Chapter 1. Overview of individual net wealth taxes in OECD countries

This chapter provides an overview of individual net wealth taxes in OECD countries. It looks at how the number of countries levying a net wealth tax has evolved over time. It also examines trends in the revenues that have been collected from net wealth taxes since the mid-1960s.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

This chapter is based on the tax rules that were in place as of 1 September 2017. Since then, France has replaced its net wealth tax ("*impôt de solidarité sur la fortune*") with a new real estate wealth tax ("*impôt sur la fortune immobilière*"), with effect from 1 January 2018.

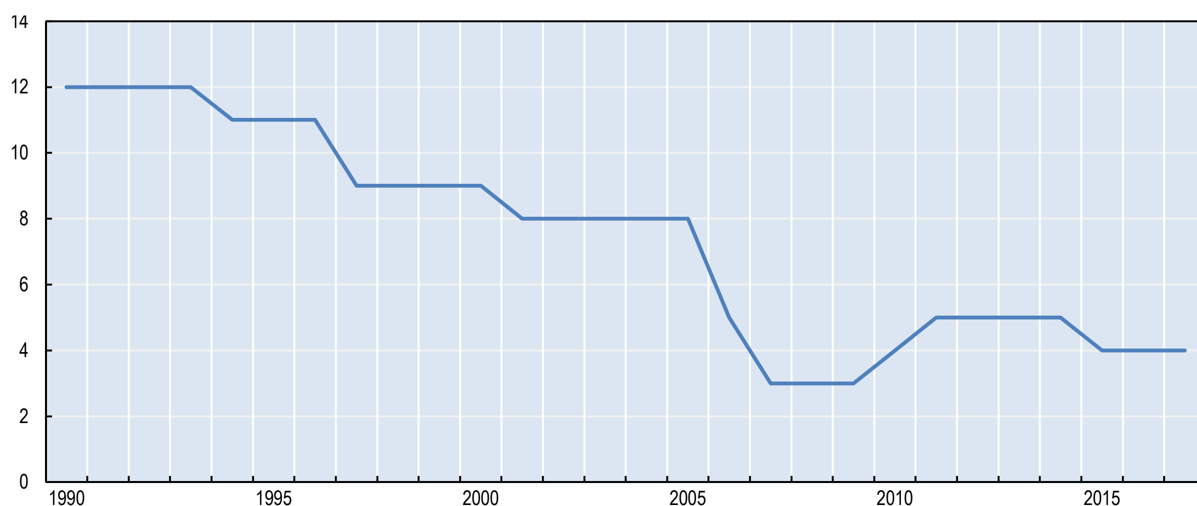
This chapter provides an overview of net wealth taxes paid by individuals in OECD countries. It examines the declining prevalence of net wealth taxes in OECD countries and looks at how wealth tax revenues have evolved over time. Generally, this chapter shows that net wealth taxes are far less popular than they used to be – with only four OECD countries levying such taxes in 2017. Concerns about their efficiency and administrative costs, in particular in comparison to the limited revenues they tend to generate, have led to their repeal in many countries. More recently, however, trends in income and wealth inequality, combined with the need to balance public budgets, have led to a renewed interest in wealth taxes.

Very few OECD countries still have net wealth taxes

Net wealth taxes are recurrent taxes on individual net wealth stocks. They include national and subnational recurrent taxes on a wide range of movable and immovable property, net of debt. They are distinct from other taxes on capital, including taxes on capital income and taxes on wealth transfers. They can also be distinguished from other taxes on wealth stocks: compared to recurrent taxes on immovable property, they are taxes on a broad range of property and debts are deductible; and unlike sporadic capital levies, net wealth taxes are levied on a regular basis (usually annually).

The number of OECD countries levying individual net wealth taxes dropped from 12 in 1990 to 4 in 2017 (Figure 1.1). There are many OECD countries that used to have wealth taxes but that repealed them in the 1990s and 2000s including Austria (in 1994), Denmark (in 1997), Germany (in 1997), the Netherlands (in 2001), Finland, Iceland, Luxembourg (all three in 2006) and Sweden (in 2007). In 2008, although it did not technically repeal its wealth tax, Spain introduced a 100% tax credit, reducing all taxpayers' wealth tax liabilities to zero. After the crisis, however, both Iceland and Spain reinstated net wealth taxes as temporary fiscal consolidation measures. In 2017, France, Norway, Spain and Switzerland were the only OECD countries that levied net wealth taxes.

