WEALTH TAXATION IN THE OECD

KEYNOTE SPEECH

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PUBLIC SECTOR ECONOMICS 2019
WEALTH AND PROPERTY TAXATION: WHERE DO WE STAND?
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OECD
BETTER POLICIES FOR BETTER LIVES

Introduction

- Reports released in 2018 on the *Taxation of Household Savings* and *The Role and Design of Net Wealth Taxes in the OECD*

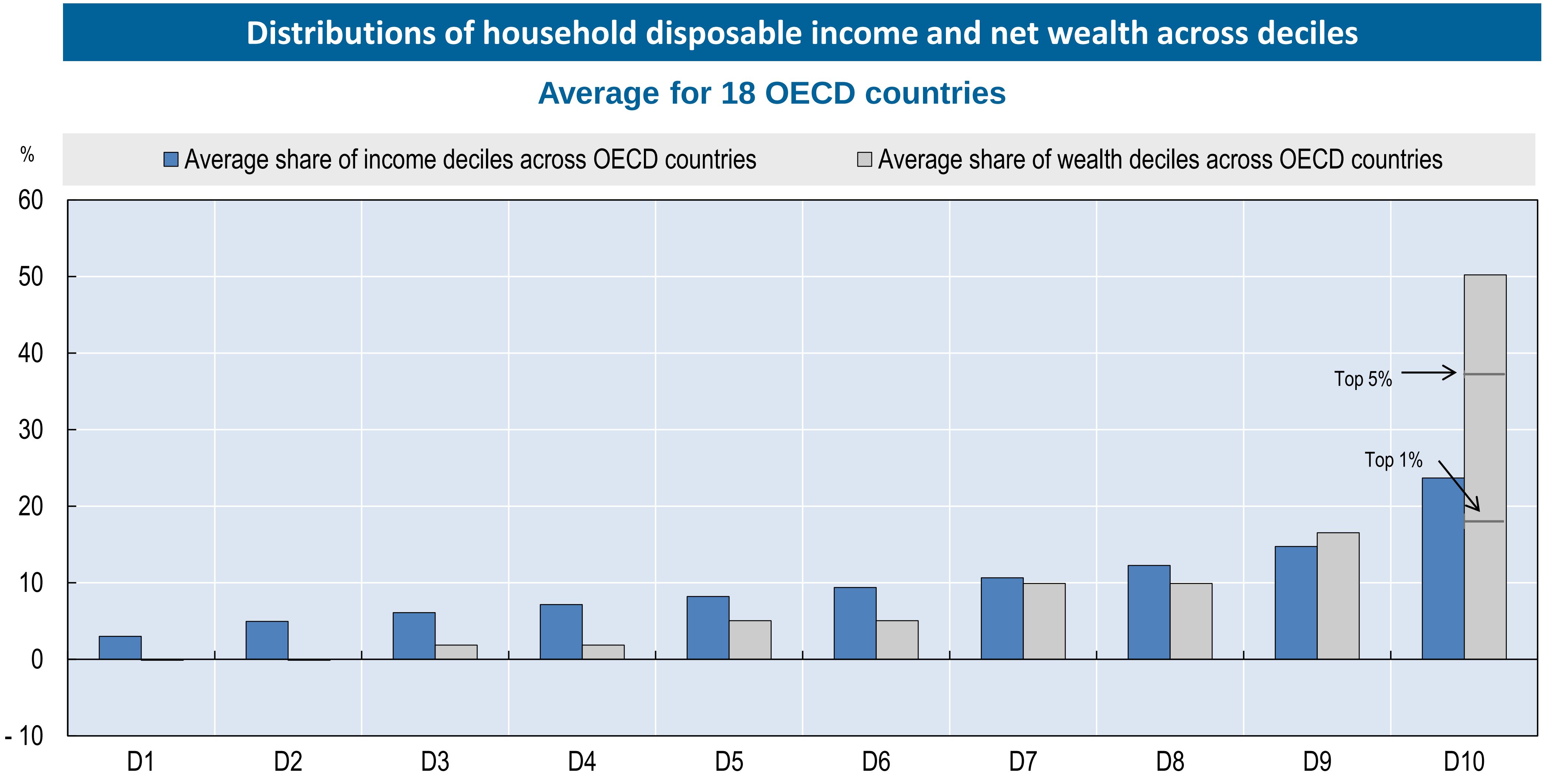
- New project on inheritance taxation in the OECD

Key questions

Can wealth and capital income taxation be used to raise more revenues and increase the fairness of tax systems? If so, how?

Wealth and inheritance trends

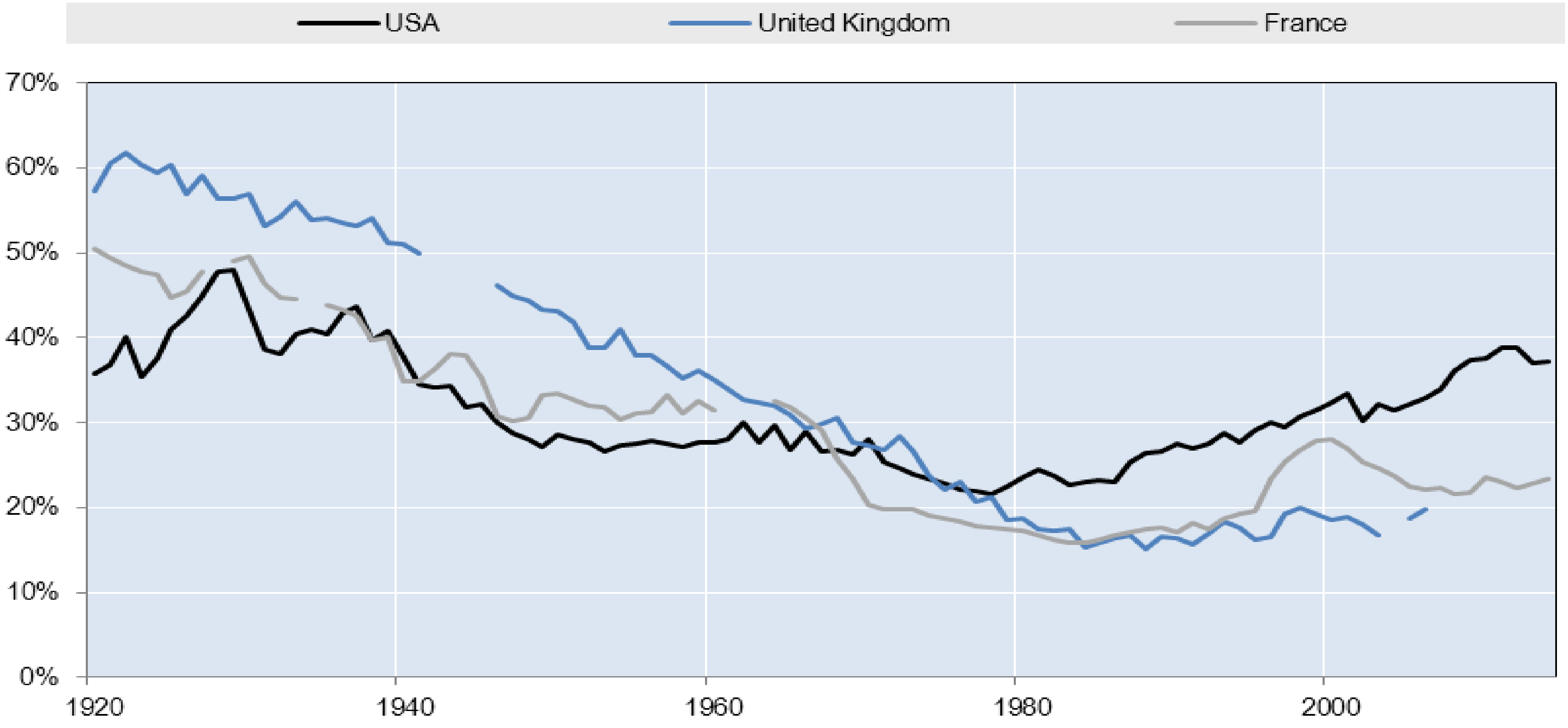
Wealth inequality is far greater than income inequality



