Our Weekly Paid Newsletter

Richard Cluver Predicts

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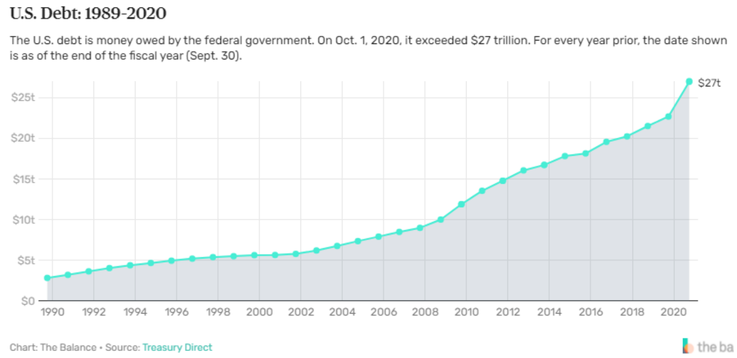
I can't resist opening with a pun attributed to Investec's daily News and Views column that "Joe's not Biden his time" in getting his agenda on track and undoing some of the more serious damage of the Trump presidency by re-committing the US to the Paris Accord on climate change and re-joining the World Health Organisation.

It's the kind of decisive action that the markets have clearly been waiting for after the chaos of the last remaining weeks of Trump's presidency and Wall Street prices accordingly soared on Wednesday with the rest of the world soon to follow.

Not the least of the actions providing stimulus to the markets was Biden's plan to inject 1.9-trillion dollars into the US economy. At best, market watchers had hoped for just a trillion so by nearly doubling the figure Biden has signalled that he is determined to spend his way out of the current recession. It is good news for the world in the short term, but with US indebtedness already at unprecedented levels, Biden's action has also brought the inevitable day of reckoning that much closer.



As calculated by Wikipedia, the US federal debt held by the public was $20.83 trillion, intragovernmental holdings were $5.88 trillion, for a total national debt of $26.70 trillion at the end of August. The graph on the right illustrates how it has grown over the past 30 years. According to 'The Balance' the largest deficit goes to President Obama who added $8.3 trillion to the debt, a 70% increase to pay for his American Recovery and Reinvestment Act stimulus package, which halted the 2008 financial crisis. He also included both tax cuts and increased military spending.

Although the national debt under Obama grew the most dollar-wise, it wasn't the biggest percentage increase. That honour goes to Franklin D. Roosevelt. He only added about $236.1 billion between 1933 and 1945, but that was about a 1,048% increase. President Trump was the second-largest contributor to the debt. By the end of September, he had added $6.7 trillion to the debt since Obama's last budget. But this was only a 33% increase.

Meanwhile, the global debt to GDP ratio in "mature markets" has climbed to 392% compared with 380% in 2019 with Canada, France and Norway seeing the largest increases. Emerging Market debt surged to over 230% of GDP in Q1 2020 (vs 220% in 2019), largely driven by non-financial corporates in China.

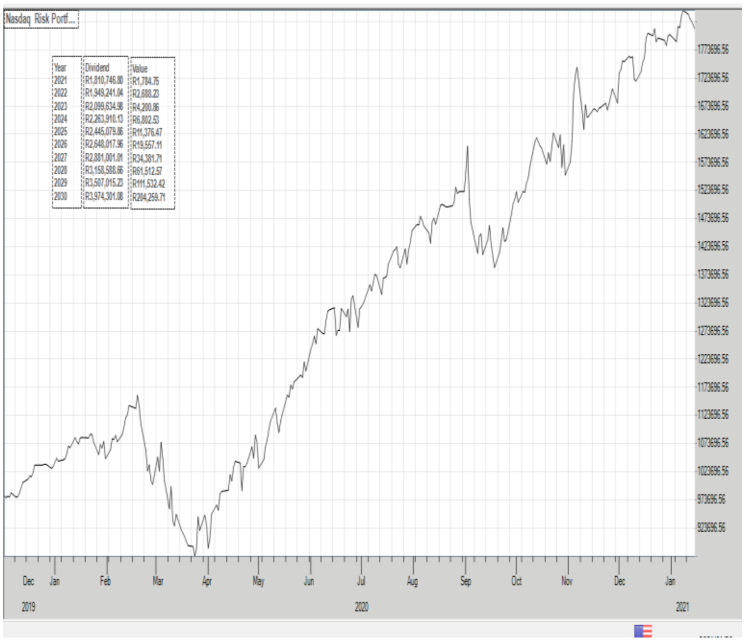
The most indebted nation, according to Trading Economics figures, is Japan whose borrowings now equal 237 percent of GDP followed by Greece with 177 percent, Lebanon with 169 percent and Italy with 135 percent. The US is tenth on the list with 107 percent, France is 15th with 98.1 percent, Canada is 22nd with 88.6 percent while South Africa trails a long way behind with 62.2 percent.

