TAXING WEALTH: POLICY CHALLENGES & RECENT DEBATE

Taxing Wealth: Past, Present, Future
ECFIN Taxation Workshop

Brussels, 13 November 2014

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BETTER POLICIES FOR BETTER LIVES

Background

- Inequality on the rise
  - Within country inequality rising
  - Falling global share of labour income/rising share of capital income
- Crisis and its aftermath
  - Perceived causes
  - Fiscal consolidation and austerity
  - Need for governments to secure their revenues
- Globalisation and tax avoidance
  - Conversation about ‘fair share’

Rising inequality

- Within country inequality rising
  - ✓ Focus on traditional market economies
- But the story is even more complicated than this:
  - ✓ Massive shift in global economic power
  - ✓ Rising living standards in many of the Emerging Market Economies
  - ✓ Reductions in poverty and inequality from a more ‘global’ perspective – but many countries still being left behind
  - ✓ Intergenerational inequality – ageing populations

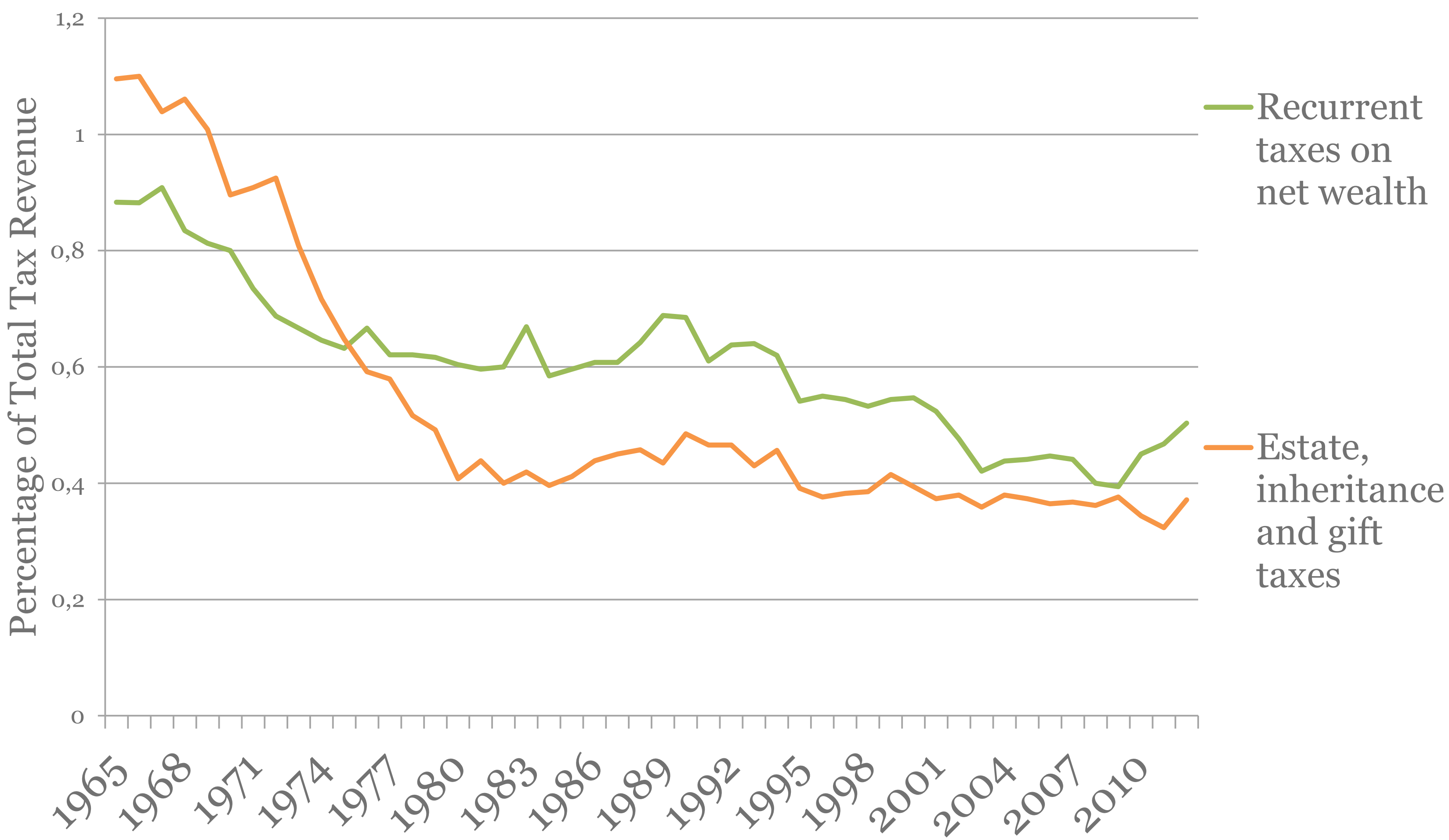
Existing tax policy tools

- Conventional thinking on ‘growth friendly’ taxation policy
  - ✓ Property taxes – recurrent taxes on immovable property rather than transaction taxes
  - ✓ Consumption taxes – distributional concerns
  - ✓ Personal income tax – most progressive, but distortive
  - ✓ Corporate income tax – most distortive
- Redistribution better achieved through government expenditure policies
  - ✓ But reduced capacity due to fiscal consolidation

The search for new tools

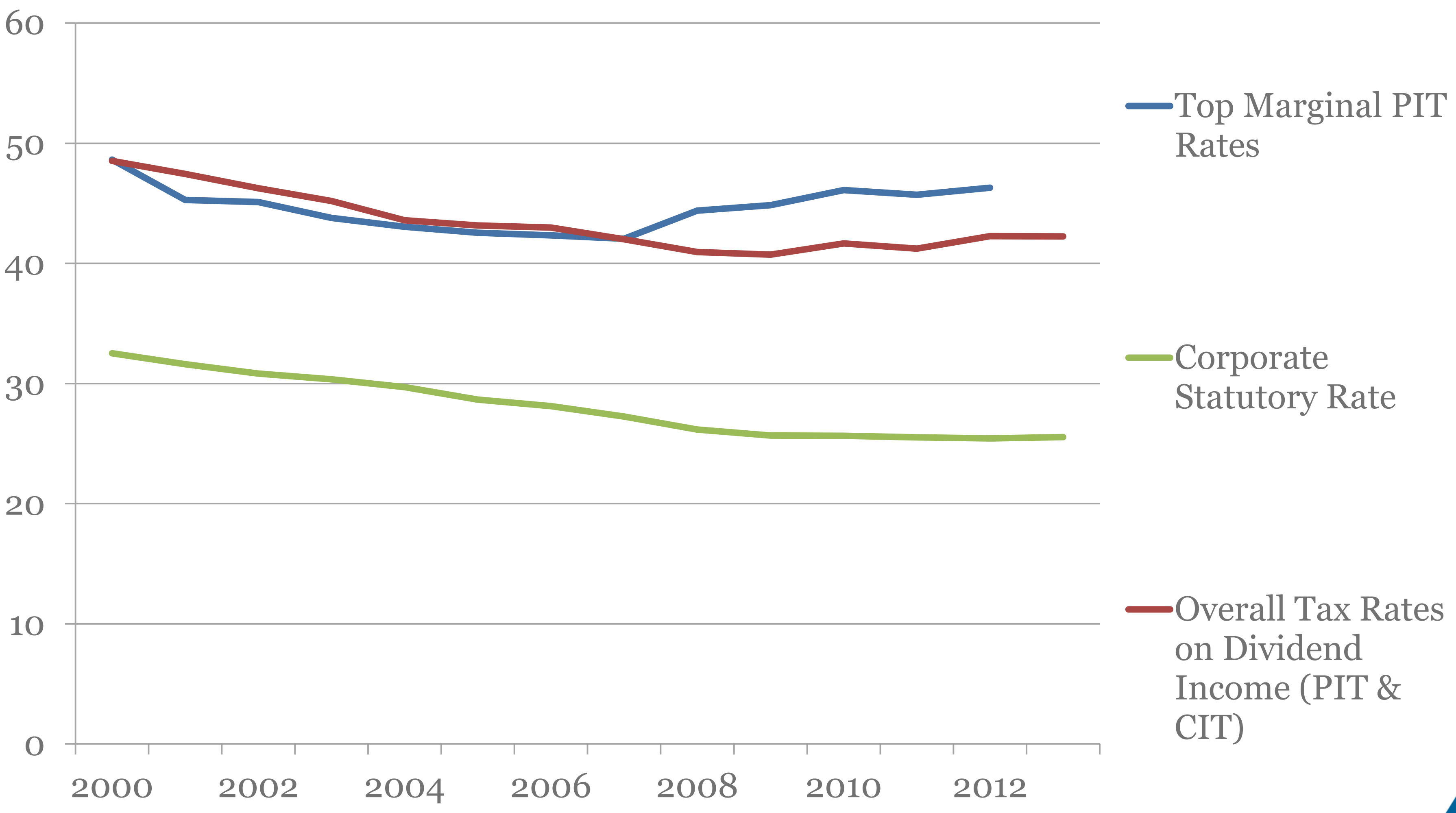
- This has led to a more nuanced policy discussion about 'sustainable and inclusive growth'
  - ✓ Can tax play a more important role in tackling economic inequality?
    - Are new taxes needed or should we look to make better use of existing and available policy tools?
  - ✓ Estate, inheritance and gift taxes?
  - ✓ Wealth taxes?
  - ✓ How can we more effectively tax capital?
  - ✓ Personal income tax rates on top incomes
  - ✓ Taxation of skills and workforce participation?

