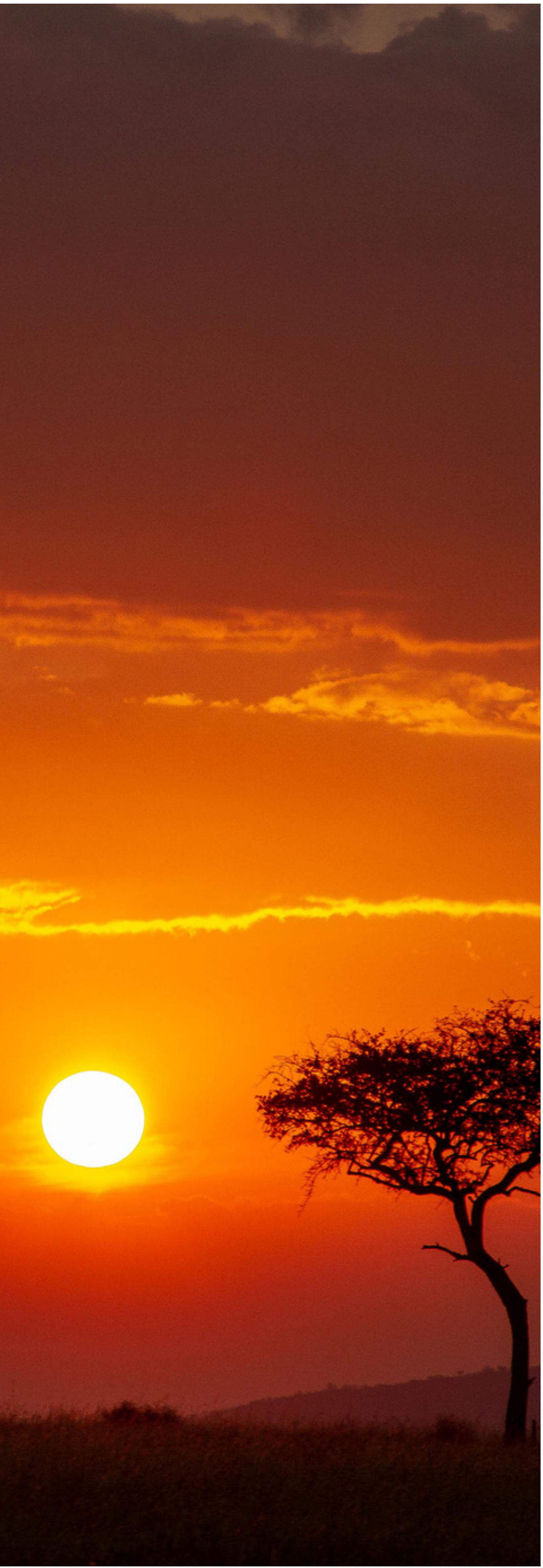

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Implementing wealth tax and wealth redistribution in Sub-Saharan Africa

By Khanyisa Mbalati

Sub-Saharan Africa is one of the most unequal places in the world, with significant levels of social, gender, and income inequality. Several countries in the region have a tax structure that is heavily weighted towards consumption taxes, which can be regressive and inflict a significant burden on those with low and middle incomes. Implementing progressive tax systems, whereby those with higher earnings pay a larger share in taxes, is one way through which governments might optimize the impact of tax revenue on reducing inequality. The adoption of a wealth tax may facilitate wealth redistribution in Sub-Saharan African nations and could help bridge the inequality gap in the region. High statutory wealth tax rates of between 5-8% are needed in order to have an effective tax rate of 3-5%.

L'Afrique subsaharienne est parmi les régions où les inégalités sociales, de genre et de revenus sont les plus importantes au monde. Le système fiscal de plusieurs pays de la région repose en grande partie sur les taxes à la consommation, qui peuvent être régressives et faire peser un lourd fardeau sur les personnes à revenus faibles ou moyens. L'instauration de systèmes fiscaux progressifs, dans lesquels les personnes ayant des revenus plus élevés paient une plus grande part d'impôts, est un moyen pour les gouvernements d'engranger des recettes fiscales supplémentaires qui permettront de réduire les inégalités. L'adoption d'un impôt sur la fortune peut faciliter la redistribution des richesses dans les pays d'Afrique subsaharienne et contribuer à combler le fossé des inégalités dans la région. La fixation par la loi de taux élevés d'imposition sur la fortune, de l'ordre de 5 à 8 %, est nécessaire pour obtenir un taux d'imposition effectif de 3 à 5 %.

