Evidence Paper 6

Wealth Tax Commission

Why did other net wealth taxes fail and is this time different?

Author
Sarah Perret

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

WARWICK
THE UNIVERSITY OF WARWICK

UKRI Economic and Social Research Council

LSE International Inequalities Institute

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Sarah Perret, OECD

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Abstract

Wealth taxes are increasingly being considered as an option in policy and academic circles to collect additional revenue and address inequality. One objection that is often raised, however, is that they seem to have failed in countries that tried them. Is that so and does that mean that wealth taxes should be abandoned as a policy tool? This paper gives an overview of OECD countries' experiences with wealth taxes and explores the different factors that have led to their repeal in most countries. The paper also discusses whether the situation might be different today and what the implications for tax policy might be.

1. Introduction

Wealth taxes are increasingly being considered as an option to raise additional revenue and address inequality in policy and academic circles. More recently, wealth taxation has featured prominently in discussions about tax policy responses to the COVID-19 crisis. Wealth taxes are not new, however, and one of the most common objections to their introduction is that they seem to have failed in the countries that tried them.

The main objective of this paper is to examine previous experiences with wealth taxes in the OECD and to look at the factors that led to their repeal in most countries. Understanding these factors may be helpful in the present context. Indeed, the policy implications today would be different if evidence showed that their repeal was primarily due to proven economic effects, or if it showed, on the other hand, that wealth taxes were abolished mainly because of policy design and administrative issues, or political economy factors. Proven economic effects could more easily lead us to conclude that wealth taxes should simply be abandoned as a policy tool, while policy design or administrative issues, as well as political economy factors, may be more contextual and therefore likely to change.

The first section of the paper looks at OECD experiences with wealth taxes, highlighting their decline as well as their heterogeneous design across countries. The second section examines the factors leading to their repeal in most countries. It looks at and assesses the importance of three different sets of factors: the economic effects, the administrative and tax design issues, and the political economy factors. The last section of the paper discusses whether the situation might be different today and what the implications for tax policy might be.

2. Experiences with net wealth taxes in OECD countries

Decline of wealth taxes in the OECD

Net wealth taxes are recurrent taxes on individual net wealth stocks.[1] They are distinct from taxes on capital income, which are levied on the flow of income generated by assets (e.g. dividends, capital gains, interest income). They can also be distinguished from other taxes on property. They differ from inheritance or estate taxes, which are only levied when wealth is inherited by heirs. Compared to recurrent taxes on immovable property, they are taxes on a broad range of movable and immovable property, net of debt. Finally, unlike sporadic capital levies, net wealth taxes are levied on a regular (annual) basis.

Net wealth taxes are far less widespread than they used to be in the OECD (Fig.1). In 1990, there were twelve OECD countries, all in Europe, that levied individual 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), the Netherlands (in 2001[2]), Finland, Iceland, and Luxembourg (in 2006) and Sweden (in 2007). Iceland, which had abolished its 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 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 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.

FIGURE 1: NUMBER OF OECD COUNTRIES LEVYING INDIVIDUAL NET WEALTH TAXES OVER TIME

Source: OECD

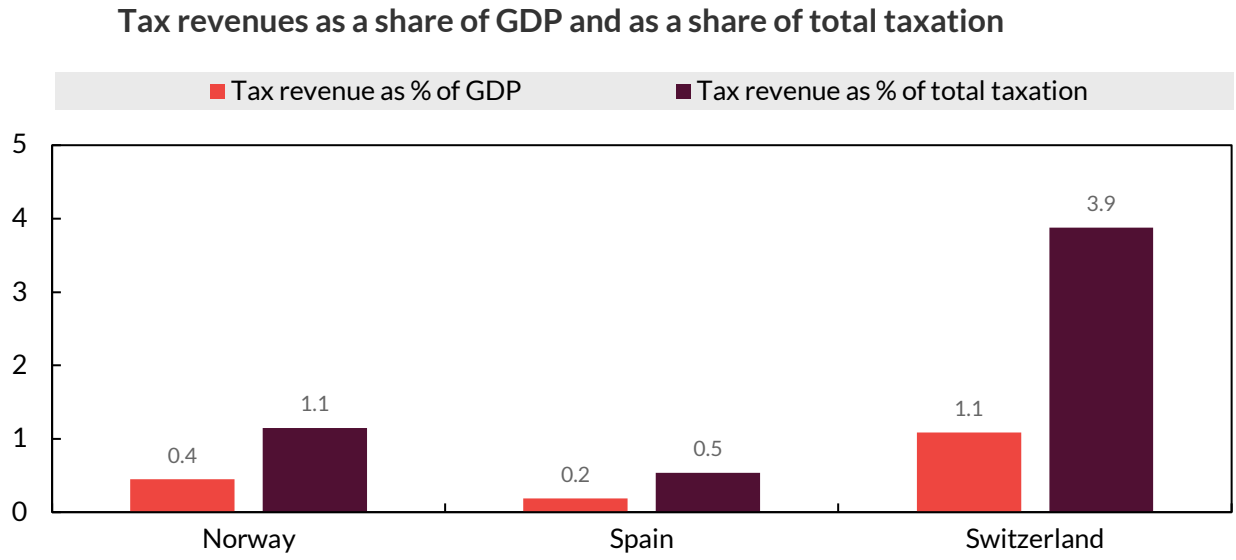
[1] It is important to note that net wealth taxes can also be levied on corporations, but this is not the focus of the paper.

[2] However, a new presumptive capital income tax that functions in practice like a wealth tax was introduced in the Netherlands.

Revenues from wealth taxes

Wealth taxes have generally accounted for a very small share of tax revenues. In 2018, tax revenues from individual net wealth taxes ranged from 0.2% of GDP in Spain to 1.1% of GDP in Switzerland. As a share of total tax revenues, they ranged from 0.5% in Spain to 3.9% in Switzerland (Fig. 2). Looking at longer-term trends, Switzerland has always stood out as an exception, with tax revenues from individual net wealth taxes that have been consistently higher than in other countries (Fig. 4).

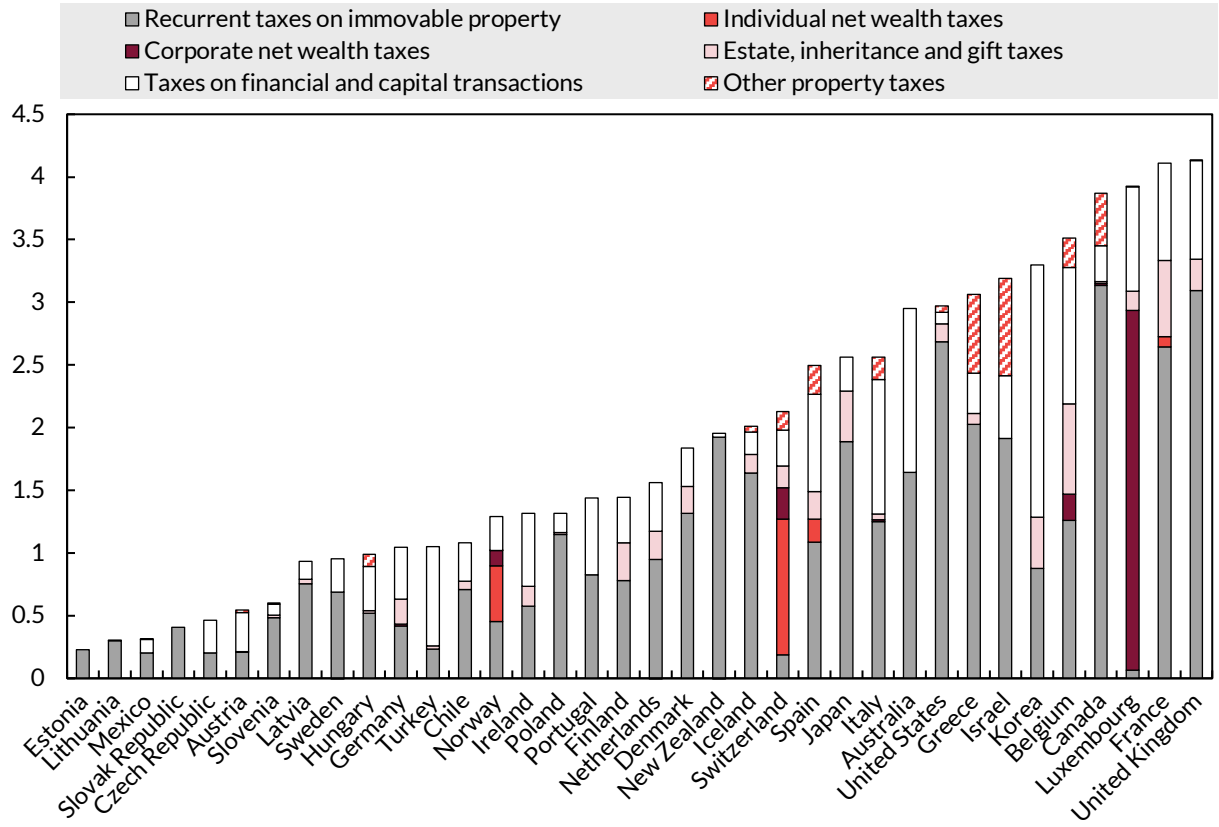
FIGURE 2: INDIVIDUAL NET WEALTH TAX REVENUES IN NORWAY, SPAIN AND SWITZERLAND IN 2018



Source: OECD Revenue Statistics Database

Net wealth taxes tend to play a much less significant role than other types of taxes on property. In fact, they are the least common form of property taxation in the OECD (Fig. 3). By contrast, recurrent taxes on immovable property are the most common form of property taxation as well as the largest source of property tax revenues across OECD countries. Property transaction taxes and inheritance and gift taxes are also relatively common.

