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THE FEASIBILITY OF THE INTRODUCTION OF ADDITIONAL WEALTH TAXES IN SOUTH AFRICA: AN AFRICAN PERSPECTIVE

by

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Abstract

THE FEASIBILITY OF THE INTRODUCTION OF ADDITIONAL WEALTH TAXES IN SOUTH AFRICA: AN AFRICAN PERSPECTIVE

by

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From all over the globe the inequality between the rich and the poor is a topic that is debated politically and socially. Wealth tax is often mentioned as an easy solution to reduce this inequality effectively. Even in South Africa cries for a wealth tax have been heard following Archbishop Emeritus Desmond Tutu's comments that such a tax can help reduce the effect of past injustices.

The imposition of a wealth tax has various advantages and disadvantages that are strongly debated by the proponents and opponents of the tax. The impact of these advantages and disadvantages has however not been measured and quantified up to date. Although the disadvantages seem to outweigh the advantages, it seems that there is some scope for a wealth tax to be politically motivated.

The dawning of the modern era has however changed the landscape for tax policies. Global mobility has resulted in individuals being able to choose where they work, live and invest. Taxes have been proved to be a factor that influences these decisions of individuals on where to live and invest.

It is therefore becoming increasingly important to have tax policies that are competitive in comparison to peer countries. This study focused on determining how competitive South Africa's tax policies are, relating to wealthy individuals, compared to the equivalent taxes in

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other African countries with similar sized economies. The study consists of qualitative, non-empirical research performed in the form of a literature review.

The study's finding is that South Africa has more types of taxes imposed on wealthy individuals than any other of the sampled countries. In addition, the taxes imposed are more often than not substantially higher than the equivalent charged by its peers. This could have a detrimental effect when investors start to realise that they could optimise the resources available to them by choosing not to work and live in South Africa, but would rather select one of its neighbouring countries. Not only will potential new investors be discouraged from investing, but the question also arises at which point South African residents will start to seek their fortune elsewhere. Based on these findings, it seems that there is no scope for imposing yet another wealth tax in South Africa at present.

Keywords:

Africa

Capital gains tax

Comparison

Estate duty

Dividends tax

Donations tax

Securities transfer tax

Transfer duty

Wealth tax

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Abstrak

DIE TOEPASLIKHEID VAN DIE IMPLEMENTERING VAN ADDISIONELE WELVAARTSBELASTING IN SUID-AFRIKA: 'n AFRIKA PERSPEKTIEF

deur

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STUDIE LEIER: RUDI OOSTHUIZEN
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Regoor die wêreld word ongelykheid tussen ryk en arm en oplossings daarvoor bespreek deur politici en ook in sosiale kringe. 'n Welvaartsbelasting word gereeld genoem as 'n maklike oplossing om die probleem effektief aan te spreek. Selfs in Suid-Afrika word vrae gevra rondom die instelling van 'n welvaartsbelasting nadat aartsbiskop Emeritus Desmond Tutu voorgestel het dat 'n welvaartsbelasting die nadelige uitwerking van 'n vorige bedeling kan verminder.

Die instelling van 'n welvaartsbelasting het verskeie voor- en nadele wat voorgehou word deur onderskeidelik die voorstanders en die teenstanders van die belasting. Die impak van die voor- en nadele is egter tot op hede nog nie gemeet of gekwantifiseer nie. Alhoewel dit op die oog af lyk of daar meer nadele as voordele aan die instelling van so welvaartsbelasting is, lyk dit tog asof die instelling van so 'n belasting moontlik polities geregverdig kan word.

Met die aanbreek van die modern era en die gepaardgaande tegnologiese vooruitgang, het die agtergrond waarteen belastingbeleid geïmplementeer word ook drasties verander. Individue kan deesdae kies in watter lande hulle wil woon, werk en investeer.

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Belastingbeleide is al bewys as ‘n faktor wat mense in ag neem voor hulle besluite neem rondom waar om te woon en werk.
In die lig hiervan raak dit al belangriker om belastingbeleide te implementeer wat kompeterend vergelyk met die van eweknieë in die nabye omgewing. Hierdie studie fokus op Suid-Afrika se belastingbeleide rakende ryk individue, en of dit kompeterend vergelyk met ander Afrika-lande met soortgelyke ekonomieë. Die studie bestaan uit kwalitatiewe, nie-empiriese navorsing wat verkry is uit die bestudering van verskeie bronne van literatuur.

Die bevinding is dat meer soorte welvaartsbelasting in Suid-Afrika gehef word as in enige ander van die lande wat ondersoek is. Verder is die belastings aansienlik hoër as in die vergelykbare lande. Hierdie feit mag ‘n nadelige effek hê op beleggers wat oorweeg waar hulle wil woon en werk. Hulle mag elders in Afrika hulle bates bou en besighede vestig om sodoende die opbrengs daarop te optimeer. Uiteindelik mag selfs Suid-Afrikaanse burgers verkies om hulle ondernemings elders te gaan vestig. Die implementering van nog ‘n tipe welvaartsbelasting blyk dus nie tans geregverdig te wees nie.

Sleutelwoorde:
Afrika
Boedel belasting
Dividend belasting
Hereregte
Kapitaalwinsbelasting
Sekuriteite oordrag belasting
Skenkingsbelasting
Vergelyking
Welvaartsbelasting

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THE FEASIBILITY OF THE INTRODUCTION OF ADDITIONAL WEALTH TAXES IN SOUTH AFRICA: AN AFRICAN PERSPECTIVE

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Is the legend of Robin Hood still alive in this modern day? Has the responsibility to take from the rich and give to the poor now fallen on the shoulders of the revenue collector? Wealth tax is a topic that is on everybody's lips throughout the international tax community. From every corner of the globe people are campaigning against inequalities between the rich and the poor.

Internationally the implementation of wealth tax has been suggested as a solution to this problem in the past. Examples of this abound:

- Thousands of people have been protesting in the streets of Frankfurt and Berlin for the introduction of a wealth tax. Protestors claim that a wealth tax would ensure a more equitable society. Citizens feel that wealthy households should contribute more to society and that legislation of this nature would affect only 1% of the population (CNBC, 2012).
- President Hollande of France was lobbying for a wealth tax in France until the court declared this wealth tax unconstitutional (Bloomberg, 2012).
- Archbishop Emeritus Desmond Tutu has called for a "wealth tax" to be imposed on wealthy South Africans (Beeld, 2011).

In his recent state of the nation address, President Jacob Zuma warned that the appropriateness of the South African tax system will be reviewed to determine if sufficient revenue is raised to cover government's expenses (Zuma, 2013). This same message was also reiterated in Pravin Gordhan, Minister of Finance's budget speech in February 2013.

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Tax policies and specifically those around estates and trusts will be reviewed to ensure an appropriate and sufficient tax base in South Africa (Gordhan, 2013:4). In light of the fact that South Africa is one of the countries with the biggest recorded income inequalities (World Bank, 2012), this review is likely to lead to more taxes on wealthy citizens.

Various studies have been done to determine the advantages, disadvantages and feasibility of imposing a wealth tax in a host of different countries (Glennerster, 2012:233-249; Gordon & Rudnick, 1996:2-10; Sandford, Willis & Ironside, 1975:7-18). An extensive search of e-journal platforms such as Ebscohost, Oxford journals, Cambridge, Proquest, Emerald and SA ePublications by the researcher, could not identify any literature on trends in wealth taxes in African countries similar to South Africa.

According to Edwards and Mitchell (2008:79) tax policies affect decisions of high net worth individuals on where to live and where to invest. These tax policies are not only restricted to income tax policies, but also encompass wealth taxes. This ultimately means that government needs to be very sensitive to maintain a balance between raising revenue while not overburdening the rich in such a way that they leave the country for another more tax friendly state.

It is forecasted that of the 29 countries with the highest projected economic growth rates for 2013 and 2014, 16 are African countries (World Bank in Boesler, 2012). Investors throughout the world realise that good investment opportunities will in future come from emerging markets such as Africa. Given this fact along with the theory that high net worth investors are influenced by countries' tax policies, it is important to determine how wealth taxes in South Africa compare to those of other large economies in Africa.

1.2 PROBLEM STATEMENT

Tax incentives have been identified as a tool to lure high net worth individuals to countries. This is done by implementing tax policies that are more attractive than the equivalent in neighbouring countries (Edwards & Mitchell, 2008:1). This in turn results in growth in

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capital investments, business opportunities and job opportunities. All of these are desperately needed in South Africa.

It therefore seems critical to evaluate, amongst others, what taxes are imposed on high net worth individuals in other countries in Sub-Saharan Africa to ensure that South Africa capitalises on the future growth that is predicted for Africa.

1.3 PURPOSE STATEMENT

The aim of the study is to determine whether South Africa can add a net wealth tax on high net worth individuals to its existing taxes and still remain an attractive prospect for wealthy individuals, wanting to invest and work in Africa. The study compares various types of taxes that are applicable to wealthy individuals, imposed by South Africa to the equivalent taxes in other leading sub-Saharan African countries. This study will show whether there is some scope for South Africa to add yet another wealth tax.

1.4 RESEARCH OBJECTIVES

The study has the following research objectives:

- To summarise the advantages and disadvantages of imposing a net wealth tax in South Africa.
- To compare the taxes imposed on high net worth individuals to equivalent taxes imposed in other sub-Saharan African countries with similar economies.
- To conclude whether there is scope for South Africa to add a wealth tax and still remain attractive in sub-Saharan Africa.

1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY

In a time where the South African Government's fiscal deficit is growing, there is increased pressure to find additional revenue to finance this deficit (The Economist, 2013). Therefore it is critical to obtain properly motivated research on the tax types that are not currently imposed, but could serve as alternatives or additions to the current tax regime. Wealth is

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acknowledged to be an additional tax base (Bird in Gordon & Rudnick, 1996:6); this study aims to determine whether this tax base is sufficiently taxed in South Africa.

The study will also highlight the taxes imposed on wealthy individuals by other African countries, which could provide a platform for evolving theories on the ideal tax model in an emerging market country.

The study will provide some insights into whether South Africa is an attractive proposition for wealthy individuals from a tax perspective and/ (or) what changes could lead to South Africa being more attractive in this regard.

The next section of this study will cover the delimitations and assumptions of the study, which is followed by the definitions of the key terms in the study. The literature review will commence in chapter 2. The literature review will determine a definition for wealth tax and thereafter summarise the most important advantages and disadvantages of imposing a wealth tax.