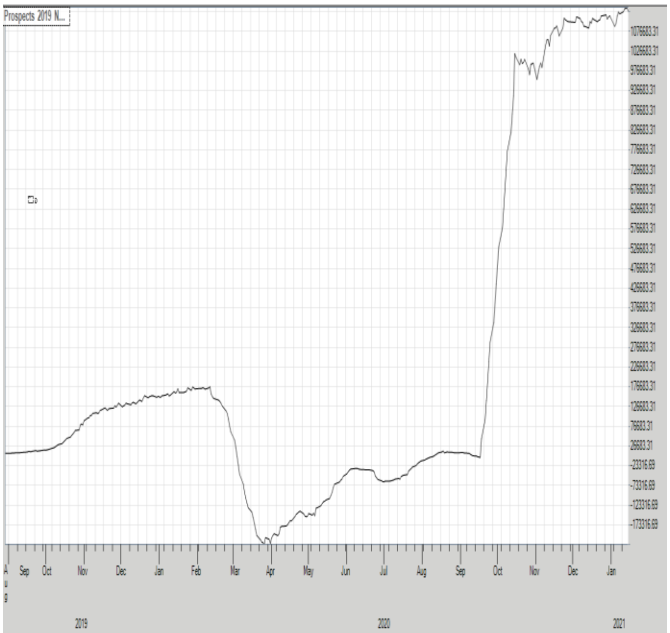
Nobody knows how much debt is too much, but there is a general consensus among mainstream economists that negative effects on economic growth begin as soon as the national debt reaches about 60 percent of GDP in developing economies and about 80 percent in developed nations. There is, however, wide acknowledgement that current levels of debt are well into the danger level and are a major contributory cause of the current global recession.

History, moreover, has shown us that the only effective way of unwinding such debt is to allow monetary inflation to erode the issued value of sovereign debt, effectively taxing the world's pension funds which are the principal lenders to government. Inflation is, of course, the effective destruction of currency purchasing power and so it simultaneously has its worst affects on people like pensioners who live on fixed incomes.

The only way to protect your savings against runaway inflation is to invest in hard assets like gold, and Blue-Chip shares which explains why market prices of both have been rising strongly even though economies have been stagnating in the wake of the Covid-19 pandemic. But, as I have frequently warned readers recently, there is a great mismatch here because it is the shares of the 'Big Tech' companies, which in many cases are not declaring profits, that are actually making most of the running.

My best-performing virtual portfolio (left below) is, for example, principally invested in shares which have declared no dividend. In little over a year, it has soared from an initial one-million-dollar investment to $1.813-million. By comparison, during the same period my New York Blue Chip portfolio (right below) has risen from the same base investment to $1.140-million.





What most concerns me right now, however, is a resurgence of talk about a wealth tax for South Africans aimed at fixing our debt levels and which, judging from reported leaks of discussions within the ANC leadership, is back on the table for discussion ahead of the budget which is due to be announced in February.

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It is a beguiling idea for those who received their economic training in the old Soviet Union but unlikely to appeal to President Ramaphosa whose estimated R6.4-billion fortune makes him South Africa's 17th wealthiest person but it would take a swipe at people like Johann Rupert who the ANC so love to hate. Arguably then, the introduction of a wealth tax at the next budget might give us a convincing answer to the currently much debated issue about who is really in control of the ANC....just saying!

But if the tax man is seriously considering a wealth tax it is worth noting that of the 12 European countries that have attempted to apply wealth taxes in the recent past, only four are still doing so. All the rest abandoned the idea because the tax brought in very little revenue despite its very high cost of collection. According to OECD data, a net wealth tax on individuals brought in just 0.55% of all Spain's tax revenues in 2017. By comparison, the rate in Norway stood at 1.1% and just above 3% in Switzerland that year.

So it is arguably an unworkable tax which, considering the fact that SARS is still trying to rebuild itself after the destruction of the Jacob Zuma years South Africa probably lacks the expertise to implement. Furthermore, since South Africa already suffers from the world's highest exodus of wealthy people who currently pay most of the taxes SARS collects, driving out more of them is unlikely to benefit the fiscus.

In justification of this argument, I need only turn to the actual experience of France which was one of the first to enact a wealth tax. A subsequent 2006 article in The Washington Post titled "Old Money, New Money Flee France and Its Wealth Tax" told it all. The article succinctly pointed out how the tax caused capital flight, brain drain, loss of jobs, and, ultimately, a net loss in tax revenue. Among other things, the article stated, "Eric Pichet, author of a French tax guide, estimates the wealth tax "earns the government about $2.6-billion a year but has cost the country more than $125 billion in capital flight since 1998".

According to an article in Wikipedia, examples of such fraud and malfeasance were revealed in 2013, when French budget minister Jerome Cahuzac was discovered shifting financial assets into Swiss bank accounts in order to avoid the wealth tax. After further investigation, a French finance ministry official said, "A number of government officials minimised their wealth, by negligence or with intent, but without exceeding 5 –10 per cent of their real worth ... however, there are some who have deliberately tried to deceive the authorities."

