

WEALTH-RELATED TAXES: WHAT FUTURE?



Michael Keen

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For Asian Countries in Tokyo

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Outline

- Context
- What types of taxes?
- Capital income and/or capital taxes?
- Differentiating across assets?
- Tax competition and EOI

Context

Revival of Interest—?

- Marked increase in income inequality—especially at very top—and in wealth-income ratios
 - Cannot “leave equity objectives to spending side”
- Recognition redistribution may not be bad for growth
- Need for revenue

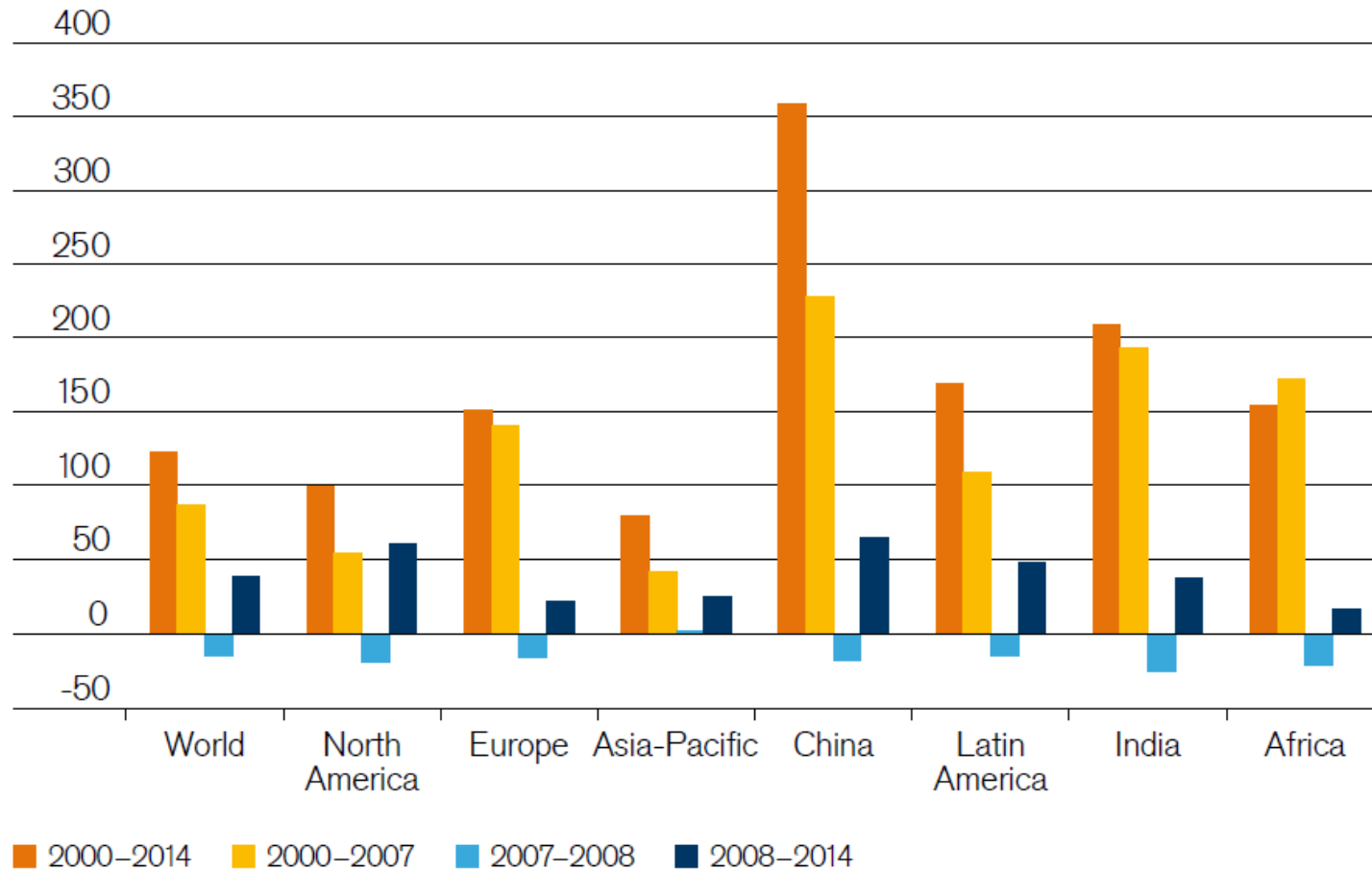
Recurrent Wealth Taxes: Demise or Recovery?