Source: OECD (2015) based on OECD Wealth Distribution Database and OECD Income Distribution Database

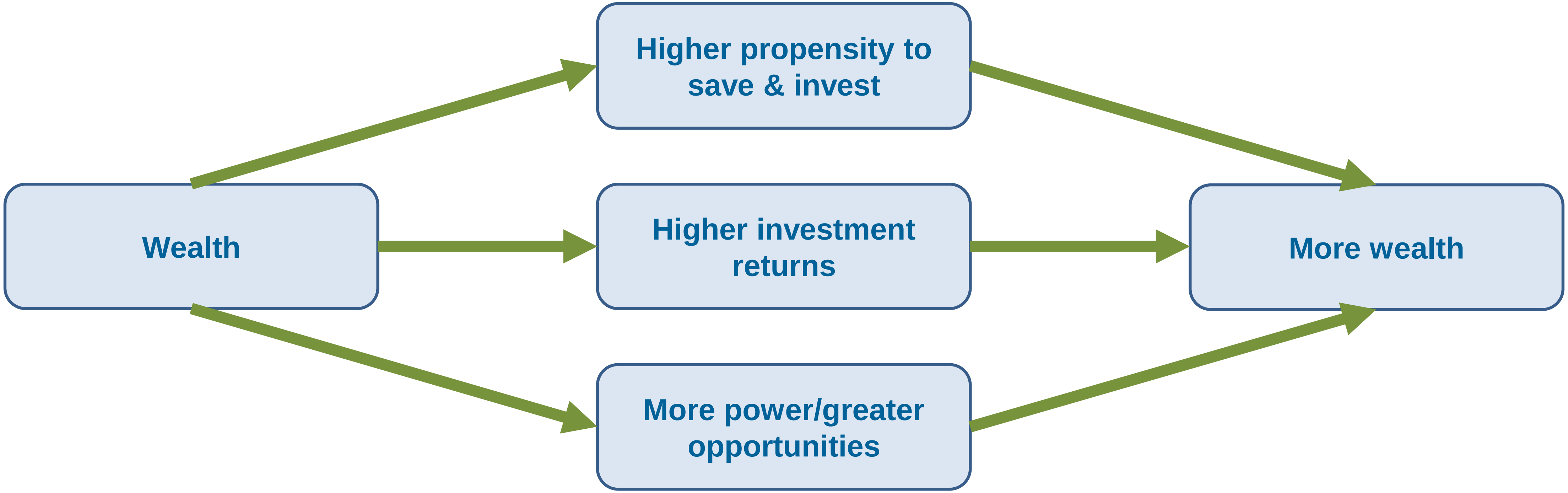
Wealth inequality is high and there is some indication that it has increased since the 1980s in some countries

Evolution of the top 1% net personal wealth share in France, the UK and the US between 1920 and 2015 (or latest available year)



