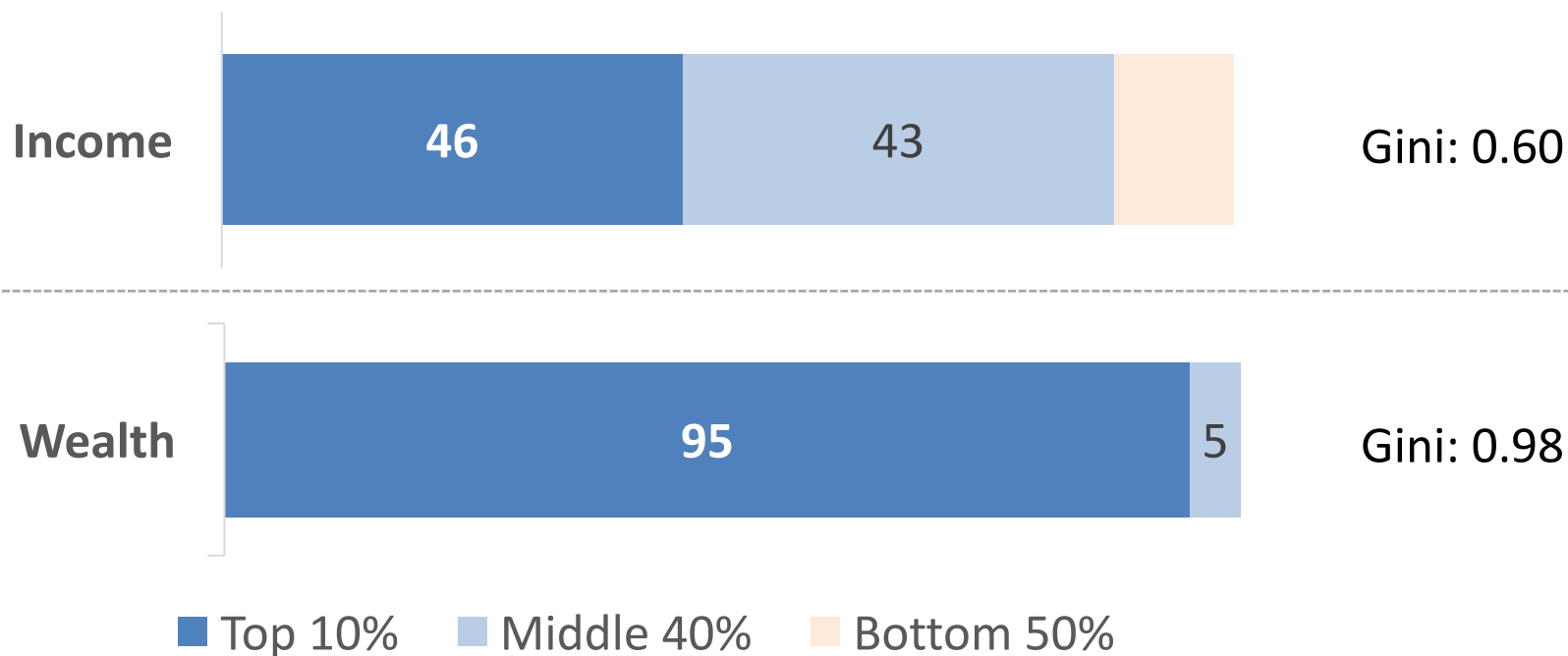


# A Net Wealth Tax for SA?

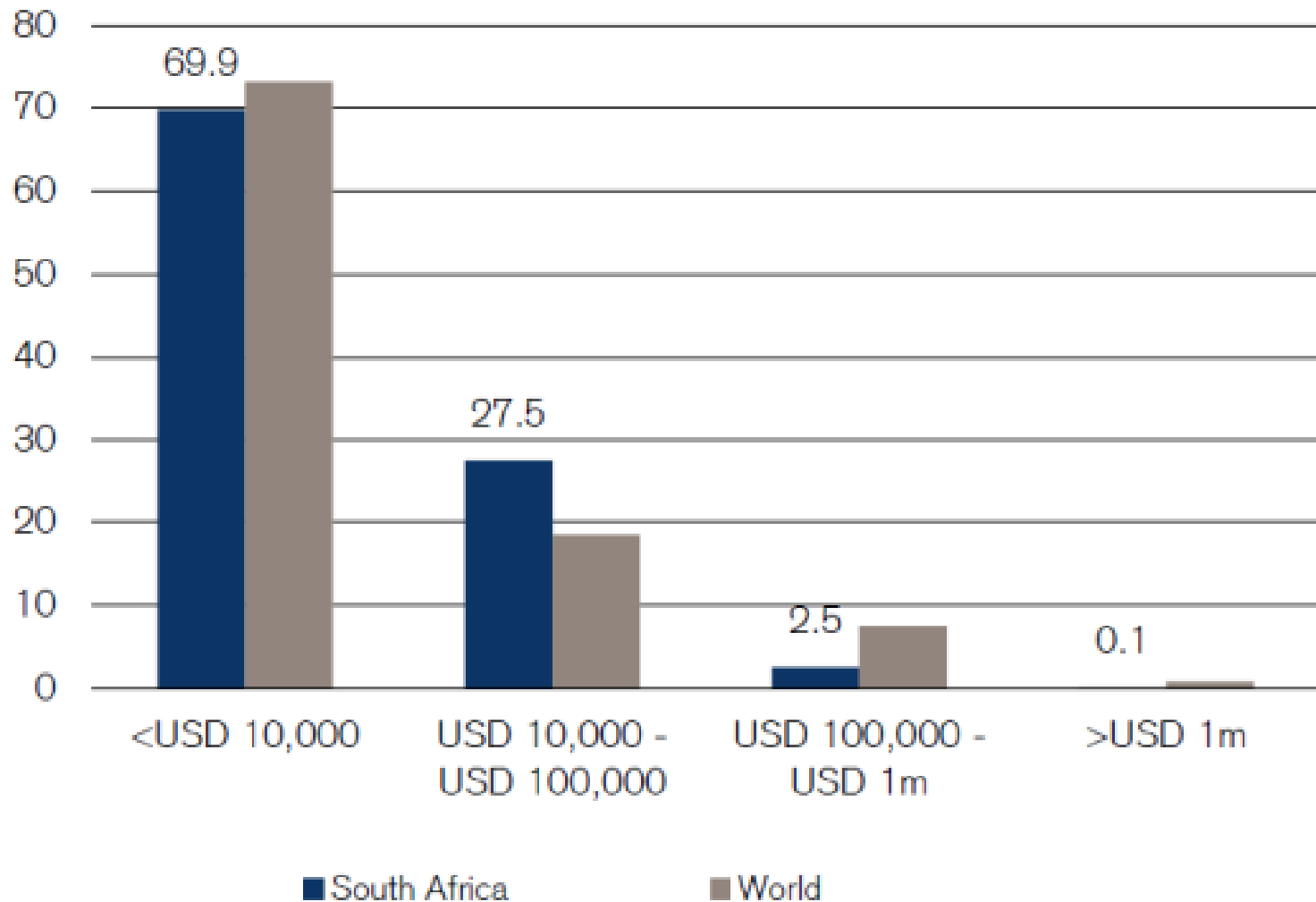
Ingrid Woolard, 23 April 2018

# National Income Dynamics Study (Wave 2 – 2010/11)



**Note:** *Wealth: NIDS total wealth; Income: Labour income of employed population*

## Wealth distribution relative to world (in %)



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2016

# High Net Wealth Individuals

About **45,000 US\$ millionaires** with collective wealth amounting to US\$ 184 billion

→ the richest 0.1% of South Africans own a quarter of overall household wealth.

In 2015, the *Forbes Africa's 50 Richest* list included **10 South Africans** who had a collective net worth of **US\$ 25 billion** – approximately 5% of overall household wealth.

