



NAVIGATING THE TAXATION OF WEALTH:

Insights from theory to
international experience

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1. Executive summary

The taxation of wealth has been subject to international debate as countries search for measures to raise revenue to address various challenges, including climate change, debt distress, hunger, and expanding social security.

Much of this debate stems from diverging theoretical approaches to taxation, the main view being optimal tax theory. This approach is flawed due to its assumptions about the distortive nature of tax, individual and company behavioural responses to tax, and the role of the state in wealth taxation. The Keynesian approach shows how taxation can stimulate aggregate demand in the economy and achieve full employment. This approach exposes the critical shortcomings of optimal tax theory and aligns with some international experiences of taxing wealth.

Persisting income inequality in South Africa has led to calls for taxing the wealthy. South Africa is one of the most unequal countries in the world, with the richest 0.1% owning 25% of the country's wealth. At the same time, there is no wealth tax, and capital income is severely undertaxed. In 2013, the Davis Tax Committee (DTC) recommended that, before a wealth tax could be implemented, the government and revenue authorities had to define the appropriate tax base, collect data on patterns of wealth and evaluate the revenue that would be generated against the administrative burden on the revenue authorities and taxpayers.

Since 2012, GDP growth has averaged 0.8%. The persistent low growth and pressure on public finances, and realisation that cutting expenditure is not sustainable has prompted government to look to increased revenue to fund its priorities. Increasing debt service costs have also meant that the government is reluctant to borrow more. This has brought the conversation about wealth taxes back onto the public discourse, as the National Treasury looks for options to raise revenue. During public hearings in parliament after the Medium-Term Budget Policy Statement (MTBPS) in November 2024, civil society organisations and the Parliamentary Budget Office recommended that the National Treasury consider various tax instruments to tax the wealthy, including a wealth tax. In line with the recommendations by the DTC, the National Treasury confirmed in its response that it is studying the data collected by the South African Revenue Service (SARS) to understand the levels of wealth declared and the revenue potential it presents.

We analyse three key forms of tax instruments: financial transaction taxes, dividend taxes and a net wealth tax. International experiences show that the taxation of wealth, and income derived from holding or trading wealth, can generate significant levels of revenue and alleviate inequality, without undermining growth. In Argentina, the wealth tax has contributed to revenue and helped the recovery from the Covid-19 pandemic. A once off wealth tax of between 2% - 3.5% raised revenue of Arg\$247 billion by taxing individuals whose assets were over Arg\$200 million. In Belgium, a transfer tax on the sale and exchange of market securities, including stocks, bonds, and capitalisation shares, has contributed an average of 2.4% to the country's total tax revenue.

Notwithstanding these experiences, it is still important to note that taxing wealth and income derived from wealth has to be preceded by building administrative capacity, international

coordination, and effective capital control measures to collect revenue effectively, and curb tax avoidance and evasion.

Based on the literature review and the international experience, we make these recommendations:

1. **Expand taxation on income from wealth:** all income from wealth should be taxed, but at different rates, depending on the relative concentration of the asset in lower- and higher-income households.
2. **Review and increase dividend taxes:** given the increasing profits of corporations, the decrease in the corporate income tax rate, and the impact this has on potential revenue and investment in the long term, this could raise significant revenue.
3. **Implement a financial transaction tax (FTT):** apply a uniform tax on the trading of all financial assets and instruments, but at a low rate, with an expanded tax base.
4. **Introduce a net wealth tax:** this should have a moderate threshold, limited asset exemptions, and be applied at low and progressive rates.

We, however, caution that implementing these taxes without preparation could lead to high levels of capital flight towards lower-tax regimes. Therefore, prior to the introduction of this expanded system of taxing wealth, it is necessary for the government to:

1. Implement tighter controls on the cross-border flow of capital;
2. Conduct a thorough assessment of the assets owned by individuals, firms, and other relevant entities;
3. Equip the relevant authorities with the requisite resources to investigate and prosecute tax evasion; and
4. Improve governance, service delivery and spending efficiency, to encourage tax morale.
5. Make use of international resources, such as the United Nations (UN) Handbook on Wealth and Solidarity Taxes and Model Law for Wealth Taxes.

2. Introduction

The debate on taxing the wealthy is at the top of the agenda in international political discussions. This is driven by the view that the wealthy are not being taxed adequately, and that the potential revenue from their taxation could help address global socio-economic and ecological challenges presented by climate change and the achievement of the Sustainable Development Goals (SDGs). However, as negotiations to institute an international taxation framework are underway, there are some, such as former United States Secretary of the Treasury, Janet Yellen, who have indicated they believe there is no need to have an international consensus on taxing the rich (Garver, 2022). In addition, the US delegation walked out of UN Tax negotiations earlier this year, signalling an end to its support to the process. As these debates and negotiations continue, it is important to take a close look at the history of taxing the wealthy and high-income earners, globally, and in South Africa. This analysis will provide a point of departure in understanding the existing gaps, and how to close them.

Income and wealth inequality are a feature of the South African economy. In 2017, the richest 0.01% of the population (3 500 individuals) owned 15% of the country's wealth, which is greater than the share owned by the bottom 90% of the population (Aroop et al. 2023). In addition, the richest 10% of the country owned 55% of all forms of wealth, including housing, bonds, stocks, pensions, and life insurance (Aroop et al. 2022). These levels of wealth inequality have remained stable since the end of apartheid, enabled by the prevailing macroeconomic framework and current tax policy regime (Adelzadeh, 2022). At the same time, poverty has increased, with over half of South Africans living in poverty, and at least 10 million people without money to buy food, according to Statistics South Africa (Stats SA) (2017; 2019).

A shift towards more progressive tax policy can play a role in addressing wealth inequality. This can only be successful if lessons are taken from current global practices (discussed in the following sections), and from a bold agenda to tax wealth to raise domestic resources. While the move towards progressive taxation can be undertaken incrementally, as the state builds its capacity, there are theoretical arguments that can hinder this progress. So it is important to interrogate their underlying assumptions.

The long-term trend in South Africa has been to lower tax rates on individuals and corporations, to provide a myriad of tax breaks, and to under-tax wealth and earnings from natural resources (IEJ, 2023). Between 1993 and 2023, the rate of Corporate Income Tax (CIT) fell from almost 50% to 27%. In terms of Personal Income Tax (PIT), Forslund (2016) shows that the government has increased tax brackets by more than the rate of inflation since 2000, and lowered tax rates for high income earners, resulting in the loss of revenues for the government. This has taken place under what is called 'fiscal drag'¹ relief. As a result of this policy the government lost R124 billion in 2010 alone. In addition, for both PIT and CIT, there is often a significant difference between the statutory rate and the effective rate—that is, the rate actually paid—as portions of income are exempt from tax, and tax breaks are given. So, for example, over time, the effective PIT rate paid on three different

¹ Fiscal drag refers to the effect of taxpayers moving into higher tax brackets when salaries are increased to adjust for the cost of living, that is inflation.

levels of income—R500 000, R1 000 000 and R1 500 000 per year (real 2018 rands)—has been decreasing. In 1996, a person earning the inflation-adjusted equivalent of R1 000 000 per year paid an effective rate of 40%, compared with 32% in 2023. Similarly, a person earning R500 000 in 1996 paid an effective tax rate of 31%, compared to 23% in 2023. The effective tax rate in 2023, for someone earning R1 500 000, is only 35%. Other favourable tax changes for the wealthy have included the 2007 reduction in the dividend tax rate (at the time called the Secondary Tax on Companies or STC) from 12.5% to 10%. Moreover, as noted by the Davis Tax Commission (DTC), established in 2013 by the Minister of Finance to review South Africa's tax framework and its role in supporting inclusive growth, development, and fiscal sustainability:

the South African estate duty system contains generous allowances that allow most estates to be subject to both Capital Gains Tax (CGT) and estate duty only on the death of all spouses. This defers estate duty collection for many years.