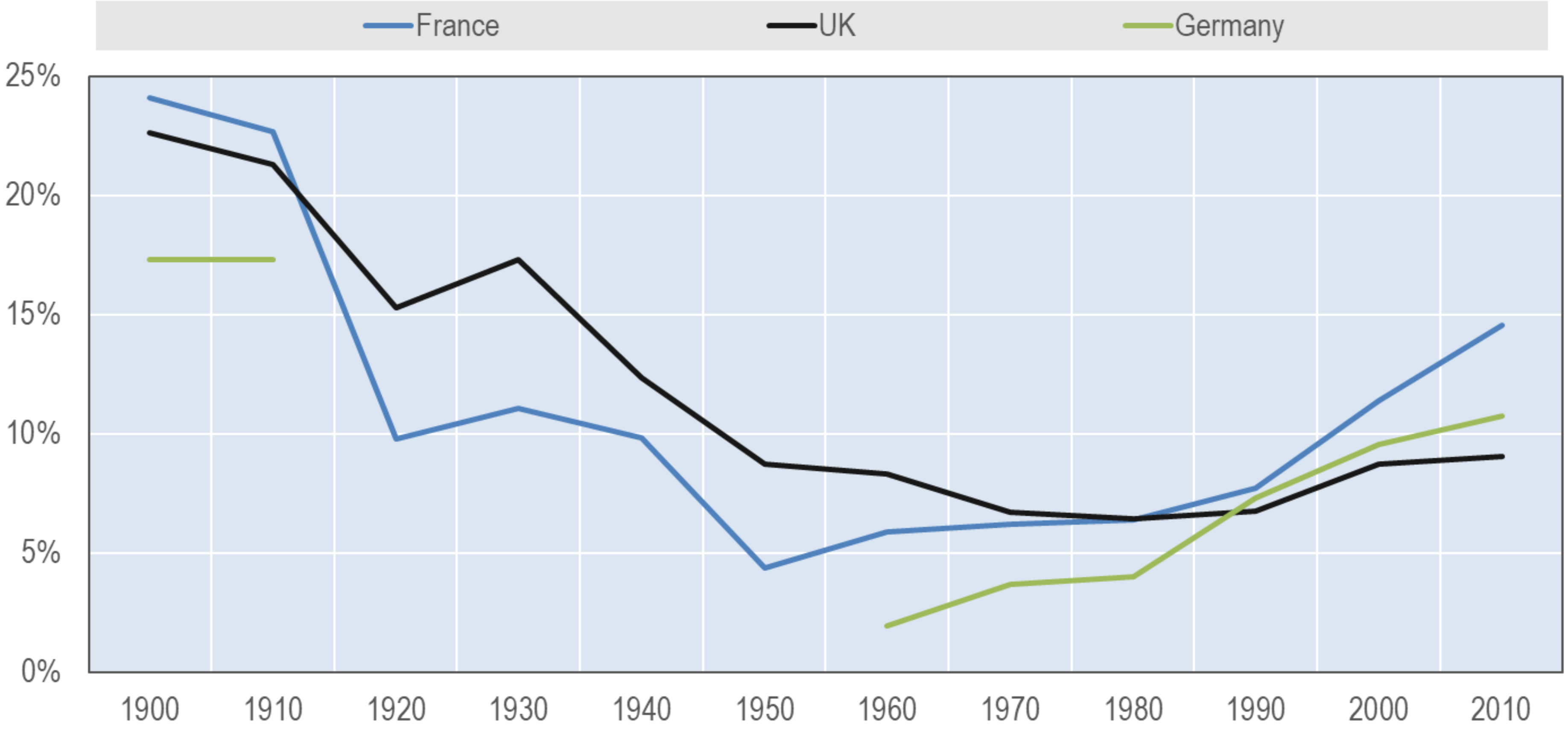
Source: World Wealth & Income Database

The self-reinforcing nature of wealth accumulation



The importance of inheritances appears to be increasing as well

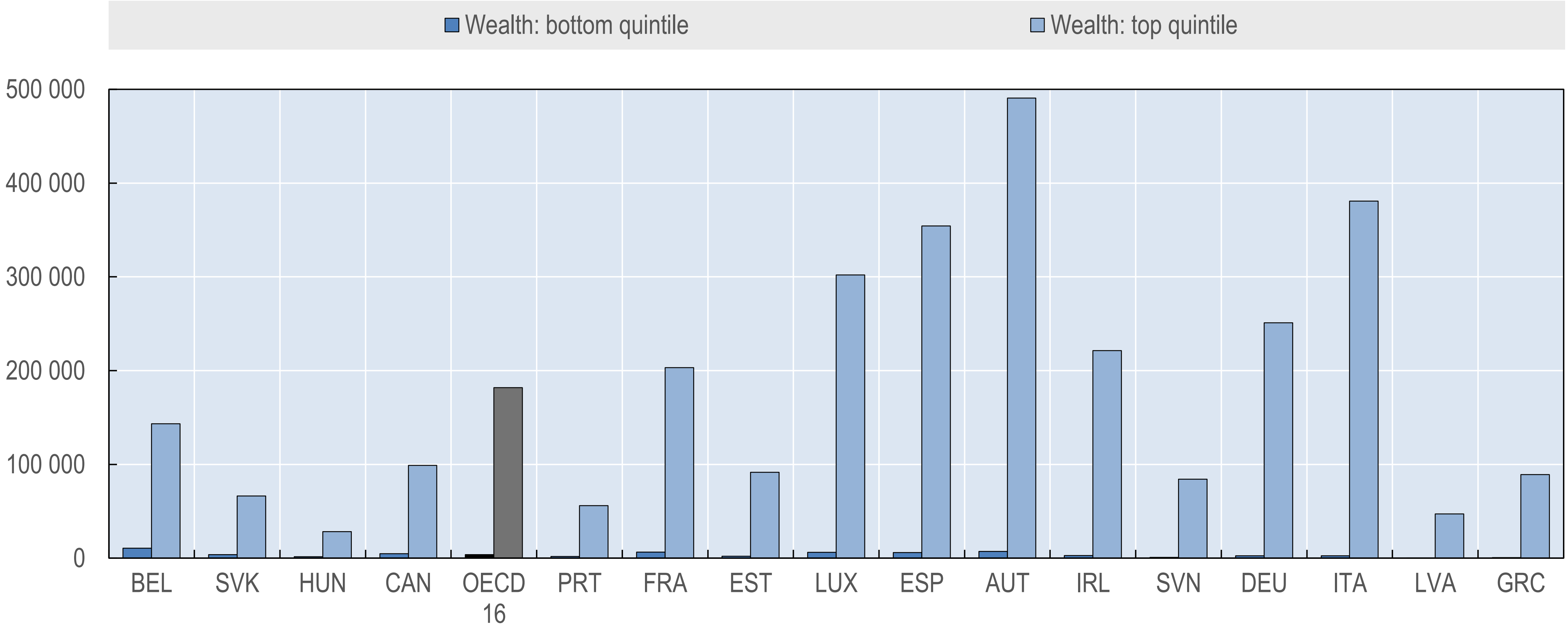
Annual flow of inheritance as a fraction of national income between 1990 and 2010



Source: Piketty, T. and G. Zucman (2015), "Wealth and inheritance in the long run", Chapter 15 in Handbook of Income Distribution

There are wide disparities in wealth transfers

Average value of inheritances received for bottom and top wealth quintiles (in 2011 USD)



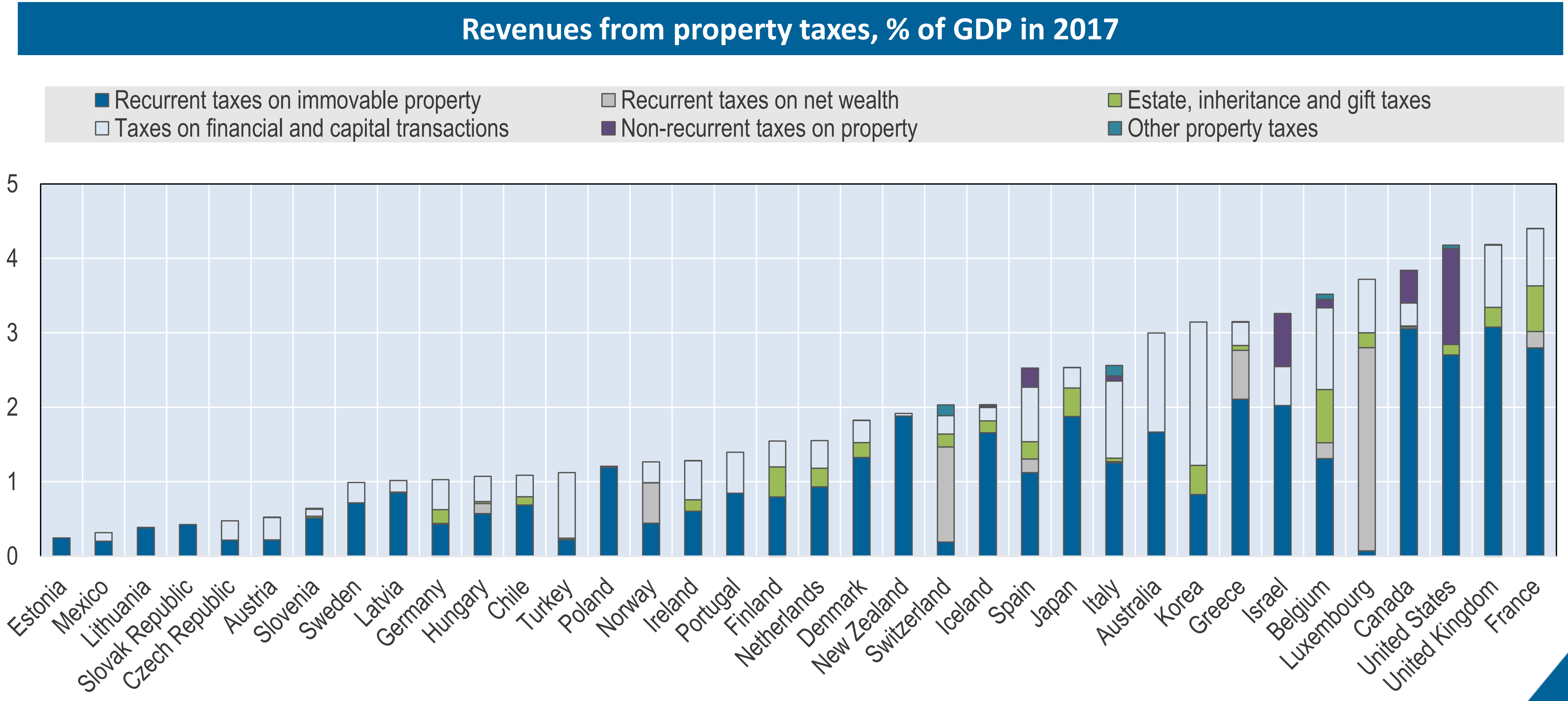
Source: OECD Wealth Distribution Database