- **Demise**
 - Removal in Canada, Sweden, Australia, Pakistan... (but France, Norway, Switzerland...)
 - Reflecting
 - Tax competition
 - “Healthy, wealthy and well-advised” manage to escape
- **But some revival? Spain, Iceland**
 - Still (increasingly?) implicit in ‘standard of life’ checks
- **Historically, a major tax base—What happened?**

In the Region

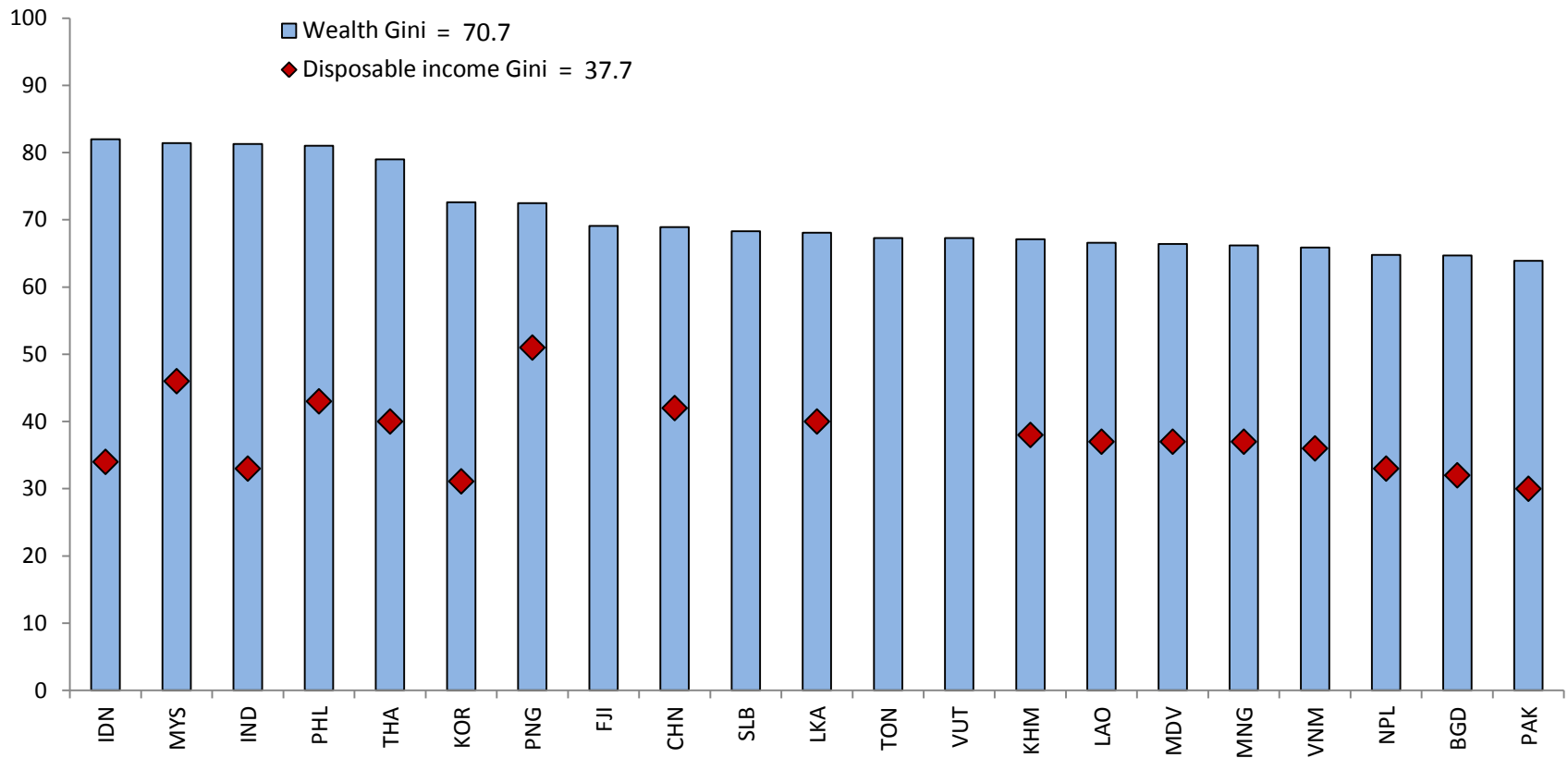
- **Wealth tax:**
 - India, to be removed 2015-6
 - Pakistan (removed 2001, revived 2013 only)
 - Thailand, subnational land tax
- **Estate tax:**
 - Philippines;
 - (Sri Lanka eliminated 2008)
- **Inheritance/gift tax:**
 - Bangladesh (inheritance but no gift tax)
 - Philippines
 - Thailand, proposed
 - Vietnam

Growth in Wealth (current exchange rates)



Source: James Davies, Rodrigo Lluberas, and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2014