Yet again, in October 2014, France's Finance chairman and President of the National Assembly, Gilles Carrez, was found to have avoided paying the French wealth tax (ISF) for three years by applying a 30 percent tax allowance on one of his homes. However, he had previously converted the home into an SCI, a private, limited company to be used for rental purposes. The 30 percent allowance does not apply to SCI holdings. Carrez was one of more than 60 French parliamentarians who at the time of writing was battling with the tax offices over 'dodgy' asset declarations.

Moreover, I have referred at this stage only to the very wealthy; the dollar billionaires. But where do you really draw the line? It has been estimated that 62 percent of the wealth of the top one percent is "non-financial" – i.e., vehicles, real estate, and, most importantly, private business. Private businesses account for nearly 40 percent of their wealth and are the largest single category. A particular issue for small business owners is that they cannot accurately value their private business until it is sold while, faced with punitive taxation it would be logical to expect business owners to make their businesses look much less valuable than they really are, through accounting, valuations and assumptions about the future. Even the rich don't know exactly what they're worth in any given moment.

What is wealth? If you recognise it as owning more assets than the majority of the people then the truth is that the global bar is actually far lower than most people imagine. The median level by which wealth is measured globally is ownership of assets exceeding the sum of just $7 087 while, in the wealthiest nation on Earth, the United States, nearly three quarters of the population own assets greater than that and so the majority of Americans would correctly be in line for this new tax if it was to be evenly applied to the world's wealthy.

Everyone living in Belgium everyone owns more than that while in Australia 93 percent of the population fall into this wealthy category, in France 86 percent qualify as wealthy, in Britain 82 percent, Switzerland 80 percent, Norway 72 percent and New Zealand 63 percent to cite only a few examples.

In South Africa, the country with the world's highest difference between wealth and poverty, more than a third of our population would be classed as wealthy on that basis. 64.6 percent own less. There are arguably for example, very few homes in this country worth less than R100 000.

More importantly though many, like the majority of retired folk are capital rich but income poor simply by virtue of the value of their homes (which most bought when they were working and raising families together) and the capital value of the modest pensions that they on average draw. To saddle this group with a three percent wealth tax would virtually guarantee the fall of most western governments.

In conclusion then I need to quote a 2011 study by the London School of Economics which examined wealth taxes that were then being considered by the Labour party in the United Kingdom between 1974 and 1976 but were ultimately abandoned. The study revealed that at the time the British Government evaluated similar programs in other countries and determined that, for example the Spanish wealth tax might have contributed to a banking crisis and the French wealth tax had been undergoing review by its government for being unpopular and overly complex. Concerns were also raised about the practicality and implementation of wealth taxes as well as worry that they would undermine confidence in the British economy. Eventually the plans were dropped and former British Chancellor Denis Healey concluded that attempting to implement wealth taxes was a mistake, "We had committed ourselves to a Wealth Tax: but in five years I found it impossible to draft one which would yield enough revenue to be worth the administrative cost and political hassle."

The conclusion of the study stated that there were "lingering questions, such as the impacts on personal saving and small business investment, consequences of capital flight, complexity of implementation, and ability to raise predicted revenues that must be adequately addressed before further consideration of wealth taxes."

The latest to flirt with the idea were Democratic Party presidential hopefuls Bernie Sanders and Elizabeth Warren. Senator Warren's plan set an annual 2 percent tax on assets above $50 million, rising to 6 percent for billionaires. Bernie Sanders wanted to tax joint filers' wealth between $32 million and $10 billion at rates of 1 percent to 8 percent and his advisers bragged that this "...could wipe out half a billionaire's wealth in 15 years."

Arguably it was precisely these plans that cost then their shot at the presidency, allowing allowed Joe Biden to ultimately triumph in the race.

Tito, I know you receive this column. I hope you have time to read it!

Do enjoy your weekend

The month ahead:

New York's SP500: I correctly predicted a market downturn which I still see lasting until the end of the first week of February.

Nasdaq: I correctly predicted that the recovery had begun and see gains from here until at least the second week of April.

London's Footsie: I correctly warned of weakness likely to continue until the end of February albeit with a brief recovery two week from about January 25.

Germany's Dax: I correctly predicted the beginning of gains until early April and I still hold that view.

France's Cac 40: I correctly predicted a slight weakening which I still see lasting until late February ahead of the next gain to mid-April.

Hong Kong's Hangsen: I correctly predicted the upward spike was nearing its end and I now expect a very volatile declining trend until July.

Japan's Nikkei: I correctly predicted the beginning of the next up-phase which should last until late-March.

Australia's All Ordinaries: I correctly predicted the market was peaking ahead of a long decline which I expect to last until late March followed by a strong up-tick to mid-May and thereafter a fresh bear phase until mid-September.

JSE Top 40 Index: I correctly predicted the up-tick was probably over. Consolidation is now taking place ahead of another upward spurt likely to begin today but only lasting until about February 4 before a long decline until mid-August.

