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The Drawbacks of a Narrow Tax Base – Dylan van Wyk

Most people recognise that taxes are needed to pay for public services. However, few people realise that the sources of taxation, especially personal income tax, emanates from a small minority. The fact that many countries, including Namibia and South Africa, have such a narrow tax base is as a direct result of the great income inequality faced in these countries. Thus, the idea that taxes should be redistributive in nature is hard to argue against. Nevertheless, there are disadvantages of relying on a few as a source of income tax revenue.

In South Africa 90% of the population account for only 13.1% of income taxes collected, while the wealthiest 10% of individuals pay 86.9% of total personal income tax. Even more troublingly, the top 1% is estimated to pay around 60% of total income taxes. Given the similarities between the demographics of the two countries, it may be very possible that the top 1%, or around 25,000 people, pay more than half of Namibia's income tax.

Most countries have progressive income taxes (with a higher rate levied at higher income) and it makes sense that the more affluent are more able, and should pay, higher tax rates. Unfortunately, if taxes are too progressive, they will disincentivise entrepreneurship, innovation and hard work. Simply because people know they will be taxed more if they work more. Additionally, there is a greater scope for tax evasion in the case of progressive tax as it encourages taxpayers to avoid taxes by making false declarations of their incomes.

The basic principle of any good tax policy is to charge a low rate over a broad base, however more and more countries seem to be falling into the narrowing tax base trap. A narrow income tax base makes a country's revenue very dependent on a few individuals and there is a greater risk that these revenues may dry up if these tax payers decide to leave their country. Coincidentally, the more affluent have the resources to emigrate if they wish.

With discussions of a wealth tax in South Africa and solidarity and capital gains taxes in Namibia, squarely focused on the even narrower tax base since targeting the wealthy, this type of increase needs the buy-in of the taxpayer. Thus, there should be greater transparency in government spending and swift and meaningful consequences for wasteful expenditure. Through this, people will see their hard-earned money be put to good use and are more likely to carry the additional tax burden.

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