

Tax and Inequality

FACTSHEET

THE EVER-GROWING WEALTH INEQUALITY BETWEEN AND WITHIN AFRICAN COUNTRIES THREATENS BOTH POLITICAL AND ECONOMIC STABILITY OF THESE COUNTRIES AND COULD REVERSE THE MARGINAL GAINS ACHIEVED IN THE LAST DECADE¹.

This economic inequality is perpetuated by among other things, non-inclusive, inequitable and unaccountable tax systems characteristic of most countries in Africa. There is need to counter and reverse the trend towards regressive tax policies that has seen the introduction or increased application of consumption taxes that increase the burden on the already disadvantaged low income earners and their families. Equally, in view of increasing wealth concentration in the hands of the richest few as reported in a 2015 Oxfam Inequality Report², it is essential to push for reforms and introduction and enforcement of policies that will encourage the redistribution of income.

Tax systems play a key role in redistributing wealth. The tax system itself is the key lever to directly address inequality by redistributing income from the rich to the poor by taxing the rich more heavily and



directing public spending to benefit poor people. The 2014 TJN-A and Christian Aid inequality report showed that tax systems in sub-Saharan Africa are far from fulfilling this vision of equality³. On the contrary many governments under pressure to increase tax collection

¹Oxfam Inequality Report 2016. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp210-economy-one-percent-tax-havens-180116-en_0.pdf

²The 2015 Oxfam report revealed that 62 individuals had the same wealth as 3.6 billion people and that since the turn of the century, the poorest half of the world's population has received just 1% of the total increase in global wealth, while half of that increase has gone to the top 1%.

are relying on indirect taxation including VAT which as studies have shown if not well applied can further exacerbate income inequality. There is need to counter and reverse the trend towards regressive tax policies and push for progressive tax policy reforms such as the use of wealth taxes (such as property or capital gains tax) which target High Net Worth individuals and wealth hidden in tax havens or offshore in jurisdictions such as Panama.

The Addis Ababa Action Agenda⁴ highlighted the global recognition that taxation is the most important and sustainable source of revenue for any government to ensure that it caters for the basic needs of its citizens. Without adequate resources, rights to basic amenities and social services such as health and education will remain mere aspirations. It is also important to note that poor public services impact heaviest on women, children and the vulnerable groups in society as they depend heavily on public services since they do not afford private basic services which are priced beyond their reach. Revenue from taxation is therefore critical for the fulfilment and realization of the economic, social and cultural rights of citizens. Tax is also an essential component of the socio-political compact between a state and its citizenry.

⁴ A research report 'Africa Rising? Rising inequalities and the essential role of fair taxation' published in February 2014 by T3N-A and Christian Aid investigated the issue of income inequality in eight sub-Saharan African countries.
<http://www.christianaid.org.uk/images/Africa-tax-and-inequality-report-Feb2014.pdf>
⁵ http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf
This is also known as the Third Financing for Development Outcome Document.

KEY TERMS TO KNOW



EQUITY/FAIRNESS IN TAXATION

Making people with greater ability and the rich people to pay more taxes (vertical equity) and taxpayers in similar circumstances to pay similar amounts of tax.



PROGRESSIVE TAX

This is a tax which taxes more with increase in income. This means that tax rates increase with increase in income. This approach is known as vertical equity.



REGRESSIVE TAX

A regressive tax, in contrast to a progressive tax, is one where everyone pays the same amount of tax regardless of their income or their ability to pay, or a tax of which the tax rates decreases as the taxable amount increases. This results in a greater tax burden for those with a low ability to pay tax (the poor) compared to those with a higher ability to pay (the rich).



WEALTH TAX

It is a tax based on the market value of assets that are owned. These assets include, but are not limited to, cash, bank deposits, shares, fixed assets, private cars, assessed value of real property, pension plans, money funds, owner occupied housing and trusts. An ad valorem tax on real estate and an intangible tax on financial assets are both examples of a wealth tax.

Not all countries have this type of a tax. Examples of a wealth tax include property, land, and capital gain tax represent wealth taxes. Most African countries do not have wealth taxes or have very limited wealth taxes and this leaves the rich largely untaxed.



CAPITAL GAINS TAX

This is a tax on a profit or gain realised from the sale of an asset such as property.



VALUE ADDED TAX (VAT) / SALES TAX / GOODS AND SERVICES TAX

Indirect tax imposed on sales of goods (and sometimes services). The tax may be imposed as a percentage of gross receipts, i.e. advalorem tax, or as an amount per unit of product. The tax is generally paid by the buyer but the seller is responsible for collecting and remitting the tax to the appropriate authorities. A sales tax is often considered a regressive tax because the burden of paying the tax falls proportionately more heavily on taxpayers with a lower income. Most sales taxes are designed as consumption taxes, i.e. as taxes on consumer expenditure. Moreover, sales taxes differ from income taxes in that they are in rem rather than personal taxes, so that the personal circumstances of the taxpayer are not taken into account. They may be levied at either a single stage in the production or trade process (e.g. on manufacture, wholesale or retail sale) or at multiple stages, such as is the case with a value added tax or turnover taxes. The tax may be charged to the consumer by way of a non-refundable tax on sale or be passed on as a cost of sale or production.



INDIRECT TAXES

These are taxes on consumption, for example VAT, customs duties and excise duties. Indirect taxes are widely known to be regressive and usually have more impact on the poor.

DIRECT TAXES

these are taxes on income, for example income taxes. Direct taxes are widely known to be progressive.



TAX BURDEN/INCIDENCE

This is the impact of a tax. The impact is felt by the payer of the tax. In the case of value added tax the impact is on the final consumer.



BASIC PUBLIC SERVICES/AMENITIES

Crucial or essential public services provided by the government to benefit all citizens that are crucial such as health, education, and portable water. These services benefit the poor most as they are usually free or very low cost.



PUBLIC OR GOVERNMENT SPENDING

Expenditure by the government on public infrastructure/goods and social amenities such as education and health.



OXFAM

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Tax Justice Network-Africa (TJN-A) is a Pan-African initiative and a member of the Global Alliance for Tax Justice.

It is a network of 29 members in 16 African countries. TJN-A collaborates closely with these member organisations in tax justice advocacy at the national and regional levels.