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# **13<sup>th</sup> IMF- Japan High-Level Tax Conference for Asian Countries**

## **Taxing High Wealth Individuals**

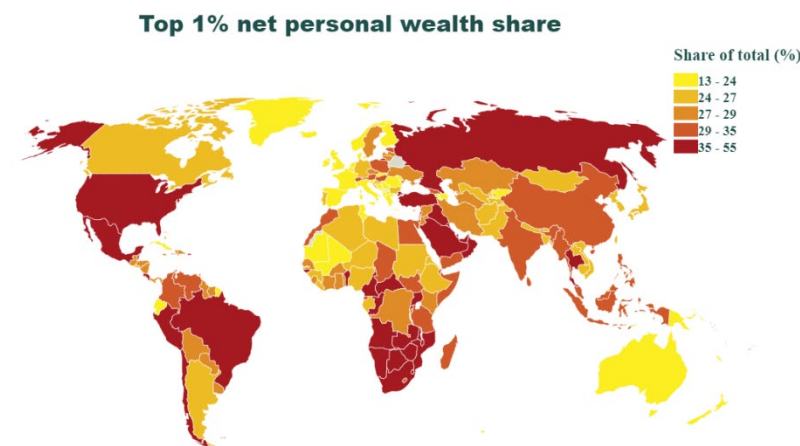
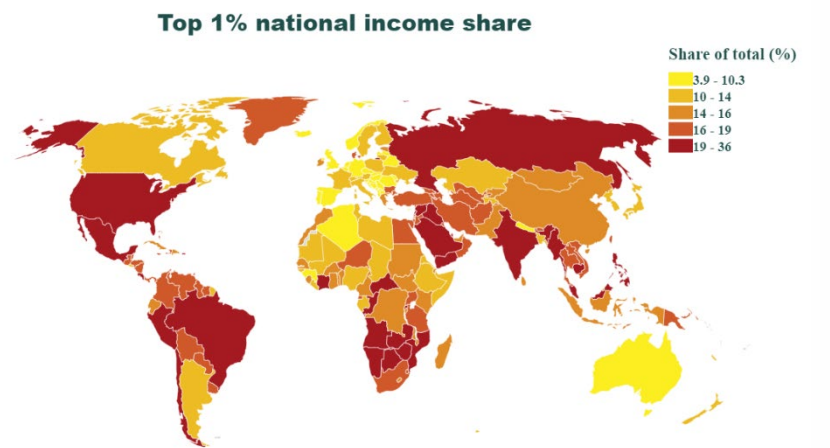
April 25, 2024

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# High income and wealth inequality in Asia

- **Income inequality (top 1%)**
  - Mostly between 15-20%
  - Intermediate in Asia – lower than US, LATAM and Middle-East, but higher than EU and AUS
- **Wealth inequality (top 1%)**
  - Mostly between 25-35%
  - Everywhere (much) larger than income inequality
  - Similar perspective of regions



Graph provided by [www.wid.world](http://www.wid.world)

Source – [Data - WID - World Inequality Database](#)

# Wealth inequality rising in some Asian countries

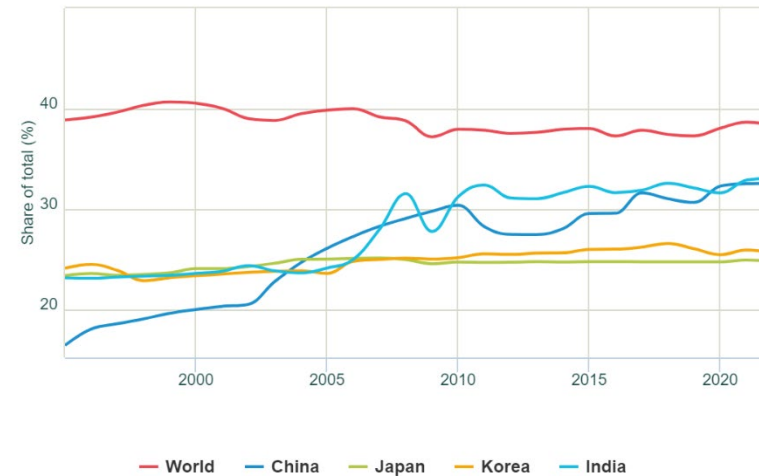
- **Trends – large & advanced Asia**

- Below world average
- Lowest and stable in Japan, Korea
- Rising in China and India