Figure 1.1. Evolution of the number of OECD countries levying individual net wealth taxes between 1990 and 2017



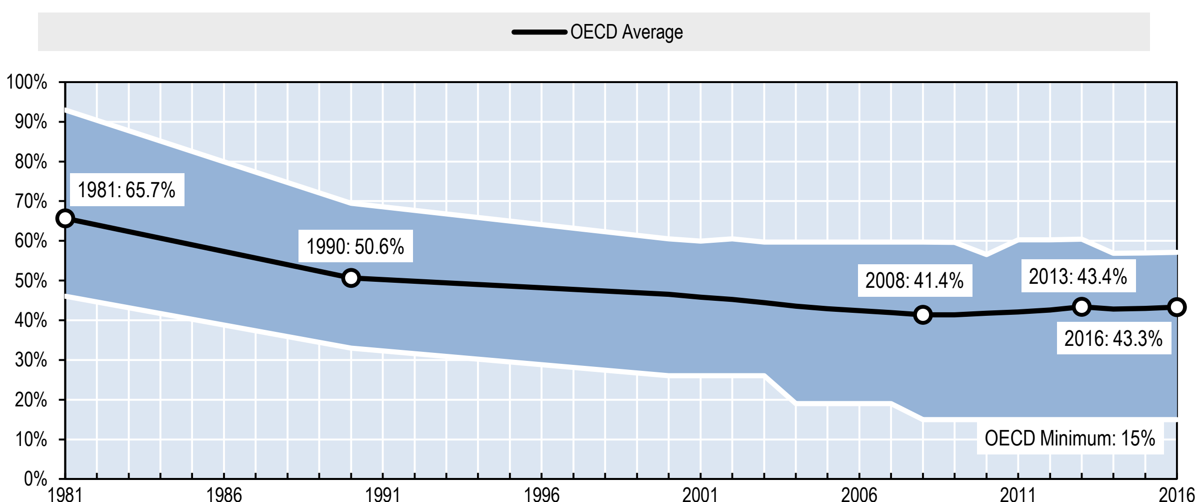
Source: OECD Net Wealth Tax Questionnaire

Many factors have been put forward to justify the repeal of net wealth taxes. The main arguments relate to their efficiency costs and the risks of capital flight, in particular in light of increased capital mobility and wealthy taxpayers' access to tax havens; the observation that net wealth taxes often failed to meet their redistributive goals as a result of their narrow tax bases as well as tax avoidance and evasion; and concerns about their high administrative and compliance costs, in particular compared to their limited revenues (i.e. high cost-yield ratio). To some extent, the limited revenues collected from wealth taxes have made their elimination more acceptable and feasible from a political point of view (Kopczuk, 2012).

The repeal of net wealth taxes can also be viewed as part of a more general trend towards lowering tax rates on top income earners and capital. Indeed, there has been a steep decline in top personal income tax (PIT) rates over the past 30 years across the OECD. The OECD-wide average top statutory rate declined from 65.7% in 1981 to 50.6% in 1990 and to 41.4% in 2008 (Figure 1.2). The trend towards declining top PIT rates has nevertheless reversed slightly in recent years, with the average top PIT rate in the OECD reaching 43.3% in 2016. This reversal has been driven in large part by fiscal consolidation needs (OECD, 2016). At the same time, taxes on capital income have also fallen. Some countries introduced dual income tax systems which tax personal capital income at flat and lower rates compared to labour income. The unweighted average statutory CIT rate declined from 47% in 1981 to 24% in 2017; the unweighted average tax rate on dividend income for distributions of domestic source profits also fell from 75% to 42%. Finally, while inheritance and gift taxes are still applied rather widely (see below), several countries have reduced or abolished them since the mid-1990s. Overall, these changes have contributed to making OECD tax systems less progressive over the last three decades.