1.6 DELIMITATIONS

There are several delimitations related to the context, relationships and theoretical perspectives of this study. The selection of countries for comparison purposes will be discussed in detail in the research method and design sections and will not be addressed here.

The study focuses on the impact of wealth taxes on individuals. It does not address the effect of wealth taxes on companies or the dual effect of a wealth tax implemented on both companies and individuals.

A basket of taxes payable by high net worth individuals will be compared between the different countries. This basket of taxes will only consider taxes paid at the very top end of any relevant scale. It will also not include any other taxes that are payable by most citizens irrespective of their ability to pay. These are mostly consumption taxes such as value-

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added tax (VAT) and petrol levies. In addition social securities and similar types of taxes that are largely paid by the vast majority of the population will not be addressed.

This study will also ignore the impact that any double tax agreements might have on taxes payable in a specific country. The range of double tax agreements is very wide and varies from country to country. It would increase the scope of the study to lengths that cannot be sufficiently addressed in a mini dissertation. The scope is therefore narrowed in such a way that it would only be applicable to foreigners considering a migration to Africa that would ensure a formal change in their ordinary place of residence. It is therefore only applicable to individuals that are faced with a choice of which country to become a permanent resident of.

In comparing different types of taxes between countries, one of the biggest difficulties presented is the difference in tax base as a result of the different countries' tax legislation. Very significant differences in tax bases will be specifically mentioned in the study. All other minor differences in tax bases will be ignored for the purposes of the study.

1.7 ASSUMPTIONS

The following statements are assumed by the study:

- People are free to immigrate to whatever country they choose as and when it pleases them, without any restrictions from any form of government.
- People will strive to optimise resources available to them as long as they do not have to suffer undue discomfort.
- Government will want to ensure that individuals, with entrepreneurial skills and available capital to fund these enterprises, are incentivised to remain in the country or migrate to the country.

1.8 DEFINITION OF KEY TERMS

The following key terms are used throughout the document:

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Base cost: The base cost of an asset would typically include all the costs incurred by the owner to obtain or create the asset. This would include costs such as valuation costs, transfer costs, installation costs and a host of other similar costs (Paragraph 20 of the Eighth Schedule to the Income Tax Act (58/1962)), hereafter referred to as Income Tax Act.

Capital gains: A capital gain is the amount by which proceeds from the sale of an asset exceeds the base cost of the asset (Paragraph 3(a) of the Eighth Schedule to the Income Tax Act).

Capital gains tax: The capital gains tax is the tax levied on capital gain defined above (Eighth Schedule to the Income Tax Act).

Estate duty: Estate duty is the taxes payable by the estate of a deceased person on all the assets owned by the deceased on the day of death (Sections 2 and 3 of the Estate Duty Act (45/1955), hereafter referred to as Estate Duty Act).

Donations tax: Donations tax is a tax payable (by the donor) on the gratuitous transfer of certain assets (Section 54-55 of the Income Tax Act).

Proceeds: Proceeds on the sale of an asset refer to the total amount received or accrued from an event or an activity (OxfordDictionaries, not dated).

Tax base: The tax base of an asset is the value upon which a tax liability will be calculated (BusinessDictionary, not dated).

Wealth tax: A wealth tax is a general tax imposed on all net wealth, irrespective of whether the wealth was derived from savings, labour or entrepreneurship. It is an annually imposed tax and is not dependent on the flow of cash, transfer of ownership or an economic transaction (Sandford *et al.*: 1975:5). (Also see section 2.1).

Table 1 gives the abbreviations used in this document.

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Table 1: Abbreviations used in this document

Abbreviation	Meaning
BURS	Botswana Unified Revenue Service
EUR	Euro
GDP	Gross Domestic Product
IMF	International Monetary Fund
N$	Namibian dollar
OECD	The Organisation for Economic Co-operation and Development
P	Pula (Botswana's currency)
R	Rand (South African currency)
Rs	Mauritian Rupee
SARS	South African Revenue Service
SE	Self-employment
UK	United Kingdom
US	United States
VAT	Value-added tax

1.9 RESEARCH DESIGN AND METHODS

1.9.1 Description of inquiry strategy and broad research design

This study will aim to compare the combined impact of various types of taxes on wealthy individuals throughout Sub-Saharan Africa. A **qualitative non-empirical** research method will be applied to achieve the objectives stated in section 1.4. A qualitative study is described by Merriam (1998:5) as a research method that will help the researcher understand and explain a certain phenomenon. Other terms often used to describe this research method are **interpretive research** or **naturalistic inquiry**. In contrast to a quantitative study, a qualitative study reveals how a lot of different parts work together and provides the researcher with a full picture of the broader concepts (Merriam, 1998:6), which is exactly what this study aims to achieve.

This research method is deemed to be the most effective to achieve the objectives of this study as an in-depth understanding of the countries' tax policies is required to ensure an accurate comparison. This comparison is required to rate South Africa amongst the other

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countries and could also reveal how the South African tax regime compares to that of its peers.

A **non-empirical** study is a study that does not include the collection of new data or the re-analysis of data already collected (Babbie & Mouton, 2001:75). A literature review is a good example of this type of research. The data used for the study will consist mainly of secondary data, more specific, secondary literature. Secondary literature is defined as any source that was published after the initial primary literature was compiled (Saunders *et al.,* 2009:69). Legislation is often published as secondary literature after the initial government white paper was finalised and approved.

A combination of two inquiry strategies will be used; the first being a **literature review** and the second being a **thematic analysis**. A literature review consists of an examination of literature available on the subject to ensure a proper understanding of the text and the related issues. In conducting a literature review it is important to ensure that the literature reviewed is comprehensive and addresses all the various aspects to ensure quality of the review (Mouton, 2001:179). A literature review is limiting in the sense that only existing literature can be used and therefore it cannot produce new insights. This study is however exploratory in nature and is a first step towards showing that comparisons between countries' tax policies are required to ensure a country remains competitive in luring investors. A literature review would therefore give the most accurate comparison. The data collection method that will be used is a document review (Merriam, 1997:11). The topic is very subjective and the number of experts on the subject is restricted, therefore other forms of research such as case studies and interviews could lead to results that are biased in one way or another.

Some of the risks of errors inherent to a literature review are selectivity of authors or incorrect interpretations based on the researcher's own predisposition (Mouton, 2001:180). These risks are mitigated in the following ways:

- The author is indifferent on the subject and has no personal interest in whether or not a wealth tax is implemented.
- Countries were not selected with a certain outcome in mind, but on independent information regarding their economic activities and size. The results obtained could

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therefore not have been selective and reflects trends in countries that are similar to South Africa.

The inquiry strategy is also partly a thematic analysis. A thematic analysis is a method used for identifying, analysing and reporting patterns in data (Braun & Clarke, 2006:79). This method would also be suitable to achieve the objectives of the study as it is critical to identify the patterns in the tax policies of the Sub-Saharan African countries to enable the researcher to determine whether South Africa's policies follow similar or different patterns to those of its peers. The analysis thereof would provide the answer to the question of whether South African can impose another tax.

Thematic analysis is very similar to a literature review, however more emphasis is placed on the analysis and reporting of patterns as opposed to just identifying patterns which forms the basis of a literature review. The possible weaknesses of a thematic analysis are very similar to that identified under a literature review and the ways to overcome those weaknesses have already been addressed above. In addition the method is also susceptible to a risk for inappropriate trends or patterns being identified (Braun & Clarke, 2006:94). This risk is more likely to realise when insufficient sources or sample sizes are analysed and compared. This study will involve the analysis and comparison of a sufficient number of African countries' policies to avoid the reporting of inaccurate patterns.

1.9.2 Basis for country selection

Gross Domestic Product (GDP) is one of the primary indicators of a country's economic health. It represents the total value in United States (US) dollars of all the goods and services produced in a country during a certain period (Cambridge Dictionaries Online, not dated). It would therefore make sense to compare South Africa's tax policies to that of countries with similar GDPs in Africa. A GDP per capita figure is the best measure to use when comparing GDPs as it eliminates the distortion caused by the variance in the population size of the different countries.

Statistics on Sub-Saharan African countries' economies gathered by the International Monetary Fund (IMF) (2012) show that South Africa had an estimated GDP per capita of

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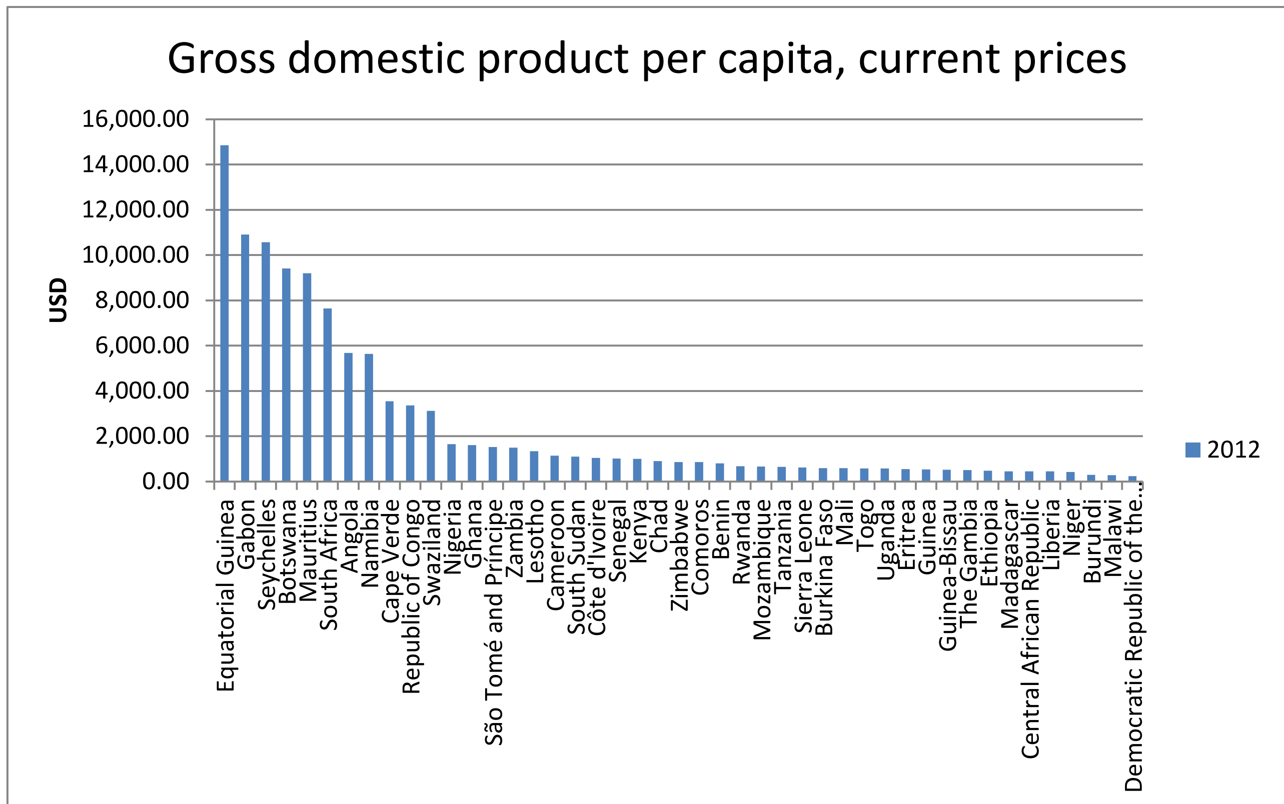
$7 635.57 for 2012. These statistics reveal that Botswana, Mauritius, Angola and Namibia are the African countries with an estimated GDP per capita that is closest to the number estimated for South Africa. Refer to Figure 1:

Figure 1: GDP per capita in Sub-Saharan African countries in 2012



Source: Adapted from IMF, World Economic Outlook Database 2012

The figure clearly indicates that South Africa has the 6th highest GPD per capita in Africa. Botswana and Mauritius have estimated GPD per capita which is less than $2 000.00 per capita higher than that estimated for South Africa. Angola and Namibia have an estimated GDP per capita which is less than $2 000.00 per capita lower than that estimated for South Africa.

This study would therefore aim to compare the taxes imposed on wealthy individuals by Botswana, Mauritius, Angola and Namibia to that imposed by South Africa. Coincidentally Botswana, Mauritius and Namibia are all a fairly short travelling distance from South Africa, which makes these countries even more valuable to compare. Wealthy investors can easily decide to live in any one of these countries while maintaining business activities

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in one of the other countries as time zones and travel distance will not cause unnecessary obstacles.

Angola's official language is Portuguese that is spoken by 80% of its residents. As a result, all the available legislation and interpretation thereof is written in Portuguese. The ability to understand and interpret legislation is critical for the successful completion of this study. Therefore due to the practical difficulties caused by the language barrier it had to be scoped out for the remainder of the study, that therefore focuses its comparison of South Africa on Botswana, Mauritius and Namibia.

The remainder of the study would follow the sequence described hereafter. Chapter 2 will provide a broad overview of wealth taxes. The definition of wealth taxes will be examined as well as all the advantages and disadvantages of imposing a wealth tax. The remainder of the study will focus on whether there is scope available for South Africa to impose yet another tax on it wealthy individuals by comparing the taxes currently paid by wealthy individuals in South Africa to similar taxes imposed by Botswana, Mauritius and Namibia. Each of the aforementioned countries' tax legislation will be discussed in a separate chapter from chapter 3 – 6. Chapter 7 will conclude this study based on all the findings presented in chapters 3 – 6.

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CHAPTER 2

OVERVIEW OF WEALTH TAXES

2.1 DEFINING WEALTH TAX

A wealth tax is defined as:

> "A tax on personal property and financial assets above a particular level" (Cambridge Dictionaries Online, not dated).

Literature on the subject agrees with the dictionary definition, although some writers try to narrow down the definition even further.

According to Sandford, Willis & Ironside (1975:3), the word wealth can be translated into net worth or capital. This is a wide translation and therefore includes all assets, financial or non-financial owned by a person at a specific point in time. The word net, presupposes that liabilities have been deducted from the total of all assets. A wealth tax would therefore include a whole range of assets and not simply a particular type of asset such as fixed property. Even though the literature by Sandford *et al.* was completed relatively long ago, the concepts and dynamics of wealth tax have not changed in the years that followed. Various other authors such as Boadway, Chamberlain and Emmerson (2010) and Glennerster (2012) have also relied on this very detailed source to substantiate their own investigations. The source therefore proves to be an authority on the subject almost thirty years after the initial creation thereof.

There are typically two types of taxes on wealth, the first being imposed periodically or annually and the second being imposed on a transfer of wealth. Tax on wealth is fairly common throughout the world. Nevertheless, the tax on transfer of wealth is more regularly imposed than the former (Gordon & Rudnick, 1996:1).

These wide descriptions of wealth tax increase the scope of wealth taxes to include various subcategories of wealth taxes that are all distinctly unique. Various countries around the world have different interpretations of what a wealth tax consists of (Ristea &

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Trandafir, 2010:300). A death or estate duty can be seen as a wealth tax. The tax base of a death tax consists of net assets owned at the date of death. Similarly donations tax complies with the definition of a wealth tax as the tax base will be the transfer of assets at a particular point in time.

A less obvious tax to be considered as a wealth tax is a capital gains tax. The inclusion of capital gains tax is however a little more controversial. Capital gains tax also involves the taxing of assets. In the case of capital gains however, the tax base will be the appreciation in assets rather than the value of the assets. Appreciation in assets can also be seen as income, which then goes against the argument that capital gains tax is a tax on assets (Sandford *et al.*, 1975:4). Capital gains tax could therefore be seen as either a wealth tax or a tax on income. Whichever school of thought is decided on will not impact on the fact that capital gains tax is only paid by wealthy tax payers.

Even though wealth transfer taxes can be classified as wealth taxes, the phrase "wealth tax" is more commonly used to refer to an annual or periodical tax and not simply a tax triggered by a specific event such as a transfer (Gordon & Rudnick, 1996:1-2). As in the case with the literature compiled by Sandford *et al.*, the literature written by Gordon & Rudnick has not lost any of its value due to the passage of time as the basic principles of wealth taxes has not changed since their document was first published.

Sandford *et al.* (1975:5) probably laid down the most specific definition for a wealth tax as follows: a wealth tax is a general tax imposed on all net wealth, irrespective of whether the wealth was derived from savings, labour or entrepreneurship. It is an annually imposed tax and is not dependent on the flow of cash, transfer of ownership or an economic transaction.

This definition was affirmed by Schnellenbach (2007:2) who summarised the wealth tax recognised in Organisation for Economic Co-operation and Development (OECD) countries as an annual tax on the net surplus of an individual's assets over their liabilities. Even though the tax base differs slightly in the different countries imposing the tax, it remains an **annual** tax on **net wealth**.

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2.2 ADVANTAGES OF IMPOSING A WEALTH TAX

The advantages of imposing a wealth tax are as follows:

- Improving horizontal equity.
- Reducing the risk of tax avoidance.
- Encouraging efficient use of resources.
- Reducing inequalities.
- An effective source of funding.

These advantages are now discussed in detail.

2.2.1 Improving horizontal equity

Horizontal equity is a synonym for fairness of a tax system. In any fair tax system, people with the same ability to pay taxes should be taxed at more or less the same rates. Income is often used as a way to measure a person's ability to pay. Income by itself is however not the only item that determines a person's ability to pay. A person with a large asset base has additional benefits that arise from the ownership of these assets, over and above the normal income derived from the assets. These assets can serve as securities and provide the holder with independence and peace of mind simply for owning these assets (Sandford *et al.*, 1975:5).

Boadway, Chaimberlain and Emmerson (2010:777-786) concur with this argument for wealth taxes. According to them wealth can be seen as an opportunity to enhance one's well-being and a fair and just tax system should therefore seek to ensure equality in opportunities. In other words a fair tax system will ensure that these benefits that accrue to the individual that is a holder of wealth should also be taxed.

To clarify this statement, Sandford *et al.* (1975:6) use an example first recognised by Lord Kaldor, the Indian Minister of Finance in 1956. He compares a beggar to a man that holds his entire fortune in gold. Neither of them earns any income for as long as the man decides not to sell his gold. The man owning the gold has a far greater ability to pay taxes. This man can use his gold as a security to finance other personal needs, while the beggar has

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no such option. It seems only fair that the man owning the gold should be taxed on this benefit that he can use to his advantage. From this example it is clear that a wealth tax will improve horizontal equity.

2.2.2 Reducing the risk of tax avoidance

The above example illustrates income tax avoidance by not realising assets. There would even be incentive for a person to trade one asset for another and to avoid entering into an economic transaction that may be detectable by the revenue authorities. If wealth in the form of assets is declared annually this form of tax avoidance would be prevented. According to Sandford *et al* (1975:6) this type of tax avoidance, by postponing realisation of assets, is one of the more common types of tax avoidances identified.

A wealth tax will create additional information readily available to the revenue authorities to cross check data already accumulated from income tax returns. A person's increase in wealth and his increase in income should closely correlate. Unexpected deviations from this relationship could be investigated to reduce and eliminate practices of tax evasion (Gordon & Rudnick, 1996:3). In the South African context, this advantage of imposing a wealth tax will be an additional method to address the South African Revenue Service (SARS)'s goal of ensuring fair and complete tax returns.

2.2.3 Encourages efficient use of resources

A wealth tax can ensure that existing resources are used more efficiently. This is particularly true in a situation where a wealth tax is implemented as a partial substitute for an income tax.

A wealth tax would also ensure that individuals transfer their unproductive assets into more productive assets. A person owning a barren piece of land that is not generating any income would be paying the same amount of tax on this land as someone who is productively using the land to earn income. The owner of the unproductive land will be forced to start cultivating or developing the land so that income can be generated to pay tax on the value of the land. Similarly assets that earn a low yield will be swapped for

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assets that produce a higher return. A cash deposit earning a very low yield from interest is a very good example. Investors will be incentivised to invest cash in higher return enterprises to ensure that their after tax return on the cash is higher (Sandford *et al.*, 1975:7-8).

Wealth tax could therefore encourage investments, enterprises and eventually increase the demand for labourers. As mentioned before, this could address some of our biggest social concerns in South Africa.

This very argument is however countered by the fact that it is based on a theoretical application of how individuals react to ensure the best use of their resources. Theory sometimes deviates from reality. Very often wealth resides with elderly people; these people might be more risk averse and decide to pay taxes on assets they own, rather than taking a chance to earn a higher yield and risking losing certain assets. Also in countries where a high marginal rate of tax on income is imposed along with a modest capital gains tax rate, a wealth tax might still not lure investors to invest in higher yielding businesses (Sandford *et al.*, 1975:12).