## Wealth-income ratios (Orthofer)

- In contrast to the dramatic increase in private wealth-income ratios described by Piketty (from 200-300% in 1970 to 400-700% in 2010)...
- South Africa's growth in private wealth remained in line with incomes over the same 40-year horizon. At 255%, our current wealth-income ratio is very close to its 1970-level of 240%, and substantially lower than those of the advanced economies.
- However, since the mid-1990s, private wealth started to grow significantly faster than national incomes

# Why is wealth so unequal?

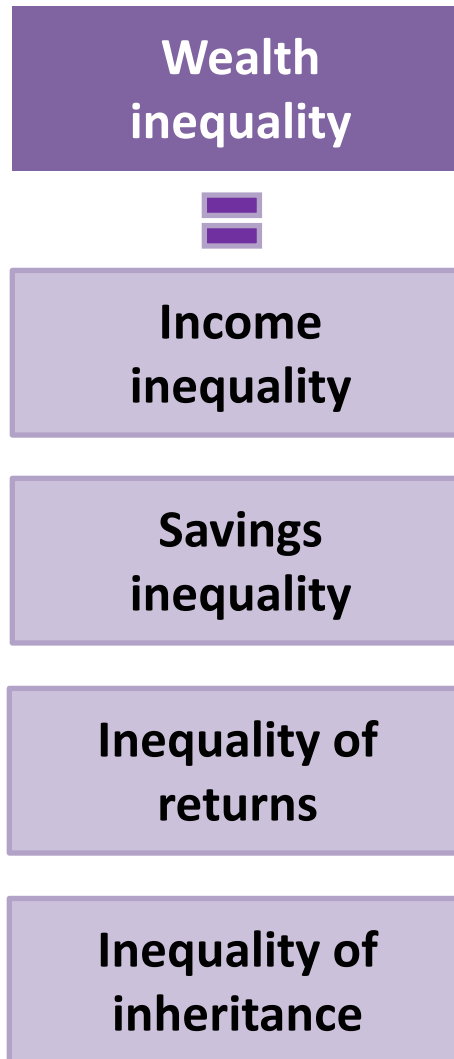
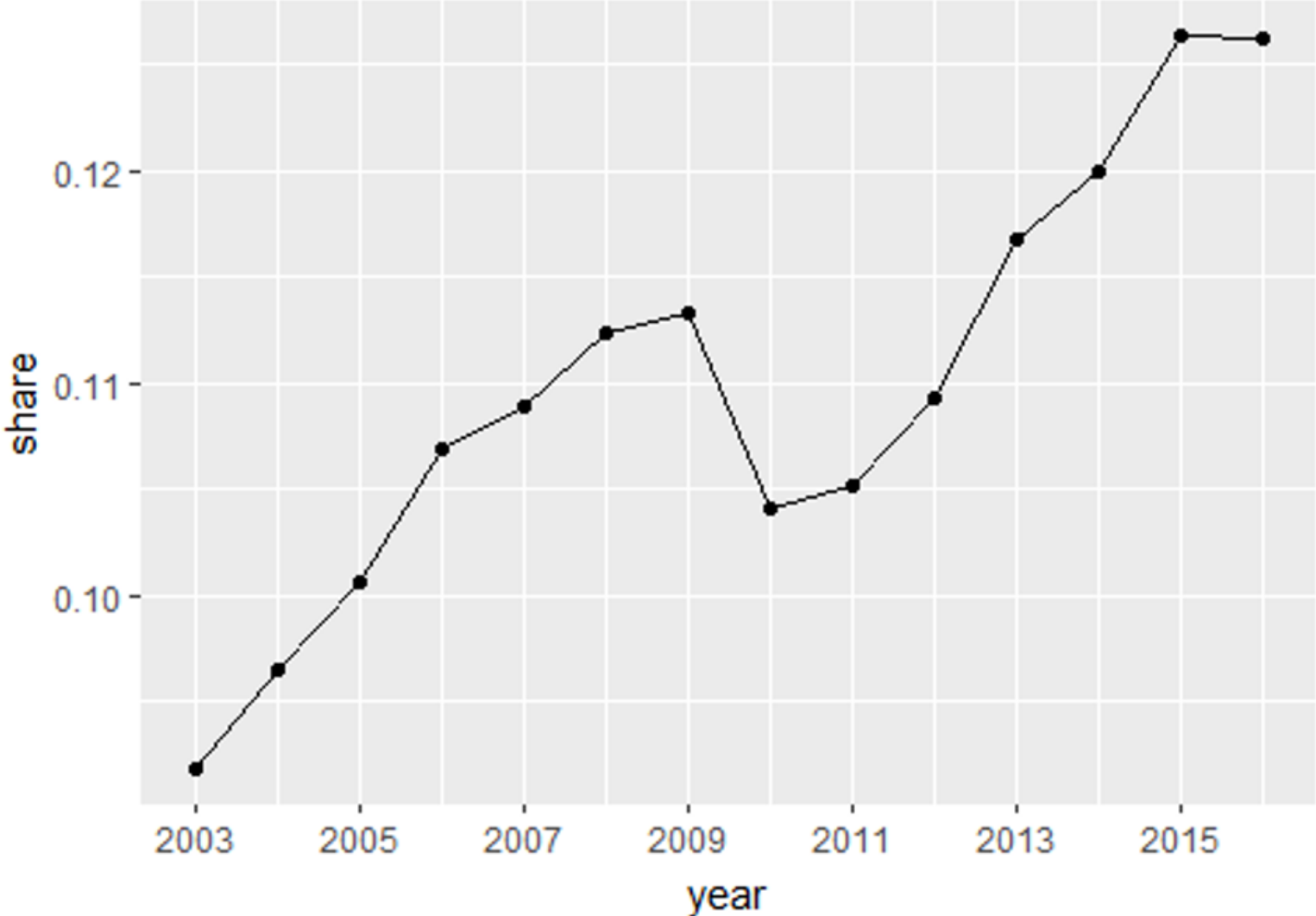