FIGURE 3: BREAKDOWN OF PROPERTY TAX REVENUES AS A SHARE OF GDP BY COUNTRY IN 2018



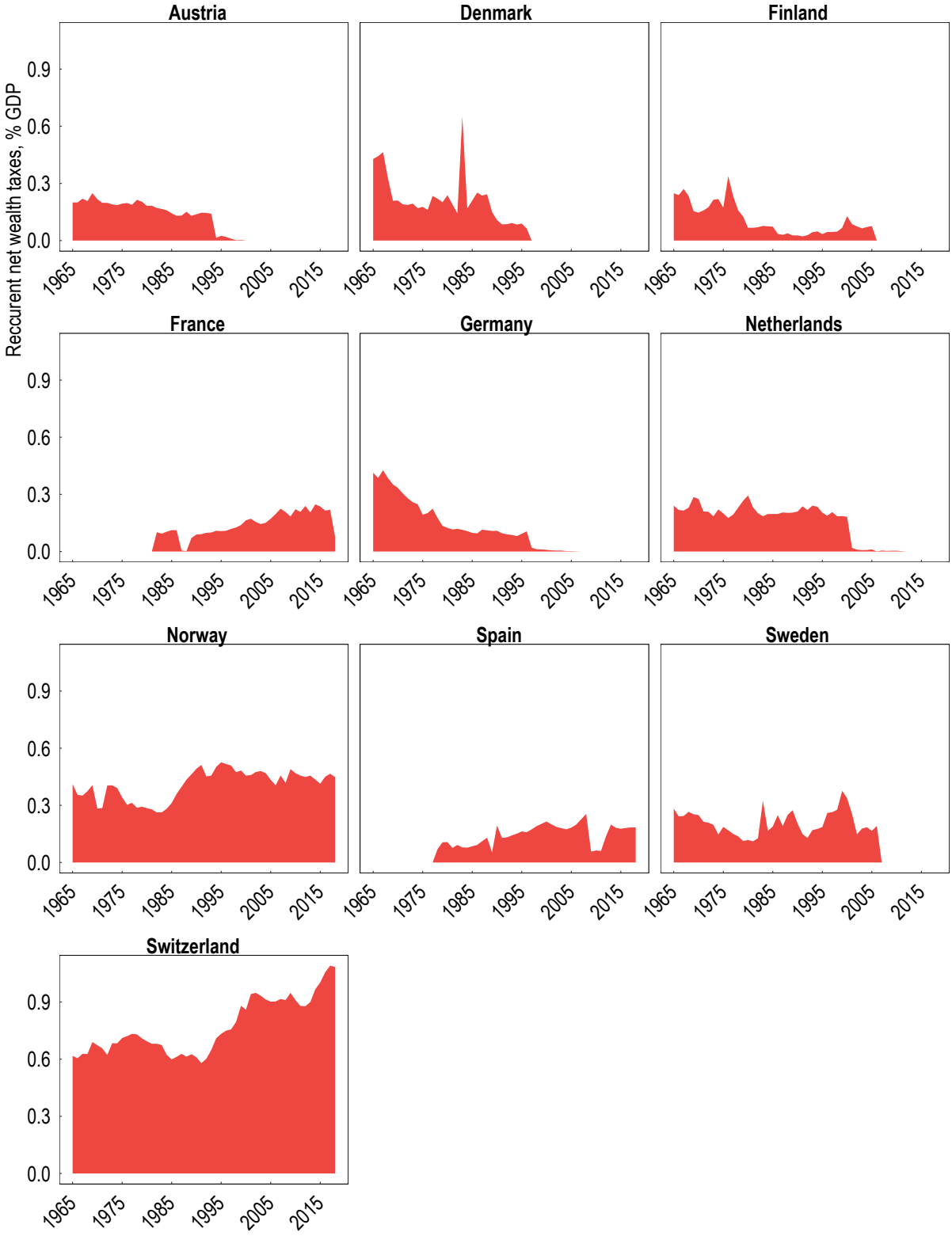
Notes: 2017 data for Australia, Greece and Mexico.
Source: OECD Revenue Statistics Database

Differences in individual net wealth tax revenues across countries reflect a variety of factors, including the design of the tax (e.g. taxed assets, rates, thresholds, the treatment of debts), 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, the fact that Switzerland collects significantly higher revenues from its wealth taxes than other countries may be explained by tax design features, including its comparatively low tax exemption thresholds and broader tax bases (see below), and by the high share of wealthy individuals in the country. In Norway, on the other hand, despite relatively high tax rates and a low tax exemption threshold (see below), 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.

Looking at longer time periods, most of the countries that have or had net wealth taxes experienced either stable or declining revenues from these taxes. Figure 4 shows the evolution of revenues from net wealth taxes since the mid-1960s in all the countries that used to have or still have net wealth taxes. Tax revenue trends differed, but 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 the Netherlands, Norway, Spain and Sweden, while Austria, Denmark, Finland and Germany experienced declining

net wealth tax revenues. On the other hand, France and Switzerland experienced tax revenue increases over time.

FIGURE 4: INDIVIDUAL NET WEALTH TAX REVENUES AS A SHARE OF GDP, SELECTED OECD COUNTRIES, 1965-2018



Notes: No disaggregated data on individual net wealth tax revenues for Iceland and Luxembourg.
Source: OECD Revenue Statistics Database

Stable or declining wealth tax revenues in most countries have contrasted with trends in wealth accumulation. While wealth trends are difficult to assess given the limited number of countries with reliable and comparable data, some studies have shown that household net wealth has increased substantially over the last five decades in some advanced countries (e.g. Piketty and Zucman, 2013), due in large part to asset-price booms and an increase in private savings (IMF, 2014a). However, this wealth growth often did not translate into higher wealth tax revenues. This may seem even more surprising given that there is evidence in some countries that the wealth of the richest households, who were in principle subject to the wealth tax, grew more than that of the rest of the population (e.g. in Denmark, Jakobsen et al., 2020). This 'paradox' of growing wealth and wealth concentration but stable or declining wealth tax revenues in most countries is likely to be the result of different factors including changes in the design of wealth taxes, growing wealth in the form of assets that are exempt or receive relief under wealth taxes (e.g. pension wealth, business assets), the failure to update property values, as well as tax avoidance and evasion behaviours.

Heterogeneity in the design of wealth taxes across countries

Wealth taxes have shared common features across countries. Residents are typically taxed on their worldwide net assets, while non-residents are generally only taxed on their assets that are located within the taxing jurisdiction (although non-residents may be exempt from the wealth tax on financial investments made in the taxing jurisdiction, e.g. France). Wealth taxes have also been levied on a wide range of movable and immovable assets (net of debt), even if their scope has varied across countries (see Section 2).

A major difference in the design of wealth taxes across countries has been tax exemption levels. In some countries, the wealth tax is (or was) levied only on the very wealthy (e.g. France and Spain). Before repealing its wealth tax, France had the highest tax exemption threshold, taxing individuals and households with net wealth equal to or above EUR 1.3 million which meant that only around 360,000 taxpayers were subject to it in 2017. In other countries, wealth taxes have applied to a broader range of taxpayers. In Norway, the tax exemption threshold is approximately EUR 150,000 per person. In Switzerland, despite variations across cantons, tax exemption thresholds are comparatively low: in 2018, they ranged from USD 55,000 in the canton of Jura to USD 250,000 in the canton of Schwyz (for married couples) (Scheuer and Slemrod, 2020). Thus, Swiss wealth taxes affect a large portion of the middle class.

The Swiss tax system is different in a number of ways, which partly explains the low thresholds. Switzerland does not levy capital gains taxes and most cantons have abolished inheritance and gift taxes on transfers to direct descendants. Thus, net wealth taxes may partly replace these taxes (OECD, 2018a). Another specificity of the Swiss system concerns the taxation of foreign nationals who are tax residents in Switzerland and can opt for a favourable lump-sum tax in many cantons as long as they do not exercise any paid work in Switzerland. This lump-sum tax is levied on the basis of expenditure and standard of living rather than on regular worldwide income and assets.

