Australian School of Taxation and Business Law

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Comparative Tax Systems

Introduction and overview

Class 1

Chris Evans

www.atax.unsw.edu.au

The difference between tax systems

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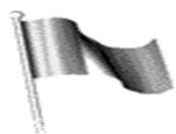
- **In Ireland everything is allowed, unless it is specifically prohibited**

- **In Australia everything is prohibited, unless it is specifically allowed**

- **In South Africa everything is prohibited, even if it is specifically allowed**

- **In Nigeria everything is allowed, especially if it is specifically prohibited**



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Overview

1 **Introductions and *modus operandi***

2 **Course objectives and approach**

3 **Trends – the big picture**

4 **Some critical issues**

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1. Introductions and *MO*

- Who am I?
- Who are you?
- How we will operate
  - Lectures
  - Copies of slides
  - Presentations
  - The role of the course textbook (and other texts/readings)
  - Interactive and discursive
  - Assessment
- Questions?

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SIX QUESTIONS FOR YOU

1. Which country once had tax rates on income as high as 98%?
2. Which country puts all the tax data for its citizens up on the web?
3. Which country allows the whole extended family to be “one person” for tax purposes?
4. Which country introduced a gun levy of 0.2% in 1996 to buy back all guns from private citizens?
5. Which is the only OECD country that does not have a VAT/GST?
6. Which is the only OECD country that does not formally tax capital gains?

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SIX QUESTIONS FOR YOU

1. Which country once had tax rates on income as high as 98%? (The United Kingdom)
2. Which country puts all the tax data for its citizens up on the web? (Norway)
3. Which country allows the whole extended family to be “one person” for tax purposes? (India: HUF)
4. Which country introduced a gun levy of 0.2% in 1996 to buy back all guns from private citizens? (Australia)
5. Which is the only OECD country that does not have a VAT/GST? (USA)
6. Which is the only OECD country that does not formally tax capital gains? (NZ)

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2. Course Objectives

- Identify the major similarities and differences between contemporary tax systems
- Account for the major reasons for such similarities and differences
- Understand the impact of institutional legal, political, economic, social, cultural and other factors on the development of tax systems
- Identify likely trends in tax system development and future tax reform

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2. Course approach

- Systemic
- Contextual
- Practical and pragmatic (not overly theoretical, though NB theoretical approaches such as ‘functional’, ‘cultural’, ‘critical’ and ‘economical’ (Avi Yonah et al: *Global Perspectives on Income Tax Law* (OUP, 2011, pp 4-16) may come into play

  Reading 1 Presentation (Avi Yonah): S Rao
- Comparative…….

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2. Course approach (cont'd)

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Why adopt a comparative approach – why is it useful?

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2. Course approach (cont'd)

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Why adopt a comparative approach – why is it useful?

Thuronyi et al (Comparative Tax Law, 2016) posits 4 reasons:

- A basic knowledge of comparative tax law is essential to understanding taxation: it highlights basic principles and offers welcome relief from 'hypertechnicity'
- It is of practical use to tax professionals – provides a basic framework with which to make sense of tax systems of other jurisdictions
- Knowledge of other systems helps you think more clearly about your own and can provoke insights that lead to breakthroughs in understanding
- It's interesting and fun!

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2. Course approach (cont'd)

Thuronyi's tax law families:

Reading 2 Presentation (Thuronyi): Y Saddiqui

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2. Course approach (cont'd)

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Thuronyi's tax law families:

- Insight to historical roots and therefore helps provide better understanding of underlying legal culture
- Most countries fit clearly within one of the 9 families
- Gives a head start in understanding the particular system in theory or in practice
- Knowledge of all families helps provide a global perspective but US, UK (Commonwealth) and Germany/France often suffices
- So what are the key structural characteristics of those families?
- And where do your home jurisdictions fit?

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Some initial (impressionistic) questions for group discussion

- Are the tax systems of developed and developing countries similar/different, and if so, how?
- What are the critical tax policy challenges for developed countries?
- What are the critical tax policy challenges for developing countries?
- What are the key factors that shape tax policy trends in most countries (leading to both convergence and divergence)?

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Are the tax systems of developed and developing countries similar/different, and if so, how?

Quite marked differences:

- Developed countries have greater focus on direct taxes, and particularly the personal income tax
- Developing countries have greater focus on indirect taxes, and particularly excises

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What are the critical tax policy challenges for developed countries?

- Safeguarding the revenue bases to preserve the well-being of citizens (including the welfare state) and meet the challenges of globalisation, ageing, technological advances and deepening stress between human activities and wider eco-systems
- Issues related to jurisdiction to tax, international allocation of taxing rights, the taxation of e-commerce and the digital revolution, transfer pricing, harmonisation, exchange of information, transparency, governance etc

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What are the critical tax policy challenges for developing countries?

Some of the above, but the overall agenda tends to be dominated by two further factors:

- Attracting foreign investment, and
- Raising revenue to promote development and build state capacity

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What are the key factors that shape tax policy trends in most countries (leading to both convergence and divergence)?

