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Solidarity and Wealth Taxes

Secretariat note

Summary

This paper gives some background information on income and wealth inequality and how this policy area is reflected in the Sustainable Development Goals with the goal to address poverty reduction. It presents some limited statistics on the impact of the COVID-19 pandemic on inequality and the threat that the pandemic and the related socio-economic crisis is posing for hard won development gains. Against this background, this note outlines the calls for wealth and solidarity taxes, as a policy instrument to finance recovery and play a role in reducing income and wealth inequality while building back better.

As the Committee has to date not undertaken work on wealth and solidarity taxes, the note provides some general background information on net wealth taxes and transfer taxes and outlines tax policy design questions and choices. A decision is sought from the Committee on the establishment of a Subcommittee on Wealth and Solidarity Taxes, which would allow for the efficient involvement of subject matter experts. A draft mandate is provided for consideration of the Committee.

Background

1. The Addis Ababa Action Agenda, adopted on 16 July 2015 by world leaders in Addis Ababa, Ethiopia, is the foundation to support the implementation of the 2030 Agenda for Sustainable Development, including through a comprehensive set of policy actions to be taken by Member States and with the ultimate goal to achieve the Sustainable Development Goals (“SDGs”). The mobilization and effective use of domestic resources are central to the pursuit of sustainable development. Taxation is thus a powerful tool to help finance the achievements of the SDGs.
2. Income and wealth inequality has increased in most countries over the past three decades. In fact, 71 per cent of the world’s population live in countries where income inequality has grown. Despite progress in some regions, income and wealth are increasingly concentrated at the top. Since the financial crisis of 2008/2009, the number of billionaires worldwide has nearly doubled. In 2018, the 26 richest people in the world held as much wealth as half of the global population, i.e. the 3.8 billion poorest people. There is thus considerable evidence that there is a global trend towards wealth and income accumulation and, hence, growing inequality.¹
3. Goal number 10 of the Sustainable Development Goals aims at reducing inequalities in different areas, among them in income and wealth as inequality threatens social and economic development and harms poverty reduction measures. Inequality has also been shown to be linked to increased crime and environmental degradation.
4. The COVID-19 pandemic and the associated economic crisis, compounded by the effects of climate change, are reversing hard fought development gains. The world gross product contracted by 4.3 per cent in 2020, marking the sharpest decline in global output since the Great Depression.² Around 120 million people have fallen back into extreme poverty and 114 million jobs have been lost. Governments responded to the crisis with historic stimulus packages addressing the immediate health crisis by increasing the capacity of public health systems, supporting workers and businesses, thereby preventing deeper economic downturns. However, the responses were highly uneven, as many countries, especially developing ones, lacked fiscal space.³ At the same time, according to Forbes’ net worth’s’ calculations, relying on stock prices and exchange rates, the world’s wealthiest increased their wealth by USD 5 trillion during the 2020 pandemic year.⁴

¹ United Nations (2020). World Social Report – Inequality in a rapidly changing world. Available from [World-Social-Report-2020-FullReport.pdf \(un.org\)](#)

² United Nations (2021). World Economic Situation and Prospects 2021. Available from [World Economic Situation and Prospects 2021 | United Nations](#)

³ United Nations (2021). Financing for Sustainable Development Report 2021. Available from [Financing for Sustainable Development Report 2021 | United Nations](#)

⁴ Forbes (2021). 35th Annual World’s Billionaires List: Facts and Figures 2021. Available from [Forbes’ 35th Annual World’s Billionaires List: Facts And Figures 2021](#)

5. Against this background, calls for wealth and solidarity taxes, as a policy instrument to finance recovery and play a role in reducing income and wealth inequality, have become louder. The UN's Secretary-General, António Guterres, urged governments to consider a solidarity or wealth tax on those who have profited during the pandemic with the goal to reduce extreme inequalities.⁵ This is echoed by the World Bank Group as well, which stated that now is the time to consider a wealth tax, as it can support fairness, deliver revenue, close the inequality gap and win back broad-based taxpayer trust.⁶ The IMF, in their Fiscal Monitor Report, called for a temporary COVID-19 recovery contribution, levied on high incomes or wealth, with the goal to finance pandemic-related needs.⁷
6. Countries around the world have shown renewed interest in wealth and solidarity taxes against this background and are currently discussing implementing such a tax or have already done so.

Issue(s)

7. Should the Tax Committee decide to take up the topic of wealth and solidarity taxes, this would be a new topic for the Committee. When taking on the topic of wealth and solidarity taxes, there are many different policy nuances that the Committee may decide to work on. These issues note will outline some potential tax policy design issues that the Committee may want to consider to take up for discussion and to, ultimately, provide guidance on. The list of tax policy design choices is by no means exhaustive, but is meant to shed light on some issues that could arise when designing / implementing a wealth / solidarity tax.
8. There are two major types of taxes that are levied on wealth: those applied sporadically or periodically on a person's wealth (so-called net wealth taxes), and those applied on a transfer of wealth (transfer taxes).
9. Wealth taxes are typically assessed on the net value of the taxpayer's taxable assets (i.e., the value of assets minus any related liability). Such a tax can be assessed regularly (for example, yearly) or sporadically (as has been done in the past to fund recovery from a natural catastrophe or a war). Transfer taxes, which are generally assessed on the net value of any assets that are transferred, are assessed when assets / wealth is transferred and can either be levied on the transferor or on the recipient.

