# Wealth Tax – *Un serpent de mer*[1]

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**Introduction**

There is a close link between times of economic crisis and discussion of new taxes on wealth. Following the two world wars a number of countries introduced wealth taxes in an attempt to repair their devastated economies and redress their balance of payments. Will we witness a similar movement in a post-Covid world? On 4 December 2020 Argentina, one of the South American countries worst hit by coronavirus, introduced a one-off wealth tax to pay for medical supplies and to finance relief measures against a background of the increasing spread of the pandemic. The new tax will target those with assets worth more than 200 million pesos ($2.5m; £1.8m). Those affected (an estimated 12'000 people) will pay a progressive rate of up to 3.5% on wealth in Argentina and up to 5.25% on assets outside the country. While annual wealth taxes introduced in the period of 1970-1990 have been abandoned by a number of countries. In more recent times there are three notable examples of one-off taxes on wealth: a 0.6% levy on bank deposits in Italy in 1992, a 47.5% levy on bank deposits over €100'000 in Cyprus in 2013 and a 0.6% levy on pension funds in Ireland spread between 2011 and 2013.

**The decline of wealth taxes**

Net wealth taxes are far less widespread in the OECD than they used to be. In 1990 there were twelve countries, all in Europe, which levied individual annual net wealth taxes. However, most of them repealed their wealth taxes in the 1990s and 2000s, including Austria (in 1994), Denmark and Germany (in 1997), Finland, Iceland and Luxembourg (in 2006) and Sweden (in 2007). Iceland, which had abolished its wealth tax in 2006, reintroduced it as a temporary 'emergency' measure between 2010 and 2014. Spain, which had introduced a 100% wealth tax reduction in 2008, reinstated the wealth tax in 2011. The reinstatement of the wealth tax was initially planned to be temporary but has been maintained since. France was the last country to repeal its general wealth tax in 2018, replacing it with a tax on high-value immovable property. In 2020 Norway, Spain and Switzerland were the only OECD countries that still levied individual net wealth taxes, according to the OECD study[2]. However, the study omits three countries that continue to levy annual wealth taxes on their residents in one form or another: the Netherlands applies a tax on net wealth as part of its income tax; Belgium imposes a rate of 0.15 percent on securities totalling more than €500,000 per account holder, and Italy levies a charge on assets held abroad by Italian residents (0.2 percent for financial assets and 0.76 percent for real estate). New immigrants to Italy are exempt from this tax if they opt to be taxed under the special HNW regime. It is generally understood that the reason for the movement away from wealth taxes is due to problems of fair valuation of assets, burdensome administration costs and the belief that wealth taxes discourage domestic and foreign investment.

**Norway, Spain and Switzerland**

The tax rules in the three remaining European countries that levy a general annual wealth tax on individuals differ significantly.

Norway has had a wealth tax since 1892 and imposes a tax of 0.85% on net wealth over €150,000. Most assets are taxed but with discounts for immovable property. Wealth tax receipts amount to 1.1% of total national tax revenue. It is worth noting that Norway abolished inheritance and gift tax in 2014.

Spain has had a wealth tax since 1977. There are important exceptions for pensions and main homes (up to €300,000), as well as small and medium size companies, and the tax is levied on individuals, and not on family units. The exempt minimum threshold is €700,000 per individual, and the rates set nationally start at 0.2% above €10.69 million although some regions have higher rates (*e.g.* the Balearic Islands). There is a capping mechanism, which means that wealth tax and income tax combined cannot exceed 60% of the taxable base. Wealth tax receipts amount to 0.5% of total national tax revenue.

In contrast, wealth tax receipts in Switzerland represent a remarkable 3.9% of total national tax revenue. There is no federal wealth tax, but all cantons levy such a tax, at different rates and with different exemptions. Tax is broadly assessed on all assets, including private residences, art works, jewellery and securities, but not on real estate situated abroad (although such property is taken into account in determining the applicable rate of tax on other assets). Thresholds and rates vary significantly from canton to canton. Tax exemption thresholds are comparatively low, ranging from the equivalent of US$55,000 in the canton of Jura to US$250,000 in the canton of Schwyz. Thus, Swiss wealth taxes affect a large proportion of the middle class. Top marginal rates of tax (cantonal and municipal rates combined) range from 0.1% in the canton of Nidwalden to 1% in the canton of Geneva. It is worth recording that Switzerland has no capital gains tax on individuals, and most cantons exempt inheritance and gifts between spouses and in favour of direct descendants.

**United Kingdom**

The Labour government in the UK considered the introduction of a wealth tax in 1974, and detailed proposals for taxing wealth were made by the Meade Committee in 1978. In 1979 the incoming Thatcher Government robustly rejected the Meade Committee's wealth tax plan. But the idea resurfaced forty years later.