Tax rates have also varied quite widely across OECD countries. Wealth tax rates have been either flat (Austria, Germany, Ireland, Luxembourg, the Netherlands, Norway and Sweden) or progressive, i.e. rising with total net wealth (France, Spain and a majority of

Swiss cantons). The lowest marginal tax rates have generally ranged between less than 0.2% and 1.5%, while the top marginal rates have generally varied between 0.5% and 2.5%. High rates have typically been associated with high thresholds. Spain exhibits the highest top net wealth tax rate, at 2.5%, which applies to net wealth above EUR 10,695,996. In countries where wealth taxes are local taxes, tax rates can vary quite significantly across municipalities or local governments. In Switzerland, there is considerable variation in wealth tax rates across cantons. In 2018, the (combined cantonal and municipal) top marginal wealth tax rates ranged between approximately 0.1% (canton of Nidwalden) and 1% (canton of Geneva) (Eckert and Aebi, 2020), with the highest rates generally levied in the western French-speaking cantons and the lowest rates found in the small German-speaking cantons of central Switzerland (Brülhart et al., 2019). In Spain, there is a general tax rate schedule at the level of the central government, but the autonomous regions have room to determine their own tax scales. Top tax rates, for instance, vary across regions (e.g. 3.03% in Andalucía, 3% in Murcia, and 2.75% in Cataluña) (Durán-Cabré et al., 2019).

Recent trends have generally shown an increase in tax exemption thresholds and a decrease in tax rates. In the last ten years, there has been a trend towards raising tax exemption thresholds (in France, Norway and Spain), generally to avoid burdening the middle or upper-middle class given increases in asset values, particularly on the housing market. Since the 2000s, there has also been a trend towards lowering tax rates. In Switzerland, tax cuts have been most significant in the central cantons, where tax competition was vigorous in the early 2000s; but other cantons have also significantly reduced their wealth tax rates. The high-tax western cantons, on the other hand, have not seen much change in their wealth tax rates (Brülhart et al., 2019). In France, the top tax rate in 2017 was lower than in the early 2000s. In Norway, the tax rate was lowered from 1.1% in 2013 to 0.85%, as part of a broader effort to reduce the wealth tax burden (with progressive increases in the tax exemption threshold and changes to assessment rules). In Spain, on the other hand, the central government tax rate schedule has not changed since 2002.

3. Factors leading to the decline of wealth taxes in OECD countries

This section explores the factors leading to the decline of wealth taxes in OECD countries. Broadly speaking, these factors can be grouped into three categories: (i) the economic effects, (ii) the administrative and tax design issues, and (iii) the political economy factors. The section then attempts to weigh the role played by these different factors in the decline of wealth taxes in the OECD.

Economic effects

Impact on savings and investment

The main economic argument against net wealth taxes is that, in a way that is comparable to capital income taxes, they distort savings behaviours and could ultimately reduce long-run capital stocks and growth. In some ways, a wealth tax is similar to a tax on capital income. For instance, if an individual taxpayer has a total net wealth of EUR 10 million that earns a rate of return of 4%, the tax liability will be the same whether the government levies a tax of 30% on the capital income of EUR 400,000 or a wealth tax of 1.2% on the capital stock of EUR 10 million. Both will end up raising EUR 120,000. A capital income tax of 30% is thus equivalent to a wealth tax of 1.2% where the rate of return is 4%. A key difference with a capital income tax, however, is that a wealth tax is imposed irrespective of the returns that are actually generated by assets, which is key to understanding the equity and efficiency effects of wealth taxes, as discussed further (see also Adam and Miller, 2020).

Early optimal tax models concluded that zero capital taxation was optimal in the long run, but these have largely been refuted since. Standard economic models of optimal taxation assume that households save only in order to consume tomorrow instead of today. If the return on savings is taxed, the decision to postpone consumption and the intertemporal allocation of resources is distorted, as the tax drives a wedge between the prices of consumption at different dates. In the 1970s and 1980s, two seminal optimal tax models concluded that the optimal tax on capital in the long run was zero (Atkinson and Stiglitz, 1976; Judd, 1985; Chamley, 1986). However, these relied on highly stylised and restrictive assumptions (e.g. infinite time horizons, altruistic dynasties or the separability of preferences) and have largely been invalidated since, with more recent models concluding that optimal capital taxation is positive (e.g. Aiyagari, 1995; Golosov et al., 2013) and potentially substantial (Straub and Werning, 2020; Gerritsen et al., 2020). Today, the general view is that there has been a misreading of the optimality of zero capital taxation (Stiglitz, 2018).

The limited number of empirical studies that have looked at whether the taxation of wealth actually deters savings have generally found a low savings responsiveness. Some find small effects (e.g. Seim, 2017; Zoutman, 2018), while others find a stronger sensitivity of taxable wealth to wealth taxation (e.g. Brülhart et al., 2019; Durán-Cabré et al., 2019), but most studies point to stronger effects on wealth reporting and tax avoidance or evasion than on real behaviour (i.e. wealth accumulation) (for a more detailed discussion, see Advani and Tarrant, 2020). However, this low savings

responsiveness may partly be the consequence of narrow wealth tax bases and opportunities for avoidance and evasion. Wealth taxes with a broader base and more restricted avoidance and evasion opportunities could potentially have stronger effects on real behaviour (Slemrod, 1992).

Beyond effects on the overall level of savings, there is evidence that wealth taxes have affected the composition of savings because of their narrow tax bases. The empirical evidence suggests significant shifts in the composition of assets when wealth tax bases are narrowed by exemptions and reliefs (Advani and Tarrant, 2020). In practice, many categories of assets are exempt under wealth taxes or benefit from reliefs or preferential valuation (see below) and tax burdens vary widely across asset types (OECD, 2018b). In some cases, though, it may be argued that tax-induced distortions favouring more productive investments could have positive growth effects. This argument has sometimes been used to levy a wealth tax exclusively on high-value immovable property, but drawing a clear distinction between productive and unproductive assets is challenging and excluding some assets, particularly financial assets, from the wealth tax base would reduce equity.

Figure 5 illustrates that the potential disincentive effects of wealth taxes on savings are highly context-specific, depending on their design and whether they are levied in addition to other taxes on capital income and assets. Net wealth taxes significantly raised the overall tax burden on capital in France and Spain, where marginal effective tax rates (METRs)[3] for taxpayers subject to top tax rates reached values above 100%. This was partly the result of the design of wealth taxes in these countries, which are (or were) levied at comparatively high tax rates on top wealth brackets (see Section 1). The overall tax burden on capital also depends on the other taxes that are levied on household capital income and assets. For instance, the overall tax burden on capital (including the wealth tax) will be lower where taxes on personal capital income tend to be lower (e.g. in Switzerland where capital gains are not taxed) or where other taxes on assets or wealth transfers are low (e.g. in Norway, where there is no inheritance tax).

