wealth tax as well. The tax deductions for contributions

into a fund, provided for under section 11(k) of the Income Tax Act, are recouped through the taxation of benefits derived from the fund on withdrawal, retirement or death. The build-up of investment returns within the fund are untaxed. The taxable benefit on withdrawal, retirement or death is reduced by certain exemptions, with the result that there is not necessarily a full recoupment of the contribution deductions. Excess pension benefits are included in the property of the deceased for estate duty purposes through section 3(2)(bA) of the Estate Duty Act, which includes as property any contributions made by the deceased to a retirement fund to the extent that such contributions exceed the deductions and exemptions permitted under the Income Tax Act. The approach followed by the Estate Duty Act in including such excess contributions as property of the deceased could be followed in a wealth tax system, by including in the wealth tax base pension investments that exceed a predetermined threshold. A weakness of the deemed inclusion rule in the Estate Duty Act is that it does not consider individuals who might not have contributed to retirement funds consistently over their working lives and are then faced with having to make accelerated contributions in their later years to catch up with the capital needed for retirement. In such circumstances, an individual may be forced to contribute in excess of the tax deduction that is available, yet without having any intention to create a tax-free benefit. If measured using the provision in the Estate Duty Act, the retirement benefit may appear excessive, yet this is not necessarily the case. This possibility should be considered if excess pension benefits are to be included in a wealth tax base. The approach could be to include the full retirement benefits less an amount based on the equivalent of a cumulative lifetime tax deduction.

Exempting life assurance policies would encourage their use to avoid a wealth tax (McDonnell, 2010:44) and they should therefore be included in the wealth tax base.

Personal assets are sometimes excluded from the wealth tax base because they may be difficult to find and value (McDonnell, 2010:45); however, exempting personal assets creates horizontal inequity and reduces neutrality as taxpayers are motivated to invest in assets such as art, furniture, collectibles and jewellery. This would have a negative effect on the economy as these are unproductive (passive) assets and serve only as a store of wealth.

Personal homes (also referred to as owner-occupied houses or primary residences) are sometimes excluded from the wealth tax base because they do not generate cash income (McDonnell, 2010:45); however, exempting these assets creates horizontal inequity and

encourages excessive investment in personal homes. An alternative approach to a full exemption may be to include personal homes with relief up to a certain value, as is the case with capital gains tax, which exempts the first R2 million of capital gains on the disposal of a primary residence (paragraph 4 of the Eighth Schedule to the Income Tax Act).

Farming land and business assets are sometimes excluded on the grounds of encouraging entrepreneurship. Providing wealth tax relief for these assets undermines horizontal equity, neutrality and the ability to achieve redistribution (Boadway *et al.*, 2010:783; Institute for Fiscal Studies, 2011:360; McDonnell, 2010:46). Furthermore, it may be problematic to isolate these investments for special treatment as it may be difficult to distinguish shares held as portfolio investments from interests in active businesses. On the other hand, not exempting these assets would result in administrative complexities, the greatest of which would be that valuing such active businesses would be fraught with complications, including consideration of business cycles, geographical localities, goodwill, size of shareholdings, and so on, which would add to the costs of administration.

Windfalls are excluded from some wealth tax systems on the basis that there is no taxable source; however, the counter-argument is that they represent a flow of economic benefits and should be taxed (Barker, 1996:23). There would seem to be little justification for excluding windfalls such as found property, gambling winnings and unexpected inheritances, from a wealth tax base, although it may be difficult to enforce the disclosure of such assets.

McDonnell (2013:4) notes that –

the scale and range of the exemptions and reliefs that developed over time in different jurisdictions increasingly undermined the justification for wealth taxes on horizontal equity grounds; as well as increasing the administrative burden; encouraging the use of tax planning by the very wealthy to avail of tax shelters, and reducing the overall tax yield.

An example of a wealth tax system with an extensive range of exemptions is France, which excludes, amongst others, goods necessary for the practice of a profession, woods and forests, antiques, art, collector's items, rights to literary, intellectual and artistic property, pension assets, certain financial investments and the capitalized value of certain life annuities received as compensation for personal injury (Rudnick & Gordon, 1996:19). It is not recommended that the

French example be followed as an extensive list of exemptions would substantially undermine the effectiveness of a net wealth tax.

Apart from the deduction of excluded assets, gross wealth may be reduced by the value of certain liabilities, as discussed in the next section.

Liabilities

As a net wealth tax is levied on net wealth, certain liabilities would be deducted from the value of the assets included in the tax base. As assets are included at the current market value, the fair market value of liabilities connected to those assets should be deducted from the tax base (Boadway *et al.*, 2010:784; Shakow, 2000:537; McDonnell, 2013:41). The types of liabilities that may be considered include mortgage bonds on property, bank overdrafts, credit card accounts, retail store accounts, trade payables and other payables.

The deduction of liabilities has a distortionary impact on the economy as it encourages the use of debt (McDonnell, 2013:42). Furthermore, it undermines horizontal equity as it prejudices an individual with little or no debt in favour of those who are highly-indebted. It also opens up opportunities for tax avoidance (Boadway *et al.*, 2010:784). For example, a non-resident may borrow against a South African property and invest the funds offshore, outside the South African wealth tax net.

To mitigate against the negative aspects of deducting liabilities, safeguards can be built into the tax design, such as ring-fencing liabilities so that the deduction of a liability is limited to the asset to which it relates and the set-off of liabilities is prevented. The range of liabilities that may be deducted could be limited to those relating directly to the assets included in the individual's tax base. Anti-avoidance provisions will be necessary to prevent the deduction of liabilities in certain circumstances, for example where excessive debt is used to achieve tax savings.

Assets and liabilities would have to be valued to ascertain the amount of the tax base for the purpose of applying the net wealth tax. This is a complex aspect of a net wealth tax system, as is discussed in the next section.

Valuation rules

The valuation of assets and liabilities adds significantly to the complexity of a net wealth tax due to the range of different assets and liabilities and the myriad methods of valuation (Boadway *et al.*, 2010:784; Institute for Fiscal Studies, 2011:347; McGrath, 1982:9; Shakow, 2000:537). A wealth tax that operated in Ireland in the late 1970s required taxpayers to determine the market value of assets, which reportedly resulted in an average compliance cost/tax liability ratio of 18.5 per cent (McDonnell, 2013:25), part of the reason why the tax failed to meet its objectives and was scrapped after only two years.

Asset valuations are inherently subjective, especially in the absence of a highly-traded market. Complex valuation issues will add considerably to the administration costs of a net wealth tax, which will detract from the principles of efficiency and certainty. Manipulated valuations will undermine the redistribution capability of the tax.

Regularity is not a concern with a once-off tax but is a concern in a recurrent wealth tax system. The more regularly the asset valuations are required to be done, the greater the average administration costs. Hills (2013:89) proposes that periodic valuations may save administration costs but could give rise to larger variations in asset values, including both losses and gains, from one period to the next. A trade-off would be required between accuracy and expediency, which would probably require that assets are valued at five- to ten-year intervals.

To simplify the system and curtail administration and compliance costs, and to minimise the manipulation of values, there would need to be very clear valuation guidelines. These guidelines should specify how various assets should be valued and how to deal with exceptions to the general rules. Standardised values could be used for some assets, such as the municipal valuations of properties (McDonnell, 2013:6). Administration costs can also be reduced if the wealth tax makes use of a self-assessment system (McDonnell, 2013:6).

Various valuation rules already exist in the South African tax legislation and these could be extended for use in a wealth tax system. These rules are found, for example, in sections 54 and 62 of the Income Tax Act (definition of “fair market value” and provisions for determining the value of disposals of limited interests in property for donations tax purposes); paragraph 31 of the Eighth

Schedule to the Income Tax Act (determination of the market value of an asset); sections 1, 4 and 5 of the Estate Duty Act (definition of “fair market value” and provisions for determining the value of limited interests in property and the value of property for inclusion in the estate of a deceased person); section 1 of the Securities Transfer Tax Act (definition of closing price); and section 5 of the Transfer Duty Act (value of property on which duty is payable). Nonetheless, there will still be complexities involved in valuing assets such as property, shares in unlisted companies, time-share interests, jewellery, art and collectibles, as these valuations will rely on human judgment in the absence of a realisation of the asset. Different forms of ownership rights will also give rise to complications in assigning and valuing these assets.

The attribution rules in the Income Tax Act may be used to assist in assigning interests in trusts. There may be a timing problem in that an individual beneficiary does not have an asset to include in the wealth tax base until such time as the individual acquires a vested right to an asset. Once vesting occurs, the interest would be included in the wealth tax base of the beneficiary. Distributions from special trusts established for the maintenance of disabled persons and minor children should be excluded from the wealth tax base.

As the deduction of liabilities should be minimised, only liabilities relating to the assets included in the tax base should be considered. To simplify the wealth tax system, the value of the liabilities should be based on the book value or face value of such liabilities.

The next aspect to be considered in the design of a net wealth tax is the threshold that should apply.

3.3.4 Threshold

The justification for having a threshold links to Smith’s first maxim with regard to taxing people according to their respective abilities to bear the tax. In the context of wealth taxes, the ability-to-bear principle requires that allowance is made for taxpayers to cover their essential living expenses, often referred to as “the necessities of life”, taking into account the needs of the taxpayer as well as others who are dependent on him or her (Vivian, 2006:85).

The incorporation of a threshold in a wealth tax system enhances the progressivity of a tax system by ensuring that only the wealthiest individuals are taxed (Muller, 2010:120).

Most wealth taxes have an exemption or a zero-tax threshold (Boadway *et al.*, 2010: 784; Rudnick & Gordon, 1996: 2; Shakow, 2000:536). Rudnick and Gordon (1996:17) recommend that “a developing or transition country would probably be advised to adopt a large exemption amount and a single, low rate of tax”.

The threshold should be set at such a level that it does not tax the person’s immediate capital requirements and, considering that the person would have also been subject to income tax, consumption taxes and various other taxes that would deplete his wealth, there is an argument that the threshold should factor in a premium to account for this so that double taxation is minimised (Vivian, 2006:92). Furthermore, the threshold should be set at a level high enough that assets accumulated to fund the person’s retirement are not taxed, as to do so would deplete the person’s ability to fund their retirement, resulting in more reliance on government and society in future years.

The threshold must be updated regularly to keep pace with inflation.

The decision on the threshold amount would be intrinsically linked to the decision on the tax rate, which is considered in the next section.

3.3.5 Tax rate

The rate would be determined after taking into account various factors including the range of exemptions, any other concessions that may have been granted, the threshold, the size of the tax base and valuation methodologies (McDonnell, 2013:41).

If the key objective of the wealth tax is redistribution and addressing inequality, there is an argument for a progressive rate structure (Boadway *et al.*, 2010:780). However, even a flat rate wealth tax can add to the progressivity of the tax system as it is the tax base that is progressive (Shakow, 2000:503), being focused as it is, on wealthy taxpayers.

Rudnick and Gordon (1996:17) recommend “a single, low rate of tax (something like the German rate of 0.5–0.6 percent; in any event, probably not more than 1 percent)” and suggest that a flat rate would “simplify the operation of the tax, as it would provide equal treatment for wealth held inside or outside an entity.” The use of a flat rate is also supported by others and promotes simplicity and efficiency (Institute for Fiscal Studies, 2011:361; Shakow, 2000:529).

A low rate supports the principles of horizontal equity, certainty and neutrality. With a low rate, even complex valuation problems would have less significance and require less administrative intervention.

The timing or regularity of the tax is the next aspect to be considered.

3.3.6 Timing

The timing of the tax considers whether it should be applied on a regular or a once-off basis, and if a regular or recurrent wealth tax is selected, the question is how frequently the tax would be levied.

A once-off wealth tax is usually preferred when the objective of the tax is to raise revenue for a specific purpose, such as to repay debt (Schnellenbach, 2012:377).

If the objective of the net wealth tax is to reduce inequality and achieve redistribution, a recurrent wealth tax would be more suitable as it would ensure a prolonged revenue stream. A long-term view is essential in the conceptualisation and design of a net wealth tax. One cannot focus on a short-term horizon, but rather it is the lifetime accumulation of wealth that should be considered (Boadway *et al.*, 2010:779).

If the wealth tax is to complement and support the compliance in the income tax system, it is recommended that the tax be levied annually, and consideration could be given to incorporating the wealth tax into the income tax system to promote certainty and simplicity.

The final aspect to be considered in the tax design is the administration of the tax.

3.3.7 Administration

The administration costs of introducing a new wealth tax would be substantial, as is evident from international experience (McDonnell, 2013:48). The main aspects that must be addressed are the training of tax officials and the education of taxpayers; facilitating the full and proper disclosure of all assets, including offshore assets; and ensuring that the assets are properly valued. SARS has a well-developed administration system, including the eFiling platform, which should be able to accommodate wealth tax declarations, especially if these were done as part of the income tax filing process. Some taxpayers, which would include most wealthy taxpayers, are already required to submit statements of assets and liabilities, making an extension to a full disclosure of assets a realistic prospect, notwithstanding the complexities inherent in the valuation of assets.

The valuation process could be standardised to some extent by using existing data, such as property values used for municipal property rates. However, valuing assets would still carry substantial costs due to the wide variety of assets and valuation contexts.

Suitable enforcement measures would have to be put in place to detect tax evasion and avoidance, which would add to the costs of administration. Further administration costs would be incurred in drafting the legislation, with adequate interpretation guidelines and containing appropriate tax avoidance measures, which would require extensive research. As capital flight is one of the biggest risks of a net wealth tax, with a potentially disastrous impact on the economy, measures such as exchange control regulations would need to be considered to prevent the migration of assets; however, such measures may themselves have a negative effect on the economy, which must be carefully evaluated. There is also the risk of erosion of an overall tax base if individuals choose to emigrate to avoid taxes, which would cause even more calamitous damage to the economy (Schnellenbach, 2012:377). These risks must be evaluated and weighed up in the initial investigation into the introduction of a net wealth tax.

Rudnick and Gordon (1996: 9) conclude that –

modern net wealth taxes, if designed with ease of administration in mind, can be effective, even in developing and transition countries. The features necessary to simplify administration include employing large exempt amounts and taxing legal persons and other entities in lieu of interests in those entities.

A similar approach to simplifying administration as far as possible, should be applied.

3.4 Conclusion

The design of a new net wealth tax must address the key objectives of such a tax and ensure that the principles of a good tax system are adhered to, maintaining an appropriate balance in the trade-off between the various principles. In evaluating the weighting of each principle in the design of a new net wealth tax, the new tax cannot be seen in isolation. Instead, consideration must be given to the tax system as a whole and it must be ensured that the new tax fits into and complements the overall tax system in South Africa.

If the key objective of the new net wealth tax is to address inequality and achieve redistribution, priority will be given to the promotion of the principle of vertical equity. The principle of neutrality is also vital to ensure minimal negative disruption to the economy. The other principles would have to yield to these priorities in the design of the tax. The third most important principle is that of efficiency and tax revenue generation and in this regard, tax administration costs must be minimised to maximise the net revenue generated by tax. To promote efficient administration, the tax must be well-designed, with clearly-drafted legislation and valuation guidelines. A self-assessment system should be used to minimise administration costs, but this would need to be supported by effective enforcement measures to minimise the tax gap. In a quest to balance equity, efficiency and neutrality it is recommended that a new net wealth tax in South Africa should be broad-based in terms of the scope of assets to be included, with very exemptions. To promote vertical equity and simplify administration, there should be a high threshold such that only the very wealthy would be affected by the tax. To promote simplicity and the ease of administration, a single, relatively low flat rate should apply.

The method for determining the liability under a new net wealth tax could therefore be summarised as follows:

Gross assets – market value determined according to valuation guidelines

Less: exemptions (minimal)

Less: liabilities – book value of liabilities directly connected to gross assets

= Net assets

Less: threshold

= Taxable assets

Apply tax rate

= Wealth tax liability

The next Chapter considers the South African experience of wealth taxes, with a synopsis of the history of wealth taxes and a review of the recommendations on wealth taxes made by the various Commissions of Inquiry that have investigated the South African tax system over the last fifty years.

Chapter 4. Wealth Taxes in the South African Context

Introduction

An investigation into the introduction of a new wealth tax in South Africa must be undertaken in the context of the country's past and present experiences of wealth taxes. This Chapter is made up of two parts. The first part of the Chapter provides a brief synopsis of the history of wealth taxes and explores how wealth has been and is currently taxed in the country, including a discussion on inequality in South Africa and the role of wealth taxes in addressing this. The Chapter also includes an explanation of how existing wealth taxes operate in South Africa. As the taxation of capital returns is often seen as a proxy for wealth taxes, the first part of the Chapter concludes with an outline of how capital returns are taxed.

At various stages in South Africa's history, the government has initiated inquiries into the tax system to evaluate whether the optimal tax policy mix is in place and to make recommendations where considered necessary. Three Commissions of Inquiry have occurred over the last fifty years and a fourth review of the tax system, undertaken by the Davis Tax Committee, is currently underway. Much work has been undertaken in these inquiries and the second part of this Chapter considers their investigations, recommendations and any developments following the recommendations on wealth taxes. The work of the Commissions provides a good foundation for the current investigation into the possible introduction of a new wealth tax in South Africa.

The Chapter starts with a synopsis of the history of wealth taxes in South Africa and a discussion of how wealth is currently taxed.

4.1 How wealth has been taxed in South Africa

4.1.1 History of wealth taxes

South Africa has a long, but fairly narrow history of wealth taxes. The first wealth transfer tax was introduced in 1864 in the form of a recipient-based succession duty based on English precedent, which taxed legatees and heirs on the values of their legacies and inheritances (Muller, 2010:86).

The tax was initially introduced in the Cape of Good Hope Colony and was then extended to the Natal and Orange River (later called the Orange Free State) Colonies in 1905 (Muller, 2010:86). Thus, the earliest form of wealth tax in South Africa was a provincial tax. A national transferor-based estate duty was introduced in the Zuid-Afrikaanse Republiek (ZAR) in 1899 (Muller, 2010:86). The provincial succession duties were replaced by the first national wealth transfer tax, introduced by the Death Duties Act, No. 29 of 1922 (Muller, 2010:87), which comprised of a dual system of estate duty and Succession Duty, again following English precedent that existed at the time. The United Kingdom abolished their Succession Duty in 1949 (Muller, 2010:87) and South Africa followed a similar single-tax approach a few years later, replacing the Death Duties Act with the Estate Duty Act, which is still in force today, albeit in a slightly amended form.

4.1.2 Current wealth taxes

The two main wealth taxes are estate duty and donations tax, which complements estate duty as it taxes gratuitous transfers of property during a donor's lifetime. Donations tax and estate duty were both introduced in 1955, with estate duty levied under the Estate Duty Act and donations tax levied under Part V of the Income Tax Act.

Both estate duty and donations tax are levied at a flat rate of 20% and both sets of legislation have rules for determining asset values, exemptions or deductions for certain specific types of bequests or donations and fixed exemption thresholds so that only significant estates or donations are actually subject to the respective tax.

South Africa also has other taxes on wealth transfers. These taxes take the form of transfer duty, which is levied under the Transfer Duty Act and taxes the market value of property transferred and securities transfer tax, which is levied under the Securities Transfer Tax Act and taxes the market value of securities transferred.

South Africa also has land taxes, in the form of property taxes, which operate at a municipal level, as described later in this Chapter.

The taxation of wealth in South Africa has a unique context, due to the extreme inequality that has prevailed in the country. The following section provides a brief context and considers the role of wealth taxes in addressing inequality.

4.1.3 Wealth taxes and inequality

Although South Africa has long had the unenviable status of being one of the most unequal societies on earth, it has never used a wealth tax as a primary means of addressing this imbalance. The fiscal policy adopted over the last twenty-three years since the change of government has focused on a two-pronged approach to address redistribution, utilising both the revenue and expenditure sides of the budget. A progressive income tax system has concentrated tax revenue collection on higher income earners. On the expenditure side of the budget, redistribution has been achieved through the payment of government grants and prioritising certain expenditure according to the Government's economic priorities.

At the time of the change of government in 1994, a transitional levy was introduced to fund transition costs. The transitional levy was imposed for two years, the 1995 and 1996 years of assessment, and it was discontinued thereafter. In the first year, the 1995 year of assessment, married and unmarried persons, estates and trusts paid an additional 3,33% on taxable income (excluding certain retirement benefits) exceeding R50 000; married women paid an additional 3,33% on taxable income exceeding R175 000; and companies paid an additional 5% on taxable income exceeding R50 000 (South African Reserve Bank, 2016: 66). In the following year, the transitional levy was reduced to 1,67% on taxable income exceeding R50 000 and did not apply to companies (South African Reserve Bank, 2016:68). A comparison of the various marginal tax rates and transitional levies in the 1995 and 1996 years of assessment is shown in Table 4.1.

Table 4.1 Marginal tax rates and transitional levies: 1995 and 1996

<u>Type of taxpayer</u>	<u>Year of assessment ended 28</u>			<u>Year of assessment ended 29</u>		
	<u>February 1995</u>			<u>February 1996</u>		
	<u>Maximum</u> <u>marginal</u> <u>tax rate</u>	<u>Transitional</u> <u>levy</u>	<u>Total</u> <u>tax rate</u>	<u>Maximum</u> <u>marginal</u> <u>tax rate</u>	<u>Transitional</u> <u>levy</u>	<u>Total</u> <u>tax rate</u>
Married persons	43%	3,33%	46,33%			
Unmarried persons	43%	3,33%	46,33%			
Married women	40%	3,33%	43,33%			
All individuals				45%	1,67%	46,67%
Estates	43%	3,33%	46,33%	45%	1,67%	46,67%
Trusts	43%	3,33%	46,33%	45%	1,67%	46,67%
Companies	35%	5%	40,00%	35%	0%	35,00%

Source: *South African Reserve Bank (2016a:66 and 68); and South African Revenue Service (2016b:15 and 16).*

In line with the tax policy priority of redistribution through a progressive tax system, changes to the income tax system over the last two decades have focused on providing relief to lower-income earners. Tax relief intended primarily to alleviate the tax burden on lower-income earners has focused on above-inflation increases in the tax threshold, mainly through increases in the primary rebate. Table 4.2 shows the tax threshold in each fiscal year from 1996 to 2018 and the annual increase in percentage terms from year to year over that period, for taxpayers under 65 years of age and taxpayers over 65 years of age. The annual increase in the tax threshold is compared to the annual inflation rate as measured using the Consumer Price Index (CPI) and the difference between the increase in the threshold and the inflation rate is shown in the column headed “Difference”. Table 4.2 demonstrates that there was an above-inflation increase in the tax threshold for taxpayers under the age of 65 in eight successive years between 2001 and 2008 and again in 2010. From 2013 to 2016 increases in the tax threshold were similar to the annual inflation rate. The increase in the tax thresholds in 2017 and 2018 were significantly lower than the inflation rate. The increase ratio at the end of Table 4.2 shows the overall increase in the tax thresholds and the Consumer Price Index from 1996 to 2018. Both the tax thresholds have increased by more than the inflation rate over the twenty-three-year period from 1996 to 2018,

which is in line with the more progressive tax policy to provide more tax relief for lower-income earners.

Table 4.2 Tax thresholds 1996 to 2018

<u>Year ended 28/9</u> <u>February -</u>	<u>Age category: Under 65 (1)</u>			<u>Age category: Over 65 (1)</u>			<u>Annual</u> <u>inflation</u> <u>rate</u> <u>(2)</u>
	<u>Tax</u> <u>threshold</u> <u>R</u>	<u>Annual %</u> <u>increase</u> <u>in the tax</u> <u>threshold</u>	<u>Difference</u> <u>(tax</u> <u>threshold</u> <u>increase vs</u> <u>inflation)</u> <u>(3)</u> <u>%</u>	<u>Tax</u> <u>threshold</u> <u>R</u>	<u>Annual %</u> <u>increase</u> <u>in the tax</u> <u>threshold</u>	<u>Difference</u> <u>(tax</u> <u>threshold</u> <u>increase vs</u> <u>inflation)</u> <u>(3)</u> <u>%</u>	
1996	14 600	-	-	26 785	-	-	10,1%
1997	15 800	8%	1,6%	27 905	4%	-2,4%	6,6%
1998	16 921	7%	-2,6%	30 050	8%	-2,0%	9,7%
1999	18 500	9%	4,0%	31 950	6%	0,9%	5,4%
2000	19 526	6%	-3,0%	33 717	6%	-3,1%	8,6%
2001	21 111	8%	5,8%	36 538	8%	6,0%	2,4%
2002	23 000	9%	1,2%	39 154	7%	-0,6%	7,7%
2003	27 000	17%	11,6%	42 640	9%	3,1%	5,8%
2004	30 000	11%	0,9%	47 222	11%	0,5%	10,3%
2005	32 222	7%	6,6%	50 000	6%	5,1%	0,8%
2006	35 000	9%	6,0%	60 000	20%	17,4%	2,6%
2007	40 000	14%	10,4%	65 000	8%	4,5%	3,9%
2008	43 000	8%	1,8%	69 000	6%	0,4%	5,7%
2009	46 000	7%	-2,8%	74 000	7%	-2,5%	9,8%
2010	54 200	18%	8,2%	84 200	14%	4,2%	9,6%
2011	57 000	5%	-0,5%	88 528	5%	-0,6%	5,7%
2012	59 750	5%	1,1%	93 150	5%	1,5%	3,7%
2013	63 556	6%	0,3%	99 056	6%	0,2%	6,1%
2014	67 111	6%	-0,3%	104 611	6%	-0,2%	5,9%
2015	70 700	5%	-0,6%	110 200	5%	-0,6%	5,9%
2016	73 650	4%	0,3%	114 800	4%	0,3%	3,9%
2017	75 000	2%	-5,2%	116 150	1%	-5,8%	7,0%
2018	75 750	1%	-5,3%	117 300	1%	-5,3%	6,3%
Increase ratio (2018/1996)	5,2			4,4			
Increase ratio (2018/2012)	1,3			1,3			

Notes to Table 4.2:

1. Prior to 1995, three different individual tax tables and rebates applied for married persons, unmarried persons and married women with an additional child rebate. The rebate system was revised with effect from 1 March 1995 to allow a primary rebate for all taxpayers regardless of gender, marital status or number of children and a secondary rebate for taxpayers aged 65 and older on the last day of the year of assessment. A third rebate was added for taxpayers aged 70 years and older on the last day of the year of assessment, with effect from 1 March 2011. The third rebate is not shown on the table due to space constraints and the limited period for which it has applied, as well as the small number of taxpayers eligible for the rebate.
2. The annual inflation rate is calculated as the percentage increase in the Consumer Price Index year-on-year, as measured in February of each year. February is used as this is the end of the relevant year of assessment.
3. The difference is calculated as the difference between the annual percentage increase in the tax threshold and percentage increase in the annual inflation rate. This indicates whether the increase in the tax threshold exceeds or is below the inflation rate.

Source: *South African Revenue Service (2016b:15-40); Republic of South Africa, National Treasury (2017c:45); Statistics South Africa (2016:online); and author's calculations.*

Although the redistributive policy has focused on providing tax relief to lower-income earners, high-income earners have also enjoyed some tax relief over the last twenty-three years, albeit to a lesser extent. Increases in the personal tax rebates have benefitted high-income earners as all taxpayers are entitled to the rebate. Furthermore, the individual's interest exemption (section 10(1)(i) of the Income Tax Act) increased significantly between 1990 and 2011 (see Table 4.3) and although there has been no further increase in the exemption since 2014, the aggregate increase in the exemption over the period from 1990 to 2018 significantly exceeds the inflation rate over that period, as illustrated by the Increase ratio in Table 4.3.

Table 4.3 Individual's interest exemption 1990 to 2018

<u>Year ended 28/29</u> <u>February -</u>	<u>Under 65</u> <u>R</u>	<u>Over 65</u> <u>R</u>	<u>Foreign interest</u> <u>exemption</u> <u>R</u>	<u>CPI</u> <u>(2)</u>
1990	1 000	1 000	N/A	20,0
1991 - 2000	2 000	2 000	N/A	47,9
2001	3 000	4 000	All	51,6
2002	4 000	5 000	All	54,6
2003	6 000	10 000	1 000	60,2
2004	10 000	15 000	1 000	60,7
2005	11 000	16 000	1 000	62,3
2006	15 000	22 000	2 000	64,7
2007	16 500	24 500	2 500	68,4
2008	18 000	26 000	3 000	75,1
2009	19 000	27 500	3 200	82,3
2010	21 000	30 000	3 500	87,0
2011	22 300	32 000	3 700	90,2
2012	22 800	33 000	3 700	95,7
2013 (1)	22 800	33 000	Repealed	101,3
2014 - 2017	23 800	34 500	Repealed	107,3
2018	23 800	34 500	Repealed	N/A
Increase ratio (2018/1990)	23,8	34,5	N/A	6,3

Notes:

1. In 2013 a new savings incentive was introduced in the form of tax-free savings accounts. In the announcement of the change in the 2013 Budget Speech the Minister of Finance stated that no further inflationary adjustments would be made to the basic interest exemption (Treasury 2013, Chapter 4, p 51).
2. CPI is the Consumer Price Index (headline index) published by StatsSA as at February of the respective year. The 2018 index is not yet available at the time of writing.

Source: *South African Reserve Bank (2016a:2-3); Statistics South Africa (2016:online); and author's calculations.*

Similarly, the capital gains tax annual exclusion for individuals has increased fourfold over the period since capital gains tax was introduced in 2001, significantly exceeding inflation, which has increased by a multiple of 2,5 times over that period, as is illustrated in Table 4.4. The increases in the interest exemption and the capital gains tax exclusion have benefitted high income-earners who derive interest and capital gains and therefore make use of these provisions.

Table 4.4 Capital gains tax – individual’s exclusions 2001 to 2018

<u>Year ended 28/9</u> <u>February -</u>	<u>Annual</u> <u>exclusion</u> <u>R</u>	<u>Annual</u> <u>exclusion in</u> <u>year of death</u> <u>R</u>	<u>Primary</u> <u>residence</u> <u>exclusion</u> <u>R</u>	<u>Small</u> <u>business</u> <u>exclusion</u> <u>R</u>	<u>CPI</u> <u>(1)</u>
2001 - 2006	10 000	15 000	1 000 000	500 000	64,7
2007	12 500	60 000	1 500 000	750 000	68,4
2008	15 000	120 000	1 500 000	750 000	75,1
2009	16 000	120 000	1 500 000	750 000	82,3
2010 - 2011	17 500	120 000	1 500 000	750 000	90,2
2012	20 000	200 000	1 500 000	900 000	95,7
2013 - 2016	30 000	300 000	2 000 000	1 800 000	119,3
2017	40 000	300 000	2 000 000	1 800 000	126,8
2018	40 000	300 000	2 000 000	1 800 000	N/A
Increase ratio (2018/2001)	4,0	20,0	2,0	3,6	2,5

Note:

1. CPI is the Consumer Price Index (headline index) published by StatsSA as at February of the respective year.

The 2018 index is not yet available at the time of writing.

Source: *South African Revenue Service (2016a:55-56); South African Reserve Bank (2016a:20); Republic of South Africa, National Treasury (2016:online); Statistics South Africa (2016:online); and author’s calculations.*

The relief granted through the increases to the tax rebates, interest exemption and annual exclusion from capital gains tax has been offset to some extent by amendments made to certain

tax deductions that have historically benefitted high-income earners disproportionately. The medical deduction previously allowed under section 18 of the Income Tax Act was repealed in 2012 and replaced with a dual credit system (sections 6A and 6B of the Income Tax Act) that provides relief to taxpayers more equally, regardless of the level of taxable income. The deduction for retirement fund contributions under section 11(k) of the Income Tax Act has been capped at a fixed amount of R350 000 per annum with effect from 1 March 2016, thus limiting the tax benefit of this deduction for high-income earners. Nonetheless, statistics produced by the South African Revenue Service (2016:online) show that the average income tax rate of high-income earners has not increased over the last thirteen years. Table 4.5 shows data for the period from 2003 (the first year for which such statistics are available) to 2015. The Table illustrates that the average tax rate of high-income earners has decreased by 2 percentage points over the period from 2003 to 2015, from 39,6% to 37,6%. The increase in the capital gains tax inclusion rate from 25% to 33,3% with effect from 1 March 2012 has not shown any effect on the average tax rate in the 2013, 2014 and 2015 years of assessment. The reason for the slight decrease in the average tax rate may be explained to some extent by the increase ratio, which illustrates that, although the number of taxpayers with taxable income exceeding R2 million has increased by a factor of 12,2, the average taxable income per taxpayer has increased only marginally, a factor of 1,1 over the twelve-year period.

The increase in average taxable income is less than the inflation rate over the period (see Table 4.4) and taxpayers would have benefitted from the annual inflationary adjustments to the tax rebates and thresholds in the personal tax tables, as well as adjustments to exemptions and abatements and the average tax rate per taxpayer, resulting in an overall reduction in the average tax rate. Thus, the reduction in the average tax rate of high-income earners over the period is explained mainly by the below-inflation increase in their average taxable income.

Table 4.5 Data on taxpayers with taxable income above R2 million

<u>Year</u>	<u>Number of taxpayers</u>	<u>Total taxable income</u> <u>R million</u>	<u>Total tax assessed</u> <u>R million</u>	<u>Average taxable income per taxpayer</u> <u>R million</u>	<u>Average tax rate</u> <u>%</u>	<u>Maximum marginal tax rate</u> <u>(1)</u>	<u>Capital gains tax inclusion rate</u>	<u>Effective capital gains tax rate</u>
2003	2 589	9 363	3 705	3 616	39,6%	40%	25%	10%
2004	2 939	10 044	3 928	3 417	39,1%	40%	25%	10%
2005	4 170	14 656	5 656	3 515	38,6%	40%	25%	10%
2006	6 220	22 869	8 793	3 677	38,4%	40%	25%	10%
2007	9 103	35 574	13 696	3 908	38,5%	40%	25%	10%
2008	12 600	53 444	20 490	4 242	38,3%	40%	25%	10%
2009	15 726	54 931	20 889	3 493	38,0%	40%	25%	10%
2010	13 259	48 755	18 677	3 677	38,3%	40%	25%	10%
2011	18 087	57 539	21 871	3 181	38,0%	40%	25%	10%
2012	18 527	70 668	26 934	3 814	38,1%	40%	25%	10%
2013	23 463	92 006	34 804	3 921	37,8%	40%	33,3%	13,3%
2014	27 361	92 006	34 804	3 363	37,8%	40%	33,3%	13,3%
2015 (2)	31 566	128 020	48 140	4 056	37,6%	40%	33,3%	13,3%
Increase ratio (2018/2003):								
	12,2	13,7	13,0	1,1				

Notes:

1. The maximum marginal tax rate was reduced from 45% to 42% with effect from 1 March 2000 and to 40% with effect from 1 March 2002.
2. Only 71.9% of taxpayers had been assessed at the time of publishing the statistics; thus, updated statistics may reflect a different result.

Source: *South African Revenue Service (2016a:15-42); South African Revenue Service (2016b:Table A2.1.1); Statistics South Africa (2016:online); and author's calculations.*

The personal income tax data shown in Table 4.5 suggests that the tax policy objective of redistribution has been achieved mainly by providing real relief to lower-income earners, whereas the income tax burden on high-income earners had not increased in real terms up to 2015. The tax burden on high-income earners has however increased in recent years, with an increase in the capital gains tax inclusion rate from 33,3% to 40% with effect from 1 March 2016 and an increase in the maximum marginal tax rate to 41% from 1 March 2015 and a further increase to 45% with effect from 1 March 2017. These amendments have enhanced the progressivity of the personal income tax system. Once the statistics on the 2016 and 2017 income tax assessments become available, it is expected that these amendments will reflect in a higher average tax rate on high-income earners in 2017 and 2018.

As stated earlier, wealth taxes have not previously been utilised as a means of addressing inequality. Most of the taxes on wealth and capital transfers have been in existence for many years, as indicated by the implementation date of estate duty and donations tax and there have not been significant changes to these tax systems. The next part of the Chapter describes how these taxes and other wealth taxes operate in South Africa.

4.1.4 Taxes on wealth, capital transfers and property

Estate duty

Estate duty is a transferor-based tax, levied at the rate of 20% (see Table 4.6 for the history of rates and abatements) on the “dutiable value” of the estate, which is, in effect, the market value of the deceased’s assets less liabilities and certain other deductions, exclusions and abatements. For persons ordinarily resident in South Africa at the time of death, all assets, regardless of location, are included in the property of the estate, subject to the provisions of any Double Tax Agreement that may apply. In the absence of any relief under a Double Tax Agreement, foreign death duties paid may be deducted from the South African estate duty liability (section 16(c) of the Estate Duty Act).

Table 4.6 Estate duty rates and abatements 1993 to 2018

<u>Year ended 28/29</u> <u>February -</u>	<u>Rate</u>	<u>Abatement</u> <u>R</u>	<u>CPI</u> <u>(1)</u>
1993 - 1995	15%	1 000 000	35,0
1996	15%	1 500 000	37,3
1997 - 1999	25%	1 500 000	46,8
2000	25%	2 500 000	47,9
2001	25%	1 000 000	51,6
2002	20%	1 000 000	54,6
2003 - 2006	20%	1 500 000	64,7
2007	20%	2 500 000	68,4
2008 - 2017	20%	3 500 000	126,8
2018	20%	3 500 000	N/A
Increase ratio (2018/1993)		3,5	4,4

Note:

1. CPI is the Consumer Price Index (headline index) published by StatsSA as at February of the respective year.

The 2018 index is not yet available at the time of writing.

Source: *South African Revenue Service (2016a:56); South African Reserve Bank Tax (2016a:21-22); Statistics South Africa (2016:online); and author's calculations.*

The dutiable estate of each person is determined individually, even in the case of a married couple. In the case of a couple married in community of property, the deceased's share of the joint estate and any assets falling outside of the joint estate would be included in the property of the estate. Where a couple is married out of community of property, with accrual, provision is made for an adjustment for a claim against the other spouse, or a claim by the other spouse against the estate of the deceased spouse. Recognising the economic unit of a married couple, the Estate Duty Act allows assets to be transferred to a surviving spouse free of estate duty, except, as a tax avoidance measure, to the extent that there is an obligation on the surviving

spouse to dispose of any such assets to another person or to a trust. There is no exemption from estate duty in respect of assets that accrue to a trust established by the deceased for the benefit of the surviving spouse if the trustees of the trust have discretion to allocate the assets or any income therefrom to any person other than the surviving spouse (section 4(q) of the Estate Duty Act). Deductions permitted in arriving at the net value of the estate include the value of any assets bequeathed to charities that are registered as public benefit organisations and exempt from income tax under section 10(1)(cN) of the Income Tax Act; or to institutions, boards or bodies that are exempt from income tax under section 10(1)(cA) of the Income Tax Act and which have as their sole or principal object the carrying on of any public benefit activity as contemplated in section 30 of that Act; or to the state or any municipality (section 4(h) of the Estate Duty Act).

A standard abatement of R3 500 000 is deducted from the net value of the estate in arriving at the dutiable value of the estate (section 4A of the Estate Duty Act). Where the deceased person was the spouse of a previously-deceased person, the abatement is determined as R7 000 000 less the amount of any abatement that was deducted from the net value of the estate of the previously-deceased spouse (this concession was granted for persons dying on or after 1 January 2010). Thus, in the case of a widow or widower the abatement can increase to R7 000 000 if no abatement was deducted from the net value of the estate of any previously deceased spouse (section 4A(2) of the Estate Duty Act). Relief in the form of a successive death rebate (referred to as the “quick succession rebate”) is provided where assets are inherited from someone who died within ten years of the person in whose estate the assets are included (First Schedule to the Estate Duty Act).

The estate duty liability is payable by the executor of the estate, with certain exceptions. Any estate duty payable in respect of a cessation of a limited interest in property enjoyed by the deceased at the time of death is recoverable from the person who benefits as a result of the death of the deceased (section 11(1)(a)(i) of the Estate Duty Act); any estate duty payable in respect of a life policy on the deceased, which is payable to a person other than the deceased, is recoverable from that other person (section 11(1)(b)(i) of the Estate Duty Act); and the estate duty payable in respect of any asset donated under either a *donatio mortis causa* (donations made in contemplation of death) or a donation that only benefits the donee upon the death of the donor is

recoverable from the donee (section 11(b)(ii) of the Estate Duty Act read together with sections 56(1)(c) and (d) of the Income Tax Act).

Certain provisions in the Estate Duty Act provide for relief in specific circumstances. For example, farming land is valued at a thirty percent discount to the arm's length fair market value (definition of "fair market value" in section 1 of the Estate Duty Act) and this discount extends to shares in a company which holds farming property. Relief can also be found in the valuation rules applicable to limited interests in property that the deceased was enjoying at the time of death, which are valued in accordance with the provisions in section 5 of the Estate Duty Act. Although some estate planning and structuring has involved the utilisation of limited interests in the form of usufructs, fiduciary interests and *fidecomissii* to maximise the benefit of the valuation rules, such structures would have to ensure that the deceased has only a limited right to the property at the time of death and there is the risk that the estate duty liability on the balance of the property may be passed on to the beneficiary who may then have full ownership of the property at the time of his or her death.

Another planning opportunity was found in retirement fund investments following an amendment to the Estate Duty Act in 2008 that created a significant concession by excluding retirement benefits held by the deceased in pension, provident and retirement annuity funds from "property" (under section 3(2)(i) of the Estate Duty Act). This amendment, together with a simultaneous amendment to the definition of "retirement annuity fund" in section 1 of the Income Tax Act, opened up the opportunity for wealthy individuals, especially in the later years of life, to make substantial contributions to retirement annuity funds, which reduced the value of the planner's estate whilst creating an asset that could still confer benefits on the beneficiaries after the planner's death - as the retirement annuity fund could pay out the benefit to the planner's heirs and beneficiaries after the planner's death. This opportunity was curtailed in 2015 with an amendment that seeks to include excess contributions to retirement funds in the dutiable estate of the deceased. The provision, in section 3(3)(bA) of the Estate Duty Act, includes as "property" any contributions to retirement funds in excess of amounts that qualified for a normal tax deduction under the Income Tax Act or a deduction against a retirement lump sum under the Second Schedule to the Income Tax Act or an exemption under section 10C of the Income Tax Act.

Another fairly popular avenue followed by high net worth estate planners is to use trusts as a vehicle to reduce estate duty. This may involve the planner establishing an *inter vivos* trust and disposing of his or her growth assets to the trust, with the disposal being funded by way of an interest-free loan to the trust. The absence of interest on the loan is gratuitous; however, as there is no actual disposal of property, donations tax is not triggered on the transaction. The loan account balance owing to the planner is an asset that will form part of the property of his or her estate upon his or her death; however, the balance would not have increased since the loan was raised and may even have decreased with repayments made by the trust, with the result that the value of the asset in the hands of the planner is frozen. The growth in value of the assets has effectively been shifted to the trust, which never dies and is therefore never subject to estate duty. The increased value of the assets would only be included in the estate of the planner if the trust is disregarded on the basis of being a sham or if the deceased retains control over an asset of the trust, in which case that asset is deemed to be property of the deceased under section 3(3)(d) of the Estate Duty Act. The use of trusts to minimise estate duty has been a cause for concern to government for many years and in the 2016 Budget Speech (Republic of South Africa, National Treasury, 2016:online), the Finance Minister announced that amendments would be made to close this opportunity (see 4.2.4).

The estate duty rate and standard abatement have been amended from time to time, in the latter case to keep pace with inflation; however, the increases in the abatement over the last twenty-four years have fallen short of the increase in the consumer price index as is illustrated in Table 4.6, which shows that the increase ratio for the abatement is 3,5 compared to the increase ratio of 4,1 for the consumer price index. To some extent, this inflation lag can be ascribed to a deliberate tax policy decision that has had the intention of increasing the net effective tax collected through estate duty; however, the stagnancy in the last two years can be attributed to the need to wait for the recommendations of the Davis Tax Committee. The lower-than inflation increase has, however, been offset to some extent by the concession of allowing any unutilised abatement in the estate of the first-dying spouse to be carried forward to the second-dying spouse.

Donations tax

The donations tax provisions in the Income Tax Act, which applied to donations made after 23 March 1955 (Muller, 2010:90), were transferred to sections 54 to 64 of the Income Tax Act No. 58 of 1962, as Amended, when the Income Tax Act was consolidated in 1962.

Donations tax is payable on the cumulative value of donations made by a resident in any year of assessment. The tax is currently levied at a rate of 20% (see Table 4.7 for history of rates) on the market value of any asset disposed of by way of a donation and “donation” is defined as “any gratuitous disposal of property including any gratuitous waiver or renunciation of any right” (section 55 of the Income Tax Act). A deemed disposal rule in section 58 of the Income Tax Act provides that any disposal of property for a consideration which the Commissioner for the South African Revenue Service considers to be less than adequate is deemed to be a donation for purposes of donations tax. Donations tax is payable by the donor but in the event that the donor fails to pay the tax, the donor and donee become jointly and severally liable for the tax under section 59 of the Income Tax Act.

Table 4.7 Donations tax rates and exemptions 1993 to 2018

<u>Year ended 28/29</u> <u>February -</u>	<u>Rate</u>	<u>Annual Exemption</u>		<u>CPI</u> (2)
		<u>Individuals</u>	<u>Other (1)</u>	
		<u>R</u>	<u>R</u>	
1993 - 1996	15%	20 000	5 000	37,3
1997 - 2001	25%	25 000	5 000	51,6
2002	20%	25 000	5 000	54,6
2003 - 2006	20%	30 000	10 000	64,7
2007	20%	50 000	10 000	68,4
2008 - 2017	20%	100 000	10 000	126,8
2018	20%	100 000	10 000	N/A
Increase ratio (2018/1993)		5,0	2,0	4,4

Notes:

1. This exemption applies to casual gifts made by donors other than individuals.
2. CPI is the Consumer Price Index (headline index) published by StatsSA as at February of the respective year.

The 2018 index is not yet available at the time of writing.

Source: *South African Revenue Service (2016a:57); South African Reserve Bank (2016a:23); Statistics South Africa (2016:online); and author's calculations.*

The purpose of the donations tax was to curb the avoidance of income tax and estate duty and, according to Muller, citing Hansard (Muller, 2010:90) it “was never intended to raise revenue”. Donations tax has long been, and remains, a low tax contributor, yielding less than 1% of total tax revenue annually. Table 4.8 illustrates the history of donations tax collections relative to total tax revenue and gross domestic product over the period from 1984 to 2017. Although the collections have remained low throughout the period, the average for the twenty-three-year period from 1995 to 2017, at 0,02% of total tax revenue and 0,0041% of gross domestic product, is higher than the average for the eleven-year period from 1984 to 1994, at 0,01% and 0,0035%, respectively.

Table 4.8 Donations tax collections 1984 to 2017

<u>Year ended 28/29</u> <u>February -</u>	<u>Donations tax</u> <u>collections</u> <u>R million</u>	<u>Donations tax as a % of</u> <u>total tax revenue</u>	<u>Donations tax as a % of</u> <u>GDP</u>
1984	3,5	0,02%	0,0037%
1985	4,7	0,02%	0,0043%
1986	3,2	0,01%	0,0025%
1987	3,9	0,01%	0,0026%
1988	5,5	0,01%	0,0032%
1989	3,2	0,01%	0,0015%
1990	4,3	0,01%	0,0017%
1991	6,5	0,01%	0,0023%
1992	6,8	0,01%	0,0021%
1993	18,0	0,02%	0,0052%
1994	39,0	0,04%	0,0099%
1995	104,4	0,09%	0,0236%
1996	61,0	0,05%	0,0122%
1997	46,7	0,03%	0,0084%
1998	17,7	0,01%	0,0025%
1999	9,1	0,00%	0,0012%
2000	15,2	0,01%	0,0019%
2001	32,1	0,01%	0,0035%
2002	20,6	0,01%	0,0020%
2003	17,7	0,01%	0,0015%
2004	17,1	0,01%	0,0013%
2005	25,2	0,01%	0,0018%
2006	29,5	0,01%	0,0019%
2007	47,0	0,01%	0,0029%
2008	27,6	0,00%	0,0015%
2009	125,0	0,02%	0,0052%
2010	60,1	0,01%	0,0024%
2011	64,6	0,01%	0,0023%
2012	52,7	0,01%	0,0017%
2013	82,1	0,01%	0,0025%
2014	112,8	0,01%	0,0031%
2015	167,0	0,02%	0,0043%

2016	134,8	0,01%	0,0033%
2017	178,0	0,02%	0,0040%
Average: 1984 to 1994 (11 years):		0,01%	0,0035%
Average: 1995 to 2017 (23 years):		0,02%	0,0041%

Source: *Margo Commission Report (1987:20.26)*; *National Treasury (1996:Table 2)*; *South African Revenue Service (2008:Table 1.7.1)*; *South African Revenue Service (2011:Table A1.5.1)*; *South African Revenue Service (2016b:Table A1.5.1)*.

