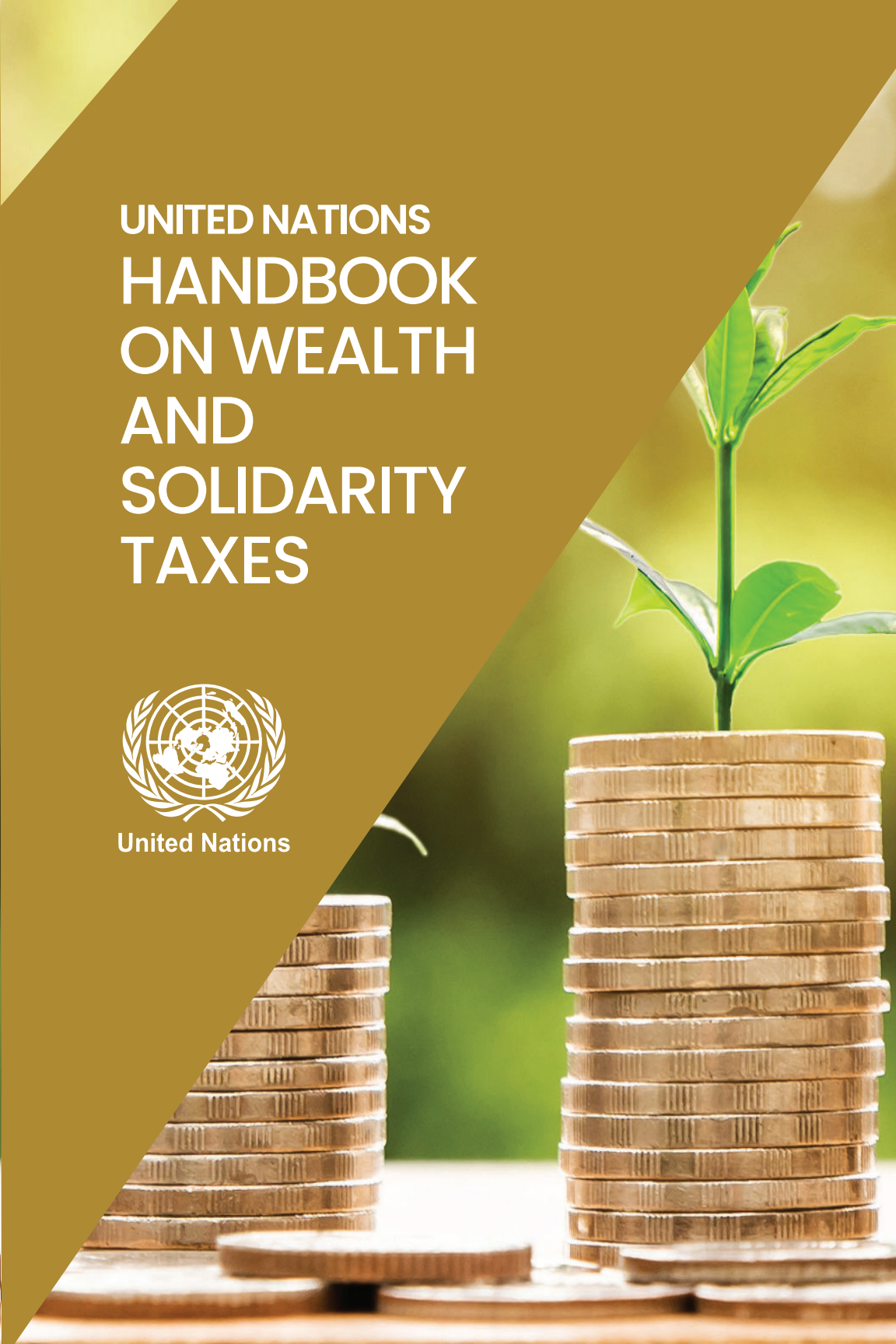


# UNITED NATIONS HANDBOOK ON WEALTH AND SOLIDARITY TAXES



United Nations





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# Background and Acknowledgements

## About the Committee

The United Nations Committee of Experts on International Cooperation in Tax Matters (the “Committee”) comprises twenty-five members appointed by the Secretary-General, after notifying the Economic and Social Council, to serve in their personal capacity for a four-year term. Selected for their expertise in tax policy and administration, the members reflect diverse geographical regions and tax systems. The Committee is globally recognized for its normative and policy-shaping work and for the practical guidance it provides in tax policy and administration.

## Committee Mission

The Committee develops tools and resources for governments, tax administrators, and taxpayers to help strengthen tax systems and mobilize financing for sustainable development, as well as strengthen international tax cooperation. The work aims to prevent double taxation and non-taxation while helping countries broaden their tax base, strengthen administration, and combat tax evasion and avoidance. The Committee places special emphasis on addressing the needs of least developed countries, small island developing States, and landlocked developing countries.

## Committee Working Methods

The Committee meets twice annually—in spring (New York) and fall (Geneva). Between these sessions, Subcommittees work on specific topics under the Committee’s oversight. These Subcommittees, whose participants also serve in their personal capacity, prepare proposals and draft guidance for review and approval by the Committee. This collaborative approach ensures thorough, multi-disciplinary and multi-stakeholder examination of complex tax issues, while maintaining the Committee’s ultimate responsibility for all published guidance.

## Wealth and Solidarity Taxes and the Sustainable Development Goals

At its Twenty-third Session in 2021, the Committee's 2021-2025 membership decided to establish, for the first time, a Subcommittee on Wealth and Solidarity Taxes, with a mandate to:

- Analyse the advantages and disadvantages of wealth taxes in their different forms and how they interact with other taxes, especially on capital
- Identify and consider tax policy design topics where guidance from the Committee is the most useful and initially reports to the Committee with proposals no later than at the Twenty-fourth Session in 2022
- Ensure that its work reflects the realities for, and the needs of, developing countries in various situations, at their relevant stages of capacity development; and
- Provide draft guidance on such issues as are approved by the Committee at its sessions, with a view to approval and release of targeted guidance at various points during the current Membership of the Committee

This initiative aimed to develop guidance on the policy options available to tax jurisdictions when considering how to adequately tax wealth, with a focus on net wealth taxes. By taxing wealth, countries can address inequality, increase progressivity in tax systems, and generate domestic revenue to fund essential public services, infrastructure, and social protection programs that directly advance multiple Sustainable Development Goals (SDGs). The Subcommittee comprises a number of Committee members and other participants from tax administrations and policymakers with wide and varied experiences related to wealth and solidarity taxes, as well as people from academia, international and regional organizations.

## This Publication

This publication, "The United Nations Handbook on Wealth and Solidarity Taxes", offers practical guidance on designing and implementing effective wealth taxes. Chapters 1 through 6, along with appendices A, B, and C, were reviewed, refined and approved by the Committee during its Twenty-seventh and Twenty-eighth Sessions in October 2023 and March 2024. Appendix D, containing the United Nations Sample Net Wealth Tax Law, was presented for first consideration at the Twenty-ninth Session in October 2024, and, after review and refinement, was approved at the Thirtieth Session in March 2025.

## Acknowledgments

This publication has been the work of many authors. The Committee gratefully acknowledges the Subcommittee on Wealth and Solidarity Taxes, including the following participants contributing to this work:

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# Executive Summary

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The United Nations Committee of Experts on International Cooperation in Tax Matters provides practical guidance on policy options available to tax jurisdictions when considering how to adequately tax wealth, with a focus on net wealth taxes. This guidance aims to reflect the realities and needs of developing countries in various situations and 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. Taxing wealth can be complex, however. It may be difficult to design and implement adequate laws. Governments should carefully consider 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 common reasons why tax jurisdictions might want to tax wealth while acknowledging that this may have unintended consequences. It provides an overview of different wealth taxes, ranging from capital income taxes to taxes on the transfer and stock of wealth. While it describes different ways to tax wealth, it focuses on tools and guidance to implement a net wealth tax for individuals, either as a one-off solidarity tax or a recurring tax.

The guidance examines both tax policy design and administration to cater to the different needs and priorities of tax jurisdictions. As a practical guide, it contains many real-world examples and 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 cases.

Topics covered in each chapter of the guidance are as follows.

**Chapter 1, Introduction and the Rationale for Wealth Taxes**, outlines key concepts, such as the definition of wealth and different methods of taxing it. The chapter considers the rationale for taxing wealth as well as the advantages and disadvantages of this form of taxation.

**Chapter 2, Different Types of Tax Related to Wealth**, provides a holistic overview of different types of wealth taxes. The aim is to assist policymakers in identifying the correct mix of wealth taxes for their jurisdiction, in light of

the individual tax system and political economy. The chapter introduces policy options for wealth taxation that are further developed throughout the guidance.

**Chapter 3, Key Policy Decisions for Introducing or Updating a Wealth Tax**, is intended to inform policymakers about necessary elements to consider when deciding to introduce a wealth tax or amend an existing wealth tax regime. It examines relevant policy design choices for each of the three main categories of wealth taxes, including: the scope and tax base; rates, thresholds and exemptions; and cross-border issues. It also elaborates 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 key issues in designing such a tax, including the tax base and types of assets to cover, tax rates and thresholds, and the time frame 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. It discusses the advantages and disadvantages of this kind of tax, appropriate circumstances to use it and how to determine the length of its application.

**Chapter 6, Key Considerations for the Effective Administration of Wealth Taxes**, focuses 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 key issues that may arise in administering taxes on wealth, in particular: valuation, access to information, compliance management, interaction among taxes and methods to address tax evasion.

The appendices feature useful tools to assist tax jurisdictions in implementing and administering wealth taxes. Appendix A presents 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 insights into experiences with implementing and administering a net wealth tax in Colombia and Norway. Appendix D contains the UN Sample Net Wealth Tax Law that seeks to provide guidance and best practices to guide lawmakers in their deliberations.

