South African Institute of Race Relations NPC (IRR)
SUBMISSION
to the Davis Tax Committee
regarding the
desirability and feasibility of three possible forms of wealth tax,
Johannesburg, 31st May 2017

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1 Introduction

The Davis Tax Committee (the committee) has invited interested people and stakeholders to submit written comments, by 31st May 2017, on the desirability and feasibility of three possible forms of wealth tax: a land tax, a national tax on property, and an annual wealth tax.

This submission is made by the South African Institute of Race Relations NPC (IRR), a non-profit organisation formed in 1929 to oppose racial discrimination and promote racial goodwill. Its current objects are to promote democracy, human rights, development, and reconciliation between the peoples of South Africa.

The committee has provided no details of what the tax base would be in relation to any of these possible taxes. Nor has it explained what the tax rate would be, or what administrative and enforcement processes might be used in determining and collecting these possible taxes. In the absence of such details, this submission focuses simply on the general points that can be made, within the short time allowed, regarding the desirability and feasibility of these possible taxes in the current South African context.

2 A land tax

A land tax is generally defined as a tax on the unimproved or site value of land, which is paid by the owner. It differs from a property tax, which taxes both the value of the land and the improvements on it.

2.1 Desirability of a land tax in South Africa

The key arguments and counter-arguments are as follows:

2.1.1 Arguments for:

A pure land tax is not distortionary because it has no negative effects on investment or production. Since the tax must in any event be paid on the unimproved value of the land, there is no penalty for investing in it and increasing its productivity. At the same time, since the owner must pay the tax on the entire land-holding, irrespective of how much of it is being used, this encourages the owner either to sell any unused portion or to start using that portion productively.

The main benefit of a land tax is thus that it encourages the more productive use of under-utilised land and helps to broaden land ownership. This is seen by some as particularly important in South Africa, where land ownership remains racially skewed and a land tax would encourage the redistribution of land to black South Africans.

The ruling African National Congress (ANC) has for many years been considering the use of a land tax to help reduce the price of land and to push additional land on to the market at lower prices, while also generating a new revenue stream for the government. Its idea, as expressed in a penultimate draft of its *Green Paper on Land Reform*, drawn up in 2010, was that 'a land tax should be levied only on very large holdings (the same holdings that might be affected by a ceilings provision), rather than subjecting all holdings to a land tax over and above existing rates'. According to the document, 'this would avoid incurring administrative costs of collecting small amounts on many small holdings. This targeting would also reduce any general negative impacts on tenure security and investor confidence'. [*Fin24.com*, 13 October 2010]

2.1.2 Arguments against:

There is little evidence that commercial farmland in South Africa is under-utilised. Much of the land within the country is indeed under-utilised, but such land is mainly found in the

former homelands, among other state-owned land, and among land acquired by the government for since 1994 for purposes of land reform.

Some 16 million hectares of land (13% of the country's total land area) remain in traditional communal ownership in the former homeland areas. Much of this land remains under-utilised because communal tenure prevents its full productive use. Residents of the former homelands derive very little (often only 4%) of their income from farming activities, while a confidential Agricultural Policy Action Plan (APAP), approved by the Cabinet in March 2015, notes that "hundreds of thousands of hectares…(if not more)" of land in the former homelands remain "under-utilised". [John Kane-Berman, 'From land to farming', @*Liberty* Issue 25, IRR, May 2016, page 8]

Though the government lacks accurate information on how much land it owns, the total lies roughly in the region of 14.5 million hectares (based on figures from 1994, 1996, and the state's recent land audit.) Much of this land is said to be lying fallow. In addition, at least 70% of the 8.2 million hectares that has been bought by the government for land reform purposes since 1994 has fallen out of production. Roughly 5.7 million hectares of land within this category thus needs to be brought back into use. [Minister Gugile Nkwinti, 'Debate of the State of the Nation Address, *Politicsweb.co.za*, 14 February 2017, p2; Democratic Alliance (DA), 'SA Today: 17 million hectares that could change our economy for ever', *Bokamoso News*, 29 June 2014]

In addition, land ownership is no longer as racially skewed as the government often infers. President Jacob Zuma has recently suggested, for example, that whites still own 87% of the land, as they did in the apartheid era, but this is not so. [*The Times* 9 January 2017] When the political transition took place in 1994, the 13% of land falling within the ten former homelands, along with other state land amounting to some 12% of South Africa's total land area, passed into the hands of the new government. Another 8.2 million hectares have since been bought by the state for land reform purposes, while black South Africans have bought at least 2 million hectares of land on the open market since 1991, when the notorious Land Acts were repealed. [Anthea Jeffery, *BEE: Helping or Hurting?* Tafelberg, Cape Town, 2014, pp302, 304, 306, 308]

According to research conducted by Agri Development Solutions, a consultancy, together with Afrikaans agricultural journal *Landbouweekblad*, estimated black land ownership in 2016 (including state, communal, and privately owned land) stood at 63.4% of total land ownership in KwaZulu-Natal, at 49.3% in Limpopo, at 47.5% in North West province, at 43.4% in Gauteng, and at 28.5% in Mpumalanga. Only in three provinces was black land ownership very much lower: at 6.8% in the Free State, 5.7% in the Northern Cape, and 3.6% in the Western Cape. Overall, the proportion of workable agricultural land in the ownership of white commercial farmers has decreased from 85% in 1993 to 65% in 2016. At the same time, the proportion of such land in black ownership has gone up from 15% to 35% over the same period. [*Landbouweekblad* 31 March, *Rapport* 23 April 2017]

The critical need is not to speed up land sales via a land tax but rather to bring all under-utilised land in the state's ownership and/or control into full production. This is a far more pressing imperative – and only once this has been done can the remaining need, if any, for a land tax be assessed.

In addition, notes economist Dawie Roodt of the Efficient Group, the additional value created on land does not originate from the land itself, nor even (in the main) from public infrastructure such as roads, dams, and railways. It now stems primarily from 'technological and managerial inputs'. Hence, 'taxing land as such does not tax the "source" of wealth. All that happens is that the real source of wealth, technology and know-how, will find other land in other countries on which to create wealth'. [Dawie Roodt, Unpublished memorandum on the proposed wealth taxes, 7 May 2017]

There are also other arguments against the desirability of a land tax. By reducing land values, a land tax will make it harder for farmers to borrow working capital. This will be a further obstacle for many farmers in South Africa, who already face a host of major challenges. In many areas, rainfall is low or erratic and land capability is limited. The agricultural subsidies which the National Party used to provide have been slashed, making it harder for South African farmers to compete against their counterparts in Europe and the United States (US), in particular, where major subsidies continue to apply. South African farmers also face ideological hostility from the government and a prolonged land reform process which has been singularly inept in its execution. They also face growing threats to their property rights, including recent calls – from President Jacob Zuma and other senior figures in the ANC – for their land to be expropriated without compensation. [*Business Day* 7 March 2017]

Already, many South African farmers have decided to move to other African countries where their skills are in high demand. [Keith Bryer, 'SA farmers make a success of move into continent', www.iol.co.za/business-report, 7 October 2014; see also Jeffery, *BEE: Helping or Hurting?* p311] In these circumstances, the imposition of a land tax – particularly at the high rates which the ANC has suggested might be needed to have a real impact on land redistribution [*Fin24.com* 13 October 2010] – is likely to be particularly contentious and could tip many more into leaving the country.

Even without such an exodus, the imposition of land taxes intended to push down land prices and promote redistribution would undermine food production and erode food security for the poor. It would also hobble the agro-processing sector the Department of Trade and Industry is seeking to promote. In addition, it would reduce exports of agricultural products, worsen the balance of trade, and weaken the rand against the dollar and other major currencies. This in turn could give impetus to inflation, and further restrict both growth and employment, so adding significantly to the country's economic woes.

2.2 Feasibility of a land tax

The key arguments for and against the feasibility of a land tax are as follows:

2.2.1 Arguments for:
South Africa's existing property tax, levied under the Local Government: Municipal Property Rates Act of 2004, has extended the obligation to pay municipal rates, on both land and the improvements on it, to all land across the country. However, tax rates set by rural municipalities are generally low, at 1% or 1.5%. In addition, a large number of rebates may be allowed, which could reduce the rates that would otherwise by payable in rural areas by some 70%. [M A G Darroch, R B Lee and G F Ortmann, 'The Economic Impact of a Rural Land Tax on Selected Commercial Farms in KwaZulu-Natal, South Africa', *South African Journal of Economic and Management Sciences*, SAJEMS NS 11 (2008) No 3, pp372-387, at pp373-374]

Hence, some argue, there is still room to introduce a land tax in South Africa, especially as other taxes are not that onerous. South Africa's top marginal rate of personal income tax (PIT) at 45% on annual taxable income of R1.5m or more is high, but not alarmingly so. Its corporate tax rate (CIT), at 28% is relatively low by comparison with some other countries, and so too is the rate (14%) at which it levies Value Added Tax (VAT). [David Garber, 'Recurrent Property Rates – The Search for a Fair Tax Conducive to Economic Growth', *ERSA Research Brief*, March 2014, pp3-4; 2017 *South Africa Survey*, IRR, Johannesburg, pp200-202]

In addition, since all land owners are already required to pay municipal rates, the administrative burden of introducing a land tax would be much reduced. Land owners are already captured on municipal data bases and billing systems, and valuations of land and improvements are generally already in place. From this foundation, the calculation of unimproved site values for purposes of a land tax will be relatively simple, while existing enforcement mechanisms can be extended to embrace a new land tax.