There is a range of exemptions from the donations tax, including donations to a spouse (section 56(a) and (b) of the Income Tax Act), any *donatio mortis causa* (donations made in contemplation of death) (section 56(c) of the Income Tax Act), any donation in terms of which the donee will not benefit until the death of the donor (section 56(d) of the Income Tax Act), any donation cancelled within six months of the date upon which the donation takes effect (section 56(e) of the Income Tax Act), any donation made to or for the benefit of any traditional council (section 56(f) of the Income Tax Act), any donation by or to a range of tax-exempt institutions, including the government (section 56(h) of the Income Tax Act), disposals made “under and in pursuance of any trust” (section 56(l) of the Income Tax Act), any donation of the right to use or occupy farming property where the donee is the child of the donor (section 56(m) of the Income Tax Act), any donation of land under the Land Reform Programme (section 56(o) of the Income Tax Act), and any *bona fide* contributions towards the maintenance of any person, provided that the contribution is considered by the Commissioner to be reasonable (section 56(2)(c) of the Income Tax Act).

Apart from the specific exemptions, there is an annual exemption of R100 000 for natural persons and the first R10 000 of casual gifts made by persons other than natural persons is exempt from the tax. The exemption limits have been increased from time to time over the last twenty-five years (see Table 4.7, which shows a history of the exemption amounts and a comparison to the increase in the consumer price index over the same period). Table 4.7 shows that, although the exemption for natural persons has increased by a multiple of 5,0 since 1993, which compares favourably with the increase multiple of 4,4 in the consumer price index over the same period, this comparison is not factually correct as the exemption in 1993 was on the basis of a lifetime

limit determined at R20 000 multiplied by the number of children of the donor whereas the current exemption is a fixed amount of R100 000 per person per annum, which may be more generous, depending on the number of children of a particular person. The exemption available for casual gifts made by persons other than natural persons has increased by a multiple of 2, substantially less than the increase in the consumer price ratio over the same period, which is a multiple of 4,4.

A concession applies to farming property in that the fair market value of immovable property on which farming is carried on in the Republic is deemed to be seventy per cent of the arm's-length market value of the property on the date of the donation. Special valuation rules as set out in section 62 of the Income Tax Act apply to donations of limited interests, such as usufructs, fiduciary interests, other similar interests in property (including a *fideicommissum*) and a right to an annuity and seek to establish a market value based on the present value of future benefits. Usufructs and similar interests are valued by capitalising the annual value of the right of enjoyment of the property (based on the fair market value of the property at the time of the donation multiplied by twelve per cent per annum) over lesser of the expected life of the usufructuary, the expected life of the donor or the period of the right of enjoyment. For the purposes of this calculation, the expected life of a trust or a company is fifty years (section 62(3) of the Income Tax Act). The *bare dominium* in property that is subject to a usufruct or similar interest is valued by subtracting the value of the limited interest (determined as described previously) from the fair market value of the property on the date of the donation.

The main principles of estate duty and donations tax have remained unchanged since 1955, notwithstanding the passage of time, international developments (discussed in Chapter 5) and three tax reform inquiries in the form of the Franzsen Commission (1968), the Margo Commission (1987) and the Katz Commission of Inquiry into the Tax System of South Africa (1994 to 1998). More recently, the Davis Tax Committee has made a number of proposals with a view to expanding the revenue generated by estate duty and donations tax and removing some of the perceived inequities in the legislation, which are discussed later in this Chapter.

Although not specifically classified as wealth taxes, two transfer taxes apply in South Africa, which have the effect of taxing transfers of wealth in the form of the types of assets specified in the relevant legislation. The first is transfer duty and the second is securities transfer tax.

Transfer duty

Transfer duty was originally introduced in the Cape of Good Hope in 1686 (South African Revenue Service, 2013: 7), although the current system was introduced in 1950 by way of the Transfer Duty Act. The duty is levied on the fair market value of the property transferred and is payable by the person acquiring the property (section 2 of the Transfer Duty Act). The tax is calculated according to a graduated table (see Table 4.9 for the latest table) that provides for a *de minimus* exemption of R900 000 and a maximum rate of 13% on any property value in excess of R10 000 000. The rates, *de minimus* exemptions, and maximum rate thresholds are adjusted from time to time, as indicated in Table 4.10, which shows the history of the exemptions, rates and thresholds at which the maximum rate applies, since 1993. Table 4.10 shows that the *de minimus* exemption increased from R100 000 in 2002, when it first was introduced, to R900 000 in 2018, a multiple of 9, which is significantly higher than the 2,1 multiple in the consumer price index over the same period. The threshold amount at which the maximum rate applies has also increased significantly over the years, from R50 000 in 1993 to R10 million in 2016, a multiple of 50 compared to the 4,4 multiple in the consumer price index over the same period.

Table 4.9 Transfer duty table: Rate from 1 March 2017

<u>Value of Property (R)</u>	<u>Rate</u>
0 - 900 000	0%
900 001 - 1 250 000	3% on the value above 900 000
1 250 001 - 1 750 000	10 500 + 6% of the value above 1 250 000
1 750 001 - 2 250 000	40 500 + 8% of the amount above 1 750 000
2 250 001 - 10 000 000	80 500 + 11% of the amount above 2 250 000
10 000 001 and above	933 000 +13% of the value exceeding R10 000 000

Source: *National Treasury (2017c:48)*.

Table 4.10 Transfer duty exemption, rate and threshold 1993 to 2015

<u>Year ended 28/9</u> <u>February -</u>	<u>Exemption</u> <u>R</u>	<u>Maximum rate</u> <u>%</u> <u>Threshold</u> <u>R</u>		<u>CPI</u> <u>(3)</u>
1993	N/A	5%	50 000	29,0
1994	N/A	8%	250 000	31,8
1995	N/A	8%	250 000	35,0
1996	N/A	8%	250 000	37,3
1997	N/A	8%	250 000	40,9
1998	N/A	8%	250 000	43,1
1999	N/A	8%	250 000	46,8
2000	N/A	8%	250 000	47,9
2001	N/A	8%	250 000	51,6
2002	N/A	8%	250 000	54,6
2003	100 000	8%	300 000	60,2
2004	140 000	8%	320 000	60,7
2005	150 000	8%	320 000	62,3
2006	190 000	8%	330 000	64,7
2007	500 000	8%	1 000 000	68,4
2008	500 000	8%	1 000 000	75,1
2009	500 000	8%	1 000 000	82,3
2010	500 000	8%	1 000 000	87,0
2011	600 000	8%	1 500 000	90,2
2012	600 000	8%	1 500 000	95,7
2013	600 000	8%	1 500 000	101,3
2014	600 000	8%	1 500 000	107,3
2015	600 000	8%	1 500 000	111,5
2016	750 000	11%	2 250 000	119,3
2017	750 000	13%	10 000 000	126,8
2018	900 000	13%	10 000 000	N/A
Increase ratio (2018/2003)	9,0		33,3	2,1
Increase ratio (2018/1993)	-		200,0	4,4

Notes to Table 4.10:

1. The lowest rate for natural persons was 1% from 15 August 1974 until 29 February 2002.
2. A flat rate of 10% applied to persons other than natural persons until 28 February 2006; from 1 March 2006 this rate decreased to 8% and with effect from 23 February 2011 all persons have been taxed according to the graduated tables.
3. CPI is the Consumer Price Index (headline index) published by StatsSA as at February of the respective year.
The 2018 index is not yet available at the time of writing.

Source: South African Revenue Service (2013:57-58); South African Reserve Bank Tax (2016a:22); Statistics South Africa (2016:online); and author's calculations.

A special exemption was made available from 1 October 2010 until 1 January 2013 to enable residential properties held in trusts and companies to be transferred free of transfer duty to the individual owners as provided for in paragraphs 51 and 51A of the Eighth Schedule to the Income Tax Act (section 9(20) of the Transfer Duty Act). The concession was granted in light of the substantial additional capital gains tax liability that would arise on the sale of the property by the entity by virtue of the fact that the entity would not be eligible for the primary residence exclusion (paragraph 57 of the Eighth Schedule) or the annual exclusion (paragraph 5 of the Eighth Schedule) and would be subject to a higher inclusion rate (paragraph 10 of the Eighth Schedule).

Property acquired *ab intestato* or by testamentary succession, or as a result of a redistribution of the assets of a deceased estate in the process of liquidation is exempt from transfer duty under section 9(1)(e) of the Transfer Duty Act. Property acquired from a spouse as a result of the death of the other spouse or upon dissolution of the marriage, regardless of whether the spouses are married in or out of community of property, with or without accrual and including spouses in civil unions or same-sex partnerships (SARS, 2013: 72), is exempt under section 9(1)(i) of the Transfer Duty Act. An acquisition of property as a result of a donation is subject to transfer duty as no exemption applies to this type of transaction.

A history of transfer duty collections is shown in Table 4.11, illustrating that collections peaked in 2006 at 2,04% of total tax revenue and 0,54% of gross domestic product. Since 2009 the relative revenue yield has dwindled to less than 1% of total tax revenue and 0,2% of gross domestic product.

Table 4.11 Transfer duty collections 1984 to 2017

<u>Year ended 28/29</u> <u>February -</u>	<u>Transfer duty</u> <u>collections</u> <u>R million</u>	<u>Transfer duty as a %</u> <u>of total tax revenue</u>	<u>Transfer duty as a %</u> <u>of GDP</u>
1984	316,6	1,60%	0,33%
1985	285,6	1,18%	0,26%
1986	266,1	0,87%	0,21%
1987	288,7	0,83%	0,19%
1988	450,8	1,13%	0,26%
1989	544,8	1,06%	0,26%
1990	675,3	1,03%	0,27%
1991	766,4	1,07%	0,27%
1992	842,6	1,06%	0,26%
1993	920,1	1,10%	0,26%
1994	1 076,7	1,10%	0,27%
1995	1 413,5	1,24%	0,32%
1996	1 528,7	1,20%	0,31%
1997	1 733,5	1,18%	0,31%
1998	1 855,8	1,12%	0,27%
1999	1 843,9	1,00%	0,24%
2000	2 398,6	1,20%	0,29%
2001	2 401,9	1,09%	0,26%
2002	2 913,0	1,16%	0,28%
2003	3 429,0	1,22%	0,29%
2004	5 172,1	1,71%	0,40%
2005	7 114,6	2,01%	0,50%
2006	8 510,0	2,04%	0,54%
2007	6 774,0	1,37%	0,42%
2008	7 408,2	1,29%	0,40%
2009	4 930,9	0,79%	0,20%
2010	4 683,0	0,78%	0,18%
2011	5 322,5	0,79%	0,19%
2012	3 833,6	0,52%	0,12%
2013	4 278,3	0,53%	0,13%
2014	5 488,5	0,61%	0,15%
2015	6 665,8	0,68%	0,17%

2016	7 396,3	0,69%	0,18%
2017	8 250,0	0,72%	0,19%
Average: 1984 to 1994 (11 years):		1,09%	0,26%
Average: 1995 to 2017 (23 years):		1,08%	0,28%

Source: *National Treasury (1999:192); National Treasury (2017d:online)*.

Securities transfer tax

Securities transfer tax was implemented on 1 July 2008 under the Securities Transfer Tax Act, No. 25 of 2007 together with the Securities Transfer Tax Administration Act, No. 26 of 2007. The tax is levied at a rate of 0,25% on the market value the securities transferred, and the rate has remained unchanged since the tax was introduced. The tax is effectively paid by the person acquiring the security as, even where the tax is collected by an agent, there is a right of recovery from the acquirer under section 7 of the Securities Transfer Tax Act. Exemptions apply to any transfer to a beneficiary of a testamentary trust (section 8(1)(g) of the Securities Transfer Tax Act); any transfer to an heir or a legatee who has acquired the security *ab intestatio*, by way of testamentary succession or through a redistribution of the assets of a deceased estate in the process of liquidation (section 8(1)(h) of the Securities Transfer Tax Act); a transfer of a half-share in a security owned by a spouse married in community of property before the marriage, to the other spouse by operation of law upon contraction of the marriage (section 8(1)(i) of the Securities Transfer Tax Act); and the transfer of a security to a surviving or divorced spouse who acquires the security following the death of the other spouse or the dissolution of the marriage (section 8(1)(j) of the Securities Transfer Tax Act). The definition of “transfer” in section 1 of the Securities Transfer Tax Act is sufficiently broad to include donations and in the case of a donation, the tax would be based on the market value of the security on the date the donation takes effect.

The history of Security Transfer Tax collections is shown in Table 4.12. The table illustrates that collections have fluctuated but following the change from Marketable Securities Tax to Securities Transfer Tax in 2008, collections have remained below 0,6% of total tax revenue.

Table 4.12 Securities transfer tax (previously marketable securities tax) collections 1984 to 2017

<u>Year ended 28/29</u> <u>February -</u>	<u>STT collections</u> <u>R million</u>	<u>STT as a % of total</u> <u>tax revenue</u>	<u>STT as a % of</u> <u>GDP</u>
1984	40,9	0,21%	0,04%
1985	30,6	0,13%	0,03%
1986	58,6	0,19%	0,05%
1987	141,0	0,41%	0,09%
1988	225,5	0,56%	0,13%
1989	138,5	0,27%	0,07%
1990	278,1	0,43%	0,11%
1991	243,3	0,34%	0,09%
1992	199,8	0,25%	0,06%
1993	164,5	0,20%	0,05%
1994	267,0	0,27%	0,07%
1995	431,4	0,38%	0,10%
1996	462,9	0,36%	0,09%
1997	397,3	0,27%	0,07%
1998	442,3	0,27%	0,06%
1999	721,1	0,39%	0,10%
2000	1 090,4	0,54%	0,13%
2001	1 102,1	0,50%	0,12%
2002	1 212,8	0,48%	0,12%
2003	1 205,2	0,43%	0,10%
2004	1 101,1	0,36%	0,09%
2005	1 365,9	0,39%	0,10%
2006	1 973,4	0,47%	0,12%
2007	2 763,9	0,56%	0,17%
2008	3 757,1	0,66%	0,20%
2009 (1)	3 664,5	0,59%	0,15%
2010	3 324,0	0,56%	0,13%
2011	2 932,9	0,44%	0,10%
2012	2 886,1	0,39%	0,09%
2013	3 271,9	0,40%	0,10%
2014	3 784,3	0,42%	0,10%
2015	4 150,1	0,42%	0,11%

2016	5 530,7	0,52%	0,14%
2017	5 605,1	0,49%	0,13%
Average: 1984 to 1994 (11 years):		0,30%	0,07%
Average: 1995 to 2017 (23 years):		0,45%	0,11%

Note:

1. Marketable securities tax was replaced with securities transfer tax with effect from 1 July 2008 (www.sars.gov.za/Tax/Types/STT accessed 31 August 2016).

Source: *National Treasury (1999:192)*; *National Treasury (2017d:online)*.

Apart from the wealth holding and wealth transfer taxes levied at national level, South Africa has a long history of property taxes. Property taxes are not considered as wealth taxes *per se*. Nonetheless as they represent a form of tax on assets, a discussion on wealth taxes in South Africa would be incomplete without considering these taxes.

Property taxes

Property taxes in South Africa are levied at municipal level under the Local Government: Municipal Property Rates Act, No. 9 of 2004 (Republic of South Africa, 2004). These property taxes are levied on the municipal value of properties at pre-determined rates as set by the municipality in which the property is located. The property rates are recovered on either a monthly or annual basis. The municipal values of the properties are determined by the respective municipalities, subject to regulations provided for in the Municipal Rates Act, by valuing each property every four years and these values are listed in the municipal valuation rolls. The municipalities determine rates for each category of property and any exemptions that may apply, again subject to regulations provided for in the Municipal Rates Act.

The Municipal Rates Act regulates the discretionary powers of the municipalities by mandating the following:

- A uniform rates base must be applied for each category of rateable property.

- Rates levied on property must be based on the market value of property (based on the willing-seller-willing-buyer concept).
- Each municipal council must adopt and annually review a rates policy and adopt bylaws to give effect to its implementation and enforcement.
- Before adopting its rates policy, each municipality must follow a process of community participation.
- A resolution levying rates passed by a municipal council must be published in the Provincial Gazette on an annual basis.

(Western Cape, 2012.)

Apart from any specific exemptions that may be determined at municipal level, section 17(1) of the Municipal Rates Act provides that municipalities may not levy rates on -

- the first 30% of the market value of public service infrastructure;
- any part of the seashore as defined in the Seashore Act, No. 21 of 1935 (Republic of South Africa, 1935);
- any part of the territorial waters of the Republic as determined in terms of the Maritime Zones Act, No. 15 of 1994 (Republic of South Africa, 1994);
- any islands owned by the state, including the Prince Edward Islands;
- any parts of a special nature reserve, national park or nature reserve that fall within the meaning of the Protected Areas Act, or of a national botanical garden within the meaning of the National Environmental Management: Biodiversity Act, No. 10 of 2004 (Republic of South Africa, 2004), which are not developed or used for commercial, business, agricultural or residential purposes;
- mineral rights within the meaning of paragraph (b) of the definition of “property” in section 1;
- property belonging to a land reform beneficiary or his or her heirs, provided that this exclusion lapses ten years from the date on which such beneficiary’s title was registered in the office of the Registrar of Deeds;
- the first R15 000 of the market value of a property assigned in the valuation roll or supplementary valuation roll of a municipality to a category determined by the municipality –
 - for residential properties; or

- for properties used for multiple purposes, provided one or more components of the property are used for residential purposes; and
- a property registered in the name of and used primarily as a place of public worship by a religious community, including an official residence registered in the name of that community, which is occupied by an office-bearer of that community who officiates at services at that place of worship. This exclusion lapses if the property is disposed of by the religious community owning it or if it is no longer used primarily as a place of public worship by a religious community or, in the case of an official residence, such residence is no longer used as an official residence.

Municipalities may, on application in writing, be released from some of these provisions.

For example, the City of Johannesburg levies different rates for the various categories of rateable property, as shown in Table 4.13. The Table indicates a full exemption for property utilised for religious activities and municipal purposes whereas the highest rates are levied on properties used for agricultural purposes, other business and commercial purposes, sectional title business and mining.

Table 4.13 Rates levied by City of Johannesburg per category

<u>Category</u>	<u>2015/2016 Rate (cents per Rand of market value) - annual amount</u>
Agricultural Business	0.018287
Agricultural Residential	0.005878
Agricultural Other	0.005878
Business and Commercial	0.018287
Education	0.001632
Farming	0.001632
Mining	0.018287
Multipurpose Business	0.018287
Multipurpose Residential	0.006531
Municipal	0
Private open space	0.001632
Public Benefit	0.001632
Public Service Infrastructure	0.001632
Public Service Infrastructure-Private	0.001632
Religious	0
Residential Property	0.006531
Residential with consent use	0.013061
Sectional Title Business	0.018287
Sectional Title Residential	0.006531
Sectional Title Other	0.006531
State	0.009796
Vacant Land	0.026124
Illegal use	0.026124

Notes:

The following concessionary rates are levied for the financial year 2015/2016 to any owner of rateable property in the following circumstances:

1. Residential property owned and occupied by natural persons who have limited income and who are not pensioners and the value of their property does not exceed R450 000 but can show that his or her annual income falls below the limit determined by Council from time to time in terms of the Expanded Social Package, dependent on points rating.

2. Residential property owned and occupied by natural persons who are dependent on a State's social security grant in terms of the Social Assistance Act 59 of 1992 as their sole source of income: 100%.

3. Residential property owned and occupied by pensioners who are not persons contemplated in Paragraph (2), if the total income of the household did not exceed R7 850 per month over the previous income tax year: 100%

4. Residential property owned and occupied by a pensioner who is aged seventy years or more whose value of the property complies with the criteria set out above: full exemption.

5. Residential property owned and occupied by pensioners who are not persons contemplated in Paragraph (2), if the total income of the household exceeded the average of R7 850 per month over the previous income tax year but did not exceed R13 457 per month over the previous income tax year: 50%:

Provided that the rebate contemplated in Paragraphs (1) to (3) above shall only be granted where:

(a) the market value of the property as recorded in the prevailing valuation roll does not exceed R2 000 000 and in the case of a pensioner, such pensioner has attained the age of 60 or be 70 years or older; and in the case of dual ownership at least one of the owners has attained the age of 60 years or older; and

(b) The property owner personally occupies the property.

(c) A property owner who is a pensioner and is seventy years and above and lives in a property with a value of not more than R2 000 000 qualifies for 100% rebate.

(d) A pensioner rebate will be applied to one property per pensioner or pensioner and spouse only.

Properties owned by organisations that are registered in terms of the Housing Development Schemes for Retired Persons Act: 50%. Property owned by pensioners in terms of the Housing Development Scheme for Retired Persons who are sectionalized and registered in their name would be treated as per Paragraph (2) to (4).

Property owned by private sports clubs that are used primarily for sports purposes: 40%.

Property declared as heritage sites in terms of s 27, 28 and 31 of the National Heritage Resources Act 25 of 1999: 20%.

Residential Sectional Title units: 5%.

Property registered in the name of an institution or organisation that has as its exclusive objective the protection of animals: 100%

Property registered in the name of an institution or organisation that has as its exclusive objective the provision and/ or promotion of youth development programmes: 100%.

Property that is vacant but that may not be developed as a direct result of the inability of Council to provide services, subject to the owner to provide written confirmation from the service entity stating that no development to be allowed for the duration of the ensuing financial year, as a result of lack of services: 50% of the vacant land tariff.

The first R200 000 of the value of all residential property is exempt.

The first 30% of the value of the public service infrastructure is not rateable.

Source: *City of Johannesburg (2015:online)*.

Property rates make up a substantial portion of the total revenue collected by municipalities. For example, the City of Johannesburg 2015/2016 budget provides for total revenue of R43,6 billion, of which property rates comprise R7,5 billion (17%) (City of Johannesburg, 2015:online). By way of comparison, in 2010 the total revenue was R26,6 billion of which property rates comprised R5 billion (18,8%) (City of Johannesburg, 2012:online). Property rates in the City of Johannesburg have therefore increased by an average of 8,5% per year over the five-year period from 2010 to 2015, whereas the consumer price index increased by an average of 5,5% per year over that period (Statistics South Africa, 2016:online). Property rates in the City of Cape Town have increased by an average of 9,5% per year from 2010 to 2015 and property rates comprise 22% of total revenue in 2015/2016 (City of Cape Town, 2015:online).

The above-inflation increases in property rates indicate that property-owners in Johannesburg are bearing an increasing property tax burden, which, although not referred to as a wealth tax, should be taken into consideration when evaluating the incidence of tax on the wealthy. The question is whether there is scope for an even greater focus on property rates as a form of wealth tax.

According to Lewis and Alton (2015:30), a recurrent tax on immovable property "is one of the most efficient sources of revenue from an economic perspective because it does not distort labour supply decisions, has a smaller effect on investment decisions than income tax and is difficult to avoid". This would support the argument that property taxes could possibly be considered as a

wealth tax base; however, the administrative problems that plague municipalities around the country would be a deterrent to pursuing this option in the short term.

Summary

This part of the Chapter has explained how the various wealth taxes operate in South Africa currently. As noted, estate duty is a tax on wealth held at the time of death whereas donations tax, transfer duty and securities transfer tax are taxes on wealth transfers. The exemptions and thresholds in place in the estate duty, donations tax and transfer duty tax systems are designed to ensure the taxes are levied on the wealthier segment of the economy. Land taxes apply in the form of municipal property rates, which are levied at municipal level and apply across the board but have exemptions for low-income households. Thus, there is already a suite of wealth (including property) taxes in place.

The next section of this Chapter explains how returns on capital assets are taxed in South Africa.

4.1.5 Taxing capital returns

Schnellenbach (2012) questions whether there is any sound economic justification for wealth taxes, given that there are already taxes on income generated from capital. His question is: “why tax the stock of wealth in addition to ... a capital income tax?” (Schnellenbach, 2012: 374). Thus, the taxation of returns on capital can equate to a tax on the capital itself.

South Africa has, for many years taxed capital returns, although some relief has been granted to encourage savings as a base for economic growth. The South African Revenue Service statistics (2016b:TableA2.2.1) show that capital returns comprise a very small proportion of total taxable income in the country, with taxable interest and taxable capital gains each comprising only 1% of total assessed taxable income in 2015. This partly due to the offset of much of the total interest and taxable capital gains by the respective interest exemption and annual exclusion.

The method of taxing capital returns varies according to the type of return. Dividends are taxed under the dividends tax system, a separate tax that imposes a final tax on dividends. Capital gains are taxed according to the rules set out in the Eighth Schedule to the Income Tax Act, which culminate in the determination of a taxable capital gain or assessed capital loss. The taxable

capital gain is included in the taxpayer's taxable income and is then taxed according to the income tax provisions. Other capital returns in the form of interest and rentals are subject to income tax.

The starting point of the determination of taxable income under the income tax system is the definition of "gross income". The term "gross income" is defined in section 1 of the Income Tax Act as,

in relation to a year or period of assessment ...

in the case of any resident, the total amount, in cash or otherwise, received by or accrued to or in favour of such resident; or

in the case of any person other than a resident the total amount, in cash or otherwise, received by or accrued to or in favour of such person from a source within the Republic,

during such year or period of assessment, excluding receipts or accruals of a capital nature....

Apart from capital gains, all capital returns in the form of rental, dividends and interest are included in a taxpayer's gross income. To the extent that investments are accumulated from after-tax income, the taxation of capital returns results in double taxation. The Margo Commission (1987:par. 5.24) observed that this results in a system where "leisure and consumption are more favourably treated in the tax system than work effort and frugality, which introduces a bias against the form of economic development generally considered desirable".

In order to counter this bias, the tax system allows the exemption of certain capital returns under the provisions of section 10 of the Income Tax Act. Some exemptions are specific to certain types of taxpayers, some to certain types of income and in some cases, up to specific thresholds. The tax relief on capital returns is motivated by the need to encourage private savings as savings are necessary to grow the economy (Prinsloo, 1994:25). The various exemptions applicable to individuals are listed below:

- Interest (other than interest from a tax-free investment) received by or accrued to an individual from a South African source is exempt up to a specific limit for each year of assessment in terms of section 10(1)(i) of the Income Tax Act. For persons who have, or

had they lived, attained the age of 65 years of age on the last day of the year of assessment, the maximum exemption is R34 500 and for other persons the maximum exemption is R23 800 (section 10(1)(i)(i) and (ii)). The history of the interest exemption threshold from 1990 to 2018 is shown in Table 4.3.

- Dividends from resident companies, other than headquarter companies, are fully exempt from income tax in terms of section 10(1)(k)(i) of the Income Tax Act, read together with the definition of “dividend” in section 1 of the Income Tax Act. The exemption applies regardless of the type of taxpayer receiving the dividend, but the exemption does not apply in a range of circumstances listed in provisos (aa) to (ii) to section 10(1)(k), which are mainly anti-avoidance provisions and are not elaborated on here as they are not relevant for the purposes of the discussion on taxing income on capital. The section 10(1)(k) exemption also does not apply to the extent that any dividend is received in the form of an annuity (section 10(2) of the Income Tax Act), which has relevance for, *inter alia*, dividends distributed from a trust to its beneficiaries.
- Dividends from foreign companies are either fully or partly exempt under section 10B of the Income Tax Act. Individual taxpayers receiving foreign dividends would be entitled to a full exemption if they hold at least 10% of the total equity shares and voting rights in the foreign company; or if they have already accounted for the dividends under the controlled foreign company provisions of section 9D of the Income Tax Act; or if the dividend is a cash dividend from a listed share. Foreign dividends that do not qualify for a full exemption will be subject to a partial exemption, calculated according to a ratio, such that the dividend is effectively taxed at 20%, the same rate that applies to local dividends under the dividends tax.
- Any amount (including dividends, interest and capital gains) received by or accrued to a natural person in respect of a tax-free investment as defined in section 12T(1) of the Income Tax Act is exempt from tax in terms of section 12T(2) of the Income Tax Act.

The remaining amount of capital returns, including taxable capital gains are included in the taxpayers’ taxable income and taxed at their marginal tax rate. Although local dividends are exempt from income tax, they are subject to a separate tax, called the dividends tax, which is discussed below.

Dividends tax

Dividends paid by any resident company and dividends, other than distributions *in specie* paid by any foreign company that is listed on the JSE Securities Exchange (referred to as “dual-listed companies”), are subject to dividends tax at the rate of 20% in terms of section 64E(1) of the Income Tax Act, unless the dividend is specifically exempt in terms of section 64F or 64FA of the Income Tax Act. The exemptions apply to a range of listed types of beneficial owners of a dividend but do not extend to trusts or natural persons, apart from dividends paid to a natural person in respect of a tax free investment as defined in section 12T(1) of the Income Tax Act as referred to earlier in this Chapter. Thus, natural persons and trusts that derive dividends from resident companies and dual-listed foreign companies incur a liability for dividends tax, which is paid by way of a withholding tax. The company paying the dividend or its regulated intermediary, and in the case of endowment funds, the insurer, is obliged to withhold tax from any dividend before it is paid to the investor in terms of sections 64G, 64H and 64I of the Income Tax Act. Sections 64G(3) and 64H(3) of the Income Tax Act provide that the withholding tax may be calculated using a rate less than 20% where the beneficial owner provides a declaration confirming that he or she is subject to a reduced rate in terms of a double tax agreement; however this concession generally does not benefit natural persons or trusts because the prerequisite for this concession in terms of most double tax agreements is usually (apart from China and Cyprus) a minimum holding by a beneficial owner that is a company. The impact of the introduction of the dividends tax is that wealthy taxpayers who own shares in their individual capacity or in a trust have become liable for tax on their local dividend income.

The dividends tax was originally introduced at a rate of 15% on 1 April 2012 (Republic of South Africa, 2012:section 83) and the rate was increased to 20% with effect from 22 February 2017 (Republic of South Africa, National Treasury, 2017c:39). Prior to 1 April 2012, dividend income from shares in local companies would generally have been fully exempt from tax. The rate of 20% is significantly lower than the 45% maximum marginal tax rate; however, a direct comparison is not a true representation as dividends tax applies to dividends paid out of after-tax income. With a company tax rate of 28% and a 20% dividends tax, the combined tax rate on these dividends is 42,4%, which is 2,6% below the maximum marginal tax rate. Lewis and Alton (2015) suggest that the dividend tax rate could be increased to bring the combined tax rate on dividends in line with

the maximum marginal rate (which would mean a dividends tax rate of 23,6% at a maximum marginal rate of 45%) or alternatively to follow the example of Australia and Canada and tax the dividend income of individuals at their maximum marginal rate.

As mentioned earlier, taxable capital gains are included in the taxpayer's taxable income and are subject to income tax. The determination of taxable capital gains is discussed below.

Taxing capital gains

The definition of "gross income" in section 1 of the Income Tax Act excludes any amount of a capital nature; thus, the proceeds on disposal of a capital asset are excluded from gross income. Instead, the taxable capital gain on disposal of an asset, determined in accordance with the Eighth Schedule to the Income Tax Act (the Eighth Schedule), is included in taxable income under section 26A of the Income Tax Act.

Although referred to as "capital gains tax", capital gains are not subject to a separate tax. Nonetheless, for purposes of simplicity this Chapter will refer to "capital gains tax". Capital gains tax is triggered by the disposal of an asset and it is therefore transaction-based, and as capital gains tax applies to the increase in the value of assets, it is effectively a tax on capital returns. The method of determining and taxing capital gains is briefly outline below.

A capital gain or loss is triggered by the disposal of an asset. The term "disposal" as defined in paragraph 1 and clarified in paragraph 11 of the Eighth Schedule, is very broad in its scope and includes "any event, act, forbearance or operation of law which results in the creation, variation, transfer or extinction of an asset" including transactions of sale, donation, expropriation, exchange, waiver, abandonment, destruction of an asset, exercise of an option and any decrease in a person's interest in a company, trust or partnership as a result of a value-shifting arrangement. "Asset" is also very widely defined in paragraph 1 and includes "property of whatever nature, whether moveable or immoveable, corporeal or incorporeal ... any right or interest of whatever nature to or in such property", excluding any currency but including gold or platinum coins.

The Eighth Schedule provides the following framework for the determination of a capital gain or loss:

	<u>R</u>
Proceeds (determined in accordance with the provisions in Part VI of the Eighth Schedule)	XXX
Less: Base cost (determined in accordance with the provisions in Part V of the Eighth Schedule)	<u>XXX</u>
Capital gain or capital loss	XXX
Less: annual exclusion (only applicable to natural persons) (in terms of paragraph 5 of the Eighth Schedule)	R40 000; or R300 000 in the year of death
Less: other exclusions in terms of the provisions in Part VIII of the Eighth Schedule	XX
Less: roll-overs and attributions in terms of the provisions in Parts IX and X of the Eighth Schedule	<u>XX</u>
Aggregate capital gain	XXX
Inclusion rate in terms of paragraph 10 of the Eighth Schedule	Natural persons: 40%; companies and trusts: 80%
Taxable capital gain included in taxable income in terms of section 26A	<u>XXX</u>

The taxable capital gain is included in the taxpayer's taxable income after all other inclusions. Effectively therefore, taxpayers' taxable capital gains for a year of assessment are taxed at their marginal income tax rate for that year.

The inclusion in taxable income of a percentage of the aggregate capital gain is a concession that is not common in other countries. Of the OECD countries that tax capital gains, twenty-three of the countries tax capital gains on the realisation of shares and twenty countries tax capital gains on the realisation of property of individuals (OECD, 2015:online). Fifteen countries tax the nominal amount of the capital gain (OECD, 2015:online). Many of these countries do, however, make certain concessions in the form of adjustments for inflation (in the case of Chile, Israel, Mexico and Portugal) and holding period tests, under which assets held for more than a certain number of years are exempt from capital gains tax. Nine OECD countries apply holding period tests to

share disposals and eighteen apply holding period tests to property disposals and the effect of these tests is that disposals of assets beyond the holding period, which varies from six months to 35 years, are exempt from tax or subject to tax at a reduced rate. Thus, South Africa's approach of taxing a percentage of the capital gain with no inflationary adjustment and no holding period test is not as much of a concession as it may at first appear.

Certain provisions, both in the main body of the Income Tax Act and in certain paragraphs of the Eighth Schedule to that Act, provide for deemed disposals in certain circumstances, with resulting capital gains tax consequences, thereby potentially raising a tax liability on unrealised assets. For example, persons are deemed to have disposed all their assets, with certain limited exclusions, upon ceasing to be a resident (section 9H of the Income Tax Act) and upon death (section 9HA of the Income Tax Act). These provisions have the effect of levying tax on increases in wealth that have not actually been realised, which raises the question whether such provisions are fair and equitable, the ability-to-pay principle in particular being in question. This is especially relevant in the case of a deceased person as the same assets that are included in the dutiable estate of the deceased, are deemed to have been disposed of by the deceased for proceeds equal to current market value on date of death, giving rise to an element of double taxation.

The deemed disposal and resultant taxation of unrealised capital gains upon death was described in the 2001 Budget Review (Republic of South Africa, National Treasury, 2001:77) as "a major strength of the South African capital gains tax", as the absence of this rule would result in a "lock-in effect" whereby persons would be less inclined to sell assets during their lifetime with a resultant loss in tax revenue. Both the estate duty rate and the donations tax rate were reduced from 25% to 20% with effect from 1 October 2001, the implementation date of capital gains tax, to provide some compensation for the harsher tax provisions as a result of the deemed disposal rule.

Assets that fall outside of the deemed disposal on death are assets transferred to the person's surviving spouse in terms of paragraph 67(2)(a) of the Eighth Schedule, which refers to assets acquired by the surviving spouse "by *ab intestato* or testamentary succession or as a result of a redistribution agreement between the heirs and legatees of the deceased person in the course of liquidation or distribution of the deceased estate"; long-term insurance policies that would have been disregarded for capital gains tax purposes in terms of paragraph 55 of the Eighth Schedule;

and any interest in pension, pension preservation, provident, provident preservation or retirement annuity funds that would have been disregarded in terms of paragraph 54 of the Eighth Schedule.

The same assets that form the subject of the deemed disposal are included in the person's property for estate duty purposes and the result is an element of double taxation, partly relieved by the deduction for the tax liability that is allowed in the determination of the dutiable value of the person's estate.

As capital gains tax is levied on an increase in value of an asset when the asset is realised, there is an argument that capital gains tax is a tax on income, being a tax on capital returns rather than a tax on wealth (Chatalova & Evans, 2013:437). The inclusion of capital gains tax in the category of income taxes rather than wealth taxes is based on the Haig-Simons definition of income, described as "the gold standard of income tax theory and tax policy discussion" (Dodge, 2013:1), which posits that income consists of an individual's consumption plus net increases in wealth over a period, or stated differently: "income is the total accretion to wealth over a period of time consisting of monetary increases in wealth plus imputed income and consumption expenditure for the time period" (Minas & Lim, 2013:192). Although the taxation of capital gains appears to align with a comprehensive system, the preferential rate at which capital gains are taxed and the range of abatements, exemptions and roll-over provisions that exist indicate that the tax system is more a dual income tax system rather than a comprehensive system. Whilst capital gains tax could be regarded as a sub-set of the income tax rather than a wealth tax, the various provisions in the Eighth Schedule and the main body of the Income Tax Act that create deemed disposals in some circumstances, limit expenditure that can be included in the base cost of an asset and disallow the set-off of capital losses have the effect of moving the capital gains tax out of the ambit of a pure income tax and towards a wealth tax. It may therefore be said that capital gains tax in South Africa is a hybrid of income tax and a wealth tax.

Certainly, capital gains tax results in a depletion of assets transferred from one generation to the next and in that regard, it should be evaluated in the context of a wealth tax.

In the context of exploring the methods of taxing capital returns, it is apposite to consider the tax concessions or incentives that are available to encourage personal savings and wealth-building.

Tax concessions to stimulate savings

South Africa does not have any specific tax incentives to stimulate wealth creation, but there are some provisions in the Income Tax Act that provide some tax relief for personal savings and wealth-building. The exemptions for interest and dividend income have been discussed above. A deduction is allowed for investments into retirement funds under section 11(k) of the Income Tax Act to encourage individuals to save for their retirement.

Paragraph 57 of the Eighth Schedule provides that the first R1 800 000 of capital gains realised on disposal of a “small business” (meaning a business with assets whose market value does not exceed R10 million), subject to certain requirements, is exempt from capital gains tax. This provides some relief for the capital gains tax liability that might arise when self-employed individuals or entrepreneurs sell their businesses, for example on retirement.

There are no tax incentives to encourage investment in home ownership, apart from the transfer duty threshold as discussed earlier in this Chapter. Paragraph 55 of the Eighth Schedule provides some tax relief in the form of the exemption of the first R2 million of capital gains realised on the disposal of a primary residence. There is no tax deduction for interest paid on mortgage bonds. Property rental income is fully taxable and capital gains on the disposal of investment properties are subject to capital gains tax. Deductions of expenditure incurred in the production of rental income are permitted but there are limitations on the set-off of assessed losses from rentals.

Summary

This part of the Chapter has considered the various wealth taxes that are in operation in South Africa and the way in which capital returns are taxed. At various stages in history, government has initiated inquiries into the tax system to evaluate whether the optimal tax policy mix is in place. Three such reviews have occurred over the last fifty years and a fourth is currently underway, each with a mandate to investigate the tax system of South Africa and make recommendations on any changes that should be made. The next part of this Chapter reviews the work done on wealth taxes by the various Commissions of Inquiry and the Davis Tax Committee and reflects on the developments following the recommendations of the previous Commissions, with a view to

identifying challenges or opportunities that may exist regarding the taxation of wealth in South Africa.

4.2 Inquiries into the tax system

The various Commissions of Inquiry into the tax system are the Franszen Commission (1968), the Katz Commission (1994), the Margo Commission (1987). In the current milieu, the Davis Tax Committee (2013) is currently reviewing the entire tax system of South Africa. The work of each of these Commissions and the Davis Tax Committee, is discussed below.

4.2.1 Franszen Commission

In November 1967, the State President at the time appointed the first official inquiry into the tax system of South Africa, chaired by Dr. D.G. Franszen and referred to as “the Franszen Commission” (Franszen Commission, 1968:Chapter 1, par. 1). The terms of reference of the Franszen Commission were to inquire into the system of taxation, the financial structure and the fiscal and monetary policies of South Africa and to submit recommendations regarding modifications in any of these areas that would promote economic growth and financial stability of the country (Franszen, 1968:iii). The Franszen Commission issued three reports: one in 1968 (First Report) and two in 1970 (Second and Third Reports). The first two reports were concerned with tax policy and the Third Report (Franszen Commission, 1970b) focused on the capital structure of South Africa. The parts of the reports dealing with estate duty, donations tax, capital gains tax and trusts are discussed in the next few paragraphs.

The economic and socio-political context of South Africa was very different in 1967 to what it is today. A small percentage of the population participated in the economy due to the system of Apartheid and the economy was greatly dependent on the mining industry. The ratio of total tax revenue to gross domestic product was 18% in 1967 (Franszen, 1968:par. 7) and the Commission regarded this as reasonable (Franszen, 1968:par. 8) in comparison to the ratios that applied in other countries and in the context of the South African economy. The number of individual taxpayers was very small, making up only 8% of the total population and tax collections were

highly concentrated, with 6% of taxpayers contributing two-thirds of the total tax collected from individuals. The skewed distribution was ascribed by the Commission to a combination of income inequality and the very progressive tax rate structure that existed, with a marginal tax rate of 66% on taxable incomes exceeding R18 000 (Franszen, 1968:par. 32) (the equivalent amount today would be R1 263 176, based on the growth in the Consumer Price Index). The Commission observed that maintaining the existing tax system would not promote economic growth as the tax burden was shifting increasingly from indirect to direct taxes and from taxes on companies to taxes on individuals and it was feared that this trajectory could have strong inflationary and growth-constraining consequences.

The Commission recommended three specific focus areas for tax reform: a reduction in the rate of progression of direct taxes; a shift of emphasis towards indirect taxes through base-broadening; and broadening the fiscal concept of income to include capital gains (at the time capital receipts and accruals were excluded from gross income and there was no capital gains tax system in place).

The Commission recommended that the progression of tax rates should be moderated, and the maximum marginal tax rate be reduced to 60%, with the threshold at which this rate being increased from R18 000 to R28 000.

The Commission's recommendations to broaden the fiscal concept of income referred to the report of the Carter Commission, established by the Canadian Prime Minister in 1962, which sought to make recommendations for tax reform to achieve greater equity in the Canadian tax system. The Carter Commission recommended that tax should be levied upon all changes in the economic power of a tax unit, with a comprehensive tax base that included all capital gains, as a "dollar gained through the sale of a share, bond or piece of real property bestows exactly the same economic power as a dollar gained through employment or operating a business" (Franszen, 1968:par. 239). The Carter Commission therefore concluded that equity could be obtained only by taxing capital gains at the same rate as applied to earnings from work or business activities. The Franszen Commission did not support the all-embracing approach of the Carter Commission but recommended that capital gains should be taxed at a reduced tax rate (Franszen, 1968:par. 242). The motivation for taxing capital gains was to achieve greater equity in the tax system (Franszen, 1968:pars. 243 and 249). The concession of taxing capital gains at a reduced

rate was motivated by concerns around the possible negative effects of a capital gains tax on savings and investment decisions, and the impact of such a tax on the share and property market, the entrepreneurial activity, the foreign investment image of the country and administrative aspects (Franszen, 1968:par. 249). Furthermore, the Franszen Commission recommended that a capital gains tax should only be levied on the disposal of specific types of assets, excluding the taxpayer's primary residence, securities and debentures issued by National or Local Government and tax-exempt non-profit organisations, assets situated outside the Republic (due to the source-based tax system that prevailed at the time) and the transfer of a business concern from a foreign parent company to a South African subsidiary in certain circumstances. It was proposed that where the aggregate proceeds for a person other than a company fell below R2 000 during a particular tax year, all capital gains and capital losses from disposals during that year should be disregarded. The rate at which capital gains would be taxed was proposed at 20%, with gradual reductions for assets held for longer than three years such that no capital gains tax would apply to assets held for more than nine years (Franszen, 1968: par. 5). The capital gains tax would apply only to the disposal of assets acquired on or after the implementation date of the tax (Franszen, 1968:par 7).

The Franszen Commission noted concerns that a capital gains tax would erode the wealth foundation (or "wheat seed") of taxpayers, but justified this on the basis that the impact would be small and would be offset to some extent by the recommended reduction in the maximum marginal tax rate (Franszen, 1968:pars. 251 and 252). Their conclusion was that the failure to introduce a capital gains tax would openly favour those in a privileged position who could "transform taxable savings into untaxed capital appreciation" and would allow wealthy investors to "increase their wealth through untaxed capital appreciation while the ordinary salaried man, who also wishes to build up his savings, first has to hand over part of his current earnings to the fiscal authority as income tax before he can employ his savings" (Franszen, 1968:par 253). Furthermore, a capital gains tax would limit the opportunities for tax avoidance, particularly those making use of schemes to re-characterise trading profits as capital profits.

The Franszen Commission noted that there had been suggestions to replace estate duty and donations tax with a capital gains tax; however, it was not in favour of this and preferred a dual-tax system that would retain estate duty (and donations tax), whilst introducing capital gains tax.

The Commission's view was that the two tax systems were fundamentally different, with estate duty being a tax "on the full amount of property owned at death" while capital gains tax "is based only on the profit content of a transaction when the owner of an asset disposes of it" and therefore has the ability to pay the tax (Franszen, 1968:pars. 279, 280 and 281). The Commission did not consider that double tax would arise as capital gains tax would be levied only on realised profits whereas estate duty would tax profits that had not been realised during the lifetime of the testator (Franszen, 1968:par 362). The Commission noted that the Income Tax Act provided concessions that resulted in an accumulation of untaxed profits in an estate (Franszen, 1968:par. 362). The Commission recommended that there should be no differentiation in the capital gains tax treatment of companies and individuals as such a distinction would be unfair, discriminatory and may "give rise to avoidance procedures" (Franszen, 1968:par. 283) although a slight differentiation could be justified for administrative purposes (Franszen, 1968:par 284). The Commission did not favour levying the tax on unrealised appreciation in values because they opined that this would impede the ability-to-pay principle and would increase administrative complexity as "a tax on unrealised profits would raise almost insurmountable valuation problems" (Franszen, 1968:par. 292).

Chapter V of the Second Report of the Franszen Commission (1970a) recommended a revision and simplification of the estate duty structure rather than the abolishment. The Commission noted that estate duty contributed R28 million to the National Budget and it would be difficult to replace this with other taxes. Furthermore, it considered that estate duty contributed towards the fairness and balance of the tax system in South Africa, noting that the maximum rate was low in comparison with other countries² and could be increased (Franszen, 1970:par. 364). At the time of the Franszen Commission's report, the estate duty rate in South Africa ranged from 1% on the first R12 000 dutiable value of the estate to 25% on dutiable value exceeding R100 000 (Franszen, 1970:par. 354). The Franszen Commission recommended that the table of rates should be changed to 6% on dutiable values not exceeding R5 000, ranging to 40% on dutiable

² The comparative estate duty rates at the time were: United Kingdom up to 85%; USA up to 77%; New Zealand up to 59%; France succession duty up to 60%; Canada up to 54% (the Carter Commission recommended the abolition of ED in 1966) (Appendix H of the Franszen Report, 1970).

values exceeding R2 000 000. The recommendation to increase the rate was partly implemented in 1971 when the maximum Estate duty rate was increased to 35% on dutiable values exceeding R300 000.

Apart from the change in the rate structure as outlined above, the Commission recommended that the existing system of rebates in the Estate Duty Act be replaced with abatements, which were more prevalent internationally (Franszen, 1970:par. 373). The system of abatements would be structured so that an “average family” (with a surviving spouse and two children) would pay no estate duty on any dutiable value up to R100 000 (Franszen, 1970:pars. 375 and 391). The rationale behind the amount of the abatement was that estates with values up to R100 000 generally comprised mainly of accumulated savings of after-tax earnings and such assets should not be subjected to an additional tax in the form of estate duty (Franszen, 1970:par. 375).

The Franszen Commission was in support of retaining estate duty, stating (Franszen, 1970:par. 360) that -

death duties give to the tax system a balance and finish in that the system is based on a source that is not utilised or affected by the ordinary income tax or indirect taxes, and therefore brings about a fair distribution of the total tax burden. It is levied at the most opportune moment economically, that is, at the death of the testator. Neither the levying of income tax nor the levying of a tax on the sale of goods or services can take into consideration a person's ability to pay by virtue of his being in possession of capital assets. Such assets do in fact provide the possessor with social and economic benefits and security, irrespective of the income derived from them. He may, amongst other things, convert part of his assets into money so as to maintain a standard of living which an income tax, for example, would have encroached upon, and, by doing this, can frustrate all attempts on the part of the state to make sacrifices equal.

And (Franszen, 1970:par. 363) –

What the principle of ability-to-pay requires is that those whose command of goods and services has been increased through inheritance should contribute to the fiscus as much as those who have acquired such increase through personal effort.

The Commission recognised that the fairness achieved by estate duty in taxing assets being transferred to heirs and legates who had not expended any effort in the creation thereof, also

produced a further economic benefit in that estate duty reduced the value of an expected inheritance, “leaving (the heir or legatee) less scope to rely only on inherited wealth for his future sustenance” and thus encouraging them to be more productive. The Commission considered that death duties imposed at rates that were not “confiscatory” – the example given was a rate below 50% (Franszen, 1970:par. 368) – would not have a negative impact on work effort and savings. The Commission reported that it was “convinced that in respect of each R1 of revenue collected by the State, there are considerably fewer economic disadvantages associated with death duties as a source of revenue than with income tax” (Franszen, 1970:par. 369).

