TAXATION OF WEALTH – LESSONS FROM OECD COUNTRIES

IIPF Annual Congress
Prague, August 2024

BETTER POLICIES FOR BETTER LIVES

Different factors have contributed to growing interest in the taxation of wealth

Income and wealth inequality

- Growing attention to high income and wealth inequality in many countries and evidence of low effective tax rates at the top.
- Tax systems seen to be among the key policy tools to reduce inequality and support more inclusive growth.

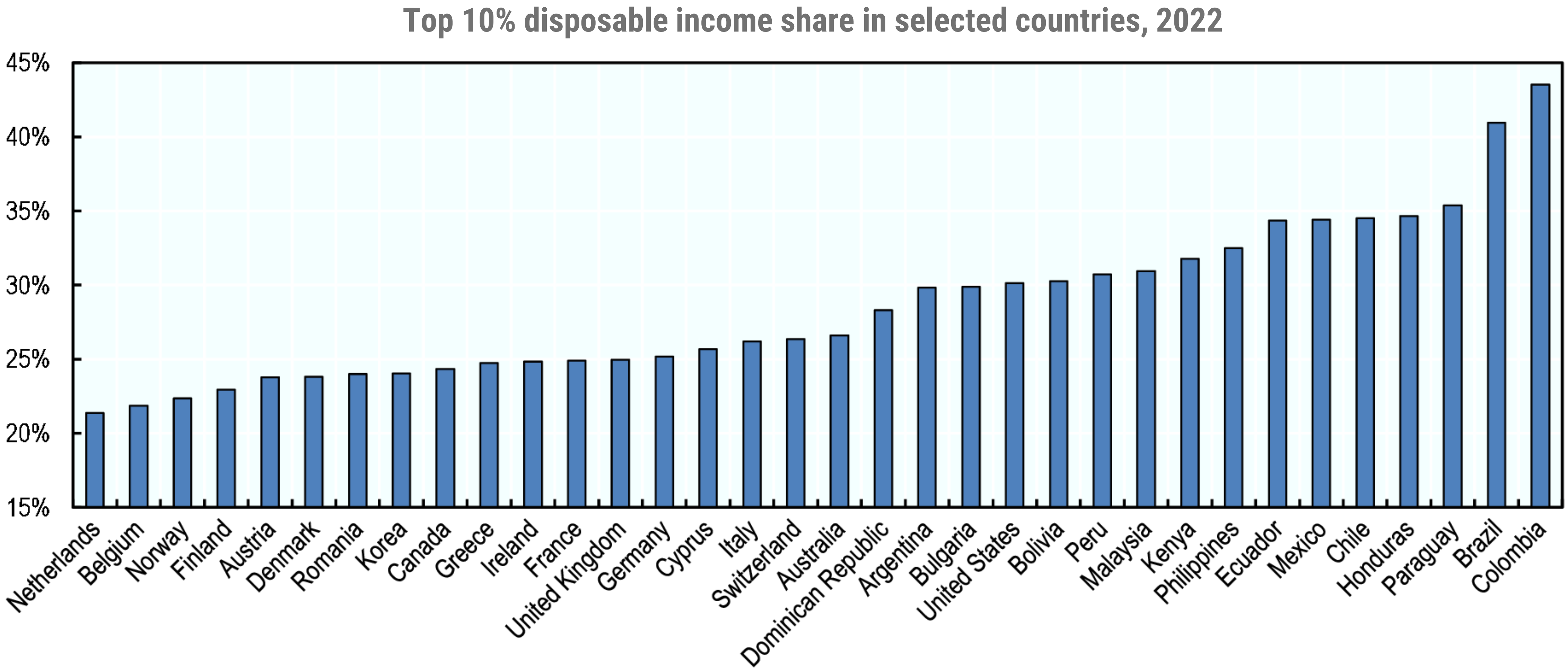
Revenue raising

- Many countries are seeking to meet growing public revenue needs.

Tax morale

- Enhancing perceptions of fairness in tax systems can improve overall compliance and trust.

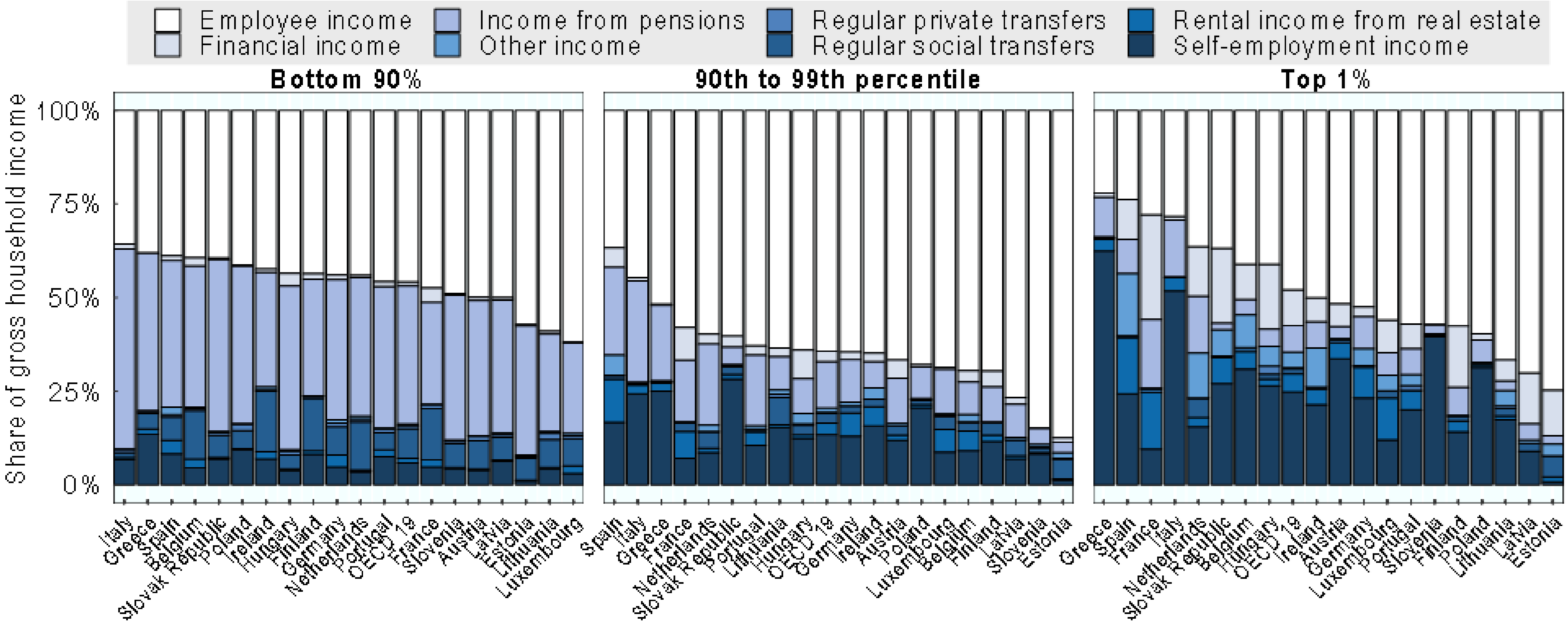
Income tends to be concentrated at the top, though to varying degrees across countries