Figure 1.2. Combined top statutory personal income tax rates in OECD countries

Maximum, minimum and average, from 1981 to 2016



Note: Combined statutory rates include both central and sub-central tax rates
Source: OECD Tax Database

More recently, concerns about the highly unequal distribution of wealth, combined with the need for greater tax revenues in many countries, have led to a renewed interest in wealth taxes. Iceland, which had eliminated its net wealth tax in 2006, re-introduced it as

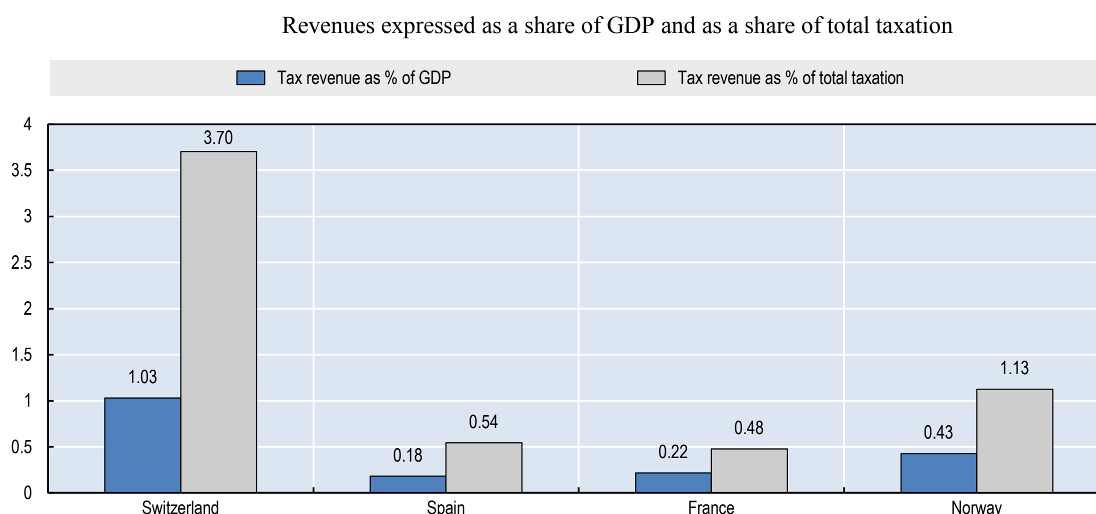
a temporary "emergency" measure between 2010 and 2014. Spain, which had introduced a 100% wealth tax reduction in 2008, reinstated the net wealth tax in 2011. The reinstatement of the wealth tax was initially planned to be temporary but has been maintained since then. More generally from a practical perspective, tax administration improvements and the significant progress that has been achieved on international tax transparency and the exchange of information have made arguments against net wealth taxes on the grounds of their ineffectiveness less convincing (Iara, 2015).

Revenues from wealth taxes have typically been very low

Wealth taxes have generally accounted for a very small share of tax revenues. In 2016, tax revenues from individual net wealth taxes ranged from 0.2% of GDP in Spain to 1.0% of GDP in Switzerland. As a share of total tax revenues, they ranged from 0.5% in France to 3.7% in Switzerland (Figure 1.3). Looking at longer-term trends, Switzerland has always stood out as an exception, with tax revenues from individual net wealth taxes which have been consistently higher than in other countries (Figures 1.4 and 1.5).

Figure 1.3. Revenues from individual net wealth taxes in France, Norway, Spain and Switzerland in 2016

