Submission to the Davis Tax Committee on Possible Wealth Taxation in South Africa

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A submission by SACTWU and COSATU
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1 Background

The Southern African Clothing and Textile Workers' Union (SACTWU) and the Congress of South African Trade Unions (COSATU) welcome the opportunity to provide a submission to the Davis Tax Committee (DTC) on possible wealth taxes for South Africa.

SACTWU, an affiliate of COSATU, has slightly more than 100 000 members and primarily operates in the South African clothing, textile, footwear and leather (CTFL) manufacturing industry, while COSATU is the largest and most powerful trade union federation in South Africa. It has more than 1.7 million members.

In our previous submissions to the DTC, we shared with you that SACTWU and COSATU's interest in the work being undertaken by the DTC reflects our conviction that it provides an opportunity to enable greater equity in South Africa. This is especially the case with wealth taxes.

This is reflected by this submission on possible wealth taxes being the fourth submission on the work of the DTC that we have made. The previous submissions were:

- February 2014: submission by SACTWU and COSATU on several tax matters including taxation of the rich and super-rich, VAT reforms and corporate taxation;

- August 2015: submission by SACTWU on base erosion and profit shifting; and

- September 2015: submission by SACTWU on the DTC's Report on Macro Analysis.

COSATU and its affiliates' interest in tax policy stretches back to the federation's inception in 1985. This has included, amongst others: embarking on a VAT campaign in 1991; drafting the *Social Equity and Job Creation* policy document as part of Nedlac's Labour Caucus in 1996, which explored tax matters; drafting extensive comments on increasing the progressivity of elements of the tax system at Nedlac in 1999; submitting numerous submissions in the 1990s, 2000s and 2010s on fiscal policy to Parliament and National Treasury; and publishing a vision for South Africa's economic development trajectory, including tax recommendations, known as *A Growth Path Towards Full Employment* in 2010.

As recently as November 2015, at its 12th National Congress, COSATU adopted a resolution calling for the urgent introduction of a wealth tax, believing that tax reform must assist in reducing inequality, promoting redistribution and increasing the resources available to the state.

At its Congress, COSATU noted that wealth taxes provide an opportunity to make South Africa's tax system more progressive. It has other important roles to play. For instance, it can

- **address the intergenerational transmission of inequality**: wealth taxes, such as inheritance tax, and related measures, such as those to ensure trusts are not used for tax avoidance, can help to level the playing field across generations. Without these kinds of taxes, over the course of a few generations, wealth will become increasingly concentrated with pernicious consequences.

In South Africa this is particularly pertinent given that a large share of inherited wealth passes between generations within white households and its acquisition has roots in the accumulation of wealth under apartheid. Wealth taxes can assist to address the legacy of apartheid and colonialism; and

- **ensure horizontal and vertical equity**, i.e. that tax payers in similar circumstances pay similar taxes and in different circumstances pay different taxes. For instance, we propose in our submission that share buybacks should be addressed as it is a way the rich use to avoid paying their fair share or how wealth taxes can be used to cross-check income tax contributions. This could help to improve the perceived 'integrity' of the tax system.

2 Introduction

Far-reaching economic transformation is required to address the triple crises of unemployment, poverty and inequality in South Africa.

Recent scholarship has stressed that South Africa suffers from not only high levels of income inequality, but also from unusually high levels of wealth inequality.[1] This reproduces inequalities and increases inefficiencies across the economy.[2]

Progressive taxation is a central component of the economic measures needed to guide the transformation of South Africa's economy.

Wealth taxes, in some form of another, exist across most economies. A 'net wealth tax', however, has been placed more forcefully on the public radar by the works of Thomas Piketty. In South Africa, taxes on wealth, including from capital gains taxes, raised 0.78% of GDP in 2015/16, accounting for 2.82% of total government revenue (tax and non-tax). This amounted to R31.7 billion, with the capital gains tax accounting for a bit more than half of this amount.[3]

This submission proposes that a net wealth tax, if judiciously designed, can play a role in addressing issues of equity and economic efficiency in South Africa. Moreover, we propose amendments to several pre-existing wealth taxes in South Africa,[4] with a general view to raising rates or increasing progressivity. Admittedly, some of these go beyond the scope of the call for input released by the DTC on land, property and wealth taxes. We take such

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[1] Orthofer, Anna. "Wealth Inequality – striking new insights from tax data." *Econ3x3*. 24 July 2016. Web. http://www.econ3x3.org/article/wealth-inequality-–-striking-new-insights-tax-data

[2] Adato, Michelle and Carter, Michael R. "Exploring poverty traps and social exclusion in South Africa using qualitative and quantitative data." *Journal of Development Studies* 42.2 (2006): 226-247. Tandfonline. Web. http://www.tandfonline.com/doi/abs/10.1080/00220380500405345 and

Finn, Arden, et al. "Patterns of persistence: Intergenerational mobility and education in South Africa." Redi3x3. March 2017. Web.
http://www.redi3x3.org/sites/default/files/Finn%20et%20al%202017%20REDI3x3%20Working%20Paper%2030%20Intergenerational%20mobility%20and%20education.pdf

[3] Author's calculations from National Treasury and SARS tax statistics 2016. South Africa. National Treasury. *Tax Statistics*. By SARS. 2016. Web. http://www.sars.gov.za/About/SATaxSystem/Pages/Tax-Statistics.aspx

[4] We use the word wealth and property interchangeably. The legal basis for this is that wealth is really the sum of two types of property: personal rights and real rights.

liberty on three grounds: in response to previous issues raised by the DTC; because the principles underpinning a 'net wealth' tax are the same as those that underpin other taxes on wealth (such as capital gains) even if they fall into different legal categories; and because we argue (in the conclusion) these taxes should be seen as part of a coherent package of measures. We hope the DTC will permit such deviation.

New wealth taxes and higher existing wealth taxes will increase the tax-to-GDP ratio, but, as we had argued in previous submissions, this is an appropriate and desirable outcome. A higher and more appropriate tax-to-GDP ratio will achieve greater redistribution and enhance the resources available to the State for its social and infrastructure expenditure.

Our recommendations draw on the local context and international experience and best practice – even though comparisons of taxes levied across the world is a fraught and complicated process. The international experience indicates that substantial room exists for South Africa to change the composition of its wealth taxes and introduce new ones, as well as raise rates carefully.

The international experience also indicates substantial variation in the contribution of wealth taxes to government revenue and the level at which they are levied. This bears out the fact that the level of taxes deemed 'acceptable' is not simply determined in global capital markets according to the expected return on capital – though this may play a central role. It is also socially determined and results from the configuration of the economy as a whole. In Sweden, the inhabitants – at least when interviewed by reporters – note that they happily pay relatively high rates of income tax in return for living in society with quality public goods and services.[5] The societal determination of 'acceptable' tax rates by economic agents highlights the considerable room to change South Africa's tax system, and also the importance of how tax money is spent, in designing an effective tax system.

2.1 Why taxes can benefit the economy: theory

Previous literature drawn on by the Davis Tax Committee (DTC)[6] at times found that the pareto optimal, non-distortionary, tax rate was zero. In this vein we think it advisable to cover briefly some of the reasons why taxes can be beneficial for an economy.

Tax revenues can improve both economic growth and economic equity when effectively utilised. The historical record bears this out. The post-WWII 'Golden Age', of uniquely high levels of growth, productivity and investment in advanced economies, took place during a period of exceptionally high income and corporate taxes on individuals and businesses respectively. Advancing global integration has made the national decision to raise taxes more difficult in isolation, given increasing mobility of capital and property. Yet the theoretical arguments for why governments should tax economic agents remains strong, even if elasticities have changed:

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[5] Fouche, Gwladys. "Where tax goes up to 60 per cent, and everybody's happy paying it." *The Guardian.* 15 November 2008. Web. https://www.theguardian.com/money/2008/nov/16/sweden-tax-burden-welfare

[6] South Africa. *The Tax System and Inclusive Growth in South Africa.* By The Davis Tax Committee. Taxcom, December 2014. Web. http://www.taxcom.org.za/docs/20150605%20DTC%20Macro%20Analysis%20Framework%20First%20Interim%20Report%20(Full)%20%20for%20public%20comment.pdf

- **In the Keynesian system of demand management the state plays an important role in recycling idle savings through taxes or issuing debt and then** spending the previously idle monies, thereby raising the aggregate level of output, incomes and employment**.** In such a system it does not matter what government spends the savings on, as long as it is spent.[7]

  In this system *ex ante* savings cannot be presumed to equal *ex ante* investment, and Say's Law does not hold. This theoretical point has very real practical import. It means that savings cannot be assumed to bring forth an equivalent volume of investment. And the interest rate cannot be relied upon to equilibrate the aggregate level of savings and investment in society, such that the volume of investment will be brought into equilibrium with the volume of savings. This follows from the fact that savings and investment are done by different people and for different reasons. The interest rate, argued Keynes, might be determined purely by monetary factors (such as people's liquidity needs); real factors of productivity and thrift might play no role at all.[8]

  If this theoretical approach has a basis in economic reality, which we believe it does, namely that Say's Law does not hold, and the economy can have a demand-side constraint, then the implications are the following: (1) more savings does not necessarily entail more investment, in fact the Victorian virtue can be quite its opposite, as famously argued in Keynes' 'paradox of thrift'.

  As such: (2) measures which increase the supply of available savings to consumers and firms, through for example a *reduction* in tax rates, may have no material impact on the aggregate level of output – and can even have a negative impact on the level of aggregate expenditures if it leads to a reduction in government expenditures combined with an increase in the savings rate of households. Following from this: (3) measures that increase tax rates and tax revenue, can increase the aggregate level of output in society if it helps increase the overall propensity to spend from income.[9]
  If the propensity to spend versus save differs across different income and wealth deciles then by taxing certain groups more stringently, this effect can be notable. Most evidence indicates this to be so.[10] By taxing the wealthy, with a lower propensity to consume, and spending the taxed funds, government can stimulate demand in the economy.

- **Tax revenue is a key source of government revenue, from which market failures can be addressed, public goods provided and economic efficiency and growth advanced.**

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7 Even though investment spending can be subject to an additional accelerator effect.
8 Although as Blaug notes, this was just as much, perhaps, a result of which free variables were available to determine the system. Blaug, Mark. *John Maynard Keynes: Life, legacy, and Ideas*. UK: Palgrave Macmillan, 1990. Print.
9 Some might argue that this would then lead to a society with no savings. But, as the case of China shows, this is quite the opposite. High levels of investment bring forth high levels of savings through adjustments in income, which in the Keynesian system is what equilibrates the two. In the Keynesian system such expenditures by government can pay for themselves, for a given propensity to save/spend, and for given leakages, if it brings forth a sufficient increase in national income.
10 Dynan, Karen E., et al. "Do the Rich Save More?" *Journal of Political Economy*, 112:2 (April 2004): 397-444. Journals.uchicago. Web., and OECD. Directorate for Employment, Labour and Social Affairs. Employment Policies and Data. *Employment Outlook 2012*. Web.

Even if propensities to spend were identical, the state plays an important role in providing public goods. Markets, left to their own devices, will tend to not provide the socially optimal level of public goods.[11] In this way public welfare can increase. In addition, public and private goods compliment one another. In South Africa this can be seen quite clearly when looking at the quality of public education and thus labour's contribution towards production. In this way, public investment spending can 'crowd in' private investment. The DTC's final (second) macroeconomic report, for example, finds that the tax rate on capital is positively correlated with investment rates (0.42); noting that this "might reflect the South African authorities' increased utilisation of tax revenue towards investments in capital projects and infrastructure, a scenario that has complemented private sector investment and activities".[12]

- To the extent that the current distribution of income does not reflect agent's marginal revenue products, **taxes can correct for market failures** arising from agents abuse of their market power through rent seeking.[13] Asset inequality can entrench such market failures.[14]

- **Tax rates are one of the key determinants of income inequality and poverty, globally and in South Africa**. Poverty and inequality decline substantially in South Africa due to fiscal spending and transfers by government:[15] the Gini coefficient falls from 0.77 to 0.59, yet a Gini of 0.59 is still higher than in most countries in the world. Tax and spending, therefore, have a considerable role to play in redressing inequality of income, and also potentially wealth. Moreover, there is growing consensus that inequality hampers economic growth and undermines social cohesion.[16]

  The main barrier to making the tax system more progressive is the very real challenge posed by growing global integration and the mobility of wealth or property.

In this vein, Section 3 explores motivations for wealth taxation in South Africa. Following this, Section 4 looks at issues which might impact the viability of a wealth tax in South Africa; Section 5 tries to define wealth, and in turn the potential ambit of wealth taxes; Section 6 looks at the international experience with wealth taxes, focusing on instruments

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11 This is definitional really. Samuelson, Paul A. "A Pure Theory of Public Expenditure." *The Review of Economics and Statistics* 36.4 (1954): 387-389. Web. https://courses.cit.cornell.edu/econ335/out/samuelson_pure.pdf and Nordhaus' review: Nordhaus, William D., "Paul Samuelson and Global Public Goods." Yale University, 5 May 2005. Web. http://www.econ.yale.edu/~nordhaus/homepage/PASandGPG.pdf

12 pg.38: South Africa. *Macro Analysis of the Tax System and Inclusive Growth in South Africa.* By The Davis Tax Committee. Taxcom, April 2016. Web. http://www.taxcom.org.za/docs/20160421%20Second%20and%20Final%20Report%20on%20Macro%20Analysis%20Framework%20-%20Full%20Report.pdf

13 Stiglitz, Joseph. "Joseph Stiglitz Says Standard Economics Is Wrong. Inequality and Unearned Income Kills the Economy." *Evonomics.* 9 September 2016. Web. http://evonomics.com/joseph-stiglitz-inequality-unearned-income/

14 The Committee's macro document speaks of market failure arising only from externalities (pg. 13) but this is not the case. See Mas Collel Winson and Green (1994).

15 South Africa. World Bank Group. Treasury. *Redistribution of Income through Taxation and Spending in South Africa.* 2014. Web.http://www.treasury.gov.za/comm_media/presentations/Redistribution%20of%20Income%20through%20Taxation%20and%20Spending%20in%20South%20Africa%205%20Nov%202014.pdf

16 Dabla-Norris, Era, et al. "Causes and Consequences of Income Inequality: A Global Perspective." *International Monetary Fund.* June 2015. Web. https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf

most relevant for the recommendations we make. Choice of country examples follow from data availability; Section 7 makes recommendations for South Africa's array of wealth tax instruments, and Section 8 concludes and summarises. The Appendix contains further comparative details on wealth taxes globally.

3 Motivations for a wealth tax for South Africa

Wealth taxes provide a unique opportunity to make South Africa's tax system more progressive given how concentrated wealth is in South Africa, and given that taxing assets, especially less mobile forms of property, is less likely to distort economic behaviour than taxing income. South Africa's tax system is not particularly progressive and wealth taxation is a useful way to make it more progressive. Evidence from 2010 indicates that the fiscal system in South Africa is progressive overall, mainly due to government spending being highly progressive. South Africa's tax system is only 'mildly progressive'. The 'mild' progressivity is due to South Africa choosing to fund a high portion of its total tax intake from indirect taxes, with VAT contributing 26.5% of total tax revenue in 2014/15.[17] Moreover, direct taxes are more progressive in countries other than South Africa, according to the World Bank.[18]

This said, given extreme poverty and unemployment, the wealthiest 10% of individuals in South Africa earn about 63.7% of total market income yet pay 86.9% of total personal income tax.[19] This is not, however, an argument against restructured and increased taxation if such can be accommodated. Public investment (as noted) is critical to demand management, and the provision of social goods, and hence employment generation and poverty reduction. Only by reducing poverty, inequality and unemployment will the tax base be expanded.

A progressive wealth tax can serve as a vehicle for reducing inequality in South Africa. Income inequality is higher in South Africa than for any other country with reliable recent measures. Economists today recognize the negative macroeconomic impacts of inequality on growth: issues of distribution and economic efficiency cannot be separated. Such inequality of income stems from inequality in assets (human capital, physical capital, financial assets, etc.). South Africa has incredibly high levels of wealth inequality (Table 1). This contributes to increased income inequality (as income from wealth naturally accrues to wealth holders) as well as perpetuating other inequalities, as greater wealth can be leveraged to start businesses, fund education, access better healthcare and so on.

The top 10% of South Africans hold at least 90-95% of its wealth. While the top 1% holds 50% or more of its wealth (Table 1, depending on the data source used). This makes South

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[17] Woolard, Ingrid, et al. "How much is inequality reduced by progressive taxation and government spending?" *Econ3x3*. 28 October 2015. Web. http://www.econ3x3.org/article/how-much-inequality-reduced-progressive-taxation-and-government-spending, notes: "indirect taxes (VAT, excises on alcohol and tobacco and the fuel levy) are slightly regressive, notably in the bottom half of the income distribution. In 2010, the poorest 40% of individuals (rows 1 to 4 of table 2) contributed 5% of total indirect tax collections, compared with their share of 4.8% in total disposable income."
[18] South Africa. World Bank Group. Treasury. *Redistribution of Income through Taxation and Spending in South Africa*. 2014. Web.http://www.treasury.gov.za/comm_media/presentations/Redistribution%20of%20Income%20through%20Taxation%20and%20Spending%20in%20South%20Africa%205%20Nov%202014.pdf
[19] Woolard, Ingrid, et al. October 2015

Africa's distribution of wealth among the most unequal in the world.[20] Wealth is much more unequally distributed than income in South Africa: the top 10% of the population, by income, receive about 55–60% of all income. Like income inequality, wealth inequality has increased over time in South Africa. NIDS data indicates that the importance of capital income has increased for the wealthy (though probably underestimates this); in 2012 the top income decile received 10% of their income from capital,[21] as opposed to 4.4% in 1993. This is unsurprising: marginal rates of income tax have fallen in South Africa (recognising that the rate for the highest bracket was increased recently to 45%) allowing top income groups to keep, and hence invest, a higher proportion of their income. This shift also reflects the growing importance of finance, and financial assets, in the economy. This means that it is easier for richer people to accumulate wealth, and this will lead to increases in their capital income, all else being equal.

In general around 92-100% of most assets are held by the top 10% of South Africans with financial wealth the most concentrated. This means their taxation, via a well-targeted tax policy, could potentially positively contribute towards increasing the progressivity of South Africa's tax system.

Table 1. Wealth inequality (trimmed NIDS data, 2010)

	Top 1%	Top 10%
Wealth	47	92
Total assets	50	92
Total liabilities	42	99
One-shot wealth	60	97
Pension and life assets	97	100
Non-pension financial assets	96	99
Real estate assets	32	71
Capital income	58	100

Source: Orthofer (2016)[22]
Note: Quantile shares, NIDS, 2010, in percent. Calculations based on weighted sample using adult-level data and post-stratified weights. "Trimmed sample" excludes outliers (see Appendix A.3 of cited author).

The South African balance sheet data we have for the household sector indicates that wealth accumulation over the past two decades has been dominated by corporate stocks and profits, with a lesser contribution from housing price booms than in advanced economies. Whereas housing constitutes one quarter of total private assets in South Africa (as seen in Table 2), it is on average 40% in Piketty's sample. Three quarters of assets in South Africa are financial, with interests in pension funds and long-term insurers constituting the single largest category. The importance of pension assets for South African households is less surprising when considering that the domestic pension system is almost

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20 Dabla-Norris, Era, et al. "Causes and Consequences of Income Inequality: A Global Perspective." *International Monetary Fund*. June 2015. Web. https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf

21 Defined in National Income Dynamic Study (NIDS) as income from dividends, interest, rent income, imputed rent from residing in own dwelling and private pensions.

22 Orthofer, Anna. "Wealth Inequality – striking new insights from tax data." *Econ3x3*. 24 July 2016. Web. http://www.econ3x3.org/article/wealth-inequality-—-striking-new-insights-tax-data

entirely capitalised and privately administered.[23] This means a comparatively higher share of wealth in South Africa is sitting in financial assets, making their taxation even more necessary.