Source: World Bank Poverty and Inequality Indicators Database

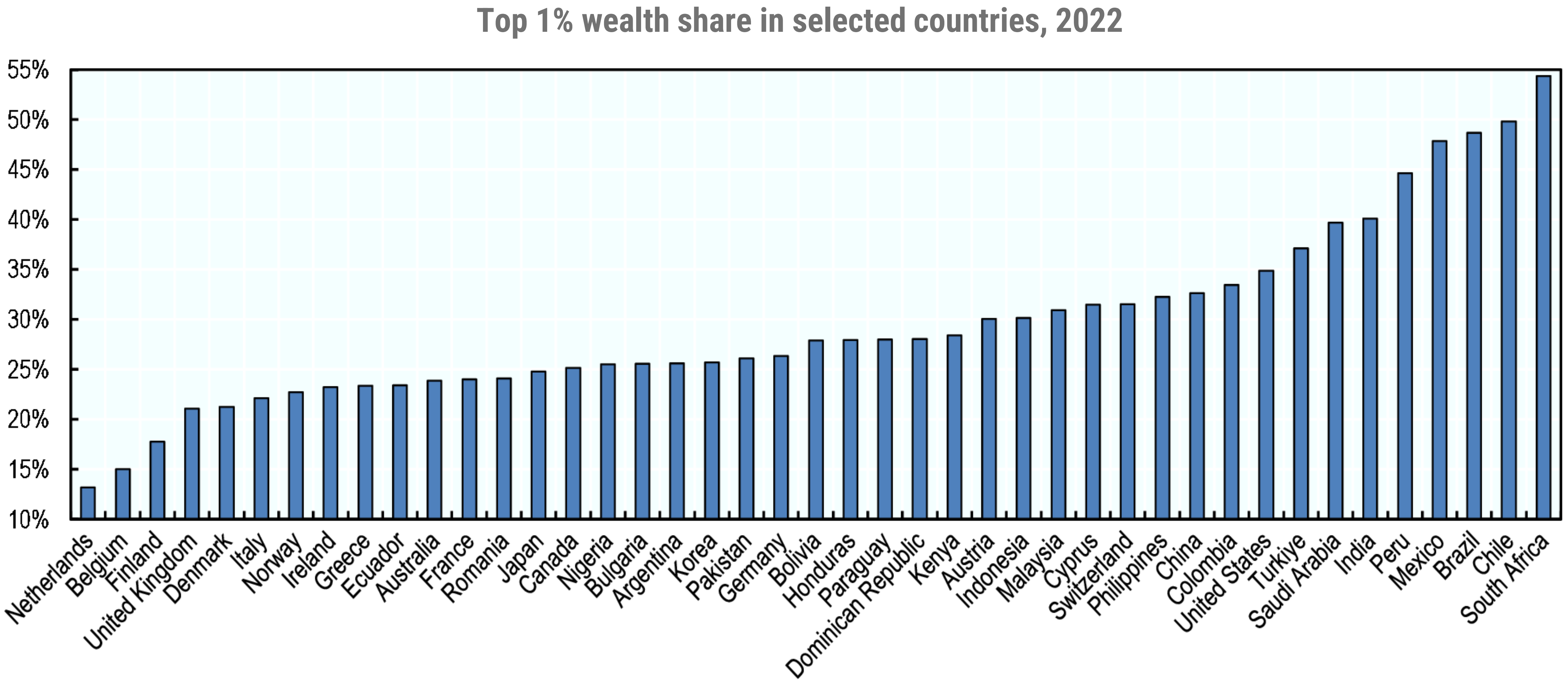
Capital income is a large share of income at the top

Composition of gross household incomes by income group, selected OECD countries



Source: European Central Bank, Eurosystem Household Finance and Consumption Survey Wave 2017