- Globalisation of economic activity (mobility of labour and capital)
- Employment creation/deregulation of labour markets
- Increased emphasis on efficiency at the cost of equity
- Herd behaviour/fashionable trends/tax mimicking (DIT, Flat taxes, green taxes, sugar taxes and other panaceas
- Initiatives to strengthen regional economic policy coordination (EU, CACU etc)
- fiscal decentralisation (Spain, Australia etc)
- Popular and political concerns about pollution and environmental degradation
- Cyclical factors (eg GFC)

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3. Trends in taxation

- Tax revenues (tax burden)
- Tax mix/structure
- Direct taxes
  - Personal taxes
  - Corporate taxes
- Indirect taxes
- Tax administration

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Tax revenue

- Refer Table 2-1 (Page 18 Course Textbook)
- What does the Table tell us about:
  - ✓ Trend of tax to GDP 1965 to 2000?
  - ✓ Trend since then?
  - ✓ Denmark and the USA throughout?
  - ✓ Canada, Finland, Ireland, Israel, Slovak Rep, Sweden & US 2000 to date?
  - ✓ Statistics?
- What would the picture be like for non-OECD countries?

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2. Fiscal trends: Tax revenue

Classification of selected countries based on tax efforts and tax collection, 1994-2009

Classified 1994-2009		Tax Effort: Low	Tax Effort: High
Tax Collection	Low	37 countries including China, Ethiopia, India, Indonesia, Japan, Mexico, Thailand and the United States	12 countries including Cote 'd'Ivoire, Ghana, Kenya, Mali, Pakistan, Sri Lanka, Togo and Zambia
Tax Collection	High	20 countries including Bulgaria, Estonia, Germany, Latvia, Russia, Spain, Switzerland, and Turkey	34 countries including Australia, Botswana, Brazil, France, Netherlands, New Zealand, South Africa and the United Kingdom

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Tax mix

- Refer Tables 2-2 and 2-3 (Course Textbook pp 20 and 21)
- What are the 3 most significant sources of tax revenue in recent years?
- Would this be the same for non-OECD countries?
- Contrast Australia and Japan
- What changes have there been in average tax mix in last 50 years?

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Direct taxes - personal

- Marked downward trend in PIT rates
- But PIT revenue has been maintained (how so?)
- Major issues are:
  - How to tax capital income (comprehensive versus dual income tax)
  - Whether to introduce a flat tax
  - How to make work pay

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Direct taxes - corporate

- Rates have gone down (reasons?)
- Particularly in smaller countries compared to larger (why?)
- In OECD countries, CIT revenue has not fallen as a share of GDP (why not?)
- However some fall/stagnation in developing countries (why?)

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Indirect taxes

- The rise and rise of the VAT
- Remarkable growth over last 50 years
  - 1960s: a few pioneers
  - 1992: 80 countries
  - 2008: 136 countries
  - 2009: Laos, Pakistan
  - 2016: 166 countries
- Everywhere (developed and developing) except USA, some middle east, small islands
- Why?

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Tax administration

Major trends

- Modernisation and professionalism
- Autonomous/semi autonomous structuring
- Growth of organisation by market (as opposed to tax type or function)
- Increase in reliance on self assessment
- Growth of 3rd party reporting and w/holding
- Risk management approach

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Summing up thus far

- Growth of tax to GDP ratio stopped or slowing down
- Trend away from PIT to social security taxes
- Fall in CIT and top PIT rates (but revenue sustained via base broadening)
- Trend to VAT (with increasing rates but no real base broadening) away from excise
- Major developments in tax administration

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4. A few critical issues to ponder

- Why is income tax the dominant tax in so many developed countries whereas developing countries rely so heavily on indirect taxes?
- Why have value added taxes, or derivatives of such taxes, become the dominant sales taxes worldwide?
- Why are there so many differences in the way countries tax corporate income and capital gains tax?
- Why do so few of the OECD countries have wealth taxes?
- What is the role of environmental taxes in modern tax systems?
- How do revenue authorities ensure the maximum tax compliance possible with limited resources?
- Can anything be done about tax complexity?
- What are the likely future trends in tax reform?

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Tax Assignment

(Who taxes what?)

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The big picture

Although there are broad principles that may inform the decision as to which level of government is responsible for which taxes, actual practice throughout the world often takes little notice of those principles and provides us with a patchwork of custom and behaviour that is difficult to make sense of.

Class discussion

For your home jurisdiction:

1. Identify any supra-national levels of taxation that apply to your jurisdiction.
2. Which types of taxation are used at the supra-national level? Why?
3. Identify any sub-national levels of taxation that apply in your jurisdiction (regional or local).
4. Which types of taxation are used at the sub-national level? Why

Unitary v Federal countries

Unitary

- lower tier authorities are created by central government
- central control maintained over tax raising powers (e.g. UK, France, Japan, Netherlands)
- typically two tiers – central & local (can be third, regional, level as in some Scandinavian countries; Spain; Scotland, NI and Wales in UK)

Federal

- made up of States (Provinces in Canada, 'Lander' in Germany) with tax raising powers by constitution (e.g. also USA, Australia, Switzerland)
- typically three tiers of government – central/federal, state and local
- constitution determines what tax raising powers each tier has

Who taxes where and what?