Revenues expressed as a share of GDP and as a share of total taxation



Source: OECD Revenue Statistics Database

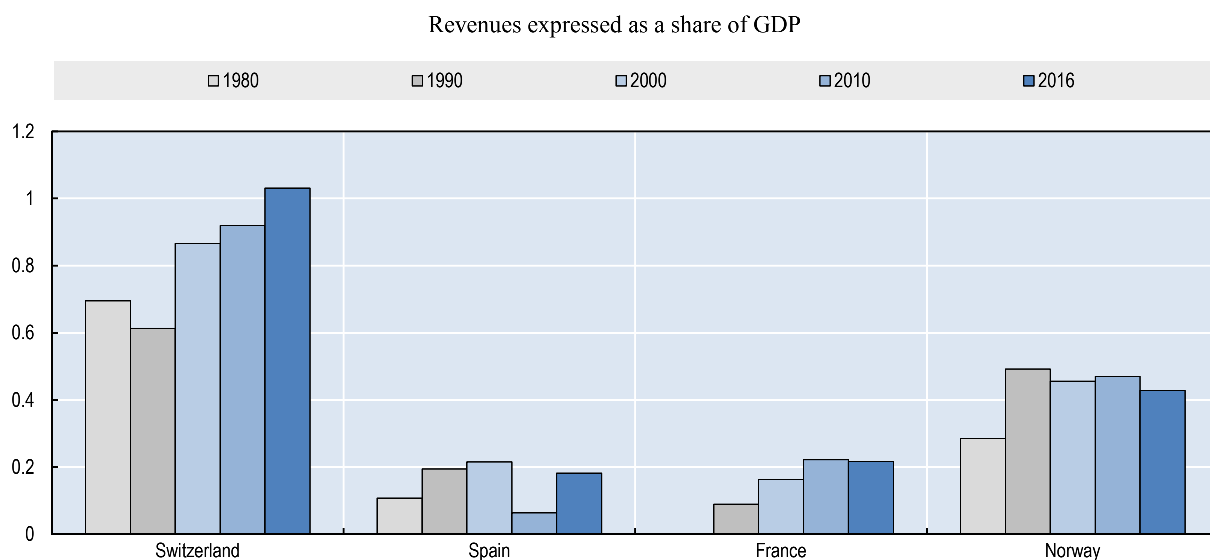
Differences in individual net wealth tax revenues across countries reflect a variety of factors, including the design of the tax (e.g. taxed assets, tax schedule and rates, exemption thresholds, the tax treatment of debts) as well as taxpayers' possibilities and propensity to avoid and evade taxes, the distribution of wealth in the country, and the effects of other countries' tax policies, which may contribute to the erosion of domestic tax revenues through capital flight. For instance, Switzerland collects considerably higher revenues from its wealth taxes than other countries, which may be explained by tax design features such as comparatively low exemption thresholds and broader tax bases (see Chapter 4) as well as by the high share of wealthy individuals in the country. In Norway, on the other hand, despite relatively high tax rates and a low exemption threshold, revenues appear to be low. This may in part be because of the very favourable valuation rules that apply to primary residences for wealth tax purposes (see Chapter 4).

Over time, wealth tax revenues have generally not increased despite significant wealth growth

Looking at longer time periods, most of the countries that have or have had net wealth taxes experienced either stable or declining revenues from these taxes. Figure 1.4 compares net wealth tax revenues as a share of GDP in different years since 1980 in the countries that still had net wealth taxes in 2017. Figure 1.5 shows the evolution of revenues from all net wealth taxes, including both recurrent taxes on individual and corporate net wealth, since the mid-1960s in all the countries that used to have or still have net wealth taxes. Both figures show that tax revenue trends have differed across countries but that a majority of countries saw their revenues either remain stable or decline over time. Relatively stable long-term revenues from recurrent taxes on net wealth (although often volatile revenues in the short run) were observed in Austria, the Netherlands, Norway, Spain and Sweden while Denmark, Finland and Germany experienced declining net wealth tax revenues. On the other hand, France, Luxembourg and Switzerland have experienced tax revenue increases over time. In France and Switzerland, the increase in net wealth tax revenues was the result of an increase in revenues from individual net wealth taxes, while in Luxembourg the increase in revenues came from an increase in revenues from the corporate net wealth tax.

Figure 1.4. Revenues from individual net wealth taxes in France, Norway, Spain and Switzerland in different years