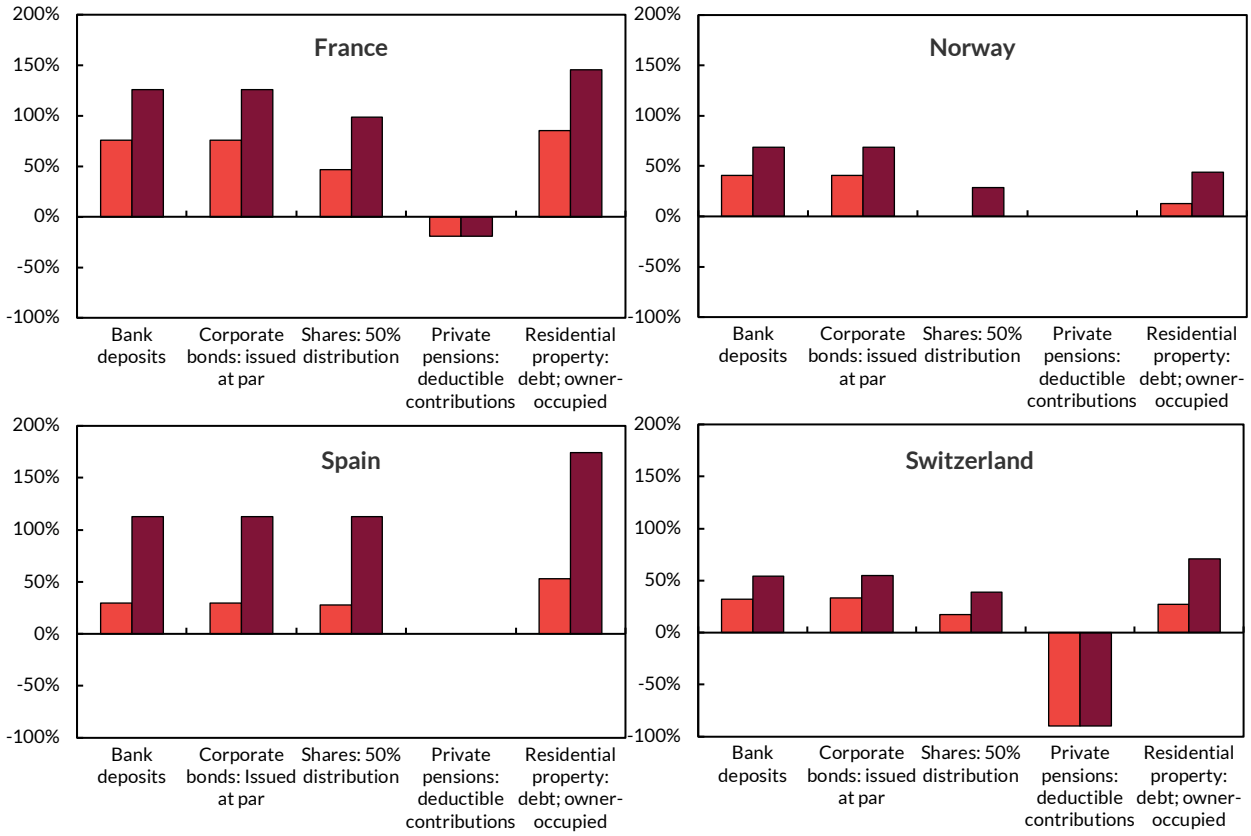
There have also been concerns that wealth taxes may reduce entrepreneurship and innovation. A wealth tax may have a negative impact on entrepreneurship by reducing the pool of capital available to start-ups and lowering the net return for successful entrepreneurs. With a difference-in-difference type estimator using the elimination of the wealth tax in four countries as a 'natural experiment', Hansson (2008) points to a consistent pattern of observable but small impact. Another concern is that a wealth tax might force entrepreneurs to continually reduce their share in a company whose valuation increases over time, and ex ante, have discouraging effects (Scheuer and Slemrod, 2020). Finally, there have been concerns that wealth taxes may

[3] The METR methodology follows broadly the approach of the OECD's 1994 Taxation and Household Savings study (OECD, 1994), which itself drew on the methods used by King and Fullerton (1984), with the objective of analysing the incentives faced by the taxpayer at the margin. The analysis focuses on a saver who is contemplating investing an additional currency unit in one of a range of potential savings vehicles. The investment is a marginal investment, both in terms of being an incremental purchase of the asset, and in terms of generating a net return just sufficient to make the investment worthwhile (as compared to the next best savings opportunity). The approach assumes a fixed pre-tax real rate of return and calculates the minimum post-tax real rate of return that will for that asset, at the margin, make the investment worthwhile. The METR can then be calculated as the difference between the pre- and post-tax rates of return (the savings income tax wedge) divided by the pre-tax rate of return. The calculations take into account different assumptions for the real rate of return, the inflation rate and the expected holding periods.

discourage innovation. In response to these concerns, Saez and Zucman (2019) point out that most innovation comes from young rather than wealthy individuals (the wealthy tend to be much older than average), who would not be subject to a wealth tax designed with a high exemption threshold. Moreover, Saez and Zucman (2019) argue that established businesses, that devote significant resources to securing their market positions and thereby reduce competition and innovation, would be the ones subject to a wealth tax. Overall, there is little empirical evidence on the effects of a wealth tax on entrepreneurship among the very wealthy (Advani and Tarrant, 2020).

FIGURE 5: MARGINAL EFFECTIVE TAX RATES (METRS) WITH AND WITHOUT WEALTH TAXES ON DIFFERENT ASSETS IN 2017

METRs assuming a 3% real return on assets and for taxpayers subject to the top tax rates



Note: The METR results are based on tax rules as of 1 July 2016.
Source: OECD (2018)

Capital flight and fiscal expatriation

Capital flight has been a key argument against wealth taxes in a context of increased globalisation and capital mobility. The liberalisation of financial flows and the global integration of capital markets have allowed capital to become more mobile and thus potentially more responsive to changes in taxation, leading to tax competition across countries to prevent capital flight. In theory, in the context of a wealth tax, the capital flight argument only applies in the case of non-residents because they are taxed on the assets they own within the taxing jurisdiction, which will affect the international allocation of capital. On the other hand, capital flight should not apply in the case of

residents as they are taxed on their worldwide assets (see Chamberlain, 2020). In practice, however, there are many ways in which residents can reduce or minimise their reported wealth for tax purposes.

Because wealth taxes are residence based for residents, there is also a risk that wealthy individuals might relocate to avoid the tax (i.e. fiscal expatriation). Risks of fiscal expatriation are likely to be more prevalent in countries whose neighbouring jurisdictions offer more favourable tax conditions. Regarding the potential effects of fiscal expatriation, on top of the immediate revenue losses, it might lead to a reduction in investment. However, whether fiscal expatriation has significant economic consequences on taxpayers' country of origin remains a question and will depend on whether fiscal expatriates maintain activities in their country of origin.

Despite featuring high-profile cases, most of the evidence on these issues tends to be anecdotal. In France, the Ministry of Finance tracked the number of taxpayers subject to the wealth tax who leave and return to France. In 2014, 780 taxpayers subject to the net wealth tax left France, while 300 taxpayers returning to France were registered. However, it is difficult to determine the extent to which decisions to move are motivated by tax factors or other personal or professional reasons. Besides, the significant increase in the number of wealth taxpayers leaving France coincided with tax changes that generally lowered tax burdens on the very wealthy (decrease in top marginal personal income tax rates and introduction of the net wealth tax cap), which may suggest that taxpayers' departures were not primarily driven by tax considerations (*Conseil des prélevements obligatoires*, 2011). These studies also fail to capture the taxpayers who move abroad in anticipation of future wealth tax burdens, before they become liable to the wealth tax. Finally, as mentioned already, the economic repercussions of such fiscal exile are uncertain as taxpayers changing their tax residence can continue to invest in their home country.

There are a few empirical studies that have looked more consistently at tax-induced migration, and these generally suggest that international migration responses to progressive income and wealth taxes are small relative to potential revenue (Advani and Tarrant, 2020). Some studies find evidence of large internal migration effects in the case of regional wealth taxes (Brülhart et al., 2020), which is consistent with the fact that moving to a nearby region is easier than moving to another country. Studies looking at wealth transfer taxation generally point to limited mobility effects, while personal income taxes are generally found to induce significant but economically modest migration responses among wealthy taxpayers (see Advani and Tarrant, 2020). As mentioned above, migration in response to a wealth tax will depend on a variety of factors including the effective tax rate differentials with other countries or regions as well as deterring measures such as 'tail' provisions, which ensure that the wealth tax continues to apply for a minimum period after people leave the country (see Chamberlain, 2020).

Taxation irrespective of actual returns

Another issue, which pertains to the very nature of wealth taxes, is that they are imposed irrespective of the actual returns generated by the underlying assets. Wealth taxes are equivalent to the taxation of a presumptive (i.e. fixed) return. If asset returns increase, the tax liability under a capital income tax will increase, but the wealth tax liability will remain the same, implying a drop in the effective tax on the return. This implies that, as opposed to a capital income tax, a net wealth tax implicitly imposes a lower effective tax on the returns of high-yield assets compared to low-yield assets. Put

differently, a major difference between taxes on capital stocks and capital flows is the taxation of 'excess' returns: where the presumptive return is set at a level close to the normal – or risk-free – return to savings[4], a tax on the stock of wealth is economically equivalent to a tax on the normal return to savings. While returns in excess of the normal return are taxed under capital income taxation, they are not under a wealth tax (see also Adam and Miller, 2020).

A net wealth tax therefore penalises the holders of low-return assets and favours holders of high-return assets, which could have detrimental equity implications depending on the way the wealth tax is designed. Indeed, there is evidence of heterogeneous returns that are positively correlated with wealth (Fagereng et al., 2020), which may be explained by the fact that wealthy investors tend to allocate a much larger share of their financial portfolios to risky assets (Bach et al., 2020) and have better access to financial expertise and lucrative investment opportunities. This means that a wealth tax might have regressive effects, especially if it applies to (part of) the middle class. For instance, taxpayers with a large portion of their assets in regular savings accounts, for which the rate of return is close to zero, are taxed for a return they generally did not realise, while wealthier taxpayers who have invested a lot of their savings in shares tend to accrue higher gains than they are taxed on. For the same reasons, wealth taxes can also generate liquidity issues, particularly if they are levied on relatively low levels of wealth, as people with mostly illiquid housing assets would also be subject to it and might be forced to sell their assets to be able to pay for the tax. A high tax exemption threshold could help curb some of these effects (although low liquidity would remain an issue for people whose wealth is tied up in a private or a closely held business).