What are the big picture trends (refer to Table 3-2, p. 43 Course textbook)?

- Which taxing level is the principal taxing authority in these 18 developed countries?
- Would this be similar in developing countries?
- Is there a difference in federal compared to unitary countries?
- Would this also hold true in developing countries?
- What level of taxation takes place at the supranational level?
- What level of taxation takes place at the subnational level?
- What are the key trends over time?

Who taxes where and what?

The big picture trends (refer to Table 3-2, p. 43 Course textbook):

- central governments are the principal taxing authorities (they account for roughly 75% of all taxes in developed countries and 90% in developing countries)
- supra-national bodies are relatively insignificant (< 1%)
- sub-national (state/regional/local) tax revenues relatively stable or slightly losing ground (c 25% of all taxes in developed countries and < 10% in developing countries)

But NB

- overall trends conceal significant country specific differences
- differences federal versus unitary

Supra-national taxation

Relatively insignificant at taxation level but may grow

Involves international organization, or union, whereby member states transcend national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping: Examples

- European Union (customs duties); CARICOM; NAFTA
- Harmonisation of indirect tax rates (EU)
- Consolidation of corporate tax base (EU): CCCTB (re-energised Oct 2016)

Reading 3 (Niazi) Presentation: P Tiefling

Sub-national taxation

- Strong rhetoric for fiscal de-centralisation but very little change since 1970s – sub-national tiers still heavily reliant on central government
- Overall share of total taxation taken by lower tiers usually higher in federal than in unitary countries
- Unweighted averages (%) of total tax revenue (balance is social security taxes)

	Federal	Unitary
Central taxes	53	64
State/Regional taxes	17	-
Local taxes	8	12

- Though NB major variations within countries cf Australia v US in Federal countries; or Ireland v Japan in Unitary countries (Table 3.2, page 43)

Sub-national taxation (Contd.)

Three critical issues:

1. What is a sub-national tax?
2. What are the criteria for sub-national taxes?
3. What types of taxes are actually used by sub-national bodies and how effective are they?

Reading 4 (Bahl) Presentation: A Zacher

What is a sub-national tax?

Sub-national government

1. can decide whether to levy the tax or not
2. can determine the precise base of the tax
3. can decide the tax rate
4. administers (assesses, collects, enforces) the tax
5. keeps all the revenue collected

Desirable characteristics for a sub-national tax

1. Relatively immobile tax base
2. Yield that is adequate for local needs, relatively stable and predictable
3. Yield that is sufficiently buoyant, able to match growth in expenditures
4. Not "exportable" to non-residents
5. Base and rate should be visible to ensure accountability
6. Perceived to be reasonably fair
7. Easy to administer efficiently and effectively

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What sub-national taxes are used?

- Property taxes (residential)
- Personal income taxes
- Excise taxes
- Payroll taxes
- Consumption taxes
- Various business taxes including non-residential property taxes (business rates), taxes on trades, patents, licences

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Sub-national taxation: local

Reasonably settled that residential property taxes are most appropriate at local level:

- ✓ Wide tax base evenly dispersed
- ✓ Difficult to evade
- ✓ Localised in jurisdiction
- ✓ Reliable and buoyant yield
- ✓ Do not exaggerate local disparities in wealth

But what about "best" state taxes?

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Comparative Tax Systems

Class 3: Income Taxation

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Tax system design: key issues

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1 Tax base
- Income (PIT and CIT)
- Consumption (general and specific)
- Wealth

2 Tax rates
- Nominal/statutory
- Average
- Marginal

3 Tax units
- Individual v couple v family v hybrid etc
- Company v group v other etc

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PIT as a base

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Downward trend since 1970s in PIT

- Yield (see Table 2-2, page 20)
  1975 = 30% TTR; 2014 = 24%TTR
- Rates (see next slide)

Nonetheless, PIT continues to be one of the most critical tax bases in developed countries and is also an important tax base (though less significant) in developing countries

Why is this? Why does the personal income tax play such a key role as a source of revenue for governments?

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Decline in PIT rates since 1960s

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UK	Top rate reduced from 83% (+15% IIS) in 1960s to 45% (2019) Three rates 2018-19 (20, 40, 45) compared to multiple in 1960 Base broadened
Australia	Top rate reduced from 60% in 1960s to 45% (2019) Four rates 2018-19 (19, 32.5, 37, 45) compared to multiple in 1960 Base broadened
USA	Top rate reduced from 70% in 1960s to 37% (2018) Seven rates 2019 (10, 12, 22, 24, 32, 35, 37) compared to 14 in 1960 Base broadened
Canada	Top rate cut from 91% in the 1960s to 33% (2019) Five rates 2019 (15, 20.5, 26, 29 and 33) compared to multiple in 1960 Base broadened

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Why is PIT so heavily used as a base?