Whilst recognising that a recipient-based inheritance tax was more equitable as it would be based on the individual’s ability to pay the tax, the Franszen Commission preferred a transferor-based tax on the basis of administrative efficiency, stating that the “most serious objection to a system of succession duty is that it places a heavy burden on the administration ... [as the] determining of the share of each beneficiary in the estate is complex, as is also the final settlement of the tax liability of each heir” (Franszen, 1970:par. 371).

The Commission considered the question of avoidance of estate duty and specifically, the alienation of property to companies and trusts during a planner’s lifetime and noted that (Franszen, 1970:par. 412) -

no objection can be raised to such schemes if at the time of alienation, a *bona fide* valuation is placed on the property and the shares in the company are sold to the potential heirs at a realistic price or if donations tax is paid on the value of the property donated ... (t)he Commission accepts the principle that any appreciation between the date of such alienation and the date of the ‘testator’s’ death should not be subject to donations tax or estate duty.

The Commission also accepted that successive usufructs, *fideicommissa* or trusts in favour of successive beneficiaries could be used legally to reduce estate duty liabilities and noted that “(u)ntil such time as the *corpus* or full ownership passes to the ultimate heir, estate duty is levied only on the limited interest received by the intermediate heirs” whereas “when full ownership passes from generation to generation, the full *corpus* is subjected to estate duty in every estate” (Franszen, 1970:par. 413). The Commission noted that, apart from these methods, there existed “sophisticated schemes involving interconnected companies and trusts”, which needed to be

curtailed and it recommended that a general tax avoidance provision should be inserted into the Estate Duty Act to enable the revenue authorities to disregard schemes that sought to reduce the liability for estate duty (Franszen, 1970:par. 415). To date, this recommendation has not been implemented.

The Commission stated the following regarding inequality (Franszen, 1970: par. 362):

Wherever wealth has been acquired through the personal exertion of the possessor there can hardly be any objection to the inequality of sacrifice that may be brought about by a tax system that lacks balance. In the absence of a capital gains tax, the reduction of the inheritance by way of estate duty may serve as an important function in preventing any heir who is otherwise able to do so from maintaining a high standard of living without making a contribution to the national product. Inherited wealth has traditionally been considered the most important and also the most unfair cause of inequality, which has so often given rise to social unrest.

Thus, in summary, The Franszen Commission was in favour of retaining estate duty and donations tax, with some modifications to reduce opportunities for tax avoidance and increase the progressivity of the tax system. Although the Franszen Commission recommended the introduction of a capital gains tax, this was only implemented some forty years later. The Franszen Commission favoured a dual system of estate duty and capital gains tax but did not recommend any other form of wealth taxes. The Margo Commission followed more than a decade after the Franszen Commission, while South Africa was still fully immersed in an Apartheid system with a segregated economy.

4.2.2 Margo Commission

The Commission of Inquiry into the Tax Structure of the Republic of South Africa, chaired by Mr Justice C.S. Margo and referred to as the “Margo Commission” was established in 1984 by the State President, Mr P.W. Botha. The mid-1980s was a time when the South African economy was facing severe challenges amidst years of economic isolation because of the Apartheid policies adopted by the government – indeed, the Final Report of the Commission noted that the work of the Commission was conducted (Margo Commission, 1987:par. 1.5) “during a time of acute economic recession and high inflation, accompanied by threatened and actual divestment by

foreign corporations in South Africa”. The terms of reference of the Margo Commission were to investigate (Republic of South Africa, *Government Gazette*, 1984: 8) –

the implementation of a cohesive tax structure at all levels of government ... with the following goals:

- Optimal attainment of South Africa’s national economic objectives, as outlined in ... the Ninth Economic Development Programme ... taking into account the impact of taxation on private initiative, savings, investments, productivity, competition and the structure and establishment of enterprises;
- Administrative efficiency ... including simplicity and flexibility;
- Equity and neutrality; and
- The potential use of taxation as a policy instrument toward stabilisation of economic activity in both the short- and the long-term;

and which takes into account the financial implications of the constitutional dispensation.

Land taxes levied by local authorities were excluded from the Commission’s mandate (Margo Commission, 1987:par. 20.3).

The Final Report of the Margo Commission, published in 1987, addressed a wide range of tax policy matters, including the role of taxation in the distribution of income and wealth and the creation of economic growth, the taxation of capital gains, the taxation of capital and wealth and various aspects of tax reform. The Margo Commission noted (Margo Commission, 1987:par. 4.41) that the economic objectives of growth in *per capita* income, employment, price stability and an acceptable distribution of personal income and economic activity “are served best when the required government revenue is raised in a way that minimises the distortionary effects of taxation, and this occurs when the tax system is as neutral as possible as between individuals, assets and groups”. The principle of neutrality was therefore a key priority in the Margo Commission’s recommendations.

Although there was a focus on redistribution, the political system that prevailed at the time precluded many from participating in the economy on the basis of their race and what was

envisaged in addressing redistribution was limited in focus rather than a comprehensive view of the inequality of wealth across all population groups. For example, at the time of the Margo Commission, married women were taxed together with their husbands and one of the recommendations of the Margo Commission was that married women should be taxed separately, in line with development that had been taking place in other countries. The Margo Commission considered the views of taxpayers of all races, but noted that (Margo Commission, 1987:par.1.31) “[b]lack wage-earners were (largely) in the lower income brackets” and there was resentment “among urban Blacks” about “taxation without representation” and “items of State expenditure occasioned by the separation of the races”. Nonetheless, in carrying out its mandate, the Margo Commission did consider and make recommendations on aspects of wealth taxes and capital gains tax.

The Commission did not support a fully comprehensive tax system that would include capital gains as income but lamented the complexities created by the prevailing uncertainty surrounding the distinction between receipts of a capital nature versus those of a revenue nature. In the view of the Commission, this uncertainty played a large part in slowing down the turnover of assets, noting that (Margo Commission, 1987:par. 12.24) only 4,75% of shares on the Johannesburg Stock Exchange were traded each year, compared to 45% on the New York Stock Exchange. Nonetheless, the Commission did not support recommendations for the introduction of a capital gains tax (Margo Commission, 1987:par. 12.26), preferring instead to see the introduction of objective criteria that would bring more certainty to the characterisation of a receipt as being either capital or income (Margo Commission, 1987:par. 12.29). The Commission noted (Margo Commission, 1987:par. 12.32) that it had received “overwhelming evidence ... that South Africa should not introduce a capital gains tax” mainly for the reason that such a tax “would impair capital formation ... at a stage of the development of the economy where capital formation was of fundamental importance”. After listing a series of pros and cons of taxing capital gains, the Commission (Margo Commission, 1987:par. 12.38) recommended against the introduction of a capital gains tax, notwithstanding that (Margo Commission, 1987:par. 12.40) “the exemption of capital gains promotes an unequal distribution of the tax burden and erodes the progressivity of the tax system” but placing emphasis instead on (Margo Commission, 1987:par. 12.39) “the complexities and administrative difficulties that have to be faced in applying this tax in practice”.

The Commission noted (Margo Commission, 1987:par. 20.2) that at the time of their report, capital was subject to three types of taxes, being estate duty, donations tax and municipal Land Taxes, and reiterated the view of the OECD in a 1979 report entitled *The Taxation of Net Wealth, Capital Transfers and Capital Gains of Individuals* that (Margo Commission, 1987:par. 20.8) “the main rationale for taxing capital relates to social considerations ... (being) considerations of (both horizontal and vertical) equity between persons within society”.

Notwithstanding the likelihood of low revenue yields from capital taxes and any possible negative effects that capital taxes might have on savings and the accumulation of capital, together with the likely complexity of the legislation and additional administration, the Margo Commission recommended that tax on capital should be retained. The Commission recommended that estate duty and donations tax should be replaced with a capital transfer tax, a combined inheritance and gift tax that would be imposed on disposals of property for anything less than an inadequate consideration, including asset disposals funded by interest-free or low-interest loans. The replacement of estate duty and donations tax was motivated by concerns around the impact of inflation and the use of generation-skipping devices such as trusts to escape these taxes. In line with the recommendations of the Franszen Commission, the Margo Commission indicated a preference for a recipient-based inheritance tax as this better supported the ability-to pay principle but recommended a transferor-based tax for practical reasons, to minimise the associated administrative complexities (Muller, 2010: 93).

The Margo Commission recommended that the capital transfer tax should be applied at a flat rate of 15% on the difference between the market value and the consideration for the disposal. The Margo Commission justified the lower rate (versus the estate duty rate of 35% and the donations tax rate of 25%) on the basis that it would provide an opportunity to simplify the legislation by replacing a complex system of abatements with one abatement of R10 000 per annum (non-cumulative) during the person’s lifetime and R250 000 on death, with both amounts to be adjusted regularly for inflation. The exemptions were set at a level that would ensure that only the wealthy would be affected by the tax. The Margo Commission recommended that inter-spouse disposals should be exempt from the capital transfer tax, in line with the exemptions that existed for estate duty and donations tax.

The Margo Commission was particularly concerned about the tax avoidance opportunities being exploited through the use of low-interest loans and generation-skipping devices such as trusts. Consequently, they recommended that the lack of interest charged on a low-interest or no-interest loan should be regarded as a taxable capital transfer, with the value of term loans determined at market value (presumably referring to the difference between the face value of the loan and the present value of future cash flows) and demand loans valued using a deemed interest rate along the lines of the valuation rules used for fringe benefits tax purposes in the Seventh Schedule to the Income Tax Act. Capital transfers in excess of the annual deduction amount of R10 000 would be taxed. The Commission noted that taxing the benefits derived from low-interest loans was (par. 20.56) “imperative ... to prevent large-scale erosion of the tax base”. The minority view of the Commission favoured ignoring low-interest loans on the basis that the capital transfer tax on imputed interest would not raise meaningful amounts of revenue and might instead give rise to “a plethora of avoidance schemes”. The passage of time proved that the minority view was favoured as no changes regarding imputed interest have been implemented to date.

In summary, the Margo Commission favoured the replacement of estate duty and donations tax with a capital transfer tax rather than having a dual system of estate duty and capital gains tax, as was recommended by the Franszen Commission.

In the 1993 Budget Review it was noted that revenue collections from estate duty “fell by an average of over 9% per year (in real terms, by over 20% per annum)” and that an investigation would be made into a more effective system for taxing the transfer of wealth”. There have been no further developments in this regard. The Katz Commission was appointed in the following year, when South Africa moved into a new democratic era under a change of government.

4.2.3 Katz Commission

The Commission of Inquiry into Certain Aspects of the Tax Structure of the Tax Structure of South Africa, chaired by Mr. Michael Katz and referred to as the “Katz Commission”, was appointed in June 1994 soon after the election of the first democratic government under the Presidency of Nelson Rolihlala Mandela. The South African economy had come through a period of high inflation and a recession that lasted from 1989 to 1992, followed by economic growth of 1% in 1993

(Republic of South Africa, National Treasury, 1994:par. 1.1.1) and indications of continued growth in 1994.

Mr. Derek Keys was Finance Minister at the time the Katz Commission was appointed, and he was succeeded by Mr. Trevor Manuel in September 1994. During Minister Manuel's term of office, the Katz Commission published nine reports covering a broad scope of tax policy in fulfilment of its mandate to investigate and advise on the need for comprehensive tax reform in South Africa following its transition into democracy. Manuel (2002:2) describes the tax policy priorities of the time as being "focused on restructuring government expenditure towards social services that would contribute a better life for all South Africans and putting in place a macroeconomic framework conducive to investment and economic growth".

The Katz Commission was in strong support of a wealth tax, mainly on the basis that it would promote vertical and horizontal equity (Katz, 1995a:par. 7.1.3). The Katz Commission asserted that a wealth tax was also justified by the ability-to-pay principle as increased capital contributed towards a person's ability to pay taxes (Katz, 1995a:par. 7.1.5). The Katz Commission acknowledged that a wealth tax would make a limited impact on redistribution and there were other ways of addressing redistribution, particularly through the expenditure side of the budget (Katz, 1995a:par. 7.1.4). Nonetheless, the political argument and perceived benefits of a wealth tax added strong support for a wealth tax, such that (Katz, 1995a:par. 7.1.4) "the contribution which a tax on wealth can make to the overall fairness of the tax system should not be underestimated". The Katz Commission also motivated for a wealth tax as a means of closing gaps that inevitably arose in taxes on income and consumption, stating that (Katz, 1995a:par. 7.1.7) -

not all of the objectives of the tax system can be satisfied simultaneously and comprehensively ... trade-offs between the objectives of administrative simplicity and certainty and of equity are unavoidable (and) ... the fairness of the tax system is enhanced by the imposition of some taxation of wealth. In order to compensate partially for the practical deficiencies of income taxes and value-added taxes, it becomes necessary, apart from all the other considerations, to include wealth taxes in the system. This is a necessity despite the known defects in wealth taxes.

The Katz Commission considered three types of wealth taxes: an annual or once-off wealth tax; a tax on the transfer of wealth; and a national land tax (Katz, 1995a:par. 7.1.9). The Katz Commission cautioned that a wealth tax should not adversely affect savings and capital accumulation (Katz, 1995a:par. 7.2.5). The final recommendation was a preference for a capital transfer tax (Katz, 1995a:par. 7.1.13) notwithstanding the Katz Commission's concerns around high administrative costs (Katz, 1995a:par. 7.2.3) and tax avoidance (Katz, 1995a:par. 7.2.4).

In line with the recommendations of the Margo Commission, the Katz Commission recommended that a capital transfer tax should replace estate duty and donations tax as a means of addressing vertical equity (Katz, 1995a:par's. 7.1.12 and 7.4.1). The Katz Commission published their Fourth Report in 1997, after undertaking further research into the area of capital transfer taxes. The report noted that what emerged from this research was the following (Katz, 1995b: par. 1.11):

- Capital transfer taxes were prone to being extremely complex and these complexities often resulted in problems of administration and high costs of collection, leaving a very low tax revenue yield. The Katz Commission expressed concern that the South African Revenue Service at the time would not cope with such administrative demands; however, tax administration has significantly improved since the time of the Katz Commission report and it is doubtful that this argument would still be considered relevant.
- Anti-avoidance provisions would be needed, which would have to comply with equitable principles to bring targeted transactions within the tax net. At the same time, these provisions should not seek to include in the tax net those transactions that have legitimate commercial and other justification.
- A typical result of capital transfer taxes was the spawning of an unproductive estate planning industry.
- Tax revenue from death and gift taxes was generally very low in industrialised countries. Reasons for the low yield included difficulty in tracing gifts between individuals, complexities in establishing clear ownership of assets in extended families and the obfuscation in distinguishing between donations and the discharging of an obligation to support a family member. These challenges remain.

The Katz Commission concluded that a capital transfer tax system would not be likely to make a substantial contribution to overall tax collections in South Africa (Katz, 1995b:par. 1.12.). To attain

the greatest possible vertical and horizontal equity, the capital transfer tax legislation would have to be as simple as possible to enable efficient administration.

In comparing estate duty with an inheritance tax, the Katz Commission favoured a succession-based inheritance tax with a progressive rate structure as it provided more opportunity for vertical equity (Katz, 1995a:par. 7.3.2). Furthermore, taxing large inheritances more severely would encourage testators to spread their wealth more widely. Nonetheless, the Katz Commission recommended the retention of estate duty for practical reasons (Katz, 1995a:par. 7.3.3). The Katz Commission expressed concern that estate duty collections were very low, compared to some countries where these taxes contributed between 1% and 1,5% of total tax revenues (Katz, 1995a:par. 7.3.4). The Katz Commission did not specifically recommend that these percentages should be set as a target for estate duty collections, but it did recommend, in the Fourth Report, the introduction of specific anti-avoidance provisions into the Income Tax Act and the Estate Duty Act to deter tax avoidance through, for example, the use of low-interest loans and preference shares (Katz, 1995a:par. 9.6).

In addressing concerns around the use of trusts as generation-skipping devices, the Katz Commission recommended that a capital transfer tax be imposed on all trusts every twenty-five to thirty years to approximate a tax on each generation (Katz, 1995a:par. 10.9), notwithstanding the complexities associated with valuing the trusts' assets. The Katz Commission recommended that the capital transfer tax should apply to all trusts, including trading trusts. The capital transfer tax was recommended to be at the same rate as applied to *inter vivos* donations, without any exemptions (Katz, 1995a:par. 10.9). The Katz Commission recommended that the capital transfer tax would apply to all distributions from trusts to beneficiaries, except where this would result in double taxation (Katz, 1995:par. 10.12). Thus, the tax treatment of assets held in a trust would equate with the taxation of assets held by an individual, whereby donations *inter vivos* would be subject to donations tax and assets still held at the time of death would be subject to estate duty. The following measures were suggested to ensure that double tax did not apply (Katz, 1995a:par. 10.13):

- Distributions by a vesting trust would be subject to the capital transfer tax and the trust assets would not be subject to the generation-skipping tax.

- Distributions of assets by a testamentary trust would only be subject to the capital transfer tax on amounts in excess of the amounts included in the deceased estate. Thus, assets that formed part of the dutiable estate of the deceased person would not be subject to capital transfer tax when subsequently distributed by the trust.
- Distributions of assets by an *inter vivos* trust would not be subject to the capital transfer tax to the extent that such distributions consist of assets previously donated to the trust and therefore already subjected to donations tax.
- Trusts established to provide for mentally challenged individuals or disabled children should not be subject to the capital transfer tax.

The Katz Commission was unsupportive of a capital gains tax due to the lack of tax administrative capacity (Katz, 1995a:par. 7.1) but recommended that the possibility of introducing such a tax should be revisited in the future (Katz, 1995a:par. 6.2).

The Eighth Interim Report of the Katz Commission (1998) considered the implications of introducing a rural land tax in South Africa, which would be in addition to the existing land tax on urban properties. The Katz Commission (1998) favoured the principle of a rural land tax, noting that it had the potential to provide three specific benefits. These perceived benefits were additional revenue for rural local authorities, although it was acknowledged that the potential revenue yield would be small; greater fiscal autonomy to rural local authorities by levying the tax at local government level; and the promotion of the horizontal equity principle (Katz, 1998:par. 1.4). An overriding concern, however, was the possible negative impact on the agricultural sector. A range of other concerns and challenges, including the lack of capacity to administer such a tax at local government level, difficulties in establishing the tax base and the economic effect of the tax, resulted in the Katz Commission recommending that a rural land tax should not be implemented at the time, but that further investigation was needed.

Many of the recommendations of the Katz Commission were adopted in subsequent years; however, the recommendations around wealth taxes have not yet been implemented. The most fundamental institutional implementation following the recommendations of the Katz Commission was the formation of the South African Revenue Service in 1997. Policy changes included separate taxation for married persons and tax relief for both individuals and companies with the objective of encouraging investment, broadening the tax base and improving tax administration

efficiencies. The recommendation regarding a capital transfer tax has not yet been implemented but notwithstanding the Katz Commission's recommendation against the introduction of a capital gains tax, such tax was implemented in 2001. The estate duty and donations tax systems have remained largely unchanged to date.

Although the Katz Commission was concerned with the promotion of vertical and horizontal equity, Vivian believes that their recommendations have not achieved the desired result in this regard. Vivian (2006:90) argues that –

the consequence of the Katz Commission is that the ... tax burden on poorer taxpayers has now increased substantially and decreased on the higher income taxpayers. Thus, the degree of inequality, in a utility framework, has increased substantially. The top marginal rates have decreased from 60 per cent in 1972, to 42 per cent in 1994 and to 40 per cent in 2006 while the lowest rates increased from 5 per cent in 1971 to 19 per cent in 1997.

Tax reform following the Katz Commission

Tax reform in the new democratic era following the change in government in 1994 has prioritised broadening the tax base with a view to improving tax revenue collections and promoting vertical equity. The first significant step and described by Manuel (2002:5) as “the most notable” of the tax base-broadening structural reforms, was the introduction of capital gains tax in 2001. Although the Katz Commission had reservations around the administrative capacity to manage a capital gains tax system, the platform for the tax was facilitated by the formation of the South African Revenue Service in 1997 under the leadership of Commissioner Pravin Gordhan, who was later appointed to the position of Minister of Finance. Some of the Katz Commission's recommendations were adopted, such as the fixed implementation date, referred to as the “valuation date”, being 1 October 2001. Whereas prior to the introduction of capital gains tax, capital receipts and appreciations in capital assets went largely untaxed, the introduction of capital gains tax in 2001 ensured that these capital profits were subject to tax, albeit at a preferential rate. Manuel (2002:5) supported a capital gains tax and opined that he preferred an even more comprehensive definition of income that would tax capital profits in the same way as other income, as they all represent an increase in net wealth. He noted the political significance of the capital

gains tax as being an additional tax burden on the wealthy as (Manuel, 2002:5) “international evidence suggests that capital gains most often arise in the hands of the wealthy”.

The second significant tax base-broadening reform implemented simultaneously with the introduction of the capital gains tax was the move from a source-based tax system to a residence-based tax system in 2001. This ensured that South Africans would be taxed on foreign income, including foreign investment income, which again was a focus on the taxation of the wealthy.

Thus, whilst there has been no specific introduction of wealth taxes during this era, the potential tax base of the wealthy has been broadened through the introduction of capital gains tax and the residence-based tax system. Further base-broadening and revenue collection-enhancing measures have been introduced in the form of changes to the range and taxable value of fringe benefits, including employee share scheme benefits, and the collection of employees’ tax from directors of private companies. In principle, these changes would have had the effect of increasing the tax burden on high-income, wealthy taxpayers; however, relief has been given in the form of increased rebates and reduced tax rates, which have offset this negative impact such that overall, most of these taxpayers actually experienced a lighter tax burden, as referred to earlier in the Chapter.

The 2008 financial crisis, followed a few years later by a fall in demand for commodities and the shift of international investment away from emerging markets, resulted in increasing economic challenges in South Africa, which created ever more demand for additional tax revenue. Two years of budget surpluses in 2007 and 2008 were overtaken by successive and ever-increasing budget deficits and government debt has increased back to levels last seen in the late 1990s. Inequality continues to increase, raising concerns about social uprisings and political instability.

In his 2014 medium-term budget speech, the Minister of Finance, Honourable Minister Nhlanhla Nene, warned that measures to address the ongoing budget deficit would be required if the economic outlook deteriorated and stated that “we have reached that turning point (where)... (f)iscal consolidation can no longer be postponed” (Republic of South Africa, National Treasury, 2014c:10). A few months later, Minister Nene announced that the maximum marginal tax rate on individuals would increase from 40% to 41% for years of assessment commencing on or after 1 March 2015. Following this tax rate increase, the South African economy has continued to

weaken, and government debt has continued to rise, creating ever more demand for increased tax revenue collections. The maximum marginal tax rate increased further, to 45% with effect from 1 March 2017. The pressure placed on tax revenue by job losses, reduced spending and declining profits means that the government has sought to throw the net wider to find additional revenue streams such as a carbon tax and a sugar tax. At the same time, the government has to be cautious to avoid further negative effects on economic growth. An inelastic tax that will yield additional revenue without slowing down economic activity would therefore potentially present a valid policy option. A wealth tax may fit these requirements and several writers have suggested that a solution may well be found in generating the necessary additional revenue from a new type of wealth tax (see for example, Williams, 2011; Jooste, 2014; Zerbst, 2013; Teuchert, 2014; and Lamprecht, 2014).

In summary, the Katz Commission was in favour of a wealth tax but, following the line taken by the Margo Commission, preferred a capital transfer tax for administrative and pragmatic reasons. The Katz Commission recommended that the capital transfer tax should be broad-based and should replace estate duty and donations tax. None of these recommendations have been implemented to date. The next official inquiry into the South African tax system was implemented in 2013 and is still underway at the time of writing.

4.2.4 Davis Tax Committee

The Davis Tax Committee, chaired by Judge Dennis Davis, was appointed in 2013 by the Minister of Finance at the time, Honourable Minister Pravin Gordhan. The Minister stated in the Budget Speech (Republic of South Africa, National Treasury, 2013b:4) that the objective of the Davis Tax Committee was to review South Africa's tax policy and the role of tax policy in supporting the objectives of the National Development Plan. The Terms of Reference of the Davis Tax Committee refer to the review of the (Davis Tax Committee, 2013: online) "progressivity of the tax system and the role and continued relevance of estate duty to support a more equitable and progressive tax system... [and] in this inquiry, the interaction between capital gains tax and the estate duty should be considered". The Davis Tax Committee issued two reports on estate duty and aspects of wealth taxes: The First Interim Report on Estate Duty dated January 2015 (the First Report) and the Second Interim Report on Estate Duty dated August 2016 (the Second Report).

The Davis Tax Committee considered the possibility of a new wealth tax as part of their holistic review of the South African tax system but proposed in the First Report that, rather than introduce a new wealth tax, the existing estate duty system should be modified to contribute more tax revenue (Davis, 2015:33).

One of the main criticisms of estate duty, raised by all of the Commissions of Inquiry and again by the Davis Tax Committee, is the low revenue yield produced by the tax. The Davis Tax Committee cited National Treasury and Piketty (2014) in stating that “estate duty collections have, in real terms, declined over the last twenty years” (Davis, 2015:27). A graph provided in the First and Second Reports (Davis, 2015:28; and Davis, 2016b:11) shows estate duty collections (real revenues) falling dramatically from 1985/6 to 1989/90, with a less dramatic further reduction in the years through to 1992/3, followed by an erratic but generally upward trend through to 2011/2012. The First Report states (2015:29) that “estate duty collections have declined both in real terms and in terms of their overall contribution to the National Revenue stream to the extent that today they represent a mere 0,1% of total tax collections”.

The estate duty collections reflected in the National Treasury statistics from 1992 to 2017 are shown in Table 4.14. The data in Table 4.14 demonstrates that estate duty collections have remained fairly constant over the twenty-three-year period from 1992 to 2015 when measured in relation to total tax revenue and gross domestic product. Estate duty collections of R78,7 million in 1992 equate to the equivalent of R324 million at 2015 price levels, which is far surpassed by actual estate duty collections of R1 488,6 million in 2015, indicating that estate duty collections have shown a healthy growth over the last two decades, albeit that the collections have never exceeded 0,2% of total tax revenue. Table 4.14 reflects that over the twenty-three-year period from 1995 to 2017, estate duty collections have averaged 0,15% of total tax revenue and 0,04% of gross domestic product, which is lower than the average of 0,26% and 0,06% respectively, for the preceding eleven-year period from 1984 to 1994. An indication of a possible improvement in the trend is indicated in the collections in both 2016 and 2017 exceeding the twenty-three-year average from 1994 to 2017, build on the increases in collections in 2014 and 2015.

Table 4.14 Estate duty collections 1984 to 2017

<u>Year ended 28/9 February -</u>	<u>Estate duty collections R million</u>	<u>Estate duty as a % of total tax revenue</u>	<u>Estate duty as a % of GDP</u>
1984	86,9	0,49%	0,10%
1985	100,4	0,44%	0,09%
1986	139,4	0,41%	0,09%
1987	147,3	0,46%	0,11%
1988	142,6	0,43%	0,10%
1989	136,5	0,36%	0,08%
1990	75,9	0,27%	0,06%
1991	82,0	0,12%	0,03%
1992	78,7	0,11%	0,03%
1993	84,9	0,10%	0,02%
1994	118,3	0,12%	0,03%
1995	125,3	0,11%	0,03%
1996	181,3	0,14%	0,04%
1997	181,8	0,12%	0,03%
1998	302,6	0,18%	0,04%
1999	256,4	0,14%	0,03%
2000	304,2	0,15%	0,04%
2001	442,7	0,20%	0,05%
2002	481,9	0,19%	0,05%
2003	432,7	0,15%	0,04%
2004	417,1	0,14%	0,03%
2005	506,9	0,14%	0,04%
2006	624,7	0,15%	0,04%
2007	747,4	0,15%	0,05%
2008	691,0	0,12%	0,04%
2009	756,7	0,12%	0,03%
2010	759,3	0,13%	0,03%
2011	782,3	0,12%	0,03%
2012	1 045,2	0,14%	0,03%
2013	1 013,0	0,12%	0,03%
2014	1 101,5	0,12%	0,03%
2015	1 488,6	0,15%	0,04%
2016	1 982,2	0,19%	0,05%

2017	2 009,6	0,18%	0,05%
Average: 1984 to 1994 (11 years):		0,26%	0,06%
Average: 1995 to 2017 (23 years):		0,15%	0,04%

Notes to Table 4.14:

1. Any unutilised abatement in the first-dying spouse allowed to be carried over to surviving spouse as from 1 January 2010 (section 4A(2) of the Estate Duty Act).
2. An estate duty rate of 15% applied from 16 March 1998; increased from 15% to 25% with effect from 14 March 1996; and reduced from 25% to 20% with effect from 1 October 2001.

Source: *Republic of South Africa, National Treasury (1996:Table 2); South African Revenue Service (2008:Table 1.7.1); South African Revenue Service (2011:Table A1.5.1); South African Revenue Service (2016:Table A1.5.1); National Treasury (2017d:online).*

The Davis Tax Committee provides the following international comparisons of estate and gift tax collections (Davis, 2015:30 cited from OECD Revenue Statistics, 2013):

Denmark: estate and gift tax yielding 0.5% of total tax revenues and 0.26% of GDP.
France: net wealth tax yielding 0.5% of tax revenues and 0.21% of GDP, inheritance and gift taxes yielding 1% of tax revenues and 0.43% of GDP.

Germany: inheritance and gift taxes yielding 0.4% of tax revenues and 0.16% of GDP.

Japan: inheritance and gift tax yielding 1.1% of tax revenues and 0.31% of GDP.

South Korea: inheritance and gift tax yielding 1% of tax revenues and 0.27% of GDP.

Netherlands: inheritance and gift tax yielding 0.7% of tax revenues and 0.26% of GDP.

Spain: inheritance and gift tax yielding 0.6% of tax revenues and 0.21% of GDP.

UK: inheritance and gift tax yielding 0.5% of tax revenues and 0.19% of GDP.

US: estate and gift tax yielding 0.4% of tax revenues and 0.09% of GDP.

The Davis Tax Committee concluded from the international comparison that (Davis, 2015:30) “South Africa is significantly underperforming in terms of [Estate duty] revenue collections ... and ... there is scope to increase performance in this regard”, and referred to the Katz Commission suggestion that “a targeted tax contribution for such taxes of 1% to 1,5% of tax revenues” should be aimed at, which, translated into the context of current tax revenues would yield “approximately R10 billion to R15 billion per annum”. Much of the focus of the Davis Tax Committee’s First Interim

Report on Estate Duty was on ways to achieve this level of estate duty collections, notwithstanding that the target seems to be unattainable based on the level of estate duty collections over the last thirty years and the levels achieved internationally.

The Davis Tax Committee found that the estate duty system did not meet the objectives of a good tax system as set out by Smith (1776), concluding on four specific objectives as follows:

Principal objective	Measurement	Conclusion on Estate duty
Efficiency	"The tax system must produce sufficient income for the state, with minimum distortions to the economy (i.e. neutral)."	"Manifestly inefficient."
Equity	"All residents must contribute to the fiscus in proportion to their ability to do so. Both horizontal and vertical equity are important."	"Displays various aspects that are inequitable. In particular, the wealthy are easily able to plan and implement estate duty planning mechanisms with liability largely dependent on marital status and class of asset of the estate."
Simplicity	"As far as possible, taxes should be simple to understand and should be collected in a timely and convenient manner. Compliance costs are thereby minimised."	"Significantly complex, time consuming and inconvenient."
Transparency and certainty	"The manner in which taxes are collected and the calculation of tax liabilities should be certain. Tax rules and procedures should be transparent and applied consistently."	"Lacks transparency in that it encourages the wealthy to create estate planning structure and lacks certainty as it is almost impossible to determine the true tax liability."

Source: *Davis (2015:32-33)*.

In spite of the shortcomings of estate duty, the Davis Tax Committee conceded, with the same reasoning as the Katz Commission, that replacing estate duty with a different wealth tax would be impractical, stating that such a shift would be (Davis, 2015:33) “a massive undertaking for both the taxpayer and SARS” and given the disparity of wealth in South Africa, it would be “hard to justify a repeal of these taxes without any replacement”.

The Davis Tax Committee recognised that both the Katz Commission and the Margo Commission were, at least in principle, in favour of replacing estate duty and donations tax with a capital transfer tax. Nonetheless, the Davis Tax Committee recommended in the First Report that the implementation of a capital transfer tax would be a (2015:6) “drastic measure” that was not justifiable.

The Davis Tax Committee considered the replacement of estate duty and donations tax with a periodic or recurrent wealth tax as a possible alternative to a capital transfer tax, noting that they “are both wealth taxes as they tax the same base: the only significant difference is in relation to the time at which the tax is levied” (Davis, 2015:33). The Davis Tax Committee identified the following disadvantages of an annual or recurrent wealth tax (Davis, 2015:34): it would be very complicated and costly to administer, it was “more distortionary than death and gift taxes” and it did not meet the ability-to-pay principle as the taxes would not be levied at a time when it would be convenient to pay, necessitating borrowing or realising assets to raise funds to pay the tax. The advantages were the contribution to vertical and horizontal equity, encouraging the productive use of assets and providing a useful check for taxes on income. The Davis Tax Committee concluded that, as the disadvantages outweighed the advantages, such a wealth tax should not be introduced.

The Davis Tax Committee therefore recommended in the First Report that estate duty and donations tax should be retained, “with some modification” (Davis, 2015:34), in preference to replacing these taxes with a capital transfer tax or any form of wealth taxes. The Second report did not consider wealth taxes in more detail, noting that (Davis, 2016:33), “following a resolution of the General National Council of the African National Congress (ANC) it is noted that the Minister of Finance has now requested that a further investigation be conducted into the implementation of wealth taxes in SA. This will be addressed in a separate report of the Davis Tax Committee.”

Much of the First Report and focused on addressing tax leakages and weaknesses in the estate duty system, with a view to recommending ways in which the estate duty system could be improved upon and this was extended in the Second Report. These recommendations are discussed below.

Anti-avoidance rules

The First Report of the Davis Tax Committee recommended that a general anti-avoidance provision along the lines of sections 80A to 80L of the Income Tax Act, should not be introduced into the Estate Duty Act as such provisions would have little chance of succeeding as a deterrent to entering into transactions with the objective of reducing or postponing estate duty liabilities (Davis, 2015:36). Many of these transactions and structures may well be regarded as sham transactions, were they to be reported and investigated, and for this reason, the Davis Tax Commission recommended that transactions and structures involving estate duty should be scrutinised by SARS to establish whether they could be treated as simulated; however, the First Report noted that (Davis, 2015:35) “the chances of SARS succeeding in such an attack are relatively minimal, particularly in the light of the recent clarification of the NWK (2010) judgment by the Supreme Court of Appeal in the recent judgments of *Roshcon* and *C:SARS v Bosch* (2014)”.

Spousal relief

The Davis Tax Committee did not agree with the Katz Commission recommendation that bequests to surviving spouses should be exempt from Estate duty. Indeed, the Davis Tax Committee was concerned that the “portable spouse abatement”, which enables any unutilised abatement in the estate of the first-dying spouse to be carried over to the estate of the second-dying spouse, resulted in (Davis, 2015:29) “most estates [being] subject to both CGT and estate duty only on the death of all spouses”, resulting in the deferral of estate duty collections. The Committee identified this as a major cause of tax leakage in the estate duty system and strongly recommended that the portable spouse abatement concession should cease.

In the Second Report (Davis, 2016:14) the Davis Tax Committee recommended that the preferential tax treatment for spouses should be eliminated from the Estate Duty Act. In addition,

similar inter-spouse concessions in the capital gains tax and donations tax provisions in the Income Tax Act should also be removed, as the favourable treatment afforded to spouses created inequity and violated the Constitutional principle of treating people equally. Although the Income Tax Act was amended in 1995 to introduce separate taxation of married individuals, this separate treatment has not been extended to donations tax, estate duty and capital gains tax as all three of these taxes allow exemptions or roll-over provisions for inter-spouse transfers. Although the term “spouse” is very broadly defined in section 1 of the Income Tax Act, the Davis Tax Commission argues that it is sometimes difficult to establish with certainty who falls within the definition of “spouse” as, (Davis, 2015:9 and 51) “no amount of refinement to the definition ... can cater for the diverse circumstances and challenges facing South African families today”. Allowing tax-free transfers to a “spouse” whilst denying similar relief for transfers to other dependants, caregivers and providers outside of this definition is therefore regarded as unfair and “may privilege certain forms of cohabitation over others” (Davis, 2016:13).

The Second Report recommends that the inter-spouse exemption in section 4(q) of the Estate Duty Act be abolished and the Estate Duty Act should “as far as possible, reflect the same principles of ‘one taxpayer, one tax return’ as contained in the Income Tax Act” (Davis, 2016:14). To compensate for the consequential additional tax burden and “address any concern of financial hardship associated with an estate duty regime” (Davis, 2016:17), whilst ensuring that all persons are treated equitably, the Davis Tax Committee recommended that “a single all-encompassing and equitable primary abatement” (Davis, 2016:14) should be introduced at a substantially higher level than the existing abatement of R3,5 million so that only wealthy estates would actually be subject to estate duty (Davis, 2016:17). An abatement of R15 million was recommended (Davis, 2016:17), which was based on (Davis, 2016:18) “a home and personal effects to the value of R5 million; and investments and cash to the value of R10 million, which should be sufficient to provide a sustainable pre-tax income stream of R40 000 to R50 000 per month”.

In line with the recommendation to repeal the inter-spouse exemption in the Estate Duty Act, the Davis Tax Committee recommended that the donations tax exemption for inter-spouse donations under section 56(1)(a) and (b) of the Income Tax Act should be withdrawn but noted that (Davis, 2016: 22) “the donations tax system must also recognise that inter-spouse transfers of cash and some assets are part of their everyday life in most families”. To accommodate this practical reality,

the Davis Tax Committee recommended that personal use assets and cash, which are excluded from the capital gains tax system, should similarly fall outside the scope of donations tax and that a monetary limit be introduced to (Davis, 2016:22) “curb excessive inter-spouse transfers of wealth through the donation of motor vehicles, jewellery and other collectables”. The Davis Tax Committee noted, however, that it would be impossible to determine suitable a monetary threshold (Davis, 2016:22) “to limit cash transfers between spouses”. To address the concerns regarding excessive transfers of cash, the Davis Tax Committee recommended that inter-spouse donations of cash should (Davis, 2016:22) remain exempt from donations tax to the extent that the cash is expended “in the maintenance of a family unit within one year of receipt ... however, where (such donations) result in the accumulation of wealth by the recipient spouse, donations tax should be levied”.

Recognising that these amendments would create difficulties in the case of a divorce, it was recommended that the estate duty (R15 million) and capital gains tax (R1 million inter-spouse transfer) abatements should be set as lifetime limits and made available to be utilised in the case of a transfer of assets in terms of a divorce order on the same basis as would apply in the case of death, and any abatements utilised in the course of a divorce proceedings would reduce the abatements that would remain available for application at the time of death (Davis, 2016:23).

Rates

In support of restoring a more equitable system, the Davis Tax Committee also recommended that progressive rates be reintroduced for estate duty with a base rate of 20% and a higher rate of 25% “on the dutiable value of an estate exceeding R30 million” (Davis, 2016: 18). It is not clear whether the Davis Tax Committee envisaged that the higher rate would apply to the whole dutiable value of an estate with a value exceeding R30 million, or whether the first R30 million of an estate would be taxed at 20% with the excess subject to the higher rate of 25%.

Other exemptions

The Davis Tax Committee also recommended that the exemption for *donatio mortis causa* under section 56(1)(c) should be repealed.

The First Report recommended the revision or deletion of other donations tax exemptions in sections 56(1)(g) (foreign property interests), 56(2)(a) and (b) (casual gifts up to R10 000 per year by persons other than individuals and donations made by individuals up to R100 000 per year) and 56(2)(c) (reasonable maintenance), but no further mention of these recommendations was made in the Second Report.

Capital gains tax on death

The Davis Tax Committee recommended that the existing deemed disposal on death provisions (section 9HA of the Income Tax Act) should be retained; however, the roll-over relief for bequests to a spouse should be repealed (the Second Report refers to par. 67 of the Eighth Schedule but this provision, as far as it relates to bequests to a surviving spouse, has since been moved to section 9HA(2) of the Income Tax Act). The Davis Tax Committee recommended that the roll-over relief should be replaced with a generous exemption and suggests an amount of R1 million (Davis, 2016: 20). The amount of R1 million is motivated on the basis that that this exemption, together with the R2 million primary residence exemption in par. 45 of the Eighth Schedule of the Income Tax Act and the unlimited capital gains tax exemption applicable to retirement fund benefits, motor vehicles, personal effects, certain boats and aircraft (Davis, 2016:20) “should be sufficient to address concerns”.

Retirement benefits

The Davis Tax Committee recommended that the exclusion of retirement benefits from the dutiable value of an estate for estate duty purposes be retained “subject to the implementation of measures to prevent the undue accumulation of wealth in retirement funds beyond the reasonable needs of the pensioner” (Davis, 2015:61; and 2016b:12).

Following the recommendation made in the First Report, the Estate Duty Act was amended in 2015 to circumvent tax avoidance schemes involving excessive accumulations of wealth in retirement funds by including excess benefits as “property” for estate duty purposes (section 3(2)(bA) of the Estate Duty Act inserted by the Taxation Laws Amendment Act, No. 25 of 2015, and applicable in respect of the estate of every person who dies on or after 1 January 2016 and in respect of any contributions made on or after 1 March 2015).

The Davis Tax Committee also noted that the limitation on the deduction of contributions to retirement funds, introduced with effect from 1 March 2016 as part of a package of retirement reform measures (section 11(k) of the Income Tax Act amended by section 122(1)(a) of the Taxation Laws Amendment Act No. 43 of 2014 and effective from 1 March 2016), would (Davis, 2016b:12) “further contain the accumulation of wealth within retirement funds beyond retirement requirements”.

Bare dominium and usufruct arrangements

The Davis Tax Committee opined that the use of limited interest arrangements to defer estate duty liabilities, especially “through the use of the section 4(q) inter-spouse exemption” would be largely curtailed with the removal of the exemption and recommended that SARS should increase their audits of such arrangements and require that “all holders of part interests in property be required to submit tax returns irrespective of income levels” (Davis, 2016b:24) to increase disclosure of these arrangements.

Trusts and interest-free loans

The Davis Tax Committee raised concerns regarding the general tax compliance of trusts as there were significant discrepancies between the number of trusts in existence and the number of assessments raised on trusts by SARS, but noted that “there is simply insufficient statistical data available ... to do more than make the broadest of observations and recommendations” (Davis, 2016b:27) regarding the tax compliance of trusts. Increased enforcement by SARS was recommended, particularly to ensure that “all income of trusts is ultimately taxed at some point” (Davis, 2016b: 28); however, it was also noted that “the very fundamentals of the legislation should also be considered” (Davis, 2016b:28). In this regard, the Davis Tax Committee was concerned about the use of trusts as a means to avoid income tax through the application of section 25B of the Income Tax Act (and the equivalent capital gains tax provisions in par. 80 of the Eighth Schedule to the Income Tax Act) and the conduit principle, as confirmed in *Armstrong v CIR* (1938) and *SIR v Rosen* (1971), which could result in income-splitting and the taxation of income in the hands of a beneficiary at a lower tax rate than would apply if the income were taxed in the trust. The Davis Tax Committee opined that the flow-through treatment almost enabled taxpayers and planners “to freely divert income (both capital and revenue in nature) away from

trusts, to be taxed in the hands of beneficiaries with lower effective rates of tax” (Davis, 2015:39). Although the section 7 deeming provisions and the attribution rules of the Eight Schedule were initially intended as an anti-avoidance measure to discourage donations and interest-free loans to trusts, the reality was that the application of these provisions would result in the affected income or capital gains being taxed in the donor’s hands at no more than the rate at which the amounts would have been taxed in the trust, and the location of the tax liability in the donor resulted in a further diminution of the lender’s assets, whilst protecting the assets in the trust, thereby further serving the Estate duty-saving objective of the trust structure. The intended effect of section 7 can be understood if it is recognised that at the time the provisions were introduced, the maximum marginal tax rate for individuals was significantly higher than the tax rate for trusts; however, trusts are now taxed at the same rate as the maximum marginal rate applicable to individuals, which nullifies the effect of these provisions.

Whilst recognising that “it is impossible to prescribe universal anti-avoidance provisions to stem the loss” (Davis, 2015:39), the Davis Tax Committee recommended that “many of the deficiencies of the current estate duty system (could) be addressed by ... simple yet fundamental amendments to the existing legislation”, which included maintaining the current flat tax rate for trusts; repealing section 7 and section 25B insofar as they apply to South African resident trusts; and taxing trusts as separate taxpayers (Davis, 2015:39 and 2016b:36). This would have the effect of taxing trusts on all income received by or accruing, and capital gains realised on assets disposed of by them during a year of assessment, regardless of the extent to which any amounts may have been distributed to beneficiaries during that year. It is reasonable to presume that distributions to beneficiaries would then be treated as after-tax distributions, which would not be taxed again in the beneficiaries’ hands. An exception would apply where “a trust deed confers upon its beneficiaries an indisputable and irrevocable vested right to both the capital and income of a trust” (Davis, 2016b:40), with the income and capital being taxed in the hands of the beneficiary in such circumstances.

In addressing concerns relating to interest-free loans, the Davis Tax Committee recommended that the South African Revenue Service should thoroughly examine trust formation transactions at the outset “to ensure that the trust is compliant with the Income Tax Act and Estate Duty Act” (Davis, 2016b:28).

The Davis Tax Committee noted that “while the loan remains in place the holder of the loan is *de facto* in control of the trust, irrespective of the content of the trust deed or the actions of the trustees” (Davis, 2016b:29) and recommended that this control should be recognised and brought within the scope of section 3(3)(d) of the Estate Duty Act. The effect of this would be that the “holder of the loan would be subject to annual taxation on interest paid on the loan account (at least at the official rate of interest); and the trust arrangement would be devoid of any estate duty advantage” as the assets of the trust would be included in the property of the loan holder (Davis, 2016b:30).

The Davis Tax Committee was opposed to granting any form of amnesty to enable existing trust structures to be unwound as “the dissolution of a trust arrangement must be achieved in terms of the provisions of the trust deed, irrespective of the tax implications; it would be inequitable to simply allow a trust to ‘bank’ its accumulated estate duty savings; and it would be extremely complicated for both SARS and the taxpayer” (Davis, 2015:44).

Section 12 of the Taxation Laws Amendment Act, No. 15 of 2016 (Republic of South Africa, 2016) inserted a new provision into the Income Tax Act, which deems the interest benefit on a low-interest loan, determined as the difference between interest actually charged and the interest that would have applied if levied at the “official rate of interest” (defined in par. 1 of the Seventh Schedule to the Income Tax Act and currently at a rate of 8% per annum) to be a donation made by the lender to the trust. The deemed donation triggers a donations tax liability determined at 20% (section 7C of the Income Tax Act, effective from 1 March 2017).

The Davis Tax Committee considered the recommendations of the Katz Commission that capital transfer tax could be used as a means of taxing the net assets of trusts at periodic intervals, which would go some way towards addressing the tax avoidance that was being achieved through the use of trusts; however, the conclusion was that a capital transfer tax would be too complex and did not provide any guaranteed increase in revenue collections. The Davis Tax Committee therefore concluded that such implementation “should be postponed, at least until such time as more substantial information justifying its implementation is available” (Davis, 2015:41).

The First Report also considered a net wealth tax, where tax is applied to net wealth above a certain threshold; however, it concluded that such a wealth tax would not be likely to yield

meaningful revenue and the administrative costs would be punitive, saying “the complexity of a Net Wealth Tax and the uncertainty of a successful implementation prompts the exercise of caution” (Davis, 2015:42).

The Davis Tax Committee asserted in the First Report that if the recommended adjustments were made to the Income Tax Act provisions relating to trusts, the effect of these would go further than just addressing the tax avoidance problems that currently exist and may also generate additional estate duty and capital gains tax, possibly obviating the need for an additional wealth tax (Davis, 2015:44). Thus, the Davis Tax Committee’s overall recommendation was that the estate duty and donations tax should be retained and modified rather than introduce a new wealth tax.

Nonetheless, the Second Report pointed to a request of government for a further investigation on wealth taxes, which would be covered in a future report. This indicates that the possibility of a new wealth tax, in addition to estate duty and donations tax, still exists.

4.3 Conclusion

Although the legacy of high inequality has prevailed, even twenty-three years after the change to a democratic government, South Africa has never used a wealth tax as a means of addressing inequality, preferring to complement the progressive and redistributive income tax system with wealth holding taxes in the form of estate duty and donations tax and, to a lesser extent, the wealth transfer taxes in the form of transfer duty and securities transfer tax.