Wealth and inheritance taxes



Source: OECD Revenue Statistics, Categories 4100, 4200, 4300, and 1120+1220 respectively.

Taxation of dividend income



Source: OECD Tax Database.

Wealth taxes – a panacea?

- Many challenges associated with wealth taxes
  - ✓ Taxing stocks or flows?
  - ✓ Gross or net?
  - ✓ Comprehensive or selected classes of assets?
  - ✓ Valuation issues
- Mobility and competition in a global economy
- One of the biggest challenges relates to avoidance, especially in the context of globalisation
  - ✓ Transparency is crucial

Tax avoidance and globalisation

- Concerns about mobility and avoidance have led to some discussion about a 'global wealth tax', but
- Tax sovereignty
  - ✓ Who is entitled to the revenue?
  - ✓ Who enforces the tax?
  - ✓ Countries are diverse with different societal preferences, differing inequality levels, different revenue needs and at different stages of economic development
  - ✓ Political legitimacy (democratic or otherwise)
- The challenge of tackling avoidance remains

Transparency the key

- With the G20, the OECD has been leading the work with other organisations such as the EU to increase transparency
  - ✓ Exchange of information
    - On request
    - Spontaneous
    - Automatic
  - ✓ Global Forum on Transparency and Exchange of Information for Tax Purposes
    - Restructured in 2009, 123 members and ongoing peer reviews
  - ✓ Multilateral Convention on Mutual Assistance in Tax Matters

Automatic Exchange of Information

- The OECD presented a single, common global standard on AEOI to G20 Finance Ministers in September
- The AEOI standard provides for regular, automatic exchange between governments of all relevant financial information
  - ✓ All types of investment income - including interest, dividends, income from certain insurance contracts and other similar types of income
  - ✓ The financial institutions required to report include banks, custodians, brokers, certain collective investment vehicles and certain insurance companies
  - ✓ Accounts include those held by individuals and entities, with an obligation to look through passive entities.

Automatic Exchange of Information

- Global Forum meeting in Berlin 28-29 October 2014
  - ✓ 89 Global Forum member jurisdictions signed up to AEOI
  - ✓ 2015 – Jurisdictions will provide implementation plans
  - ✓ 2017 – Early adopters to exchange
  - ✓ 2018 – Other nations signed will exchange
  - ✓ Support for developing countries to help them implement AEOI
- Research in Norway showed that in 38.7% of cases disclosed under AEOI had not been reported as income in Norway
- A project in Denmark, based on information received under AEOI, showed a non-compliance rate of 40%
- AEOI has the potential to dramatically increase taxation of capital income and assets

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