- Argue that is best single criterion of 'ability to pay'
- Flexible as tax base
- Adjust rates to manage vertical equity
- Allowances and reliefs used to approach horizontal equity
- Fairly convenient collection points for many people (PAYE/G)
- Organise to avoid need for annual returns for many (as in UK, NZ and 50% of OECD countries)

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PIT as a base

Why not just use personal income tax if it is so good?

- Rates then needed would be harmful to incentives to work / entrepreneurialism
- Encourage avoidance/evasion if it is the only tax
- Problems do exist for application:
  - Handling people on fluctuating incomes (e.g. in progressive system they will pay more than same total income evenly spread)
  - Can't control when receive income often
  - Doesn't incentivize savings
  - Doesn't cope with inflation easily – need constantly changing thresholds and brackets (*fiscal drag*) & particular problems with capital income (measuring real income) that are hard to resolve practically
- Impractical to make a comprehensive measure of taxable capacity alone (e.g. accumulated wealth not taken into account easily where not generating income)

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Alternative models of PIT

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Three broad models

- Comprehensive
- Dual
- Flat

Reading 5 (Sorensen) Presentation: S Uribe

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The PIT in developing countries

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- Less significant (limited?) role for the PIT
- Relatively ineffective in terms of redistribution (usually lacking progressivity)
- Substantial enforcement, compliance and efficiency costs
- Need to broaden the tax base (usually narrow and incomplete)
- Use of presumptive taxes?
- Use of dual income tax?

Reading 6 (Bird) Presentation: V Khmelevskaya

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Corporate income taxes

Big picture trends

1 Statutory CIT rates have fallen

2 But not uniformly (size matters)

3 And revenues have consolidated or not dropped significantly in developed countries

4 But considerable decline in developing countries

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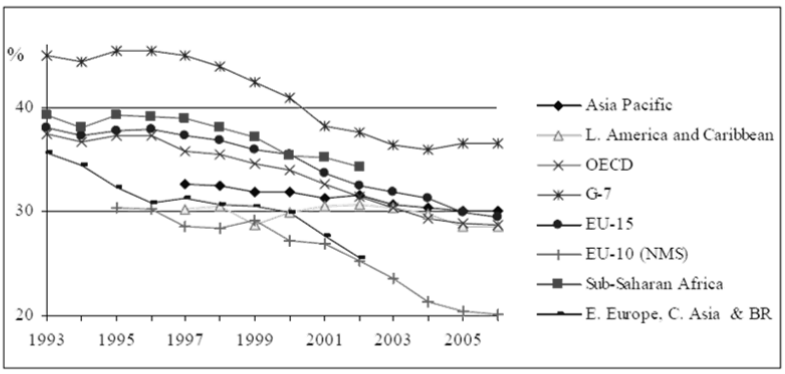
1. Statutory rates have fallen (a lot from 1993 to 2006)

Figure 1: Statutory CIT Rates, 1993–2006



Source: KPMG, Corporate Tax Survey (2006).
Note: The survey contains information on the top statutory rate on corporate income. Data for Sub-Saharan Africa and for Central Europe and the Baltic Republics (BR) is obtained from the World Tax Database, University of Michigan.

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1. Statutory rates have fallen (but not so much since 2006)

(KPMG statistics for 2006-2016)

	2006	2016
Global Average (%)	27.5	23.6
OECD Average (%)	27.7	24.8
Europe Average (%)	23.7	20.5
Asia Average (%)	29.0	21.9
Africa average (%)	30.8	27.9

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1. Statutory rates have fallen

- Why have they fallen?

2. The fall is not uniform

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	Average statutory corporate income tax rate (%)		
	2000	2004	2008
Large sized OECD country (US-JPN-GER-UK-FRA-ITA)	39.5	36	33.1
Medium sized OECD country (CAN-SPA-KOR-MEX-AUS-NLD)	35.7	33.1	29.1
Small Sized OECD country (BEL-SWI-TUR-SWE-AUT-POL-NOR-GRC-DNK-IRL-FIN-PRT-CZE-HUN-NZL-SVK-LUX-ICL)	30.9	26.6	23.6
OECD Total	33.6	29.8	26.6

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2. The fall is not uniform

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- Why have smaller OECD countries reduced their rates further than medium and larger countries?

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3. Yield from CIT has fallen, though not so dramatically

- Refer Table 5.4 (Page 94)
- Why has the corporate tax revenue (as a proportion of total tax revenue or as a proportion of GDP) been (more or less) maintained in OECD countries despite the drop in rates?