ShareFinder JSE Blue Chip Index: I correctly predicted the end of the brief up-tick. This decline should be over by the end of the month with gains thereafter likely until mid-February but then expect a volatile decline until the end of September.

Gold Bullion: I correctly predicted a continuing recovery until at least October.

The Rand/US Dollar: I have wrongly been expecting the onset of three months of weakness. Now the future has turned positive for the Rand with further gains likely until October.

Rand/Euro: I correctly predicted resumed gains until October.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.02 percent. For the past 12 months it has been 93.93 percent.

Eat the rich: Sars targets wealthy tax cheats

BL PREMIUM

21 JANUARY 2021 - 05:00 ROB ROSE

As 'lifestyle audits' are proposed to unearth tax cheats, the problem of SA's tax morality goes far deeper than just wringing more from the wealthy

Last week judge Dennis Davis was entertaining friends visiting SA from England. The conversation inevitably turned to his proposal for a new range of "lifestyle audits" for the wealthy, to close the tap on the billions vanishing in lost tax revenue.

"They said to me: 'If you look around at the streets of Joburg or Cape Town, there are far more Ferraris, Lamborghinis and Aston Martins than we see in England.' So, where is all this money?" asks Davis, in an interview with the FM this week.

It's a critical question since, if you look at the figures provided by the SA Revenue Service (Sars), there are about 6,500 South Africans who report a taxable income of more than R5m.

Last week, the annual New World Wealth report was released, estimating that there are 35,000 high net worth individuals (those with net assets of more than $1m) living in SA. There are also 86 people with net assets of more than $100m, and five with assets of more than $1bn.

Disturbingly, the number of SA's dollar millionaires has fallen 19.7% in the past four years. But the point is: you'd imagine a large number of those 35,000 people would earn more than R5m a year.

Which would mean that they aren't being captured in the Sars numbers.

"Just look at the luxury houses and fancy sports cars you see every day, then ask yourself how accurate this can be," says Davis. "It's clear there's a vast cohort of people earning vast amounts of money that are undeclared. How can it be that you're driving a Ferrari and declaring R250,000 a year in income?"

It's for this reason that Davis, who heads the committee that makes proposals to the government on tax policy, has now advised that SA's wealthy should be subjected to routine "lifestyle audits" to plug this gap.

It's a proposal that, partly for good reason, has opened a hornets' nest.

One of the immediate visceral responses is that this is just another measure to suck more money from the rich, given how the ANC has fundamentally failed to transform the economy and make it more equitable.

But Davis responds: "If your tax affairs are all kosher and you pay your fair share, why worry? If not, how do you rationalise it? Do you say, because I'm rich and if you implement a lifestyle audit, well then, I'll leave the country? If so, fine — go to the US. See how that works out for you."

But there is another objection routinely made by the wealthy, with some legitimacy.

It is: why should we pay more tax, when this money is either squandered (case in point: SAA, or paying incompetent officials) or, worse, stolen outright (case in point: SA's personal protective equipment scandal, the Estina Dairy farm project, and Eskom).

Davis says he understands this argument — but it's only true to a point.

"I'm totally with you. But actually, implementing a proper tax system can curb that. If I had my way, for every high-profile allegation of corruption, that person would automatically be audited by Sars. If we did that, it'd be much more effective than the Zondo commission, notwithstanding the excellent work done by him and his team," he says.

In his scenario, the wealthy would be subject to greater scrutiny, but were taxes to go missing, anyone accused of misappropriation would come under the microscope too.

Davis follows up with another question. "Assume we had an impeccable government, where nothing went missing: would the ultra-rich who're now making these arguments pay their taxes? I'm sure you know the answer."

Iraj Abedian, economist and founder of Pan-African Investment & Research Services, says the trend towards hiding money has accelerated sharply over the past decade.

"Some of my friends keep asking me why I don't use the Malta option, which is something of a mafia state specifically targeting Africa's rich and offering them citizenship if they stash large amounts of their cash in the country. But I don't want to be part of collapsing the society in which we live," he tells the FM.

But there's a reason why this has become so much more pervasive, and it has everything to do with SA's broken state, and tax morality.

In the early years of SA's democracy, the government successfully reframed the act of paying tax as "patriotic". You were part of rebuilding the new nation, contributing to a better life for all.

Then in 2009, Jacob Zuma was inaugurated, and corruption, always present but relatively subdued, rose to Olympian levels.

Iraj Abedian: The trend towards hiding money has accelerated sharply over the past decade. Picture: Robert Tshabalala

Tax morality dropped sharply. Abedian says in the last few years of Zuma's presidency, before he was ousted in 2018, many companies began to believe it was almost anti-patriotic to pay your tax.

"I was part of board meetings at that time where the discussion was, morally, should we be paying tax, given all the stealing? Should we be feeding a government that has become a monster?" he says.

Those boards considered two options: either an outright tax revolt, where money is paid into a trust but not paid over to Sars, or, if tax has to be paid, to pay as little as legally possible.