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# 1. Introduction and the Rationale for Wealth Taxes

## 1.1 Introduction to the Chapter

This chapter introduces wealth taxation. It first examines the definition of wealth, including its elements, and then analyses wealth ownership and distribution to underline the need for redistributive tax policies, including wealth taxes. The chapter discusses different methods of taxing wealth, arguing that tax jurisdictions must find the right policy mix based on their specific socioeconomic backgrounds and histories as well as particular policy goals and financing needs. The chapter ends by exploring the rationale for taxing wealth, and the advantages and disadvantages of this form of taxation.

## 1.2 Definition and Elements of Wealth

Wealth is defined as the total market value of financial and non-financial assets held by individuals, households and organizations, minus the total value of related liabilities such as business loans and other liabilities.<sup>1</sup>

Financial assets are contractual monetary dues such as cash, bank deposits, stocks, bonds and equities. Non-financial assets refer to immovable property, vehicles, precious goods, machinery and intangibles.<sup>2</sup>

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 result from factors such as inflation, interest rate fluctuations, market changes, innovations and the evolution of consumer demand that influence the value of financial and non-financial assets.

Wealth is distinct from income. While wealth is the net worth of an individual

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<sup>1</sup> E. Saez and G. Zucman (2019). Progressive Wealth Taxation. Brookings Papers on Economic Activity.

<sup>2</sup> F. Alvaredo, L. Chancel, and T. Pikety et al. (2022). The World Inequality Report 2022. Cambridge, MA: Harvard University Press.

or entity (i.e., the excess stock of assets over related liabilities at a specific point in time), income represents the flow of earnings over a certain period. An example of when this distinction may be critical is when some individuals have a high income without commensurate wealth and vice versa. When taxpayers have wealth/income disparities, this can pose significant implications for the design of economic policies, including tax policies.

### 1.3 Who Owns Wealth and How is it Distributed?

Wealth is owned by individuals, households, organizations and governments. The distribution varies among and within countries, creating inequality. Despite progress in some regions, wealth is increasingly concentrated at the top, with the bottom 50 per cent of the world owning just 2 per cent of total global wealth, while the top 10 per cent owns 76 per cent.<sup>3</sup> 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.<sup>4</sup> The COVID-19 pandemic prompted a sharp rise in extreme poverty and widening gender gaps in labour market participation, leading to greater wealth inequality within countries. The pandemic also produced the largest jump in inequality among countries in three decades<sup>5</sup> and an increase in global inequality for the first time since 1990.<sup>6</sup> Furthermore, the war in Ukraine and related disruptions of the world's energy and food markets are aggravating inequality globally.<sup>7</sup>

These disparities and projections highlight the pressing need to address wealth inequality, as underscored by the Secretary-General's clarion call for a renewed social contract that leaves no one behind.<sup>8</sup> This paper focuses on tackling inequality within tax jurisdictions and the role that the taxation of wealth, especially a net wealth tax, can play.

### 1.4 Taxing Wealth

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

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<sup>3</sup> Ibid.

<sup>4</sup> United Nations (2021). *Inequality – Bridging the Divide*. New York: United Nations.

<sup>5</sup> United Nations (2023). *The Sustainable Development Goals Report 2023: Special Edition – Towards a Rescue Plan for People and Planet*. New York: United Nations.

<sup>6</sup> World Bank Group (2022). *Poverty and Shared Prosperity 2022: Correcting Course*. Washington, DC: World Bank Group.

<sup>7</sup> World Bank Group (2022). *Pandemic, Prices and Poverty*. Washington, DC: World Bank Group.

<sup>8</sup> United Nations (2021). *Our Common Agenda: Report of the Secretary-General*. New York: United Nations.

### 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.

### 1.4.2 Taxes on the transfer of wealth

Taxes on the transfer of wealth are generally assessed on the net value of 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 (inheritance or estate taxes).<sup>9</sup> Section 2.3 offers a detailed description of 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, such as through 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.

According to the International Monetary Fund, tax jurisdictions should enact policy mixes that consider different ways of taxing wealth and potential interactions among wealth taxes and with the tax system as a whole.<sup>10</sup> The “right” mix will depend on a tax jurisdiction's history, socioeconomic situation, fiscal system and institutions (see Appendix C and section 6.10).

This guidance discusses the broad scope of taxing wealth, providing tax jurisdictions with an overview of different kinds of wealth taxes. It puts a special focus on net wealth taxes, which are discussed in detail in chapters 4 and 5.

## 1.5 Rationale for Taxing Wealth

There is widespread agreement that taxing wealth alongside income is desirable.<sup>11</sup> This section analyses the rationale for implementing wealth taxation, with a focus on addressing inequality, raising domestic revenues, correcting market failures and precluding state capture.

<sup>9</sup> R. S. Rudnick and R. K. Gordon (1996). Taxation of Wealth. In V. Thuronyi, ed., *Tax Law Design and Drafting*, vol. 1, chapter 10. Washington, DC: International Monetary Fund.

<sup>10</sup> Ibid.

<sup>11</sup> N. Tanabe (1967). *The Taxation of Net Wealth*. Staff papers. Washington, DC: International Monetary Fund.

### 1.5.1 Reduction of inequality and promotion of social justice

Taxing wealth can help reduce inequality and promote social justice. It may diminish the concentration of wealth at the top of a tax jurisdiction's wealth pyramid. Progressive taxes on wealth ensure that individuals pay taxes in proportion to their wealth, meaning that taxpayers with 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 also reflects the fact that wealthier individuals benefit more from a country's institutions, resources and opportunities, and should thus contribute proportionally more to government expenditure on public goods and services.

Research on the period from 2018 to 2030 has shown that if the Gini coefficient<sup>12</sup> of each country decreases by 1 per cent per year, global poverty rates would fall significantly; 100 million people would leave extreme poverty.<sup>13</sup> Taxing wealth is a key policy instrument to achieve a more equitable allocation of the benefits of economic prosperity across society.<sup>14</sup> This is critical to realizing Sustainable Development Goal (SDG) 10, on reduced inequalities.<sup>15</sup>

### 1.5.2 Mobilization of domestic resources for investment in sustainable development

Taxing wealth mobilizes domestic resources for investment in sustainable development.<sup>16</sup> Depending on how a wealth tax is designed, significant revenues can be raised to finance public goods and services such as education, security, health care 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.

### 1.5.3 Correction of market failures and fostering market efficiency

The correction of market failures and improved market efficiency can be reasons

<sup>12</sup> The Gini coefficient is a frequently used measure of inequality. It gauges 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. See the World Bank's Data Bank, Metadata Glossary, Gini index.

<sup>13</sup> C. Lakner et al. (2019). How Much Does Reducing Inequality Matter for Global Poverty? Policy Research Working Paper, No. WPS 8869.

<sup>14</sup> Alvaredo, Chancel, Piketty et al. The World Inequality Report 2022, chapter 1.

<sup>15</sup> United Nations (2023). Sustainable Development Goals, Goal 10. Available at: <https://sdgs.un.org/goals/goal10>.

<sup>16</sup> Rudnick and Gordon, Taxation of Wealth.

why taxing wealth benefits a country's development. Excessive wealth, speculation and the lack of sufficient regulation propelled the 2008 financial crisis.<sup>17</sup> While the main aim of taxing wealth is to reduce wealth inequality, it 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**

Wealthy individuals have the potential to capture political institutions for their benefit while excluding the rest of society. This can lead to undue influence on the democratic process.<sup>18</sup> To the extent that taxing wealth mitigates extreme wealth inequality, it can help to limit related negative externalities, such as monopolies and state capture.<sup>19</sup> Preventing state capture is important in addressing the political marginalization of the most vulnerable and establishing their voice in governance and public policymaking. Improved economic equality depends on strong, independent public institutions free from vested interests.<sup>20</sup>

### **1.6          Advantages and Disadvantages of Taxing Wealth**

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

#### **1.6.1      Economic growth**

Taxing wealth can have a positive impact on economic growth. A country's per capita GDP growth rate appears to slow when the Gini coefficient is above 27.<sup>21</sup> This is because the skewed distribution of income reduces aggregate demand. Therefore, taxing wealth, insofar as it contributes to diminished wealth inequality, can help spur economic growth.

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<sup>17</sup> N.T.L. Chan (2012). *Excessive Leverage: Root Cause of Financial Crisis*. Hong Kong Monetary Authority.

<sup>18</sup> R. Fuentes-Nieva and N. Galasso (2014). *Working for the Few: Political Capture and Economic Inequality*. Oxford, England: Oxfam GB.

<sup>19</sup> World Inequality Database (2023). *Income and Wealth Inequality Indicators*. Available at: [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](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).

<sup>20</sup> Ibid.

<sup>21</sup> F. Grigoli (2017). *A New Twist in the Link Between Inequality and Economic Development*. Washington, DC: International Monetary Fund.

### 1.6.2 Increased productivity

Taxing wealth may encourage the more productive use of assets as it can disproportionately impact owners of unproductive wealth.<sup>22</sup> 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 existing tax regimes and promoting progressivity

Taxing wealth can complement existing tax regimes by supplementing income taxes and providing additional “taxable capacity”. Without taxes on wealth, some individuals with 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 public revenue according to their ability to pay. Including wealth within the tax base can support more progressive tax systems, for example, by reducing the pressure on personal income taxes to fund public expenditure.

Taxing wealth may improve the administration of other taxes as it requires the disclosure of taxpayers’ assets and liabilities. The information collected could support the design and administration of other taxes.

### 1.6.4 Fiscal efficiency

Taxes on wealth, depending on how they are structured, may raise significant revenue from a relatively limited number of taxpayers. A government can mobilize much needed domestic resources for sustainable development without imposing a larger income tax burden on most taxpayers.