2.2.2 Arguments against:
The overall tax burden in South Africa is already very high, while the pool of taxpayers making significant contributions to revenue is small.

The revenue collected by the government, as a proportion of South Africa's GDP, already stands at 30%, including indirect and other taxes. [2017 *South Africa Survey*, p182] By contrast, the world average of tax revenue to GDP stands at around 15%. In Europe it stands at some 20% in general, and at slightly less (18%) within the Euro zone. The closest comparable country to South Africa has an average tax to GDP ratio of about 13%, which is less than half the South African one. [*The Citizen* 30 June 2014; see also 2017 *South Africa Survey*, p199] The country thus already has one of the highest tax burdens in the world, and there is in fact little room to raise it yet higher.

At the same time, this enormous tax burden rests primarily on a small group of individual and corporate taxpayers. In 2015, the latest year for which this data is available, there were 18.1m individuals registered for personal income tax (PIT), but the great majority of them (78%) earned less than R350 000 a year and paid only 23% of the PIT assessed that year. A

further 15% of taxpayers earned between R350 001 and R500 000 and paid roughly 15% of the PIT assessed. The remaining 62% of the PIT assessed was thus paid by about 560 000 individuals earning more than R500 000 a year. This small group contributed some R241bn of the R389bn collected in PIT that year. [2017 *South Africa Survey*, pp186, 189; SARS, *Tax Statistics 2016*, November 2016]

The picture is similar as regards corporate taxpayers. In 2014 (the latest year for which figures are available), there were 2.7 million companies registered to pay corporate income tax. However, fewer than 890 000 of them were active (rather than dormant) and were so expected to put in tax returns. Of these, some 528 800 either made a loss or had no net profits at all. About 143 400 had profits of between R1 and R1million and so paid R6bn out of the R186bn paid in corporate income tax (CIT) that year, or roughly 3% of the total. By contrast, some 29 500 companies had net profits of between R1m and R100m and paid R55bn of the CIT that year, amounting to some 30%. Roughly R109bn in corporate taxes was thus paid by 616 companies with net profits exceeding R100m, who contributed close on 59% of the CIT assessed that year. [2017 *South Africa Survey*, pp186, 1983]

In a nutshell, thus, South Africa, with its overall population of some 56 million people, depends on a tiny group of some 560 000 individuals and 600 companies for around 60% of the personal and corporate income taxes its revenue service is able to collect. In addition, most individual taxpayers get little back in return, for public schooling, health care, and policing are generally so inefficient (despite the large amounts of revenue allocated to them each year) that the middle class has little choice but to turn instead to private schools, hospitals, and security services. In these circumstances, there is simply no room to impose an additional tax on an already over-burdened tax base.

In addition, a land tax would fall mainly on commercial farmers, who currently number some 35 000 people (down from roughly 61 000 two decade ago). About 2 500 of them produce more than half of gross farm income [Kane-Berman, p3] and thus already contribute significantly, through personal or corporate income tax, to annual tax revenues. However, most commercial farmers have an annual turnover of less than R1 million. This, in the words of Agri SA, the voice of organised agriculture, means that their net income is significantly lower than that of the average civil servant. [Kane Berman, ‘From Land to Farming’, p3] Other assessments put the earnings of 51% of the country’s commercial farmers at some R300 000 a year. [A Makenete and H D van Schalkwyk, ‘Land Ceiling Policy and Legislation: Implications for the Agricultural Economy’, undated PowerPoint presentation, p3]

A case study of the impact of existing municipal rates on five commercial farms in KwaZulu-Natal further shows that an additional land tax would be unaffordable for most of them in most years. This study assumed that the five farms studied (the only ones for which actual figures on net real economic profits were available to the authors) would be entitled to the 70% rebate that rural municipalities may apply to farmers who receive little in the way of municipal services, but help to meet socio-economic needs by paying minimum wages to

their farm workers while providing farm residents with houses, electricity, potable water, schools, and land to be used for cemeteries, schools, recreation, and the like. (These rebates are in practice often granted to farmers, but municipalities are not obliged to make them available.) [Darroch, pp375, 384]

Analysis of real economic profits on these five farms shows major fluctuations from one year to the next. Often, real economic profit is negative rather than positive. On one sugarcane and timber farm, for example, with a market value of R7.5m, a 1.5 per cent land tax would be affordable only in two out of five years, while a 5 per cent tax would be affordable only in one year, when it would almost entirely deplete real economic profit. [Darroch, pp378-379]

On another farm focused on intensive poultry and egg production, with a market value of R8.2m, the real economic profit was generally negative over the five years studied. This meant that a land tax, even at a low rate of 0.25per cent, could be funded from current operating returns only in one of these five years. [Darroch, p380] In a third case study, involving an intensive dairy farm with a market value of R8.1m, net economic profits were negative in two out of five years, again making it difficult to afford a land tax in these years. In 2004, moreover, when net economic profit on this farm was positive but limited to some R82 500, a 2 percent land tax with a 50 percent rebate would have left a surplus for reinvestment of less than R1 000. [Darroch, pp380-381]

Figures from a fourth farm, a mixed enterprise farm with a market value of R3.6m, show that real economic profit was negative in each of the five years studied. A land tax at any rate would thus have further worsened this farm's already weak liquidity position. [Darroch, pp382-383]

The authors of this study conclude that a land tax, even at the rate of 0.25%, will have a negative impact on many farmers and their capacity to re-invest for improved production. They add: 'Given that annual land tax rates in the countries that are South Africa's major trading partners tend to be less than 1 percent, and that most of these countries give considerably more support to agriculture, land taxes over 1 percent in South Africa will likely further reduce the competitiveness of the South African agricultural sector.' [Darroch, p384]

This study highlights the many factors that undermine the feasibility of a land tax. Among other things, a land tax is a flat tax which applies equally in good years and bad, and could leave farmers with little choice but to sell some of their land when times are bad. [Moneyweb 23 May 2017] The burden of the tax is also likely to fall most heavily on farmers with limited income, who cannot afford the tax experts and avoidance strategies available to wealthier landowners. [Darroch, p376]

In practice, a land tax may also be passed on either to tenants or included in the cost of food, which would hurt the poor, in particular. [*Moneyweb* 23 May 2017] To the extent that it depresses land prices, it may also undermine the ability of farmers to use their land as collateral in borrowing working capital from the banks. Where mortgages on farms are

already in place when a land tax is introduced and land prices go down as a result, banks could also face increased risks. [*City Press* 30 April 2017]

A land tax is also costly to administer, since all properties need to be appraised individually and regularly if the tax is to be fair. Valuations are also likely to be skewed by the fact that in practice it is almost impossible to exclude all improvements from the tax, as theory requires. [Darroch, p376]

As the authors of this study point out, the five farms analysed fall far short of a statistically representative sample of commercial farms in KwaZulu-Natal, let alone of all those in the remainder of the country. The case study thus underscores the need for very much more research into how different annual rates of land tax are likely to affect the economic performance of farms across South Africa. Such research, they write, should 'ideally be done on a case-by-case, municipality-by-municipality basis, using data that are specific to individual farms'. Much more research is also needed to 'assess whether or not the costs that local municipalities will incur in implementing land taxes (the value of rebates plus land valuation and administration costs) will be less than the revenue that they receive from these taxes.' [Darroch, p384]

The burden of any new land tax is also likely to fall heavily on South Africa's small group of emergent black commercial farmers, who currently number (figures are uncertain) around 1 300. [Kane-Berman, p3-5] Already, these farmers complain that the government does too little to support them, as its main focus is on speeding up the transfer of land (often to people with little wish to farm) rather than on helping new farmers who have already proved themselves.

As IRR policy fellow John Kane-Berman reports, the 1 000 or so black farmers present at a conference convened by the African Farmers' Association of South Africa (Afasa) in October 2015 showed little interest in the promises of 'radical land reform' made by ministers and senior officials. Instead, these farmers wanted practical help of various kinds, such as increased access to electricity and better local roads to help them get their produce to market. Adds Mr Kane-Berman: [Kane-Berman, pp1-2]

> Speakers from the floor at the conference...complained that despite 'enormous' investment by the South African government and international development agencies, there had been 'no real breakthrough' in helping African farmers to move from subsistence to commercial. They also wanted to know why the government was not supporting farmers who had bought farms out of their own pockets and proved they could farm.

A land tax aimed primarily at prising more land out of the ownership of white commercial farmers will, ironically, make it harder for black commercial farmers to expand their operations. So too will a host of other policies already in the pipeline – including a bill that will encourage new claims on land already owned by black people and another that will introduce ceilings on farm sizes. So worried are commercial farmers, both black and white, at

the overall threats to the viability of the sector that the minister of agriculture, forestry and fisheries, Senzeni Zokwana, has recently found it necessary to come out publicly in their support.

Said Mr Zokwana earlier this month: ‘We have to give comfort to those who put their money into farming…to believe that there’s a future there.’ He also stressed the need to ‘make sure that farmers are encouraged to produce’. He noted that ‘whatever we do, we must make sure that the production of food is encouraged’. He talked of the importance of encouraging increased investment in agriculture, adding that ‘those [farmers] who are coming up must be assisted at all costs’. [*Business Day* 22 May 2017]

Introducing a land tax will make it harder still to achieve any of these important aims. The imposition of a land tax in these circumstances is simply not feasible and should be abandoned. Instead, the emphasis should be on bringing under-utilised communal, land reform, and state land into full production; on helping all commercial farmers to invest and expand; and on growing the economy and the tax base so that many more South Africans can start contributing to the fiscus via the taxes that already apply.