⁵ António Guterres (2021). Speech at the Economic and Social Council Forum on Financing for Sustainable Development. Delivered orally on 12 April 2021. See also UN (2021). Our Common Agenda – Report of the Secretary-General. Available from [Common Agenda Report English.pdf \(un.org\)](#)

⁶ Brumby, James (2021). A wealth tax to address five global disruptions. Available from [A wealth tax to address five global disruptions \(worldbank.org\)](#)

⁷ IMF (2021). Fiscal Monitor, April 2021. Available from [Fiscal Monitor, April 2021 \(imf.org\)](#)

10. For both of these types of taxes, the purpose of any work undertaken by the Committee would be to provide focused practical guidance on key issues for developing countries. Below are some policy issues that policy makers need to be aware of to structure effective wealth and solidarity taxes, namely:
- a. What (*kind of*) assets would fall under the tax to be established? In case of transfer taxes, such a question should take into account the issue of business continuity in case of the transfer.
 - b. Likewise, what are *thresholds* for the amassing and transfer of wealth to ensure that, for example, small / agricultural businesses can be inherited without causing business disruptions? What are potential overlaps to other types of taxes, for example property taxes? What kind of *exemptions*, if any, are necessary?
 - c. For purposes of assessing a net wealth tax or a transfer tax, how can assets be *valued* in a way that is both feasible for taxpayers as well as for tax administrations? Are there existing valuation rules applicable to other types of taxes and if so, what are the pros and cons of relying on them (stamp taxes, income taxes, property taxes)? This tax policy question should also take into account the administrative burden of discerning ownership of assets (land property and shareholding interests in non-traded entities) in light of a lack of public registers for doing so.
 - d. In designing a net wealth tax / transfer tax, how would one account for *trusts, debt interests and pension fund holdings*? If a tax is levied on an entity as a surrogate for taxing their owners or beneficiaries, how can this be done without distorting, for example, graduated tax rates?
 - e. Is there a way to include assets held by controlled entities if these assets were received from a *resident decedent*?
 - f. How can *taxes on nonresidents be structured* so as to ensure that they are creditable in a nonresidents home country (assuming that they are not included in existing double tax treaties)? How can disincentives stemming from taxing nonresidents be addressed?
 - g. What kind of *tax rates* should be applied? Should they differ between different (legal) statutes for transfer taxes (for example lower for spouses, children)? Should they be graduated for different levels of wealth?
 - h. Who should bear the taxes, i.e. should the taxes be applied on an *individual or a family unit*?
 - i. In calculating tax rates, how can *several transfers over several years* be treated as one transfer? What are the administrative burdens involved in this approach?
 - j. Should the taxes be levied *permanently or sporadic* in light of the COVID-19 pandemic? What are differences that must be considered to the different options?

Recommendation

11. As can be seen from the short introduction on the topic and spotlight on potential tax policy design choices, the topic of wealth and solidarity taxes is complex. The value that the Committee can add in this important policy area is:
 - To draw the attention of tax administrations and the general public to the topic of wealth and solidarity taxes;
 - The diversity of experiences and perspectives on this matter of the Committee members;
 - The developing country orientation of the Committee;
 - The Committee’s ability to draw upon the expertise of others, including regional and other international organizations (such as the IMF, OECD, and World Bank Group), amplifying the best work, while forming its independent view on issues as necessary and articulating priority issues in the light of the realities and priorities of developing countries.

12. It is therefore recommended that the Committee form a multistakeholder and multidisciplinary Subcommittee on Wealth and Solidarity Taxes. It would report back to the Committee and provide concise practical guidance on issues as decided by the Committee. Smaller drafting groups within the Subcommittee could form to address some of the issues listed in focused practical guidance notes, to be published in one book or as interstitial guidance.

13. The Committee may consider the following mandate for a Subcommittee on Wealth and Solidarity Taxes to govern their work:

The Subcommittee is mandated to consider, report on and propose guidance on wealth and solidarity taxes, on the basis:

 - That the Subcommittee identifies and considers the tax policy design topics where guidance from the Committees is the most useful in this area and initially report to the Committee on such issues at the 24th session in 2022;
 - That it reflects the realities for, and the needs of, developing countries, at their relevant stages of capacity development;
 - That it draws upon the work being done in other fora, i.e. the Subcommittee shall consult broadly and seek to engage with academia, international organizations (including regional), private sector as well as civil society active in the field.
 - Within the abovementioned context, provide draft guidance on such issues as are approved by the Committee at its sessions, with a view to approval and release of short, targeted guidance at various points during the current Membership term of the Committee.

14. It would be recommended to bring together a broad range of Subcommittee members from academia, international organizations (including regional), as well as civil society active in the field.