Lastly, there is a low inclusion rate (40%) for capital gains tax, meaning that only 40% of the capital gain is taxed. This is below some international rates, such as Canada and New Zealand, whose inclusion rates are 50% (DTC, 2015). While the inclusion rate was increased from 33% to 40% in March 2016, there is still scope to expand it.

Meanwhile, South Africa has faced fiscal constraints that have inhibited expenditure on social services, resulting in the trading off of services against one another, and the capping of expenditure well below the necessary level to address the needs of the population. Pauw and Mncube (2007) show how, even as welfare spending rose at an average nominal rate of 20% annually in the early- to mid-2000s, it came at the expense of expenditure on education and health. This pitting of social services against each other is regressive, given the interdependence of socio-economic rights.

A narrowing of the fiscal space, due to subdued and inconsistent economic growth, has severely inhibited government's ability to allocate spending at the required level. In the 2023 MTBPS, the government claimed that if spending cuts were not implemented, the state would run out of cash. In this context, taxation of financial assets, and the incomes derived from them, would help alleviate pressures on the budget and allow for greater spending towards the realisation of socio-economic rights.

The DTC published its report on a wealth tax in 2018. It found that a wealth tax is necessary in South Africa, given the vast levels of inequality, but could be difficult to implement, given the country's capabilities. It highlighted three issues to resolve before implementing a wealth tax. First, building the administrative capacity of the SARS; second, collecting data on patterns of wealth ownership; and third, evaluating whether the administrative costs would be lower than the expected revenue (DTC, 2018).

Since then, debate has continued. Some have argued that the idea is not feasible or desirable in South Africa, as the country has a progressive tax system, and high earners are overtaxed. Moreover, wealth taxes can raise liquidity issues for taxpayers (HSF, 2019). Critics also argue that the administration required for a wealth tax would be costly (HSF, 2019). Others like, Chatterjee, Gethin, and Cjaska (2021) argue that the administration

required would not be beyond the capacity of the South African government, considering the limited pool of wealthy individuals that would be taxed. In addition, some data on income from capital and ownership already exists from third party reporting to SARS. This has been recently improved by the establishment of a High Wealth Individual Unit (HWI) at SARS which is observing 2 800 individuals with around R460 billion in locally registered assets and about R150 billion that are offshore assets, according to the SARS commissioner.² Arguments for a wealth tax state that the revenue from it could help support the delivery and expansion of public goods and services, alleviate inequality, and promote the building of an inclusive economy.

Wealth can be defined as “non-financial and financial assets over which ownership rights can be enforced and that provide economic benefits to their owner” (Charttejee, 2019, p. 843). For the purposes of this paper, we focus on the taxation of financial assets and of income derived from them. The tax instruments discussed are a wealth tax, financial transaction taxes (FTTs), and dividend taxes.

This background paper discusses and evaluates approaches to the taxation of wealth. International case studies are presented and evaluated in order to draw lessons for tax policies in South Africa. We discuss the mainstream approach to taxation, which has been the prevailing lens through which wealth taxation has been conceptualised in economic theory. The paper argues that the failure to institute taxes on wealth is premised on flawed theoretical assumptions about taxing wealth. We analyse a broad collection of international cases, to evaluate the validity of the basic claims of the mainstream approach to wealth taxation, and to illustrate the flaws in its assumptions. In addition, country experiences are used to highlight several instruments for taxing wealth, and their revenue potential.

Section 2.1 lays out the mainstream approach to taxation (optimal tax theory), as well as the application of this approach to capital taxation (optimal capital taxation theory). Section 2.2 critically assesses the two theories and shows why they are inadequate for understanding the role of taxation. It introduces alternative views, and discusses the criticisms of neoclassical models, to establish how they are flawed and cannot be applied in the real world to inform tax policy. Section 3 critically analyses the empirical literature and country experiences on taxing wealth. The section zooms in on the wealth tax, FTTs and taxes on dividends. The last section, Section 4, draws conclusions and recommendations for South Africa.

3. A review of the underlying theory

There are a number of ways in which wealth may be taxed. These include taxes on accumulated wealth (such as estate taxes and net wealth taxes), taxes on the income generated from holding wealth (for example, taxes on interest), and taxes on income from selling stocks of wealth (for example taxes on financial transactions) (Edwards, 2019).

This section discusses theoretical views and approaches to taxation. It unpacks some of the underlying assumptions and arguments that inform both the support for and opposition to

² Verbal report by SARS commissioner at the joint meeting of Finance committees of Parliament, 14 March 2025.

taxing financial assets and transactions. Having mapped out the key theoretical debates, the section critiques the weaknesses and flawed assumptions in the neoclassical models of optimal capital taxation, and their implications for tax policy. Importantly, heterodox approaches are contrasted and presented as alternative ways of understanding capital taxation—providing a foundation for progressive taxation of financial assets.

Broadly, the academic debate plays out along the spectrum of economic theory, with mainstream economic theory at one end and Keynesian and post-Keynesian economic theory at the other. Mainstream economic theory, which we explore in greater detail below, has generally held that, because investment is funded by savings, taxing wealth (the accumulation of savings) discourages saving. This results in falling investment and therefore stunted economic growth. Keynesian economic theory on this issue rests on two ingredients: the marginal propensity to consume, and the centrality of demand. Keynesians claim that the share of income consumed (rather than saved) falls as income levels rise. Those with lower incomes spend a higher proportion of their income. Additionally, Keynesians argue that investment is largely driven by demand expectations (what people expect demand to be in the future), rather than savings. Taken together, the conclusion is that taxing wealth—for either direct government spending or for redistribution to lower-income groups—leads to higher demand in the economy, and higher demand may lead to higher investment and economic growth. The academic debate has therefore been inconclusive, as its protagonists come from two seemingly irreconcilable approaches.

3.1. Optimal tax theory

Optimal tax theory, the mainstream economics approach to taxation, views taxation primarily as a cost for economic actors—that is, consumers and firms—as well as for the economy. Take income tax for example: proponents of this view argue that, through income tax, the government takes a portion of workers' income that they would otherwise use to consume the goods and services they like. Since people generally prefer consuming more of these goods and services, a reduction in the ability to do this, through imposition of a tax on income, leaves people worse off. This view argues that taxing income may also reduce the number of hours worked, since the higher tax as a proportion of extra income (due to the progressivity of the tax system) disincentivises working longer hours. A reduction in the number of hours available for work (labour supply) may be costly for the economy as a whole, as labour is one of the main factors of production.

Aside from being viewed as costly for economic actors, mainstream theory sees taxes as creating 'distortions' in the economy, which lead to a misallocation of resources. Tax-induced economic distortions are conceived of in two ways. First, time ('inter-temporal') distortions, which are changes to *when* actors use their resources; and second, activity ('intra-temporal') distortions, which are changes to *how* actors use their resources. In the illustration by Barro (1988) of the distortive nature of taxes and its implications for the economy, the factor which determines the extent of the economic effects of taxation is how the government uses the tax revenue. When government uses tax revenue to spend on items that make households more productive, such as public transport, roads, and public goods, this raises

output/income; then taxation, within a certain range of tax rates,³ leads to higher savings and growth rates. However, when tax revenue is used for what are regarded as non-productive purposes, such as ineffective government programmes, such as social grants which are viewed as 'wasteful' consumption rather than investment, or revenue lost through corruption, then it lowers the optimal tax rate.