Table 2. South Africa's wealth composition, 2012

	% National income	% of total assets
Residential buildings	74	25,6
Other non-financial assets	18	6,2
total non-financial assets (1)	*91*	*31,5*
pension funds and life insurance	103	35,6
equity and fund shares	61	21,1
currency, deposits, bonds, and loans	34	11,8
total financial assets (2)	*198*	*68,5*
total assets (3=1+2)	**289**	
Mortgages	33	
Other liabilities	25	
Total liabilities (4)	58	
Net Wealth (=3-4)	231	

Source: Orthofer (2015)

Liabilities in South Africa, relative to assets, also do not seem to be high, indicating high levels of net wealth. This is reflected in that NIDS data show that net worth has the second highest Gini coefficient (0.9), after financial assets (0.92), and well above income (0.61).[24] A comparative perspective on this would be useful.

Perhaps most importantly for the purposes of a wealth tax, South Africa has a similar wealth to income ratio as Germany, the US and Canada, indicating at least similar revenue raising potential, all else equal.[25] This ratio indicates that there is a sufficiently large stock of accumulated wealth in South Africa such that its taxation, if implemented correctly, can yield tangible results.

Land and property taxes can play an important redistributive function and respond to historic dispossession and spatial inequalities. In urban areas the majority of poor people remain displaced on the urban periphery while property values are high in former-white suburbs and appreciate at a much faster rate than cheaper properties. The majority of non-urban land is also extremely unevenly distributed. In 2012 only 7.5% of formally white-owned land had been transferred to black ownership.[26] Taxation is one, albeit limited, means through which to tackle these issues.

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[23] Orthofer, Anna. "Private Wealth in a Developing Country: A South African Perspective on Piketty." *ERSA*. December 2015. Web. http://wid.world/document/orthofer-anna-2015-private-wealth-in-a-developing-country-a-south-african-perspective-on-piketty-ersa-working-paper-564/

[24] Daniels, Reza, and Taryn Augustine. "The Measurement and Distribution of Household Wealth in South Africa Using the National Income Dynamics Study (NIDS) Wave 4" *Working Paper. SALDRU*, August 2016. http://localhost:8080/handle/11090/841.

[25] *ibid.*

[26] Plaas. 'The Distribution of Land in South Africa: An Overview' *Fact Check No. 1 Land Reform (2013)* Web. http://www.plaas.org.za/sites/default/files/publications-pdf/No1%20Fact%20check%20web.pdf

3.1 Considering the potential of a wealth tax

Wealth taxes have several potential advantages over income taxes, these include:

- **A tax on wealth may counteract both widening wealth inequality within populations and its transmission to next generations**. Piketty[27] shows that wealth tends to concentrate due to returns to capital exceeding rates of growth, which is particularly acute in ageing societies. More specifically, Piketty argues that, by decreasing the net-of-tax return on capital and the take-home pay for high-income earners, progressive income tax slows down wealth accumulation at the top end of the spectrum.

- **If effectively taxed, as wealth grows its share in the tax mix tends to increase together with the incentive to secure greater revenue from asset taxes**.[28] Taxing wealth more substantially in South Africa will benefit from a growing wealth-to-income ratio in the country. From the late 1990s onwards, private wealth recovered, as asset price increases more than compensated for the steadily falling savings rates. And South Africa's private wealth-to-income ratio is on an upward trajectory.[29]

  In contrast, corporate income tax (CIT) is a significant, but declining, revenue source. In 1975/76 CIT accounted for 41% of tax revenue versus 18.9% in the 2014/15 fiscal year. One of the reasons for this decrease is the drop in tax revenue from mining, particularly gold mining. This highlights the need to tap into expanding sources of revenue to meet South Africa's taxation needs, including markets for financial assets, housing and land.

- **Progressive inheritance tax limits the development of capital dynasties**.[30] Such concentration of wealth in turn can corrupt the political system thereby leading to a further widening of inequality. Inheritances and gifts tend to be highly concentrated and may contribute to the transmission of income and wealth inequalities. This relies on the idea that inequality in inheritance affects equality of opportunities because of the concentration of wealth. In South Africa this is particularly pertinent given that a large share of inherited wealth passes between generations within white households and its acquisition has roots in the accumulation of wealth under apartheid. On the other hand, critics of inheritance taxes argue that this constitutes double taxation and that it encourages consumption instead of bequest-motivated savings.

- **A wealth tax is, in general, less 'distorting' of economic behaviour than income tax**. Capital taxation has a history of being considered to be a distortionary

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27 Piketty, Thomas. *Capital in the 21st Century*. Cambridge: Harvard University Press, 2014. Print.

28 Orthofer, Anna. "Private Wealth in a Developing Country: A South African Perspective on Piketty." *ERSA*. December 2015. Web. http://wid.world/document/orthofer-anna-2015-private-wealth-in-a-developing-country-a-south-african-perspective-on-piketty-ersa-working-paper-564/

29 *ibid.*

30 Almy, Richard. "Valuation and Assessment of Immovable Property", OECD Working Papers on Fiscal Federalism, 19 (2014). Paris: OECD Publishing. Web. http://dx.doi.org/10.1787/5jz5pzvr28hk-en

tax, but only under stringent economic conditions.[31] In general though, the economic literature has very little dynamic taxation models for assets.[32] In Europe, additional tax revenue from specific assets, residential property, is seen to improve the growth-friendliness of taxation systems.[33] Recurrent taxes on land and residential buildings have received support by the OECD's 2010[34] analysis on taxation and growth, based on the notion that such taxes affect labour supply, investment, human capital investment and innovation decisions to a lesser degree than other taxes, and are more difficult to evade.

- **Wealth is arguably a better indicator of ability to pay taxes than annual income**. Net wealth ownership reflects the possession of property capable of generating income while actual income earned does not reflect all debits and credits the earner is subject to. This is again particularly pertinent in South Africa given that higher-income earners from historically disadvantaged backgrounds tend to have a larger number of dependents and lower levels of household wealth. Therefore, although salaries may be equal, greater demands are placed on the salaries of earners entering the labour market with lower levels of household wealth (due to historic disadvantages).

- **Historically, taxes on wealth and transfers have been a major source of revenue for European countries**. In other words, they have a proven track record of success, and plenty of failures to learn from too.[35] Wealth taxes, while having declined in use in Europe, remain widespread and calls for taxes on net wealth and on financial trading is now growing in several key European countries[36] (see

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[31] The argument for the distortionary effect of capital taxation has been well entrenched since Atkinson and Stiglitz (1979), Chamley (1986), and Judd (1985). Straub and Werning (2014) refute the optimality of capital non-taxation in the long run within the logic of the modelling framework of Chamley (1986) and Judd (1995). From a policy perspective, the favourable tax treatment of capital income is argued to encourage investment, notably by enabling more projects with positive expected after-tax return. Furthermore, due to its higher mobility, taxes on capital income other than real estate are considered more distortive than on labour, hence justifying lighter burdens.
Iara, Anna. European Commission. Taxation and Customs Union. *Wealth distribution and taxation in EU Members.* 2015. Web.http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_60.pdf
[32] Mirrlees, James, et al. *Tax By Design.* The Mirrlees Review. Oxford: Oxford University Press, 2011.
For recent approaches see: Diamond and Saez, 2011; ibid., 2012; Jacobs, 2013. Piketty (2008) notes that optimal capital tax literature does not have much to say on issues of asset taxation. Capital accumulation is an intrinsically dynamic phenomenon, and economists have not yet found the proper way to develop useful dynamic models of optimal capital taxation, i.e. models that can be used for an informed policy discussion. In the short run, capital income is viewed as a pure rent coming from past accumulation, so that the existing capital stock should be taxed at a 100% rate. In the long run, the elasticity of savings with respect to the net-of-tax interest rate is typically infinite so that even dynasties with zero-capital-stock would suffer enormously from any capital tax rate larger than 0% (i.e. even an infinitely small tax rate would have enormous, devastating effects).
Piketty, Thomas. "Wealth Taxation in the 21st Century: A Personal View." *The Mirrlees Review.* 2008. Web. http://piketty.pse.ens.fr/fichiers/public/PikettyMirrleesReview2008.pdf
[33] Iara, Anna. European Commission. Taxation and Customs Union. *Wealth distribution and taxation in EU Members.* 2015. Web.
[34] OECD. Centre for Tax Policy and Administration, Tax Policy Analysis. *Tax Policy Reform and Economic Growth.* Paris: OECD Publishing, 2010.
[35] Dabla-Norris, Era, et al. "Causes and Consequences of Income Inequality: A Global Perspective." *International Monetary Fund.* June 2015. Web. https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf
[36] Iara, Anna. European Commission. Taxation and Customs Union. *Wealth distribution and taxation in EU Members.* 2015. Web.
http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_60.pdfIf and Ernst and Young. *Wealth Under the Spotlight.* 2014. Web.
http://www.ey.com/Publication/vwLUAssets/ey-wealth-under-the-spotlightv6/$FILE/ey-wealth-under-the-spotlightv6.pdf

Section 5).[37]

- **Net wealth taxes can provide tax authorities with information** that enables them to identify inconsistencies between income flows and wealth held by taxpayers.[38]

- **Wealth taxes can be used to foster a sense of social solidarity (or Ubuntu)**, especially if the resulting revenue is perceived to be well spent. France famously calls its net wealth tax a 'solidarity tax'.

- **A land tax has potential economic, land use, administrative and social justice benefits.** As Childress et al. explain: "The principal economic argument is that a pure land tax is non-distortionary, because it has no negative effects on investment or production. Because the land tax is a fixed cost that must be paid whether or not the land is used for production, it does not penalize production and creates an incentive to develop land to its most profitable use. In this regard, land taxation discourages underutilization of land and land speculation. Administratively it is a preferred type of taxation because of its transparency; land is immobile and cannot be hidden or disguised as a bookkeeping transaction. From a social justice perspective, it captures the economic rent that arises from a scare natural resource due to population presence and public infrastructure investment which increase the market value of land. As such, it is inherently equitable to tax such "unearned increments" that arise from public actions. From an institutional perspective, the tax can be viewed as a payment to society for the benefits conferred to the landowner for the guarantee of private property."[39]

  In the South African context a land tax is particularly appealing given that land was acquired via dispossession and continues to be highly unevenly distributed.

- **Property taxation has the ability to address spatial inequalities.** By taxing higher-value properties and spending these funds in areas with lower property values such taxation can assist in addressing spatial inequalities.

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[37] "In Austria, in late 2013, a broad platform of economists and social scientist launched a call to re-introduce a tax on gifts and inheritances that was abolished in 2008. In Germany, the taxation of wealth has been put on hold since 1997 but its reactivation has been picked up by public debate lately (Bräuninger, 2012); besides, an investigation by the Constitutional Court is ongoing on the privileges to private assets offered by the gift and inheritance taxation rules applied to business assets. In Spain, a net wealth tax had been effectively abolished in 2008 but re-introduced in 2011. In the UK, the debate has been ongoing, with analytical contributions made e.g. by IPPR, one of the country's leading think-tanks, extending micro-simulation over household assets. In France, a "solidarity tax on wealth" has been levied since 1982. After a reduction in the overall burden in 2012, most recently again higher rates of up 1.5% on assets over EUR 10 mn are being applied. In Belgium, public debate on the possibility to tax wealth to the benefit of decreasing the high tax burdens on labour has also become more vocal recently. On the other hand, in Italy, hostility against wealth taxes – in particular against those on residential property, that had been introduced in 2011 but abolished for non-luxury dwellings later – is wide-spread and appears consistent with high and broadly spread levels of net household wealth against the highly indebted state." Iara, Anna. European Commission. Taxation and Customs Union. *Wealth distribution and taxation in EU Members*. 2015. Web.
http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_60.pdfIf

[38] Förster, Michael, et al. "Trends in Top Incomes and their Taxation in OECD Countries." OECD Publishing. SEM Working Papers 159. 2014. Web. http://praha.vupsv.cz/fulltext/ul_1710.pdf

[39] http://www.sarpn.org/documents/d0002699/Agricultural_land_tax.pdf

3.2 Current contribution of wealth/property taxes to South Africa's revenue

In South Africa, taxes on property (i.e. wealth) consist of a donations tax, an estate duty tax, a securities transfer tax (STT) and transfer duties. Capital gains tax (CGT) is collected with income tax and so the DTC and the South African Revenue Service (SARS) prefer to not view it as a wealth tax.

- *Donations tax* is levied at a rate of 20% on the value of the donation. An annual exemption of R100 000 is available to natural persons.

- *Estate Duty* is levied at a rate of 20% on the dutiable amount of the deceased estate. Specific deductions and abatements are allowed from the total value of the estate.

- *Securities Transaction Tax (STT)* is levied at a rate of 0.25% on every transfer of a security.

- *Transfer duty* is the largest source of property tax revenue, as defined by SARS. It is levied on the acquisition of property at a progressive rate for all persons including companies, closed corporations and trusts. From 1 March 2016, a marginal rate of 13% applies to the portion of the property valued at more than R10 million.

- *Capital Gains Tax (CGT)* is not raised separately from Corporate Income Tax (CIT). The taxable portion of capital gains is included in CIT taxable income at an inclusion rate of 66.6%. Prior to 1 March 2012, the inclusion rate was 50%.

These taxes, and their relative contribution, are summarised in Table 3.

Table 3. Taxes on wealth/property (R millions, %), 2015/6

	Donations tax	*Estate duty*	*Securities Transfer Tax (STT)*	*Transfer duties*	*Total*
Amount (R, millions)	R135	R1 982	R5 531	R7 396	R15 044
Percentage of total wealth taxes	0,9%	13,2%	36,8%	49,2%	100%
Percentage of total tax and non-tax revenue	0,01%	0,18%	0,49%	0,66%	1,34%

Source: SARS 2016 Statistics,[40] own calculations
Note: see note below for definitions.

[40] South Africa. National Treasury. *Tax Statistics*. By SARS. 2016. Web. http://www.sars.gov.za/About/SATaxSystem/Pages/Tax-Statistics.aspx

Not shown in the Table is the gradual increase of wealth taxes as a percentage of total revenue, from 1% in 2012/13 to 1.34% in 2015/16. Capital gains tax, not included in the table, accounted for 1.48% of total tax revenue in 2015/16 (R16,681 million), 54% of which was raised from companies.[41] Including CGT, taxes on property account for 2.82% of total government revenue.

Table 4. Wealth tax revenue in South Africa (R millions, %), 2015/16

	Total wealth tax revenues	Total with CGT
Total	R15 044	R31 726
% of total revenue	1,34%	2,82%
% of nominal GDP	0,37%	0,78%

Source: *ibid.*

Note: wealth tax includes tax revenue from donations, estate, transfer duties, and STT. This corresponds to the 'taxes on property' category used by SARB; nominal GDP taken from SARS data tables; revenue is total government revenue from tax and non-tax sources. Non-tax revenue includes interest, dividends, rent on land, sales of goods and services, fines and penalties, sales of capital assets, financial transactions in assets and liabilities, and MPRR, as well as extraordinary receipts. We do not deduct SACU payments from this.

Capital Gains Tax

Capital Gains Tax (CGT) is a tax on the disposal proceeds of assets. It is raised on assessment of the taxpayer and forms part of the normal income tax liability. The revenue due from CGT is declared in PIT or CIT tax returns. It is notoriously difficult to determine the tax base of CGT as gains are only taxed on the realisation of capital gains and the inclusive portion are taxed at the various marginal tax rates. After the global financial crisis taxpayers who were able to postpone the realisation of their assets did so to prevent losses, while other taxpayers that experienced distress selling of assets made capital losses. Most notably the selling of secondary holiday homes and equities had an impact on the lower CGT raised. CGT collections declined from R9.1 billion in 2010/11 to R6.8 billion in 2011/12. Collections recovered strongly to reach R11.6 billion in 2013/14 and increased marginally to R11.7 billion in 2014/15. The strong increase in 2013/14 CGT collections was partly the result of the increase in inclusion rates. From March 2012, the inclusion rates for natural persons and special trusts increased from 25.0% to 33.3% of capital gains and for companies and trusts the inclusion rates rose from 50.0% to 66.6%. These legislative changes increased the maximum effective tax rates from 10.0% to 13.3% for natural persons and from 14.0% to 18.6% for companies. From March 2016, these inclusion rates were increased again to 40.0% for natural persons and special trusts, and to 80.0% for companies and trusts.

Transfer duties

In 2015/16, properties valued above[42] R1.75 million accounted for 67.8% of all Transfer Duty transactions (the breakdown shown in Figure 1). Even though properties below R1.75 million accounted for 42.0% of the total value of properties acquired, they accounted for only 13.7% of the Transfer Duty paid. The majority of revenue comes from

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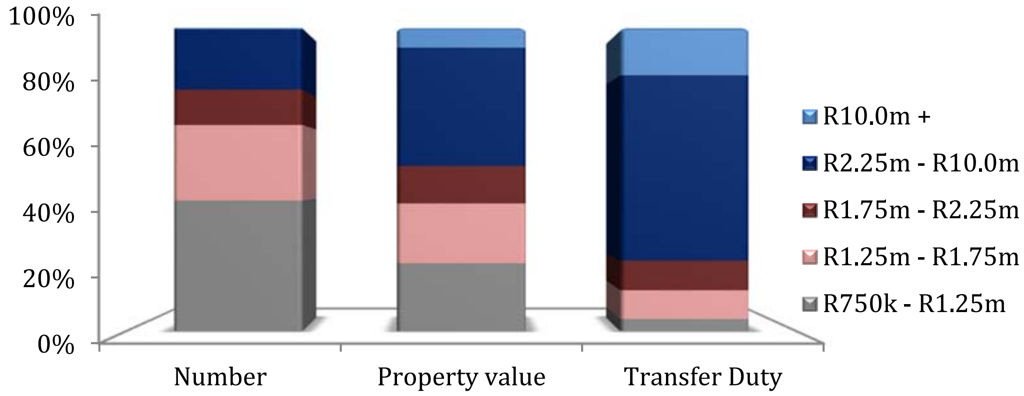
41 Ibid.

42 SARS incorrectly states 'below' (instead of above) SARS, *ibid*, pg. 237

transfer duty on the tax payer's primary residence. The transfer duty top marginal rate has been increasing since 2010, from 8% to 11% to 13%. However, these rates are levied on a differentiated basis. The maximum tax rate for transfer duty increased from 11% for property transactions above R2.25 million, while the 13% top marginal rate applies to property registrations above R10 million, effective 1 March 2016.

Figure 1. Distribution of Transfer Duty collected by property value, 2015/16



Source: *Ibid.*

4 Assessing the viability of a wealth tax

The DTC's final macroeconomic report notes the following principles in a 'good' tax system (pg. 14, quoting):

1. *Efficiency*: The tax system must produce sufficient income for the state, with minimum distortions to the economy (i.e. it must be neutral).
2. *Equity*: All residents must contribute to the fiscus in proportion to their ability to do so. Both horizontal and vertical equity are important. Where appropriate, tax equity should also consider the benefits of the public good received in relation to the tax burden imposed
3. *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
4. *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
5. *Tax buoyancy*: The tax system should raise sufficient revenue during all phases of the business cycle, while simultaneously embodying scope for a counter-cyclical fiscal framework (National Treasury, 2012).

4.1 Horizontal and vertical equity[43]

Regarding equity, horizontal equity and vertical equity should both guide the application of wealth taxes in South Africa.

Horizontal equity demands that individuals in similar economic circumstances should bear a similar tax burden, irrespective of the form the accretion of economic power takes. In other words, taxpayers should bear similar tax burdens, irrespective of whether their income is received in the form of wages or capital gain. In this context, the exclusion of capital gains from the income tax base fundamentally undermines the horizontal equity of the tax system. An individual who invests R100 000 on fixed deposit at 10% a year has the same ability to pay as one who invests R100 000 in shares and derives a dividend of 3% and a capital gain of 7%. Without CGT the latter individual pays dividends tax of only 15% on the dividend while the former pays up to 41% on the interest income (excluding the exempt portion). The same principle applies to individuals earning salary income compared to those deriving income in the form of capital gains.