Administrative obstacles and costs further undermine the feasibility of a land tax. To avoid repetition, these issues are canvassed below, in the context of the national tax on the value of property, which is also under consideration.

3 A national tax on the value of property (over and above municipal rates)

A national tax on property would go beyond the taxation of land, for it would tax not only land but also the buildings and other immoveable improvements on it. (International experience shows that other bases are possible, but this is presumably the one most likely to be considered in South Africa, as the Rates Act already uses this base for municipal rates across the country.) [Sections 1 and 2, 46, Act]

3.1 Desirability of a national tax on property

The key arguments for and against the desirability of a national tax on property, over and above municipal rates, are as follows:

3.1.1 Arguments for:

In 2013 a working paper published by the International Monetary Fund (IMF) suggested that property taxes had ‘significant untapped revenue potential’. Property taxes are also seen as less distortive than other taxes, as they have a limited impact on the allocation of resources and decisions to work, invest, and innovate. Since they focus on immovable property, which cannot be hidden or shifted elsewhere, they are also seen as being more difficult to avoid. In addition, since they are levied on the owners of property, they are assumed to be fair and progressive, with their burden borne predominantly by the better off. . [John Norregaard, Taxing Immovable Property: Revenue Potential and Implementation Challenges, IMF Working Paper, WP/13/129, 2013, pp1, 4, 6, 19-22; William J McLuskey and Riël C D Franzsen, ‘Property Tax Reform in Africa: Challenges and Potential’, Paper for the 2016

World Bank Conference on Land and Poverty, The World Bank, Washington DC, March 2016, p5]

3.1.2 Arguments against:

Whether property taxes truly have 'significant untapped revenue potential', as the IMF has suggested, depends on the particular circumstances evident in different countries. In South Africa, the government's overall tax take is already very high, as earlier outlined, while the tax burden already resting on the small middle class is enormous. There is indeed 'untapped revenue potential' here, but this is to be found mainly in ensuring that households, businesses, and government departments in fact pay the municipal rates already being levied on them under the Rates Act of 2004 (see *The feasibility of a national property tax*, below).

The extent to which property taxes distort decision-making depends also on the rates at which they are levied. In addition, the IMF paper is careful to suggest that any efficiency gain to be obtained from property taxes arises primarily where such taxes *replace*, rather than supplement, more distortionary taxes (such as transfer duties and taxes on capital gains). A property tax can also have a disproportionately negative effect on businesses that use relatively more land than others – and especially on agriculture. [Norregarrd, p15, McLuskey and Franzsen, p5]

In addition, though property is itself immovable, an onerous property tax may drive away the investment, technology, and skills that give it much of its value. The tax is not necessarily progressive, as business owners, in particular, may be able to pass much of the burden on to tenants, consumers, or shareholders. Fairness is enhanced where the property value which is taxed accurately reflects its fair market value. This, however, may be difficult to achieve in sudden downturns (such as the global financial crisis), where price increases are largely the result of inflation, where markets are not sufficiently developed to provide reliable price signals, or where the administrative capacity to capture and interpret the relevant data is limited. [Norregaard, pp19-22]

In addition, property taxes are particularly unpopular all around the world because they presume a capacity to pay and are highly visible. Hence, in the words of McLuskey and Franzsen in a 2016 paper prepared for the World Bank, 'governments [commonly] use a battery of policies to soften the unpopularity of property taxes... These include the use of rebates, deferral systems, limits on payments, progressive rate structures, caps, and delayed reassessments'. [McLuskey and Franzsen, p4] These measures help to temper resistance, but they also increase administrative costs and reduce yield. Yield is also generally low, for data from developed countries (where resistance is also more limited) shows that property taxes generate annual revenue amounting on average to some 1% of gross domestic product (GDP). [Norregaard, p12]

To reduce resistance, any visible increase in the burden of a property tax must be accompanied by visibly increased efficiency and accountability in governance and the delivery of services. The tax must be fairly levied and enforced, while liquidity constraints

among the asset-rich but cash-poor must be taken into account. [McLuskey and Franzsen, p5] A number of other practical requirements must also be fulfilled. These include the development of a comprehensive and accurate national cadastre covering all areas, together with accurate and efficient systems not only for the valuation of property, but also for billing and enforcement.

3.2 The feasibility of a national property tax

Arguments for and against may be summarised as follows:

3.2.1 Arguments for:

All immovable property in the country is also subject to municipal rates under the Rates Act of 2004. All municipalities are thus already obliged to draw and maintain a comprehensive register of all immoveable properties within their jurisdictions. This register must include a valuation roll with details of every property. It must describe the property, give its physical address, state its 'extent' and market value, give the name of the owner, and provide any further particulars that may be required. [Sections 23, 48, Rates Act]

The valuation roll must also specify the ratings category in which the particular property falls. This depends largely on its use and ownership: whether it is residential, commercial, industrial, or agricultural; whether it is owned by the state or a municipality; whether it falls within communal land or state trust land; whether it forms part of an informal settlement; whether it has been acquired for redistribution or restitution under the land reform process; whether it is owned or used by public benefit organisations; and whether it is used for a multiplicity of purposes. [Sections 23, 48, 8, Rates Act]

Municipalities are obliged to update their valuation rolls every four years. Municipal valuers must be registered professional valuers, but may be assisted by municipal officials or other people authorised to act as data collectors. They need not physically inspect every property. Instead, they may use 'comparative, analytical and other systems or techniques', including 'aerial photography and computer-assisted mass appraisal systems'. Such market-related data as is available should be used to determine the market value of properties in particular areas. However, where not enough market data can be found, mass valuation systems may be based on 'predetermined bands of property values'. A given property will then be 'designated to one of those bands on the basis of minimal market-related data'. [Sections 32, 39, 36, 45, Rates Act]

Theoretically, thus, all municipalities already have sufficiently accurate information on the market value of every parcel of land in the country, including the improvements on it. This should make it easy to impose a further national property tax, in addition to municipal rates, on a tax base that has already been clearly delineated and identified.

3.2.2 Arguments against:

In reality, many municipalities are short of technical and other skills and are likely to have only limited information on the properties within their jurisdiction. If the comprehensive

valuation rolls envisaged in the Rates Act had in fact been drawn up, the Department of Rural Development and Land Reform would not need to appoint a new Land Commission (as is envisaged under the Regulation of Agricultural Land Holdings Bill of 2017) to gather information on all publicly and privately owned farming land within the country. And if the relatively simple task of gathering information on a relatively small number of farms has not in fact been feasible since the Rates Act took effect in 2005, then the far more complex task of gathering accurate data throughout the country's rapidly expanding urban areas – many of which have never been properly surveyed – is likely to be even more of a challenge in practice.

Hence, if a national property tax is to be imposed, much of the necessary information regarding all properties, their ownership, and their market value will still have to be gathered and analysed. Who is to carry out this task? Municipalities have a constitutional right to levy municipal rates (under Section 229 of the Constitution), which also entitles them to gather the necessary information about the properties in their area. However, they have no constitutional authority to help in the implementation of a new national property tax. This may raise legal and constitutional questions as to the extent to which municipalities may be used to gather the data needed to implement a national property tax.

A new national process would thus probably need to be established to gather the information needed for a comprehensive and uniform property valuation system. Existing municipal valuation rolls, even if complete, could not be used for this purpose as they do not employ unified valuation methodologies. [*Moneyweb* 23 May 2017]

A national process would clearly also be required to determine differential tax rates for different categories of property, and decide on the rebates, deferrals, and other exemptions and reliefs to be allowed. A national process to deal with objections to valuations and appeals would also have to be created. The establishment of this separate national process would add significantly to the administrative and financial costs of placing an accurate value on all properties in the country for the purposes of the new tax.

Accurate valuation, though both vital and difficult in practice to achieve, would only be the start of the process. Property owners would have to be identified (which may not be easy where property sales in township areas, for example, have not been registered); accurate billing systems would need to be established and maintained; invoices would have to be delivered, physically or electronically, to every identified property owner; and effective mechanisms would have to be put in place to enforce payment of the new national property tax. Again, new institutions and procedures would have to be needed for this purpose, adding to the costs of implementation.

A national property tax would also clearly apply to all farmers and its effects on them would be similar to those from a new land tax, as earlier outlined. Hence, a national property tax is likely to be particularly harmful to the agricultural sector. It would be unaffordable to many

farmers, both black and white, and could erode food production, food security, agricultural exports, the trade balance, and the value of the rand.

Further issues arise around customary land in the former homeland areas, which includes some of the most fertile and well-watered agricultural land within the country. If some 16 million hectares of such customary land are to be made subject to the new national property tax, then some method of recognising and regularising tenure in these areas will need to be found. In Rwanda this was done under a Land Tenure Regularisation process, which began in 2008 and has now been completed. As McLuskey and Franzsen record, 'an estimated 10.3 million parcels have been demarcated, adjudicated, and digitised. Parcel data are contained in the Land Tenure Regularisation Data Base, with 8.4 million titles. Leasehold interests can be converted into freehold after the payment of ten years' rent. On the conversion, the property is then liable to the Fixed Asset Tax'. [McLuskey and Franzsen, p12]

The Rwandan system provides an example of what could be done in South Africa to extend the benefits of property ownership to millions more people and then require them to contribute to the fiscus through a property tax. However, it also gives some idea of the practical steps that will need to be taken before any such tax can in fact be levied.