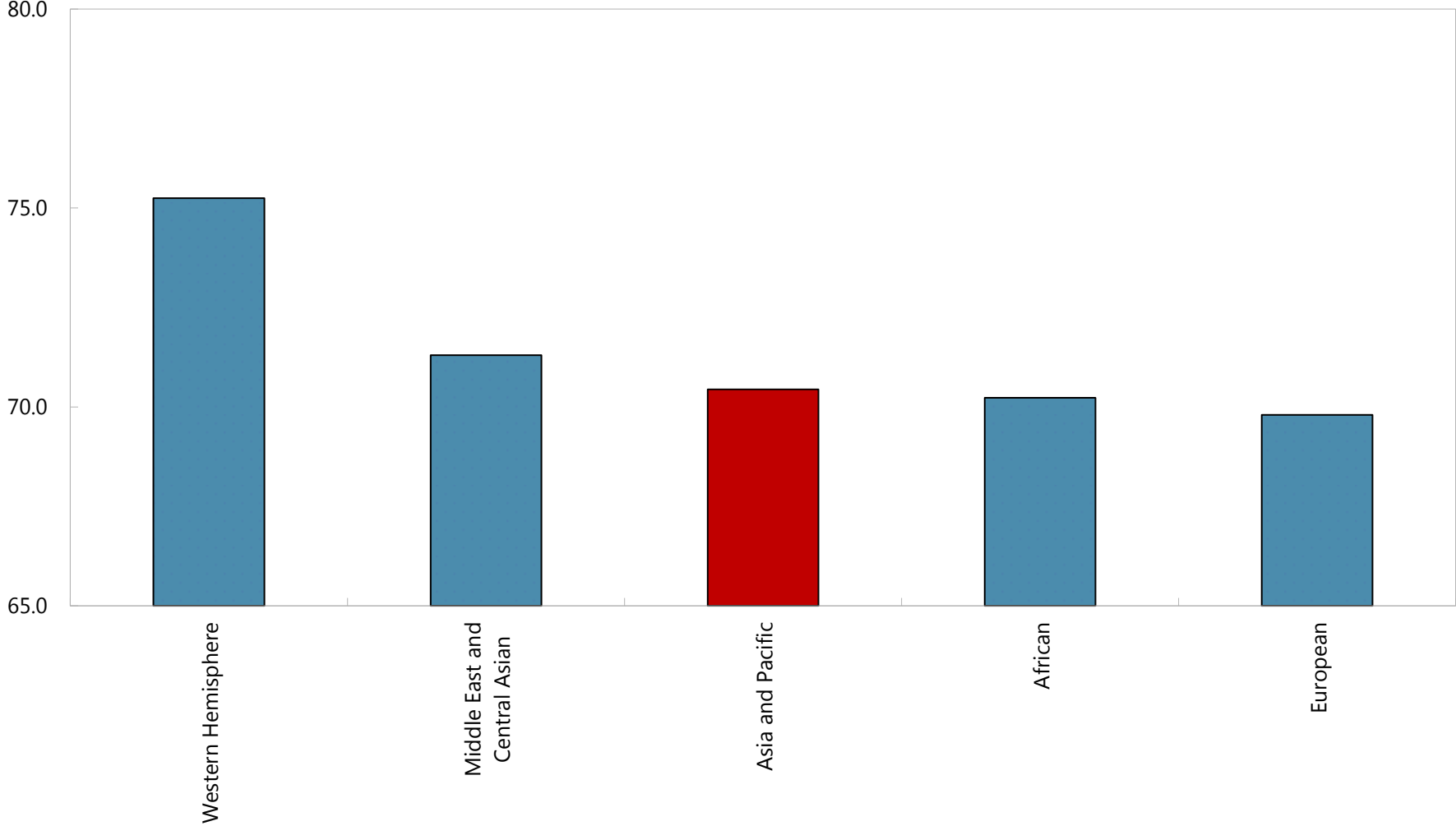
Inequality in the Region



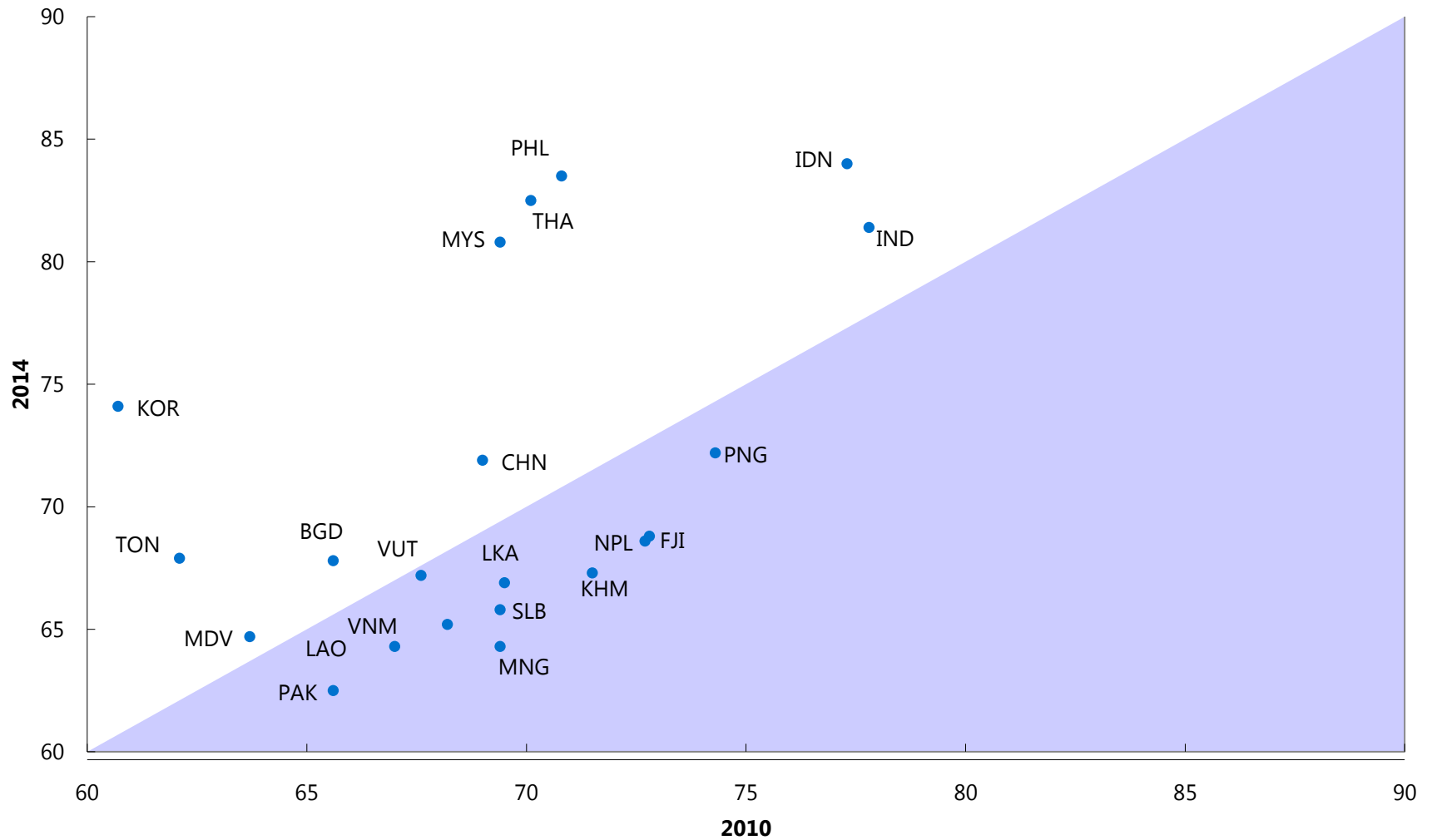
Source: Disposable income Gini is taken from OECD; Luxembourg Income Study Database; Socio-Economic Database for Latin America and the Caribbean (SEDLAC); World Bank; Eurostat. Wealth Gini data comes from Credit Suisse Global Wealth Databook (2012).