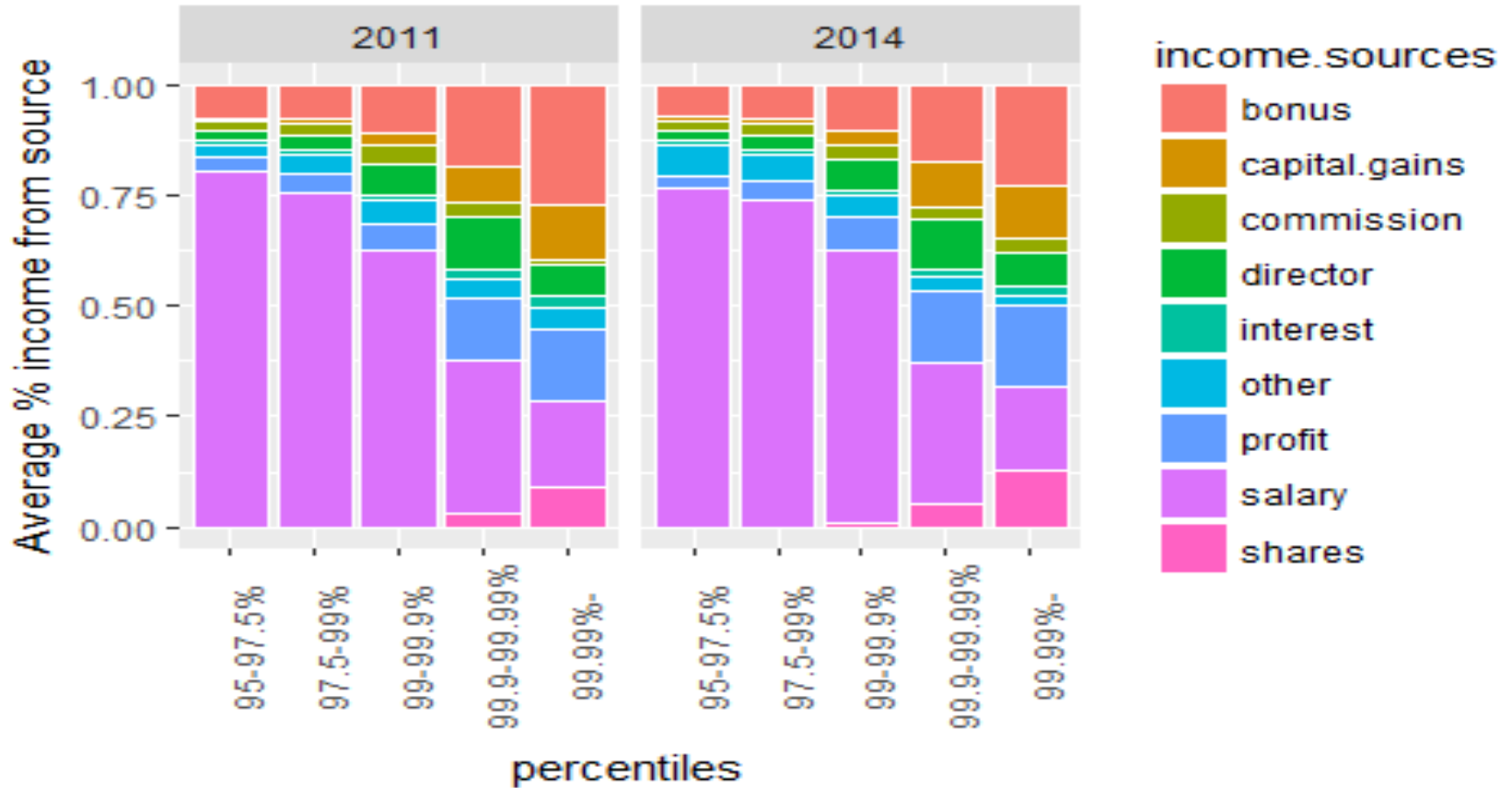
Fig 6: Income share of top 1% of SA adults