The South African Revenue Service statistics (SARS, 2016b:A2.1.1) reflect that, for the 2015 year of assessment, the average taxable income of the 71,9% of individual taxpayers assessed at the time of publication was R56 070 and only 130 092 taxpayers (comprising 2,7% of the 4 788 334 taxpayers assessed) had taxable income exceeding R1 million. As reflected on Table 4.5, only 31 566 individuals (comprising 0,7% of taxpayers assessed) had taxable income above R2 million for the 2015 year of assessment (SARS, 2016b:A2.1.1) and this group of taxpayers contributed 18% of the total income tax assessed for the year. It is evident that South Africa has a small and very narrow tax base, with a great reliance on a small group of wealthy individuals.

Statistics on wealth are not available, but with so few high-income earners, it is unlikely that the revenue yield from a wealth tax in South Africa would be significant. Therefore, there is a valid concern that any revenue yields from a wealth tax could be largely negated by the administration costs and the unintended consequences in terms of the negative impact on the economy, that could result from such a tax. These consequences could include a disincentive to entrepreneurship, savings and investment and private giving, which currently channels substantial funds to social projects (for example, wealthy entrepreneur Patrice Motsepe recently pledged R10 million to rural communities (Sowetan, 2013)) and a loss of tax base if wealthy individuals seek to move their assets offshore and disinvest from South Africa. Teuchert (2014) asserts that a wealth tax would do “more harm than good” and “wealthy individuals will almost certainly consider leaving South Africa to escape a harsh tax regime” and Veritas Wealth Management (2013:online) suggests that a new wealth tax “will either encourage honest people to become dishonest or it will push entrepreneurs further away from SA”. The risk of a serious and permanent erosion of the tax base is a very real concern that must be considered in the evaluation of a new wealth tax. The likely reaction of wealthy individuals to the introduction of a new wealth tax is explored more fully in Chapters 6 and 7.

Although the quantum of taxes collected from estate duty and donations tax has always been very low, the revenue yield is not the critical motivation for having these taxes. Statements made by the various inquiries, in the popular press and in political circles point to the social importance of these and other wealth taxes, not so much as a source of substantial additional revenue but more to create or reinforce the perception that the wealthy are contributing more than just the “ordinary” level of taxes. This point was well made in the Margo Commission Report (1987:par. 4.54), which observed that –

In general, a system that is popularly perceived to be fair is one in which the rich are popularly seen to be paying high taxes. The fact that these taxes may be passed on to consumers or workers, while affecting the actual equity of the tax system, need not necessarily detract from its perceived fairness ... In a country with wide wealth disparities the overall tax system must be perceived to be sufficiently progressive to inspire confidence on the part of the relatively less well-off. This can be achieved, for example, by introducing either a selection or a combination of death duties and taxes on gifts, wealth and capital.

All of the Commissions of Inquiry and the Davis Tax Committee concurred that a wealth tax of some form is needed to complement the overall tax system in South Africa. In spite of low revenue yields historically, there was agreement that for pragmatic reasons, estate duty and donations tax should be retained and improved, rather than introduce a new tax system.

The demand for more wealth taxes has become louder in recent years, especially following the publication of Piketty's *Capital in the Twenty-first Century* (2014b), which highlights the prolonged growth in inequality in most countries around the world and warns of impending doom if this remains unaddressed, with a strong motivation of using wealth taxes as the primary tool for addressing the inequality. The statement in the Second Davis Committee Report that wealth taxes would be investigated in a separate report, highlights the importance of conducting an intensive examination with a view to crafting an optimal solution that will be relevant and workable in the South African context.

The next Chapter explores the international experience with wealth taxes with a view to finding any lessons that can be learnt in the investigation of a new wealth tax in South Africa.

Chapter 5. International Comparison of Wealth Taxes

Introduction

The investigation of a new wealth tax in South Africa, which is the main objective of this thesis, requires a comparison of the wealth tax experience of other countries to provide a perspective for the South African context. This Chapter explores the international experiences of wealth taxes with the objective of observing trends in the implementation of wealth taxes in various countries over the last few decades and identifying reasons for changes that have been made, whether by way of implementing new wealth taxes, changing existing systems or abandoning certain taxes. The overall objective of this Chapter is to seek lessons that can be learned from successes and failures in the implementation of wealth taxes in other countries to inform the investigation of a new wealth tax in South Africa.

5.1 The international landscape

Most of the countries that are discussed in this Chapter are members of the Organisation for Economic Co-operation and Development (OECD), which comprises 35 countries across Europe, North and South America and Australasia. South Africa is not a member of the OECD but forms part of the association of five countries, referred to as “the BRICS group” (comprising Brazil, Russia, India, China and South Africa) and the wealth taxes of the other countries in this group are also discussed in this Chapter.

Wealth taxes have been utilised in many countries around the world, in different forms and at various times over the last few decades. Wealth tax collections were more significant in the early twentieth century, but the revenue generated from wealth taxes has been eclipsed by the exponential growth of income and consumption taxes over the ensuing years. Duff (1993:7) observes that “British estate tax revenues accounted for 16,1% of total revenues from 1908 to 1915, and United States gift and estate taxes totalled roughly 10% of federal revenues in 1936”, but post-war trends have seen wealth taxes dwindle in terms of their contribution to total tax revenue such that in 2015 wealth taxes contributed only 0,2% of the United Kingdom’s gross

domestic product (0,7% of total tax revenue) and only 0,1% of the United States of America's gross domestic product (0,5% of total tax revenue). The decline in wealth taxes is also evident in other countries, several of which have abandoned wealth taxes, as is discussed later in this Chapter.

Ernst and Young report that (2015:12 and 13) -

Over the past few decades, until the global financial crisis, recurrent taxes on net wealth were in decline in many countries. Austria, Denmark, Finland, Germany, the Netherlands and Sweden had all repealed such taxes. More recently, though, several countries have either introduced or seriously debated such taxes. In some jurisdictions, their use has been on a temporary basis – often in tandem with a solidarity surcharge on income. In other cases, wealth taxes have been introduced without time limitation, although their existence may ultimately be short-lived as national economies recover and generate more revenue.

A picture of the wealth tax experience internationally can be gleaned from the OECD statistics (OECD, 2015), which track data for the OECD countries over a forty-one-year period from 1965 to 2015. Wealth taxes identified in the OECD statistics are grouped into the following three categories: estate, inheritance and gift taxes; recurrent taxes on net wealth; and non-recurrent taxes on net wealth (OECD, 2015c).

The OECD data informs much of the discussion in this Chapter and is supplemented with literature in the form of published journal articles, country reports published by the International Monetary Fund and guides published by the large professional firms. Drawing from this wealth of information, this Chapter provides a high-level overview of the international wealth tax experience, drawing mainly from data on the OECD countries covering the last forty-one years. South Africa is not a member of the OECD but forms part of the association of five countries referred to as “the BRICS group” (comprising Brazil, Russia, India, China and South Africa) and the wealth tax experience of this group of countries is therefore also discussed in this section. The history of wealth taxes in South Africa was discussed in Chapter 4.

This Chapter starts with an overview of the various wealth taxes applying in the OECD countries, then provides a more in-depth discussion of the international wealth tax experiences over the last four decades, followed by an analysis of wealth tax collections over the same period, and then

concludes with a general observation, a comparison with the South African wealth taxes and recommendations for the South African context.

5.2 Types of wealth taxes in OECD and BRICS countries

Table 5.1 provides an overview of the various wealth taxes that have existed in each of the OECD and BRICS countries, indicating those taxes that have existed at any stage during the forty-one-year review period and those that are currently in place. Table 5.1 indicates that all forty countries on the Table, other than China, Estonia and Israel, have levied some form of wealth tax, inheritance tax, estate tax or gift tax, or a combination thereof, at some stage during the review period.

Table 5.1 Wealth taxes in OECD and BRICS countries

Country	<u>Estate or inheritance tax</u>		<u>Gift tax</u>		<u>Recurrent tax on net wealth</u>		<u>Non-recurrent tax on net wealth</u>	
	<u>Any time since 1965</u>	<u>Current</u>	<u>Any time since 1965</u>	<u>Current</u>	<u>Any time since 1965</u>	<u>Current</u>	<u>Any time since 1965</u>	<u>Current</u>
Australia	Yes	x	Yes	x	x	X	x	x
Austria	Yes	x	x	x	Yes	X	Yes	x
Belgium	Yes	Yes	Yes	Yes	x	X	x	x
Brazil	Yes	Yes	Yes	Yes	x	X	x	x
Canada	Yes	x	Yes	x	x	X	x	x
Chile	Yes	Yes	Yes	Yes	x	X	x	x
China	x	x	x	x	x	X	x	x
Czech Republic	Yes	Yes	Yes	x	x	X	x	x
Denmark	Yes	Yes	Yes	Yes	Yes	X	x	x
Estonia	x	x	x	x	x	X	x	x
Finland	Yes	Yes	Yes	Yes	Yes	X	x	x
France	Yes	Yes	Yes	Yes	Yes	Yes	Yes	x
Germany	Yes	Yes	Yes	Yes	Yes	X	x	x
Greece	Yes	x	Yes	x	Yes	Yes	Yes	x
Hungary	Yes	Yes	Yes	Yes	Yes	X	x	x
Iceland	Yes	Yes	x	x	Yes	X	x	x
India	Yes	x	x	x	Yes	X	x	x
Ireland	Yes	Yes	Yes	Yes	Yes	X	x	x
Israel	x	x	x	x	x	X	x	x
Italy	Yes	Yes	Yes	Yes	Yes	Yes	x	x
Japan	Yes	Yes	Yes	Yes	x	X	x	x
Korea	Yes	Yes	Yes	Yes	x	X	x	x
Latvia	x	x	Yes	Yes	x	X	x	x
Luxembourg	Yes	Yes	Yes	Yes	Yes	X	x	x
Mexico	Yes	x	x	x	x	X	x	x
Netherlands	Yes	Yes	Yes	Yes	Yes	X	x	x
New Zealand	Yes	x	Yes	x	x	X	x	x
Norway	Yes	x	Yes	x	Yes	Yes	x	x
Poland	Yes	Yes	Yes	x	x	X	x	x
Portugal	Yes	x	Yes	x	x	X	x	x
Russia	Yes	x	Yes	x	x	X	x	x
Slovak Republic	Yes	x	Yes	x	x	X	x	x
Slovenia	Yes	Yes	x	x	x	X	x	x
South Africa	Yes	Yes	Yes	Yes	x	X	x	x
Spain	Yes	Yes	Yes	x	x	X	Yes	Yes
Sweden	Yes	x	Yes	x	Yes	X	x	x
Switzerland	Yes	Yes	Yes	Yes	Yes	Yes	x	x
Turkey	Yes	Yes	Yes	Yes	Yes	X	x	x
United Kingdom	Yes	Yes	Yes	x	Yes	X	x	x
United States	Yes	x	Yes	Yes	Yes	X	x	x

Source: Author's calculations, based on OECD data and other sources referred to in Chapter 5.

Some of the countries that do not currently have a wealth tax have introduced and subsequently abandoned wealth taxes for various reasons, including the costs of administration and compliance (Schnellenbach, 2012:376), increased avoidance and evasion to the extent that has even threatened the income tax base (Schnellenbach, 2012:376), increased capital mobility (McDonnell, 2013: 52) and constitutional challenges (Chatalova & Evans, 2013:445). The wealth tax experience is discussed below, under the three main types of wealth taxes as categorised by the OECD: estate, inheritance and gift taxes; recurrent taxes on net wealth; and non-recurrent taxes on net wealth.

5.3 The international wealth tax experience

5.3.1 Estate, inheritance and gift taxes

Twenty-five countries currently have inheritance or estate taxes, whilst twelve have abandoned all forms of these taxes over the review period. Many countries have abandoned one or other form of these taxes during the review period: Austria, Australia, Canada, the Czech Republic, Greece, Hong Kong, India, Mexico, New Zealand, Norway, Poland, Portugal, Russia, Singapore, the Slovak Republic, Spain, Sweden and the United Kingdom have all abandoned inheritance or estate taxes (see Table 5.1).

Austria scrapped inheritance tax in 2008 due to concerns relating to capital flight (Chatalova & Evans, 2013:446; and EY, 2016a:8).

Australia scrapped estate taxes in the late 1970s and early 1980s (Duff, 2005:4) and currently does not have inheritance or gift taxes but charges capital gains tax on the deemed disposals of capital assets on death. The drive to abolish estate duty in Australia in the 1970s was driven by a number of factors, including discontent, mainly among farmers and small businesses, that the various exemptions had not been increased to account for inflation, problems with liquidity as assets had to be sold to generate funds to pay the tax, high levels of tax avoidance especially by wealthy estates, high costs of compliance and low tax revenue (Duff, 2005:48; and Chatalova & Evans, 2013:445).

Brazil levies a tax on the transfer of assets to a donee or the heirs of an estate (*Imposto sobre Transmissão Causa Mortis e Doações*) at rates that vary from state to state and may be as much as 8%, but generally the rates are around 4% (EY, 2015:16; EY, 2016b:166; and PWC, 2016:online).

Canada scrapped gift taxes in the 1970s and estate and inheritance taxes in the 1980s mainly due to problems with avoidance and compliance (Chatalova & Evans, 2013:445). Canada does not have a wealth tax but, like Australia, taxes the deemed disposal of capital assets on death, with certain exemptions (EY, 2016a:50).

The Czech Republic amended the method of collecting inheritance and gift taxes in 1993 by replacing notarial fees on inheritances and donations with an inheritance and gift tax. The inheritance and gift taxes were abolished in 2014 and replaced with a system whereby inheritances and gifts are included in the income tax base and subject to a flat rate of 15% after various exemptions. Inheritances are generally fully tax exempt and gifts are exempt if donated between close family members. (EY, 2016a:72.)

France has a long history of wealth taxes in the form of inheritance and gift taxes, supplemented with wealth taxes over the last thirty years. A progressive inheritance tax is applied to each heir's inheritance, determined as the inheritance plus any *inter vivos* gifts made by the deceased. A rebate of EUR100 000 applies for direct descendants (PWC, 2016:online). The tax rate depends on the proximity of the relationship between the deceased and the heir and increases according to the value of the estate. Where there is a direct line (parent to child or spouses) the rate ranges from 5% on a small estate to 45% on inheritances above EUR1,8 million and the maximum rate of 60% applies to non-blood-related heirs (including a non-married partner) (EY, 2016a:103). The gift tax operates on the same principles (EY, 2016a:103).

Hungary introduced an inheritance and gift tax in 1991; however, in 2006 it repealed the inheritance tax for close relatives and only retained an 18% inheritance tax for unrelated heirs (Cole, 2015:online). A preferential rate of 9% applies to inheritances of residential property (PWC, 2016:online).

India scrapped Estate Duty in 1985 and has no inheritance tax. The receipt of gifts is subject to income tax in the donees' hands (EY, 2016a:140).

Ireland introduced a gift tax in 1974 and an inheritance tax in 1975 (Irish Tax and Customs Revenue, 2017:online). The gift tax and inheritance tax are collectively labelled “capital acquisitions tax”, which is levied at a rate of 33% on the value of assets inherited and received as gifts, less an exemption that depends on the relationship between the donee/heir and the donor/deceased. A once-off inheritance tax applies at a rate of 6% on property subject to a discretionary trust, initially on 25 January 1984 and for any property becoming subject to a discretionary trust on or after that date. The 6% rate can be reduced to 3% in certain circumstances. An annual inheritance tax at the rate of 1% applies to property subject to a discretionary trust on 31 December in each year from 2006 onwards (Irish Tax and Customs Revenue, 2017: online).

Luxembourg levies inheritance tax on assets inherited from the estate of a deceased person who, at the time of death, was a resident of Luxembourg or was domiciled or had his centre of economic interests in Luxembourg. The inheritance tax is levied at variable rates ranging from 0% to 48%, depending on the proximity of the relationship between the estate and the beneficiaries, with the highest rate applying to beneficiaries with no family ties to the deceased. For inheritances in the direct line, the basic rate is 2.5% (on the part exceeding the legal portion - the amount that would have been received on intestacy); for surviving spouses without children or other descendants, 5%; between brothers and sisters, 6%; for uncles, aunts, nephews and nieces, 9%; for great-uncles, great-aunts, great-nephews and great-nieces, adopted children and their descendants in the direct line, 10%; and for all other relationships, 15%. The taxable base is generally the fair market value of worldwide assets, excluding foreign immovable property, which is excluded from the taxable base, but its value reduces the value of deductible liabilities. The tax is assessed on each beneficiary's share of the net amount after the deduction of liabilities attributable to the share. Gifts received from the deceased in the year prior to death are included in the taxable base unless they were subject to gift tax. Inheritances received by the surviving spouse are exempt from inheritance tax if there are one or more common descendants or adopted children or descendants of such adopted children and the surviving spouse is entitled to an allowance of EUR38 000 if there are no common descendants. Inheritances of direct descendants (direct line) are exempt up to the legal portion. Any annuity paid to the surviving spouse by the children of the deceased is also exempt. A *de minimus* exemption excludes any inheritance up to EUR1 250. Real estate situated in Luxembourg and owned by a person who was not an inhabitant of Luxembourg at the

time of death is subject to death duty. The death duty rates vary from 0% to 15% depending on the proximity between the heir and the deceased person. (EY, 2016a; IBFD, 2015; PWC, 2016.)

Luxembourg levies a gift tax on the donee in respect of any *inter vivos* gifts made under a notarial deed, where a notarial deed is required under Luxembourg law. The gift taxes are levied at rates ranging from 1,8% to 14,4%, depending on the proximity of relationship between the donor and the donee. For example, gifts from parents to children are taxed at 2,4%, or 1,8% if the gift is an advance of an inheritance not exceeding the legal portion; and gifts between spouses are taxed at 4,8%, or 2,4% if donated on occasion of a marriage. (EY, 2016a; IBFD, 2015; PWC, 2016.)

Mexico introduced death duties for a brief period from 1989 to 1993 (PWC, 2016:online).

The Netherlands has had inheritance and gift taxes since 1956. Some gift taxes on Dutch property were abolished in 2009 but a gift tax is still levied on gifts made by Dutch residents. The inheritance tax is levied on all assets inherited from a person who was a resident or deemed to be a resident of the Netherlands at the time of death. The gift and inheritance taxes are levied at rates ranging from 10% to 40% depending on the proximity of the relationship between the deceased and the heir and the value of the inheritance. (EY, 2016a:209; PWC, 2016:online.) Recurrent net wealth taxes were repealed in 2001 because of concerns about capital flight (Chatalova & Evans, 2013:446). Although there is currently no wealth tax, deemed investment income is taxed by applying a 4% assumed annual fixed rate of return to the value of the investment and then taxing the resulting deemed amount at a flat rate of 30% (PWC, 2016:online).

New Zealand abandoned estate tax in 1992 as it became increasingly difficult to prevent the migration of capital, particularly after Australia's repeal of wealth taxes (Chatalova & Evans, 2013:446). New Zealand later abolished gift taxes in 2011 and has no wealth taxes (EY, 2016a:218). Norway abolished inheritance and gift taxes in 2014 but has retained a wealth tax (EY, 2016b:1038), which is discussed in more detail later in this Chapter.

Russia abolished inheritance and gift taxes in 2006 (EY, 2016a:64).

The Slovak Republic implemented inheritance and gift taxes for a decade from 1995 to 2004 before these taxes were abolished as part of a move to a flat tax system (OECD, 2005:5).

Sweden repealed inheritance and gift taxes in 2004. These taxes had existed in Sweden in various forms since the seventeenth century with rates reaching a peak of 70% in 1983 (Ydstedt, 2016:2). According to Chatalova and Evans (2013:445), the wealth tax system in Sweden had “inconsistencies in the treatment of private wealth and operating assets” which led to “inefficient and inequitable outcomes”.

Switzerland has 27 tax jurisdictions comprising each of the 26 cantons as well as the federal tax system and each has autonomy and sovereignty. Tax legislation varies across cantons with most cantons levying inheritance and gift taxes on the net share of assets received by the heir or donee with an exemption for spouses and direct descendants. The rates vary widely between cantons but are generally progressive and in most cases a factor is applied, which depends on the relationship between the deceased and the recipient. The canton of Schwyz has no gift taxes and Lucerne has no gift tax unless the transfer takes place within five years of the death of the donor. Two cantons, Graubünden and Solothurn, have estate tax, levied at a flat rate on the net value of the deceased's estate (EY, 2016a:321; PWC, 2016:online). Wealth tax is levied at cantonal level on net worldwide assets excluding household goods and the rates vary between cantons (EY, 2016a:321 to 322). For example, in Zurich the rate is 0,3% on net assets exceeding CHF3 235 000 and in Geneva the rate is 4,5% on net assets exceeding CHF1 682 068. Capital gains from sales of movable assets are not taxed at either the federal or cantonal level, whilst capital gains realised on the sale of immovable property are subject to a separate tax in all cantons (EY, 2016b:1333).

The United Kingdom added a gift tax to its long-standing inheritance tax for a brief period from 1976 to 1979 (OECD, 2015:online).

5.3.2 Recurrent taxes on net wealth

France, Greece, Italy, Norway and Switzerland are the only OECD countries that currently levy a recurrent wealth tax on individuals (Chatalova & Evans, 2013:437; and OECD, 2015:online).

Austria repealed a recurrent wealth tax in 1999 (Chatalova & Evans, 2013:446; and EY, 2016a:8).

Francois Mitterand, the President of France at the time, introduced a recurrent wealth tax, the *Impôt sur les Grandes Fortunes* (IGF) in France in 1982, taxing assets above 10 million Francs

at a flat rate of 1,5%. The tax was repealed by Jacques Chirac in 1987 but was subsequently reinstated in the form of the *Impôt de solidarité sur La Fortunes* (ISF: hereinafter referred to as “the French wealth tax”) in 1989 following the re-election of Mitterand as president. Ernst and Young reported that more than 500 people emigrated from the country in 2006 as a result of the French wealth tax (EY, 2016:13) and other reports put the number even higher, with a reported loss of capital of some EUR2,8 billion (Connexion, 2010). The French wealth tax has six tax brackets, with the highest rate of 1,5% applying to net wealth exceeding EUR10 million (PWC, 2016:online). The French wealth tax applies to all assets with some exclusions such as pensions, vintage items more than a century old, literary estate rights and forestry. A capping mechanism was introduced in 2007 whereby French tax residents may reduce their wealth tax liability by an amount determined as the difference between all taxes paid in the previous year and 75% of the taxpayer’s total income in the previous year. Presently, the French wealth tax is levied annually at rates ranging from 0,5% to 1,5% on net wealth exceeding EUR1,3 million. (EY, 2015:13.)

Germany scrapped recurrent wealth taxes in 2006, mainly due to “administrative and valuation issues” and concerns around avoidance (Chatalova & Evans, 2013:445). The German Federal Constitutional Court declared the net wealth tax unconstitutional on the basis that different valuations for different properties “were in violation of equality of law principles” (Chatalova & Evans, 2013:445).

In 2010 Hungary introduced a limited wealth tax on luxury boats, aircraft and sports cars (Chatalova & Evans, 2013:448). Hungary taxes capital gains at a flat rate of 15% (EY, 2016b:574).

Iceland abolished recurrent wealth taxes in 2006 as part of a “series of pro-growth tax reforms” (Gissurarson & Mitchell, 2007:3) but following the financial crisis of 2008, found it necessary to introduce a net wealth tax on financial assets, business assets and real estate for a four-year period. The net wealth tax was selected as a revenue-generation mechanism that would have the least impact on economic growth and was introduced in 2010 at a rate of 1,25% on assets exceeding a threshold of ISK90 million (approximately US\$750 000) for single persons and ISK120 million for couples (approximately US\$1 000 000) (Escolano *et al.*, 2010:36; Evans, 2013:2). In 2011 the rate was increased to 1,5% and the threshold was reduced to ISK75 million (approximately US\$625 000) for singles and ISK100 million (approximately US\$833 000) for couples (Daniel *et al.*, 2011:27). Foreign exchange controls that had been introduced as an

emergency measure at the time of the 2008 financial crisis prevented the flight of capital that might otherwise have occurred following the introduction of the wealth tax. The wealth tax contributed to increased tax revenue of approximately 0,3% of gross domestic product per year in 2010 and 2011 and 0,5% of gross domestic product per year in 2012, 2013 and 2014 (OECD, 2015c:online). As exchange controls were eased, it was recognised that movable assets such as cash and financial securities were likely to become “much more sensitive to the tax burden” and “wealthy Icelandic taxpayers would be likely to leverage their assets to avoid the wealth tax or, if the assets were liquid, move them offshore” (Daniel *et al.*, 2011:27). It was therefore decided to allow the wealth tax to expire and retain a flat tax rate on capital returns. Notwithstanding the changing policies on recurrent wealth taxes, death duties have remained in place in Iceland since 1980, levied at a rate of 10% on the value of an inheritance from an Icelandic resident exceeding ISK1 500 000 (KPMG, 2016:online).

India introduced an annual wealth tax in 1957 with the twin objectives of reducing inequality and promoting compliance by way of cross-checking the information declared for income tax purposes (Government of India Ministry of Finance, 2015:16). The wealth tax was levied at a rate of 1% on net wealth exceeding INR3 million (approximately \$48 000) (EY, 2015:13) until it was discontinued from 1 April 2016 and replaced with a 2% surcharge on high-income earning taxpayers (Singh, 2015:online). Prior to the discontinuance, India was the only non-OECD country that had a recurrent wealth tax on individuals (Chatalova & Evans, 2013:436). The Explanatory Statement to the Finance Bill, 2015 (Government of India Ministry of Finance, 2015:16) indicated that the main reasons for discontinuing the wealth tax were the low tax revenue and high compliance costs. As a result, the India Ministry of Finance proposed that increasing the tax burden on high-income taxpayers could be achieved by levying an income tax surcharge rather than having a separate wealth tax, as a surcharge was regarded as (Government of India Ministry of Finance, 2015: 16) “easy to collect and monitor and also does not result into any compliance burden on the assessee and administrative burden on the department”.

Ireland had a recurrent wealth tax between 1975 and 1978, which was motivated as a means of addressing extreme inequality of wealth following a report that 5% of the population held 71% of the country’s wealth (McDonnell, 2013:23). The tax was levied at rates between 1% and 2,5% and had a modest threshold, minimal exemptions and no ceiling. The tax was short-lived, with

low revenue yields that did not justify the administration costs, and was scrapped when there was a change in government (Bird, 1991:327).

Luxembourg abandoned a recurrent wealth tax on individuals in 2006 but has retained a minimum net wealth tax on companies (PWC, 2016:online).

Norway levies a wealth tax at a rate of 0,85% on the fair market value of net assets exceeding NOK1 400 000 (EY, 2016a:229). Prior to 2014, the rate was 1,1% on net assets exceeding NOK750 000 (Denk, 2012:10). The tax base excludes private pensions and includes 25% of the value of owner-occupied property and 40% of the value of any rental properties (Denk, 2012:11). According to Denk (2012:19), 17% of the adult population of Norway pay the wealth tax, which contributes approximately 10% of the total annual national tax revenue. Capital gains and investment income in the form of interest, rental income and royalties are taxed at a flat rate of 25%. Dividends up to a risk-free rate of return are free of tax and any dividends exceeding a risk-free rate of return are included in the income tax base of the recipient and taxed at 25% (EY, 2016a:229).

Sweden abandoned wealth taxes in 2006 to avoid the cumulative taxation of capital income and wealth and because (Swedish Ministry of Finance, 2007 as cited by Denk, 2012:18) the wealth tax “suffered from exceptions that created loopholes and encouraged tax planning”.

5.3.3 Non-recurrent taxes on net wealth

Spain is the only OECD country that currently has a non-recurrent wealth tax. Spain has had a mixed experience with wealth taxes. An inheritance tax has been in place since 1973 and both a gift tax and a non-recurrent wealth tax were added in 1981. Spain subsequently abandoned the non-recurrent wealth tax in 2008 and then reintroduced it in a slightly different form in 2011 in what was stated to be a temporary measure in the face of the Eurozone crisis and the need for new tax revenue sources (Chatalova & Evans, 2013:448). The wealth tax was originally introduced for a two-year period (2011 and 2012) but was subsequently extended for a further four years through to 2016 and indications are that the tax will continue to be extended (EY, 2016a:301). Thus, although intended as a non-recurrent wealth tax it is proving to be a recurrent wealth tax.

5.3.4 Summary

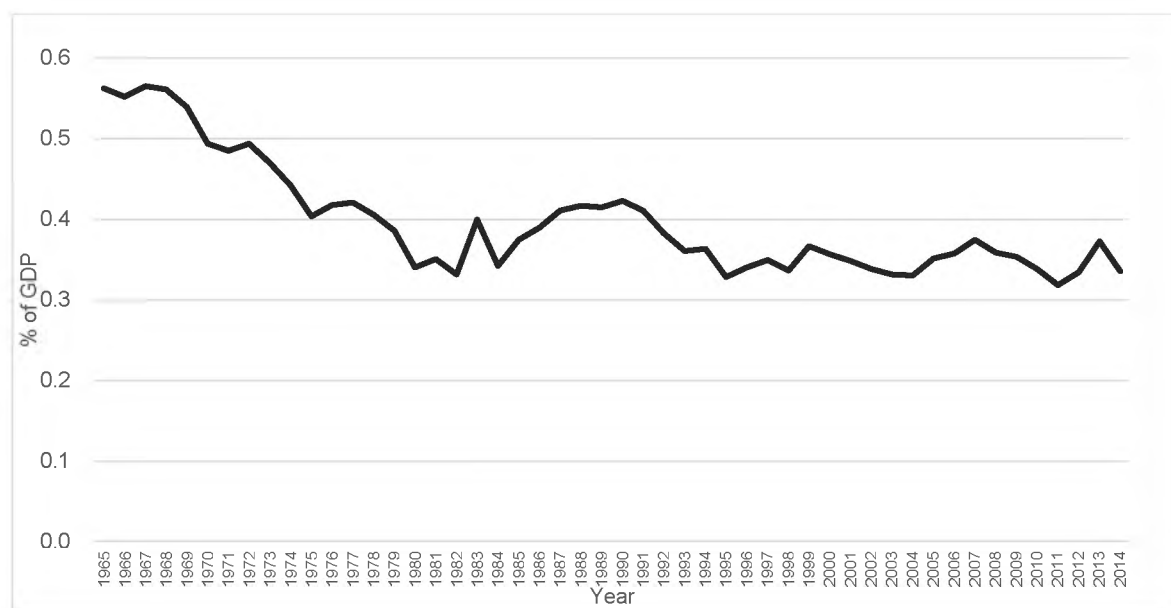
Although the international wealth tax experiences are varied, very few countries have introduced and maintained wealth taxes in the last forty-one years, despite the increased call for wealth taxes amidst the focus on the need to correct wealth inequality. The general trend has tended to be away from wealth taxes, except when these taxes have been necessitated by economic crises and even then, the taxes have been introduced as a temporary measure.

Much of the criticism of wealth taxes has focused on the low tax revenue yield. The next part of this Chapter investigates the trends in wealth tax collections over the last four decades.

5.4 Wealth tax collections

Chart 5.1 indicates a general decline in wealth tax collections in the OECD countries over the last forty-one years. On average across all OECD countries, wealth taxes contributed 0,6 percent of gross domestic product in 1965 and this contribution had dropped to 0,4 percent of gross domestic product by 2014. Countries whose wealth taxes contributed a greater proportion of gross domestic product in 2014 compared to 1965 are Belgium, France, Iceland, Ireland, Japan, Korea, Luxembourg, Spain and Switzerland. Three of these countries (France, Iceland and Switzerland) had a recurrent wealth tax in 2014 and Spain had a non-recurrent wealth tax, which contributed to the increase in the wealth tax contribution. Belgium's wealth tax contribution increased from 0,4 percent of gross domestic product in 1965 to 0,7 percent in 2014 due to increased collections from inheritance and gift taxes. Belgium's inheritance tax is levied at rates between 3% and 80% depending on the proximity of relationship of the deceased and the beneficiary. Japan's wealth tax contribution has increased as a result of increased inheritance tax collections.

Chart 5.1 Wealth tax as a percentage of gross domestic product: OECD average



Source: OECD (2015:online).

The OECD statistics on tax revenue (OECD, 2015:online), which track tax collections as a percentage of gross domestic product for 35 countries over the period from 1965 to 2015, indicate very low revenue yields from wealth taxes generally. The OECD data sets for recurrent taxes on net wealth; estate, inheritance and gift taxes; and non-recurrent taxes on wealth other than property as a % of gross domestic product were aggregated for the purposes of this study, to obtain a representation of the yield from this range of wealth taxes but excluding taxes on property. The result is shown in Table 5.2, which illustrates that revenue collections from wealth taxes in OECD countries averaged only 0,4% of gross domestic product over the forty-one-year period from 1965 to 2015. The average for all OECD countries was 0.3% of gross domestic product in 2014 (some data was not yet available at the time of writing and is indicated as “N/A” on the table), indicating that the yield of wealth tax revenue as a percentage of gross domestic product in OECD countries has declined in recent years.

Table 5.2 Wealth tax revenue as a percentage of gross domestic product: OECD countries

Country/ Year	1965	1975	1985	1995	2005	2011	2012	2013	2014	2015	Average
Austria	0.3	0.3	0.2	0.1	0.1	0.0	0.0	0.2	0.1	0.0	0.2
Belgium	0.4	0.3	0.3	0.3	0.6	0.6	0.7	0.8	0.7	0.7	0.4
Canada	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Chile	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0
Czech Republic	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Denmark	0.6	0.3	0.4	0.3	0.2	0.3	0.2	0.2	0.2	0.3	0.3
Estonia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finland	0.3	0.3	0.2	0.2	0.4	0.2	0.3	0.3	0.2	0.3	0.3
France	0.2	0.3	0.4	0.5	0.7	0.6	0.7	0.7	0.7	0.8	0.4
Germany	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2
Greece	0.2	0.2	0.2	0.3	0.1	0.1	0.0	0.1	0.1	N/A	0.2
Hungary	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Iceland	0.0	0.2	0.3	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Ireland	0.5	0.4	0.1	0.1	0.2	0.4	0.4	0.5	0.6	0.2	0.2
Israel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Italy	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Japan	0.1	0.2	0.3	0.5	0.3	0.3	0.3	0.3	0.4	0.4	0.3
Korea	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.1
Latvia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Luxembourg	0.3	0.3	0.5	0.7	0.7	0.7	0.8	0.7	0.7	0.6	0.6
Mexico	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A	0.0
Netherlands	0.6	0.3	0.4	0.4	0.3	0.2	0.2	0.3	0.2	0.2	0.4
New Zealand	0.5	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Norway	0.5	0.4	0.4	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.5
Poland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A	0.0
Portugal	0.4	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	N/A	0.1
Slovak Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slovenia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Spain	0.2	0.1	0.3	0.4	0.6	0.3	0.4	0.5	0.6	0.6	0.3
Sweden	0.4	0.3	0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.3
Switzerland	0.8	0.9	0.8	1.0	1.1	1.0	1.0	1.0	1.1	1.4	1.0
Turkey	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	0.8	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
United States	0.5	0.4	0.2	0.3	0.2	0.1	0.1	0.2	0.1	0.1	0.3
OECD - Average	0.6	0.4	0.4	0.3	0.4	0.3	0.3	0.4	0.3	N/A	0.4

Source: OECD (2015:online).

The highest yield of wealth taxes occurs in Luxembourg, with an average of 1,6% of gross domestic product over the forty-one-year period and 2,7% of gross domestic product in 2015. Most of Luxembourg's wealth taxes are collected by way of a recurrent wealth tax and mainly

from a recurrent wealth tax on companies, which falls outside the scope of this study. The balance is collected from an inheritance tax on individuals.

The second highest yield is in Switzerland with an average 1,3% of gross domestic product over the forty-one-year period and 1,4% of gross domestic product in 2015. Most of Switzerland's wealth taxes are derived by way of recurrent wealth taxes but unlike Luxembourg, most of the recurrent wealth taxes are derived from individuals rather than companies. The wealth tax yield of other countries lags quite far behind Luxembourg and Switzerland.

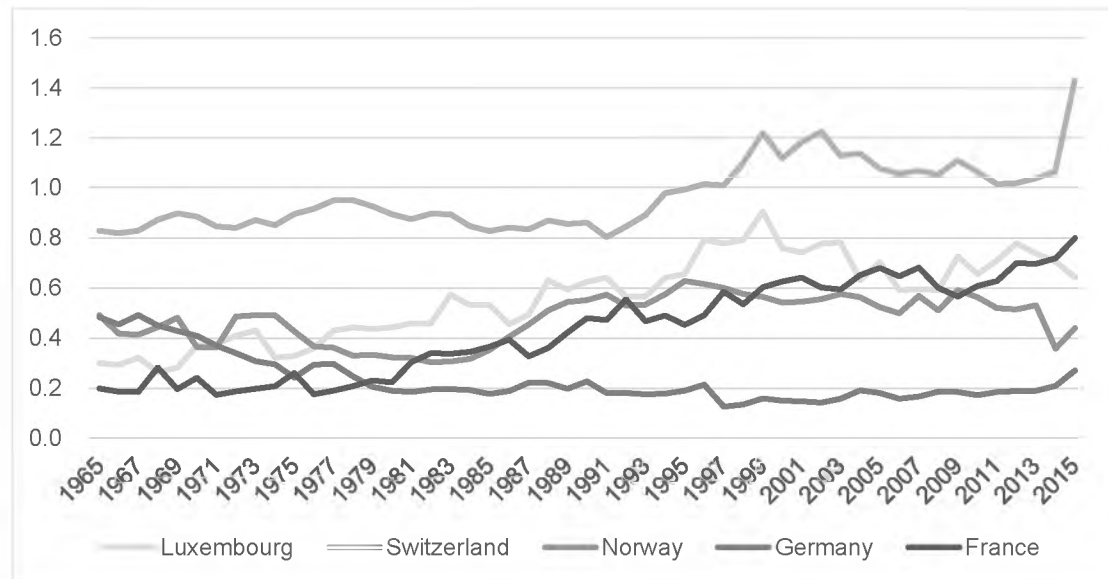
Norway is in third place, with an average of 0,6% of gross domestic product over the forty-one-year period and 0,4% of gross domestic product for 2015 and, like Switzerland, most of Norway's wealth taxes are derived from a recurrent wealth tax on individuals.

Germany is in fourth place, with an average of 0,5% of gross domestic product over the forty-one-year period and 0,3% of gross domestic product for 2015. Germany currently derives most of its wealth taxes in the form of estate, inheritance and gift taxes, following the discontinuance of its recurrent wealth tax on individuals in the 1990s as discussed earlier in this Chapter.

France follows in fifth place, with an average of 0,5% (marginally lower than that of Germany) of gross domestic product over the forty-one-year period and 0,8% of gross domestic product for 2015. France derives most of its wealth taxes by way of estate, inheritance and gift taxes.

The data trend over the forty-one-year period for each of these five countries is shown in Chart 5.2. The Chart illustrates that Luxembourg's ratio of wealth taxes to gross domestic product showed a gradual increase from 0,8% in 1965 to a peak of 0,9% in 2000; thereafter there was a decline down to 0,6% in 2015. Switzerland's ratio hovered between 0,8% and 1,1% throughout the period, increasing to 1,4% in 2015. The other countries showed generally flat trends. Norway's ratio ranged from 0,3% to 0,6% throughout the period. Germany's yield showed a gradual downward trend from a ratio of 0,5% in 1965 down to 0,3% in 2014 mainly due to the repeal of its recurrent wealth tax system. France's yield has shown a slight but gradual upward trend, from between 0,2% and 0,3% during the period from 1965 to 1983 to between 0,5% and 0,6% from 1984 to 2003 and then to between 0,6% and 0,7% from 2004 until 2014, finally increasing to 0,8% in 2015.

Chart 5.2 Wealth tax as a percentage of gross domestic product: Luxembourg, Switzerland, Norway, Germany and France



Source: OECD (2015: online).

Some other OECD countries have experienced an increase in wealth tax contributions over the period but for the most part, these increases have not been significant. Belgium's inheritance and gift tax collections have increased over the review period, resulting in the wealth tax contribution increasing from 0,4% of GDP in 1965 to 0,9% of GDP in 2015. France's wealth tax contributions have increased from 0,2% of gross domestic product in 1965 to 0,8% in 2018. Part of this growth is due to the contribution made by the recurrent wealth tax but the main reason for the growth is the increase in contributions from the inheritance tax. Greece replaced estate, inheritance and gift taxes with a recurrent wealth tax in 1995, which resulted in an increase in its wealth tax revenue from 0,2% of GDP in 1965 to 0,6% of GDP in 2014. Inheritance taxes in Hungary have boosted the wealth tax contribution from a zero base prior to 2010 to 0,45% of GDP in 2014. Iceland's wealth tax revenue fluctuated over the last four decades, increasing from a zero base in 1965 to a high of 0,6% of GDP in 1993 because of the recurrent wealth tax that was in place, and declining to 0,1% of GDP in 2014, comprising revenue from the recurrent wealth tax and inheritance taxes.

Two of the countries, Estonia and Israel, have had zero wealth tax collections over the period.

Although not included in the wealth taxes measured in the rest of this Chapter, it is noteworthy that the OECD statistics indicate that recurrent taxes on immovable property produce a higher yield than wealth taxes, with these taxes contributing an average of 0,9% of gross domestic product over the forty-one-year period for all OECD countries. The highest yield from recurrent taxes on immovable property occurred in the United Kingdom, with a 3,2% average over the forty-one-year period and a contribution of 3,1% of gross domestic product in 2015. In second place is Canada with recurrent taxes on immovable property comprising an average of 2,9% of gross domestic product over the forty-one-year period and 2,9% of gross domestic product in 2015. The United States of America follows in third place, with recurrent taxes on immovable property comprising an average of 2,8% of gross domestic product over the forty-one-year period and 2,6% of gross domestic product in 2015. Israel, which has no other wealth taxes apart from recurrent taxes on immovable property, follows closely in fourth place, with recurrent taxes on immovable property comprising an average of 2,1% of gross domestic product over the forty-one-year period and 2,0% of gross domestic product in 2015.

The collections from wealth taxes over the last forty-one years are generally very low across the OECD countries. Very few countries (France, Switzerland, Belgium, Iceland, Spain, Japan and Korea) have managed to increase wealth tax revenue yields in recent years. There is little international evidence to support the notion that wealth taxes would be a viable source of additional tax revenues for South Africa, particularly if the costs of administration and collection are considered.

5.5 Conclusion

The wealth tax experiences over the last few decades in the various countries examined above suggest that for most countries, wealth taxes are implemented as a crisis measure to generate additional revenue in the face of an economic setback. France is the only country that has used a recurrent wealth tax on a sustained basis as a fundamental part of its economic policy.

As indicated by the OECD statistics discussed above, wealth tax collections hover below 1% of GDP and if viewed in isolation, ignoring any other macroeconomic or political factors, these taxes could arguably be replaced with other types of tax or by increasing other tax rates, for example by increasing normal tax rates on individuals or the value-added tax rate.

No countries other than France, Italy and Switzerland have both estate or inheritance taxes and a wealth tax. Furthermore, none of the countries surveyed in this Chapter have both estate or inheritance taxes and a tax on the capital gains on the assets of an estate. Both Canada and Australia have a deemed disposal on death like the deemed disposal rule in South Africa but neither of those countries has estate or inheritance taxes. South Africa is the only country that taxes the estate of a deceased person as well as the deemed disposal of that person's assets on death (EY, 2015:14).

Boadway *et al.* (2010:781) observed that the international experience of wealth tax –

has not been particularly successful in breaking up concentrations of wealth or redistributing wealth and has been a particularly inefficient tax to collect. Most countries are moving away from the wealth tax to a simpler model. We do not recommend a wealth tax except [for] a higher annual tax on occupiers of high value residential property.

South Africa's estate duty and donations tax systems compare favourably with similar systems used in several other countries internationally in terms of the rates and exemptions that apply. Taxing wealth transfers upon death is possibly the most efficient form of wealth tax as it has less impact on economic decisions than other forms of wealth tax, although the real achievement of this efficiency will depend on the use to which the tax revenue is put. If the tax is spent appropriately it can address economic inequality and thus provide a viable solution to the problem of wealth inequality and the associated privilege that is perpetuated through the inheritance of wealth that heirs have not worked for.

South Africa's consideration of a wealth tax must examine the underlying motivation for such a tax. If the objective is to generate additional tax revenue, this must be carefully evaluated in terms of the likely net tax yield after considering implementation and administration costs. The international experience of wealth taxes indicates that in almost all countries, the taxes yield is very low.

If the underlying objective is to use wealth taxes to rectify the economic balance that exists, policy-makers would need to be cautious in terms of the expectations as there is very little evidence to support the argument that wealth taxes will bring a reduction in wealth inequality.

Overall, considering the experience of wealth taxes in other countries and also the present economic climate in South Africa, with very low growth rates and little indication of any significant improvement in the near future, it would seem prudent and appropriate not to introduce a new wealth tax. As the estate duty and donations tax systems are well-established and comparable with other tax systems internationally, indications are that these tax systems should rather be developed and refined to be more efficient and productive. Most importantly, there is no evidence to support the argument that wealth taxes could make a meaningful contribution to rectifying the existing inequality in income and wealth. Serious consideration should rather be given to implementing measures that will stimulate the economy, which would require that capital should remain in the hands of entrepreneurs and investors as far as possible, as transferring such capital to the government through a wealth tax is unlikely to yield the same returns.

Having examined the literature and data on the historical wealth tax experiences in South Africa and internationally, the next part of the study focuses on the extraction and analysis of primary data on a proposed wealth tax in South Africa. The data was extracted from interviews with wealthy individuals. The next Chapter explains the methodology used and how the interviews were conducted, and Chapter 7 provides an analysis of the interview data. The interview data gives insight into the views of individuals likely to be impacted by a new wealth tax and their likely reaction to the introduction of a new wealth tax.

Chapter 6. Interviews: Data Collection

Introduction

The goal of this thesis is to evaluate the merits and disadvantages and the unintended consequences that could result from the implementation of a new wealth tax in South Africa.

The first part of the thesis adopted a doctrinal research approach in conducting an in-depth analysis of wealth taxes. The research was conducted in the form of an extended argument from Chapter 1 through to Chapter 5. This analysis drew from historical data derived from the literature to construct a theoretical framework for a wealth tax system based on Smith's (1776) maxims and other recognised principles used to evaluate a good tax system (see Chapter 3). Chapter 4 considered the South African history of wealth taxes and Chapter 5 focused on the international experience of wealth taxes.

Building on the foundation established in the literature review in Chapter 2 and the extended argument in the explorative study in the ensuing earlier Chapters of the thesis, the study now seeks to understand the views on a proposed wealth tax of individuals in South Africa. This part of the study, discussed in this Chapter and the next, focuses on the collection of primary data from interviews with wealthy individuals and their advisors. This data provides a basis for answering the part of the research question that asks: What are the views of wealthy individuals regarding wealth taxes; how do they perceive wealth taxes; how are they likely to react to a new tax or an increase in existing wealth taxes; how do they think a new wealth tax would affect their decisions regarding savings and investment, donating, philanthropy, supporting social projects and starting up new businesses; is there a tolerance level for a new wealth tax and if so, what is it? This part of the study seeks to solicit the views of individuals who are likely to be most immediately affected by a change in the wealth tax regime. Such information provides primary data that is vital to understanding and anticipating how the implementation of a new a wealth tax could affect capital flows, entrepreneurship and investment decisions, which in turn have a critical effect on the economy.

The impact that a new wealth tax may have on the South African economy is a critical aspect to be considered in evaluating the consequences that could result from the introduction of a new wealth tax, particularly in the South African context where the economy is small, it has experienced several years of very low growth with little prospect of this improving significantly in the future and it has a very narrow tax base with a great reliance on a small pool of wealthy taxpayers.

This combination of factors means that an ill-conceived wealth tax could have serious and perhaps even irreparable, consequences for the economy. A loss of investments due to capital flight, any shrinkage in the tax base due to emigration of skills and entrepreneurship and an increased risk of tax avoidance spurred on by low taxpayer morale and more complex legislation, would all have a negative bearing on the overall tax base and on economic development. The likelihood of such consequences is a vital part of the research into the likely consequences of a new wealth tax.

6.1 Positioning the interviews in the study

The interview part of the study seeks to gather data on the human experience of taxes in South Africa, focusing particularly on wealthy people, with a view to finding out what their opinions are with regard to wealth taxes and their predictions on how they are likely to react if a new wealth tax is introduced. The collection of data is undertaken as part of a quest for understanding. Whilst it is impossible to construct truth by accurately representing exactly how wealthy individuals will react to a new wealth tax, it is possible to glean some insight into their possible behaviour by understanding their views regarding wealth taxes and asking them to indicate how they might react. The researcher seeks to “see the world as others know, see and understand it” (Walker, 2004:18) and in this context “others” is defined as individual taxpayers who potentially would be included in the tax base for a new wealth tax.

In this study, the researcher is interested in unearthing and understanding the views of the wealthy regarding wealth taxes. As taxpayers are an important component of the tax community, the others being the government and the economic community, the perspective of potential wealth

taxpayers is an important consideration in the evaluation of a new wealth tax in South Africa. Steyn (2012:8) asserts that obtaining the perspectives of taxpayers “will contribute to a better understanding by the government and policy-makers ... and reduce the gap between expectations of government and those of taxpayers” and cites Brennan and Buchanan (1980:225), who state that “it is essential to introduce models that also take into account those who suffer the burdens of taxation, in other words, those who are the potential subjects of a government’s powers of fiscal extraction”.