Vertical equity connotes that taxpayers with greater ability to pay taxes should bear a greater burden of taxation. Furthermore, international experience indicates that most wealth, and its resulting income from capital and property, can be attributed to the wealthiest of individuals. Thus, including capital gains in taxable income, for example, contributes to the progressivity of the income tax system, while enabling government to pursue other tax policy objectives, premised on widening tax bases and reducing standard tax rates. Given the skewed distribution of wealth in South Africa, the introduction of capital gains tax was intended, for example, to markedly improve the vertical equity of the income tax system in South Africa.

4.2 Potential complications of a wealth tax

Taxing wealth can introduce a number of complications, especially concerning the valuation of assets. In general though, these problems can be overcome and a detailed international scholarship on almost all the pertinent issues does exist from which a carefully designed tax on most forms of property can be implemented. Some common difficulties include:

- **Valuation:** In the first instance, there is difficulty in calculating the value of a person's assets. Until they are sold their market value can only be estimated, often with a great degree of variability. Asset values are in constant flux, and the continual revaluation of assets (apart from financial assets) is burdensome to administer. Valuation issues become sites for contestation leading to legal challenges and administrative complexities.[44] This is why taxing recipients of

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[43] McAllister, Duncan S. *Comprehensive Guide to Capital Gains Tax*. South African Revenue Service. Legal and Policy Division. 2015. Web.
http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-CGT-G01%20-%20Comprehensive%20Guide%20to%20Capital%20Gains%20Tax%20-%20External%20Guide.pdf

[44] Germany enacted its Wealth Tax Act in 1952 (*Vermögensteuergesetz*), which for many years was considered by many to violate constitutional law. Germany's Constitutional Court (*Bundesverfassungsgericht*) finally agreed, in January 1997, that this was the case, setting out that the valuation of real estate for wealth tax purposes under the German Wealth Tax Act

wealth-derived income, as an extension of the income tax system, is often preferred.[45]

Further complications are introduced by the fact that taxing certain assets might require (a portion of) them to be sold to pay the tax, this could further alter their value. Further, if a taxpayer's assets do not generate current income, then the net wealth tax can also pose illiquidity problems, although high-net-worth taxpayers likely have sufficient liquid assets to pay the tax.

Lastly, human capital is potentially a significant income-earner but may lie dormant; as such how does one value it other than by derivation from its income-earning ability, and how do you assess the latter if it is not in constant application?

Valuation issues, however, have proven to be surmountable in other countries (such as France) who have net wealth taxes, or who target specific assets of individuals, such as their overseas residences (Italy). Of 166 countries known to have recurrent taxes on immovable property, 93% have at least one value-based property tax, around which has arisen a voluminous legal and economic literature upon which a net wealth tax policy can draw on. An extensive literature has arisen on issues of how to value property, for example around immovable property.[46] Crucial is finding means of reducing administrative costs and increasing compliance. What the literature shows is that a carefully designed tax on property is possible, as South Africa's own experience with taxes on estates and property transfers illustrates.

- **Tax avoidance and evasion** is made easier by the increasingly complexity of ownership structures, in part enabled by exemptions, for example for trusts. Relief and exemptions – for land, for instance, and family-owned businesses – are generally permitted, also creating avoidance opportunities. The extent and nature of the relaxation of exchange controls has contributed to avoidance and evasion, making it easier to export capital and more difficult to tax assets (especially offshore assets). Making the system equitable, without exemptions from which loopholes are exploited, can however increase administrative complexity and costs. While many *financial* assets are traded on liquid secondary market where their prices can be determined within some degree of accuracy, financial assets are often the most mobile component of one's assets and so can be invested in ways to avoid taxation. Buy-in from those most able to avoid paying the wealth tax is therefore required to ensure compliance. This is particularly so given growing global integration and the growing predominance of financial property in net wealth of the rich.

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was privileged excessively compared to the valuation of other assets (e.g., bank money) which constituted a conflict with the principle of equality.

45 Atkinson, A.B. *Unequal Shares: Wealth in Britain*. Harmondsworth: Penguin Books, 1971. Print., and Sandford, Cedric. *Taxing Personal Wealth; An analysis of capital taxation in the UK, present structure and future possibilities*. London: Allen and Unwin, 1971. Print.

46 Almy, Richard. "Valuation and Assessment of Immovable Property", *OECD Working Papers on Fiscal Federalism*, 19 (2014). Paris: OECD Publishing. Web. http://dx.doi.org/10.1787/5jz5pzvr28hk-en

5 What is wealth[47]

The scope and configuration of a wealth tax is limited by our understanding of what wealth is. Defining wealth assists us in approaching a wealth tax for several reasons: it shows that the potential ambit of a wealth tax is fairly wide and will continue to change as new objects of property are created through the continuous alienation and trading of property rights. Moreover, it provides the essential ingredients for a properly considered, and comprehensive approach, to calculating wealth inequality in South Africa.

In line with a long literature, dating pack to Petty, Smith, Hegel, Aristotle and Marx,[48] we follow Peterson (2016)[49] in defining wealth in two senses:

- **Real material wealth**: objects of utility[50] (e.g. a car or a song or a trademark);

- **Proprietary entitlements**: as socially recognised entitlements to those objects of material wealth (e.g. an incorporated company's share).

Hence: **Wealth = real assets + financial assets**

These objects of property are of two kinds: first, those naturally occurring without human intervention, but capable of being appropriated; secondly those which, by deliberate human exertion applied to the resources of nature, are capable of being appropriated as they are produced. The real ingredients to produced output clearly includes human capital, as the full quantum of mental aptitudes used to expend labour power.

The practical implications of the above are that they help define and limit the scope of any potential wealth tax. Give the above:

- **Human capital is clearly a component of someone's wealth.** Even if its valuation cannot be adequately assessed until exercised, and ideally on a regular basis. For example, an advocate's fee, can be assessed only indirectly, through its income earned, and only when the asset is utilised in production to produce a service for the relevant party.

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47 This section draws on Petersen, Rob. "The evolution of property and how it rules the world." *Tshisimani Centre for Activist Education*. April - December 2016. Web. http://rob-petersen.info/work-in-progress/evolution-of-property-course/

48 Adam Smith, for instance, notes that a nation's wealth comprises the "necessaries and conveniences of life" which it consumes together with the means of providing them, whether by production or purchase, and Hegel stresses that property and wealth, even real material objects (rather than secondary objects of wealth – as entitlements), extend to incorporeal property. Excerpt from The Wealth of Nations, Smith (1776), and Philosophy of Right, Hegel (1821), quoted in Petersen (2016).

49 Ibid.

50 Importantly, Petersen (2016), notes that: "Objects of material wealth include anything of utility, whether satisfying a need or a want or providing a means of generating the satisfaction of a need or a want. As beauty is in the eye of the beholder, so utility is in the experience and expectation of the user."

As a result: "Wealth resides in the developing interrelationship between objects and the subject who uses them — the human individual, a social being, actively caught up in a process of becoming. The utility of an object to its user is essentially a matter of subjective evaluation — at least, when more than the satisfaction of the most vital needs is involved. Any general hierarchy in this regard will at best be approximate. While individual evaluations are socially influenced, sometimes to a very high degree, utility to the user cannot be quantified objectively, and the different utilities of different objects to different people cannot directly be compared."

- In addition, **a capital gains tax,** can be considered a wealth tax, as we do here, even though this is not the view held by the DTC, which views it, in line with existing legal practice, as a tax on capital income. For SARS, this approach seems to rely on the distinction between income and 'comprehensive income', but may simply be of administrative benefit (to incorporate CGT into the Income Tax Act) with some *ex post* legal justification.[51]

- Lastly, the wealth of society and of individuals will include **natural resources**, essential ingredients in the production process. Given South Africa's vast mineral wealth this is a potentially important point with respect to the configuration of a wealth tax for South Africa. We do not have space to address it here.

6 International Experience with Wealth Taxes

The taxation of wealth can be based on three approaches: taxing the base (property taxes, net worth), the asset transfer (inheritances and gifts, land and capital transfers) or the increase in value of assets (capital gains, including real estate). Comparing tax rates and policies is fraught with serious difficulties, requiring immense care to ensure apples are being compared with apples, after accounting for exemptions, double taxes, effective tax rates, etc. We do not pretend to have done such an exhaustive undertaking, which is beyond the scope of this study. However, we draw on a number of illuminating case studies that may be useful in the South African case.

[51] South Africa. *Second Interim Report on Estate Duty*. By The Davis Tax Committee. Taxcom.org. Web. http://www.taxcom.org.za/docs/20160428%20DTC%20Second%20and%20Final%20Report%20on%20Estate%20Duty.pdf. This also seems to draw on a certain legal tradition adopted by SARS. Haig-Simons, quoted by contemporary SARS CGT writers, defines income as "the sum of the market value of rights exercised in consumption and the change in the value of the store of property rights between the beginning and the end of the period in question". Under this definition, *"comprehensive income" equals consumption plus net wealth accumulated during the period.* In accordance with this definition, capital gains should be treated no differently from other forms of income. See: See R M Haig 'The Concept of Income – Economic and Legal Aspects" in The Federal Income Tax (1921) Columbia University Press and H Simons Personal Income Taxation (1938) The University of Chicago Press, quoted in McAllister, Duncan S. *Comprehensive Guide to Capital Gains Tax*. South African Revenue Service. Legal and Policy Division. 2015. Web. http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-CGT-G01%20-%20Comprehensive%20Guide%20to%20Capital%20Gains%20Tax%20-%20External%20Guide.pdf.

SARS focuses on the intention of a person in purchasing the asset in determining the capital or revenue nature of a particular receipt or accrual (ibid, pg. 12). By this measure an appreciating house, as constituting a direct ownership right, can constitute income, even if no flow is ever received such that it generates no additions to one's annual income. We adopt a different legal approach, drawing on Roman property law. Property rights, defined here *as a socially recognized exclusive entitlement to wealth*, covers both 'primary' property rights, i.e. the direct ownership of a person to a 'thing' (with a 'thing' defined to cover both corporeal and incorporeal property following Roman law and Hegel). Secondary property rights we can reserve for entitlements of a person to a 'thing'. Following Roman law and subsequent clarifications this is really the entitlement of a person (who holds the right) for some other person (who holds the liability) to undertake an action for the property holder in respect of the 'thing' (e.g. for a legal person to distribute earnings from a company to its normal shareholders). This category of property rights includes all subsequent, more derivative (i.e. steps removed), entitlements (i.e. an entitlement, to an entitlement, in respect of a thing, e.g. a synthetic CDO). Property rights, as a socially recognized exclusive entitlement to wealth, contain a bundle of rights, some of which can be alienated and traded separately on the market, when recognised as an object of property itself. For example, the owner of property (property in the primary sense above) can sell the right to receive income from that property (as a secondary object of property), while maintaining direct ownership of that property. Would an appreciation in the value of that property constitute income to the owner, even if the related right to receive annual income flows from that property had been traded?

Table 5 shows the use of wealth taxes across the European Union (EU) in 2014.

Table 5. Wealth taxes across the European Union (EU), 2014

Member State	Inheritance Tax	Inheritance provision	Gift Tax	Gift Provision	Real estate possession tax	Real estate poss. provision	Real estate transfer tax	Real estate trans. provision	General net-wealth tax	General net-wealth prov.	Specific net-wealth tax
Belgium	✓	×	×	✓	×	✓	×	✓	×	×	×
Bulgaria	✓	×	✓	×	✓	×	✓	×	×	×	✓
Czech Republic	×	✓	×	✓	✓	×	✓	×	×	×	×
Denmark	✓	×	✓	✓	✓	×	×	✓	×	×	✓
Germany	✓	×	✓	×	✓	×	✓	×	×	×	×
Estonia	×	×	×	×	✓	×	×	✓	×	×	✓
Ireland	✓	×	✓	×	✓	×	×	✓	×	×	×
Greece	✓	×	✓	×	✓	×	✓	×	×	×	×
Spain	✓	×	✓	×	✓	×	✓	×	✓	×	×
France	✓	×	✓	×	✓	×	✓	×	✓	×	×
Croatia	✓	×	✓	×	✓	×	✓	×	×	×	✓
Italy	✓	×	✓	×	✓	×	×	✓	×	×	✓
Cyprus	×	×	×	×	✓	×	✓	×	×	×	×
Latvia	×	×	×	✓	✓	×	✓	×	×	×	×
Lithuania	✓	×	×	✓	✓	×	×	×	×	×	×
Luxembourg	✓	×	✓	×	✓	×	✓	×	×	×	×
Hungary	✓	×	✓	×	✓	×	✓	×	×	×	×
Malta	×	×	×	×	×	×	✓	×	×	×	✓
Netherlands	✓	×	✓	×	✓	×	✓	×	×	✓	×
Austria	×	×	×	×	✓	×	✓	×	×	×	×
Poland	✓	×	✓	×	✓	×	✓	×	×	×	✓
Portugal	×	✓	×	✓	✓	×	✓	×	×	×	×
Romania	×	×	×	×	✓	×	×	✓	×	×	×
Slovenia	✓	×	✓	×	✓	×	×	×	×	×	✓
Slovakia	×	×	×	×	✓	×	×	✓	×	×	×
Finland	✓	×	✓	×	✓	×	✓	×	×	×	×
Sweden	×	×	×	×	✓	×	✓	×	×	×	×
UK	✓	×	✓	×	✓	×	✓	×	×	×	×

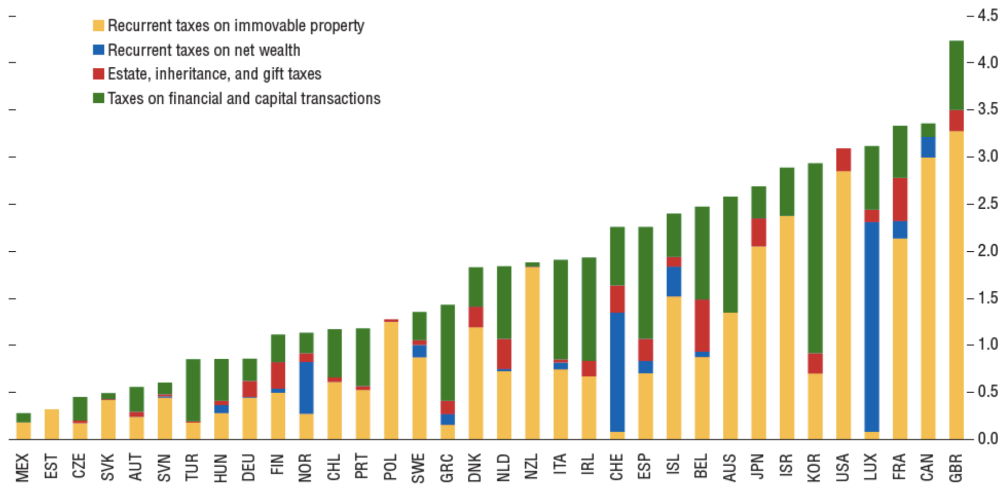
Source: Ernest and Young (2014)[52]

It highlights how widespread taxes on property are across the EU. Despite being so wide spread and with such a variety of instruments in place, wealth taxes provide only slightly under 2% of tax revenue relative to GDP on average in OECD countries.[53] Tax revenue on property represent a small percentage of overall tax revenue (between 0.5% and 7.5%) and relative to GDP (Figure 2 below).

[52] Ernst and Young, *Cross-country Review of Taxes on Wealth and Transfers of Wealth*. October 2014. Web. https://ec.europa.eu/taxation_customs/sites/taxation/files/docs/body/2014_eu_wealth_tax_project_finale_report.pdf

[53] International Monetary Fund. *Taxing Times*. Fiscal Monitor. October 2013. Web. https://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf

Figure 2. Average Property Tax revenue in OECD Economies (percent of GDP), 2000-11.



Source: International Monetary Fund. Taxing Times. Fiscal Monitor. October 2013. Web. https://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf

In assessing the distribution of such taxes we note:

- The majority of wealth tax revenue tends to come from immovable property – real estate and land. It is easy to make this progressive, the base is fairly immobile, and it is easy to structure it in a growth friendly manner, relative to other taxes.[54]

- Taxes on financial and capital (primarily real estate) transactions also play a notable – often dominant – role in most countries. They are appealing since the value of the financial transaction is easy to calculate and record,[55] and they may also reduce asset price volatility. The mobility of financial assets can pose problems and reduce liquidity and domestic financial asset values if set too high.

- The design of inheritance and gift taxes with large exemptions for family means that they raise little taxes as they are not comprehensively applied. They remain appealing since they can limit the intergenerational transmission of inequality and perhaps also in reducing the consequent distortion of recipients' work effort.[56]

- Net wealth taxes have been abolished in most countries due to high compliance costs and political and legal disputes. Though their impact on tax revenue can be non-negligible they can also be highly uncertain. They can also play a role in fostering social solidarity if implemented correctly.

We can see that the revenue intake from net wealth taxes ranges from a negligible amount in Mexico (less than 0.5% of GDP) to a significant amount in Canada (almost 3.5% of

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[54] *ibid*

[55] Stamp duty on the sale of shares in the United Kingdom, for instance, is one of the cheapest, per pound collected, of all taxes (*ibid*).

[56] Dabla-Norris, Era, et al. "Causes and Consequences of Income Inequality: A Global Perspective." *International Monetary Fund*. June 2015. Web. https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf

GDP) and Gibraltar (over 4% of GDP). In Britain and France, real estate taxes play an important part in municipal finances in quantitative terms (Deutsche, 2012).[57]

6.1 Net wealth tax

Net wealth taxes are becoming more popular tax instruments in countries after the 2007/8 global financial crisis, with the opposition parties in Austria, Germany[58] and elsewhere in the EU advocating for net wealth taxes. Net wealth taxes have garnered several prominent supporters post-crisis. The IMF[59] has supported a once-off net wealth tax for European countries; similarly, the Boston Consulting Group[60] has supported a once-off tax on financial assets, real estate and on net wealth (real estate and capital gains) in European countries and for the US; Saxo Bank chief economist Steen Jakobsen, proposed a 10% general asset tax.[61] These advocates sees a net wealth tax largely as a fiscal measure to reduce debt levels, showing its ability to materially impact total tax intake.

Unlike income taxes which tax a flow of earnings (i.e., wages, salaries, profits, interest and rents), a wealth tax is generally comprehended as a levy based on the aggregate value or stock of all assets belonging to an individual (or in some cases, a household), including (but not necessarily limited to): 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 relatively more by the wealthy. 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 them or are seriously debating 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 tax revenue from traditional sources.[62] The key points from our analysis of net wealth taxes in countries around the world are that:

- Net wealth taxes are not widely used but can be implemented successfully and make a meaningful contribution to the government's fiscal balance.

- They are progressive, levied at a low level (around 1% but ranging between 0.5% and 2.5%) and focus on the wealthiest few percent of the population, either their

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57 Brauninger, Dieter. "Income and wealth taxes in the euro area." *Deutche Bank*. 22 August 2012. Web. https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000292966/Income+and+wealth+taxes+in+the+euro+area%3A+An+initi.pdf
58 Internal disagreement among the social democratic party in Germany on this issue means that some are in favour of the net wealth tax and others are in favour only of an inheritance tax. Their manifesto is decidedly vague about it.
59 International Monetary Fund. Taxing Times. Fiscal Monitor. October 2013. Web. https://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf
60 Rhodes, David and Stelter, Daniel. "Back to Mesopotamia? The Looming Threat of Debt Restructuring." *The Boston Consulting Group*. September 2011. Web. https://www.bcg.com/documents/file87307.pdf
61 "The IMF Proposes a 10% Supertax On All Eurozone Household Savings" *Market Shadows*. Web. http://marketshadows.com/2013/10/12/the-imf-proposes-a-10-supertax-on-all-eurozone-household-savings/
62 See: Ernst and Young. "How taxing the wealthy is changing." Wealth under the spotlight, 2015. Web. http://www.ey.com/Publication/vwLUAssets/ey-wealth-under-the-spotlightv6/$FILE/ey-wealth-under-the-spotlightv6.pdf

total net assets, residential property or just financial assets. As such their composition can vary widely. Given that the top 10% of a population tends to hold around 50-70% of wealth, according to a sample of advanced economies used by the IMF, this means that the net wealth taxes can focus on the top decile (or even percentile). Exemptions and tax-free thresholds help target the wealthiest (but also provide room for avoidance).

