Executive summary

Net wealth taxes are far less widespread than they used to be in the OECD but there has recently been a renewed interest in wealth taxation. While 12 countries had net wealth taxes in 1990, there were only four OECD countries that still levied recurrent taxes on individuals' net wealth in 2017. Decisions to repeal net wealth taxes have often been justified by efficiency and administrative concerns and by the observation that net wealth taxes have frequently failed to meet their redistributive goals. The revenues collected from net wealth taxes have also, with a few exceptions, been very low. More recently, however, some countries have shown a renewed interest in net wealth taxes as a way to raise revenues and address wealth inequality.

This report seeks to answer four main questions:

- Is there a rationale for addressing wealth inequality through the tax system?
- If so, is a net wealth tax the most appropriate instrument to address wealth inequality?
- What have been the practical experiences of countries that currently have or previously had a net wealth tax?
- Where a country has decided to implement a net wealth tax, how should it be designed to maximise efficiency and equity and minimise tax administration and compliance costs?

The report argues that there is a strong case for addressing wealth inequality through the tax system. Wealth inequality is far greater than income inequality, and there is some evidence suggesting that wealth inequality has increased in recent decades. In addition, wealth accumulation operates in a self-reinforcing way and is likely to increase in the absence of taxation. High earners are able to save more, meaning that they are able to invest more and ultimately accumulate more wealth. Moreover, investment returns tend to increase with wealth, largely because wealthy taxpayers are in a better position to invest in riskier assets and generally have higher levels of financial education, expertise and access to professional investment advice.

While the tax system should help address wealth inequality, the question is whether a wealth tax is the most effective way to do so. The report assesses the case for and against net wealth taxes, looking at efficiency, equity and administrative arguments. It also compares the effects of net wealth taxes with personal capital income taxes and taxes on wealth transfers.

Overall, the report concludes that from both an efficiency and equity perspective, there are limited arguments for having a net wealth tax in addition to broad-based personal capital income taxes and well-designed inheritance and gift taxes. While there are important similarities between personal capital income taxes and net wealth taxes, the report shows that net wealth taxes tend to be more distortive and less equitable. This is largely because they are imposed irrespective of the actual returns that taxpayers earn on their assets. The report also argues that capital income taxes alone will most likely not be enough to address wealth inequality and suggests the need to complement capital income taxes with a form of wealth taxation. The report finds that there is a strong case for an accompanying inheritance tax on efficiency, equity and administrative grounds.

However, the report finds that there are stronger arguments for having a net wealth tax in the absence of broad-based personal capital income taxes and taxes on wealth transfers. Where the overall tax burden on capital is low, or where levying broad-based capital income taxes or inheritance taxes is not feasible, net wealth taxes may play an important substitution role. The report shows how a net wealth tax can serve as an imperfect substitute for taxes on personal capital income, on capital gains or on wealth transfers.

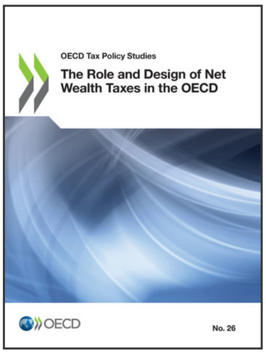
More generally, the report suggests that the merits of a net wealth tax cannot be assessed in isolation but depend on a country's overall tax system and broader economic and social circumstances. Previous OECD work has already highlighted the need to look at tax systems as a whole and in the context of countries' economic and social circumstances. For instance, a net wealth tax may have more limited distortive effects and be more justified as a way to enhance progressivity in countries where the taxation of personal capital income is comparatively low. In practice, this implies that in countries with dual income tax systems that tax capital income at flat (and often low) rates or in countries where capital gains are not taxed, there may be a stronger justification for levying a net wealth tax. A similar argument can be made for countries that do not levy taxes on inheritances. Beyond tax considerations, there might also be greater justification for a net wealth tax in a country exhibiting high levels of wealth inequality as a way to narrow wealth gaps at a faster pace.

Finally, the report provides a number of concrete tax design recommendations for countries that already implement or have decided to introduce a net wealth tax. Where a net wealth tax exists in addition to broad-based capital income taxes, tax exemption thresholds should be high to ensure that the net wealth tax is only levied on the very wealthy. Tax rates should be low and take into account tax rates on capital income to avoid imposing excessively high tax burdens on capital so as to prevent capital flight. In the absence of broad-based capital income taxes, lower exemption thresholds and higher tax rates may be justified in the design of the net wealth tax. Tax rates should be progressive, especially in cases where net wealth taxes are not in addition to broad-based capital income taxes and/or wealth transfer taxes, to enhance the overall tax system's progressivity.

Other net wealth tax design recommendations include:

- Limiting tax exemptions and reliefs;
- Exempting business assets, with clear criteria restricting eligibility;
- Exempting personal and household effects up to a certain value;
- Aligning the tax base with asset market values;
- Keeping the value of hard-to-value assets or the value of taxpayers' total net wealth constant for a few years to avoid yearly reassessments;
- Allowing debts to be deductible only if they have been incurred to acquire taxable assets – or, if the tax exemption threshold is high, consider further limiting debt deductibility;
- Allowing payments in instalments for taxpayers facing liquidity constraints;
- Ensuring transparency in the treatment of assets held in trusts;
- Continuing efforts to enhance tax transparency and exchange information on the assets that residents hold in other jurisdictions;

- Developing third-party reporting;
- Establishing rules to prevent international double wealth taxation; and
- Regularly evaluating the effects of the wealth tax.



From:

The Role and Design of Net Wealth Taxes in the OECD

Access the complete publication at:

https://doi.org/10.1787/9789264290303-en

Please cite this chapter as:

OECD (2018), “Executive summary”, in *The Role and Design of Net Wealth Taxes in the OECD*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264290303-3-en