Source: SARS 2017, own calculations

# The super-rich have different income sources

Fig 17: Sources of income by percentile



Source: Tax microfiles



# Wealth as a tax base

*'When measuring inequality, we are concerned not just with the consumption of the rich – important though this may be – but also with the power that wealth can convey. This power may be exercised over one's family, as with the passing on of wealth to heirs, or more generally in such ways as control of the media or influence with political parties.'*

Anthony Atkinson (2015: 37)

# Forms of wealth taxation

- **Annual wealth tax**
  - mostly on an overall measure of net worth
  - some specific wealth taxes (property taxes)
- **Inheritance tax**
  - taxes transfer of wealth at death
  - taxes the beneficiaries of the estate
- **Estate tax**
  - taxes transfer of wealth at death
  - taxes the holdings of the deceased
- **Transfer tax**
  - taxes transfer of wealth (not necessarily at death)

# Net Wealth Tax (NWT)

Similarity with a tax on income

e.g. with net wealth of R10m and a 4% return, a wealth tax of 1.5% is equivalent to a 37.5% tax on capital income

Taxation irrespective of actual returns

A wealth tax is equivalent to taxing a fixed return on assets, i.e. the effective tax burden falls as returns increase

Taxation on an accrual basis

If asset values are regularly updated, a NWT is equivalent to taxation on accruals

Taxation of self-made and inherited wealth

A NWT is imposed on all net wealth, regardless of its source

# Net Wealth Tax (NWT)

Similarity with a tax on income

Increases progressivity of the tax system; but can lead to very high effective tax rates if capital income is also taxed

