

Rich Man Poor Man

FINANCE MINISTER Pravin Ghordan's medium term budget at the end of October basically told South Africans to tighten their belts and to make do with less. GDP growth has been revised down to 3,1% and the budget deficit is growing.

Basically, the government needs to find more money. Tax collections have slowed and revenue has declined as a percentage of GDP, reflecting the weaker domestic economic conditions. The minister took pains to outline a policy which concentrated on sustainable job creation, thus increasing the number of taxpayers in the tax net, while playing down the possibility of higher taxes all round. This is to be supported by numerous welfare programmes and expansive spending – much of it infrastructural – as outlined in the New Growth Path. However, growth is lagging behind the 7% expansion required to create five million jobs by 2020 to reduce the rate of unemployment to 14%.

Authorities across the globe are looking at ways and means of taxing the wealthy in an attempt to relieve fiscal pressures amid weak economic conditions. However, many economists believe that there is limited scope in South Africa to impose higher taxes on the country's richest individuals, in spite of calls for a "wealth tax" from various sections of the community. They point out that the marginal taxes currently levied are higher than in many countries. A report last year by KPMG, studying personal income taxes in 87 countries, shows that the maximum personal income tax rates were the highest in OECD countries, averaging 42%. However, SA's marginal tax rate is higher than the average seen in countries in the European Union, Asia-Pacific and Latin America, which have averages of 37,2%, 33,5% and 28,8% respectively. The highest personal taxes were in Sweden and Denmark – both "cradle to grave" welfare states – at 56,6% and 55,4%. Most favourable rates were in Paraguay (10%) and Russia (13%).

Standard Bank's economics division has prepared a table (above) which shows that South Africa has one of the highest tax rates compared to other emerging countries. While China charges the lowest rate, this applies to very low incomes, while the richer members of the population pay

Country	Max. Tax Rate	Start of Lowest Income Band	Max. Tax Rate	Start of Lowest Income Band
SA	18%	21,000	40,0%	81,200
Brazil	7,5%	10,793	27,5%	26,950
China	5,0%	0-960	45,0%	192,002
Turkey	15,0%	0-5,358	35,0%	45,600
Poland	18,0%	0-28,224	32,0%	28,224
India	10,0%	6,000	30,0%	10,000

Notes: Income bands are in dollar terms : Source:www.worldwide-tax.com

the higher rates. China's marginal tax rate at 45% is higher than SA's 40%, but the top marginal rate is reached at US\$192 000, compared with US\$81 200 in South Africa. The table shows that Brazilian taxpayers have the most favourable regime.

Other countries, such as the US and Canada, also have more favourable marginal tax rates. Comments Standard Bank: "In the case of Canada, a commodity-producing country like South Africa, the top marginal rate is only 29% which is reached at US\$128 292 (see table)."

The thorny issue remains: Do you tax the rich and take it easy on the poor? The South African government has for many years aimed at reducing the tax burdens on lower income earners. Effective taxes for higher income earners have declined over the years as earners benefitted from income gains and lower tax rates. Other taxes such as VAT, and indirect taxes, have a much greater impact on lower incomes.

Some countries lean very heavily for tax income on the rich. For example, data from the OECD shows that the United States relies on 10% of individuals for 45% of all income taxes. This is followed by Italy, Ireland and the United Kingdom. South Africa also relies heavily on taxes from rich individuals (compared with most OECS countries). The top 10% richest earners accounted for 49% of total taxable income in 2009 and earned 40% of total income.

According to the SA Bureau of Market Research, SA's richest households already pay a large and growing share of taxes. The contribution of the

richest 1% of individuals was 13,4% in 2009. This group also accounted for 19,4% of total taxes.

Standard Bank comments; "The results highlight the importance of the middle class in the South African economy. The majority of taxpayers (54,1%) is found in the middle income group earning between R100 000 and R300 000 a year."

What this really indicates is that there is unequal distribution of income in the country.

In the current economic climate, the idea of increasing taxes on the rich is gaining momentum. A popular view is that more affluent people will not really miss the extra cash taken away from them. But higher taxes for high income earners could result in lower investment and growth – perhaps even more emigration.

A September article in the Economist also argues that discouraging investment and growth would not be wise in the current economic situation. The article points out that an isolated tax increase of 1% reduces real GDP by almost 3%, mostly because tax increases have a significant effect on investment. It concludes that reforms to broaden the tax base are more efficient.

Gaining ground in the US is the idea of a proportion tax instead of progressive taxation. Proportion tax is where individuals pay the same proportion of their total income in tax. Leading Republican contender for the White House, Herman Cain, according to the New York Times, is supporting a tax plan where individuals, companies and sales taxes are set at 9% each. ■ ■ ■