- Large tax-free threshold apply (€700,000 – € 1,300,000) and business assets are exempt from the tax base.

- Their main aim is to raise revenue, but can also serve a purported 'social solidarity' objective.

- The wealthiest few hundred individuals seem to be able to evade the tax fairly easily although more evidence is required.[63] Compliance costs can be notable.

- The revenue potential is subject to considerable uncertainty (related, for instance, to the valuation of real estate) but is in principle sizable. Taxes on the possession of net wealth have contributed about 0.5% to total revenue (0.17% of GDP) on average to EU member countries. This relatively low figure reflects the relatively narrow base: in the two countries applying such a tax, along with large tax-free thresholds, business assets are fully exempt from the base (EU, 2014). Based on Luxembourg Wealth Study data, a 1% tax on the net wealth of the top 10% of households could, in principle, raise about 1% of GDP per year; calculations for 15 Euro-area countries using more recent data points to broadly similar estimates.[64]

- Little hard evidence is available on the likely behavioural impact (notes the IMF). A primary concern is that such taxes will discourage capital accumulation: if wealth earns a real return of, say, 3%, then a 1% tax on wealth is equivalent to a 33% tax on that return. This will be less of a concern to the extent that wealth accumulation derives from returns in excess of normal (and a tax on high levels of wealth could usefully supplement taxes on capital income now often imposed at low effective rates or evaded).[65]

We provide an overview in the appendix of the experience of countries with net wealth taxes who currently have them in place. We look in more detail at several countries below to get a sense of the details of such a tax:[66]

- **France**: As amended in 2011, the French 'ISF' tax is a solidarity tax on wealth. It affects taxpayers whose total personal net assets (gross assets minus debt such as

[63] According to Ernest and Young, In France, for example, one report established by the French Parliament estimated that more than 500 people left the country in 2006 as a result of the impôt de solidarité sur la fortune (or ISF wealth tax). A commonly heard joke in France is that the ISF tax was actually an "incitement à sortir de la France" — an incitement to leave. As amended in 2011, the ISF is levied on taxpayers with total net wealth exceeding €1.3 million on 1 January of each year, with the tax ranging from 0.5% to 1.5% (for wealth above €10 million).

[64] International Monetary Fund. *Taxing Times*. Fiscal Monitor. October 2013. Web. https://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf

[65] *ibid*

[66] *ibid.*

mortgages or loans) are at least €1.3m. The rate starts at 0.5% and increases to 1.5% for assets of €10m and above. Taxable assets include real estate, cash, savings and financial securities. Works of art are exempt, while main residences enjoy a 30% tax relief. The tax can also be partially offset by investing in the capital of small and medium-sized companies. Under a 'wealth shield' created under President Nicolas Sarkozy, the total of income tax and wealth tax cannot exceed 75% of overall net income.[67]

French residents are taxed on their worldwide assets while non-residents are taxed only on their French assets. Individuals who transfer their residence to France and who have not been French residents during the preceding five years are exempt from wealth tax on their foreign assets for five years. In 2007 the tax collected comprised 1.4% of government revenue.[68] Controversy exists as to its purpose and usefulness. President Macron has stated that he intends to replace the wealth tax with a property tax due to it causing the ultra-wealthy to leave the country,[69] although the wealth tax still enjoys popular support due the social message it sends to the majority of French people who are not rich, many of whom are unemployed.[70]

- **India**: India's wealth tax was computed at the rate of 1% of the amount of net wealth that exceeds INR3 million (approximately US$48,000) on the valuation date of 31 March of the relevant tax year. Assets and debts related to those assets are valued in accordance with India's Wealth Tax Act. Under India's Direct Tax Code proposals, the threshold limit for levy of wealth tax was proposed to be raised from INR3 million to INR10 million. India's wealth tax was abolished in the Union Budget (2016-2017). The wealth tax was replaced with an additional surcharge of 2% on super rich with certain incomes, due to the administrative burden and compliance burden of the valuation requirements of the wealth tax.

- **Italy**: Italy has (at least) two wealth taxes. One is levied as an annual tax on foreign real estate at 0.76% on the purchase price of properties not located in the EU or on the 'cadastral value' (i.e., notional imputed income) for properties held in the EU. The tax is due for each fiscal year and calculated according to the percentage and the period of ownership during each year. A second tax on financial assets held abroad is also levied at a rate of 0.15% of the fair market value as of 31 December each fiscal year. The introduction of a territorial system of taxation in Italy in late 2016 may counteract any negative impact of the wealth taxes on the decision of the wealthy to live in Italy.

- **Spain:**[71] Spain's wealth tax is 'temporary' in theory but in practise has been in force for several years due to its ability to raise substantial revenues. Spain temporarily abolished the wealth tax between 2008 and 2011, but it was reintroduced as part

67 Agnew, Harriet. "France's wealth tax riles and divides presidential candidates." *Financial Times*. 10 April 2017. Web. https://www.ft.com/content/19feb16a-1aaf-11e7-a266-12672483791a
68 Wikipedia, 'Wealth tax', https://en.wikipedia.org/wiki/Wealth_tax , accessed June 11, 2017
69 Since 2000, France has experienced a net outflow of 60,000 millionaires, according to research group New World Wealth. Agnew, Harriet. "France's wealth tax riles and divides presidential candidates." *Financial Times*. 10 April 2017. Web. https://www.ft.com/content/19feb16a-1aaf-11e7-a266-12672483791a
70 *ibid.*
71 Blevins B Franks International Tax & Wealth Management. "No respite from Spanish wealth tax in 2017." *Blevinsfrank*. 31 January 2017. Web. https://www.blevinsfranks.com/news/article/no-respite-spanish-wealth-tax-2017

of measures to reduce the budget deficit. In 2014, the tax office collected around €937 million in wealth tax, with Andalucía, Comunidad Valenciana and Cataluña being the most lucrative regions. The tax is levied by each state. The state wealth tax rates range from 0.2% for assets valued up to €167,129 to 2.5% for assets over €10,695,996. Wealth tax is payable on the value of most assets, such as real estate, savings and investments, jewellery, art, cars, boats, etc. Loans are deductible in calculating net taxable wealth (provided they were not used to buy or invest in assets which are exempt from this tax). The autonomous communities can amend these rates and so it varies by region. There is a general €700,000 tax-free allowance per person, with extra relief of up to €300,000 available to Spanish residents against the value of their main home. For a married couple resident in Spain and owning a property jointly, this could mean a total allowance of €2 million. If you are a Spanish resident your total wealth and income tax bill is capped so it cannot exceed 60% of your personal income taxable amount. However, one still has to pay a minimum of 20% of your full wealth tax calculation. One's liability however is unable to be reduced on assets that do not produce taxable income, like your main home, interest-free loans, jewellery, antiques and vehicles. The tax has been a success in bringing in needed government revenue but has been reconfigured several times due to successful avoidance by the rich shifting the burden on to the middle-class.

- **Netherlands:** In the Netherlands[72] the wealth tax was replaced by imputed taxation in the framework of the income tax in 2001. It is assumed that net assets (excluding owner-occupied properties at the main place of residence and operating assets in one's own partnership) yield 4% per annum. The corresponding imputed taxation is subject to a tax rate of 30%. Actual interest income is tax-free, however. In addition, there is a gift and inheritance tax. Property tax is levied at the local level (2010 revenues: €1,72 billion or 0,29% of GDP).

- **Iceland:** Iceland implemented a temporary wealth tax to help pay off its debts after the financial crisis. According to the IMF analysis of this scheme it was particularly successful. The government implemented an emergency wealth tax rate for the period of 2010-2013. As of January 2011, one year after introduction, the tax rate was 1.5% of net capital for single individuals with more than ISK 75 million or 100 million for married couples. This targeted the top 2.2% of the population. The Icelandic government was able to raise 0.3% of GDP in revenue annually from this tax.

  One reason why the tax was such a success is that it was implemented during the period in which Iceland had capital controls in place. When capital controls were eased the IMF[73] recommended "to replace the revenues it [the wealth tax] provides, taxes should be increased on the less mobile components of its base: real estate (the local property tax) and high-income labor from a steepening of personal income tax (PIT) rates and the reallocation of income from capital to labor in closely held businesses (CHBs)."

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[72] Brauninger, Dieter. "Income and wealth taxes in the euro area." *Deutche Bank*. 22 August 2012. Web. https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000292966/Income+and+wealth+taxes+in+the+euro+area%3A+An+initi.pdf

[73] Faniel, Philip, et al. "Iceland: Advancing Tax reform and the Taxation of Natural Resources." *IMF*. Country Report 138. June 2011. Web. https://www.imf.org/external/pubs/ft/scr/2011/cr11138.pdf

6.2 Wealth transfer taxes: inheritance, gift, and estate taxes

Taxes on wealth transfers – on estates, inheritances and gifts – raise very little tax income in Europe: rates are low and exemptions and special arrangements create multiple avoidance opportunities. In particular, large exemptions for family members means that such taxes are not comprehensively applied.

The distortionary cost of these taxes is hard to assess as it depends partly on the donor's motive. There will be no impact, for instance, on the behaviour of donors who accumulate wealth simply for their own enjoyment and, failing to annuitize it, die before they have spent it all, or on the accumulation of wealth in excess of a normal rate of return.[74] The primary appeal of inheritance taxes is in limiting the intergenerational transmission of inequality and perhaps also in reducing the consequent distortion of recipients' work effort.

Levying taxes on gifts and inheritances is a common practice in OECD countries, though transfer taxation differs widely across countries.[75] Table 6 shows OECD countries with estate and inheritance taxes.

Table 6. Inheritance and estate tax in OECD countries (2014)

Estate Tax	Inheritance Tax	No tax on wealth transfers
• United Kingdom • United States • Denmark (S)	• Czech republic (S) (C) • Denmark (S) (C) • Finland • France (S) • Germany • Greece • Hungary (S) (C) • Iceland (S) • Ireland (S) • Italy • Japan • Korea • Luxembourg (S) (C) • Netherland • Norway (S) • Poland • Slovenia (S) (C) • Spain • Switzerland (cantonal)	• Australia • Austria • Canada • Estonia • Mexico • New Zealand • Portugal • Slovak Republic • Sweden

Note: (S): the spouse – or civil partner in some countries – is tax-exempt. (C): Children are tax-exempt

Source: Förster, Michael, et al. "Trends in Top Incomes and their Taxation in OECD Countries." *OECD Publishing*. SEM Working Papers 159. 2014.

Inheritance is taxed in all EU Members except Sweden, Latvia, Estonia, the Czech Republic, Austria, Romania, Bulgaria, Cyprus and Malta. Two further Member States – the Czech Republic and Portugal – have a provision on inheritance taxation in other tax schedules. In most countries the approach to inheritance and gift taxation is similar, except for Belgium (that applies a moderate registration duty on gifts, in comparison with the

[74] International Monetary Fund. *Taxing Times*. Fiscal Monitor. October 2013. Web. https://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf

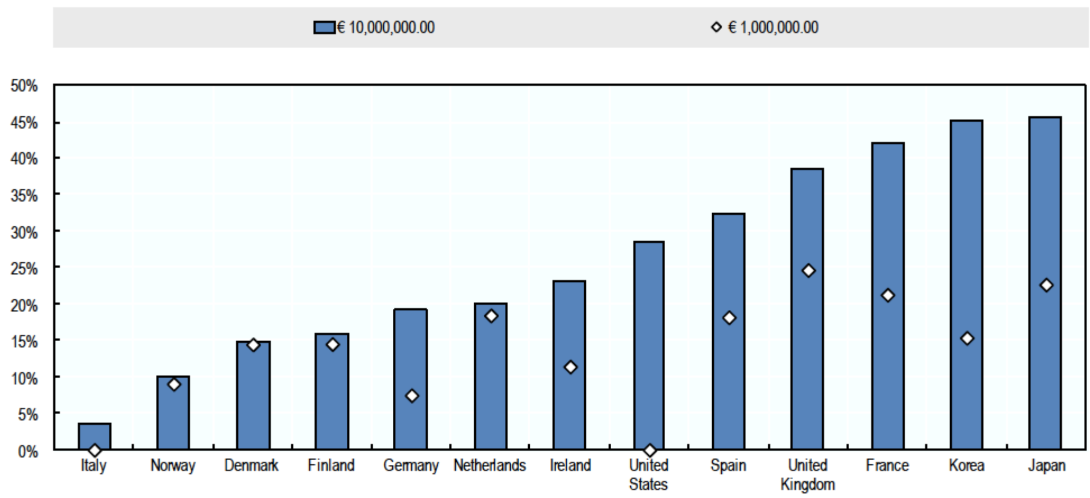
[75] Förster, Michael, et al. "Trends in Top Incomes and their Taxation in OECD Countries." *OECD Publishing*. SEM Working Papers 159. 2014. Web. http://praha.vupsv.cz/fulltext/ul_1710.pdf

taxation of inheritances that is among the highest in the EU), and Latvia and Lithuania (that have a provision for gifts in the personal income tax schedule). Exemptions of close relatives and differential rates depending on the relation between donor and recipient apply for gift taxes as well as.[76]

Although bases are normally broad and rates can be high, spouses and children are largely exempt. Typically, the tax is charged upon the beneficiaries (not donors) and is based on the fair market value of the assets. Inheritance taxes favour close relatives up to total exemption; they are progressive in 14 EU countries. Inheritance tax rates vary from complete exemption in the most favoured group (e.g. in Greece, Luxembourg, Slovenia, Finland, and the UK) to up to 80% for the most heavily taxed group (e.g. in Brussels and the Walloon region in Belgium). Family businesses enjoy exemptions up to 100% (the Netherlands up to a ceiling, and Germany) in 12 EU Member States applying a tax on inheritances; Bulgaria, Denmark, Croatia, Lithuania, Luxembourg and Slovenia have no such exemption.[77]

Inheritance and gift taxes are typically progressive. Even if the bequest or gift is taxed at a flat rate (like in Italy, Ireland or the United Kingdom for instance), the tax free allowance makes the effective tax rate increase with the value of the bequest. In most countries there are several tax bands, with the top marginal tax rate going up to 45% in France and 50% in Japan and Korea, for example. The effective tax rate depends strongly on the tax allowances as well as on the number and size of the brackets.

Figure 3. Effective tax rate on bequests transmitted to direct descendant



Source: Förster, Michael, et al. "Trends in Top Incomes and their Taxation in OECD Countries." *OECD Publishing*. SEM Working Papers 159. 2014.
Note: Effective tax rate on the wealth transferred to the donor's child, or, in the case of the United Kingdom and the United States, effective tax rate levied on the estate.

The trend is downwards but appears to be changing. Stasavage and Scheve provide information on the historical evolution of the top marginal inheritance tax rate over the

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[76] Iara, Anna. European Commission. Taxation and Customs Union. *Wealth distribution and taxation in EU Members*. 2015. Web.http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_60.pdf
[77] Ibid

ninetieth and twentieth centuries.[78] In recent decades, the top marginal rate has decreased in all countries but France and Germany. Some countries, like Australia, Canada or Sweden have recently repealed the inheritance tax. In Sweden, while the top marginal inheritance tax rate used to be fairly high (above 60%) in the 1970s, inheritance and gifts are no longer taxed nowadays. Since the recent crisis, however, some countries, like the United States and Ireland, have decided to increase the top tax rate levied on large estates.

A distinction is traditionally made between inheritance tax, which is levied on the recipient of the estate, and estate tax, which is levied on the estate or the donor.

A tax on estates is levied in Denmark, the United States and the United Kingdom (the other English speaking countries previously had such a tax). In most countries the tax is levied on the recipient of the estate and the tax rate depends on the relationship with the donor. Some countries have different tax bands depending on the degree of kinship with the donor. Tax rates for close relatives (Spouse – or in some cases, civil partner – and sometimes children) may even be zero. See appendix for further details.[79]

6.3 Capital gains tax

Capital gains tax, despite taxing potentially mobile assets, is a growing dimension of tax revenue and policy legislation in many countries.[80]

The weighted long-term integrated capital gains tax rate for OECD and BRIC countries in 2014 was 40%.[81] Approximately 85% of the OECD and BRIC countries tax capital gains at rates below the rates applied to ordinary income.[82] The general trend, since the financial crisis, is for capital gains tax rates to be increased. See appendix for further details.

New measures to increase capital gains tax collections on non-residents are one policy areas where governments are effectively widening their borders:[83]

- In September 2013, Brazil implemented a tax rate of 15% on the capital gains non-residents receive from the sale of goods located in Brazil unless a tax treaty has established a different rate.

- In December 2013, Spain's 2014 Budget Law extended for another year the increased tax rates on the Spanish source income of non-residents with no

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78 Scheve, Kenneth and Stasavage, David. "Democracy, War, and Wealth: Lessons from Two Centuries of Inheritance Taxation." *American Political Science Review,* 106: 1-22. Web. http://isps.yale.edu/sites/default/files/publication/2012/12/ISPS12-001.pdf

79 For latest on estates and inheritance globally see: Ernst and Young. *World Estate and Inheritance Tax Guide.* 2016. Web. http://www.ey.com/Publication/vwLUAssets/ey-worldwide-estate-and-inheritance-tax-guide-june-2016/$FILE/ey-worldwide-estate-and-inheritance-tax-guide-june-2016.pdf

80 Ernst and Young. *Wealth Under the Spotlight.* 2014. Web. http://www.ey.com/Publication/vwLUAssets/ey-wealth-under-the-spotlightv6/$FILE/ey-wealth-under-the-spotlightv6.pdf

81 Ernst and Young. *Corporate dividend and capital gains taxation: A comparison of the United States to other developed nations.* April 2015. Web. http://theasi.org/assets/EY-ASI-2014-International-Comparison-of-Top-Dividend-and-Capital-Gains-Tax-Rates.pdf

82 *ibid.*

83 Ernst and Young. *Wealth Under the Spotlight.* 2014. Web. http://www.ey.com/Publication/vwLUAssets/ey-wealth-under-the-spotlightv6/$FILE/ey-wealth-under-the-spotlightv6.pdf

permanent establishment in Spain, including capital gains for which the rate will remain at 21% instead of dropping back to 19%.

- Effective in 2013, India established an 11.33% tax rate on non-residents' long-term capital gains from the sale of unlisted securities when the taxpayer's total income exceeds INR10 million. No indexation of the gain's value is permitted, nor is foreign exchange fluctuation protection available, as was the case prior to tax year 2012–13.

At the same time increasing legislative and administrative efforts to increase domestic collections is taking place on capital gains taxes.

- Since 2010, a majority of the 16 countries surveyed by Ernest and Young have made significant changes to capital gains taxation which have increased the tax payable.

- France, Italy, South Korea, the UK and the US all increased headline CGT rates. 2013 saw France move to a higher rate of 24% on gains to applying personal progressive income tax rates ranging from 0% to 45% - effectively a near 100% increase.

- Mexico, meanwhile, introduced a CGT for the first time in 2014 and may be followed by New Zealand. Alongside raising statutory rates, other significant changes since 2010 among the 16 surveyed jurisdictions by Ernest and Young include plugging loopholes, targeting non-resident taxpayers (above), reducing exemptions and broadening the CGT base.

See appendix for further details.