Countries included: BGD=Bangladesh; BTN=Bhutan; KHM=Cambodia; CHN=China; FJI=Fiji; IND=India; IDN=Indonesia; KIR=Kiribati; KOR=Korea, Republic of; LAO=Laos; MYS=Malaysia; MDV=Maldives; MHL=Marshall Islands; MNG=Mongolia; MMR=Myanmar; NPL=Nepal; PNG=Papua New Guinea; PHL=Philippines; WSM=Samoa; SLB=Soloman Islands; LKA=Sri Lanka; THA=Thailand; TON=Tonga; VUT=Vanuatu; VNM=Vietnam; PAK=Pakistan.

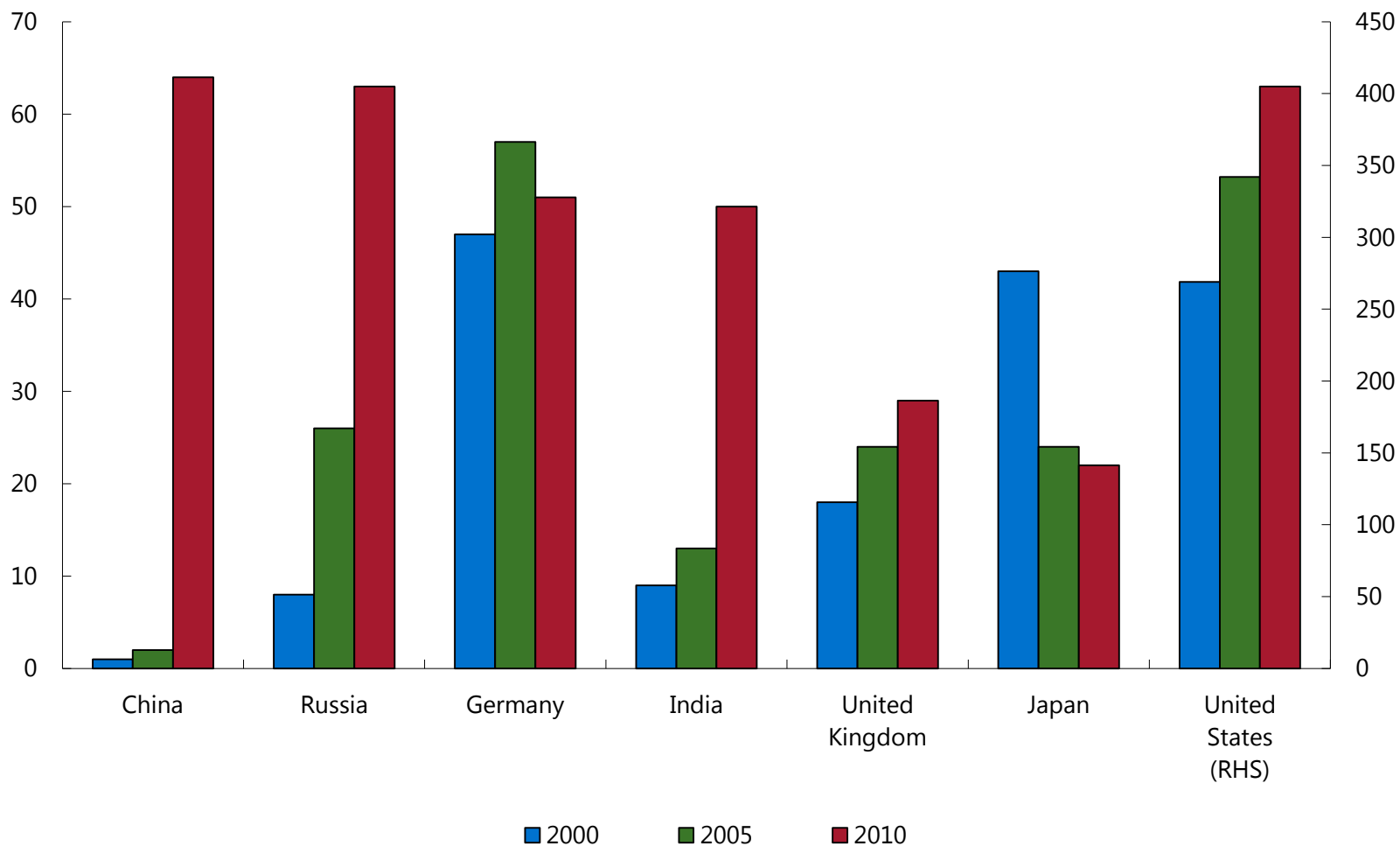
Wealth Inequality Not Especially High...