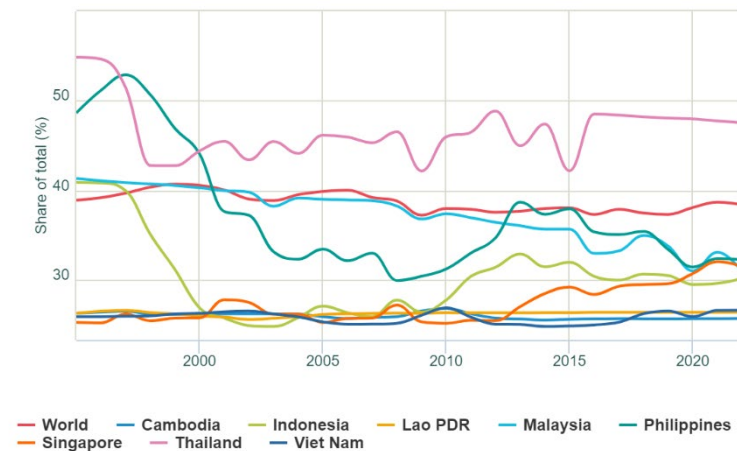
- **Trends – ASEAN**

- Highest in Thailand
- Fall and rise in Indonesia, Philippines
- Decline in Malaysia, rise in Singapore
- Flat low in Cambodia, Lao, Vietnam

Top 1% net personal wealth share



Top 1% net personal wealth share



Graph provided by www.wid.world



# HOW TO

# NOTES

## How to Tax Wealth

Shafik Hebous, Alexander Klemm, Geerten Michielse,  
and Carolina Osorio-Buitron

NOTE 24/01



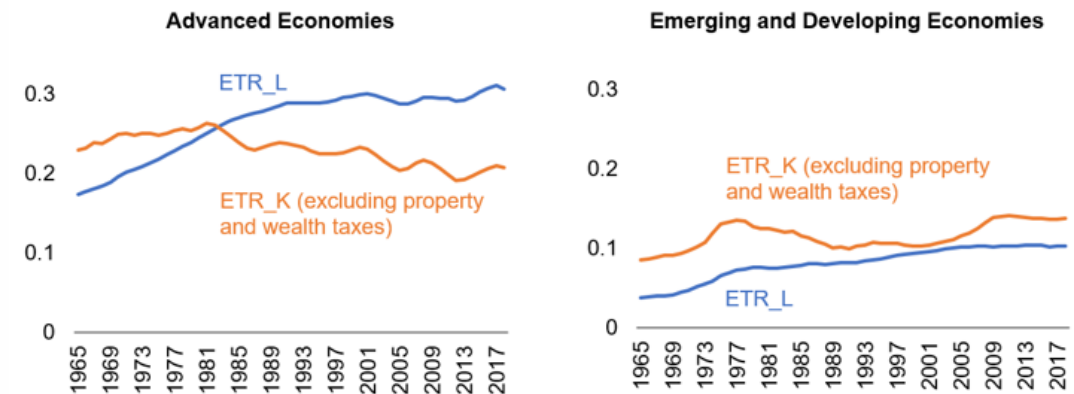
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# How to effectively tax wealth?

# Trends in taxing capital income (corporate, dividends, interest, capital gains)

- **Advanced economies**
  - Decline of effective capital income tax past 40y
- **Emerging and developing economies**
  - Much lower levels of effective tax – esp PIT
  - Yet, more stable and recently increase
- **What about the future?**
  - Minimum corporate tax will help
  - Key issues for PIT