Other important changes in relation to inheritances

- The **age** at which people inherit is increasing because of people living longer
- The **number** of wealth transmissions will increase with the baby-boom generation getting older
- The **value** of inheritances has increased due to increases in asset prices, in particular on the housing market
- The **ability** to tax offshore wealth has increased

Revenues from property taxes

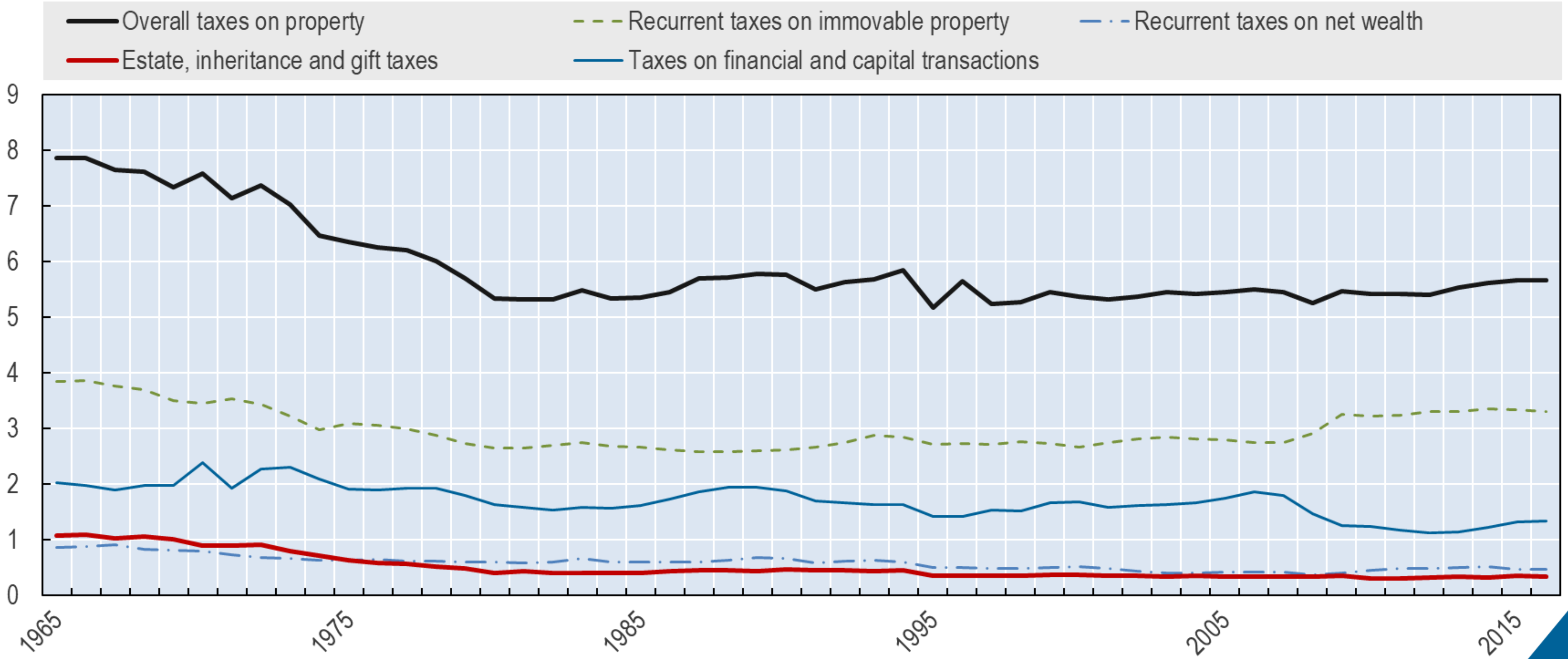
Property tax revenues are generally low in OECD countries



Source: OECD Revenue Statistics Database

The role of property taxes as a source of revenues has declined since the 1960s

Property tax revenues by components as a share of total taxation – OECD average



Approaches to taxing wealth & capital income

Taxing wealth – different approaches

- Taxing the income from assets
  - Taxes on dividends, capital gains and interest at the personal level
- Taxing specific assets
  - E.g. recurrent taxes on immovable property
- Taxing wealth transfers
  - Inheritance/estate and gift taxes
- Taxing overall net wealth
  - Net wealth taxes