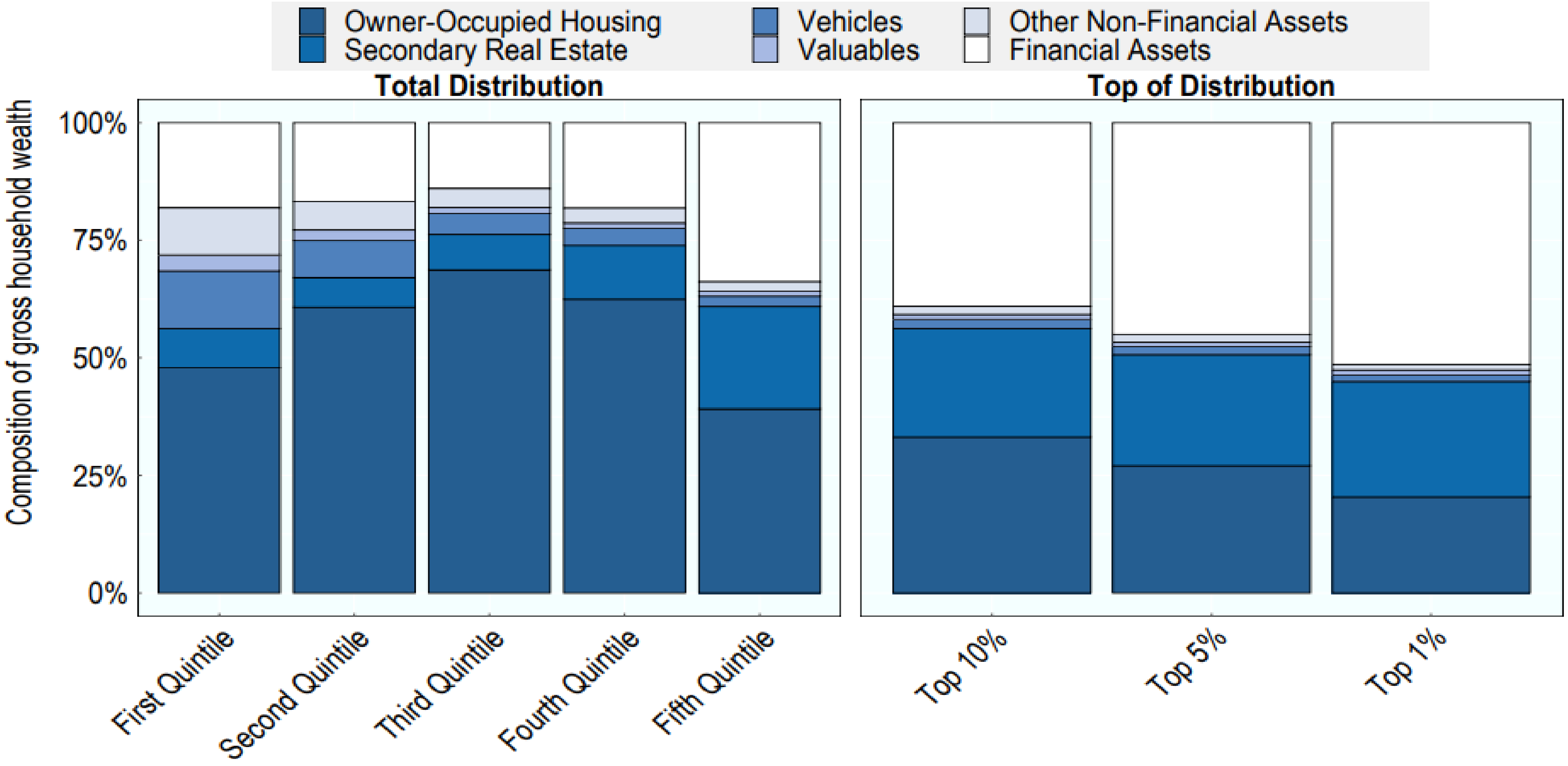
Wealth is more concentrated at the top than income



Source: World Inequality Database

The composition of assets varies along the wealth distribution

Composition of household assets by wealth quintile, unweighted average, 29 OECD countries, 2019 or latest year available



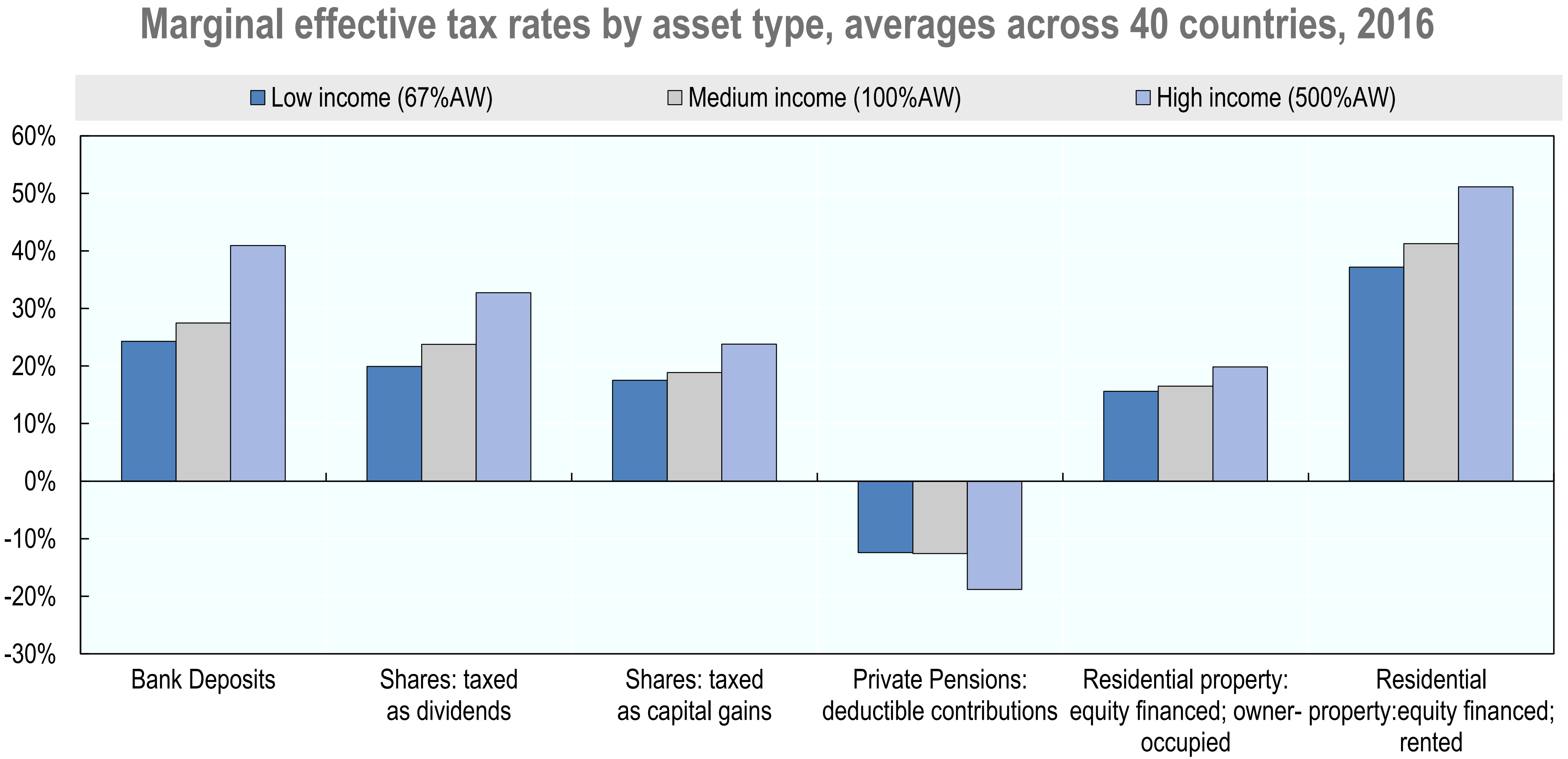
Source: OECD (2022), Housing Taxation in OECD Countries