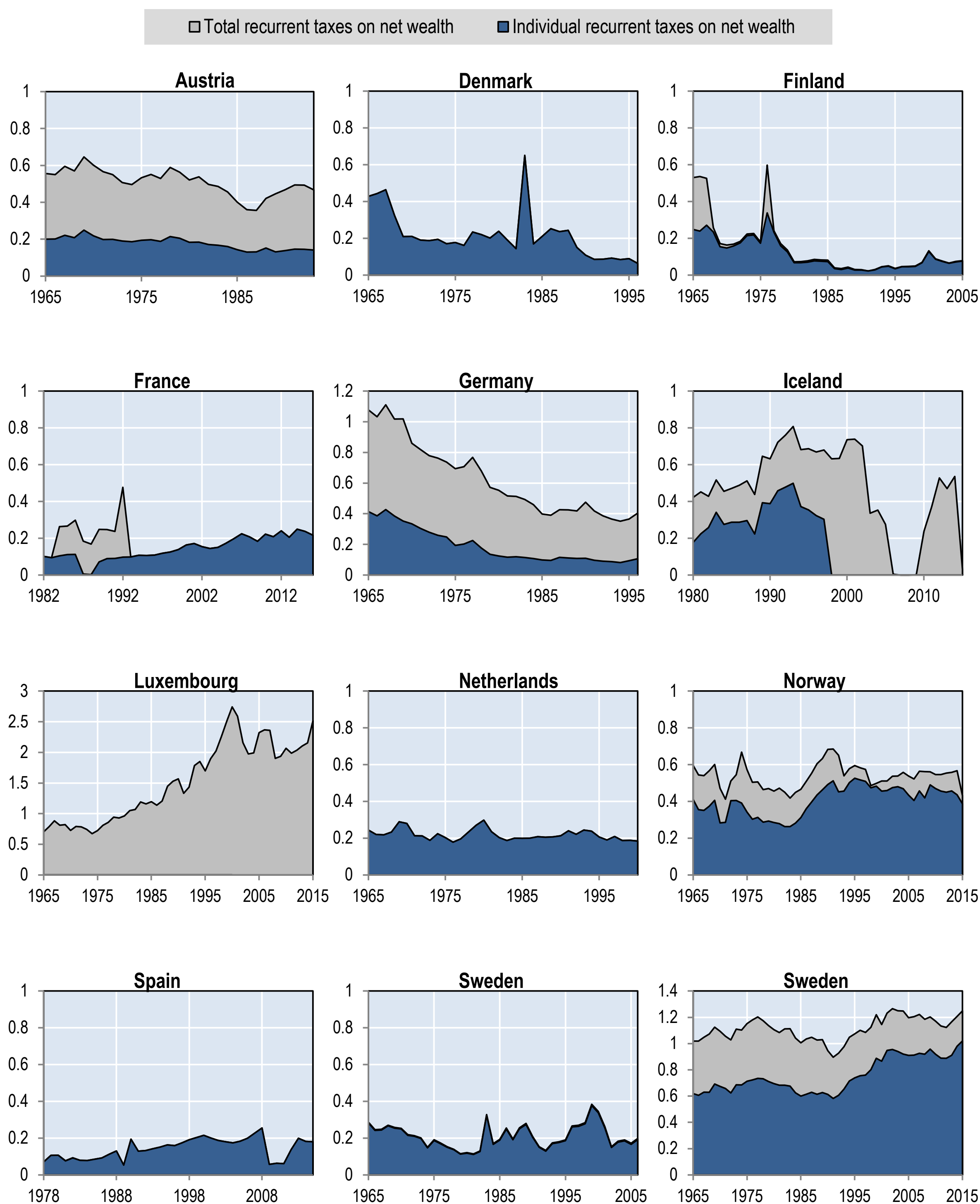
Revenues expressed as a share of GDP



Source: OECD Revenue Statistics

Figure 1.5. Evolution of revenues from total net wealth taxes by country

Revenues expressed as a share of GDP

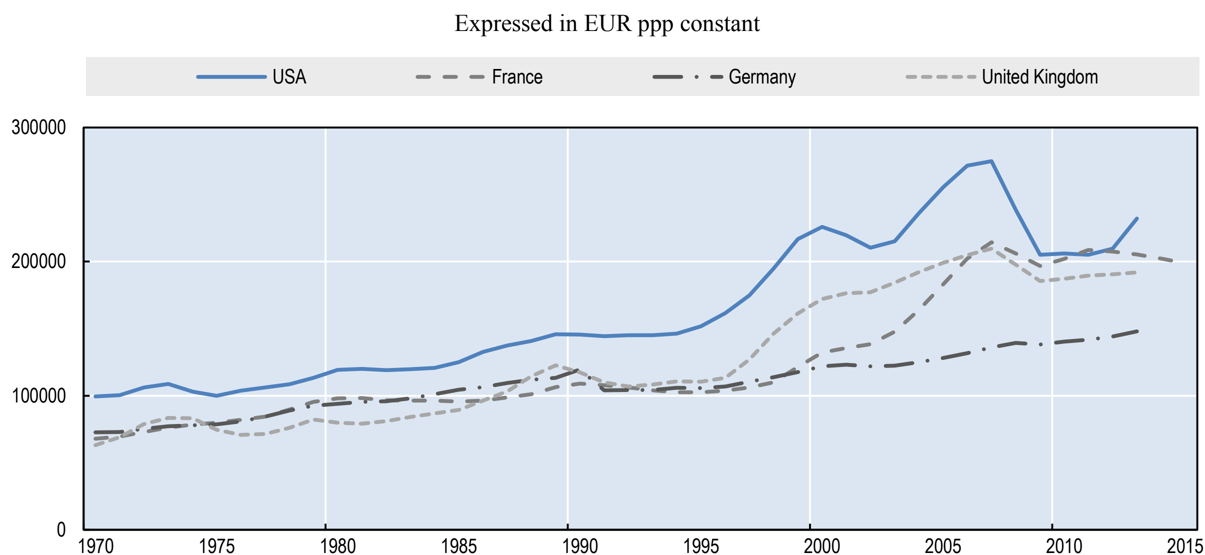


Source: OECD Revenue Statistics Database

Stable or declining net wealth tax revenues in most countries contrast with trends in wealth accumulation. There has been a rapid growth in wealth across countries. While trends are difficult to assess given the limited number of countries with reliable and comparable data, studies have shown that household net wealth has increased substantially over the last four decades in advanced countries. Figure 1.6 shows the significant increase in the average market-value national wealth per adult since 1970 in the United States, France, Germany and the United Kingdom. Using comparable data for 8 large advanced countries, Piketty and Zucman (2013) also find that the average ratio of net household wealth to national income increased by almost 80% between 1970 