EU Tax Symposium 2023 – Minutes of Parallel Session 4, 24 October 2023

"The role of wealth taxation in the tax mix of tomorrow"

Parallel Session 4 focused on **"the role of wealth taxation in the tax mix of tomorrow"**. Wealth inequalities are wide and rising: the top 1% wealthiest of the EU population holds a quarter of all wealth in the Union while the bottom 50% of the population shares only 3% of it. Beyond inequalities, other megatrends such as environmental degradation, the digital transition and demographic changes call for governments to reflect over new sources of tax revenues. In this context, panellists discussed what could be, if any, the role of wealth taxation in the tax mix of tomorrow around three aspects. They exchange over the "what" (what is it and what assets covered), the "who" (potential taxpayers targeted) and "how" (the design).

The panel, moderated by **Antonio DE LECEA** (affiliated professor at Barcelona Institute for International Studies), was composed by:

- **Aurore LALUCQ** (Member of the European Parliament & S&D Coordinator of the Subcommittee on Tax Matters)
- **Jeromin ZETTELMEYER** (Director, Bruegel)
- **Gabriel ZUCMAN** (Associate Professor of Economics, University of California, Berkeley; Director, European Tax Observatory)
- **Helen MILLER** (Deputy Director of the IFS)
- **Cristina ENACHE** (Global Tax Economist, Tax Foundation)

Antonio DE LECEA opened the panel introducing the speakers, recalling the context, and asking the panellists their views on whether to tax wealth.

During her introductory remarks, **Aurore LALUCQ** underlined that the main reason to want a net wealth tax is that wealth is currently not really taxed. The effective tax rate faced by the wealthiest individuals is lower than the one faced by the middle class, which poses both fairness and democratic issues. Unlike people with middle- and lower-income, the wealthiest individuals generate most of their income from capital rather than from labour. The current situation in which capital is taxed less than labour is thus problematic, both in terms of equity and efficiency. Moreover, Aurore LALUCQ highlighted that additional tax revenues are needed to achieve the green transition and face other structural challenges.

Gabriel ZUCMAN emphasised that a net wealth tax should target the very rich only, to close what he called their "tax deficit". He quoted the EUTO's new Global Report on tax evasion, which shows that in most developed countries, wealthy individuals are subject to a lower effective tax rate than the rest of the population. This is because the wealth of very rich individuals is structured in a way that it generates little taxable income. Gabriel ZUCMAN estimated that a tax of 2% on the wealth of global billionaires could raise USD 250 Bn globally – the scale of the figures is explained by the fact that wealth is very concentrated at the top of the wealth distribution.

Cristina ENACHE, on the other hand, considered that wealth is already taxed in various ways and discussion should rather focus on the reasons that pushed countries that had implemented net wealth taxes to roll them back. She highlighted that most countries want to attract capital and wealth taxation discourages this. Cristina ENACHE said that net wealth taxes harm economic growth and innovation, hamper investments and increase risk taking (because it erodes after tax return, it encourages riskier, more rewarding investments).

Helen MILLER underlined that the main motivation to implement net wealth taxes is the fight against inequalities. According to her, the revenue generation aspect is not really a motivation as its potential is limited. Conversely, the main critics argue that it is economically inefficient and creates administrative burdens. Helen MILLER also highlighted that there is a big difference between a broad net wealth tax affecting the middle-class and one that targets billionaires only. Helen MILLER further explained that digging into the reason of wealth inequalities, one of the major problems is that capital income taxes are ill-designed (with some forms of capital escaping taxation completely). Moreover, she discussed the effects of a one-off wealth tax versus a recurrent one. Helen MILLER concluded that a one-off tax is more likely to be economically efficient, complementing recurrent taxes on income.

Jeromin ZETTELMEYER pointed out that the main motivations to implement a net wealth tax are reducing inequalities and raising revenues. He added that a net wealth tax does not seem the best instrument to reduce inequalities, and better designed capital income, capital gains and inheritance taxes seem more appropriate. However, he does not believe that net wealth taxes discourage entrepreneurship. While Jeromin ZETTELMEYER considered net wealth taxes have several flaws, he sees them as a much more realistic option than a deep reform of capital income, capital gain and inheritance taxes in the EU, especially if allocated to the EU budget as such a new tax would not compete with national budgets. Given the small size of the EU budget, unlike national ones, such a tax implemented at EU level could have a substantial financial impact for the Union budget.