COUNTRIES’ EXPERIENCES IN TAXING WEALTH

There are different approaches to taxing wealth

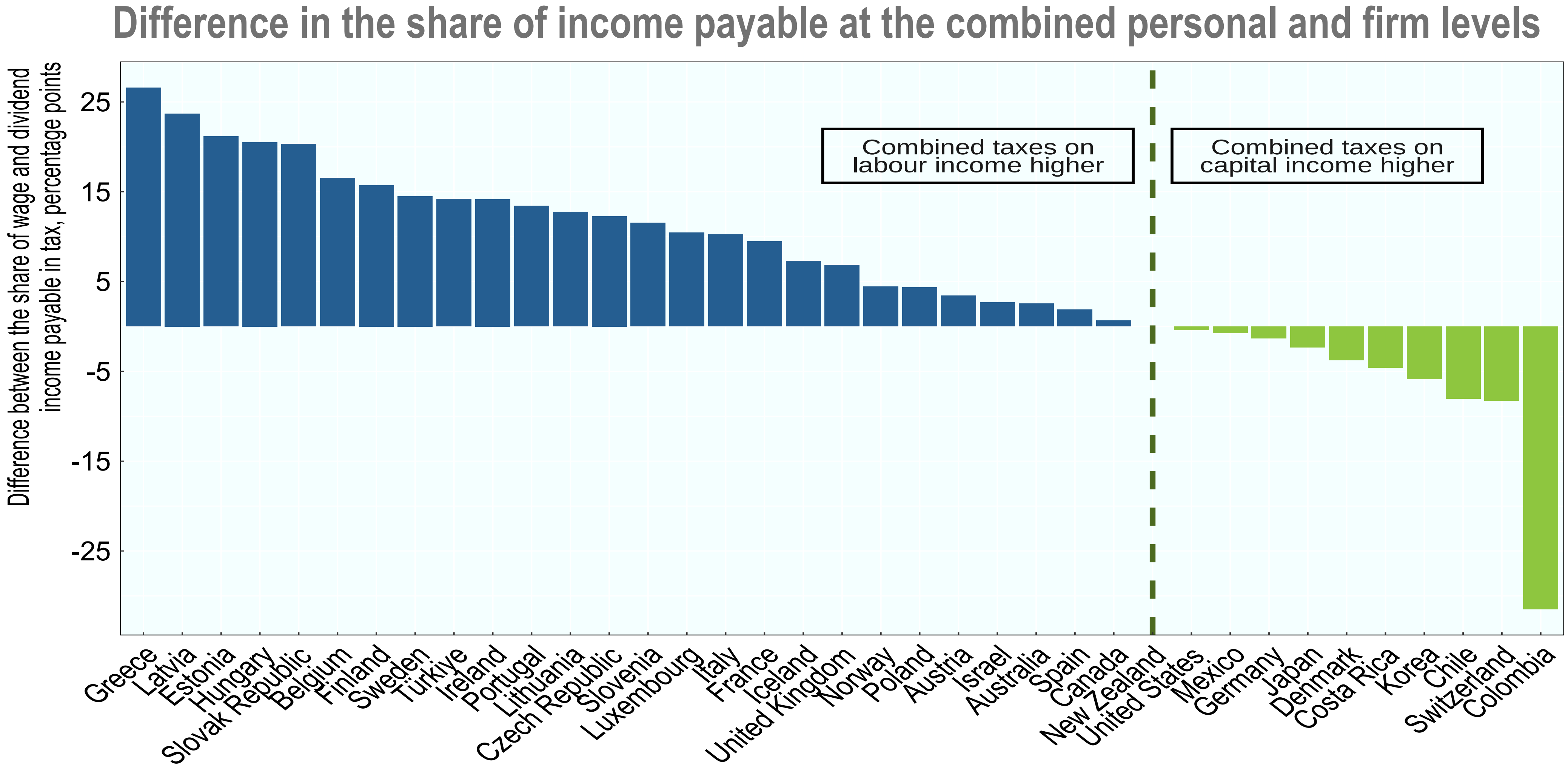
- **Taxing the income from assets**
  - E.g. taxes on dividends, capital gains and interest
- **Taxing specific assets**
  - E.g. recurrent taxes on immovable property
- **Taxing wealth transfers**
  - Inheritance/estate and gift taxes
- **Taxing overall net wealth**
  - Net wealth taxes

The taxation of savings is highly heterogenous across asset types, and can be regressive