...But Increasing?



Billionaires!



What Types of Taxes?

Recurrent Wealth Tax

- **Rationale?**
 - To address non-income benefits associated with high K ?
 - K adds information to income/consumption/bequests?
- **Gross or net?**
 - Net closer to ability to pay, but avoidance possibilities if some assets untaxed
- **All assets or subset?**
 - E.g. property taxes (real estate, cars..); Benefit tax aspect
 - Land

Others

Non-recurrent (capital levy)

- Alternative to default; but few successful examples

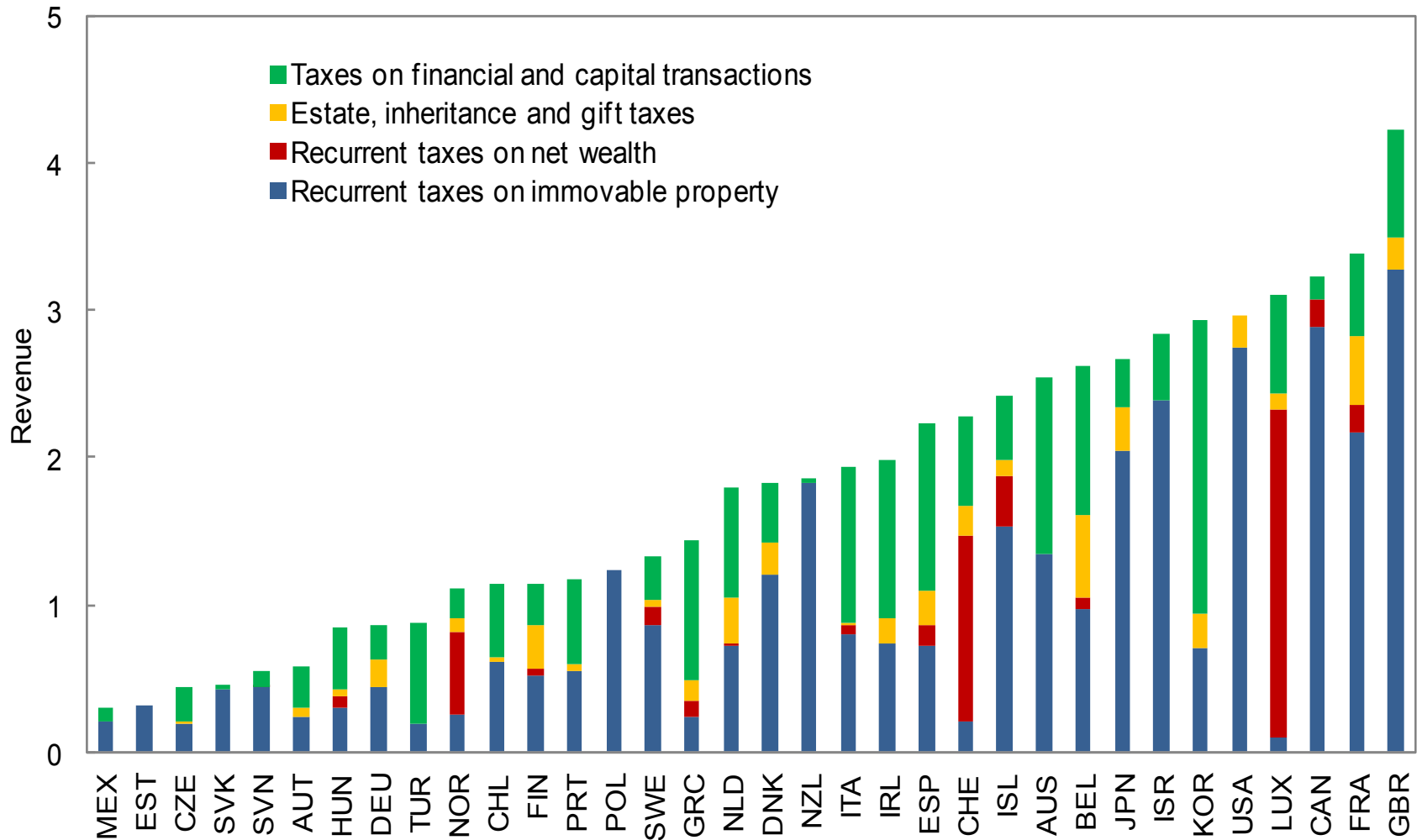
Non-market transfers

- Estate/accessions, and gift tax as corollary
 - motive matters: unintended bequests (up to 100%)
vs. warm glow (subsidy?)

Market transfers

- Stamp duties, FTT
 - Convenient! Stability?

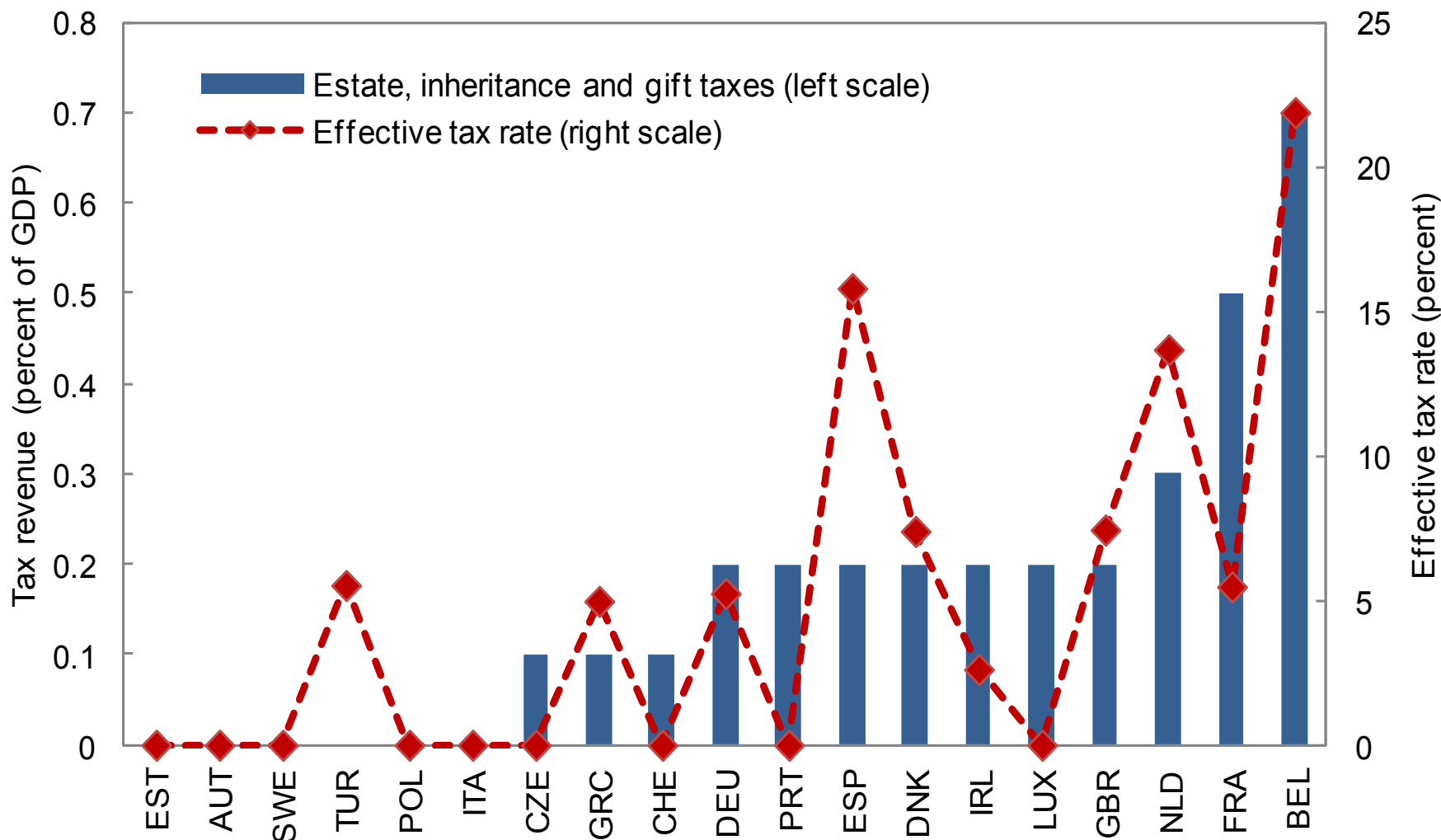
Huge Variation Even in OECD



Source: OECD Revenue Statistics

...incl. for Estate, Inheritance and Gift Taxes...