From the arguments above it is clear that efficient use of resources may be encouraged in normal market conditions where individuals are all trying to optimise their available resources. As these assumptions do not always hold true, it remains to be determined exactly how big the impact of imposing a wealth tax will be on more efficient use of resources.

2.2.4 Reducing inequalities

One of the strongest advantages of imposing a wealth tax is the fact that it can reduce inequalities. The question arises whether it is justified that the rights of life and liberty are denied to certain people as a result of extreme poverty, when a tax on the world's wealthiest people can relieve this poverty and reinstate these basic human rights to the poor (Glennerster, 2012:324). New research has also shown that wealth concentration is once again rising in various advanced economies after a period of decline in wealth concentration (Glennerster, 2012:233).

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Extreme differences in equalities are often seen in developing countries where legacies of colonialism have left its mark. Whether justified or not, these legacies are often seen as the reason for inequalities and often add to racial tensions in these developing countries. A wealth tax can bring an end to the inequalities by taxing the wealthy and using the money in aiding the very poor (Gordon & Rudnick, 1996:6). This very fact was one of the factors motivating archbishop Emeritus Desmond Tutu to call for a tax on wealthy South Africans to try and eliminate the effect of injustices committed in the past (Beeld, 2011).

Very wealthy individuals might exercise influence over government, resulting in government actions designed to benefit the wealthy individuals. The reduction in the wealth of these individuals, be it through taxes or not, could then reduce the influence and contribute to a more moral society (Gordon & Rudnick, 1996:5).

Sandford *et al.* (1975:10) agrees with this argument in favour of a wealth tax. The authors do however point out that this argument has a very limited application in practice. According to them a wealth tax cannot do more for reduction in inequalities than a progressive tax system. Progressive tax systems are found all over the world yet inequalities have been proven to be ever increasing. The only way that a wealth tax can make an additional contribution to reduce inequalities, would be if the wealth tax was to be levied at such a high rate that an individual cannot meet his/her tax liability from income earned in a particular year. If an individual's income tax liability and wealth tax liability would exceed his/her earnings for a year, the individual would have to realise assets to be able to meet the obligation. In this way wealth would definitely be reduced. In practice this suggestion would have a destructive effect on a country's economy as individuals' wealth would gradually diminish to nothing and capital flight would be unavoidable.

The reduction of inequalities was also brought into question in France, where wealth taxes were imposed at roughly the same point in time as the subsidised minimum mainstreaming income project. This project was meant to subsidise the poorest citizens to relieve inequalities. The income earned from the wealth tax fairly closely resembled the costs incurred on the project, which made it seem like wealthy citizens were subsidising the poorest of the population. It was however found that inequalities kept growing even though

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these measures were instituted, bringing into question whether the wealth tax was at all effective in achieving this objective (Ristea & Trandafir, 2010:305).

Another way that inequalities may be reduced by a wealth tax is highlighted by McKinnon (2012). A net wealth tax would effectively tax people living from inherited wealth, which might be seen by others as an unfair disadvantage. Inherited assets could then not simply be left to generate a minimal income as it would have to keep up with inflation plus a tax rate to avoid the asset from diminishing. This in turn would prevent people from permanently leaving the work force and might ultimately also result in higher productivity and the development of enterprises.

The reduction of inequalities may therefore be effective where inherited wealth is reduced, but this may also be achieved through more rigorous death taxes. Any other reductions in inequalities are only possible through imposing such a high wealth tax that individuals would be forced to move elsewhere. In that event, the true value of the reduction of inequalities might have to be reconsidered.

2.2.5 An effective source of funding

An ideal situation is created where the tax burden falls on a small part of society, yet the income raised from this small portion is substantial enough to fund a large portion of the required government spending. This situation is created where wealth is taxed (Schnellenbach, 2007:5). Even though only a small portion of society is impacted, this tax will also not cause undue pressure on the individuals liable for wealth tax. Wealth taxes are only imposed on very wealthy individuals, who would have the necessary means of meeting this obligation (Makoti, 2012:72)

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Wealth tax not only taxes newly created wealth, but also wealth that has been created and locked in a long time ago. This effectively allows for a large tax base, which can contribute a substantial amount to the revenue collector even when applying a low tax rate to the base (McKinnon, 2012).

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2.3 DISADVANTAGES OF IMPOSING A WEALTH TAX

The disadvantages of imposing a wealth tax can be classified into the following categories:

- Practical difficulties
- Tax morality issues
- Reduction in the incentive to save
- Impact on entrepreneurship
- Unfairness of a wealth tax
- Capital drain.

These disadvantages are now discussed fully.

2.3.1 Practical difficulties

Opponents of the wealth tax often list practical difficulties as the most significant argument against imposing a wealth tax. There are various factors to be considered as practical difficulties and all of these lead to the question whether the benefits to be gained from imposing such a tax would still exceed the costs of implementing the system along with the required structures to overcome all the practical difficulties.

The most logical practical difficulties are listed below:

- **Valuation of assets**: Asset valuation is critical for the imposing of the tax. Valuation of assets can however prove to be very subjective. Valuations could be susceptible to the risk of being under stated. Assets such as private businesses or properties might prove very difficult to value accurately and might require the services of an expert to be valued. The use of experts for valuation purposes would add additional burden on the taxpayer, both from a financial and a time perspective (Sandford *et al.*, 1975:251). Valuation difficulties could cause the fairness of the tax system as mentioned before, to be jeopardised as under valuation could lead to certain individuals still not paying according to their abilities (Sandford *et al.*, 1975:12).
- **Ownership of assets**: The uncovering of ownership of assets, specifically in developing countries has been described by different commentators on wealth taxes to be the biggest shortcoming of the wealth tax (Gordon & Rudnick, 1996:9).

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- **Double taxation**: Another practical difficulty that the wealth tax proponents will have to face is the implication of tax on worldwide assets. Today most tax systems focus on worldwide assets or income as the tax base for residents and this is often combined with a source based tax for non-residents. These methods of taxing can cause double taxation for individuals that are residents in one country and own assets or earn income in other countries. A wealth tax would also be based on a taxation of world-wide assets and could very well lead to double taxation in the same manner described above. The double taxation could be prevented through a double tax agreement, the only problem being that very few current double tax agreements include wealth taxes (Gordon & Rudnick, 1996:22). This certainly holds true for South African double tax agreements. A huge effort would be required to ensure double tax agreements are updated to include all the aspects of a wealth tax as well.
- **Cost of collection**: The administration around effectively imposing a wealth tax is very cumbersome. A large number of staff is required by the revenue collector to check and cross check information provided in these types of returns. Given the fact that a wealth tax contributes a fairly small percentage of total income from taxes, the cost of imposing can outweigh the actual benefit. Finland for example collects 0.15% of its total tax from wealth taxes. The countries with the highest percentage contribution from wealth taxes are Luxembourg and Switzerland. These countries' wealth tax contributes a mere 3% of total income from taxes (Hansson, 2002:3). This low contribution rate with a high management cost was also the reason for the abolishment of the wealth tax in Germany in 1976 (Ristea & Trandafir, 2010:304).

Given all the practical difficulties mentioned above, the implementation of a wealth tax may be a costly and difficult exercise. The costs of implementing a wealth tax could easily outweigh the benefits of implementing a wealth tax if the tax is aimed at a small group of taxpayers.

2.3.2 Tax morality issues

As mentioned under the practical difficulties the reporting of assets for wealth tax purposes might be susceptible to undervaluation. Furthermore individuals might be enticed to omit certain assets that are difficult to trace such as gold or jewellery from their returns.

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These factors would put a huge administrative burden on the revenue collector to ensure the accuracy of the returns. Tax evaders would certainly go out of their way to ensure that a cross check between income tax and wealth tax would not reveal obvious substantial inconsistencies. The costs of this administration will prove high due to the valuation difficulties mentioned above and still not provide perfect results (Sandford *et al.*, 1975:12).

A decision not to scrutinise and investigate the accuracy of the returns by the revenue collector could lead to an overall reduction in the level of seriousness and honesty of tax payers completing any tax returns. Tax evasion creates a general contempt for law and has a tendency to feed itself. Tax immorality could therefore spread to other types of taxes already imposed. Good tax policies should avoid leaving any room for possible evasion. This argument therefore seriously questions the ability of the wealth tax to reduce tax evasion.

It is very difficult to determine how significant tax evasion and tax planning would be if a wealth tax were to be imposed. Certain studies however allude to the fact that this phenomenon might be more substantial than what is to be expected. Sweden imposes a relatively high wealth tax rate on relatively low levels of wealth. Statistics from that country suggest that in 1997 660 000 households had a wealth exceeding EUR105 000, yet only 296 000 households declared a wealth of EUR105 000. Furthermore the Swedish tax authorities estimated that foreign assets resulting in a wealth tax income of EUR796 million were also excluded from tax returns in that same year (Hansson, 2002:7). These numbers seem very high and would be far more difficult to determine in a developing country. Resources to assess, track and eliminate practices of tax evasion in this regard would add to the financial burden faced by SARS.

2.3.3 Reduction in incentive to save

A wealth tax could reduce incentives to save (Boadway *et al.*, 2010: 785). This possibility was also acknowledged by Sandford *et al.* (1975:13), the reason for the argument being that the tax base of a wealth tax would be accumulated wealth or, in other words, savings. Individuals faced with a decision to save and pay taxes on those savings or to spend the

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money on their own personal needs might be enticed to save less and rather spend the money on current personal needs. This might also to a certain extent discourage enterprise development in cases where an enterprise has been specifically entered into for purposes of creating future savings.

2.3.4 Impact on entrepreneurship

There seems to be a relationship between wealth tax imposed and the rate of self-employment or entrepreneurship. This relationship was discovered by Hansson (2008:141) after comparing the number of self-employed individuals throughout the OECD. This relationship is detailed in Figure 2.

Figure 2: Average self-employment rates in wealth and non-wealth tax countries, respectively, over the period 1980 to 2003

Source: Hansson, 2008:145.

Countries that imposed a wealth tax showed a 33% lower self-employment rate compared to that of countries that did not impose a wealth tax. The reasons for this were found to be:

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- Start-up companies need a high level of own capital as the risks associated with these kinds of businesses make external financing hard to obtain and very expensive. Availability of own capital is reduced through the introduction of more taxes.
- The main driving force for bearing the risk of starting these types of businesses is the expected after-tax returns. A wealth tax reduces the after-tax return and therefore inhibits the main driving force (Hansson, 2008:141).