and 2010. This rapid growth in wealth has been explained, among other factors, by asset-price booms and a significant increase in private savings (IMF, 2014). However, wealth growth, which means that in theory the tax bases of net wealth taxes have expanded, has not translated into higher wealth tax revenues. This "paradox" is likely to be the result of changes in the design of net wealth taxes, the failure to update property values, as well as tax avoidance and evasion behaviours. Chapter 2 also suggests that there is evidence of increasing wealth inequality. This makes the fact that revenues from net wealth taxes, which are levied on the very wealthy, have not increased even more remarkable.

Figure 1.6. Average market-value national wealth per adult in France, Germany, the United Kingdom and the United States

Expressed in EUR ppp constant



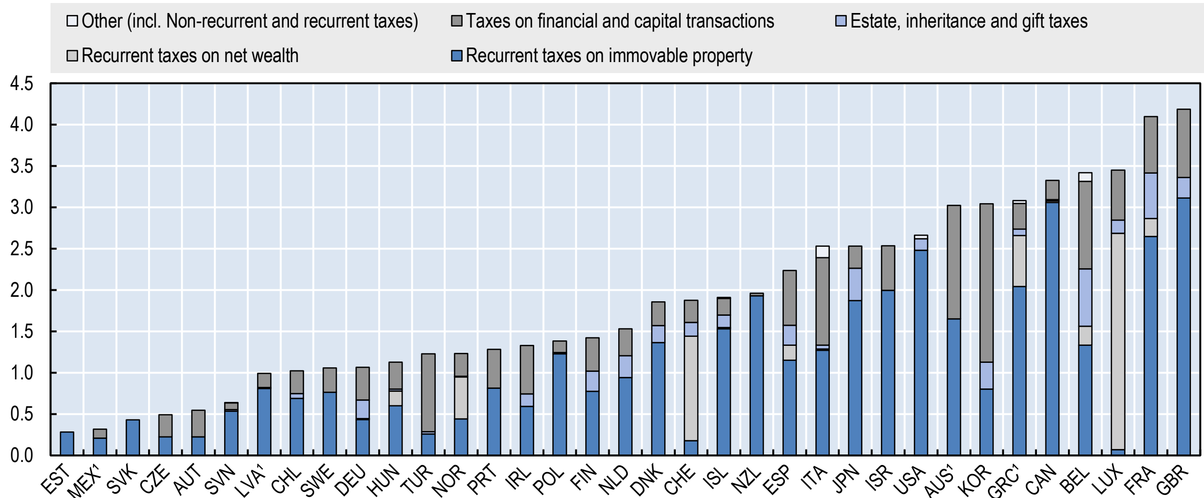
Source: World Wealth & Income Database

Other taxes on property play a bigger role than wealth taxes in OECD tax systems but overall property tax revenues remain limited