6.4 Financial transaction tax (FTT)[84]

An FTT has significant potential to raise revenues. Arguments that, on the one hand, it may materially harm trading volumes, liquidity, cost of capital and volatility, or, on the other hand, reduce market volatility by reducing speculation, remain disputed and tend to depend on the design on the tax.[85] Bill Gates, Angela Merkel, Larry Summers and Warren Buffet remain among its most ardent notable public supporters. The EU Commission reviewing the evidence in 2016 finds no consensus on its impact on volatility. There is a larger consensus on the effect on trading volume, as a financial transaction tax is associated

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[84] Most evidence comes from Hemmelgarn, Thomas, et al. "Financial Transaction Taxes in the European Union." *European Commission.* Taxation Papers. Working Paper 62, 2015. Web. http://www.steuer-gegen-armut.org/fileadmin/Dateien/Kampagnen-Seite/Unterstuetzung_Ausland/EU/2015-2016/1602_EU_Commission.pdf

[85] Pomeranets, Anna. "Financial Transaction Taxes: International Experiences, Issues and Feasibility." *Bank of Canada.* Financial Markets Department. 2012. Web.http://www.bankofcanada.ca/wp-content/uploads/2012/11/boc-review-autumn12-pomeranets.pdf ; Hemmelgarn, Thomas, et al. "Financial Transaction Taxes in the European Union." *European Commission.* Taxation Papers. Working Paper 62, 2015. Web. http://www.steuer-gegen-armut.org/fileadmin/Dateien/Kampagnen-Seite/Unterstuetzung_Ausland/EU/2015-2016/1602_EU_Commission.pdf; Nissanke, Machiko. "Revenue Potential of the Currency Transaction Tax for Development Finance." *WIDER.* UN University Discussion Paper 81. December 2003. Web. https://www.wider.unu.edu/sites/default/files/dp2003-081.pdf; and http://www.epi.org/publication/a-financial-transaction-tax-would-help-ensure-wall-street-works-for-main-street/

in most papers with a statistically significant – and sometimes substantial – decrease in trading volume, notes the Commission. Insufficient evidence on its impact on liquidity exists but the available evidence indicates a decline in liquidity. However, given the rise of high-frequency trading and the huge increase in trading volumes over the last few decades the actual harm of such decreased 'liquidity' is uncertain (and likely to be minimal, especially if a FTT was applied across the board). The design differs by country leading to different impacts which are difficult to generalise across all FTTs.

In 2011, there were 40 countries that had some form of FTT raising $38 billion. The Wikipedia's Financial Transaction Tax base has evidence covering Taiwan, Switzerland, Sweden, Singapore, Poland, Peru, Japan, Italy, India, Greece, France, Finland, Columbia and Belgium. Rates vary from 0.1%-1.6% depending on the country and the component of the FTT. For example: Finland imposes a tax of 1.6% on the transfer of certain Finnish securities, mainly equities such as bonds, debt securities and derivatives. Britain's Stamp Tax is one of the most famous and levied at a rate of 0.5% on all trades. India's is levied at a rate of 0.125%. Taiwan's is levied at 0.1% and 0.3%.

Most recently France and Italy implemented FTTs. We focus on these more recent cases as well as the European Commission proposal.

- **European Commission proposal:** [86] In September 2011, the European Commission proposed a harmonised financial transaction tax for the EU with three objectives. The first was to prevent the fragmentation of the single market and avoid distortions of competition that could stem from numerous uncoordinated national approaches to taxing financial transactions. Second, the European Commission wanted to ensure that the financial sector made a fair and substantial contribution to public finances. Finally, the proposal sought to discourage financial transactions that do not contribute to the efficiency of financial markets or the operation of the real economy, thereby complementing regulatory measures aimed at avoiding future financial crises. This initiative was also considered a first tangible step toward taxing such transactions at the global level. It contributed to the international debate on financial sector taxation in general and to the development of a FTT at the global level specifically.[87] The

[86] *European Commission.* Taxation Papers. Working Paper 62, 2015. Web. http://www.steuer-gegen-armut.org/fileadmin/Dateien/Kampagnen-Seite/Unterstuetzung_Ausland/EU/2015-2016/1602_EU_Commission.pdf

[87] "The proposed tax was wide in scope, covering financial transactions with all financial instruments (i.e., shares in companies and bonds and similar products — including depositary receipts, certificates, warrants that are negotiable on the capital markets, structured products, money market instruments, units or shares of collective investment undertakings, derivatives agreements, etc.). However, the proposal did not cover the primary market transactions of shares and bonds (and their equivalents) and other kinds of financial transactions relevant for businesses and citizens (e.g., payment services, supply of consumer and mortgage credits, company loans, insurance products,8 etc.). Moreover, spot currency transactions were not included in the proposed tax to preserve the free movement of capital and payments between EU Member States and between EU Member States and third countries, as guaranteed by the Treaty on the Functioning of the EU. The proposed tax thus needs to be distinguished from the "Tobin tax" (Tobin, 1974, 1978) or a tax on foreign exchange transactions. The covered financial transactions included those on organized trading venues, such as regulated markets (exchanges), multilateral trading facilities, systematic internalizers, and organized trading facilities,9 in addition to over-the-counter transactions. Furthermore, the proposed tax included not only the purchase and sale10 of covered financial instruments but also the conclusion or modification of derivatives agreements, the transfers of financial instruments between entities of a group, and the repurchase, the reverse repurchase, the securities lending, and the borrowing of financial instruments in the scope of the proposed tax. The proposed FTT also taxed gross transactions before any netting and settlement, thus aiming clearly at including intra-day transactions. An essential feature of the proposed FTT was the scope of the proposed tax, which focused on financial transactions carried out by a financial institution acting as a party to a financial transaction either its own account, for the account of another in

proposal for a harmonized common FTT framework took a 'triple A' approach, i.e., the tax should apply to *all* markets (such as regulated markets or over-the-counter transactions), *all* instruments (shares, bonds, derivatives, etc.), and *all* financial sector actors (banks, shadow banks, asset managers, etc.). Proposing an EU-wide financial transaction tax (FTT) on the exchange of shares and bonds at a rate of 0.1 per cent and on derivatives contracts at a rate of 0.01 per cent. It has not been implemented yet but is making progress towards such ends.

- **France**: France decided to introduce its own national financial transaction tax as of August 1, 2012. The French FTT has three components: (1) a tax on the purchase of shares of large French listed companies (with a market capitalisation in excess of EUR 1 billion) however the trade is carried out; (2) a tax on "naked"/uncovered credit default swaps (CDS) on sovereign debt; and (3) a tax on cancelled orders, which is intended to target high-frequency trading. This FTT coexists with a registration duty that is levied on all (listed and unlisted) corporate entitlements sold in France. The Tax on Transactions in French Shares applies only to listed shares of companies with their registered offices in France, wherever they are traded. The tax rate is 0.2% (increased in August 2012 from the rate of 0.1%, initially proposed in March). The buyer is liable for the tax, which is based on the price at which the shares are sold.

  Taxation of naked sovereign CDS is levied on the 'naked'/uncovered CDS (purchased on the French market) on bonds issued by governments of EU Member States. The buyer of such an instrument is liable for the tax, and the tax rate is 0.01%. The tax is reported, recovered and verified using the same procedures as for the value-added tax (VAT).

  Taxation of high-frequency trading is taxed at a rate of 0.01% and is applied to the amount of cancelled orders. It applies in cases where the trading was carried out as high-frequency algorithm trading and the ratio of cancelled orders to all orders exceeded 80%. It has to be paid by all participants in the French market, irrespective of the trading platform they use.

  It was estimated in 2012 that these taxes would generate a total tax revenue of EUR 530 million in 2012 and EUR 1.6 billion on a full year basis. In 2012, however, only EUR 198 million was collected with the tax on shares and EUR 1 million with the tax on naked CDS. The tax on cancelled orders did not yield any revenues in that year. The forecast for 2013 was revised to EUR 700 million and the one for 2014 to EUR 741 million. A part of the revenue is earmarked for contributions to development aid, EUR 40 million out of EUR 741 million.[88]

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one's own name (undisclosed agent), or acting in the name (and for the account) of a party to the transaction (disclosed agent). Consequently, transactions without any involvement of a financial institution – primarily targeted by the proposal – would not be taxable. The proposed definition of financial institutions that must be involved to have a taxable transaction is broad and essentially includes investment firms, organized markets, credit institutions, insurance and reinsurance undertakings, collective investment undertakings and their managers, pension funds and their managers, and other persons carrying out certain financial activities with significant financial transactions."
Hemmelgarn, Thomas, et al. "Financial Transaction Taxes in the European Union." *European Commission.* Taxation Papers. Working Paper 62, 2015. Web. http://www.steuer-gegen-armut.org/fileadmin/Dateien/Kampagnen-Seite/Unterstuetzung_Ausland/EU/2015-2016/1602_EU_Commission.pdf

[88] Hemmelgarn, Thomas, et al. "Financial Transaction Taxes in the European Union." *European Commission.* Taxation Papers. Working Paper 62, 2015. Web. http://www.steuer-gegen-armut.org/fileadmin/Dateien/Kampagnen-Seite/Unterstuetzung_Ausland/EU/2015-2016/1602_EU_Commission.pdf

- **Italy:** One year after France introduced its national FTT, Italy introduced its own system. It targets three categories of transactions: (1) shares and other instruments representing these instruments (for instance, depository receipts such as ADRs) issued by Italian resident companies; (2) derivatives – irrespective of whether they are cash or physically settled, securitized or not – whose underlying assets are in-scope Italian shares or where the derivative is based on the value of in-scope Italian shares; and (3) high frequency trading, defined as trading generated by a computer algorithm that automatically determines orders, where the ratio of orders amended or cancelled in a time frame shorter than half a second exceeds 60% of total orders entered.

  The tax on shares is levied on the purchaser, the one on derivatives is levied on both parties of the derivatives contracts, and the high frequency trading tax applies to all the participants on the Italian market. The forecast for tax revenues was EUR 1 billion for 2013.

  The tax rate on shares is applicable, as in France, on the net (end-of-day balance) of the settled transactions for each security, is 0.1% (0.12% in 2013) on transactions taking place on regulated markets and on multilateral trading facilities and 0.2% (0.22% in 2013) of the value of the transaction in the case of other transactions.

  The tax on high-frequency trading is applied at a rate of 0.02% to the value of the cancelled or modified orders that exceed 60% of submitted orders in trading day. The tax is due from the entity for which the inserted orders are generated.[89]

6.5 Housing taxes

Recurrent taxes on residential property account for about one-half of the wealth tax revenue totals in Europe and are widely seen as an attractive and underexploited revenue source: the base is fairly immobile and hard to hide, the tax comes at the top of the hierarchy of long-run growth-friendliness, and it can be made progressive through a basic allowance or by varying the rate with the value of the property. It has particular appeal as a source of local-government finance, since property values will reflect the benefits of local public spending. Especially outside Anglo-Saxon countries, there is evident scope to raise more revenue, although effective implementation of a property tax requires a sizable up-front investment in administrative infrastructure, particularly in emerging market economies.[90] One weakness is that in several countries the administrative property value for tax purpose lags well behind the market value (for both housing and land taxes).

Housing taxation varies across countries, although a common feature is that owner-occupied housing is often treated more favourably relative to other forms of investment, notably through reduced tax rates or tax exemptions for imputed rental income. Only in a few countries is imputed rental income on principal homes subject to income tax, these

[89] Ibid.
[90] International Monetary Fund. *Taxing Times*. Fiscal Monitor. October 2013. Web. https://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf

include: Belgium, Iceland, Luxembourg, the Netherlands, Poland, Slovenia, Switzerland and Turkey; but the rental value is often under-estimated. At the same time, mortgage interest payments can be deducted from the personal income tax base in about half of OECD countries and a few countries have tax credits for owner occupancy. In most of the OECD countries realised capital gains from the sale of principal homes are tax-exempt (but not for secondary homes) or the taxation of gains is deferred or exempt if reinvested in another principal home (Andrews et al., 2011).[91]

While property taxation rates are relatively low across the OECD, a few countries have implemented increases since the economic downturn, these include Greece and Italy which have implemented significant increases in the taxation of property. The UK has also increased taxation of high value properties (over 2 million pounds in value purchased by certain corporate bodies) and the introduction of an additional annual charge for such properties from April 2013, as well as a new tax band rate at 7% for high value properties. Ireland and Slovakia have also announced increases in recurrent taxation of residential property, while Austria has increased taxation of profits from immovable property transactions and the Czech Republic and Portugal have increased transaction taxes on real property.

6.6 Land taxes

Many countries levy recurrent taxes on other immovable land and buildings. In general, the magnitude of these taxes appears to be relatively low, as reflected in their low revenue shares and they represent a small percentage of overall national taxation.[92] Despite this property and land taxes can be a critical element of *sub-national* revenue as they are generally levied by local authorities, accounting for up to 25% of such revenue. Such revenue is sometimes earmarked for particular purposes. In some states in the United States, for example, this is used for education. This can provide autonomy for local authorities but can also reproduce inequalities as areas with lower-value property generate less income.[93]

Land taxes play a role in encouraging land use as they disincentivise the holding of unused land. In certain Eastern European countries (e.g. Estonia) they were instituted as part of a land restitution process. Land taxes have also led to better land valuations and land valuation capacity. In Australia, land taxation has been used to discourage foreign absentee land ownership. In Brazil, Jamaica and Singapore one motivation for land taxation was to discourage land speculation. In has also been argued that land taxation can serve as means of diffusing political tension around land, instead of land nationalisation or redistribution.[94] Alternatively, as in Namibia land taxation can raise revenue towards land reforms programmes. In Namibia the land tax (when in affect) is 0.75% of the unimproved value of the farmland, with the value of the farmland measured on a standard per hectare metric. The policy charges an addition 0.25% on additional farms, and a rate of 1.75% to non-

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91 Andrews, Dan, et al., "Housing market and structural policies in OECD countries." *OECD Publishing.* Economics Department Working Papers 836. Web. http://dx.doi.org/10.1787/5kgk8t2k9vf3-en.

92 See Figure 28 in Förster, Michael, et al. "Trends in Top Incomes and their Taxation in OECD Countries." *OECD Publishing.* SEM Working Papers 159. 2014. Web. http://praha.vupsv.cz/fulltext/ul_1710.pdf

93 Malcolm D. Childress et al., 'Taxing Agricultural Land: A Policy Instrument for Land Use Intensification, Local Development and Land Market Reform', Draft Background Paper, WBI/SADC Workshop on Land Redistribution, (10 July 2007).

94 Ibid.

residents.[95] All funds raise go towards Land Acquisition and Development Fund.

7 Overview and recommendations for wealth taxes for South Africa

Currently, according to the DTC, South Africa has three forms of wealth taxation, namely estate duty, transfer duty and donations tax which together bring in about 1% of tax revenue according to their estimate. As noted in the introduction, we include capital gains tax and financial transaction tax below. The initial legislation for this set of taxes is contained in the Transfer Duty Act (1949); the Estate Duty Act (1955); The Securities Transfer Tax Act (2007); and the Securities Transfer Tax Administration Act (2007), among others, and subsequent amendments; most recently through the Taxation Laws Amendment Bill; the Tax Administration Laws Amendment Bill; and the Rates and Monetary Amounts and Amendment of Revenue Laws Bill.

In general, South Africa's tax system and economy shows room to further increase the role of property (i.e. wealth) taxes in government revenues. At present taxes on all sorts of property (i.e. wealth taxes) account for only 1.34% of total revenue and 0.37% of nominal GDP; the latter was around 2% on average in the OECD, noted above (although this includes a minority share of transaction taxes). This is despite South Africa's asset-to-income ratio not being out of line with international norms and the distribution of assets being highly unequal (and therefore easier to target in many respects).[96] Capital gains taxes by itself raises almost the same amount of revenue as all of South Africa's property taxes (at 1.56% of total revenue and 0.41% of GDP).

Table 7 summarise a comparison between South Africa and the average across OECD countries. The OECD is chosen as it represents a basket of development and emerging economies, provides average data across its member countries and has a broadly similar asset-to-income ratio as South Africa. Further, South Africa's financial markets are far larger than most developing countries and so the mixed OECD sample is valuable. 2014 is the most recent year with average data. As visible, relative to international norms South Africa shows considerable room to raise additional tax revenue from immovable property and from financial transactions and assets.

Table 7. South Africa's wealth composition

	OECD (2014)	SA (2015/6)
Net wealth tax	0.2	
Capital gains tax	0.2	0.41
Total taxes on property	1.9	0.37
Donations/gift tax	0.004	0.003
Estate duty	0.2	0.05
Securities transfer tax	0.4	0.14

95 Deloitte, 'Namibian Quick Tax Guide', 2013, https://www2.deloitte.com/content/dam/Deloitte/na/Documents/tax/na_Tax_Guide_June_2013.pdf.
96 Source: SARS 2016 Statistics own calculations.

Transfer duty	-	0.18

Source: OECD online data and SARS

Each section below provides a brief overview of the wealth tax with respect to South Africa, where relevant, followed by recommendations. First we look at a few general issues relating to the design of wealth taxes.

7.1 Reducing evasion from wealth taxes

One general argument against any increase in the progressivity of tax in South Africa, or increase in total tax burden on the rich, is that the tax evasion would be large and as a result the additional income would be minimal. Along these lines, the DTC's second and final macroeconomic report, citing Steenekamp,[97] argues that: "a 10% increase in the top marginal tax rate would result in taxable income ranging from gains of approximately R2 billion to losses of R340 million, taking into account the impact on the tax base of the higher rates, i.e. behavioural changes." The authors of the report conclude, on the basis of this evidence, that: (1) "These initial results indicate that taxing the rich at higher rates may not produce the revenue windfall expected"; and (2) "These results contradict Piketty's assertions that a progressive taxation of wealth and inheritance could be a powerful force restraining the growing power of inherited wealth and limiting inequality".

Such strong conclusions by the authors of the report do not, however, follow from the findings of Steenekamp, and no other justification or rationale for these conclusions is given. Steenekamp finds, as the report notes, that the predicted range of behavioural responses to higher taxes is in fact very uncertain. This is why the tax gains can be large and positive or small and negative, according to Steenekamp's findings. Most international evidence on tax indicates that the evasion response varies considerably across countries and depends on a host of factors including how the tax revenues are spent, and if citizens feel that the additional tax burden is justified in relation to a number of domestic and international metrics. Moreover, it is highly likely that the response to increases in tax rates is non-linear across the income and wealth deciles, and within each the deciles, as the rate increases. Methods that infer response rates based on linear, point-estimates with pre-sample confidence intervals will be highly unsatisfactory guides.

The elasticity of taxable revenue should be assessed gradually as tax policy changes are judiciously implemented on an incremental basis.

<u>The following recommendations could help reduce wealth tax evasion in South Africa:</u>

- **Earmarking of funds**: the elasticity of tax evasion on wealth is not simply a function of the tax rate,[98] but also related to how taxable agents feel their money is being spent.[99] If people feel their wealth is being taxed for good reason then they

[97] Steenekamp, T.J. "Taxing the rich at higher rates in South Africa?" *Southern African Business Review*. 16.3 (2012): 1-29. Web. http://www.unisa.ac.za/static/corporate_web/Content/Colleges/CEMS/Schools,%20departments,%20bureau,%20centres%20&%20institute/SA%20Business%20Review/documents/Sabview_16_3_chap_1.pdf

[98] Alstadsaeter, Annette, et al. "Tax Evasion and Inequality." *Gabriel-Zucman*. 28 May 2017. Web. http://gabriel-zucman.eu/files/AJZ2017.pdf

[99] Bergman, Marcelo. "Who pays for social policy? A study on taxes and trust." *Social Policy Association* 31.2 (2002): 289-305. Web. https://www.cambridge.org/core/journals/journal-of-social-policy/article/who-pays-for-social-policy-a-

are less likely to evade the tax and the tax is more likely to facilitate a sense of social solidarity within society as a whole. In this respect tax revenues received through one or more wealth taxes might be put in an earmarked fund for specific purposes. One policy that could be funded would be a basic income grant.[100] Another option could be earmarking such funds for critical skills training such as suggested in the SIMS report (State Intervention in the Minerals Sector) with reference to a resource rent tax.[101]

- **Clamping down on trusts for wealth tax evasion**. According to the DTC, only 33% of the 333 465 active registered trusts appear to be tax compliant (for overview of practices see footnote).[102] Following the 2016 Budget Speech, section 7C was introduced into the Income Tax Act to curb the tax-free transfer of wealth to trusts, both onshore and offshore. This section came into effect on 1 March 2017 and effectively deems a donation, where there is either no interest charged on a loan to a trust or where the rate of interest charged is lower than the "official rate of interest", to be subject to donations tax chargeable at 20% every year the loan is in place. Since the announcement of the provision, there has been some planning undertaken to circumvent the application of this section by instead making interest-free or low-interest loans to companies owned by trusts.[103] The proposed amendment will now broaden the scope of section 7C by making loans to companies owned by trusts subject to the same rules as those for loans to trusts. This anti-avoidance measure will not extend to trusts that are not used for (perceived) estate-planning, for example, certain trading trusts or to employee share scheme trusts.