Lower and less progressive personal capital income taxes

Evolution of taxes on capital income – OECD average

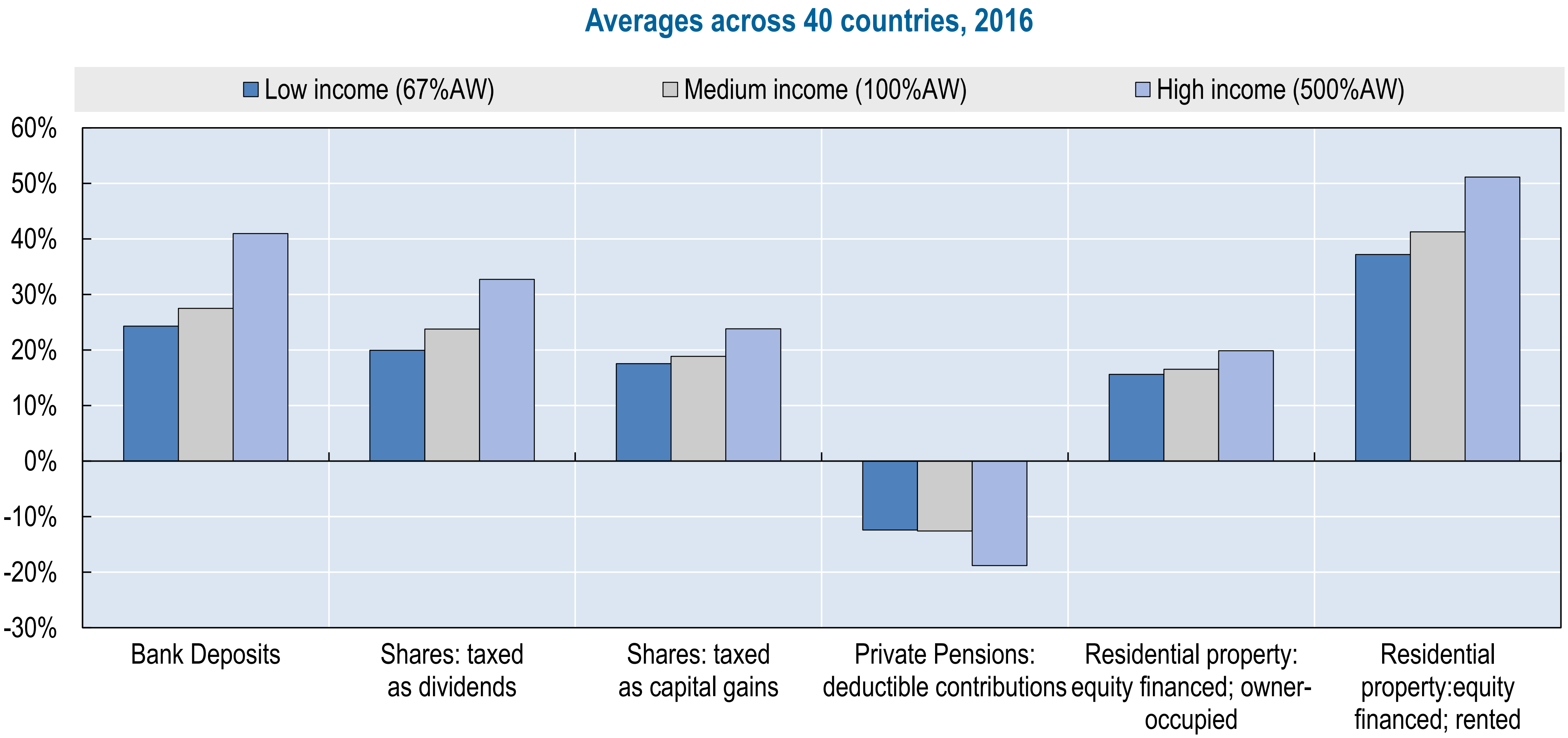
Source: OECD Tax Database

- ❑ **Lower(often flat) taxes on personal capital income**
  - For economic efficiency and simplicity
  e.g. dual income tax systems

- ❑ **But differential between personal labour and capital income:**
  - ⬇ Horizontal equity
  - ⬇ Vertical equity
  - ⬆ Labour earnings → capital income

Heterogeneity and regressivity in the taxation of savings

Marginal effective tax rates by asset type



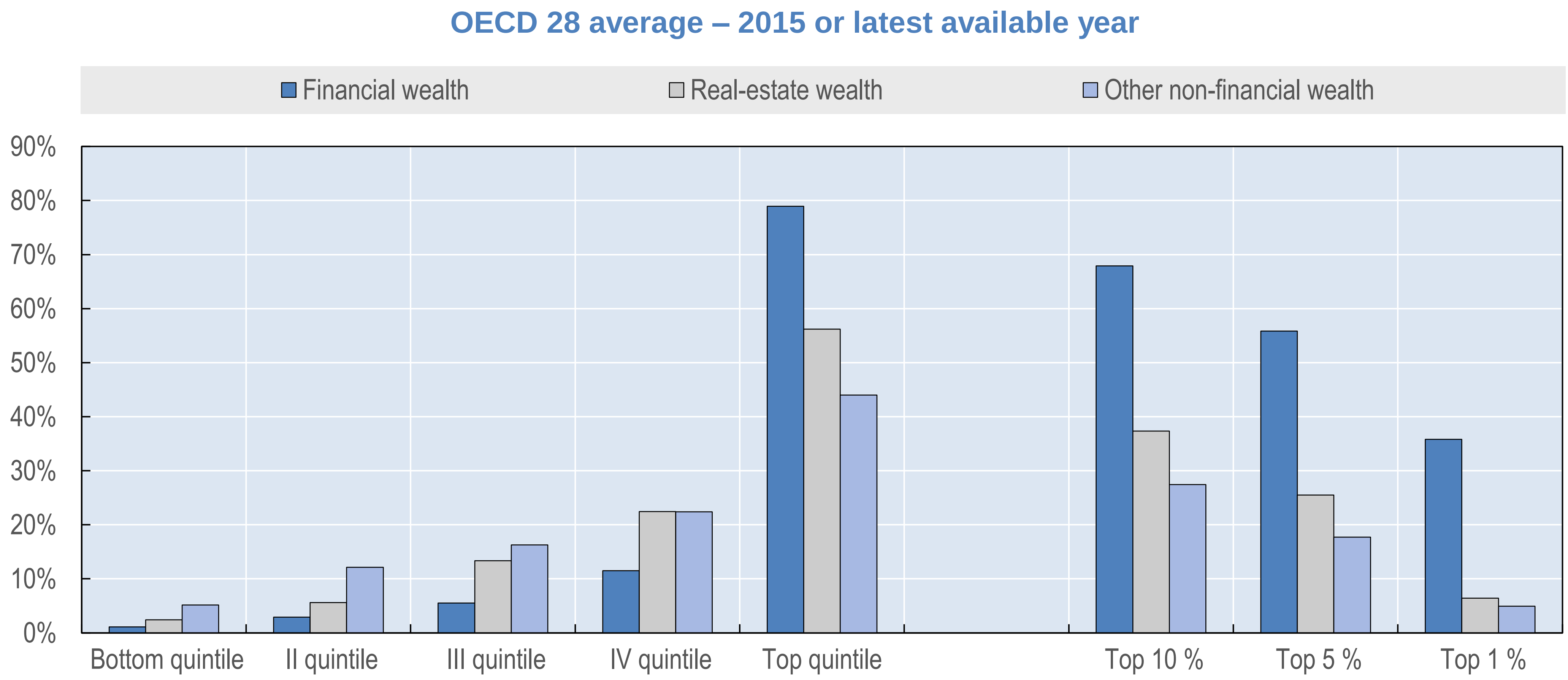
Source: OECD (2018) *Taxation of Household Savings*

The use of recurrent taxes on immovable property is linked to efficiency advantages

- **Theoretical efficiency advantages:**
  - Highly immobile tax base → limited behavioural response to the tax
  - Highly visible tax base → more difficult to evade
  - Contributes to a more efficient land usage
  - Acts to some extent as a "benefits tax" (effectively becoming a form of payment for services)
- **Empirical findings:**
  - OECD (2008): recurrent taxes on immovable property were the least distortive tax for long-run growth in GDP per capita, compared to consumption taxes, PIT and CIT.