One of the biggest obstacles at present to the feasibility of a national property tax is the culture of non-payment which the ANC encouraged in the 1980s (as part of its people's war against apartheid), but which seemingly persists to this day. Despite the Masakhane campaign launched under the Mandela presidency and various other initiatives to improve payment levels, millions of households often fail to pay their municipal bills. Such bills commonly set out both the rates which they owe and the user charges they must pay for electricity, water, sanitation, and refuse removal.

The amount owing to municipalities across the country has grown steadily over many years, and currently stands at close on R118bn. Of this total, some R78bn is owed by households, while the remainder is owned by businesses (R25bn), government entities (R6bn) and diverse others. A significant portion of this debt is more than 90 days old and is likely to be difficult, if not impossible, to collect. [Linda Ensor, 'Treasury concerned about nearly R118bn owed to municipalities', 10 March 2017, www.businesslive.co.za/bd/national/2017-03-10]

Some households no doubt decline to pay their rates and service charges because unemployment is at crisis levels, the inflation rate is high, and consumer indebtedness is severe. Some no doubt also object to inaccurate billing on their electricity and water usage. But the culture of non-payment is also a factor, and helps explain why some better-off households also decline to pay their municipal bills despite having the financial capacity to do so. A new national tax on property may evoke similar resistance, especially when service delivery is often poor, accountability is lacking, and government spending on goods and services is frequently tainted by fraud and inflated prices.

That municipal debt has been able to grow unchecked in this way also shows that enforcement systems are weak. Municipalities ought to be able to enforce payment of the amounts owing to them – but in practice very little has been done over very many years to bring millions of households into compliance. National departments often have greater capacity than municipalities, but the skills shortage within all these institutions (and also in the country as a whole) nevertheless remains acute. In practice, this will also make it very difficult to establish efficient systems for the imposition and enforcement of a national property tax.

Moreover, if current low levels of compliance can be overcome and payment of the national property tax can be comprehensively enforced, this will also hold important ramifications for the capacity of municipalities to collect on municipal rates. If people are already paying a national property tax to the national government, they may become even more resistant to paying municipal rates, which many may then regard as double taxation. This could greatly undermine what is currently a critical source of revenue for many local authorities. [*Moneyweb* 23 May 2017]

If the revenue authorities tried to sidestep the need for national valuations, billing and enforcement mechanisms by simply introducing a national surcharge on existing municipal property rates, [*City Press* 30 April 2017] similar problems would still arise. Municipalities would have to enforce payment of the surcharge as well, which could make it yet more difficult for them to overcome the current compliance problem and ensure that the rates due to them are paid. Outstanding debt to municipalities could then rise yet higher, putting municipalities under further financial pressure while failing to generate much additional revenue for the national fiscus.

As McCluskey and Franzsen have pointed out – in a report assessing the prospects for increasing the use of property taxes across the African continent – a property tax may often seem an attractive source of revenue, but it is not an 'easy' tax to administer. They add: 'It is a presumptive tax that is based on an assessment of value. The administration has to identify all of the properties, not as easy a task as one might expect given the visibility of property. Whilst the property can be identified, the problems arise when all the property characteristics need to be collected, such as the size of buildings, size of parcel, condition, use, age, etc. This is time consuming and costly. Even when the characteristics have been collected, this information must be maintained and corrected for any changes. Self-declaration by the taxpayer can assist in updating information, but this should be subject to selective audit. If the property tax is based on value, then this value must be determined, and any objections to the value must be defended through tribunals and courts. [Overall…] it is a surprisingly complex levy.' [McLuskey and Franzsen, p13]

4 An annual wealth tax

An annual wealth tax is a tax which is charged each year on the *holding* of wealth. It is different from the taxes on the *transfer* of wealth (estate duty, donations tax, and capital gains tax) which South Africa already imposes. [Natalia Chatalova and Chris Evans, 'Too rich to

rein in? The under-utilised wealth tax base', *eJournal of Tax Research*, Vol 11, No 3, 10th Anniversary Edition, School of Taxation and Business Law, Australian School of Business, The University of New South Wales, December 2013, pp434-452, p435]

Annual wealth taxes are generally applied to the whole range of assets held by an individual, household, or business. These include housing, cash, non-owner occupied property or real estate, jewellery, furniture, cars and boats, the capitalised value of future pension rights, listed shares, shares in private (unlisted) companies and partnerships, and business assets. The tax is levied on net wealth, after the deduction of debt and other liabilities. [Chatalova and Evans, pp436, 441; EY, 'Wealth under the spotlight 2015, How taxing the wealthy is changing', 2015, EYGM Limited, p12]

The tax rate can either be flat or progressive, while the assets to be taken into account may either be limited to domestic assets or extended to world-wide ones. (If world-wide assets are counted, then double taxation is likely to arise as most double taxation agreements do not cover wealth taxes.) A discount may be applied if the net increment in wealth is realised on an asset that has been held by a taxpayer for a long time. [Chatalova and Evans, pp437-438]

Relatively few countries levy annual wealth taxes, as yields are generally low while administrative costs are high. Most countries tax the transfer of wealth on death (estate duty) or by gift (donations tax), while most also levy capital gains taxes on increases in the value of buildings and other assets. By contrast, in 2010 only three out of 30 OECD countries (France, Norway, and Switzerland) had a comprehensive wealth tax. In response to the global financial crisis, Iceland introduced such a tax on a temporary basis, as did Spain. The total number of OECD countries levying an annual wealth tax nevertheless remained far down from a peak of 16 countries which had levied such taxes in 1995. [Chatalova and Evans, pp437, 445]

In Sweden the annual wealth tax was abandoned because of inconsistencies in the treatment of private wealth and operating assets. In Germany, the annual wealth tax was declared unconstitutional in 1997 because it gave rise to different valuations for different kinds of property. Avoidance was also a pertinent concern. So too were the risks of an exodus of capital and skills, coupled with tax competition between countries. [Chatalova and Evans, 445-446]

Some countries have nevertheless been investigating the introduction of wealth taxes since 2014, when Professor Thomas Piketty of the Paris School of Economics published *Capital in the Twenty-First Century*. [Thomas Piketty, *Capital in the Twenty-First Century*,Arthur Goldhammer trans, Harvard University Press, 2014] In what has become a world-famous historical review of wealth distribution in developed countries, Professor Piketty identifies inequality as the most pressing of all economic problems, ranking well above other challenges such as low growth and rising unemployment. Writes Professor Piketty: 'It is long since past the time when we should have put the question of inequality back at the center of economic analysis'. He also believes that the wealth taxes he proposes will be particularly

effective in reducing inequality, saying: 'The ideal policy for avoiding an endless inegalitarian spiral and regaining control over the dynamics of accumulation would be a progressive global tax on capital.' [Piketty, pp16, 471]

In the words of Dr Michael Schuyler, a former fellow at the Tax Foundation in Washington DC, 'Piketty and his collaborators have assembled an enormous amount of data on income and wealth over time and across countries. His interpretation of the data is that income and wealth were very unequal in the late 19th century, became more equal by the middle of the 20th century, with much of the credit going to the wealth destruction caused by World Wars I and II and the Great Depression, but have become more unequal since the 1970s, especially in the United States.' [Michael Schuyler, 'What Would Piketty's 80 Percent Tax Rate Do to the US Economy?' *Tax Foundation Special Report*, No 221, July 2014, (Schuyler, No 221), pp2-3]

Professor Piketty also claims to have discovered a basic economic law, which endlessly contributes to a growing and, in time, extreme divergence between the rich and the poor in market economies. He argues that the rate of return on capital generally exceeds the rate of economic growth, a proposition which can be expressed symbolically as $r > g$. This reality means that the owners of capital inevitably accumulate ever more wealth and income over generations, becoming ever richer compared to the rest. [Schuyler, No 221, p3]

However, that $r > g$ is not an immutable principle. There may indeed be many periods when the rate of return on investments exceeds the growth rate, but interest rates can also be low or negative (as they have been in the US, the EU, and Japan for close on a decade), while the value of listed shares and dividends may fall sharply rather than rise. Professor Piketty is also mistaken in thinking that his formula inevitably leads to an ever-increasing concentration of wealth. Comments Dr Schuyler: 'In reality, and for many reasons, wealth is often fleeting. Consider the following example. A person who works and saves successfully in his or her prime years may spend much of that wealth in retirement and bequeath little. If the person does leave a large fortune, it will be dispersed across a growing population of heirs. Moreover, heirs often deplete inheritances by the second or third generation through poor business decisions, lack of interest in making money, or lavish spending.' [Schuyler, No 221, p3]

As evidence of his proposition that $r > g$, Professor Piketty claims that 'one of the most striking lessons of the Forbes rankings [of the ultra wealthy] is that, past a certain threshold, all large fortunes, whether inherited or entrepreneurial in origin, grow at extremely high rates'. [Piketty, p439] This is not true, however. When an analyst at the Tax Foundation examined the Forbes 400 list, he found that people often fell off it. Cleary, thus, they did not in fact have the benefit of superior investment returns lasting indefinitely. In addition, if all the people who were on the Forbes list in 1987 were taken into account, rather than a select few, then their subsequent returns on investment were on average roughly the same as those of the general population. [Michael Schuyler, 'Impact of Piketty's Wealth Tax on the Poor,

the Rich, and the Middle Class', Tax Foundation Special Report, No 225, October 2014 (Schuyler, No 225), pp2-3]

Further analysis of the 2013 Forbes list of the 400 wealthiest Americans shows that 68% of the billionaires on it were 'self-made', having made their fortunes on their own and without the help of inheritance. In addition, 10% of the fortunes listed were made by immigrants. Moreover, data from the Internal Revenue Service in the US shows that, between 1999 and 2002, only 2 percent of people on the Forbes 400 list remained on it for ten or more consecutive years. [Kathryn M Shelton and Richard B McKenzie, 'Why the "Rich" can get rich faster than the "Poor"', National Centre for Policy Analysis, 10 July 2014, p8]