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4. CIT revenues have fallen in developing countries

- Narrowing or stagnation of CIT base in developing countries plus
- Statutory rates have fallen as dramatically as in developed countries (see earlier slide)
- Hence CIT revenues have fallen
- A concern given CIT revenues account for roughly one sixth of all revenues (higher than OECD)
- Major reasons:
  - ➢ Base stagnation: greater use of tax holidays; free trade zones; tax breaks
  - ➢ Falling rates: tax competition

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Corporate–shareholder taxation

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- Critical issue: how to deal with integration (or not) of corporate and personal tax systems
- Traditional models
  - Classical (tax at corporate and at shareholder level): traditionally US, Netherlands, Sweden
  - Imputation (credit for corporate tax paid is passed to shareholders): traditionally Germany, France, Australia, NZ
- Recent developments
  - Trend to “rough and ready” solutions driven by international considerations
  - Classical being modified by lighter tax at shareholder level
  - Imputation falling out of favour and being replaced with direct shareholder level relief

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Corporate–shareholder taxation

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- US: abandoned classical: CT = 22% (down from 35%); distributed profits and CGs taxed 15% or less since 2003
- Netherlands: classical until 2001; now a variant: CT = 25.5%; shareholders taxed at 30% on RFRM basis (deemed yield 4%) regardless of actual dividends or CGs (25% shareholder tax for substantial holdings)
- German system: imputation and split rate to 2000; now shareholder relief system: 15% CT rate and 25% final withholding tax on dividends paid to private shareholders (only 60% of dividends taxable if paid to business shareholder); same rates for CGs
- UK: retreat from imputation and ACT system in 1999: CT now 28%; dividends carry tax credit of 10% of dividend plus tax credit; then taxed at progressive rates (20% and 40%); CGs at 18%

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Summing up on CIT

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1. Downward pressure on rates (tax competition) in all countries
2. But yield being (broadly) maintained in OECD countries because of broadening of base
3. Not so in developing countries where the combination of tax competition (bringing down rates) and base stagnation has left them very vulnerable
4. No consensus on appropriate design of corporate/shareholder tax system
5. And the big challenge for all………..

BEPS……………….

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Taxation of Capital and Wealth: A Global Perspective

(Class 4)

Chris Evans

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Overview of presentation

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1. Introduction and context
2. Conceptual issues
   - What are wealth taxes?
   - Arguments for their use
3. Current global practices in wealth taxation
   - Developed countries
   - Transitional and developing countries (brief)
4. Conclusions and future policy directions

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1. Introduction

A topic that is controversial and excites strong passions

– "The key to equality of opportunity" or

– "Unjustified confiscation of private property by the state"

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1. Introduction (continued)

Wealth taxes under-utilised compared to taxes on **income** and taxes on **expenditure**

Also evidence that wealth taxes are **losing ground** over time against these other forms of taxation

Slightly surprising given that one of the key features of taxes on wealth might be thought to be their capacity for re-distribution………..

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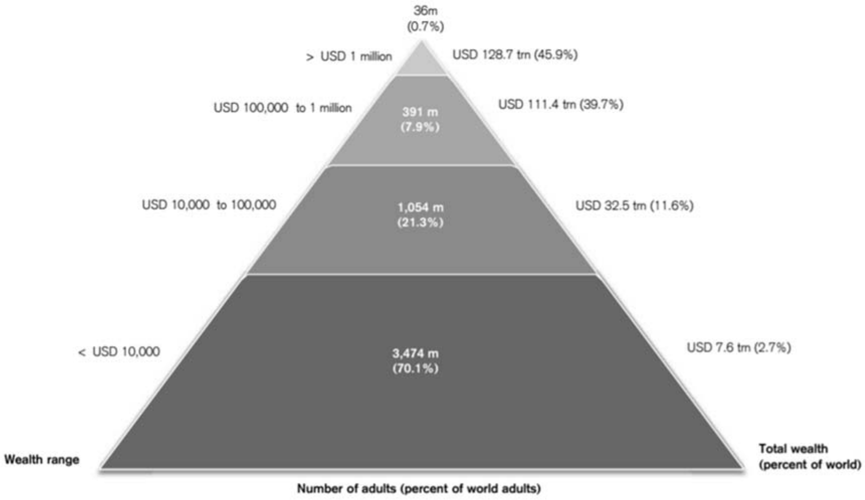
The global wealth pyramid (2017)



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2017

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World Wealth Levels 2017

World wealth levels 2017

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2017

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1. Introduction (continued)

So, do taxes help re-distribution?

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So do taxes help re-distribution?

- Certainly in advanced economies, progressivity of direct taxes (including capital gains) and transfers reduce income inequality (pre tax market income cf post tax disposable income) by about one third (*Tackling Inequality*, IMF 2017, p. ix)
- In developing countries, fiscal distribution is much more limited, reflecting lower and less progressive taxation and spending and greater reliance on regressive indirect taxes (ibid)
- Empirical evidence on redistributive effect of wealth taxes less certain, but "Most countries have room to enhance revenues from the taxation of immobile capital significantly. Different types of wealth taxes—such as recurrent taxes on property or net wealth, transaction taxes, and inheritance and gift taxes—can also be an important source of progressive taxation" (IMF, p 28)

Reading 7 (Schnellenbach) Presentation: S Ceccacci

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2. Conceptual issues

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What do we mean by capital or wealth?

