2023

Wealth Tax Subcommittee

DRAFT GUIDANCE DOCUMENT AS OF 26 SEPTEMBER 2023

Executive Summary

The UN Committee of Experts on International Cooperation in Tax Matters' Subcommittee on Wealth and Solidarity Taxes intends to provide practical guidance on the policy options available to tax jurisdictions when considering how to adequately tax wealth, with a focus on net wealth taxes. This guidance reflects the realities and needs of developing countries in various situations and at their relevant stages of capacity development.

Taxing wealth is a vital tool to increase government revenues and reduce inequality. A belief that the wealthy should contribute more to fund the provision of public goods and services has gained momentum in the aftermath of the COVID-19 pandemic. However, taxing wealth can be complex and adequate laws are difficult to design and implement. Governments should consider carefully how to tax wealth in a way that fits into their current tax system and makes the most efficient use of limited administrative resources and political capital. This guidance discusses some of the common reasons why tax jurisdictions might want to tax wealth while acknowledging the (unintended) consequences that this may have. It also provides an overview of the different wealth taxes ranging from capital income taxes to taxes on the transfer and stock of wealth. While the paper describes the many different ways in which wealth can be taxed, there is a focus on tools and guidance to implement a net wealth tax for individuals, either as a one-off solidarity tax or as a recurring tax.

Both policy design and administration aspects are examined with the goal to cater to the different needs and priorities of tax jurisdictions. As a practical guide it contains many real-world examples and practical tools, including a methodology for conducting revenue estimates of a potential net wealth tax, an outline of key legislative elements required to introduce a net wealth tax on individuals, and country examples.

This Executive Summary is meant to provide an overview of the topics covered in each Chapter of the guidance.

Chapter 1: Introduction and the Rationale Behind Wealth Taxes introduces the topic of wealth taxation. It outlines key concepts (such as the definition of wealth, and the different methods of taxing wealth) as well as considering the rationale for taxing wealth, and the advantages and disadvantages of this form of taxation.

Chapter 2: Different Types of Tax Related to Wealth provides a holistic overview of the different types of wealth taxes. The aim is to provide a tool to assist policymakers in identifying the correct mix of wealth taxes for their jurisdiction, in light of their individual tax system and political economy. Chapter 2 introduces policy options for wealth taxation further developed throughout the guidance.

The intention of **Chapter 3: Key Policy Decisions for Introducing or Updating a Wealth Tax** is to inform policymakers about the necessary elements to make informed decisions when

considering whether to introduce a wealth tax, or how to amend an existing wealth tax regime. It examines relevant policy design choices for each of the three main categories of wealth taxes, including: scope and tax base; rates, thresholds and exemptions; and cross boarder issues. It also considers the interaction of different types of wealth taxes, both with each other, and with other tax regimes.

Chapter 4: Practical Guidance for the Implementation of Net Wealth Taxes for Individuals provides detailed, specific guidance on the implementation of one type of wealth tax – a periodic net wealth tax imposed on individuals. It explores some of the main issues raised in designing a net wealth tax for individuals such as: tax base (including examining the type of assets to include); tax rates and thresholds; and the timeframe for payment.

Chapter 5: Practical Guidance for the Implementation of Exceptional Solidarity Wealth Taxes on Individuals focuses on a one-off solidarity net wealth tax on individuals. It discusses the advantages and disadvantages of imposing an exceptional net wealth tax on individuals, and how to identify in what circumstances and for how long a solidarity tax should apply.

Chapter 6: Key Considerations for the Effective Administration of Wealth Taxes focus on the importance of administration in the design and implementation of a wealth tax. A wealth tax can only achieve its full potential through efficient and effective administration. This Chapter considers some of the key issues which arise in the context of administering taxes on wealth, in particular: valuation; access to information; compliance management, and methods to address tax evasion.

Chapter 7: Interaction between Taxes related to Wealth and Other Taxes deals with interaction of wealth taxes; both the interaction among the different types of taxes related to wealth; and the interaction of those wealth taxes with the wider tax system of a tax jurisdiction.

The Appendixes are designed to provide useful tools to assist tax jurisdictions in the implementation and the administration of wealth taxes. **Appendix A** sets out a methodology for carrying out a revenue estimate prior to enacting a net wealth tax. **Appendix B** compiles the necessary legislative elements of a net wealth tax drawing on existing legislation. **Appendix C** provides potentially useful lessons from Norway's experience of implementing and administering a net wealth tax.

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1 INTRODUCTION AND THE RATIONALE BEHIND WEALTH TAXES

1.1 INTRODUCTION TO THE CHAPTER

The aim of this Chapter is to introduce the topic of wealth taxation. Firstly, by examining the definition of wealth, including its elements. Secondly, by analyzing the ownership and distribution of wealth to underline the need for redistributive tax policies, including wealth taxes. The Chapter then discusses the different methods of taxing wealth, arguing that tax jurisdictions must find the right policy mix based on their specific socio-economic background and history, and keeping in mind their specific policy goals and financing needs. Finally, the Chapter discusses the rationale for taxing wealth, and then examines the advantages and disadvantages of this form of taxation.

1.2 DEFINITION OF WEALTH / ELEMENTS OF WEALTH

Wealth is defined as the total market value of financial and non-financial assets that are held by individuals, households, and organizations minus the total value of related liabilities (such as business loans and other debt and liabilities).[1]

Financial assets are contractual monetary dues such as cash, bank deposits, stocks, bonds and equities, while non-financial assets refer to immovable property, vehicles, precious goods, machinery and intangibles.[2]

The main drivers of wealth are capital accumulation and price effects. Capital accumulation refers to the progressive increase in the total value of assets held by individuals or entities through the acquisition of new assets or the generation of income and savings. Price effects refer to changes in the value of assets and liabilities that impact the total stock of wealth. These changes can be the result of factors such as inflation, interest rate fluctuations, market changes, innovations, and the evolution of consumer demand that, in turn, influence the value of financial and non-financial assets.

Wealth is distinct from income. While wealth is the net worth of an individual or entity (i.e., the excess stock of assets over the related liabilities at a specific point in time) income represents the flow of earnings over a certain period. An example of when this distinction is critical is when some individuals may have a high income without necessarily holding commensurate wealth and vice versa. When taxpayers have this type of wealth/income disparity, it can have significant implications for the design of economic policies, including tax policies.

[1] Saez, E. & Zucman, G. (2019). Progressive Wealth Taxation. Brookings Papers on Economic Activity. Available from https://www.brookings.edu/wp-content/uploads/2020/10/Saez-Zuchman-final-draft.pdf

[2] Alvaredo, F., Chancel, L., Piketty, T., Saez, E., & Zucman, G. (2022). The World Inequality Report 2022. Available from https://wir2022.wid.world/

1.3 WHO OWNS WEALTH AND HOW IS IT DISTRIBUTED?

Wealth is owned by individuals, households, organizations and governments. The distribution of wealth varies between and within countries, creating inequality. Despite progress in some regions, wealth is increasingly concentrated at the top, with the bottom 50% of the world owning just 2% of total global wealth, while the top 10% owns 76%.[3] Additionally, wealth inequality has increased in most countries over the past three decades, creating a growing divide between the rich, the middle class, and the poor.[4] In fact, the COVID-19 pandemic has led to a sharp rise in extreme poverty, widening gender gaps in labor market participation, leading to a rise in wealth inequality within countries. In addition, the pandemic has led to the largest rise in between-country inequality in three decades[5] and an increase in global inequality for the first time since 1990.[6] As a longer-term consequence of the pandemic, it is expected that higher levels of inequality will persist as a full recovery of GDP per capita remains elusive.[7] Furthermore, the war in Ukraine and related disruptions of the world's energy and food markets are aggravating the inequality crisis around the world.[8] It is estimated that about 910 million people live in countries where it is expected that income inequality will increase by more than 20% due to these inflationary shocks; with developing countries accounting for approximately 70% of this number.[9]

These disparities and projections highlight the pressing need to address wealth inequality as underscored by the UN Secretary-General's clarion call for a renewed social contract that leaves no one behind.[10] The focus of this paper is on addressing inequality within tax jurisdictions and the role that the taxation of wealth, especially a net wealth tax, can play to address this problem.

1.4 TAXING WEALTH

There are many ways to tax wealth, including capital income taxes, taxes on the transfer of wealth, and taxes on the stock of wealth.

[3] Ibid.
[4] United Nations (2021). Inequality – Bridging the Divide. Available from Inequality – Bridging the Divide | United Nations.
[5] United Nations (2023). The Sustainable Development Goals Report 2023: Special edition Towards a Rescue Plan for People and Planet. Available from Sustainable Development Goals Report 2023 (un.org)
[6] World Bank Group (2022). Poverty and Shared Prosperity 2022: Correcting Course. Available from Poverty and Shared Prosperity 2022 (worldbank.org)
[7] UNDESA (2022). World Economic Situation and Prospect 2022. Available from World Economic Situation and Prospects 2022 | Department of Economic and Social Affairs (un.org)
[8] World Bank Group (2022). Pandemic, prices and poverty. Available from Pandemic, prices and poverty (worldbank.org)
[9] UN DESA (2022). Policy Brief No. 137: Ensuring SDG progress amid recurrent crises. Available from UN DESA Policy Brief No. 137: Ensuring SDG progress amid recurrent crises | Department of Economic and Social Affairs
[10] United Nations (2021). Our Common Agenda - Report of the Secretary-General. Available from Secretary-General's report on "Our Common Agenda" (un.org)

1.4.1 Capital income taxes

Capital income taxes can be levied on interest income, dividends, capital gains, certain types of royalties, and income from immovable and movable property. These are described in detail in section 2.2 (Capital income taxes).

1.4.2 Taxes on the transfer of wealth

Taxes on the transfer of wealth are generally assessed on the net value of the transferred taxable assets. They apply to assets transferred from one person to another, either during the life of the transferor (gift taxes) or on the death of the transferor (inheritances taxes or estate taxes).[11] A detailed description of taxes on the transfer of wealth is provided in section 2.3 (Taxes on the transfer of wealth).

1.4.3 Taxes on the stock of wealth

Taxes can also be levied on the stock of wealth. These include recurrent taxes on immovable and movable property, as well as net wealth taxes. Net wealth taxes are typically assessed on the net value of a taxpayer's taxable assets, i.e., the value of assets minus any related liability, either sporadically or on an annual or other periodic basis. These taxes are described in detail in section 2.4 (Taxes on the stock of wealth).

According to the International Monetary Fund (IMF), tax jurisdictions should enact policy mixes that take into account the different ways of taxing wealth and consider how any wealth taxes potentially interact with each other and the tax system as a whole.[12] The "right" mix will depend on a tax jurisdiction's history, socio-economic situation, fiscal system, and its institutions (see Appendix C for a country experience and section 3.6 on the interaction between wealth taxes and other taxes).

This paper aims to discuss the broad scope of taxing wealth, providing tax jurisdictions with an overview of the different kinds of wealth taxes. However, a special focus is placed on net wealth taxes, which are discussed in Chapter 4 (Practical guidance for the implementation of net wealth taxes for individuals) and Chapter 5 (Practical guidance for the implementation of exceptional solidarity net wealth taxes on individuals).

1.5 RATIONALE FOR TAXING WEALTH

There is widespread agreement that taxing wealth alongside income is desirable.[13] This section analyses the rationale for implementing wealth taxation, with a focus on addressing

[11] Thuronyi, Victor (1996). Tax law design and drafting. Volume I. Chapter 10: Taxation of Wealth. International Monetary Fund, Washington DC. Available from Chapter 10: Taxation of Wealth (imf.org)
[12] Ibid.
[13] Tanabe, Noboru (1967). The Taxation of Net Wealth. Staff Papers-International Monetary Fund, 124-168.

inequality, raising domestic revenues, correcting market failures, and precluding state capture.

1.5.1 Reduction of inequality and promotion of social justice

Taxing wealth can help reduce inequality and promote social justice within a country. Taxing wealth helps to reduce the concentration of wealth at the top of a tax jurisdictions' wealth pyramid. Progressive taxes on wealth ensure that individuals pay taxes in proportion to their wealth, meaning that taxpayers who hold more wealth are subject to higher marginal tax rates. This helps to reduce inequality while providing revenue to finance public goods and services that benefit the wider society and spur economic growth. Taxing wealth reflects the fact that that wealthier individuals benefit more from a country's institutions, resources and opportunities and should thus contribute proportionally more towards the government's expenditure on public goods and services.

Research has shown that in circumstances where the Gini coefficient[14] of each country decreases by 1% per year, global poverty rates would fall significantly and 100 million people would be lifted out of extreme poverty.[15] Taxing wealth is a key policy instrument to stem growing inequality and promote social justice through more equitable allocation of the benefits of economic prosperity across society.[16] This is critical for the creation of just societies and achieving Sustainable Development Goal (SDG) 10 (reduced inequalities).[17]

1.5.2 Mobilization of domestic resources for investment in sustainable development

Taxing wealth mobilizes domestic resources for investment in sustainable development.[18] Depending on how a wealth tax is designed, significant revenues can be raised which can finance public goods and services such as education, security, healthcare, and infrastructure.

For developing countries in particular, revenues from taxing wealth can help to defray budget deficits, reduce reliance on official development assistance, repay the national debt, and strengthen fiscal sustainability.

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[14] The Gini coefficient is a frequently used measure of inequality. It measures the extent to which the distribution of income or consumption among individuals or households within an economy deviates from a perfectly equal distribution. A Gini coefficient of 0 represents perfect equality, while an index of 1 implies perfect inequality. World Bank. Data Bank, Metadata Glossary, Gini index. Available from Data Bank, Metadata Glossary, Gini index (worldbank.org)

[15] Lakner, C. et al. (2019). How Much Does Reducing Inequality Matter for Global Poverty? Policy Research Working Paper, No. WPS 8869. Available from How Much Does Reducing Inequality Matter for Global Poverty ? (worldbank.org)

[16] Alvaredo, F., Chancel, L., Piketty, T., Saez, E., & Zucman, G. (2022). The World Inequality Report 2022: Harvard University Press, 2022. Chapter 1: Global economic inequality: insights. Available from The World #InequalityReport 2022 presents the most up-to-date & complete data on inequality worldwide:

[17] UNDESA (2023). Sustainable Development Goals. Goal 10 (Reducing inequality within and among countries). Available from SDGs: Goal 10 (un.org)

[18] Thuronyi, Victor (1996). Tax law design and drafting. Volume I. Chapter 10: Taxation of Wealth. International Monetary Fund. Washington DC. Available from Chapter 10: Taxation of Wealth (imf.org)

1.5.3 Correction of market failures and fostering market efficiency

The correction of market failures and fostering market efficiency can be another reason why the taxation of wealth is beneficial to a country's development. Excessive wealth, speculation and lack of sufficient regulation propelled the 2008 financial crisis.[19] Even though the main aim of taxing wealth is to reduce wealth inequality, wealth tax may indirectly help to protect against market failure by fostering a more stable economy and investment environment.

1.5.4 Stemming the influence of vested interests in governance

OXFAM reports that wealthy individuals have the potential to capture political institutions for their benefit to the exclusion of the rest of society. This can lead to undue influence by a small group of people on the democratic process.[20] To the extent that taxing wealth mitigates extreme wealth inequality, it can help to mitigate related negative externalities such as monopolies and state capture.[21] Preventing state capture is important in addressing political marginalization of the most vulnerable and in establishing their voice in governance and public policy-making, while improving economic equality through strong, independent public institutions that are free from vested interests.[22]

1.6 ADVANTAGES AND DISADVANTAGES OF TAXING WEALTH

While section 1.5 discussed the rationale for taxing wealth, this section examines both the advantages and disadvantages of taxing wealth.

1.6.1 Economic growth

Taxing wealth has been shown to have a positive impact on economic growth. A country's per capita gross domestic product (GDP) growth rate appears to slow down when the Gini coefficient is above 27.[23] This is because the skewed distribution of income reduces aggregate demand. Therefore, taxing wealth, insofar as it contributes to less wealth inequality, is another tool for spurring economic growth.

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[19] Chan, Norman TL. (2012). Excessive Leverage: Root Cause of Financial Crisis. Hong Kong Monetary Authority, Speech at The Economic Summit.

[20] Fuentes-Nieva, R., & Galasso, N. (2014). Working for the few: Political capture and economic inequality. Oxfam. Available from https://www-cdn.oxfam.org/s3fs-public/file_attachments/bp-working-for-few-political-capture-economic-inequality-200114-en_3.pdf

[21] WID.world. (2022). World Inequality Database: Income and wealth inequality indicators. Available from https://wid.world/world/#anweal_pall_z/US;FR;DE;CN;ZA;GB;WO/last/us/k/p/yearly/a/false/0/750000/curve/false/country.

[22] Ibid.

[23] Grigoli, Francesco (2017). A new twist in the link between inequality and economic development. Available from A New Twist in the Link Between Inequality and Economic Development (imf.org)

1.6.2 Productivity

Taxing wealth may encourage more productive use of assets as it can disproportionately impact owners of unproductive wealth.[24] With the exception of some capital income taxes, taxpayers with similar levels of wealth would pay the same taxes irrespective of the productivity of their assets. This allocates a higher proportionate wealth tax burden to taxpayers with unproductive wealth assets, providing an incentive for investment activity that increases productivity and efficiency.

1.6.3 Complementing the existing tax regimes and promotion of progressivity

Taxing wealth can complement existing tax regimes by supplementing income tax regimes and providing additional "taxable capacity". Without taxes on wealth, some individuals who hold substantial wealth may be able to minimize their tax burden by minimizing their taxable income. Taxing wealth has the potential to complement existing tax systems to ensure that everyone contributes to the public revenue according to their ability to pay. Including wealth within the tax base can promote more progressive tax systems, for example, by reducing the pressure on personal income taxes to fund public expenditure.

Taxing wealth may also improve the administration of other taxes. This is because taxing wealth requires the disclosure of taxpayers' assets and liabilities. As such, the information that is collected could support the design and administration of other taxes.

1.6.4 Economy / fiscal efficiency

Depending on how it is structured, taxing wealth may be able to raise a significant amount of revenue from a relatively limited number of taxpayers. A government can raise the much-needed domestic resources for sustainable development without imposing a larger income tax burden on most taxpayers.

1.6.5 Helps address the climate crisis

A wealth tax could also be an unorthodox method to encourage more climate conscious behavior. The accumulation of extreme wealth is linked to increased environmental pollution because wealthy individuals cause above average greenhouse gas emissions. It is estimated that 47.6% of total emissions come from just 10% of the world population. The average carbon emissions of the top 1% wealthiest individuals globally stood at 110 tons per person per annum, while the top 0.1% emitted 467 tons, and the top 0.01% emitted 2,530 tons (2022 figures).[25]

[24] Ibid.
[25] Alvaredo, F., Chancel, L., Piketty, T., Saez, E., & Zucman, G. (2022). The World Inequality Report 2022. Available from https://wir2022.wid.world/

That extreme wealth is associated with high levels of pollution can be attributed to the consumption patterns of wealthy individuals which tend toward higher carbon due to more consumption and travel.

The wealthy may also disproportionately consume humanity's remaining 'carbon budget' understood as the amount of greenhouse gas emissions that are still available to limit global warming to 1.5 degrees centigrade. US dollar millionaires may grow from 0.7% of the world's population today to 3.3% in 2050 and cause accumulated emissions equivalent to 72% of humanity's remaining carbon budget. This will significantly reduce the chance of stabilizing climate change at 1.5 degrees centigrade.[26] Taxing wealth with the goal of reducing extreme wealth can therefore potentially help to address the climate crisis.

While acknowledging the potential advantages of taxing wealth, it is equally important to consider some disadvantages.

1.6.6 Political influence

There is concern that wealthy individuals may have significant influence over the enactment and enforcement of wealth taxes. Research has shown that wealthy individuals often influence and shape the political agenda, including the tax policy agenda.[27] For example, wealthy taxpayers may either exert influence in favor of not enacting net wealth taxes, or may lobby for exemptions and loopholes in the design of a net wealth tax. In turn, these taxpayers could then exploit asset exemptions, hide assets abroad, or expatriate to avoid or reduce their wealth tax liabilities. [28] Such practices have negative consequences on the efficacy of wealth taxes.

1.6.7 Reduced savings and investment and tax avoidance strategies

Taxing wealth may have undesirable behavioral responses, such as reduced savings and investment.[2930] Research supports the conclusion that taxing wealth may discourage the wealthy from entrepreneurship and innovation, which may negatively impact economic growth and job creation. This is particularly relevant for developing countries that need internal savings and investment to spur much needed economic growth.

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[26] Stefan Gössling, Andreas Humpe (2023). Millionaire spending incompatible with 1.5 °C ambitions. Cleaner Production Letters. Volume 4. Available from https://www.sciencedirect.com/science/article/pii/S2666791622000252

[27] Pazzanese, Christina (2016). The Cost of Inequality: Increasingly, it's the Rich and the Rest. Available from The costs of inequality: Increasingly, it's the rich and the rest – Harvard Gazette

[28] Saez, E. & Zucman, G. (2019). Progressive Wealth Taxation. Brookings Papers on Economic Activity. Available from https://www.brookings.edu/wp-content/uploads/2020/10/Saez-Zuchman-final-draft.pdf

[29] Adam, S. & Miller, H. (2021). The economic arguments for and against a wealth tax. Available from The economic arguments for and against a wealth tax - Adam - 2021 - Fiscal Studies - Wiley Online Library

[30] Jakobsen, K. et al. (2020). Wealth Taxation and Wealth Accumulation: Theory and Evidence from Denmark. The Quarterly Journal of Economics, 135. Available from Wealth Taxation and Wealth Accumulation: Theory and Evidence From Denmark* | The Quarterly Journal of Economics | Oxford Academic (oup.com)

Taxing wealth may also encourage taxpayers to use avoidance or evasion strategies to reduce their wealth tax liabilities. Taxpayers may move assets out of the country or acquire types of assets (such as diamonds or artwork) that are difficult for tax authorities to observe. In addition to reducing potential wealth tax liability, these strategies may also reduce potential tax revenue under the personal income tax system.

1.6.8 High administrative cost

Depending on the design of the specific tax, taxing wealth may lead to high administrative costs vis-à-vis the revenues it raises.[31] This may occur, for example, where valuation techniques are overly complicated. In such a case, it requires significant investment in a tax administration's people and processes to trace, value and tax these assets. It is therefore vital to consider administrative aspects in the design of taxes to ensure their efficacy and efficiency.

1.6.9 Double taxation

Taxing wealth may expose taxpayers to economic double taxation. Double taxation can arise when wealthy individuals are subjected to multiple tax obligations on the same elements of wealth due to being taxed by different tax authorities, or through different taxes. This could have negative consequences, such as inducing taxpayers to change their tax residency and increasing the cost of audits and litigation, impacting the desirability of taxing wealth.

1.6.10 Wealth tax inequities, impacting efficiency

Taxing wealth may disproportionately impact taxpayers who own low-risk, low-return assets (such as some government bonds) or assets that produce no current income (such as idle land). This is because taxpayers who hold a similar level of wealth pay the same amount of wealth taxes irrespective of the income generated by their assets. This allocates a higher proportionate tax burden to taxpayers who hold no or low return assets. This could create liquidity issues where an individual owns substantial illiquid wealth, such as idle land, that does not generate current liquid income that can be applied to settle wealth tax liabilities.

In conclusion, a thorough review of the taxes at hand is critical in maximizing the effective implementation of a wealth tax.

[31] Ibid.

2 DIFFERENT TYPES OF TAX RELATED TO WEALTH

2.1 INTRODUCTION TO THE CHAPTER

This Chapter analyzes the different types of taxes on wealth. It aims to provide a holistic overview of the taxation of wealth to enable policymakers to identify the right mix of wealth taxes for their jurisdictions, considering their specific tax systems and political economy. The Chapter introduces the three main categories of wealth taxes: capital income taxes; taxes on the transfer of wealth; and taxes on the stock of wealth.

2.2 CAPITAL INCOME TAXES

Capital income tax refers to any tax on income earned from assets owned by a taxpayer (i.e., investment income, rather than income from labor). Capital income taxes include taxes on interest, dividends, capital gains, and intangibles in the form of royalties.[32] Taxes on the income from immovable and movable property are also forms of capital income tax.[33]

Benefits

Tax policy generally considers taxpayers' ability to pay in terms of their income composition, including both labor income and income from capital. Taxing both types of income is crucial to achieving horizontal equity and promoting a more equitable redistribution of wealth through taxation, ensuring greater fairness compared to solely taxing labor income.[34]

A capital income tax reduces the incentive for taxpayers to artificially shift income between labor and capital income. This may be common where capital income is not taxed, or taxed at a lower rate, therefore creating an incentive for tax planning.[35] Setting a reasonable tax rate for taxing capital income which is not disproportionately lower than taxes on labor income reduces the incentives for taxpayers to convert income from labor into income from capital.

Taxing capital income increases the cost of capital, thereby reducing potential distortions in labor supply, especially in tax jurisdictions with high marginal tax rates on labor income. Taxing capital gains discourages speculative investments that might lead to market distortions. The desire to avoid payment of taxes on unproductive capital income can also stimulate more productive investment behavior.

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[32] See generally Norregaard J. (1995). The Progressivity of Personal Income Tax Systems in Chapter IV. Income and Wealth Taxes of Shome P. (Ed.) (1995). Tax Policy Handbook. IMF. Available from https://doi.org/10.5089/9781557754905.071.

[33] Bastani, S and Waldenström, D (2020). How Should Capital Be Taxed? Journal of Economic Surveys, 34 at 813. Available from Journal of Economic Surveys 34 (wiley.com)

[34] Mooij R., Fenochietto R., Hebous S., Leduc S., and Osorio-Buitron C. (2020). Tax Policy for Inclusive Growth after the Pandemic. IMF. Available from Tax Policy for Inclusive Growth after the Pandemic (imf.org)

[35] Andy Lymer and Lynne Oats (2021). Taxation Policy and Practice, 28th Edition. Fiscal Publications. pp 286-287.

Challenges

One of the challenges associated with capital income taxes, particularly for developing countries, is their potential impact on savings and investment decisions. If the tax rates are set too high, they have the potential to discourage savings and investments in long-term assets, which are essential for the growth and development of these countries. This can result in negative consequences for economic growth.[36]

Different types of investment assets earn different types of returns; hence, tax jurisdictions often have particular tax regimes for taxing different forms of income from capital. However, differential treatment of income from different types of capital assets (i.e., a higher tax rate for interest and dividend income, compared to capital gains) may cause distortions in asset portfolio decisions and erode the capital income tax base.

The below box provides a summary of the different types of taxes that will be analyzed in the following sections.

Box 1: Summary Overview - Capital Income Taxes

Capital income taxes are levied on income earned by taxpayers from capital assets (i.e., investment income). While capital income taxes can be levied on corporate taxpayers, the following overview focuses on individual taxpayers.

Taxes on interest income	- imposed on the interest earned from savings and other financial instruments (i.e., bonds, receivables) - different methods of collection (withholding tax at source[37], via the annual income tax self-assessment) - can include tax free allowance to promote savings
Taxes on dividends	- imposed on companies' distributions of after-tax profits to shareholders - different methods of collection (withholding tax at source, via the annual income tax self-assessment) - can include exemption to prevent or limit economic double taxation (e.g., imputation systems)
Taxes on capital gains	- imposed on net gain realized from the disposal of capital assets (i.e., proceeds less cost) - typically, only taxed on realization - often taxed at lower rates than other types of capital income - can include exemptions, for example to encourage the ownership of a primary residence

[36] For a detailed discussion on the link between savings, investments and economic growth, see for example, Acemoglu, Daron (2008). Introduction to modern economic growth. Princeton University Press.
[37] See further section 6.5.