### 1.6.5 Addressing the climate crisis

Taxing wealth could be an unorthodox method to encourage more climate-conscious behaviour. The accumulation of extreme wealth is linked to increased environmental pollution because wealthy individuals cause above-average greenhouse gas emissions. An estimated 47.6 per cent of total emissions come from just 10 per cent of the world population. In 2022, the average carbon emissions of the top 1 per cent wealthiest individuals globally stood at 110 tons per person per annum, while the top 0.1 per cent emitted 467 tons and the top 0.01 per cent 2,530 tons.<sup>23</sup> The association of extreme wealth with high levels of pollution stems from the consumption

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<sup>22</sup> Ibid.

<sup>23</sup> Alvaredo, Chancel, Piketty et al., The World Inequality Report 2022.



patterns of wealthy individuals to produce higher carbon emissions due to more consumption and travel.

The wealthy may disproportionately consume humanity's remaining "carbon budget", understood as the amount of greenhouse gas emissions still available to limit global warming to 1.5°C. Millionaires in terms of United States dollars may grow from 0.7 per cent of the world's population today to 3.3 per cent in 2050 and cause accumulated emissions equivalent to 72 per cent of humanity's remaining carbon budget. This will significantly reduce the chance of stabilizing climate change at 1.5°C.<sup>24</sup> Taxing wealth with the goal of reducing extreme wealth could 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

Wealthy individuals may have significant influence over the enactment and enforcement of taxes on wealth. They often shape the political agenda, including in the area of tax policy.<sup>25</sup> For example, they may advocate against enacting taxes on wealth or lobby for exemptions and loopholes. They may exploit asset exemptions, hide assets abroad or change their residence status to avoid or reduce their wealth tax liabilities.<sup>26</sup> Such practices have negative consequences on the efficacy of taxing wealth.

### 1.6.7 Behavioural responses

Taxing wealth may incur undesirable behavioural responses, such as reduced savings and investment.<sup>27,28</sup> It may discourage the wealthy from entrepreneurship and innovation, which may negatively impact economic growth and job creation. This concern is particularly relevant for developing countries that need internal savings and investment to spur needed economic growth.

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 negatively influence potential tax revenue under the

<sup>24</sup> S. Gössling and A. Humpe (2023). Millionaire Spending Incompatible with 1.5° C Ambitions. *Cleaner Production Letters* 4.

<sup>25</sup> C. Pazzanese (2016). The Cost of Inequality: Increasingly, It's the Rich and the Rest. *Harvard Gazette*.

<sup>26</sup> Saez and Zucman, *Progressive Wealth Taxation*.

<sup>27</sup> S. Adam and H. Miller (2021). The Economic Arguments for and Against a Wealth Tax. *Fiscal Studies*.

<sup>28</sup> K. Jakobsen et al. (2020). Wealth Taxation and Wealth Accumulation: Theory and Evidence from Denmark. *The Quarterly Journal of Economics* 135.

personal income tax system.

### **1.6.8 High administrative costs**

Depending on its design, taxing wealth may result in high administrative costs compared to the revenues it raises.<sup>29</sup> This may occur, for example, where valuation techniques for net wealth taxes are overly complicated. Significant investments in tax administration processes to trace, value and tax assets may be needed. It is vital to consider administrative aspects in designing taxes to ensure their efficacy and efficiency.

### **1.6.9 Double taxation**

Taxing wealth may expose taxpayers to economic double taxation. This 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 various 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, illiquid assets and efficiency**

Taxing wealth may have a sharp impact on 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 could create liquidity issues where an individual owns substantial wealth that does not generate current liquid income that can be applied to settle tax liabilities.

Designing efficient taxes on wealth requires a thorough review of existing taxes while carefully assessing several factors to balance revenue generation with economic administrability and feasibility. This includes consideration of the economic impacts of any tax on wealth, such as on investment, business entrepreneurship and capital formation. Mitigation measures, such as exemptions for productive investments or small businesses, also need to be reviewed to minimize potentially adverse effects. Differences in the socioeconomic composition of countries imply variations in tax rates, thresholds, exemptions and so on.

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<sup>29</sup> Ibid.

## 2. Different Types of Taxes Related to Wealth

### 2.1 Introduction to the Chapter

This chapter analyses different types of taxes on wealth. It provides a holistic overview to help policymakers in identifying the right mix of wealth taxes for their jurisdictions, considering their specific tax systems and political economy. The chapter introduces 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 labour). Capital income taxes include taxes on interest, dividends, capital gains and intangibles in the form of royalties.<sup>30</sup> Taxes on income from immovable and movable property are also forms of capital income tax.<sup>31</sup>

#### *Benefits*

Tax policy generally considers taxpayers' ability to pay in terms of their income composition, including both labour 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 labour income.<sup>32</sup>

A capital income tax reduces the incentive for taxpayers to artificially shift income between labour 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.<sup>33</sup> Setting

<sup>30</sup> See generally J. Norregaard (1995). The Progressivity of Personal Income Tax Systems. In P. Shome, ed., *Income and Wealth Taxes*, chapter IV. Washington, DC: International Monetary Fund.

<sup>31</sup> S. Bastani and D. Waldenström (2020). How Should Capital Be Taxed? *Journal of Economic Surveys* 34.

<sup>32</sup> R. Mooij, R. Fenochietto, S. Hebous et al. (2020). *Tax Policy for Inclusive Growth After the Pandemic*. Washington, DC: International Monetary Fund.

<sup>33</sup> A. Lymer and L. Oats (2021). *Taxation Policy and Practice*. Malvern, United Kingdom: Fiscal Publications.

a tax rate for taxing capital income that is not disproportionately lower than taxes on labour income reduces incentives for taxpayers to convert income from labour into income from capital.

Taxing capital income increases the cost of capital, thereby reducing potential distortions in the labour supply, especially in tax jurisdictions with high marginal tax rates on labour 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 behaviour.

### *Challenges*

One challenge associated with capital income taxes, particularly for developing countries, is their potential impact on savings and investment decisions. If tax rates are set too high, they may discourage savings and investments in long-term assets that are essential for economic growth and development. This can result in negative consequences for the economy.<sup>34</sup>

Different types of investment assets earn varying returns; hence, tax jurisdictions often have particular regimes for taxing diverse forms of income from capital. Differential treatment of income from various capital assets (e.g., a higher tax rate for interest and dividend income compared to capital gains) may distort asset portfolio decisions and erode the capital income tax base. Box 1 provides a summary of different types of capital income taxes analysed in the following sections.

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<sup>34</sup> For a detailed discussion on the link between savings, investments and economic growth, see, for example, D. Acemoglu (2008). *Introduction to Modern Economic Growth*. Princeton, NJ: Princeton University Press.

**Box 1: Overview of 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.

<b>Taxes on interest income</b>	<ul style="list-style-type: none"> <li>Imposed on the interest earned from savings and other financial instruments (e.g., bonds, receivables)</li> <li>Different methods of collection (withholding tax at source, see section 6.5; via the annual income tax self-assessment)</li> <li>Can include a tax-free allowance to promote savings</li> </ul>
<b>Taxes on dividends</b>	<ul style="list-style-type: none"> <li>Imposed on companies' distributions of after-tax profits to shareholders</li> <li>Different methods of collection (withholding tax at source, via the annual income tax self-assessment)</li> <li>Can include exemptions to prevent or limit economic double taxation or full/partial imputation of a company tax as a tax credit to shareholders</li> </ul>
<b>Taxes on capital gains</b>	<ul style="list-style-type: none"> <li>Imposed on the net gain realized from the disposal of capital assets (i.e., proceeds less cost)</li> <li>Typically only taxed on realization</li> <li>Often taxed at lower rates than other types of capital income</li> <li>Can include exemptions, for example, to encourage the ownership of a primary residence</li> </ul>
<b>Taxes on royalties</b>	<ul style="list-style-type: none"> <li>Imposed on income earned from intellectual property</li> <li>Only passive royalty income is to be considered capital income</li> </ul>
<b>Taxes on income from immovable property</b>	<ul style="list-style-type: none"> <li>Imposed on rental income (i.e., income minus costs, which may include depreciation and interest costs) from real estate</li> <li>Tax jurisdictions often tax non-resident landlords on rental income received from real estate located in their jurisdiction</li> </ul>
<b>Taxes on income from movable property</b>	<ul style="list-style-type: none"> <li>Imposed on rental income (i.e., income minus costs, which may include depreciation and interest costs) from tangible movable property (e.g., leasing manufacturing equipment)</li> <li>Not imposed on the value of movable property – see recurrent taxes on movable property</li> </ul>

See further: R. Mooij, R. Fenochietto, S. Hebous et al. (2020). Tax Policy for Inclusive Growth after the Pandemic. Washington, DC: International Monetary Fund.

### 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 that the taxpayer owns (e.g., bonds, receivables).<sup>35</sup> Tax jurisdictions take different approaches to taxing interest. Some apply a withholding tax at the source (often withheld by the financial institution) that functions as a final tax.<sup>36</sup> Others 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.<sup>37</sup>

#### *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 that taxpayers accrue. This is a particular concern in jurisdictions where the financial system and financial reporting obligations may not be fully developed. For more on improving access to information, see sections 6.3 and 6.4.

In addition, inflation presents a challenge in taxing interest. If jurisdictions levy a tax on nominal interest rather than real interest, and inflation leads to high nominal interest rates, taxpayers will be liable for taxes even though inflation may significantly erode the purchasing power of savings. Losses (in real terms) can result 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 changes in tax residence, 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

In 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.<sup>38</sup> While dividends can be distributed to corporations, the following section focuses on the taxation of dividends distributed to individuals.

<sup>35</sup> R. H. Gordon (2004). Taxation of Interest Income. *International Tax and Public Finance* 11.

<sup>36</sup> For example, Nigeria (10 per cent) and South Africa (15 per cent).

<sup>37</sup> For example, in the United Kingdom, the Personal Savings Allowance permits taxpayers to earn up to £1,000 in 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 tax payers, to £500 for income over £50,270 per annum and £0 for income over £125,140 per annum, based on tax rates in 2022-2023.