Following these introductory remarks, **Antonio DE LECEA** asked the panellists for their views on past experiences of net wealth taxes, notably regarding the assets selected and the taxpayers targeted. **Aurore LALUCQ** pointed that when there is political will, there is a way, taking the example of the global agreement on the taxation of multinationals at the OECD – unthinkable some years ago – and the several recent EU achievements in tax matters despite the unanimity rule. She also highlighted that a European Citizen Initiative on this topic has been registered. **Gabriel ZUCMAN** pointed out that the failures of net wealth taxes in Europe were intellectual and political ones and there were some design flaws: no real attempt to fight tax evasion (self-reported wealth), too-low threshold and many exemptions. Countries are concerned by the risk of mobility of wealth and capital, but these are political choices and taxpayers could remain liable in their home tax jurisdictions for a number of years after they leave. **Helen MILLER** indicated that there are clear problems with capital taxation because there exist multiple ways to avoid it, and a net wealth tax should thus cover all assets. The emotional aspect of wealth taxes, including inheritance taxes, which despite targeting rich individuals remain unpopular and often considered unfair because income has (theoretically) already been taxed. **Cristina ENACHE** pointed out that an exit tax in Europe would also mean an entry tax, because it would discourage foreign investors. A harmonised EU-wide tax would not prevent capital from leaving the EU altogether.

Antonio DE LECEA then turned to the audience for questions, starting with one enquiring why the EU could not harmonised capital taxes instead. **Helen MILLER** replied that most governments already have capital gain taxes, and it would be politically complicated for them to hand back those resources to the EU. **Cristina ENACHE** said that countries should reduce capital taxation because capital formation drives economic growth, and criticised previous assumptions according to which capital is taxed less than labour, hinting that the difference is insignificant.

In the context of the European Citizen Initiative calling for a net wealth tax in the EU, a second question from a representative of *Invest Europe* asked what a desirable threshold could be. **Aurore LALUCQ** replied that the initiative does not propose one specifically, because they do not want the discussion to block on specific figures; the initiative is clear on the objectives, and it is the Commission's role to propose a design. **Gabriel ZUCMAN** stressed that a high exemption threshold would be desirable because the objective is to reduce top wealth concentration and inequalities, and the middle-class is already subject to a wealth tax: the real estate property tax.

A third question asked whether a global asset registry would be a condition for a successful wealth tax. **Gabriel ZUCMAN** replied that governments already possess a lot of information on people's wealth and enormous progress has been achieved in the last decade. Thus, he does not consider a global registry as a precondition, although it would be welcome. A final question from a professor at the Hagen Law School criticised the idea of an EU wealth tax for going against the functioning of the EU by wanting to tax citizens. **Aurore LALUCQ** replied that the legal basis is a legal creation and can be changed. Moreover, the scale of the challenges (green and social issues, war…) justify ambitious actions. **Jeromin ZETTELMEYER** pointed out that talking about an 'EU tax' is a simplification, and mechanisms in the EU Treaties allow taxation and the creation of own resources for the EU. He also underlined that the potential creation and administration of such a tax would inevitably involve Member States.

Antonio DE LECEA concluded the discussion by asking the panellists for their concluding remarks. For **Gabriel ZUCMAN**, a wealth tax is needed because the wealthiest do not pay their fair share, and lessons from the past can be learnt to create a well-designed net wealth tax. For **Cristina ENACHE**, the popularity of 'taxing the rich' does not justify a net wealth tax, and taxation should aim at raising revenues while limiting distortions, not fixing all issues; she considers VAT a better candidate for raising revenue. **Helen MILLER** said that, while the debate around net wealth tax is ongoing, there is a case to solve issues around capital income taxation. **Jeromin ZETTELMEYER** concluded that he agreed with the need to reform capital taxation and net wealth taxes deserve consideration.