Taxes...



Source: Calculations described in October 20i3 Fiscal Monitor

Capital income and/or capital taxes?

Are They Equivalent?

Taxing wealth at rate T_K has same effect as taxing capital income at T_R if

$$(1-T_K)(1+R) = 1+(1-T_R)R$$

which requires $T_R = T_K(1+R)/R$

—e.g. With $R = 5\%$, $T_K = 1\%$ equivalent to $T_R = 21\%$

Differences—Conceptual (1)

- If rates of return vary, a uniform T_R does not imply a uniform tax on capital
 - Regressive in K if richer earn systematically higher R
- A hybrid: Dutch ‘box’: Impute a return (4%) to financial asset with flat tax on that
- In principle, imputed rate could vary with capital holdings—equivalent to progressive capital tax

Differences—Conceptual (2)

- Treatment of losses

- Liability with loss zero/negative tax under t_R ;
remains positive under t_K

A timing issue, but differing volatility and automatic stabilization properties may matter

- Distinguishing capital and labor incomes and values is an issue for both

- Except not present under comprehensive income tax

Differences—Practical (1)

- Withholding/3rd party reporting well developed for at least some forms of capital income
 - May, inter alia, reduce resistance (cf. estate tax)?
- Unrealized capital gains problematic for T_R ...
 - Though there are schemes to address this
 - ...less so for T_K if asset can be valued (though then could also tax the gain)

Differences—Practical (2)

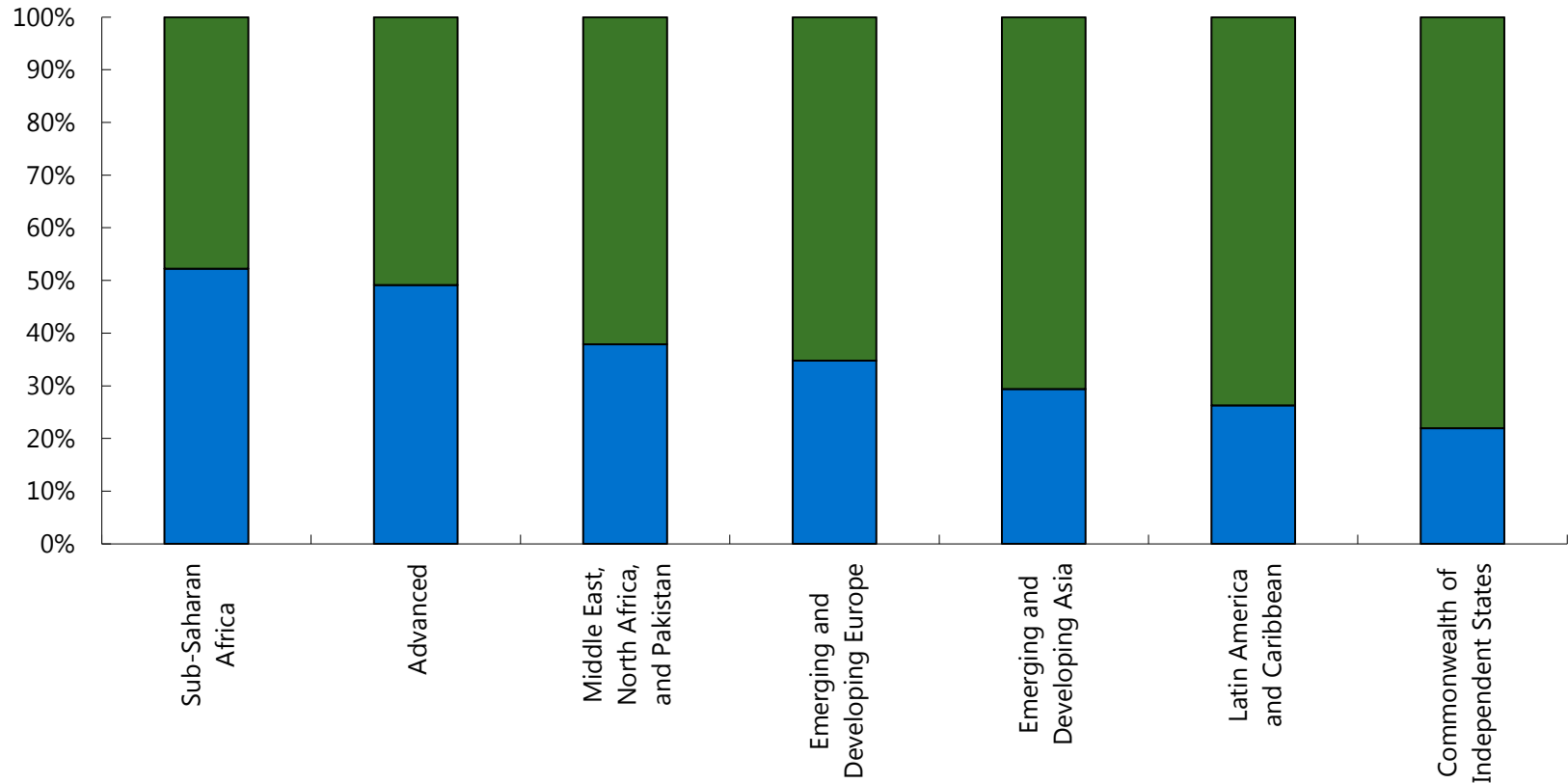
- Non-cash asset returns—e.g. owner-occupation
 - less of an issue for T_K if asset can be valued, though in that case could also impute a return
- Has T_R proved more robust against exemptions/special treatment than T_K ?
- Merits in greater familiarity with T_R ?