The objective of the study is to elicit the views of wealthy individuals regarding wealth taxes in general and the possible implementation of a new wealth tax in South Africa: how they perceive it; what their reaction would be to a new tax; how they think it would affect their decisions regarding savings and investment, donating or supporting social projects and starting up new businesses or growing existing businesses; whether there is a tolerance level for a new wealth tax and if so, what the level is; and what are some of the main aspects that should be considered in the design of a new wealth tax system for South Africa?

The likely reaction of the targeted tax base is one aspect within a broad range of necessary aspects to be considered in evaluating whether a new wealth tax should be implemented in South Africa at this time.

The overarching objective of the research is to provide a strong foundation of primary data that informs the deliberations and debates around the introduction of a new wealth tax in South Africa. This data was collected from interviews that seek to obtain input directly from the group of people who would be directly affected by such a tax: wealthy individuals in South Africa who hold sufficient wealth that they would potentially be included in the tax base of a new wealth tax. The relevance of probing this group is because they control a great proportion of the country’s total household wealth. Mbewe and Woolard (2016:1) show that the top decile holds about 85% of the total wealth and the wealthy can choose how to manage those assets and where the assets should be held, decisions that will have a significant impact on the economy. They are also often in leadership positions (Gilding, 2010:761) and therefore very influential. Barnard *et al.* noted that several factors cause (2007:6) “changes in the way very wealthy individuals manage their assets and their behaviour with regard to taxation”. The views of this group of people must therefore be considered in any evaluation of a new wealth tax.

The study sought to obtain primary data that would inform and enable the likely consequences of introducing a new wealth tax in South Africa to be anticipated with some accuracy. A true reflection of the views of this group could not be constructed without going to the source and obtaining primary data from the wealthy individuals themselves, although this approach has certain risks and complications that are addressed in the research design. Very little research has focused directly on the experiences of wealthy individuals. This study attempts to add to the body of knowledge by obtaining such primary data, eliciting information from those who would be most directly impacted by new wealth taxes. Compiling data obtained directly from the wealthy individuals provides empirical evidence, which is more valuable and reliable than assumptions. The data obtained from the study adds to the existing knowledge; it is not intended to prove or challenge any existing theories, or to create any new theories.

6.2 Research design

The research question focuses on *what* the views of the wealthy are rather than *why* they may hold those views. The study is exploratory rather than descriptive or explanatory as it seeks to gain an initial understanding of wealth taxes and the views of wealthy individuals on a wealth tax, and does not purport to provide a precise measurement of their views or their characteristics, nor does it seek to understand any relationships between the views of the different participants in the study, other than to observe common views. The method of data collection is described in the next section.

6.2.1 Method of data collection

Interviews were selected as the most appropriate method of obtaining primary data directly from wealthy individuals themselves and, as a means of broadening the coverage of this group, from people who advise wealthy individuals.

The objective of the interviews is to mine (Babbie, 2009:289) participants for their feedback. Each person's views are unique and a product of their own context and life experience and it may well be that some answers are not supported by other participants. There are no right or wrong

answers to the questions. What is sought is primary data providing insight into the thinking of wealthy individuals about wealth taxes: there is no hypothesis to be proved or disproved.

Interviews provide an opportunity to collect data in the form of empirical evidence as the interviewer listens to the interviewee, engages in conversation with the interviewee and observes the interviewees facial expressions and body language. This aligns with what Bryman and Bell (2014:41) describe as “the collection and analysis of primarily non-numerical data (words, pictures and actions)”.

Interviews are preferred over the completion of surveys or questionnaires as the topic being discussed is very broad and complex and peoples’ views may vary considerably, with the risk that much of the richness of the responses would be lost in questionnaires. Babbie notes that (2009:250) “interview surveys typically attain higher response rates than mail surveys”, “the presence of an interviewer ... generally decreases the number of ‘don’t knows’ and ‘no answers’” and (2009:262) “although self-administered questionnaires may be more effective for sensitive issues, interview surveys are definitely more effective for complicated ones”.

There are both benefits and risks of using interviews to obtain the data for the study. Boyce and Neale (2006:3) identify several pitfalls, including the risk that the interviewer may be prone to bias; the interviews are time-intensive and dependent upon the suitability of the interviewer; and the question of whether the results are generalisable. These risks were mitigated in the interview design to ensure that the study meets the necessary quality criteria. A suitable number of interviews was undertaken with a range of interviewees. Each interview had a duration of one hour to allow adequate time for the interviewee to talk freely; the researcher conducted the interviews personally and made every attempt to ensure that she did not influence the interviewee with her personal views; and the interviews were in-depth to ensure that valuable information was obtained to provide a rich pool of data. The research does not seek to generalise the findings from the interviews, but to use the findings to compile a portrayal of the views of a group of wealthy individuals that depicts some of the possible consequences of the introduction of a wealth tax.

A unique challenge presents itself in seeking to conduct face-to-face interviews with wealthy individuals on matters related to their personal finances. Barnard *et al.* (2007), Gilding (2010) and Page *et al.* (2011) all concur with this observation. Due to the confidential nature of the matter

under discussion, individual interviews are more appropriate and likely to be more effective than focus groups in this context.

As the objective of the research is to elicit opinions rather than to obtain pre-determined answers, semi-structured interviews were conducted using of a short list of questions that were designed to provide an opportunity for the interviewees to freely express their views on the subject as fully as possible.

6.2.2 Unit of analysis

Part of the research design involves the identification of “the unit of analysis”. Babbie (2009:xxvi) notes that “in social research the unit of analysis is the individual human being”. In this study, the unit of analysis is individual wealthy people in South Africa.

Page *et al.* (2011:4) notes several methodological challenges in interviewing the wealthy, sharing the view that surveying a representative sample of wealthy Americans was “extraordinarily difficult (with) serious problems at every stage of such an endeavour”. Recognising the difficulties faced by other researchers in gaining face-to-face interviews with wealthy individuals and drawing from the experience of Barnard *et al.* (2007:7), who found it pragmatic to include advisors in the sample of participants and selected these advisors “on the basis of the level of wealth of the clients they serviced”, the unit of analysis includes advisors who specialise in servicing wealthy individuals.

The unit of analysis, the interviewees, therefore comprise both wealthy individuals and advisors who specialise in consulting to wealthy individuals and managing the assets and business interests of wealthy individuals. There are several benefits of interviewing advisors, including their accessibility, the fact that they are well versed in finance and taxation and they have an in-depth understanding of the investment practice and planning of their clients; furthermore, there was the benefit of synergy, as each advisor was speaking in the context of having insight into a group of investors in their client portfolio, with the result that each interview with an advisor provided an effective coverage of many wealthy individuals.

6.2.3 Sample size

The size of the population for this study is unknown. As discussed in Chapter 2, it is impossible to obtain an accurate number of wealthy individuals in South Africa, as there is insufficient data available. First, there is no clear definition of what is meant by the term “wealthy”. Barnard *et al.* (2007:9) breaks the definition of wealth down into two parts: the type of assets to be considered and the value of assets held. For the purposes of this study, wealth incorporates all assets owned by an individual, net of liabilities (net wealth). Chapter 2 established that, using the SARS threshold as a guideline, net wealth of R50 million is used as the threshold for defining “wealthy” for the purposes of this study. This provides limited assistance in defining the sample size, because the second problem is that, even with a wealth threshold, there are no publicly-available lists of the individuals who would fall into the classification of “wealthy”. Information on income and wealth is private and protected. The right to privacy is protected in terms of common law, in section 14 of the Constitution of South Africa (Republic of South Africa, 1996) and the Protection of Personal Information Act, No. 4 of 2013 (Republic of South Africa, 2013). Declarations to SARS are protected under the confidentiality provisions in sections 67 to 74 of the Tax Administration Act, No. 28 of 2011 (Republic of South Africa, 2011). Online information is protected under section 51 of the Electronic Communications and Transactions Act, No. 25 of 2002 (Republic of South Africa, 2002). The only publicly-available information on wealthy individuals in South Africa is the data published by commercial researchers such as Forbes, Bloomberg’s, Credit Suisse and Knight Frank and it is recognised that these lists are not complete as they are compiled largely on the basis of listed shares, without including other assets such as unlisted shares, collections, Kruger Rands, interests in trusts and fixed property.

The absence of a predetermined population and sample size is a recognised and unavoidable limitation in this study; however, the study does not seek to represent a sample or section of society, but it is intended to present the views obtained directly from an acceptable number of wealthy individuals or from the people who advise them. This limitation is therefore regarded as acceptable and it is submitted that it does not detract from the value of the study.

Working with the information available from the various rich lists, a sample frame was constructed of potentially eligible participants (Barnard *et al.*, 2007:9). Table 6.1 provides an analysis of the

number of Dollar millionaires in South Africa, indicating the number of individuals in each wealth category, as measured by Credit Suisse (2016a).

Table 6.1 Dollar millionaires in South Africa

<u>Net wealth (US\$)</u>	<u>Number of individuals</u>
1 to 5 million	39 663
5 to 10 million	3 453
10 and 50 million	2 047
50 and 100 million	187
100 and 500 million	116
500 and US\$1 billion	10
in excess of 1 billion	7
Total	45 483

Source: *Credit Suisse (2016a:117)*.

The Knight Frank threshold of US\$30 million, as discussed in Chapter 2, was used as a starting point to compile the sample frame. Due to the lack of available data on wealthy individuals and the protection of private information, it is impossible to identify every one of the 639 individuals referred to by Knight Frank (2016:67). Information from the Forbes List, the Who's Who Southern Africa website (Who's Who) and the Sunday Times Rich Lists for 2015 and 2016 was used to compile as many names as possible of people who fall into this group, by identifying people on these lists with assets exceeding US\$30 million. As the Sunday Times Rich List is based on share values as at 30 November of each year, the US\$ value was translated to Rand using the exchange rate of \$1 = R14,1426 that applied as at 30 November 2016 (Travelex, 2017:online), resulting in a Rand equivalent threshold of R424 million as at 30 November 2016. According to the Sunday Times Rich List (Times Live, 2016), 103 people had shares valued at R424 million or more and all of these individuals are listed in the sample frame. Individuals listed in the top-100 wealthiest people in the Sunday Times Rich List (Sunday Times, 2015), who were not included in the 2016 list, were added to the list as these people are likely to still hold significant wealth, although they are not listed in 2016 due to fluctuating share prices. Other wealthy individuals identified from press reports and referrals as being among the wealthiest people in South Africa, although not

included in the Sunday Times Rich Lists, are also included in the sample frame. The Who's Who website (2017) was used to further verify that individuals merited inclusion on the sample frame and to obtain biographical and background information on individuals included in the sample frame. The focus was on ensuring the compilation of as complete a list as possible of individuals within the "wealthy" category and the people to be interviewed were selected from that list.

Advisors of wealthy individuals were identified from financial websites such as Moneyweb (2017) and the large banks, insurance companies, accounting firms and legal firms, which typically have an advisory department focusing on wealthy individuals. A separate list was compiled of advisors identified as specialising in consulting to wealthy individuals.

This compilation of data resulted in the inclusion of 194 individuals and 28 advisors in the sample frame. The demographic profile of the individuals listed in the sample frame is shown in Table 6.2.

Table 6.2 Sample frame demographic breakdown

<u>Category</u>	<u>Gender</u>		<u>Race</u>				<u>Region</u>			
	<u>Male</u>	<u>Female</u>	<u>White</u>	<u>Black</u>	<u>Coloured</u>	<u>Indian</u>	<u>Gauteng</u>	<u>Cape</u>	<u>Other</u>	<u>Non-SA</u>
Individuals	181	13	170	16	4	4	168	18	1	7
(194)	93%	7%	88%	8%	2%	2%	87%	9%	1%	4%
Advisors (28)	23	5	23	3	0	2	23	4	1	0
	82%	18%	82%	11%	0%	7%	82%	14%	4%	0%

This demographic breakdown was used to ensure that the interviewees selected were reasonably representative in terms of race, gender and geographic region (see, for example, Keeton, 2014; Landman, 2014; Leibbrandt, Wegner, & Finn, 2011; and Orthofer, 2016).

The sample frame is included in Annexure E to the thesis.

The method of selecting the sample group is discussed in more detail in the next section.

6.2.4 Sample selection

There is no optimal or set standard in terms of the minimum number of interviews that are needed in a qualitative study such as this (Dworkin, 2012; and Mason, 2010). Roller (2013:9) identifies four considerations that inform the sample size for a valid in-depth interview study, which are listed below:

1. the breadth, depth and nature of the research topic;
2. the hetero- or homogeneity of the population of interest;
3. the level of analysis and interpretation required to meet the research objectives; and
4. practical parameters, such as the availability and access to interviewees, travel and other logistics associated with conducting face-to-face interviews, as well as the budget or financial resources.

The nature of this study is focused and specific, seeking to obtain data from a small, homogenous population (all meeting the criterion of being wealthy or advising wealthy people). The analysis is done at an observation level with no intention to prove, disprove or create any new theories. Practically, time and funding are limited. In this context, a small sample size is indicated.

In a research project involving wealthy individuals, Barnard *et al.* (2007:5) considered eighteen interviews to be sufficient. Elfsberg (2009:24) observed that, in a sample size of only five angel-investors, “the respondents answered all of the questions in a similar way, leading us to believe that one or two additional respondents would not significantly have changed the outcome of the results”. The sample size is not intended to be representative of all wealthy people in South Africa: rather, the study is exploratory, seeking information that may not already be known. A sample size of thirty people was considered as suitable for this purpose, depending on whether a point of saturation is observed, in which case the number would be reduced. The final number could therefore vary, depending on the information obtained in the interview process and whether a point of data saturation was reached.

Sampling method

In the first round of selection, a purposive sampling technique was used, in which the wealthiest individuals and advisors were selected from the sample frame. Politicians who were included in the sample frame were excluded from the selection because of their bias towards official government policy. Non-residents were also excluded as they fall outside the scope of the study.

An interview request was emailed to 36 individuals and 23 advisors with details of the research and an invitation to participate in an interview. The response, particularly from the wealthy individuals was poor, with 19% declining and 75% failing to respond despite follow-up emails and telephone calls to the person's office manager or personal assistant. The response rate from advisors was more encouraging, with seven acceptances, representing 30% of the invitations that were emailed to this group. The analysis of the first round of sampling is shown in Table 6.3.

Table 6.3 Results of cluster sample selection

<u>Category</u>	<u>Correspondence</u>	<u>Number</u>	<u>%</u>
Individuals	Emailed	36	100%
	Followed up	19	53%
	Accepted	2	6%
	Declined	7	19%
	No response	27	75%
Advisors	Emailed	23	100%
	Followed up	15	65%
	Accepted	7	30%
	Declined	3	13%
	No response	13	57%

The low acceptance rate was not unexpected, based on the experiences of other researchers. For example, Page *et al.* (2011:4) notes that "it is extremely difficult if not impossible to interview people on the Forbes 400 list because they guard their time tenaciously and are surrounded by very protective staff". Elfsberg (2009:32) made the same observation in a study of angel-investors, who are typically wealthy individuals and very protective of their privacy.

Another factor that affected the low response rate is one that is unique to the context of the study. The interview process took place during the early part of 2017, a time when the socio-political context in South Africa was particularly challenging. Extensive media reports during 2016 and early 2017 used the term “white monopoly capital” in the context of identifying opposing economic influences and placing renewed focus on the wealthy in South Africa. This served to deepen racial division and distrust. Social media was used to spread warnings about the threats of “white monopoly capital”, such as the following (Iminath, 2017:online):

[white monopoly capitalists (WMCs)] are quite responsible for running the wealth of the South Africa. White monopoly capitalists are solely responsible in making people to believe that their survival is only a misconception. WMC corrodes the economy of South Africa at an alarming speed. There is a big team behind the white monopoly capitalists, which is quite helpful in maintaining the monopoly of South Africa. They follow certain process to maintain their monopoly in South Africa.

Although the term “white monopoly capital” has no clear meaning, the focus on “white” and “capital” was used to engender a very negative impression of wealthy white people. Patel (2017:online) explains the term as follows:

Monopoly capital in itself can be traced to the Marxist critique of capital that focuses on corporations controlling vast swaths of the economy. It also has a particular history in South African politics and activism ... white monopoly capital, as a catchphrase for the untransformed South African economy is a frontline in the heated debate about economic transformation. It is a debate taking on more urgent tones in the ANC itself, whereas outside the party the slow pace of change makes the idea of white monopoly capital vulnerable to political manipulation.

Much of the negative focus on white monopoly capital was focused on the wealthiest men in the country such as Johann Rupert and Christo Wiese. In December 2016, billionaire businessman Johann Rupert claimed that an international public relations firm, Bell Pottinger, was behind an ongoing campaign to link him to state capture activities (Times Media, 2016:online). It later emerged, in 2017, that the negative reports focusing on white monopoly capital were initiated by a media campaign orchestrated by Bell Pottinger, apparently at the behest of the Gupta family and their associates, as a distraction from questions regarding the plundering of state assets and calls for President Zuma to resign. The Citizen newspaper reported on 2 April 2017 (The Citizen, 2017:online):

According to an investigation by the Sunday Times last month, Bell Pottinger took on the Gupta family as clients in 2016 to try to improve their image, and the chosen strategy was to target white business leaders as a distraction from serious allegations of state capture. One of the strategies was apparently to drive a predominantly social media narrative that “white monopoly capital”, the South African Communist Party and National Treasury have been standing in the way of transforming the South African economy.

The debates about white monopoly capital and state capture dominated the social discourse in the country during the time of the study, and inevitably affected the interviewees, both from the point of view of their willingness to participate in an interview to discuss wealth and from the point of view of their perspectives on investments, tax and the government, which are discussed in the next Chapter. In this context of negative public sentiments towards the wealthy and suspicions around white monopoly capital, it is unsurprising that none of the wealthiest people identified on the sample frame were willing to participate in an interview with an unknown researcher, on the subject of wealth taxes.

In a few cases, the response was to decline firmly the interview request, albeit with good wishes for the research project.

Following the initial rejection of the interview requests by wealthy individuals, the researcher focused on requesting interviews with advisors who specialised in the wealthy sector of the market. This approach was effective as the advisors have a good knowledge of the developments around, and the renewed focus on, wealth taxes. Furthermore, they have a deep insight into the planning and thinking of wealthy individuals and each advisor represented a sizeable group of wealthy individuals. For example, one of the advisors stated that his portfolio consisted of 160 “very wealthy families” (Interview 5). The advisors were generally more willing to be interviewed. Only one of the advisors was able to refer the researcher to clients. This further indicates the tendency of advisors to respect their clients’ desire for privacy.

In light of the known reluctance of wealthy individuals to participate in interviews, particularly relating to wealth and taxes, and where the interview invitations came from a researcher who was not known to them, and with limited time available to continue with follow-up that may not prove fruitful, the second round of sampling used a combination of purposive sampling and snowball

sampling, also referred to as chain or referral sampling. Under the purposive sampling method, individuals were selected on the basis of meeting the criterion of having wealth at a level that they would potentially be affected by a wealth tax if it was imposed at the threshold of R75 million, in line with the SARS definition of “wealthy” as discussed earlier in this Chapter. Bryman and Bell (2014:179) characterise snowball sampling as a form of convenience sampling and note that it is useful where the size of the population from which the sample is taken is not certain. Snowball sampling is described by Bless *et al.* (2016:176) as “a more sophisticated sampling technique” than convenience sampling, and one which is “particularly useful for identifying people not listed or difficult to find”. This method was applied by asking advisors to refer people who met the “wealth” criterion and other advisors who specialised in consulting to wealthy individuals, who would be willing to be interviewed.

The researcher was able to obtain interviews with wealthy individuals themselves by seeking the assistance of acquaintances who knew people who would potentially be affected by a wealth tax, on the assumption that such a tax would have a threshold of R75 million. The researcher asked people who knew wealthy individuals or knew others who had a relationship with a wealthy person meeting the criteria, to refer the researcher to them. Once they had gained permission or an indication of interest from the wealthy individual, the contact person provided the wealthy person’s name and contact details to the researcher, who then approached the wealthy person directly with a request to interview. Even with these personal referrals, not all the interview requests were granted, possibly as the subjects gave more thought to the matter, discussed the prospect with others who may have dissuaded them, or for other reasons that were not made known to the researcher.

It was necessary to ensure that a referral as a potential interviewee met the criteria of either being a wealthy person or an advisor who consulted to wealthy people. Usually, the referring person verified that the referred person met the criteria that had been explained to them at the outset. If this was not possible, the researcher reviewed the person’s profile on LinkedIn, Whos Who SA, Bloomberg or the Sunday Times Rich List to verify that the person would reasonably be expected to have the necessary level of wealth. The potential interviewee was told the criteria upfront when the interview request was put to them and there was the opportunity for the person to decline if they did not meet the criteria. The researcher did not consider it appropriate, especially in light of

the documented reluctance of wealthy people to be interviewed, to ask whether the potential interviewee had the requisite net asset value.

This sampling approach was successful in obtaining the required number of people to be interviewed despite the challenges that were faced in persuading suitable participants, who met the requisite criteria, to participate in an interview.

A recognised weakness of both purposive sampling and snowball sampling is that the sample is not necessarily representative of the population of all wealthy people in South Africa (Bryman & Bell, 2014:179). This weakness was mitigated by ensuring that a demographically-balanced sample was interviewed. Table 6.4 demonstrates that the demographic spread of the sample selected, is in line with the demographic breakdown of the sample frame as shown in Table 6.2.

Table 6.4 Demographic breakdown of the interview sample

<u>Individuals</u>	<u>Advisors</u>	<u>Gender</u>		<u>Race</u>			<u>Region</u>		
<u>Total</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>White</u>	<u>Black</u>	<u>Indian</u>	<u>Gauteng</u>	<u>Cape</u>	<u>Other</u>
15	15	23	7	22	6	2	20	5	5
50%	50%	77%	23%	73%	20%	7%	67%	17%	16%

Note: three advisors who accepted interview invitations ultimately did not participate in an interview and therefore the final number of people interviewed was 27 comprising 15 wealthy individuals and 12 advisors.

Having selected the sample of people to be interviewed, the next step in the research was to design the interview process, which is detailed in the following section.

6.2.5 The interview process

The research was carried out by way of individual, in-depth interviews with the selected interviewees over a five-month period during 2017.

The use of interviews in a research study has inherent challenges, which were recognised and considered in the design of the interview process. The interview process was carefully planned,

and the general approach was followed in all the interviews, whilst also taking a reflexive approach that adapted when necessary to variations and the needs of individual interviewees. An outline of the interview approach is provided in Annexure C to the thesis.

Babbie (2009:289) noted that “qualitative interview design is characterised by being flexible, iterative, and continuous, rather than being prepared in advance and locked in stone” and following this approach, the interviewer remained willing to adapt the design to best fit each individual interviewee with a view to ensuring the best coverage and the highest quality of data. For example, some interviewees chose not to answer certain questions; this was respected without discussion, and some interviewees were quite verbose, even veering off the topic from time to time and the interviewer allowed a certain amount of “rambling” before bringing the focus back to the interview questions.

Semi-structured interviews were used to provide an opportunity for the interviewees to talk freely and reveal their thoughts and views on the research topic, whilst retaining a certain structure to ensure that the discussion did not veer too far from the research questions. What was sought was not just “yes” or “no” answers, but rich data in the form of more in-depth discussions that would provide the researcher with insight into the learned experiences of the interviewees.

The interviews were conducted face-to-face, by telephone or using Skype®, at the choice of the interviewee. In most cases, the interviewees chose to have the interview conducted in a private boardroom at their office. The only deviations from this were two interviewees who elected to use Skype®, one who elected a telephonic interview and one who chose to present his responses in an email and did not wish to have a face-to-face interaction.

All interviews were conducted by the researcher personally, partly out of respect for the people being interviewed and because of the importance of the interviews to the study and the risk that deep and insightful feedback from the interviewees might not be forthcoming if research assistants were used. It was planned that the researcher’s interest in and technical knowledge of the subject of taxation would be used to stimulate conversation around tax policy and other tax matters, encouraging the interviewees to be more forthcoming with responses to the questions and possibly also provide additional feedback that was not anticipated. Where the interviewees

stalled or did not provide the necessary detail in their answers, the interviewer provided clarity and asked the question in a slightly different way where necessary.

Babbie (2009:289) recognises that a qualitative interview “is essentially a conversation in which the interviewer establishes a general direction for the conversation and pursues specific topics raised by the respondent”. In this process, the researcher was very careful not to influence the responses of the interviewees or allow her personal views to bias the responses.

As noted by Babbie (2009:249), “the role of the interviewer is indispensable, as data collection is one of the most critical phases in the research process”. The interviewer had a unique opportunity to communicate with the participants and the quality of the interaction during the interview enhanced the depth of responses and added to the richness of the data produced by the interviews. Although it was recognised that the personal involvement of the interviewer would require a large investment of time, it was considered that fewer interviews with greater depth of feedback would be more valuable in this study than many superficial responses.

The approach to potential interviewees was designed to facilitate access, anticipating that access would be difficult. As noted by Page *et al.* (2011:6) “special effort must be made to make contact with potential respondents and gain their cooperation”.

An introductory email (refer to Annexure A to the thesis) was sent to potential participants and this was followed by second email and, thereafter, in some cases, a telephone call to the person’s personal assistant or office manager. As noted earlier, the initial “cold-calling” approach had limited success, with insufficient responses and acceptances. In the second round, a personal referral was sought from an intermediary, taking care not to exert any pressure or to coerce the person to participate. Once a person had agreed to be interviewed and granted permission for the intermediary to pass their contact information to the researcher, the researcher sent an introductory email with an invitation to participate in the interview.

Page *et al.* (2011:18) states that “willingness to cooperate in a survey can be greatly enhanced by clear communication of several key points: that the investigators are reputable, experienced and unbiased; that the topics of the survey are important and interesting; that interviews can be

arranged flexibly and can be completed easily within a short time; and that the identity of the respondents will be kept absolutely confidential”.

To meet these criteria, the introductory email clearly stated the purpose of the research, the researcher’s affiliation to Rhodes University and her professional qualifications and clarified that the research is independent of the government or any government agency, such as the South African Revenue Service (SARS). It also explained the relevance of the study and the importance of obtaining information from wealthy individuals and encouraged the person to participate, indicating the value that his or her contribution would add to the research and the hope that the research would feed into tax policy discussions with government. The introductory email explained the length and structure of the interviews and gave the person the option to choose the place and time for the interview, including the option of a telephone call or Skype® call. The introductory email included a letter of introduction from the university, a consent form (refer to Annexure B to the thesis) to be signed by the interviewee, and the list of questions (refer to Annexure D to the thesis) that would be covered in the interview, so that the reader was aware of what would be covered in the interview.

Page *et al.* (2011:7) warn of the challenge of obtaining “full, honest and accurate responses” and state (2011:8) that this is partly due to wealthy individuals often having “precise and well-worked-out, but also complex and nuanced, opinions”. This risk was addressed by conducting semi-structured interviews to provide the opportunity for a fuller conversation, with the researcher conducting the interviews personally and asking probing questions to generate fuller answers, seeking clarity where there was some ambiguity or inconsistency in the answers and maintaining a reference to the core research questions to keep the conversation focused on the topic. Elfsberg (2009:32) supports the use of semi-structured interviews to encourage “respondents to answer more freely ... through semi-structured interviews we accomplished this goal and were able to keep some structure through the questions”.

The interviews took place in a private setting selected by the interviewee and were conducted in English. It was recognised that English was not the first language of all the interviewees and the researcher took care to ensure that the interviewees understood the questions before answering. This was also catered for by sending the interviewees the interview questions in the introductory email, which provided interviewees the opportunity to read through the questions before the

interview, clarify any uncertainty or misunderstandings and think about their answers. It was evident from the engagement with the interviewees that they had all read through the questions before the interview started. In one case, the interviewee postponed the date of the interview as he wished to have more time to think about the questions. In three cases, interviewees requested the presence of an interpreter, whom they selected. The interviewer then asked the questions into English and the interpreter translated the question to Afrikaans and the interviewee then answered in a mix of Afrikaans and English, which the interviewer understood.

At the start of the interview the interviewer briefly explained the purpose and structure of the interview and obtained the signed consent form from the interviewee. The interviewer explained that the interviewee's response would be confidential and asked for permission to record the interview. In all cases, this permission was granted.

During the interviews, the interviewer checked the setting for the interview to ensure that the interviewee was comfortable, that there was the required degree of privacy and that the environment was conducive to effective communication with honest and full responses to the questions. The interviewer noted any interruptions during the interview in the transcript, but there were no interruptions that were so severe that they compromised the interview in any way.

The interviews were all conducted in a professional and cordial environment. In most cases the interviewees requested that their responses should be anonymous, and the interviewer took the decision early in the interview process to keep all responses anonymous. This was conveyed to the interviewee at the start of the process and was favourably received. As the interviews took place at the interviewee's place of business (even with telephonic interviews, the interviewee was in their home or office), the interviewee was in a comfortable space and there was no evidence of the interviewees feeling coerced or under pressure to provide certain answers.

The interviewer sent a "thank you" message to the interviewee after the interview and included a copy of the transcript for approval by the interviewee.

6.2.6 Interview questions

The questionnaire consisted of two parts. Part 1 asked for the demographic information of the interviewee and the region in which the person resides. Part 2 consisted of a list of ten questions that would guide the interview conversation.

The ten interview questions were informed by the literature and the goals of the research. The questions were designed to be open-ended with no specific yes or no answer but intended to stimulate discussion and care was taken to phrase the questions in such a way as to ensure that they are not “interpreted as leading or misinterpreted by the respondents” (Elfsberg, 2009:25). Following recommendations in the literature on questionnaire design (see, for example McNamara (2009:2), the wording of the questions was open-ended and neutral, and questions were phrased in as simple a way as possible. The questions were designed to stimulate a conversation around wealth taxes rather than to focus on technical aspects or an analysis of the law. Minas and Lim (2015:199) note that “an open-ended interview approach is a way of maximising response validity, since there is a greater opportunity for respondents to organise their responses within their own framework”.

All 27 participants were asked the same questions. The interviewees were told at the start of the interview that the questions were open-ended and that that they could answer as they saw fit. The questions were asked one by one, giving the opportunity for the interviewee to answer each question and once they had completed their response, the interviewer moved on to the following question. Although the questions were asked in chronological order, the interviewees’ answers did not always stay rigidly focused on a specific question as the conversation sometimes changed direction and this added to the richness of the interview data that was gathered.

The list of questions is provided in Annexure C to the thesis.

6.2.7 Interview transcripts

All interviews were recorded with the permission of the interviewee, using two recorders. The recordings were then saved in a dedicated folder with a unique identifying label. The researcher transcribed the first fifteen interviews herself, using the software programme TranscribeMe©. The

last nine interviews were transcribed by a third person, who signed a confidentiality agreement to ensure that the confidentiality of the interviewees was protected. In all cases, the researcher checked the transcript against the interview recording to ensure that the transcript was accurate.

The transcriptions of the interviews were then provided to the participants for their verification and all were accepted by the interviewee, some with minor editorial changes. Thereafter, the transcripts were saved under unique file names in a secure folder. To protect the anonymity of the interviewee, the transcripts do not reflect the names of the places where the interviews took place and the file names comprise the interview number, with the interviewee identified by letters of the alphabet and the date of the interview.

The transcripts were used in the data analysis process, which is described in detail in Chapter 7.

6.3 Limitations

Although interviews have some benefits for obtaining data, it is recognised that there are also risks and weaknesses inherent in this approach, some directly associated with the sample of people being interviewed. To be specific: wealthy individuals do not like being interviewed.

The results obtained from the small number of interviewees cannot be assumed to represent the views of the South African population at large nor the wealthy sector of that population. The objective of this study is not to represent the views of a group or sector of society.

Surveying wealthy individuals also has limitations, including accessibility, willingness to be interviewed, the likelihood of providing honest answers, considering the sensitivities relating to taxation and the protection of information about one's personal wealth. These limitations were addressed in the research design and are evaluated in the quality control review which forms part of the data analysis in Chapter 7.

6.4 Ethical considerations

Rhodes University requires that all research involving human participants must be formally reviewed by the university's Ethical Standards Committee (RUESC) in accordance with the National Health Act, No. 61 of 2003. All of the University's ethical requirements were complied with, as was described in Chapter 2. Approval for conducting the interviews was obtained from the Accounting Department Ethical Standards Sub-committee, which was in turn subsequently ratified by the RUESC before any interviews were conducted.

The guiding ethical principles contained in the RUESC Handbook align with the four main areas of ethical risks as identified by Bryman and Bell (2014:120): potential for harm to participants; informed consent; respect of privacy; and the possibility for deception. An evaluation of these risk areas in relation to the study is addressed in the following paragraphs.

6.4.1 Harm to the participants

Considering people's sensitivities regarding taxation and the possible fear that the researcher may have a link to government or SARS, the invitation to participate made it clear that the researcher is independent, and that no personal information of any interviewee obtained at any stage during the data collection process would be disclosed in the thesis or made available to either the government or SARS.

The interviews were semi-structured, and the questions were approved by the RUESC before the interview invitations were sent out. In terms of power dynamics, the interviewees had all signed consent to be interviewed and were all adults, most of whom are wealthy individuals in powerful positions or knowledgeable established advisors. The power dynamic was therefore well balanced. Furthermore, the interviews took place in the interviewees' offices or a selected location, placing the interviewee in a more powerful position for the interview.

With these precautions and the nature of the people to be interviewed, there was no risk of any harm being caused to the human participants in the study.

6.4.2 Informed consent

Interviews were conducted with preselected wealthy individuals and professionals who manage the funds or financial affairs of such wealthy individuals. The interviewees were invited to participate on a voluntary basis and the purpose and structure of the interviews was explained in advance.

Potential interviewees listed on the sample frame were sent an email in which the researcher introduced herself and explained the background and process of the research. The email included a letter of introduction from the university, the consent form to be signed and the list of core questions to be asked. The recipient was asked to respond by a certain date with an indication of whether they would be willing to be interviewed. The following information was made available to all participants in the study in compliance with the RUESC requirements (RUESC Handbook, 2014:24):

- a) the nature of the research, its purpose and usefulness;
- b) a precise description of the procedures in which the participant was asked to participate;
- c) the anticipated personal risks, including direct physical, psychological or social harm;
- d) the expected benefits of the research;
- e) the methods for protecting confidentiality and anonymity that were observed;
- f) the fact that the participant is free to withdraw from the project at any time without penalty or reason;
- g) details of the person to be contacted in the event of a query or research-related harm or injury; and
- h) the ethics committee that approved the research project and contact details for the committee, to which comments on the project may be directed.

The content of the interview invitation is provided in Annexure A to the thesis.

Although the approach of sending an unsolicited email could be regarded as an invasion of privacy, the subject line was descriptive of the nature of the email so that there was full disclosure of the nature of the communication at the outset. Where a reply to the email was not received by the date requested, a follow-up email was sent, and, in certain cases, the person's office was telephoned. The benefit of sending an email is that it is impersonal, non-threatening and allows the recipient the opportunity to either accept or decline, behind the anonymity of an email, which ensures that there is no coercion on the part of the researcher. The risk of this approach is that it makes it very easy for potential interviewees to simply decline the invitation, which could result in an unacceptably small sample size. To mitigate this risk, the researcher requested the advisors who were interviewed in the early stages of the field work to assist by personally requesting some of their clients to agree to be interviewed and, if preferred by the client, these interviews could be conducted in the presence of the advisor. As a further means of obtaining at least some feedback, albeit of a lesser quality, the interview invitation also asked those who chose not to be interviewed to provide written comments in response to the interview questions.

Each interviewee was asked to sign a consent form before the interview commenced.

6.4.3 Privacy

In the interview invitation, potential participants were given the option of anonymity and where requested, anonymity was assured. Regardless of the preference indicated, the identity of all interviewees was kept disguised by refraining from using their name or referring to any unique identifying characteristics of the individual or the geographical area in which they lived. Each interviewee was identified using a pseudonym such as "Mr X" or "Ms Z" and no description of the person's specific industry or social profile was provided.

The privacy of the individual was also respected by conducting the interviews at the person's office or an alternative venue of their choice. Participants were offered the use of Skype® or a telephonic interview as an alternative. One participant elected to be interviewed on the telephone and two made use of Skype®. In the interview invitation, a time limit of one hour per interview was indicated and the researcher ensured that this time limit was respected.

Any secondary data reported with the interview transcript, such as a brief biography, which could be necessary to provide some context to the interview data, was derived from sources that are publicly available.

The data obtained from the interviews was only used by the researcher for the purposes of the study and will not be made available to other researchers or interested parties.

6.4.4 Risk of deception

Bryman and Bell (2014:120) explain that “deception occurs when researchers represent their research as something other than what it is”. The interview invitation provided each potential interviewee with information explaining the type of research being conducted, the questions to be asked, the assurance of anonymity and how the research would be used. At the start of each interview, these aspects were reiterated, and the participants were asked to indicate whether they were satisfied with what was communicated and whether they had any concerns. No concerns were noted. Providing such full disclosure to the participants in advance of their consent to be interviewed and again at the start of the interview, ensured that there was no possibility of deception. With the permission of the interviewees, all the interviews were recorded, and the transcripts were checked against the recordings, thus ensuring that the interviews were accurately reported.

6.5 Conclusion

This Chapter set out to describe the approach followed in carrying out the interview phase of the study. The introduction described the study as qualitative, in the area of social research, and designed to make use of an extensive literature review followed by semi-structured interviews to obtain primary data from wealthy individuals and their advisors in South Africa. A sample frame was used to compile lists of potential participants and from that, individuals were selected and invited to participate in the interviews, which were conducted by the researcher, face-to-face or by electronic means such as Skype®. The process was designed to ensure adherence to the quality control guidelines described in the literature and the policies of Rhodes University. The

limitations of the study were described and are considered to be acceptable. All ethical considerations were addressed, and the policy of the Rhodes University Ethical Standards Committee were complied with. The method selected was appropriate to address the research goals and all quality-control concerns were addressed.

All of the interviews were recorded and transcribed. The process of analysing the data from the interviews, as recorded in the interview transcripts, is described in the next Chapter. In the final Chapter, the analysis of the interview data will be compared with the findings from the literature to provide a basis for conclusions and recommendations in Chapter 8.

Chapter 7. Interviews: Data Analysis

Introduction

The overarching research goal of this study is to identify the merits and disadvantages and the unintended consequences that could result from the implementation of a new wealth tax in South Africa. The interview phase of the study focuses on obtaining primary data from individuals who would be directly affected by a new wealth tax. The study, which falls within the realm of social research, adopts a qualitative approach as it seeks to understand the wealth tax experience of individuals in South Africa. Having described the interview process in detail in Chapter 6, this Chapter explains how the data from the interviews, as recorded in the interview transcripts, was analysed.

7.1 Data analysis process

The data contained in the interview transcripts was analysed using coding to identify themes and main ideas (Bryman and Bell, 2014:42) that emerged from the collective responses as recorded in the interview transcripts. Saldana (2015:4) describes coding as “the transitional process between data collection and more extensive data analysis”. The transcripts were coded using thematic analysis, which is a flexible method of qualitative data analysis that seeks to “identify, analyse and describe patterns, or themes, across the data set” (Bryman and Bell, 2014:350). The objective of the analysis was to allow the data, drawn from the voices of the interviewees, to speak for itself and for themes to emerge in a process of analytic induction, which Brinkmann (2013:9), citing describes as “the systematic examination of similarities within and across cases to develop concepts, ideas, or theories”. The process of analytic induction involves the researcher commencing without any predetermined codes and inductively coding the data as he or she reads and rereads the material in a cyclical, iterative fashion to identify themes and patterns. The codes thus develop in an inductive manner from the interview transcripts. In the present research, the interview transcripts were read and reread, prevalent themes were highlighted and then the responses of the interviewees were compared to find similarities that indicated shared perceptions about wealth taxes and some of the possible consequences that could result from the introduction

of a new wealth tax in South Africa. As would be expected from an inductive coding approach, what was sought from the process was the emergence of new theories rather than the testing of pre-existing hypotheses (Bryman and Bell, 2014:43). Later in the analysis, the themes were discussed in more detail and evaluated against the literature review in Chapter 1.

The coding process is described in detail in the next section.

7.2. The coding process

The objective of the data analysis was to find patterns and themes in the interview transcripts that would describe the perceptions of wealthy individuals regarding wealth taxes and the possible consequences that could follow the introduction of a new wealth tax in South Africa.

The patterns that the researcher looked for included frequently-used words such as “inequality” or “government” and repeated phrases such “we already have enough taxes”. Saldana (2015:6) describes patterns as “not just as stable regularities but as varying forms” and notes that –

a pattern can be characterized by:

- similarity (things happen the same way);
- difference (they happen in predictably different ways);
- frequency (they happen often or seldom);
- sequence (they happen in a certain order);
- correspondence (they happen in relation to other activities or events); and
- causation (one appears to cause another).

The researcher recognised that a viewpoint such as “we already have enough taxes” may be stated in slightly different ways and a rigorous analysis of the data would require not just reading

and rereading each transcript, but also meticulously dissecting each transcript, immersing herself in the text and carefully thinking about what each interviewee was really communicating.

The coding process started with transcribing all twenty-four interviews, as described in Chapter 6. The transcripts were recorded as Microsoft Word documents and saved in a protected folder, numbered in chronological order. Each transcript was analysed in turn.

A preliminary round of coding involved the first three interview transcripts. The researcher carefully read through the first transcript from start to finish without doing any coding. This part of the process involved the researcher immersing herself in the transcript, thinking about what the interviewee was really saying and, in a sense, reliving the interview experience, as she recalled the interviewee's emotions, verbal tone and body-language during the interview. Whilst reading through the transcript, the researcher broke long paragraphs of text into smaller pieces comprising one or two sentences or even part of a sentence, so that each part would contain just one idea or key point. The objective of breaking the text down was to obtain discrete ideas, which could otherwise be clouded or lost if they were included in a paragraph that had two or more different ideas. Saldana (2015: 19) refers to this process of breaking large pieces of "lumped" text into smaller pieces as "splitting the data" and notes that "lumping may lead to a superficial analysis". Breaking the text down into discrete pieces resulted in many individual responses, referred to as data points, but the extra effort involved in analysing these data points was justified as the researcher was confident that data was not lost or overlooked in the analysis.

Once the transcript had been read and the data splitting process was complete, the text was copied into a table in the Word document. Two columns were added to the right of the text, one labelled "Descriptor" and the second "Code". The research question was copied and pasted at the top of the transcript to remind the researcher of the focus of the research question and to assist in identifying any portions of the text that were not relevant to the research question. The researcher then read through the transcript again, this time focusing attention on each data point in turn. She read the statement in the transcript and wrote a short descriptor in the column labelled "Descriptor" to summarise the statement made by the interviewee into a few words that the researcher could quickly refer to during the coding process. Thereafter, the researcher identified a code that best described the theme of the statement. Saldana (2015:3) describes a code in this context as "a word or short phrase that symbolically assigns a summative, salient, essence-

capturing, and/or evocative attribute for a portion of language-based or visual data”. As the researcher assigned a code, she identified it with a letter of the alphabet and wrote a short description of it. As the list of codes emerged, the researcher was mindful of the need to have as few codes as possible (Saldana, 2015:21) and she deliberately focused on identifying a few codes that would each cover a broad theme.

If a statement in the transcript was not relevant to the research question this was indicated in the descriptor column and no code was assigned to that statement. Once the transcript had been coded in this fashion, it was saved into a new folder called “Interview transcripts coded”. Thus, the original, un-coded transcript was filed in a folder called “Interview transcripts” and the coded transcripts were saved into a new file. Having two files for each transcript provided a clear audit trail from the original transcript through to the coded version of the transcript, thus preserving the integrity of the coding process.

The coding process as described above was repeated for the next two interviews and the themes that emerged were recorded in a preliminary coding list. The researcher refined the coding list by reviewing the earlier transcripts against the later ones, evaluating new codes against those identified in the earlier transcripts. For example, some codes identified in an earlier transcript were found to have little support in later transcripts and the codes were changed. The modification of codes through the process is an inherent part of the iterative and reflexive nature of such a study. Saldana (2015:10) observes that “rarely will anyone get coding right the first time ... qualitative inquiry demands meticulous attention to language and deep reflection on the emergent patterns and meanings of human experience” and recognises that “recoding can occur with a more attuned perspective” on second and subsequent cycles of coding.

Once the researcher had coded the third interview and reviewed the coding of the two earlier transcripts, seven codes were identified, which summarised the main themes that emerged from the transcripts. These themes were: capital, entrepreneurship, government, inequality, the economy, wealth taxes and other taxes including income tax.

Whilst the researcher strived to maintain objectivity, it is recognised that the selection of codes is inherently subjective (see, for example Saldana (2015:7); and Mason (2002)). The researcher chose objective, broad-based themes that would collectively encompass all of the responses from

the transcripts, insofar as they were relevant to the research question. Every effort was made to allow the data to “speak for itself”.

The process followed in the preliminary round was followed in the second round of coding, in which the remaining twenty-one interview transcripts were coded using the six identified codes. This continued to be an iterative process in which transcripts were read and coded, earlier transcripts were reviewed, and the codes refined. During this process, sub-themes also emerged from the seven main themes. For example, the responses discussing the theme of government tended to focus on three main sub-themes: government’s management of resources, government corruption and the value received from government in exchange for the taxes paid, which is referred to as fiscal exchange and these sub-themes were identified early in the coding process. It was recognised that there would be sub-themes under the themes “economy”, “wealth taxes” and “other taxes” but it was also recognised early on that the number of data points under each sub-theme would be large and, to avoid being overwhelmed by the number of sub-themes and keep the coding process as efficient as possible, the researcher chose to retain as few codes as possible through the second round of coding. Once the second round of coding was complete, the following codes and themes had been identified:

- Capital (C)
 - Capital flight
 - Attracting capital
 - Different forms of capital
- Entrepreneurship (E)
 - Effect of tax
 - Need for
 - Hindrances to
- Government (G)
 - Government corruption
 - Government management of resources
 - Managing resources
 - Policies (including incentives, tax policy)
 - Administration

- Legislation
- Value exchange
- Inequality (I)
 - Impact of wealth taxes
 - What would aid or hinder
- Economy (N)
 - Impact of wealth taxes
 - Other economic issues
- Wealth tax (W)
 - Estate duty and donations tax
 - Structuring to avoid wealth tax
 - Alienating the wealthy
 - Other suggestions and comments
- Income tax and other taxes (X)
 - Tax tipping point
 - Inflationary adjustment for capital gains tax
 - Other taxes that are really wealth taxes
 - Other comments

During the coding process, the researcher made notes on how the various codes were selected to ensure consistency in coding through all the interviews and the following coding chart was compiled as follows:

<u>Code</u>	<u>Description</u>
Capital (C)	This theme covers comments on capital flight, which was mentioned in most of the interviews. It is a threat identified in the literature (see Chapter 1) as one of the biggest risk factors in wealth taxes and it was therefore kept as a separate theme. Comments on protecting capital, encouraging capital and investment and different types of capital are included under the economy theme or the wealth tax theme, depending on how closely the comments relate to the particular theme.

<u>Code</u>	<u>Description</u>
	No questions were asked directly on capital flight, but comments were volunteered by the interviewees.
Entrepreneurship (E)	Another risk identified in the literature (see Chapter 1) is the threat to entrepreneurship and building wealth. Entrepreneurship was also identified in the literature review as a key factor for economic growth. Comments relating to building or harming entrepreneurship were included under this theme. Question 7 relates specifically to this theme and comments on entrepreneurship were also made in answering other questions.
Government (G)	No questions were asked directly on government, but comments were volunteered by the interviewees. The interviewees made many comments about government and key themes that emerged were: management of resources, complex legislation, problems with administration, corruption and lack of trust and perceived value, or lack thereof that is received in return for taxes paid. These comments were grouped under three sub-themes: 1. Government's management of resources This relates to how effectively tax money is being spent as well as government's management of the administration process, legislation and tax policy. 2. Government corruption This includes references to lack of trust in the government and statements about government corruption. 3. Value exchange

<u>Code</u>	<u>Description</u>
	This refers to the interviewees' perceptions on the returns they get for the tax that is paid over, often referred to as "bang for your buck", etcetera.
Inequality (I)	Inequality is a stand-alone theme, as question 2 asks about this; furthermore, it is one of the primary motivators for a wealth tax and most of the interviewees made comments on this theme.
The economy (N)	No questions were asked about the economy directly, but many comments were volunteered by the interviewees. As South Africa has been through a period of very poor and declining economic performance it is not unexpected that all interviewees made one or more comments on the economy. A negative impact on the economy is one of the key risks of wealth taxes identified in the literature. The economy was therefore identified as a stand-alone theme. Included under this theme are comments on the current state of the economy, suggestions on what would improve the economy, including comments on education, skills development, job creation, encouraging investment and criticisms about what has caused the economy to underperform.
Wealth taxes (W)	Questions 1, 4, 5, 6, 9 specifically elicited comments on this theme and comments were also made in answering other questions. Comments on wealth taxes were grouped largely around five sub-themes: structuring to avoid wealth taxes, the possibility that wealth taxes might draw more from the new middle class in South Africa, the risk and effect of alienating the wealthy, suggestions on existing wealth taxes (estate duty and donations tax) and other suggestions, comments and criticisms about wealth taxes. These comments covered many different aspects, including the scope of wealth taxes, how to define wealth, problems with valuing assets and others. The comments coded under the sub-theme 'Wealth tax suggestions and other comments' were analysed further in the fourth round of coding.