But the equity effects of immovable property taxes depend on the distribution of housing assets

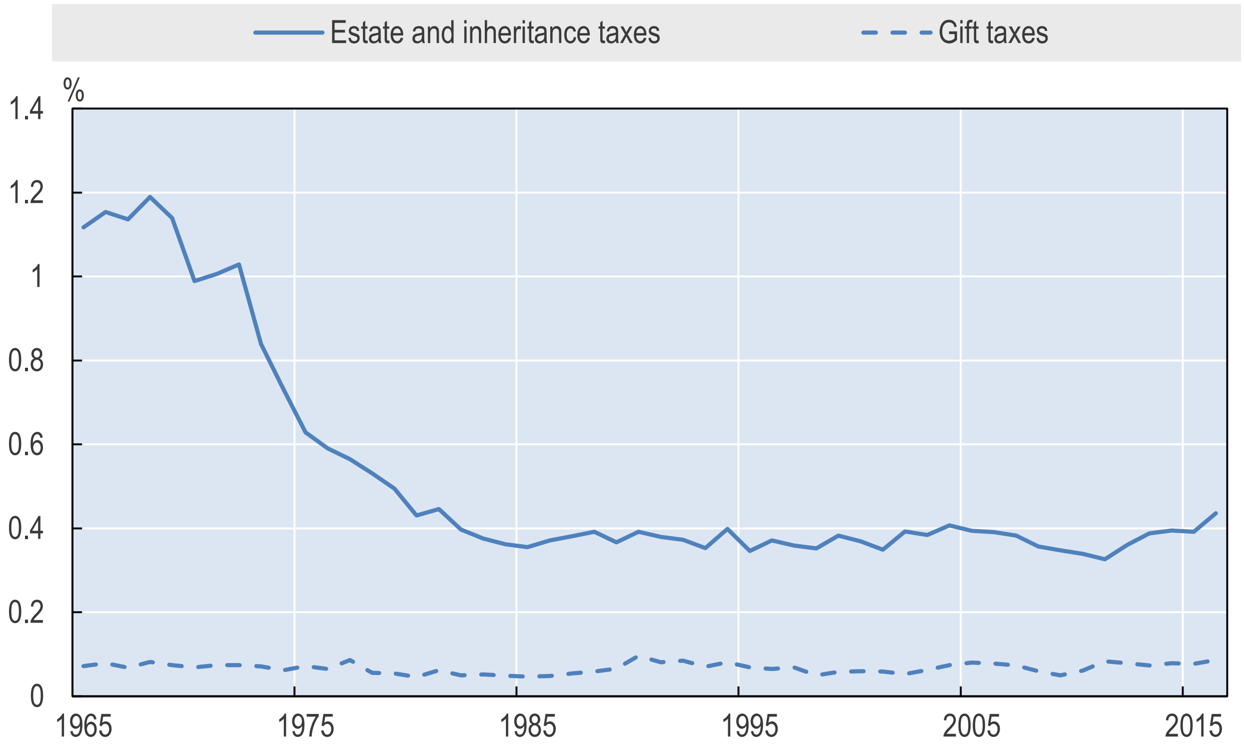
Shares of financial and non-financial assets belonging to different quintiles of the wealth distribution



Source: OECD Wealth Distribution Database

The limited role of inheritance taxes in OECD countries

Estate and inheritance taxes and gift taxes as % of total tax revenue OECD average, 1965-2015



Source: OECD Revenue Statistics

- **Inheritances/estate tax reductions**

  e.g. expanding reliefs and exemption thresholds

- **Inheritance/estate tax repeals**

  e.g. Austria, Norway, Slovak Republic, Sweden

- **Wide opportunities for avoidance and evasion**

  e.g. avoidance through trusts, hiding assets offshore

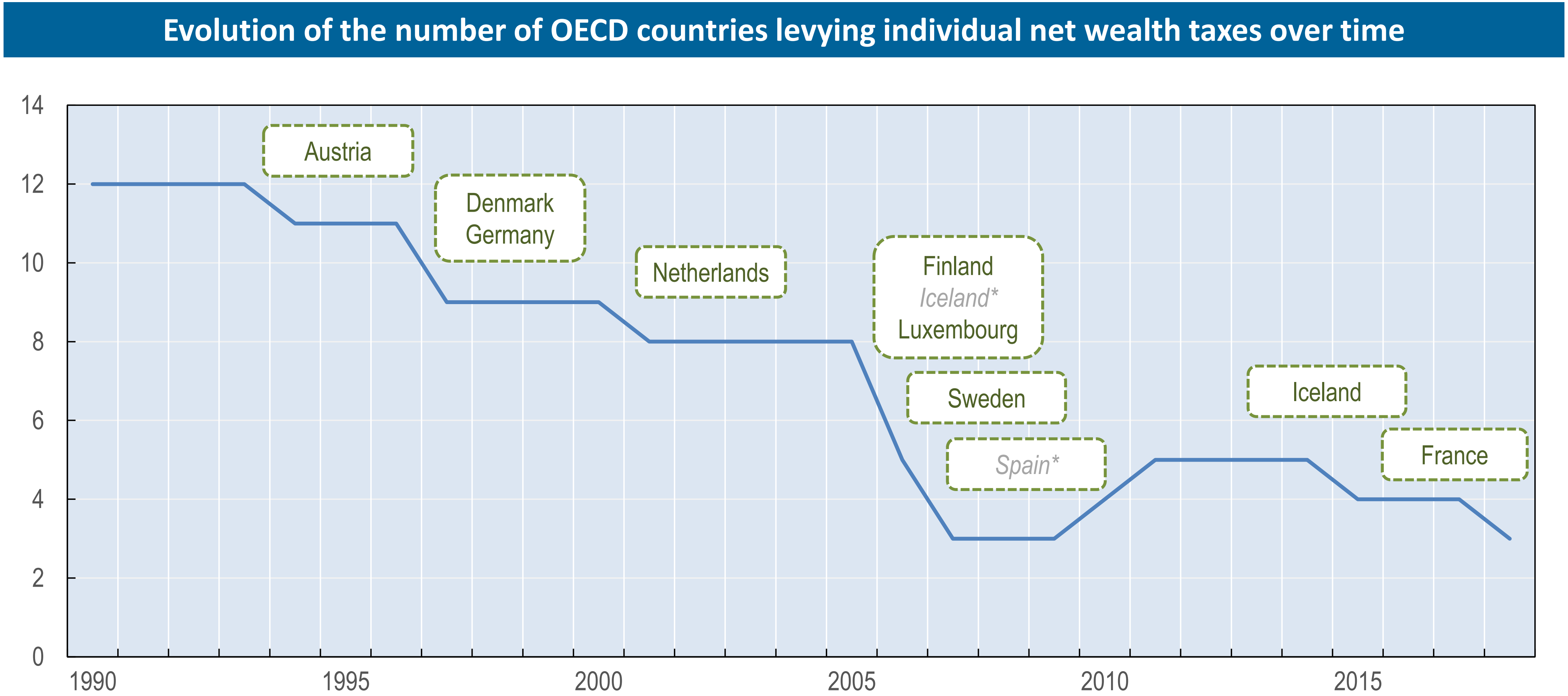
Efficiency and equity arguments for inheritance taxes

Efficiency	Equity	Administrative costs
• Small negative effects on donors' wealth accumulation • Increased savings and labour supply by recipients • Relatively limited migration effects • Overall, OECD (2017) found greater reliance on inheritance and gift taxes to be output-enhancing compared with other revenue sources (OECD, 2017).	• They have the advantage of avoiding the taxation of most lifecycle savings as they are levied only at the end of a person's life. • Meritocratic arguments for taxing inherited wealth more than self-made wealth	• Less administratively costly than recurrent wealth taxes • Possibly less severe liquidity issues than recurrent wealth taxes

