

Rethinking Economic Policy for South Africa in the Age of Covid-19:
Innovative policy responses for the post-lockdown Phase

A Wealth Tax for South Africa

ACKNOWLEDGEMENTS AND DISCLAIMER:

This work is based on the research supported by the National Institute for the Humanities and Social Science. Any opinions, findings and conclusions or recommendations expressed in this report generated by the NIHSS- supported grant is that of the author(s), and do not reflect the views and opinions of the National Institute for Humanities and Social Sciences.

A Wealth Tax for South Africa

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Abstract

This paper considers the feasibility of implementing a progressive wealth tax to collect additional government revenue to both reinforce fiscal sustainability in the wake of the COVID-19 crisis and reduce persistent extreme inequality in South Africa. Drawing on our new companion paper, we first identify the tax base, and discuss the design of potential tax schedules. Testing alternative tax schedules, we estimate how much additional revenue could be collected from a progressive tax on the top 1% richest South Africans. Our results show that under conservative assumptions, a wealth tax could raise between 70 and 160 billion Rands — 1.5% to 3.5% of the South African GDP. We discuss in turn how sensitive our estimates are to assumptions on (1) mismeasurement of wealth, and (2) tax avoidance and evasion, based on the most recent tax policy literature. We examine technical issues related to the enforcement of the tax, and how third-party reporting and pre-filled declarations could be used to optimize measurement of taxable wealth, and minimize evasion and avoidance opportunities. Finally, we explain how this new tax could interact with other capital related taxes already in place in South Africa, and discuss the potential impact on growth.