The IEJ proposals

Item	Amount (R billion)
1. Social Security Tax.	64.7
2. Eliminate Medical Tax Credits for those earning above R500k	6.3
3. Eliminate retirement fund contribution deductions for those earning above R1m	32.0
4. Increase Dividend Tax to 25%, from 20%	7.0
5. Replace Estate Duty with Progressive Inheritance Tax	5.0
6. Securities Transfer Tax to be increased from 0.25% to 0.3%	1.2
7. Increase carbon tax to one quarter of EU standard	2.0
8. Employment Tax Incentive to be cancelled	4.8

The IEJ proposals

Item	Amount (R bn)
9. Reduce Cabinet size, departmental duplication, expenditures on conferences, travel, and overall Government saving of 5% on R107 billion spent on "General Public Services", as per Budget 2020, for year 2020/2021.	5.4
10. Claw back irregular / wasteful expenditure, last reported by the Auditor General for 2019 to be R42.8 billion, by a target of 30%.	12.8
11. Reduction of profit shifting by MNCs by a target of 25% (2018)	5.75
12. Luxury vat of 25% on select items.	11
Wealth Tax	34 – 189

The IEJ proposals

Item	Amount (R billion)
1. Social Security Tax.	64.7
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“Prof. Jones”

Additional tax from retirement contribution change	R7,517
Medical tax credits lost	R1,336
Additional social security tax	R2,750
Total tax change	R11,603
Effective tax rate:	21,5% → 34.2%

Assuming medical aid of R8000 a month for her family of 4, her take home pay goes from R45,546 to R33,944

Feasibility of introducing a Net Wealth Tax in SA

The distribution of wealth in ZA

New work by Aroop Chatterjee, Léo Czajka and Amory Gethin (2020):

Top 10% own 86% of wealth
Top 0.1% own almost one third of wealth
Top 0.01% (3,500 people) own about 15%

About 45,000 US$ millionaires with collective wealth amounting to US$ 184 billion

Wealth as a (separate) tax base

‘*When measuring inequality, we are concerned not just with the consumption of the rich – important though this may be – but also with the power that wealth can convey. This power may be exercised over one’s family, as with the passing on of wealth to heirs, or more generally in such ways as control of the media or influence with political parties*.’

Anthony Atkinson (2015: 37)

Forms of wealth taxation

- **Annual wealth tax**
  - mostly on an overall measure of net worth
  - some specific wealth taxes (property taxes)
- **Inheritance tax**
  - taxes transfer of wealth at death
  - taxes the <u>beneficiaries</u> of the estate
- **Estate tax**
  - taxes transfer of wealth at death
  - taxes the holdings of the <u>deceased</u>
- **Transfer tax**
  - taxes transfer of wealth (not necessarily at death)

Design issues for a Net Wealth Tax

- Limit the number of exemptions granted.
- Ensure horizontal equity (e.g. defined contribution vs defined benefit retirement funds)
- Include taxpayers' offshore wealth
- Ensure wealth held through intermediaries such as trusts and shell companies are included
- Provide payment options where taxpayers are illiquid
- Enforce exit taxes that disincentivise expatriation
- Makes extensive use of cross border exchange of information
- Ensure not vulnerable to undue litigation or judicial review

Administrative issues

- The legal framework
- Technology architecture
- Valuations capability
- Auditing capability
- Institutional locus

Interim steps?

- Mandatory self-reporting on assets and liabilities as a first step towards a possible WT + assisting in income tax verification
- Invest in building cross border information exchange
- Conduct audits on those named in the Panama and Paradise Papers or fingered in corruption allegations

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NHI Funding Options: Making Informed Choices

Mariné Erasmus

On behalf of the Hospital Association of South Africa (HASA), 1 November 2016 to the Davis Tax Committee

Calculating the potential revenue (1)

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- Payroll tax and the additional income from VAT
- Assume each tax's income as % of GDP remains the same from 2014/15 to 2025/26
- Updated GDP growth rates used
- Two tax rate scenarios

	(a) Scenario D (White Paper)		**(b) "Maximum" Scenario**	
	Payroll tax	**Increase in VAT**	**Payroll tax**	**Increase in VAT**
2016/17	0.5%	-	2%	1.5%
2017/18	0.5%	0.5%	2%	1.5%
2019/20	1.0%	0.5%	2%	1.5%
2022/23	1.5%	1.0%	2%	1.5%
2024/25	1.5%	1.5%	2%	1.5%
2025/26	2.0%	1.5%	2%	1.5%