<sup>38</sup> For an overview of dividend tax policy considerations with respect to the interaction between taxes levied at the corporate and shareholder levels, see M. Harding (2013). *Taxation of Dividend, Interest, and Capital Gain Income*. OECD Taxation Working Papers No. 19. Paris: OECD Publishing.

The tax rates imposed on dividends received by individuals vary across tax jurisdictions. In some, the tax rate is based on the income<sup>39</sup> of the individual taxpayer, and there may be a tax-free minimum threshold. In others, dividends are taxed separately, and the tax is withheld and final.<sup>40</sup> Some jurisdictions exempt either part or all of any dividend income from tax at the individual level since the distributing company's profits have already been subject to tax at the corporate level.<sup>41</sup>

Declaring and paying a dividend to shareholders is not the only way in which companies can distribute profits to investors. Another avenue entails using cash that the company has generated to buy back some of its own shares from investors, a so-called “share buyback”.<sup>42</sup> As this reduces the total number of shares outstanding, the value of each individual share increases in value. Depending on the taxation of dividends and capital gains in a particular jurisdiction, share buyback programmes can lead to lower taxes for certain shareholders on distributions of profits compared to the payment of a dividend.<sup>43</sup> Certain jurisdictions have enacted legislation to reduce this distortive effect.<sup>44</sup>

One form of evading taxes on dividends 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.

### 2.2.3 Taxes on capital gains

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

<sup>39</sup> For example, the United Kingdom and United States. The United States taxes most dividends at the same flat rate as capital gains. A lower tax rate applies to low-income taxpayers.

<sup>40</sup> For example, Nigeria. Dividends for individual taxpayers are withheld at a 10 per cent final tax rate.

<sup>41</sup> 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 a 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 receive credits for taxes paid at the corporate level against their personal income tax liability for dividends received, to prevent the perceived double taxation of return on capital invested in a corporation.

<sup>42</sup> 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.

<sup>43</sup> For example, in the United States, foreign shareholders pay no United States capital gains taxes on gains received from a share buyback but would be liable for a 30 per cent withholding tax on dividends received from a United States corporation.

<sup>44</sup> See, for example, the 1 per cent excise tax on share buybacks in the United States.

## Challenges

Challenges in implementing capital gains taxes tend to revolve around the cost of the asset disposed of and the declaration of disposal by private individuals.<sup>45</sup> For some assets, costs will be very easy to ascertain (for example, for publicly traded stocks). For other assets, such as immovable property, it is much harder to calculate the costs, such as due to improvements since the asset was purchased. Determining the actual cost of the asset can be complex and hard to document. For some assets, it will be difficult to know the actual capital gains.<sup>46</sup> In cases where assets are not publicly traded, it may also be hard for tax authorities to ascertain if a sale was undertaken at fair market value.

Inflation presents a challenge for capital gains taxes. 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 to distinguish between real capital gains and nominal capital gains, which simply reflect an asset price rise in line with inflation.<sup>47</sup> This can lead to a higher effective tax rate on real capital gains, although the impact is somewhat mitigated for capital gains<sup>48</sup> by taxation only at realization.<sup>49</sup> Some jurisdictions implement indexation measures to adjust the acquisition or base cost in order to offset the effects of inflation.<sup>50</sup> Indexing capital gains for inflation may be administratively complex, however, and entail 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 taxes).<sup>51</sup>

### 2.2.4 Taxes on royalties

Royalties are payments of any kind received for the use of, or the right to use, intellectual property. Depending on domestic law, intellectual property encompasses copyrights, patents, and industrial, commercial or scientific experiences. Payment is made to the owner of the intellectual property, which can be a corporation or an individual taxpayer. For the latter, 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 diverse principles. In general, only passive and not active income should be considered capital income.

<sup>45</sup> O. Enemaku (2012). Capital Gains Tax in Nigeria. Canadian Social Science, vol. 8, no. 3.

<sup>46</sup> O. G. Okoth (2015). Capital Gains Taxation in Kenya: The Challenges Facing the Implementation of the Finance Act of Kenya No. 16 of 2014.

<sup>47</sup> S. Beer, M. Griffiths and A. Klemm (2023). Tax Distortions from Inflation: What are They? How to Deal with Them? IMF Working Papers. Washington, DC: International Monetary Fund.

<sup>48</sup> Compared with the effect of inflation on interest or dividend income.

<sup>49</sup> 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 (such as 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, Griffiths and Klemm, Tax Distortions from Inflation.

<sup>50</sup> For example, the United States.

<sup>51</sup> G. Watson (2023). Efforts to Combat Inflation's Impact on the Tax Code Should Remain a Priority in 2023. Tax Foundation blog.



### 2.2.5 Taxes on income from immovable property

Taxes on income from immovable property are imposed by a jurisdiction on income received from renting immovable property, such as land or buildings. The method of assessment and tax rates vary across tax jurisdictions and even within tax jurisdictions across taxpayers (e.g., individual and corporate taxpayers). In some tax jurisdictions, the tax rate is based on a taxpayer's individual income and taxed at marginal rates.<sup>52</sup> In others, the tax is withheld by the tenant, who remits it to the tax authority, and the tax amount is final.<sup>53</sup>

### 2.2.6 Taxes on income from movable property

In most jurisdictions, income received from leasing movable property such as vehicles, boats and construction equipment is taxed.<sup>54</sup> The assessment and tax rates imposed vary across tax jurisdictions. The tax rate can be progressive, based on the taxpayer's income, or 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.<sup>55</sup> 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, the tax is based on the value of the assets the beneficiary receives from the deceased donor. A gift tax is imposed on beneficiaries who 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).<sup>56</sup> Others have one or the other, or neither.<sup>57</sup> Some have opted for a capital gains tax on death.<sup>58</sup>

### *Benefits*

As 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 in terms of reducing inequality, averting undue influence on the political process and

<sup>52</sup> For example, the United Kingdom.

<sup>53</sup> For example, Nigeria, where 10 per cent is withheld irrespective of the taxpayer's income.

<sup>54</sup> For example, Austria, Belgium, China (Hong Kong SAR) and the United Kingdom.

<sup>55</sup> OECD (Organisation for Economic Co-operation and Development) (2021). *Inheritance Taxation in OECD Countries*. OECD Tax Policy Studies, No. 28. Paris: OECD Publishing.

<sup>56</sup> For example, the United States has a federal estate tax; some states additionally levy an inheritance tax.

<sup>57</sup> For example, Australia, Canada and Portugal.

<sup>58</sup> For example, Australia and Canada.

entrenching progressivity in the tax system, wealth transfer taxes may encourage charitable giving.<sup>59,60</sup> 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. Further, the assets are valued to administer the estate of the deceased. Another advantage is that since the gift or inheritance is a windfall to the recipient, the tax will not be perceived as negatively as if it were imposed on income or assets already owned by the recipient.

### *Challenges*

As noted in section 1.6, a wealth transfer tax has certain disadvantages. 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. Wealth transfer taxes may discourage savings, investment and entrepreneurship. It may be easy to avoid taxes on the transfer of wealth or may prompt taxpayers to pursue changing their tax residency. The increased mobility of capital, including tax planning schemes that involve offshore trusts, attest to this.<sup>61</sup> Further, even when such taxes are properly levied and collected, their revenue yield may not justify administrative and compliance costs.<sup>62</sup> Wealth transfer taxes may also be perceived as unfair, as they tax assets that may have been derived from income and gains 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.

<sup>59</sup> M.A.K. Ring and T. O. Thoresen (2021). *Wealth Taxation and Charitable Giving*. CESifo Working Paper No. 9700. Munich: Center for Economic Studies and Ifo Institute.

<sup>60</sup> OECD (Organisation for Economic Co-operation and Development) (2020). *OECD Tax Policy Studies Taxation and Philanthropy*. Paris: OECD Publishing.

<sup>61</sup> European Parliament (2023). *Report on Lessons Learnt from the Pandora Papers and Other Revelations*. Report no. A9-0095/2023.

<sup>62</sup> In some countries, the revenue derived from an inheritance tax is less than 1 per cent of the overall tax revenue (for example, in the United Kingdom, based on figures from fiscal year 2020-2021) and is derived mainly from a few large estates. See G. Loutzenhiser (2022). *Tiley's Revenue Law*. Oxford: Hart Publishing.

Box 2 summarizes different types of taxes analysed in the following sections.

**Box 2: Overview of taxes on the transfer of wealth**

	<b>Estate taxes</b>	<b>Inheritance taxes</b>	<b>Gift taxes</b>
<b>Assessment date</b>	Date of death of deceased donor	Date of death of deceased donor	Date of transfer of assets  <i>Inter vivos</i> transfer
<b>Tax base</b>	Donor based  Donor's total net wealth at the time of death  Potential exemption/reduction for certain assets and/or for transfers to certain family members (e.g., spouse, children)	Donee based  Value of assets beneficiary receives from deceased donor  Potential exemption/reduction for certain assets and/or for transfers to certain family members (e.g., spouse, children)	Donee based  Value of assets beneficiary receives from donor  Potential exemption/reduction for certain assets and/or for transfers to certain family members (e.g., spouse, children)
<b>Rate</b>	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 the value of wealth transferred or donee's circumstances (e.g., net wealth or income)	Flat or progressive rate  Progressive rate band can be determined by the value of wealth transferred or donee's circumstances (e.g., net wealth or income)

*Box 2: Overview of taxes on the transfer of wealth (cont'd)*

<b>Threshold</b>	Annual threshold or threshold that applies over a longer period  Whether the threshold will apply generally determined by donor's total net wealth at time of death	Annual threshold or threshold that applies over a longer period  Whether the threshold will apply generally determined by the value of wealth transferred	Normally an annual threshold  Whether the threshold will apply generally determined by the value of wealth transferred
<b>Taxpayer</b>	Estate (e.g., trustees/ executors)	Donee	Donee
<b>Tax due</b>	Can allow deferral of payments or instalment payments to resolve liquidity issues	Can allow deferral of payments or instalment payments to resolve liquidity issues	Can allow deferral of payments or instalment payments to resolve liquidity issues

See further: R. S. Rudnick and R. K. Gordon (1996). Taxation of Wealth. In V. Thuronyi, ed., Tax Law Design and Drafting, vol. 1, chapter 10. Washington, DC: International Monetary Fund.