At the same time, taxation irrespective of actual returns may encourage people to invest more productively in higher yielding assets. Guvenen et al. (2019) developed a theoretical model that suggests that replacing capital income taxes with a wealth tax shifts the tax burden onto unproductive entrepreneurs and that this reallocation increases aggregate productivity and output. The argument is that wealth taxes do not discourage investment *per se* but discourage investments in low-yielding assets and reinforce the incentives to invest in higher-yielding assets because there is an additional cost to holding assets, which is not linked to the return they generate. However, there are limitations to this argument. There may be cases where above-market asset returns do not reflect higher productivity, but luck or privileged market access, and where wealth taxes may therefore not support an efficient allocation of resources.

Administrative and tax design issues

Narrow tax bases

The scope of wealth taxes has varied across countries. As mentioned, both income and non-income generating assets are taxed under a wealth tax. They can include land, real estate, bank accounts, bonds, shares, investment funds, life insurance policies, vehicles, boats, aircraft, jewellery, art and antiques, and intellectual or industrial property rights. However, wealth tax bases have often been narrowed by numerous exemptions and reliefs (Table 1). These

[4] Distinguishing between 'normal' and 'excess returns' is difficult, however. See Reynolds and Neubig (2016).

preferential tax rules for certain assets have been motivated by different rationales, including social concerns (e.g. pension assets, primary residences), liquidity issues (e.g. farm assets), supporting entrepreneurship and investment (e.g. business assets), avoiding valuation difficulties (e.g. artwork, jewellery, shares in unlisted businesses), and preserving countries' cultural heritage (e.g. artwork, antiques).

The most common exemptions have been exemptions for pension assets, which typically get full relief under wealth taxes. These are justified on social grounds, because of the social benefits that come from retirement income, but also because it is difficult to justify both socially and politically taxing individuals on wealth that is not within their present control and from which they cannot withdraw funds to pay for the tax (Brown, 1991). Governments also often provide tax incentives for private retirement savings to help alleviate the costs associated with the public provision of pensions (see also Chamberlain, 2020, for an assessment of these justifications).

TABLE 1: TREATMENT OF ASSETS UNDER CURRENT AND PAST WEALTH TAXES

Categories of assets	Assets	Norway	Spain	Switzerland	Austria (1994)	Germany (1997)	Finland (2006)	France (2018)	Ireland (1978)	Luxembourg (2006)	Netherlands (2001)	Sweden (2007)
Immovable property	Buildings	TP	T	TP	T	T	TP	T	T	T	T	T
	Main residence	TP	TP	TP	T	×	TP	TP	E	T	TP	T
	Woods and forests	TP	TP	TP	T	T	TP	TP	E	T	E	E
	Land	TP	T	TP	T	T	T	T	T	T	T	E
Movable property	Agricultural or rural assets	TP	TP	TP	T	T	T	TP	TP	T	T	E
	Furniture	TP	TP	E	T	×	E	T	T	T	E	E
	Artwork and antiques	TP	TP	TP	T	E	T	E	E	T	E	E
	Jewellery	TP	T	T	T	×	T	T	T	T	TP	E
	Vehicles	TP	T	TP	T	×	E	T	T	T	T	T
Financial assets	Listed shares	TP	TP	T	T	×	TP	T	T	TP	T	T
	Life insurance	E	T	T	T	×	E	T	×	T	E	T
	Bonds	T	T	T	T	×	E	T	T	T	T	T
	Liquidities	T	T	T	T	×	E	T	T	TP	T	T
	IP rights	E	E	T	T	E	E	E	×	E	T	E
	Pension savings	E	E	E	T	E	E	E	E	E	E	E
	Business assets	TP	E	TP	T	TP	T	E	TP	TP	TP	E

Note: T= fully taxed; E = full exemption; TP = tax preference; x: no information. No information for Denmark, Finland and Iceland. Many of these exemptions and reliefs are conditional upon specific criteria and conditions.
Source: OECD (2018)

Exemptions for business assets (e.g. assets directly used in the professional activity of the taxpayer, or stakes or shares in unincorporated or closely held companies) have also been common. The countries that reported exemptions for business assets include France, Spain and

Sweden. For the business asset exemption to apply, rules typically require that real economic activities are being performed (possibly excluding activities such as the management of movable or fixed assets, e.g. Spain), that the taxpayer performs a managing role, that income derived from the activity is the main source of the taxpayer's revenue and/or that the taxpayer owns a minimum percentage of shares in the company (e.g. 25% in France and Sweden; 5% in Spain). Other countries generally tax business assets but often grant tax preferences in the form of preferential valuation rules, the exemption of a proportion of assets, the exclusion of certain assets or a lower tax rate (e.g. Germany, Norway, Luxembourg and Ireland).

Other assets that are often exempt from wealth taxes include artwork and antiques. Indeed, five countries reported exemptions for artwork and/or antiques. Exemptions for furniture and jewellery are less common, although some countries do exempt these assets. An alternative to a full exemption for personal and household effects is an exemption for assets below a certain value, particularly for household items such as furniture, which are often of limited value.

Other assets, in particular main residences, are often taxed preferentially under wealth taxes. Tax relief for owner-occupied housing is justified as a way to avoid burdening the middle class whose wealth mainly consists of the primary residence but also because owner-occupied housing does not generate the income needed to pay the tax. However, preferential wealth tax treatment for the primary residence might induce shifts in investments away from productive activities towards residential property, especially if homeownership is already encouraged by other provisions in the tax system (e.g. no capital gains tax for primary residences). Tax relief often takes the form of tax allowances (e.g. equal to 30% of the value of main residence in France and EUR 300,000 in Spain) or preferential valuation rules. In Switzerland, as a general rule, housing is taxed at 60% of its market value. Norway offers a particularly favourable treatment for primary residences, which are valued at 25% of their estimated market value for wealth tax purposes. In both Switzerland and Norway, these very favourable rules may be a way to compensate for the relatively low tax exemption thresholds, which imply that a portion of the (upper) middle class is subject to wealth taxes. Other assets also tend to benefit from a preferential tax treatment, including woods and forests, agricultural assets, small savings, life insurance policies, government bonds, charitable donations or funds invested in SMEs.

While some of these preferential tax rules may be justified, exemptions and reliefs reduce the revenue potential and progressivity of wealth taxes. Exemptions and reliefs for different types of assets have limited the amount of revenue raised from wealth taxes (see Section 1). They have also made wealth taxes less equitable, particularly where exemptions or reliefs have been provided for assets held primarily by the wealthiest taxpayers (e.g. financial and business wealth), but also by creating tax avoidance opportunities, which are mostly available to households at the top of the distribution. Preferential tax rules also increase complexity, which can generate higher administrative costs for governments and compliance costs for taxpayers (although there are some cases where the removal from the tax base of certain assets, such as the family home, might reduce compliance costs). In Germany, the wealth tax was repealed after the federal constitutional court declared it unconstitutional because of its unequal treatment of different assets. Despite these negative consequences, trends over time show that countries with wealth taxes have often gradually expanded tax exemptions and reliefs, which have in turn further limited their revenue potential and progressivity.

Tax avoidance and evasion opportunities

As mentioned above, narrow tax bases have been one of the factors facilitating tax avoidance. A clear example has been avoidance through the exemption for business assets. In Spain, for instance, Alvaredo and Saez (2009) looked at the introduction of a net wealth tax exemption for the shares of owner-managers in 1994 and showed strong shifting effects as wealthy business owners re-organised their activities to take advantage of the exemption, resulting in a

substantial erosion of the wealth tax base. Looking at the reintroduction of the Spanish wealth tax in 2011, Durán-Cabré et al. (2019) also find evidence that taxpayers who declared business ownership in 2011 were more responsive to wealth taxes. This suggests that taxpayers transfer part of their wealth in real estate, bank accounts and non-exempt business holdings to exempt business holdings, which is relatively easy once the business structure is set up (Durán-Cabré et al., 2019). This highlights the importance of having rules to prevent abuse, in particular requirements that real business activity is taking place and that assets are being used directly in the taxpayer's professional activity. Businesses whose main activity consists in managing movable or real assets can also be excluded to prevent abuse (e.g. Spain).

'Tax caps' or ceilings have also been used for tax avoidance purposes. These often involve imposing a limit on taxpayers' total tax liabilities as a share of their income. While they are intended to prevent unreasonably high tax burdens and liquidity constraints that may force taxpayers to sell their assets to pay the wealth tax, they have also been used by taxpayers who reduce their taxable income and thereby minimise their wealth tax liability (Jakobsen et al., 2020; Duran-Cabré, 2019). Rules to prevent such abuse exist. For instance, tax caps can be accompanied by a floor provision, which limits the amount of relief provided by the tax cap (McDonnell, 2013), as is the case in Spain.