Inheritance tax design issues

- **A common feature of inheritance taxes is their narrow tax base**
  - Exemptions + preferential tax treatment for certain assets (e.g. immovable property, business assets, pension savings, life insurance)
  - These reduce effective tax rates, particularly at higher wealth levels, reducing progressivity/introducing regressivity
- **Tax relief for business assets: Achilles' heel of inheritance taxes**
  - Many countries have a preferential treatment for business assets to prevent heirs from having to sell all or part of their business to pay the tax – generally subject to conditions, e.g. ownership requirements, continuation of the business etc.
  - But: business asset exemptions, because of their complexity, increase compliance costs and provide opportunities for tax avoidance. They also tend to be regressive.
  - The goal of supporting family business successions has also been questioned as businesses managed by heirs tend to perform worse than other businesses.
- **Tax avoidance and evasion opportunities**
  - Tax avoidance: inter vivo gifts; acquisition of tax-preferred assets (e.g. life insurance); diverting gifts via tax-preferred entities; donations to charity; change of residence
  - Tax evasion: Alstadsaeter et al. (2017): household wealth held in tax havens equivalent to about 10% of global GDP

Net wealth taxes have been repealed in most countries



Note: *Iceland and Spain re-instated wealth taxes after the crisis

Source: OECD (2018), *The Role and Design of Net Wealth Taxes*

Characteristics of a net wealth tax

Net wealth tax = Recurrent tax on individual net wealth stocks

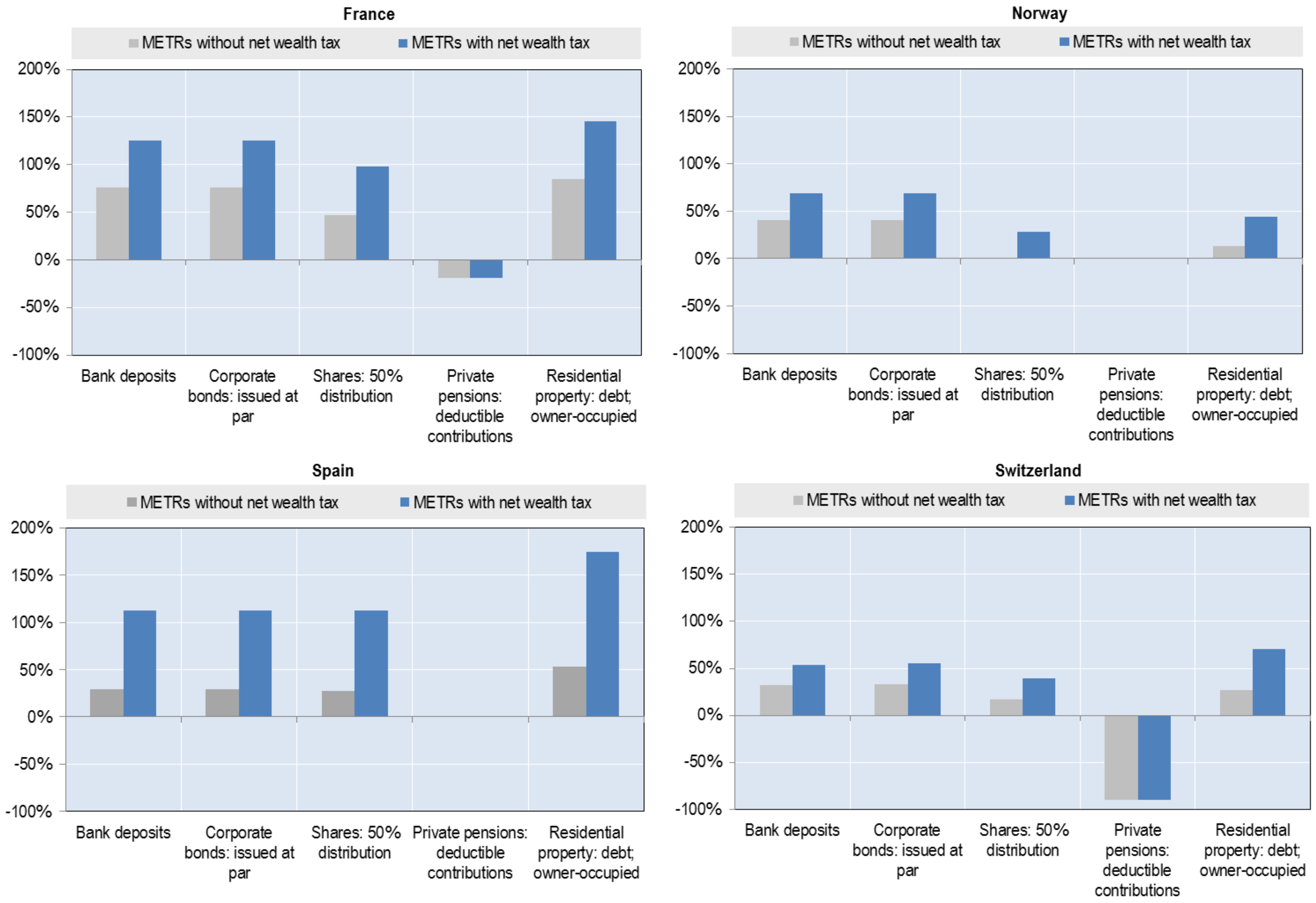
Similarity with a tax on personal capital income	With net wealth of EUR 10 million and a 4% return: **30% capital income tax = 1.2% wealth tax**
Taxation irrespective of actual returns	A wealth tax is equivalent to taxing a **fixed return** on assets So the effective tax burden ⇩ with returns
Taxation on an accrual basis	If asset values are regularly updated, a net wealth tax is equivalent to **taxation on accruals**
Taxation of self-made and inherited wealth	A net wealth tax is imposed on all net wealth, **regardless of its source**

The case for and against net wealth taxes

	+	−
Similarity with a tax on personal capital income	• Increases progressivity/reduces inequality	• Leads to very high METRs if imposed on top of personal capital income taxes
Taxation irrespective of actual returns	• Possibly more productive use of assets (if NWT replaces capital income taxes)	• Penalises the holders of low-return assets • Liquidity issues
Taxation on an accrual basis	• No lock-in effects	• Valuation and compliance issues
Taxation of self-made and inherited wealth	• Reduces wealth inequality	• No distinction between inherited and self-made wealth