  A full investigation into the matter needs to be considered. Given the legal complexity of trusts the DTC may need to constitute a separate investigation into the use of trusts in South Africa and its role in tax evasion in the South African tax system.

7.2 Net wealth tax

Among the reasons for considering an annual wealth tax more favourably in South Africa today than in the past is the much higher levels of income inequality and wealth inequality, and the rise in the ratio of personal wealth to income and GDP.[104]

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study-on-taxes-and-trust/1D4F73855A90CFF1391B8CCEBCADC4A3 and Chang, Ha-Joon. "The myths about money that British voters should reject." *The Guardian.* 1 June 2017. Web. https://www.theguardian.com/commentisfree/2017/jun/01/myths-money-british-voters-economy-britain-welfare

100 "In a democratic system, taxation is a critical part of the social contract between the state and its citizens." Pg. 9: South Africa. *Macro Analysis of the Tax System and Inclusive Growth in South Africa.* By The Davis Tax Committee. Taxcom, April 2016. Web. http://www.taxcom.org.za/docs/20160421%20Second%20and%20Final%20Report%20on%20Macro%20Analysis%20Framework%20-%20Full%20Report.pdf

101 South Africa. *State Intervention in the Minerals Sector (SIMS).* Anc.org. March 2012. Web. http://www.anc.org.za/docs/discus/2012/sims.pdf

102 Lamprecht, Inge. "'Get your trusts in order now' Fiduciary expert warns of renewed focus to stop tax leakage." *Money Web.* 2 September 2016. Web. https://www.moneyweb.co.za/mymoney/moneyweb-tax/get-your-trusts-in-order-now/

103 Werksmans Tax Team. "2017/2018 Budget Proposals-Tax Overview." *Werksmans.com.* February 2017. Web. https://www.werksmans.com/wp-content/uploads/2017/02/070053-WERKSMANS-budget-speech-2017-updated.pdf

104 Atkinson, Anthony B. *Inequality: What can be done?* England: Harvard university Press, 2015.

Recommendations:

- **Implement a net wealth tax in South Africa**. In general, based on the international literature covered here, there are two approaches to implementing a net wealth tax in South Africa: the one is to implement a temporary, and unexpected, tax on net wealth; the other is to implement a permanent and expected tax. If the tax is temporary then it might be set at higher levels (for example 2-5% with various limitations and exemptions placed).

  A permanent net wealth tax could be levelled within the international range of 0.5-2.5% (as shown above), taking into account the extremely high concentration of wealth and to ensure a meaningful outcome.

  Residents can be taxed on their worldwide assets while non-residents can be taxed only on their South African assets. This can be made progressive by having a tax-free threshold which would cut off the bottom 90% of the distribution. For example, at the Nelson Mandela Foundation's annual lecture in Soweto in 2015, Piketty proposed an annual wealth tax levied on the value of all assets at a rate of 0% for those who hold less than R1 million in wealth, a rate of 0.1% for those who hold between R1 million and R10 million, and a rate of 0.5% for those with more than R10 million.[105] In France, the wealth tax directly affects those with personal assets of €1.3m and above — only 0.5% of France's 67m population. In 2015, a total of 343,000 households paid €5.22bn, an average of about €15,200 per household, accounting for just under 2% per cent of France's tax receipts.[106]

  Following Italy, the assets held abroad by residents and which are subject to the net wealth tax might focus on two types: (1) foreign real estate; and (2) financial assets. A cap can be placed to limit the total net wealth tax liability, as in Spain, where it cannot exceed 60% of one's personal income taxable amount, but the minimum payment due remains 20% of the full net wealth tax liability. Which liabilities to include in the net wealth calculation are also a matter for considerable pause. One's liability should be unable to be reduced by assets that do not produce taxable income, like your main home, interest-free loans, jewellery, antiques and vehicles.

  The international experience indicates that valuation issues, while real and necessary to accommodate in order not to greatly increase administration costs and reduce compliance ratios, can be accounted for.

  The modalities should be investigated of how to possibly calculate a wealth tax on a larger unit than an individual, e.g. a family, to ensure avoidance by splitting wealth between individuals.

- **Once-off wealth taxes.** Should an annual net wealth tax not be introduced, a once-off wealth tax could be considered. The EU previously considered a once-

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105 Nelson Mandela Foundation. "Transcript of Nelson Mandela Annual Lecture 2015." *The Nelson Mandela Foundation.* 3 October 2015. Web. https://www.nelsonmandela.org/news/entry/transcript-of-nelson-mandela-annual-lecture-2015

106 Agnew, Harriet. "France's wealth tax riles and divides presidential candidates." *Financial Times.* 10 April 2017. Web. https://www.ft.com/content/19feb16a-1aaf-11e7-a266-12672483791a

off tax on private wealth, through a 'capital levy', as a way of reducing post-crisis government debt levels. The IMF (2013) notes that (emphasis added):[107] "The appeal is that such a tax, if it is implemented before avoidance is possible **and** there is a belief that it will never be repeated, does not distort behaviour (and may be seen by some as fair). There have been illustrious supporters, including Pigou, Ricardo, Schumpeter, and—until he changed his mind—Keynes."

There is a surprisingly large amount of experience to draw on, as such levies were widely adopted in Europe after World War I and in Germany and Japan after World War II. This experience also highlights the importance of ensuring prior arrangements for tax avoidance could not be instituted between the announcement of the tax and its implementation.[108] Such an approach may have particular appeal in South Africa given that a large portion of the stock of wealth was accumulated under apartheid.

7.3 Inheritance tax / estate duty

A key premise of wealth taxes is intergenerational transfer of wealth, which, as stated above, is particularly an issue in South Africa. We have re-included estate duty in this submission because a key manner in which intergenerational wealth is passed down is through estates. Estate duty should therefore be regarded as part of the package of wealth taxes for which comprehensive policy should be developed.

The three main statutes governing inheritances in South Africa are: The Administration of Estates Act, which regulates the disposal of the deceased's estates in South Africa; The Wills Act, which affects all testators with property in South Africa; and The Intestate Succession Act, which governs the devolution of estates for all deceased persons who have property in the Republic and who die without a will. In general, the distribution of inherited wealth is much more unequal than that of wealth in general,[109] making inheritance taxes incredibly important.

In South Africa, the money, property and belongings the deceased leaves to their heirs is called an 'estate'. Donations and gifts are treated separately. Estate duty is similar to donations tax in that it is a tax on the transfer of wealth. Income, which accrues to the estate after the death of the deceased but before the distribution of the assets to the beneficiaries, is dealt with under Section 25 of the Income Tax Act. The estate of a resident deceased individual is subject to 20% estate duty, after taking into account a deduction of R3.5 million against the net value of the estate. So, if the total net value of the estate is R4 million, estate duty will be dutiable on 20% of the amount exceeding R3.5 million which amounts to R100,000 (20% of R500,000). This is below the top marginal tax rate in some countries, for example, this reaches up to 45% in France and 50% in Japan and Korea (see above).

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107 International Monetary Fund. *Taxing Times*. Fiscal Monitor. October 2013. Web. https://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf

108 Eichengreen, Barry. "The Capital Levy in Theory and Practice." *NBER*. Working Paper 2096. September 1989. Web. http://www.nber.org/papers/w3096.pdf

109 Davies, James B. and Shorrocks, Anthony F. "The distribution of wealth." *Handbook of Income Distribution* 1 (1999): 605-675. Web. http://eml.berkeley.edu/~saez/course/Davies,Shorrocks(2000).pdf

Resident individuals are subject to tax on their worldwide income (both sources in and out of South Africa). The exception to this rule is when there is estate duty on properties owned by a resident.[110]

Once again South Africa lags behind the OECD average, with estate duties sitting at 0.05% of GDP compared with 0.2%.

Recommendations and comments on the findings of the DTC with respect to estate duty tax:

- **The use of trusts** to shield individuals from paying the full estate duty tax and capital gains taxes needs to be thoroughly assessed. This concurs with the finding of the estate duty report by the DTC which notes that "There are only limited anti-[tax] avoidance measures within the estate duty system."[111]

- **Integrating taxes with the income tax:** doing so does not change the tax from being a tax on 'wealth'. It is an administrative issue. For example Atkinson,[112] in his final book, argues that more effective taxation of wealth transfers in the UK could be achieved either through converting the inheritance tax into a lifetime capital receipts tax or by abolishing the inheritance tax and taxing inheritances received under the personal income tax. The latter has a number of attractions, he proposes, not least that it could be presented in terms of abolishing a whole tax. He traces the capital receipts tax to John Stuart Mill.

- **The estate duty tax was reduced from 25% to 20% on 1 March 2001**, coinciding with the introduction of capital gains tax, in order to counter the notion of a perceived double taxation. Notes Cliff Deker Hofmeyer, a major corporate law firm: "Arguments in favour of a progressive tax rate where eclipsed by the overall requirement to implement a simple practical system."[113] This approach needs to be reopened and room to make the system more progressive, including by raising the estate duty tax level, needs to be looked at carefully.

- **The primary abatement set** out in s4A of the Estate Duty Act, no 45 of 1955 (Estate Duty Act) set the threshold above which duty becomes payable. The DTC recommended that the primary abatement per individual be increased from R3,5 million to R6 million. The Committee justifies this by stating that: "It must be recognised that the beneficiaries of an estate are largely dependent on passive income. Interest rates have effectively halved since the general abatement was last increased, thus reducing interest income and/or accelerating the diminution of

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110 Although a resident's property is subject to Estate Duty wherever it is situated, properties located outside South Africa are not subject to Estate Duty if they were acquired prior to residency (first time) or were inherited and donated by a non-resident after the deceased became a permanent resident of the country. The calculation of Estate Duty is the same for both residents and non-residents. Read more on Estate Duty.

111 pg.29: South Africa. *Second Interim Report on Estate Duty.* By The Davis Tax Committee. Taxcom.org. Web. http://www.taxcom.org.za/docs/20160428%20DTC%20Second%20and%20Final%20Report%20on%20Estate%20Duty.pdf.

112 Atkinson, Anthony B. *Inequality: What can be done?* England: Harvard university Press, 2015.

113 DLA Cliffe Dekker Hofmeyr. "The Davis Tax Committee's Interim Report on Estate Duty." *Trusts and Estates.* 29 July 2015. Web. https://www.cliffedekkerhofmeyr.com/en/news/publications/2015/trust-and-estates/trusts-and-estates-29-july-alert-the-davis-tax-committees-interim-report-on-estate-duty.html

capital. Thus there is an urgent need for a generous increase of the general abatement."[114] Two issues with this arise:

- Using the interest rate as the discount rate to calculate the net present value of an investment or of the return to capital for individuals might be misleading. As a risk free rate it merely indicates the base rate to measure returns from. A proper indictor would be to take a representative basket of financial assets that comprise the portfolio of a South African estate of a certain size and above a certain age. The JSE has returned an annual average of 14% between 2006-2016 according to data from Alan Gray.[115] The rationale for the increase in the abatement threshold – that interest rates have dropped – is therefore inappropriate as the rate of return of financial assets is high. Retirement portfolios consist of equities, bonds and other investments. For example, the department of labour in the US calculates lifetime income by using a 7% return on investment income (nominal).[116]
- The ceiling of R3.5 million is already high, with only a tiny fraction of the population able to leave estates worth more than this. It would be appropriate to consider lowering this threshold to cover a larger share of upper-middle class South Africans.

7.4 Capital gains tax

Capital gains tax (CGT) is not regarded as a separate tax but as forming part of income tax in South Africa. Despite this, it should be considered together with the package of wealth taxes. It is a tax on the disposable proceeds of assets, including land, housing and a share in a company. It is raised on assessment of the taxpayer and forms part of the normal income tax liability. The revenue due from CGT is declared in PIT or CIT tax returns.

A capital gain in South Africa arises when you dispose of an asset on or after 1 October 2001 for proceeds that exceed its base cost. The relevant legislation is contained in the Eighth Schedule to the Income Tax Act 58 of 1962. An asset is defined as widely as possible and includes property of whatever nature and any right or interest to or in such property.[117] Perhaps the easiest way to think about it is that it covers both personal rights (*jus in personam*) and real rights (*jus in rem*) – reviewed previously. Both are considered assets for CGT purposes.

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[114] pg.15: South Africa. *Second Interim Report on Estate Duty*. By The Davis Tax Committee. Taxcom.org. Web. http://www.taxcom.org.za/docs/20160428%20DTC%20Second%20and%20Final%20Report%20on%20Estate%20Duty.pdf.

[115] "South Africa's FTSE/JSE All-Share Index Returns By Year." *Top Foreign Stocks*. 8 January 2014. Web. http://topforeignstocks.com/2014/01/08/south-africas-ftsejse-all-share-index-returns-by-year/

[116] United States. Department of Labor. Employee Benefits Security Administration. *Lifetime Income Calculator*. Web. https://www.dol.gov/agencies/ebsa/laws-and-regulations/rules-and-regulations/advanced-notices-of-proposed-rulemaking/lifetime-income-calculator

[117] Land and buildings, for example, a factory building, a person's home, or holiday home; shares; a participatory interest in a collective investment scheme; an endowment policy; collectables, for example, jewellery or an artwork; personal-use assets, for example, a boat; contractual rights; goodwill; a trade mark; a loan; a bank account, whether local or foreign; and trading stock.

Capital gains are taxed at a lower effective tax rate than ordinary income. Pre-1 October 2001 CGT capital gains and losses were not taken into account. Not all assets attract CGT and certain capital gains and losses are disregarded.

A resident, as defined in the Income Tax Act 58 of 1962, is liable for CGT on assets located both in and outside South Africa. However, a non-resident is liable to CGT only on immovable property in South Africa or assets of a "permanent establishment" (branch) in South Africa. Certain indirect interests in immovable property such as shares in a property company are deemed to be immovable property.

Only any aggregate capital gain is taxed (capital gains less capital losses during the year of assessment). In the case of a natural person or special trusts, the net total (whether it be positive or negative) is reduced by the 'annual exclusion'.

Table 8. Annual exclusion for year of assessment of CGT[118]

Person	*2017/2018*	*2013-2016*	*2012*	*2010/2011*	*2009*	*2008*	*2007*	*2006 & prior*
Natural person	40 000	30 000	20 000	17 500	16 000	15 000	12 500	10 000
Natural person – in year of death	300 000	300 000	200 000	120 000	120 000	120 000	60 000	50 000
Special trust for a person with a disability	40 000	30 000	20 000	17 500	16 000	15 000	12 500	10 000
Deceased estate	40 000	30 000	20 000	17 500	16 000	15 000	12 500	10 000
Insolvent estate	40 000	30 000	20 000	17 500	16 000	15 000	12 500	10 000

Source: SARS

The purpose of the annual exclusion is to reduce compliance costs, and simplify the administration of the tax by keeping small gains and losses out of the system.

A net capital gain for the current year of assessment is multiplied by the inclusion rate applicable to the person to arrive at the taxable capital gain.

From March 2012, the inclusion rates for natural persons and special trusts increased from 25.0% to 33.3% of capital gains and for companies and trusts the inclusion rates rose from 50.0% to 66.6%. These legislative changes increased the maximum effective tax rates from 10.0% to 13.3% for natural persons and from 14.0% to 18.6% for companies. From March 2016, these inclusion rates were hiked again to 40.0% for natural persons and special trusts, and to 80.0% for companies and trusts.

Following these new rates the maximum effective tax rate for individuals and special trusts remains fairly low, at 16.4%. The effective tax rate for companies is now 22.4%. The effective rate applicable to trusts is now 32.8% (Table 9). These rates are considerably

118 In addition: as of March 2 2016: The annual exclusion from R30,000 to R40,000; The exclusion amount on death remains unchanged at R300,000; The primary residence exclusion remains unchanged at R2m; The exclusion amount on the disposal of a small business when a person is over age 55 remains unchanged at R1.8m; and The maximum market value of assets allowed for a small business disposal for business owners over 55 years remains unchanged at R10m.

lower than the long-term integrated capital gains tax rate for OECD and BRIC countries in 2014, which was 40% (as noted above).[119]

Table 9. Capital gains *effective* tax rates in South Africa

Type	*2018**	*2017*	*2016*	*2015*	*2014*
Individuals and Special Trusts	18%	16.4%	13.65%	13.32%	13.32%
Companies	22.4%	22.4%	18.65%	18.65%	18.65%
Other Trusts	36%	32.8%	27.31%	26.64%	26.64%

Source: SARS
Note: *Proposed rates as announced by the Minister of Finance in the 2018 Budget. Effective rates since adjust for changing inclusion rates.

Some persons such as retirement funds are fully exempt from CGT. Public benefit organisations may be fully or partially exempt.

The efficiency case for introducing a capital gains tax is particularly strong if one considers the impact on the allocation of investment funds. If capital gains go untaxed, individuals are encouraged by the tax system to invest their savings in assets that provide returns in the form of capital gains (for example, property), rather than income-producing assets (for example, equipment and machinery), this may be one reason behind the high levels of financial-market investment and extremely low-levels of fixed capital investment in South Africa. Scarce investment funds are clearly misallocated when tax factors are given undue weight over risk-return considerations in the allocation of investment capital. Capital gains tax narrows the gap in the tax treatment of different assets, reducing these distortions in individual portfolio decisions.[120]

Significant potential for reform of capital gains taxes for South Africa exists, given international trends and that the individuals who pay significant capital gains taxes are the wealthy.

Recommendations:

- **Shift towards the French model to encourage longer holdings and greater progressivity:** This has several features: (1) capital gains can be subject to a surtax on high income at a rate ranging from 3% to 4%, depending on the income earned by the tax payer in the fiscal year; (2) focus on the holding period of the asset, and reduce the capital gain tax rate as the duration of the holding increases. For example in France, a deduction of 20% is applied if the asset was held between two and four years, 30% if the asset was held between four and six years, and 40% if the asset was held longer than six years; (3) encourage reinvestment of proceeds: by allowing capital gains to potentially benefit from an exemption of income tax if

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119 Ernst and Young. *Corporate dividend and capital gains taxation: A comparison of the United States to other developed nations.* April 2015. Web. http://theasi.org/assets/EY-ASI-2014-International-Comparison-of-Top-Dividend-and-Capital-Gains-Tax-Rates.pdf

120 Taken from SARS: McAllister, Duncan S. *Comprehensive Guide to Capital Gains Tax.* South African Revenue Service. Legal and Policy Division. 2015. Web. http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-CGT-G01%20-%20Comprehensive%20Guide%20to%20Capital%20Gains%20Tax%20-%20External%20Guide.pdf

the taxpayer reinvests at least 50% of the proceeds within two years in a qualified economic activity. In France, the exemption applies on the fraction of proceeds reinvested.

- **The full capital gain realised on disposals should eventually be taxed, such that the inclusion rate is increased on an incremental basis until it is 100%**. Annual assessments of the revenue gained versus lost from changes in the behaviour can be assessed.

  Capital gains are taxed at a lower effective tax rate than ordinary income in South Africa. The rational for this is unclear, and seems to rest on the notion that due to the mobility of what is being taxed, the capital gain should be taxed at a lower rate compared to the revenue gain. This proposal will raise additional tax revenue, if one can extrapolate from the past positive impact on revenue of increasing inclusion rates in South Africa. It also has the potential to reduce speculative financial activity by increasing the incentive to extend the holding period of the asset.

  In comparative perspective, South Africa's capital gains structure shows room to be more progressive (see appendix). The global trend is such that capital gains rates are increasing – though comparing CGT across countries is fraught with serious difficulties given different exemptions and double taxes, which need to be taken into account.