Taxation irrespective of actual returns

Penalizes the holders of low-return assets

Taxation on an accrual basis

Advantage – no-lock in effects  
Disadvantage – valuation and compliance issues

Taxation of self-made and inherited wealth

No distinction between inherited and self-made wealth

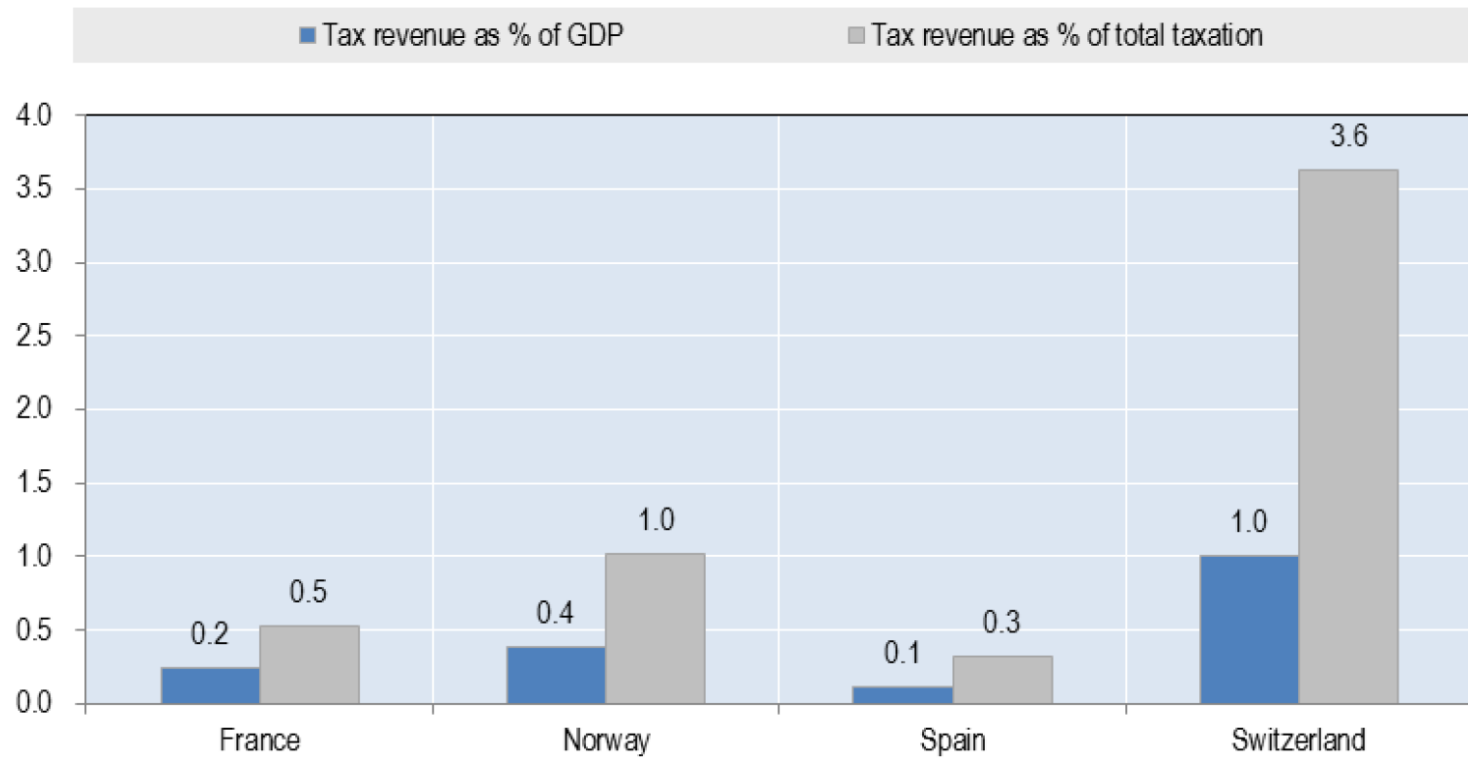
# Considerations

- High cost of administration & compliance
- Consistent valuation required
- Liquidity constraints
- What to include?
- Tax migration



# Low revenue

**Figure 1.3. Individual net wealth tax revenues in countries that currently have net wealth taxes as a share of GDP and as a share of total taxation in 2015**