Source: OECD (2018) Taxation of Household Savings

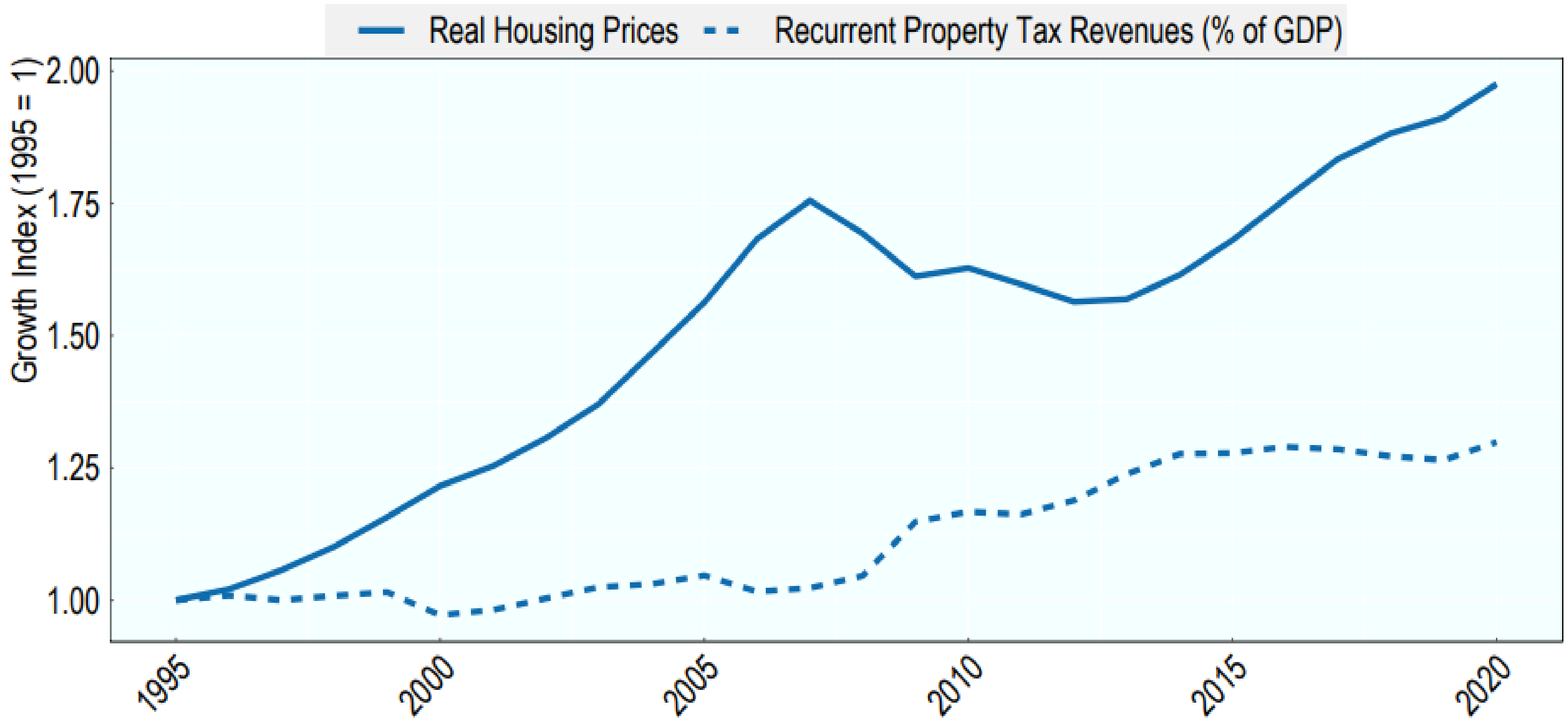
In most OECD countries, capital is taxed more favourably than labour



Source: Hourani et. al., The taxation of labour vs. capital income: A focus on high earners (2023)

In many countries, taxes on immovable property have not kept pace with property prices

Mean growth in real housing prices and mean growth in recurrent property tax revenues, (% of GDP) over time, 15 OECD countries

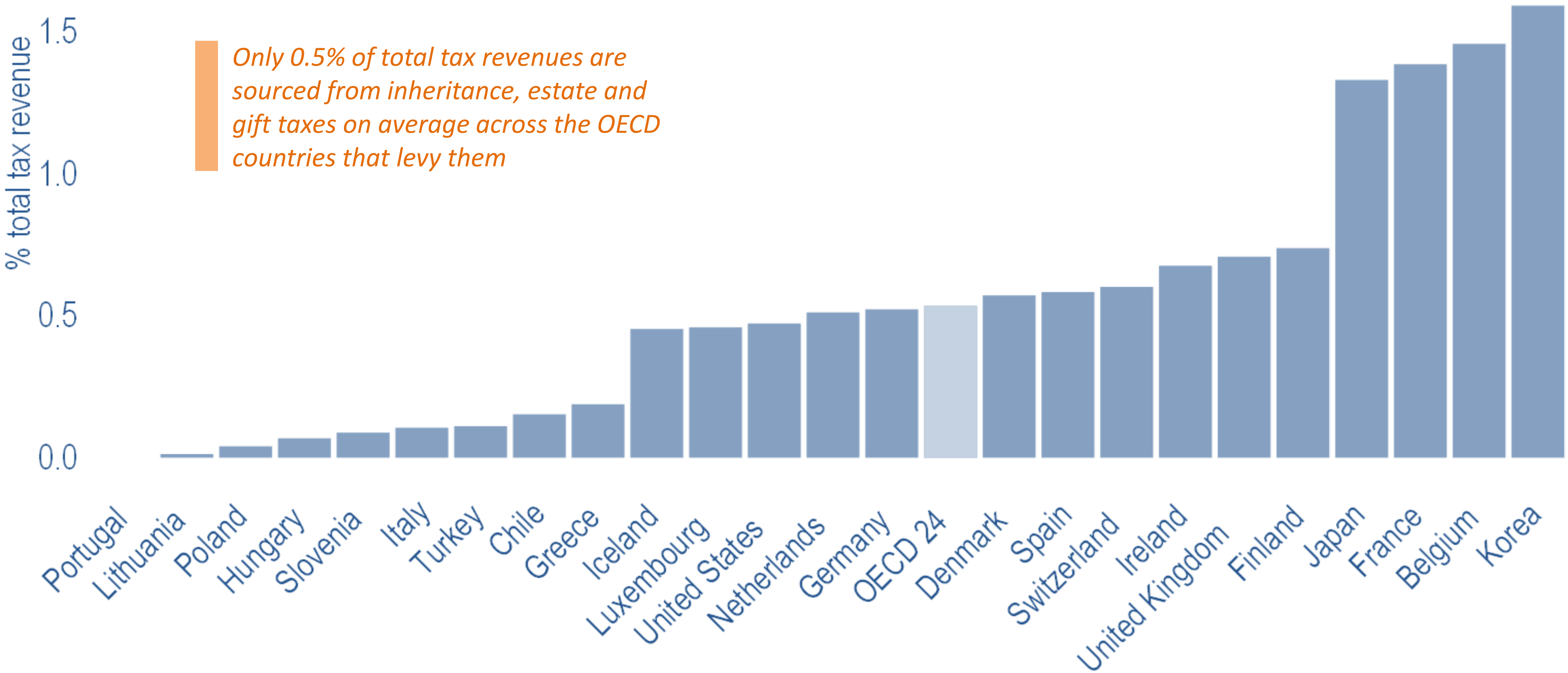


Property taxes are levied in all OECD countries (though not all subcentral governments) and account for the largest source of overall revenues from taxes on assets

Source: OECD (2022), Housing Taxation in OECD Countries

Inheritance and gift taxes have typically raised little revenue in many OECD countries