Various tests and comparisons indicated that the removal of a wealth tax can realistically have an immediate impact of 0.2% to 0.5% increase in entrepreneurship (Hansson, 2008:156).

2.3.5 Unfairness of a wealth tax

The opponents of a wealth tax argue that a wealth tax is unfair. Certain individuals prefer to earn income early in their lives and work harder during that part of their life cycle. Their aim is to accumulate as much as possible and convert this into assets that can ensure an income during a latter part of their life cycle so that they could then sit back and enjoy the fruits of earlier hard labour. A wealth tax would discriminate against a person that decided on this approach compared to an individual who preferred earning just enough to support his current needs and keep on working until it is no longer possible (Boadway *et al.*, 2010:779-780). This discrimination can lead to more people preferring not to accumulate wealth and ultimately become state dependent for their most basic needs during old age. Therefore the implementation of a wealth tax would not only be unfair, but would also be counterproductive.

Another reason why a net wealth tax is claimed to be unfair is the fact that it erodes wealth. The tax base includes assets and not an increase in assets. Therefore the same assets are taxed year after year and this gradually erodes wealth. This tax not only eliminates the economic futures of individuals, but it also hints at communism (Makoti, 2012:73). Such policy can only be justified by political reasons (Schnellenbach, 2007:1). A wealth tax in itself can be seen as an exponential tax as it is levied on assets that were acquired from after tax earnings (Makoti, 2012:73).

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Wealth taxes can also be discriminating against personal small businesses. It is widely recognised that imposing wealth taxes on both companies and individuals will lead to double tax. However the imposing of wealth taxes on individuals would only create an unfair disadvantage for these personal businesses competing against other larger companies for the same projects (Ristea & Trandafir, 2010:304). These personal businesses would have to charge higher rates to ensure the same after tax returns as their corporate competitors.

Based on the above a wealth tax can be seen as unfair in more than one way and to various different individuals.

2.3.6 Capital drain

The most significant implication of imposing a wealth tax on a country (and also on its future) is the possibility of a capital drain, sometimes also referred to as a “brain drain”. The modern world is increasingly becoming “smaller”. The cost of travelling and communication is lowering over time. Technology has eliminated barriers to the flow of capital; companies have become multi-national organisations that can easily transfer employees between countries. Workers can now choose where to stay and invest their hard earned capital. One of the many factors influencing these decisions has been found to be taxes (Edwards & Mitchell, 2008:28).

The impact of taxes on people’s decisions of where to live is not limited to income tax rates, but also extends to taxes on wealth. In theory any tax on wealth will encourage a capital flight up to the point where the returns on the capital exceeds any taxes thereon (Gordon & Rudnick, 1996:8).

Many wealthy French citizens have pointed out the wealth tax in that country as their reason for emigrating to Belgium and Switzerland (Edwards & Mitchell, 2008:42). The capital drain was also determined to be the main reason for countries like Ireland and the Netherlands to abolish their wealth tax systems (Ristea &Trandafir, 2010:304).

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The effect of capital flight has inspired Asa Hansson to study the relationship between economic growth and wealth taxes. The study statistically investigated the correlations between economic growth and wealth taxes imposed by the revenue authorities for 20 OECD countries between 1980 and 1999. The study concluded that economic growth is stifled by between 0.02% and 0.04% for every 1% increase in the wealth tax rate (Hansson, 2002:18). This is ascribed to the fact that wealthy individuals migrate to countries with more favourable tax laws and where foreign assets are given preference over domestic assets (Hansson, 2002:2).

Studies have shown that by increasing a wealth tax such as estate tax or capital gains tax, the tax bases in the particular instances have shrunk. This is a result of people crafting schemes to avoid paying taxes (Edwards & Mitchell, 2008:36-43). In some instance the **income tax** base has also shrunk as a result of increased efforts by citizens to minimise their tax liability. These efforts include migrating to countries where the tax liability would be less onerous. Many economists believe that due to this fact, a wealth tax does not necessarily raise additional net revenue for governments (Edwards & Mitchell, 2008:43).

The introduction of wealth taxes also adversely affects a country's future growth and job creating capabilities (Makoti, 2012:73). Many wealthy entrepreneurs do not only create their own wealth, they also create jobs and empower communities in the course of their business (Edwards & Mitchell, 2008:89). By alienating these individuals a country is not doing itself any favours.

The alienation of business developers and entrepreneurs was also mentioned as one of the reasons why a wealth tax was never implemented in the United Kingdom (UK) (Glennerster, 2012:243). The decision not to implement a wealth tax in the UK was underpinned by the following reasons after various reviews of the intended system (all of these relate in some way to the fact that the country would see a decline in capital invested and business activity):

- Citizens would be encouraged to seek non-citizen status which would lead to outflow of funds in the form of dividends and interest.

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- Foreign employees resident in the UK would also be subject to the tax. This would probably result in a large exodus of major foreign banks, insurance companies and shipping companies to neighbouring countries.
- With fewer assets held in the UK the general level of business in the country would reduce.

The reasons for not implementing a wealth tax in the UK are very relevant in the South African context today. The South African economy cannot afford these negative effects at this point in time, even though South Africa is deemed less vulnerable due to factors such as the high future growth rate forecasted for Africa. It is therefore important to determine the total tax impact on an individual in South Africa, compared to other African countries.

2.4 CONCLUSION ON THE ADVANTAGES AND DISADVANTAGES OF IMPOSING A WEALTH TAX

Without a proper quantitative study to prove the fact, which would not be simple, it can be stated that the disadvantages of imposing a wealth tax seems to outweigh the advantages thereof. It would seem that the advantages of imposing a wealth tax are largely based on theory and very little evidence exists that these advantages are in fact justifiable in practice (Sandford *et al.*, 1975:12).

Most of the advantages for imposing a wealth tax have counter arguments pointing towards the opposite. The advantage of improving horizontal equity is contradicted by the disadvantage of practical difficulties. This is due to the fact that the fairness would be compromised as a result of certain assets being difficult to value or even easy to omit from returns. The argument that risk of avoidance of taxes would be lowered is countered by the argument that practical difficulties would cause incentive for even further avoidance. This could ultimately lead to tax immorality that affects tax payer’s attitudes towards other types of taxes as well. The argument of reduction in inequality would only be effective in cases where wealth taxes are imposed at such high levels that it would cause capital flight.

It does however seem that the additional tax can be politically motivated to try and reduce the effect of inequalities between different groups based on social injustices from the past.

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Sandford *et al.* (1975:35) also concluded that the comparison of wealth taxes alone has very little value as the total basket of taxes imposed on an individual should be compared to determine whether a country could justify the addition of another tax. In a South African perspective it is therefore necessary to compare the taxes imposed by South Africa on high net worth individuals with similar taxes imposed in other African countries. This forms the subject of the remainder of this study.

Before a comparison can be attempted it is crucial to identify and describe the taxes that would affect wealthy individuals living in South Africa. The next chapter provides a short summary of the tax situation in South Africa, followed by chapters on Botswana, Mauritius and Namibia. This would enable the researcher to make an accurate comparison of the tax situation of these countries.

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CHAPTER 3

SOUTH AFRICA

Taxes that affect wealthy South Africans can be classified as follows:

- Income tax
- Capital gains tax
- Donations tax
- Estate duty
- Dividends tax
- Transfer duty
- Securities transfer tax

These taxes will now be discussed in full.

3.1. INCOME TAX

South Africa imposes income tax on individuals based on a progressive scale. The scale for the tax year ending 28 February 2014 is detailed in the Table 2 below:

Table 2: South African income tax rates

Taxable Income (R)	Rate of tax (R)
0 – 165 600	18% of taxable income
165 601 – 258 750	29 808 + 25% of taxable income above 165 600
258 751 – 358 110	53 096 + 30% of taxable income above 258 750
358 111 – 500 940	82 904 + 35% of taxable income above 358 110
500 941 – 638 600	132 894 + 38% of taxable income above 500 940
638 601 and above	185 205 + 40% of taxable income above 638 600

Source: SARS, 2013:1.

The table above shows that wealthy individuals in South Africa will pay income taxes of 40% on all income in excess of R638 600. Income tax to the value of R185 205 will be paid on the first R638 600 earned, which effectively implies a tax rate of 29% on the first R638 600 earned.

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In addition to the tax rates suggested by the table a tax relief is also granted to the tax payer in the form of a tax rebate (Section 6(2)(a)-(b) of the Income Tax Act). This relief is deducted from the tax payable by the individual after the application of the calculation as determined by the scale. The allowable rebate in the 2014 fiscal year was approved during the Finance Minister's budget speech and is applicable from 1 March 2013. The primary rebate was approved at R12 080 and in addition to this a secondary rebate is applicable to residents older than 65. The secondary rebate amounts to R6 750. Individuals, older than 65, are therefore entitled to a total rebate of R18 830 on their annual tax liability (SARS, 2013:1).

3.2 CAPITAL GAINS TAX

According to the definition of gross income in Section 1 of the Income Tax Act, income tax in South Africa is imposed on all income received from sources other than a source that is capital in nature. Therefore any income received from a capital source would not be taxed at the income tax rates mentioned above. Legislation in South Africa was however amended in 2001 to ensure that these receipts of a capital nature will be taxed, albeit in a different format. The Eighth Schedule to the Income Tax Act regulates how these capital receipts are to be taxed.

The Eighth Schedule becomes applicable with the disposal of any asset and is applicable to both individuals and companies. A disposal includes any action, event, forbearance or act of law that results in a creation, transfer or extinction of an asset. This effectively means that any sale, donation, expropriation, or transfer of ownership of an asset would lead to a disposal being triggered (SARS, 2010:66). The amount by which the proceeds on the sale of an asset exceeds the base cost of such asset is referred to as the capital gain. A total capital gain is calculated for the year of assessment by aggregating all the capital gains and capital losses that a person might have had in a year as well as any cumulative capital loss carried forward from the prior year. This total capital gain is then subject to an annual exclusion of R30 000 per individual for the 2014 year of assessment (SARS, 2013:2).

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Capital gains as described in the paragraph above are included at a rate of 33.3% in an individual's normal calculated taxable income. This effectively results in an individual paying tax on the gain realised on the disposal of an asset at 13.3% in instances where the individual is already taxed at the highest marginal tax rate which is 40% as described above (SARS, 2013:2).