Taxes on royalties	- imposed on income earned from intellectual property - only passive royalty income is to be considered capital income
Taxes on income from immoveable property	- imposed on rental income (i.e., income minus costs, which may include depreciation and interest costs) from real estate - tax jurisdictions often tax non-resident landlords on rental income received from real estate located in their jurisdiction
Taxes on income from moveable property	- imposed on rental income (i.e., income minus costs, which may include depreciation and interest costs) from tangible moveable property (i.e., lease of manufacturing equipment) - not imposed on the value of moveable property – see recurrent taxes on moveable property
See further: Mooij R., Fenochietto R., Hebous S., Leduc S., and Osorio-Buitron C. (2020). Tax Policy for Inclusive Growth after the Pandemic. IMF at pp. 5-6. Available from Tax Policy for Inclusive Growth after the Pandemic (imf.org)	

2.2.1 Taxes on interest income

Tax on interest income refers to the tax imposed on the interest earned from savings, as well as other financial instruments which taxpayer owns (i.e., bonds, receivables).[38] Tax jurisdictions take different approaches to taxing interest. Some tax jurisdictions apply a withholding tax at the source (often withheld by the financial institution) that functions as a final tax.[39] Other tax jurisdictions tax interest income under the personal income tax and apply a progressive tax rate depending on a taxpayer's overall income. To encourage savings by individuals, some tax jurisdictions provide a personal savings allowance, with tax only paid on interest earned from savings above a certain amount. [40]

Challenges

A key challenge in implementing capital income taxes, including taxes on interest income, is that tax authorities may be unaware of the amount of interest income arising to taxpayers. This is a particular concern for jurisdictions where the financial system and financial reporting obligations may not be fully developed. For more information on improving access to information see section 6.3 (Access to Information) and 6.4 (Improving authorities approach to information).

In addition, inflation presents a challenge for taxation of interest. If jurisdictions levy tax on nominal interest rather than real interest and inflation leads to high nominal interest rates,

[38] Gordon, R.H. (2004). Taxation of Interest Income. International Tax and Public Finance 11. Available from https://doi.org/10.1023/B:ITAX.0000004780.68743.0d

[39] For example, Germany (26,375% plus church tax, if applicable), Nigeria (10%) and South Africa (15%)

[40] For example, in the United Kingdom the Personal Savings Allowance permits taxpayers to earn up to £1,000 of interest income from savings without paying tax on it. The United Kingdom Personal Savings Allowance is progressive in that the £1,000 is reduced for higher income taxpayers (to £500 for income taxpayers earning over £50,270 per annum, and to £0 for those earning over £125,140 per annum) (UK tax rates 2022/2023).

taxpayers will be liable for tax even though inflation may significantly erode the purchasing power of savings, resulting even in losses (in real terms) where the interest rate is lower than the inflation rate.

Another challenge is that differences in tax rates on interest across jurisdictions could lead to tax base erosion, tax avoidance and capital flight, i.e., shifting savings to lower tax jurisdictions. This risk is particularly prevalent given the high mobility of financial assets.

2.2.2 Taxes on dividends

For the purposes of this section, a tax on dividends refers to any tax imposed on a distribution of after-tax profits to shareholders, mainly by corporations. This type of dividend tax would apply in addition to any tax levied on profits at the level of the company.[41] While dividends can be distributed to corporations, the following section focuses on the taxation of dividends distributed to individuals.

The tax rates imposed on dividends received by individuals vary across tax jurisdictions. In some jurisdictions, the tax rate is based on the income[42] of the individual taxpayer and there may be a tax-free minimum threshold, while in others, dividends are taxed separately, and the tax is withheld and final.[43] Some jurisdictions exempt either part or all of any dividend income from tax at the individual level to take into account that the distributing company's profits have already been subject to tax at the corporate level.[44]

Declaring and paying a dividend to shareholders is not the only way in which companies can distribute profits to investors. Another way in which companies distribute profits to shareholders is by using cash which the company has generated to buy back some of the company's own shares from investors, a so called "share buyback".[45] As this reduces the total number of shares outstanding, the value of each individual share increases in value and thus any capital gains that can be made from selling the share at a later point in time. Depending on the taxation of dividends and capital gains in a particular jurisdiction, share buyback programs can lead to lower tax for certain shareholders on distributions of profits compared

[41] For an overview of dividend tax policy considerations in respect of the interaction between taxes levied at the corporate level and at the shareholder level see, Harding M. (2013). OECD Taxation Working Papers No. 19. Taxation of Dividend, Interest, and Capital Gain Income. Available at Taxation of Dividend, Interest and Capital Gain Income (oecd.org)

[42] For example, United States and United Kingdom. The United States taxes most dividends at the same flat rate as capital gains. A lower tax rate applies to low-income taxpayers.

[43] For example, Nigeria. Dividends for individual taxpayers are withheld at a 10% final tax.

[44] This is to prevent the perceived "double taxation" of dividend income, where return on capital invested in a company is taxed both at the level of the corporation (in the form of corporation tax) and at the level of the shareholder (as a tax on dividends). Some jurisdictions, such as Australia, use an imputation system (where shareholders received credits for taxes paid at the corporate level against their personal income tax liability for dividends received) to prevent this perceived double taxation of return on capital invested in a corporation.

[45] The exact mechanics of whether and how a company can buy back its own shares will be determined by the corporate law in each jurisdiction.

to payment of a dividend.[46] Certain jurisdictions have enacted legislation to reduce this distortive effect. [47]

One form of evading tax on dividends, predominantly observed among small private businesses, involves providing loans to shareholders at zero or below market interest rates, instead of distributing dividends. To discourage this type of tax evasion certain jurisdictions deem the difference between the market rate and the interest rate charged to constitute a dividend and tax it accordingly.[48]

2.2.3 Taxes on capital gains

Capital gains taxes (CGT) are taxes imposed on gains realized from the disposal of assets. The assets could be financial assets i.e., contractual monetary dues such as stocks, bonds and equities, non-financial tangible assets such as immovable property, vehicles, precious goods, machinery, and intangibles such as intellectual property. Typically, the tax is only imposed when the increase in value is realized through the disposal of the asset. While capital gains taxes can accrue to corporations the following section focuses on capital gains taxes for individual taxpayers.

Challenges

Challenges in implementing CGT tend to revolve around the cost of the asset which is disposed of and the declaration of disposal by private individuals.[49] For some assets, costs will be very easy to ascertain (for example for publicly traded stocks) but for other assets such as immovable property it is much harder to calculate the costs, for example due to renovations / improvements that may have happened since the asset was bought. Determining the actual cost of the asset can thus be tedious / hard to document. As a result, for some assets it will be difficult to know the actual capital gains. [50] In cases where assets are not publicly traded, it may also be hard for the tax authorities to ascertain if the sale was undertaken at fair market value.

Similarly, inflation presents a challenge for capital gains tax. When an asset is sold for a net gain, part of that gain is often from the rise in value due to inflation. Taxing this net gain fails

[46]For example, United States where foreign shareholders pay no US capital gains tax on gains received from a share buyback but would be liable to 30% withholding tax on dividends received from a US corporation.
[47] See for example US 1% excise tax on share buy backs.
[48] South African Institute of Chartered Accountants, SAICA (2015). Interest-free shareholder loans. Available from https://www.saica.co.za/integritax/2015/2392._Interest-free_shareholder_loans.htm#:~:text=Only%20the%20interest%20effectively%20forgone,would%20be%20no%20deemed%20dividend.
[49] Enemaku, Obaje (2012). Capital Gains Tax in Nigeria. Available from https://www.researchgate.net/publication/351956608_Capital_Gains_Tax_in_Nigeria
[50] Okoth, Okere Geoffrey (2015). Capital Gains Taxation in Kenya: The challenges facing the implementation of the Finance Act of Kenya No. 16 of 2014. Available from https://www.academia.edu/11579495/CAPITAL_GAINS_TAX_IN_KENYA_THE_CHALLENGES_FACING_THE_IMPLEMENTATION_OF_THE_FINANCE_ACT_OF_KENYA_NO_16_OF_2014

to distinguish between real capital gains, which represent an increase in purchasing power, and nominal capital gains, which simply reflect asset price rise in line with inflation.[51] This can lead to a higher effective tax rate on real capital gains, although the impact is somewhat mitigated for capital gains[52] by taxation only at realization.[53] Some jurisdictions implement indexation measures to adjust the acquisition cost or base cost in order to offset the effects of inflation.[54] However, indexing capital gains for inflation may be administratively complex (including challenges related to making inflation adjustments for loans associated with the sold asset). On the other hand, such indexing could be part of a comprehensive tax regime for inflation (i.e., not just for capital gains tax).[55]

2.2.4 Taxes on royalties

Royalties are payments of any kind received as a consideration for the use of, or the right to use, intellectual property. Intellectual property can take many forms. Depending on domestic law, intellectual property encompasses copyrights, patents and industrial, commercial or scientific experience and equipment. The payment is made to the owner of the intellectual property, which can be a corporation or an individual taxpayer with the focus of this guidance being on individual taxpayers. Intellectual property may be part of an individual's stock of wealth. Arguably, royalties can be classified as either active or passive income with different legal systems applying different principles. In general, only passive and not active income should be considered capital income.

2.2.5 Taxes on income from immovable property

Taxes on income from immovable property refers to taxes imposed by a jurisdiction on income received from renting immovable property, such as land or buildings. The method of assessment and tax rates imposed on income from immovable property varies across tax jurisdictions and may vary within tax jurisdictions across taxpayers (e.g., individual v. corporate taxpayers). In some tax jurisdictions, the tax rate is based on a taxpayer's individual

[51] Beer S., Griffiths M., Klemm A. (2023). IMF Working Papers. Tax Distortions from Inflation: What are They? How to Deal with Them?. Available from Tax Distortions from Inflation: What are they? How to deal with them? (imf.org)

[52] Compared with the effect of inflation on interest or dividend income.

[53] Where capital gains are taxed only at realization, the annual return on capital gains compounds at an untaxed rate of return, compared with other types of income (i.e., interest and dividends) leading to a lower effective tax rate for capital gains. This creates a bias towards receiving returns as capital gains and postponing realization, so called 'lock-in' effects. See Beer S., Griffiths M., Klemm A. (2023). IMF Working Papers. Tax Distortions from Inflation: What are They? How to Deal with Them?. Available from Tax Distortions from Inflation: What are they? How to deal with them? (imf.org)

[54] For example, United States.

[55] Watson G (2023). Tax Foundation Blog. Efforts to Combat Inflation's Impact on the Tax Code Should Remain a Priority in 2023. Available from https://taxfoundation.org/blog/index-for-inflation-tax-adjustments/

income and taxed at marginal rates[56] while in others, the tax is withheld by the tenant, who remits it to the tax authority and the tax amount is final.[57]

2.2.6 Taxes on income from movable property

In most jurisdictions, income received from leasing of movable property such as vehicles, boats, and construction equipment etc. is taxed.[58] The assessment and tax rates imposed varies across tax jurisdictions. The tax rate can be progressive, based on the taxpayer's income, or can be a flat rate.

2.3 TAXES ON THE TRANSFER OF WEALTH

Taxes on the transfer of wealth take different forms, namely: donor-based estate taxes and donee-based inheritance taxes and gift taxes.[59] For donor-based estate taxes, the tax is levied on the deceased donor's total net wealth at the time of death. For donee-based inheritance taxes, this is based on the value of the assets the beneficiary receives from the deceased donor. Meanwhile, gift tax is imposed on beneficiaries when they receive a transfer of wealth during the donor's life (*inter vivos* transfer).

Assets covered by inheritance taxes typically include immovable and movable property, shares in private and public corporations, money or other valuable possessions. Some tax jurisdictions have both an inheritance and an estate tax (potentially on different levels of government),[60] while others only have either an estate or an inheritance tax. Other tax jurisdictions have neither inheritance nor estate taxes[61] while some have opted for a capital gains tax on death.[62]

Benefits

As is the case with any tax on wealth, a tax on the transfer of wealth has both advantages and disadvantages. In addition to the advantages discussed in section 1.6 (Advantages and disadvantages of taxing wealth) regarding the reduction of inequality, averting undue influence on the political process, and entrenching progressivity in the tax system, wealth

[56] For example, United Kingdom. Generally, for non-resident landlords. The landlords can apply to His Majesty's Revenue and Customs (HMRS) receive the gross rent, i.e., without any withholding from the tenant.
[57] For example, Nigeria. Withheld at 10% irrespective of the taxpayer's income.
[58] For example, United Kingdom, Austria, Hong Kong, and Belgium.
[59] OECD (2021). Inheritance Taxation in OECD Countries. OECD Tax Policy Studies, No. 28. OECD Publishing, Paris. Available from https://doi.org/10.1787/e2879a7d-en.
[60] For example, the United States. Has a federal estate tax and some states additionally levy an inheritance tax.
[61] For example, Australia, Canada and Portugal.
[62] For example, Canada and Australia.

transfer taxes may encourage charitable giving.[6364] Inheritance and estate taxes are also easier to administer than net wealth taxes, considering that the taxable events i.e., death and transfers upon death, are not difficult to verify, and that the assets are valued for the purpose of administering the estate of the deceased. Tax revenues from inheritance and estate taxes tend to be relatively small, as wealthy individuals are often successful in using tax avoidance strategies to minimize their tax liabilities. Another advantage is that since the gift or inheritance is a windfall to the recipient, the burden will not be perceived as negatively as if the tax were imposed on income or assets already owned by the recipient.

Challenges

As noted in section 1.6 (Advantages and disadvantages of taxing wealth), a wealth transfer tax has certain disadvantages. It may discourage saving, investment and entrepreneurship. Wealth transfer taxes may be easy to avoid and can lead to capital flight. The increased mobility of capital, including tax planning schemes that involve offshore trusts, attest to this.[65] A further argument is that, even when properly levied and collected, the revenue yield may not justify the administrative and compliance costs.[66] Wealth transfer taxes may also be perceived as unfair, as they tax assets that have already been subject to taxation. For example, a cash bequest from a person who had already paid income tax on that cash when earned, may be subjected to a second level of inheritance tax in the hands of the heir.

The below box provides a summary of the different types of taxes that will be analyzed in the following sections.

Box 2: Summary Overview - Taxes on the Transfer of Wealth			
	Estate Taxes	**Inheritance Taxes**	**Gift Taxes**
Assessment Date	Date of death of deceased donor	Date of death of deceased donor	Date of transfer of assets *Inter vivos* transfer
Tax Base	Donor based Donor's total net wealth at the time of death	Donee based Value of assets beneficiary receives from deceased donor	Donee based Value of assets beneficiary receives from donor

[63] Ring, M. A. K., & Thoresen, T. O. (2021). Wealth taxation and charitable giving. Available from https://www.econstor.eu/bitstream/10419/260830/1/cesifo1_wp9700.pdf

[64] OECD. (2020). OECD Tax Policy Studies Taxation and Philanthropy. OECD Publishing. Available from www.oecd.org/tax/tax-policy/oecd-taxation-and-philanthropy.pdf

[65] European Parliament (2023). Report - A9-0095/2023. Report on lessons learnt from the Pandora Papers and other revelations. Available from https://www.europarl.europa.eu/doceo/document/A-9-2023-0095_EN.html

[66] In some countries, the revenue derived from inheritance tax is less than 1% of the overall tax revenue (for example, in United Kingdom. Fiscal year 2020/2021 figures) derived mainly from just a few large estates. See Loutzenhiser, Glen (2022). Tiley's Revenue Law, 10th Edition. Hart Publishing, Oxford.

	Potential exemption / reduction for certain assets and / or for transfer to certain family members (i.e., spouse, children)	Potential exemption / reduction for certain assets and / or for transfer to certain family members (i.e., spouse, children)	Potential exemption / reduction for certain assets and / or for transfer to certain family members (i.e., spouse, children)
Rate	Flat or progressive rate Progressive rate band determined by donor's total net wealth at time of death	Flat or progressive rate Progressive rate band can be determined by value of wealth transferred or donee's circumstances (i.e., net wealth or income)	Flat or progressive rate Progressive rate band can be determined by value of wealth transferred or donee's circumstances (i.e., net wealth or income)
Threshold	Annual threshold or threshold which applies over longer period Whether threshold will apply normally determined by donor's total net wealth at time of death	Annual threshold or threshold which applies over longer period Whether threshold will apply normally determined by value of wealth transferred	Normally annual threshold Whether threshold will apply normally determined by value of wealth transferred
Taxpayer	Estate (i.e., trustees/executers)	Donee	Donee
Tax due	Can allow deferral of payments or installment payments to resolve liquidity issues	Can allow deferral of payments or installment payments to resolve liquidity issues	Can allow deferral of payments or installment payments to resolve liquidity issues
See further: Rudnick R.S. and Gordon R.K (1996). Chapter 10. Taxation of Wealth in Thuronyi V (ed) (1996). Tax Law Design and Drafting Volume 1. IMF at pp. 316-318. Available from https://doi.org/10.5089/9781557755872.071			

2.3.1 Inheritance taxes

Inheritance taxes are direct taxes on the transfer of assets upon the death of the donor. These taxes are levied on the recipient of the assets based on the value of the assets received from the deceased donor.

It is important to note that inheritance taxes have not been widely embraced, particularly among taxpayers. Arguments against this tax include that families should be protected in the event of a breadwinner's demise. The need for family protection is particularly relevant in developing countries where government social protection may be in its infancy. Such arguments may be countered by certain design choices such as the inclusion of a tax-exempted minimum threshold for inheritance taxes, exemptions for certain asset types or a progressive tax rate.

2.3.2 Estate taxes

In contrast to inheritance taxes, estate taxes are levied on the estate of the deceased donor, calculated based on the value of all the assets owned by a deceased at the date of death.[67] Some tax jurisdictions' inheritance tax regimes contain elements of estate taxes.[68]

A key advantage of estate tax over inheritance tax is that it is simpler to administer for both the tax authority and executors since the tax is not impacted by the circumstances and tax status of the beneficiaries.[69]

2.3.3 Gift taxes

A gift tax is imposed on items of value transferred to the beneficiary during the life of the donor. A gift tax may be defined as "a tax on the transfer of property by one individual to another while receiving nothing, or less than full value, in return". In this definition, "property" is not confined to real estate but includes all types of assets.

The tax base to which a gift tax is applied is usually the value of the asset transferred, valued at the fair market price or the difference between the fair market price and the amount paid. Some tax jurisdictions add the value of the gift to other categories of a taxpayer's income and then tax the income. Other tax jurisdictions have an allowance above which the gift tax becomes effective.[70]

[67] See, for example, Canada's approach. While Canada does not levy an inheritance or gift tax as such, an individual is deemed, upon making a gift or death, to have disposed of her assets at fair market value and is taxed on the gains under the personal income tax system. The assets are then deemed to have been acquired by her estate (at the value attributed to the deemed disposal).
[68] For example, United Kingdom.
[69] Loutzenhiser, Glen (2022). Tiley's Revenue Law, 10th Edition. Hart Publishing, Oxford.
[70] For example, United Kingdom.

The main challenges facing jurisdictions in implementing this tax is detecting when an exchange of gifts / sale below market value has occurred and valuing non-monetary gifts that have no observable market price.

2.4 TAXES ON THE STOCK OF WEALTH

Taxes on the stock of wealth tax the ownership of assets. These taxes are generally classified as recurrent taxes on immovable property (i.e., land and buildings) and movable property (i.e., vehicles, equipment, boats, intangibles, etc.) reflecting the regularity of these taxes (i.e., usually payable each year) and the intrinsic characteristic of the assets being taxed.

Taxes on stock of wealth are levied on the value of assets, irrespective of the actual returns an investor makes, and arguably tax a presumptive fixed return.[71] This is different from taxes on income from immoveable and moveable property (discussed in section 2.2.5 and section 2.2.6 above) which only tax actual capital income earned.

The below box provides a summary of the different types of taxes that will be analyzed in the following sections.

Box 3: Summary Overview - Taxes on Stock of Wealth	
Recurrent taxes on immovable property	- commonly levied by subnational governments - tax relatively inelastic tax base - relative ease of administration (valuation; determination of ownership)
Recurrent taxes on movable property	- motor vehicle taxes commonly levied by subnational governments - otherwise, limited implementation of recurrent taxes on moveable property due to administrative difficulties (valuation; determination of ownership)
Net wealth taxes	- assessed on the net value of a taxpayer's taxable assets, (i.e., asset value *minus* any related liability) - scope of assets covered varies between jurisdictions - typically applied periodically - can be applied on extraordinary basis (solidarity tax)
See further: OECD (2018). The Role and Design of Net Wealth Taxes in the OECD. OECD Tax Policy Studies, No. 26. OECD Publishing. Available from https://doi.org/10.1787/9789264290303-en	

[71] OECD (2018). The Role and Design of Net Wealth Taxes in the OECD. Chapter 3. The case for and against individual net wealth taxes. Available from Chapter 3. The case for and against individual net wealth taxes (oecd.org)

Rudnick R.S. and Gordon R.K (1996). Chapter 10. Taxation of Wealth in Thuronyi V (ed) (1996). Tax Law Design and Drafting Volume 1. IMF at pp. 302-316. Available from https://doi.org/10.5089/9781557755872.071

2.4.1 Recurrent taxes on immovable property

Benefits

Recurrent taxes on immovable property have significant potential and represent one of the largest sources of untapped revenue for developing countries.[72] In OECD countries, revenue generated from immovable property constitutes the fourth most important source of revenue in the tax mix.[73] When properly designed and managed, revenues generated from recurrent immovable property taxes are typically adequate to fund various public goods typically assigned to local governments, such as housing, community amenities, and public order and safety. However, these revenues usually fall short of financing the entirety of local expenditures on education, health, or social protection. Developed countries exhibit a higher reliance on such taxes, and generally as a country develops, it tends to increase its dependence on these taxes.[74]

Recurrent taxes on immovable property offer several advantages:

(i) Efficiency

Property taxes in the form of recurrent taxes on land and buildings are more efficient than other types of taxes because they are relatively inelastic due to the immobility of the tax base. As a result, there is less adverse impact on the allocation of resources in the economy, with limited effect on labor supply decisions and decisions to invest and innovate.[75] Recurrent property taxes are also one of the taxes least prone to tax competition since the burden of the tax can be capitalized into house prices. Recurrent property taxes can be used as a policy instrument for property price stabilization since they tend to reduce the volatility of house prices.[76]

[72] OECD (2019). Making Property Tax Reform Happen in China. The role of recurrent taxes on immovable property. OECD Publishing, Paris. Available from http://dx.doi.org/10.1787/75938d90-en
[73] According to 2019 figures, recurrent taxes on immovable property account for circa 33% of subnational and 41% of local taxation revenues. OECD (2019). Making Property Tax Reform Happen in China. The role of recurrent taxes on immovable property. OECD Publishing, Paris. Available from http://dx.doi.org/10.1787/75938d90-en
[74] Ibid.
[75] Norregard, John (2013). Taxing Immovable Property. IMF Working Paper, 13/129. Available from https://www.imf.org/external/pubs/ft/wp/2013/wp13129.pdf
[76] OECD (2016). Fiscal Federalism 2016: Making Decentralization Work. OECD Publishing, Paris. Chapter 3. Reforming the tax on immovable property. Available from https://www.oecd.org/publications/fiscal-federalism-2016-9789264254053-en.htm

(ii) Efficacy

Due to the high visibility and immobility of property, in addition to their high inelasticity,[77] recurrent taxes on immovable property are relatively difficult to evade and easy to enforce, for example, by instituting impediments to carry out legal acts, such as the change of ownership, mortgage, etc., or stronger measures such as seizure and auction / liquidation of property.

(iii) Equity

In the context of residential property, recurrent taxes on immovable property tend to exhibit progressivity as they primarily impact middle- and high-income earners. However, compared to personal income taxes, inheritance taxes and wealth taxes, they are generally considered less progressive due to their narrower scope and focus on specific assets rather than overall wealth.

(iv) Sufficiency

Immovable property taxes are widely considered to be an appropriate tax to provide local governments with meaningful revenue autonomy in fiscally decentralized systems in order to foster economic and social development. In addition to having an immobile tax base and a relatively stable tax yield, a local property tax can be justified as a charge for local government services (the "benefit view"). It effectively places the tax burden on those taxpayers (i.e., residents) who benefit from local public services, such as schools, roads, garbage collection and parks and therefore is often viewed not only as an efficient tax, but also as a fair tax.

Local property taxes are commonly used to improve urban infrastructure and public services, generally resulting in increases in value for the benefited properties. This results in the growth of the taxable base (i.e., the value of the property) and, consequently, an increase in revenue to make new public investments, which generate new increases in the value of the benefited properties. This is the so-called "virtuous circle" of the property tax.

(v) Transparency and accountability

Immovable property taxes are relatively transparent. This is because property owners know the amount that is due each year. They can therefore use this information to hold their elected officials accountable for the delivery of services, potentially improving the government's accountability.

Challenges

[77] OECD (2021). Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries, OECD Fiscal Federalism Studies, OECD Publishing, Paris, https://doi.org/10.1787/bd0fbae3-en.

Differential treatment (either through exemptions, or differential rates) across asset types and land use can lead to allocative distortions and therefore impact the efficiency of recurrent taxes on immovable property.

Concerns around progressivity and unfairly targeting high-wealth, low-income taxpayers can be mitigated through certain design and administration features of taxes on the stock of wealth. For example, a threshold can be introduced, or exemptions can be made for certain sectors that are characterized by a high frequency of low-income earners, for example, agriculture in developing countries. A progressive tax rate would also alleviate fairness concerns in conjunction with certain administrative choices, for example, payment in instalments, tax reliefs for pensioners and low-income households, an easily accessible appeal process, and valuation and frequent reassessments.

Although most developing countries have some sort of system for taxing land and / or buildings, the revenue performance of recurrent taxes on immovable property remains relatively low.[78] Attempts to address the challenges faced by these countries to improve the tax system have been difficult to implement because of established special interests, political and institutional constraints, and deficient reform strategies by governments. Recent advances in technology could be instrumental in overcoming challenges linked to difficulties in valuation (see further discussion in section 6.2 (Valuation)).

2.4.2 Recurrent taxes on movable property (tangible and intangible)

Recurrent taxes on property can be levied on tangible and intangible movable assets. These can include tangible assets such as motor vehicles, boats, aircraft, pieces of art and jewelry, and intangible assets such as financial assets or rights, etc.

Benefits

Introducing recurrent taxes on movable property, in addition to immovable property, would reduce efficiency distortions between investment in different types of capital assets and could increase equity in the wealth tax regime. Households, especially those in the lower income brackets, tend to possess a larger portion of their overall wealth in the form of tangible assets, particularly real estate.[79] Focusing solely on a recurrent tax on real estate could raise equity

[78] In high-income countries, the average yield from immovable property taxes is estimated to be 1.06% of GDP. This is 2.5 times higher than the average yield from immovable property taxes in middle-income countries which stands at 0.40%. See Norregard, John (2013). Taxing Immovable Property. IMF Working Paper, 13/129. Available from https://www.imf.org/external/pubs/ft/wp/2013/wp13129.pdf

[79] Real estate assets, rather than financial assets, are the primary asset for middle class households and are a relatively less important asset for the very wealthy. The share of housing in total assets of the "middle class" is larger than 60% in the majority of OECD countries, compared to just 25% of total assets held by households at the top 1% of the net wealth distribution. See Causa, Orsetta, Nicolas Woloszko, and David Leite (2019). OECD Economics Department Working Paper No. 1588. Housing, Wealth Accumulation and Wealth Distribution: Evidence and Stylized Facts. Available from Wealth Accumulation and Wealth Distribution: Evidence and Stylized Facts (oecd.org)

concerns as higher-income households have a more diverse range of assets, while lower-income households primarily rely on immovable property as a significant source of wealth. Higher-income households would be taxed on a lower proportion of their total assets.