**2.3.1 Inheritance taxes**

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

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 policy 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, based on the value of all assets owned at the date of death.<sup>63</sup> Some tax jurisdictions have inheritance tax regimes that contain elements of estate taxes.<sup>64</sup>

A key advantage of an estate tax over an 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.<sup>65</sup>

### 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.<sup>66</sup>

The main challenges facing jurisdictions in implementing this tax include detecting when an exchange of gifts or 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 (e.g., land and buildings) and movable property (e.g., vehicles, equipment, boats, intangibles, etc.), reflecting their regularity (i.e., usually payable each month or year) and the intrinsic characteristic of the assets being taxed.

Taxes on the stock of wealth are levied on the value of assets, irrespective of the actual returns an investor makes.<sup>67</sup> This is different from taxes on income from

<sup>63</sup> 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 at death, to have disposed of their assets at a fair market value and is taxed on gains under the personal income tax system. The assets are then deemed to have been acquired by the estate (at the value attributed to the deemed disposal).

<sup>64</sup> For example, the United Kingdom.

<sup>65</sup> Loutzenhiser, Tiley’s Revenue Law.

<sup>66</sup> For example, the United Kingdom.

<sup>67</sup> OECD (Organisation for Economic Co-operation and Development) (2018). The Case for and Against Individual Net Wealth Taxes. In *The Role and Design of Net Wealth Taxes in the OECD*, chapter 3. Paris: OECD Publishing.

immovable and movable property (discussed in sections 2.2.5 and 2.2.6), which only tax actual capital income earned.

Box 3 summarizes different types of taxes analysed in the following sections.

**Box 3: Overview of taxes on the stock of wealth**

Recurrent taxes on immovable property	<ul style="list-style-type: none"><li>• Commonly levied by subnational governments</li><li>• Taxes a relatively inelastic tax base</li><li>• Relative ease of administration (valuation, determination of ownership)</li></ul>
Recurrent taxes on movable property	<ul style="list-style-type: none"><li>• Motor vehicle taxes commonly levied by subnational governments</li><li>• Otherwise, limited implementation of recurrent taxes on movable property due to administrative difficulties (valuation, determination of ownership)</li></ul>
Net wealth taxes	<ul style="list-style-type: none"><li>• Assessed on the net value of a taxpayer's taxable assets, (i.e., asset value minus any related liability)</li><li>• Scope of assets covered varies among jurisdictions</li><li>• Typically applied periodically</li><li>• Can be applied on an extraordinary basis (solidarity tax)</li></ul>

See further:  
OECD (Organisation for Economic Co-operation and Development) (2018). The Role and Design of Net Wealth Taxes in the OECD. OECD Tax Policy Studies, No. 26. Paris: OECD Publishing.  
R. S. Rudnick and R. K. Gordon (1996). Taxation of Wealth. In V. Thuronyi, ed., Tax Law Design and Drafting, vol. 1, chapter 10. Washington, DC: International Monetary Fund.

**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.<sup>68</sup> In Organisation for Economic Co-operation and Development (OECD) countries, revenue generated from immovable property constitutes the fourth most important source of revenue in the tax mix.<sup>69</sup> When properly designed and managed, recurrent immovable property taxes generate revenues that are typically enough to fund

<sup>68</sup> OECD (Organisation for Economic Co-operation and Development) (2019). Making Property Tax Reform Happen in China. The Role of Recurrent Taxes on Immovable Property. Paris: OECD Publishing.

<sup>69</sup> Ibid. According to 2019 figures, recurrent taxes on immovable property account for circa 33 per cent of subnational and 41 per cent of local taxation revenues.

various public goods usually assigned to local governments, such as community amenities, and public order and safety. Revenues usually fall short of financing the entirety of local expenditures on education, health or social protection, however. Developed countries are more reliant on such taxes. Generally, as a country develops, it tends to increase its dependence on these taxes.<sup>70</sup>

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 effects on labour supply decisions and choices to invest and innovate.<sup>71</sup> Recurrent property taxes are among 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.<sup>72</sup>

**(ii) *Efficacy***

Due to the high visibility and immobility of property, in addition to its high inelasticity,<sup>73</sup> recurrent taxes on immovable property are relatively difficult to evade and easy to enforce, for example, by seizure and liquidation of property.

**(iii) *Equity***

Recurrent taxes on residential property tend to exhibit progressivity as they primarily impact middle- and high-income earners. Compared to personal income taxes, inheritance taxes and net wealth taxes, however, they are generally considered less progressive due to their narrower scope and focus on specific assets rather than overall wealth.

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<sup>70</sup> Ibid.

<sup>71</sup> J. Norregard (2013). Taxing Immovable Property. IMF Working Paper 13/129. Washington, DC: International Monetary Fund.

<sup>72</sup> OECD (Organisation for Economic Co-operation and Development) (2016). Reforming the Tax on Immovable Property. In *Fiscal Federalism 2016: Making Decentralization Work*, chapter 3. Paris: OECD Publishing.

<sup>73</sup> OECD (Organisation for Economic Co-operation and Development) (2021). Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries. OECD Fiscal Federalism Studies. Paris: OECD Publishing.

*(iv) Sufficiency*

Immovable property taxes are widely considered an appropriate tax to provide local governments with meaningful revenue autonomy in fiscally decentralized systems. 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 “benefits 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 one.

Local property taxes are commonly used to improve urban infrastructure and public services, generally resulting in increases in property values. The so-called “virtuous circle” of property taxes occurs when the growth of the tax base (i.e., the value of the property) occurs due to public investments and, consequently, increased revenue for new public investments is generated, followed by the continued escalation of property values.

*(v) Transparency and accountability*

Immovable property taxes are relatively transparent since property owners know the amount due each year. They can use this information to hold elected officials accountable for the delivery of services, potentially improving government accountability.

*Challenges*

Differential treatment (either through exemptions or differential rates) across asset types and land use can lead to allocative distortions that constrain 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 administrative features of taxes on the stock of wealth. For example, a threshold can be introduced or exemptions made for certain sectors characterized by many low-income earners, such as 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 relief for pensioners and low-income households, an easily accessible appeals process, and frequent valuation and reassessments.

Although most developing countries have some kind of system for taxing land and/or buildings, the revenue performance of recurrent taxes on immovable property remains relatively low.<sup>74</sup> Attempts to address challenges faced by these countries in

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<sup>74</sup>In high-income countries, the average yield from immovable property taxes is estimated to be



improving their tax system have been difficult to implement due to special interest groups, 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 a further discussion in section 6.2).

#### **2.4.2 Recurrent taxes on movable property, tangible and intangible**

Recurrent taxes can be levied on tangible and intangible movable assets. Tangible movable assets include motor vehicles, boats, aircrafts, art and jewellery and intangible movable assets include financial assets or rights.

##### ***Benefits***

Introducing recurrent taxes on movable property, in addition to immovable property, would reduce efficiency distortions among investments in different types of capital assets and could increase equity. 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.<sup>75</sup> Focusing solely on a recurrent tax on real estate could raise equity concerns as higher-income households have a more diverse range of assets. Higher-income households would therefore be taxed on a lower proportion of total assets.

##### ***Challenges***

Except for recurrent motor vehicle taxes levied by subnational administrations, many jurisdictions do not generally impose recurrent taxes on movable property, largely due to complex and costly administration, including in enforcement, identification and valuation. There is also the risk of tax evasion due to the greater mobility of these types of assets. Increasing digitalization and access to relevant information could alleviate some of these issues.

Tangible and intangible assets are discussed briefly to provide an overview of the issues involved.

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1.06 per cent 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 per cent. See Norregard, Taxing Immovable Property.

<sup>75</sup> 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 per cent in the majority of OECD countries, compared to just 25 per cent for households in the top 1 per cent of the net wealth distribution. See O. Causa, N. Woloszko and D. Leite (2019). Housing, Wealth Accumulation and Wealth Distribution: Evidence and Stylized Facts. OECD Economics Department Working Paper No.1588. Paris: OECD Publishing.

*(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, jewellery, livestock and related items.

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

Most jurisdictions do not impose ownership taxation on aircraft and privately used vessels. Box 4 describes examples of countries that have implemented these types of taxes. Jurisdictions with a general net wealth tax, however, often include aircraft and privately used vessels in the scope of this tax.

Recurrent taxes on other movable, tangible assets such as luxury goods, including jewellery or works of art, are less frequent, mainly due to administrative difficulties.<sup>76</sup> In addition to the complexity of valuation, it is often difficult to identify these assets and their ownership.

*(ii) Intangible assets*

Recurrent taxation of intangible assets, also referred to as non-physical assets, is uncommon, except under certain net wealth taxes and other exceptional cases.<sup>77</sup> This is largely due to the risk of tax evasion, as intangible assets are, by definition, very mobile. Tax administrations may also face difficulties in administering a recurrent tax on intangible assets due to challenges in identifying the owner and determining the economic value of such assets.

<sup>76</sup> OECD (Organisation for Economic Co-operation and Development) (2018). Taxation of Household Savings. OECD Tax Policy Studies No. 25. Paris: OECD Publishing.