El África subsahariana es uno de los lugares más desiguales del mundo, con unos altos niveles de desigualdad social, de género y de ingresos. Varios países de la región poseen una estructura fiscal que

se inclina intensamente por los impuestos sobre el consumo, una medida que puede ser regresiva e imponer una carga significativa a quienes tienen ingresos bajos y medianos. La implantación de sistemas tributarios progresivos, a través de los cuales quienes tengan mayores ingresos paguen un mayor porcentaje de impuestos, es una manera por la que los Gobiernos podrían optimizar el impacto de los ingresos tributarios en la reducción de la desigualdad. La adopción de un impuesto sobre el patrimonio podrá facilitar la redistribución de la riqueza en las naciones del África subsahariana y podría ayudar a reducir la desigualdad en la región. Se necesitan unos elevados impuestos sobre el patrimonio con unos tipos legales de entre el 5 y el 8 % para poder tener un tipo impositivo efectivo del 3-5 %.

Introduction

Sub-Saharan Africa is arguably one of the most unequal regions in the world, with high levels of income, gender and social inequality. The region is home to a large number of low-income countries. Figure 1 shows the world's top 10% of the population's ownership of total wealth by region. The most unequal countries see the top 10% owning between 72-85% of total national wealth. As can be seen, such inequality exists in much of Sub-Saharan Africa. This paper explores the high wealth inequality in the continent, argues for the need for wealth taxes and considers the possible rates of such a tax.

High wealth inequality in the region

In Sub-Saharan Africa, a significant proportion of the population lives below the poverty line, with little access to basic services such as healthcare, education, and clean water. According to the World Bank, 389 million people in Sub-Saharan Africa were living in extreme poverty in 2018. This means they were living on less than $1.90 per day. Despite the region's economic growth over the past two decades, inequality has remained persistent, with the poorest households often experiencing little to no improvement or a decline in their income. There is a large wealth gap between the rich and poor, with the wealthiest 10% of the population owning more than half of the region's wealth. A report by Oxfam International, in 2017, reports that the top 10% of the population in Sub-Saharan Africa owned 71% of the region's wealth, as can also be seen in Figure 1, while the bottom 50% owned only 8%. This level of inequality is much higher than the global average.

Figure 2 provides details of millionaires and billionaires in the region above a threshold of $1 million.

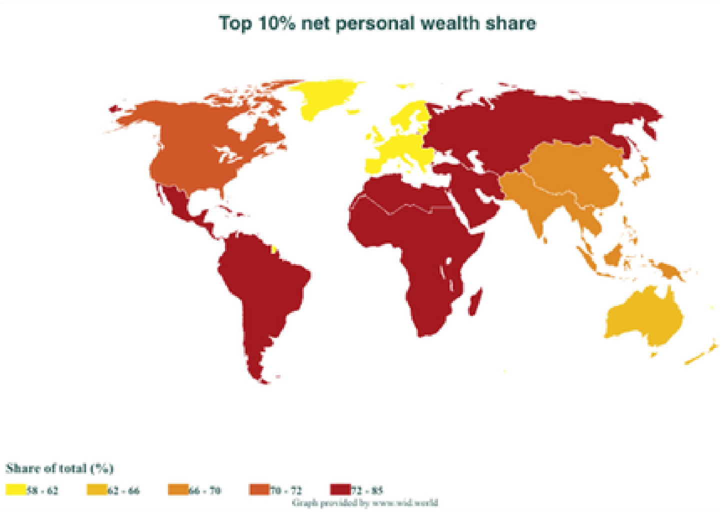

Figure 1: Top 10% net personal wealth share
Source: World Inequality Database (www.wid.world)

Wealth group ($)	Number of adults	Total wealth ($ bn)	Average wealth ($m)
All above 1m	243,220	726	3
1m – 10m	234,730	448	2
10m – 100m	8,200	155	19
100m – 1b	288	70	243
1b – 10b	11	52	4,727

Figure 2: Multimillionaires and billionaires in Sub-Saharan Africa, 2021

The graph presents summary statistics related to wealth. Wealth measured at MER. Source and series: https://wir2022.wid.world/methodology/.

Need for wealth taxes

One way governments can maximize the impact of tax policy on reducing inequality is by implementing progressive taxes, meaning that individuals with higher wealth and incomes pay a greater share in taxes. This can be achieved through a variety of mechanisms, such as implementing a progressive net wealth tax system, which taxes individuals with higher wealth at a higher rate.