Net wealth taxes on top of capital income taxes can result in very high ETRs

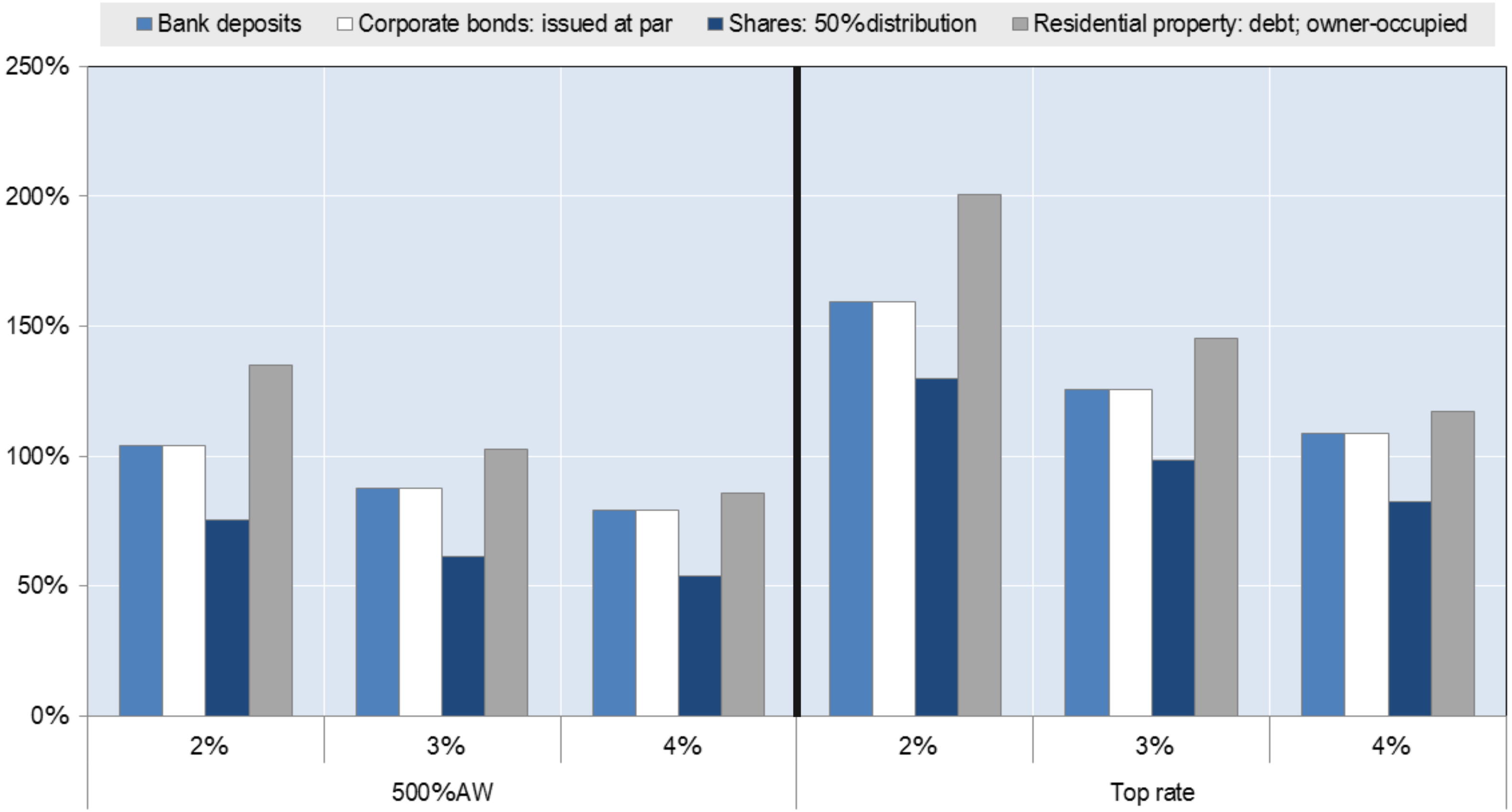
METRs on different assets with and without net wealth taxes



Source: Data from OECD Taxation of Household Savings (forthcoming)

Effective net wealth tax rates decrease when actual returns increase

ETRs in France under different real return scenarios (2%, 3% and 4%) in 2017
for taxpayers at 500% of the AW and for top income and wealth taxpayers



Source: Data from OECD Taxation of Household Savings (forthcoming)

Conclusions on the case for and against net wealth taxes

- There is a strong case for addressing wealth inequality through the tax system.
- There are many channels through which tax systems can affect wealth inequality.
- Overall, there is less of a case for having a NWT on top of a broad-based capital income tax system and well-designed inheritance and gift taxes.
- However, in countries where the taxation of capital income – including capital gains – is low or where inheritance taxes are not levied, there is a stronger case for a NWT.

Tax design issues: Numerous tax exemptions and reliefs

Treatment of assets under net wealth taxes

Categories of assets	Assets	France	Norway	Spain	Switzerland	Austria (1994)	Germany (1997)	Finland (2006)	Ireland (1978)	Luxembourg (2006)	Netherlands (2001)	Sweden (2007)
Immovable property	Buildings	T	TP	T	TP	T	T	TP	T	T	T	T
	Main residence	TP	TP	TP	TP	T	x	TP	E	T	TP	T
	Woods and forests	TP	TP	TP	TP	T	T	TP	E	T	E	E
	Land	T	TP	T	TP	T	T	T	T	T	T	E
Movable property	Agricultural or rural assets	TP	TP	TP	TP	T	T	T	TP	T	T	E
	Furniture	T	TP	TP	E	T	x	E	T	T	E	E
	Artwork and antiques	E	TP	TP	TP	T	E	T	E	T	E	E
	Jewellery	T	TP	T	T	T	x	T	T	T	TP	E
	Vehicles	T	TP	T	TP	T	x	E	T	T	T	T
Financial assets	Shares	T	TP	TP	T	T	x	TP	T	TP	T	T
	Life insurance	T	E	T	T	T	x	E	x	T	E	T
	Bonds	T	T	T	T	T	x	E	T	T	T	T
	Liquidities	T	T	T	T	T	x	E	T	TP	T	T
	IP rights	T	E	E	T	T	E	E	x	E	T	E
	Pension savings	E	E	E	E	T	E	E	E	E	E	E
	Business assets	E	TP	E	TP	T	TP	T	TP	TP	TP	E

Source: OECD Net Wealth Tax Questionnaire

Tax transparency is a pre-condition for the effective taxation of wealth and capital income

- **Progress in the implementation of the automatic exchange of information**
  - As of May 2019, **close to 4000 bilateral exchange relationships** activated with respect to more than 90 jurisdictions committed to the CRS
    - See activated relationships here: http://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/exchange-relationships/#d.en.345426
- **Opportunities to strengthen capital income and wealth taxation**
  - EOI associated with reductions in bank deposits in IFCs (Menkhoff and Miethe, 2017; Casi et al., 2018)
  - Over EUR 90 billion in additional revenue from voluntary compliance mechanisms and offshore investigations
- **But remaining challenges**

Conclusions

Wealth and capital income taxation could play a stronger role both from a revenue-raising and an equity-enhancing perspective

- Scope to raise taxes on personal capital income where they are low, to introduce progressivity and to remove regressive tax expenditures
- Recurrent taxes on immovable property could play a bigger role when they raise little revenue, but equity aspects need to be considered
- Important role for inheritance taxes; inheritance tax design is key
- Consider those taxes before a net wealth tax. However, importance of country context and level of inequality
- Progress in tax transparency is critical
- Major role for other taxes and the transfer system too!

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