



Taxing Wealth: Past, Present, Future

Main messages from the 2014 report "Tax Reforms in EU Member States"

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Outline

Context

General thrust of the report:

- Recent tax reforms in EU Member States
- Tax challenges in EU Member States

Looking at wealth taxes:

- Income inequality and tax & benefit systems
- Debate on wealth tax
- Description of wealth-related tax

Context

- Much attention for tax issues in current policy debate.
- European Semester, the EU's annual cycle of economic policy surveillance prompts Member States to:
 - design taxes to be more growth-friendly, for instance by shifting the tax burden away from labour on to tax bases linked to consumption, property, and combatting pollution.*
- 2014 edition of the annual Tax Reforms Report prepared jointly by DGs ECFIN and TAXUD (with input from the Joint Research Centre).
- Report contributes to this discussion and serves as an analytical input to the 2015 European Semester.

General thrust of the report

The *Tax Reforms Report* presents:

- An overview of recent tax reforms in EU Member States
- An indicator-based assessment framework to
 - ... identify the main tax policy challenges in EU countries
 - ... with a view to improving the contribution of taxation to macroeconomic performance

Recent tax reforms – selected tax types

Overview of reforms in second half 2013 and first half 2014

			Statutory rates	Base or special regimes
Excise duties	Energy products and electricity	Increase	BE, CY, BG, EE, ES, FI, FR, HR, IT*, LV, MT, NL, PL, RO, SI	BE, EE*, FR
		Decrease		BG, DK, DE, HR, UK
	Tobacco, alcohol and sugar etc.	Increase	AT, BE, CZ, DE, EE, ES, FI, HR, IE, IT, LT, LV, MT, NL, PL, PT, RO, SE, SI, UK	
		Decrease	DK, UK	
Environmental taxes (excluding excise duties on energy)	Increase	AT, BG, ES, FI, FR, HR, HU, IT, LT*, LV, NL, PT, SI, UK	BE, CY, FR, NL, UK	
	Decrease	BG, IE	DK, MT, UK	
Property taxes	Increase	EL, IE, IT, CY, LT, NL, RO	CY, ES, HR*, UK	
	Decrease	EL, IT	EE, LV, MT	

Recent tax reforms: general trends related to 'classic' tax shift

- Many Member States reduced the tax burden on labour (often aimed at specific groups, such as low-income earners), while increases were less common.
- Many Member States increased consumption taxes.
- A significant number of Member States increased environmental taxes (with relatively limited budgetary effects in general).
- Only a small number of Member States reformed recurrent property tax.

Tax policy challenges in EU Member States

Focus on the wide-ranging macro-economic dimensions of taxation through:

- Sustainability of public finances/consolidation needs
- Growth-friendly tax structures and tax shifts

... and a set of challenges related to broadening tax bases and specific issues related to the design of individual types of tax:

- Housing taxation
- Debt bias in corporate taxation
- Selected tax expenditures in direct taxation
- Broadening the VAT base
- Environmentally-related taxes

... and on improving tax governance

... while keeping distributional effects in mind.