Wealth tax is a form of taxation that is levied on an individual's net worth, which includes assets such as real estate, investments, and personal property. There are no countries in the Sub-Saharan region with a wealth tax in place. The tax system is skewed towards consumption taxes, which can be regressive and place a heavy burden on low and middle income earners. Although none of the countries in the region have a wealth tax, it is possible that we see increased interest in this type of taxation as governments seek to generate revenue and reduce issues related to wealth inequality.

The effectiveness of a wealth tax depends on Its design and implementation, as well as the broader economic and political context in which it is implemented. A study conducted by Oxfam estimated that South Africa could raise up to ZAR 143 billion (approximately USD 9.4 billion) in revenue by implementing a 1% tax on the net worth of individuals with assets exceeding ZAR 1.5 billion (approximately USD 98 million).

Some countries have implemented such taxes successfully. Figure 3, for instance, shows the rates for Argentina's wealth tax.

Argentina has recently implemented a wealth tax as a way to raise revenue and combat inequality. A one-time special tax known as the "millionaire's tax" was enacted by debt-ridden Argentina in December 2020, and it has so far raised about $2.4 billion to fund pandemic recovery. Under the wealth tax policy, individuals with net assets of more than 200 million pesos (around $2.5 million) will be subject to a one-time tax of up to 3.5% on their wealth. The tax rate increases for individuals with assets abroad, with a maximum rate of 5.25% for those with assets exceeding 3 billion pesos (around $3.7 million).

Potential wealth tax rates for Sub-Saharan Africa

A high wealth tax rate is appropriate in countries with high levels of inequality and limited tax revenue like in Sub-Saharan countries. With a high tax evasion rate, the region needs a high rate to collect as much revenue as it can. The Pandora Papers have revealed that an estimated $8 trillion of personal financial wealth is in offshore accounts, $500 billion of which is held by Africans. Along with non-

Total value of the assets located in Argentina and abroad		For the total amount of the assets located abroad, will pay
More than ARS	To ARS	
200 million	300 million, inclusive	3.00%
300 million	400 million, inclusive	3.375%
400 million	600 million, inclusive	3.75%
600 million	800 million, inclusive	4.125%
800 million	1.5 billion, inclusive	4.50%
1.5 billion	3 billion, inclusive	4.875%
3 billion	Onwards	5.25%

Figure 3: Wealth tax rates in Argentina
Source: Trench Rossi Watanabe, March 2021

financial offshore assets like property and artwork, this translates to the region losing tax revenue which reduces the funds available, inter alia, for investment in critical infrastructure and public services, such as health care and education.

Strategies to combat tax evasion include improving tax administration and enforcement, increasing transparency and information exchange between countries, and penalizing the use of tax havens and other illicit financial activities. A comprehensive approach that combines multiple strategies is likely to be most effective in combatting tax evasion.

Higher tax rates on the wealthy are recommended given the high inequality in the region and to ensure adequate revenue over the costs of administering the tax. Figure 4, for instance, applies Argentina's rates to Sub-Saharan Africa using the World Inequality Database's wealth tax simulator to generate potential revenue estimates with an assumed 30% evasion rate and a 10% depreciation rate.

As can be seen from Figure 4, the effective rate tends to be lower than the statutory rate. Thus, for an effective tax rate of 3-5%, the Sub-Saharan region would have to implement a tax rate starting from 8.8% on net wealth of $2 million, 5.2% on net wealth above $2-10 million, 8% on net wealth above $10-100 million and 8.5% on net wealth on $1 billion and above. This means that the number of taxpayers will range from 94,240 people with wealth from $2-10 million who will pay an effective tax rate of 3.03% to 11 people with a net wealth of $1 billion and more who will pay 5.25% tax each on their wealth.

How much revenue does your tax generate? How are wealth owners impacted by the tax?

Wealth group	Rate (%)	Total wealth ($ bn)	Number of adults	Revenues (% of regional income)	Effective wealth tax rate (%)
All above 2m	NA	710	104900	0.75	3.58
2m-10m	8.80	350	94240	0.31	3.03
10m-100m	5.20	222	10300	0.25	3.73
100m-1b	8.00	91	348	0.12	4.51
Above 1b	8.50	47	11	0.07	5.26

Figure 4: Impact of a 3.5% - 5.2% wealth tax in Sub-Saharan Africa
Source: WID Wealth Tax Simulator

Conclusion

The United Nations estimates a funding gap of USD 200 billion per year to be filled if African countries are to meet the Sustainable Development Goals' (SDGs) targets by 2030. A wealth tax is needed in Sub-Saharan Africa. By increasing transparency on the assets held by wealthy individuals and implementing a wealth tax, African countries can take a significant step towards mobilising resources for development and promoting greater economic and social equality.

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