Abedian says that led to a mushrooming of tax avoidance schemes. Though Zuma was ousted and the narrative (if not the reality) changed to rebuilding again under Cyril Ramaphosa, the genie was out of the bottle. "The problem was, even if the stealing had stopped overnight, a lot of the tax base had already relocated in response to the Zuma years," he says.

"It’s going to be damned hard to reverse this."

One reason it’ll be so difficult to shift the conversation is because the looting is continuing. So, too, is the abuse of tax money to finance things that shouldn’t be financed — such as squadrons of bodyguards and blue-light cavalcades for vain politicians.

"The ministerial handbook, with all its perks, is immoral," says Abedian. "Why should a politician get a blue-light cavalcade, when I don’t? We’re both going to work — what makes him so special? Taxpayers see this, and they see how a mayor, or premier like Ace Magashule [former premier of the Free State] squanders their taxes, and they legitimately say: ‘Why must I pay?’"

There’s no easy answer. Citizens seeing their tax being abused has caused resentment to rocket, and tax morality to plunge.

Between 2012 and 2017, for example, the number of outstanding corporate income tax returns grew 87%, outstanding pay-as-you-earn returns rose 77% and outstanding VAT returns climbed 32%.

Outright protest grew too. Last year, business group Sakeliga, which is stridently opposed to the Covid lockdown, conducted a poll of its members: 62% said they’d consider withholding tax, even illegally, to protest against the way the government has handled the virus.

THE WEALTH SPLIT

Distribution of taxable income and tax liability (2018)

Income group	Number of taxpayers	Tax owed	Effective tax rate
Less than R100,000	359,128	R1.64bn	8.2%
R100,000 - R200,000	663,880	R5.18bn	7.4%
R200,000 - R350,000	819,987	R31bn	13.7%
R300,000 - R500,000	568,056	R45.57bn	19.3%
R500,000 - R750,000	382,607	R57.64bn	24.9%
R750,000 - R1m	159,376	R40.26bn	29.5%
R1m - R2m	142,765	R63.9bn	33.8%
R2m - R5m	34,347	R38.7bn	39.8%
R5m +	6,554	R28.6bn	43.8%

Source: SA Revenue Service

For policymakers, it’s a nightmare, as all these arguments are true: SA has run out of money; the government has shown it has the monetary discipline of a six-year-old at a sweet counter; and there are crooks wearing Savile Row cashmere suits hiding their assets to avoid tax.
The man responsible for navigating this landmine-strewn path is Edward Kieswetter who, alongside public protector Busisiwe Mkhwebane’s legal adviser and economics tutor, probably has the worst job in SA.

Kieswetter was picked as Sars commissioner in March 2019. He not only had to haul the tax agency onto its feet after four years of Tom

Moyane, he also had to cajole South Africans into paying tax to a government famous for squandering or stealing it. And that was before Covid hit, and payroll taxes plunged.

Nonetheless, Kieswetter — a one-time engineer, lecturer and choral conductor, with three master's degrees — now has to wring more money out of a broken economy.

"The easiest source of money available to us is to improve our tax collection. It's far better than raising new taxes," he tells the FM in an interview this week. "But to do this, we don't just have to close the tax gap when it comes to high net worth individuals; we need to look broader at the tax planning in companies, where there's all kinds of abuses, from transfer pricing to VAT fraud."

So how big a problem is this, exactly?

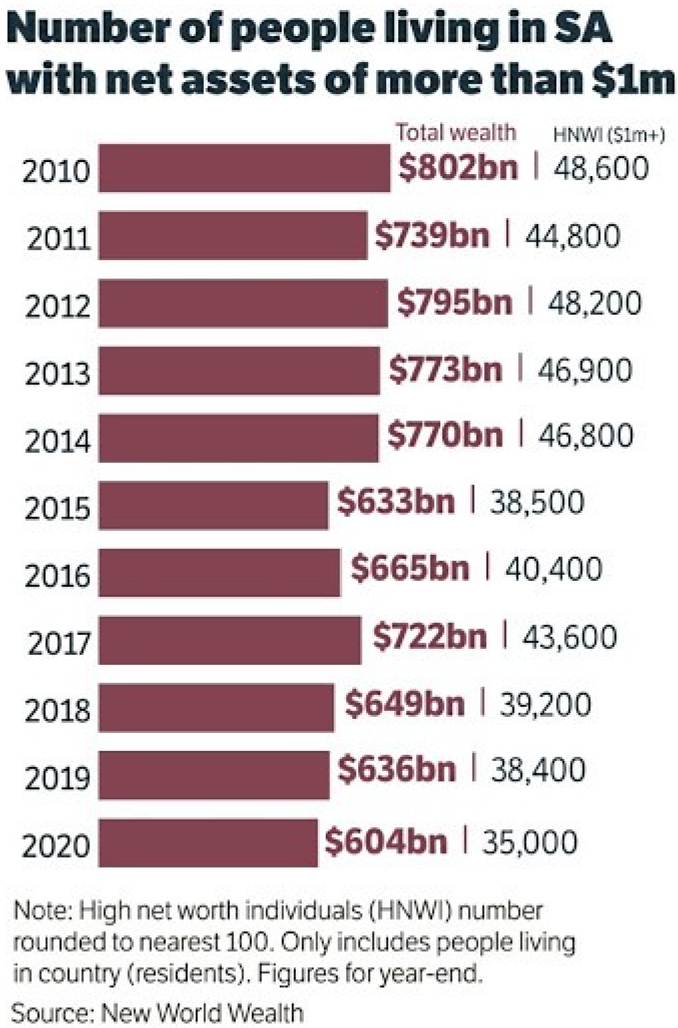
Until recently, it's been hard to put a number on it. But now, thanks to the fact that Sars is part of the OECD common reporting standard, it is automatically fed information about assets held in more than 90 countries. And it's illuminating.