Within neoclassical theory, prices are thought to encode all the relevant information that any producer or consumer would need to make a decision, as they "allocate resources among competing wants" (Nicholas, 2012: 458-459; Hayek, 1945). Further, it is assumed that economic actors are rational, in the sense that they try to optimise their decisions (for example, by maximising utility) (Varian, 2010: 91), or exhibit bounded rationality, in that they try to choose what is best, given limited information (Jones, 1999: 299). Consumers respond to changes in relative prices—the change in the price of one good compared to another (Varian, 2010: 137-156). Prices guide people to allocate resources optimally—people only stop investing in something if its marginal benefit is less than its marginal cost (Varian, 2010: 724). Altering prices in a way that does not reflect changes to demand and supply conditions will 'misguide' people and lead to allocations that are sub-optimal. Thus taxes, by disguising true prices, lead to sub-optimal allocations of resources.

In this view, since taxes are costly, any form of tax must seek to minimise the unwanted negative effects. The concern of scholars in the optimal tax theory tradition thus becomes "[the] problem of making the best of a necessarily distortionary tax system" (Sandmo, 1976: p. 38). To minimise distortions, a government (or 'social planner') must choose a tax rate that will maximise the benefits that consumers can obtain from goods and services, subject to the achievement of some level of revenue (see Sørensen, 2009: 2 - 4, for a formal illustration of this problem). The optimisation challenge amounts to saying that, in any tax system, households or individuals must attain the maximum level of satisfaction that is consistent with the government collecting the required level of tax revenue.

Rather than adopting a multi-faceted view of what 'optimal' taxes are (for instance, including considerations of equity and justice), neoclassical scholars begin with the assumption that what is optimal is what maximises economic efficiency. They incorporate other concerns, such as distribution, after the fact. From the economic efficiency perspective, the optimal tax system is the one that minimises the sum of all economic inefficiencies in a market for any given tax revenue or level of public expenditure (Sandmo 1975: 37). Optimal taxation is supposed to be consistent with a state in which resources are distributed in such a way that it is impossible to make one individual better off without making someone else worse off (Sandmo, 1975). Taxes that induce minimal behavioural effects are considered most efficient. In this sense, the task of optimal tax theory is to find the minimum amount of loss in economic efficiency or economic value that would be consistent with achieving the desired tax revenue.

In determining the optimal tax rate, the pursuit of efficiency often clashes with equity. Optimal taxation models consider equity considerations as a secondary factor, to complement the

³ The optimal tax rate is the tax rate that is equal to the elasticity (responsiveness) of output/income to government spending.

economic efficiency criterion. In the tradition of the neoclassical framework, ‘consumers’ are often initially modelled as a single representative actor (consumer) with a single set of identical preferences (Jehle and Reny, 2011). The assumption that preferences are uniform gives no consideration to distinguishing between the goods that poor and rich people want to buy, and this can lead to higher rates of tax on items essential to poor people. In the long run, this perpetuates inequality.

3.2. Optimal tax theory: critique and alternative perspective

Optimal tax theory is fundamentally unsound, due to the neoclassical framework which underlies it. Numerous scholars have provided formal proofs which, at least, cast doubt over some of the key pillars of neoclassical economics. Among the key pillars which have been refuted are perfect competition (Robinson, 1934), and methodological individualism (Fine, 2016). In this section, we focus on one of these pillars: price theory, or the price mechanism. We have chosen this focus because it is argued that taxes influence prices of goods and services, and the levels of supply and demand.

As discussed, optimal theory argues that taxes lead to the misallocation of resources. Post-Keynesian scholarship, on the other hand, has argued that prices (such as wages) may be ‘sticky’ and not adjust instantaneously to economic conditions (Keynes, 1936). Because of this, prices do not necessarily reveal true demand and supply conditions at every point in time. Moreover, because individuals and firms often do not have full information (that is, know all the prices) or do not have rational expectations, these ‘rigidities’ prevent prices from adjusting quickly or smoothly, and do not necessarily go away through competition.

On a more fundamental level, neoclassical price theory has also been criticised on the basis that it is not possible to derive market demand curves by aggregating individual demand curves, without, in effect, assuming that there is only one individual in the economy (Nicholas, 2012: 461). This is problematic for the theory, as prices result from the intersection of market demand and supply curves. Despite neoclassical arguments, taxes are not the only factors that influence prices and thus resource allocation. In reality, there is a complex set of intersecting variables.

While neoclassical theory argues that tax reduces labour supply, this impact is theoretically ambiguous (Attinasi et al., 2016). This zero-sum game between work and leisure simplifies human behaviour, while ignoring other factors such as institutions, social norms, and habits. In this regard, a reduction in after-tax income may also encourage a person to increase the number of hours worked, to match their desired level of consumption. In addition, different income groups may react differently, depending on the level of their income and preferences (Angelopoulos et al. 2007).

Unlike in neoclassical economics, Keynesian macroeconomic theory holds that investment is not an outcome of apparent pools of idle savings. Firms invest only if they have strong confidence that investing to expand current inventory will lead to higher entrepreneurial income and profits (Keynes, 1936). Thus, investment is determined by firms’ confidence in their estimate of the level of future consumption expenditure, and whether that expected expenditure will be satisfied by current production. Investment is funded not from savings

recycled by banks, but from the creation of money by banks through loans. Thus, in this framework, lower savings due to capital taxation need not lead to proportionally lower investment. The Keynesian framework both counters the claims of the growth-retarding nature of capital taxation, and emphasises the role of taxation in achieving full employment—ensuring that there is no involuntary unemployment, and that the labour market is operating at its maximum potential.

These considerations on full employment influence Keynes' approach to progressive taxation. For example, in arguing for the role of a FTT, he differentiated between forecasting the long-term yield of assets and short-term speculation. Long-term investments, he argued, were productive forms of investment that do not depend on out-guessing other economic actors. In short-term speculation, on the other hand, actors do not have full information to analyse the factors that affect an asset's value. Market participants' decisions are influenced by the value of the investment and how other actors evaluate it (Westerhoff and Dieci, 2012). This drives short-term speculation in the market, causing asset prices to move away from levels ideal for full employment (Keynes, 1936). In this case, a progressive tax such as an FTT improves economic efficiency by targeting those engaged in short-term trading, reducing volatility, and improving market efficiency (Colliard, Hoffmann, 2017). Moreover, a progressive tax increases aggregate demand. The concentration of wealth, especially when there is an abundance of low-income individuals, contributes to a lack of consumption demand in the economy. If a portion of the concentrated wealth is redistributed to low-income individuals, it leads to an increase in aggregate demand. This is because low-income individuals do not have any disposable income, and therefore forced to spend a higher proportion of their income. The limit to redistribution in this society would be the point where additional income from the wealthy to the poor does not generate proportionally higher consumption in the economy.

Another proponent of progressive taxation is James Tobin. He argued that excessive inter-currency mobility of financial capital is a challenge to many governments, and that floating exchange rates are inadequate to address its impacts. In this context, national governments cannot deal with the inter-currency flow without using fiscal and monetary policy interventions to address unemployment, inflation, and levels of output (Tobin, 1978). One of the solutions to this problem is an internationally uniform tax on all spot conversions from one currency to another, proportional to the size of the transaction. This tax would be uniformly applied by governments and apply, in consultation with the International Monetary Fund (IMF), to all payments for goods and services and real assets sold from one jurisdiction to another. Tobin argued that this uniform tax would deter intra-day, short-term currency exchanges. While acknowledging that there could be distortions and misallocations as a result of the tax, he argued that the benefits are preferable to the impacts of speculation and currency-trading on national economies.