Trusts, usufructs and foundations have also been common tools to avoid wealth taxes. While all of these can be set up for legitimate succession or other non-tax reasons, the fact that ownership and access to benefits is split in some way means they can also potentially be used to avoid taxes on net wealth and wealth transfers. Typically, trusts are used to separate the entitlement to the income that property generates from the entitlement to the property itself, or to provide that capital and income are distributed on a discretionary basis at infrequent intervals. In civil law countries that do not recognise trusts, similar strategies have been used to fragment wealth and benefits between different individuals through usufructs and foundations. The solution adopted in some countries has been to treat trusts as 'see-through' entities: the trustee is legally obligated to identify the settlor or beneficiary/ies to tax authorities, with the value of the assets held in the trusts, and allocate these assets to the settlor or to the beneficiaries on a proportional basis to their assessable wealth (McDonnell, 2013 ; OECD, 2018a). However, this solution can open the door to other types of avoidance. In short, there seems to be no common approach on how to subject trusts, usufructs and foundations to wealth taxes (see Chamberlain, 2020).

In addition to tax avoidance, taxing wealth has been complicated by tax evasion. Individuals who do not report their foreign source income or assets to their domestic tax authority can evade paying taxes if the domestic tax authority cannot access information about the income or assets. Increasing capital mobility combined with the rise of tax havens, the development of information and communication technology and the elimination of barriers to cross-border capital transfers (such as capital controls), have contributed to the increase in global offshore wealth over the last four decades (Alstadsaeter et al., 2018).

Estimations point to significant offshore wealth and tax evasion by the wealthiest individuals. Alstadsaeter et al. (2018) estimate that globally the equivalent of about 10% of the world GDP is held offshore, but reveal significant heterogeneity across regions — from limited levels in Scandinavia, to about 15% in Continental Europe, and more than 50% in Russia, some Latin American countries, and Gulf countries. In Sweden, prior to the repeal of the wealth tax, the Swedish Tax Agency estimated that offshore capital owned by Swedes amounted to SEK 500 billion or more than USD 71 billion, a widely cited figure and a major argument for its repeal (see below), even if there is some uncertainty around these figures (Bastani and Waldenström, 2020a). Offshore wealth is also highly concentrated. Using leaked data from offshore financial institutions and tax amnesty data, matched to population-wide administrative income and wealth records in Norway, Sweden, and Denmark, Alstadsæter et al. (2019) find that the top 0.01% of the wealth distribution owns about 50% of the wealth in tax havens. They also find that

the top 0.01% evades about 25% of their income and wealth tax liability by concealing assets and investment income abroad. Ultimately, the availability of tax avoidance and evasion opportunities have significantly reduced the fairness of wealth taxes, as the wealthiest households have often been able to circumvent them.

Valuation issues

In addition to the difficulties associated with tracing wealth ownership, some forms of wealth are difficult to value. Valuation is difficult in the case of non- or infrequently traded assets (e.g. personal and household effects, pension rights, intellectual property rights). Partly as a consequence of valuation issues, many of these hard-to-value assets have been exempted from wealth taxes, eroding the tax base, distorting the choice of savings vehicles and creating opportunities for tax avoidance (see above). Valuation issues are also significant in relation to non-listed firms and closely held companies, including start-ups. However, there are some practical ways to address some of these valuation issues. For instance, insured values can be used in the case of high-value jewellery or artwork, and exemptions can be granted for household effects under a certain threshold value. For small private businesses, where determining the market value may be difficult, a formulaic approach combining a company's book value with a weighted average of its 'earnings value' (determined by capitalising the adjusted average net profit of the last two or three years with a capitalisation rate) may be used, as is done in Switzerland (see Daly and Loutzenhiser, 2020). Intangible assets may remain an issue, however, as they are only reported in financial accounts under accounting principles where they are acquired as opposed to self-developed.

Regularly updating asset values is an additional challenge. Indeed, there is a trade-off between regularly updating asset values, which is costly in terms of tax compliance and administration, and updating them less frequently, which may increase distortions and reduce fairness. In comparison, the taxation of wealth transfers at death is less administratively costly as determining the market value of assets (or their realistic selling price) only occurs once, at the time of the transfer of assets between donors and recipients. Nevertheless, there are some ways to minimise the administrative and compliance burden associated with regularly updating asset values. For instance, asset valuations used for the residential property tax can be used for net wealth tax purposes as well (although they tend to be undervalued). In addition, the value of taxpayers' total net wealth – or alternatively the value of particular asset classes – could be treated as fixed for a few years before being re-assessed (McDonnell, 2013). Some hard-to-value assets could also be allocated to a band of values to avoid having to assign a precise value (see Daly and Loutzenhiser, 2020).

Political economy factors

Political economy factors are also key to understanding what has led to the repeal of wealth taxes. In particular, new ideas and narratives, in conjunction with better-organised forces in favour of the repeal of wealth taxes, are likely to have played a role, albeit to different extents across countries. It is worth mentioning that wealth tax repeals were not isolated events, but part of a broader trend towards lowering taxes on the wealthy starting in the late 1970s and 1980s (Förster, Llena-Nozal and Nafilya, 2014). This section also highlights how some of the economic and administrative arguments discussed above have been used politically.

Traditional median voter models fail to account for the repeal of wealth taxes. Indeed, standard political economy models, most notably the median-voter model, generally predict a positive relationship between income inequality and redistribution (Meltzer

and Richard, 1981). However, the decline of wealth taxes occurred at a time when inequality was increasing, contradicting median-voter predictions. This might be partly explained by a lack of adequate information, as people tend to misperceive the level of inequality in their country (Gimpelson and Treisman, 2018) and their income position relative to others (Bublitz, 2017). In fact, links between perceived, rather than objective, inequality, and demands for redistribution are much stronger (e.g. Bussolo et al., 2019). This may also be explained by voters failing to connect inequality with the policies needed to address it (Bartels, 2005; Kuziemko et al., 2015). The lack of predictive power of median voter models may also suggest that even in cases where voters' preferences for redistribution did increase, they may not have led to the adoption of more redistributive policies because policy making is not entirely guided by electoral politics.

A possible explanation for the repeal of wealth taxes may have been the role of special interest groups and wealthy elites. The repeal of wealth taxes may partly reflect the fact that those that benefit the most from a wealth tax are the lower and middle classes, who tend to be a less well organised political force (Banting, 1991), especially with the decline of labour unions (Schnabel, 2013; Svallfors, 2016). On the other hand, the costs of such taxes, are concentrated on a smaller group of wealthy taxpayers, who are likely to be more informed, better organised and able to mobilise financial resources (Banting, 1991), and more politically active (Page, Bartels and Seawright, 2013). These individuals may also be backed by other well-organised interest groups, such as the corporate sector and groups representing the interests of small businesses and farm owners. In the context of the United States, Hacker and Pierson (2010; 2005) emphasise the role of organised interests in shaping the policy agenda in their favour, including on tax cuts. However, the role of professionalised lobby groups and private financing in political campaigns is particularly strong in the United States, and may not have had the same level of influence in other countries (Hopkin and Shaw, 2016).

While there is not much available evidence that lobbying by special interest groups is directly connected to the repeal of wealth taxes, there is evidence that it led to the granting of special exemptions. Herlin-Giret (2017) describes a 'quiet' reform in France, successfully pushed for by business groups, which allowed certain rich households to reduce their wealth tax liability by 75%. The fact that this measure was not a reform of the wealth tax *per se*, but included in a reform supporting economic initiative, its targeted nature and its relative complexity led to its adoption in a context of general indifference (Herlin-Giret, 2017). This is consistent with findings that business power tends to be high when political salience is low (Culpepper, 2010). In some ways, lobbying for exemptions is not surprising, given that, in addition to attracting less attention, it could often be sufficient for the wealthiest households to avoid the tax. Ultimately though, the complexity that resulted from these exemptions and special tax treatments seriously affected the efficiency and distributional effects of wealth taxes, strengthening arguments for their repeal (see below). In Sweden, a recurrent objection to the wealth tax was that the special treatment of business equity had made it regressive: the tax was levied on middle-class wealth but exempted the wealthiest individuals who owned large closely held firms (or dominant positions in listed companies) (Waldenström, 2018). Numerous exemptions and reliefs also meant that any attempt to broaden the tax base would go against entrenched special interests and, in some cases, made it easier for policymakers to repeal them altogether than to reform them (Henrekson and Du Rietz, 2014).