Many analysts thus argue that Professor Piketty has failed correctly to identify key causes of rising inequality. Former US treasury secretary Larry Summers notes that many of the wealthy in America have benefitted greatly from globalisation, which has allowed the new ideas and technology they have developed to be sold into huge markets. Also relevant is a growing demand for high-level skills which few individuals possess. The people with such skills generally earn far more than those whose skills are limited and plentiful. [*Business Day* 22 May 2017]

Despite the weaknesses in Professor Piketty's analysis, his work has attracted massive media interest in many countries. This was also the case in South Africa in 2015, when Professor Piketty visited the country and urged the introduction of a wealth tax to reduce a level of inequality which is often identified as one of highest in the world. [*Daily Maverick* 12 October 2015]

4.1 Desirability of an annual wealth tax

The key arguments for and against the desirability of an annual wealth tax in South Africa are as follows:

4.1.1 Arguments for:

An annual wealth tax would help reduce inequality in South Africa. Asset inequality in this country is particularly high, standing at some 0.95 on the Gini coefficient. According to Professor Piketty, the wealthy will have to find the money to pay the tax each year, which will give them an incentive 'to seek the best possible return on [their] capital stock'. The tax will thus promote the more efficient use of productive assets, which in turn will contribute to job creation and increase economic growth. [Piketty, pp524, 526; Schuyler, No 225, p4; Schuyler, No 221, page 3; Chatalova and Evans, pp439-440; see also Anna Iara, 'Wealth distribution and taxation in EU Members', European Commission, Taxation Papers, Working Paper N 60 -2015, pp10-11] Professor Piketty also points out that his proposed wealth tax will give governments an important and 'tempting source of revenue' which 'they would have to be blind to pass up'. They can use this to step up social spending, [Piketty, p471] further assisting the poor and thereby reducing inequality.

4.1.2 Arguments against:
As Dr Schuyler points out, Professor Piketty assumes that the wealthy are currently not using their assets as productively as they should, and that his proposed tax will thus bring about a better use of their resources. Often, however, assets will have to be sold simply to pay the tax, which will not help to stimulate production. Professor Piketty also assumes that the tax will not discourage investment or savings, but it could in fact block some worthwhile investments. Instead, he presumes that both savers and entrepreneurs will be content to 'run harder [simply] to stay in place'. [Schuyler, No 225, p4]

Professor Piketty also disregards the service price of capital, also known as the hurdle rate. As Dr Schuyler notes, 'this is the before-tax return demanded on potential investments in order to cover taxes, depreciation, inflation, and risk and still earn a satisfactory real, after-tax, return'. [Schuyler, No 221, p8] Piketty's wealth tax would significantly raise the hurdle rate on fresh investments, making it more difficult to attract such capital injections into the economy.

Professor Piketty further assumes that the revenues raised by the tax will be well used in assisting the poor, itself a dubious proposition (and especially so in South Africa). He also believes that the negative impact of the tax will be confined to the wealthy. In fact, however, as Dr Schuyler's research suggests, the tax will reduce investment, employment, and economic growth. This will hurt the entire population, including the poorest people.

In 2014 Dr Schuyler modelled the likely consequences for the American economy of introducing a net wealth tax of the kind recommended by Professor Piketty. Writes Dr Schuyler: 'Piketty's wealth tax would impose a tax rate of 1% on net worth of between $1.3 million and $6.5 million and 2% on net worth above $6.5 million.' Professor Piketty also suggests further tax brackets, including a tax rate of 0.5% for net wealth from $260 000 to $1.3 million. [Piketty, p517; Schuyler, No 225, pp1, 6. Dr Schuyler's figures are computed by taking the Euro bands suggested by Piketty and converting them into dollars using purchasing power parity, see Schuyler, No 225, p6]

Applying the Tax and Growth (TAG) model developed by the Tax Foundation, Dr Schuyler estimates that Professor Piketty's proposed taxes on net wealth exceeding $1.3 million would reduce the stock of private business capital by 13.3 percent, while the wage rate would drop by 4.2 percent. There would also be some 886 000 fewer jobs, while GDP would be 4.9 percent lower than otherwise. At the same time – and because of this negative impact on the economy – the yield from these 1 percent and 2 percent wealth taxes would not be the $220 billion that Piketty foresees, but only about $18 billion a year. [Schuyler, No 225, pp7-8]

If Professor Piketty's additional 0.5% tax on net wealth from $260 000 to $1.3 million was also to be introduced, then the economic consequences would be still more severe. On this basis, many average middle class families that own their homes and have paid off their mortgages would also be subject to the tax. In this scenario, writes Dr Schuyler, 'the capital stock will be 16.5 percent smaller than otherwise, wages will be 5.2 percent lower, 1.1

million jobs will be lost, and the overall economy will produce 6.1 percent less output than otherwise'. This would translate into 'a GDP loss of nearly $1 trillion annually', while the yield from the new taxes would be about $62 billion (rather than the $324 billion that Professor Piketty predicts). [Schuyler, No 225, pp8-9]

Adds Dr Schuyler: 'It would take several years for the economic damage to hit with full force. Initially, the economy would have almost as much plant and equipment as before and be nearly as productive. Very quickly, however, people would begin saving and investing less because of the wealth tax, with the result that fewer additions would be made to the capital stock, less capital stock would be replaced as it wore out, and productivity would suffer. Growth would slow during the adjustment, and the levels of productivity output and incomes would be permanently lower than otherwise after the economy had fully adjusted.' [Schuyler, No 225, p9]

Professor Piketty presents his wealth tax as a well-targeted mechanism to reduce inequality because it would take from the rich without hurting the poor or the middle class, but this is not so. As Dr Schuyler writes: 'The loss of after-tax income would be greatest at the top of the income scale, but families at all income levels would suffer. Some people with low current incomes, such as many retirees, would be hurt, because they have saved enough to be subject to the wealth tax... Most of the losses for the poor and middle class would occur because the wealth tax would lead to fewer jobs, lower wages, and a diminished supply of goods and services. In short, Piketty's wealth tax would reduce income and wealth inequality, but at the cost of making everyone significantly poorer.' [Schuyler, No 225, pp9-11, 14]

Professor Piketty's proposed wealth tax would also be more damaging to the economy than his idea that the top income tax rate should be raised to 80 percent for the wealthiest and to 50 or 60 percent for those in the upper-middle class. [Schuyler, No 221, p1] According to Professor Piketty, income tax at a rate 'on the order of 80 percent' should be levied on 'incomes over $500 000 or $1 million a year' so as to combat inequality and greed. This should be buttressed by a 50 percent to 60 percent rate, which would be levied on incomes above $200 000 a year. [Piketty, p513]

In modelling the likely economic impact of Professor Piketty's income tax proposals, Dr Schuyler used a tax rate of 80 percent on incomes starting at $750 000 (so splitting the difference between $500 000 and $1 million). He also used a tax rate of 55 percent (again splitting the difference between 50 and 60 percent) on incomes starting at around $220 000. His model shows the following results: 'Under Piketty's 55 and 80 per cent tax brackets, people in the new ultra-high tax brackets will work and invest less because they will be able to keep so little of the reward from the last hour of work and the last dollar of investment... As the supplies of labor and capital in the production process decline, so the economy's output will also contract. Although it is only people with upper incomes who directly pay the 55 and 80 per cent tax rates, people throughout the economy will indirectly bear some of the tax burden. For example, the average person's wages will be lower than otherwise because middle-income workers will have less equipment and software to enhance their productivity,

and wages depend on productivity. Similarly, people throughout the economy will have fewer employment opportunities and will lose desirable goods and services, because businesses will grow more slowly and be less innovative.' [Schuyler, No 221, pp6-7]

The model further estimates that, after the economy has adjusted to the 55 and 80 per cent income tax rates, 'the stock of private capital will be down 7.4 percent, the wage rate will drop 1.6 percent, there will be 2.1 million fewer jobs, and the economy's total output of goods and services (GDP) will be 3.5 percent lower'. On current GDP of $17 trillion, that would mean a decline in GDP of some $595 billion annually. With the economy weaker and smaller, the government's revenue gain from the new taxes would again be less than half of what Professor Piketty projects: not close on $300 billion but rather some $141 billion. [Schuyler, No 221, pp7-8]

What these models show is that Professor Piketty's proposed wealth tax would reduce US GDP by significantly more than his proposed increases in income tax would do. As earlier shown, wealth taxes on a sliding scale ranging from 0.5% to 2% on net wealth beginning at $260 000 would result in an estimated decline of $1 trillion in GDP. [Schuyler, No 225, pp8-9] By contrast, super high tax rates on annual incomes of some $220 000 and above would mean a decline in GDP of some $595 billion. However, most people would not understand this likely outcome, as a wealth tax at rates of 0.5% to 2% sounds minor by comparison with income tax rates of 55 to 80 percent.