Challenges

Except for recurrent motor vehicle taxes levied by subnational administrations, many jurisdictions do not generally impose recurrent taxes on moveable property, largely due complex and costly administration, including in enforcement, identification and valuation. Efficiency concerns also arise and could lead to the risk of capital flight due to the increased mobility of these types of capital assets. However, increasing digitalization and access to information could alleviate some of these issues.

In the following, tangible and intangible assets are discussed briefly to provide an overview of the issues involved.

(i) Tangible assets

Recurrent taxes on movable, tangible property are levied at regular intervals on personal property, including motor vehicles, boats, aircraft, pieces of art, jewelry, livestock, and related items.

Motor vehicle property tax is typically a sub-national source of tax resources that is collected by secondary levels of government and used exclusively to finance their budgets. The main objective of this tax is revenue collection at the subnational level, although some countries also apply it to tackle concerns about equity, for example, through a minimum threshold, progressive rates, or a surcharge levied on luxury vehicles. Motor vehicle property tax can also be used to address environmental concerns, for example, through favorable tax treatment of environmentally friendly vehicles.

Most jurisdictions do not impose ownership taxation on aircraft and privately used vessels. However, in jurisdictions where a general net wealth tax is implemented, aircraft and privately used vessels are often included in the scope of this tax. Examples of countries that have implemented these types of taxes are described in Box 4 below.

Recurrent taxes on other moveable, tangible assets such as luxury goods, including, jewelry or works of art are less frequent, mainly due to administration difficulties.[80] In addition to valuation problems, which tends to be overly complex and controversial, it is often difficult to identify and control these assets and their ownership because there is no obligation for registration.

[80] OECD (2018). Taxation of Household Savings. OECD Tax Policy Studies, No. 25. OECD Publications, Paris. Available from https://www.oecd-ilibrary.org/taxation/taxation-of-household-savings_9789264289536-en

(ii) Intangible assets

Recurrent taxation of intangible assets, also referred to as non-physical assets, is uncommon, except under certain net wealth taxes and in other exceptional cases. [81] This is largely due to the risk of capital flight, as intangible assets are, by definition, very mobile. Tax administrations would also face difficulties in administering a recurrent tax on intangible assets due to difficulty in identifying the owner of the relevant intangible assets and determining the economic value of the intangible asset.

[81] There are a few exemptions to this. For example, Belgium applies an annual tax on in-country and offshore-held securities accounts for resident individuals or legal entities. It also applies to securities accounts held by individual and legal entity non-residents. All financial securities held in the securities account are within the scope of this tax.

Box 4: Examples of taxes on watercraft and aircrafts

Burundi

Natural and legal persons are subject to a tax on boats and other vessels owned / registered in Burundi.

Slovenia: watercraft tax

The Slovenian watercraft tax is levied on:

(i) vessels that are over five meters in length and are registered in the ship registers, except for vessels which are under construction;
(ii) vessels that are over five meters in length whose owners are residents and meet the technical conditions required for their entry in the vessel registers referred to in the first item but have not yet been entered in these registers; and
(iii) vessels that are over five meters in length whose owners are residents and meet the technical conditions required for their entry in the vessel registers referred to in the first item but have not been entered in these registers because they are registered abroad.

Other countries that specifically tax vessels include **China**, **Equatorial Guinea** and **Georgia**.

Countries with motor vehicle taxes that specifically include aircrafts and boats in their scope include:

(i) **Korea:** the city, county or region ("Ku") tax owners of boats and aircrafts registered in the property tax book;
(ii) **Mozambique:** the tax is levied on the use of certain vehicles, including aircrafts and boats for private use. The tax is payable by owners to the municipality in which they are resident, regardless of the place of registration of the vehicle in question; and
(iii) **The Russian Federation:** the tax on motor vehicles is a regional tax and includes air and water transport vehicles.

Furthermore, **Chile** is one of the few countries that have introduced a Luxury Goods Tax, which is levied annually on goods owned by individuals or legal entities, including helicopters, aircrafts, yachts and luxury cars.

2.4.3 Net wealth taxes

Net wealth taxes are typically assessed on the net value of the taxpayer's taxable assets (i.e., value of assets minus any related liability), either on an annual or other periodic basis, or as a one-off solidarity tax.[82]

A common feature of these taxes is that most tax jurisdictions allow the deduction of related liabilities in calculating the net value of assets that are subject to tax. This means that the net wealth tax is levied on the difference between the value of their assets and debts.

In terms of structure, net wealth taxes differ in many ways, such as covered and exempted persons, covered and exempted items, thresholds, valuation criteria and tax rates, for example, progressive or flat, etc. Chapter 4 (Practical guidance for the implementation of net wealth taxes for individuals) discusses each of these issues in detail.

Notwithstanding that a net wealth tax is generally levied on a yearly basis, some tax jurisdictions have introduced net wealth taxes on an extraordinary basis to address specific crisis situations and to support palliation measures and recovery policies. These are referred to as exceptional solidarity net wealth taxes and are discussed in detail in Chapter 5 (Practical guidance for the implementation of exceptional solidarity net wealth taxes on individuals).

[82] Rudnick R.S. and Gordon R.K (1996). Chapter 10. Taxation of Wealth in Thuronyi V (ed) (1996). Tax Law Design and Drafting Volume 1. IMF. Available from https://doi.org/10.5089/9781557755872.071

3 KEY POLICY DECISIONS FOR INTRODUCING OR UPDATING WEALTH TAXATION

3.1 INTRODUCTION TO THE CHAPTER

This Chapter aims to provide a comprehensive overview of the policy considerations and choices involved in either: (i) implementing a new wealth tax; or (ii) updating an existing wealth tax.

This Chapter reviews the critical policy decisions that policymakers must confront when designing and implementing a wealth tax regime including:

- **In-scope taxpayers:** Will the wealth tax apply to residents only, or also include non-residents? Will the taxable unit be individuals or households?
- **Taxable events:** What event should trigger the assessment of the wealth tax?
- **Taxable base:** What types of capital income and assets should be subject to tax? Should any exemptions operate to exclude certain income or assets? What expenses and/or liabilities may be deducted from the taxable base?
- **Thresholds:** Should minimum thresholds apply to exclude low value capital income or wealth from the scope of the wealth tax?
- **Tax Rates:** What tax rate should apply? Should it be a flat rate or progressive? Should tax rates vary for different taxpayers (residents/non-residents) or different types of transfers (i.e., lower rates for transfers to a spouse or children)?

Efficient and effective administration of wealth taxes is vital to their successful implementation. When considering the policy design choices outlined in this Chapter, policymakers should consider the consequences of any policy choice for tax administrations. Chapter 6 (Key Considerations for the Effective Administration of Wealth Taxes) considers in detail the key issues which arise when administering wealth taxes, including:

- **Valuation:** How will assets be valued for the purposes of imposing the tax, particularly where there has been no sale to a third party;[83] and
- **Administration:** How can tax administrations ensure effective and accurate assessment and collection of any wealth tax?

This Chapter considers policy questions in respect of capital income taxes (section 3.2), taxes on the transfer of wealth (section 3.3), recurrent taxes on immovable property (section 3.4), and recurrent taxes on immovable moveable property (section 0).

[83] This will often be the case for taxes on transfer of wealth and recurrent taxes on wealth.

Chapter 4 (Practical guidance for the implementation of net wealth taxes for individuals) and Chapter 5 (Practical guidance for the implementation of exceptional solidarity net wealth taxes on individuals) consider specific policy questions arising in respect of net wealth taxes.

3.2 CAPITAL INCOME TAXES

A capital income tax refers to tax levied on income from capital assets. For an overview of the main types of taxes levied on income from capital, and the characteristics of these taxes, see section 2.2 (Capital Income Taxes).

3.2.1 In-scope taxpayers

Jurisdictions commonly tax resident individuals on their global in-scope capital income, either at an individual or household level.[84]

Non-resident individuals can be subject to tax on capital income from assets that have a sufficiently strong nexus with the tax jurisdiction. For example, many jurisdictions impose tax on non-residents in respect of rent or capital gains arising from immovable property located in their jurisdiction.[85]

3.2.2 Taxable events

In the case of most capital income taxes, the taxable event will be the capital income obtained by the taxpayer. For example, when interest income is received by the taxpayer, or in respect of dividend income, when a dividend is declared in favor of a shareholder.

(i) Realized and unrealized capital gains

The situation is more complicated for capital gains tax. Tax jurisdictions typically only impose tax on realized gains. The rational for only taxing realized gains is to avoid difficulties around: (i) the valuation of unrealized gains; and (ii) taxpayer liquidity.

Barring artificial transactions between related natural persons, where the selling price might not be a fair market value, the taxation of realized gains can be based on the actual price that was paid for the transfer. For unrealized gains, as no transfer has occurred, there will be no selling price for the asset which can be used to calculate the capital gain to be taxed. Rather, any unrealized gain must be determined based on a deemed sale and make use of a valuation to determine a fair market selling price of the relevant asset. Requiring valuations increases the costs of administration and, because they are not an exact science, can lead to

[84] A fiscal household is a system where each household, consisting of married / partnered couples and their offspring, , submits a single tax return. Income is calculated based on the entire household as opposed to being calculated for each individual taxpayer. For example, France's *"foyer fiscal"*.
[85] For example, the United Kingdom.

tax disputes. This will be particularly true for assets which are not regularly tradeable or where there is no established market so that obtaining objective valuations may be difficult. See further discussion at section 6.2.2 (Valuation).

Taxing unrealized gains can also create complexity as potential future price volatility means there is no certainty about any gain which has arisen. If, for example, tax is levied on any unrealized gain in respect of a capital asset and the value of the asset decreases the following year, a taxpayer might expect to be entitled to a credit to set off against future liability, or even a refund.

If tax is levied on unrealized gains, taxpayers could also be unable to pay the taxes due. In particular, this issue could arise for individuals who are asset-rich but income-poor and therefore have liquidity constraints. The impact can be mitigated by allowing taxpayers the option of postponing tax payments.

One argument for extending capital gains tax to include unrealized gains is that deferring taxation until realization creates a "lock-in" effect.[86] It builds an incentive for asset holders to hold onto assets, creating illiquid assets and leading to tax-induced distortion of economic activities where funds are locked into less productive investments. It can also lead to situations where capital losses are claimed through realization while gains are postponed. However, these effects may be less prevalent where non-tax factors are more critical for the investors' decisions.[87]

(ii) What is realization?

In situations where only realized gains are taxed, it is essential to determine when a taxable transfer of assets has taken place. To avoid abuse, it is generally advisable to determine that any situation where possession ends is considered a transfer. It will be important to identify fact patterns that should be deemed to be taxable transfers to prevent tax planning schemes which exploit the non-taxation of unrealized gains while economic gains have been realized. Situations that may be considered deemed transfers are death and emigration, or generally the end of tax residency.

3.2.3 Taxable base

Capital income or investment income can be divided, broadly, into two categories: capital income, and capital gains.

[86] Meade, Janet A. (1990). The impact of different capital gains tax regimes on the lock-in effect and new risky investment decisions. Accounting Review, 406-431.
[87] Burman, Leonard E. (2010). The labyrinth of capital gains tax policy: A guide for the perplexed. Brookings Institution Press.

Capital income includes interest from loans and other financial instruments, bonds, etc., dividends from shares, rent from immovable or movable property, and income from royalties.

Capital gains are defined broadly as the profit from the sale, disposal or other alienation of capital assets.

***Box 5*: Capital Income vs Business Income**

An important distinction lies between regular income from capital / investment income and taxable business profit. Where income is derived from the normal or incidental course of the business operations of a commercial or industrial activity of an independent nature which is undertaken for profit, it is treated as taxable business income, which is subject to income tax rules, or in the case of corporations, corporate tax rules, and is not taxed as regular capital income / investment income which is subject to wealth tax rules.

To illustrate this point, interest income earned in the normal course of the business of banking or money lending is classified as taxable business income and subject to corporate tax rules. Interest income is classified as capital income where the business operations aren't banking / money lending or incidental to it.[88]

There are tax jurisdictions where both types of income from capital are taxed and tax jurisdictions where only the capital income is taxed. The argument in favor of the taxation of only the regular capital income is based on the "source-theory" which posits that only the proceeds derived from a business should be taxable while the alienation of the source should not be taxed. In practice, this distinction may lead to the tax-induced distortion of economic activities which can misrepresent regular income as capital gains.[89] Including both types of income within the scope of the tax base may help to resolve this issue.

Some tax jurisdictions also exclude income from certain types of capital assets from the tax base. It is a common practice to exempt gains from the sale of consumer goods from taxation of capital gains. This exemption may also apply to the sale of an owner-occupied primary residence. This is because consumer goods are typically hard to value with limited revenue up-side and owner-occupied primary residences can be in the possession of those that are income-poor leading to liquidity and progressivity issues. These assets are also for personal use and not part of an individual's income-generating activities.

[88] Burns, L., & Krever, R. (1998). Taxation of Income from Business and Investment, Volume 2, Chapter 16, Tax Law Design and Drafting. International Monetary Fund. Available from https://www.imf.org/external/pubs/nft/1998/tlaw/eng/ch16.pdf

[89] Thuronyi, Victor (1998). Tax Law Design and Drafting, Volume 2, Chapter 19, Taxation of Legal Persons and their Owners. International Monetary Fund, Washington DC. Available from https://www.imf.org/external/pubs/nft/1998/tlaw/eng/ch19.pdf

Similar to other types of income, capital income and capital gains may be taxed on a net basis with adjustments made for costs and losses.

Determining the net capital income returned to an investor can be difficult due to issues with valuation (see section 6.2 (Valuation)) and inflation. Taxation of net capital income and gains, without adjustment for inflation, can lead to a high effective tax rates on capital income.[90] To mitigate this impact, particularly in the context of capital gains, some jurisdictions implement indexation measures to adjust the acquisition cost or base cost in order to offset the effects of inflation.[91] However, indexing capital gains for inflation is administratively complex and could be part of wider approach to indexing the tax code for inflation comprehensively (i.e., not just for capital gains tax).[92] See also section 3.2.4 (Thresholds) for use of thresholds to mitigate the impact of inflation.

As an alternative to using net capital income returned to investors as the tax base, tax jurisdictions could consider determining the tax base based on the presumed or notional benefits derived by a taxpayer from the property (i.e., a presumed return). However, taxes structured in this way have been criticized for failing to tax real return to investors, and in particular, failing to tax excess rents (i.e., investment income above the assumed return) received by investors from capital investments.[93]

***Box 6*: Presumed capital income in The Netherlands**

Until 2001 under the Income Tax laws of the Netherlands (dating from 1964) only income *from* capital (the fruits) was taxable, gains from the alienation *of* capital (the source) were not. In practice that led to many structures aimed at converting income from capital into an alienation or increase of value of the capital.

During the reform of the Income Tax Act in 2001 it was decided to abolish this distinction. Simultaneously the opportunity was seen to (1) remove the administrative problems of determining the amounts of the income and the gains and (2) to avoid the discussion whether to tax only realized gains or the full increase of value of capital. An additional argument for introducing the system was that it would guarantee robust tax revenues in respect of capital income.

Accordingly, a new system of presumptive capital income was introduced. The taxable income was set at 4% of the value of the capital without the possibility to counterevidence a lower real return.

[90] See section 2.2 (Capital income taxes) for discussion of impact of inflation on taxation of interest income and capital gains.
[91] For example, United States.
[92] Watson G (2023). Tax Foundation Blog. Efforts to Combat Inflation's Impact on the Tax Code Should Remain a Priority in 2023. Available from https://taxfoundation.org/blog/index-for-inflation-tax-adjustments/
[93] Oh, J. & Zolt, E. M. (2018). Wealth Tax Add-Ons: An Alternative to Comprehensive Wealth Taxes. Tax Notes, 1613.

That 4% was seen as a reasonable benefit that taxpayers, based on long term experience from the past, could realize from capital investments (fruits and increase of value). The rate was set at 30% and mathematically it therefore was comparable to a wealth tax at a rate of 1,2%. It was however an income tax and treaty based exemptions (e.g. on immovable property) were applied and foreign tax paid on dividends and interest was creditable.

As economic circumstances changed after 2001 (especially after 2008) there was increasing resistance to the applied presumptive return of 4%. As a response, the government announced a study into the possibilities of taxation on real return and as of 2017 changed the presumed return to a schedular one with the applicable presumed return varying depending on the total amount of capital owned:

- The first € 75,000 was deemed to grant a return of 2,87%,
- € 75,000 to € 975,000 was deemed to grant a return of 4,60 % ,
- anything over € 975,000 was deemed to grant a return of 5,39%.

Since 2017 the numbers have been adapted yearly with the capital brackets increasing, and the deemed returns decreasing.

In several cases the Supreme Court had ruled that the 2001-2016 system was a reasonable attempt to estimate what taxpayer could make as a return and that the result was not "outrageous". However, in 2021 the Supreme Court came to a different judgement regarding the post-2017 regime. It concluded that the new system in fact was further apart from the returns an individual taxpayer would be able to realize and that (now) the presumed income taxation was infringing the right of free enjoyment of property guaranteed in the European Convention of Human Rights (ECHR). Moreover, the fact that taxpayers were taxed on a presumed return irrespective of what their real return was, was seen as a violation of the prohibition of discrimination also included in the ECHR. It was ruled that taxpayers have the right to be taxed only on the real return on their capital income.

Unfortunately, in the relevant case the parties (taxpayer and administration) had agreed on what the real return was and the Supreme Court saw no reason to describe what in their view was the right method to determine the real return (especially whether an accrued but not realized increase of value was included in the real return).

In an attempt to execute the Supreme Court's decision as efficiently and reasonably as possible taking into account that it would be impossible to determine the real return of all taxpayers over those years, the tax administration applied a new system where the (again) presumed return was based on the kind of capital owned. Three categories (savings, other assets and debts) are distinguished; each with their own presumed return. The juridical debate (in- and outside court) on whether this system is justifiable is still ongoing.

Meanwhile, the government continues its deliberations on a system of taxing real returns that is robust, administrable and fair.

In respect of the use of capital losses, tax jurisdictions need to decide whether to allow taxpayers to carry back or carry forward losses and, if so, for how many years. Some tax jurisdictions allow the taxpayer to use the loss to offset against future capital gains.[94] Policymakers should also consider whether capital losses should only be offset against capital income and gains, or also against other income.

3.2.4 Thresholds

Tax jurisdictions should consider whether to include exemption thresholds in their capital income taxation. This may help to avoid the administrative burdens associated with collecting relatively small amounts of tax from those with lower levels of wealth. It may also improve the progressivity of the tax regime while compensating for inflation, i.e., by including a deemed exemption for inflation. While a threshold based on administrative considerations may be a fixed amount, an inflation-indexed threshold can account for inflation and be adjusted accordingly for different types of property.

3.2.5 Tax rates

It may be appropriate to have similar nominal tax rates for capital income tax as compared to other income taxes, such as corporate income taxes or employment income. Matching the nominal tax rate helps minimize economic distortions and reduces taxpayers' ability to formulate tax avoidance strategies to exploit disparities in the tax rates.

However, there may be circumstances that warrant different tax rates for different categories of capital income. For instance:

- **Taxes on dividend income**: it may be preferable to set the tax rate for dividend income from substantial shareholdings (the minimum threshold to be determined) at a rate which means that the final tax burden is neutral between individual and corporate taxpayers.
- **Capital gains taxes**: in some jurisdictions capital gains tax rates can vary depending on: how long assets were held before their disposal, the amount realized from their disposal, the income of the taxpayer, and the type of asset that was sold. For example, if the asset is held by the taxpayer for less than a year, the asset may be regarded as a short-term asset and any gain taxed as ordinary income. However, if the asset is held for a longer period, the asset may be categorized as a long-term

[94] For example, United States.

asset and a specific capital gains rate is applied to the gain.[95] The rationale is to differentiate between transactions entered for short-term profit and those made for investment purposes.[96]

However, as discussed above, imposing different tax rates for different forms of income (either between capital and labor income, or within types of income from capital) can reduce efficiency, horizontal equity and vertical equity.

Another consideration is whether the rate should be flat or progressive. A progressive rate is preferred where the ability to pay increases such that the effect of taxation on spending power decreases as income increases keeping in mind the nominal tax rate and overall tax burden.

Some tax jurisdictions may have different tax rates based on the asset class (for example, lower capital gains tax rates for the primary residence).

Technological advancements have made capital mobility more flexible, accelerating the mobility of income from capital. The effect of tax rate on capital flight is therefore an important consideration.

3.2.6 Economic double taxation

There are concerns that taxation of capital income can amount to economic double taxation. This is a particular critique for the taxation of dividends. As the ultimate beneficial owners of a corporation's assets are individuals, if the income derived from shares or other rights in a body corporate is taxed on individuals, capital income from those assets is, albeit indirectly, already included in the tax base and should not also be taxed at the level of the corporation. To resolve this issue some tax jurisdictions provide relief through their personal income tax, for example, through underlying tax imputation systems.[97]

3.2.7 Cross-border issues

International aspects of double taxation and possible treaty conflicts should also be considered. In particular, double tax treaties can limit the rates of withholding on certain items of capital income paid to non-residents (i.e., interest, dividends, and royalties). Double tax treaties can also preclude the jurisdiction where an asset is located (other than immoveable property or interests in property rich entities) from charging capital gains tax in respect of such an asset when disposed of by non-residents.[98]

[95] For example, United States.
[96] See Box 5.
[97] For example, Australia.
[98] See for example in the context of offshore indirect transfers. Platform for Collaboration on Tax (2018). The Taxation of Offshore Indirect Transfers – A Toolkit. Available from: https://www.imf.org/-/media/Files/Miscellaneous/OIT.ashx

3.3 TAXES ON THE TRANSFER OF WEALTH

This section addresses the key policy design considerations for taxes on transfers of wealth, i.e., gift taxes, inheritance and estate taxes. For an overview of the main characteristics of these taxes, see section 2.3 (Taxes on the transfer of wealth).

Wealth transfer taxes vary in degrees of complexity. In designing a wealth transfer tax, developing countries should be particularly mindful of challenges concerning the administration and collection of the tax. See detailed discussion in Chapter 6 (Key Considerations for the Effective Administration of Wealth Taxes).

3.3.1 In-scope taxpayers

(i) Individuals

For gift taxes, the common policy approach is to levy the tax on resident individuals. The concept of residence generally follows that of the income tax law. Given that an inheritance tax or estate tax covers an individual's entire estate, accumulated over his lifetime, many tax jurisdictions take a broader approach, going beyond the "mere" tax-year residence. It is therefore common to see concepts such as citizenship or domicile in the inheritance tax and estate tax laws of many tax jurisdictions.[99]

For gift taxes and inheritances taxes, there is the question of whether to impose the tax liability on the donor or donee. The common policy approach is to tax the donee / heir as the recipient of the wealth.[100] However, there are some exceptions where tax jurisdictions instead tax the donor.[101] It is also possible to provide for joint and several liability. Some tax jurisdictions have structured their wealth transfer taxes so that joint and several liability kicks in if the donee does not pay the tax within the statutory period.[102] There is also the option of levying the tax on the donee while providing circumstances under which the liability would shift to the donor.[103] In scenarios where the gift tax is payable by the donee, some tax jurisdictions provide that the donor may pay the tax without risk of this being treated as an additional gift.[104]

From an administrative perspective, it is practical to tax the donor. This way, there would be a single taxpayer, i.e., the donor, for the tax authorities to administer. Otherwise, there would possibly be several taxpayers, particularly in instances where a single donor bequeaths gifts to several donees. This would increase the complexity of monitoring, administering and / or

[99] For example, Chile (residence and domicile), Japan (nationality and domicile) and United Kingdom (domicile).
[100] For example, Brazil, Chile and Venezuela.
[101] For example, South Africa.
[102] Ibid.
[103] For example, Brazil and the Republic of South Korea.
[104] For example, France.

enforcing compliance from several taxpayers. This difficulty would be compounded, where, for example, due to varying degrees of consanguinity or residency status, each donee is subject to a different tax rate, or to different exemptions (see section 3.3.5 (Tax rates) and section 3.3.3 (Taxable base)).

In the context of estate taxes, the tax liability is imposed on the donor's estate through its executor or administrator. In some tax jurisdictions where the liability for the estate duty is placed on the executors, the tax is ultimately borne by the heirs. [105] Although not a common practice, a tax jurisdiction may levy both an estate tax and an inheritance tax.[106]

A wealth transfer tax is typically not levied at a fiscal household level.

(ii) Corporations

Wealth transfer taxes are generally targeted at individuals. However, anti-avoidance rules may target transfers involving companies. For example, an anti-avoidance rule may target arrangements under which a closely held company makes a transfer that would have been taxable under wealth transfer tax rules had it been made by the company's shareholders.[107]

(iii) Trusts

Trusts often play a role in inheritance tax planning. Comprehensive wealth transfer tax regimes tend to include tax rules governing, for example, the settling of trust assets, the transfer of assets into a trust, the transfer of property from a trust to a beneficiary, as well as rules governing excluded property trusts. Implementing and administering such rules may pose significant challenges for developing countries.

(iv) Non-residents

There is an administrative difficulty in extending the scope of a gift tax to cover gifts to and from a non-resident. Monitoring and enforcing compliance in such cases can be complex and resource intensive. Non-resident transactions involve multiple legal jurisdictions and laws, and tax administrations lack direct control without which it is difficult to administer and enforce gift tax compliance. For simplicity and ease of administration, many tax jurisdictions exclude offshore gifts from tax liability, except where they consist of immovable property situated within the taxing jurisdiction or in case of money transfers where the tax may be withheld.

3.3.2 Taxable events

[105] For example, South Africa.
[106] For example, Denmark.
[107] For example, United Kingdom.

The taxable event is the *inter vivos* transfer, or the death, as the case may be. Questions might arise as to when a transfer is treated as having been made or completed, for example, when a transfer is made in instalments. It is important to clarify such issues. Further, generally, certain assets cannot be legally transferred, whether by sale or by gift unless the transfer has been registered or notarized. This could include immovable property and shares. A possible policy option would be to align the tax rules with the existing regulatory measures for the transfer of such assets. This would make the process easier to administer.

Where assets can be transferred without having to be registered or notarized, there are considerable administrative difficulties in identifying transfers. In such cases, it is difficult for tax administrations to define when a chargeable transfer has taken place. To address this, some tax jurisdictions provide that such gifts must be registered for tax purposes.[108] However, there may be difficulties in enforcing such a rule, for example, in proving that a transfer has taken place, or in establishing the ownership of the purportedly transferred property.

3.3.3 Taxable base

Most wealth transfer tax regimes provide a broad range of exemptions that generally fall into three categories:

- exemptions that relate to the *nature of the transfer*;
- exemptions based on the *relationship between the donor and the donee*; and
- exemptions which relate to the ***type of asset transferred***.

Exemptions that relate to the nature of the transfer generally include payments for the maintenance and education of dependents, and gifts that can be classed as "normal expenditure" out of the donor's income. Also included in this category are gifts of certain types of heritage property.

Exemptions based on the relationship between the donor and the donee could include exemptions for certain wealth transfers to particular family members, for example, to a spouse or civil partner, or to children who are below a certain age. Many jurisdictions provide for a full exemption for gifts made to a spouse or civil partner. Some tax jurisdictions may include certain conditions, for example, that the spouse or civil partner be resident or domiciled in, or a citizen of, that tax jurisdiction. Exemptions within this category could also include gifts to qualifying charitable, political, or religious organizations.