<u>Code</u>	<u>Description</u>
Other taxes (X)	Although the focus of the research questions was on wealth taxes, many comments were made about other taxes, most notably personal income tax, capital gains tax, dividends tax and value-added tax. These comments were initially included in three sub-themes: 1. Whether a tipping point has been reached (beyond which it is expected that tax revenue may actually decline if the tax rates increase). 2. Perceived unfairness of subjecting inflationary gains to capital gains tax. 3. Other, which includes all other comments on taxes other than wealth taxes. Capital gains tax was included in this theme rather than the wealth tax theme due to the Davis Tax Committee's emphatic assertion that capital gains tax is not a wealth tax but is an income tax. Many interviewees disagreed with this classification and insisted that capital gains tax was in fact a wealth tax. These comments are included under this theme. Many interviewees also indicated that they saw the new 45% tax rate on taxable income exceeding R1,5 million, which became effective from 1 March 2017, as a form of wealth tax and comments to this effect are included under the other taxes theme. Questions 3, 8 and 10 relate specifically to this theme and comments were also made in answering other questions.

The researcher noted at this stage that further analysis would need to be done on some of the themes, particularly those grouped under the "general" or "other comments" categories. It was decided that a more detailed analysis would be done late in the third round of coding to keep the process moving smoothly.

The third round involved more detailed coding. Microsoft Excel (Excel) was selected as the most suitable platform for this stage of coding as it has a powerful sorting function with features that would be useful for the later stage of analysis and because the researcher has a good working knowledge of the program. Using Excel for the data analysis required the researcher to design

and carry out every phase of the analysis, resulting in an in-depth knowledge of exactly how the data analysis was done.

In the third round, each transcript was copied to an Excel spreadsheet, with a separate page for each transcript, each clearly labelled. Each response, or data point, was in a separate cell on the spreadsheet, with the related descriptor and code displayed in the two adjacent columns. For example, the first three lines of interview 1 appeared in the Excel spreadsheet as follows:

Identifier			Response	Descriptor	Code
a	b	c			
1	1	1	When you get to the wealth taxes I think it's very important to discern between capital that's actively employed and capital that lies passive. I think the idea behind taxing wealth is to make sure it gets back into the economic cycle. To make sure that it either gets redistributed or that the economy has got the benefit of the capital. And so, it makes a lot of sense to me to have a wealth tax that is focused on passive wealth - that is wealth that lies dormant – and not active wealth.	Tax passive wealth (eg passive investment portfolios, unused land and derelict property)	W
1	1	2	From a wealth tax point of view, I think one needs to understand what one wants to do with it and it's the same with income tax, so it makes a lot of sense for me to tax passive wealth – wealth that lies dormant – and I definitely would not put a wealth tax on individuals who are actively employed in building wealth: your entrepreneurial clients and farmers who are actively farming agricultural property and the like, but I do think there is room for passive wealth, that is to tax the fat and the fat, we know, is different from muscle.	Must think carefully about what the objective of a WT is. Should not be any wealth tax on actively employed assets (eg entrepreneurs, farmers)	W
1	1	3	I would definitely not tax the muscle. So, your passive investment portfolios, agricultural land, property that is not actively used, derelict properties, etc, I think there is definitely a need to have a wealth distribution tax on those. And the result would be to try to get passive wealth earners to use their assets productively, or to tax the assets in such a way that it goes back into the economy so that you have the multiplier effect.	Purpose of such a wealth tax: to get owners to put assets to use or achieve the multiplier effect	E

The “identifier” columns signify (a) the interview number; (b) the question number under which the response was answered; and (c) the data point number under each question. The identifiers enable identification of the source of each data point and the tracking of each data point back to the complete coded transcript so that responses can be contextualised, where necessary.

Having copied each transcript into the standard-format Excel page (as shown above), the researcher then read through each transcript and cleaned up the data by removing any comments that were not relevant to the research question and comments made by the interviewer, as these had been recorded in the transcript but would not be included in the data analysis. In the process of cleaning up the data in the Excel file, the researcher re-read the transcript and reviewed the coding that had been done, revising the coding where necessary. This is part of the iterative process of coding and it adds a further layer of scrutiny to assure the consistency and accuracy of the coding process.

The next step in the third round was to insert a series of columns along the top of each Excel page, one column allocated to each of the ten interview questions for which a definitive answer could have been given (this excluded question number 4, which asked for the benefits and disadvantages of wealth taxes, resulting in only open-ended responses) and one column for each of the themes and sub-themes that emerged. In total, there were 24 columns into which the statement codes would be analysed, as follows:

Q1 Wealth Taxes? Y/NO

Q2 Can wealth taxes address inequality? Y/NO

Q3 Support redistribution by progressive tax? Y/NO

Q5 Recurrent or once-off wealth tax? Rec/NR

Q6 Would wealth taxes affect investment? Y/NO

Q7 Would wealth taxes deter entrepreneurship? Y/NO

Q8 CGT on death reasonable? Y/NO

Q9 Tax assets versus returns? ASS/RET/ANY

Q10 Tax capital gains in full? Y/NO

Capital flight

Impacting entrepreneurship

Government corruption

Government's management of resources

Value exchange

Inequality

Economy

Alienating the wealthy

Estate duty and donations tax

Wealth tax suggestions - other

Wealth tax avoidance and structuring

Wealth tax would prejudice new wealth

Tax tipping point

Inflation adjustment for CGT

Other taxes

It is evident that some of the themes identified after the second round had been changed in the third round, which illustrates the iterative process that was involved. The seven original themes remained, and several sub-themes had emerged at this stage. Some sub-themes identified in the early stage of coding were abandoned as they did not emerge strongly in the later interviews. Additional sub-themes could have been identified but the researcher was careful not to open too many columns as this could have made the coding process unduly complicated, without adding any additional value to the analysis.

In the next step in the third round of coding, the code for each data point was allocated to the appropriate column, a process akin to sorting the coded text into baskets, each basket representing a certain theme. No entry was allocated to the columns for questions 1 to 10 if the interviewee did not give a definitive yes/no or recurrent/non-recurrent or asset/return answer to a question. The questions were not phrased with a view to deriving a definitive yes/no answer and not all interviewees provided such a definitive response to all questions. Many of the questions were answered in broad terms, as was anticipated in the design of semi-structured interviews using a conversational style. Nonetheless, where definitive responses were provided it was useful to collect and compare these. Table 7.1 provides an analysis of the definitive responses for each

of the questions. The absence of a definitive response to a particular question in Table 7.1 does not necessarily mean that the question was not answered as the interviewee may have given an open-ended response without providing a definitive answer. For example, 22 interviewees gave a definitive response to question 1 and the other interviewees would have discussed the question and provided an open-ended response. Sometimes, in line with the conversational style of the interviews, a question was answered in a different sequence, for example in Interview 16, question 8 was answered while discussing question 7. This did not affect the data analysis as the coding process looked for themes emerging from the transcript as a whole. The overall objective is to allow the data to speak and for themes to emerge as part of the inductive process. Rich data was expected to come from the open-ended responses of the interviewees, enhanced by allowing the interviewees freedom in how the questions were discussed and this was found in the open-ended responses. The analysis of the open-ended responses is shown in Table 7.2.

Tables 7.1 and 7.2 are shown on the following pages.

Table 7.1 Analysis of definitive responses to interview questions

No.	Question	Answer	Number of responses	%
1	Currently, the only wealth taxes that we have in South Africa are estate duty and donations tax. Do you think there is a need for a new form of wealth tax in South Africa at this time?	Yes	7	32%
		No	15	68%
		TOTAL	22	
2	Do you think wealth taxes can be used in addressing economic inequality?	Yes	9	60%
		No	6	40%
		TOTAL	15	
3	Do you support the concept of a redistribution of wealth through a larger tax on high net worth individuals?	Yes	13	81%
		No	3	19%
		TOTAL	16	
4	What do you consider to be the main benefits and disadvantages of wealth taxes?	Open-ended	N/A	
5	If a wealth tax other than estate duty and donations tax was introduced in South Africa, what form do you think it should take? Should it be a once-off or recurrent tax?	Recurrent	11	73%
		Non-recurrent	4	27%
		TOTAL	15	
6	If a wealth tax was introduced in South Africa, what do you think your responses would be in terms of your investment choices: would it affect your investment choices?	Yes	16	84%
		No	3	16%
		TOTAL	19	
7	Would an announcement regarding a new wealth tax affect your motivation to build wealth and /or start new businesses?	Yes	9	53%
		No	8	47%
		TOTAL	17	
8	Is the current South African system of having both estate duty and capital gains tax on a person's death justified on the basis that there is a higher capital gains tax exclusion in the year of death?	Yes	6	35%
		No	11	65%
		TOTAL	17	
9	Tax on assets versus tax on return: Which option is preferred?	Asset	3	23%
		Returns	7	54%
		Any / either	3	23%
		TOTAL	13	
10	Should capital gains be taxed in full in the hands of individuals, rather than on the current partial inclusion basis, with certain limited exclusions such as one's personal home?	Yes	2	50%
		No	2	50%
		TOTAL	4	
TOTAL NUMBER OF DEFINITIVE RESPONSES			138	

Table 7.2 Analysis of coded open-ended responses to interview questions

<u>Open-ended responses per theme:</u>		
<u>Theme</u>	<u>Number of responses</u>	<u>%</u>
Capital flight	103	6%
Entrepreneurship	89	6%
Government corruption	33	2%
Government managing resources	155	10%
Value exchange	30	2%
Inequality	65	4%
Economy	205	13%
Alienating the wealthy	11	1%
Estate duty and donations tax	41	3%
Wealth tax suggestions and other comments (Table 7.3)	389	24%
Wealth tax avoidance and structuring	90	6%
Wealth tax would prejudice new wealth	12	1%
Tax tipping point	33	2%
Inflation adjustment for capital gains tax	11	1%
Other taxes (Table 7.4)	350	22%
TOTAL OPEN-ENDED RESPONSES	1617	100%
TOTAL NUMBER OF DEFINITIVE RESPONSES (Table 7.1)	138	
TOTAL DATA POINTS	1755	

As indicated in Table 7.1, there were a total of 138 definitive responses, and Table 7.2 indicates a total of 1617 open-ended responses (data points) analysed according to the respective themes. In total, therefore there were 1755 data points. As a check to ensure that all responses were considered in the coding through to the third round, the number of coded responses under the various columns was balanced with the total number of responses for each interview. This check was a quality control measure of completeness that ensured that all responses had been coded.

The last phase of the third round of coding involved a further analysis of the comments coded under “Wealth Tax suggestions and other comments” and “Other taxes”. This further analysis was necessary as the number of responses under each of these codes was very large and no clear themes could be isolated at this stage. As described earlier, this data was initially coded at a

superficial level on the basis that any comments relating to either wealth taxes in general or other taxes in general, which did not fit into one of the original sub-themes, was allocated to one or other of these categories. The next process of analysing each of these groups or clusters of data was more difficult and required deep thought and reflection. The process is described in detail below.

The researcher read each of the responses coded under “Wealth Tax suggestions and other comments” and highlighted key words or phrases that related to a specific sub-theme. Some phrases such as “passive assets” recurred in various interviews. Sometimes the comment refers to a differentiation between passive and active assets and at other times it is made with a recommendation that passive assets should be taxed. The researcher created a sub-theme “passive assets” and classified all references to passive assets under this code. Benefits and disadvantages of wealth taxes, discussed mainly in the context of answering question 4, had been coded under this category if they did not relate to any of the other identified codes. Part of the sifting process entailed coding all responses that mentioned benefits under a separate sub-theme “benefits” and those that mentioned various disadvantages under a sub-theme “disadvantages”. This process of splitting up the responses into more focused sub-themes continued until all the responses under the code “Wealth Tax suggestions and other” had been re-coded. Having allocated all the responses under “Wealth Tax suggestions and other” the researcher checked that the number of data points in Table 7.2 (389) equalled the total number of data points allocated to the various sub-themes. The analysis “Wealth Tax suggestions and other comments” into the various sub-themes is shown in Table 7.3. There is a total of fifteen sub-themes under this theme.

Table 7.3 Suggestions and other comments: sub-themes

<u>Sub-theme</u>	<u>No. of responses</u>
Benefits	21
Disadvantages	25
Recurrent or once-off	25
Investments	27
Tax returns versus assets	10
Passive wealth	30
Aspects – administration	76
Aspects – other	66
Aims	17
Liquidity	25
Alternative to a net wealth tax	15
Small tax base	18
Already have wealth taxes	11
International comparisons	16
Private giving	7
TOTAL	389

The same process was followed for coding the responses under the “Other taxes - general” and various sub-themes were identified from the interview responses. Again, once the re-coding for the sub-themes was complete, a check was made to ensure that the number of data points in Table 7.2 (350) equals the total number of data points allocated to the various sub-themes. The analysis of the data points allocated under the various sub-themes identified for “Other taxes - general” are shown in Table 7.4. There are sixteen sub-themes under this theme.

Table 7.4 Other taxes - general: sub-themes

<u>Sub-theme</u>	<u>No. of responses</u>
Progressive tax system	26
Capital gains tax on death	38
Tax returns versus assets	27
Tax capital gains in full	18
Capital gains tax is a wealth tax	15
Transfer duty is a wealth tax	4
Other taxes that are wealth taxes	11
Redistribution (RDP) levy	5
Enough tax already	32
Dividends Tax	6
Complexity	18
Avoidance	59
Tax morality	24
Consumption taxes	17
Incentives	13
Other	37
TOTAL	350

Having coded the data in sufficient detail, the fourth stage of the coding process involved axial coding, whereby the coded data was re-sorted and analysed under specific topics for discussion under the findings. This is explained in the next section.

7.3 The axial coding process

The starting point for the axial coding process was the original research questions: what are the views of wealthy individuals and their advisors regarding wealth taxes in general and the possible

implementation of a new wealth tax in South Africa: how do they perceive it; what would their reaction be to a new tax; how do they think it would affect their decisions regarding savings and investment, donating or supporting social projects and starting up new businesses or growing existing businesses; is there a tolerance level for a new wealth tax and if so, what is it?

The questions discussed during the interviews sought to elicit a conversation that would provide answers to these questions.

In the axial coding process, the themes and sub-themes identified in the first three rounds of coding were grouped under subsidiary components of the research question. This allowed the responses from the interviews to address the part of the research question to which they were most closely related, thus maintaining focus in the discussion of the findings and recommendations. The components of the research question under which the responses are discussed, are as follows:

- A. What are the interviewees' general views on wealth taxes in South Africa?
- B. What would the possible consequences of a new wealth tax in South Africa be?
- C. What aspects should be considered in the design of a new wealth tax system for South Africa?
- D. Can wealth taxes be used to address inequality?
- E. How will a new wealth tax affect the South African economy?

The allocation of responses from the various themes, sub-themes to the five questions as listed above, is shown in Table 7.5.

Table 7.5 Axial coding: themes and sub-themes allocated to research questions

<u>Code</u>	<u>Theme</u>	<u>D1</u>	<u>D2</u>	<u>Views on wealth taxes</u>	<u>Possible consequ ences</u>	<u>Aspects to be considered</u>	<u>Wealth taxes and inequality</u>	<u>Wealth taxes and the economy</u>
C	Capital flight	103			C			
E	Entrepreneurship	106	106					
E	Question 7		17		E			
E	Open-ended		89		E			
G	Government	218	218					
G	Government corruption		33	G				
G	Government managing resources		155	G				
G	Value exchange		30	G				
I	Inequality	80	80					
I	Question 2		15				I	
I	I - Open-ended		65				I	
N	Economy	205						N
W	Wealth tax	612	612					
W	Question 1		22	W				
W	Question 5		15			W		
W	Question 6		19		W			
W	Question 9		13	W				
W	Alienating the wealthy		11	W				
W	Estate duty and donations tax		41	W				
W	Wealth tax avoidance and structuring		90		W			
W	Wealth tax would prejudice new wealth		12			W		
W	Wealth tax suggestions and other comments		389					
W	Benefits (Q4)		21		W			
W	Disadvantages (Q4)		25		W			

W	Recurrent versus non-recurrent (Q5)		25			W		
W	Investments (Q6)		27		W			
W	Returns versus assets (Q9)		10	W				
W	Passive wealth		30			W		
W	Administration		76			W		
W	Aspects – other		66			W		
W	Aims		17			W		
W	Liquidity		25			W		
W	Alternatives		15	W				
W	Small tax base		18	W				
W	Existing wealth taxes		11	W				
W	International		16	W				
W	Private giving		7				W	
X	Other taxes	431	431					
X	Question 3		16				X	
X	Question 8		17	X				
X	Question 10		4	X				
X	Tax tipping point		33		X			
X	Inflation adjustment for CGT		11			X		
X	Other taxes – general		350					
X	Progressive tax (Q3)		26				X	
X	CGT on death (Q8)		38	X				
X	Taxing returns (Q9)		27	X				
X	Tax CG in full (Q10)		18	X				
X	CGT is a wealth tax		15	X				
X	Transfer duty is a wealth tax		4	X				
X	Other taxes that are wealth taxes		11	X				
X	RDP levy		5				X	
X	Enough tax		32	X				
X	Dividends tax		6	X				
X	Complexity		18			X		
X	Avoidance		59		X			
X	Tax morality		24		X			

X	Consumption taxes		17					X
X	Tax incentives		13					X
X	Other		37	X				
TOTAL DATA POINTS			1755					

D1 -Total data points per theme.

D2 - Total data points per sub-theme.

The emergent themes for each of the five questions are discussed below.

It was envisioned at the start of the axial coding process and the analysis that there may be some cross-referring, with some of the responses grouped under one topic also being relevant to the discussion under another topic. Although the data splitting stage in the coding process minimised the extent of cross-referring, the open-ended structure of the interview method inevitably yielded some responses that did not fall specifically under just one theme or topic. Where these instances arose, the researcher used her judgment in selecting the most appropriate place to discuss the responses, ensuring that all responses were considered.

7.4 Discussion of emergent themes

The themes identified in the coding process and allocated to the five key questions in the axial coding part of the process are discussed in this section, with the objective of describing the views of the interviewees in answer to each of the five questions. The first question considers the interviewees' general views on wealth taxes in South Africa.

7.4.1 Question A: What are the interviewees' general views on wealth taxes in South Africa?

This topic explores the part of the research question relating to: "what are the views of wealthy individuals and their advisors regarding wealth taxes in general?" The themes that relate to this question, with the corresponding codes, are as follows:

Open-ended responses on –

G - Government corruption;

G - Government's management of resources;

G - Fiscal exchange;

W - Alienating the wealthy;

W – Existing wealth taxes;

W – Estate duty and donations tax;

W – Alternatives to a net wealth tax;

W – Small tax base;

W – International experience;

X – Other taxes that are wealth taxes (capital gains tax, transfer duty, dividends tax and others);

X – Enough taxes on the wealthy;

X – Consumption taxes; and

X – Other.

Definitive answers and open-ended responses to the following questions are discussed under this part:

- Interview question 1 - Is there a need for a new wealth tax in South Africa at this time?
- Interview question 8 – Is CGT on death justified by the higher exemption in the year of death?
- Interview question 9 – Would it be better to tax investment returns or the underlying assets?
- Interview question 10 – Should capital gains be taxed in full?

Many of the open-ended responses regarding the views on wealth taxes in general stemmed from the interviewees' evident distrust of the government. In this regard, their responses indicated three specific themes: government's management of resources; fiscal exchange; and government corruption.

In every one of the twenty-four interviews, responses were made on the theme "government's management of resources". The prevalent message of the responses indicated a general dissatisfaction with how tax revenue is being managed by government at present and a lack of confidence that the government would manage tax revenue from a new wealth tax any better than what was being experienced with existing taxes. The general view was that wealth taxes would be ineffective if introduced in the current environment of mismanagement, with every interviewee apart from interviewee 11 observing that government was not managing the spending of tax revenue well. Interviewee 1 believed that the money was managed better by those who had created the wealth than it would be by government, stating: "Those who are actively managing their wealth are doing so more productively than would be the case if the wealth was in the hands of the State. They look after the capital better. They create more job opportunities." Interviewee 18 put it in these words:

I think the tax collection is very effective at this stage [but] the spending side is in tatters ... so, [on] the collective side, I think they did quite a [good] job there, but the way they are spending it ... if you can manage your spending side more efficiently ... then they can even raise the income tax, or VAT or whatever if they need some money ... if you know that money is well spent, I myself won't mind paying more tax.

Thirteen of the interviewees raised concerns relating to government corruption. There was a strong view that government corruption was perceived to be a problem, which contributed to an increasing unwillingness on the part of wealthy individuals to contribute more by way of taxes. Interviewee 3 expressed the concern that any additional taxes would be "looted" or spent on corrupt activities, with none of the expected benefits in the form of social upliftment and transformation being realised, stating: "I think the big fear and the big reluctance by wealthy people to come out and support and in effect, pay a wealth tax is the fear that it will be dissipated and stolen by means of corrupt officials and the government, a rapacious government". The recommendation in the responses is that government needs to address the corruption before

contemplating the introduction of a new wealth tax, as articulated by interviewee 20, who stated: "I believe there has to be internal integrity before there is external integration".

Fourteen interviewees mentioned concerns about fiscal exchange and the prevailing theme was that taxpayers did not feel that they received value for the taxes they are paying. In the absence of a perceived benefit, there would be little buy-in to a new wealth tax. As interviewee 5 stated: "I think people want to see bang for their buck". Interviewee 12 put it this way: "wealth creation works on fair exchange and... the perception is there is no fair exchange". Interviewee 15 described the experience as follows:

You've got to look at the overall value proposition. And I think it's just diminished and it's worsening. I accept that there has to be that progressive tax system, because I think that you can't justify against it, but then you have to look at the balance on the other side, when it comes to social security and so on. And you're not seeing the level of services improving. You're not seeing the potholes in the roads being fixed. Like I said, it's a case of looking at the overall equation. I think I would feel happier if I had to pay this and there was an improved level of service - the lighting, fix the roads, you know, the service at the municipalities is just you know ... below the standard that one would expect. I just think the overall level of service has not improved so why keep on burdening people with higher taxes, in different forms. And I think there's this general level of ... discontent ... [which] has really just grown over a period of time.

In seven interviews, comments were made on the theme of alienating the wealthy. The interviewees perceived increased hostility of the government towards wealthy individuals. The view was that government does not provide a welcoming climate for wealthy individuals and is in effect, chasing them away. This perception reinforces the lack of support for wealth taxes due to a negative perception of the relationship between government and wealthy individuals. For example, interviewee 9 asked: "what's the point? Taxed and demonised enough" and interviewee 10 stated:

We need wealthy people in the country because they, almost by definition, are very capable people, and they can help grow ... and just coming with more and more taxes on the wealthy, chases them away. . . and you need those people to reinvest in this country. And they're not. Ja, they're just driving them out.

Twelve interviewees discussed estate duty and donations tax. The general view was that estate duty and donations tax had benefits, particularly in the experience gained by both government and taxpayers as a result of these taxes being in existence for several decades. A further benefit identified is the timing of the tax event. Interviewee 1 stated that, “I think a general wealth tax on death, the transfer of assets from one generation to the next, is the ideal place to tax wealth”. The interviewees recommended that estate duty and donations tax should be retained, possibly even extended, rather than have a new wealth tax. If a new wealth tax was introduced, the view was that this should replace estate duty rather than added to it. Some of the responses indicated that the shortcomings of estate duty, such as the liquidity problems that arise in having to pay the tax on illiquid assets and that the punitive aspect of taxing inflationary gains, should be addressed, and should be considered in the design of a new wealth tax. Interviewee 22 stated: “estate duty should be there, and we learn to live with it. No additional [taxes]. Those that are there are the better devil you know”.

Responses relating to aspects to be considered in the design of a new wealth tax are discussed later under question C.

Responses under the themes “other wealth taxes” and “enough taxes” are grouped together as they are essentially communicating the same message. Twenty interviewees mentioned other taxes that they considered were also wealth taxes. Interviewees were negative about the prospect of a new wealth tax as they believed that there were already too many different types of taxes that focused on wealthy individuals. The list of other taxes that the interviewees considered to be wealth taxes include capital gains tax (interviewees 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 19, 22 and 23), transfer duty (interviewees 2, 4, 11, 14 and 24), securities transfer tax (interviewee 4), dividends tax (interviewees 1, 4, 7 and 21), import duties on luxury goods (interviewee 2), the 45% marginal income tax rate (interviewees 10, 13, 14, 19, 20, 21 and 22) and VAT on luxury items (interviewees 19 and 22). The prevailing view was that wealthy individuals are already heavily taxed and should not be expected to carry an additional tax burden, particularly in light of their distrust of government and the management of tax revenue. As was stated by interviewee 24: “I think there is sufficient taxation at the top end”.

Nine interviewees focused attention on the small pool of high net worth taxpayers in South Africa, with the concern that wealth tax collections would be very small. This, in turn, raises questions

about the viability and sustainability of a new wealth tax. One person (interviewee 24) saw the small tax base as a positive aspect as it would allow for easier administration; however, the general view was that the small tax base would yield so little revenue that the wealth tax would not be efficient. Interviewee 24 proposed that a new wealth tax could be negotiated with the pool of potential taxpayers as the number of taxpayers would be very small:

It shouldn't be difficult to administer a wealth tax because in this particular environment we live in, I think maybe one percent of the population is very wealthy. It shouldn't be difficult to get hold of them and negotiate ... There are not so many people. You can administer it quite nicely. But if you make it blanket, you should be looking for people hiding behind the door - there will be a problem. Out of fifty million, you're talking maybe ten thousand people.

Eleven interviewees considered alternatives to a net wealth tax that could be considered if the need for additional tax revenue was the motivation for a new wealth tax. Alternatives that were suggested included a flat tax on listed securities on the JSE Securities Exchange (interviewees 3 and 7) and a dedicated or ring-fenced transformation tax (interviewees 6 and 7), subject to the requirement that the tax must be carefully managed in a transparent way so that achieved its objectives. Seven interviewees (8, 9, 10, 12, 13 and 20) recommended an increase in consumption taxes, mainly by way of an increase in the Value-Added Tax rate, as a viable method of generating additional tax revenue. Three interviewees (6, 14 and 19) suggested that a higher Value-Added Tax rate could be introduced on luxury goods. Interviewee 13 suggested that –

government should consider a negative tax rate ... a basic income grant of R800 a month for every individual with a graduated scale for people under 18 (R400/ month) and over 65 (R1,300/ month). This would entail every citizen being registered as a taxpayer (as is the case in France) and submit an annual tax form. This would reduce the incentive to not work as these allowances would accrue to everyone regardless of their work status improving the equitability of the system. The increased spending would have to be funded by increased Value-Added Tax and the savings highlighted above.

Seven interviewees referred to international comparisons of wealth tax systems and countries that had achieved significant progress or transformation. The lessons that they identified from these comparisons were that wealth taxes had not proved to be successful and economic turnarounds were usually achieved by way of targeted economic growth rather than through the imposition of a wealth tax. Interviewee 4 observed that: "It's really only France that has a death

duty and a wealth tax. Otherwise it's one or the other, and they don't have capital gains tax. We are the only ones with death duty and capital gains taxed on death, which is interesting on its own.”

Responses that did not qualify for allocation into any of the other themes or sub-themes were coded under “X – other taxes” and then under the sub-theme “other”. Interviewee 1 observed that, in the final analysis, all taxes are the same, regardless of the label that is used and stated: “at the end of the day it’s probably semantics, it comes out at the same thing at the end. Where do you park a bad concept? ... you've got to go for the least damage, type of thing.” The interviewee considered the need for the tax system to rely on stable forms of revenue and stated that –

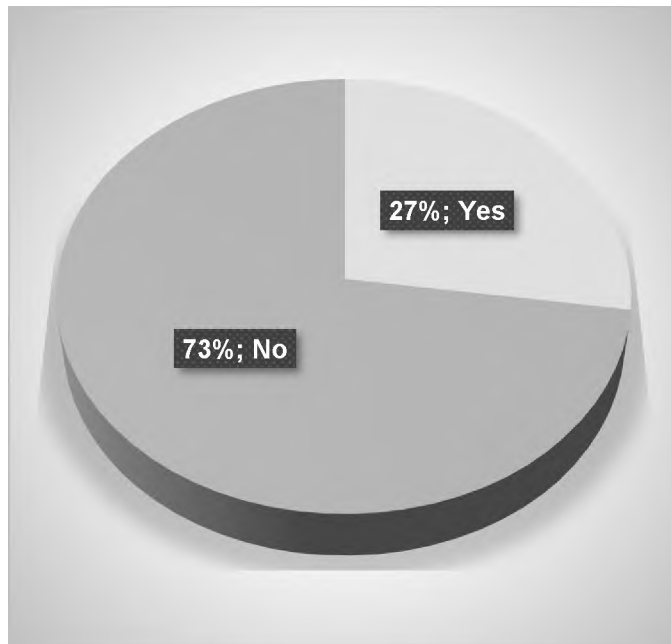
the majority of taxes do relate to income and I think that's more of a stable form ... to plan a country's budget based on a tax that could fluctuate from year to year ... I honestly don't know that there will be a stable form of revenue for government even if they did increase the inclusion rate and made it completely inclusive for capital gains tax.

Interviewee 17 suggested that wealth taxes, including capital gains tax, could have a role in taxing accumulated assets where the person has avoided taxes, giving the example of a farmer: “There are a lot of exemptions a farmer can use, to never pay tax his whole life. So, give SARS the opportunity to get at least capital gains tax. Because that guy has not been paying tax his whole life. He is gathering some wealth, and he is not paying tax.”

Interview question 1 - Is there a need for a new wealth tax in South Africa at this time?

As indicated in Table 7.1, 22 interviewees provided a definitive response to question 1, with 6 (27%) indicating that a new wealth tax could play a role in the South African tax system, subject to certain reservations that have been discussed above; and 16 (73%) indicating that they did not see a need for a new wealth tax in South Africa at this time. The spread of responses is illustrated in Chart 7.1.

Chart 7.1 Definitive answers to question 1: is there a need for a new wealth tax in South Africa at this time?



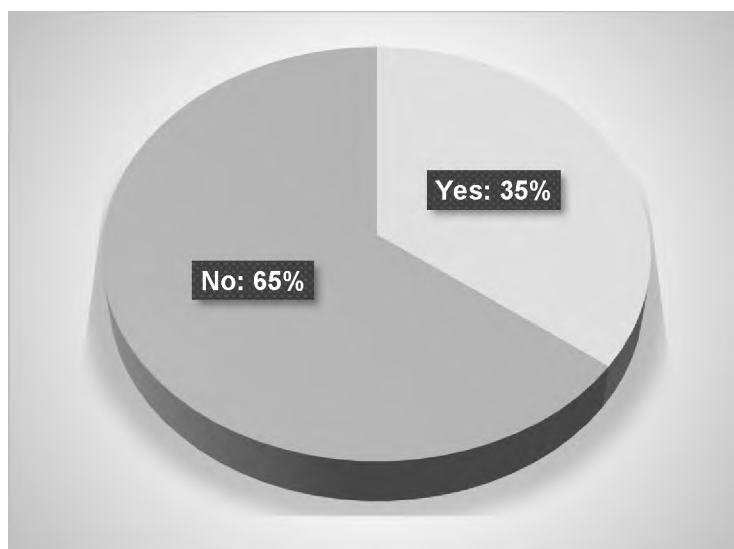
Interviewees who were in favour of introducing a new wealth tax were of the view that a wealth tax might provide additional tax revenue that could be used to address some of the economic challenges in the country; however, they qualified their approval with the condition that, if such a tax was introduced, it would have to be very specifically focused and the revenue generated should be ring-fenced and carefully managed so that it would be directed towards the specific objective of addressing inequality or building the economy. Some of the interviewees also indicated that wealth taxes should only affect passive assets, which is discussed later under question C.

Reasons given for not being in support of a new wealth tax included that the tax system is complex and there are already numerous taxes on the wealthy and that the introduction of an additional would add to the complexity of the tax system and the tax burden of wealthy individuals. For example, Interviewee 4 stated that “I think there might not be much scope for additional taxes and I’m also concerned about the complexity of enforcing those new taxes”.

Interview question 8 – Is CGT on death justified by the higher exemption in the year of death?

Seventeen interviewees provided a definitive response to this question, with six, or 35% having the view that capital gains tax on death was justified by the higher exemption in the year of death and eleven, or 65%, having the opposite view. The results of the definitive responses are shown in Chart 7.2.

Chart 7.2 Definitive answers to question 8: Is CGT on death justified by the higher exemption in the year of death?



As discussed previously in this Chapter, the interviewees were generally of the view that capital gains tax is a form of wealth tax, particularly when there is no underlying transaction such as in the case of the deemed disposal on a person's death. The majority were of the view that the higher exemption in the year of death did not adequately compensate for the additional tax liability.

A further concern was that inflationary increases in asset values were subject to capital gains tax, whether the asset was disposed of during the person's lifetime or was deemed to be disposed of upon death. The effect of taxing inflationary gains in an asset's value amounted to the depletion of the seller's property, preventing a full replacement of assets. For example, in the case of a sale of property, the taxes paid on the sale of the first house leave the seller with depleted proceeds for the purchase of the replacement property. Interviewee 14 made the point that he would not be

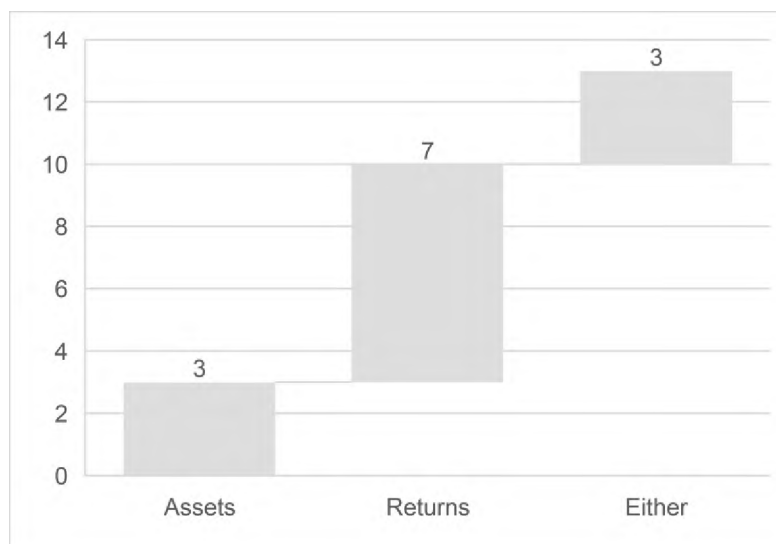
able to move from his house to the house next door after capital gains tax and transfer duty had eroded the proceeds on the sale of the first property.

Interviewees generally saw the capital gains tax event on death as punitive, another form of estate duty, which effectively put the estate duty rate at 38%, rather than 20%.

Interview question 9 – Would it be better to tax investment returns or the underlying assets?

Thirteen interviewees provided a definitive response to this question, with three indicating a preference for taxing the assets, seven indicating a preference for taxing the investment returns and three having no preference. The results are illustrated in Chart 7.3.

Chart 7.3 Definitive answers to question 9: Would it be better to tax investment returns or the underlying assets?



The focus of this question was to ascertain whether, if it was assumed that a certain amount of tax revenue was sought, there was an inherent preference for tax to be based on investment returns or on the underlying assets. Motivations for taxing returns rather than assets included the need for an underlying transaction, such as the payment of interest, to provide liquidity for payment of the tax. It was also observed that taxing returns was easier from an administrative point of view (interviewee 1). A drawback to taxing returns, however, is that the tax would not only

apply to the wealthy as there could be no distinction other than a threshold, like the current interest exemption. Another concern regarding taxing returns versus assets is that different people have different capital structures. For example, an accountant has a low capital requirement insofar as his tangible assets are concerned, as his primary asset is his intellectual capacity, whereas a farmer requires a much higher capital investment, from which a fairly low annual yield is produced. Thus, a person's preference for taxing returns versus assets would depend on the person's asset profile and it was recommended that this difference should be taken into account in the design of tax policy.

Interview question 10 – Should capital gains be taxed in full?

Increasing the capital gains inclusion rate could provide a possible source of additional tax revenue without the complexities of designing a new tax system. As discussed previously, capital gains tax is regarded by many as a form of wealth tax and the inclusion rate has been increased in the past, from 25% to 33,3% and again to 40% (see Chapter 4), setting a precedent for further increases, possibly all the way up to 100%. Only four interviewees answered this question definitively and their views were divided, with two being in favour of taxing capital gains in full and two against. Eleven interviewees provided open-ended responses on this theme and, again, the view was divided between maintaining a partial tax or moving to a full tax on capital gains. One of the motivations for a full inclusion of capital gains was that it would simplify the tax system, as the different inclusion rates and different methods of taxing different types of income made the tax system unnecessarily complex.

Summary of findings on question A

Question A asks: what are the views of the wealthy on wealth taxes in South Africa? The interviews revealed the following main themes that provide answers to this question:

- Problems with government corruption, government's effective management of resources and the perceived gap in fiscal exchange must be addressed before any new wealth taxes can be contemplated.
- Estate duty and donations tax have been in existence since 1955 and therefore have a long history, with several decades of experience in administration and legislation. These taxes can

be used more effectively, and government should address the deficiencies in these tax systems rather than having the costs and uncertainty that would accompany the introduction of a new wealth tax system.

- There are many other wealth taxes in addition to estate duty and donations tax, including capital gains tax, transfer duty, securities transfer tax, municipal land tax and even the maximum marginal tax rate that affects high-income individuals, including those who are wealthy and those who are trying to accumulate wealth. The cumulative effect of all the different taxes is that there is already an onerous tax burden on the wealthy.
- Capital gains tax is widely regarded as a wealth tax. Furthermore, capital gains tax results in a double tax on death that is not adequately compensated for with the higher exemption in the year of death. Interviewees regarded the capital gains event on death as unfair in that inflationary gains on assets are subjected to capital gains tax.
- The number of wealthy individuals in South Africa is small and the tax revenue that is likely to be generated by a wealth tax will be very low, raising the question of whether it will be cost-effective after taking into account the costs of administration.
- Alternatives to a wealth tax could be considered if the primary motivation for a new wealth tax is the need for additional tax revenue. One alternative is an increase in consumption taxes, which could be achieved through an overall increase in the VAT rate or a higher VAT rate on luxury items. Another alternative is an increase in the tax on investment returns, by way of the removal of exemptions such as the interest income exemption and the partial taxation of capital gains. A third alternative is a form of a wealth tax by way of a targeted tax on investments listed on the JSE Securities Exchange. Such a tax could be administered by the JSE and could be effective in advancing transformation if it was ring-fenced for specific objectives and the spending was properly managed.

The next question considers the likely consequences of a new wealth tax in South Africa.

7.4.2 Question B: What would the possible consequences of a new wealth tax in South Africa be?

This question explores the parts of the research question relating to “what are the views of wealthy individuals and their advisors regarding wealth taxes” and particularly the aspects of “how do they perceive it; what would their reaction be to a new tax; how do they think it would affect their

decisions regarding savings and investment, donating or supporting social projects and starting up new businesses or growing existing businesses; is there a tolerance level for a new wealth tax and if so, what is it”?

The themes that relate to this question, with the corresponding codes, are as follows:

Open-ended responses on –

C - Capital flight;

E – Entrepreneurship and wealth-building (definitive responses to question 7 and open-ended responses to any questions that were coded under this theme);

W – Investment choices (definitive responses to question 6 and open-ended responses to any questions that were coded under this theme);

W - Benefits and disadvantages (open-ended responses to question 4 and responses to any questions that were coded under this theme);

W - Avoidance and structuring;

X - Tax morality;

X - Tax tipping point; and

X - Tax avoidance (other taxes).

Capital flight

Eighteen of the interviewees predicted that a new wealth tax in South Africa would cause significant capital flight. This theme had one of the highest response rates and the prevailing message that emerged from the responses was that a new wealth tax would directly result in capital migration out of South Africa.

Interviewee 1 observed that it was not just the loss of capital but also the loss of skills that was a concern, stating: “There comes a tipping point when you are actually asking high net worth individuals to leave the country ... you’re actually making it attractive for individuals with high earning potential to take their labour somewhere else, which I think is not clever”.

Interviewees perceived that much capital had already been taken out of the country due to fears that the Rand would lose value and that the economy would not perform. Thus, there were reasons other than tax that have contributed to capital flight, but the introduction of a new wealth tax would exacerbate this movement.

Interviewee 4 predicted that, “we should keep our best brains here and my experience is that once you put pressure on wealthy people, they just move their assets abroad - they can afford that ... a new wealth tax would definitely encourage taxpayers to take more assets offshore, no doubt in my mind. Wealthy people will be more prepared to pay the taxes required to take their assets offshore because in the event of the demise of the planner, the link between the South African planner and the offshore structure will be terminated for the benefit of the next generation.”

Interviewee 5 expressed the concern that “is all that effort really going to frighten capital out the country, and you get like R100 billion leakage when you're only maybe going to collect R5 billion? and you'll never recover... not a good strategy.”

Interviewee 12 cited the following example of capital flight due to a wealth tax: “France was a very prime example of that, where they brought up a ... wealth tax up to 80% and the wealthy people just took their money out of the country”.

Entrepreneurship and wealth-building

Eighteen interviewees commented on the likely impact of a new wealth tax on entrepreneurship and wealth-building, with a mixed response to the question whether a new wealth tax would demotivate entrepreneurship and wealth-building. Whilst the demotivation effect of taxes was recognised, there was a prevailing view that entrepreneurs will build businesses regardless of the tax environment.

For example, Interviewee 2 stated: “Normally when one starts a new venture, to survive and to become profitable are the major drivers facing one’s decision. Taxes are the last thing on your mind.” Nonetheless, the interviewees recognised that entrepreneurs make personal sacrifices and take risks for which they need an adequate reward if they are to continue building businesses in this country.

As stated by interviewee 4, “if the taxes are too high, it will certainly dampen entrepreneurial activities and the willingness to take risk”.

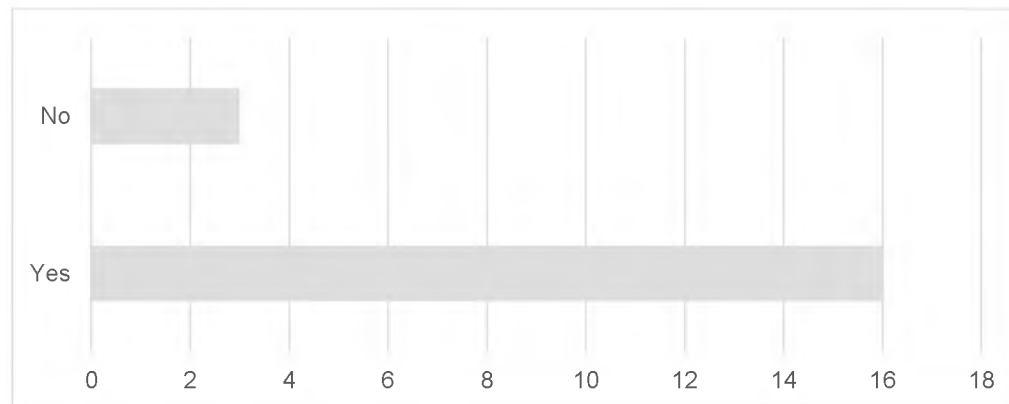
Interviewee 10 proposed that if the threshold was high enough it would allow entrepreneurial initiative to continue unabated, stating: “It depends [on the threshold] ... if I get to R50 million, then I’ve done quite a good job, so do I mind paying a bit more? Probably not, you know. Is it a deterrent? Probably, but it’s far enough away for it to be exciting enough to back yourself to go into entrepreneurial venture. But if its R20 million, I’d say the guy would not bother, you know? Why not just stay in your corporate job and take no risk and carry on? Just syphon money offshore.”

Interviewee 23 felt strongly that a wealth tax would dampen entrepreneurship and the willingness to take risks, stating: “I would definitely leave it in a risk-free investment. I would probably put it in a bank ... I would be totally disinclined to try and increase my asset. I would just reduce my risk. I do think it would have a significant impact on entrepreneurs.”

Investment choices

Interview question 6 asked: “would a wealth tax affect your investment choices?” Nineteen interviewees provided a definitive answer to this question with sixteen confirming that they would change their investments and three indicating that a new wealth tax would not have any effect on their investment choices. The results of the definitive responses are shown in Chart 7.4.

Chart 7.4 Definitive answers to question 6: Would a wealth tax affect your investment choices?



Whilst the majority of the responses indicated that wealth taxes would affect the interviewees' investment choices, they did not specify what they would invest in, other than a preference to move their investments into a lower-tax option, which might well be offshore, as discussed under "capital flight" above.

Interviewee 3 predicted: "What will money do if it gets taxed? You know, it's like water in a balloon - you squeeze it one side it goes to that side and if you have a gap, a little hole somewhere, it will go out of that hole. And that will happen ... we see it with our clients, and we also have been recommending that."

Tax morality, avoidance and structuring taxpayers' affairs

These themes are grouped together for discussion. Although there were no interview questions that specifically asked about tax morality, tax avoidance and structuring, these were emergent themes that came through the interviewee responses.

Eleven interviewees referred to tax morality and a message that emerged from interviewees 3, 5 and 6 was that tax morality in South Africa has been high in the past, but may be declining, largely due to an increasing lack of trust in the government and taxpayers' perceptions of being over-taxed.

Interviewees 8, 9, 15 and 17 believed that tax evasion was occurring through non-disclosure, a sentiment that was shared by interviewee 20 who stated: “doctors, lawyers, high paid CEOs and they are the ones who end up paying a lot of tax, while the wealthy will not be paying much tax”, and interviewee 21, who was concerned that economic immigrants enjoyed the benefits offered by the country without contributing taxes who said, “there are other problems in South Africa that will always ensure that we do not get that tax base broadened. And that is economic immigration. All the people come in and they are all working and are not contributing anything to the tax base.” Interviewee 22 was also concerned about evasion, giving the following example:

Our whole tax system is based on the easy target. The dodgy guys sitting in Durban port importing textiles and have got a business. And they are making a fortune and they don't pay a cent in tax or any of the import duty. It's a complete scam. And then we try and compete with our little outfit.

Thirteen interviewees (1, 5, 7, 9, 10, 13, 14, 15, 16, 17, 18, 21 and 22) mentioned a tax tipping point, indicating that tax rates in South Africa were either at, or closely approaching that point beyond which taxpayers would resist or avoid additional taxes. The recent increase in the maximum marginal tax rate for individuals to 45% was a factor and the view that emerged was that a wealth tax in addition to this rate of income tax, as well as all the other taxes that exist, would be a step too far.

Twenty interviewees made specific reference to tax avoidance and nineteen (interviewees 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 21, 22 and 24) predicted that wealthy people would structure their affairs in such a way as to ensure that they would avoid wealth taxes. Interviewee 8 indicated that, based on what he had seen over many years in the financial services industry, insurance companies would develop products that would facilitate the avoidance of the tax, stating: “I've been in this industry a long time and in that time, we have spent a lot of time and energy looking for loopholes and the fiscus has spent a lot of time and energy plugging the loopholes”.

The general view was that the ultra-wealthy would not pay the tax and it would be left for those regarded as easy targets, such as salary-earners and company directors, to bear the tax burden. Furthermore, adding a new wealth tax would serve mainly to create a new business opportunity for advisors, rather than generate a sustainable revenue stream, as stated, for example, by

interviewee 3 who said: “the tax lawyers, your immigration consultants and your labour brokers, both local and offshore, they will benefit”.

Benefits of wealth taxes

Twelve interviewees provided responses relating to benefits that might result from a new wealth tax, in answer to question 4. Interviewees 9 and 21 stated emphatically that there were no benefits, with interviewee 21 saying: “No, I do not see any benefits with that. It is just a simple answer to say it is not benefitting me. It is not benefitting anybody, but just benefits the powers that be.”

Four of the interviewees (8, 14, 15 and 20) predicted that at least some additional tax revenue would be raised, albeit that, as discussed earlier, that the yield is likely to be very low. Interviewee 16 noted that government would be able to collect tax earlier than is the case in estate duty, where the tax is only collected upon a person’s death. Interviewees 2, 5, 7 and 8 suggested that, provided the tax was properly managed, it could result in more resources being directed towards the poor, thus achieving some redistribution. Interviewee 15 suggested that a wealth tax could improve compliance as “it gives SARS a better indication of where your assets are [and their] values”.