More diffuse changes in ideas among political elites may have also played a role. There might have been instances of a more diffuse process of pro-market and pro-liberalisation ideas gaining ground among political elites. Hopkin and Shaw (2016) argue that, in the case of the United Kingdom, the liberalisation wave of the 1980s was 'implemented by an ideologically motivated elite that was ahead of the domestic business lobby in its commitment to free markets'. The rise in these ideas was partly the consequence of weak economic growth in the 1970s, which fuelled doubts about existing policies (Hacker and Pierson, 2010). There is some evidence, including in Germany and Sweden, that these new ideas went beyond influencing traditionally more conservative parties, and became more widely adopted by left-wing parties (Svallfors, 2016; Anderson and Hassel, 2015). The discourse and belief that in an open international environment remaining competitive and reassuring markets required lower taxes was also well engrained, including within left-wing parties (Hay and Rosamond, 2002 ; Riddell, 2010). Businesses have also been able to influence these perceptions through their 'structural power', i.e. by using their structural position in the economy to amplify concerns over the market's response to policies going against their interests (Fairfield, 2015). Pro-market policies were also often viewed by policymakers as a way to appear more credible (Riddell, 2010) and modern (Anderson and Hassel, 2015).

Political framing and 'narratives' are also likely to have played a role in gaining wider popular support for the repeal of wealth taxes. The way the repeal of the estate tax gained widespread support in the United States[5] provides an interesting example of shifts in narratives, particularly around the notion of 'fairness'. For instance, political framing using references to the 'death tax' and 'double taxation', as well as emphasising the estate tax burden on family farms and businesses, has been effectively used by interest groups in campaigning and building coalitions for the repeal of the tax (Birney, Greatz and Shapiro, 2006). In Sweden, the wealth tax was increasingly presented and perceived as 'unfair' because the wealthiest households found ways of avoiding or evading it, making its repeal a popular measure[6]. Wealth taxes are also often presented and viewed as 'punitive.[7] Delalande and Spire (2013) highlight the importance of such narratives and symbols, using the example of the French 'bouclier fiscal' (tax cap, but literally 'tax shield'), which was largely viewed when it was introduced as a way to protect the asset-rich but income-poor households from being unfairly overburdened by the wealth tax. This view was encouraged by the media and parts of the political elite, which had a tendency to overemphasise a few specific cases that people could easily identify with (e.g. retirees on Ile de Ré). Nevertheless, they show that once it became clear, from newly available statistics and high-profile tax avoidance cases, that the tax cap was primarily used by the richest families to avoid taxation, the tax cap became a symbol of client politics, eventually contributing to its repeal (Delalande and Spire, 2013).

Political statements justifying the repeal of wealth taxes reveal similar arguments across countries. A common justification has been promoting investment and entrepreneurship. These were key themes, along with job creation, in the Swedish Budget Bill that included the wealth tax repeal[8]. Similarly, in France, the repeal of the wealth tax was one of the proposals of Emmanuel Macron's presidential campaign, included under the first objective 'supporting the creation and growth of French businesses' and aimed at avoiding 'excessive marginal taxes,

[5] Legislation enacted in 2001 gradually phased out the estate tax by raising the tax exemption level and reducing the tax rate, leading to the tax's temporary repeal in 2010. The estate tax was re-instated in 2011.

[6] See for instance: https://www.ft.com/content/d6f77584-dd4a-11db-8d42-000b5df10621; https://www.thelocal.se/20070328/6834

[7] See for instance https://www.economist.com/finance-and-economics/2019/10/03/wealth-taxes-have-moved-up-the-political-agenda

[8] Spring Budget Bill Presented to Parliament April 2007

which can discourage investment'.[9] The repeal of the Spanish wealth tax in 2008 was part of a broad package of measures to enhance economic activity in the midst of the 2008 crisis.[10] The need to remain competitive in a globalised environment and the risks of tax-induced migration were also emphasised in Sweden[11], Iceland[12] and Luxembourg[13]. Another major argument found in political statements was the impracticality and unfairness of wealth taxes because of their numerous loopholes, with the tax ending up bearing more on middle class wealth than on the assets predominantly held by the wealthiest individuals, and evidence of significant tax avoidance and evasion (e.g. Sweden[14], Denmark[15], Finland[16]) (see also Clark, Guerrero-Fernandez and Ramirez-Casillas, 2020). There is also evidence of governments imitating each other and justifying the repeal of wealth taxes on the basis that they had disappeared or were absent in other countries (e.g. Sweden[17], Iceland[18]). Swedish political statements[19] also highlighted the symbolic nature of the abolition of the wealth tax.

Nevertheless, some countries have kept their wealth taxes for longer than others, suggesting differences across countries. In France, popular support for the wealth tax was always stable and strong, in the range of 60% to 80% between 1986 and 2018,[20] which is consistent with evidence of comparatively high popular support for redistribution in the country (Kambayashi, Lechevalier and Jenmana, 2020). Masson (2016) suggests that France's popular attachment to the wealth tax may be country-specific, contrasting with experiences in Germany and Sweden, where wealth taxes were far less popular. This may suggest that narratives around the unfairness and complexity of the wealth tax were not predominant (despite the fact that these issues were encountered). In fact, France's wealth tax progressively became a symbol of tax justice, which policymakers were aware of and careful with (Delalande and Spire, 2013). Interestingly, the repeal of the wealth tax and its replacement with a tax on high-value immovable wealth was decoupled from issues of redistribution and solidarity (Tirard, 2020) and presented as one of the elements of a broader policy package to support investment and growth. Its repeal prompted a backlash from a significant part of the population, and the reinstatement of the wealth tax was one of the main demands of the 'gilets jaunes' (Tirard, 2020). Looking at the countries that still levy wealth taxes, there might have also been more popular support for, and less political opposition to, wealth taxes where other taxes on capital or capital income were lower, as is the case in Switzerland and Norway.

Weighing the different factors

As discussed, the most commonly cited justifications for the repeal of wealth taxes were that they reduced savings and investment, they encouraged migration, they were not effectively borne by the wealthiest households who could engage in tax avoidance and evasion, and they generated substantial administrative and compliance costs, especially compared to the limited revenues they raised.

[9] https://bit.ly/34DE6LP
[10] https://bit.ly/34Er5Sv
[11] Spring Budget Bill Presented to Parliament April 2007
[12] Iceland Budget Proposal Highlights 2005
[13] https://www.reporter.lu/warum-privates-vermoegen-hoeher-besteuert-werden-muss/
[14] Spring Budget Bill Presented to Parliament April 2007
[15] Information, 'Lykketoft: Wealth tax can ensure the balance in tax reform', 17 January 2009)
[16] Extract from The Government's proposal to Parliament for a law repealing the Wealth Tax Act and a law on the valuation of assets in taxation and certain related laws
[17] Wall Street Journal, 'In move to keep wealthy, Sweden will alter tax law' (March 2007)
[18] Iceland Budget Proposal Highlights 2005
[19] Financial Times, 'Sweden axes wealth tax' (March 2007)
[20] http://www.senat.fr/rap/r19-042-1/r19-042-12.html

Among these justifications, the most common economic arguments, i.e. the negative impact on wealth accumulation and international migration effects, have found little empirical support (Advani and Tarrant, 2020). Regarding wealth accumulation, studies point to limited real effects, and greater effects on wealth reporting and tax avoidance and evasion, which is partly a consequence of how wealth taxes were designed and the ease with which they could be avoided or evaded. Regarding migration effects, very few studies exist and these generally focus on within-country mobility. The limited empirical evidence backing these arguments against wealth taxes suggests that political economy factors, including the role of special interests and shifts in ideas, played an important role in the way and the extent to which these economic justifications were used.

The arguments emphasising widespread avoidance and evasion, on the other hand, have been corroborated by significant evidence. Wealth tax bases have been narrowed virtually everywhere by tax exemptions and reliefs, and there is evidence that these have been used by wealthy taxpayers to minimise their wealth tax burden. Importantly, however, the design of wealth taxes was partly the result of political economy dynamics, with evidence that interest groups were influential in obtaining special exemptions, for instance. There has also been evidence of significant tax evasion, particularly by the wealthiest households, largely permitted by the lack of measures to ensure tax transparency.

Finally, the administrative and compliance costs that wealth taxes have involved have indeed been significant, in particular in relation to regular asset valuation, and higher than in the case of taxes on wealth transfers, which are only levied once, or income taxes. However, this section also highlighted how some of these issues could have been addressed through better tax design.

4. Is this time different?

This final section looks at whether the current situation may be different and argues that it is in a number of ways. First, the context has changed: there is evidence that wealth inequality has increased and that capital income and wealth taxation play a more limited role than they used to. Second, there have been practical changes, in particular significant progress on international tax transparency, which has enhanced countries' ability to tax wealth. Countries can also now learn from previous wealth taxes and design them better, and recent proposals for wealth taxes differ widely from previous ones. Finally, political economy settings seem to be evolving, with some evidence of heightened public perceptions of inequality and greater demands for fair burden sharing. This section also discusses the tax policy implications of these changes.