Why is this so? As Dr Schuyler explains, a 1% tax on wealth might not sound high, but 'three factors magnify the potential harm to the economy'. He goes on: 'First, a wealth tax of a given percent is equivalent to an income tax of a much higher percent. For example, if the pre-tax return on an asset is 8 percent, a 1 percent wealth tax on the asset would take away one-eighth of the income. That is the same tax bite as a 12.5 per cent income tax rate.' Second, much of the wealth to be taxed would be the productive capital that helps sustain employment and economic activity. Third, Piketty's wealth tax would be levied every year and would come on top of all existing taxes. [Schuyler, No 225, pp6-7]

A wealth tax is also likely to be particularly damaging to the asset-rich but income-poor. Writes Dr Schuyler: 'Some people are asset-rich but cash-poor. The classic case is a farming family with valuable land but not much income. Another is a successful business owner who is temporarily re-investing every cent to grow the business. Yet another is an elderly couple of limited means who happen to own a valuable home. People like these do not feel wealthy. They could not pay a wealth tax that could be several thousand dollars annually without financial strain, perhaps going to the bank for a loan, dipping into the small amount of cash they have, or in some cases being forced to sell their farm, small business, home or other illiquid asset for cash.' [Schuyler, No 225, p13]

The problem is graphically illustrated by the fate of some 500 peasant farmers, fishermen and small holders living on the Île de Ré off France's Atlantic coast. Property prices on the island have soared since a bridge to the mainland, completed in 1988, turned it into a popular tourist

destination. Hence, many of the original inhabitants have unexpectedly found themselves liable to pay France's wealth tax (levied on a sliding scale on net wealth exceeding €1.3 million a year), despite their lack of income.

One such individual is René Allier, who grows potatoes on his small-holding, lives in a modest wood-and-brick house, and lives on a monthly pension of €600, giving him an annual income of €7 200. Writes Andrew Gilligan, senior correspondent on the London *Sunday Times*: 'Plots like the Alliers', worth perhaps £10 or €11.5 when they started farming it, are now valued at 40 times as much – making the couple, on paper, euro millionaires. They must therefore pay France's wealth tax, charged at up to 1.5% a year on those with assets totalling over €1.3 million... Over the past decade, they've sold nearly all their land to pay the wealth taxes that regularly exceeded their annual income. The only have one field left, though if prices keep rising, they may have to get rid of that too, to hold on to their house.' [Andrew Gilligan, 'The wealth tax: a tax on the "rich" that cripples the poor', *The Telegraph*, 26 October 2014]

As Mr Gilligan reports: 'In 2012, President François Hollande's socialist party sharply increased the rates and bands, dragging in more people. In 2001 only some 281 000 paid it. Eleven years later, that had more than doubled, to 600 000. In 2012 Gilles Carrez, chairman of the National Assembly's finance committee, estimated that several hundred of these people – and perhaps as many as a thousand (from peasants on the Île de Ré to pensioners with expensive flats in central Paris) – would be 'forced to pay more than 100% of their income in taxes. A few would have to pay 400%, he said.' [Gilligan, p3]

A limit or cap has since been introduced, which is supposed to restrict total taxes paid to 75% of income. However, writes Mr Gilligan: 'Even for the more typical payer of the wealth tax – a middle manager with a five-bedroom house in one of the capital's better suburbs – the tax is a curse. "I have already paid taxes on the income I used to buy my place and again on the savings I built up towards it,"' says one such manager. [Gilligan, p3]

A wealth tax also encourages avoidance and evasion – even among those ideologically in favour of such interventions. In addition, since the wealthy are better able to avoid and evade, the tax falls primarily on the middle classes who lack the capacity to dodge it. In the words of Alex Staples and Geoff Simons of the Morgan Foundation, a public interest research organisation in New Zealand, annual wealth taxes are 'intended to target the rich, but the truly rich know how to hide or under declare their assets, while the middle classes do not.' The upshot, they write, is that 'the poor don't pay the tax, the rich don't pay it either, and the burden falls almost entirely on the middle class – which ends up paying it almost by accident and especially so when their houses have rapidly appreciated in value'. [Alex Staples and Geoff Simons, 'Taxing Wealth and Property: What Works? A review of wealth and property taxation around the world', Morgan Foundation, April 2016, p10]

Even former French president François Hollande, a committed socialist who strongly endorses France's wealth tax and increased the relevant rates and bands so as to pull more

people into the tax net, has reportedly tried to conceal the true value of his properties and so reduce his tax liability. In 2007 the press reported that he and his then partner, Ségolène Royal, also a prominent politician, had greatly undervalued two of their three properties: a flat on the Riviera and a second flat in an expensive Paris suburb. They had also transferred a third property in northern France to a special property company, which happened to be owned by themselves and Mr Hollande's parents. This alleged chicanery had reduced their wealth tax payments to less than a fifth of what they should have paid. [Gilligan, pp3-4]

Other senior figures in the French cabinet and legislature have also allegedly used unlawful methods to conceal their assets. In 2013, for example, the French budget minister Jérome Cahuzac was found to have shifted financial assets into Swiss bank accounts to avoid the wealth tax. The following year, the chairman of the National Assembly's finance committee, Gilles Carrez, was found to have reduced his wealth tax liability by claiming a tax allowance on one of his homes to which he was not legally entitled. Some 60 other French parliamentarians have also reportedly made 'dodgy' asset declarations and are in dispute with the revenue authorities over the correct valuations. [Gilligan, p4; Wikipedia, citing France Medias Monde, http://www.english.rfi.fr/general/20141026 and RFI News (National French Radio).

One of the ways in which the wealthy can avoid the tax is by emigrating to other tax jurisdictions. As Dan Mitchell of the Cato Institute writes, 'France has been losing talented citizens for decades'. Some wealthy businessmen have also been leaving the country, saying that the tax system penalises financial success. Around 1.6 million of France's 63 million citizens live outside the country. Though this proportion is small, it has risen by 60% since 2000, according to the Ministry of Foreign Affairs. Adds Dr Mitchell: Thousands are heading to Hong Kong, Mexico City, New York, Shanghai and other cities. About 50 000 French nationals live in Silicon Valley alone. But for the most part they have fled across the English Channel... Around 350 000 French nationals are now rooted in Britain, about the same population as Nice, France's fifth-largest city.' [Dan Mitchell, 'From France to New Jersey, High Tax Rates and Class Warfare are Economic Poison', 26 March 2014]

In 2006 an article in *The Washington Post* pointed to the harm caused by France's wealth tax, saying the tax had contributed to capital flight, a brain drain, the loss of jobs and, in the end, a net loss in tax revenue. It added: 'Eric Pichet, author of a French tax guide, estimates the wealth tax earns the government about $2.6bn a year but has cost the country more than $125bn in capital flight since 1998.' [*The Washington Post* 16 July 2006]

A tax which erodes investment and growth, hurts the poor as well as the rich, penalises the asset-rich but income-poor, promotes tax avoidance, and encourages the flight of capital and skills is not a desirable tax. This is especially the case in South Africa where economic growth rates are already low, unemployment is high, capital and skills are scarce – and the tax burden is unusually high and rests to a large degree on a small group of individuals and companies.

In addition, a wealth tax cannot address the underlying reasons for the inordinate asset inequality evident in South Africa. These reasons are deeply rooted in the past, but they also have much to do with what the government has done (or failed to do) since 1994.

For example, while some 1 million whites own their homes, so too now do 7.7 million black Africans. [2017 *South Africa Survey*, p410] This shows a rapid shift from the profound injustice of the apartheid era, when home ownership by Africans was largely prohibited. But whites generally have title deeds to their houses, whereas most Africans still do not.

In addition, despite the constitutional promise of tenure reform, some 16.5 million Africans living in former homeland areas have yet to be accorded individual title to their customary plots. [Jeffery, *BEE: Helping or Hurting?* pp328-331, 335-336]

Under the land reform programme, moreover, some 8.2 million hectares of land have been transferred from whites to blacks. But beneficiaries have generally been barred from obtaining individual ownership and are often confined to being tenants of the state. [Department of Rural Development and Land Reform, *State Land Lease and Disposal Policy*, 25 February 2013; Ruth Hall, 'What's wrong with government's state land lease & disposal policy, and how can it be remedied?' Institute for Poverty, Land, and Agrarian Studies, 'Plaas Position for National Land Tenure Summit, 2014: State Land Lease and Disposal Policy', 8 September 2014]

The government has also hobbled the economy through a series of damaging policy interventions, now compounded by a growing threat to property rights. It has insisted on a flawed form of black economic empowerment (BEE) which helps only a small elite while harming the remainder. It has also failed to provide adequate education, housing, or health care, despite the enormous revenues (R680bn in the current financial year) allocated to these core needs. [Anthea Jeffery, 'EED is for real empowerment, whereas BEE has failed', @*Liberty*, No 31, April 2017]

In addition, the ANC has allowed the wage bill for the ineffective public service to spiral to the point where civil service remuneration absorbs some 40% of government spending. This is roughly twice the average for other emerging economies. [Jannie Rossouw, Fanie Joubert, Adéle Breytenbach, Fiscal Study Group, Update on South Africa's Fiscal Cliff, Presentation to Parliamentary Standing and Select Committees on the Budget, March 2017]

At the same time, the ANC has failed to act against fraud and inflated pricing, which now taint some 30% to 40% of public procurement totalling some R600bn per annum. [*Business Day* 13 October 2006] This signals that around R200bn in public revenue is being poorly spent each year: mostly for the benefit of a narrow clique of cadres.

4.2 Feasibility of an annual wealth tax

The main arguments for and against the feasibility of an annual wealth tax are as follows:

4.2.1 Arguments for:

Many South African taxpayers already keep note of the value of their assets in order to calculate their potential liability to capital gains tax and estate duty. Banks and other financial institutions also have comprehensive records which can be used to ascertain the value of bank accounts and other assets. So too do companies which manage assets in the form of pension funds, insurance policies, and the like. The value of listed shares is reported daily and can easily be ascertained. All organisations with relevant information can be placed under a legal obligation to report to the South African Revenue Service (SARS) on the assets of their clients on a specified date. In addition, South Africa has well-established mechanisms to enforce the payment of taxes. Hence, the introduction of a wealth tax, though it would add to the burden on SARS, is feasible.