Terms are interchangeable, though for economist:

- Capital = stock of assets for future production
- Wealth = stock of assets for current consumption

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2. Conceptual issues (cont'd)

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What do we mean by a capital or wealth tax?

"It is a tax based on the market value of assets that are owned. These assets include, but are not limited to, cash, bank deposits, shares, fixed assets, private cars, assessed value of real property, pension plans, money funds, owner occupied housing and trusts."

(http://www.investopedia.com/terms/w/wealth-tax.asp)

Hence it is a **tax on property/assets** (of whatever genus) with 3 broad categories:

1. taxes on the **holding/stock** of wealth
2. taxes on the **transfer** of wealth
3. taxes on the **appreciation** of wealth

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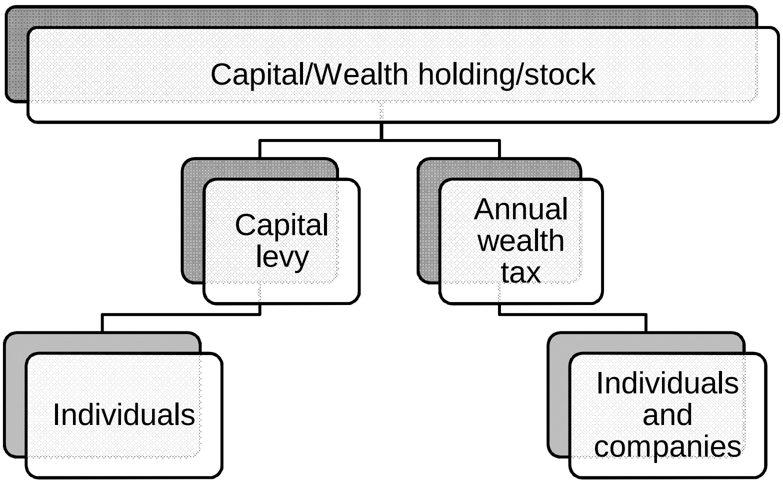
Taxes on **holding/stock** of capital or wealth



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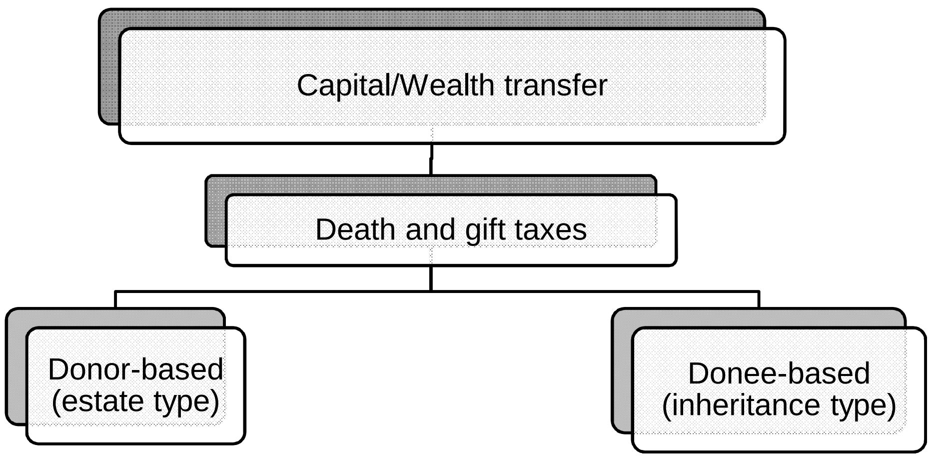
Taxes on **transfer** of capital or wealth



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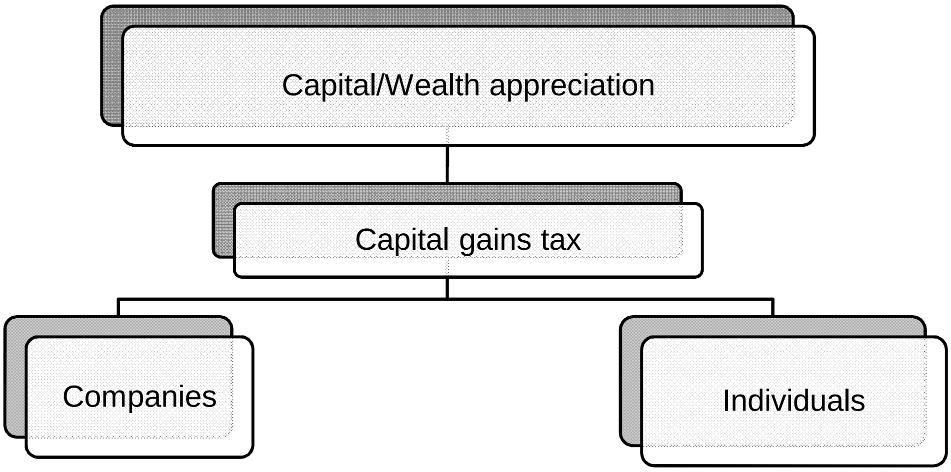
Taxes on capital or wealth **appreciation**



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Three major types of wealth/capital taxation in Australia and UK

1. Taxing the **stock** of capital/wealth (AWT)
   - Capital levies
   - Annual wealth taxes
2. Taxing the **transfer** of capital/wealth (WTT)
   - Death and gift taxes (donor-based: estate duty; or donee-based: inheritance tax)
3. Taxing the **appreciation** of capital/wealth (CGT)
   - Capital Gains Tax

What about other jurisdictions?

