



Submission

to the

Davis Tax Committee

on

**POSSIBLE WEALTH TAXES
FOR SOUTH AFRICA**

2 June 2017

1. Introduction

The Catholic Parliamentary Liaison Office (CPLO) welcomes the opportunity to comment on the question of wealth taxes in South Africa.

The CPLO is an office of the Southern African Catholic Bishops' Conference. It is tasked with liaising between the Church and Parliament/Government, commenting on issues of public policy, and making submissions on legislation.

2. The Catholic Church and Tax

The Church claims no expertise in technical matters connected with taxation. However, in a democratic state, taxation fulfils a crucial social role, as it allows the state – on behalf of the populace – to carry out a range of necessary activities and interventions without which society could not function, let alone develop and thrive.

The Catholic view on taxation may be summarised as follows:

“When it comes to the state fulfilling its obligations through providing goods and services, it can do so through taxation, direct or indirect. In a democracy, citizens have a role to play in deciding how taxes will be raised and what they will provide and Catholic tradition sees responsible citizenship as a virtue. In part, this is how we acknowledge our obligations towards one another and our society, expressed through our willingness to pay just and fair taxes.”

(The Catholic Bishops' Conference of England and Wales, *Taxation for the Common Good*, London, 2004, paragraph 19)

Applying similar thinking to the South African situation, our Bishops wrote as follows as far back as 1999:

“Regarding personal taxation, we propose that the tax-burden on lower and middle-income earners be further reduced, and balanced by an increase in estate duties and an increase in the top marginal rate applicable to the wealthiest sectors of the population. Those South Africans fortunate enough to enjoy a high standard of living, and whose material needs are assured, must be encouraged to consider their wealth in the context of widespread poverty. The fact that a relatively small number of taxpayers contribute a high percentage of income tax revenue is not an indictment of the tax system. On the contrary, it is an illustration of the imbalances in our economy, since it shows that the great majority of wage-earners earn too little to have to pay significant amounts of income tax.

The rich have an opportunity – and a moral duty – to assist in redressing these imbalances by willingly accepting higher levels of taxation, especially when such increases do not threaten to deny them a comfortable standard of living. By embracing such a ‘solidarity’ tax they would contribute further to economic justice and at the same time demonstrate a profound commitment to national reconciliation and the common good.”

(The Southern African Catholic Bishops' Conference, *Economic Justice in South Africa*, Pretoria, 1999, pp 35-6)

3. Wealth Taxes

It follows from the statements quoted above that the Catholic Church supports the notion of progressive taxation. Therefore, we have no principled objection to taxes being levied at higher rates on wealthier people, nor to taxes that specifically apply to assets or estates that exceed a certain value.

We do not believe that wealth taxes, or the fact that higher income earners are expected pay tax at a higher rate, are inherently unfair. For one thing, wealthier people have a bigger material stake in the stability of the country and the ability of the state to provide services; they should therefore be willing to contribute concomitantly with that stake. For another, the principles of redistributive justice require that those who can afford most have the greatest duty to support the fiscus, while those whose needs are highest have the greatest claim on it.

There are, however, some concerns around wealth taxes that need to be considered carefully.

Firstly, it is inevitable that such taxes will act to some extent as a disincentive for those on whom they are levied. While rich people should be willing to pay more, it is understandable that many will resent it, and may forego working for higher earnings if they feel that too great a portion is being taken from them (be it in income or wealth taxes). This could have negative economic consequences for the country.

Secondly, it can be argued that wealthier people by definition are best-placed to avoid or evade taxes, since they can afford the services of the best advisors, and can set up schemes of various kinds to minimise the tax they pay. It has been said that wealth taxes are taxes that make lawyers and accountants wealthy. To the extent that this is true, such taxes may be hardly worth the trouble and expense needed to bring them in.

It must be noted that both these objections are likely to be very keenly held in present day South Africa, given the levels of corruption in the public sector, and the many examples of gross self-enrichment among elements of the political elite.

For these reasons, we respectfully caution that a wealth tax, while no doubt politically popular, and in principle entirely justifiable, may end up making no worthwhile contribution to the stated aims of “building a cohesive and inclusive society” and enhancing social, economic and political stability.

3.1. An annual wealth tax

Our reservations and concerns apply in particular to this option. It seems likely that much effort could and would be made to hide assets, or to shift them between trusts and other vehicles. Administering the tax, and policing all the ways in which it could be avoided or evaded, would be hugely expensive and cumbersome.

3.2. A national tax on the value of property

This option has the virtue that the tax attaches to the property itself, not to individuals. It is therefore far more difficult to evade, and far easier to administer. The downside is that – as with municipal property rates – it tends to disadvantage property owners who invest in their properties by maintaining and

expanding their buildings and other improvements, since this increases the overall value and thus the rates or taxes calculated on that value. If it is financially advantageous not to maintain a property, and not to invest in expansion or renovation, it seems likely that more people will take this option, and this must have a knock-on effect on job creation and employment in industries such as construction and building, home and garden maintenance, painting, etc. Whether the increased revenue gained from a property tax would offset the economically depressive effects thereof is a crucial question.

3.3. A land tax

As with the property value tax, this has the great advantage of attaching to the land itself, not to any individual. In addition, land values cannot be changed according to how much is built upon the land or what the value of improvements may be from time to time. Neither can land be maintained or neglected in order to manipulate its value. All these factors mean that this form of tax is probably the easiest and cheapest to administer, and the most difficult to evade.

A land tax has other important additional virtues. Unlike a property tax, it encourages, rather than discourages, investment, since the owner pays no extra tax as a result of making improvements. This is axiomatically good for employment and job creation.

It also discourages the speculative holding of land. At present, only a minimal amount of municipal rates is payable on empty land, and this encourages people to hold land off the market as a long-term capital investment. Were a land tax to be introduced, such behaviour would be disincentivised. Owners would be more likely to use their land (which would be good for employment) or market it (which would free up much-needed land for development).

4. Conclusion

We wish the Committee well in its deliberations and we would be happy to engage further with it on this question, should the Committee deem it necessary.

For further information please contact:

Adv Mike Pothier
Research Co-ordinator
Catholic Parliamentary Liaison Office
mike@cplo.org.za