Average Tax Rates on Labor and Capital Income, 5-year Moving Average



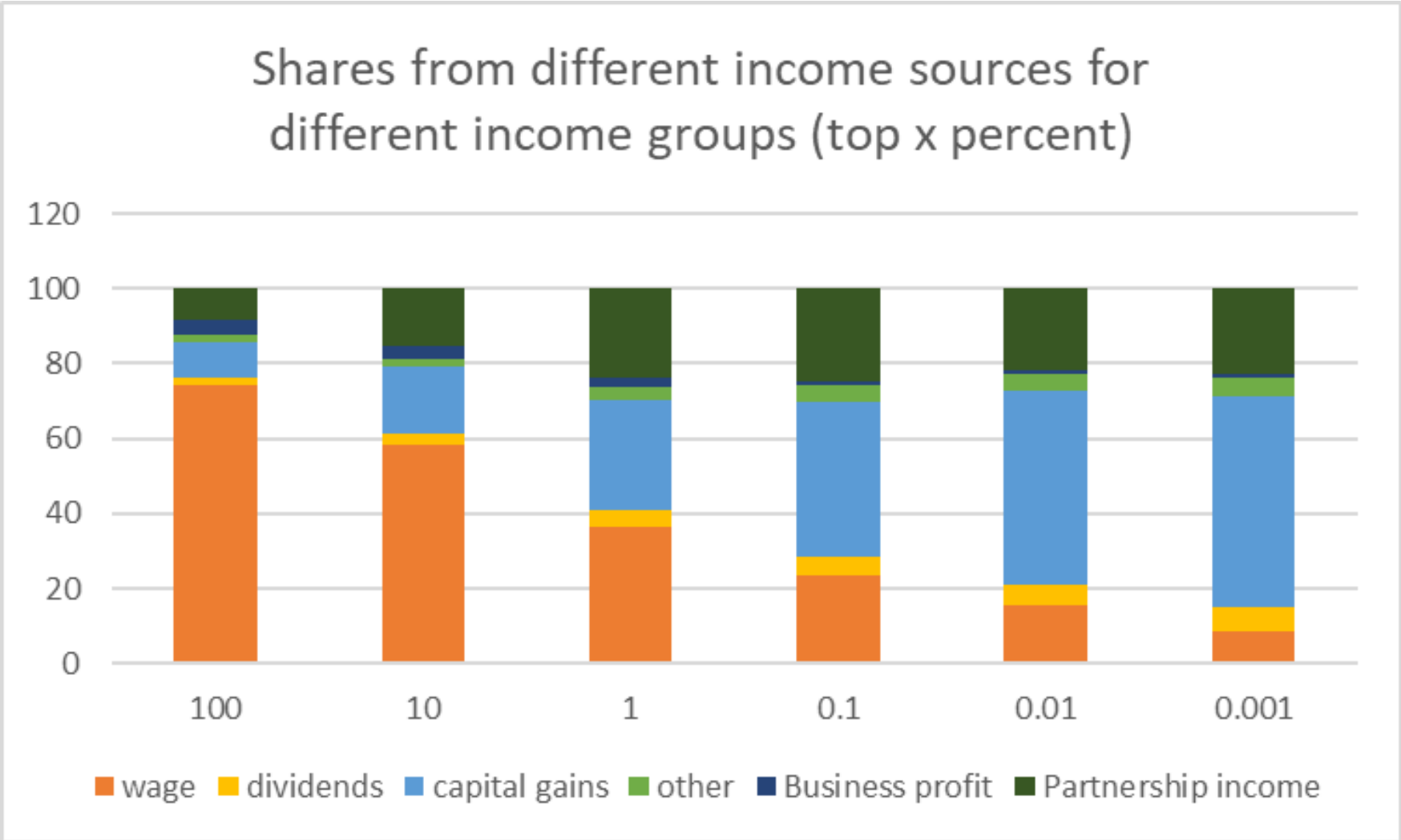


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## **Five key issues**

- (1) Capital gains**
- (2) Net wealth**
- (3) Other wealth taxes**
- (4) Enforcement**
- (5) Voluntary disclosure**