Wealth taxes tend to play a much less significant role than other types of taxes on property, in particular recurrent taxes on immovable property. Net wealth taxes are the least common form of property taxation across OECD countries. By contrast, Table 1 shows that recurrent taxes on immovable property, which are levied only on a portion of taxpayers' total capital stock as opposed to their total net wealth, are the most common form of property taxation and are in fact levied in all OECD countries. As shown in Figure 1.7, not only are recurrent taxes on immovable property very widely applied, but

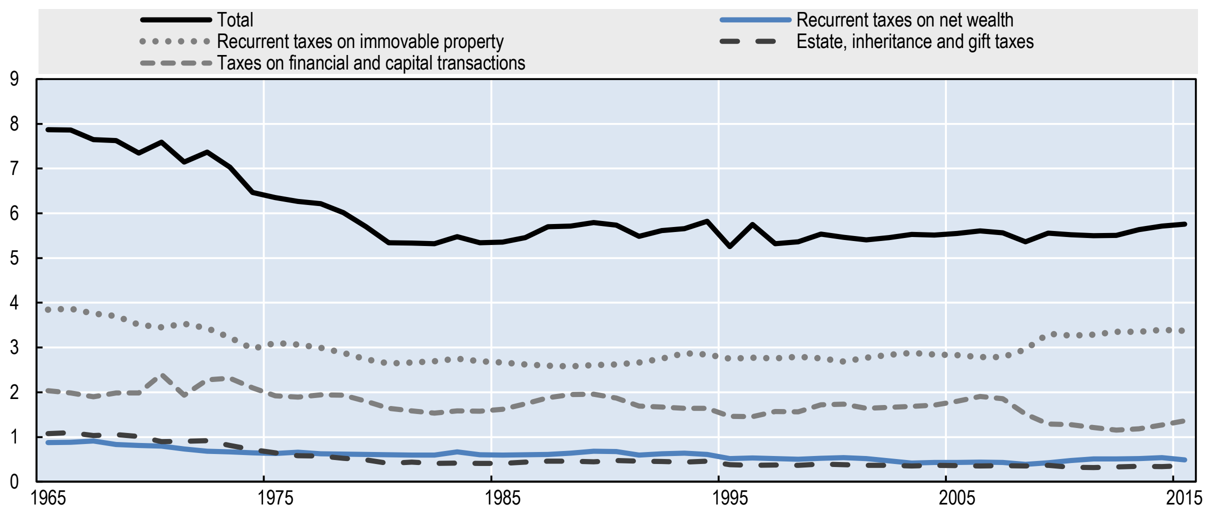
they are also generally by far the largest source of property tax revenues with a few exceptions – most notably Luxembourg and Switzerland.

Figure 1.7. Breakdown of property tax revenues in OECD countries in 2016



Note: 2015 data used for Australia, Greece, Latvia, and Mexico
Source: OECD Revenue Statistics Database

Figure 1.8. Evolution of property tax revenues as a share of total taxation – OECD average since 1965



Source: OECD Revenue Statistics Database

Recurrent taxes on immovable property have a number of advantageous features. The tax base, and thus the revenue potential, is large as housing is the main form of wealth across households in all OECD countries (see Chapter 2). In addition, the immobility of the tax base limits potential behavioural responses to the tax and its visibility restricts avoidance and evasion opportunities. A recurrent immovable property tax can also act to some

extent as a "benefits tax" and may have a smaller distortive effect on behaviour. Indeed, taxes that are closely linked to local public good provision can be viewed to some degree as a payment for services. Empirically, recurrent taxes on immovable property have been found to be the least damaging tax to long-run economic growth, in comparison to consumption taxes, other property taxes, personal income taxes and corporate income taxes (OECD, 2010).