Potential revenue (2)

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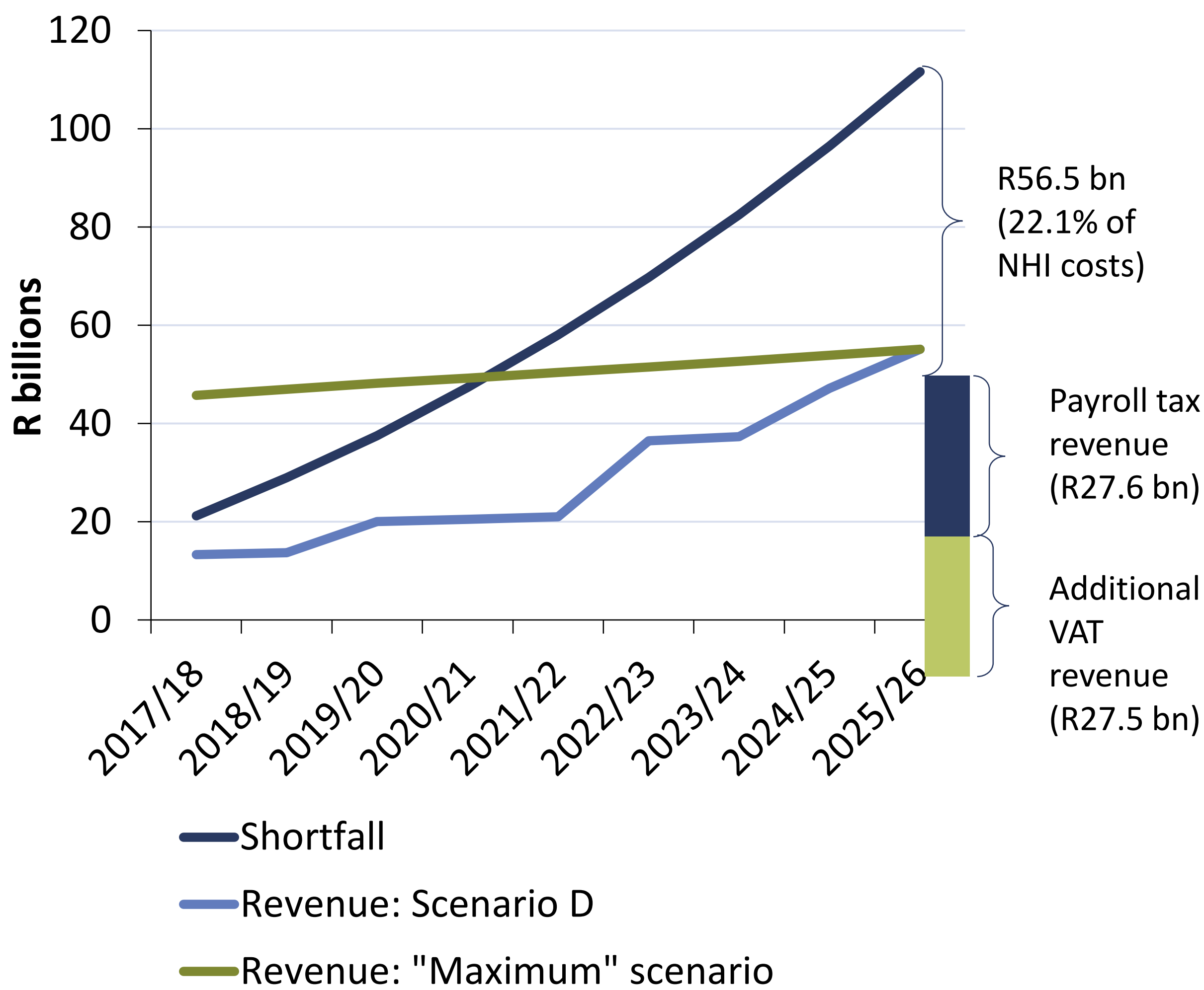
The shortfall will not be covered by the payroll tax and higher VAT

Other taxes may help cover the shortfall, e.g. higher “sin taxes”, but will not be sufficient