In addition, though the wealthy may try to conceal their assets, the sharing of tax information across countries is growing. As international auditing firm EY notes in its report on *Wealth under the Spotlight 2015*, taxpayer information exchange is increasing because of four key factors. First, many double taxation agreements and tax information exchange agreements between countries have been forged. Second, the US has adopted the Foreign Account Tax Compliance Act (FATCA), which requires foreign financial institutions to report on offshore accounts held by US taxpayers, and more than 70 000 banks and other institutions have already registered to do so. [EY, pp25-26]

Third, the OECD has introduced a Convention on Mutual Administrative Assistance in Tax Matters, which is available to all countries, whether or not they belong to the organisation. Fourth, in 2014 the OECD published a Standard for Automatic Exchange of Information in Tax Matters. This represents a global expansion of the FATCA concept, and aims at reducing tax evasion by people with offshore accounts. Moreover, though FATCA has a $50 000 *de minimis* amount, the OECD standard does not. As EY writes, 'revenue authorities will increasingly have access to vast amounts of data regarding taxpayers with fairly modest assets outside their home jurisdiction'. [EY, pp25-26]

Though the OECD standard has no direct legal force (the organisation simply makes recommendations and is not a legislative body), most countries are expected to follow it closely. Many countries, including South Africa, have already agreed to do this – and the first exchange of information is due to take place in 2017. Says EY: 'The outcome will be an exponential increase in the volume (and speed) of taxpayer exchange information.' [EY, pp25, 27]

4.2.2 Arguments against:

Relatively few countries have introduced a wealth tax, while many of those which used to levy such a tax have since abolished it. There are major administrative problems in imposing a wealth tax (particularly as regards disclosure, valuation, and enforcement), whereas the yield from such a tax is generally low, raising doubts as to whether the tax is worth its implementation costs.

The two main administrative problems are disclosure and valuation. As regards disclosure, as Chatalova and Evans note, 'it is easy to hide or export many forms of wealth, whether in the form of physical assets like diamonds or fungible assets like bank balances'. Compliance thus becomes a real problem, while 'inequities begin to arise between honest and dishonest taxpayers'. [Chatalova and Evans, p440]

Valuation can also be intrinsically difficult, especially where no actual sale or other transaction has taken place to provide an independent market value. The recurrent re-valuation of assets that are infrequently traded (including antiques and houses in areas with few market transactions) makes proper evaluation costly. It also risks generating an inequitable treatment of taxpayers. [Chatalova and Evans, p441; Iara, p9]

In practice, it may be difficult to avoid applying different valuation methods to different types of property, which undermines the equity principle. In Germany, for example, the Constitutional Court ruled in 1997 that the valuation of real estate for purposes of the wealth tax was privileged excessively compared to the valuation of other assets (such as money deposited in banks). This, the Court said, conflicted with the principle of equality. In response, Germany abolished its Wealth Tax Act of 1952. [EY, p13]

It is particularly difficult to value assets held via private (unlisted) companies, partnerships, trusts, and other forms of co-ownership. Each interest needs to be valued. In some instances, control premiums and minority discounts must also be taken into account. It is also very difficult to put a value on intangible assets such as patent rights. [Chatalova and Evans, p441] (This last is particularly complex where, for example, a new medicine is still being developed or still needs regulatory approval and it remains uncertain when these obstacles will be overcome.)

Particular problems arise regarding the capitalised value of future pension rights. These are not accessible until a particular age, and even then are generally accessed in incremental amounts, rather than as a lump sum. In addition, though such capitalised values could be seen as an important part of overall wealth, it is important not to discourage people from saving for their old age. Moreover, pension savings generally represent a gradual process of wealth accumulation over peoples' lifetimes. Hence, they should not be taken into account if the tax objective is to target the truly wealthy, rather than the salaried middle class. A tax on these capitalised values is also likely to hit particularly hard at people who stand on the brink of retirement, are about to lose their normal incomes, and then find themselves obliged to pay a wealth tax because they have been diligent in building up their savings. [Chatalova and Evans, p441; Iara, p11; Wikipedia, citing 'The Coming Global Wealth Tax', National Liberty Federation, www.libertyfederation.com, 4 December 2013]

Another part of the difficulty is that valuations must be recalculated at regular intervals, which adds greatly to the administrative burden. As Dr Schuyler of the Tax Foundation points out, 'itemising and appraising valuable personal property and stakes in non-publicly

traded businesses would quickly become extremely time-consuming and expensive, while the valuations would be highly uncertain'. America's federal estate tax provides some pointer to the potential complexities. 'Putting a value on a deceased estate is usually not difficult if the deceased owned a home and some publicly traded shares, and held a bank account or two. But the task is far more complex if the deceased also owned collectives or had a stake in an unlisted business. The paperwork burden from a wealth tax would also be far worse, as the tax would be due every year rather than just once,' as Dr Schuyler notes. [Iara, p9; Schuyler, No 225, p12]

The valuation task is further complicated by the fact that a wealth tax is levied on net assets, after the deduction of relevant liabilities. Banks and other institutions may be able to report on the value of assets, but they are unlikely to have complete information on relevant liabilities. Taxpayers may also be tempted to exaggerate the extent of their liabilities, so relevant data must again be gathered and cross-checked here. This too adds greatly to the administrative burden.

In addition, since a wealth tax generates significant hardship for those who are asset-rich but income-poor, tax authorities come under pressure to introduce special provisions to reduce the tax liability or defer the payment of the tax. However, these provisions then undermine 'the efficiency, equity, and integrity of the tax'. Moreover, though these exceptions and reliefs are intended to help the middle class, they end up being exploited by the wealthy, who have more capacity to take advantage of them. They also reduce the yield from the tax, which is generally not high in any event. [Chatalova and Evans, p440; Staples and Simons, p1]

As Chatalova and Evans report, even in prosperous OECD countries, revenues collected from wealth taxes (including wealth transfer taxes, which are far more common) have generally been 'very low and have declined in significance over time'. According to OECD figures from 2012, the countries that gather a reasonable proportion of revenue (above 2% of GDP) from both wealth and/or property taxes are the United Kingdom, France, Belgium, Canada, the US, Luxembourg, Italy, Japan, Israel , Korea, Greece, Iceland, and Australia. But most of the taxes levied are property-based taxes, including land tax and tax on imputed rental income, together with transactions tax and estate tax. Pure wealth taxes make up a small part of the mix, and their yield is commensurately lower. According to Iara, net wealth taxes in the two EU countries which apply them (France and Italy) contribute on average only about 0.5% of total revenue or 0.17% of GDP. [Chatalova and Evans, p444; Staples and Simons, p1; Iara, p8]

Enforcement can also be difficult. Whereas personal income tax is generally collected from the employer under the Pay-As-You-Earn (PAYE) system, SARS would have to compel the taxpayers affected to pay the wealth tax they believe to be due. In these circumstances, time-consuming disputes and costly litigation is likely to arise.

Moreover, though much more tax information is now being shared – and the volume will increase in the future – this will do little to resolve the core valuation problem, which requires

the accurate assessment of liabilities as well as assets in order to determine net wealth. In addition, the more cryptocurrencies are introduced, the harder it will be for tax authorities across the world to trace the wealth embedded in them.

Tax competition between countries is also a relevant factor, and many states are under pressure to simplify their tax systems and reduce their tax burdens in order to attract capital and skills. South Africa has already adopted so many damaging policies, which have already put it at such a comparative disadvantage compared to many other nations that it simply cannot afford to introduce a wealth tax as well.

5 No simple cure for inequality

The causes of wealth and income inequality are complex and varied. Under South Africa's racial laws, black people were for many years barred from the normal foundations for upward mobility – adequate housing, good schooling, skilled employment, property ownership, and business opportunities. At the same time, however, there was a great deal of redistribution to black South Africans via the budget. [Jeffery, *BEE: Helping or Hurting?* pp27-28]

Such redistribution has increased since 1994, with social grants and the wider social wage now accounting for some 60% of government spending. According to a recent World Bank study, this extensive redistribution via the budget puts South Africa first among many other middle-income nations for the magnitude of the resources being transferred. Moreover, when the social wage is factored in, South Africa's Gini co-efficient of inequality (where a measure of 0 indicates perfect equality and a score of 1 the opposite) drops from 0.77 to 0.59, which is more in line with the world average. [World Bank, 'South Africa Economic Update: Fiscal Policy and Redistribution in an Unequal Society', November 2014]

More recent figures put the Gini coefficient at 0.63. They also show that inequality has increased sharply within the African population, where a small percentage has benefited significantly from empowerment policies, while millions are unemployed and destitute. [See 2017 *South Africa Survey*, p428]

Redistribution via the budget has helped to bring about a remarkable change in the living standards of the black majority, as measured by the South African Advertising Standards Research Foundation. People on the foundation's lowest living standard measure (LSM1) have only a radio and minimal access to services, but those in LSM6 also have stoves, water, electricity, TVs, DVD, flush toilets, fridges, and cell phones. People in LSMs7 to 10, the four highest measures, enjoy a still larger number of modern conveniences, while many also have computers, cars, and home security systems. [2017 *South Africa Survey*, p450]

In 2001 some 53% of South Africans fell within the four lowest LSMs (LSMs 1 to 4), but by 2015 that proportion had fallen to 23%. Moreover, while in 2001 only 37% of South Africans fell within the middle-ranking measures (LSMs 5 to 8), by 2015 that proportion had risen to 63%. The most dramatic increase was in LSM6, where the relevant proportions almost doubled, rising from 12.6% in 2001 to 23% in 2015. In these 15 years alone, millions of

black South Africans thus saw their living standards move much closer to those enjoyed by whites. [2017 *South Africa Survey*, p453]

However, there are still many factors which contribute to inequality and cannot easily be overcome. Among these, as earlier noted, are low economic growth rates (which have been negative in per capita terms for the past three years), poor education, inadequate skills and high unemployment. The number of jobless Africans, on the official definition (which excludes those not actively seeking work), has more than doubled since the political transition, rising from 1.6 million in 1994 to some 4.9 million in 2016. On the expanded definition, which counts discouraged workers, the number of jobless Africans has risen from 3.2 million in 1994 to 7.9 million in 2016. Many of the unemployed are young people aged 15 to 24, among whom the official unemployment rate is 53.7%. On the expanded definition, youth unemployment stands at a staggering 66.3%.