"This revealed that South Africans hold R427bn in assets overseas," says Kieswetter. "Now, not all of that is illicit, but when we offered a special voluntary disclosure programme to allow people to come clean on these assets, 2,000 taxpayers with R29bn in overseas assets used it. We now need to scrutinise the rest."

By Davis's reckoning, SA is losing between R10bn and R15bn from wealthy individuals alone, who use every trick in the book to hide assets offshore or in trusts, thanks to fire-breathing lawyers and accountants.

But putting an exact number on how much is hidden away is tricky because, well, it's hidden away.

Kieswetter has now set up a dedicated "high net worth individuals unit", drawing information from all sources — including vehicle database eNatis, the deeds office, real estate registers and artificial intelligence — to compile individual risk profiles. Sars has added the first 60,000 such South Africans to that new risk-profile register.



Kieswetter points out that dodging taxes wasn't just a feature during the Zuma years.

"Thieves have always existed, the only difference was that state capture provided more fertile ground for them. But we've had aggressive tax avoidance for years," he says.

But if Kieswetter's job is to fix SA's tax morality, he can't do it alone. The government can't simply extract taxes, and not be held accountable for how they are spent. Taxpayers must know they're getting value for what they pay.

Back in 2013, the revenue service's strategic plan warned that an "unfavourable public perception of poor state service delivery and corruption pose the largest compliance risk to Sars".

"Research and empirical evidence show that taxpayers' attitude towards compliance, and their willingness to comply, [are] influenced by how they perceive public funds to be utilised. Concerns about corruption in the public sector remains an issue," it said.

Ivan Pillay, the former deputy commissioner of Sars before it fell into ruin under Tom Moyane, says the situation today, with widespread corruption and dysfunction, is far worse

"Trust, which is based on the social contract between government and its citizens, has been repeatedly undermined," he says.

"What is required is for government to admit what we all see and know … that we are in a perilous situation. [It must produce] a simple plan that is focused on fixing the state, [which it must] demonstrate with deeds and not just words." If it can do this, Pillay says, most people will support the government and be ready to contribute.

And yet, even before the government has demonstrated that it is able to spend wisely what it collects, it's already speaking brashly of "new taxes", under the pretext of Covid-19.

This week, the wealthy and middle classes were spooked when National Treasury director-general Dondo Mogajane suggested that taxes may have to be raised to fund the Covid vaccine.

This is alarming for two reasons. First, a year ago, finance minister Tito Mboweni was unequivocal that it would be "foolhardy" to raise taxes, saying, if anything, we need "far deeper tax cuts to spur demand".

Can the Treasury honestly think this danger has receded?

Second, many argue that taxpayers already pay enough to the government, but that it wastes this by bailing out state-owned companies, and employing thousands of workers in government who do nothing.

Farcically, SAA received R10.5bn from the Treasury — yet the cost of the vaccine rollout is pegged at between R12bn, according to some experts, and R20.6bn, if you believe the department of health's calculations.

Mogajane made reference to this when he said: "SA will not take us seriously if I can find money for SAA but not for vaccines."

But would reaching for the bluntest tool in the shed — raising taxes — not underscore the crisis of creativity in the government, showing it has been unable to think of smarter solutions to finance the vaccine?

Encouragingly, Kieswetter isn't in favour of raising taxes.
"Raising taxes now would have a negative impact on the overall economy and, actually, we need to be looking at a downward trend in tax rates, specifically corporate tax rates. We need to broaden the base, so that we tax a greater number of people a smaller amount of tax each," he says.

So, how would any "Covid tax" square with that imperative?

"Many countries have raised a one-off tax or levy at some point," he says. "This is what is being discussed now, as a temporary measure, since we've run out of options."

But isn't the clear danger that any one-off tax becomes permanent? After all, if there's one thing SA's government knows how to do, it's spend money.

"Well, yes, that is a danger," says Kieswetter. "But we're now in a hole where we can't take anything off the table. Economists say we're only likely to get back to the 2018 levels of GDP growth by 2023."