There are various specific exclusions from capital gains tax of which the following are specifically relevant in the case of an individual:

- Certain personal use assets do not attract capital gains tax. Personal use assets do however not include gold coins, fixed property, financial instruments, fiduciary rights or boats in excess of 10 metres long.
- The first two million rand gain on the sale of a primary residence may also be excluded from capital gain taxes. This exclusion is only applicable if the owner uses the property as his/her usual dwelling. In addition to this exclusion any primary residence that is sold for less than R2 million in total proceeds is excluded from capital gains tax.
- In the year that an individual passes away the annual exclusion mentioned above is increased from R30 000 to R300 000 for that particular year (SARS, 2013:2).

These exclusions effectively ensure that only wealthy people will ever be liable for capital gains tax. It is only once an individual realises a gain of more than R2 million on his primary residence or realises a gain on any other asset, which is not a personal use asset, that capital gains tax will be applicable. This legislation is therefore only aimed at people that have the ability to generate surplus income which they could start to employ for investment purposes. Capital gains tax in South Africa would therefore also influence the decisions of wealthy individuals on where to invest.

3.3 DONATIONS TAX

Donations tax has the purpose of preventing people from avoiding capital gains and income tax. Wealthy individuals might opt to donate income or assets to friends, families or charities to avoid paying taxes on that income. Taxes at a rate of 20% is payable on any donation or transfer of an asset at less than the market value (Section 54 and 55 of the

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Income Tax Act). It has already been noted that capital gains tax would be payable on transfers of assets. Donations tax is another tax in addition to the capital gains tax on the gratuitous transfer of an asset.

Certain exemptions apply once again to ensure that donations tax is only imposed on wealthy individuals. Donations between spouses are exempt as well as transfers of foreign assets obtained by the donor before becoming a resident of the country. Donations made to cater for the maintenance of a dependant are also exempt (Section 56 of the Income Tax Act). Individuals are allowed to make donations to the value of R100 000 per annum without being liable for donations tax.

These exemptions ensure that donations tax should not affect the middle to lower levels of tax paying individuals as they would rarely make donations in excess of R100 000 per annum. Donations tax would therefore also be included in the taxes evaluated by wealthy individuals before they decide where to invest.

3.4 ESTATE DUTY

Another tax imposed on wealthy individuals in South Africa, is a tax that is triggered in the event of the death of an individual. Estate duty is imposed at a rate of 20% on the value of the estate of a deceased (Section 2 (2) of the Estate Duty Act). The estate of an individual consists of all the assets (both domestic and foreign) that the individual owned on the date of his/her death. The value of the estate is reduced by any liabilities that the deceased might have had at the time of death as well as any administrative costs to finalise the estate (Section 4 of the Estate Duty Act).

The value of the estate may also be reduced with the value of any assets accruing to the surviving spouse (Section 4*(q)* of the Estate Duty Act). The value of the estate after taking all of the above exemptions into account must be reduced with R3.5million before the tax is calculated at 20% (Section 4A of the Estate Duty Act). In circumstances where the full R3.5 million reduction in the estate value is not available, due to the fact that a portion of the estate is inherited by the surviving spouse and therefore exempt, the unused portion of the reduction would be rolled over to be utilised in the estate of the surviving spouse

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(Section 4A of the Estate Duty Act). The available exemptions will once again ensure that the tax is only applicable to wealthy individuals. Also note that as was the case with donations tax a person will be liable at their date of death for two types of taxes. In addition to the estate duty, capital gains tax will also be payable. Estate duty would therefore also be considered when wealthy investors decide where to invest.

3.5 DIVIDENDS TAX

Individuals with surplus funds would be inclined to invest these funds in one way or another to try and increase their wealth with the resources available to them. Investments may be in many different forms, however one of the more common ways to invest surplus money and often also seen as the most lucrative option is by buying shares in companies. The return that shareholders receive on these shares would be in the form of dividends. Therefore the taxation of dividends received could impact on decision making of wealthy individuals.

According to section 10(1)*(k)* of the Income Tax Act dividends received from domestic companies are exempt from taxes, except for dividends received from collective investment schemes in property. Dividends received from foreign companies are taxable in South Africa (when investment is smaller than 10% of total shares), however the tax imposed is limited to a maximum of 15%. This ensures that foreign dividends and local dividends are taxed consistently (Section 10B of the Income Tax Act). Section 10B also allows for a partial exemption for foreign dividends that do not qualify for the aforementioned limit.

South Africa however imposes a withholding tax on dividends of 15% (Section 64E of the Income Tax Act), (SARS, 2013:1). The company paying the divided is obligated to withhold 15% of the dividend declared and pay that over to SARS. Even though this withholding tax is not paid over to SARS by the individual, the 15% tax is paid by the company declaring the dividend on behalf of the individual. Dividends tax in South Africa is therefore another tax that could influence the decisions of wealthy individuals investing in South Africa.

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3.6 TRANSFER DUTY AND SECURITIES TRANSFER TAX

There are two other taxes in South Africa that could also influence decisions made by wealthy investors. These two taxes are different from all the other taxes mentioned above as they are payable on the date that assets are purchased as opposed to the day on which income or proceeds are realised from the asset. Therefore the taxes would not influence decisions of investors that already own these assets, but it would definitely impact on a decision to invest where the assets are yet to be purchased.

Transfer duty is payable on the acquisition of any immovable property situated in South Africa. The acquisition may be by way of an economical transaction or any other manner of transfer of title of a property whether by divorce, inheritance, donation or any other method. The tax is levied on the value of the property on the date of acquisition. The only acquisition of immoveable property that is excluded from this duty is property that is regarded as a taxable supply by a VAT vendor as per the VAT Act. VAT is levied on these taxable supplies and therefore the imposition of a transfer duty would be a regarded as a double tax. Therefore the buyer of immoveable property in South Africa would either pay VAT at 14% or a transfer duty that is based on a progressive tax scale, refer to table 3 (SARS, 2009:11-29).

Table 3: Transfer duty rates imposed in South Africa

Value of property (R)	Rate of tax (R)
0 – 600 000	0%
600 001 – 1 000 000	3% of the value above 600 000
1 000 000 – 1 500 000	12 500 + 5% of taxable income above 1 000 000
1 500 001 and above	37 000 + 8% of taxable income above 1 500 000

Source: SARS, 2013:2.

The purchase of immoveable property in South Africa would therefore be subject to either 14% VAT or a maximum of R37 000 plus 8% transfer duty on the value of the property exceeding R1 500 000.

The other tax imposed by South Africa that would also be payable at acquisition of an asset is the securities transfer tax. This tax is payable on the transfer of any listed or

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unlisted share. The tax is payable by the purchaser and it is imposed on the value of the shares transferred. Currently this tax is calculated as 0.25% of the value of the shares transferred (SARS, 2013:2)

Both of these taxes will only affect wealthy tax payers as only wealthy individuals would have available capital to invest which would lead to the purchase of property or shares. These taxes could impact on whether individuals decide to invest and it could also impact the nature of the investment that they decide to make as investors would have to factor in the costs or taxes applicable to determine what their net return on the investment would be.

3.7 SUMMARY OF SOUTH AFRICAN TAXES ON WEALTHY INDIVIDUALS

Table 4 provides a basic summary of the taxes imposed on wealthy individuals within South Africa.

Table 4: Taxes imposed on wealthy individuals within South Africa

Type of tax	Rate of tax
Income tax	40% highest marginal rate
Capital gains tax	13.3% highest effective rate
Donations tax	20%
Estate duty	20%
Dividends tax	15%
Transfer duty	8% highest marginal rate
Securities transfer tax	0.25%

These taxes will now be compared to similar taxes imposed within other African countries as identified in section 1.9. Chapter 4 will analyse these taxes imposed within Botswana, chapter 5 will analyse the taxes imposed within Mauritius and chapter 6 will focus on the taxes imposed within Namibia.

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CHAPTER 4

BOTSWANA

Botswana is a neighbouring country of South Africa that uses the Pula as its local currency. The Pula (P) is trading at more or less R1.12 to the Rand (ABSA Bank, 2013). The taxes imposed on wealthy individuals in Botswana are detailed below.

4.1 INCOME TAX

Botswana's income tax rates for individuals have been amended as per the 2012 budget speech and have remained unchanged for the 2013 budget year. Similar to South Africa, Botswana imposes tax on a progressive tax scale. Table 5 details the scales as currently imposed within Botswana:

Table 5: Botswana income tax rates

Taxable Income (P)	Rate of tax (P)
0 – 36 000	0%
36 001 – 72 000	0 + 5% of taxable income above 36 000
72 001 – 108 000	1 800 + 12.5% of taxable income above 72 000
108 001 – 144 000	6 300 + 18.7% of taxable income above 108 000
144 001 and above	13 050 + 25% of taxable income above 144 000

Source: Botswana Unified Revenue Services (BURS), Tax rates, 2013.

Wealthy individuals in Botswana will pay taxes of P13 050 on the first P144 000 taxable income that they earn, the first P144 000 therefore effectively taxed at 9%. Any additional income over and above P144 000 is taxed at 25%. The highest income tax bracket starts at a much lower level than that of South Africa, which results in a much larger portion of the population paying taxes at the highest level. The highest tax rate payable by an individual is however significantly less than the highest tax rate payable in South Africa.

Botswana's tax legislation makes no provision for any rebates from taxes that are similar in nature to that of the South African tax rebates (Brick, 2012:2).

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4.2 CAPITAL GAINS TAX

Gains of a capital nature are excluded from the definition of gross income by Section 9 of the Botswana Income Tax Act (1973). Section 35(1) of the Income Tax Act however includes in the taxable income of a tax payer any income received on the disposal of:

- any movable or immovable property of a business carried on by that person,
- any shares or debentures in a company
- any residential property, and
- any immovable property other than the items mentioned above.

These inclusions as detailed above are subject to the requirements of Schedule 10 to the Botswana Income Tax Act, (1973), that deals with deductions allowed from such income as well as certain exclusions from such income.

Paragraph 4 of Schedule 10 to the Botswana Income Tax Act states that certain costs incurred may be deducted from the income received on the disposal of these capital assets. These costs include any expenditure incurred on the acquisition of the asset, any costs incurred on the disposal of the asset and any costs incurred to effect any improvements to the asset. These deductions that are allowed are very similar to what is used in South African legislation to determine the base cost of the asset, which is effectively also deducted from the income received to determine the capital gain.