In the context of estate and inheritance taxes, excluded assets could include owner-occupied residence, sometimes up to a certain size, life insurance, and qualifying businesses. The latter may also include agricultural property and / or be linked with certain conditions, such as the retention of the current number of full-time employees. The deceased's personal effects may

[108] For example, France and Luxembourg.

also be excluded. Other policy objectives, such as business continuity, usufruct, the deceased's primary residence, and assets that form part of a set or collection may also be considered.

Certain assets may also be deemed to be included in or excluded from the deceased's estate. A few examples of assets that could be deemed to be included within the estate are:

- insurance proceeds in respect of insurance taken out on the life of the deceased;[109]
- property gifted *inter vivos* by the deceased within a short period before his death;[110]
- property gifted *inter vivos* by the deceased, over which he reserved a benefit.[111]

The most common exclusions would be those assets that are deemed, under the law, to belong to someone other than the deceased. For example, in common law countries, property held under a "joint tenancy" would generally be excluded from the deceased's estate. According to the right of survivorship rules, the property is deemed to have transferred to the surviving joint tenant through the operation of law.[112]

Tax jurisdictions do not ordinarily grant deductions for *inter vivos* gifts and gifts on death. For estate taxes, common deductions include administrative expenses, particularly those incurred in administering the deceased's estate. Medical expenses related to the deceased's last illness, funeral expenses, qualifying debts and taxes may also be allowed. However, for anti-avoidance reasons, the common approach is for this provision to be narrowly drawn and / or to be granted in the form of a lump-sum deduction.

3.3.4 Thresholds

Tax-free thresholds are a common policy option for wealth transfer taxes. A compelling policy approach for estate taxes is to establish a threshold that would exempt all but the most affluent estates from taxation. Where thresholds are available for gift taxes and inheritance taxes, these are commonly kept relatively low.

A wealth transfer tax regime could provide different thresholds depending on the degree of consanguinity between the donor and donee.[113] Some tax jurisdictions grant personal reliefs with the relevant amount based on the degree of consanguinity.[114] Others adopt a middle-ground approach, disallowing allowances, but providing rebates, i.e., relief against the tax liability, if certain conditions are met. [115]

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[109] For example, South Africa.
[110] For example, United Kingdom and Venezuela.
[111] For example, United Kingdom.
[112] Virden, Robert N. (1988). Joint Tenancy with Right of Survivorship (JTWROS) Accounts in Texas: Caveat Depositor. TEX. BJ, 51, 455. Available from https://content.next.westlaw.com/practical-law/document/Ic7669f727d0f11e598dc8b09b4f043e0/Joint-Tenancy-with-Right-of-Survivorship-JTWROS?viewType=FullText&transitionType=Default&contextData=(sc.Default)
[113] For example, Ireland. The capital acquisitions tax.
[114] For example, Chile.
[115] For example, Venezuela.

Thresholds could also be varied depending on the income level of the donee so that wealthier heirs pay more inheritance tax compared to those with lower income levels. Such an approach can help to implement a progressive taxation system where individuals with higher financial resources contribute a larger share of their inheritance in taxes, while those with lower income levels face relatively lower tax obligations. That said, it is extremely rare for a tax jurisdiction to take an heir's income into account while determining the applicable thresholds.

There are some tax jurisdictions that have different inheritance and gift tax thresholds.[116]

Varying thresholds for different factors could introduce unnecessary complexity in the tax system, which may not be justified by the potential tax revenue. Where there is limited administrative capacity, particularly in developing countries, a wealth transfer tax policy with multiple thresholds may not be ideal.

Tax jurisdictions may consider either a *cumulative approach*, or an *annual approach* to thresholds.

An annual approach is common for gift taxes. For example, many tax jurisdictions provide for an annual exemption which serves as a maximum tax-free threshold within which taxpayers may give gifts free of tax. Some tax jurisdictions also provide a limited carry-forward of the annual exemption, if not used in that year.[117]

The cumulative approach involves looking back over a specified period and aggregating all of the wealth transfers made within that period to determine if a threshold has been met. The threshold can apply to the donor (i.e., all transfers made by one donor to any beneficiaries are aggregated) or to the beneficiary (i.e., all transfers made to a particular beneficiary are aggregated). The period for which the threshold applies could be, for example, the donor or donee's lifetime, or a prescribed number of years. Wealth transfers made during time periods earlier than the prescribed threshold period are exempted from tax. Several tax jurisdictions apply some form of cumulative approach.[118] However, such approach can be complex because it requires detailed record keeping of past time periods and may not be appropriate for developing countries.

The mechanism and the frequency for updating thresholds in line with inflation (including the possible use of "tax units" rather than currency figures to determine thresholds[119]) should also be considered.

[116] For example, Italy, Poland and Thailand.
[117] For example, United Kingdom. Permits a one-year carry-forward of the annual exemption.
[118] For example, Chile, France, Germany and United Kingdom.
[119] In December 2006, the Colombian government approved a reform of the Colombian tax system which incorporated the "tax unit" to measure the different limits and thresholds originally set in absolute numbers, adjusted every year by decree. For FY 2023, the value of each tax unit is equivalent to 42,412 Colombian pesos.

3.3.5 Tax rates

A policy approach which is commonly applied in terms of determining tax rates is varying them depending on the degree of consanguinity between the donor / deceased and the donee / heir. This is a common approach in Latin American countries.[120]

An alternative approach involves setting progressive tax rates, with no variation in consideration of the degree of consanguinity. This is a less complex approach and has been applied in some countries.[121]

Alternatively, the two approaches may be combined in a "double-progressive system" that varies tax rates both with regard to the value of the wealth transfer and the respect to the degree of consanguinity.[122] It is also common to see flat rates for estate taxes.[123]

As an anti-avoidance measure, an increased tax rate, known as a generation-skipping transfer tax (GSTT), could apply to a generation-skipping transfer. A GSTT is a tax on gifts and bequests that are made to grandchildren or other descendants that skip at least one generation, or to an unrelated person.[124] The tax is designed to prevent wealthy individuals from avoiding estate taxes by transferring their assets to younger generations. The Republic of South Korea has adopted this approach.

3.3.6 Economic double taxation

A tax jurisdiction could end up taxing a particular inheritance more than once. This could happen when, following the initial taxable event, the heir, who has already been taxed on the inheritance, passes away, thereby transferring the inherited assets to someone else, who then becomes subject to additional inheritance taxation on those assets. A common policy approach is to grant relief from such double taxation if there has been more than one inheritance of the same asset or assets within a prescribed period.[125]

3.3.7 Cross-border issues

Save for cases where the gift is of real property situated within the tax jurisdiction, many jurisdictions exclude non-residents from the scope of their gift tax regimes. As such, many gift tax regimes are largely territorial regimes. The result is a lower incidence of double taxation. Even so, the possibility of international double taxation could arise, for example, where there has been a gift of immovable property. To resolve this issue, several countries that levy a gift

[120] For example, Bolivia, Chile, Guatemala and Venezuela.
[121] For example, Turkey.
[122] For example, Germany.
[123] For example, in the Philippines, which levies a flat rate of 6%.
[124] Powell, Mark (2009). The Generation-Skipping Transfer Tax: A Quick Guide. Journal of Accountancy. Available from https://www.journalofaccountancy.com/issues/2009/oct/20091804.html
[125] For example, United Kingdom and Venezuela.

tax or inheritance tax have entered tax treaties to relieve double taxation on transfers of wealth.[126] Such treaties are relatively few when compared to the number of income and capital tax treaties across the world. Other countries provide unilateral relief from double taxation[127]. This is by no means universal.[128] Where unilateral relief is granted, tax jurisdictions tend to adopt the ordinary credit method by providing a tax credit to offset the tax liability that has been incurred in the other jurisdiction.

3.4 RECURRENT TAXES ON IMMOVABLE PROPERTY

This section addresses the key policy design considerations for recurrent taxes on immovable property. For an overview of the main characteristics of these taxes, see section 2.4.1 (Recurrent taxes on immovable property).

Whilst recurrent taxes on immovable property are most commonly levied by subnational bodies, the key design issues of recurrent taxes on immovable property discussed in this section would apply equally to any equivalent federal level tax.

3.4.1 In-scope taxpayers

The liability for recurrent taxes on immovable property is usually levied on the occupier of the property (either individuals or corporations), with liability reverting to the owner of the property in the case of unoccupied property.

3.4.2 Taxable events

Most recurrent taxes on immoveable property are levied periodically at a fixed point in time, for example quarterly or annually.

3.4.3 Taxable base

Typically, recurrent taxes on immovable property have a broad tax base. All types and categories of land use are taxed, and exemptions are minimal. This gives governments the latitude to maximize tax revenues while minimizing allocative distortions. There may be certain exemptions for where the land belongs to diplomatic missions, certain religious organizations or municipal authorities.[129]

Recurrent taxes on immovable property can be assessed either based on:

[126] For example, Denmark, Finland, France, Germany, Ireland and United Kingdom.
[127] For example, the Philippines.
[128] For example, Brazil and Guatemala.
[129] For example, Estonia, where according to the Land Tax Act (*Maamaksuseadus*), the general tax rate is established by the municipal council and varies between 0.1% and 2.5% of the taxable value of the land. The tax rate for arable land and natural grassland varies between 0.1% and 2.0% of the taxable value of the land.

- the purpose of use, for example, residential and business property, rental or owner-occupied property; or
- the taxed items, for example, land and construction.[130]

All developed countries and many developing countries levy taxes on both residential and business properties. While most tax jurisdictions have a single integrated property tax that applies to residential and business property, there are some exceptions.[131] In most tax jurisdictions, both owner-occupied and rental houses are taxed. [132] This reduces distortions in economic behavior.

In most tax jurisdictions, both land and buildings are taxed. There are, however, a few tax jurisdictions that feature a pure land tax. In other tax jurisdictions, tax is collected on property deemed by the law to be immovable property, for example, buildings, construction and fixtures other than land, excluding unfinished construction works. [133]

Tax reliefs are an important tool to improve the progressivity of the property tax system and reduce the liquidity problem of asset-rich but income-poor households. A wide range of reliefs are granted across tax jurisdictions for varied policy objectives. For example, many tax jurisdictions have introduced housing exemptions up to a certain threshold to incentivize investment in home ownership. In several tax jurisdictions, special treatment is given to agricultural land and property but generally within limits[134], for example, on threshold cadastral values or up to a certain extent.[135] Tax reliefs and exemptions are also commonly granted to support business property.[136]

Agricultural land is excluded from the tax base in some developed as well as many developing countries. The objective of excluding farmlands from the tax base is to protect them from conversion to urban use. A full exemption is however not the only instrument that can be applied to this end. An alternative that is applied in some tax jurisdictions is to assign a smaller cadastral value to agricultural lands relative to other types of land, such as urban land, to reflect its value in current use, which leads to a reduction of the tax obligation.[137]

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[130] OECD (2021). Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries. OECD Fiscal Federalism Studies. OECD Publishing, Paris. Available from https://doi.org/10.1787/bd0fbae3-en.

[131] For example, Australia, Belgium, Ireland, United Kingdom and China.

[132] Although some countries, for example Lithuania, levy recurrent property taxes tax owner-occupied properties only.

[133] For example, Lithuania, where, as per articles 3 and 4 of the Real Estate Tax *(Nekilnojamojo turto mokestis - NTMJ)*, individuals pay immovable property tax at 0.5 to 2 % of the value of the property, subject to a minimum threshold of EUR 150,000. Available from https://finmin.lrv.lt/en/competence-areas/taxation/main-taxes/real-estate-tax

[134] For example, France, Finland, Chile and Uruguay.

[135] For example, Czech Republic where newly recultivated lands, not forests, are exempt for 5 years and / or newly cultivated forests for 25 years.

[136] For example, Denmark.

[137] For example, Canada and New Zealand.

Preferential tax treatment of agricultural land might however not be the most efficient way to protect farmland considering that land use planning and transport policies tend to have a greater influence on land use decisions.[138] Research has uncovered that differential tax treatment in favor of agricultural over urban land is often insufficient to offset the significantly higher prices that the land could command if it were converted to urban land.[139] Moreover, the favorable treatment of rural land can encourage speculation on the outskirts of urban areas, which has the potential to drive up urban land prices.[140] It is therefore unclear whether, overall, reliefs and exemptions are beneficial.[141]

Taxes on immoveable property can also be designed to support other policy objectives by promoting certain activities, including efficient land use, the reduction of urban sprawl, and the management and development of infrastructure. They can also be used to capture land value, stabilize residential property prices,[142] and incentivize new construction or climate-friendly improvements.[143]

Any reliefs should be well targeted and monitored, since they may introduce distortions, for example, on land-use decisions, increasing inequalities and generating revenue losses that could result in the levying of higher taxes for other taxpayers to compensate for the revenue shortfall. When considering whether to implement recurrent taxes on immoveable property which are designed to support policy objectives other than revenue raising, it is important to remember that to promote growth the best design would imply a wide tax base and low tax rates. Though this may, within limits, differ across regions, it is important to maximize revenue while minimizing allocative distortions.

Box 7: Recurrent taxes on immovable property and (non-revenue) policy objectives

Capturing land value

As the urban population is growing, so is the public demand for sustainable infrastructure development, such as quality mass transit systems, affordable housing, and other public services. However, local governments in many developing cities are constrained by limited resources to carry out the necessary public investment. Simultaneously, the prices of land

[138] Brandt, N. (2014). Greening the Property Tax. *OECD Working Papers on Fiscal Federalism*, No. 17. OECD Publishing, Paris. Available from https://doi.org/10.1787/5jz5pzw9mwzn-en.
[139] Maurer, R., & Paugam, A. (2000). Reform toward ad valorem property tax in transition economies: fiscal and land use benefits.
[140] Slack, Enid (2012). The politics of the property tax. A primer on property tax: Administration and policy. Chichester: John Wiley & Sons. Available from http://dx.doi.org/10.1002/9781118454343.ch3.
[141] Klemm, Alexander (2010). Causes, benefits and risks of business tax incentives. International Tax and Public Finance. IMF Working Paper WP/09/21. Available from https://www.imf.org/external/pubs/ft/wp/2009/wp0921.pdf
[142] See further at Box 7 (Recurrent taxes on immovable property and (non-revenue) policy objectives).
[143] OECD (2021). Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries. OECD Fiscal Federalism Studies. OECD Publishing, Paris. Available from https://doi.org/10.1787/bd0fbae3-en.

and properties are rising due to the growth of urban populations, which creates increased demand for land resources.

Property owners, particularly those who are passive beneficiaries in terms of rising property values are becoming effortlessly richer. This is the so-called "getting richer while sleeping" effect.[144]

One of the mechanisms to capture land value is through the taxation system, either through taxes on rental income, sales and recurrent property taxes, or through special levies and charges enacted for one-off purposes (such as immovable property transfer taxes). Recurrent property taxes are widely regarded as having the greatest potential to capture, at least in part, increases in property values as these are reflected in the tax base, resulting in a corresponding higher tax liability for high-valued property owners.

Promoting efficient use of land

Property taxes can also be used to influence land use patterns, as a part of a broader range of measures that comprise countries' land use plans by adding costs or providing incentives to develop land.

In general, property taxes increase the costs of holding land or keeping property vacant and underutilized, providing an incentive to owners to generate income from the land to recover the costs associated with the tax. This is particularly true if market price valuation is used as compared, for example, to area-based taxation.

Property development becomes more attractive, particularly in areas where land values, and hence taxes, are high. A tax purely on land value, or a split-rate system, i.e., that applies a higher tax rate to the land-component than the construction-component of the property value, could further incentivize efficient land use by encouraging investment in capital improvements. However, separating the valuation of land and construction is administratively challenging.

Most countries include policies in their property tax regime that incentivize certain land use goals:

- low rates or exemptions for farmland and forests to prevent conversion to urban development.
- taxing undeveloped land (zoned for construction, not farmland or forest) at higher rates than construction, thus promoting new developments to reduce the incidence of taxation; or
- levying impact or development fees to make new residents internalize the cost of new developments.
- promote investments in energy efficiency or renewable energy through property tax rebates and exemptions.

[144] Salm, M., & Salm, M. (2017). Property taxes within the BRICS states. Property Tax in BRICS Megacities: Local Government Financing and Financial Sustainability, 41-185.

Stabilizing the prices of houses

Property taxes can be used to dampen volatility and rapid rises in house prices. Property valuations take into account property taxes when determining the market value of a house.[145] As house prices rise, property taxes should also rise, acting as an automatic, countercyclical, stabilizer on the housing market.[146] The effectiveness of property taxes in acting as a brake on rising house prices depends on the frequency of reassessments of property values for the purposes of property taxes. The more frequent the reassessments, the more closely the valuations which determine the tax base will reflect any increase in market value, and the more accurate the stabilization effects.

Some tax jurisdictions allow an immovable property tax deduction for income tax purposes.[147]

Box 8: Recent reforms on recurrent immovable property taxes

In Chile, a progressive surcharge applies to taxpayers whose combined real estate fiscal value in Chile exceeds CLP 400 million (approx. US$ 500,000) regardless of tax residency. The surcharge rate increases from 0.075% to 0.15% and 0.275% as the property increases in value. This tax entered into force on 1 April 2020 and is cumulated with the ordinary real estate tax, payable quarterly.

Lithuania has reduced the tax-exempt threshold for non-commercial property from EUR 220,000 to EUR 150,000 (Approx. US$ 250,000 to US$ 170,000). Furthermore, the minimum tax rates for immovable commercial property have been increased from 0.3% to 0.5% of the property value.[148]

By precisely defining the scope of tax within the legislation, recurrent taxes on immovable property can be retained and applied to a wide tax base.[149] This is because tax bases that are covered in enduring legislation are more resistant to political pressures that may seek to

[145] The net present value of a house is given by: (i) the discounted stream of cash-flow (rents) or services (imputed rent); *less* (ii) maintenance costs and property taxes. As house prices rise, property taxes will represent an increasing share of rents, thereby reducing the net present value and counteracting further house price appreciation. See Blöchliger H. (2015). OECD Economics Department Working Papers No. 1205. Reforming the Tax on Immovable Property: Taking Care of the Unloved. Available at Reforming the Tax on Immovable Property (oecd.org)

[146] OECD (2016). Fiscal Federalism 2016: Making Decentralization Work. OECD Publishing, Paris. Chapter 3. Reforming the tax on immovable property. Available from https://www.oecd.org/publications/fiscal-federalism-2016-9789264254053-en.htm

[147] For example, Costa Rica, Colombia and Greece.

[148] OECD (2021). Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries. OECD Fiscal Federalism Studies. OECD Publishing, Paris. Available from https://doi.org/10.1787/bd0fbae3-en.

[149] Plimmer, Frances. (2012). Legal Issues in Property Tax: Administration and Policy. In McCluskey, J. et al. (2012). A Primer on Property Tax. Blackwell Publishing.

benefit select groups of taxpayers. In addition, the clearer the definition of the tax scope, the less room there is for changes because of judicial interpretation or administrative regulation.

3.4.4 Thresholds

Many tax jurisdictions have introduced exemptions from recurrent property taxes for residential housing up to a certain threshold to make the system progressive and to incentivize investment in home ownership. As discussed above, in several countries, special treatment is given to agricultural land and property within limits[150], for example, on threshold cadastral values or up to a certain extent.[151]

3.4.5 Tax rates

There are arguments in favor of both uniformity of tax rates and differential rates and there is empirical evidence of both options in different tax jurisdictions.[152] On the one hand, uniformity increases transparency, reduces complexity and corresponding administrative and compliance costs, minimizes distortions on land-use decisions, and reduces incentives for tax avoidance. On the other, non-uniform tax rates can be used to foster development and economic objectives. Rate differentials can also be used to provide progressivity to the tax, increasing with asset values, which are estimated to correlate with taxpayers' ability to pay.

Tax rates may vary in different ways: horizontally, i.e., with property use, property characteristics and / or owner characteristics; vertically, i.e., with property value; and regionally, i.e., across jurisdictions. Most tax jurisdictions provide targeted tax benefits in the form of exceptions or reduced tax rates. Most of these benefits are targeted at low-income homeowners and businesses. For example, a lower rate targeted at owner-occupied houses to encourage home ownership. In general, tax rates are set at a local level, but it is common to limit the range of tax rates at a centralized, national, level to reduce tax competition among different local jurisdictions within a country and reduce the incentives for tax avoidance.

3.4.6 Economic double taxation

As with any tax on the stock of wealth, recurrent taxes on immovable property can be criticized for taxing property which has been acquired out of post-tax income. However, multiple levels of taxation are not unique to wealth taxes, for example consumption taxes are levied on post tax income. [153] Equally, the extent to which this double taxation critique is valid will depend on a country's overall system for the taxation of wealth. Where the value of wealth held as immoveable property is largely derived from asset revaluation, and that

[150] For example, France, Finland, Chile and Uruguay.
[151] For example, Czech Republic where newly recultivated lands, not forests, are exempt for 5 years and / or newly cultivated forests for 25 years.
[152] McCluskey, J. et al. (2012). A Primer on Property Tax. Blackwell Publishing.
[153] OECD (2018). The Role and Design of Net Wealth Taxes in the OECD. Chapter 3. The case for and against individual net wealth taxes. Available from Chapter 3. The case for and against individual net wealth taxes (oecd.org)

revaluation has not been taxed (i.e., as a country only taxes realized gains), then taxes on wealth do not constitute double taxation. Equally, where wealth has been derived from capital income (such as capital gains), it is likely to have been taxed at a lower rate than labor income, meaning that double taxation is more limited. Wealth accumulated from capital income is particularly likely for the wealthy.[154]

As recurrent taxes on immoveable property are often used as a method of revenue raising by subnational governments, it is also important to consider the interaction of any local level and federal level taxes. If jurisdictions introduce a federal level sur-tax that springboards off existing local property taxes,[155] tax policy makers should consider the combined tax rate from federal and local level taxes when modeling the impact on taxpayers.[156]

3.4.7 Cross-border issues

In the context of recurrent taxes on immoveable property, double taxation might arise where tax jurisdictions levy tax on both: (i) immoveable property located in jurisdiction which is held by non-residents; and (ii) worldwide assets (including immoveable property) held by residents. To avoid such double taxation, countries could consider giving residents a tax credit for any foreign recurrent tax on immoveable property paid, or ensure that their double taxation agreements cover taxes on wealth, as well as capital income taxes.[157] To the extent tax jurisdictions do not wish to devote resources to negotiating treaties in this area, it may make practical sense to structure any recurrent tax on immoveable property on non-residents so that it is creditable in a nonresident's home country.[158]

3.5 RECURRENT TAXES ON MOVABLE PROPERTY

This section addresses the key policy design considerations for recurrent taxes on movable property. For an overview of the main characteristics of these taxes, see section 2.4.2 (Recurrent taxes on movable property (tangible and intangible)).

[154] OECD (2018). The Role and Design of Net Wealth Taxes in the OECD. Chapter 3. The case for and against individual net wealth taxes. Available from Chapter 3. The case for and against individual net wealth taxes (oecd.org)

[155] Oh, J. & Zolt, E. M. (2018). Wealth Tax Add-Ons: An Alternative to Comprehensive Wealth Taxes. Tax Notes, 1613.

[156] For example, in the context of net wealth tax, Norway has introduced a net wealth tax at both the federal an municipal levels, but the combined net wealth tax rate for both taxes is set at 1.1%. For further details see Appendix C.

[157] See for example article 22 of the UN Model Tax Convention.

[158] Rudnick R.S. and Gordon R.K (1996). Chapter 10. Taxation of Wealth in Thuronyi V (ed) (1996). Tax Law Design and Drafting Volume 1. IMF at pp. 302-316. Available from https://doi.org/10.5089/9781557755872.071

3.5.1 In-scope taxpayers

The liability for recurrent taxes on movable property is usually levied on the owner of the relevant property.

3.5.2 Taxable events

Recurrent taxes on moveable property are commonly levied periodically at a fixed point in time, for example quarterly or annually.

3.5.3 Taxable base

Recurrent taxes on property can be levied on tangible and intangible movable assets. These can include tangible assets such as motor vehicles, boats, aircraft, pieces of art and jewelry, and intangible assets such as financial assets or rights, etc.

Except for recurrent motor vehicle taxes levied by subnational administrations, many jurisdictions do not generally impose recurrent taxes on moveable property, largely due to complex and costly administration, including in enforcement, identification and valuation.

There is observable heterogeneity in how different tax jurisdictions determine the movable property tax base. In some tax jurisdictions, the tax base is the adjusted market value[159] while in others, a tax value previously determined by the tax administration is applied[160] whilst, in the context of motor vehicle taxes, some tax jurisdictions refer to the engine cylinder capacity of the vehicles.[161] For a detailed discussion of methods of valuation, see section 6.2 (Valuation).

3.5.4 Thresholds

Policymakers may want to consider exempting moveable property assets with a value below a certain threshold from tax. This should alleviate the administrative burden for cases where the costs of administration outweigh the revenue generated and would render the system for recurrent taxes on moveable property progressive.

3.5.5 Tax rates

Uniformity of tax rates between different asset classes of moveable property increases transparency, reduces complexity and corresponding administrative and compliance costs, minimizes distortions, and reduces incentives for tax avoidance.

[159] For example, Australia and Colombia.
[160] For example, Costa Rica.
[161] For example, Japan.

Non-uniform tax rates could be used to foster non-fiscal policy objectives, i.e., for example higher motor vehicle tax rates for highly polluting cars.

Rate differentials could also be used to provide progressivity to the tax, increasing with asset values, which are estimated to correlate with taxpayers' ability to pay.

3.5.6 Economic double taxation

Similar double taxation issues arise as is the case for recurrent taxes on immoveable property. Whilst recurrent taxes on moveable property can be criticized for taxing wealth acquired out of post-tax income, these critiques fall down where the value of wealth within the tax based of a recurrent tax on moveable property has either not been subject to tax (i.e., where it arises from an increase in value of assets which have not been subject to capital gains tax) or been subject to tax at a low rate (i.e., if it arises from certain categories of capital income). See further discussion at section 3.4.6 (above).

Again, where recurrent taxes on immoveable property are used as a method of revenue raising by subnational governments (i.e., motor vehicle taxes), it is important to consider the interaction of any local level and federal level taxes on taxpayers. See further discussion at section 3.4.6 (above).

3.5.7 Cross-border issues

Similar to recurrent taxes on immoveable property, double taxation might arise where tax jurisdictions levy tax on both: (i) moveable property located in jurisdiction which is held by non-residents; and (ii) worldwide assets (including moveable property) held by residents. The problem may be compounded for taxation of moveable property due to differing situs rules between jurisdictions which might lead more than one jurisdiction to seek to levy tax as the source jurisdiction. To avoid such double taxation, countries could consider giving residents a tax credit for any foreign recurrent tax on moveable property paid, or ensure that their double taxation agreements cover taxes on wealth, as well as capital income taxes.[162] See further discussion at section 3.4.7 (above).

[162] See for example article 22 of the United Nations Model Tax Convention between Developed and Developing Countries (2021).

4 PRACTICAL GUIDANCE FOR THE IMPLEMENTATION OF NET WEALTH TAXES FOR INDIVIDUALS

4.1 INTRODUCTION TO THE CHAPTER

This Chapter sets out some relevant issues that tax jurisdictions may consider when implementing a net wealth tax for individuals. See section 2.4.3 for the rationale behind net wealth taxation and its advantages and disadvantages.