Identification of challenges: methodological approach

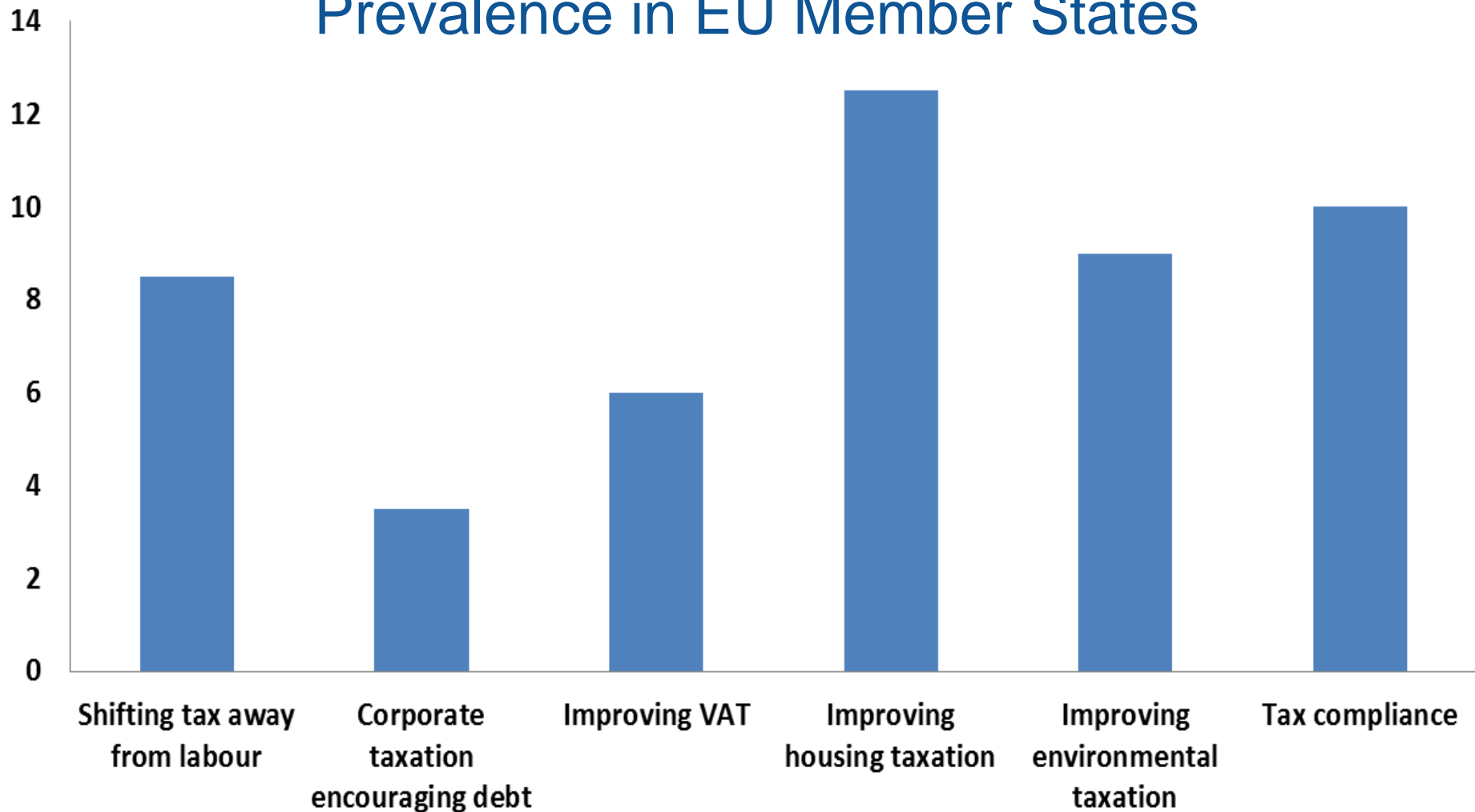
- Indicator-based screening
- Identifying relatively good and poor performers for each indicator
- Using transparent and sensible screenings combining several indicators
- Need for additional, in-depth country-specific information and analysis before drawing conclusions