<sup>77</sup> 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. The tax 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 aircraft*****Burundi**

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

**Slovenia**

Slovenia's watercraft tax is levied on:

- (i) Vessels that are over five metres in length and registered in the ship registers, except for vessels under construction.
- (ii) Vessels that are over five metres 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 who have not yet been entered in these registers.
- (iii) Vessels that are over five metres 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 who 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 aircraft and boats in their scope include:

- (i) Republic of Korea: The city, county or region (ku) taxes owners of boats and aircraft registered in the property tax book.
- (ii) Mozambique: A tax is levied on the use of certain vehicles, including aircraft 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.
- (iii) The Russian Federation: A regional tax on motor vehicles includes air and water transport vehicles.

Chile is one of the few countries with a tax levied annually on luxury goods owned by individuals or legal entities, including helicopters, aircraft, yachts and luxury cars.

**2.4.3 Net wealth taxes**

Net wealth taxes are typically assessed on an annual or other periodic basis, or as a one-off solidarity tax.<sup>78</sup>

<sup>78</sup> Rudnick and Gordon, *Taxation of Wealth*.

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

In terms of structure, net wealth taxes differ in many ways, such as by covered and exempted persons, covered and exempted items, thresholds, valuation criteria and tax rates (e.g., progressive or flat). Chapter 4 discusses these issues in detail.

Notwithstanding that a net wealth tax is generally levied on a periodic basis, some tax jurisdictions have introduced net wealth taxes on an extraordinary basis to address specific crisis situations and support relief measures and recovery policies. These are referred to as exceptional solidarity net wealth taxes and are discussed in detail in chapter 5.

## 3. Key Policy Decisions for Introducing or Updating Wealth Taxation

### 3.1 Introduction to the Chapter

This chapter analyses different types of taxes on wealth. It provides a holistic overview of the policy considerations and choices involved in implementing a new tax on wealth or updating an existing one.

It reviews critical decisions for policymakers in designing and implementing a wealth tax regime, including:

- **In-scope taxpayers:** Will the wealth tax apply to residents only or include non-residents? Will the taxable unit be individuals or households?
- **Taxable events:** What event should trigger the assessment of the tax?
- **Taxable base:** What types of capital income and assets should be subject to taxation? 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 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 considers in detail the issues that arise when administering wealth taxes, including:

- **Valuation:** How will assets be valued for imposing the tax, particularly where there has been no sale to a third party?<sup>79</sup>

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<sup>79</sup> This will often be the case for taxes on the transfer of wealth and recurrent taxes on wealth.

- **Administration:** How can tax administrations ensure effective and accurate assessment and collection of any wealth tax?

This chapter considers policy questions related to 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 movable property (section 3.5).

Chapters 4 and 5 consider specific policy questions linked to net wealth taxes and exceptional solidarity net wealth taxes.

## 3.2 Capital Income Taxes

A capital income tax is levied on income from capital assets. For an overview of the main types of these taxes and their characteristics, see section 2.2.

### 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.<sup>80</sup>

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 taxes on non-residents for rent or capital gains from the sale of immovable property located in their jurisdiction.<sup>81</sup>

### 3.2.2 Taxable events

For most capital income taxes, the taxable event is the capital income obtained by the taxpayer, such as when interest income is received or a dividend is declared for a shareholder.

#### (i) *Realized and unrealized capital gains*

The situation is more complicated for capital gains taxes. Tax jurisdictions typically only impose taxes on realized gains. The rationale is to avoid difficulties around the valuation of unrealized gains and 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 paid for the transfer. For unrealized

<sup>80</sup> 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, see France's *foyer fiscal*.

<sup>81</sup> For example, the United Kingdom.

gains, as no transfer has occurred, there will be no selling price for the asset that 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 cost of administration and, because valuations are not an exact science, can lead to tax disputes. This will be particularly true for assets that are not regularly traded or where there is no established market so that obtaining objective valuations may be difficult. See further discussion in section 6.2.

Taxing unrealized gains can create complexity as potential future price volatility means there is no certainty about any gain that has arisen. If, for example, a 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 a future liability or even a refund.

If a tax is levied on unrealized gains, taxpayers may 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. This situation could be mitigated by allowing taxpayers the option of postponing tax payments.

One argument for extending a capital gains tax to include unrealized gains is that deferring taxation until realization creates a “lock-in” effect.<sup>82</sup> Deferral generates an incentive for asset holders to hold onto assets, creating illiquid assets and leading to the tax-induced distortion of economic activities, where funds are frozen in less-productive investments. It can also result in situations where capital losses are claimed through realization while gains are postponed. These effects may be less prevalent where non-tax factors have greater influence on investors’ decisions.<sup>83</sup>

**(ii) What is realization?**

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 taxable transfers to prevent tax-planning schemes that exploit the non-taxation of unrealized gains, even as economic gains have been realized. Situations that may be deemed transfers are death and emigration or generally the end of tax residency.

<sup>82</sup> J. A. Meade (1990). The Impact of Different Capital Gains Tax Regimes on the Lock-In Effect and New Risky Investment Decisions. *Accounting Review*: 406-431.

<sup>83</sup> L. E. Burman (2010). *The Labyrinth of Capital Gains Tax Policy: A Guide for the Perplexed*. Washington, DC: Brookings Institution Press.

### 3.2.3 Taxable base

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

Capital income includes interest from loans and other financial instruments, bonds, etc. as well as 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 versus business income*

It is important to distinguish whether regular income is capital/investment income or taxable business profit. Where income is derived from the normal or incidental course of the business operations of an independent commercial or industrial activity undertaken for profit, it is treated as taxable business income. This is subject to income tax rules, or, in the case of corporations, corporate tax rules. It 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 business operations are not banking or money lending.<sup>84</sup>

Some tax jurisdictions tax both regular capital income and capital gains; other jurisdictions tax only regular capital income. The argument in favour of the taxation of only regular capital income is based on the “source-theory”, which posits that only 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.<sup>85</sup> 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 upside. Owner-occupied primary residences

<sup>84</sup> L. Burns and R. Krever (1998). Tax Law Design and Drafting. In Taxation of Income from Business and Investment, vol. 2, chapter 16. Washington, DC: International Monetary Fund.

<sup>85</sup> G. S. Cooper and R. K. Gordon (1998). Taxation of Legal Persons and Their Owners. In V. Thuronyi, ed., Tax Law Design and Drafting, vol. 2, chapter 19. Washington, DC: International Monetary Fund.



can be in the possession of those who 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.

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 (section 6.2) and inflation. Taxation of net capital income and gains, without adjustment for inflation, can lead to a high effective tax rate on capital income (section 2.2). To mitigate this impact, particularly in the context of capital gains, some jurisdictions implement indexation measures to adjust the acquisition or base cost in order to offset the effects of inflation.<sup>86</sup> Indexing capital gains for inflation is administratively complex, however. It could be part of a wider approach to comprehensively indexing the tax code for inflation (i.e., not just for a capital gains tax).<sup>87</sup> See also section 3.2.4.

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). Taxes structured in this way have been criticized for failing to tax real returns to investors, however, and in particular, failing to tax excess rents (or investment income above the assumed return) received by investors from capital investments.<sup>88</sup> Box 6 describes the approach taken by The Netherlands.

#### *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. This led to many structures aimed at converting income from capital into an alienation or increasing the value of the capital.

The 2021 reform of the Income Tax Act abolished this distinction and introduced a new system. Simultaneously, there was an opportunity to remove the administrative problems in determining amounts of income and gains, and to avoid a discussion on whether to tax only realized gains or the full increase in the value of capital. An additional argument for introducing the new system was that it would guarantee robust tax revenues from capital income.

<sup>86</sup> For example, the United States.

<sup>87</sup> Watson, *Efforts to Combat Inflation's Impact on the Tax Code Should Remain a Priority in 2023*.

<sup>88</sup> J. Oh and E. M. Zolt (2018). *Wealth Tax Add-Ons: An Alternative to Comprehensive Wealth Taxes*. Tax Notes, 1613.

*Box 6: Presumed capital income in The Netherlands (cont'd)*

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

The 4 per cent was seen as a reasonable benefit that taxpayers, based on long-term experience, could realize from capital investments (fruits and increased value). The tax rate was set at 30 per cent, and mathematically was comparable to a wealth tax of 1.2 per cent. It was, however, an income tax, and treaty-based exemptions (such as on immovable property) were applied. 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 per cent. In response, the Government announced a study on the possibilities of taxation on a real return. In 2017, it 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 per cent
- From € 75,000 to € 975,000 was deemed to grant a return of 4.60 per cent
- Anything over € 975,000 was deemed to grant a return of 5.39 per cent

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

In several cases, the Supreme Court has ruled that the 2001–2016 system was a reasonable attempt to estimate what taxpayers could make as a return and that the result was not “outrageous”.

In 2021, the court came to a different conclusion on the post-2017 regime. It found that the new system in fact was further apart from the returns an individual taxpayer would be able to realize and that the presumed income taxation was infringing on the right of free enjoyment of property guaranteed in the European Convention of Human Rights. Moreover, the fact that taxpayers were taxed on a presumed return, irrespective of their real return, was seen as a violation of the convention’s prohibition of discrimination. The court ruled that taxpayers have the right to be taxed 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. 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 in 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

*Box 6: Presumed capital income in The Netherlands (cont'd)*

kind of capital owned. Three categories were distinguished, each with its own presumed return.

The figures for 2021 were as follows:

- Savings – 0.01 per cent
- Other assets – 5.69 per cent
- Debts – 2.46 per cent

In June 2024, the Supreme Court found that the new system still violated taxpayers' rights on the same grounds as the Court put forth in their 2021 decision. The Supreme Court acknowledged that the presumed return on savings was a fair approximation of the real return, but the presumed return on other assets can lead to a considerable difference in the tax burden of successful versus less successful investments for a substantial amount of taxpayers. Therefore, the difference between the taxes paid calculated based on the presumed return (if higher) and on the real return should be refunded. The taxpayer has the burden of proof and is obliged to provide documentation substantiating the actual return realized.