Differentiating Across Assets?

Non-Financial Assets are Important

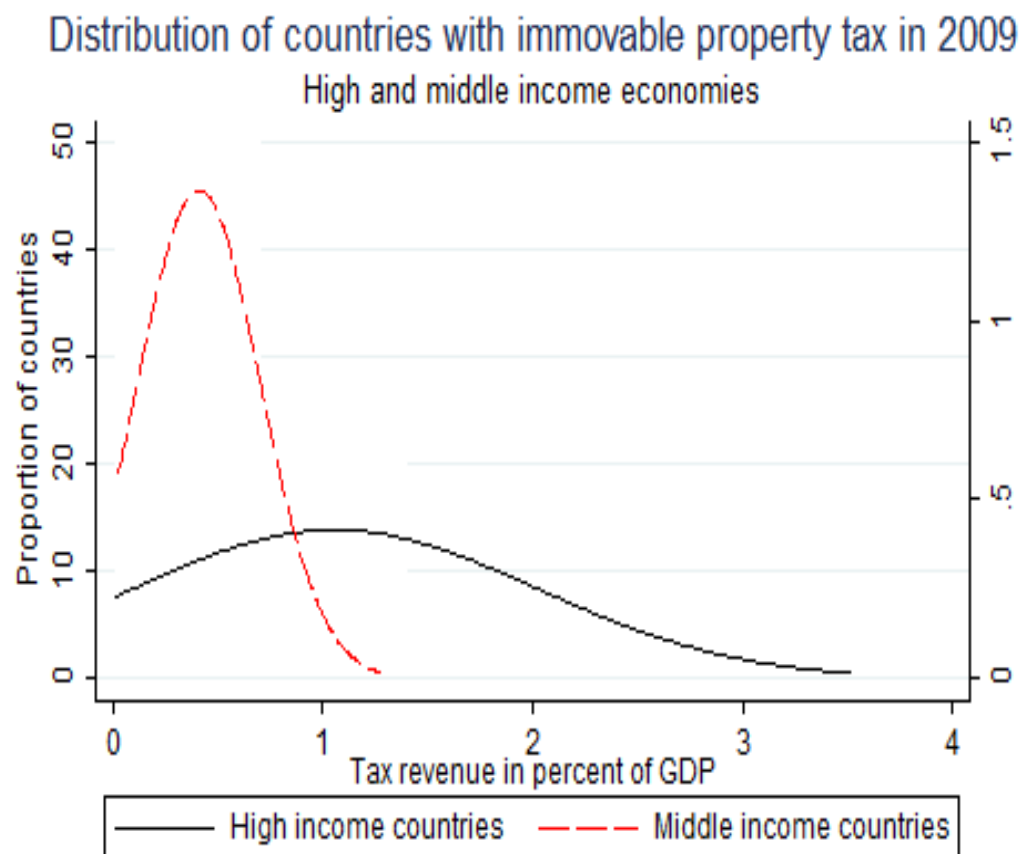
Composition of Total Wealth

■ Financial wealth ■ Non-financial wealth



Recurrent Taxes on Immovable Property

- Scope to do more:
- Top of hierarchy of relatively growth-friendly taxes



Source: Fiscal Monitor October 2013

Reasons to differentiate?

In terms of ability to pay, no

- Except if concerned by liquidity considerations

But possible reasons:

- Discourage some positions: e.g. debt
 - But better may be to address e.g. interest deductibility
- With less than full cooperation, tax more mobile assets less heavily?
 - Which would mean more use of property taxation

With Some Challenges

- Building capacity—cadastre, valuation—can be expensive and time consuming
- Keeping (relative) valuations up to date
- Retain as marginal source local government finance—benefit principle at margin?
- What role for taxes on non-residential real estate?

Tax competition and EOI

International Tax Competition

Much blamed for decay of taxes on capital/capital inc.

- Downward spiral in 'source' taxation
- Concealment: \$4.5 trillion in havens (Zucman, 2013)

Exchange of information (EOI) can help enforce of residence-based taxes—and world is changing...

- EU Savings Directive, FATCA, AEOI as new global standard

...in an important and positive way

Limits?

- Gains from cooperation—but maybe bigger gains from remaining outside
 - Money may flow to non-participating jurisdictions
 - Value of being a haven increases as others close
- Personal mobility
 - Inversions a warning
 - Three times as many US citizens renounced citizenship in 2014 as in 2012