# Valuation challenges

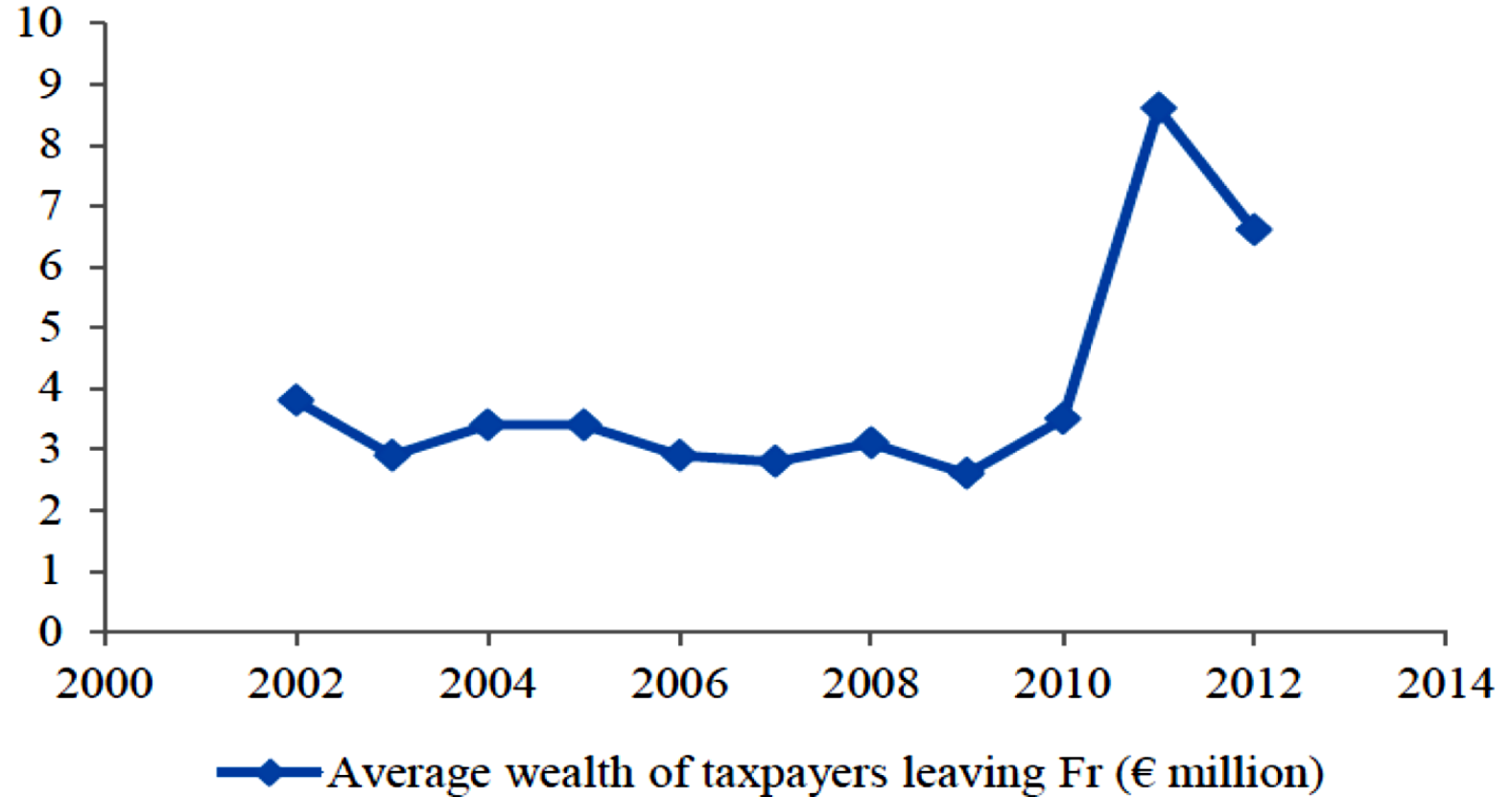
- To ensure horizontal equity, valuation rules should be similar across assets and based on market values – hard in practice
- Valuation is difficult in the case of non- or infrequently traded assets (e.g. personal and household effects, pension rights, etc.).
- Valuing unincorporated businesses and unquoted shares raises difficulties

# What to include?

- Most countries exclude:
  - Business assets
  - Pension assets
  - Artwork and antiques
  - Main residence



# Tax Migration



Source: Astarita (2015)

# Concluding comments

- Tax policy is an important instrument for direct redistribution (over and above generating revenue to fund redistributive policies on the expenditure side)
- Wealth taxation needs careful consideration in order to change the pattern of wealth distribution
- Tax system is just *one* instrument