- **Treatment of non-residents:** at present a non-resident is subject to CGT on the disposal of any immovable property <u>or</u> any interest or right of whatever nature to or in immovable property situated in the Republic, and any asset of a permanent establishment through which that non-resident is carrying on a trade in the Republic. Hence this covers shares (even though they are movable property)[121] but only if this 'interest in immovable property' (amended as of 1 February 2006[122]) is of a certain nature and extent. The equity share held by the non-resident owner in a company must be such that: (1) 80% or more of the market value of the equity shares, ownership or right to ownership, or vested interest, at the time of their disposal, is attributable directly or indirectly, to immovable property [in South Africa], held otherwise than as trading stock. This requirements concerns the nature of the assets held by the company in which the individuals owns equity shares; and (2) the equity must amount to at least 20% (directly or indirectly) of the company's share capital. Having to calculate the portion of the gross market value of a company's asset attributable to movable vs. immovable property seems overly cumbersome (despite this approach being taken by the OECD's model treaty). Moreover, the CGT only applies to large direct investment stakes (i.e. 20% or above).

  Such restrictions mean that the overwhelming majority of financial assets traded by non-residents are not subject to capital gains tax. This is in the context of non-

121 SARS *Comprehensive Guide to Capital Gains Tax*, pg.43
122 Paragraph 2(2) was amended by s 64(1) of the Revenue Laws Amendment Act 31 of 2005.

resident investment increasingly being undertaken for short-term capital gains, rather than long-term investment.[123] Non-resident share and bond turnover in South Africa is higher than resident turnover. In the 2000s non-residents traded shares, on average each year, worth 83% of the value of stock market capitalisation they held, the value of bonds traded where, on average, an enormous 36 times the bond market capitalisation held by non-residents.[124] Non-resident bond market turnover, in particular, has been tied to certain speculative carry trade operations;[125] the SARB has discussed the numerous problems this leads to.[126]

Further, it is important to recognise that resident firms can trade via non-resident subsidiaries / entities / intermediaries, and hence potentially secure favourable tax treatment.

It is recommended that the inclusion of non-resident traded assets be simplified and widened. Currently it is longer-term investment – associated with immovable assets and shareholdings greater than 20% of a company's share value – which are subject to CGT. This is counter-intuitive and the taxation should be restructured to include shorter-term market trading and to not unduly offer non-residents preferential tax treatment. In addressing related issues non-residents in Australia are no longer (as of 8 May 2012) eligible for the previous 50% discount on capital gains tax.

- **Share buybacks** (the repurchases of the companies' own shares using cash on their balance sheets or borrowed funds) currently allow those selling shares (to the corporate whose shares they are) to avoid paying capital gains taxes.[127] Treasury needs to finally put a stop to this. Explains Werkmans Tax Team: "When companies sell shares in other companies, especially in subsidiaries, it has become widespread to structure the disposal by way of a subscription for new shares by the acquirer into the target company, followed by the target company buying back its shares from the existing shareholder. This gives rise to a dividend in the existing shareholder's/seller's hands, which is tax free if a company, rather than the seller having to pay CGT [sic]. It was announced in the 2016 Budget Speech that these arrangements 'merits a review to determine if additional countermeasures are required'. No countermeasures were, however, introduced. It has, nonetheless, again been announced that specific countermeasures will be introduced 'to curb the use of share buyback schemes', although no details have again been provided as to when and how this will be addressed. In fact, even as far back as 2008, when the dividends tax legislation was first enacted, Treasury was made fully aware that

123 Isaacs and Kaltenbrunner "Financialisation and liberalisation: South Africa's new forms of external vulnerabilities", *Competition and Change*. Forthcoming

124 SARB "Quarterly bulletin data", 2017, own calculations

125 Carry trade is most classically borrowing in a low-interest 'funding currency', buying a higher-interest 'target currency' in the spot market, using the proceeds to purchase fixed-income high-yield securities denominated in the target currency (often government bonds), and finally converting the payoff back into the funding currency. However, carry trade can also be implemented via derivative markets, for example by selling the currency forward when it is at a significant forward premium. Currency options can also be used to hedge the exchange rate risk to which carry trade exposes the arbitrager. See Galati et al. "Evidence of carry trade activity" *BIS Quarterly Review* September 2007.

126 Hassan, Shakill. "Speculative Flows, Exchange Rate Volatility and Monetary Policy- the South African Experience" *SARB Working Paper Series no WP/15/02*. 2015.

127 Werksmans Tax Team. "2017/2018 Budget Proposals-Tax Overview." *Werksmans.com*. February 2017. Web. https://www.werksmans.com/wp-content/uploads/2017/02/070053-WERKSMANS-budget-speech-2017-updated.pdf

share buy-backs could be used to avoid CGT by keeping the proceeds within the dividends regime, where they had historically been under STC, instead of bringing them within the CGT regime. And Treasury took a deliberate decision to retain the status quo. And they even caused some anti-avoidance rules to be included which recategorised a dividend as proceeds for CGT purposes, but the rules were so narrow that they barely applied to any of the transactions."

Further, it is worth recognising that share buybacks have become popular as an alternative means of distributing funds to shareholders. Instead of paying dividends the companies boosts their own share price through share buybacks. In the United States in 2005 funds spent on buybacks exceeded dividends and this has continued to widen since then,[128] in the most comprehensive study on buybacks in South Africa to date the number of firms engaging in buybacks increased from 8% in 2000 to 24% in 2009 with R40bn spent in this manner in 2009.[129] One reason for this is how they are taxed, with capital gains tax levied on the profit (from shares) compared to the base cost, whereas total dividend income is taxed as part of personal income. Share buybacks are of little use to the economy as they represent funds that could otherwise have been invested. Disincentivising them, together with progressive taxation on dividends, is worthwhile. The reporting requirements on buybacks is also extremely weak with share buyback data not recorded by South African financial data sources or by the Johannesburg Stock Exchange. This needs to be strengthened.[130]

An issue with capital gains taxation is that individuals are not taxed until they actually sell property and realise their gains.[131] But this system makes less sense for the publicly traded stocks of the super-wealthy. If passed on at death and then sold by the inheritors, they will be taxed only on any appreciation in value since his death. This is because any capital gains tax due is payable before the inheritance is transferred to the beneficiaries. The acquisition of an asset does not give rise to a capital gain at the time of inheritance, notes SARS, and any capital gain or loss is only worked out under the Eighth Schedule when the asset is ultimately sold or disposed of.

For individuals and married couples who earn above a certain bracket, or own above a certain value in publicly traded securities the appreciation in their publicly traded stock and securities would be "marked to market" and taxed annually as if they had sold their positions at year's end, regardless of whether the securities were actually sold. The tax could be imposed at long-term capital gains rates so tax rates would stay as they are. The

128 Amy Dittmar, 'Corporate Cash Policy and How to Manage It with Stock Repurchases', *Journal of Applied Corporate Finance* 20, no. 3 (Summer 2008): 22–34, doi:10.1111/j.1745-6622.2008.00191.x.

129 Nicolene Wesson, 'An Empirical Model of Choice between Share Purchase and Dividends for Companies in Selected JSE Listed Sectors' (Thesis, Stellenbosch : Stellenbosch University, 2015), http://scholar.sun.ac.za/handle/10019.1/97082; N. Wesson, B. W. Bruwer, and W. D. Hamman, 'Share Repurchase and Dividend Payout Behaviour: The South African Experience', *South African Journal of Business Management* 46, no. 3 (September 2015): 43–54.

130 P. G. Bester, 'Shareholder Distribution Choices for Industrial Companies Listed on the JSE: Share Buybacks versus Dividends' (Thesis, Stellenbosch : University of Stellenbosch, 2008), http://scholar.sun.ac.za/handle/10019.1/8443; Albert Dingalethu Madubela, 'What Shareholder Information on the Shareholder Spread Is Disclosed in the Financial Statements of JSE Listed Entities in Accordance with Listing Requirements of the JSE?' (Thesis, Stellenbosch : University of Stellenbosch, 2011), http://scholar.sun.ac.za/handle/10019.1/8518; Wesson, Bruwer, and Hamman, 'Share Repurchase and Dividend Payout Behaviour'.

131 Miller, David S. "The Zuckerberg Tax." *The New York Times*. 7 February 2012. Web. http://www.nytimes.com/2012/02/08/opinion/the-zuckerberg-tax.html?_r=1&src=tp

alternative is to deal with this loophole under inheritance taxes. Only publicly traded stock would be marked to market. This could even fulfil some pro-cyclical purposes if share losses give rise to real tax refunds. In a downturn, the mark-to-market tax would act as a fiscal stimulus if the cash refunds offset a declining stock market.

7.5 Securities transfer tax (STT)

The Securities Transfer Tax Act, 25 of 2007 and the Securities Transfer Tax Administration Act, 26 of 2007 govern STT. This tax is levied at a rate of 0.25% on the taxable amount of the transfer of every security issued by a company in SA or a company incorporated outside of SA and listed on an exchange in SA, subject to certain exemptions. Little assessment of its impact seems to exist despite its revenue raising potential.

In SACTWU and COSATU's first submission to the DTC in February 2014, we argued "the South African economy is excessively financialised, and this skewed distribution between primary, secondary and tertiary sectors reflects in many ways the income and wealth inequalities of our society". As this financialisation manifests itself in financial transfers, a tax thereon will help address wealth inequality.

The international evidence indicates South Africa's STT rate is neither high nor low, although its relative comparator group is not other emerging markets who generally do not have exchanges which are as liquid as South Africa's with as high a trading volume. Tellingly, it raises only a third of the average revenue (as a share of GDP) in OECD countries (Table 7). This is telling because South Africa's stock market capitalisation (as a share of GDP) is almost triple that of OECD members.

In 2015, South Africa's stock market capitalisation was over twice its GDP, a ratio more than double all other BRICS countries and larger than in the US, UK and Canada, with the absolute size of its market capitalisation greater than comparative emerging markets such as Mexico, Indonesia and Turkey despite their larger economies.[132] Trading has grown notably in the last twenty years on SA bond markets rising from 413% of GDP in 1995 to 646% in 2016.[133] South Africa's currency, bond and derivatives markets are all among the world's twenty largest by turnover.[134]

Given such volumes the revenue raising potential of judiciously designed financial transaction taxes can become more notable for South Africa. There is room to cautiously raise this rate if designed properly. The design of the STT plays an important role in impacting any substitution effects and changes in volume, liquidity and volatility.[135]

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132 World Bank, 'The World Bank Databank', 2016
133 SARB, 'Quarterly Bulletin Data - South African Reserve Bank', 2017.
134 Hassan, Shakill. "South African Capital Markets: An Overview." *South African Reserve Bank*. Working Paper 13-4. October 2013. Web.
https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/5962/WP1304.pdf
135 Bivens, Josh and Blair, Hunter. "A financial transaction tax would help ensure Wall Street works for Main Street." *Economic Policy Institute*. 28 July 2016. Web. http://www.epi.org/publication/a-financial-transaction-tax-would-help-ensure-wall-street-works-for-main-street/

Recommendations

- **It is recommended that the securities tax rate be temporarily raised to 0.4%** for a period of three years and the impact on revenue, and market liquidity, trading volume and volatility be assessed. If net benefits occur then this measure should be made permanent or increased. This represents a 60% increase over the current 2.5% rate, increasing the nominal 2015/16 tax intake by 60% would raise the tax to GDP ratio to 0.22%, still well below the OECD average of 0.4%.

- **A tax on cancelled orders**: The STT should be extended, as in France and Italy, to cover recent development in financial markets where high frequency traders make up a growing proportion of trade volume. A tax on cancelled orders is intended to target high-frequency trading. Taxation of high-frequency trading could be taxed at a rate of 0.05% and applied to the amount of cancelled orders. It could apply in cases where the trading was carried out as high-frequency algorithm trading and the ratio of cancelled orders to all orders exceeded 50%.

- **The taxation of derivatives requires specific attention** given that South African tax law (as in other countries) has not managed to keep up with financial market innovation and many derivatives are not covered under the Income Tax Act. A key complexity is the nature of the reward from derivative trading. Where derivatives are entered into for speculative purposes the proceeds are revenue in nature, where it is a direct investment in its own right they are capital gains, and where derivatives are used for hedging it is not always easy to determine if the proceeds are revenue or capital in nature (usually they are considered revenue). This highlights the need for a single comprehensive framework for derivative taxation which would also need to consider the jurisdiction of the derivative contract, the appropriate timing of taxation (which may differ between derivative types) and common tax avoidance strategies.[136]

7.6 Immovable property taxation

South Africa's current property tax (known as 'rates on property') is levied at the municipal level while national and provincial governments regulate how the property tax is charged, assessed and collected. Most South African property owners pay municipal rates although some (particularly rural) properties may be exempt. Rates are now levied at a common percentage (around 1%) irrespective of property values, although municipalities may levy different rates for different types of property, e.g. residential, industrial, commercial, business, agricultural and commercial. Property valuations are made upon which the rates are levied and there is generally a 'rate-free' amount; often these values lag behind market values. Municipal services (such as refuse, sewerage etc.) fall outside of municipal rates.

In addition, transfer duty (levied under the Transfer Duty Act) is paid on the acquisition of immovable property (whether by transaction or otherwise), where the transaction is not subject to VAT. This is levied progressively at rates ranging from 0% (for properties under

136 Oguttu, Annet Wanyana. "Challenges in Taxing Derivative Financial Instruments: International Views and South Africa's Approach" *South African Mercantile Law Journal*, Vol. 24, Issue 4 (2012), pp. 385-415

R900 000) to 13% (for properties above R10 000 000).[137] Each tax band includes a lump sum payment and a certain percentage levied on the amount by which that property is above the ceiling of the previous tax band.

When considering property taxation in South Africa it is important to bear in mind South Africa's spatial inequalities. Not only do a large share of the population not own any residential property but there is also a dual property market. This can be seen, for instance, during the 2000s housing boom (1999-2007), large houses appreciated by 188% in real terms, while the 'affordable' segment appreciated by under half of that, 91%, slower than all other segments.[138]

<u>Recommendations</u>

- **It is recommended that a property tax over and above municipal rates is levied.** The current system of property tax ('rates') is progressive in its design but (inadvertently) may reinforce certain spatial inequalities in South Africa. This is because municipalities with higher-value properties are able to generate greater income than municipalities with lower-value properties. A national property tax would allow for redistribution and also capture some of the value accrued to property-owners through public investment (such as the Gautrain). Such a tax should also be progressive.

- **A surcharge on the transfer duty for the acquisition of second homes can be implemented.** There is some scope for tax avoidance here (the property could be purchased in the name of the spouse for instance) but it remains a progressive measures with fairly low administrative burden.

- **It is recommended that non-residents pay higher transfer duties than residents, particularly, or exclusively, for residential property.** Non-resident residential property acquisition, particularly in the Western Cape, has been a contributing factor to escalating property values. Australia, for example, has recently levied extra taxes on non-resident homebuyers.[139]

7.7 Land taxation

Currently the Municipal Property Rates Act (2004) provides for municipalities to tax agricultural land. There is no national 'land tax' in South Africa and the use of this municipal tax provision is limited. A land tax should also be viewed in the context of historic land dispossession in South Africa as well as the large amount of unused land, including in metropolitan areas and including land owned by state owned enterprises.

As mentioned in Section 3, a land tax has numerous potential benefits, chief amongst these are:

- As a source of revenue

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[137] SARS, 'Transfer Duty', 2017, http://www.sars.gov.za/Tax-Rates/Pages/Transfer-Duty.aspx.
[138] Absa, 'Absa Housing Price Index Data', 2016.
[139] Jamie Smyth, 'Tax Rises on Foreign Homebuyers in Australia', *Financial Times*, 14 June 2016, https://www.ft.com/content/16859cde-31f7-11e6-8825-ef265530038e.

- Ensuring the productive use of land. The Housing Development Agency (HDA), for instance, has identified the high cost of land, and the difficulty in releasing unused state land, as a key stumbling block towards housing provision.[140]
- 'Value capture' whereby the state recoups the value of increases in the value of land that were not created by either the investment or labour of the landowner.
- Curbing the prevalence of vacant land
- Discouraging land speculation

Recommendations

- **There is scope for land taxation in South Africa.** However, land ownership is heterogeneous, for example, large commercial farmers and smallholder landowners face very different constraints, and so any land tax must be judicially implemented. Such funds could be earmarked for funding land reform/redistribution as in Namibia. A threshold level would need to be included to exempt the poorest, and attention needs to be given to state capacity and which level of government should levy the tax and the method and frequency of valuation.[141] If a land tax is to be levied on the municipal level, the national government or SARS would need to provide significant assistance given the poor capacity in many non-metro municipalities. Such a tax can be levied at a higher rate for non-residents as an attempt to curb non-resident absentee land ownership, as was done in Australia and Namibia.[142] Land taxation should not be a substitute for other forms of taxation.

8 Conclusion

This submission situates proposed taxation on wealth within the context of a drive to reduce inequality and provide revenue for state developmental objectives, thus generating growth and employment. We noted at the outset that government spending can be an important stimulus for the economy, as well as 'crowd in' private investment. Taxes also provide the funds for essential public goods. Taxes themselves, if levied progressively, can reduce inequality, a national imperative. In addition to world-leading levels of income inequality, South Africa has extreme levels of wealth inequality.

Conceiving of wealth as pertaining to both material and financial assets we explored taxation modalities pertaining both the underlying property itself and gains that accrue therefrom. In doing so we drew from international experiences and the current South African context.

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140 Gilad Isaacs, "The Commodification and Financialisation of Low-Cost Housing in South Africa", *Fessud Working Paper Series* (November 2016).

141 An investigation of land taxation was undertaken in 1998 as part of the Katz Commission and outlines many of the key considerations. See Katz Commission, "Eighth Interim Report of the Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa: The Implications of Introducing a Land Tax in South Africa", (1998).

142 Childress et al., 'Taxing Agricultural Land: A Policy Instrument for Land Use Intensification, Local Development and Land Market Reform'.

The following conclusions are drawn:

- **South African wealth is relatively under taxed when wealth taxation as a percentage of GDP is compared with other countries.**

- **Net wealth taxes have been successfully implemented in a number of countries**, although the sample is relatively small and issues of valuation and tax avoidance require careful consideration.

- **A permanent net wealth tax should be levied within the international range of 0.5-2.5%**, taking into account the extremely high concentration of wealth and to ensure a meaningful outcome.

- **The primary abatement for estates should not be raised to R6 million and the use of trusts to shield individuals from paying the full estate duty tax should be investigated and clamped down on.** A comparative study of South Africa's estates duty with other countries needs to be done in order to assess why it contributes (as a share of GDP) a quarter of the OECD average and whether rates should be increased.

- **Capital gains tax should be restructured so that:**

    - Longer holding periods and capital reinvestment are encouraged through rate reduction.
    - A surcharge is applied to taxpayers earning high levels of capital gains (i.e. it is made progressive).
    - The inclusion rate is raised to 100%.
    - The inclusion of non-resident is simplified and widened.
    - The use of share buybacks to avoid paying capital gains is prohibited.

- **Further, the capital gains rate of 16% - 33% is below the OECD and BRICS norm and could be raised over the medium-term.**

- **The securities transaction tax (STT) should be raised.** Despite South Africa's capital market to GDP ratio being almost triple the OECD aggregate, revenue from SST (as a share of GDP) lags being the OECD average. A taxation on cancelled orders should be instituted to disincentivise high frequency trading, and derivative taxation requires further research.

- **Regarding taxation of immovable property and land there is room for:**

    - A property tax over and above municipal rates and for this to cross-subsidise poor municipalities.
    - A surcharge on the transfer duty for the acquisition of second homes
    - Non-residents to pay higher transfer duties than residents, particularly, or exclusively, for residential property.

- **A land tax has been successfully implemented elsewhere and has been used to fund land redistribution.** This submission has not sufficiently interrogated this issue to make firm recommendations but this matter requires attention.

- **Tax evasion must be clamped down on.**

While several proposals on wealth taxes are made in our submission, many of these are increases or improvements on existing taxes, including the securities transaction tax, capital gains tax and estate duty. We believe the most important new instrument will be a meaningful annual net wealth tax for the reasons set out above.

Wealth taxes are particularly well suited for South Africa. Not only is wealth unequally distributed but this is the result of an active process of dispossession. Central to wealth taxation is: limiting the intergenerational transfer of wealth; taxing the benefits of previous wealth accumulation; and ensuring horizontal and vertical equity. The package of new wealth taxes and increases and improvements to existing wealth taxes proposed in our submission will help achieve these aims.