Main tax challenges – screening results

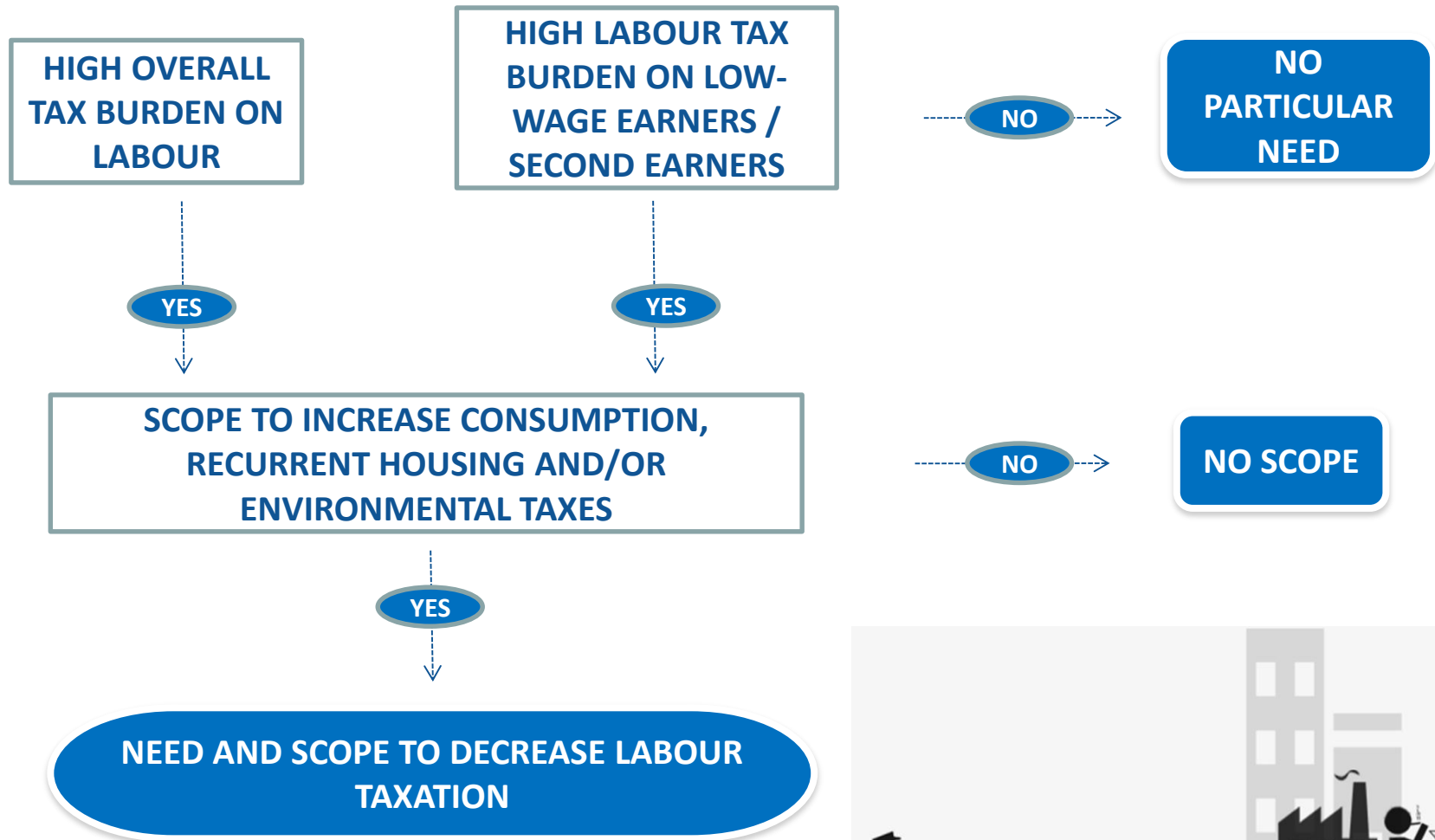
Country	Consolidation	Tax shift	Tax bias (corporate)	VAT	Housing taxation		Environmental taxation		Tax governance	
					Structural shift	Debt bias	GHG target	Design	Tax compliance	Tax administration
Belgium		X			X	X	X	X		
Bulgaria									(X)	X
Czech Republic		X				X		X		X
Denmark						X				
Germany		(X)			(X)			X		X
Estonia						X				
Ireland	X			X			X			
Greece*	-			X				X	X	
Spain				X	(X)		X		X	
France		X	X					X		
Croatia	-	-			X				-	-
Italy		X		X	(X)	X	X	X	X	
Cyprus*	-	-							X	
Latvia		X							X	
Lithuania							X		X	
Luxembourg			X		(X)	X	X	X		
Hungary		X							X	
Malta			(X)		X					
The Netherlands						X				
Austria		(X)					X			
Poland				X			(X)		(X)	X
Portugal	X		X		(X)			X	(X)	X
Romania		X							X	
Slovenia										
Slovakia								X	(X)	X
Finland		(X)				X	X			
Sweden		(X)				X				
United Kingdom	X			X						