# Issue (1): Taxing capital gains important, but ...



Source: IRS 2020

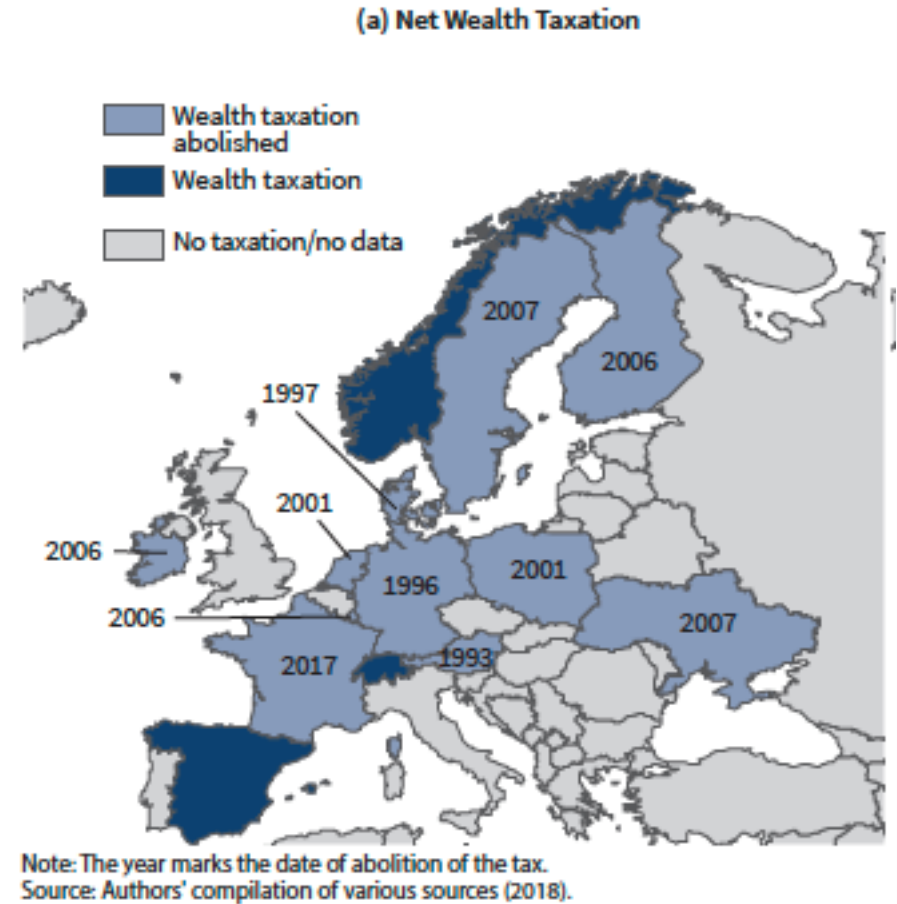
# ... is inherently difficult

- **Realization-based systems create challenges**
  - ‘Lock-in effect’ – (indefinite) deferral
  - Defining realization: e.g. at death – in US generous ‘step-up’
- **But accrual-based systems too**
  - Valuation: what price of non-listed shares?
  - Liquidity concern: Liscow & Fox (2022) – 75% of Americans disapprove
- **Taxed globally in variety of ways**
  - 5 OECD countries have no capital gains tax – as do many developing countries
  - Generally taxed upon realization, sometimes lower/exempt for long-term gains or with inflation adjustment (ISR, MEX, TUR); home is often exempt
  - In OECD, rates of PIT apply (8) or flat reduced rate (10)