The net aggregate gain is defined as the total of all the gains/losses from the calculation described above (Paragraph 4 of Schedule 10 to the Botswana Income Tax Act). The Eighth Schedule to the Botswana Income Tax Act determines the tax scales that are applied to a net aggregate gain of an individual to determine the tax payable on the disposal. Capital gains are also taxed on a progressive tax scale which is a different tax scale than the one that is used to calculate normal income tax payable. The scale is detailed in table 6:

Table 6: Botswana tax rates on net aggregate gains of individuals

Taxable Income (P)	Rate of tax (P)
0 – 15 000	0%

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Taxable Income (P)	Rate of tax (P)
15 001 – 60 000	0 + 5% of taxable income above 15 000
60 001 – 90 000	2 250 + 12.5% of taxable income above 30 000
90 001 – 120 000	6 000 + 18.7% of taxable income above 60 000
120 001 and above	11 625 + 25% of taxable income above 120 000

Source: BURS, Tax rates, 2013

The first P120 000 of net aggregate capital gains are therefore taxed at an effective rate of 9.68%. Thereafter a rate of 25% is applicable to any net aggregate gains in excess of P120 000. This rate is therefore slightly higher than the effective rate of capital gains in South Africa.

The exemptions from net aggregate gains available to individuals are the following:

- Proceeds derived from the sale of an individual's principle private residence, if such proceeds are reinvested in a new residential property within 24 months of the disposal of the original. In cases where the proceeds are not reinvested the proceeds may still be exempt in instances where the proceeds where earned on the sale of the individual's first principle private residence (Paragraph 1(a) of Schedule 10 to the Botswana Income Tax Act). In South Africa the exemption on the primary residence is limited to a gain of R2 million and the reinvestment principle does not apply, unless if the disposal was involuntary (Paragraph 65 of the Eighth Schedule to the Income Tax Act).
- Proceeds derived from the sale of shares or debentures in a resident company listed on the Botswana Stock Exchange or a resident company that meets the definition of a public company (Paragraph 1(c) of Schedule 10 to the Botswana Income Tax Act). No similar exemption is available in terms of South African legislation.

4.3 DONATIONS TAX

Botswana imposes a capital transfer tax on the aggregate taxable value of all qualifying disposals made in a year. These disposals referred to are any donations made by a donor to a donee (Section 3 to the Botswana Capital Transfer Act, 1985). These disposals include any gratuitous disposals of assets or any transfer of assets by means of an inheritance (Section 2 to the Botswana Capital Transfer Act).

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In contrast with South African tax legislation the tax is payable by the donee (Section 7 to the Botswana Capital Transfer Act) which is defined as the beneficiary of such a donation (Section 2 to the Botswana Capital Transfer Act). The fact that the donee is taxed and not the donor results in a situation where it is possible for less wealthy individuals to be liable for the tax if they should ever receive such a donation or inheritance. This will however not make the tax less relevant for wealthy individuals in their decision making. The donations that they make would still lose a portion of its value in the hands of the donee as the individual would have to fund the tax on the benefit to enable the enjoyment the benefit.

The transfers of the following assets are exempt from the capital transfer tax (Section 7 to the Botswana Capital Transfer Act):

- Transfers to spouses during the life of the donor or by way of an inheritance.
- Household goods or personal belongings of a deceased person that does not exceed P15 000 in value.
- Any assets disposed of by a donor for the maintenance, education or training of a child younger than 21 years or for a child older than 21 years that is continuing full-time studies.
- Any casual gifts not exceeding a total of P5 000 to any person in one particular year.

The following deductions are also allowable from the value of assets before calculating capital transfer taxes thereon (Section 6 to the Botswana Capital Transfer Act, 1985):

- The first P100 000 of the distributable value of a deceased estate. In cases where more than one beneficiary exists, the P100 000 deduction should be apportioned between the beneficiaries in proportion to their shares of the full estate.
- Any expenses incurred by the donee to finalise the transfer.
- All debts due by the donor in respect of the asset transferred.

As in the case with all of the other Botswana taxes already discussed, the capital transfer tax is also imposed based on a progressive tax scale. Table 7 below details the scale that is currently effective.

Table 7: Botswana capital transfer tax rates

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Value of disposal (P)	Rate of tax (P)
0 – 100 000	2%
100 001 – 300 000	2 000 + 3% of disposal value above 100 000
300 001 – 500 000	8 000 + 4% of disposal value above 300 000
500 000 and above	16 000 + 5% of disposal value above 500 000

Source: First Schedule to the Botswana Capital Transfer Act, 1985.

The highest marginal rate for capital transfer tax is therefore 5%, which is much lower than the 20% currently imposed in South Africa. The highest marginal rate is also only applicable on donations higher than P500 000 whereas South Africa's 20% tax is imposed for all donations except for the first R100 000 of donations that are exempt.

4.4 ESTATE DUTY

Tax legislation in Botswana makes no distinction between taxes paid on donations and taxes paid on estates. As discussed above, the inheritances are subject to capital transfer tax. The 5% tax rate payable on estates in Botswana is much lower than the 20% imposed in South Africa. However South Africa allows an exemption of R3.5 million on the value of the estate that Botswana does not allow for. Therefore a breakeven point should be calculated to determine the level at which effective South African estate duty exceeds capital transfer tax imposed in Botswana.

South African Estate duty will only exceed Botswana's capital transfer duty in instances where an estate exceeds R4 666 667 in value. An assumption will be drawn for the purposes of this document that truly wealthy individuals' estates exceed R4 666 667 in value more often than not; therefore South African estate duty will be deemed to be the higher of the imposed taxes.

4.5 DIVIDENDS TAX

Section 59(3) to the Income Tax Act states that where a resident company has paid withholding taxes on a dividend as determined in the seventh schedule to the Botswana Income Tax Act, the dividend may be excluded from gross income in the hands of the individual and no additional taxes would be payable thereon.

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Withholding taxes are to be withheld on any dividends paid to a resident or non-resident by resident companies in accordance with the seventh schedule (Section 58 to the Botswana Income Tax Act). Paragraph 2 of the Seventh Schedule to the Income Tax Act determines that a withholding tax of 15% will be imposed on all dividends paid by resident companies.

The treatment for dividend tax in Botswana is therefore very similar to the treatment of dividend tax currently enacted in South Africa. Both countries allow an exemption of dividend income in the hands of the receiver thereof and tax the dividend through a withholding tax that is administered by the company paying the dividend.

4.6 TRANSFER DUTY AND SECURITIES TRANSFER TAX

Botswana also imposes a transfer duty that is very similar to that imposed by South Africa. According to the Botswana Transfer Duty Act (1973), transfer duty is payable on the purchase of any immoveable property and is imposed on the value of the property on the date of transfer. The tax is currently levied at 5% of the value of the immoveable property purchased. As is the case with South African transfer duty, the transfer of immoveable property would be exempt from transfer duty if the transaction is subject to VAT to avoid double taxation of the transaction.

Botswana imposes no duties on the transfer of shares that would compare to the securities transfer tax imposed in South Africa (Brick, 2012:11).

4.7 SUMMARY OF BOTSWANA TAXES ON WEALTHY INDIVIDUALS

Table 8 provides a basic summary of the taxes imposed on wealthy individuals in Botswana.

Table 8: Taxes imposed on wealthy individuals by Botswana

Type of tax	Rate of tax
Income tax	25% highest marginal rate
Capital gains tax	25% highest effective rate

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Type of tax	Rate of tax
Donations tax	5% highest marginal rate
Estate duty	5% highest marginal rate
Dividends tax	15%
Transfer duty	5%
Securities transfer tax	0%

These taxes are all lower than the taxes currently imposed in South Africa, except for the dividends tax that is imposed at the same levels.

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CHAPTER 5

MAURITIUS

Mauritius uses the Rupee (Rs) as its local currency. The Rupee is trading at more or less R0.31 to the Rand (ABSA Bank, 2013). The taxes imposed on wealthy individuals in Mauritius are detailed below.

5.1 INCOME TAX

Mauritius imposes income tax at a flat rate of 15% (Mauritius Revenue Authority, Personal taxation, 2013). Mauritius uses an exemption benefit to ensure that taxes are effectively paid according to ability. This has a similar effect to the progressive tax scale for individuals earning income in the lower ranges. The allowable exemptions are listed in Table 9 below:

Table 9: Exemption thresholds in respect of income

Category	Amount (Rs)
A: Individual with no dependant	270 000
B: Individual with one dependant	380 000
C: Individual with two dependants	440 000
D: Individual with three dependants	480 000
E: Retired/Disabled person with no dependant	320 000
F: Retired/ Disabled person with one dependant	430 000

Source: Mauritius Revenue Authority, Personal taxation, 2013.

These allowable exemptions are deducted from income to determine chargeable/taxable income and can effectively reduce taxes payable by tax payers with lower income. Wealthy people on the other hand are not affected by the exemptions; these individuals pay tax at 15% on all gross income in excess of the exemption threshold, irrespective of the value of their total income. This form of taxation is a good way to motivate individuals to increase their earnings and business activities as increases in their income do not lead to additional taxes paid, but rather increased benefits for the individual (Edwards & Mitchell, 2008:58).

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The 15% flat rate is much lower than the normal income tax rates imposed by both South Africa and Botswana.

5.2 CAPITAL GAINS TAX

Gross income only includes proceeds from the sale of immovable property if the sale was done in the course of a business activity (Section 4(f) of the Mauritius Income Tax Act, 1995). Therefore gains from sales of immoveable property are not included in gross income for individuals.

Mauritius used to impose a separate capital gains tax on the gains derived from the sale of immovable property. This tax was imposed by Section 10A of the Mauritius Income Tax Act. This section was however subsequently repealed and therefore no taxes are currently imposed on any capital gains.

5.3 DONATIONS TAX

Searches on donations tax in Mauritius revealed no details of the existence of such a tax. This would also make sense in the light of the fact that donations tax is usually imposed as an anti-avoidance tax where capital gains taxes and estate duty exists. As neither of these taxes is imposed in Mauritius, it would not make sense for a donations tax to be imposed.

5.4 ESTATE DUTY

Mauritius does not impose any estate duties (Chung, 2012:1).

5.5 DIVIDENDS TAX

Section 10(d) of the Mauritius Income Tax Act specifically includes under gross income any amount received as a dividend. Companies are not required to impose a withholding tax on dividends that are paid out, as is the case in South Africa and Botswana (Chung,

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2012:1). However by forming part of the gross income of an individual, dividends are effectively taxed at the flat rate of 15%. In instances where the individual's total gross income does not exceed the exemption thresholds mentioned above, the dividend income may be exempt up to the threshold levels.

