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Wealth tax 'an act of insanity'

HAVE YOUR SAY

Any new tax would contradict the Government's macro-economic strategy, warns Dr THEO ALANT, National Party spokesman on finance, in his reaction to the call for a wealth tax

At the recent Truth and Reconciliation Commission business hearing, retired Stellenbosch economics professor Sampie Terreblanche suggested a wealth tax be imposed on individuals to repair the socio-economic damage caused by apartheid.

This special "reparations tax" of 0,5% should be levied for between 10 and 20 years on individuals with more than R2-million in net assets. His definition of net assets includes pensions, endowment policies and value of shares.

Professor Terreblanche followed the lead of Deputy President Thabo Mbeki, who recently mooted the idea of a wealth tax on (white) individuals to address socio-economic inequalities.

This is the same Sampie Terreblanche who, during the early 1980s, spent hours hanging about Parliament in search of recognition from the powers that were.

Deputy President Mbeki and Professor Terreblanche seem to suggest a racially based wealth tax. This is in addition to the ill-considered 16 new taxes suggested by various African National Congress ministers.

Various forms of capital and capital transfer taxes are to be found in different countries. In South Africa, we have two taxes on the transfer of capital, namely estate duty and gift tax – both introduced in 1955. It is estimated these taxes will contribute in total only 0,15% of state income during the present fiscal year.

An enormous tax-planning industry has grown around these taxes and it is widely acknowledged the total cost to the country of these taxes by far exceeds the net tax yield.

Looking back on a century of estate duty ("death tax") and the associated gift tax, conventional wisdom holds that nowhere in the world have these taxes even minutely succeeded in facilitating a more equal distribution of wealth. In South Africa, the time has come for the abolition of these taxes.

Professor Terreblanche is reported to have said that a levy on wealth for redistributive purposes is preferable to any other form of taxation. He suggested that individuals declare their assets in the same way as taxpayers declare their incomes. The state should confiscate assets of individuals who fraudulently underestimated their net worth, he said.

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This new tax philosophy contradicts the findings of the sterling work done by successive tax commissions.

It would be an act of insanity to give tax officials the power to decide who benefited from apartheid and to what extent individuals fraudulently underestimate their net worth.

Or does Professor Terreblanche envisage a system of wealth courts to adjudicate?

Has he considered the inevitable massive flight of capital from our country that would result from such a draconian tax measure?

Is he properly informed about the decision to abolish exchange control measures, and the working of international money markets?

This country already has lost much capital and brain power. Do we really need new measures to drain our national resources?

It is the considered view of the National Party that the Government has to focus on the following priorities:

■ An effective strategy to address crime, violence and corruption in South Africa.

■ Stimulation of sustainable economic growth.

■ Attention to socio-economic backlogs.

The NP supports the suggestion of financial aid to victims of past political violence. The NP's proposal is to use the assets of the Sasria fund for two purposes:

■ To finance the actuarial deficit of a restructured Multilateral Motor Accident Fund.

■ To make available money for some compensation to victims of past political violence.

But the ill-considered wealth tax proposed by a canvassing politician and so feverishly seconded by a bootlicker must best be forgotten. Let thinking be part of our talking in the new South Africa.

The Katz Commission recently reported on the viability of a capital gains tax for South Africa.

Taking into account the level of development of South Africa, the complexity of such a tax and the ability of the South African Revenue Services to administer it, the commission advised against its introduction.

The only really successful taxes available to the Government are taxes on income (individuals), profits (companies), consumption of goods and services (VAT and the fuel levy) and customs and excise taxes.

In South Africa, the tax base for individual income tax is very small.

We have about 4,5-million individuals registered for SITE payments only and a further 2,5-million individuals who have to submit income tax returns. Income tax on individuals contributes the lion's share (more than 40%) of state income.

Tax on the income of individuals is based on the ability to pay.

In South Africa, the scale of tax on individual income is sharply progressive. Above a taxable income of R45 000 the marginal tax rate is already 41%, growing to 45% at a taxable income in excess of R100 000.

Taking into account the limited benefits they receive from the state's expenditure budget, the white taxpayers in South Africa are the most heavily taxed individuals in the world.

And yet, Mr Mbeki wants to tax this same tax base once more.

One of the cornerstones of the GEAR macro-economic strategy is that the total tax burden should not exceed 25% of the gross domestic product. But the tax burden is significantly higher and on the increase.

Any proposal to introduce new taxes obviously flies in the face of an economic strategy that wants to encourage domestic savings, enhance investment in productive capacity, increase the economic growth rate and create desperately needed sustainable job opportunities.

■ *Tomorrow: Professor Sampie Terreblanche responds to his critics*