Overview of main tax policy challenges

Prevalence in EU Member States



Identification of challenges: screening for shifting taxes away from labour



Identification of challenges: shifting taxes away from labour

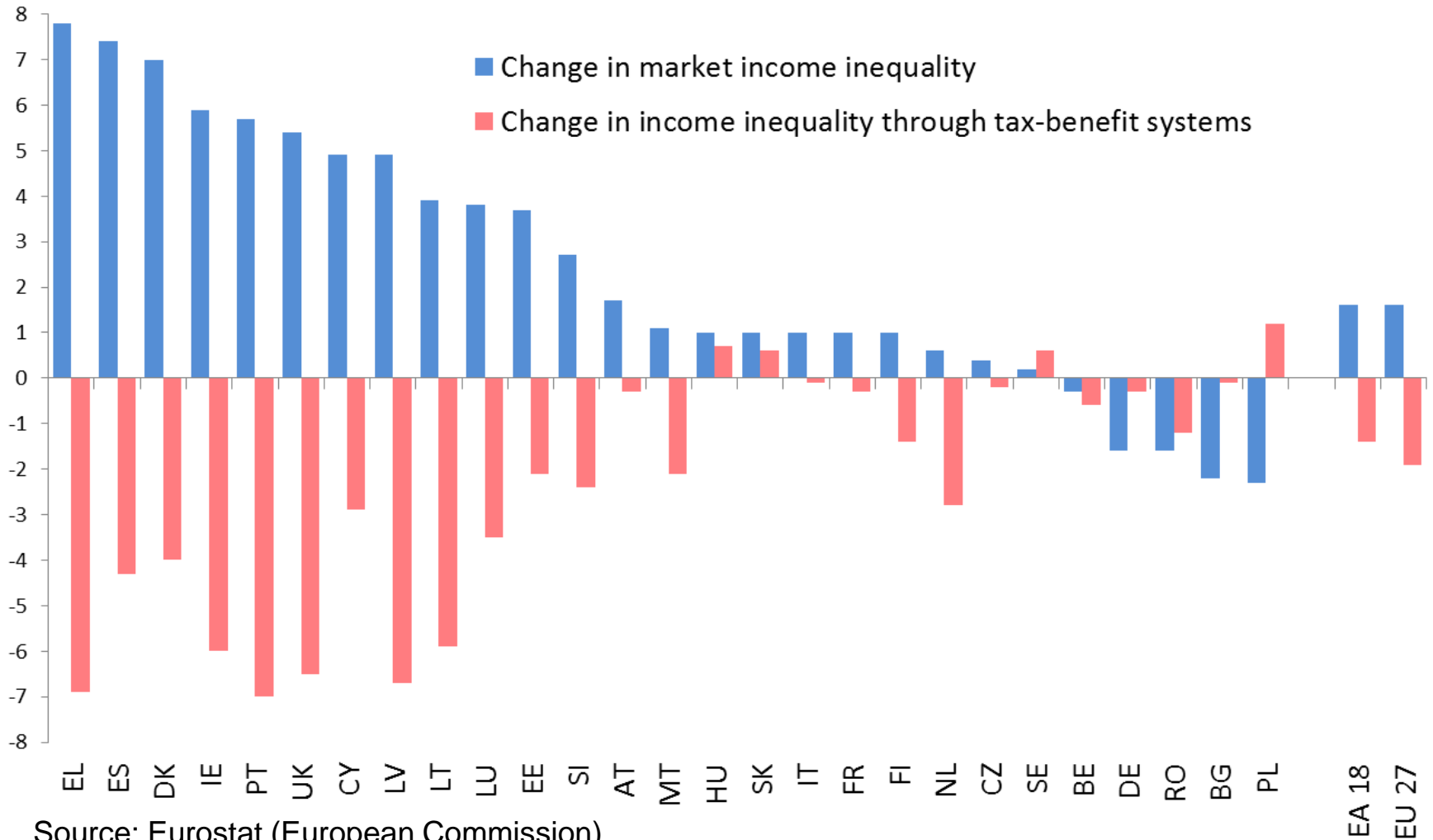
	HIGH TAX BURDEN LABOUR				POTENTIAL FOR TAX SHIFT				NEED AND SCOPE FOR SHIFT
	OVERALL	LOW-SKILLED	SECOND EARNER	NEED FOR SHIFT	CONSUMPTION	HOUSING	ENVIRONMENT	SCOPE FOR SHIFT	
BE	X	X	X	X	X		X	X	X
BG						X		(X)	
CZ	X			X		X	X	X	X
DK									
DE	(X)	(X)	(X)	(X)		X	X	X	(X)
EE						X		(X)	
IE					X	X		X	
EL					X			X	
ES					X		X	X	
FR	X	(X)		X	X		X	X	X
HR	-	-	-	-		X		(X)	-
IT	X	X	X	X	X			X	X
CY	-	-	-	-	X	X		X	-
LV		X		X	X	X	X	X	X
LT					X	X	X	X	
LU						X		(X)	
HU	X	X		X		X	X	X	X
MT						X		(X)	
NL		(X)		(X)					
AT	(X)	(X)		(X)		X	X	X	(X)
PL							X	(X)	
PT					X	X	X	X	
RO		X		X		X	X	X	X
SI						X		(X)	
SK					X	X	X	X	
FI	(X)	(X)		(X)		X		(X)	(X)
SE	(X)	(X)		(X)		X		(X)	(X)
UK									