A first important change is that there is some evidence that wealth inequality has increased. Estimating wealth inequality, especially trends over time, is difficult and has led to methodological debates, but there is evidence that wealth inequality has risen in some countries since the 1970s and 80s (e.g. Alvaredo, Atkinson and Morelli, 2018, for the United Kingdom; Saez and Zucman, 2016, for the United States). More generally, wealth inequality may be expected to increase, particularly where taxation is low, as wealth accumulation largely operates in a self-reinforcing way: high earners have a higher propensity to save (e.g. Bozio et al., 2017), meaning that they are able to invest more and often in higher-return assets (Fagereng et al., 2020) and ultimately end up accumulating more wealth.

At the same time, taxes on the wealthy – including taxes on households' savings and assets – are lower than they used to be. Overall, between 1981 and 2008, the OECD-wide average top personal income tax (PIT) rate fell from around 66% to 41%. After the 2008 global financial crisis, there was a slight upward trend in top PIT rates, but they remain on average far below the levels of the early 1980s. High earners and wealth holders have also benefited from a decrease in taxes on personal capital income, for instance with some countries introducing dual income tax systems, which tax capital income at flat and lower rates but maintain higher and progressive tax rates on labour income. Overall, there is evidence that the reforms introduced in the 1980s and 1990s in Western countries reduced income tax progressivity (Rubolino and Waldenström, 2020). In addition to taxes on personal income, there was a decline in some types of property taxes. In particular, while inheritance and gift taxes are still applied widely, several countries have reduced or abolished them altogether since the mid-1990s.

Another important change is that recent wealth tax proposals differ significantly from previous wealth taxes. For instance, some candidates in the 2020 Democratic primaries in the United States proposed wealth taxes with much higher tax exemption thresholds (USD 50 million under Elizabeth Warren's plan and USD 32 million under Bernie Sanders' proposal). As discussed, a much higher tax exemption threshold would minimise some issues. It would be far less problematic in terms of equity, as top wealth holders tend to own high-return assets. It would limit the number of taxpayers facing potential liquidity constraints, although top wealth holders may still face low liquidity depending on the composition of their asset holdings (see Loutzenhiser and Mann, 2020) for further discussion and potential solutions). It would also reduce some administrative challenges, as the number of taxpayers to be monitored would be significantly lower, and would likely receive greater popular support (Bastani and Waldenström, 2020b). On the other hand, high thresholds could encourage taxpayers to split their assets (see Chamberlain, 2020) and make wealth taxes highly sensitive to behavioural responses and migration (although the fact that a US wealth tax would be citizenship based, rather than tied to residence, would partly mitigate these effects). More recently, in response to the COVID-19 crisis, there have been calls for one-off or temporary wealth taxes (e.g. Landais, Saez and Zucman, 2020), whose effects would differ significantly from those of recurrent net wealth taxes (see Adam and Miller, 2020).

More generally, countries now have the ability to learn from past experiences, and if they were to introduce wealth taxes, they could design them better. As discussed, better design could include broader tax bases, measures to reduce valuation costs and liquidity risks, and 'tail' provisions (i.e. leavers remaining subject to the wealth tax for a minimum period) (see Chamberlain, 2020; Daly and Loutzenhiser, 2020; Loutzenhiser and Mann, 2020). However, some of these issues are harder to address than others. For instance, fiscal exile is likely to remain a concern, particularly in small countries and in regions allowing freedom of movement. In addition, political obstacles may prevent the introduction of well-designed wealth taxes. For instance, attempts to introduce broad wealth tax bases would probably face political opposition, as discussed in Section 2. Similarly, problems of fiscal exile would be much lower if wealth taxes were more widely rolled out (for examples of EU-wide wealth tax proposals, see Landais, Saez and Zucman, 2020, and Krenek and Schratzenstaller, 2018), but the political feasibility of such taxes seems limited.

Another marked difference is the significant progress achieved on international tax transparency. Since the G20's call to end bank secrecy in 2009, there has been considerable progress in global tax transparency, largely driven by the Global Forum on Transparency and Exchange of Information for Tax Purposes under the auspices of the OECD and the G20. This body has established new multilateral initiatives to tackle tax evasion, including two key standards on information exchange. The first standard provides for the exchange of information on request (EOIR), where a tax authority can request a particular piece of information from the authority of another jurisdiction to progress a tax investigation. The second provides for the automatic exchange of information (AEOI) between tax authorities, where a pre-defined set of information on financial accounts held by non-residents is automatically exchanged every year with the jurisdictions where the account holders are tax resident. Regarding the AEOI, nearly 100 countries exchanged information in 2019, enabling their tax authorities to obtain data on 84 million financial accounts, covering total assets of EUR 10 trillion (OECD, 2020d).

The implementation of these tax transparency standards has enhanced countries' ability to tax capital income and assets. These standards essentially mean that information on foreign financial assets is now being shared between tax authorities globally, making it harder for taxpayers to evade taxation by concealing assets overseas. Progress on global tax transparency standards, together with unilateral measures such as voluntary disclosure programmes, have led to a considerable response from taxpayers. To date, over 1 million individuals have disclosed their offshore assets and a total of over EUR 102 billion in additional tax revenue has been identified (OECD 2019). Findings from O'Reilly et al. (2019) also suggest that the commencement of AEOI is associated with a significant 22% decline of bank deposits in international financial centres (IFCs) owned by individuals residing in non-IFC jurisdictions. Going forward, however, it will be critical to ensure that persons, assets, and institutions not covered under existing EOI standards do not offer opportunities for continued tax evasion. For instance, the expansion and effectiveness of EOI could induce taxpayers to shift their wealth towards assets that are not covered by the exchange of information, such as immovable property.

Digitalisation is also increasing tax administrations' access to data, including third-party information, and enhancing their ability to handle large amounts of data. The existing infrastructure could possibly be extended to collect wealth information from banks and various public registers and enable the generation of partly pre-filled tax returns, which would reduce compliance and enforcement costs.

From a political economy perspective, there has been growing public discontent about tax avoidance and evasion since the global financial crisis. For instance, it is significant that the moves towards international tax transparency occurred after the global financial crisis, in a climate of heightened pressure on public finances, where people were less likely to tolerate tax

avoidance and evasion by wealthy individuals and multinational companies (Christensen and Hearson, 2019). Repeated international leaks of tax-related data have also exposed the scope and pervasiveness of tax avoidance and evasion, reinforcing public discontent.

Growing awareness of inequality may also strengthen popular and political support for some form of wealth taxation. Although the evidence is scant, some studies have found that perceptions of inequality, especially of wealth concentration at the top of the distribution, have increased in recent years (Giger and Lascombes, 2019), and some have found that this increase in perceived inequality is positively associated with higher demands for redistributive policies (Franko and Witko, 2017). Through a survey of 12,000 Swedish adults, Bastani and Waldenström (2020b) find that informing individuals about the large aggregate importance of inherited wealth and its link to inequality of opportunity significantly increases the support for inheritance taxation. This suggests that greater awareness of inequality may strengthen popular support for wealth taxation. Other studies, however, do not find that higher perceived inequality necessarily translates into higher demands for redistribution, for instance because people in high inequality countries may tend to perceive it as legitimate (Trump, 2018). Nevertheless, inequality has undeniably become a more prominent topic in public discourse and political agendas (Giger and Lascombes, 2019). There is also evidence of a change in narrative in large international organisations such as the IMF and the OECD, with issues of inequality and inclusive growth becoming increasingly central in the last decade (OECD, 2008, 2011, 2014, 2015; IMF, 2014a, 2014b, 2016, 2017).

Pressure for fair burden sharing is likely to be even greater in a post-COVID-19 context. The outbreak of COVID-19 has resulted in a health crisis and a drop in economic activity that are without precedent in recent history, and the uncertainty around how events will unfold is considerable (OECD, 2020a and 2020c). Once countries exit the crisis and economies recover, governments will start looking to restore public finances. However, as the crisis has exacerbated existing inequalities and hit vulnerable households harder (OECD, 2020b), 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. The crisis may thus prompt reflection on the need for new sources of revenue and provide impetus for bold and progressive tax reform, as has been the case after major wars or previous fiscal crises (e.g. Scheve and Stasavage, 2016).

Overall, this section has argued that the situation has changed in a number of ways and that these changes may have implications for tax policy. Demands for some form of wealth taxation are likely to be greater today due to increases in inequality and perceptions of inequality, the reduction in the tax burden on personal capital income and assets over recent decades in many OECD countries, and the fact that we are better equipped to tax wealth now than we used to be. Given the uncertainty around the economic effects of a broad-based wealth tax and some of the practical challenges involved in levying wealth taxes, there might be merit in prioritising reforms that strengthen the design of existing taxes on personal capital income and gifts and inheritances to raise revenue and narrow wealth gaps. However, where strengthening personal capital income and wealth transfer taxation is not feasible or insufficient to narrow wealth gaps, there may be more justification for a wealth tax, possibly even as a temporary measure. In that case, a wealth tax would have to be designed and implemented in ways that avoid the pitfalls of previous attempts.

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