Disadvantages of wealth taxes

Some of the disadvantages have already been discussed under “capital flight”, “investments”, “entrepreneurship” and “small tax base” above. The disadvantage of administrative complexity was mentioned by interviewees 4, 13, 16, 18 and 22 and this is discussed further under question C. Interviewee 11 observed that wealth taxes may undermine private initiative, saying that the message sent by government would be you, as government “are the only one who can contribute to the nation, I don't have a role to play other than just giving you the money. That's the message you're telling me: I must just keep passing it on. But what about, what I can contribute? More than ... once I've paid, come ... so I just think we need to look at the underlying tones and assumptions behind this introduction of wealth taxes.” Interviewee 23 stated that: “I really think it's not in the country's interests to try and make wealthy people poorer, but I do agree that there needs to be more spending capacity on social needs”.

Summary of findings on question B

Question B asked: what would the possible consequences of a new wealth tax in South Africa be? The interviewees identified a range of different consequences and the main themes that emerged were as follows:

- The introduction of a new wealth tax would result in significant capital flight and the loss of skills, which would have a detrimental and permanent effect on the economy.
- A new wealth tax may have a limited effect on entrepreneurship. Although entrepreneurs are inherently risk-takers who are neither motivated nor dissuaded by taxes, entrepreneurs do require an after-tax return that adequately rewards their risk and wealth taxes would erode that return, possibly dampening the appetite for risk.
- A new wealth tax would affect investment choices as the targeted taxpayers would move their investments into lower-tax or offshore options. Consequently, the tax would distort investment markets.
- Wealthy individuals perceive that they are moving towards a tipping point beyond which they would resist paying additional taxes and would become more aggressive in avoiding a wealth tax. This is exacerbated by the perception that there is already fairly widespread tax avoidance by some, particularly those who are not “easy targets”.
- Wealthy individuals would seek advice on how to avoid a new wealth tax, with the result that such a tax may do more to build business opportunities for advisors than to produce tax revenue for the government.
- It is perceived that there may be a limited benefit in the form of some additional revenue from a wealth tax, but if not properly managed, any possible benefit will be negated.
- There are several disadvantages of a new wealth tax that have been discussed under “capital flight”, “investment”, “entrepreneurship”, “small tax base” and administration (see 7.4.3).

Aspects that would need to be considered in the design of a new wealth tax are considered in the next question.

7.4.3 Question C: What aspects should be considered in the design of a new wealth tax system for South Africa?

This question considers responses relating to the design and implementation of a new wealth tax in asking the main question: “What are the views of wealthy individuals and their advisors regarding the possible implementation of a new wealth tax in South Africa”? As most interviewees were firmly of the view that a new wealth tax should not be introduced at this time, there were not as many responses on this topic as there were for questions A and B.

Themes that are discussed under this topic, with the related codes are as follows:

W – Aims.

W – Administration aspects.

W – Liquidity.

W – Recurrent or non-recurrent (definitive responses to interview question 5 and open-ended responses to any questions that were coded under this theme).

W – Passive wealth.

W – Prejudice new wealth.

W – Other aspects.

X – Inflation adjustment.

X – Complexity.

Aims

Interviewees 1, 4, 7, 9, 11, 12, 20, 22 and 23 noted the need for a clear objective to be conceptualised and communicated before introducing a new wealth tax. Interviewee 1 stated: “I think one needs to understand what one wants to do with it”. Interviewees were unsure of the

underlying reason for a new wealth tax. Interviewees 4, 14 and 22 perceived that it was politically motivated. Interviewee 12 saw it as a short-term solution.

Administration aspects

Responses under this theme discussed various aspects relating to the administration of a new wealth tax, including the rate, thresholds, disclosure, enforcement and the valuation of assets. Due to the large number responses and range of aspects discussed, the themes are discussed under various administrative aspects as indicated below.

Complexity of administration

Responses under this sub-theme related to the complex legislation in South Africa even before the introduction of any new wealth taxes, and the need to simplify tax legislation. Eight interviewees (3, 4, 6, 8, 9, 10, 14 and 15) discussed problems related to complexities in the administration of capital gains tax and the inference was that similar or worse complexities would arise in a wealth tax system.

The interviewees believe that a wealth tax will be unavoidably complicated. Interviewee 4 noted that “the Margo Commission, Katz Commission, all of them, they all looked at wealth taxes in some way or another and they all came to the conclusion that it is a very difficult and expensive tax to administer and it's not worthwhile carrying on with it ... new taxes would also add to the complexity of compliance and enforcement and my view is that SARS does not have the ability to effectively enforce more complex taxes”. Interviewee 13 saw a wealth tax as “administratively burdensome and will encourage avoidance behaviour.” Interviewee 22 stated: “It is just too cumbersome. I don't know how you are going to enforce it.”

Interviewee 8 raised the question of disclosure and asked: “How sophisticated is the tax return going to be on [for] a wealth tax? Are they simply going to ask [for the] value of [an] investment or [the] value of an asset on such and such a date, versus [the] value of the asset on this [other] date, without checking to see what's happened in between?”

Interviewee 15 was of the view that “there are loopholes in the system and ... how does one actually address [these]”.

Scope of the wealth tax

Two aspects to be considered with regards to the scope of a wealth tax are, first, the definition of “wealth” and then, the assets to be included in the measurement of “net wealth”.

Interviewees considered that defining “wealth” for the purpose of a wealth tax would be extremely difficult.

Interviewee 20 questioned: “Who are we targeting? In a nutshell in layman’s terms, you might say we are targeting the rich, but the question would be, ‘Who are the rich?’”

Interviewee 23 pointed out: “When you are talking about wealth tax it can’t just be we assume that if you earn interest then you are wealthy. Your income overall should be used to decide whether you pay wealth tax, not just your assets.”

Interviewee 13 observed that: “The definition of wealth is subjective, particularly with regard to land, moving assets, art, agricultural stock, life assurance investments, pension assets and private businesses.”

A consideration is that different businesses require different capital investments, with some being more capital intensive than others, as has been discussed earlier. This makes a pure financial measure unreliable, as a fixed amount of assets may not accurately reflect that a person is either wealthy or not wealthy.

Interviewee 16 said:

I think if you can classify wealth, and I don’t have any suggestions of how, but especially if you talk about farmers and his farm – his farm is his biggest form of wealth, it’s an asset you use to generate income. So, is that a wealth asset or is it a production asset? ... It’s another thing if you have your primary residence and you have another house in Natal or wherever and you tax him on that residence. You can clearly distinguish, this is his primary paying house and that is now actually another asset, which is an indication of some kind of wealth. But with a farm – if you buy another farm, it’s not just out of wealth that you buy it. So, my answer would be, if you want to top it on all there is, I really can’t see on what form that tax can take, without compensating people who use their assets or wealth as a business as well.

Interviewees were also concerned that it would be extremely difficult to decide on which assets should be included in the scope of a wealth tax.

Interviewee 13 wondered:

If you put your money in gold is that one? if you buy an Irma Stern, is that one; if you buy a Ferrari, is that one; if you buy a Land Cruiser, is that one? If I buy a train ... I don't know ... because a Ferrari can be an investment whereas a Range Rover is not an investment.

Interviewee 1 recommended that “worldwide assets” should be included, which would be in line with the residence basis of tax, and he recommended the inclusion of “pension benefits whilst they are in the pension fund [over a certain threshold]”.

Interviewee 7 suggested that excess property ownership should be taxed, saying –

if they said, anybody that owns more than 3 properties, you know, you've got your primary residence, you've got the second one for retirement and you've got a 3rd ... anybody that owns more than 3 properties is subject to a tax,

and suggested that “all the entities on the JSE, equities, REITs, all of them” should be included.

Threshold

The interviewees did not agree on a recommended threshold, although various suggestions were made.

Interviewee 10 (as discussed earlier) felt that it should be high enough to allow entrepreneurial endeavour to continue unhindered. Interviewee 10 stated: “I wouldn't be too aggressive about it, but I would make ... personally I would make the ... the amount of your assets quite high ... above R50 million.”

Interviewee 1 suggested that the threshold should be based on the person's historical tax contributions, which would encourage taxpayers to disclose their earnings as “the bigger your historic tax contributions, the higher the threshold.” Interviewee 18 recommended that if there is a threshold it must be adjusted for inflation.

Rate

Again, there was no agreement on a specific rate, as this would be influenced by the other aspects of the wealth tax design, but the general view was, unsurprisingly, that the rate should be as low as possible. Interviewee 1 recommended that there should be a higher tax on unproductive assets, adding, “it goes back to my philosophy of taxing passive capital higher than active capital.” As this would bring with it the related difficulty of distinguishing between productive and unproductive assets, he suggested that one “would exclude property subject to VAT, that’s one way to differentiate, then on the tax return you can immediately see, if the person is a farmer for example, what is the farmland you’ve got and then how you’re using it and you’ll see that in the activities in the tax return”, adding that “they can build a profile on that and then [it can be] a persuasion to sell the property if you’re not using it”.

Valuation

After the definition of the scope of the wealth tax, the interviewees perceived that the biggest complication to be negotiated in the design of a new wealth tax would be in determining the asset values. Numerous problems and challenges were cited, examples of which are listed below.

Interviewee 4 shared an example of valuation manipulation that he had experienced, involving a valuator who, in valuing farm property, places “a very low value on the land and ... a huge value on the water because his argument is that if the government wants to expropriate, ... they control the allocation of water rights [and] if they want to expropriate that, it must have a big value so that's it's difficult for them”.

Experiences of such practices made interviewees nervous about how assets would be valued for a wealth tax and who would do the valuations, a concern expressed by interviewee 18, who observed: “you will never actually know unless you hold an auction”. Interviewee 22 was also suspicious, stating: “I can assure you there are going to be some very smart attorneys saying this is the net asset value.”

Interviewee 10 wondered: “how do you value ... shares in a business like ours [unlisted]? That would be very difficult”. This concern was shared by others, for example interviewee 13 stated:

“How do you start valuing a business? ... if you're running a business are you valuing someone's future ... like a doctor's practice? I don't know. So, I mean, that's the one thing. It's too subjective. So, that's very, very difficult.”

Various problems were predicted regarding property valuations, particularly where property prices had not performed well, and the market was not liquid. Interviewee 10 provided the following example:

My Dad had a beach cottage at Ramsgate - for years. He built in 1985. It was valued in 2001 at R2,2 million. He sold it last year for R1,25 million. So, you know, he probably would have been paying tax on 2,2 million every year because that was the valuation, on paper, but it wasn't actually the value. The value was R1,25 million. So, you know, what? Does he get a rebate? ... if he was paying every year on the value of the asset at R2,2 million it's a little bit unfair, you know?

Valuation rules would also have to consider specific nuances for the various types of assets included in the scope of the tax.

Interviewee 15 observed that –

certain assets ... are easier to value and there are other assets where there could be inconsistent valuations ... it does leave it open to interpretation, quite tricky. Private companies, shares, if it's a listed share its easier, but if it's held through a private company and discounts need to be applied to it and that sort of thing, it does leave it open to interpretation.

Interviewee 23 pondered:

How do you measure the value of a property? I can thumb-suck. I am already paying rates over the top for a beach-side property which I am not arguing about, but I don't actually know how I would value it. So that is why I think it would be better to have the taxes based on some form of liquidation. You sell your property, you receive a return, whatever.

Interviewee 23 also pointed out the difficulties that would be encountered in valuing certain types of assets: “Let's say for an example of collectibles. Say you had a wine collection. You would have to sell assets to pay the taxes, and you would have to get somebody in to value it on a regular basis.”

Other interviewees also predicted valuation conundrums for certain types of assets such as art, jewellery and classic car collections.

Interviewee 22 stated:

Some classes of assets ... semi-collectible cars ... the proper cars have out-performed all the other asset classes for 30 to 40 years by a long way. Now you tell me that some happy fellow from SARS is going to pitch up with a pencil and to say to me, if I have a car on the floor, and he will say, 'What is this?' and I will say 'It's an old Ferrari' and he is going to ask, 'what it is worth?' And I will say 'I don't really know'.

Seven interviewees (1, 2, 4, 6, 9, 13, 14 and 18 – discussed under various themes) raised concerns about inflation eroding the value of their investments and their disapproval of being taxed on inflationary increases in assets. Interviewee 6 suggested that asset values should be indexed so that inflation gains were not taxed.

Interviewees also expressed concern about how the valuation rules would consider geographical variations in asset values. For example, interviewee 6 observed that “if you look at the property values in Cape Town they are double those in Johannesburg, just because of the external market influences. So, do you end up marking it on a sector, or asset-class specific [basis]?”

Interviewee 8 predicted that investors would prefer “asset classes that are less likely to cause the tax”, a prediction that was shared by interviewee 22 who stated (discussed under “tax avoidance”) that “it will incentivise people to put money into assets that are difficult to value”.

The interviewees discussed problems with treating all assets in the same way, recognising that the capital requirement of some businesses was much higher than others. This was described by interviewee 22 as follows:

They might have an asset which is generating a 200% return on equity, so if you really want to tax that, you have to tax the income that comes out of it. Or you are going to have an asset which is just sitting there. It is a guy's farm and does not make a cent. It never has. It just happens to be four generations of farm which makes zero money and now you are sitting on a tax to the value of the land, and put an emotional value on it.

The reality of business and economic cycles and fluctuations in asset values was also considered. Interviewee 6 stated what had already been experienced in the capital gains tax system: “they end up paying on the Rand variance [which] has actually got nothing to do with generating wealth. And it can go up and down literally in - as you've seen, from a Nenegate to firing Pravin. And that's actually not a wealth tax.”

Interviewee 8 asked: “would you get a credit if you lost? Could you carry over the credit?”

Interviewees noted that some businesses were more cyclical than others, causing further differentiation in valuations.

Interviewee 9 described his own experience, saying “I can speak specially to agriculture - you're talking to a very cyclical business. You go through periods where you make big piles of loot and then you make losses.”

This problem was also identified by interviewee 18 who stated: “the time of valuation, the time to measure” would see very different results, for example there was “a drought two years ago in the Free State ... and now the Western Cape is in this situation ... So, if we say, ‘Let’s choose this date’, the one will say ‘Yes that’s fine’, but I can assure you the Western Cape farmers will say ‘No, it’s not the appropriate time to do that now’”.

Interviewee 19 observed that the timing could be affected by something as regular as a bumper season or crops: “if you are lucky enough to have crops, the price is high. So immediately you would fall into a wealth tax but that is because of the crop rotation”.

The problem of business cycles that would see gains in one year followed by losses in another was also raised by others.

Interviewee 17 asked: “What happens if that asset you are catching with the wealth tax, loses its value?”

Interviewee 22 stated: “If I paid tax on R50 last year and it has come down now to R25, how does that work? Do I still pay extra tax? I would be hammered ... when times get bad, and those cars go from \$45 000 000 to \$45 000, then what? That is catastrophic stuff.”

Interviewee 24 observed that –

it will work differently for different people. At a certain part of your cycle in business you would be okay. And then the markets do what they do and at one part of the cycle you're not okay. If it is once a year when you are okay, then everybody benefits from it because if it is a percentage of your net assets and the markets are performing well, they tend to get more and you have enough to share. But if they hit you at the level where the markets are low, and you are also struggling to make your own ends meet, then nobody really benefits. So, it is going to be different for everyone. If they say it is anybody when you are okay, so that they can maximise and so can you, then it will work out better.

Another problem related to cyclical fluctuations in assets concerns life-cycles, and particularly the tendency for assets to accumulate the closer a person gets to retirement.

This was mentioned by interviewee 23, who stated:

I think a big concern is that people's assets, I guess, peak, and I don't want to talk about myself, but the closer you get to retirement is when your assets peak. So, if you start taxing those because you have got the assets, you are depleting people's retirement resources, given that we are going to have to pay our own medical and security and all that sort of thing. Life is going to be expensive. And if we don't have our own assets we are going to become a burden to the state. So, it seems very counter-productive to me.

Liquidity

Eleven interviewees noted specific concerns around liquidity. The liquidity problems arise as, in the absence of an underlying transaction, there would be no cash flow and consequently, insufficient liquidity to pay the wealth tax. This would introduce distortions into the economy as taxpayers would have to make alternative arrangements to pay the tax, such as being forced to sell assets or incur debt.

Interviewee 4 predicted that “a recurrent tax would be very disruptive because assets would have to be sold to finance the tax, especially if not accompanied by a cash flow”.

Liquidity problems were experienced with estate duty and interviewee 4 described this as -

a huge problem, let me tell you ... a moving target, because if you have an illiquid asset like a large factory in a company, and it can be as productive, and it can be as valuable as you can think of but how ... and you don't have a lot of liquid cash in there, it's an ever-moving target. It's virtually impossible to provide for it, it creates a huge risk because you can't continue to take out insurance policies because it's a medicine that increases the ... sickness, and obviously, you can't continue to take out ... we talk about wealthy people, you know ... forget about insurance policies.

He added “where is the money going to come from? You'll continually have to sell. And that's going to disrupt the whole operation and it's also going to have an effect on the market, because the market knows there's going to be shares becoming available.”

Interviewee 8 recognised that taxing illiquid assets would encourage debt, stating: “If you've got a property portfolio of a hundred million rand and they say please give us R10 million ... all of a sudden, you're going to bond your property that wasn't bonded before”.

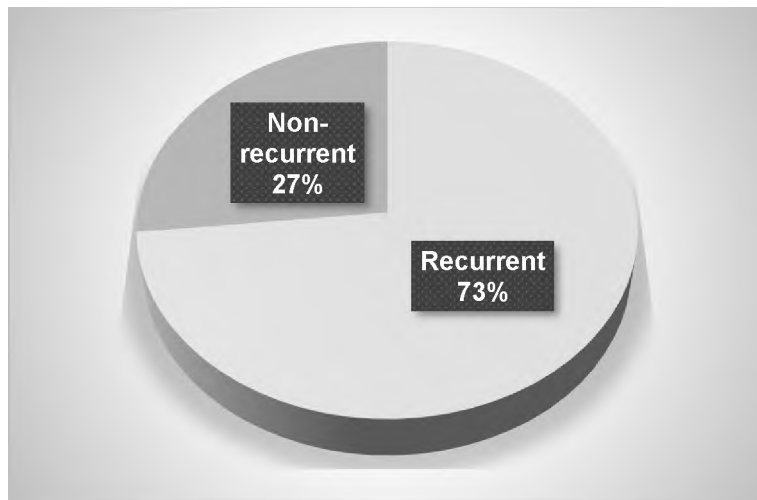
Debt was also mentioned by interviewee 18 who said:

If we don't have the cash to pay that, we can go to a bank because we have assets without any liabilities ... But the bigger the chunk that the government is taking out of it, the more you have involved yourself in the effectiveness of that business. So that is my biggest concern about a wealth tax, over and above what we are already paying.

Recurrent or non-recurrent

Fifteen interviewees provided definitive responses to interview question 5, which asked whether a wealth tax should take the form of a recurrent or non-recurrent (once-off) tax. Eleven preferred a recurrent wealth tax and four favoured a once-off tax. The results are illustrated in Chart 7.5.

Chart 7.5 Definitive answers to question 5: If a wealth tax other than estate duty and donations tax was introduced in South Africa, what form do you think it should take? Should it be a once-off or recurrent tax?



In choosing between a once-off or a recurrent tax, interviewees were generally suspicious of a once-off tax. For example, interviewee 3 put it this way: “the cynic in me says it’s never temporary, it’s never short term, it will become a source of revenue, which will forever be opened - bigger and bigger and bigger. So, the danger of a once off, it would be fairly sneaky.”

Interviewee 9 stated: “Well, the first thing is when a politician says, it’s a “once-off”, there is no such thing as a once-off. There’s only a once-off until next time. And you’ll be a softer target next time”.

The motivations for choosing a recurrent tax were mainly focused on the ability to plan for the tax and to be able to have liquidity to pay the tax.

Passive wealth

Responses grouped under this sub-theme focused on the need to recognise the different types of capital and recommended that passive wealth should be taxed more heavily than active wealth, including business assets.

As discussed above under “rate”, interviewee 1 recommended that passive capital should be taxed at a higher rate than productive assets. This theme was also identified by interviewee 2, who stated that “extra wealth [may be] invested in unproductive assets such as luxury cars, game farms and holiday residences [and] when channelling such money away from economically productive activities, extra taxes can be levied”.

Interviewee 11 suggested that “wealth tax could potentially be a better option ... if it focused on the under-utilisation of productive assets ... if you had arable land and you choose not to use it for agricultural purposes - and there's food security issues in the country - we would tax you”.

Interviewee 16 also recommended that there should be a distinction between active and unproductive assets, stating: “if you want to tax it on all there is, I really can't see on what form that tax can take, without compensating people who use their assets or wealth as a business as well”.

Prejudice new wealth

The responses under this theme were concerned that a new wealth tax could prejudice those who are trying to accumulate wealth under the new economic dispensation, that is, post-1994. Seven interviewees (3, 4, 8, 9, 14, 21 and 24) pointed out that a new wealth tax would apply to all within the scope of the tax with no distinction between those who had benefitted under the Apartheid era and those who had only started building their wealth in the last twenty years and had not benefitted from Apartheid.

Interviewee 1 felt that “with every passing year, it might start to erode that argument” but others were concerned that a new wealth tax would effectively prejudice those with new wealth, particularly as much of the wealth acquired under the Apartheid government may have been expatriated or hidden and would not be subject to a new wealth tax.

This was a concern voiced by interviewee 3 who stated:

What good would it do to attack that group of people considering that half, or most of the wealth, has gone, left the country - and that's untouchable. The loyal, patriotic South Africans with a bit of money

and who only made their money in the last 20 years or so, without actually getting the real benefit, they are the ones who will pick up the account, pick up the tab.

Interviewee 21 recalled that this concern had been discussed with government in the past, when capital gains tax was introduced stating: “We made a political statement at an ANC function, to say, ‘Why did you introduce this because it is now disadvantaging us’.”

Interviewee 24 recognised that a wealth tax had the potential to provide an opportunity to recompense for some of the injustices of the past, stating:

You guys have taken everything from us for the last 300 years, it’s time to pay it back” but the problem is that “some of us were not part of that...some of us started falling into this category 15 to 20 years ago, and there is a big blanket covering all of us, and that is a bit unfair.

Inflation adjustment

Four interviewees (2, 4, 14 and 18) raised concerns about inflation in the context of capital gains tax, which are relevant to the discussion of a wealth tax based on the premise of the interviewee that capital gains tax is a wealth tax. The responses indicated that inflation should be considered in taxing wealth. A recommendation that inflation should be factored into the valuation rules has been discussed above under “administration aspects”.

Other aspects

Interviewees 8 and 9 did not see the point of creating a new wealth tax as, in their view, at the end of the day, it’s all just tax, “it’s probably semantics, it comes out at the same thing at the end”.

Interviewees 11 and 12 believed that building wealth is important for the country and should be encouraged, a view shared by interviewee 20, who also recognised that “If I am wealthy there must be an element of internal integrity to say, ‘what is my responsibility as a wealthy person in this society?’”

There was no consensus that wealth taxes would be effective in addressing inequality or growing the economy, especially in the current environment. As stated succinctly by interviewee 4: “You

could always come back and consider wealth taxes but at this point in time of the development of South Africa we need to focus on the growth in the economy as far as I'm concerned."

Interviewee 21 also felt that the timing was not appropriate, stating "I am not in support of any additional wealth tax. If the economy was big, if everybody else was employed, and everybody else was taxed, that would be fine. Nobody cares about some of these things. But immediately you are feeling that pinch."

Interviewee 22 predicted that –

imposing wealth tax on the wealthy is [not] going to change anything. It is not. I really think that in an efficient country where 90% of the people are paying tax in some way or form and there is genuinely a need to level the playing fields and the money is going to be collected and utilised properly to upgrade education etc., then, of course, it can work. The bottom line is, I see wealth tax as being so ineffective, that all that it is doing is that it is giving political kudos to the guys to say, 'Look we are actually redistributing wealth'. The fact that they are not actually doing anything ... I am not in support of any additional wealth tax. If the economy was big, if everybody else was employed, and everybody else was taxed, that would be fine. Nobody cares about some of these things. But immediately you are feeling that pinch.

Summary of findings on question C

The interview responses identified a range of aspects to be considered in the design of a new wealth tax, the most significant of which are as follows:

- Government would need to think carefully about what the objective of a new wealth tax is and having defined this it must be clearly communicated to the public.
- The administration of a new wealth tax would be complex, and it would be costly for both taxpayers and SARS.
- Key to the implementation of the tax would be the definition of "wealth", which in itself is complicated. Different businesses have different asset requirements, some being more capital-intensive than others. Thus, defining wealth only in terms of a financial measurement would have unintended consequences, both in terms of including some who perhaps are not actually "wealthy" and excluding others who should be considered "wealthy".

- Deciding which assets should be included and excluded from the scope of the wealth tax is critical and again, extremely difficult. There was a suggestion that the wealth tax should focus on passive assets rather than on productive assets, although differentiating between the two categories would have further complications.
- Asset valuations are extremely complex and very subjective. Aspects such as geographical areas, business cycles, personal needs versus excess wealth and passive versus productive assets will have to be carefully considered.
- The threshold and rates will need to be set, taking into account all the relevant factors and the underlying objectives of the tax. There was a suggestion that a higher rate should apply to passive assets.
- The type of tax will have to be determined. The majority of interviewees indicated a preference for a recurrent wealth tax at a low rate as this would allow for planning and have the least distortionary impact on the markets. There was distrust for once-off taxes as it was feared that a once-off tax never remained as a once-off.
- Liquidity will be a problem as there will be a tax on assets with no underlying transactions or cash flow. This will create distortions in the economy as a result of forced sales, raising of debt or purchasing products such as life insurance to provide the necessary liquidity.
- The design of a new wealth tax system may need to accommodate a different treatment for those who have accumulated wealth under the post-Apartheid government, as failure to do so may prejudice those who did not benefit from the economic policies of the previous government.
- The impact of inflation must be considered as taxing inflationary gains is perceived as unfair.

The next question considers whether wealth taxes can be used in addressing inequality.

7.4.4 Question D: Can wealth taxes be used to address inequality?

As the high level of inequality in South Africa is one of the primary motivators for a new wealth tax, the views of the interviewees on inequality, how a wealth tax might address inequality and what other measures could possibly address inequality are relevant to the research question. A progressive tax system has been identified in the literature as one of the most effective ways of reducing inequality and responses relating to progressive tax are discussed under this topic.

The following themes are included under this topic:

Definitive and open-ended responses to –

- Interview question 2 (can wealth taxes address inequality?); and
- Interview question 3 (are you in support of a progressive tax system?).

Open-ended responses under the following themes:

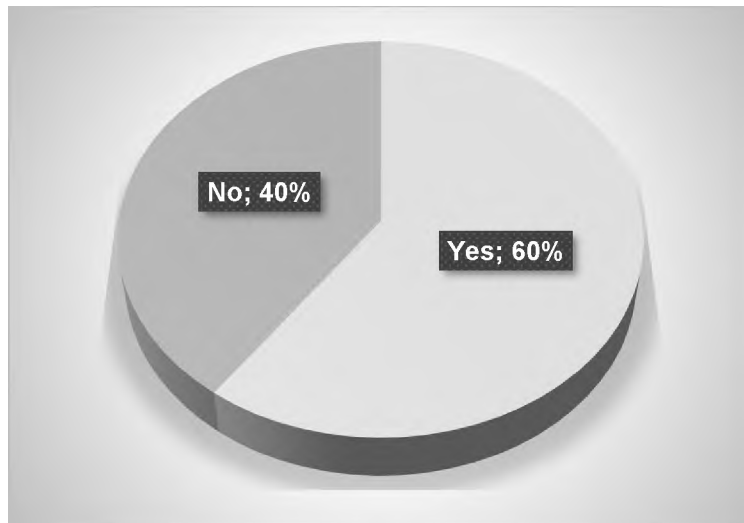
W - Private giving.

W - RDP levy.

Responses to interview question 2

Fifteen interviewees provided definitive responses to the first part of question 2, which asked: “Do you think wealth taxes can be used in addressing economic inequality?” Nine (60%) answered “yes” and six (40%) answered “no”. The results are illustrated in Chart 7.6.

Chart 7.6 Definitive answers to question 2: Do you think wealth taxes can be used in addressing economic inequality?



Open-ended responses to question 2 were mainly predicated on an underlying condition that this would only be achieved if the tax revenue raised was specifically targeted and carefully managed, as discussed earlier under “government management of resources”.

Interviewee 3 recognised the opportunity afforded by a wealth tax to address some of the injustices of the past, stating: “From a political perspective and from a coming back from our past, a wealth tax on, if it is indeed a wealth tax, would go a long way into a redistribution of benefits that accrued to a select group of people as a result of the politics of the past.”

Interviewee 23 stated:

I really think it's not in the country's interests to try and make wealthy people poorer, but I do agree that there needs to be more spending capacity on social needs.” This view was shared by interviewee 6 who stated, “you can't have ... the adage of, if you can't make the poor rich, then we make the rich poor.

Thus, the message was that wealth taxes could play a role but there was doubt that it would be effective under the current government administration.

Interview 10 stated:

If you go back 30 or 40 years, it was just wrong, what happened, and I do think ... white South Africans, generally, had a much greater opportunity to get themselves into a wealthy position through unfair means and, as a result of that, I think it is fair that they get taxed more now. I don't have a problem with that at all ... obviously, the main benefits are that the people with the money, who obviously are big contributors, to the fiscus, but ... there [would have to be] an ability to redistribute and get service delivery to the people that need it, and I just think that if we can deliver on that, the whole mood in the whole country would pick up ... there's no doubt that there's a massive advantage in taxing the wealthy to give to the poor, if it gets there.

Interviewee 5 was similarly concerned about the need to address inequality and thought that wealth taxes, if properly applied, could have a role; however, he recognised that "It's sad, because, you've got so much upside, in wealth redistribution - if you do it properly [but] ...you can't immediately address 70 years of dysfunctionality ... sadly, we can't do it in a year." He was of the view that a wealth tax could play a role, albeit a limited role, in addressing inequality, but only if the tax revenue was carefully managed and targeted for specific causes.

This view was shared by interviewee 8 who suggested:

Let's say for argument's sake, the government decided to use the wealth tax exclusively to finance ... exclusively ... education fees, both university fees and school fees - that would address the inequality very specifically. To say, right we're earmarking this money for no fees campaign, not necessarily only at university but certainly education. That, to me addresses inequality and I think, is a practical way of doing things, if it is true that the better-educated person is likely to come out of the poor gap faster.

The emergent message from the interviewees was that wealth taxes would have a limited effect, if any, on inequality and that inequality can only be solved through economic growth and addressing the root causes, such as education, skills development and employment.

This was articulated by interviewee 9 who stated: "I don't think any country has ever taxed the poor put of poverty; they've industrialized out of it" and interviewee 4 who stated:

I say proper education for the population and stimulating the economy to promote growth is a much more effective tool than new wealth taxes. I cannot see how new wealth taxes *per se* can make a

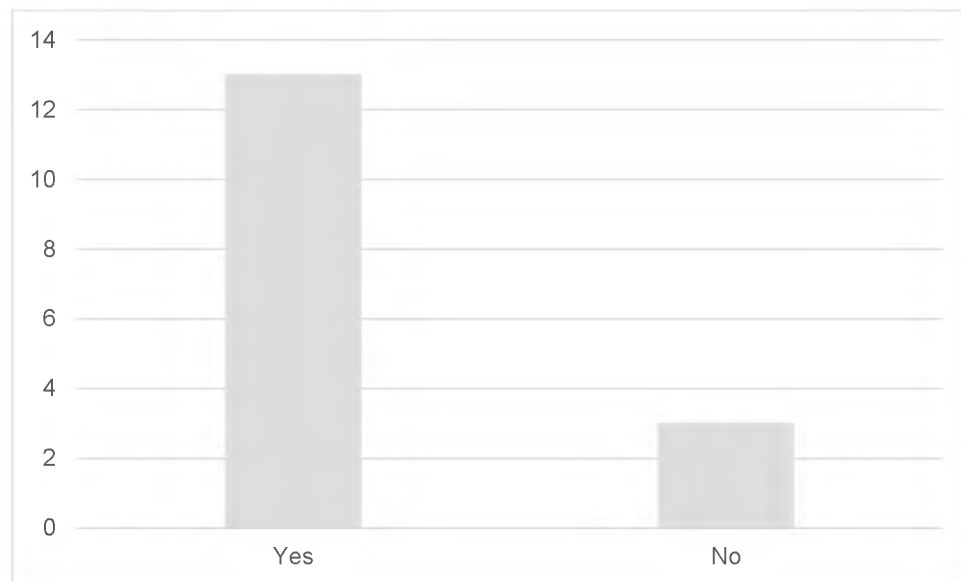
material contribution to creating fairness in this country. Unfortunately, at this point in time that accumulation of wealth is so concentrated in a few hands, but generally speaking, you know, that should be considered as well. I've said that one of the benefits of wealth taxes, is that it will erase inequality over a period of time but only if additional taxes are effectively employed and the economy grows. At the end of the day ... I honestly believe that driving growth in this point in time would eventually, over the long term be a much more efficient manner of redistribution.

Interviewee 11 suggested that inequality would always exist but “the inequality that needs to be addressed ... [is] unfair practice, unequal opportunity-based inequality ... addressing the injustice that triggers inequality, that gives birth to inequality”.

Responses to interview question 3

Sixteen interviewees provided definitive responses to the first part of question 3, which asked: “Do you support the concept of a redistribution of wealth through a larger tax on high net worth individuals?” Thirteen (81%) answered “yes” and three (19%) answered “no”. The results are illustrated in Chart 7.7.

Chart 7.7 Definitive answers to question 3: Do you support the concept of a redistribution of wealth through a larger tax on high net worth individuals?



Reasons provided for not being in favour of a progressive tax system were vague, although Interviewee 7 indicated that it was due to the high tax rates, stating: “I’m against it, because we have had super tax introduced this year, so that you’ve got tax at 45%”. This relates to the tax tipping point that was discussed earlier under “consequences of a new wealth tax”.

Generally, the interviewees were in support of a progressive tax system and recognised a need for redistribution in South Africa.

Private giving

Six interviewees mentioned the role of private giving in addressing inequality, recognising that some wealthy people make donations and pay for social upliftment projects, sometimes motivated by the belief that they could manage such expenditure more efficiently than the government. This was articulated by interviewee 3 as follows: “If it all goes into the big general revenue pot, people will start saying, no thank you, not from me we are not happy with that, I’d rather give my money after tax to non-government NGOs or specified charities.”

Redistribution and development programme (RDP) levy

Five interviewees recalled the redistribution and development programme (RDP) levy that was implemented in 1994/5 with the specific objective of raising additional taxes to fund the transition to the new government. Interviewee 14 believed that the RDP levy was payment to compensate for past economic injustices, making a new wealth tax superfluous in this regard: “we paid our dues, haven't we? Why are you now asking for another tax?”

Summary of findings on question D

In discussing the role of wealth taxes in addressing inequality, the majority of interviewees indicated support for the use of a progressive tax system to achieve redistribution and a majority also believed that wealth taxes could play a role in addressing inequality; however, a caveat to using wealth taxes to address inequality is that the tax revenue would have to be ring-fenced, carefully managed and spent only on the targeted objectives.

Most interviewees believed that wealth taxes have the potential to provide an opportunity to rectify some of the injustices of the past, but again, they believed that this would only be effective if the tax revenue was properly managed. There was a concern that reducing inequality by making the wealthy poorer would be detrimental for the economy. What is needed is to address the root causes of inequality, such as education, skills development, employment and addressing unequal practices and unfair opportunities.

The fifth and final question seeks to evaluate the interviewees' perceptions of how a new wealth tax would affect the South African economy.

7.4.5 Question E: How will a new wealth tax affect the South African economy?

Although neither the research question nor the interview questions specifically asked about the economy, many responses discussed the state of the economy and concerns about wealth taxes being introduced at a time when the economy was not growing. As noted in the literature review,

one of the main concerns about a new wealth tax is the possible negative effect on the economy, thus making the economic impact a key concern of a new wealth tax.

The following theme is discussed under this topic:

N - Economy (open-ended responses to any question that were coded under N).

Two-hundred and five open-ended responses were coded under the theme “the economy”. Many of these responses discussed the state of the economy and suggestions of how it could be improved; however, with the view to maintaining focus on the research question, the discussion below deals only with the responses that relate directly to wealth taxes.

Interviewee 1 suggested that taxing passive capital would encourage putting capital to active use, which would grow the economy. He suggested that wealth taxes could serve to -

redistribute passive capital in such a way that you can grow the economy ... you will only solve the wealth inequality equation if you put more capital to work, because the engine needs to turn, and the economy needs to grow for there to be a big difference in the distribution of wealth.

He considered that a wealth tax should be focused on growing the economy rather than “penalising people for employing their trades with as much fervour as they can ... the last thing you want to do is discourage people from working hard. That for me is counterproductive.”

Interviewee 3 was concerned that a wealth tax would drive capital away, at great cost to the economy. He questioned “what is our biggest export in this country? ... its taxpayers ... and future taxpayers. We export them, and they never come back.”

This concern was also voiced by interviewee 10, who said that wealth tax would be -

very negative for the country ... we need to reinvest in this country. And you wonder how much the country actually loses in the end because of imposing too much tax on individuals and companies. I mean you've got to encourage people to reinvest in this country rather than investing outside. If you'd introduced a wealth tax in 2006, when things were really cooking, and the economy was growing at 4,5% and everyone was feeling wealthy, ... but you do it now when we've had like eight or nine years

of ... low economic growth ... it's just another nail in the coffin ... the negativity around our high net worth individuals is unbelievable.

Interviewee 4 focused on growing the economy and was concerned that wealth taxes would send a negative message that would deter growth, stating that -

what we need here now is more incentives to get this economy going and once the economy is going and we have a decent growth rate, then we can come back and have a look at more wealth taxes ... keep the money in the hands where it can be used most productively ... if we combine that with a sort of negative economic sentiment in South Africa at the moment ... where are we going ... and I'm not talking politics now, where's the government going with this?

Interviewee 6 felt that the additional tax paid under a wealth tax would impact directly and negatively on the economy as "if they have to pay more tax or get less benefit for that ... I'm going to retrench, or cut to four days ... the first cost cutting will be the labour cost".

The concern regarding possible job losses was echoed by interviewee 8 who said: "if the wealth tax is targeting high net worth individuals who are fundamentally entrepreneurs, in the final analysis when you work your way all the way down the ladder - the underprivileged will pay that wealth tax, by way of increased prices or cost-cutting ... jobs, quality, whatever".

Interviewee 11 expressed a similar sentiment, asking -

how is the current wealth tax impacting on inequality, poverty and employment? Is there a dotted line? I would rather have new incentives that encourage the wealthy to use their money to bridge the gap of unemployment. I think excessive tax can be a hindrance to putting money to productive use, knowing that you're not necessarily going to be penalised for reaping the rewards of taking a risk ... There's that pessimism that needs to be overcome, and the additional wealth tax doesn't help the current psyche in society, notwithstanding the need to bridge the unemployment issue and deal with inequality.

Interviewee 9 was also outspoken about the negative impact that wealth taxes would have on the economy, stating the following:

Nobody has ever taxed out of poverty ... because there isn't enough cake to go around. You'd ruin the guys that produced, in terms of contribution to the world economy *per se* in terms of the companies,

corporations and all that. you take a massive slice of the earning power out and technology and you share it over the small little thing at the bottom, which would do [nothing] ... I think the principle of taxing to reduce inequality ... is flawed. I honestly think it is like a populist thing which comes out of our current political ... it's a populist cry which sounds great. Here we've got a shocking savings rate, you've got a shocking start-up rate in businesses that start up new stuff yet we've got companies sitting on pools of cash - bigger companies. Why? Because they don't trust the environment that they're working in. So how do you bridge that divide? ... generally speaking, the problem with it is, it's those high net worth individuals that are the higher-skilled, better resourced, they're the guys who are leading that innovation in a lot of ways. So, are you helping the thing or are you hindering the thing? ... How are you actually saying, hold on, let's look after these geese because there are not a lot of them who are laying these eggs, so how do we look after them, how do we get them to lay more eggs? And my argument is simple: we've got it already. In spades. Now let's get on with it and do the other stuff we have to do, to fix the overall thing.

Others (see interviewees 14, 22 and 23) agreed that wealth taxes will drive capital away, at a great and permanent cost to the economy.

Interviewee 13 suggested that South Africa should focus on growing the economy by encouraging the building of wealth and stated:

You need the economy to grow because that creates jobs, that gives more tax revenue, and also results in the debt to GDP declining, so you need growth. You need a virtuous circle - instead of squeezing the lemon you actually need to make it bigger. A wealth tax reduces South Africa's allure as a regional wealth centre. Instead of companies being owned by South African individuals, they may be owned by offshore structures which don't pay wealth tax. It encourages talented young individuals to seek their fortune outside of South Africa. South Africa's most successful businessmen such as Ivan Glasenberg and Elon Musk left South Africa after being educated in our world-class government schools, yet the benefit went to their adopted country. It discourages savings and makes people more dependent on the state in their old age. [We should rather] encourage South Africa to be a wealth centre: Anti-business rhetoric chases capital away from South Africa and results in our government borrowing costs being one of the highest in the world. With around R2 trillion in government debt, a 1.5% cost reduction would result in a R30 billion saving per annum.

Summary of findings on question E

The interviewees' main concerns about the economic impact of a new wealth tax are that it will alienate capital and skills, send a negative message regarding government's view of capital, drive cost-cutting to achieve an acceptable after-tax return that will result in job losses and will generally have a very negative impact on the economy. Instead, what is needed are policies that will produce economic growth by, *inter alia*, attracting capital and incentivising the wealthy to put their skills and capital to use in this country. Wealth taxes would therefore have the opposite effect to what is most needed to build the economy at this time.

7.5 Context

As discussed in Chapter 6, the responses in the interviews were influenced by the underlying political situation in the country at the time. The significant political turmoil and negative sentiment in South Africa over the period that the interviews took place, between March and July 2017, resulted in escalated anger towards, and distrust of, government. Some of this ill-feeling started years earlier, particularly after the firing of Finance Minister Nhlanhla Nene in December 2015, and a cabinet reshuffle on 30 March 2017, which saw the ousting of the highly respected Finance Minister Pravin Gordhan and several other Cabinet Ministers (Mail and Guardian, 2017). Simultaneously, ongoing revelations emerged of corrupt activities and state capture involving the Gupta family, President Zuma, his son and various other political leaders further exacerbated feelings of anger and distrust (State Capacity Research Project, 2017). This sentiment is evident in the responses of the interviewees. There is a sense of cautious optimism and even a resigned acceptance of some form of wealth tax in the early interviews conducted during March 2017, but this is not evident in the later interviews. Indeed, as the interviews progressed there emerged from the interviews a sense of increased anger and distrust towards the government, greater resistance to paying any additional taxes and even a hint of a form of tax revolt (see for example, interviews 19 and 22).

Some of the responses also indicate that the interviewees were influenced by tax amendments that were announced in February 2017 and some explanation is appropriate. On 9 February 2017

President Jacob Zuma (2017) in delivering his annual State of the Nation Address, focused on “economic emancipation” as a key priority for the year ahead and repeatedly referred to the term “radical economic transformation”, which he explained as “to open up the economy to new players, give black South Africans opportunities in the economy and indeed help to make the economy more dynamic, competitive and inclusive”. He made a commitment to act against “economic concentration”, which the Financial Mail (2017: online) describes as “a euphemism for ‘white monopoly capital’”. These statements gave rise to renewed speculation in the media about dispossession, nationalisation and disinvestment, creating further nervousness and uncertainty in the private sector.

This speech was followed later in the same month by the National Budget Speech, presented on 26 February 2017 by the Finance Minister at the time, the Honourable Pravin Gordhan. In this speech Gordhan announced a new marginal tax rate of 45% for taxable income exceeding R1 500 000 (this income was previously taxed at 41%) and an increase in the dividends tax rate from 15% to 20%. Due to the various exemptions that apply, dividends tax is paid mainly by individuals and trusts and most of the tax is borne by the wealthy who have share investments. Mention of these increases is made in several of the interviews and the message that a tipping point may have been reached also emerged, with strong reservations about any further taxes on high net worth individuals.

Another development during the interview period was the call by the Davis Tax Committee (2017) for public submissions “on the desirability and feasibility of the following possible forms of wealth tax: 1. A land tax 2. A national tax on the value of property (over and above municipal rates) 3. An annual wealth tax”, which triggered renewed media speculation around the introduction of new wealth taxes in South Africa.

The State of the Nation speech, the announcement of tax increases in the 2017 Budget Speech and the Davis Tax Committee media statement, within the context of the white monopoly capital and state capture furore that was already raging, created nervousness about nationalisation and the value of the Rand, prompting many wealthy individuals to move investments offshore.

At the time of completing the research, the Davis Tax Committee had not yet released their report on wealth taxes.

7.6 Summary of findings

The interviews with wealthy individuals and their advisors sought to answer the question: “what are the views of high net worth individuals and their advisors regarding wealth taxes in general and the possible implementation of a new wealth tax in South Africa: how do they perceive it; what would their reaction be to a new tax; how do they think it would affect their decisions regarding savings and investment, donating or supporting social projects and starting up new businesses or growing existing businesses; is there a tolerance level for a new wealth tax and if so, what is it?”

Data was collected using semi-structured interviews in which the researcher asked ten questions of each interviewee and encouraged a conversation in relation to each question. In total, 24 interviews were conducted with 27 interviewees (some interviews had more than one interviewee present), each interview lasting between thirty-five and ninety minutes. Each interview was recorded and transcribed. An iterative data coding process followed, in which the researcher looked for emergent themes, allowing the data to speak and coding similar responses so that themes could be identified. After three rounds of coding, a total of 1 755 data points had been identified, coded according to a list of seven themes and a range of sub-themes. The fourth round of coding involved an axial coding process in which the various identified themes and sub-themes were rearranged under five sub-questions in order to answer the overarching research question.

The themes that emerged from the responses were discussed under each of these five sub-questions and a list of main points, recommendations and suggestions was identified under each. These are summarised below.

Summary of findings from the interview data

A. What are the interviewees’ general views on wealth taxes in South Africa?

The main themes that emerged were as follows:

- The interviewees were concerned about government corruption, government’s effective management of resources and the perceived gap in fiscal exchange and believed that these problems must be addressed before any new wealth taxes can be contemplated.

- Estate duty and donations tax have more than six decades of experience in administration and legislation. These taxes can be used more effectively, and government should address the deficiencies in these tax systems rather than having the costs and uncertainty that would accompany the introduction of a new wealth tax system.
- There are already many forms of wealth taxes in place, including the maximum marginal income tax rate, the double tax on death through the capital gains tax provisions and the dividends tax which affect all wealthy individuals, including those who are already wealthy and those who are trying to accumulate wealth. The cumulative effect of all the different taxes is that there is already an onerous tax burden on the wealthy.
- The number of wealthy individuals in South Africa is small and the tax revenue that is likely to be generated by a wealth tax will be very low, raising the question of whether it will be cost-effective after taking into account the costs of administration.
- Alternatives to a wealth tax could be considered if the primary motivation for a new wealth tax is the need for additional tax revenue. Various alternatives were suggested, including an increase in the VAT rate or a higher VAT rate on luxury items, an increase in the tax on investment returns, by way of the removal of exemptions such as the interest income exemption and the partial taxation of capital gains, and a form of a wealth tax by way of a targeted tax on listed investments.

B. What would be the possible consequences of a new wealth tax in South Africa?

The interviewees identified a range of different consequences, the most prevalent of which were:

- The introduction of a new wealth tax would result in significant capital flight and the loss of skills, which would have a detrimental and permanent effect on the economy.
- A new wealth tax may have a negative effect on entrepreneurship as wealth taxes would erode their return on investment, possibly dampening the appetite for risk.
- A new wealth tax would affect investment choices. Wealthy individuals would move their investments into lower-tax or offshore options and would consider moving their investments into assets that are difficult to locate and/or value. Consequently, the tax would distort investment markets.

- Wealthy individuals would seek advice on how to engage in tax avoidance structures as they perceive that they are moving towards a tipping point beyond which they will resist paying additional taxes and become more aggressive in avoiding a wealth tax.
- There may be limited revenue from a wealth tax, and if not properly managed, any possible benefit will be negated.
- Other negative consequences of a new wealth tax include capital flight, distortion of investment choices, and costs of administration.

C. What aspects should be considered in the design of a new wealth tax system for South Africa?

The interviewees identified a range of aspects to be considered in the design of a new wealth tax, the most significant of which are as follows:

- Government would need to think carefully about what the objective of a new wealth tax is and having defined this it must be clearly communicated to the public.
- The administration of a new wealth tax is likely to be complex and costly for both taxpayers and SARS.
- Key to the implementation of the tax would be the definition of “wealth” and the size and shape of the tax base. The scope of the tax must be carefully considered and clearly defined.
- Asset valuations are extremely complex and very subjective.
- The threshold and rates will need to be set, taking into account all the relevant factors and the underlying objectives of the tax.
- The type tax will have to be determined. There was a preference for a recurrent wealth tax at a low rate as this would allow for planning and have the least distortionary impact on the markets.
- Problems with liquidity would have to be addressed.
- A new wealth tax system must not prejudice the wealth-building of those who did not benefit from the economic policies of the previous government.
- The impact of inflation must be considered as taxing inflationary gains is unfair.