9 Appendix

9.1 Summary of the International Experience with Net Wealth Tax

Table 10. International Experience from Wealth Taxes from nine countries who presently have them

Country	Year (year updated)	Type	Purpose	Evaluation	Reference(s)
Argentina	1991	Personal Net Assets Tax.	Revenue	Success: Wealth tax generated higher revenue.	Deloitte, Taxation and Investment in Argentina (2016) OECD, "Details of Tax Revenue – Argentina"(2017)
Colombia	2015	Net Equity Tax for Individuals and Legal entities.	Equity, Revenue	Other: Wealth tax introduced only recently. Too early for a proper evaluation.	EY, "Colombia enacts tax reform"(2015) Financial Times, "Colombia and the Piketty tax", (2014)
France	1982 (1989)	Net Wealth Tax on worldwide assets.	Equity	Partial Success: Compliance issues. Mobility of assets and the rich. Raises only 2% of tax revenue. Engenders social solidarity	Förster, Llena-Nozal and Nafilyan (2014) Garbinti, Goupille-Lebret and Piketty(2016)
Italy	-	Tax on Real Estate, Wealth Tax on investments held abroad.	Revenue, Equity	Partial Success: Existing taxes produce low revenue. Reform needed to combine different taxes into a Net Wealth Tax.	Eyraud, IMF, (2014) Deloitte, Taxation and Investment in Italy (2016)
Liechtenstein	1961 (2011)	Wealth Tax on all Movable and Immovable assets.	Revenue, equity	Other	PWC Tax Summaries, Liechtenstein, Individual/other Tax (2016)

Netherlands	(2001)	Tax on Savings and Investments Income.	Revenue, Equity	Other	PWC Tax Summaries, Netherlands, Individual/other Tax (2017)
Norway	-	Net Property Wealth Tax.	Equity, Revenue	Success: The share of people in wealth tax position has declined since 2001. Wealth tax has generated moderate but significant revenue.	*Bruer-Skarsbo (2015)* *KPMG, Tax Facts Norway 2016, A survey of the Norwegian tax system (2016)*
Spain	1977 (2011)	Property, Deposits, Royal rights.	Revenue	Success: Government temporarily reintroduced wealth tax to reduce budget deficit and has since been extending it on yearly basis.	Deloitte, International Tax, Spain highlights (2017) "Another Year Of Wealth Tax In Spain." Blevins Franks Financial Management (2016).
Switzerland	18th Century	Land Tax, Real Estate Capital Gain Tax, Real Estate Transaction Tax.	Revenue	Success: Government has been able to raise revenue through these taxes although the level of wealth concentration has been more or less constant.	Brülhart, Gruber, Krapf, and Schmidheiny (2016) Förster, Llena-Nozal and Nafilyan (2014)
Uruguay	**(2007)**	**Net Equity Tax for Individuals and Legal entities.**	**Revenue, Equity**	**Success: Income inequality was largely on an upward trend until 2007 when the tax was introduced.** **Higher revenue.**	**Deloitte, International Tax, Uruguay highlights (2015)** **IMF Country Report No. 15/82, Uruguay (2015)**

Source: Authors

9.2 Estate and Inheritance Tax around the world

Table 11. Estate and inheritance taxes around the world

Country	Inheritance tax levied?	Estate tax levied?	Comments	Recent changes of note
Australia	No	No	An individual's death and the subsequent passing of his or her assets to his or her beneficiaries constitute disposal of an asset and is subject to CGT. However, exceptions are available with respect to assets owned upon death. These exceptions include transfers to a charity, superfund or foreign resident. Where the CGT exemption is available, the result is that the beneficiary that inherits and subsequently sells the assets is subject to CGT on disposal.	N/A
Austria	No	No	The Austrian Supreme Court of Constitution abolished the basic provisions of the inheritance tax in 2008. Austria introduced the Gift Registration Act (*Schenkungsmeldegesetz*), applicable as of 1 August 2008. The Gift Registration Act introduced a new information system for gifts. This information system is, in general, an instrument to monitor asset transfers, but without taxing those transfers.	N/A
Brazil	No	No	No income tax applies on inheritances, but there is a state tax levied on the transmission of assets due to inheritance – called ITCMD, and rate depends on the state where the deceased person lived – up to 8% (maximum rate).	N/A
Canada	No	No	While there are no estate taxes in Canada, there is a deemed disposition of all capital property owned by an individual at the time of death. In general, this disposition is deemed to take place at the fair market value (FMV) immediately prior to death. It usually results in the recognition of some amount of gain or loss and is included in computing income in the year of death. In all cases, the estate or the beneficiaries, as the case may be, will acquire the property at a cost equal to the deceased's proceeds from the deemed disposition. Additionally, the FMV of any registered retirement savings plan (RRSP) or registered retirement income fund (RRIF) is fully taxable in the year of death unless it is bequeathed to the individual's spouse or a dependent minor child. Because the deemed disposition of capital property can result in significant tax liabilities, the Canadian Tax Act provides relief in some circumstances. For example, there are exceptions for transfers to spouses and certain transfers of farm or fishing property to children. Estates are taxed at the same rates as individuals. Inter Vivos trusts are taxed at the top marginal tax rate applicable to individuals (no graduated rates as per estate tax system).	N/A
China	No	No	China issued a draft rule on inheritance tax in 2002 to solicit public opinion. However, as of today, no statute has been passed to provide guidance on inheritance tax.	N/A
France	Yes	No	Inheritance taxes are due for all transfers at the time of death regardless of whether they result from a legal succession, a will or a gift due to death, such as a gift between spouses. Inheritance taxes are levied on a progressive scale ranging from 5% to 40% (between parents and children). Spouses or partners in a civil union are exempt from inheritance tax. Subject to territoriality rules, tax must be paid in France when the deceased was a French resident, the heirs are French residents or when the assets are located in France.	N/A

Country	Inheritance tax levied?	Estate tax levied?	Comments	Recent changes of note
Germany	Yes	No	A progressive tax rate is applied; the applicable tax rate depends on the tax class of the acquirer and the value of the taxable acquisition and can range from 7% to 50%. The tax assessment basis is the taxable value of the assets transferred after exemptions and reliefs and numerous significant tax allowances are available due to specific kind of reasons, e.g., the allowance for the transfer of a family home or of business assets.	N/A
India	No	No	Estate duty abolished in 1985	N/A
Italy	Yes	No	Beneficiaries who are in a "direct relationship" are subject to tax at 4% on the value of the assets transferred to them (a threshold of €1 million for each beneficiary applies). Brothers and sisters of the decedent are subject to tax at 6% on all assets transferred to them (the first €100,000 for each sibling is exempt from the inheritance charge). Other relatives of the testator are also subject to tax at 6%, but with no exemption being available. An 8% charge is due for recipients with no relationship to the testator. There is no exemption available to this class of beneficiary.	N/A
Japan	Yes	No	Progressive rates ranging from 10% to 50%	N/A
Mexico	No	No	N/A	N/A
Russia	No	No	General tax rate of 13% may apply with respect to distributions from a trust to a Russian tax resident individual.	N/A
South Korea	Yes	No	Progressive rates ranging from 10% to 50%	N/A
Turkey	Yes	No	Progressive rates ranging from 1% to 8%	No rate changes but increases in threshold amounts.
UK	Yes	Yes	IHT is 40%. Estate – Up to 6% at each 10-year anniversary of settlement and up to 6% on distributions to beneficiaries.	
US	No	Yes	The US imposes an estate tax on the transfer of a decedent's "taxable estate" at death. The tax applies to US citizens and US residents on their world-wide assets and to non-US citizen/nonresidents on their US situs (or situated) property. The tax is assessed on the fair market value of the assets composing the individual's estate which deductions allowed for debts of the decedent and for transfers to a spouse or charity. While many states do not impose an estate tax, state estate tax rates can be as high as 19%.	The Obama Administration's 2015 Budget continues to call for reinstating on a permanent basis the 2009 estate tax regime, with the top tax rate of 45% and a US$3.5 million per-person exemption.

Source: Ernest and Young (2014)

9.3 Capital gains

Some changes surveyed by Ernest and Young across 10 countries are:[143]

Austria: The new Austrian withholding tax and CGT regime have had a major impact on Austrian investors' income from capital assets since it came into effect on 1 April 2012. Capital gains and income from derivatives are now subject to taxation for private investors, irrespective of their holding period. In general, the taxation became effective for any profits derived from the sale of shares or investment fund units purchased as of 1 January 2011 and for the sale of bonds and derivatives purchased as of 1 April 2012. Only realized

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[143] Ernst and Young. *Wealth Under the Spotlight.* 2014. Web. http://www.ey.com/Publication/vwLUAssets/ey-wealth-under-the-spotlightv6/$FILE/ey-wealth-under-the-spotlightv6.pdf

income from securitized derivatives will be subject to a special tax rate of 25% and withholding deduction.

Australia: Capital gains accrued to non-resident and temporarily resident taxpayers after 8 May 2012 are no longer eligible for a 50% discount. Generally, only 50% of an individual's capital gain from the disposal of an asset held for at least 12 months is subject to tax (after offsetting any capital losses against the gross capital gain).

France: The CGT rate was increased from 19% to 24% for tax year 2012, but for all subsequent years, capital gains are taxed at the personal progressive income tax rates ranging from 0% to 45%. Capital gains may also be subject to the specific surtax on high income at a rate ranging from 3% to 4%, depending on the overall amount earned within a fiscal year by the taxpayer. In addition, capital gains are subject to social contributions at the rate of 15.5%.

Capital gains benefit from a deduction of 20% if the asset was held between two and four years, 30% if the asset was held between four and six years and 40% if the asset was held longer than six years. Under specific conditions, entrepreneurs are taxed at lower rates: their gains on the sale of shares can be subject to the 19% rate instead of the progressive tax rate, and their gains on the sale of shares while retiring may benefit from an additional deduction depending on the length of ownership. Under specific conditions, capital gains may benefit from an exemption of income tax if the taxpayer reinvests at least 50% of the proceeds within two years in a qualified economic activity. The exemption only applies on the fraction of proceeds reinvested.

Germany: Effective 1 March 2013, the German parliament enacted a new provision in order to prevent the application of a special tax optimisation scheme known as the "Goldfinger Model." Under this scheme, taxpayers with extraordinary earnings (e.g. from the sale of a business) could legally lower their individual income tax rate to 0% by declaring negative progression clause income in the year when they accrued the proceeds of the sale. Negative progression clause income is generated by the purchase of gold through a gold trade business entitled to cash basis accounting in another EU Member State.

Italy: Italy increased the rate of CGT from 12.5% to 20% in 2012 as part of a wider package of tax increases and spending cuts designed to accelerate deficit reduction. On 12 March 2014, the Italian Government extended this, announcing that the 20% at tax currently applicable to dividends, interest and certain capital gains will increase to 26%. Interest and capital gains on Italian government bonds should remain taxable at the reduced 12.5% rate. The increase in revenue is intended to finance a 10% reduction of the Italian regional tax on productive activities (IRAP).

Japan: The reduced tax rate (10%) on dividends and capital gains income derived from listed stocks will be abolished at the end of 2013. From 2014, the original tax rate of 20% became applicable again.

Mexico: New legislation was included in Mexico's 2014 tax bill to tax sales of stock through the Mexican Stock Exchange. The tax will be 10% of the gains realised during a tax year. No credits or other deductions will be permitted.

South Korea: A new CGT bracket was introduced in 2012: 38% (41.8% including surtax) for capital gains exceeding KRW300,000,000 (approximately US$280,000). In addition, an exemption for some "majority shareholders" was amended. Although gains from the transfer of listed stock are tax-exempt in order to boost Korea's stock market, gains accruing to majority shareholders are subject to capital gains tax. Prior to July 2013, a shareholder whose total stake, together with any related parties, in a listed company exceeded 3% (5% for KOSDAQ-listed corporations) or total market value of the stock held by a shareholder is at least KRW10 billion (KRW5 billion for KOSDAQ-listed corporations) was considered to be a majority shareholder. For 2013 and beyond, this scope is amended to include a shareholder whose total stake, together with any related parties, in a listed company exceeds 2% (4% for KOSDAQ-listed corporations) or total market value of the stock held by a shareholder is at least KRW5 billion (KRW4 billion for KOSDAQ-listed corporations).

UK: For gains arising with effect from 23 June 2010, the UK introduced an increase in the top rate of CGT to 28% (from 18%) for taxpayers whose income and gains exceed the basic income tax rate band (which was £32,010 for 2013). The rate increase was accompanied by an increase in the Entrepreneurs' Relief lifetime limit, from £5 million to £10 million (of gains taxable at 10%). Non-natural persons subject to the Annual Tax on Enveloped Dwellings (ATED) must also pay capital gains tax at 28% from 6 April 2013. Although the charge is on the non- natural person, it will affect individuals who are the ultimate bene cial owners. The most recent UK Finance Act also confirms that CGT will be extended to nonresident individuals in respect of UK residential property from April 2015 onward. CGT was first extended to nonresident companies owning residential property valued at over £2 million in Finance Act 2013 (as above), and this measure will extend it still further. The current proposal is that the new CGT charge will apply to individuals, trustees and companies (including those companies subject to ATED related CGT). However, it is expected that the charge for companies may be limited to companies with closely held shares. Some form of rebasing will be available for nonresidents who already hold property. It is not currently clear whether this will be achieved by uplifting the cost of the property to its market value at the time the charge is introduced, or whether, instead, the actual gain over the total period of ownership might be time-apportioned, with only a proportion of the gain being subject to the new charge. Further details on the operation of the new charge are expected at some point in late 2014.

US: The American Taxpayer Relief Act of 2012 was signed into law by President Barack Obama on 2 January 2013, extending the Bush-era tax rates originally enacted in 2001 for all but "high-income taxpayers" earning more than $400,000 (and joint lers with incomes above $450,000). Alongside an increase in the top tax rate on ordinary income to 39.6%, the act increased the long-term capital gains rates to 20% (from 15%) for those above the same income thresholds. Net short-term capital gains are still taxed at the ordinary income tax rates. In addition, a new 3.8% tax on net investment income took effect on January 1, 2013, that applies to both short-term and long-term net capital gains. The tax only applies to the extent that an individual's adjusted gross income exceeds $250,000 for taxpayers who are married ling jointly and income exceeding $200,000 for taxpayers who left as unmarried individuals.

Table 12. Global comparison of capital gains regimes

Country	Top long-term capital gains tax rate	Holding period for long-term capital gain	Other key details
Australia	22.5%	1 year	Only 50% of the capital gains resulting from disposal is subject to tax. Trading stock acquired for the purpose of resale is not subject to capital gains treatment.
Austria	25.0%	1 year	Gains derived from the sale of investments (securities, derivatives, and others) that were purchased on or after April 1, 2012 are subject to tax at a rate of 25%. Gains derived from the sale of shares in a corporation are taxed at a rate of 25% if the sale takes place on or after April 1, 2012.
Belgium	0.0%	N/A	
Brazil	15.0%	N/A	Capital gains on one transaction each month are exempt from tax if the sale price is less than R$35,000. Capital gains derived from the sale of shares listed on Brazilian stock exchanges are exempt from tax if the sale price is less than R$20,000 (approximately US$12,500). If the sale price exceeds R$20,000, the entire gain is taxed at a rate of 15%.
Canada	23.6%	N/A	50% of the year's capital gains are included in taxable income, to the extent that the amount exceeds 50% of capital losses for the year.
Chile	20.0%	N/A	Capital gains derived from sales of shares and other investments are subject to the First Category Tax (20%) as a final tax if the transactions are not habitual and not between related parties.
China	0.0%	N/A	
Czech Republic	0.0%	6 months / 5 years	This rate applies for the securities acquired after 2013. For the securities acquired before 2013, the sale of securities is exempt from tax if the securities have been held for a period of more than 6 months and if the individual had a direct share of less than 5% in the company in the 24-month period preceding the sale. The sale of other securities is generally exempt if the holding period exceeds five years.
Denmark	42.0%	N/A	
Estonia	21.0%	N/A	
Finland	32.0%	N/A	
France	60.5%	N/A	Capital gains realized by a taxable household on the sale of listed or unlisted shares, bonds, or related funds are subject to CSG/CRDS and social tax at a combined rate of 15.5%.
Germany	25.0%	N/A	Gains on the sale of shares are not subject to tax if the shares were acquired before January 1, 2009 and the vendor had a participation of less than 1% in the company.
Greece	15.0%	N/A	
Hungary	16.0%	N/A	
Iceland	20.0%	N/A	
India	0.0%	1 year	Long-term capital gains derived from the transfer of equity shares or units of an equity-oriented fund listed on a recognized stock exchange in India are exempt from tax if Securities Transaction Tax (STT) is paid on such transaction.
Ireland	33.0%	N/A	
Israel	25.0%	N/A	
Italy	26.0%	N/A	If the transaction involves a qualified percentage of the company's shares, the ordinary rates are applied to 49.72% of the gain. The ordinary rates are applied to 100% of the gain if the shares sold relate to qualified shares of a company residing in a tax haven (as defined by the Italian authorities).
Japan	20.0%	N/A	Capital gains derived from the sale of shares are generally taxed at 20% (15% national tax plus 5% local inhabitant tax).
Korea	0.0%	N/A	Although capital gains derived from the transfer of shares in a company listed on the Korean stock market are not taxable, the shareholder of such a listed company is subject to capital gains tax on gains derived from the transfer of shares if the shareholder, together with related parties, owned at least 2% (4% for KOSDAQ or KONEX-listed companies and venture companies) of the total outstanding shares or at least KRW 5 billion (KRW 4 billion for KOSDAQ-listed companies and venture companies and KRW 1 billion for KONEX-listed companies) worth of the shares based on the market value at the end of the preceding year ("majority shareholder").
Luxembourg	0.0%	6 months	Substantial shareholdings (more than 10%) in resident or nonresident corporations are fully subject to tax on capital gains in the hands of resident taxpayers. Capital gains on non-substantial shareholdings (10% or less) and other securities, such as shares in investment funds, are tax-free only if they are realized more than six months after acquisition.
Mexico	10.0%	N/A	Capital gains are taxed as ordinary income. Gains derived from the sale of shares of Mexican or foreign companies through Mexico's Stock Exchanges are subject to an income tax rate of 10%.
Netherlands	0.0%	N/A	
New Zealand	0.0%	N/A	
Norway	27.0%	N/A	
Poland	19.0%	6 months	

Portugal	28.0%	N/A	Gains derived from the disposal of securities (including autonomous warrants) and derivative financial products are subject to tax at a rate of 28% (a 50% exclusion from tax applies to gains from shares in unlisted micro and small companies) if an exemption does not apply.
Russia	13.0%	N/A	Capital gains are included in regular income. A separate capital gains tax does not apply.
Slovak Republic	25.0%	N/A	Capital gains derived from the sale or exchange of property are taxed as ordinary income at the regular income tax rate. Basic tax rate is 19% and the top tax rate is 25%.
Slovenia	0.0%	5, 10, 15, and 20 years	Capital gains are taxed at a flat rate of 25% with a reduction of the tax rate for every completed five-year period of ownership of the capital. As a result, the following are the tax rates: 15% after 5 years, 10% after 10 years, 5% after 15 years, and 0% after 20 years.
Spain	27.0%	N/A	Capital gains derived by tax residents are taxed at a rate of 21% on the first €5,999.99, at a rate of 2% on the amount from €6,000 to €23,999.99 and at a rate of 27% on amounts from €24,000 onwards.
Sweden	30.0%	N/A	
Switzerland	0.0%	N/A	
Turkey	35.0%	N/A	
United Kingdom	28.0%	N/A	
United States	28.3%	1 year	Includes weighted-average state capital gains tax rate, after accounting for federal deductibility of state and local taxes. Capital gains are subject to a 3.8% Medicare tax.

Source: Ernest and Young (2015)[144]

[144] Ernst and Young. *Corporate dividend and capital gains taxation: A comparison of the United States to other developed nations.* April 2015. Web. http://theasi.org/assets/EY-ASI-2014-International-Comparison-of-Top-Dividend-and-Capital-Gains-Tax-Rates.pdf

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