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Three major types of wealth/capital taxation in Australia and UK

1. Taxing the **stock** of capital/wealth
   - Capital levies (no) (no)
   - Annual wealth taxes (no) (no)
2. Taxing the **transfer** of capital/wealth
   - Death and gift taxes (donor-based: estate duty; or donee-based: inheritance tax) (no) (yes)
3. Taxing the **appreciation** of capital/wealth
   - Capital Gains Tax (CGT) (yes) (yes)

What about other jurisdictions?

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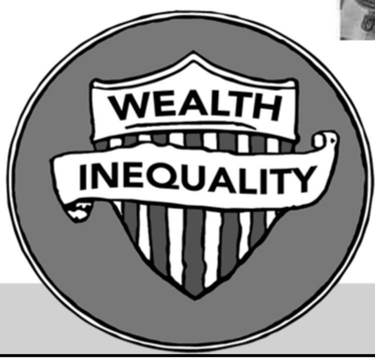
So should we look to wealth taxes a little more than we do? Particularly an annual wealth tax?

Review Activity (Wall Street)



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Arguments for wealth taxes?

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1. To promote horizontal equity
   - Capital/wealth confers taxable capacity which should be taxed just as other taxable capacity (eg income or consumption) is taxed
2. To promote vertical equity
   - Capital/wealth taxes may diminish or constrain wealth and income inequalities
   - Particularly so with heavy and progressive AWTs or death and gift taxes or CGTs
3. To promote efficiency
   - positive incentive to utilize assets that would otherwise be under-used
   - less negative disincentive effect than income taxes
4. For administrative reasons
5. For political signaling purposes
6. To raise revenue??

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3. Wealth taxation in developed countries: revenue (excluding CGTs)

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- Historically AWTs and WTTs have raised relatively little revenue (on average <1% of TTR and <0.5% of GDP)
- And that revenue has been steadily declining in recent years (with taxes on income and consumption taking up the shortfall)
- In part this is the result of narrowing of tax base (to ease administrative burden) and simplification initiatives

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Trends in revenue yield from wealth taxes 1965-2014 (top 15 OECD countries)

Year	Revenue raised from AWTs and WTTs as per cent of Total Tax Revenue
1965	1.69
1985	0.75
2003	0.87
2014	0.86

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3. Current Global Practices in Wealth Taxation

- What are the trends in wealth taxation?
- Where is wealth taxation most utilised?
- Are there differences between developed and developing countries?

Start with the position in developed countries…

- What are the key trends based on the following Table?

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Wealth taxes in OECD countries

Number of countries with	1999 (24 countries)	2010 (30 countries)	2017 (35 countries)
AWT	9	3	4
WTT death	22	24	22
WTT life	23	21	20

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Trends in wealth taxation in developed countries: (1)

Drift away from AWTs

- Austria, Denmark, Finland, Germany, Iceland, Luxembourg, Netherlands, Spain, Sweden et al abolished in recent years
- France/Norway/Switzerland still had them in 2017 (but 2018 France changed to a tax based solely on worldwide real estate m/v > €1.3m @ rates up to 1.5%)

Drift away mainly down to:

- low revenue yield
- administrative difficulties (valuation/disclosure)
- poor compliance
- tax competition and capital flight

But NB more recent impact of GFC

- Re-introduced 2010 Iceland and Spain (temporary?)
- Partial AWTs in eg Hungary, Cyprus (and posited by some in UK??)

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Trends in wealth taxation in developed countries: (2)

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- **Wealth transfer taxes** (death duties/gift taxes: usually both together**) still widespread but some relative decline**
  - ✓ Australia/Canada without 1999 (22 out of 24 have)
  - ✓ Those 2 plus Mexico/Portugal/Slovakia/Sweden without 2010 (24 out of 30 have)
  - ✓ Those 6 plus Austria/CzRep/Estonia/Israel/Latvia/NZ/Norway without 2017 (22 out of 35 have)
- Death duties are usually inheritance taxes (donee based): US and UK are the exceptions with estate taxes (donor based)
- NB Trump tax bill 2018: US Estate tax remains but exemption/threshold increased from US$5m to US$10m

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Why are WTTs more popular than AWTs?