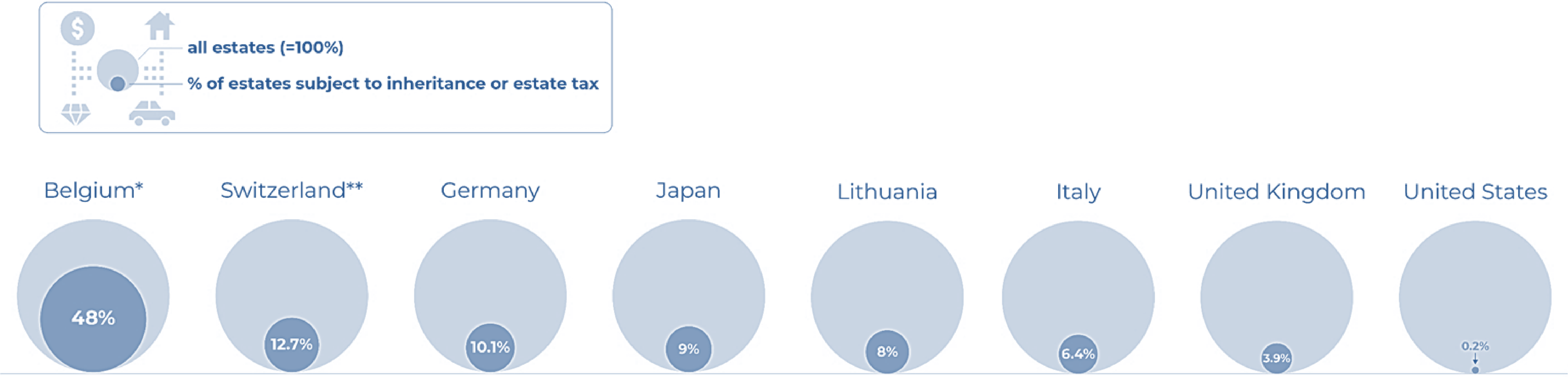
Inheritance, estate and gift tax revenues, 24 OECD countries, 2019



Note: Data are for 2018 for Greece and Japan.
Source: OECD Revenue Statistics

Inheritance and estate taxes apply to a minority of estates in a number of countries

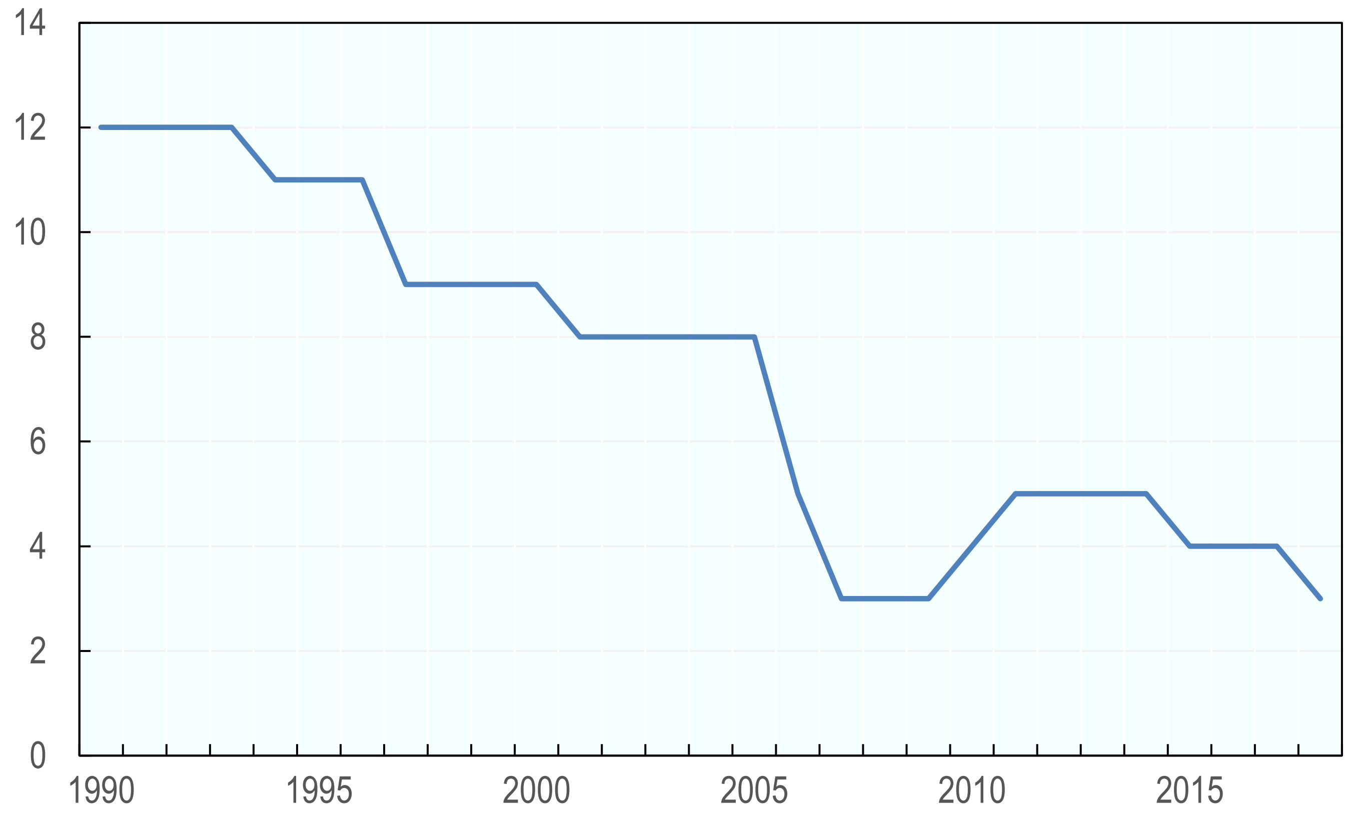
Share of estates subject to inheritance or estate taxes, select countries



* Brussels-Capital Region; ** Canton of Zurich
This figures includes OECD countries with available data and relates to the share of estates that are subject to inheritance or estate taxes, not the share of wealth that is taxed.