Dividends in Mauritius are therefore effectively taxed at the same rate as both the dividends taxed in South Africa and Botswana. The only difference between the two dividend tax regimes is the ultimate way of collection. South Africa and Botswana are opting to hold the dividend paying company liable and Mauritius is opting to hold the individual receiving the dividend liable.

5.6 TRANSFER DUTY AND SECURITIES TRANSFER TAX

Mauritius also imposes a land transfer duty that is very similar to that imposed by South Africa. Transfer duty is payable on the purchase of any immoveable property and is imposed on the value of the property on the date of transfer. The tax is currently levied at 5% of the value of the immoveable property purchased. In addition to this tax, a registration duty is also imposed at 5% of the value of the property transferred. This result in a total duty payable of 10% on the value of immoveable property purchased (Balloo, 2012:3).

Mauritius imposes no duties on the transfer of shares quoted on the Mauritius stock exchange. (Balloo, 2012:3).

5.7 SUMMARY OF MAURITIAN TAXES ON WEALTHY INDIVIDUALS

Table 10 provides a basic summary of the taxes imposed on wealthy individuals in Mauritius.

Table 10: Taxes imposed on wealthy individuals by Mauritius

Type of tax	Rate of tax
Income tax	15% flat rate
Capital gains tax	No tax imposed

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Type of tax	Rate of tax
Donations tax	No tax imposed
Estate duty	No tax imposed
Dividends tax	15%
Transfer duty	10%
Securities transfer tax	0%

Taxes imposed on wealthy individuals in Mauritius are all lower than the equivalent taxes imposed in both South Africa and Botswana, except for dividends tax which is imposed at the same levels as those imposed by South Africa and Botswana and transfer duty which is imposed at a slightly higher rate than the taxes imposed in South Africa and Botswana.

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CHAPTER 6

NAMIBIA

Namibia is another one of South Africa's neighbouring countries and it uses the Namibian dollar as its local currency. The Namibian dollar is trading at more or less R1.00 to the Rand (ABSA Bank, 2013). The taxes imposed on wealthy individuals in Namibia are detailed below.

6.1 INCOME TAX

Namibia's income tax rates for individuals are set out in Schedule 4 to the Namibia Income Tax Act (24/1981). These rates are updated by announcements in the Government Gazette. Namibia also imposes tax on a progressive tax scale similar to South Africa and Botswana. Table 11 details the scales as currently imposed in Namibia:

Table 11: Namibian income tax rates

Taxable Income (N$)	Rate of tax (N$)
0 – 40 000	0%
40 001 – 80 000	27% of taxable income above 40 000
80 001 – 200 000	10 800 + 32% of taxable income above 80 000
200 001 – 750 000	49 200 + 34% of taxable income above 200 000
750 000 and above	236 200 + 37% of taxable income above 750 000

Source: PWC, Namibia Tax, Reference and rates card, 2013.

Wealthy Namibian citizens pay income tax at an effective rate of 31% on the first N$750 000 earned, thereafter these individuals pay tax at a rate of 37% on all income in excess of N$750 000. The 37% imposed is slightly lower than the highest marginal rate payable in South Africa, but higher than the 25% imposed in Botswana and the 15% flat rate imposed in Mauritius. The highest income tax bracket starts at a higher value than the highest income tax bracket in South Africa, which results in a smaller portion of the tax-paying population paying taxes at the highest marginal rate in Namibia.

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6.2 CAPITAL GAINS TAX

The definition of gross income specifically excludes amounts received of a capital nature (Section 1 to the Namibia Income Tax Act). Therefore amounts accruing to an individual of a capital nature are not taxed. Namibia also do not have any additional capital gains tax legislation that imposes taxes on the capital gains in any other form than the normal income tax payable (Brand, 2012).

6.3 DONATIONS TAX

There is no donations tax levied in Namibia (PWC, 2013).

6.4 ESTATE DUTY

There is no estate duty levied in Namibia (PWC, 2013).

6.5 DIVIDENDS TAX

According to Section 1, paragraph i of the gross income definition to the Namibia Income Tax Act, dividends received by Namibian residents are included in gross income. These dividends are then exempt from income under section 16(n) of the Namibia Income Tax Act. This exemption effectively results in no tax being imposed on dividends received. Withholding taxes are applicable in the instances where dividends are paid to non-residents. This paper however focuses on tax implications for residents and therefore the withholding taxes would not be discussed at length. Dividends tax is therefore less than any dividends taxes imposed by any of the other countries studied in this document.

6.6 TRANSFER DUTY AND SECURITIES TRANSFER TAX

Namibia's Transfer Duty Act 14 of 1993 imposes a transfer duty on the transfer of immoveable property. This duty is imposed on the value of the property on the date of

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transfer and is also charged based on a progressive scale which is very similar to the way that the tax is imposed in South Africa.

Table 12: Transfer duty rates imposed in Namibia

Value of property (N$)	Rate of tax (N$)
0 – 400 000	0%
400 001 – 800 000	1% of the value above 400 000
800 001 – 1 500 000	4 000 + 5% of taxable income above 800 000
1 500 001 and above	39 000 + 8% of taxable income above 1 500 000

Source: PWC, 2013:3.

The purchase of immoveable property in Namibia would therefore be subject to a maximum of N$39 000 plus 8% transfer duty on the value of the property exceeding N$1 500 000.

Namibia imposes a stamp duty on the transfer of shares as per the Namibia Stamp Duties Act (Act 15 of 1993). This tax is imposed at 0.2% of the value of the shares transferred.

Both the stamp duty and the transfer duty imposed in Namibia are very similar to the equivalent taxes imposed in South Africa.

6.7 SUMMARY OF NAMIBIAN TAXES ON WEALTHY INDIVIDUALS

Table 13 provides a basic summary of the taxes imposed on wealthy individuals in Namibia.

Table 13: Taxes imposed on wealthy individuals by Namibia

Type of tax	Rate of tax
Income tax	37% highest marginal rate
Capital gains tax	No tax imposed
Donations tax	No tax imposed
Estate duty	No tax imposed
Dividends tax	No tax imposed
Transfer duty	8% highest marginal rate
Securities transfer tax	0.2%

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Namibia's tax legislations seems to be the least complicated of all the countries compared. Namibia simply imposes an income tax on individuals and very few other wealth taxes. Even though Namibia only imposes a limited number of different taxes on wealthy individuals, the highest marginal rate of those taxes is still lower than that of the equivalent imposed in South Africa.

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CHAPTER 7

CONCLUSION

This study aimed to determine whether the implementation of an additional wealth tax would be feasible in the South African context. The first objection of the study was to compare the advantages and disadvantages of a wealth tax to determine whether the implementation of a wealth tax could be justified. The study found that the disadvantages of imposing a wealth tax outweigh the advantages in numbers. Furthermore, the advantages have also not been proved to be realistic in a proper test case. The only advantage of imposing a wealth tax that could make sense against the South African background is the fact that inequalities might be reduced, which would support political objectives. This will, however, put the country at risk of experiencing a capital flight. Capital flight will be inevitable unless the basket of taxes on wealthy individuals in South Africa would be comparable with the equivalent basket of taxes in similar countries.

The second objective was to compare wealth taxes imposed by South Africa to the equivalent wealth taxes imposed in other Africa countries. The preceding four chapters all focused on the various taxes imposed on wealthy individuals in different African countries. These countries all have a GDP per capita that is similar to that of South Africa, which indicates that their economies are similar to that of South Africa. Therefore these countries can be seen as competitors for South Africa when it comes to luring wealthy investors to the country. Wealthy investors often have the means and the knowledge to make decisions that would benefit them financially (Edwards & Mitchell, 2008:88) and taxes have been found to be one of the factors that influences their decisions on where to work and live.

Table 14 summarises the factors that will be borne in mind for tax purposes by a wealthy individual when deciding which African country is best suited to emigrate to, should the opportunity present itself.

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Table 14: Summary of taxes payable by wealthy individuals in a selection of African countries

	Rate of tax			
Type of tax	**South Africa**	**Botswana**	**Mauritius**	**Namibia**
Income tax	40% highest marginal rate	25% highest marginal rate	15% flat rate	37% highest marginal rate
Capital gains tax	13.3% highest effective rate	25% highest effective rate	No tax imposed	No tax imposed
Donations tax	20%	5% highest marginal rate	No tax imposed	No tax imposed
Estate duty	20%	5% highest marginal rate	No tax imposed	No tax imposed
Dividends tax	15%	15%	15%	No tax imposed
Transfer duty	8% highest marginal rate	5%	10%	8% highest marginal rate
Securities transfer tax	0.25%	0%	0%	0.2%

Highest rate payable in sample countries
Second highest rate payable in sample countries
Second lowest rate payable in sample countries
Lowest rate payable in sample countries

The results obtained from the research performed shows that South African taxes imposed on wealthy individuals is the highest of all the sampled countries in the majority of the different classes of tax. In addition the taxes imposed are more often than not substantially higher than the equivalent charged by its peers.

These results show that South Africa's tax policies and particularly those around the taxation of wealthy individuals are not competitive with those imposed by its peers. If South Africa were to impose yet another tax on wealthy individuals it would ensure that our tax policies are even less competitive than what they currently are. This could have a detrimental effect when investors start to realise that they could optimise the resources available to them by choosing not to work and live in South Africa, but rather one of its neighbouring countries. Not only will potential new investors be discouraged from investing, but the question also arises at which point South African residents will start to seek their fortune elsewhere.

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The conclusion drawn from this study is that South Africa's basket of taxes on wealthy investors is already unfavourable when compared to that of its peers. Tax competition is a fairly new concept and will gain momentum in future along with the developments in infrastructure and technology all over the world (Edwards & Mitchell, 2008:2). It is therefore imperative that South Africa starts to relook its tax policies to ensure that it is as competitive as possible. In the light thereof a wealth tax for South Africa would not be advisable.

Future research on this topic may address the possibility of imposing a once-off wealth tax to ensure that South Africa improves its fiscal budget to enable it to then reduce future taxes and ultimately be more competitive. Furthermore an investigation into alternatives other than the taxes investigated in this paper such as VAT or companies' tax may reveal other ways in which South Africa can generate more income and still remain an attractive prospect for investors.

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