Efficient and effective administration of any net wealth tax will be vital to its successful implementation. When considering the policy design choices outlined in this Chapter, policymakers should consider the impact of any policy choice on administration. Chapter 6 (Key Considerations for the Effective Administration of Wealth Taxes) considers in detail the key issues which arise when administering wealth taxes, including net wealth taxes.

4.2 THRESHOLD QUESTION

Policymakers face several major decisions when determining whether to adopt a net wealth tax. Adopting a net wealth tax depends on its revenue potential, the potential of a net wealth tax to reduce income and wealth inequality, the tax jurisdiction's ability to administer a net wealth tax as well as the political support and potential resistance to its introduction. It also depends on the tax jurisdiction's prevailing tax system, including the effectiveness of a tax jurisdiction's current capital income taxes, inheritance or estate taxes, and real property taxes in taxing high-wealth individuals.

For many tax jurisdictions, the question is how to adopt tax policies that will have the greatest impact on reducing poverty and inequality. Net wealth taxes are one potential tool to reduce inequality. Other tax measures may also be effective in reducing inequality, for example, improving the taxation of income from capital under the personal income tax system or strengthening existing inheritance or estate taxes, and real property taxes. There are also wealth tax add-ons that give tax jurisdictions the option of taxing certain types of wealth, for example, real property, financial assets and closely held businesses, without adopting a full-scale net wealth tax regime (see Box 9 below for more details).[163] While this paper focuses on tax policy, there is of course a spending side. Social spending programs may be effective in reducing poverty and pre-tax and pre-transfer levels of inequality.

[163] Oh, J. & Zolt, E. M. (2018). Wealth Tax Add-Ons: An Alternative to Comprehensive Wealth Taxes. Tax Notes, 1613.

Box 9: Wealth tax add-ons

Wealth tax add-ons are an alternative that tax jurisdictions may consider in lieu of a comprehensive net wealth tax. As opposed to a standalone law on a net wealth tax, wealth tax add-ons are designed **to attach to existing tax law** to tax particular **types of wealth**.

The intention is to **supplement existing taxes** so that they tax a portion of the tax base that would be covered by a comprehensive net wealth tax. The aim is to achieve many of the goals of a comprehensive net wealth tax, but at a **lower administrative and political cost** (i.e., without the need to implement an additional tax instrument).

Examples of wealth tax add-ons could include: a surtax on real property; a minimum tax on closely held businesses; or a presumptive tax on financial assets.

<u>Designing wealth tax add-ons</u>

Wealth tax add-ons allow a tax jurisdiction to tax wealth in a way that can both target particular types of wealth prevalent in their jurisdiction and strengthen areas of their current tax system which deal with the taxation of income from capital (i.e., capital gains taxes or taxes on immovable property).

When designing a wealth tax add-on, tax jurisdictions should consider, in detail, data on wealth distribution and wealth composition in order to accurately model the potential returns from implementing a particular wealth tax add-on. Elements to consider when designing a wealth tax add-on include:

- **wealth composition:** what types of assets are worth targeting (i.e., those which are sufficiently prevalent in the targeted taxpayer groups)? Care should be taken to ensure that wealth tax add-ons cover a sufficiently broad range of the type of wealth prevalent in the tax jurisdiction to avoid concerns about efficiency and taxpayer fairness.
- **wealth distribution:** how many people will be taxed and where should any exemption threshold be set? In deciding such thresholds, tax jurisdictions will need to balance the need to raise revenue with political considerations.

<u>Wealth tax add-ons as a temporary tool</u>

Wealth tax add-ones could be attractive as a temporary measure, introduced as either:

(i) an additional short-term source of revenue whilst a tax jurisdiction improves or reforms its way of taxing wealth. After the reform, the wealth tax add-on could be phased out; or
(ii) a preliminary step to the introduction of a comprehensive net wealth tax. Successful implementation of a wealth tax add-on may be a useful first step to build administrative capacity and political support for a comprehensive net wealth tax.

Source: Oh, J. & Zolt, E. M. (2018). Wealth Tax Add-Ons: An Alternative to Comprehensive Wealth Taxes. Tax Notes, 1613

Before a tax jurisdiction decides to adopt a net wealth tax, it is helpful to consider whether there are tax and spending alternatives that may be more effective in reducing poverty and inequality and increasing taxes raised from the wealthy. While adopting a net wealth tax sends a strong signal that the government is concerned about reducing inequality and increasing taxes raised from the wealthy, tax jurisdictions need to be confident that a net wealth tax can be effectively designed and administered.

While deciding on the introduction of a net wealth tax, in addition to tax-specific design elements, for example, scope, base and rate, governments should also contemplate several non-tax principles such as those related to non-discrimination, neutrality, non-confiscation and equality.

4.3 IMPACT ASSESSMENT

Fiscal policy plays a key role in the provision of public services and in mobilizing domestic resources for the achievement of the SDGs. The impact of the introduction of a new tax may depend on several factors, for example, the existing tax system in a particular tax jurisdiction, and the composition of the overall tax mix which may depend on the level of a tax jurisdiction's economic development. In this context, the level of revenues that a new tax may raise varies according to tax jurisdiction specifics, such as the size of the economy, the accumulation of wealth and the effectiveness of tax collection.

In deciding whether to introduce a new tax, or reform an old one, it is crucial to undertake an impact assessment, including estimating the potential revenue of a net wealth tax. This requires estimating the number of individuals that would be subject to the tax, the amount of assets that would be subject to tax, the tax schedule and assumptions about compliance and enforcement. Appendix A contains a brief description of one methodology for estimating the revenue of a net wealth tax and the key assumptions that are at the base of the estimates.

Existing databases derived from the application of other taxes may contribute to assessing the potential impact of a new net wealth tax. For example, in many jurisdictions, the ownership

of (immovable) property is included in a taxpayer's income tax returns and such information allows policymakers to design and decide the main tax features of a net wealth tax depending on different scenarios in terms of revenue estimates. Tax jurisdictions may find it useful to present a range of revenue estimates that reflect different levels of compliance and measurement error in top-end wealth. Tax jurisdictions may also want to estimate the effect of a new or improved wealth tax in reducing inequality.

4.4 IN-SCOPE TAXPAYERS

A net wealth tax can, in principle, apply to individuals and corporations, however, the focus of this guidance will be on individual taxpayers.

Tax jurisdictions typically levy net wealth taxes on residents, normally on their worldwide net assets, and non-residents, typically on net assets which are physically located in the relevant jurisdiction. [164]

The criteria used to determine tax residence should as much as possible be consistent with that used for other taxes. The most common criterion is the number of days the individual is present in a tax jurisdiction, but other factors, such as the taxpayer's permanent home, center of vital interests, habitual abode, etc., may be considered.[165]

Applying a net wealth tax on an individual (not household) basis means that the net wealth tax system reflects that person's wealth and is aligned with the personal income tax, which is typically levied on an individual basis. The alignment of any net wealth tax with income tax not only provides coherence to the tax system but also enables the generation of cross-checks between the two taxes as information on net wealth assets can be identified from an income tax return (and vice versa) which relate to the same taxpayer.[166] It can be appropriate to give the option to be taxed as a household unit together with a spouse and minor children.[167] One argument for using the household as the tax unit is that if spouses were to be taxed separately, it would be difficult to determine and split the ownership of household assets. The argument for aggregating dependents' wealth is that parents are often the source of such wealth and exert control over the child's use of wealth.[168] In practice, the most common approach in tax

[164] See further: Rudnick R.S. and Gordon R.K (1996). Chapter 10. Taxation of Wealth in Thuronyi V (ed) (1996). Tax Law Design and Drafting Volume 1. IMF at pp. 316-318. Available from https://doi.org/10.5089/9781557755872.071

[165] United Nations (2021). Department of Economic and Social Affairs (DESA). United Nations Model Double Taxation Convention between Developed and Developing Countries 2021. Article 4. Available from https://financing.desa.un.org/document/un-model-double-taxation-convention-between-developed-and-developing-countries-2021

[166] See section 6.4.1 (More and better use of databases within the tax administration).

[167] For example, France. Under the net wealth tax, the taxpayer is either an individual or a family. A family is defined to include spouses and minor children, as well as any "concubine" and her minor children. FRA CGI art. 885E.

[168] OECD (2018). Chapter 4. Net Wealth Tax Design Issues in The Role and Design of Net Wealth Taxes in the OECD, OECD Publishing. Available from https://doi.org/10.1787/9789264290303-7-en

jurisdictions who have adopted the net wealth tax has been to use the household as the taxable unit.[169]

4.5 TAXABLE EVENT

For periodic net wealth taxes, the "taxable event" will normally be a specific date, typically every year, when the net wealth is measured. It may or may not coincide with the calendar year. The amount of net wealth tax due will be calculated based on the individual's net wealth on that date. This date is sometimes referred to as the "cut-off date".

Where a net wealth tax is designed to complement the personal income tax, tax jurisdictions may consider using the same assessment date for both taxes in order to reduce the compliance burden and simplify tax administration.

A distinction should be drawn in the law between the time that net wealth is measured (i.e., on the cut-off date) and the due date for paying the tax. See section 4.10 (Liquidity / Timing) for further discussion on the due date for paying tax.

4.6 TAXABLE BASE

The worldwide net assets of residents are normally included within the scope of a net wealth tax. This can help to introduce fairness and horizontal equity into the tax system, and reduce the risk of distorting the international allocation of capital (i.e., by reducing the incentive for taxpayers to invest capital abroad solely so that it falls outside of the scope of a net wealth tax). This should promote a more balanced and efficient allocation of investments based on other, non-tax induced, economic factors. For non-residents, typically, only net assets located in a jurisdiction's territory are subject to a net wealth tax.

A key design feature of a well-functioning net wealth tax is a broad tax base, limiting as much as possible relief for specific types of assets. Use of appropriate thresholds (see further in section 4.8 (Thresholds)) can be a way to ensure a net wealth tax is progressive and avoid disproportionate administrative burdens, whilst reducing the need for tax relief for specific assets.

The proliferation of exemptions can significantly diminish tax revenue and create potential avenues for tax avoidance, rendering the tax ineffective. Multiple exemptions could affect horizontal equity, for example, where individuals who hold the same amount of wealth but hold that wealth in different asset types are subjected to different effective tax rates due to exemptions for certain asset classes. Vertical equity could be affected if exemptions were given to assets disproportionately owned by the richest taxpayers.

Examples of elements of wealth that could be subject to a net wealth tax include:

[169] OECD (2018). Chapter 4. Net Wealth Tax Design Issues in The Role and Design of Net Wealth Taxes in the OECD, OECD Publishing. Available from https://doi.org/10.1787/9789264290303-7-en

- immovable property;
- movable property such as motor vehicles, ships / boats and aircraft;
- home furniture and personal belongings;
- cash and bank deposits;
- shares, other certificates of participation in legal structures, bonds;
- intangibles, including intellectual property rights; and
- artworks, collectible objects and antiquities.

Human capital is the present economic value of an individual's skills and experience, which may enable them to earn future income. [170] Human capital is typically exempt from the net wealth tax base. The rationale for excluding human capital is that it is difficult to value, is not directly transferrable or convertible into cash, and may not be durable.[171] As a result of this exclusion, a net wealth tax typically would lower the return on real and financial assets and would promote investment in human capital.[172]

For net wealth taxes to efficiently target individual taxpayers' capacity to pay, they must consider not only the value of their assets but also concurrent liabilities. Liabilities reduce taxpayers' taxable base since they are incurred to finance their wealth. Debt should be an allowable deduction in calculating the tax base, particularly if it was partially or wholly incurred to finance the acquisition or maintenance of the assets. For example, the value of the home is taken net of the outstanding mortgage, meaning that the outstanding mortgage is treated as an allowable deduction.[173] If business assets are included within the scope of a net wealth tax (see section 4.7.2 (Business assets)), a similar approach should be followed. In the case of non-residents, only specific debts in relation to property located within the tax jurisdiction should lead to allowable deductions.[174]

4.7 EXEMPTED ASSETS

Some tax jurisdictions have chosen to exempt the following items of property from net wealth taxes: participation in authorized pension schemes; participation in cooperative entities; intangible assets; bonds issued by the state; local bank deposits; participation in certain collective investment vehicles (CIVs); and the primary residence where its value is below a specified amount. [175]

[170] World Bank. (2018). The human capital project. Available from https://www.worldbank.org/en/publication/human-capital/brief/the-human-capital-project-frequently-asked-questions

[171] OECD (2018). Chapter 3. The Case For and Against Individual Net Wealth Taxes in The Role and Design of Net Wealth Taxes in the OECD. OECD Publishing. Available from The Case For and Against Individual Net Wealth Taxes (oecd.org)

[172] OECD (2018). Chapter 3. The Case for and Against Individual Net Wealth Taxes in The Role and Design of Net Wealth Taxes in the OECD. OECD Publishing. Available from The Case For and Against Individual Net Wealth Taxes (oecd.org)

[173] For example, Argentina. Article 22(a) of law 23.966 on personal asset taxation.

[174] For example, Argentina. Article 17 of law 23.966 on personal asset taxation.

[175] For example, Argentina. Article 21 and 24 of law 23.966 on personal asset taxation.

4.7.1 Pension savings

Despite being one of the most important financial assets that can be used to accumulate wealth, stocks of pension savings are almost universally exempted from net wealth taxes. In addition to promoting savings, this exception is mainly justified on social grounds, i.e., because of the social benefits that come from encouraging individuals to save for retirement (either voluntarily or mandatory savings). It is also challenging to tax pensions under a net wealth tax because different types of pensions provide beneficiaries with very different economic benefits. One type of pension[176] provides beneficiaries a stream of income (usually tied to final earnings) for the rest of their lives. A second type of pension[177] establishes an investment account based on contributions by the beneficiary and their employer that belongs to the beneficiary (which the beneficiary may elect to spend in retirement and leave any remaining amounts to her heirs). Designing a net wealth tax that provides equitable treatment to both types of beneficiaries is very difficult. Further, both from social and political angles, it is difficult to justify taxing individuals on wealth that they cannot control or access to settle tax due. It has also been argued that pension recipients may not live long enough to receive their pension or its full benefit, meaning that the pension may not have a real benefit to them.[178]

4.7.2 Business assets

Business assets, i.e., assets that are directly used in the professional activity of the taxpayer, or stakes or shares in unincorporated or closely held business, are often excluded from net wealth taxes, for example, when business assets are applied towards real economic activities, when the taxpayer performs a managing role, when income derived from the activity is the main source of the taxpayer's revenue and / or when the taxpayer owns a certain threshold percentage of shares in the company. Some tax jurisdictions do tax business assets, often granting tax benefits in the form of preferential valuation rules, the exemption of a proportion of assets or the exclusion of certain assets, or a lower tax rate.[179]

4.8 THRESHOLDS

To ensure fair and equitable taxation, it is advisable to implement a tax policy that targets individuals whose total net wealth exceeds a set threshold to ensure that it takes into account their ability to pay.[180] The inclusion of thresholds contributes to the progressivity of the tax system since modest wealth would be excluded from the scope of the net wealth tax. The higher the level of the threshold, the lower the number of individuals that are liable to tax and the less wealth that would be in scope of the net wealth tax.

[176] Sometimes referred to as a defined benefit plan (i.e., in US and UK).
[177] Sometime referred to as a defined contribution plan (i.e., in US and UK).
[178] Advani, A. et al. (2020). A Wealth Tax for the UK. Final Report of the Wealth Tax Commission. Available from https://www.wealthandpolicy.com/wp/WealthTaxFinalReport.pdf.
[179] For example, Germany, Norway, Luxembourg and Ireland. Perret, Sarah (2020). Why did other Wealth Taxes fail and is this time different? Wealth Tax Commission Evidence Paper no. 6. Available from https://www.wealthandpolicy.com/wp/EP6_PoliticsAndDesign.pdf.
[180] For example, Argentina. Article 24 of law 23.966 on personal asset taxation.

Choosing the right threshold will depend on socio-economic factors, the tax system as a whole and how wealth is taxed, the targeted revenue potential of the net wealth tax, as well as the society's attitude towards net wealth taxes (i.e., should only the very wealthiest be in scope or should a net wealth tax have broader application).

4.9 TAX RATES

Progressivity in a net wealth tax may be achieved using differential tax rates.

When setting tax rates for a net wealth tax, policy makers should be conscious that lower rates may lead to lower total revenues, resulting in administrative costs that may be disproportionate to the collected tax revenues. At the same time even low tax rates on individuals' total net wealth above a certain threshold can bring in significant amounts of revenue. Levying high tax rates can have a distortionary effect. Although levying a high tax rate may result in increased total tax revenue, beyond a certain peak, the economic costs of a higher tax rate can erode the tax base, reducing the total tax revenue.[181]

Tax jurisdictions implementing net wealth taxes for individuals generally establish progressive tax rates between the range of 0.5% - 2%. A progressive tax rate of 0.5% to 1.75% for assets that are located in-tax jurisdiction, and 0.75% to 2.25% applicable to offshore assets has been observed in some tax jurisdictions.[182] Tax jurisdictions may also consider applying a flat tax rate, for example, 0.5%, on the net value of in-tax jurisdiction immovable property that is owned by non-residents.[183]

In some tax jurisdictions, measures have been taken to encourage the settlement of foreigners by establishing exemption periods or lower tax rates upon arrival in the tax jurisdiction. To encourage domestic investments, some tax jurisdictions levy a higher tax rate on offshore property.[184] Varying rates between residents and non-residents and across asset classes, however, can lead to efficiency concerns, additional administrative complexity and tax planning opportunities.

Imposing a net wealth tax at a higher rate than indicated above could raise liquidity concerns, as taxpayers may not be earning sufficient return on their investment assets to have sufficient liquid wealth to pay the net wealth tax. A higher rate net wealth tax could also be considered confiscatory if it forces taxpayers to sell part of their property to fulfil their tax obligation.

[181] Vogel, Lukas (2012). Tax avoidance and fiscal limits: Laffer curves in an economy with informal sector (No. 448). Directorate General Economic and Financial Affairs (DG ECFIN), European Commission. Available from https://ec.europa.eu/economy_finance/publications/economic_paper/2012/pdf/ecp448_en.pdf

[182] For example, Argentina. Article 25 of law 23.966 on personal asset taxation.

[183] For example, Argentina. Article 26 of law 23.966 on personal asset taxation.

[184]

4.10 LIQUIDITY / TIMING

As indicated above, net wealth taxes are generally levied on individuals on a yearly basis. Taxpayers should be allowed a reasonable amount of time after the cut-off date when wealth is determined to make the assessment and file their tax returns. Tax jurisdictions should consider aligning the filing date for the personal income tax returns with the filing date for the net wealth tax.

Tax jurisdictions should also consider how to deal with a scenario where taxpayers do not have enough liquid assets to pay their net wealth tax liability so that they may have to dispose of assets to pay the net wealth tax due. To alleviate liquidity concerns, tax jurisdictions may opt for a system which permits gradual settlement of the net wealth tax liability in installments throughout the year in an anticipated / estimated manner, based on the actual tax liabilities from previous years. Alternatively, tax jurisdictions could allow taxpayers to gradually settle their net wealth tax liability after the due date through instalment payments.[185]

4.11 ECONOMIC DOUBLE TAXATION

Where jurisdictions levy tax on investment income, in the form of capital income taxes, as well as a net wealth tax on individuals, economic double taxation may arise. Capital income earned by an individual may be taxed twice, first at the time it is earned, through the personal income tax, and then, when it appreciates in value, through the net wealth tax. Both taxes can be said to fulfill different purposes so there may be no need to provide relief (i.e., similar to a consumption tax which is levied on post tax income where no relief is commonly given).[186] A tax jurisdiction may consider allowing resident taxpayers to claim a tax credit against their personal income tax liability for the net wealth tax paid in that jurisdiction.

The interaction between different types of wealth taxes should be considered where individuals are subject to different taxes on the same items of property. For instance, where local authorities or political subdivisions levy a tax on real estate and the national or federal state also taxes such immovable property as part of the net wealth tax. In these circumstances, jurisdictions that introduce net wealth taxation are encouraged to design relieving mechanisms to address such concerns, for example, by granting tax credits for the tax that is paid at the subnational level.

4.12 CROSS-BORDER ISSUES

Where jurisdictions tax their residents' worldwide net wealth and the local net wealth of non-residents, international juridical double taxation may arise.

[185] For example, Argentina. Title III of Resolution 2151/2006 and its modifications, issued by the Argentine Federal Tax Administration (AFIP).

[186] Summers A. (2021). Ways of taxing wealth: alternatives and interactions. Fiscal Studies. Available from https://eprints.lse.ac.uk/111867/1/Summers_ways_of_taxing_wealth_published.pdf.

Tax jurisdictions are encouraged to eliminate such double taxation either unilaterally, in their domestic laws, or bilaterally, in their tax treaty network, by including taxes on wealth in the text of the treaties and allocating taxing rights on the different elements of property owned by residents of one or both contracting states. In fact, jurisdictions may consider following the guidance found in Articles 2, 22 and 23 of the United Nations Model Tax Convention between Developed and Developing Countries.[187]

[187] United Nations (2021). Department of Economic and Social Affairs (DESA). United Nations Model Double Taxation Convention between Developed and Developing Countries 2021. Article 4. Available from https://financing.desa.un.org/document/un-model-double-taxation-convention-between-developed-and-developing-countries-2021

5 PRACTICAL GUIDANCE FOR THE IMPLEMENTATION OF EXCEPTIONAL SOLIDARITY NET WEALTH TAXES ON INDIVIDUALS

5.1 INTRODUCTION TO THE CHAPTER

An exceptional solidarity tax is a time-bound tax levied on the wealthier taxpayers in a society to mobilize the resources needed to mitigate and recover from the effects of a specific crisis. Such taxes have been used in crises such as a war, post-war national reconstruction[188], economic crisis,[189] natural disaster, such as earthquake,[190] health emergency, such as AIDS,[191] or a pandemic, such as COVID-19. The term *exceptional* implies the tax is triggered by a crisis and is hence time-bound and the term *solidarity* implies the obligation on the wealthy to contribute to the common good during this period. In fact, under these special circumstances, wealthy individuals have been identified to contribute the most through, for example, charitable donations.

Exceptional solidarity net wealth taxes have been a renewed area of focus since the onset of the COVID-19 pandemic, which required high levels of government expenditures and witnessed a steep rise in equality.[192]

These guidelines focus exclusively on the application of exceptional solidarity net wealth taxes to individuals. Section 5.2 (Purposes, advantages and disadvantages of exceptional solidarity net wealth taxes) considers the advantages and disadvantages of introducing a solidarity net wealth tax.

The legislation for exceptional solidarity net wealth taxes can be stand-alone or incorporated into existing laws that tax wealth. For the sake of administrative ease and procedural fairness for taxpayers, it is recommended that legal provisions covering exceptional solidarity net wealth taxes should be incorporated into legislation ahead of a crisis, so that they can be activated when needed. Legislation should define what is a "crisis" that will trigger the application of the solidarity net wealth tax, and references can be made to other areas of law and existing statutes so that there is a uniform legal understanding of what constitutes a "crisis" for these purposes.

Efficient and effective administration of any net wealth tax is vital to its successful implementation. When considering the policy design choices outlined in this Chapter, policymakers should consider the impact of any policy choice on administration. Chapter 6

[188] For example, Czechoslovakia, France, Finland.
[189] For example, Germany.
[190] For example, Ecuador.
[191] For example, Zimbabwe.
[192] Ahmed, N., Marriott, A., Dabi, N., Lowthers, M., Lawson, M., & Mugehera, L. (2022). Inequality kills: The unparalleled action needed to combat unprecedented inequality in the wake of COVID-19. Oxfam. Available from https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621341/bp-inequality-kills-170122-en.pdf;jsessionid=77B289D66BC99587ADC5C95FB84BEC0D?sequence=9.

(Key Considerations for the Effective Administration of Wealth Taxes) considers in detail the key issues that arise when administering wealth taxes, including net wealth taxes.

5.2 PURPOSES, ADVANTAGES AND DISADVANTAGES OF EXCEPTIONAL SOLIDARITY NET WEALTH TAXES

The main objective of exceptional solidarity net wealth taxes is to rapidly raise revenue, especially from the wealthy, to provide resources to the jurisdiction to overcome the specific crisis.

The advantages of a solidarity net wealth tax include its temporary nature and its link to a crisis.

Where a solidarity net wealth tax is introduced, it is recommended that this tax be implemented so that a higher obligation is placed on the wealthy to foster a progressive tax system. Even though this is not its primary intention, such a tax may also help curb wealth concentration and, as such, address the problem of inequality. This is desirable as it has been shown that the wealthy tend to increase their asset ownership during periods of crisis.[193] A progressively higher rate for the very rich may help to counter this trend.

Disadvantages of exceptional solidarity net wealth taxes include that the "crisis" which triggers the tax may be broadly or vaguely defined, leading to an unjustifiably prolonged application. Without clear revenue targets, it may be difficult to assess when the tax has met its objective and can cease to apply.

Even high-capacity tax administrations may find it difficult to enforce an exceptional solidarity net wealth tax. Administration of wealth taxes can be difficult in normal times. During periods of crisis, the tax administration may be stretched thin with other overlapping priorities brought about by the crisis, such as shortfalls in the collection of regular revenue, with no capacity to administer a solidarity net wealth tax. Also, the administrative resources that are deployed to implement the tax might be useful only for a short period of time, making them redundant while costly to maintain. For a general discussion of administration issues arising in the context of wealth taxes, see Chapter 6 (Key Considerations for the Effective Administration of Wealth Taxes).

5.3 IN-SCOPE TAXPAYERS

See section 4.4 (In-scope taxpayers) in respect of determining the taxable persons for periodic net wealth taxes on individuals.

[193] Christensen, M. B., Hallum, C., Maitland, A., Parrinello, Q., & Putaturo, C. (2023). Survival of the Richest: How we must tax the super-rich now to fight inequality. Oxfam. Available from https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621477/bp-survival-of-the-richest-160123-en.pdf

5.4 TAXABLE EVENT

The taxable event for exceptional solidarity net wealth taxes should be the onset of a crisis. For tax certainty, it is recommended that the trigger for any solidarity net wealth tax be incorporated into the tax legislation and linked to any existing legislation on crisis response. This would provide certainty on the conditions when the tax would come into force. For example, some tax jurisdictions have a definition of a national emergency. This, or a similar definition of a crisis which has broad application, could be used to maintain consistency. It would also enable the jurisdiction to take a more holistic response to the crisis. In case a tax jurisdiction does not have legislation relating to national emergencies, a stand-alone definition can be used in the solidarity net wealth tax law.

Tax jurisdictions should not rely on administrative guidance in the form of regulations to implement a solidarity net wealth tax. Such guidance risks being ad-hoc and inconsistent. It may also lack the level of certainty provided by a legislative framework, rendering it vulnerable to tax disputes.

5.5 TAXABLE BASE

See section 4.6 (Taxable base) in respect of designing the taxable base for periodic net wealth taxes on individuals. Exemptions should be kept to a minimum, consistent with the approach discussed in that section.

For a solidarity net wealth tax, tax credits for any other taxes paid may be disallowed. As solidarity net wealth taxes are exceptional and temporary, they should be treated as stand-alone taxes, unrelated to regular property taxes or wealth taxes.

5.6 THRESHOLDS

See section 4.8 (Thresholds) in respect of setting thresholds for periodic net wealth taxes on individuals.