The number of countries with wealth taxes has declined

Number of OECD countries levying individual net wealth taxes



- Repeal of a majority of wealth taxes in the OECD
- Differences in design across countries, but generally narrow tax bases
- Limited revenues (generally less than 1% of total tax revenue), with the exception of Switzerland (around 4%)

Note: *Iceland and Spain re-instated wealth taxes after the crisis
Source: OECD (2018), The Role and Design of Net Wealth Taxes

Progress on tax transparency has been critical to enhancing the effectiveness of domestic taxation

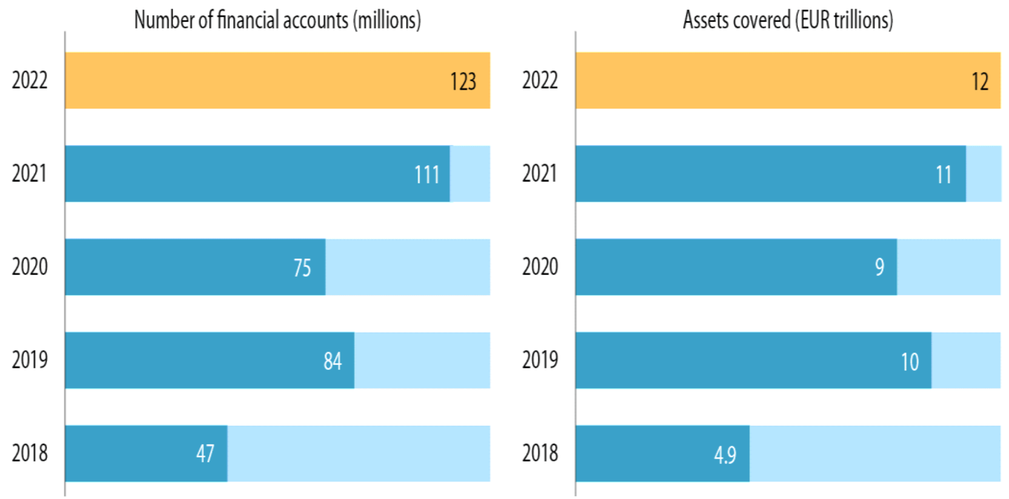
Exchange of information on request (EOIR)

> 130 jurisdictions engaged, and over 26,600 requests sent in 2022

Automatic exchange of information (AEOI)

108 jurisdictions engaged in 2023, with increasing financial account and asset coverage

Automatic exchange of financial account information



Source: 2019, 2020, 2021, 2022 and 2023 Global Forum Surveys.

Growing evidence that EOI has contributed to reducing offshore tax evasion

- e.g. Alstadsæter et al. (2023), Beer et al. (2019), Casi et al. (2020), O'Reilly et al. (2021)

There is significant room to improve the taxation of wealth in many countries

In many countries, taxes on wealth are relatively low or declining…

- Many countries raise less revenue from capital taxation than labour
- Taxes on wealth (e.g. inheritance and wealth taxes) have commonly had narrow bases.
- Declining reliance on some capital taxes, as well as falling corporate income taxes, reduce tax burdens on asset owners.

… with implications for equity, efficiency, and revenue

- Narrow application of taxes on wealth reduces the progressivity and revenue-raising capacity of tax systems
- Lower taxes on capital compared to labour income disproportionately benefit high income earners and effectively reduce progressivity.
- Features of tax design and tax differentials make it possible to reduce tax burdens, reducing efficiency, equity, and revenues.

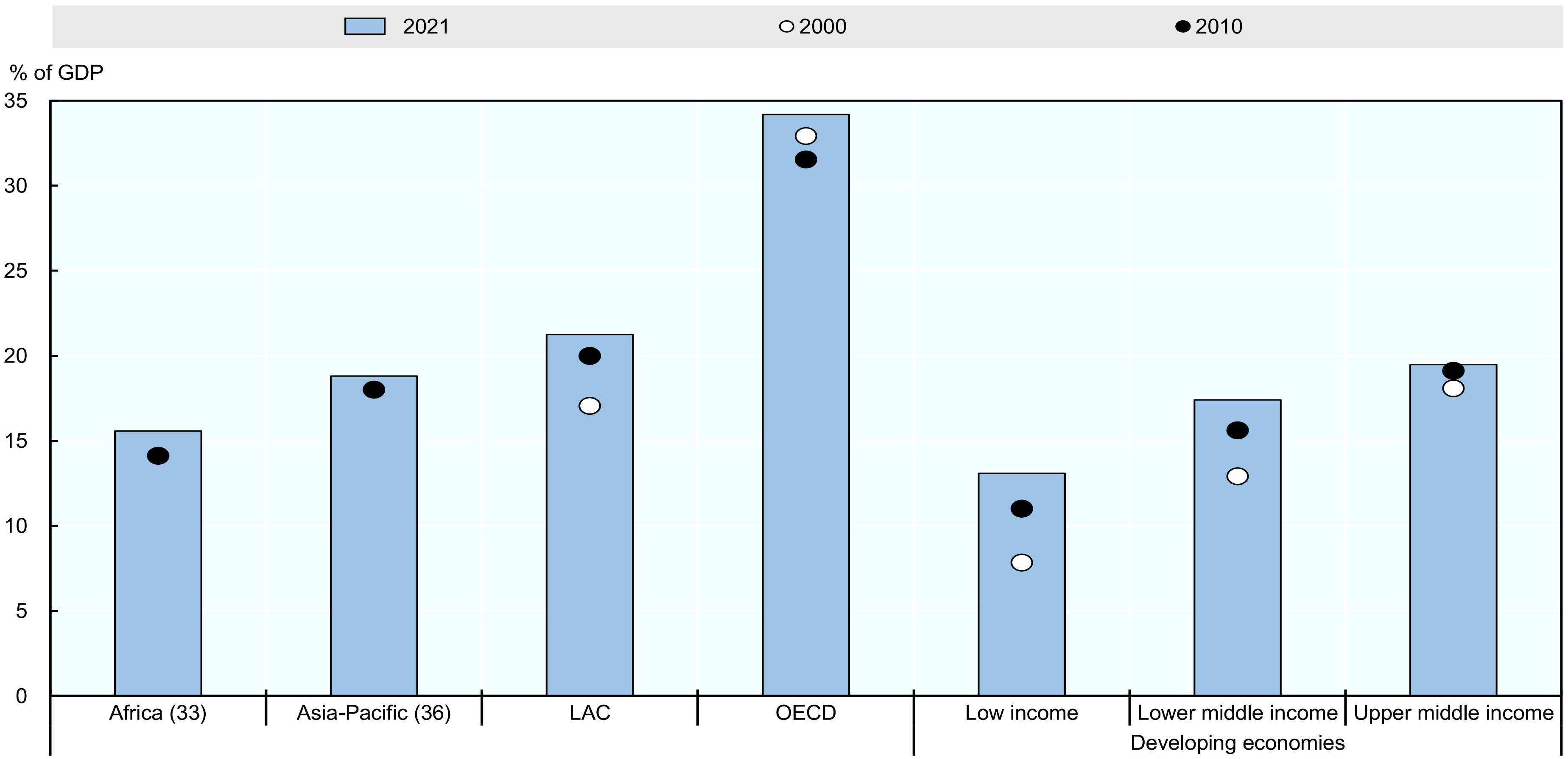
The taxation of high net worth individuals (HNWIs) is a key challenge