On 9 December 2020, a group of academics and tax professionals, led by Arun Advani, Andy Summers and Emma Chamberlain QC, known as the "Wealth Tax Commission" published a much-anticipated report of their study into the possibility of a UK wealth tax. The report[3] strongly endorses a one-off wealth tax as against an annual tax. A one-off tax would require assets to be valued only once and if a comparatively high rate was used the administrative costs would represent a lower proportion of receipts than on a lower rate charged annually. The authors project that a flat rate of 5% on assets over £500,000 on an "all-inclusive" tax base could raise at least £260 bn. The key recommendations of the report include:

1. Levying the tax on an individual basis, with the option for couples to be jointly assessed giving a threshold of £1 million per couple.
2. The tax to be based on all assets, including main homes, pensions and business assets, as well as other savings and investments, but minus debts such as mortgages.
3. Deferred payment spread over five years should be allowed in certain circumstances – for example, where the taxpayer is asset rich but cash poor, and with special treatment of pension wealth.
4. The tax should apply to all UK residents including 'non-doms', and to individuals who had recently left the UK, by the operation of a so-call "backwards tail" – an attempt to ensure emigration is not a potential means of avoiding the tax.
5. Non-residents might also be liable to the tax on their UK real estate, whether owned directly or indirectly.
6. Trusts to be taxed as separate entities and fall within scope of a one-off wealth tax if the settlor was resident for wealth tax purposes in the tax year. If a trust is within scope it will be taxable on the entire trust fund. Appendix A to the report sets out detailed proposals (authored by Emma Chamberlain) concerning trusts and non-residents.

The Commission has identified that there is general public support for a wealth tax, although it recognized that it is usually supported by people to do not have to pay it themselves.

The UK Chancellor, Rishi Sunak, has reportedly stated that there is not now, and never will be, a time for a wealth tax. It is therefore very unlikely that the current UK Government will introduce a wealth tax in any form, let alone one as dramatic as that proposed by the Wealth Tax Commission's report. The Commission estimated that to raise the £260bn they project would derive from their proposed wealth tax over five years, the Government would have to raise income tax rates by 6p in the pound (giving a top rate of 51%), raise national insurance contributions by 8p in the pound (giving an effective maximum rate of 20%) or raise VAT by 6p in the pound (to a standard rate of 26%). Such changes may be more likely than a wealth tax, at least in the medium term.

**A Wealth Tax to combat inequality?**

In 2014, French economist Professor Thomas Piketty published a widely discussed book entitled *Capital in the Twenty-First Century*, followed in 2020 by *Capital and Ideology.* The central thesis of Piketty's publications is that wealth inequality is not an accident, but rather a feature of capitalism, and can only be reversed through state intervention. He argues that when the rate of return on capital is greater than the rate of economic growth over the long term, the result is the concentration of wealth, and this unequal distribution of wealth causes social and economic instability. Professor Piketty proposes a global system of progressive wealth taxes to help reduce inequality and avoid the trend towards a vast majority of wealth coming under the control of a tiny minority. In an interview with the French magazine L'Obs Professor Piketty called for a graduated global wealth tax of 5% on those worth 2 million Euros or more and up to 90% on those worth 2 billion Euros. Professor Piketty's analysis was hailed as a major and important work by some economists. Other economists have challenged Professor Piketty's proposals and interpretations. Although Piketty's native country has now repealed the general wealth tax (ISF), it remains a political issue in France and was one of the principal demands of the *gilets jaunes* movement.

The rise of inequality in the United States over the past few decades has prompted debate about new types of progressive taxation. Wealth taxation is, as championed by Thomas Piketty, a potential tool to reduce wealth disparities. In the 2020 presidential election campaign the idea of a wealth tax was popularized by Massachusetts Senator Elizabeth Warren and later by Vermont Senator Bernie Sanders. Sen. Warren's original proposal would tax household net wealth above $50 million at a 2 percent rate per year and above $1 billion at a 3 percent rate. Sen. Warren boosted the size of the billionaire's wealth surcharge to 6 percent when she released her plan to pay for Medicare for All. A potential wealth tax does not feature in the preliminary tax changes proposed by the incoming President, Joe Biden.

**What next?**

Pressure for fair burden sharing is likely to be even greater in a post-COVID 19 context. Once the crisis is over and economies recover, governments will start looking to restore public finances. However, as the crisis has exacerbated existing inequalities and hit vulnerable households harder, traditional revenue raising recipes – *i.e.* raising taxes on labour and consumption, as was done in the wake of the 2008 global financial crisis, might be politically difficult and in many cases not desirable from an equity perspective. Demands for some form of wealth taxation are likely to be greater, due to increases in inequality and perceptions of inequality. With the reduction in the tax burden on personal capital and assets over recent decades in many OECD countries, and the fact that tax administrations are now better equipped and more widely informed, there may be a greater temptation to reconsider a wealth tax, as a way to allow for the effective taxation of wealth.

**End Notes:**

1. Literally "a sea-serpent" the French phrase is used to describe an ever-recurring problem or event.

2. The Role and Design of Net Wealth Taxes in the OECD. OECD Tax Policy Studies No.26. (2018)

3. https://www.ukwealth.tax