There are other solutions: before milking its citizens further, the government needs to slash its spending on nonessential programmes, trim its bloated workforce and nix wage hikes for state workers.

The DA's Geordin Hill-Lewis says the vaccine money could be found by reprioritising wasteful programmes and cancelling wasteful bailouts.

"South Africans already have to bear a high tax burden with vanishingly little to show for it in the form of public service delivery," he says. "[Tax hikes would be] not only morally indefensible, but bad economic policy as well."

For economist Mike Schüssler, it’s an indication that the government is entirely insensitive to the financial predicament of all South Africans, as the middle class battles blackouts and the virus.

"We have to buy vaccines and our choices are: borrow, spend less or tax more. Unfortunately, the default position of our government is to tax more. But actually, we have other options we’re just not considering," he says.

What options? Well, says Schüssler, you could sell assets — such as our airports, harbours, unused mineral rights or even state companies. And the money from auctioning high-end data spectrum could also go to finance vaccines.

"The point is, tax isn’t our only choice. Even small things — like adding a R1 ‘vaccine surcharge’ for each beer bought — would help. There are many ideas like that," he says.

Schüssler agrees, however, that "lifestyle audits" are necessary to ensure high net worth individuals pay their way. But, like Abedian, he believes it should apply to politicians too. "We must conduct audits of all politicians and those making decisions on tenders," he says.
Schüssler says that while we frequently talk about the "tax morality" of taxpayers, we need to also talk of the "tax morality" of those spending the money.

"Those who spend it must be held accountable for whether they use what they collect to run an efficient government."

This also comes at a time when SA’s wealthiest people are being enticed overseas by "residency investment" schemes, like those offered in Malta, the Bahamas and even Mauritius.

"These countries are marketing these schemes everywhere, so we must be smart. If we overtax our wealthy, they’ll leave over the coming years. We need to think how we can entice capital back to the country, not push it out," says Schüssler.

This imperative — ensuring SA remains attractive to investors — is, of course, an entirely different issue to unearthing those hiding assets from the taxman. Somehow, SA needs to do both, simultaneously.

Magnus Heystek, who started his career as a journalist but who now runs Brenthurst Wealth, says he has had a number of people knock on his door in recent years, asking furtively if he could help them hide money from Sars.

"In every case, we tell them we can’t help them. We’re so tightly regulated, both in SA and overseas, that I have no idea how you’d even begin to do this," he says. "But even if we did know, we wouldn’t help — we’d be risking our whole business."

The point, says Heystek, is that there are so many regulations in place that this notion that the rich are "hiding billions" is probably overblown.

"It’s popular to say, ‘the rich are riding around in Ferraris and paying nothing’, but in practice, it would be very difficult to do this," he says.

Difficult, maybe — but it is happening. The case of Edwin Sodi, who was arrested on charges relating to the R255m asbestos tender implicating ANC secretary-general Ace Magashule, shows this.

Sodi splashed his cash around as if it were Johnnie Walker Blue at an ANC gala. His assets included 11 luxury apartments, a fleet of luxury cars including a Rolls-Royce Ghost, a Bentley Continental convertible and a Porsche Cayenne S Coupé, and a seven-bedroom 3,500m² mansion in Bryanston, which boasts a 12-seater cinema and a gym.

Perhaps what has changed is that thanks to the tougher rules, the mainstream wealth managers are no longer helping the crooks hide assets, as they would have in the 1980s.

Heystek argues that targeting the rich — rather than fixing the holes in the system and how much is spent by a delinquent government — is a populist political slogan.

"High net worth individuals have been under siege for a long time. It's why we've seen their numbers in SA dwindle by 19.7% in the past four years," he says.

Johann van Loggerenberg: It's unfair for the majority to be paying tax, while others are cheating the system.

Picture: SOWETAN

Another reason, he says, is that many have either emigrated or taken their cash elsewhere, since the wheezing SA economy has provided negative returns in dollars over the past decade.

It's why Heystek has been advocating that South Africans take money offshore.

"But this must be done legally," he says.

If there's anyone who knows how treacherous this terrain can be, and how emotionally charged it is, it is Johann van Loggerenberg.

For more than a decade, he was a manager in charge of a number of investigative units at Sars, until he was ousted as part of the state-capture purge in 2014. With him went encyclopaedic knowledge.

Van Loggerenberg acknowledges the credibility issues the government now faces. The lag effect of state capture, the consequences of Covid-19, a long history of socio-economic inequalities and scant economic growth have created a cocktail of problems.

"Constantly saying we'll squeeze more money out of a shrinking tax base risks scaring off high net worth individuals," he says. "Of course, this doesn't mean we shouldn't do it — but we must do it in a sophisticated and fair way."

Van Loggerenberg is clear: there is plenty of unpaid tax money out there, and it's unfair for the majority of the country to be paying their share, while others are cheating the system and not paying a cent.

He points to the illicit tobacco kingpins, who made millions during the tobacco ban, and those who're doing the same during Ramaphosa's current alcohol ban.