- The decline in use of wealth and capital income taxation has resulted in HNWIs paying relatively low effective tax rates.
- Additional factors such as tax planning can allow HNWIs, in particular very- and ultra-HNWIs, to reduce their tax burdens.

REFLECTIONS FOR LOW AND MIDDLE INCOME COUNTRIES

Low- and middle-income countries (L&MICs) collect comparatively little revenue

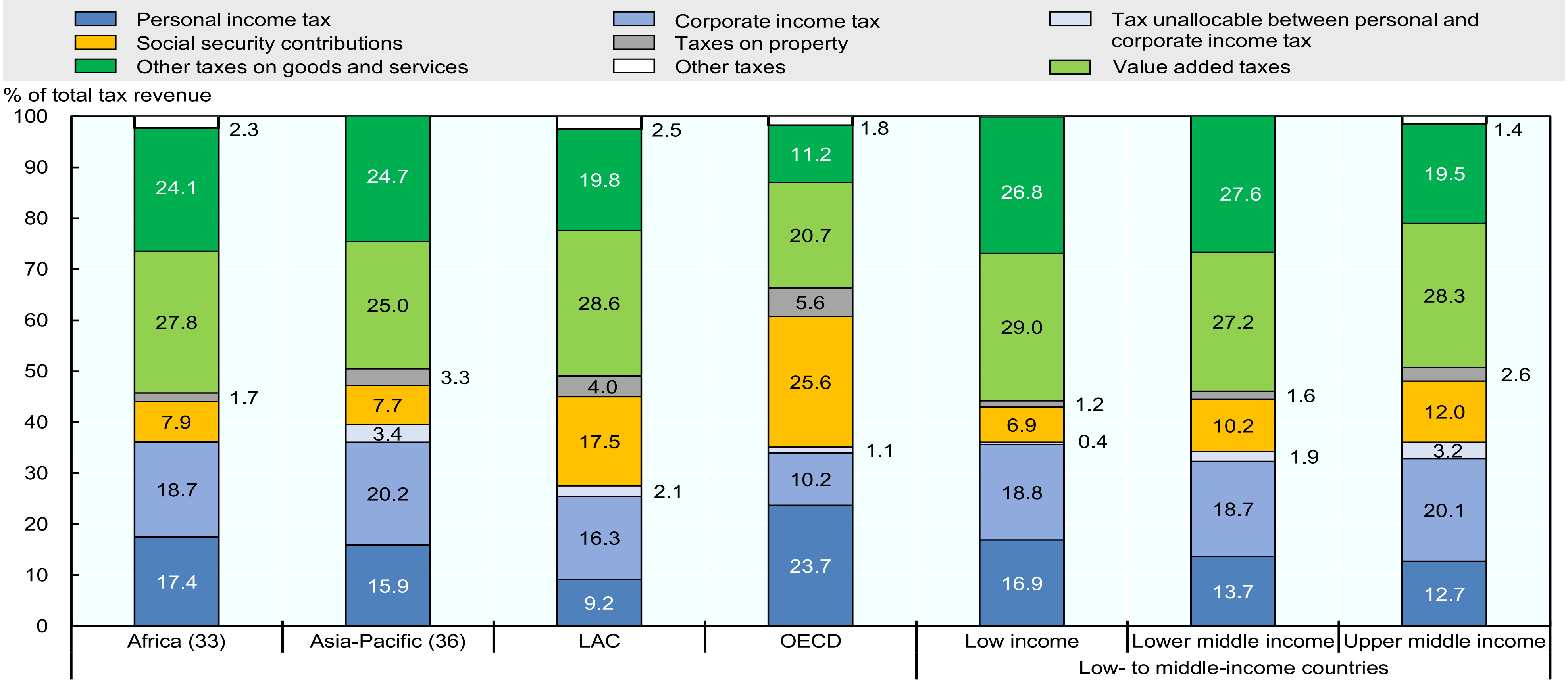
Average tax-to-GDP ratios in different regions



Source: OECD Global Revenue Statistics (database)

L&MICs rely heavily on indirect taxes as a share of their total tax revenue

Average composition of tax revenues in different groups of countries



Source: OECD Global Revenue Statistics (database)

Levying taxes on wealth requires considering different approaches, trade-offs, and overall tax structures

- Should countries tax the income from assets, assets themselves, or both?
- Should countries fix existing tax instruments (e.g. broaden existing tax bases) or introduce new taxes (e.g. wealth taxes) instead?
- What are the trade-offs between different approaches to taxing wealth (e.g. equity, efficiency, feasibility)?
  - How do the trade-offs vary depending on countries' circumstances?
- How would potential taxes on wealth interact with the overall tax system (including tax differentials and the overall tax burdens)?

Levying taxes on wealth also calls for practical considerations

- Certain taxes on wealth can require significant resources and sophisticated systems to administer and enforce
  - Choice and design of taxes on wealth should reflect administrative capabilities.
  - Improving tax administration (e.g. digitalisation) would support taxation of wealth.
- Some taxes on wealth require assessing the value of assets, which can be complex, particularly if market data is unavailable.
- Some taxes may be met with public resistance, increasing pressure to introduce exemptions or features such as deferral or installment schemes.
- Income and asset composition, particularly for those at the top, is not well understood in many countries, particularly L&MICs.
  - A better understanding would help inform the appropriate design of taxes on wealth, including by preventing potential tax minimisation responses.

THANK YOU