BIRMINGHAM
POLICY COMMISSIONS

Policy Commission on the Distribution of Wealth
Evidence Gathering

Chris Evans, Professor of Taxation, University of New South Wales
1st February 2013

Chris Evans is Professor of Taxation and former Head of the Australian School of Taxation (Atax) (now known as the School of Taxation and Business Law). He specialises in comparative taxation, tax law and administration, tax policy and reform. Our discussion with Chris focused on issues of wealth taxation.

Chris emphasised the importance of seeing the tax system in any country as a whole, starting with an appreciation of how different forms of wealth taxation fit together but also how they fit with other forms of taxation (on income, consumption etc). This was also a key point from the Mirrlees Review

Annual Wealth Taxes (AWTs) – taxing the stock of wealth
The session began with a discussion of why so many countries had abolished their AWTs in the recent past. Chris suggested a number of reasons. For example, wealth may have become less visible (more fungible), making disclosure more problematic. Disclosure is a more general issue with this form of tax. Denmark decided not to ask about any wealth inside the home as this was seen as invading privacy. However, this would create distortions in the kinds of wealth covered by this tax. Also, it is interesting to note that issues of privacy and disclosure are raised in relation to taxation when these issues are not seen as a barrier to asking detailed financial information from people claiming social security benefits. It may be possible to use new technology and data sharing to overcome some issues of disclosure and if tax authorities had more resources to enforce compliance this might also help. But in the absence of these AWTs can become the equivalent of ‘taxes on honesty’.

A few countries still have AWTs including France, Norway and some parts of Switzerland (at the cantonal level) but they raise very little tax due to a mix of exemptions, non-compliance (and non-enforcement) and high thresholds. These taxes may be more important for the symbolism (the ‘Solidarity Tax’ in France) than their revenue. Equally, those countries that have abolished the tax may also have been signalling a reduction in concern for wealth inequality. Issues around ideological views will therefore also be relevant here.

BIRMINGHAM
POLICY COMMISSIONS

AWTs make sense in theory (in terms of equity) but are potentially difficult to implement in practice as a result of disclosure and valuation issues.

Countries have generally moved away from AWTs and introduced Capital Gains Taxes (CGTs) in their place – see below.

There was also some discussion of capital levies, particularly one-off wealth taxes in time of national crisis (as occurred in Japan). It was also noted that some countries (for example Luxembourg) impose an AWT on corporations.

There was also some discussion of land taxes but this was considered something to follow up with other experts.

Wealth Transfer Taxes (WTTs) – taxing the transfer of wealth
We then discussed WTTs. There has been a general trend away from taxes on estates (donor based) towards taxes on the recipients of inheritance (donee-based or inheritance tax). The UK still has a tax on estates (though the label 'inheritance' tax suggests, confusingly, a donee-based system). The UK's inheritance tax is only, typically, paid by about 6 per cent of estates. Chris characterised it currently as a 'toothless tiger' which should be seen as a priority for reform in order to limit the transmission of wealth inequality down generations.

Ideally, countries with an estate or inheritance tax should have a gift tax alongside to prevent wealth being gifted away in order to avoid paying tax at the point of death. The UK has a 7-year rule in relation to inheritance tax but Ireland has a full accessions tax which covers gifts at all times. The Commission will find out more about how this works in practice.

A gift tax could exempt gifts to spouses and children (or, possibly with differing cumulative lifetime thresholds for each type of recipient). This could encourage some degree of giving during the donor's lifetime which could serve positive purposes.

Capital Gains Taxes (CGTs) – taxing increases in the stock of wealth
At the same time as there has been a demise of many AWTs, the number of countries with CGTs has increased. The main reason for this has been to ensure that capital income is taxed as well as income from other sources (though possibly at different rates). There is a debate about the rate of taxation. If it is too high then there is the risk of certain groups

BIRMINGHAM
POLICY COMMISSIONS

leaving the country (with potential negative impact on wealth creation) or seeking to avoid the tax. If it is too low then it will raise very little tax.

The Mirrlees Review suggested that 'normal' rates of return on capital should be taxed preferentially to 'super' rates of return.

The OECD have looked in detail at CGTs in a 2006 report. The OECD have also, more recently, reported on taxation and economic growth, arguing that corporate taxes are the most harmful type of tax for economic growth, followed by personal income taxes and then consumption taxes, with taxes on property being the least harmful tax. This provides further evidence for increasing wealth taxes in favour of other forms of taxes.

There are a number of issues in relation to CGTs. Timing of the increase in wealth is one. This is largely in the hands of the consumer who can decide when to realise the increase. However, it would be possible, in theory, to have an annual system to check for accrual of wealth and measure changes in wealth each year. People could defer payment of tax over time (deferred liability accounts).

In the UK, the main residence is exempt from CGT and Chris suggested this as an issue to consider further. Whilst most countries exempted most of the gain on the sale of the family home, there were some variations. For example, in the US gains on the sale of the main residence above a certain level ($US500,000 for joint filers and $US250,000 for single filers) are taxed; and In some Scandinavians countries the gain on the disposal of the main residence is only exempt to the extent that the capital proceeds are applied to the purchase of a new home. Chris suggested a number of experts to contact on this.

Tax avoidance

There was also discussion about tax avoidance and how this could be reduced. Chris mentioned the Disclosure of Tax Avoidance Schemes (DOTAS) which puts the onus on promoters who sell tax avoidance schemes to notify HMRC of the scheme in "real time". This regime also applies in a limited fashion to inheritance tax. A form of General Anti-Avoidance Rule is also being introduced and would be interesting to find out more about. Issues around setting up trusts to avoid inheritance tax will also be followed up.