Property-Tax's Effect on Income Redistribution in African Countries

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Contributor: Ireen Choga , Fiyinfoluwa Giwa

Tax plays an important role in the redistribution of income, and property tax is no exception. Although other taxes such as income tax play a more effective role in redistributing income due to their high revenue intake, property tax is a supporting tax to better achieve this objective for African countries. One key area that income redistribution curbs is the issue of income inequality, and, statistically, most African countries have a high level of income inequality due to their high Gini coefficient).

property tax income redistribution African countries income inequality fiscal policy direct tax indirect tax

1. Introduction

As of 2019, South Africa had the highest inequality in Africa and the world. Namibia, Zambia, and Botswana are also among the countries with high inequality [1]. Taxation has an impact on poverty and economic disparity. Progressive taxation redistributes wealth from the wealthy and ultra-wealthy to marginalised and disadvantaged populations [2].

Fiscal policy is a critical tool that governments utilise to foster macroeconomic stability and redistribute income to the marginalised and disadvantaged. This research has observed that the continuous disparity between the rich and the poor remains a major concern of which there is a need to further curb it. A fiscal policy that is well-designed and implemented is critical for national progress, social stability, and economic growth. Factors such as taxation, government spending, and transfers are critical tools for accomplishing these goals. Since the 1980s, the distributive role of fiscal policy has been disregarded, with an increased emphasis on macroeconomic stability. However, with time, the redistributive functions of fiscal policy have been taking precedence [3]. Taxation and redistribution policies can have a considerable impact on the distribution of income. There is significant room for improvement for most African countries in this area, both in terms of fiscal space and tax progressivity.

Furthermore, Africa is home to most the world's poorest inhabitants, with 413 million individuals barely surviving on less than USD 1.90 per day across the continent. The African continent is also the world's second most unequal continent, with numerous African nations ranking among the world's most unequal countries. Africa is home to ten of the world's top 19 most unequal countries [4][5]. The bulk of these nations are in Southern Africa, with South Africa being classified as the country with the most disparities.

Sub-Saharan Africa has an average Gini index of 0.46, while the rest of the world has an average of 0.38, according to United Nations data [4]. It is well known that unbiased distribution of income is crucial for poverty alleviation, particularly in emerging countries. Rural areas, where 70% of the developing world's extremely poor reside, are particularly vulnerable to the interplay between growth, poverty, and inequality. As a result, technological advancements in agriculture, as well as those in sub-Saharan Africa, are hindered by deep and pervasive poverty and inequality [6].

2. The Relationship between Taxation and Income Redistribution

The relationship between taxation and income redistribution has attracted much attention from scholars. Studies have examined the nexus between taxation (direct or indirect) and redistribution of income.

The research by [7] examined taxation as an effective tool for income redistribution in Nigeria. The research used annual data from 1981 to 2014. The ordinary least squares (OLS) statistical tool was used to analyse the time series data gathered. The result suggests that taxation has not been able to fulfil its role as a standard tool of income redistribution in Nigeria. Overall, the research revealed that taxation has an insignificant impact on income inequality and income redistribution in Nigeria. However, the empirical result of [8] revealed that taxes play a major role in income redistribution in Nigeria. Appah and Omesi [8] investigated the effects of taxes on income inequality and income redistribution in Nigeria for the period of 1980 to 2018. The vector error correction model (VECM) was employed in the research. The research revealed that an increase in direct tax (wealth tax, personal income tax, and corporate tax) reduced income inequality, thereby increasing income redistribution in Nigeria. The research concluded that taxation (direct tax) has a negative and significant relationship with income inequality.

Balseven and Tugcu [9] discovered comparable results. Balseven and Tugcu [9] examined the effect of fiscal policy on income distribution in developed and developing countries. The research utilised 17 developing countries and 30 developed countries between 1990 and 2014 by using the random effect (RE) model. This research discovered that an increase in tax revenue increased income distribution in developing countries. Similarly, Hümbelin and Farys [10] investigated income redistribution through taxation in Switzerland. The research discussed specifically how a reduction in tax affects income redistribution. The research used tax data from the canton of Aargau for the period of 2001 to 2011. The findings of this research revealed that tax reduction drastically reduced the redistributive effect of taxes. Likewise, the findings of Causa et al. [11] suggests similar result. Causa et al. [11] investigated the drivers of income redistribution across the OECD countries. The research discussed the impact of changes in tax and the tax transfer system on income redistribution in working-age households. The research used the fixed effect (FE) method to analyse the data from 1990 to 2010. Findings revealed that changes in the size of tax and tax transfer systems can have a negative impact on income redistribution in the OECD countries, most especially on the working-age population.

While there are many studies of taxation and income redistribution, there are limited studies of property tax more specifically. Some articles interchange property tax with wealth tax. Halvorsen and Thoresen [12] analysed the

Norwegian distributional effects of wealth tax under different income concepts. The research used the Norwegian administrative data for the period of 1993 to 2011. The fixed effects (FE) method was used as the econometric technique to analyse the subject matter. The findings of this research revealed that wealth tax is mostly borne by high-income taxpayers and it has a redistributive impact. Wealth tax has a positive relationship with income redistribution. However, according to [13] in an article that investigated wealth tax and wealth and tax compliance in Spain, wealth tax does not have a redistributive effect. This research focused on the distributive effect of the top one percent of the richest adult population in Spain. The research used a time series analysis for the period of 1983 to 2001. An autoregressive distributed lag (ARDL) model was employed in the research.

Furthermore, the research of [14][15] discussed the aspect of property tax in their study. This research categorized property tax under direct tax, Karabulut [15] analysed the impact of indirect and direct taxes on income distribution in Turkey. In this research, the researcher classified property tax as a direct tax. The research used autoregressive distributed lag (ARDL) for the period of 1990 to 2017. The findings of this research revealed that direct taxes are more effective in the redistribution of income. On the other hand, indirect taxes are estimated to negatively affect income distribution. Overall, property tax/wealth tax has a positive impact on income redistribution. This result is similar to the findings of [14] who examined the effect of taxes on income distribution in Turkey. The research analysed the impact of direct and indirect taxes on income distribution. Autoregressive distributed lag was employed for the years from 1980 to 2014. The research’s findings indicated that direct tax decreased the Gini coefficient, thereby increasing income redistribution. However, indirect tax increased the Gini coefficient, thereby reducing income redistribution. From these empirical studies, it is clear that property tax/wealth tax and income tax have a positive impact on income redistribution. On the one hand, Zandvakilli [16] and Yagi and Tachibanaki [17], discovered that property tax contributes little to no impact on income redistribution. However, Pei et al. [18] alluded that income tax and property tax have stronger effect on income redistribution. Additionally, based on the methods of previous studies, the autoregressive distributed lag (ARDL) will be employed in this research to investigate the effect of property tax on income redistribution.

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