In sum, optimal tax theory operates in a world that is far removed from reality. As all neoclassical theory does, it starts by conceiving of the economy in a particular manner. Importantly, in this conception, it becomes necessary for the economy to exhibit certain 'smooth' features so that the method of assessment—constrained optimisation—can be employed. Rules for taxation are then derived as the logical consequence of these features. As critics have pointed out, this makes much of optimal tax theory practically useless for the

policymaker. No economies actually exhibit the features that are modelled in the theory. Without realistic assumptions, optimal tax theory has reduced tax policy to focusing narrowly on efficiency, while paying little attention to key issues, such as equity and redistribution, and the broader role of progressive taxation.

4. Types of taxes related to wealth: Review of international experience

In this section, we turn to the international experience of taxing financial asset holdings, incomes, and transactions. We review the rationale, design, and revenue contribution of the tax instruments, the revenue they generated and some of their impacts on the economy. Not all countries with a history of taxing wealth are discussed. Uruguay for instance has been omitted as a case study due to the lack of comprehensive data. While some of the countries discussed may not share similarities with South Africa in terms of the structure of their economies and level of development, it is still useful to understand the contextual issues that have contributed to the implementation of, and experiences with, wealth taxes, and assess any lessons that can be taken for South Africa.

Wealth taxation takes different forms. Governments can either tax the total wealth possessed by an individual through a tax on wealth ownership (net wealth tax), or tax the income earned from their wealth through capital income taxes such as a FTT, or a tax on dividends, capital gains, and royalties. In this section we discuss FTTs, taxing dividends, and the net wealth tax. We discuss the theoretical basis for these tax instruments and country experiences with implementing them. The design of wealth taxes, as well as their administration and enforcement, are important in determining the levels of revenue they produce. These factors differ from one country to the next, as we discuss in this section.

There is no uniformity of approach to taxing capital income in the Global South, unlike the Global North, where it is mostly uniform. For bank deposit interest, dividends, capital gains, and pension funds, the effective rate differs from the statutory rate (OECD, 2018). In equities, for both dividends and capital gains, Argentina and South Africa have marginal effective tax rates of around 20%. In both countries, taxpayers earning more than the national average wage face higher marginal effective rates than lower-wage taxpayers. By contrast, in Colombia, dividends and capital gains from shares are effectively untaxed at the personal level (OECD, 2018). South Africa's capital income taxation regime, in contrast to that in Argentina and Colombia, tends to levy taxes at progressive rates. These marked differences among Global South countries provide an opportunity for coordination and knowledge-sharing between the states, to improve progressivity and domestic resource mobilisation.

4.1. Three main types of wealth tax

4.1.1. Financial transaction tax

A FTT is a specific tax levied on the buying and selling of shares, bonds, currencies, and other financial instruments (ITUC, 2012). Just like other taxes, there are wide-ranging debates on FTT impacts and revenue potential.

There are some benefits of FTTs that make them an attractive form of taxation. First, an FTT stands to have positive outcomes for equity considerations, as it targets the wealthy, who own financial assets and engage in short-term speculation. For example, Weiss and Kawano (2020) argue that, if implemented in the United States, 70% of the tax burden would fall on the top income quintile, with 23% on those in the top 1%, and approximately 85% on those in the top 40% of income distribution. Second, speculation and inequality pose a risk to economic growth and stability in the economy. An FTT increases transaction costs, and this discourages short-term speculation and leads to long-term forms of investment in the economy. Third, the additional revenue captured would allow states to resource their policy priorities. For example, Baker (2000) argues that a 0.25% tax on the sale of bonds, futures, options, and foreign currency could raise about \$120 billion a year in revenue in the United States. This tax would fall mostly on those who drive unproductive, short-term transactions, and speculators. At the international level, the FTT has been put forward as a way to raise resources for climate action and SDGs (Kumar and Gallagher, 2023).

The literature on FTTs has been divided on their impact, which ultimately depends on factors such as design, scope, size of the financial sector, and structure of the financial market, among others. In terms of design, a broader tax base allows for raising revenue at low rates. However, there may be different effective tax rates for different assets, given the varying frequency of trading of assets (Burman et al., 2016). Scope requires consideration of the type of transactions the FTT covers, as well as the actors affected. For instance, should the tax be applied “on the residence of the issuer of the security, the residence of the buyer, seller, or intermediary, or the location of the trade?” (Burma et al., 2016). The scope will be influenced by issues like international coordination. Such coordination is not necessary for implementation, but it is important to ensure that states are in alignment on the tax rate and bases, and able to counter tax avoidance. Over time, countries will need to build capacity to collect the tax and discuss its implementation internationally, given the mobile nature of transactions. The size of the financial sector is important to consider as it has implications for the impact of the FTT. In a large financial sector, there is more trading and a wider base to raise revenue. This means that, although the tax will reduce trading, its impact may be limited in the sector, while the impact on the overall economy will depend on the size of the financial sector relative to the overall economy. In addition, the impact will vary, depending on the types of transactions prevalent in the financial sector. For instance, a financial sector with more high-frequency trading will be more affected than one with more long-term investment.

4.1.2. Dividend tax

A dividend tax is a tax levied on shareholders when dividends are paid to them by a company in which they own shares. Proponents of cuts to dividend tax argue that increasing the tax rate on dividends suppresses investment by increasing companies' cost of capital. This is known as the 'old view'. This argument is premised on neoclassical approaches to taxation that hold that taxes are distortive (Dackehag and Hansson, 2016). Those that hold this view argue that tax cuts provide companies with capital to build factories and hire more people. This is based on the assumption that investment is sensitive to the cost of capital (Yagan, 2013). Those opposed to decreasing dividend taxes argue that lower taxes on dividends incentivise payouts to shareholders, rather than being invested into research and development or improving wages. In this sense, when firms retain profits rather than pay

them out, they can improve their allocation capital, labor and improve revenues. These diverging views indicate ongoing debate on the impact of dividend taxes on their behaviour of companies and the impact this has on investment and long-term growth. The experiences of France in the following section highlight some of the complexities with taxing dividends and its impact on the economy.

4.1.3. Net wealth tax

Net wealth is defined as the total market value of financial and non-financial assets that are held by individuals, households, and organisations, minus the total value of related liabilities, (Saez and Zucman, 2019). Financial assets include cash deposits, stocks, bonds, and other income generating liquid investments (that is, can be converted into cash easily), including corporate equity. Non-financial assets include property, machinery, land, and buildings (UN, 2024). The progressive increase of the value of assets increases wealth through a process called capital accumulation (Saez and Zucman, 2019). This can take place when individuals acquire more assets, or when assets generate income or savings. Changes in prices due to interest rates, demand, and other factors can also positively influence the value of assets, and therefore contribute to the total stock of wealth.

Unlike taxation of capital income, taxation on holding of wealth is based on the value of the assets owned, regardless of the returns on these assets. Therefore, a net wealth tax can be defined as a recurrent tax on the value of an individual's assets minus their liabilities (OECD, 2018; Rudnick and Gordon 1996). This tax can be levied annually, at any other determined periodic basis or as a once-off solidarity tax (OECD, 2018).

Taxation on ownership of assets is important, as simply taxing capital income is not enough on its own to address wealth inequality; the return from capital income is largely reinvested, generating more wealth. Therefore, it is important to complement the taxation of capital income with a net wealth tax. Each country may make the decision on the type of assets that fall under the scope of the tax as well as the threshold for exemption from the tax. However, as indicated, tax exemptions may reduce progressivity as the wealthy may respond by exploiting asset exemptions to avoid being taxed.