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1. WTT less theoretically pure compared to AWT, but at least catches up and promotes horizontal equity once in a generation
2. WTT is more convenient:
   - Former owner cannot use wealth
   - Property is changing hands anyway
   - For donee the receipt is a windfall
3. WTT less inefficient than AWT
4. Major problems of AWT (disclosure and valuation) not so pronounced for WTT

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Wealth taxation in developed countries: summary

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- Taxes on the **holding/stock** of wealth are in retreat across developed countries (number of countries and revenue yield)
- Taxes on the **transfer** of wealth are more widespread but in relative decline across developed countries
- Where such wealth taxes have been successful (eg Luxembourg & Switzerland) that success often down to:
  - historical and cultural factors (eg Swiss tax system started with wealth and property taxes, with income taxes coming much later)
  - small and wealthy population base

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Wealth taxation in developed countries: summary continued

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So why the relative decline in wealth **holding** and wealth **transfer** taxes?

- Poor revenue yield
- Practical problems of valuation, for example, for AWT:
  - capitalised value of pension rights
  - capitalised value of future earning power
- Practical problems of disclosure
- Hence easy avoidance/evasion and low compliance
- No clear evidence that equity/redistribution objectives achieved
- Disincentive effect on savings and investment
- CGT regimes are doing part of the job
- Politically unpopular

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Wealth Taxation in Transitional and Developing Countries

- Much less evidence available
- Less than half of such countries use wealth taxes
- For example, AWTs exist in Algeria, Argentina, Martinique, Pakistan, Uruguay and (until 2015) India (but not in other BRIICS)
- Also some drift away from WTTs in recent years (eg Sri Lanka, India, Pakistan, Indonesia)
- Tax mimicking: transitional and developing countries only tend to adopt successful (revenue raising) developed country initiatives (eg VAT; CGT): focus is on optimal revenue sources
- Many do not use wealth taxes for political reasons

Reading 8 (Arendse/Stack) Presentation: R Muller

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Wealth Taxation in Transitional and Developing Countries

- One recent initiative (evident in South America) is the **corporate net wealth tax**
- Argentina, Dominican Republic, Ecuador, Guatemala, Peru, Uruguay et al currently use such a tax (Venezuela?)
- Operates as a minimum floor tax or substitute tax in conjunction with the income tax
- Introduced to counter domestic profit shifting by corporates in countries with large cash economies
- Contributes significant revenue in these countries (up to 15% of TTR)
- Steady growth in number of countries and revenue yield 1992 to 2010…..

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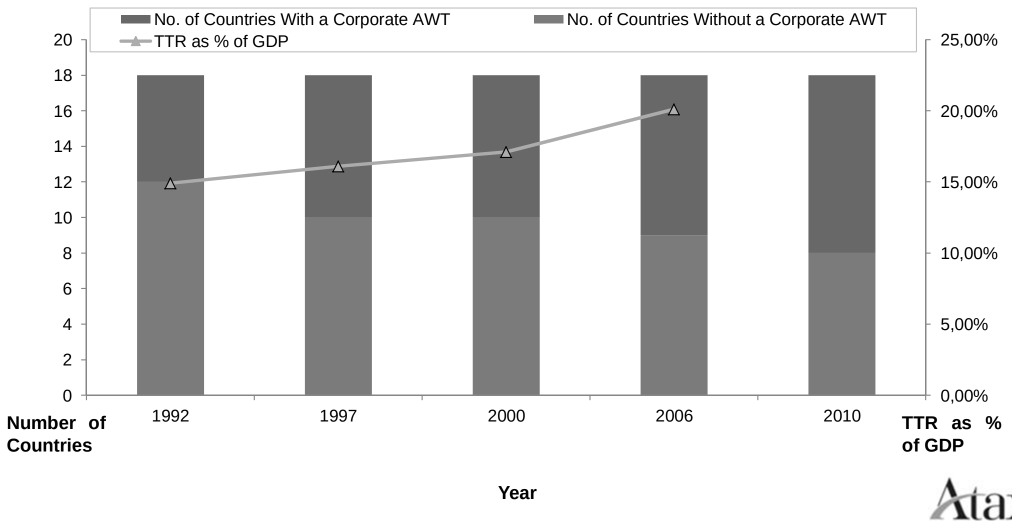
South America’s Corporate Net Wealth Tax



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4. **Conclusions and Future Policy Directions**

Two key trends in **developed** economies:

- push for simplification and narrowing of the base wherever wealth taxes are imposed (so perhaps more convergence?)
- continued shift to more efficient taxes (so away from AWT and towards WTTs and CGTs)

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4. Conclusions and Future Policy Directions

However more divergence may be expected in **developing** economies:

- some will continue to shun wealth taxes for the same reasons they have been under-utilized in developed economies (low revenue yield plus efficiency concerns and practical considerations)
- but in others wealth taxes will continue to play an important underpinning role (eg corporate wealth taxes in South America)

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4. Conclusions and Future Policy Directions

- The economic downturn (GFC) and public concern about growing income and wealth inequality have clearly played an important role in resurrecting interest in wealth taxes
- But they are only ever likely to play a relatively insignificant role in the overall tax mix/structure
- Though the importance of their political signalling role should not be under-estimated
- And perhaps they have the capacity to have more of a revenue-raising role than has hitherto been the case in both developed and developing economies

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