Taxes on financial and capital transactions are also in place in almost all OECD countries and generally account for a sizable portion of property tax revenues. These taxes, which include for instance stamp duties and financial transaction taxes, are in place in all but three OECD countries (Table 1.1). In 2015, they accounted on average for a little less than a quarter of total property tax revenues and 1.4% of total taxation in OECD countries. While these taxes are comparatively easy to collect, they can be highly distortive as they may prevent or limit transactions that would otherwise be mutually beneficial (Keen, 2014).

A majority of OECD countries also tax wealth transfers. 26 of the 35 OECD countries had taxes on wealth transfers in 2017 (see Table 1.1). The general trend for these taxes has been a move away from estate taxes which are levied on the deceased donor, towards inheritance and gift taxes that are levied on the beneficiaries (McDonnell, 2013).

However, revenues from inheritance or estate and gift taxes have been very low and declining over time. On average in the OECD, revenues from taxes on wealth transfers have been declining from 1.1% of total taxation in 1965 to 0.4% today (Figure 1.8). Low revenues reflect the fact that inheritance/estate and gift tax bases are often narrowed by numerous exemptions and deductions, and avoidance opportunities are widely available. The decline in tax revenues also reflects the fact that a number of countries have either abandoned or scaled back their wealth transfer taxes. However, differences across countries – and the higher revenues collected in Belgium and France, for instance (Figure 1.7) – suggest that the revenue potential of these taxes could be further exploited in many countries.

Interestingly, the mix of property tax instruments varies quite significantly across countries. Some countries levy a combination of many types of property taxes (e.g. Belgium, France, Italy, Spain, etc.) while others do not. For instance, two countries only levy recurrent taxes on immovable property (Estonia, Slovak Republic). There are also some countries which only tax wealth transfers and not total net wealth stocks; some countries which tax both; and others which tax neither including Australia, Czech Republic, Estonia, Israel, Mexico, New Zealand, the Slovak Republic and Sweden.

Table 1.1. Property taxes in place in OECD countries in 2017

Countries	Recurrent taxes on immovable property	Recurrent taxes on net wealth (individual and/or corporate)	Estate, inheritance and gift taxes	Taxes on financial and capital transactions	Non-recurrent taxes on property
Australia	v	×	×	v	×
Austria	v	×	v	v	v
Belgium	v	×	v	v	v
Canada	v	v	v	v	v
Chile	v	×	v	v	×
Czech Republic	v	×	×	v	×
Denmark	v	×	v	v	v
Estonia	v	×	×	×	×
Finland	v	×	v	v	×
France	v	v	v	v	×
Germany	v	×	v	v	×
Greece	v	×	v	v	×
Hungary	v	×	v	v	×
Iceland	v	×	v	v	v
Ireland	v	×	v	v	×
Israel	v	×	×	v	v
Italy	v	×	v	v	v
Japan	v	×	v	v	×
Korea	v	×	v	v	×
Latvia	v	×	v	v	×
Luxembourg	v	v	v	v	×
Mexico	v	×	×	v	×
Netherlands	v	×	v	v	×
New Zealand	v	×	×	v	×
Norway	v	v	×	v	×
Poland	v	×	v	v	×
Portugal	v	×	v	v	×
Slovak Republic	v	×	×	×	×
Slovenia	v	×	v	v	v
Spain	v	v	v	v	v
Sweden	v	×	×	v	×
Switzerland	v	v	v	v	×
Turkey	v	×	v	v	×
United Kingdom	v	×	v	v	v
United States	v	×	v	v	×

Source: IBFD Database

Overall, however, property tax revenues remain a small component of OECD countries' tax mixes. Property tax revenues accounted for less than 6% of the OECD's average tax mix in 2015. In comparison, SSCs, PIT and VAT respectively made up approximately 26%, 24% and 20% of OECD tax revenues on average. In addition, despite wealth growth

in recent decades (Figure 1.6), the share of property tax revenues in the OECD's average tax mix has declined over time (Figure 1.8).

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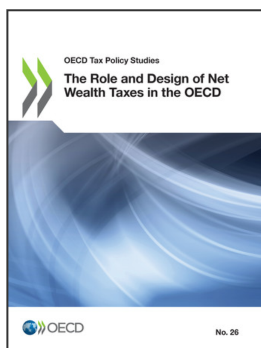

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