This time, the Supreme Court indicated on which basis a real return should be determined:

- the total wealth (not per asset or liability)
- disregard the tax-free threshold
- include positive and negative value fluctuations, irrespective of whether they are realized disregard any costs incurred (except for interest payments in the case of debts)
- on a yearly basis (no inter-annual compensation)
- on a nominal basis, i.e. without compensation for inflation

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

On 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 future capital gains.<sup>89</sup> 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

<sup>89</sup> For example, the United States.

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

Some circumstances may 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 that makes the final tax burden 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 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. If the asset is held for a longer period, it may be categorized as a long-term asset and a specific capital gains rate applied to the gain.<sup>90</sup> The rationale is to differentiate between transactions entered for short-term profit and those made for investment purposes (see box 5).

As discussed above, however, imposing different tax rates for different forms of income (either between capital and labour income, or among types of income from capital) can reduce efficiency, and horizontal 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).

<sup>90</sup> For example, the United States.

Technological advancements have accelerated the mobility of income from capital. The effect of the tax rate 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 of the taxation of dividends. As the ultimate owners of a corporation's assets are individuals, if income derived from shares or other rights in a body corporate is taxed for individuals, the 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.<sup>91</sup>

### **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 (e.g., interest, dividends and royalties). Double tax treaties can also preclude the jurisdiction where an asset is located (other than immovable property or interests in property rich entities) from charging capital gains taxes on such an asset when disposed of by non-residents.<sup>92</sup>

## **3.3 Taxes on the Transfer on Wealth**

This section addresses the key policy design considerations for taxes on transfers of wealth, such as gift, inheritance and estate taxes. For an overview of the main characteristics of these taxes, see section 2.3.

Wealth transfer taxes vary in their degrees of complexity. In designing a wealth transfer tax, developing countries should be particularly mindful of challenges in the administration and collection of the tax. See a detailed discussion in chapter 6.

### **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

<sup>91</sup> For example, Australia.

<sup>92</sup> For example, in the context of offshore indirect transfers. Platform for Collaboration on Tax (2018). The Taxation of Offshore Indirect Transfers – A Toolkit.

individual's entire estate, accumulated over a lifetime, many tax jurisdictions take a broader approach, going beyond the "mere" tax year residence. It is common to see concepts such as citizenship or domicile in the inheritance tax and estate tax laws of tax jurisdictions.<sup>93</sup>

For gift taxes and inheritances taxes, there is the question of whether to impose the tax liability on the donor or donee. The standard policy approach is to tax the donee or heir as the recipient of the wealth.<sup>94</sup> Some exceptions exist where tax jurisdictions instead tax the donor.<sup>95</sup> It is also possible to provide for joint and several liability. Some tax jurisdictions have structured their wealth transfer taxes so that this liability kicks in if the donee does not pay the tax within the statutory period. There is also the option of levying the tax on the donee while providing circumstances under which the liability would shift to the donor.<sup>96</sup> In scenarios where the gift tax is payable by the donee, some tax jurisdictions allow the donor to pay the tax without the risk of this being treated as an additional gift.<sup>97</sup>

From an administrative perspective, it is practical to tax the donor as a single taxpayer for tax authorities to administer. Otherwise, there may be several taxpayers, particularly in instances where a single donor bequeaths gifts to several donees. This would increase the complexity of monitoring, administering and enforcing compliance. 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 varying exemptions. See further information in sections 3.3.5 and 3.3.3.

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.<sup>98</sup> Although not a common practice, a tax jurisdiction may levy both an estate tax and an inheritance tax.<sup>99</sup>

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

<sup>93</sup> For example, Chile (residence and domicile), Japan (nationality and domicile) and the United Kingdom (domicile).

<sup>94</sup> For example, Brazil, Chile and Venezuela (Bolivarian Republic of).

<sup>95</sup> For example, South Africa.

<sup>96</sup> For example, Brazil and the Republic of Korea.

<sup>97</sup> For example, France.

<sup>98</sup> For example, South Africa.

<sup>99</sup> For example, Denmark.

### (ii) *Corporations*

Wealth transfer taxes are generally targeted at individuals. Anti-avoidance rules may target transfers involving companies, however. For example, an anti-avoidance rule may focus on 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.<sup>100</sup>

### (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 and excluded property trusts. Implementing and administering such rules may pose significant challenges for developing countries.

### (iv) *Non-residents*

Extending the scope of a gift tax to cover gifts to and from a non-resident may lead to administrative difficulties as multiple legal jurisdictions, institutions and laws are involved and tax administrations lack enforcement capacity across borders. As a result, monitoring and enforcing compliance in such cases can be complex and resource intensive, depending on the asset class that the gift falls under, and whether or not there is a legal basis for the exchange of information and/or a withholding mechanism applies. Immovable property situated within the taxing jurisdiction or gifts involving money and/or financial assets where a withholding mechanism is in place are less complex. Closely held businesses and movable property are more complex.

As a result, many tax jurisdictions exclude offshore gifts from tax liability, except where they consist of immovable property situated within the taxing jurisdiction or money transfers where the tax may be withheld. See further information in sections 6.3.4 and 6.3.6.

### 3.3.2 *Taxable events*

A taxable event is the *inter vivos* transfer, or death, as the case may be. Questions might arise as to when a transfer is treated as having been made or completed, such as when a transfer is made in instalments. It is important to clarify such issues. Further, certain assets generally cannot be legally transferred, whether by sale or 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 existing regulatory measures for the transfer of such assets. This would make

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<sup>100</sup> For example, the United Kingdom.

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 issue, some tax jurisdictions require registering such gifts for tax purposes.<sup>101</sup> There may be difficulties in enforcing such a rule, however, such as in proving that a transfer has taken place or 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*
- Exemptions that 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 those for certain wealth transfers to particular family members, for example, to a spouse or civil partner, or to children below a certain age. Many jurisdictions allow a full exemption for gifts to a spouse or civil partner. Some tax jurisdictions may include certain conditions, for example, that the spouse or civil partner be a 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 entail an owner-occupied residence, sometimes up to a certain size, as well as life insurance and qualifying businesses. This may 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 also be excluded. Other policy objectives, such as business continuity may also be considered.

Certain assets may be deemed included or excluded from the deceased’s estate. A few examples are:

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<sup>101</sup> For example, France and Luxembourg.



- Proceeds from insurance taken out on the life of the deceased<sup>102</sup>
- Property gifted *inter vivos* by the deceased within a short period before his or her death<sup>103</sup>
- Property gifted *inter vivos* by the deceased over which he or she reserved a benefit<sup>104</sup>

The most common exclusions involve assets 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 been transferred to the surviving joint tenant through the operation of law.<sup>105</sup>

Tax jurisdictions do not ordinarily grant deductions for *inter vivos* gifts and gifts at the time of 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. For anti-avoidance reasons, the common approach is to keep provisions narrowly drawn and/or grant a lump-sum deduction.

### 3.3.4 Thresholds

Tax-free thresholds are a common policy option for wealth transfer taxes. A compelling policy approach to 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.<sup>106</sup> Some tax jurisdictions grant personal relief with the relevant amount based on the degree of consanguinity.<sup>107</sup> Others adopt a middle-ground approach, providing rebates rather than allowances, i.e., relief against the tax liability, if certain conditions are met.<sup>108</sup>

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 face relatively lower tax obligations.

<sup>102</sup> For example, South Africa.

<sup>103</sup> For example, Venezuela (Bolivarian Republic of) and the United Kingdom.

<sup>104</sup> For example, the United Kingdom.

<sup>105</sup> R. N. Virden (1988). Joint Tenancy with Right of Survivorship (JTWROS) Accounts in Texas: Caveat Depositor. TEX. BJ, 51, 455. Thomson Reuters Practical Law.

<sup>106</sup> For example, Ireland.

<sup>107</sup> For example, Chile.

<sup>108</sup> For example, Venezuela (Bolivarian Republic of).

That said, it is extremely rare for a tax jurisdiction to take an heir's income into account in determining applicable thresholds.

Some tax jurisdictions have different inheritance and gift tax thresholds.<sup>109</sup> Varying thresholds can introduce unnecessary complexity in the tax system, however, 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 allow an annual exemption 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 that year.<sup>110</sup>

The cumulative approach involves looking back over a specified period and aggregating all wealth transfers 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.<sup>111</sup> This can be complex, however, because it requires detailed record keeping on past time periods and may not be appropriate for developing countries.

The mechanism and frequency for updating thresholds in line with inflation (including the possible use of "tax units" rather than currency figures to determine thresholds)<sup>112</sup> should also be considered.

### 3.3.5 Tax rates

A policy approach commonly applied in determining tax rates is varying them depending on the degree of consanguinity between the donor/deceased and the donee/heir. This approach is widespread in Latin America.<sup>113</sup>

An alternative approach involves setting progressive tax rates with no variation in the consideration of the degree of consanguinity. This less complex approach has

<sup>109</sup> For example, Italy, Poland and Thailand.

<sup>110</sup> For example, the United Kingdom permits a one-year carry-forward of the annual exemption.

<sup>111</sup> For example, Chile, France and the United Kingdom.

<sup>112</sup> In December 2006, the Colombian Government approved a reform of the tax system that incorporated the "tax unit" to measure the different limits and thresholds originally set in absolute numbers, adjusted every year by decree. For fiscal year 2023, the value of each tax unit is equivalent to 42,412 Colombian pesos.

<sup>113</sup> For example, Bolivia, Chile, Guatemala and Venezuela (Bolivarian Republic of).

been applied in some countries.<sup>114</sup>

Alternatively, the two approaches may be combined in a "double-progressive system" that varies tax rates with regard to both the value of the wealth transfer and the degree of consanguinity.<sup>115</sup> It is also common to see flat rates for estate taxes.<sup>116</sup>

As an anti-avoidance measure, an increased tax rate, known as a generation-skipping transfer tax, could be applied. This is a tax on gifts and bequests made to grandchildren or other descendants that skip at least one generation,<sup>117</sup> or to an unrelated person.<sup>118</sup> The tax is designed to prevent wealthy individuals from avoiding estate taxes by transferring their assets to younger generations.