However, such considerations for setting a threshold differ somewhat from those for an exceptional solidarity tax, since it is time-bound and meant to generate the resources needed to recover from a crisis. Countries, particularly developing countries, which have a large proportion of individuals with a low stock of wealth, and which may ordinarily choose a high or moderately high threshold, may consider a lower threshold so as to mobilize maximum resources to overcome the crisis. This approach may be more acceptable because of the temporary nature of the tax.

On the other hand, countries with high levels of inequality[194] may find it more appropriate to use a high threshold to target disproportionately wealthy individuals.

[194] Countries with high levels of inequality are those measured with a Gini coefficient of more than 40. Gini, Corrado (1912). Variability and Mutability. Economic Journal, 22(91), 425-436.

After the Second World War, some countries introduced a one-off capital levy of 90% on the top 2 to 3 percent of the population.[195][196] Others introduced a capital levy on high-value property ownership.[197][198] For countries with high levels of inequality, the crisis could also be an opportunity to reduce inequality which, as discussed in Chapter 1 (Introduction and the Rationale Behind Wealth Taxes) can be a more effective way of eliminating extreme poverty than a focus on increasing growth rates and would contribute directly to SDGs 1 and 10.

5.7 TAX RATES

Regarding the rate, tax jurisdictions follow a variety of practices. Some[199] have applied progressive rates of up to 3.5% on in-tax jurisdiction wealth and up to 5.25% on offshore wealth,[200] with the objective of financing COVID-19-related debt.[201]

High tax rates for the super wealthy are important to prevent an increase in and / or to reduce inequality, and this directly contributes to SDG 10. High exceptional solidarity net wealth tax rates ranging from 3% to 6% may be applied to the net wealth of high-net-worth individuals during a crisis period. This assumes that the rates are implemented as a top-up tax to avoid economic double taxation (see Box 10). However, if implemented instead as a surcharge, higher rates will be required to generate meaningful revenue (see Box 11).

5.8 REVENUE TARGET

A clear revenue target is recommended which can provide the basis for determining the rate and the threshold. A low flat rate combined with a low threshold may be more appropriate for high income countries with a low or moderate Gini Coefficient,[202] where the average capacity to contribute is similar. On the other hand, for countries with high levels of inequality, a high threshold can be considered with either a high flat rate or progressive rates.

A revenue target can also help to determine a clear cut-off for the application of the tax (see section 5.8 (Revenue target)).

A revenue target would also serve as a milestone indicator to evaluate if the tax has achieved its target. This requires regular interaction with the concerned government ministries or

[195] For example, Japan. Targeted the so-called "Zaibatsu" i.e., exceptionally wealthy individuals, a financial clique that apparently had benefitted from the war, considered as beneficiaries of Japanese militarization and aggression.
[196] Klug, Heinz (2020). Time for a Social Solidarity Tax? Univ. of Wisconsin Legal Studies Research Paper No. 1604. Available from https://ssrn.com/abstract=3675830
[197] For example, Czechoslovakia.
[198] Waris, Attiya (2021). Solidarity Taxes in the Context of Economic Recovery Following the COVID-19 Pandemic. Available from https://s42831.pcdn.co/wp-content/uploads/2023/01/CIC-Pathfinders_Solidarity-Taxes-in-the-Context-of-Economic-Recovery.pdf
[199] Ibid.
[200] For example, Argentina.
[201] Schwarcz, András (2022). Solidarity and wealth tax. Briefing requested by the BUDG Committee of the European Parliament. Available from https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/732005/IPOL_BRI(2022)732005_EN.pdf
[202] Gini, Corrado (1912). Variability and Mutability. Economic Journal, 22(91), 425-436.

departments so that the budgetary needs and level of achievement can be appropriately updated.

5.9 PERIOD OF TAXATION

The tax, being essentially temporary, must be linked to the crisis and must be discontinued as soon as the crisis is deemed to have ended. Care must be taken to avoid its linkage with vague or poorly defined crises which may continue indefinitely. This would defeat the purpose of an exceptional tax, become unfairly burdensome, and may lead to a social backlash.[203][204]

One option to avoid such an outcome could be to set revenue targets at the outset. These would define the resources that are required to cope with the crisis. Ideally, such a target should be based on an economic impact assessment. The exceptional solidarity tax would be seen as complementing rather than substituting existing revenue sources. Such a target would provide an objective basis to measure the performance of the tax. The tax would be discontinued as soon as the target has been met.

Another option could be to provide a maximum duration, such as three years, after which its extension would be contingent upon review and legislative approval. The review would focus on whether the crisis is still ongoing, the performance of the tax and whether its continuation and / or regularization is justifiable.

5.10 INTERACTION WITH OTHER TAX REGIMES

The solidarity net wealth tax could be designed in a manner which complements other existing levies or funds which are meant to achieve the same objective. For example, a tax jurisdiction may decide to set up a voluntary contribution fund to mobilize resources to overcome the same crisis and there may be other existing levies. In that case, the revenue target for the solidarity net wealth may be periodically revised to take into account receipts from other non-tax sources (i.e., voluntary contribution fund), so that the revenue target takes account of the total sum of resources mobilized, so that the tax can be lifted as soon as appropriate.

5.11 ECONOMIC DOUBLE TAXATION AND OTHER DESIGN ISSUES

The exceptional solidarity tax could function as a “top-up” to existing wealth taxes. Its possible operation may be seen in the example in Box 10.

[203] For example, Germany’s Solidaritätszuschlag. It was in place for almost three decades and continues to be applied to the wealthiest tiers of Germany’s population.
[204] Waris, A. (2021). Solidarity Taxes in the Context of Economic Recovery Following the COVID-19 Pandemic. Available from https://s42831.pcdn.co/wp-content/uploads/2023/01/CIC-Pathfinders_Solidarity-Taxes-in-the-Context-of-Economic-Recovery.pdf

Box 10: Example – exceptional solidarity net wealth tax

Consider a country X with a progressive net wealth tax system with a rate ranging from 1% for the lowest taxpayer bracket (taxpayers A) to 3% for the highest taxpayer bracket (taxpayers B).

The country introduces an exceptional solidarity tax regime of 3% to 6% for the same brackets.

Taxpayers A and B would ordinarily face a 1% and 3% rate, respectively, under the general net wealth regime.

Assume taxpayer A has net wealth of US$ 100 and taxpayer B has net wealth of US$ 500. The net wealth tax payable by taxpayers A and B would ordinarily be $1 and $15, respectively.

If a crisis hits, A and B will have to pay an additional 2 and 3 percentage points, respectively, to 'top up' to the exceptional solidarity rate. This would be an additional 2% of $100 and 3% of $500 and the exceptional solidarity tax would thus generate an additional $2 and $15 in revenue. The total net wealth tax liability of taxpayers A and B will be $3 and $30, respectively, in the crisis year.

Another option could be to structure it as a surcharge. The surcharge would apply on top of the existing taxes. Its possible operation may be seen in the example in Box 11 below.

Box 11: Example – exceptional solidarity net wealth tax structured as a surcharge

The same facts in the previous example apply, except that the exceptional solidarity tax regime now functions as a surcharge. If a crisis hits country X, a surcharge of 3% of $1 and 6% of $15 would apply to A and B. The exceptional solidarity tax would thus generate an additional $0.03 and $0.09 in revenue.

However, similar risks of double taxation that exist for net wealth taxes, as discussed in 4.11 (Economic double taxation) apply here and should be safeguarded against.

6 KEY CONSIDERATIONS FOR THE EFFECTIVE ADMINISTRATION OF WEALTH TAXES

6.1 ROLE OF ADMINISTRATION

The revenue potential from any wealth tax depends on design choices, such as decisions on the tax base and tax rate. For further detail on policy design choices for different types of wealth taxes see: Chapter 3 (Key policy decisions for introducing or updating wealth taxation); Chapter 4 (Practical guidance for the implementation of net wealth taxes for individuals); and Chapter 5 (Practical guidance for the implementation of exceptional solidarity net wealth taxes on individuals).

However, the full potential of any wealth tax can only be exploited through efficiency and effectiveness in administrating the tax. A poorly managed wealth tax system shrinks tax revenues, creates asymmetries in tax obligations that do not reflect design features, treats taxpayers unfairly, and creates distortions. It is therefore vital to ensure that any wealth tax is correctly administered.

This Chapter considers some of the key issues that arise in the context of administering taxes on wealth, in particular:

- Valuation
- Access to information by the tax authorities
- Improving authorities' approach to information
- Compliance management
- Appeal systems
- Capital flight and exit taxes
- Addressing tax evasion

Whilst there is some variation in the importance and approach to each of these issues for the different types of wealth taxes, most are relevant across the different types of wealth taxes. Unless specifically identified as relevant to a specific wealth tax only, the discussion below should be considered relevant to all wealth taxes.

From a cost-benefit analysis perspective, the ratio of revenue raised from a wealth tax in relation to the administrative cost should be large enough for a wealth tax to be implemented and maintained. Tax jurisdictions may wish to estimate potential administrative costs prior to implementing any wealth tax to compare against revenue estimates, to ensure that costs of administration do not outweigh any potential revenue received. Box 12 illustrates this point for recurrent taxes on immovable property, though very similar deliberations and calculations should be undertaken for other taxes on wealth.

Box 12: Recurrent tax on immovable property – interaction of policy with administration

Tax collection is dependent on both policy and administration. While policy refers to the tax base (including thresholds and exemptions) and rates, administration may directly affect the realization of tax capacity through the tax base coverage (CVR), the valuation (VR) and the collection (CLR) ratios (with values from 0 to 1).[205]

Tax Revenue = (Tax Base x Tax Rate) x (CVR x VR x CR)

The Coverage Ratio (CVR) is defined as the amount of taxable immovable property currently taxed by the tax administration, divided by the total taxable immovable property in a jurisdiction. This ratio measures the completeness of the tax administration's information.

The Valuation Ratio (VR) is defined as the value of the taxable immovable property currently taxed by the tax administration divided by the real market value of properties. This ratio measures the accuracy of the property valuation.

The Collection Ratio (CLR) is defined as the annual tax revenue collected from immovable property divided by the total tax liability billed. This ratio measures collection efficiency on both current liability and tax arrears.

6.2 VALUATION

For most wealth taxes, the assessment of the amount of tax payable requires taxpayers and tax authorities to determine the value of a wealth asset at a time in the absence of a sale (i.e., there is not a readily available sale price that can be used as the basis for assessing the tax). This is the case for wealth transfer taxes, recurrent taxes on moveable and immoveable property, and net wealth taxes. It can also be true for capital gains taxes levied where there has been no realization, such as capital gains exit taxes.[206]

[205] Kelly, R. (2013). Making the Property Tax Work. International Center for Public Policy. Working Papers, 42. Available from https://scholarworks.gsu.edu/cgi/viewcontent.cgi?article=1041&context=icepp.

[206] Valuation of capital income, particularly where only taxing realized gains, is generally less complex. Capital income received in cash form (i.e., interest income, or rent from moveable and immoveable property) generally does not create valuation issues, except in the context of transactions between related parties. For capital gains taxes, the more complex task can be to approximate the buying costs for example in cases where capital improvements have taken place since the asset was purchased. There may still be a need to determine the market value of assets for certain capital income taxes, for example where dividend income tax needs to be levied on an in-kind distribution to shareholders.

The method of valuing assets for the purposes of levying wealth taxes is therefore vital. The method of valuation should be transparent, and to the extent possible, an accurate and fair reflection of market value, taking into account the need for simplified valuation measures for ease of administration. Regular re-assessment of asset values or approximations for asset appreciation is also vital for recurrent wealth taxes to ensure that the wealth tax regime accurately taxes accretions to wealth, and to prevent sudden, rapid increases in wealth tax liabilities which can occur when valuations are assessed only periodically. Where wealth taxes are based on taxpayer valuations (rather than being prescribed by the wealth tax system), tax authorities should take steps to verify the accuracy of such reports.

The general rule is that assets should be valued at their fair market value. However, where there is no formal market for a particular type of asset, it might be necessary to use a proxy for market value, such as the indexed historical cost of the asset. In addition, to avoid the complexity of determining a fair market value, some tax jurisdictions opt for simplified valuation techniques for certain asset classes designed to act as a proxy for market value, including valuing closely-held businesses based on book values of assets or a multiplier of annual profits; or applying the insurance value, particularly for works of art and other valuables.

Methods of valuation, and the difficulty of determining valuations vary across the different asset classes with special rules applying to certain classes of assets. The following subsections consider methods of valuation for particular types of assets.

6.2.1 Immovable property

The following valuation systems are commonly used across tax jurisdictions to determine the value of immoveable property.[207] These valuation systems have largely been developed in the context of recurrent taxes on immoveable property, but the principles could be readily applied to determining immoveable property values for the purposes of wealth transfer taxes or net wealth taxes. Where countries impose both recurrent taxes on immoveable property (including at subnational level) and net wealth taxes, it is recommended that they align the valuation methods and values used for both types of wealth tax (see further section **Error! R eference source not found.** (**Error! Reference source not found.**)).

(i) Rental value system

Under the rental value system, the value of immovable property at a specific point in time is defined as the actual value of the rent that can reasonably be expected in a fair market transaction, i.e., the net present value (NPV) of future rent receipts. To calculate the NPV, one estimates the timing and amount of expected future cash flows and discounts them.[208] This

[207] Bahl R. And Wallace S. (2008). Reforming the Property Tax in Developing Countries: A New Approach. International Studies Program Working Paper 08-19. Available from https://icepp.gsu.edu/files/2015/03/ispwp0819.pdf

[208] See, for example, Aswath Damodaran (2012). Investment Valuation. Tools and Techniques for determining the value of any asset. Chapter 26. Valuing Real Estate.

system is applied in many tax jurisdictions, most commonly in countries that were previously under British colonial rule.[209]

(ii) Capital value system

Under the capital value system, the value of immovable property is defined as the fair market value of the property, including the land and improvements or structures thereon. The value can be determined based on assessment reports by professionals, or through the use of historical selling prices of similar immovable property.

(iii) Land, or site, value system

Under this system, only the fair market value of land is considered for tax purposes. The value can be determined based on assessment reports by professionals, or through the use of historical selling prices of similar immovable property.

(iv) Area-based system

Each parcel of land is taxed at a specific rate per area unit of land or per area unit of structures. It is arguably the simplest method.

(v) Indexed historical cost

Some jurisdictions use indexed cost to determine the value of the property. [210] Whilst this can be a relatively simple method of valuation, it may not be a good proxy for market value in circumstances where property values are rising rapidly, such as in many larger cities.

Capital value or rental value approaches minimize horizontal and vertical inequities. These systems are generally preferred in tax jurisdictions where markets are efficient, enough sales data is available and there is sufficient valuation skill and capacity to determine credible property values on a significant scale and on a regular basis. These systems are most common in developed countries. Developing countries might, however, find them difficult to implement, administer and monitor because of the lack of adequate databases and updated cadasters,[211] and little access to third-party information (such as information provided by financial institutions) that would allow universal access to the market value of real estate.

In general, it is advisable to be as specific as possible when prescribing valuation methods in domestic law to avoid tax planning opportunities and disputes. For example, when relying on

[209] For more information, please see Bahl, R. & Wallace, S. (2008). Reforming the Property Tax in Developing Countries: A New Approach. Available from https://icepp.gsu.edu/files/2015/03/ispwp0819.pdf

[210] For example, Argentina. Article 22(a)2 of Argentine Law 23.966 on Personal Asset Taxation.

[211] See Box 14 (Cadasters).

historic selling prices, the source of information, the time frame and what constitutes comparable properties / areas should be defined.

(vi) Minimum prices

Other countries have adopted specific principles for determining the taxable value of immoveable property, for example the "circle rate", that is fixed by governments.[212] The circle rate is the lowest price, or minimum price, at which the sale or transfer of residential or commercial property, including plots of land, apartments, or built-up houses, can be registered before they are sold or transferred.

Circle rates are also used to calculate stamp duty and registration charges of sold or transferred immovable property. These charges are levied on the higher of the property's circle rate or the fair market value. In India, the state governments adjust circle rates periodically, to reflect changes in the property market. For example, where the market indicates rising property prices, circle rates are adjusted upwards and vice versa. However, there may be a lag, for example, where property prices rapidly rise while the consequent adjustment to the circle rates is not immediate.

While taxes on immovable property are ideally levied on the fair market value of immovable property, circle rates act as a de facto floor to safeguard tax revenues. The administrative burden of determining and updating the circle rate should be weighed against the utility of having an anti-avoidance instrument in place that ensures that a minimum revenue is collected by tax authorities. Tax authorities should also be aware of, and audit, potential misuse of circle rates where prices of immovable property are purposefully determined to be lower than the fair market value and close to the circle rate.

6.2.2 Movable property, for example, automobiles, aircraft, and vessels

It is common to make use of valuation tables for moveable property. For example, valuation tables of most vehicle values are published. [213] These may be categorized, for example, by make, model or year, etc., which allows the assignment of an approximate value.

Alternatively, the indexed cost of acquisition may be considered as a proxy for market value. A depreciation adjustment or, as may be the case for classical vehicles, an appreciation adjustment, is recommended to be applied. Depreciation adjustments should be aligned with depreciation rules commonly applied for tax purposes, for example for corporate income taxes.

[212] For example, in India the state government determines circle rates.

[213] For example, Argentina. Article 1(a) of Resolution 4466/2019 issued by the Argentine Federal Tax Administration (AFIP).

6.2.3 Cash and cash deposits

Cash and cash deposits are normally assessed at nominal value including accrued interest. Where these are in foreign currency, conversion should be made at the official exchange rate at the date of the taxable event (i.e., the date on which tax is levied, for a net wealth tax) and not at the time the deposit was made.

6.2.4 Bonds, certificates and shares traded in recognized financial markets

The valuation of bonds, certificates and shares that are traded on recognized financial exchanges is a more straightforward matter due to a recognized market and high liquidity. Tax is assessed on the quoted price of the assets at the date of the taxable event.

6.2.5 Unquoted shares

Shares or participations in unlisted companies are complex to value. The magnitude of this valuation challenge can be large from a distributional point of view because shares or participations in unlisted companies are heavily concentrated among the wealthy.

There are multiple methods that stem from the theory of business valuation that can be used to value such assets, i.e.: based on cash flow; on earnings; on equity; on the last transaction; etc. The resulting values can differ significantly between the different methods. To avoid large distortions, it may be advisable to use a combination of methods.

Tax should be based on the value of the company (as determined under any method discussed above) at the date of the taxable event. Where the company is owned by more than one shareholder, only the proportion of the value of the company which reflects the taxpayer's shareholding should be included in the tax base.

6.2.6 Securities and participations in funds or trusts that are not quoted in financial markets

For securities and participations in funds or trusts that are not quoted in financial markets, valuation might be made considering the investment cost. Accrued interest and proportional undistributed profits should also be considered.[214]

6.2.7 Collectibles, including jewelry, artworks, and antiquities

It is often difficult to value collectibles such as jewelry, artworks and antiquities due to the lack of a formal market. The complexity of valuing jewelry is further complicated due to aspects such as the certification of purity levels as determined through expert evaluation and

[214] For example, Argentina. Article 22(i) 2 of law 23.966 on personal asset taxation.

reports, for example, from registered valuers. Artworks and precious stones are also particularly difficult to value since this often involves skill and judgement. Conversely, the valuation of bars or coins of precious metals (bullion) is relatively easier to administer as it can be based on quotes available on metal and commodity exchanges.

Some practical ways to address common valuation issues for collectible / investment assets include referring to the insured value, negotiated sales or customs valuations.[215]

6.2.8 Personal and household items

Personal and household items are also often exempted, especially for wealth transfer taxes. However, where these items are included in the wealth tax base, the valuation principles are as follows. For personal and household items that are not collectibles as described at section 6.2.7, either the indexed cost of acquisition or the fair market value of the relevant item might be considered. To introduce certainty, a default formula based on a proportion of the aggregate value of the taxpayer's cumulative property may be applied.[216] For example, some countries value personal and household assets at their acquisition cost, subject to a 5% maximum limit on the combined value of the individual's global immovable property.

6.2.9 Intellectual property

The taxation of intellectual property under wealth taxes presents several valuation challenges. It is essential to have a good understanding of the intellectual property that is being valued and the context in which it is used, or in which it is expected to be used, because its value lies in its ability to generate economic benefits for its owner / user. As a general rule, there is limited availability of substitutable products that can be used to determine the value of intangible assets. The unique nature of intellectual property assets, exclusivity and patent restrictions, limits the number of comparables. For example, intangible assets, such as patents, that have strong legal protection against copying or imitation, tend to have a significantly higher value than those that have less protection. In addition, the value of IP can be very dependent on who is using the asset.

There are market-based and income-based techniques for the valuation of IP.

The market-based valuation is the most commonly used approach in IP valuation. It does not rely on directly observed values but rather on market data, for example, on royalty rates from which values can be derived indirectly. It is often useful in the valuation of patents, trademarks and copyrights in industries where: comparable IP assets are purchased or licensed; an active market for the IP exists; and sufficient data to enable a suitable analysis of the underlying

[215] Tennant, Anastasia and Arts Council England (2020). The valuation of chattels. Wealth Tax Commission Background Paper, no. 140. Available from https://www.wealthandpolicy.com/wp/BP140_Valuation_Art.pdf
[216] For example, Argentina. Article 22(g) of law 23.966 on personal asset taxation.

market can be accessed. However, it is very difficult to apply the market-based approach to unique IP assets where there is no active market.

Alternatives to the market-based valuation approach are income-based valuation approaches such as:

(i) Relief from royalty approach

This is based on the economic theory of deprival value, i.e., where the value of the IP is estimated to be equal to the capitalized amount of the royalties that would be payable if the IP were not owned but had to be licensed at arm's length from a third party.

(ii) Residual value approach

This considers the profits and value that is generated across the entire value chain of the business. It allows each element of the business a reasonable return based on the functions they perform and the risks they bear. Any residual or "excess" value is deemed to be attributable to the IP assets of the business that have not already been accounted for in the returns allowed along the value chain. Other methods include with and without; multi-period excess earning; distributor and Greenfield methods.[217]

An alternative approach is the cost approach. This approach is frequently employed for determining the value of acquired or internally generated intangible assets such as software or technology when the market and income approaches cannot be applied. However, it is important to exercise caution when employing the cost approach, particularly for intangible assets that do not significantly drive the core business and for which a potential buyer may not be inclined to pay a substantial premium.[218]

6.2.10 Crypto-assets

As the prevalence of crypto-assets increases, the valuation of these assets for wealth tax purposes gains in importance. The ease of valuing crypto-assets depends on the frequency with which they are traded. Highly liquid crypto-assets such as Bitcoin have a readily ascertainable market value, derived from the quoted prices on leading crypto exchanges.[219] However, the prices of tokens can differ widely from one exchange to another, and there are

[217] Institute of Chartered Accountants of India, ICAI (2021). Technical Guide on Valuation (Revised Edition 2021). Paragraph 7.13, page 50. Available from https://icairvo.in/documents/Technical%20Guide%20on%20Valuation.pdf

[218] Institute of Chartered Accountants of India, ICAI (2018). Valuation Standards 2018. Paragraph 78, page 103. Available from https://icairvo.in/documents/ICAI%20VALUATION%20STANDARDS.pdf

[219] Ooi, Vincent (2023). Report on the challenges which Digital Assets Pose for Tax Systems with a Special Focus on Developing Countries. Available from Microsoft Word - 2023 03 13 Challenges of Digital Assets for Tax Systems (un.org)

difficulties in establishing from which exchange the rate should be taken.[220] A practical suggestion has been made to take an average of rates which mitigates the challenge.[221] For crypto-assets that are not traded frequently, the use of crypto indices as regards their appreciation or depreciation may be a pragmatic approach.

6.2.11 Valuation date

The relevant date for valuation purposes is generally the date of the taxable event. For example, for net wealth taxes, this will be a date prescribed by domestic law for the tax (the cut-off date). The same holds true for recurrent taxes, particularly recurrent taxes on immovable property, where the valuation date is generally prescribed by the domestic law along with the required update of the valuation. See section 6.2.12 (Frequency of valuations) on the importance of the frequency of updating these valuations.

For wealth transfer taxes, this will typically be the date of the transfer. If the assets are going to be sold within a short time frame after the transfer of wealth, tax jurisdictions could consider allowing for the actual sale price to be substituted with the valuation. This would be an administratively simpler option.

6.2.12 Frequency of valuations

For recurrent taxes on the stock of wealth based on valuations prescribed by a particular wealth tax (i.e., property and net wealth taxes), frequent valuation re-assessments are recommended to ensure fairness and avoid abrupt and significant increases in tax obligations. Due to the unpopularity and costs associated with valuations, tax administrations are often reluctant to undertake frequent valuation reassessments. In the long run, however, this could lead to abrupt and significant increases in tax obligations, generating greater discontent. In addition, abrupt increases in tax obligations from one year to another may create liquidity problems since they might not be directly related to taxpayers' income.

6.2.13 Valuations and access to information

The tax administration's access to public and private databases, including information from financial institutions, and its ability to analyze and exploit them is vital for a well-functioning valuation system for wealth tax purposes. For example, if sufficient sales information is available, a price index can be estimated for each class of real estate and applied generally to each class through a computer-assisted mass appraisal (CAMA) system, drastically reducing the cost of property reassessments.

[220] Stevie Conlon, Anna Vayser & Robert Schwaba, *Valuation of Cryptocurrencies and ICO Tokens for Tax Purposes*, 12 Estate Planning and Community Property Law Journal 25, 35 (2019).
[221] IRAS, IRAS e-Tax Guide: Income Tax Treatment of Digital Tokens (9 October 2020), 5.4-5.5.

See section 6.3 (Access to Information) for discussion of the importance of access to information for wealth taxes generally.

6.2.14 Valuation for solidarity net wealth taxes

In the middle of an on-going national crisis, tax jurisdictions will need to rapidly raise revenue. In this context, tax jurisdictions could consider providing for a simplified approach to valuation within any solidarity net wealth tax legislation.

6.3 ACCESS TO INFORMATION

Policymakers require information on wealth ownership when deciding whether to introduce wealth taxes and when designing and administering these taxes. The greater the amount and the better the quality of available information, the better the chances of a tax jurisdiction successfully adopting and implementing taxes on wealth.

Tax jurisdictions have different potential sources of information on asset ownership which will be analyzed in the following sections. In accessing and using information for tax purposes, it is crucial to be mindful of data and privacy laws in line with domestic legislation (see also section 6.4.2 (Improve access to public registers outside tax administrations)).

6.3.1 Information already available to the tax administration

The starting point should be the information currently provided under a tax jurisdiction's tax regime. This includes, for example, personal income tax returns. In some countries, taxpayers are required to file declarations detailing their assets to tax authorities through income tax returns.[222]

Countries that have special administrative units focusing on high-net-worth-individuals (HNWI)[223] may have additional information that can be used for wealth tax purposes.

6.3.2 Information held by other domestic government agencies

Tax authorities can also coordinate with other government agencies to make use of wealth information held by public authorities. The information collected could include, for example, information from household surveys and other census information, information on stock holdings held by government authorities that regulate stock and securities exchanges and information regarding bank deposits that are held by individuals which could be accessible through the central bank. The authorities in charge of cadasters are also helpful (see Box 13 for more information), in addition to vehicle registration agencies. Some countries gather information about real estate from other government bodies such as power and water utility

[222] For example, Argentina and Colombia.
[223] See further at Box 15 (HNWI unites – experiences (Uganda)).

companies.[224] Intellectual property registers could also be a source of information on intellectual property ownership.

Box 13: Cadasters

An accurate cadaster is essential for maximizing tax revenue from wealth taxes, not only recurrent taxes on immovable property taxes but other wealth taxes, such as wealth transfer taxes, capital gains and net wealth taxes. Cadasters are generally also used for more than one purpose.[225] They also play an important role in other public policies, for example, urban planning, environmental protection, transportation, housing, , etc.