Looking at wealth taxes

- Income inequality and tax & benefit systems
- Debate on wealth tax
- Description of wealth-related tax

Mitigating effect of tax and benefit system on income inequality, 2008-12

Contribution to the change in Gini index



Source: Eurostat (European Commission)

Wealth-related taxes – renewed debate

- Most wealth taxes were removed or scaled down by Member States between 1995-2007
- Debate on wealth taxes has gained momentum in times of fiscal consolidation and strong macroeconomic adjustment needs, particular in vulnerable countries.
- Recently increased academic discussion around possibility of levying taxes on assets.
- Taxation of wealth is a very complex issue and many different forms of wealth-related taxes exist.

Wealth-related taxes – renewed debate

- For some, wealth taxes are an effective way of supplementing capital income taxes:
 - Rebalance tax burden away from the neediest and middle class
 - Very low taxes on net wealth could limit distortionary effects
 - Low rate would tax only, or mainly, accumulated economic rents

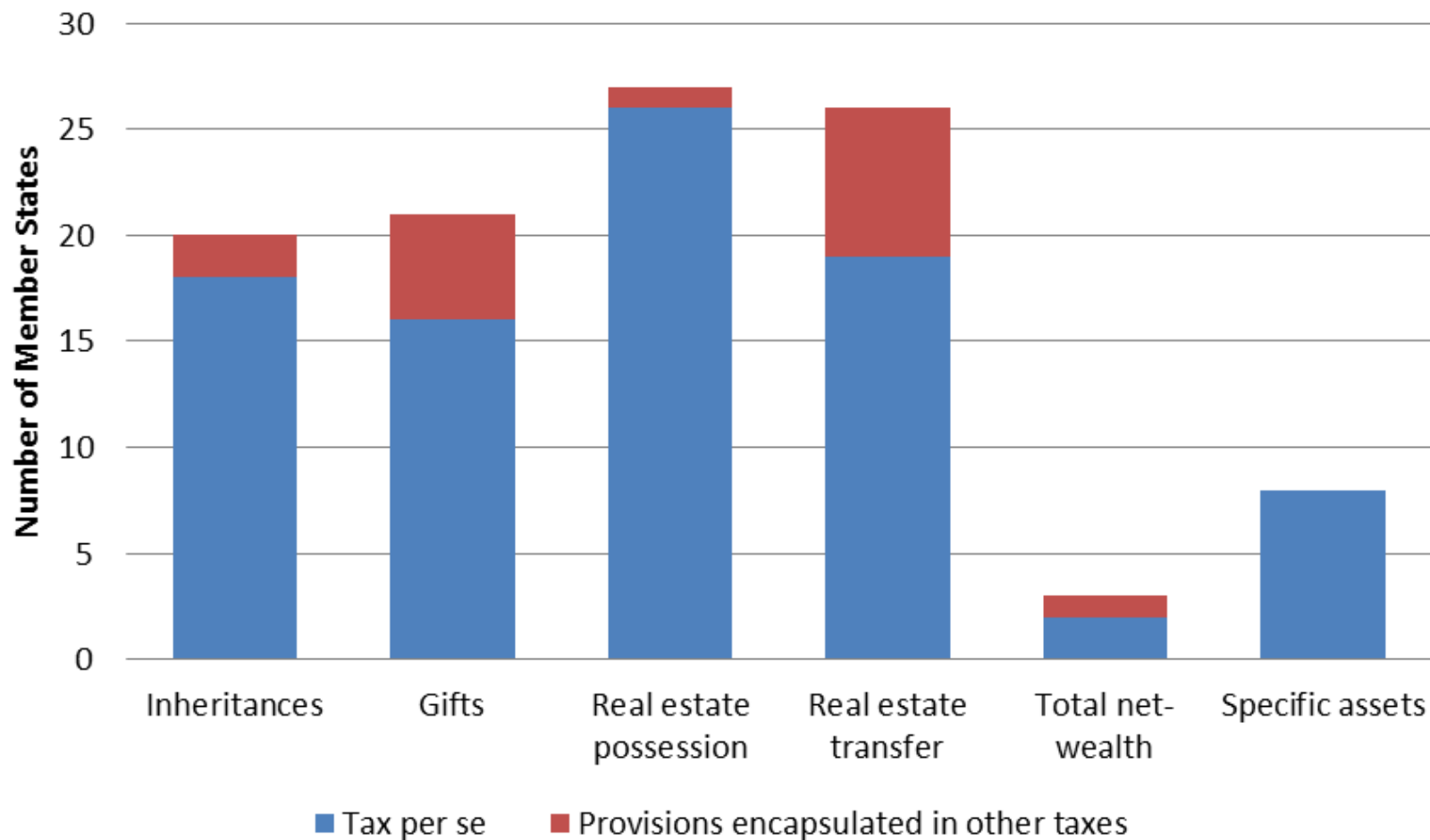
Wealth-related taxes – renewed debate

- For others, significant downside risks
 - Potential negative behavioural effects on capital accumulation, especially at high rates;
 - Revenue potential is subject to large uncertainty;
 - Compliance issues (avoidance using existing loopholes, capital flight, tax havens);
 - Practical cost of declaring, collection and monitoring;

Wealth-related taxes – renewed debate

- Should different forms of wealth be taxed at different rates?
 - Taxation depending on degree of mobility would, for example, imply higher rate for immovable property than for financial assets;
 - Recurrent property taxes considered less distortive;
 - Inheritance taxes could limit intergenerational transmission of inequality; evidence of distortionary effects of such taxes is, however, mixed