Despite massive improvements in the living conditions of black South Africans, as earlier described, whites have much greater asset ownership, while the value of their assets is also larger. However, this is partly because some 10 million Africans still lack title deeds to their homes or land, and so cannot reap the full benefit of this 'dead capital'. Also relevant is the fact that average annual household income among whites, at some R631 400 in 2015, remains significantly greater than the equivalent figure for Africans. Average annual household income within the African population has risen from around R30 400 in 1996 to close on R113 200 in 2015, an increase of 272%. But the percentage increase in average income within the white population has been greater (at 380%), and the overall divergence remains stark. [2017 South Africa Survey, p430]

However, these persistent disparities are rooted in complex socio-economic factors, which government policy cannot easily address – and which additional wealth taxes will certainly not be able to overcome. The key factors include the following: [Jeffery, *BEE: Helping or Hurting?* p368, with figures updated where this has been possible in the limited time available]

- the median age of whites is 39 while that of Africans is 24, and older people generally earn more;
- whites have better education and skills, for 74% of whites have completed matric versus 33% of Africans, while 29% of whites have post-school education compared to 6% of Africans; [2017 *South Africa Survey*, p473]
- some 6% of whites are unemployed, compared to 30% of Africans;
- whites tend to stay longer in their jobs than Africans (71 months as opposed to 51 months), partly because Africans are often headhunted to fill racial targets;
- roughly 8% of whites own their own businesses, compared to 3% of Africans;
- almost all whites live in urban areas, whereas the African population is only around 60% urbanised and urban incomes are generally higher than rural ones; and

- some 78% of whites grow up in two-parent households while only 29% of Africans do so, which has important ramifications not only for household income but also for self-confidence and future achievement. [2017 *South Africa Survey*, p69]

Also important is the changing structure of the economy and the impact of government policies. As the economy has modernised, so the contributions to GDP of the primary sectors (agriculture and mining) has shrunk. Yet these are the sectors with the greatest capacity to absorb unskilled labour. Both these sectors have also been adversely affected by government policies, which have undermined property rights, eroded business confidence, deterred investment, and contributed to job losses. At the same time, the government has failed to improve the schooling system, which remains one of the worst in the world, despite the large revenues allocated to it each year. Hence, the great majority of African youths leave school without the skills that would help them gain entrance to the financial sector, for example, which has grown rapidly since 1994 and now contributes some 20% to GDP. [2017 *South Africa Survey*, pp383, 101]

Factors of the kind described above play a large part in persistent inequality in South Africa. By their very nature, they cannot be overcome by means of additional taxes on land, property, or net annual wealth. On the contrary, such taxes are likely to have many negative consequences for South Africa's already struggling economy. They will also be expensive to administer and enforce, while their yield is likely to be limited.

6 Better solutions

South African tax practitioners note that the country already has three forms of wealth taxes – estate duty, transfer duty, and donations tax – which bring in about 1% of tax revenue. It also levies capital gains tax (GCT), which many people also regard as a wealth tax but the Davis Tax Committee, among others, views as an income tax. [*City Press* 30 April, *Moneyweb* 23 May 2017]

Some tax practitioners have also warned against the introduction of further wealth taxes, saying that compliance costs are likely to exceed yield, while the negative impact on the economy could be substantial. David Warneke, head of technical tax at BDO, notes that few countries have implemented an annual wealth tax, while many of those that earlier opted to do so have since abandoned it 'because the cost of compliance exceeds the yield from the tax'. Andrew Wellsted, director at Norton Rose Fullbright, echoes this concern, saying that the costs of implementation will be high for both the government and taxpayers, whereas the yield is likely to be small (as has historically been the case with estate duty). [*Moneyweb* 23 May 2017]

As earlier noted, the tax burden in South Africa is also already high, while much of it falls on a relatively small group of individuals (numbering some 560 000) and companies (about 615) that pay around 60% of all personal and corporate income taxes. Mr Wellsted warns that imposing yet more taxes on this small tax base could cause more harm than good, saying: 'There is already a proliferation of different taxes that are largely borne by the same tax base.

These include transactional taxes such as VAT, existing wealth taxes, such as estate duty, transfer duty and donations tax, as well as income tax, which has just been increased to a relatively high 45% in the [2017] budget'. Also relevant is South Africa's dividends withholding tax, which was increased from 15% to 20% (a 33% rise) at the same time. [*Moneyweb* 23 May 2017; Jannie Rossouw, Fanie Joubert, Adele Breytenbach, Fiscal Study Group, Update on South Africa's Fiscal Cliff, Presentation to Parliamentary Standing and Select Committees on the Budget, March 2017]

Warns Mr Wellsted: 'The addition of yet another tax, such as a wealth tax, will be asking the same contributors to apply more funds towards the fiscus… [Yet] there are a number of studies which show that, at some point, asking taxpayers to contribute too much can lead to a reduction in the taxes collected.' Keith Engel, chief executive of the South African Institute of Tax Professionals, echoes this concern, saying: 'Many people are now paying more than 50% of their income in tax once VAT and other indirect charges are taken into account. A hefty new tax could be a breaking amount for many.' [*Moneyweb* 23, 2 May 2017]

At the same time, none of the three wealth taxes being mooted is likely to achieve its stated objectives. A land tax is unlikely to improve the productivity of under-utilised land, most of which is owned by the state or traditional communities. If it results in many commercial farmers being forced to sell some or all of their land, this will erode food security and push up food prices, which will harm the poor in particular. If forced sales make it easier for the government to acquire land for land reform purposes, this might at first sight appear as if redress for past injustice is being provided. In practice, however, this would be an illusion. The land would remain in state ownership and would thus empower the government, rather than the disadvantaged majority. (Current government policy requires that land reform beneficiaries be confined to leasehold title for 50 years and – if they are subsistence farmers – for all time). In addition, much of the land thus acquired by the state would be likely to fall out of commercial production, as has already happened on some 70% of transferred farms.

A national property tax is unlikely to curb the speculative holding of land, especially as municipalities generally already charge significantly higher rates on vacant land within their jurisdictions so as to encourage its more productive use. [Garber, p4] At the same time, a national property tax will be difficult and costly to administer. It will also be onerous to enforce, while its yield is likely to be limited. That the debt owed to municipalities, for both municipal rates and other charges, has already grown to some R118bn provides an important pointer to the enforcement challenge likely to arise. [Ensor, *BusinessLive* 10 March 2017] Introducing a national property tax will also interfere with a major source of revenue for local government – and one which the Constitution expressly assigns to the municipal sphere.

An annual wealth tax is unlikely to reduce inequality, as this has many and complex causes going far beyond the capacity of a wealth tax to address. An annual wealth tax is also likely to exacerbate existing capital flight; encourage a further exodus of scarce skills; reduce incentives to work, invest, and save; hinder the country's already limited capacity for capital formation; lower the anaemic growth rate (0.3% of GDP in 2016); and worsen the crisis of

unemployment, especially among the young and inadequately skilled. The tax will encourage evasion and avoidance. Its burden will fall principally on people in the middle class who, by dint of much hard work and self-discipline, have managed to acquire homes and savings with a value that is high enough (perhaps largely because of inflation) to bring them within the ambit of the tax. This will hurt the established middle class – but it will also greatly harm the emergent middle class, which already faces many daunting obstacles in building up its income and its assets.

What South Africa most needs is a much higher rate of economic growth, at 5% of GDP or more (as recommended by the National Development Plan). It also needs a number of structural reforms to:

- bolster property rights,
- reform labour laws,
- shift away from damaging BEE requirements to a new system of 'economic empowerment for the disadvantaged' which would help the many rather than the few,
- boost the efficiency and lower the costs of the public service,
- expand essential infrastructure,
- reform the education system to build up the skills base,
- counter family breakdown,
- reduce the burden of crime, substance abuse, and domestic violence, especially in poor communities, and
- put an end to the fraud and inflated pricing which currently taints some R200bn of the government's annual procurement spend.

Additional wealth taxes can neither resolve these problems nor help the disadvantaged to get ahead. Comments Dan Foster, tax director at law firm Webber Wentzel: 'Ultimately, South Africa, like all developing countries, needs more growth and not more taxes. Taxes lead to wealth destruction, low investment, low returns, low growth, and lower tax collections.' [*Moneyweb* 2 May 2017]

Mr Foster also quotes Winston Churchill, who once memorably said: 'I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.' [*Moneyweb* 2 May 2017]

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