The standard of cadasters varies widely across countries, which impacts tax administrations' ability to assess and collect immovable property taxes. Multi-agency cooperation and third-party information are essential for accurate, complete and updated cadaster information. Not all information should be collected by the managers of the cadaster. It is essential to have access to information from different government agencies at the national, regional and local levels, as well as third-party information, including open sources.

OECD countries have cadaster coverage ratios close to 100% while developing countries typically have a ratio of between 40% and 60%. In addition, cadaster registers in developing countries are often incomplete and out of date in terms of property value and ownership information. This incomplete information has significant ramifications on the taxation of wealth in developing countries.

Recent technological advances and progress on international exchange of information have enhanced the capacity of developing countries to develop and maintain better cadasters. For example, the use of satellite photos or the inspection of properties with drones is making it possible to easily observe changes in properties and new constructions at a lower cost. This is significant because the cost of data collection is a major obstacle to regular cadaster updates.

6.3.3 Private sector information

In recent years, tax administrations have gained increased access to information held by financial institutions and insurance companies. In case domestic legislation allows, this information can be used for the administration of wealth taxes.

[224] For example, Kenya.

[225] OECD (2021). Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries. OECD Fiscal Federalism Studies. OECD Publishing, Paris. Available from https://doi.org/10.1787/bd0fbae3-en.

6.3.4 Information held by other jurisdictions

As those who hold a significant share of wealth often hold assets in multiple jurisdictions, the exchange of tax and financial information between tax administrations is a key enabler for a successful wealth tax regime. The work undertaken on automatic exchange of information by the OECD through the Common Reporting Standard (CRS) via the multilateral Convention on Mutual Administrative Assistance in Tax Matters and the CRS Multilateral Competent Authority Agreement (CRS MCAA) has enabled the automatic exchange of financial account information among participating tax administrations by removing legal barriers such as bank secrecy and enabling participating tax administrations to access relevant information.[226] It is important to note though that many developing countries are not participating and thus do not have access to this information. [227]

6.3.5 Information from amnesty programs and leaks

Several countries have adopted amnesty programs for taxpayers. These programs typically allow favorable tax treatment, such as a full or partial reprieve from any tax, interest and penalties that would otherwise be due in relation to previously unreported taxable assets. Many tax amnesties include tax regularization of assets held abroad (also referred to as "Offshore Voluntary Disclosure Programs"). [228] Governments often launch amnesty programs which are designed to last for a limited period of time. Information gained through these programs can generally be used to administer wealth taxes of those applying for amnesty.

A series of high-profile leaks of financial information, most notably the Pandora Papers[229] and Panama Papers[230], provide valuable information to tax authorities. Other leaks of financial information include the Paradise Papers, HSBC Jersey, HSBC Geneva and Off-Shore Leaks. Additionally, the International Consortium of Investigative Journalists maintains an offshore leaks database that tax jurisdictions would find useful in tracing assets held by its residents in tax havens.[231]

6.3.6 Beneficial ownership registers

For purposes of levying wealth taxes on individuals, it is important to identify the ultimate beneficial ownership and legal ownership of wealth assets. However, tracing the beneficial ownership of high-net-worth individuals (HNWI) can be complex as they are likely to be better

[226] For further information, see International framework for the CRS - Organization for Economic Co-operation and Development (oecd.org)
[227] For more information see CRP.31 Increasing Tax Transparency.pdf (un.org)
[228] Laila Martin and Agatino Camarda (2017). Best Practices In Tax Amnesty And Asset Repatriation Programmes. Transparency International. Available from Best Practices In Tax Amnesty and Asset Repatriation Programmes (transparency.org)
[229] International Consortium of Investigative Journalists, ICIJ (2021). Pandora papers. Available from https://www.icij.org/investigations/pandora-papers/
[230] International Consortium of Investigative Journalists, ICIJ (2016). Panama papers. Available from https://www.icij.org/investigations/panama-papers/
[231] International Consortium of Investigative Journalists, ICIJ (2013). Offshore Leaks Database. Available from https://offshoreleaks.icij.org/

informed, better organized and able to engage in tax planning. A lack of transparency of beneficial ownership opens opportunities for tax avoidance and evasion by facilitating the possibility of hiding wealth at home and offshore. For example, trusts, usufructs and foundations have been common tools to avoid wealth taxes. While all of these entities can be set up for legitimate non-tax purposes, the fact that legal ownership and beneficial ownership are held by different persons means they can also potentially be used to avoid and evade taxes.

Identifying the ownership of moveable property assets is complex, more so in many developing countries where identification could be hindered, for example, due to the lack of information systems for database cross-referencing. Whilst it is common for countries, for road safety reasons, to keep track of vehicles, including their owners and their value, it is less common for countries to keep register of other types of tangibles, moveable property. A register of these types of assets, for example, in a national inventory or register of assets, could be beneficial for the owners for several non-tax reasons such as public certification of their authenticity and value, and identification of their legitimate owner, which can also help in case of loss or theft. Tax authorities could incentivize owners to include their assets on this type of register by offering tax-motivated reasons to register them. These could include opportunities to obtain tax relief, for example, through exemption from capital gains tax when the assets are donated to entities such as museums, charities, educational institutions, the state, etc., or by granting an exemption from sales tax, only if assets are registered.

Difficulty in identifying the beneficial owner can also be a major problem with intangible assets. Whilst most industrial or intellectual property rights must be registered at the corresponding patent office, intellectual property registry, or similar bodies, this registration seeks to protect the right of use and does not include or determine the economic value of that right.

An increasing number of countries are implementing a centralized beneficial owner registry to ensure that this information is available, timely and updated. For these registries to be effective and not a mere repository of outdated information, they need proper monitoring and a sanction system that is dissuasive enough to ensure compliance.

6.3.7 Other sources of information

Information about the total wealth of individuals and the distribution of assets that may be useful for purposes of analyzing whether to introduce wealth taxes or their effectiveness once implemented is available from non-governmental sources. For example, academic and financial reports, including the World Inequality Database[232] and Credit Suisse's Global Wealth Report[233] may also provide information about income and wealth inequality. Both on a global

[232] WID.world. (2022). World Inequality Database. Available from https://wid.world/
[233] Credit Suisse (n.d.). Global Wealth Reports. Available from https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html

and country basis, magazines and newspapers may also contain lists of the wealthiest individuals, for example, Forbes's ranking of wealthy individuals.[234]

6.4 IMPROVING AUTHORITIES APPROACH TO INFORMATION

The following section discuss ways in which tax authorities can improve their access to, and use of, taxpayers' information to implement an effective wealth tax regime.

6.4.1 More and better use of databases within the tax administration

As tax administrations have access to an ever-increasing pool of data, it will be important to interpret and exploit it to maximize its potential in decision making regarding tax collection and enforcement. To convert the data into useful information that can help in administering wealth taxes, tax authorities can use statistical analysis, business intelligence, database cross-referencing, risk mapping, tax intelligence, tax analytics, data visualization and big data. This requires significant investment in both technology but more so in skilled manpower and related training programs. Tax administrations may also establish designated statistics units that collect information for the administration of taxes, including wealth taxes.

Specific examples of potential database tools include:

Use of technology: some developing countries are making progress in the development of national spatial data infrastructure.[235] This may assist tax administrations in visualizing geographic data, identifying patterns and supporting informed decision-making for wealth tax policy enactment, administration and compliance management.

Use of tax returns: In respect of data collection, when designing tax returns for wealth taxes, tax authorities should consider how wealth tax information provided by taxpayers can be used as a control on the income tax system (and vice versa). The most popular form is the annual self-assessment tax return. This can be reinforced through an in-built, efficient cross-referencing mechanism that may include internal and external databases that can pre-populate forms, even partially, hence streamlining the process. This is beneficial for both taxpayers and tax administrations.

6.4.2 Improve access to public registers outside tax administrations

At the domestic level, it is necessary to be aware of existing data privacy laws and regulations, and in compliance with these laws, improve the quality of information that tax administrations

[234] Forbes (2022). Forbes Billionaires 2022: The Richest People In The World. Available from https://www.forbes.com/billionaires/

[235] Une, H., Nyapola, H., Mbaria, C., & Maruyama, H. (2003). Towards the establishment of Kenya national spatial data infrastructure. In Proceedings of the 21st International Cartographic Conference (ICC) (pp. 1678-1687). Available from https://ggim.un.org/knowledgebase/Attachment1373.aspx?AttachmentType=1

can access from public sources, for example through multi-agency cooperation between different government agencies. Where necessary, data privacy laws and regulations may need to be adapted in light of new technological advances and information needs.

6.4.3 Access to private sector databases of interest to the tax administration

It is also very important to improve access to information held by the private sector, both in quality and quantity, while respecting data privacy laws and regulations. Finding relevant databases from the private sector and establishing access for the tax administrations is essential for progress toward the administration and monitoring of wealth taxation. There may be some resistance in relation to access to private information in societies with low levels of tax culture. This can be addressed through public participation programs.

6.4.4 Exchange of information with foreign tax authorities

Increasing the quality and quantity of information exchanged for tax purposes is important. This generally requires countries to effectively implement information exchange both automatically and upon request. However, developing countries are experiencing capacity constraints with respect to exchange of information. It is therefore important for multilateral organizations to contribute to the training / capacity building of skilled labor force, the provision of technology, and the development of robust legal frameworks for effective exchange of information.

To increase the usefulness of exchange of information, there may be the need to allow flexibilities for developing countries regarding the implementation of the CSR or to complement CRS with additional measures which consider the needs of developing countries.[236]

It is also important to broaden the type of information that is automatically exchanged, such as real estate assets or the holding of shares in companies and registers of beneficial owners, going beyond the usual exchange of information on bank deposits. Likewise, it would also be desirable to exchange information on holdings of precious metals or works of art using relevant databases.

6.5 Methods of Collection

Countries can use various methods to collect wealth taxes. Potential approaches include:

6.5.1 The withholding approach

[236] For further information see CRP.31 Increasing Tax Transparency.pdf (un.org)

The withholding approach is commonly used for collection of capital income taxes. The payor of the capital income deducts tax at source and remits the tax withheld to the tax authority. This is a particularly common in the case of taxation of interest, where tax is typically withheld by the financial institution that is involved in the transaction. [237] This approach shifts the administrative burden from the recipient of interest to financial institutions on the basis that financial institutions are typically under intense regulatory scrutiny and are therefore unlikely to default on their tax obligations.

It the context of capital gains tax, an obligation to withhold tax may be placed on the seller, who is obliged to deduct capital gains tax from the sale proceeds paid to the buyer and remit such tax to the tax authority.[238] In the context of wealth transfer taxes, it may be appropriate to place a withholding obligation on the transferor in respect of inheritance or gift tax at the time of the transfer of wealth.[239]

In the context of developing countries, a withholding approach is often preferred because it is easier to administer than a self-assessment approach.

6.5.2 Self-assessment approach

Taxpayers self-report any capital income received (in the case of capital income taxes) or any accretions to wealth (in the case of wealth transfer taxes and taxes on the stock of wealth) when filing a tax return. Taxpayers are responsible for filing their tax return within the relevant time period and paying the relevant tax. Interest and penalties regime is used to encourage voluntary compliance, together with other measures discussed in section 6.6 (Compliance Management).[240]

A partial pre-payment approach could be used (for example, in respect of a periodic net wealth tax), where the taxpayer is required to pay an installment in advance in respect of expected tax due, perhaps based on the previous year's tax liability. When the taxpayer files their tax return setting out their determination of tax due, they remit tax due less any pre-paid taxes.

[237] Oravec, Peter (2002). Taxation of Interest Income in European Countries. BIATEC Volume X, 7/2002. Available from https://nbs.sk/_img/documents/biatec/bia07_02/19_24.pdf
[238] For example, Uganda.
[239] Rudnick R.S. and Gordon R.K (1996). Chapter 10. Taxation of Wealth in Thuronyi V (ed) (1996). Tax Law Design and Drafting Volume 1. IMF at pp. 316-318. Available from https://doi.org/10.5089/9781557755872.071
[240] Waerzeggers, Christophe , Cory Hillier, and Irving Aw, 2019, "Designing Interest and Tax Penalty Regimes", Tax Law IMF Technical Note 1/2019, IMF Legal Department

6.6 COMPLIANCE MANAGEMENT

6.6.1 Encouraging voluntary compliance

Robust tax collection and enforcement can provide an incentive for taxpayers to ensure that the information which tax authorities have on the ownership and value of their assets is accurate. For example, in the context of recurrent taxes on immoveable property, only when the tax is effectively collected and enforced do taxpayers then worry about appealing the property values to ensure they are not forced to pay taxes based on an inaccurate valuation. Where there is effective enforcement, taxpayers cannot just ignore inaccurate property information and valuations by ignoring the property tax payment itself. Focusing on property tax collections sets in place the incentives for higher voluntary compliance and more active taxpayer participation, thereby exerting pressure on tax administrations to ensure accuracy in the property and valuation information.[241]

It is important to simplify compliance, for instance by designing forms that are as simple as possible and making it easy to file and settle tax liabilities, for example, through digital portals where taxpayers can log in, self-register and administer their tax liabilities, and through partly pre-filled tax returns, which would reduce both compliance and enforcement costs.

Technology may play an important role in this respect by reducing taxpayers' compliance costs and therefore help to foster voluntary compliance.

6.6.2 Audits

Wealth taxes can open opportunities for tax avoidance and evasion. All tax administrations, but particularly those from developing countries, face resource and capacity constraints. This makes it especially important to ensure that limited resources are targeted as efficiently and effectively as possible. Applying risk-based approaches can help to ensure compliance while acknowledging the high costs involved in auditing. Effective risk assessment – aiming to analyze which taxpayers will need to be audited – combined with credible and visible audit activities of those identified may help to deter taxpayers from engaging in aggressive or opportunistic tax planning.

6.6.3 High Net Worth Units

Some tax jurisdictions have established HNWI units to administer this taxpayer segment.[242] These units are resourced with highly skilled staff to promote collaborative compliance, i.e., facilitation by way of dialogue rather than confrontation. This dialogue includes interaction with tax intermediaries and wealth planners on a regular basis, including in the form of consultation, training and induction on specific issues.

[241] Kelly, Roy (2013). Making the Property Tax Work. International Center for Public Policy. Working Papers, 42. Available from https://scholarworks.gsu.edu/cgi/viewcontent.cgi?article=1041&context=icepp

[242] For example, United Kingdom.

Other advantages offered by HNWI units are: sending a strong signal to non-compliant HNWIs that they are at risk of investigation by the tax authority; the opportunity for concentration of skills through dedicated training and retention of staff leading to an improved understanding of the HNWI population by the unit over time; and greater ease of monitoring and improvement of activities of the HNWI unit compared to if resources were spread throughout the tax administration.[243]

6.7 APPEAL SYSTEMS

A well-functioning appeal system is key for wealth taxes. As the valuation of most of the assets for the purposes of wealth taxation is ultimately an estimation (see section 6.2 (Valuation)), an accessible and responsive appeal system is essential. Ultimately, the degree of compliance and acceptance of reforms in a wealth tax system is likely to be influenced by taxpayers' perceptions regarding fairness, transparency and predictability. The appeal system should be transparent and predictable and should have clear procedures that ensure that both the taxpayers and the tax administration have a fair opportunity to be heard.

6.8 CAPITAL FLIGHT / EXIT TAXES

The taxation of wealth can elicit behavioral responses from individuals who are subject to the tax. They may, for example, modify their investment strategies (such as investing more in wealth assets abroad) or transfer their tax residence to other jurisdictions. Wealthy individuals are more likely to respond this way because they are more heavily impacted by wealth taxes and have better access to tax planning resources. Capital mobility and globalization, combined with the advent of digitalization of the world economy, have contributed to the increase in global offshore wealth over the last four decades. Some studies estimate that the equivalent of about 10% of the world's GDP, approximately US$ 7 trillion, is held offshore.[244]

To address the issue of taxpayers changing tax residence to avoid wealth taxes, tax jurisdictions may consider introducing an exit tax which would deem taxpayers who become non-resident to have alienated their assets at the date they cease to be resident, and therefore be subject to taxable capital gains. An alternative that tax jurisdictions may consider is to continue taxing those individuals on the net value of such assets for a specified number of fiscal years after their immigration. It is important to note that this measure could have a negative impact on immigration, as individuals may be reluctant to move to the relevant tax jurisdiction.

[243] OECD (2009). Engaging with High Net Worth Individuals on Tax Compliance. Available from https://www.oecd-ilibrary.org/taxation/engaging-with-high-net-worth-individuals-on-tax-compliance_9789264068872-en

[244] Lijun Li And Chris Wellisz (2019). Gimme Shelter, Counting wealth in offshore tax havens boosts estimates of inequality. Finance and Development. Available from https://www.imf.org/en/Publications/fandd/issues/2019/09/offshore-tax-havens-and-inequality-picture

Box 14: Exit tax charges in Germany for individuals

Under section 6 of the German Foreign Tax Act, exit taxation applies to German tax residents qualified private shareholdings. In the event exit taxation is triggered under this tax, the individual is deemed to have disposed of the shares at their fair market value and the fictitious capital gain, if positive, will be taxed in accordance with general German income tax rules.

This exit taxation only applies to individuals who have lived in Germany for at least seven years during the past twelve years and have possessed, directly or indirectly, private shareholdings of at least 1% of shares in a German or foreign corporation at any point in the last five years. An exit tax event is considered to occur if: i) an individual gives up their domicile or permanent residence in Germany; ii) an individual transfers the shares to a non-German tax resident by way of a gift; or iii) Germany's right to tax the capital gains of these shares is excluded or limited in any other way. In these cases, taxes are due on the latent gain of the shares by way of a deemed sale at the time of the exit event. The deemed capital gains are defined as sixty percent of the positive difference between the shares' acquisition costs and their fair market value. The capital gains are taxed at the personal income tax rate of the shareholder of up to 45% (plus solidarity surcharge if the income exceeds a certain threshold, and church tax if applicable). Depending on the income tax rate applicable this can lead to an effective tax rate of up to 28.5%.

Taxpayers can request to pay the exit tax without interest in seven annual instalments upon filing an application to the tax authorities. In case of a sale of the shares during that time the tax becomes due immediately. In case the taxpayer becomes a tax resident in Germany no more than seven years after the exit event, the tax on the deemed capital gains can be waived under certain conditions. This includes, for example, that no profit distributions have been made since the exit event that amounted to more than one quarter of the shares' fair market value at the time of the exit.

6.9 ADDRESSING TAX EVASION

General anti-avoidance rules could be introduced to counteract tax-driven transactions or arrangements that could erode the wealth tax base.[245] An effective tax penalty regime, potentially including both administrative and criminal penalties, could also compel taxpayer compliances.[246] Another potential approach to tackle ownership concealment could involve imposing higher taxation rates on assets whose beneficial owners are not disclosed. Some

[245] See further at Waerzeggers, Christophe and Cory Hillier (2016). Introducing a general anti-avoidance rule (GAAR)—Ensuring that a GAAR achieves its purpose. Tax Law IMF Technical Note 2016/1. IMF Legal Department. Available from Introducing a general anti-avoidance rule (imf.org)

[246] See further at Waerzeggers, Christophe , Cory Hillier, and Irving Aw (2019). Designing Interest and Tax Penalty Regimes. Tax Law IMF Technical Note 1/2019. IMF Legal Department. Available from Designing interest and tax penalty regimes (imf.org)

countries have tried this approach.[247] There is also an increasing trend in encouraging voluntary disclosure by taxpayers through the use of tax amnesty arrangements.[248]

[247] For example, Ecuador.

[248] See further at section 6.3.5 (Information from amnesty programs and leaks) above.

7 INTERACTION BETWEEN TAXES RELATED TO WEALTH AND OTHER TAXES

7.1 INTRODUCTION

The design of any new wealth tax, or reform of any existing wealth tax, must take into account a tax jurisdiction's existing tax system, and in particular, its existing approach to taxing the different elements of wealth. This Chapter focus on the interaction of wealth taxes both the interaction among the different types of taxes related to wealth; and the interaction of those wealth taxes with the wider tax system of a tax jurisdiction.

7.2 INTERACTION AMONG WEALTH TAXES THAT ARE RELATED TO WEALTH

The different types of taxes on wealth (capital income taxes, wealth transfer taxes and taxes on the stock of wealth) will form part of a composite system of taxation of wealth. When designing wealth taxes, policy makers should consider how the various mechanisms for taxing wealth could work as a whole, and how they interact. The following subsections highlight some factors to consider when considering the interaction among wealth taxes.

7.2.1 Interaction between gift taxes and inheritance taxes

There is a clear interaction between gift taxes and inheritance taxes. Both taxes together cover *inter vivos* gifts and those that are made on death. If a country has just one of these two taxes, there would be loopholes that could be exploited for tax avoidance. For example, if a tax jurisdiction enacted an inheritance tax regime without a similar regime to cover inter *vivos gifts*, people could simply give away their assets during their lifetime to avoid paying inheritance tax.

Both taxes also commonly apply the same rules in many ways. These include rules governing exempt transfers and exempt assets; preferential rules on degrees of consanguinity; and valuation rules. It is also common for the same tax rates to be applied to both the gift tax and the inheritance tax. This is because a significant difference in rates could create tax avoidance opportunities.

Further, under a cumulative approach, inheritance tax rules may include a retrospective examination of past *inter vivos* gifts to determine if they are subject to tax. This examination could also help to evaluate the available exemption thresholds for the *inter vivos* gifts.

Some tax jurisdictions implement both taxes in a unified regime, providing a single set of rules to cover both.

7.2.2 Interaction between gift taxes and inheritance taxes, and estate taxes

Some tax jurisdictions have implemented a tax regime that covers both inheritance and estate taxes.[249] An estate tax regime could interact with a gift tax regime in several ways. For example, a rule that deems an *inter vivos* gift as part of the estate where the deceased, despite having gifted the asset during his lifetime, continued to enjoy its benefits. Such asset would, under the deeming rule, be included in his death estate for the purposes of the estate tax. In this case, the deeming rule is a specific anti-avoidance provision, which would achieve its intended objective if the *inter vivos* gift had either been made tax-free or had been taxed at a rate below the estate tax rate.

There are several considerations that a tax jurisdiction may evaluate in deciding whether to adopt an inheritance tax; an estate tax; or a blended tax regime that contains inheritance and estate tax elements. One such consideration is who the taxpayer should be i.e., the estate or the heirs. Particularly for developing countries, the administrative effort involved in monitoring and enforcing compliance must be a key consideration in choosing the tax regime and the taxpayer. For example, it could be administratively easier to enforce the taxes on the estates, who might be fewer, as opposed to the heirs.

7.2.3 Interaction between wealth transfer taxes and capital gains taxes

There are clear interactions between gift and inheritance taxes on the one hand and capital gains taxes, on the other. Tax jurisdictions that have wealth transfer taxes may apply aspects of their capital gains tax regimes to rules governing wealth transfer taxes. These could include rules on valuation, situs of assets and rules for the payment of tax liabilities. A common question relating to capital assets held by the deceased's estate might arise because the general rule is to value such assets at fair market price. The question therefore arises whether a capital gains tax charge may be deemed as arising at the date of death. This would be on a deemed disposal of the asset, using the fair market value as the deemed disposal proceeds. Several countries provide for a capital gains tax-free uplift for such assets. In this case, there is no deemed disposal because the assets are taken as revalued at their market value, which is then treated as the base cost of the asset in a subsequent disposal. However, some countries may consider death as a deemed disposal for capital gains tax purposes. In this case, individuals are deemed, upon death, to have disposed of all their assets at fair market value. The assets are then deemed to have been acquired by their estates at the value attributed to the deemed disposal and taxed accordingly under the capital gains tax regime.[250]

In some cases, a transaction could give rise to a charge of both capital gains tax and inheritance tax. Where this occurs, a provision to address the double tax charge may be considered, for example, by allowing a form of holdover or deferral relief for the capital gains tax charge.

[249] For example, United Kingdom.
[250] For example, Canada.

7.2.4 Interaction between wealth transfer taxes and recurrent taxes on immovable property

It is preferable that the rules for the valuation of real estate be aligned across wealth transfer taxes and recurrent taxes on immoveable property.[251]

7.2.5 Interaction between wealth transfer taxes and net wealth taxes

Where a jurisdiction levies both a wealth transfer tax and a net wealth tax, it is essential to align the key features of these taxes including the rules governing: in-scope taxpayers, tax base and administration issues such as valuation, and payment of tax. These points are addressed briefly below.

In-scope taxpayers: It is common for both wealth transfer taxes and net wealth taxes. to apply both to residents and non-residents of the tax jurisdiction. In fact, it is preferable for the rules governing all wealth taxes to be aligned on the definition of "resident" and the scope of liability of a non-resident.

Regarding the definition of "resident": the general definition used for income taxes could be carried across to these taxes, possibly with modifications to fit any relevant policy objectives.[252]

Also, as far as possible, the scope of liability of non-residents should be aligned across all wealth taxes. For example, a gift tax regime may provide that a non-resident is liable only for gifts of property that are situated within that tax jurisdiction. The net wealth tax rules could be aligned with this principle, in its own case providing that a non-resident would be liable for net wealth tax only on assets that are situated within that tax jurisdiction. Similarly, the rules governing the situs of specified assets should be aligned across all wealth taxes.

Tax base. Some of the main issues relate to the determination of the assets that should come within the scope of the tax – in essence, which assets should be taxable, and which should be exempt, and should this classification apply in a uniform manner across all wealth taxes?

For gift tax and inheritance tax purposes, there may be public policy reasons for a gift or bequest of a particular asset to benefit from favorable tax treatment. This may apply, for example, to heritage assets, primary residences (up to a certain value), business assets (sometimes tied to specific policy objectives such as the retaining of numbers of employees), and agricultural holdings. However, the public policy rationale for exempting these assets may not always apply in the case of a net wealth tax, particularly in the case of an exceptional, one-off, solidarity tax. For a one-off net wealth tax to be successful, it should encompass as wide

[251] For example, Brazil.

[252] For example, concepts of "domicile" are often used in the context of inheritance tax and estate taxes.

a tax base as possible. As such, its design principles (concerning the tax base) could be at odds with those of a transfer tax. This may be slightly different with a periodic (e.g., an annual) net wealth tax. In such a case, there could be greater alignment with the tax base rules for a wealth transfer tax.

Valuation. The rules on valuation of assets should be uniform across all types of wealth taxes. In the first place, this would mean that the "open market value" rule should apply as a general rule, subject to exceptions for assets requiring special valuation rules. Also, there should be a uniform approach (across all wealth taxes) on which types of assets should be subject to special valuation rules, as well as on the mechanics of the operation of those special rules. However, there should be scope for different treatment of issues that are specific to each type of tax. A good example would be the rules concerning the relevant date for the purposes of the valuation: the inheritance tax rules[253] would necessarily be different from those that would apply to a net wealth tax[254].

Payment of tax. A common feature of wealth taxes is that the tax is generally levied in response to a chargeable event that does not actually lead to the taxpayer receiving any payment. This means that the taxpayer may not necessarily immediately have the funds available to pay the tax.

In such cases, it is not uncommon for the tax jurisdiction to make provision for payment by instalment. It is therefore worth considering whether these rules should be aligned across the different wealth taxes being levied by a tax jurisdiction. For example, if, under the gift tax regime of a tax jurisdiction, payment by instalments is available for gift taxes levied on the gift of a particular type of asset, it is worth considering if this beneficial treatment should also apply to net wealth taxes levied by that jurisdiction on that same type of asset.