# Issue (2): is net wealth tax an alternative?

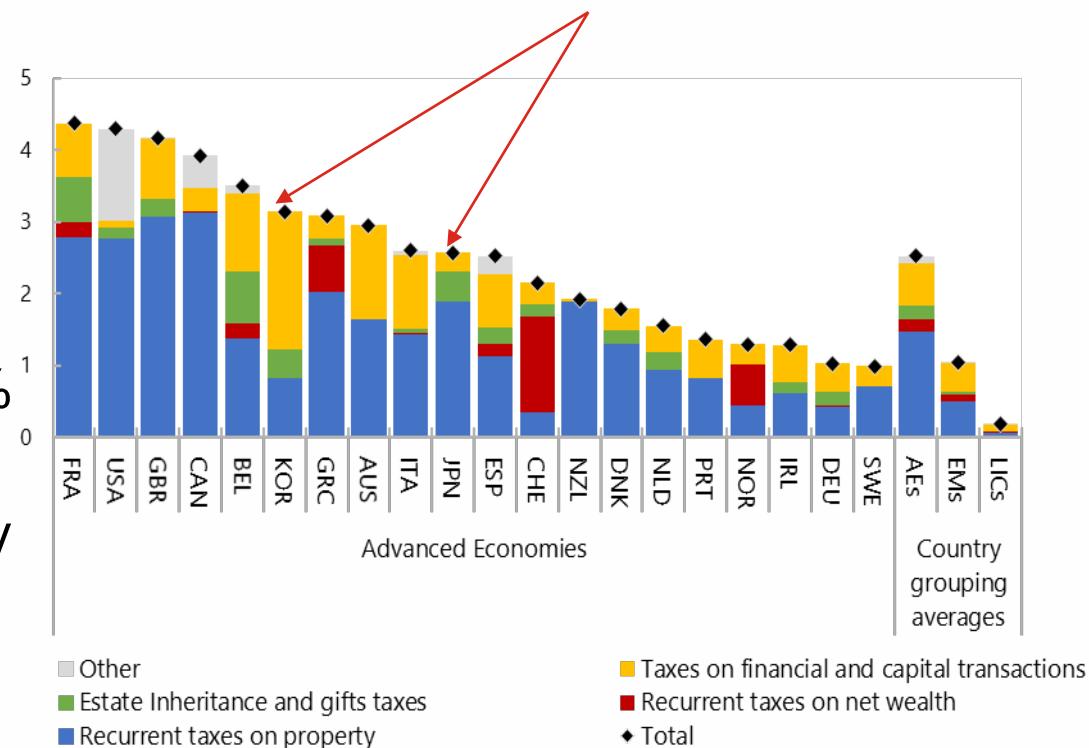
- **Circumvents the deferral problem**
  - Yet, magnifies liquidity problem
  - Equally hard to value (eg business assets)
  - Is less efficient and equitable than income tax
- **Experience with NWTs**
  - Countries repealed NWTs, revenue low
  - Yet, renewed interest (inc. progressive NWT)



# Issue (3): relying on other taxes on wealth

- **Inheritance/gift tax**
  - Addresses intergenerational equity issues
  - Liquidity concerns smaller than under NWT
- **(Gross) property tax**
  - Attractive – efficiency and equity reasons
- **Yet, politically hurdles**
  - Inheritance raises 0.1% GDP in OECD (> 0.2% KOR-JAP)
  - Property tax raises 1% GDP in OECD (but only 0.2% in low-income countries)

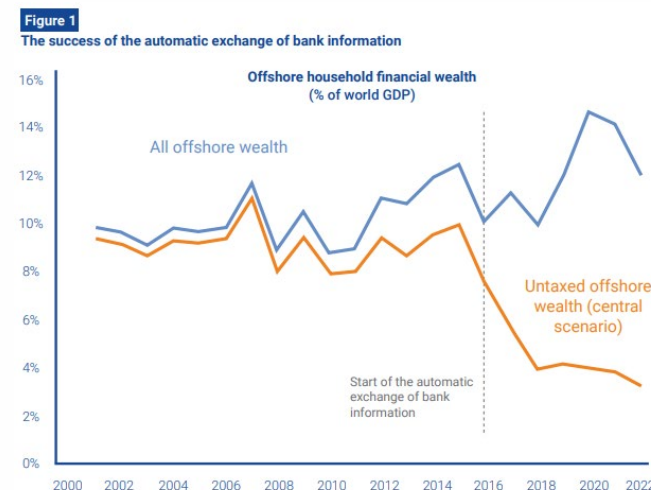
Revenue from taxes on wealth, in % GDP



Source: OECD Revenue Statistics

# Issue (4): the enforcement challenge

- **Large behavioral effects – elasticity of reported wealth up to 40% in SWI**
  - Avoidance – calls for broad scope; and neutrality labor/capital for self-employed
  - Evasion – most prevalent among wealthy: costs \$150 bln globally (Klemm et al 2024)
- **Information critical**
  - Automatic exchange of information and CRS already had significant impact (Figure)
  - Effect depends on capacity: many LICs either have no access or do not use information (Fiscal Monitor 2022)
  - Requires effective digitalization of RA and HWI unit