"Those are cash sales, which you can't audit in the normal course of business. So you need a sophisticated method to flag these people, identify them [and] understand the risk, and an ability to determine if they've paid their dues," he says.
However, he warns, a lifestyle audit isn't an easy thing to implement.

"If there's one institution that is capable of doing this, it is Sars.

But it isn't a simple tick-box exercise. You might have a house in your name and a single bank account, but high net worth individuals don't necessarily exist like that fiscally. So, you are going to need access to third-party data, in SA and offshore. On top of it all, it is a process that must be fair, just and entirely confidential."

Sars was getting its head around doing exactly this, until Moyane arrived as commissioner.

Not only did he axe many of the experienced hands, he also dismantled the "large business unit", which had a "high net worth individual" arm, analysing a matrix of individuals and companies and trusts.

The upshot, says Van Loggerenberg, is that since 2014, we haven't seen a single instance of a high net worth individual taken to task, in the way that Specialised Outsourcing founder Dave King was, or tobacco kingpin Hennie Delport.

"After 2014, it became a free-for-all," Van Loggerenberg says. "In terms of high net worth individuals, it set us back to the 1990s. Do I think it can recover? Yes — there is still institutional knowledge, and we're not starting from scratch. But it won't be as easy as some people think."

This is the bottom-line: can the genie be put back into the bottle? Can tax morality and enforcement, both badly hurt in the past decade, be fixed so that more people contribute what they should, and taxes don't have to be hiked for everyone?

For Abedian, SA doesn't really have a choice. Economically, we're already in the last-chance saloon.

WHAT IT MEANS:

To regain trust, the government must show that it is not wasting money on foolish schemes or allowing it to be stolen

It's why he, along with the Thabo Mbeki Foundation, plans to launch a major initiative in the next few weeks to address the estimated $88bn that leaves Africa illicitly every year — both from the rich hiding assets and from companies using clever tax schemes.

"We know it's happened. So I believe the Sars commissioner should call in the 20 largest companies which we know are doing this, and say: 'Look, we know what you're doing and we don't want to judge you, but we have to restore tax morality. So we're giving you a two-year grace period to restore your tax situation,'" he says.

If we don't begin finding solutions, even though we have a broken and untrustworthy government, we'll get into a vicious cycle of people flouting their tax obligations and the country crumbling, he says.

"We'll end up as a failed state and a failed economy. We need to restore the social compact, because otherwise the structure we all live under will collapse."

And then, he says, populists touting deceptively easy fixes will sell their snake-oil solutions to citizens, and SA's longer-term social fabric will be ruined.

Everything, in other words, is at stake.

The Fed Tiptoes Into Race

For the Federal Reserve, 2020 was a YOLO year. In response to the coronavirus crisis, the central bank quickly dropped interest rates to near-zero and, in unprecedented fashion, provided up to $2.3 trillion of financing to support businesses and markets.

It also confronted issues of racial inequality far more than it had since its founding in 1913. The killing of George Floyd last spring spurred calls for the Fed, the most powerful economic policymaking body in the world, to reflect on the ways its own actions have reinforced racial inequality—and use its influence to help address it.

The backstory

Historically, the Fed has acted like a football player under Bill Belichick—it just tried to do its job. And that job, as mandated by Congress, is very clear: to 1) keep prices stable and 2) achieve maximum employment.

But by pursuing those goals like a horse with blinders, critics say, the Fed ignored racial economic inequality and perhaps made it worse.

- **One example:** In the 1950s and 1970s, the Fed raised the cost of borrowing to slow down inflation growth (and fulfill job #1). According to Howard University economics professor Williams Spriggs, that tightening of credit disproportionately harmed Black Americans and inflated Black unemployment relative to the national average.

The nowstory

The Fed is swapping its "do your job" approach in favor of a "with great power comes great responsibility" approach. In the fall, the Fed kicked off a series of events that explored the central bank's role in racial economic inequality.

- First came the reckoning. The Fed "absolutely has to know, be passionate about, be interested in not just the wealthiest or the median, but all the people," said Ursula Burns, the former CEO of Xerox and the first Black female CEO of a Fortune 500 company.
- Then came the pledge to do better. "We need to step forward and be present in this conversation and own that we have a role to play," said Atlanta Fed President Raphael Bostic, the first Black person to lead a regional Fed bank.

Not everyone thinks the Fed should step outside its traditional job description. As Minneapolis Fed President Neel Kashkari pointed out, some people will say it's Congress's role, not the Fed's, to tackle issues of racial inequality. The WSJ editorial board argued a greater focus on race would lead to "ultraloose" monetary policy (inviting more inflation).

Looking ahead…the Fed's greater attention to racial inequality is now being written into actual policies. Following a 20-month review, the Fed released new guidelines stating that maximum employment is a "broad-based and inclusive goal." That's central bank-speak for signaling it'll consider the unemployment rate among minorities when making decisions.