D. Can wealth taxes be used to address inequality?

81% of the interviewees indicated support for the concept of a redistribution of wealth through a larger tax on high net worth individuals and 60% agreed in principle that wealth taxes can be used in addressing economic inequality. However, the interviewees were concerned that wealth taxes raised under the current government would not reach the intended target and would therefore not have any effect on inequality. They recommended that a caveat to using wealth taxes to address inequality is that the tax revenue would have to be ring-fenced and carefully managed to ensure that it was spent only on the targeted objectives.

E. How will a new wealth tax affect the South African economy?

The interviewees were concerned that a new wealth tax would have a negative effect on the economy, as it would alienate capital and skills. They perceived that a new wealth tax would send a negative message regarding government's view of capital. The tax could drive cost-cutting to achieve an acceptable after-tax return, which would result in job losses. Eighty-four percent of the interviewees believed that the introduction of a new wealth tax in South Africa would affect their investment choices, which translated largely to moving investments offshore. The interviewees expressed concern that the capital flight that would likely follow the introduction of a new wealth tax could have a fundamental negative effect on the economy.

A recurring theme that emerged from the open-ended responses of the interviewees was a prevailing distrust of the government, with interviewees expressing negative views on government's management of resources, their perception of fiscal exchange and government corruption. These perceptions translated into a negative view towards the introduction of a new wealth tax as reflected in 68% (see Table 7.1) of the interviewees believing that a new wealth tax is not needed in South Africa at this time. The general view expressed by the interviewees was that a new wealth tax would be ineffective if introduced in the current environment of mismanagement and corruption. Another strong theme that emerged was a perception that there was a mismatch in the fiscal exchange and, in the absence of a perceived *quid pro quo* by taxpayers, there would be little support from wealthy individuals for a new wealth tax.

Thus, although the interviewees expressed support in principle for the notion that a new wealth tax could play a role in addressing inequality in South Africa, the prevailing negative perception of government means that the climate is not conducive for the introduction of a new wealth tax at this time.

The next and final Chapter concludes on the study, considering the results of the interview data analysis, as evaluated against the information from the literature review and other data discussed in the earlier Chapters.

Chapter 8. Conclusion

Introduction

The overall goal of this study was to investigate the possible introduction of a new wealth tax in South Africa by evaluating the merits, disadvantages and unintended consequences that could result from the implementation of a new wealth tax in South Africa. The research objective addressed five specific goals, as discussed in Chapters 1 to 7.

8.1 Overview of the findings in the Chapters

Chapter 1 provided a conceptual background, explaining what a wealth tax is, how a wealth tax differs from income and consumption taxes, the role played by wealth taxes in addressing inequality and the various arguments for and against taxing wealth. The Chapter explained what is meant by “wealth taxes” and the concept of wealth versus income for the purposes of imposing wealth taxes. Chapter 1 also examined the literature on inequality and why it needs to be addressed.

Chapter 2 explained the research methodology adopted to address the research goal and explained how the research would be carried out. It was demonstrated that an interpretative research approach, in which a qualitative design using literature to derive a framework and semi-structured interviews was applied, was best-suited to provide the rich data needed to address the research question.

Chapter 3 established a framework that can be used for evaluating a new wealth tax system in South Africa and applied that framework in suggesting design features of such a tax system. The Chapter identified the key principles that are inherent in a wealth tax system, including how to define the tax base and what thresholds and tax rate should apply.

Chapter 4 described how wealth and capital have been taxed in South Africa in the past and reviewed the various recommendations made by the three tax reform Commissions (the Franzsen (1968), Margo (1986) and Katz (1994) Commissions) and the Davis Tax Committee (2013), which is currently at work at the time of writing. South Africa has a long experience of

wealth taxes in the form of estate duty, donations tax, transfer duty and securities transfer tax. Land tax is also applied, albeit at municipal level across the country. The various inquiries into the tax system of South Africa have generally been in agreement that, in principle, a wealth tax would complement the overall tax system; however, such a tax has never been implemented due to the negative implications of complexity, cost of administration and low revenue yield.

Chapter 5 explored the international experience of wealth taxes, including some of the wealth tax models used and the history of wealth taxes that have been introduced and later abandoned. The international experience includes several examples of the unsuccessful implementation of wealth taxes. Indeed, there are very few countries with sustained and successful wealth tax systems and the evidence indicates that revenue collections from wealth taxes are generally very low.

Chapters 6 and 7 explained the interview process used to obtain the raw data and the analysis of this primary data, derived from interviews with wealthy individuals and their advisors. The interviews were undertaken to solicit the views of individuals likely to be affected by a new wealth tax and sought to find out their views on wealth taxes in general and their likely reaction to the introduction of a new wealth tax in South Africa.

The findings from the literature and data discussed in Chapters 1 to 5 are compared with the themes that emerged from the interviews in the following section.

8.2 Themes emerging from the interviews in relation to the literature

The themes from the interview responses are grouped under the five sub-questions identified in Chapter 7.

What are the interviewees' general views on wealth taxes in South Africa?

The interviewees were concerned about government corruption, government's ineffective management of resources and the perceived mismatch in fiscal exchange and believed that these problems should be addressed before any new wealth taxes could be contemplated. This finding reflects a situation that is unique to the South Africa context and was not raised in the literature review.

The interviewees noted that estate duty and donations tax have more than six decades of experience in administration and legislation and these taxes can and should be used more effectively. The interviewees recommended that government should address the deficiencies in these tax systems rather than having the costs and uncertainty that would accompany the introduction of a new wealth tax system. This is similar to the conclusions reached in the various inquiries as discussed in Chapter 4 and resonates with the conclusion reached by the Davis Tax Committee in their Second Report on Estate Duty (Davis, 2016b).

The interviewees noted that South Africa already has many forms of wealth taxes in place, including the maximum marginal income tax rate, the double tax on death through the capital gains tax provisions and the dividends tax, which affect all wealthy individuals, both those who are already wealthy and those who are trying to accumulate wealth. The cumulative effect of all the different taxes is that there is already an onerous tax burden on the wealthy. In Chapter 4 it was identified that the average tax rate of wealthy individuals has not increased over the thirteen years from 2003 to 2015 (see Table 4.5); however, it is expected that the average tax rate may increase from 2016 onwards following the recent tax rate hikes.

The interviewees predicted that the tax revenue likely to be generated by a new wealth tax would be very low as the number of wealthy individuals in South Africa is small. This raises the question whether a new wealth tax will be cost-effective after taking into account the costs of administration. In the international experience described in Chapter 5, it was noted that several countries (for example, Australia, India and Ireland) abandoned wealth taxes due to inefficiencies driven by low revenue collections.

The interviewees suggested that alternatives to a wealth tax could be considered if the primary motivation for a new wealth tax is the need for additional tax revenue. Alternatives included an increase in the value-added tax rate or a higher value-added tax rate on luxury items, an increase in the tax on investment returns, by way of the removal of exemptions such as the interest income exemption and the partial taxation of capital gains, and a form of a wealth tax by way of a targeted tax on listed investments. These and other alternatives are considered later in this Chapter.

What would the possible consequences of a new wealth tax in South Africa be?

The interviewees predicted a range of different consequences, including the following:

- A new wealth tax would affect investment choices. Wealthy individuals would move their investments into lower-tax or offshore options and would consider moving their investments into assets that are difficult to locate and/or value. Consequently, the tax would distort investment markets and give rise to capital flight and the loss of skills, which might have a serious and permanent effect on the economy. Problems with capital flight were cited as the main reasons for the abandonment of wealth taxes in Austria and the Netherlands, as discussed in Chapter 5 and noted by McDonnell (2013).
- A new wealth tax may have a negative effect on entrepreneurship as wealth taxes would erode their return on investment, possibly dampening the appetite for risk. The concerns of small business were some of the main drivers for the abolition of wealth taxes in Australia, as noted in Chapter 5.
- Wealthy individuals would seek advice on how to engage in tax avoidance structures as they perceive that they are moving towards a tipping point beyond which they will resist paying additional taxes and become more aggressive in avoiding a wealth tax. Many wealth tax systems in the past have been undermined by tax avoidance, as discussed in Chapter 5, for example Australia, Canada, Germany, Iceland and Sweden.

What aspects should be considered in the design of a new wealth tax system for South Africa?

The interviewees identified a range of aspects to be considered in the design of a new wealth tax, including the following:

- Government would need to think carefully about what the objective of a new wealth tax is and having defined this it must be clearly communicated to the public. This was discussed under the principle of “certainty” in Chapter 3.
- The administration of a new wealth tax is likely to be complex and costly for both taxpayers and the South African Revenue Service. As was noted in Chapter 5 and by Schnellenbach (2012), costs of administration and compliance have played a role in the failure of other wealth tax systems in the past. This resonates with the need for a tax to be “certain”, as discussed in Chapter 3.
- Aspects of the design of a new wealth tax that would have to be carefully addressed include the definition of “wealth” and the scope of the tax, how assets should be valued; how liquidity problems should be addressed; the threshold; the rate; and the timing of the tax. There was a preference for a recurrent wealth tax with a high threshold and a low rate as this would allow for planning and have the least distortionary impact on the markets.

These design features are discussed in Chapter 3 and are summarised in section 8.4 below.

- A new wealth tax system must not prejudice the wealth-building of those who did not benefit from the economic policies of the previous government. This is a factor unique to the South African context and has not been raised in the literature, but it is an important aspect that must be considered in evaluating a new wealth tax.
- The impact of inflation must be considered as taxing inflationary gains is unfair. This is considered as part of the decision on the threshold of a new wealth tax and it is important that such threshold is updated for inflation so as to avoid the negative reaction that was experienced in Australia in the 1970s (see Chapter 5).

Can wealth taxes be used to address inequality?

A discussion of the literature on wealth taxes and inequality was covered in Chapter 1. Donaldson (2014) advocates that inequality should be reduced through a more progressive income tax system, which supports the tax rate hikes in South Africa in recent years. In the interview data, 81% of the interviewees indicated support for the concept of a redistribution of wealth through a larger tax on high net worth individuals and 60% agreed in principle that wealth taxes can be used in addressing economic inequality. However, the interviewees were concerned that wealth taxes raised in the current environment of perceived government mismanagement would not reach the intended target and would therefore not have any effect on inequality.

How will a new wealth tax affect the South African economy?

The interviewees were concerned that a new wealth tax would have a negative effect on the economy, as it would alienate capital and skills and negatively affect the tax base. As noted in Chapter 4, the South African tax base is small and narrow, with less than 1% of taxpayers contributing 18% of the total personal income tax and the overall tax base is therefore vulnerable to a loss of wealthy taxpayers and capital. Eighty-four percent of the interviewees believed that the introduction of a new wealth tax in South Africa would affect their investment choices, which translated largely to moving investments offshore. The interviewees expressed concern that capital flight that would likely follow the introduction of a new wealth tax could have a fundamental negative effect on the economy. The preservation of the tax base to

ensure a sustainable source of tax revenue is a key consideration in evaluating the introduction of a new wealth tax.

8.3 Negative perceptions of interviewees

A recurring theme that emerged from the open-ended responses of the interviewees was a prevailing distrust of the government, with interviewees expressing negative views on government's management of resources, their perception of fiscal exchange and government corruption. These perceptions translated into a negative view towards the introduction of a new wealth tax as reflected in 68% (see Table 7.1) of the interviewees believing that a new wealth tax is not needed in South Africa at this time. The general view expressed by the interviewees was that a new wealth tax would be ineffective if introduced in the current environment of mismanagement and corruption. Another strong theme that emerged was a perception that there was a mismatch in fiscal exchange and, in the absence of a perceived *quid pro quo* by government, there would be little support from wealthy individuals for a new wealth tax.

Thus, although the interviewees expressed a support in principle for the notion that a new wealth tax could play a role in addressing inequality in South Africa, the prevailing negative perception of government means that there is not a conducive climate for the introduction of a new wealth tax at this time.

The findings of the interviews indicated that, whilst there was support for the use of taxes to address the inequality in South Africa, the lack of trust in government as a result of the perceived lack of leadership, corruption and poor implementation of economic policies results in a very low level of support for a new wealth tax at this time. The data indicates that high net worth individuals are likely to respond to a new wealth tax by moving their investments offshore and engaging in complex tax avoidance structures to ensure that they do not bear the full intended burden of the tax.

8.4 The design of a new wealth tax system

As indicated in the literature review, the motivation for wealth taxes is seldom based only on quantitative arguments, but is driven by other factors, most forceful of which is the political argument, which carries with it the perception created by the existence of wealth taxes that the wealthy should be paying taxes over and above those paid by the general population. Perception is therefore a driving force in determining whether a wealth tax regime is justified, necessary and useful. Thus, it is possible that there is still support for a new wealth tax in South Africa, notwithstanding the evidence from the data that such a tax is unlikely to provide any meaningful tax revenue and may not actually have any real and sustainable impact on inequality. Should government proceed with the introduction of a new wealth tax, the recommendation in this thesis is that great care should be taken to ensure that the principles of a good tax system, as identified in relation to a wealth tax in Chapter 3, are adhered to. The recommendations for the tax design of a new wealth tax system that take these principles into consideration were listed in Chapter 3 as follows:

Tax unit: the unit should be each individual, regardless of marital status. A new wealth tax could also be levied on companies and trusts, but the discussion of these entities is beyond the scope of this study. Nonetheless, individual holdings in companies and trusts would be included in the wealth tax base.

Tax base: the tax base should be as broad as possible to promote fairness and the principle of horizontal equity, and to curtail the opportunities for tax avoidance and limit any distortionary effects on the economy.

Threshold: the threshold should be sufficiently high to ensure that only the wealthiest individuals are subject to the wealth tax, thus promoting the progressivity of the tax system.

Rate: A single low rate supports the principles of simplicity, horizontal equity, certainty and neutrality.

Timing: A recurrent net wealth tax would ensure a prolonged revenue stream, which is needed to reduce inequality and achieve redistribution. The tax should be levied on an annual or five-year basis. This supports the principle of convenience.

Administration: the legislation should be as simple as possible and guidelines for valuations of assets and liabilities should be provided. The existing requirement for provisional taxpayers, which would include most wealthy individuals as they would be in receipt of investment income, to submit statements of assets and liabilities with their annual tax returns could be modified or expanded to obtain better quality data and accurate valuations. Existing legislation and interpretation guidelines should be used wherever possible and adequate anti-avoidance provisions must be included, with appropriate enforcement to prevent and detect evasion. The underlying principle is therefore effective tax administration.

The detailed design of a new wealth tax must ensure that the following principles for a good tax system are adhered to, as discussed in detail in Chapter 3:

1. Equity and fairness.
2. Certainty.
3. Convenience.
4. Effective tax administration.
5. Information security.
6. Simplicity.
7. Neutrality.
8. Economic growth and efficiency.
9. Transparency and visibility.
10. Minimum tax gap.
11. Accountability to taxpayers.
12. Appropriate government revenues.
13. Tax buoyancy.

8.5 Taxpayer compliance theories

The likely response of high net worth individuals to a new wealth tax, as indicated in the interview data, is not unexpected if one considers taxpayer compliance theories. Researchers identify three elements that predict tax compliance: fiscal exchange, coercion and social influences (see, for example Fjeldstad, Schulz-Herzenberg and Sjursen, 2012:24) and the element of fiscal exchange is particularly relevant in considering the likely compliance with a new wealth tax. Taxpayer compliance is driven through a relationship between taxpayers and the government and levels of compliance are affected by behavioural aspects, including how government manages expenditure and the benefits that taxpayers perceive (Fjeldstad *et al.*, 2012:4). In short, taxpayers require a return for the tax they pay. Although taxpayers are obliged to comply with tax legislation, researchers of taxpayer behaviour have confirmed that there is an element of “quasi-voluntary compliance” with tax legislation as “compliance is motivated by a willingness to cooperate”. In the absence of a perceived *quid pro quo* there is less willingness in the part of taxpayers to comply with tax legislation. Fjeldstad *et al.* (2012:4) recognise that compliance varies according to governments’ “performance, honesty, attention to due process and other determinants of government reliability”. There is a wealth of research in the behavioural sciences that confirms that taxpayer compliance is strongly influenced by taxpayer perceptions of government as the other party in tax contracts. Taxpayer perceptions of fiscal exchange are therefore a crucial factor in the success or failure of a tax system. The political legitimacy theory of taxpayer compliance behaviour may be linked to the fiscal exchange theory in this context. Fjeldstad *et al.* (2012:7) state that, “according to the political legitimacy theory, tax compliance is positively related to perceptions about the government’s, in particular the tax authority’s trustworthiness”. A study of taxpayer perceptions among different groups in South Africa conducted by Oberholzer (2007) found that there was a willingness to pay tax, but taxpayers perceived that there was widespread wastage and corruption in government. The responses from the interviewees in Oberholzer’s study indicated a deterioration in perceptions of government, which could have negative implications for tax compliance levels in the future.

8.6 Alternatives to a wealth tax

The study did not find any evidence to support the argument that a new wealth tax in South Africa will provide any significant amount of additional tax revenue, and in the absence of

additional tax revenue, such a tax would not have the capacity to make a meaningful and sustainable impact on inequality. As inequality is the most driving imperative for a wealth tax in South Africa at this time, it is necessary to consider whether there are alternatives to a wealth tax that could be used to address inequality. Some alternatives that have emerged from the literature include land taxes, consumption taxes and a different way of taxing capital returns as a proxy for a tax on wealth holdings.

Boadway *et al.* (2010:781) suggest that “a higher tax on occupiers of high value residential property” could be an option that provides a simpler means of taxing wealthy individuals. In South Africa, this could be done through the municipal property rates system or as an additional land tax levied at national level. Although a land tax is a tax on assets, Schnellenbach (2012:371) argues that a land tax is very different from a net wealth tax, stating that the two types of taxes are –

completely distinct fiscal instruments, with different efficiency and equity effects. In particular, the property tax is not simply a wealth tax with a smaller base. Rather, there are very specific discussions on the incidence of the property tax and its efficiency characteristics as an instrument to finance local public budgets.

The Davis Tax Committee has called for comments on land tax as a form of wealth tax and it is therefore expected that their awaited report on wealth taxes will consider this alternative.

Another alternative to a new wealth tax is to make consumption taxes more progressive by taxing luxury goods and services at a higher rate (Bird & Zolt, 2005:1681). This would have to be balanced against the negative aspects of adding to the complexity of the South African value-added tax system.

Bird and Zolt (2005:1691) suggest another alternative to an annual wealth tax based on the system used in the Netherlands, which has different income tax rates for different types of income. The first category of income is primarily income from labour, which is taxed at progressive rates. The second category is primarily income from business activities which is taxed at a flat rate. The third category is income from portfolio investments which is taxed using a presumptive tax rate as follows: net assets are assumed to yield a return of 4% per year, and this notional yield is taxed at a rate of 30%. The result equates to a wealth tax of 1,2% per year. If this is compared to the South African context (as explained in Chapter 4), income from labour is taxed at progressive rates and dividends are taxed at a flat rate of 20%.

Interest and other investment returns are included in taxable income and taxed at progressive tax rates. If the Netherlands system was adopted, investment returns would be excluded from the income tax system and replaced with the notional tax on a deemed annual investment return. One disadvantage of this system is that returns are taxed at a fixed rate, foregoing the opportunity to tax returns above that rate. Another disadvantage is the liquidity problem that taxpayers may have in paying a tax on notional returns. A more detailed analysis of such a system is beyond the scope of this thesis, but is recommended as a future study.

The final alternative is to abandon the idea of implementing a new wealth tax and rather focus on enhancing the existing estate duty and donations tax systems. This is the approach followed in the previous inquiries into the tax system of South Africa. Apart from the pragmatic argument for this approach, there is also support for this alternative in the literature. McDonnell (2013:63) argues that “inheritance and gift taxes are generally regarded as more effective in re-distributing resources than an annual wealth tax because the latter would need to be confiscatory in order to bring about any real re-distribution”. Iara (2015:19) reasons that inheritance and gift taxes compare both favourably and unfavourably with a wealth tax and offers the following useful comparison:

A net wealth tax ... levies a small tax on capital at a relatively high frequency, [inheritance and gift taxes] do the same at a higher rate and lower frequency. Over 30 years, an annual asset tax of 1% diminishes the capital stock by about the same amount than a one-off levy of 26% every 30 years. Inheritance taxation has the advantage of efficiency as it allows for fluctuations of wealth during the course of life, and also does more for the comparable treatment of individuals with pension income and asset-based post-retirement wellbeing respectively. On the downside, the burden put on individuals' and families' wealth by inheritance taxation has some individual variation, reflecting differences in life spans. Also, broad reservations against inheritance taxes across populations as suggested by anecdotal evidence raise the question of salience: in this regard there might be a trade-off between the frequency and the rate of taxation. In countries where neither tax is present, with appropriate thresholds, a continuous capital tax for high net worth individuals might be easier to accept than a cumulative burden associated with the emotionally charged event of death.

Iara notes (2015:19) that -

net wealth taxes appear less complex in international environments because the dimension of the donee is missing and does thus not create additional variation and complication. Likewise, net wealth taxes imply a lesser need for normative choices: the main question at stake is the rationale

of taxing assets, while the ambiguity of bequest motives and judgment about altruistic preferences does not come into play.

As discussed in Chapter 4, the estate duty and donations tax have a long history in South Africa and there remains the opportunity to enhance these tax systems, rather than take the risks associated with introducing a new wealth tax.

8.7 A final comment

There is no doubt that the introduction of a new wealth tax carries significant risk, not least of which is the risk of damaging the economy and causing erosion of the overall tax base. On the other hand, a new wealth tax may offer certain opportunities and benefits. As with any strategic planning exercise, the risks must be weighed against the opportunities offered by a new wealth tax. Any tax must complement the overall tax system of the country and contribute to the overall objective of achieving the optimal tax mix and the same is true of a new wealth tax. Whilst the possibilities exist for a new wealth tax to contribute towards the progressivity of the South Africa tax system, it must do so in such a way that it provides a sustainable, stable form of tax revenue in an efficient manner so as to build on, rather than detracting from, the existing tax system.

This study has explored the benefits and disadvantages of wealth taxes and identified the risks and opportunities that accompany such a tax. It is recognised that there were limitations in this study, including the definition of “wealth” and the lack of a specific sample size, the difficulties in interviewing wealthy individuals, and the inherent bias against tax, which inevitably influenced the interviewee responses. Every effort was made to mitigate against these limitations and produce reliable findings. Very little research has been done on wealth tax in the South African context and there is a dearth of literature focusing on the views and perceptions of the wealthy individuals themselves. It is hoped that this study will inform the debate on wealth taxes in South Africa and assist in the formulation of the design of such a tax, should it be implemented. Overall, it is hoped that this study will make a contribution to the body of knowledge in the discipline of taxation. There are many opportunities for further research in the field of wealth taxes, most notable of which is the role that such taxes may

play in addressing inequality and the design features of an efficient wealth tax in the context of a developing country such as South Africa. It is hoped that robust research will be conducted in these areas.

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Appendices

Appendix A

Introductory email / interview invitation

Communication to be sent to potential interviewees

Subject: Request to participate in a study on a new wealth tax in South Africa

Dear xxx

My name is Jackie Arendse and I am a Chartered Accountant working as an Associate Professor in the Department of Accounting at Rhodes University, Grahamstown. I am currently undertaking research for the purposes of completing a PhD and my thesis investigates the implementation of a new wealth tax in South Africa. The extensive reference by government, economists and the media to wealth taxes in the context of seeking additional tax revenue and the Davis Tax Committee's undertaking to provide a separate report on wealth taxes during 2017 make this topic extremely relevant. So far however, investigations into wealth taxes have typically focused on specific ideologies and have relied almost exclusively on economic forecasts based on assumptions that may not always be realistic. In my study, I am exploring a new source of data by going directly to the group of people who will be most directly affected by wealth taxes, with the aim of eliciting their views and likely reaction to any new wealth taxes. Although this will not negate the reliance on traditional forecasting tools, it will add an important element to the overall debate about wealth taxes in South Africa, recognising that wealthy individuals in South Africa usually have a deep commitment to seeing economic prosperity in the country and, at the same time, can decide how to manage and where to hold their assets. I am very interested in your views on wealth taxes generally and how you think you might change your investment and business decisions if a new wealth tax is introduced.

The study will be undertaken in the form of semi-structured interviews which will last no more than one hour.

I would like to invite you to participate in this study, either in a private face-to-face interview with me, or if you would prefer, by way of a Skype® call or similar electronic conference. The interview will be structured around a few core questions and the opportunity for an unstructured conversation around wealth taxes in South Africa. The study is completely independent of any government body or agency, such as SARS and full anonymity will be

assured if required. The questions are generic in nature and do not in any way probe your/ your client's personal finances or tax affairs.

I understand that you are extremely busy and that this is an encroachment on your time but I do believe that the feedback obtained through these interviews will provide a rich pool of data that must be considered as part of the research into evaluating the viability and feasibility of implementing a new wealth tax in South Africa. The greater the depth of such research well ahead of any planned implementation of such a tax, the less likely our country is to suffer permanent damage to the economy.

Rhodes University requires that all research involving human participants must be formally reviewed by the university's Ethical Standards Committee in accordance with the National Health Act (Act 61 of 2003) and the ethics approval is attached to this email. The ethics approval has been granted on the condition that no harm will be caused to participants and your involvement in the interviews poses no personal risk, including direct physical, psychological or social harm. The interview will be conducted in private, at your office or the venue of your choice and at a time that is convenient for you. Your valuable time will be respected and the interview will not take more than one hour. Should you choose to do so for whatever reason, you will be free to cancel the interview or stop the interview at any time without any recourse.

The attached ethics approval document contains the contact details of my supervisor, Professor Lilla Stack, who may be contacted if there are any questions or comments on the study. The results of the study will be available from my supervisor once the report has been finalised, and can be made available to you if you so require.

Attached to this email is the list of core questions that I will ask during the interview and the consent form that the university requires to be signed by every participant in the study. Should you wish your participation to be on an anonymous basis, please indicate this on the consent form and full anonymity will be ensured.

Please would you respond by xxx/xx/2017 giving an indication of when it would be convenient for me to conduct the interview and, if possible, during March or April 2017.

Appendix B

Consent Form

I voluntarily agree to participate in the study undertaken by Professor J Arendse, entitled “An investigation into the introduction of a new wealth tax in South Africa” for the purpose of her PhD thesis.

I understand that my involvement will comprise of a one-hour interview to be conducted at (please insert selected venue)

_____ at (date and time)

I agree to the interview being recorded and transcribed for quality-control purposes, to be used only for the purposes of Professor Arendse’s PhD thesis.	Yes	No
I grant permission for the interview data to be used in subsequent academic publications, including a report to government if my name and personal details are not disclosed.	Yes	No
I wish my participation to be anonymous.	Yes	No

Signed:

Research participant

Date

Appendix C

Interview process

1. Check the interview location. The interview location was chosen by the interviewee.

Ensure that it is private and quiet and that the interviewee is comfortable. Often, they may feel more comfortable at their own places of work or homes.

2. Explain the purpose of the interview.

I am undertaking research for the purposes of completing a PhD and my thesis investigates the implementation of a new wealth tax in South Africa. Wealth tax refers to a tax on net assets, other than estate duty or donations tax.

In my study, I am exploring a new source of data by going directly to the group of people most directly affected by wealth taxes, with the aim of finding out their views and likely reaction to any new wealth taxes. I am particularly interested in the views of wealthy individuals and advisors with many years' experience and a deep understanding of that sector.

This perspective is an important part of the dialogue as wealthy individuals in South Africa usually have a deep commitment to seeing economic prosperity in the country and, at the same time, can decide how to manage and where to hold their assets.

I am very interested in finding out your views on wealth taxes generally and how you think you or your clients might change your/their investment and business decisions, or the advice you may give to your clients in this regard, if a new wealth tax is introduced.

The questions are generic in nature and do not in any way probe your or your clients' personal finances or tax affairs. There is no right or wrong answer to any of the questions.

3. Ensure that the consent form has been signed and handed to the researcher.

Discuss whether the interviewee wishes to have confidentiality. Ask for permission to record the interview and explain how the recording will be used and that they will be given the opportunity to check the transcript should they wish to do so.

4. Check that the person is happy to continue.
5. Start the recording. And proceed with the interview.
6. At the end of the interview Ask whether the interviewee has any other comments s/he wishes to add. Thank them for their contribution.

After the interview

Save recordings in the dedicated folder, labelled according to initials, date and time of the interview; upload to dropbox.

Have interviews transcribed.

Appendix D

Questions with supporting references

PART A

Name (indicate if anonymity requested): _____

MALE		FEMALE	
BLACK	WHITE	INDIAN	COLOURED
SA CITIZEN?		YES	NO

Region in which the person mainly resides: _____

PART B

The interviewer will explain the research objective and the scope of the research, that is, that it is focused on individuals. Furthermore, there is no right or wrong answer.

1. Currently, the only wealth taxes that we have in South Africa are estate duty and donations tax. Do you think there is a need for a new form of wealth tax in South Africa at this time? Please motivate your answer.
2. Do you think wealth taxes can be used in addressing economic inequality? If not, why, and what other measures could government adopt to address the inequality in our society? If yes, how do you think this could happen?

(Adapted from Minas and Lim, 2015).

3. Do you support the concept of a redistribution of wealth through a higher rate of tax on high-income earners (a progressive tax system)? If so, why? If not, why?

(Donaldson, 2014).

4. What do you consider to be the main benefits and disadvantages of wealth taxes?

(Adapted from Minas and Lim, 2015).

5. If a wealth tax was introduced in South Africa, what form do you think it should take? Should it be a once-off or recurrent tax?

(Bach, Beznoska & Steiner, 2014; McDonnell, 2013).

6. If a wealth tax was introduced in South Africa, what do you think your responses would be in terms of your investment choices and why? Would you move more of your capital offshore? Would you have a different investment preference, e.g. shares rather than property, etc.?

(McDonnell, 2013).

7. How do you think an announcement regarding a new wealth tax might affect your motivation you to build wealth and /or start new businesses? (Hansson, 2008).
8. What is your view on the current South African system of having both estate duty and a deemed disposal subject to capital gains tax on a person's assets at the time of death? (*The interviewer will explain this in more detail as necessary.*) Do you think it is justified on the basis that there is a higher capital gains tax exclusion in the year of death? Does the deemed disposal rule motivate you to plan to dispose of assets prior to death? (Kopczuk, 2012).
9. This question is concerned with the choice between taxing assets versus taxing the returns from those assets. On the one hand, there could be a recurrent wealth tax on net assets at a rate of 2,5-3,6% per annum (based on ROC of 8% x 45% tax rate). The other option could be a full tax on all dividends, interest and capital gains (i.e. no local interest exemption, no annual exclusion for capital gains and a 100% inclusion rate on capital gains). Which option would you suggest would be a better policy option, and why? (Schnellenbach, 2012).

10. Do you think there is any validity in the argument that capital gains should be taxed in full in the hands of individuals, rather than on the current partial inclusion basis?

(Minas and Lim, 2015).

Appendix E

Sample Frame

List of wealthy individuals

<u>Name</u>	<u>Source</u>	<u>Reported wealth (Forbes)</u>	<u>Reported wealth as per Sunday Times Rich List 2016</u>	<u>Reported wealth as per Sunday Times Rich List 2015</u>
Nicky Oppenheimer	Forbes 1, Who's Who SA	\$7bn	Not listed	
Johann Rupert	Forbes 1, Who's Who SA	\$5,5bn	R3 189 million; R10 617 million (Rupert Beleggings (Pty) Limited - holding vehicle for Rupert family interests)	R3 576 million; R11 982 million (Rembrandt Trust)
Christoffel Wiese	Forbes 1; Who's Who SA	\$5,5bn	R81 268 million	R104 803 million
Jacobus Petrus (Koos) Bekker	Forbes 1	\$2,2bn	R9 635 million	R10 103 million
Patrice Tlopane Motsepe	Forbes 1; Who's Who SA	\$1,6bn	R9 553 million	R3 799 million
Stephen Saad	Forbes 1	\$1,1bn	R16 047 million	R17 300 million
Adrian Gore	Forbes 2	\$480million	R5 529 million	R7 244 million
Michiel le Roux	Forbes 3	\$530million	R8 653 million	R7 984 million
Raymond Ackerman	Forbes 3, Who's Who SA	\$490million	Not listed	R7 288 million (Ackerman Family Trust)
Cyril Ramaphosa	Forbes 2, Who's Who SA	\$700million	Not listed	

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Gerrit Thomas (GT) Ferreira	Forbes 2	\$420million	R4 210 million	R4 323 million
Giovanni Alberto Mario Ravazzotti	Forbes 2	\$330 million	R4 895 million	R4 195 million
Michael Guy (Gus) Attridge	Forbes 2	\$410million	R5 473 million	R5 899 million
Johannes Fredericus (Jannie) Mouton	Forbes 2	\$970million	R9 763 million	R14 065 million
Lauritz (Laurie) Dippenaar	Forbes 2	\$610million	R12 869 million	R12 654 million
Markus Jooste	Forbes 2	\$400million	R59 million (Sunday Times Rich List 2016)	R5 719 million
Desmond Giulio Amadeo (Des) Sacco	BusinessTech 1, Who's Who SA	\$1bn	R7 625 million	R2 210 million
Allan Gray	BusinessTech; Who's Who SA	\$1.6bn	Not listed	
Sharon Wapnick	Who's Who SA, Forbes4		R569 million	R665 million
Jeffrey Wapnick	Sunday Times Rich List		R675 million	R789 million
Wendy Ackerman	Who's Who SA, Forbes4		Not listed	
Bridgette Radebe	Who's Who SA, Forbes4, Bloomberg		Not listed	
Irene Charnley	Forbes4		Not listed	
Pam Golding	Forbes4		Not listed	
Wendy Appelbaum	Forbes4		Not listed	
Elisabeth Bradley	Forbes4, Who's Who SA	More than R1bn	Not listed	
Mamphela Ramphela	Forbes4		Not listed	

Christine Kandimathie Ramon	Who's Who SA		R1m (Sunday Times Rich List 2016)	Not listed
Maria Da Conceicao (Maria) Ramos	Who's Who SA		R1m (Sunday Times Rich List 2016)	Not listed
James Wellwood (Whitey) Basson	Who's Who SA, Sunday Times Rich List		R1 702 million	R1 261 million
Stephen Koseff	Who's Who SA, Investec website		R602 million	R829 million
Douw Steyn	BusinessTech 4		Not listed	
Bruno Ewald Steinhoff	Sunday Times Rich List		R12 566 million	R16 485 million
Atul Kumar Gupta	Sunday Times Rich List		R10 696 million	Not listed
Stephanus Grobler	Sunday Times Rich List		Not listed	R404 million
Danie van der Merwe	Sunday Times Rich List		Not listed	R489 million
Hendrik Ferreira	Sunday Times Rich List		Not listed	R264 million
Issy Zimmerman	Sunday Times Rich List		Not listed	R455 million
Jebb Douglas McIntosh	Sunday Times Rich List		R498million	R455 million
Martin Slabbert	Sunday Times Rich List			R448 million
Graeme John Gordon	Sunday Times Rich List		R1 498 million	R2 900 million
Louis Norval	Sunday Times Rich List		R1 636 million	R2 612 million

Johan van Zyl	Sunday Times Rich List		R526million	R521million
Richard Harold Friedland	Sunday Times Rich List		R311million	R431million
Hymie Reuvin Levin	Sunday Times Rich List		Not listed	R265million
Desmond (Des) de Beer	Sunday Times Rich List		R4 294million	R4 510million
Jacobus Johann Kriek	Sunday Times Rich List		R296million	R416million
Bruce Alan Scott Henderson	Sunday Times Rich List		R411million	R415million
Steven Kalmin	Sunday Times Rich List		R3 516million	R1 461million
William Macaulay	Sunday Times Rich List		R3 467million	R1 440million
William Peter (Bill) Venter	Sunday Times Rich List		R442million	Not listed
Patrick Maguire (Pat) Goss	Sunday Times Rich List		R2 031million	R1 984million
Gary John Shayne	Sunday Times Rich List		R2 555million	R1 899million
Crispin Douglas Dillon	Sunday Times Rich List		R497million	R334million
Herschel Philip Mayers	Sunday Times Rich List		R951million	R1 250million
Ivan Leon Saltzman	Sunday Times Rich List		R9 421million	Not listed
Brian Ian Epstein	Sunday Times Rich List		R245million	Not listed
Kevin Selwyn Sterling	Sunday Times Rich List		R245million	Not listed
Niall Maurice Hegarty	Sunday Times Rich List		R725million	Not listed

Kiriakos Anastasiadis	Sunday Times Rich List		R2 383million	Not listed
Isaias Jose (Izak) Calisto	Sunday Times Rich List		R2 172million	Not listed
Stanley Richard Nathaneal Goetsch	Sunday Times Rich List		R1 471million	Not listed
Magdalena Franciska Wierzycka	Sunday Times Rich List		R1 476million	Not listed
Paul Cambo Baloyi	Sunday Times Rich List		R1 171million	Not listed
Paul Sean O'Flaherty	Sunday Times Rich List		R650million	Not listed
Steven Brian Joffe	Sunday Times Rich List		R796million	Not listed
Stephen Volker Brookes	Sunday Times Rich List		R1 253million	Not listed
Stephen Volker Brookes	Sunday Times Rich List		R354million	Not listed
Daniel Coenraad (Danie) Pretorius	Sunday Times Rich List		R1 219million	Not listed
Barry Swartzberg	Sunday Times Rich List		R2 859million	R3 716million
Michael Nicolas Georgiou	Sunday Times Rich List		R1 649million	R1 664million
Quinton van Rooyen	Sunday Times Rich List		R1 256million	R1 649million
Benedict James (Ben) van der Ross	Sunday Times Rich List	Estimated in excess of R1,2bn.		
Paul Kenneth Harris	Sunday Times Rich List		R 1433million	R1 688million
Johannes Petrus (Johan) Burger	Sunday Times Rich List		R562million	R534million
Manuel Pereira (Manny) da Canha	Sunday Times Rich List		R1 067million	R262million

Steven Gottschalk	Sunday Times Rich List		R286million	R262million
Peter Cooper	Sunday Times Rich List		788million	R760million
Stephan Joseph Pacak	Sunday Times Rich List		R1 847million	R2 265million
Lance Reginald Sherrell	Sunday Times Rich List		R759million	Not listed
Ramachandran (Ram) Ottapathu	Sunday Times Rich List		R756million	Not listed
Farouk Essop Ismail	Sunday Times Rich List		R564million	Not listed
Johannes Jacobus Marthinus (Boetie) van Zyl	Sunday Times Rich List		Not listed	R435million
Mark Sorour	Sunday Times Rich List		R41m (Sunday Times Rich List 2016)	R1 020million
Theunissen (Ton) Vosloo	Sunday Times Rich List		Not listed	R345million
Petrus Johannes (Piet) Mouton	Sunday Times Rich List		R1 148million	R1 540million
Francois Johannes Gouws	Sunday Times Rich List		R369million	R408million
Wynand Louw Greeff	Sunday Times Rich List		R246million	R271million
Johannes Andries (Johan) Holtzhausen	Sunday Times Rich List		R263million	R287million
Johan Holtzhausen	Sunday Times Rich List		R295million	Not listed
Sisa Michael Ngebulana	Sunday Times Rich List		R245million	Not listed
Anton Clarence Pillay	Sunday Times Rich List		R318million	R269million
Jacob de Vos (Jaap) du Toit	Sunday Times Rich List		R95million	R1 142million

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Matthys Michielse (Thys) du Toit	Sunday Times Rich List		R45million	R1 480million
Brian Joffe	Sunday Times Rich List		R64million	R367million
Willem Tobias (Willie) (Jnr) Marais	Sunday Times Rich List		R443million	R366million
Maxim Krok	Sunday Times Rich List		R414million	R359million
Arthur Graham Mackay	Sunday Times Rich List		Deceased	R1 225million
Alan Clark	Sunday Times Rich List		Not listed	R262million
Michael Lewis	Sunday Times Rich List		R1 454million	R1 223million
Ronald Stein	Sunday Times Rich List		R1 157million	Not listed
Alexander Douglas (Doug) Murray	Sunday Times Rich List		R283million	Not listed
Carl Alfred Grillenberger	Sunday Times Rich List		R161million	R256million
Freddie Kenney	Sunday Times Rich List		R137million	R255million
Chris Adriaan Otto	Sunday Times Rich List		R994million	R1 234million
Cobus Stofberg	Sunday Times Rich List		R928million	R973million
Edwin de la Harpe Hertzog	Sunday Times Rich List		R1 003million	R1 301million
Polelo Lazarus (Laz) Zim	Sunday Times Rich List		R725million	R393million
Romeo Makhubela	Sunday Times Rich List		Not listed	R393million
Michael Solomon (Mike) Teke	Sunday Times Rich List		R312million	Not listed

Zwelithini Patrick Ntshalintshali	Sunday Times Rich List		R410million	Not listed
Robin Ashley Frew	Sunday Times Rich List		R442million	R389million
David Courtinall Marshall	Sunday Times Rich List		R437million	R383million
John Michael Robotham	Sunday Times Rich List		R420million	R356million
Francois van Niekerk	Sunday Times Rich List		Not listed	R371million
Jacob Daniel Wiese	Sunday Times Rich List	Estimated in excess of R116million.	R548million	Not listed
Mustaq Ahmed Enus-Bray	Sunday Times Rich List		R489million	R512million
Merika Johannes (Joe) Madungandaba	Sunday Times Rich List		R624million	R494million
Anna Theresa Masamo Mokgokong	Sunday Times Rich List		R278million	Not listed
Simon Norman Susman	Sunday Times Rich List		313million	R491million
Zyda Rylands	Sunday Times Rich List		Not listed	R331million
Frederick John Robertson	Sunday Times Rich List		R275million	271million
John Maurice Robertson	Sunday Times Rich List		R534million	R692million
Alan Ronald Burke	Sunday Times Rich List		R789million	R688million
Sean Alan Melnick	Sunday Times Rich List		R447million	R683million
Josua Francois (Dillie) Malherbe	Sunday Times Rich List		R248million	R304million
Jan Rupert	Sunday Times Rich List		Not listed	R302million

Jeffrey Nathan Zidel	Sunday Times Rich List		R463million	R409million
Andrew Edward Teixeira	Sunday Times Rich List		R499million	Not listed
Sizwe Errol Nxasana	Sunday Times Rich List		R277million	R308million
Lance Sherrell	Sunday Times Rich List			R633million
Arnold Goldstone	Sunday Times Rich List		R311million	R338million
Hermanus Christiaan (Herman) Steyn	Sunday Times Rich List		R324million	R337million
Mark Walter Stevens	Sunday Times Rich List		R707million	R721million
Nobuhle Dlamini	Sunday Times Rich List		Not listed	R821million
Willie van Aardt	Sunday Times Rich List		R469million	R806million
Saki Macozoma	Sunday Times Rich List, Financial Mail Little Black Book		Not listed	R742million
John Whittaker	Sunday Times Rich List		R15 879million	R23 495million
Richard Michael Gordon	Sunday Times Rich List		R331million	Not listed
Franz Gmeiner	Sunday Times Rich List		R325million	Not listed
Perikles Halamandaris	Sunday Times Rich List		R962million	R1 252million
John Lee Halamandres	Sunday Times Rich List		R553million	R1 252million
Panagiotis Halamandaris	Sunday Times Rich List		R1 474million	R540million

Theofanis Halamandaris	Sunday Times Rich List		R1 360million	R1 201million
Jonathan Jawno	Sunday Times Rich List		Not listed	R908million
Michael Mendelowitz	Sunday Times Rich List		Not listed	R908million
Roberto Rossi	Sunday Times Rich List		Not listed	R908million
Mzolisi Goodman Diliza	Sunday Times Rich List		R962million	R884million
Riaan Stassen	Sunday Times Rich List		R921million	R849million
Andre Pierre du Plessis	Sunday Times Rich List		R696million	R624million
Gerhardus Metsalaar (Gerrie) Fourie	Sunday Times Rich List		R688million	R620million
Arnold Fourie	Sunday Times Rich List		Not listed	R368million
Richard Lyon	Sunday Times Rich List		Not listed	R321million
Ben Pierre Malherbe	Sunday Times Rich List		R263million	R319million
Francois do Toit	Sunday Times Rich List		R525million	R565million
Bernard Kantor	Sunday Times Rich List		R454million	R617million
Ian Kantor	Sunday Times Rich List		R320million	R428million
Glynn Robert Burger	Sunday Times Rich List		R332million	R444million
Jacobus Esiais (Koos) Raubenheimer	Sunday Times Rich List		R590million	R437million
Sipho Abednego Nkosi	Sunday Times Rich List		R944million	R437million

Zwelibanzi Vincent Mntambo	Sunday Times Rich List		R534million	R249million
Mxolisi Donald Mbuyisa Mgojo	Sunday Times Rich List		R655million	R249million
Dalikhayai (Rain) Zihlangu	Sunday Times Rich List		R286million	Not listed
Christopher Seabrooke	Sunday Times Rich List		R626million	R1 177million
Serge Belamant	Sunday Times Rich List		Not listed	R395million
Asher Bohbot	Sunday Times Rich List		R1 138million	R1 161million
Neville Bester	Sunday Times Rich List		R301million	R394million
Danny Colin Keith Mackay	Sunday Times Rich List		R1 192million	R1 099million
Marcel Golding	Sunday Times Rich List		R306million	R1 160million
John Anthony Copelyn	Sunday Times Rich List		R1 247million	R1 145million
Harishkumar Kantilal (Harish) Mehta	Sunday Times Rich List		R1 126million	R1 068million
Marc Wainer	Sunday Times Rich List		R236million	R300million
Danie Pretorius	Sunday Times Rich List		Not listed	R1 062million
Gavin Bennet Tollman	Sunday Times Rich List		R527million	Not listed
Charles de Fleurieu	Sunday Times Rich List		R380million	Not listed
Giancarlo Lanfranchi	Sunday Times Rich List		R331million	Not listed
Nicholaas Retief	Sunday Times Rich List		Not listed	R288million

Brett Marlon Levy	Sunday Times Rich List		R1 601million	R1 055million
Mark Steven Levy	Sunday Times Rich List		R1 461million	R958million
David Cunningham (Dave) King	Sunday Times Rich List		R725million	R1 040million
Roland David Ezra Benjamin Sassoon	Sunday Times Rich List		R1 027million	R1 030million
Jens Peter Montanana	Sunday Times Rich List		R675million	R776million
Andries de Lange	Sunday Times Rich List		R632million	R763million
Spiro Noussis	Sunday Times Rich List		R276million	R274million
Elon Musk	BusinessTech 3 and 4	\$12bn	Not listed	
Ivan Glasenberg	BusinessTech 3 and 4	\$5.8bn	R59 980million	R24 918million
Nathan Kirsh	BusinessTech 3 and 4	\$8.3bn	Not listed	
Clive Calder	BusinessTech 3	\$2.5bn	Not listed	
Patrick Soon-Shiong	BusinessTech 4	\$8.8bn	Not listed	
Mark Shuttleworth	BusinessTech 4, Who's Who	\$500million	Not listed	

List of advisors

<u>Name</u>	<u>Company</u>	<u>Source</u>	Gender	Race	Region
Laurie Wiid	NFB Private Wealth Management	Moneyweb	M	W	G
Magnus Heystek Junior	Brenthurst Wealth	Moneyweb	M	W	G
Wouter Fourie	Ascor® Independent Wealth Managers	Moneyweb	M	W	G
Peter Nurcombe-Thorne	Rosebank Wealth Group (Pty) Ltd	Moneyweb	M	W	G
Charl Botha	Futurewealth	Moneyweb	M	W	G
Trudy Luthuli	Luthuli Capital (Pty) Ltd	Moneyweb	F	B	G
Amelia Morgenrood	PSG Wealth	Moneyweb	F	W	G
Tenk Loubser	TLA Wealth	SAICA/ Own database	M	W	G
Marie Loubser	TLA Wealth	SAICA/ Own database	F	W	G
Cheryl Howard	Talaria Wealth	SAICA/ Own database	F	W	G
Louis Venter	Maitlands	Own database	M	W	G
Jasper Lindeque – Director: wealth, Grant Thornton;	Grant Thornton	SAICA/ Own database	M	W	G
Andrew Hannington; Grant Thornton;	Grant Thornton	SAICA/ Own database	M	W	G
Gert van den Berg	Delport van den Berg Attorneys	Own database	M	W	G
Abie Mphato	Independent investment specialist	LinkedIn	M	B	G
Angelo George	Fedgroup	Moneyweb	M	W	G
Anton Ferreira	Grant Thornton	SAICA/ Own database	M	W	G
Graham Patrick	Nedbank Private Wealth	Moneyweb	M	W	G
Victor Sekese	SizweNtsaluboGobodo	LinkedIn	M	B	G

David Shapiro	Sasfin Holdings	Moneyweb	M	W	G
Andrew Ratcliffe	Private Client Holdings	LinkedIn	M	W	C
Afzal Khan	RAFT	SAICA/ Own database	M	I	C
Andrew Canter	Futuregrowth Asset Management	Moneyweb	M	W	C
Andrew Bradley		Moneyweb	M	W	C
Philip Theunissen	Computus	SAICA/ Own database	M	W	F
Ilza Alberts	Ilza Alberts	Referral	F	W	G
James Clucas	Clucas Gray	Referral	M	W	G