Source: EU Tax Observatory 2023

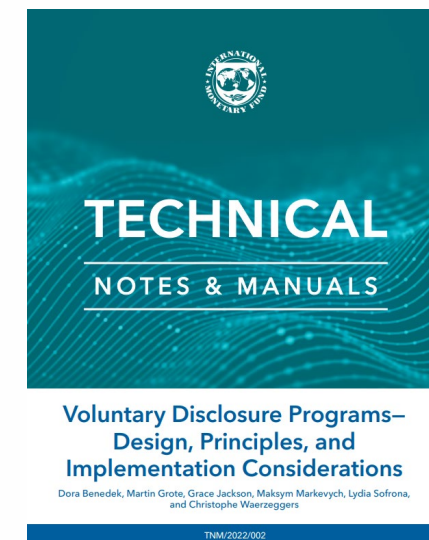
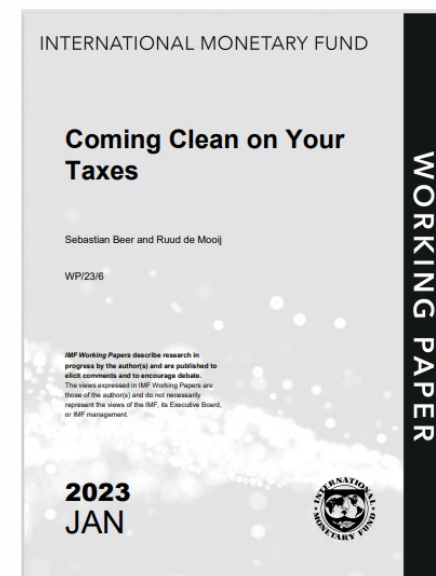
# Issue (5): voluntary disclosure programs

- **Pros**

- Quick revenue – and perhaps sustained
- Save cost of litigation, administration
- Momentum for one-off VDP when probability of detection rises (eg due to AEOI and digital) (Beer and De Mooij 2023)

- **Cons**

- Revenue gains often very low (even in gross terms) (Baer and Le Borgne 2008)
- Perceived as unfair – reward past evasion
- Draw people to evasion and reduce tax morale
- Repeat amnesties cause time inconsistency problem – waiting for the next (Benedek et al 2022)





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**Thank You!**

# Wealth composition – example of US

- **Housing**
  - Share > 1/3 of total wealth common
- **Pensions**
  - Especially advanced ec., e.g. 1/3 in US
- **Other**
  - Business assets
  - Equity, bonds, deposits
  - Crypto – top 0.1% owns 20% of Bitcoin

**Table 1.** Aggregate Household Wealth and Its Composition, 2018

	<i>Amount (\$ trillion)</i>	<i>Percentage of total net worth</i>	<i>Percentage of national income</i>
<b>Total net worth</b>	<b>88.7</b>	<b>100</b>	<b>503</b>
<b>Assets</b>	<b>107.7</b>	<b>121</b>	<b>611</b>
Housing	32.4	37	184
Business assets	9.7	11	55
Equities (direct holding)	18.6	21	105
Publicly listed	13.6	15	77
Privately listed	4.9	6	28
Fixed income assets	16.1	18	91
Interest-bearing	14.9	17	84
Deposits and currency	1.2	1	7
Pensions and insurance	30.9	35	175
DB and DC pensions	17.0	19	96
IRAs	8.8	10	50
Life insurance	5.1	6	29
<b>Liabilities</b>	<b>19.0</b>	<b>21</b>	<b>108</b>
Mortgages	14.3	16	81
Student loans	1.6	2	9
Other consumer credit	2.5	3	14
Other	0.7	1	4

Source: Piketty, Saez, and Zucman (2018), aggregate series appendix table TB1 updated to 2018.

# Considerations when taxing the rich

## Distribution – trickling down effects?

- Some (but subtle) evidence for CIT (10-50% shifted to (high) wages)
- No clear evidence for top PIT rates

## Distortions – investment, entrepreneurship, innovation

- Evidence for CIT, although financial response > real effects
- Less clear for capital gains and dividend tax

## Enforcement challenge

- Arbitrage between labor and capital for entrepreneurs
- Offshore wealth: AEOI, digitalization, HWI-units

## Return to the global income tax?

- Dual income tax no longer needed as pragmatic alternative if capital income tax enforced better

# Reform is not easy

## Understanding taxpayer perceptions – e.g. Stancheva (2021)

- Distribution matters a lot to people – not efficiency
- But perceptions differ from facts: based on prejudice
- Stresses the importance of information – and especially education/explanation

## Understanding power of interest groups

- Despite small vocal group in favor, top 0.1% in US deep aversion against tax increase
- Top wealthy are politically active – lobbying, financing