Saez and Zucman (2020: 473) have noted some of the enforcement challenges related to wealth taxes. They recommend three measures to enforce wealth taxation. These include:

- (1) the collection of comprehensive data, (2) sanctions for the suppliers of tax evasion services (the countries and financial intermediaries that facilitate it), and (3) proper resources for auditing.

This is in line with the considerations proposed by the UN Handbook of wealth and solidarity taxes (2024) which, in addition to capacity considerations, notes the importance of policymakers taking into account the revenue potential, the potential to reduce income and wealth inequality, and the political support and potential resistance to its introduction.

4.2. Taxing financial transactions

Table 1 shows the FTTs that currently exist in selected Organization for Economic Cooperation and Development (OECD) countries and some emerging economies.

Table 1: Financial transactions and capital taxes in selected OECD countries and emerging markets

| Country | Tax design/Rates | Revenue generated as a % of total taxation (2000 - 2021) |
|-----------|---|--|
| Belgium | <ul style="list-style-type: none">• 0.12% (up to a maximum of €1,300 per transaction) for transactions in bonds.• 0.35% (up to a maximum of €1,600 per transaction) for transactions in shares and certificates of certain contractual investment funds.• 1.32% (up to a maximum of €4,000 per transaction) for transactions in investment funds. | 2.4% |
| France | <ul style="list-style-type: none">• 0.3% for French equity trades.• 0.01% on high frequency trading with exemptions on selected transactions. | 1.4% |
| Italy | <ul style="list-style-type: none">• 0.02% on high frequency trades.• 0.10% on exchange traded equities.• 0.20% on over-the-counter equities. | 2.1% |
| Brazil | <ul style="list-style-type: none">• Maximum rate of 1.5% on the acquisition, transfer, redemption, resettlement, or payment for liquidation of securities.• 1.10% on spot-purchase of foreign currencies in cash.• 1.5% on the value of the transaction for securities | 3.4% |
| Argentina | <ul style="list-style-type: none">• 0.6% on debits and credits in current accounts. | 7.0% |
| Bolivia | <ul style="list-style-type: none">• 0.3% on financial deposits and transfers; the tax is withheld by the relevant bank or financial institution. | 1.0% |
| Venezuela | <ul style="list-style-type: none">• 1% on all large financial transactions identified by the government. Certain types of transactions are exempt. | 3.8% |

Source: BNY Mellon, 2018

It is notable that, despite the low tax rates for FTTs, they have still generated a consistent stream of revenue for governments. For example, since 2007, Belgium has imposed a transfer tax on the sale and exchange of market securities. Its scope includes stocks, bonds, and capitalisation shares. For the past decade, the tax has collected an average of 2.4% per year of the country's total tax revenue (BNY Mellon, 2018).

France implemented its FTT in 2012. There are three components. First, a tax on acquisition of selected French listed stocks; second, a tax on high frequency trading; and third, a tax on Credit Default Swaps on European Union debts (Blanchard, 2015). The tax has generated an average of 1.4% of the country's total revenue since its implementation. While the revenues generated (1% - 7%) seem to be small as percentage of revenue, for South Africa it means the tax could still raise between R19 billion - R130 billion depending on the tax rates implemented. Even at the most conservative estimate, the revenue generated is higher than the potential revenue of R13.5 billion that could be raised from the recently proposed 0.5 percentage point VAT hike.

The empirical evidence from some of these countries has been widely discussed in econometric studies. The French FTT mainly covers trades in shares, or similar securities, issued by companies whose registered offices are in France, and whose stock market capitalisation exceeds €1 billion. Since 2017, it has been levied at 0.3%, covering about 100 companies (Capelle-Blancard, 2017). One of the studies found that the trading volume of shares decreased by 10% a year after the tax was introduced. Volatility was also reduced when measured using a percentage of the average price of shares—that is, the spread between the highest and the lowest prices traded and the value of daily returns. These findings align with other, similar studies conducted on the French FTT (Becchetti, Ferrari and Trenta, 2014; Colliard and Hoffman, 2016).

Thus, empirical evidence does not support propositions by the neoclassical proponents that FTTs would lead to market volatility and increased liquidity. The tax, however, did not raise as much revenue as was envisaged: it raised slightly less than €1 billion, just half of what was expected.

As a bloc, the European Union first issued a call for proposals on a directive to establish a European FTT in February 2013. The directive followed a lack of consensus on the matter among member states. Given this lack of consensus, the proposal sought to focus on states that were in support of the FTT, through the enhanced cooperation procedure (ECP) (EU Parliament, 2023). The ECP allows a subgroup of member states to introduce measures that only bind participating member states (Englisch, Vella and Yevgenyeva, 2013). The proposed FTT was to be levied on financial institutions and their transactions, under the jurisdiction of the 11 member states.⁴

According to the EU Commission's (2013) proposed directive, there are four key objectives for the FTT:

- (1) ensure that the financial sector contributes to the costs of the financial crisis; (2) ensure that the financial sector is “taxed in a fair way” compared to other sectors; (3) generate revenue for the public purse, and (4) motivate the financial sector to take part in less risky transactions; and prevent future crises.

⁴ Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (together, the FTT Zone)

The proposal moved part of the EU closer to adopting FTTs and working towards a common goal. However, since the proposal was discussed, there has not been any EU-wide adoption, although, as Table 1 shows, a few states have FTTs in place.

There have also been arguments put forward that, due to the international nature of the flow of currencies, and challenges with tax evasion, an FTT would be better implemented at a global level, with the tax revenues collected by a central tax authority or by countries, and put towards global use through a supranational institution (Pekanov and Schratzenstaller, 2019). Global implementation would require international cooperation, as the EU example illustrates. Without international cooperation, the impact of the FTT would be undermined, as countries not part of the FTT could provide avenues for tax evasion, and in the long run undermine the tax revenue potential. As discussions continue on the UN Framework Convention on International Tax and Cooperation, international cooperation on tax issues is now more possible than ever before. These developments provide an opportunity for countries to strengthen their local tax systems, but also to consider tax instruments that would be bolstered by international political backing, such as an FTT.

The financial sector has been taking up an increasing share of South Africa's GDP. An FTT, together with other fiscal policy interventions, may help boost long-term investment in other sectors by taxing high-frequency trading (Bivens and Blair, 2016). This needs to be seen as part of a long-term plan towards structural transformation through diverting funds from speculative financial activity to productive long-term investments.

4.3. Taxing Dividends

This section discusses country experiences with dividend taxes, and draws lessons that can be taken for South Africa.

4.3.1. France

Following victory in elections in 2012, the Socialist Party increased the dividend tax, arguing that a dividend tax would encourage longer-term investment by entrepreneurs, instead of directing profits to pay-outs to shareholders (Matray and Boissel, 2020). This 2013 reform increased the dividend tax from 15.5% to 46%, applicable to 75% of all businesses in France.

Critics of the reform argued that an increase in the dividend tax would affect levels of investment and overall growth of the economy. In fact, Matray and Boisel (2020) found that the tax reform led to an increase in investment of 15%, as firms reinvested one-third of the earnings that were raised. In addition, the increase led to a sharp decrease in dividend pay-outs, by an average of 16%, and this led to an increase in cash held by firms. The cash was used to hire more people, pay higher wages, and increase investment, as noted. The reform also led to an increase in sales and value added, by 2% and 1.7% respectively. Despite critiques of the increase, the retained investment did not lead to capital misallocation.

