



28 June 2017

### **Agbiz supports BUSA with inputs to the Davis Tax Committee**

The Davis Tax Committee was initiated in 2013 to assess South Africa's tax policy framework and its ability to achieve the national objectives of inclusive growth, employment, development and fiscal sustainability. The committee is currently investigating the possibility of a general wealth tax as well as additional taxes on the value of land as a mechanism to reduce inequality in the Country. In response to a call for public comments, BUSA prepared a document and Agbiz seized the opportunity to make constructive inputs.

In the comprehensive document, BUSA motivates that additional taxes at a time when our economy is in recession will hamper development, economic growth and job creation. Based on international research, the document outlines the negative consequences that wealth taxes have given rise to in foreign jurisdictions, which often lead to the tax being abandoned after counter-productive results were obtained. Amongst other reasons, the research indicated that a wealth tax had a negative impact on savings, posed severe administrative challenges and often resulted in capital flight. It also acted as disincentive for entrepreneurship, a consequence which would have lasting negative effects on our economy.

Regarding the additional taxes on land proposed by the commission, BUSA highlighted the challenges currently faced by Municipalities in accurately levying and collecting municipal property rates. An additional land tax, albeit administered by national government, would serve to merely perpetuate an inefficient system that has been plagued with administrative challenges. International experiences have also shown that there is a distinct correlation between higher land taxes and depreciating land values. Should land values decline as occurred in other jurisdictions, it will threaten the collateral value for lenders and likely increase the risk of lending to the agricultural sector. Where the land is used for agricultural purposes, additional land taxes would raise the costs of production, a cost that would likely be displaced to the end consumer, thereby resulting in higher food prices. Such a result can hardly be seen as contributing to reducing inequality as it is always the poor that feels the rise in food prices most acutely.

Agbiz will keep members abreast of any developments regarding the proposed taxes.

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