Economic environment

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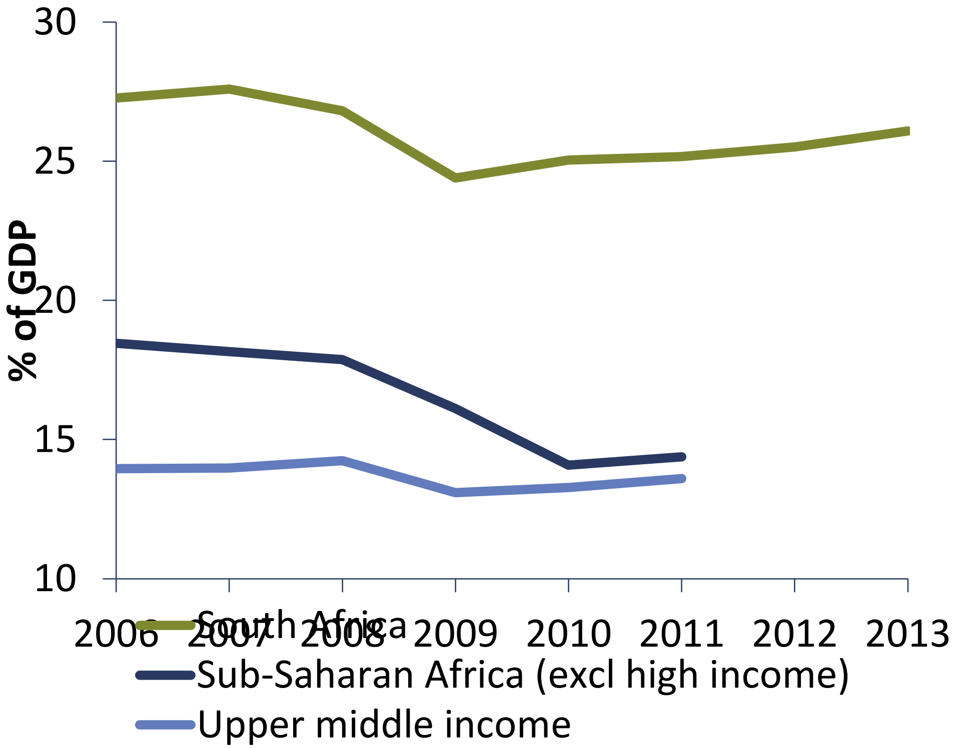
Tax-to-GDP ratios, 2006 – 2013 (World Bank, 2016)



- The current and projected state of the economy must be taken into account
- Difficult environment in which to increase the tax burden
- Low GDP growth rates
- Rising government debt
  - Difficult to motivate the funding of the NHI via more government debt
- Comparatively high tax-to-GDP ratio
  - Limited scope to increase the total tax burden
  - Particularly to increase the progressivity of PIT

Alternative measures before increasing taxes

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Rather use the existing funds before increasing the tax burden

- Improve the quality and efficiency of public healthcare
  - Provide more with the same funds
  - Will help with the public's acceptance of higher taxes
- Save on existing expenditures
  - Government transfers to NHI should be conditional on real savings effected and transferred from other government votes and programmes
- Reprioritise the current allocation of funds
  - Free up resources
  - Funding for the first few years
- As the economy improves, the high priority of healthcare may succeed in securing a larger portion of the budget
  - In the meantime, it has no superior claim to funds in the common revenue pool

Phasing-in approach

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- Uncertainty surrounding costs and the fragile fiscal position
- Allows for learning-by-doing, on-going cost discovery
- Informational feedback for real-time corrections in efficiency, financial arrangements and utilisation of funds
- Flexible
- Must develop a detailed multi-year financing programme within each phase

Considerations when increasing taxes

- Impact on equality
  - Public expenditure decrease inequality more than tax measures
- Negative relationship between tax rates and investment
- Earmarking the revenue for exclusive use by NHI
  - Results in mismatch between parts of revenue stream and expenditure flows – risks to cash-flow management
  - Protects NHI against expenditure adjustments sometimes necessary following adverse fiscal shocks
- Structuring as benefit tax or insurance scheme?

Potential tax options

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If anything, rather a non-revenue-neutral change in the composition of taxes

- Corporate Income Tax
  - International trends are to lower CIT
- Change in composition of taxes
  - Direct to indirect
  - Unlikely to contribute substantially
  - Rather a non-revenue-neutral change: increase indirect taxes, but keep PIT and CIT the same
- Untapped revenues
  - More efficient collection and increased compliance