These findings contradict the old view that dividend tax increases lead to high cost of capital and misallocation of capital, and that this has a negative impact on investment and overall growth.

4.3.2. United States and Canada

Evidence from the United States and Canada also contradict neoclassical arguments against dividend taxation, showing that lowering dividend taxations did not have the purported positive benefits. Yagan (2018) investigated whether the 2003 dividend tax cut in the US stimulated investment and wages, as the old view claims. The Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced dividend tax from 38.6% to 15% in the US. Yagan (2018) found that there were no significant improvements in investment, wages, or employment levels as a result of the tax cut.

In 2006, Canada implemented a reform that led to a decrease in the dividend tax rate for taxable investors in domestically-controlled firms. The rate for investors in the top tax bracket decreased from 30% to 26%. Smart (2018) found that there was limited evidence that the tax reforms improved investment and profits. Instead, the evidence shows that dividends declared by domestically-controlled firms rose in comparison with foreign-controlled firms. This persisted over time, even as dividend tax rates rose again, following corporate tax cuts, after 2009.

4.3.3. South Africa

South Africa introduced a dividend tax in 2012, replacing the STC. While the dividend tax is levied on shareholders upon the receipt of dividends, the STC was a tax on companies on the declaration of dividends. The dividend tax was introduced at 15%, an increase from the STC rate of 10%. Erero and Gavin (2015) found that the increase had a positive macroeconomic impact after the increase, both in 2012 and over time. It contributed to a slight increase in GDP from 0.06% in 2013 to 0.5% in 2018. In 2017, the dividend tax increased again to 20%, but there is still room for the government to achieve further positive revenue and macroeconomic impacts by increasing the rate to 25%, taking into account the OECD average of 24%. In a study commissioned by the Institute for Economic Justice (IEJ), DNA Economics showed that increasing the dividend tax from 20% to 25% could generate approximately R8 billion in additional revenue (IEJ, 2021). This could further shift “some of the dividend tax base to the capital gains tax base, as the increased retained earnings increases company value leaving increased room for investment and consequently growth and employment” (IEJ 2021: p. 8).

The evidence discussed in this section has shown that the decrease in dividend tax has no effect on the levels of investment, employment and wages. The reforms that have increased the dividend tax, however, have led to increases in GDP and investment, and therefore employment and wages. This empirical evidence should be informative for South Africa as they point to one of the ways to stimulate the economy and support long-term economic growth.

4.4. Net wealth tax: Cross-country evidence

As discussed above, calls for a net wealth tax have been increasing, with rising income inequality and inadequate revenue to support social provisioning and eradicate poverty. It is therefore important to discuss the evidence of net wealth taxes where they have been implemented, and draw some lessons. This section discusses the design, tax rates, revenue, costs, and impact of net wealth taxes on the economy, by highlighting country experiences.

4.4.1. Argentina

During the Peron presidency in Argentina, heading into the 1990s, a wave of privatisations spread the influence of concentrated local and transnational capital (Salvia and Frydman, 2004). This resulted in favourable treatment for industrial and financial capital. The manifestation of this increased influence of capital could be seen in reforms such as the reduction of tax on capital and of the employer contribution to tax (Salvia and Frydman, 2004). However, the 2001 economic crisis in the country led to a fragmentation of the business class, which meant a decline in its institutional and structural power (Fairfield, 2004). This decline, in combination with the government's quest to "re-establish fiscal solvency and to finance social services and state expansion", allowed policymakers greater room to enact progressive tax policy (Fairfield, 2004, 38-39).

Argentina's wealth tax was introduced in 1991. Its scope includes all gross assets, both domestic- and foreign-held. From 1991 to date, the rates have varied between 0.25% to 2.25% of the net worth of an individual (Londono-Velez and Tortarolo, 2022). It was reduced from 0.75% in 2016, to 0.5% in 2017 and to 0.35% in 2018 (*Ibid*), then increased in 2018 to 0.75% and again in 2019 to 1.125% for domestic assets, and 2.25% for foreign-held assets. These revisions followed a tax amnesty programme which encouraged individuals and businesses to report previously undeclared assets to avoid prosecution (Rashbrooke, 2023).

As a result of the amnesty programme, assets worth 21% of Argentina's GDP were declared. This expanded the country's tax base and raised the country's wealth tax revenue three times higher than in the previous two years. Wealth tax revenue increased from Arg\$4.9 billion in 2018 to Arg\$35.4 billion in 2019 (from 0.14% of GDP to 0.75% of GDP) (Londono-Velez and Tortarolo, 2022). The declared assets allowed the government to raise revenue in response to the Covid-19 pandemic and earmark funds for pensions for the elderly, as well as increasing existing benefits.

The government also instituted a once-off solidarity wealth tax to raise resources to support the Covid-19 response (Oxfam, 2021). This tax targeted only the wealthiest 12,500 individuals (out of a population of about 45 million people). Despite this narrow base, it raised revenue of Arg\$247 billion (around \$2.4 billion). The tax was levied on those with assets worth over Arg\$200 million as at 18 December 2020 (Buenos Aires Times, 2021). It was levied on a sliding scale from 2% - 3.5%, depending on the amount of wealth, while for assets abroad a 50% rate was applied (Wealth Tax Latin America Alert, 2021).

Part of the success of Argentina's wealth tax stems from its ability to institute a well-coordinated tax amnesty programme, including tax incentives and the signing of

automatic tax information agreements with states known to harbour tax evaders. There are also contextual factors, such as the leaking of the Panama Papers (2021) and the outbreak of the Covid-19 pandemic, which the Argentinian government leveraged to increase compliance and tax rates. For Londono-Velez and Tortarolo (2022), the threat of prosecution, together with a well-coordinated campaign, and the simplicity of the amnesty programme, were some of the key pillars of the success of the wealth taxes in Argentina.

The Argentinian programme holds some lessons for Global South countries. Amnesties were used as a way to build trust between government and the citizens and to encourage tax compliance. Furthermore, the earmarking of funds for social programmes clearly illustrates how the wealthy can be mobilised to contribute to society's needs, especially in times of crisis. The programme also benefited, as outlined, from unique contextual factors. This suggests that governments such as South Africa should identify factors that may provide an advantage when introducing a wealth tax. The negotiations at the UN towards a framework for international taxation, and the recent G20 summit in Rio, are key global political events that South Africa can build on as chair of the G20 in 2025.

4.4.2. Colombia

Colombia is a Global South country with similar socio-economic dynamics to South Africa. These include income inequality, a prevalence of informal work, and lack of social security. The country has a history of wealth taxes.

Colombia's first wealth tax was implemented in 1935 (Ariza *et al.*, 2017). More recently, in 2002, the government introduced a temporary wealth tax applicable from 2003 - 2005, with the express purpose of financing a war against the country's guerilla groups (Gomez, 2019). The wealth tax has since been repeated by different presidents, as shown in the table below.