Even so, there could be difficulties in implementation. This is mainly due to the key difference between a periodic net wealth tax and a wealth transfer tax that is not levied periodically, but is rather triggered by the occurrence of certain events[255]. It is relatively easier to administer instalment payments in respect of the latter category. The situation is more complex with a recurring (e.g. annual) tax. There may therefore be differing approaches (taken by a tax jurisdiction) as between both types of tax.

7.2.6 Interaction between capital income taxes and net wealth taxes

Taxes on capital income reduce the net expected return of capital assets and therefore generally reduce the value of those assets (i.e., the capital income tax is capitalized into the

[253] Generally, the date of death would be taken to be the relevant date for the purposes of determining the value of the asset. This could be displaced by the date of disposal of the asset if this occurs within a stipulated period after the statutory valuation date.
[254] Generally, this would be a date set by the tax jurisdiction, and would have no reference to anything done by a taxpayer (e.g. the gift of an asset) or by any other person (e.g. the death of a testator).
[255] E.g. a gift of a taxable asset, or the death of an individual.

market price of the asset). As a result, higher taxes on capital income are likely to reduce the net wealth tax base and reduce the total revenue generated from net wealth taxes. The capitalization of capital income taxes into the price of wealth assets creates an interdependence between taxes on capital income and a net wealth tax – an increase in taxes on capital income will result in a smaller net wealth tax base and potentially a reduction in wealth tax revenues.[256] A net wealth tax combined with capital income taxes may result in an exaggerated overall tax burden.[257]

Any net wealth tax will, in and of itself, have a similar effect through tax capitalization. A net wealth tax will decrease the value of the assets which are subject to the net wealth tax in that jurisdiction, thereby narrowing the net wealth tax base.[258]

7.3 INTERACTION BETWEEN WEALTH TAXES AND OTHER TAXES

Any wealth tax will also sit within the wider tax framework of a tax jurisdiction and policy makers should be mindful about the interaction between wealth taxes and other existing elements of their tax regime. The following subsections highlight some factors to consider when considering the interaction of wealth taxes with other taxes that are not related to wealth.

7.3.1 Interaction between wealth transfer taxes and income taxes

Wealth transfer taxes are generally treated as distinct from income taxes, having separate rules for, inter alia, chargeable events, exemptions, deductions and rates. However, there are some exceptions where the wealth transfer tax regime is part of the income tax regime, for example, such that where gift taxes apply, they are cumulated with the overall taxable income.[259] A rare approach has also been observed where both an income tax and a gift tax are applied but, depending on the identity of the donee, gift tax is applied on gifts to a spouse or other prescribed relatives and income tax on gifts to other persons.[260] By levying a gift tax to gifts to close family members, the tax system recognizes that such transfers may be driven by non-tax motivated familial ties. On the other hand, applying an income tax on gifts to non-relatives helps prevent individuals from utilizing gifting as a tax planning strategy. Another approach is to grant the taxpayers a choice between the gift tax or the application of income taxes. In this approach, the general rule could be that even though gifts are taxed, and no personal allowances are granted, taxpayers can elect to have their gifts taxed under the

[256] OECD (2018). The Role and Design of Net Wealth Taxes in the OECD. Chapter 3. The case for and against individual net wealth taxes. Available from Chapter 3. The case for and against individual net wealth taxes (oecd.org)
[257] European Parliament (2022). Solidarity and wealth tax. Briefing Requested by the BUDG committee. Available from https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/732005/IPOL_BRI(2022)732005_EN.pdf
[258] OECD (2018). The Role and Design of Net Wealth Taxes in the OECD. Chapter 3. The case for and against individual net wealth taxes. Available from Chapter 3. The case for and against individual net wealth taxes (oecd.org)
[259] For example, Czech Republic and Albania.
[260] For example, Denmark.

income tax laws; this way, taxpayers can claim the personal income tax allowance.[261] To the extent that these methods introduce increased complexity, they might not be ideal for developing countries.

Although they are distinct from each other, many wealth transfer tax rules adopt some basic concepts of income tax rules. For example, many gift tax regimes adopt the income tax regime's concept of residence. This generally makes it easier to administer both taxes. However, for inheritance tax regimes, the concept of residence may often be seen as too narrow. Some tax jurisdictions, therefore, choose to supplement the income tax concept of residence with additional concepts, for example, by including some citizenship or domicile tests to inheritance tax regimes.

A typical estate tax regime presents general rules regarding how the income tax liability of the deceased individual in the year of their passing, as well as that of the estate, are to be handled.

7.3.2 Interaction between wealth transfer taxes and transfer taxes / stamp duties

Where there is a transfer tax regime in place, for example in the form of a stamp duty, it is important for the key elements of that tax regime (valuation and taxable event) to be aligned with the relevant aspects of a wealth transfer tax regime. For example, where an immovable property gift is made, the transfer tax regime rules relating to the perfecting of that gift should also apply to the wealth transfer tax regime.

Some tax jurisdictions levy a transfer tax on *inter vivos* gifts of real property, while not having a gift tax, as such.[262] Rather than levy a gift tax or inheritance tax, some tax jurisdictions may opt to tax gifts via a stamp duty tax regime.[263]

Some tax jurisdictions levy both a transfer tax and an inheritance tax for gifts of immovable property. Where both charges simultaneously arise, one of the taxes could be waived as an option to prevent double taxation. Similarly, where a tax jurisdiction introduces recurrent taxes on immovable property, this could coincide with a reduction in the taxes levied on transfers of property. Such a reform can help to keep the immovable property prices relatively stable while fostering a simple, growth-friendly tax system.

7.3.3 Interaction with corporate income tax

Wealth transfer taxes are generally levied on individuals. This could create an incentive for taxpayers to use closely held companies for tax planning. Specific anti-avoidance rules would generally resolve this issue. This includes for example rules on the transfer of assets from private holding to a business.

[261] For example, Thailand.
[262] For example, Peru.
[263] For example, Portugal.

7.3.4 Interaction of taxes on capital income and taxes on income from labor

The tax rate on income from capital, particularly capital gains, is often lower than the tax rate on income from labor.[264] The lower tax rate for income from capital is often justified on the basis that international capital mobility means that capital income taxes are relatively more distortive than taxes on labor income. However, where the effective tax rate on capital income differs too much from the effective tax rate on labor income, there is the opportunity for taxpayer arbitrage. For example, self-employed entrepreneurs can organize as closely-held corporations and either pay themselves salaries (taxed as labor income) or dividends (taxed as capital income). Capital income from shares is typically taxed at lower effective tax rates (ETRs) than wage income at the personal level, benefitting high income earners.[265] Imposing a moderately high tax rate on capital income should minimize the incentives for arbitrage whilst limiting the risk of capital flight.[266]

7.3.5 Interaction between net wealth taxes and other taxes

A periodic net wealth tax could, in theory, bring some stability of revenue relative to a more volatile head of tax such as, capital gains tax. Such a move would mirror the improvement in property-related taxes where a recurrent tax on immovable property provides a more stable stream of revenue than volatile stamp duties on transfers.267

A net wealth tax could also assist the administration of other taxes, providing information to collect income taxes and property taxes (see further in section 6.3 and 6.4 above).268

7.4 INTERACTION BETWEEN WEALTH TRANSFER TAXES AND OTHER LEGAL REGIMES

For a wealth transfer tax regime to operate effectively, it must be well coordinated with other domestic laws, including those beyond the tax realm. Generally, the following rules can be considered.

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[264] For example, United Kingdom or United States. See also Diana Hourani, Bethany Millar-Powell, Sarah Perret and Antonia Ramm (2023). The taxation of labour vs. capital income: a focus on high earners. OECD Taxation Working Papers.

[265] For example, United Kingdom or United States. See also Diana Hourani, Bethany Millar-Powell, Sarah Perret and Antonia Ramm (2023). The taxation of labour vs. capital income: a focus on high earners. OECD Taxation Working Papers.

[266] Mooij R., Fenochietto R., Hebous S., Leduc S., and Osorio-Buitron C. (2020). Tax Policy for Inclusive Growth after the Pandemic. IMF. Available from Tax Policy for Inclusive Growth after the Pandemic (imf.org)

[267] Commission on Taxation and Welfare Secretariat (January 2022). Taxes on Wealth. Briefing Paper. Available from https://assets.gov.ie/234164/4da284b3-f94e-41d8-89ae-4d19fd687e3c.pdf

[268] Rudnick R.S. and Gordon R.K (1996). Chapter 10. Taxation of Wealth in Thuronyi V (ed) (1996). Tax Law Design and Drafting Volume 1. IMF at pp. 302-316. Available from https://doi.org/10.5089/9781557755872.071.

7.4.1 Rules on succession, including forced heirship and intestacy

These may include civil law rules that provide that a prescribed portion of the estate may be reserved for certain classes of surviving relatives.[269]

7.4.2 Rules on property holding

For example, rules on joint tenancy and tenancy in common law countries.

7.4.3 Rules on trusts and usufruct

These rules generally provide for different types of ownership and interests, e.g., legal ownership, equitable ownership, interests in possession, interests in remainder, etc.

7.4.4 Rules governing probate, executorship and administration

These are particularly important for inheritance taxes and estate taxes. For example, a tax jurisdiction introducing an estate tax would have to ensure that the duties of the executor and administrator under the estate tax law are aligned with its general legal regime for such matters.

7.4.5 Rules on confidentiality and disclosure of information on property held

[269] For example, Belgium, Denmark, Finland, France, Greece, Portugal, and Spain.

8 APPENDIX A: METHODOLOGY FOR POTENTIAL NET WEALTH TAX REVENUE ESTIMATES

I. REQUIREMENTS

The estimation of the potential revenue of a net wealth tax on individuals has the following parameters:

1. **The precise definition of the tax base:** What assets will be part of that tax base? How will they be valued? What exemptions or deductions will be allowed? See section 4.6 (Taxable base), section **Error! Reference source not found.** (**Error! Reference source not found.**) and section 6.2 (Valuation) for a detailed discussion on this.
2. **Definition of the tax rate structure:** Will it be a tax with a flat or progressive rate? If the rate is progressive, what will be the scale of progressiveness? What is the threshold amount for the progressive rate? See section 4.9 (Tax rates).
3. **Dataset:** Once the previous issues have been addressed, it is necessary to build a dataset that is consistent with the structure of the tax so as to estimate the potential revenue by applying the tax rate structure to the estimated tax base. It is desirable that the dataset is built while considering the following characteristics:

    a. The assets must be disaggregated to allow more precise projections and to be able to attend to possible differentiated treatment of some of the assets.
    b. If possible, the database must be built at the individual level. If this is not possible due to a lack of information or data privacy laws, the database should be aggregated in short asset intervals to allow the application, as precise as possible, of the tax rate structure to the calculation of the potential revenue from the tax.
    c. In case there is a differential treatment due to the geographical location of different assets or based on any other criterion, the database must incorporate this differentiation. For example, if there are differential rates for assets that are located abroad, the database must consider this distinction.

Interval of assets	# of individuals	Total assets	Asset 1	Asset 2	Asset 3	Asset 4
0.00-1000.00	X	a+b+c+d	a	B	c	d

1000.01-2000.00	Y	e+f+g+h	e	F	g	h
2001.01-3000.00	Z	i+j+k+l	i	J	k	l
…	…	…	…	…	…	…

II. METHODOLOGY

The methodology for estimating the theoretical revenue of the net wealth tax arises from the application of the defined tax rate structure to the estimated tax base. However, this calculation may require some adjustments:

1. **Tax year.** Equity information is usually available with a significant time lag. In such cases, the value of the assets must be adjusted, or even projected if the measure is going to be implemented in a future period. For these cases, it is convenient to have a database with a detailed composition of the assets that make up the tax base. This way, a reasonable adjustment criterion can be defined for each type of asset. For example, the value of properties can be adjusted by a house price index, assets whose value depend on economic activity can be adjusted by nominal GDP, etc.

   In addition to the value of the assets, it is necessary to estimate the evolution of the amount of assets that make up the tax base, making use of the most convenient methodology.

2. **Tax actually paid.** Several issues can reduce the tax actually paid and must be considered for a realistic estimation of the potential revenue of the wealth tax. The following parameters must be estimated:
   a. % of revenue lost due to non-payment.
   b. % of revenue lost due to tax credits, exemptions and other mechanisms of tax compensation.
   c. % of revenue lost due to tax avoidance.
   d. % of revenue lost due to changes of fiscal residence because of the implementation of the wealth tax.

If it is overly difficult to estimate the above listed parameters, it is convenient to make assumptions through a prudence criterion, complementing the revenue estimate with a sensitivity analysis.

III. SOURCES OF INFORMATION

The fundamental requirement for the implementation of the methodology described above is the tax base. Depending on existing information, the information sources for assembling this information may differ.

1. **Annual asset declaration:** Many tax jurisdictions require taxpayers to fill out an annual declaration of assets. This declaration is a prerequisite for the payment of other taxes on assets, such as taxes on personal assets.[270] If the tax base of this pre-existing tax is not identical to that of the wealth tax, it might be necessary to adjust the database, adding and / or subtracting assets accordingly.

2. **Registration information:** If declarations associated with similar taxes are not available, it might be necessary to make use of registered asset data. A database can, for example, be built from the following sources:[271]
   a. Asset declarations held by the tax administration and any other organization, such as transparency offices.
   b. Real estate registries.
   c. Vehicles registries.
   d. For bank account information, information from the central bank.
   e. Regulatory entities for stock and securities exchange.
   f. Registries of company property.
   g. Registries of property of any other asset that is part of the tax base.

If available, both sources of information should be combined in case the dataset described in the first point of this section is incomplete or has an asset composition that significantly differs from that of the wealth tax.

In collecting information, relevant taxpayer privacy laws need to be kept in mind and followed.

[270] For example, Argentina and Colombia.
[271] For example, Argentina.

9 APPENDIX B: LEGISLATIVE ELEMENTS FOR NET WEALTH TAXES ON INDIVIDUALS

This appendix contains recommended legislative elements that should be contained in a law to impose a net wet wealth tax on individuals.

I. ENABLING PROVISIONS

The enabling provisions are the overarching provisions that give government officials the authority to enforce the law. These consist of the following:

Aims and Objectives: This provides the overall aims and objectives of the law along with its rationale.

Title, Extent, and Commencement: Title is what the law is called. Extent refers to the jurisdiction over which the law will apply. For example, in some tax jurisdictions the law may not apply to certain overseas territories or autonomous regions. Commencement refers to when the law will be deemed to have come into force.

Definitions: Definitions define the key terms relevant to the law. Where possible, reference can be made to terms defined in existing legislation, such as the income tax act, with new terms defined as necessary.

II. IMPOSITION OF THE TAX

The law should set out the mechanism for the actual imposition of the tax and describe: who are the taxpayers that are in scope, what is the wealth covered, what are the exemptions (if any), what is the tax rate, and what are the applicable thresholds? Suggestions of legislative elements to include are outlined below:

Taxpayers: These provisions specify who pays the tax and define, for the purposes of the law, residents and non-residents.

In-Scope Wealth: These provisions define the tax base, namely what constitutes wealth for residents and non-residents. Legislative drafters can refer to further details in section 4.6 (Taxable base) and **Error! Reference source not found.**.7 (**Error! Reference source not fo und.**).

Allowable deductions: These provisions outline what related liabilities can be deducted from the in-scope wealth.

Exemptions and Thresholds: Exemptions define which assets, if any, are exempt from the tax base. Thresholds specify the amount of in-scope wealth a taxpayer must have in order to be eligible to pay the tax. Different thresholds can be specified for taxpayers. Legislative drafters can refer to further details in section 4.6 (Taxable base), section **Error! Reference source not found.** (**Error! Reference source not found.**) and section 4.8 (Thresholds).

Rate: These provisions specify the tax rate, or rates, depending on the design of the tax. Legislative drafters can refer to further details in section 4.9 (Tax rates).

III. ASSESSMENT

The law should contain provisions dealing with how the tax is assessed. It should impose obligations on the taxpayer (for example, payment of tax or filing of tax return (where self-assessment is acceptable)) and give powers to tax authorities to ensure tax is being correctly calculated and paid. Suggestions of legislative elements to include are outlined below:

Valuation of assets: It is recommended that the law specify acceptable methods to value assets so as to reduce disputes and increase tax certainty. Legislative drafters can refer to further details in section 6.2 (Valuation)

Assessment: The law must also specify provisions relating to assessment such as what goes into the wealth tax return, how and when it is to be filed, whether self-assessment is acceptable and so on.

Administration: These provisions would relate to how audits would be conducted, and how information relating to wealth ownership can be used to ensure that the tax is being correctly paid. Legislative drafters can refer to further guidance in Chapter 6 (Key Considerations for the Effective Administration of Wealth Taxes).

Timing: This would specify when the tax should be paid and the period over which the tax is applicable. Drafters can refer to further guidance in section 4.10 (Liquidity / Timing).

Double Taxation Issues: These cover how double taxation, both domestic and/or international, can be avoided in case the in-scope wealth may also be subject to other taxes such as recurrent taxes on immovable property, gift taxes, inheritance taxes, etc. Legislative drafters can find additional guidance in section 4.11 (Economic double taxation) and 4.12 (Cross-border issues).

IV. COMPLIANCE ISSUES

The law should contain provisions to enable tax authorities to enforce the law and should detail the consequences of non-compliance. Suggestions of legislative elements to include are outlined below:

W**ealth Tax Authorities:** These provisions outline the role of the various officials involved in enforcing the tax, such as assessing officers, valuation officials, etc.

Penalties: These provisions specify the time limits for completion and reassessment, interest for defaults, and penalties for non-compliance.

Anti-Avoidance: These provisions should detail how avoidance techniques such as using trusts, usufructs, etc. to avoid paying the wealth tax can be countered, including through increased tax transparency measures such as beneficial ownership and improved use of technology. Legislative drafters can find additional guidance in section 6.9 (Addressing tax evasion)

Exit Taxes: This is a policy option to tax individuals who change their residence status for tax purposes. An exit tax can take various forms, but the essential idea is that those changing their tax residence are taxed on the deemed capital gains of their assets because of the change in their tax residence status. Legislative drafters can refer to details in section 6.8 (Capital flight / Exit taxes).

V. DISPUTE RESOLUTION

The law must also provide for how disputes shall be resolved, including options for settlement.

10 APPENDIX C: COUNTRY EXPERIENCE IN THE DESIGN AND ADMINISTRATION OF WEALTH TAXES

The following discussion examines countries' experiences with designing and administering annual wealth taxes. It is aimed at identifying lessons learned to give practical insights for the implementation and administration of wealth taxes.

The following four key observations may be helpful for policymakers in their deliberations about whether to adopt wealth taxes and how to best design and administer those taxes:

Country-specific factors: In Norway, the design and scope of wealth taxes reflect a combination of historical, political and administrative factors. Decisions on whether and how to tax wealth are strongly influenced by country-specific factors. In all countries, a wealth tax reflects a society's ideas of social justice;

Availability of information: An important factor in the success of wealth taxes in Norway has been the access to relevant information about taxpayers' assets that are held domestically or outside the country;

Relationship between wealth taxes and other taxes on wealth: A wealth tax, like any other tax, must complement the overall tax system of a country. Countries have taken different approaches to coordinating annual wealth taxes with other types of taxes on wealth, including taxing income from capital under the personal income tax, real estate taxes and inheritance and gift taxes; and

Challenges in administering the wealth tax: Administering wealth taxes can pose challenges to tax administrations. These are generally focused on the difficulty of valuing assets and attributing assets to taxpayers. Norway have found practical ways for addressing these challenges, for example, by adopting different approaches to administer the wealth tax and improving coordination among different government agencies, i.e., multi-agency cooperation, both within and outside the tax authority.

I. NORWAY

1. **Country Specific Factors**: Norway's experience with wealth taxes dates back to 1882. The wealth tax started as a municipal tax to fund local government and soon evolved into also being a national tax. Although the net wealth tax is still divided in a local (0.7%) and national tax (0.3%), the tax base and other characteristics are the same and taxpayers view the net wealth tax paid to the federal state and to the municipalities as a single tax.

   Further, in Norway, wealth taxes are strongly linked to the personal income tax. A primary purpose of the Norwegian wealth tax is to tax wealthy individuals who hold substantial assets but have little taxable income. While Norway's total net wealth tax revenues are

small compared to personal income tax revenues, the net wealth tax helped to improve the progressivity of the overall individual tax system compared to the income tax in isolation.[272]

The proportion of net wealth tax collection varies significantly between the national and municipal levels. At the state level, 7.8 billion Norwegian Krones (c. US$ 718 million)[273] are estimated to be collected as net wealth taxes, representing 0.38% when compared to total revenue of 2,063.9 Norwegian Krones. At the municipal level, 18.8 billion Norwegian Krones (c. US$ 1.7 billion)[274] are collected as net wealth taxes, representing 9% when compared to the total revenue collection of 210.7 billion Norwegian Krones.[275]

The proportion of people who remit a net wealth tax in Norway has declined over time. This can be attributed to increases in the tax-free allowance. It is estimated that about 13.7% of taxpayers will pay a net wealth tax in 2022 down from 15% in the year 2000. The average amount of net wealth tax remitted per individual has generally increased over the same period. This largest increase has been witnessed during the past year, from approx. 7,000 Norwegian Krones (approx. EUR 600) in the year 2000 to nearly 50,000 (approx. EUR 4,400) in 2022.

The threshold for levying the Norwegian net wealth tax is 1.7 million Norwegian Kroner (approx. EUR 150,000) with a tax rate of 1%. The tax rate increases to 1.1% for wealth holdings above 20 million Norwegian Krones (approx. EUR 1,770,000). This tax rate is composed of a municipal tax at 0.7% and a 0.3% state wealth tax for individuals who hold taxable net wealth not exceeding 20 million Norwegian Krones. For net wealth exceeding 20 million Norwegian Krones, the state wealth tax rate increases to 0.4%.

2. **Availability of information:** One key to Norway's success in administering wealth taxes is a comprehensive scheme of third-party reporting on taxpayers' income and assets. This allows the Norwegian tax authority to provide taxpayers with income tax returns which to a large degree are prefilled, including a list of assets attributable to taxpayers. These pre-filled tax returns are provided by the Norwegian tax authority to taxpayers for authentication and / or completion. This makes the administration of the net wealth tax significantly easier.

[272] Norwegian Ministry of Finance (2023). Proposition to the Storting (Bill and Draft Resolution). For the 2023 Budget Year. Taxes 2023, page 81. Available from https://www.regjeringen.no/contentassets/882fb5c97bf04386b4eb5d1ed898ae7b/en-gb/pdfs/prp202220230001ls0engpdfs.pdf

[273] Exchange rate as at September 2023.

[274] Exchange rate as at September 2023.

[275] Norwegian Ministry of Finance (2023). Proposition to the Storting (Bill and Draft Resolution). For the 2023 Budget Year. Taxes 2023, page 53. Available from https://www.regjeringen.no/contentassets/882fb5c97bf04386b4eb5d1ed898ae7b/en-gb/pdfs/prp202220230001ls0engpdfs.pdf

The Tax Administration Act (no: *Skatteforvaltningsloven*) sets out an extensive list of third parties who are required to provide relevant information to the tax authorities. These include:

- Information on salaries, pensions, gratuity etc., from, *inter alia*, employers;
- Information on financial relations and insurances etc., from banks, mortgage companies, finance companies, e-currency companies, insurance companies, pension funds, securities companies, securities centers, securities funds, investment funds etc.;
- Information on debts and interest payments to personal taxpayers from limited liability companies and partnerships;
- Information about the rent of real estate, other than for personal housing;
- Information about shares and shareholders, share capital, number of shares, ownership, valuation of shares for net wealth tax purposes etc., from limited liability companies and similar entities;
- Information regarding ownership to and transactions of, real estate from the mapping authority", (no: *Kartverket*) and on registered ownership of vehicles from the Public Roads Administration (*Statens veivesen*).

The Norwegian tax authority receives substantial information through exchange of information arrangements. This information can also be relevant for wealth tax purposes and used in a dialogue with the individual taxpayer. The Norwegian tax authority uses relevant information from past amnesty programs and from information leaks, such as the Pandora and Panama papers, in dialogue with relevant taxpayers.

3. **Relationship between wealth taxes and other taxes on wealth:** Norway's net wealth tax is coordinated with the personal income tax system and there is no dedicated group within the tax administration working only to collect wealth taxes. There is no longer any coordination with the inheritance tax, as Norway abolished its inheritance tax in 2014. The inheritance tax was politically unpopular and was problematic because of various imperfections and further raised little revenue (significantly less than the net wealth tax).

4. **Challenges in administering the wealth tax:** The first challenge is determining which assets are subject to the wealth tax. The basic principle is that an individual taxpayer's economic assets (net value) are included in the tax base. There are, however, some important exemptions, including:

    - Intangibles are to a large degree exempt if they are still held by the originator. Goodwill and know-how are always excluded, even if acquired.

    - Pension assets are not subject to wealth taxation.

Secondly, like many countries, Norway faces the challenge of correct and efficient asset valuation. Norway has adopted some simplified, standardized methods to value those assets that are either difficult or time-consuming to value.

While the general rule is that assets are valued at their market value, there are specific valuation-methods establishing how to calculate the wealth-tax-value/estimated market value for several types of assets.

In addition, some assets are included in the wealth tax base only with a certain proportion of their market value ("*valuation-discounts*").

Example of valuation methods (including some valuation-discounts) of some important assets include:

- **Real estate / immovable property**

    - The primary residence is valued at 25% of the estimated market value, if this value is 10 million Norwegian Krones (approx. EUR 850,000) or less. If the value is above this threshold, the surplus is valued at 70% of the market value. The estimated market value is calculated by multiplying the square metre area of the residence by a square metre rate. The square metre rate shall be an estimated sales value per square metre, taking into consideration the type of residence, year of construction, size and geographical location.

    - Holiday residence is valued at the historic construction cost, generally adjusted upwards, or at a maximum of 30% of the documented market value. A proposal for a new valuation method was sent on a public hearing in October 2022 and is currently under preparation with the Ministry of Finance.

    - Other secondary residences are valued at 100% of the estimated market value. The estimated market value is calculated in the same manner as for primary residences.

    - Business property is valued at 80% of the estimated notional letting value.

- **Shares / parts in limited liability companies, partnerships and closely held businesses**

    - Assets held by individual enterprises are valued on the basis of total value of the net taxable wealth assets of the enterprise. This means that exempted items, such as most intangibles, are not included. As a general rule, the valuation is based on market value, with a reduction of 30%, except for real estate which has a reduction of 20%. Some assets are valued lower than market

value, for example, office machines, vehicles etc., which are valued at their written-down value, i.e., net of depreciation.

- Shares in unlisted / unquoted limited liability companies and partnerships are valued on the basis of the total value of the net wealth of taxable assets of the company. The assets are not granted the 30% discount as is the case for assets held by individual enterprises, instead being granted a 20% discount / reduction on the value of the shares.

- Shares in companies listed / quoted on the stock exchange are valued at 80% of the quoted stock market price.

- Automobiles
  - If privately held, they are valued at the list price of the main supplier, with a fixed reduction (percentage) per year;
  - If held in business, they are valued at 70% of their written-down value.

- Art and personal belongings are valued based on the insurance value. If the value is below 1 million Norwegian Krones (approx. EUR 85,000), art and personal belongings are not included in the tax base.

Challenges also exist for the Norwegian tax authorities in identifying assets that are held outside the country by Norwegian citizens as well as assets held in Norway by foreign corporations that are owned by Norwegian citizens.