Wealth-related taxes in EU Member States

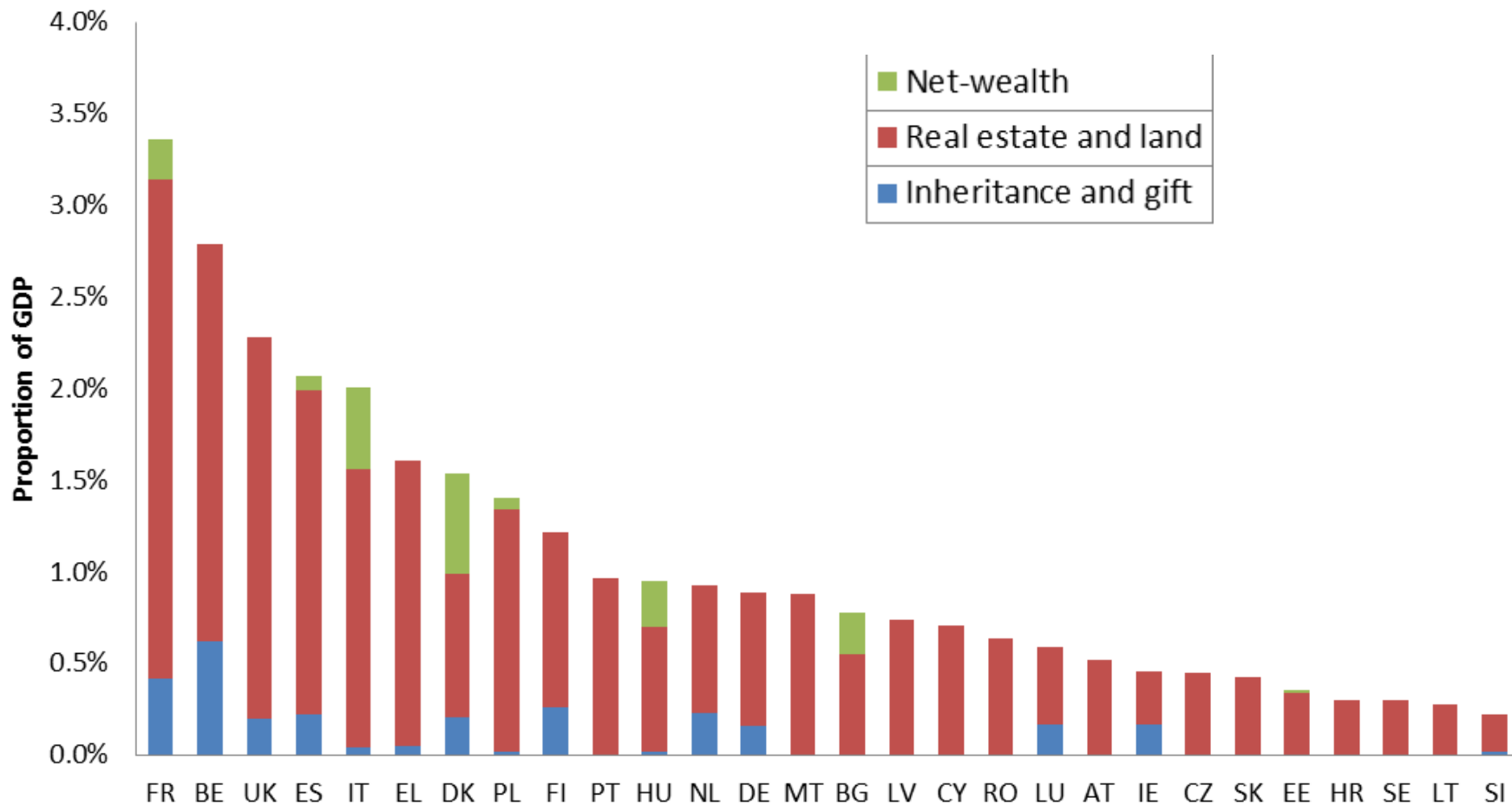


Source: European Commission, study by E&Y for DG TAXUD

Wealth-related taxes in EU Member States

- Inheritance is taxed in 18 Member States and gifts are in 16.
- Taxes on immovable property, including land, are in place in nearly all EU Member States, either in the form of transaction tax or recurrent tax.
- Recurrent taxes on the ownership of assets, such as vehicles, bank accounts, financial assets and net wealth, are used in about a third of Member States.

Wealth taxes in the European Union – Importance for tax revenues, 2012



Source: European Commission, study by E&Y for DG TAXUD

The full report may be found at:

http://ec.europa.eu/economy_finance/publications/european_economy/2014/ee6_en.htm

http://ec.europa.eu/taxation_customs/resources/documents/taxation/general_info/economic_analysis/tax_papers/taxation_paper_48.pdf

A forthcoming ECFIN occasional paper on tax expenditures shall be released soon and will be available at:

http://ec.europa.eu/economy_finance/publications/occasional_paper/index_en.htm

Annex

Taxation Reforms Database

- Provides an overview of the main tax reforms implemented in the EU Member States since 2010.
- Based on list of tax measures and reforms included in various editions of the annual Tax Reforms Report.
- Reforms can be filtered by Member States, type of tax, time-period and direction of reform
- link:
http://ec.europa.eu/economy_finance/db_indicators/taxation_reforms_database/index_en.htm