Table 2: History of Wealth tax in Colombia

| Period | Tax rate and target individuals and firms | Affected individuals and businesses |
|-------------|---|--|
| 2002 | 1.2% of all net worth for individuals and firms whose gross wealth was \geq 169.5 million pesos by the tax year ending August 31, 2002. | <ul style="list-style-type: none"> • 158 430 individual filers and 151,101 corporations. • Individual taxpayers contributed less than one-quarter of this tax revenue, with the bulk being paid by corporations. |
| 2003 - 2005 | Flat rate of 0.3% on all taxable wealth (that is, net worth minus two allowances ⁵). | <ul style="list-style-type: none"> • 1 420 individual taxpayers and 4,850 corporations. • 97% paid by corporations. |

⁵ Allowances were (1) net value of assets in national businesses, and (2) the first 200 million pesos of the principal residence (increased to 212 200 000 pesos in 2005 and 222 959 000 in 2006)

| | | |
|---------------------------|---|---|
| 2007 - 2010 | 1.2% of net worth of 3 billion pesos or more on the 1st January 2007. | <ul style="list-style-type: none"> • 1 800 individual filers and 5 690 corporations. • 97% paid by corporations. |
| 2011 - 2014 | <p>1% for taxpayers with a taxable net wealth between 1 and 2 billion pesos.</p> <p>6% for taxpayers with wealth above 5 billion pesos.</p> <p>Taxpayers were charged a lump-sum based on their declared net wealth on January 1, 2011, with the amount payable over four years.</p> | Imposed on both individual and business taxpayers whose wealth was equal to or exceeded 1 billion pesos. |
| 2014 – present: permanent | <p>Individuals</p> <ul style="list-style-type: none"> • Average rate of 0.13% for taxable wealth below 2 billion pesos. • Marginal rate of 0.35% for taxable wealth between 2 and 3 billion pesos. • 0.75% for taxable wealth between 3 and 5 billion pesos. • 1.5% for taxable wealth of > 5 billion pesos. <p>Individuals and corporations with net worth of > 1 billion pesos on January 1, 2015 required to file a wealth tax return.</p> <p>Corporations</p> <ul style="list-style-type: none"> • 0.2% for taxable wealth < 2 billion pesos • 0.35% for taxable wealth between 2 and 3 billion pesos. • 0.75% for taxable wealth between 3 and 5 billion pesos. • 1.15% for taxable wealth of > 5 billion pesos. | <ul style="list-style-type: none"> • 50,000 individuals and 32,000 corporations. • The majority paid by corporations. |
| 2022 - Proposal | <ul style="list-style-type: none"> • Progressive rates between 0.5% and 1.5% on: <ul style="list-style-type: none"> ○ Individuals and entities with net wealth that exceeds approximately 2.4 billion pesos. ○ Individuals as well as non-resident entities that own assets in Colombia other than shares, leased assets, and receivables, provided they are not income tax filers. | No data available. |

Source: Londono-Velez & Avila-Mahecha, 2018, Baquero, Dávalos and Monroy, 2023

The taxes had different designs, according to the year in which they were implemented and the purpose of the government at the time. Despite this, similarities can be noted. For

instance, the burden fell on corporations in all instances. Over time, the taxes improved in their progressivity, with progressive rates for different levels of net worth.

The taxes served different but related objectives. The initial tax, to finance the war against guerilla groups (Gomez, 2019) was extended until 2010. The 2014 wealth tax was introduced to raise funds to finance public investment spending and cover the fiscal deficit (Ariza *et al.* 2017). The macroeconomic framework adopted by the government, which included fiscal rule targets, mandated it to have low levels of public debt (Perret and Brys, 2015). Therefore, to scale up social spending, it was deemed necessary to raise more tax revenue (Perret and Brys, 2015).

In terms of design, the taxes were different for each period. For instance, the target of the tax levied from 2007 to 2010 was individuals reporting a net wealth of 3 billion Colombian Pesos (COP) or more (\$1.5 million in 2010) (Lopez, 2022). However, after 2010, the threshold was reduced to 1 billion COP (approximately \$520 000 million in 2010) (Londono-Velez and Avila-Mahecha, 2018). This was a one-time wealth tax, payable over the next four years (2011 to 2014). Eligible individuals were charged a lump sum, based on their declared net wealth (Perret and Brys, 2015, 16).

The threshold for the new wealth tax which started in 2014 was again a net worth of 1 billion COP (\$300 000 in 2015). Based on that threshold, Colombian President Juan Manuel Santos said government would target around 32 000 businesses and 50 000 individuals (Fajardo and Canon, 2016). The number of persons (legal and natural) who declared a net wealth at or above the threshold by the due date in 2015 was 88 395 (Ariza *et al.* 2017), which at the time was only 0.27% of the working age population. Because the law included both natural and legal persons, corporations (which are legal persons) were also liable to pay. That meant a person could not avoid tax by shifting their assets to a company. On this issue, Perret and Brys (2015) note that the inclusion of corporations in the wealth tax was justified by the idea that “individuals often keep their personal wealth within corporations”. Importantly, the 2014 wealth tax was levied on wealth declared on 1 January 2015. This meant that investments after that date were not affected (Fajardo & Canon, 2016, 10).

There were some similarities between the 2010 and 2014 taxes. Both were set at progressive rates. The 2014 wealth tax included legal and natural persons, subject to different rates across the 2015 - 2017 period. In both cases higher net wealth was taxed at a higher rate (Ariza *et al.* 2017). With the 2010 wealth tax, the lowest net wealth bracket, between 1 and 2 billion COP (\$500 000 - \$1 billion) was subject to a tax rate of 1%, while the highest (more 5 billion COP or over \$2 billion) faced a rate of 6% (Perret and Brys, 2015).

There were still challenges that impacted the collection and effectiveness of the wealth tax (Londono-Velez and Avila-Mahecha, 2018). Between 2015 and 2017, measures were introduced to curb evasion. These included:

1. Requiring all individuals who owned any foreign asset by 1 January, 2015 to report annually the value of the foreign assets, and their location;
2. Implementing a voluntary disclosure programme that gave tax breaks for delinquent taxpayers who chose to come forward;

3. Contacting taxpayers identified in the Panama Papers leak to request documentation of their offshore activities, and signing a Tax Information Exchange Agreement (TIEA) with Panama; and
4. Criminalising wealth tax evasion with penalties of up to nine years in prison.

The voluntary disclosure scheme led to penalties amounting to \$1.45 billion, with 87% of the wealth not reported being hidden offshore. This suggests that developing countries have to improve their enforcement mechanisms to maximise the proceeds of progressive taxation. Once again, international organisations such as the UN are important in ensuring that there is knowledge sharing and capacity building, between states with experience and resources and those that still lack enforcement infrastructure. Enforcement can only be enhanced through improving third-party reporting and cross-validating data.

Despite these challenges, some revenue was generated. For the period 2002 - 2010, prior to the 2010 tax reform, wealth tax contribution as a percentage of GDP fluctuated between 0.2% and 0.7% (Gomez, 2019).

4.4.3. Other countries

Table 3 shows a broader list of countries that have implemented a wealth tax, with their rationale, design, and the revenue generated.

Table 3: Cross-country evidence for wealth taxes

| Country | Rationale | Design | Average revenue generated (as a % of GDP since 2012) |
|-----------|--|---|---|
| Argentina | <p>To finance security effort against drug trafficking, guerrilla, and paramilitary groups.</p> <hr/> <p>To finance healthcare expenditure and social security expansion in response to Covid-19 pandemic.</p> | <p>0.5% - 1.75% annually on <i>gross</i> assets</p> <hr/> <ul style="list-style-type: none"> • 2% - 3.5% once-off (2020). • On richest 12 500 individuals, or individuals with assets over 200 million pesos (\$2.4 million). | 0.4% |
| Colombia | <ul style="list-style-type: none"> • To support healthcare expenditure and cash transfers. • To finance military and government deficits. • To tax unearned | <ul style="list-style-type: none"> • 0.5% - 2.25% • Progressively taxed according to net worth. <p>(See Table 2 for revisions of the tax since 2002).</p> | 0.3% |

| | income. | | |
|-------------|---|--|-------|
| France | To finance transfers to poor individuals / households. | <ul style="list-style-type: none"> • 0.5% - 1.5%. • Until 2018, the tax was levied annually on personal wealth greater than €1.3m. | 0.2% |
| Norway | To support municipal and national government expenditure. | <ul style="list-style-type: none"> • 1% on individuals' wealth stocks exceeding NOK 1.7 million (\$160,000). • 0.7% goes to municipalities and 0.3% to the state. | 0.6% |
| Spain | To enhance economic recovery from 2007-09 Great Recession (reintroduced in 2011). | <ul style="list-style-type: none"> • 0.16% (in Navarra) to 3.5%. • On wealth above €700,000 (\$752,783; lower in some regions). • Rates varied substantially across Spain's autonomous regions. | 0.2% |
| Switzerland | To respond to World War I (1914 - 1918) and the Great Depression (1930s) | <ul style="list-style-type: none"> • 0.13% - 1.1% (depending on canton / municipality). • On individuals and corporations. | 1.53% |
| Uruguay | To support economic recovery following the Great Depression. | <ul style="list-style-type: none"> • 0.1% - 0.3% (residents). • 0.7% - 1.5% (non-residents). • On individuals and corporations. | 0.9% |

