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The Weekend Reader

"Your Weekly Read on Debt, Development & Social & Economic Justice"

YOUTH ASPIRATIONS FOR A REGIONAL WEALTH TAX

On the 16th of June 2021 and as a way of commemorating the Day of the African Child ZIMCODD convened a regional youth debate tournament. The tournament sought to create a platform for regional youth to network, debate on different but pertinent regional social, economic and political issues.

One of the major issues to come out of the tournament from the youth was that SADC countries should introduce wealth tax to address economic inequality and developmental deficits in the region that are affecting young people in particular and other citizens in general.

Wealth taxes can reduce inequality while raising revenue, but SADC countries have often struggled to design and administer viable and politically palatable wealth taxes. Tracking down assets, assigning a value for tax purposes, and attributing them to individual taxpayers entails substantial costs. Comprehensive wealth taxes can become riddled with costly special exemptions, meaning they end up raising remarkably little revenue.

Wealth taxes are inherently progressive as wealth inequality is on average twice as large as income inequality. Ensuring that people pay tax on their wealth will therefore be a more progressive measure than increasing taxes on income. Any tax system that has weak or no wealth taxation is therefore likely to become much more progressive by introducing wealth taxes.

Introducing taxes on holding wealth can also stimulate economic activity and spur growth. If holding wealth is exempted from tax but earning an income is taxed, the wealthy have little incentive to use their capital productively. If land ownership is taxed, landowners are more likely to make use of the land or sell it to someone who will, potentially create employment and streams of tax revenue in the process. The same goes for cash and cash equivalents which can be invested and support jobs and income generating activities if the incentive to leave the capital unused is removed. This will in turn generate a wider tax base and increased tax revenues. Encouraging wealth to be used productively through tax policy can therefore have progressive impacts.

South Africa is struggling to introduce an effective tax on holding wealth. The country currently has a transfer duty, estate duty and donations tax which are all taxes on transferring wealth. The South African Revenue Service (SARS) has concluded that a tax on holding wealth is not feasible now but has proposed that all personal income taxpayers above the filing threshold be required to submit a statement of all assets and liabilities from 2020. This would help track wealth and inform future policy on a potential tax on holding wealth. Other SADC countries can therefore emulate and improve the South African policy.

There are many different forms of taxing the holding of wealth in European countries, and some of these models may be interesting for developing countries in the SADC region. For example, in the Netherlands, there is a flat tax of 1.2% on the total value of savings and investments above €21,139.20 Investments of up to €56,420 in pre-approved 'green' investments are exempted. Until 2017, France had a 'Solidarity Tax' on wealth. It was a progressive tax starting at 0.5% of held wealth above an €800.000 threshold. There were various thresholds and rates above that, with 1.5% being the top rate for wealth above €10 million. It was estimated that in 2007 the tax generated €4.42 billion, or 1.5% of total tax take in France. Both Spain and Switzerland have progressive wealth taxes that differ slightly among municipalities and regions, varying between 0.2% and 3.75% in Spain, and between 0.13% and 0.94% in Switzerland.

However, taxing the rich can be very difficult. Research in Uganda in 2013/14 found that only 35% of the top 60 lawyers in the country paid any personal income tax in 2013-14; only 5% of company directors did so; and only one of 71 high-level government officials, who owned considerable assets, had ever paid personal income tax. Tax authorities have limited capacity or influence on legislation, and the very rich often hide their assets in tax havens. Credible estimates suggest that at least 30% of African financial wealth is held offshore, with the corresponding figure for Latin America being 22%. While international tax information exchange systems have been gradually developing, their scope and functionality is still far from satisfactory and access for developing countries is often limited, making it difficult for the tax authorities of these countries to track and tax their citizens' assets abroad.

According to influential French economist Thomas Piketty, wealth taxes are underutilized. He argues that, in an economy where the rate of return on capital investment exceeds the rate of growth, inherited wealth will always grow faster than earned wealth, thus making increasing inequality inevitable unless there is bold action by governments. In practice, taxes on holding and transferring wealth tend to make up less than 1% of tax revenue in OECD countries, with taxes on income (such as personal and corporate income taxes) and consumption (such as VAT and excise taxes) making up the bulk.

Recommendations
SADC Governments should:

- Prepare for comprehensive wealth taxes with mandatory declarations of assets and liabilities, as in South Africa.

- Improve transparency of wealth by introducing robust automatic exchange of information systems with other tax authorities, through a reformed OECD Global Forum on Transparency & Exchange of Information for Tax Purposes or otherwise, as well as updated registers of beneficial ownership which are publicly available, free of charge, and verified.

- To reduce the risk of capital flight, consider a regional approach to wealth taxes, introducing standardized taxes on holding wealth at a continental or trade bloc level with a view to negotiating a global tax on held wealth in the long term.

- Establish a specific unit in the tax authority to deal with taxing the wealthy. In the absence of a comprehensive tax on holding wealth, countries should tax the holding, transfer, and appreciation of wealth through different taxes (such as property, inheritance and capital gains taxes), to make them harder to avoid.

- Ensure whistleblowing protection for those who expose tax avoidance schemes by the ultra-wealthy

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