Table 3 shows that, among the selected countries, they generated on average 0.4% of their GDP from wealth taxes with the exception of Switzerland. This is equivalent to R29 billion in terms of South Africa's GDP represents meaningful additional revenue that can be used to support government priorities.

Saez and Zucman (2022) attribute the revenue collection trends of net wealth taxes in Europe, particularly in France and Norway, to wide-ranging exemptions, tax avoidance, and high thresholds. For instance, in France, the wealth tax exempted the business assets of owner-managers. In addition, some individuals shifted most of their income to holding companies, enabling them to only report a small taxable income. The tax was also applied above a high threshold, and so most high-income earners were exempted. In addition, there

was a lack of enforcement. The result was that the tax yielded only €5.1 billion (0.2% of GDP), four times less than the expected €20 billion (0.8% of GDP), based on the top 1% owning about 25% of total household wealth (€3 trillion), of which €2 trillion was taxable. A similar phenomenon was also observed in Norway and Spain.

By and large, European wealth taxes were based on self-reported wealth, with no corroboration required from third parties. Clearly, this would allow taxpayers to get away with misreporting. And the absence of a requirement for third-party evidence means that tax authorities have to devote their own resources to ascertain true wealth. This raises the administrative costs of the tax. In the end, these exemptions and gaps meant that the European countries collected less than they had expected.

A look at the rationale offered for wealth taxation shows that recurrent and non-recurrent net wealth tax has tended to be proposed and put in place during periods of heavy fiscal constraints. Examples of these periods include times of war (Switzerland), and major economic downturn (Switzerland, Spain, Bolivia, and Argentina). Some wealth taxes have been explicitly put in place to address poverty (France) or inequality (Colombia). Given our criteria for 'success' of wealth taxes, which takes into account (1) the rationale and whether it was fulfilled, (2) its progressivity, and (3) the revenue raised, it is clear that a cross-country comparison of wealth taxes is much more complex than is usually presented in the literature.

Speaking on the revenues from the once-off net wealth tax, Argentina's economic ministry said, "these revenues were fundamental when facing the extraordinary spending in response to the impact of the second wave of the pandemic and driving forward economic recovery with social inclusion" (Buenos Aires Times, 2021). In France, the Solidarity Wealth Tax (*Impôt de Solidarité sur la Fortune* (ISF)) was put in place in 1989 to finance a social welfare programme, the *Revenu minimum d'insertion* (RMI), which was a grant for people with no source of income (Pichet, 2008, p. 3). In 2008, the RMI programme was replaced with a similar programme, *Revenu de Solidarité Active* (RSA). As at December 2008, the RMI was received by 1.1 million people (Legros, 2009, p. 6). This was approximately 39% of the unemployed population at the time.

These experiences highlight the importance of domestic resource mobilisation from wealth taxes, especially in times of socioeconomic crisis. They also indicate that, if implemented sustainably, wealth taxes can help tackle poverty and hunger, expand public goods, and reduce income inequality.

5. Conclusions and recommendations

We find that the mainstream approach to taxation is irredeemably flawed for two key reasons. First, its neoclassical foundations are problematic, because it uses unrealistic assumptions about economic actors and their decisions and behaviour in the economy. These assumptions then lead to conclusions that deviate significantly from what is typically observed in the real world. Second, the mainstream approach has a narrow conception of what the purpose of taxation should be. The underlying neoclassical framework is premised on individual, highly informed decision makers acting to maximise efficiency. This both relegates equity to a secondary concern and presents the appropriate role of the

government as to correct imperfections in an otherwise individual and market-oriented framework. We argue, instead, that the government, regardless of inequality or market failures, is a key factor in the economy.

Empirically, we find that the taxation of wealth, and income derived from holding or trading wealth, can generate significant levels of revenue. Moreover, this revenue can boost finance for addressing poverty and hunger, expand public goods, and reduce income inequality. Moreover, contrary to the claims of the mainstream approach, this revenue can be generated without being offset by losses in efficiency or economic growth. Country experiences show that, with adequate administrative capacity to collect the tax, and to investigate and curb tax avoidance, wealth taxes can be deployed either in emergencies, or as sustainable sources of domestic resource mobilisation. International organisations are important in ensuring knowledge sharing and capacity building between states with experience and resources and those with less. International cooperation should continue to be championed through the development of the UN Framework Convention on International Taxation and Cooperation. It is through cooperation and capacity building that a solid foundation for taxing wealth can be laid globally and within states. Beyond this capacity building, it is also important for government to ensure that it tackles corruption, and irregular spending which may contribute to hindering tax morale and perpetuate tax evasion.

While it may appear to be a given that net wealth taxes are highly progressive—as they target the ‘rich’, and graduated rates are often applied—this may not necessarily be the case. There may be instances where the threshold is set so high that the tax does not adequately tax the wealthy. This was the case in most of Europe, as we have seen. Additionally, because wealthier individuals have more resources to evade taxes, a larger burden of the tax may be borne by individuals on the lower end of the wealth spectrum.

Based on the literature review and the international experience, we recommend that in South Africa:

1. Taxation on income derived from the selling and holding of wealth should be expanded. All income from wealth should be taxed at a moderate threshold, at different rates, depending on the relative concentration of the assets in lower- and higher-income households.
2. The tax on dividends should be reviewed and increased, taking into account growing profits of corporations, the decrease in the corporate income tax rate, and the impact this has on potential revenue and investment in the long term.
3. There should be a uniform tax on the trading of all financial assets and instruments, but at a low rate, with an expanded tax base.
4. A net wealth tax should be introduced at a moderate threshold, with limited asset exemptions, and be applied at low and progressive rates.

We, however, caution that implementing these taxes without preparation could lead to high levels of capital flight towards lower-tax regimes. Appropriate complementary capital controls must therefore be put in place.

In assessing the progressivity of a tax instrument, it is important to consider what its revenue is spent on, as well as its design. This should be explored by the National Treasury in considering the design of a progressive wealth tax system and potential ring fencing of taxes towards social wages or climate change.

Therefore, prior to the introduction of this expanded system of taxing wealth, it is necessary for the government to:

1. Implement tighter controls on the cross-border flow of capital;
2. Conduct a thorough assessment of the assets owned by individuals, firms, and other relevant entities;
3. Equip authorities, such as SARS and the National Prosecuting Authority (NPA), with the requisite resources to investigate and prosecute tax evasion; and
4. Make use of international resources, such as the UN Handbook on Wealth and Solidarity Taxes and Model Law for Wealth Taxes.

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