### 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.<sup>119</sup>

### 3.3.7 Cross-border issues

Outside cases where the gift is of real property situated within the tax jurisdiction, many jurisdictions exclude non-residents from the scope of gift tax regimes. As such, many of these regimes are largely territorial. The result is a lower incidence of double taxation. Even so, the possibility of international double taxation could arise, for example, where the gift is immovable property. To resolve this issue, several countries that levy a gift or inheritance tax have entered tax treaties to relieve double taxation on transfers of wealth.<sup>120</sup> Such treaties are relatively rare, however, when compared to the number of income and capital tax treaties across the world. Other countries provide unilateral relief from double taxation.<sup>121</sup> This is by no means universal.<sup>122</sup> Where unilateral relief is granted, tax jurisdictions tend to adopt the ordinary credit method by providing a tax credit to offset the tax liability incurred in the other jurisdiction.

<sup>114</sup> For example, Türkiye.

<sup>115</sup> For example, Germany.

<sup>116</sup> For example, in the Philippines, a flat rate of 6 per cent is levied.

<sup>117</sup> M. Powell (2009). The Generation-Skipping Transfer Tax: A Quick Guide. *Journal of Accountancy*.

<sup>118</sup> For example, Venezuela (Bolivarian Republic of) and the United Kingdom.

<sup>119</sup> For example, Denmark, Finland, France, Ireland and the United Kingdom.

<sup>120</sup> For example, the Philippines.

<sup>121</sup> For example, Brazil and Guatemala.

<sup>122</sup> For example, Belgium, Denmark, Finland, France, Greece, Portugal and Spain.

### **3.3.8 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 can be considered:

- Rules on succession, including forced heirship and intestacy, may prescribe that a portion of the estate be reserved for certain classes of surviving relatives<sup>123</sup>
- Rules on property holdings, as laws may include rules on joint tenancy and tenancy in common law countries
- Rules on trusts and usufruct,<sup>124</sup> as laws generally provide for different types of ownership and interests, e.g., legal ownership, equitable ownership, interests in possession, interests in remainder, etc.
- Rules governing probate, executorship and administration, as these influence how the duties of the executor and administrator under estate tax laws are aligned with the general legal regime for such matters

## **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.

While recurrent taxes on immovable property are most commonly levied by sub-national bodies, the key design issues discussed in this section apply equally to any equivalent federal tax.

### **3.4.1 In-scope taxpayers**

Liability for recurrent taxes on immovable property is usually levied on the occupier of the property (either individuals or corporations). Liability reverts to the owner of the property if it is unoccupied.

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<sup>123</sup> For example, Belgium, Denmark, Finland, France, Greece, Portugal and Spain.

<sup>124</sup> The legal right accorded to a person or party that confers the temporary right to use and derive income or benefit from someone else's property.

### 3.4.2 Taxable events

Most recurrent taxes on immovable 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 land belongs to diplomatic missions, religious organizations or municipal authorities.<sup>125</sup>

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

- The purpose of use, for example, residential and business property, rental or owner-occupied property
- The taxed items, for example, land and construction<sup>126</sup>

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 properties, there are some exceptions.<sup>127</sup> In most tax jurisdictions, both owner-occupied and rental houses are taxed.<sup>128</sup> This reduces distortions in economic behaviour.

Most jurisdictions tax both land and buildings. A few, however, have 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.<sup>129</sup>

Tax relief is 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 relief is granted across tax jurisdictions for varied policy objectives. For example, many jurisdictions have introduced housing exemptions up to a certain threshold to incentivize investment in home ownership. Several give special

<sup>125</sup> 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 per cent of the taxable value of the land. The tax rate for arable land and natural grassland varies between 0.1 and 2.0 per cent of the taxable value of the land.

<sup>126</sup> OECD, Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries.

<sup>127</sup> For example, Australia, Belgium, China, Ireland and the United Kingdom.

<sup>128</sup> Some countries, such as Lithuania, levy recurrent property taxes on owner-occupied properties only.

<sup>129</sup> For example, Lithuania, where based on Articles 3 and 4 of the Real Estate Tax (*Nekilnojamojo turto mokesčiai*), individuals pay immovable property tax at 0.5 to 2 per cent of the value of the property, subject to a minimum threshold of €150,000.

treatment to agricultural land and property but generally within limits,<sup>130</sup> such as on threshold cadastral values or up to a certain extent.<sup>131</sup> Tax relief and exemptions are commonly granted to support business property.<sup>132</sup>

Agricultural land is excluded from the tax base in some developed as well as many developing countries. The objective is to protect farmland from conversion to urban use. A full exemption is, however, not the only instrument that can be applied to this end. An alternative 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.<sup>133</sup>

Preferential tax treatment of agricultural land might not be the most efficient way to protect farmland, however, considering that land-use planning and transport policies tend to have a greater influence on land-use decisions.<sup>134</sup> Differential tax treatment in favour of agricultural over urban land is often insufficient to offset the significantly higher prices that the land could command if converted to urban land.<sup>135</sup> Moreover, the favourable treatment of rural land can encourage speculation on the outskirts of urban areas, which may drive up urban land prices.<sup>136</sup> It is unclear whether tax relief and exemptions are beneficial overall.<sup>137</sup>

Taxes on immovable property can 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 (see box 7), and incentivize new construction or climate-friendly improvements.<sup>138</sup>

All forms of tax relief 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 immovable property to support policy objectives other than revenue raising, it is important to remember that to promote growth, the best design implies a wide

<sup>130</sup> For example, Chile, France, Finland and Uruguay.

<sup>131</sup> For example, the Czech Republic, where newly recultivated lands, not forests, are exempt for five years and/or newly cultivated forests for 25 years.

<sup>132</sup> For example, Denmark.

<sup>133</sup> For example, Canada and New Zealand.

<sup>134</sup> N. Brandt (2014). *Greening the Property Tax*. OECD Working Papers on Fiscal Federalism No. 17. Paris: OECD Publishing.

<sup>135</sup> R. Maurer and A. Paugam. (2000). *Reform Toward Ad Valorem Property Tax in Transition Economies: Fiscal and Land-Use Benefits*.

<sup>136</sup> E. Slack (2012). *The Politics of the Property Tax – A Primer on Property Tax: Administration and Policy*. Chichester: John Wiley & Sons.

<sup>137</sup> A. Klemm (2010). *Causes, Benefits and Risks of Business Tax Incentives*. IMF Working Paper WP/09/21. Washington, DC: International Monetary Fund.

<sup>138</sup> OECD, *Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries*.

tax base and low tax rates. Although this formula may differ across regions, within limits, it is important to maximize revenue while minimizing allocative distortions. Some tax jurisdictions allow an immovable property tax deduction for income tax purposes.<sup>139</sup>

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

Capturing land value

As the urban population grows, so does public demand for sustainable infrastructure, such as quality mass transit systems and other public services as well as affordable housing. Limited resources constrain local governments in many developing cities in carrying out necessary public investments, however. Simultaneously, prices of land and properties are rising with the growth of urban populations, which creates increased demand for land resources.

Property owners, particularly those who are passive beneficiaries of rising property values, are becoming effortlessly richer. This is the so-called “getting richer while sleeping” effect.<sup>140</sup>

One mechanism to capture land value is through the taxation system, such as with taxes on rental income or sales, recurrent property taxes or 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 higher tax liability for owners of high-value properties.

Promoting efficient use of land

Property taxes can also be used to influence land-use patterns as part of a broader range of measures that comprise land-use plans, such as 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 costs associated with the tax.

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 that applies a higher tax rate to the land compared to the construction component of the property value, could further incentivize efficient land use by encouraging investment in capital improvements. Separating the valuation of land and construction is administratively challenging, however.

<sup>139</sup> For example, Costa Rica, Colombia and Greece.

<sup>140</sup> M. Salm (2017). Property Taxes Within the BRICS States. In Property Tax in BRICS Megacities: Local Government Financing and Financial Sustainability.

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

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
- Levying impact or development fees to make new residents internalize the cost of new developments
- Promoting investments in energy efficiency or renewable energy through property tax rebates and exemptions

**Stabilizing the prices of houses**

Property taxes can be used to dampen volatility and rapid rises in houseprices. Property valuations factor in property taxes when determining the market value of a house.<sup>141</sup> As house prices rise, property taxes should also increase, acting as an automatic, countercyclical stabilizer on the housing market.<sup>142</sup> The effectiveness of property taxes in acting as a brake on rising house prices depends on the frequency of reassessments of property values for property taxes. The more frequent the reassessments, the more closely the valuations that determine the tax base will capture any increase in market value. This in turn will make stabilization effects more accurate.

**Box 8: Recent reforms to recurrent immovable property taxes**

In Chile, a progressive surcharge applies to taxpayers whose combined real estate fiscal value exceeds 400 million Chilean Pesos (approximately \$430,000)<sup>143</sup>, regardless of tax residency. The surcharge rate increases from 0.075 to 0.15 to 0.275 per cent as the property increases in value. This tax, which entered into force on 1 April 2020, is cumulated with the ordinary real estate tax, payable quarterly.

Lithuania has reduced the tax-exempt threshold for non-commercial property from € 220,000 to € 150,000 (approximately \$250,000 to \$190,000)<sup>144</sup>. Furthermore, the minimum tax rates for immovable commercial property have increased from 0.3 to 0.5 per cent of the property value.<sup>145</sup>

<sup>141</sup> 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: H. Blöchliger (2015). Reforming the Tax on Immovable Property: Taking Care of the Unloved. OECD Economics Department Working Papers No. 1205. Paris: OECD Publishing; Rudnick and Gordon, Taxation of Wealth.

<sup>142</sup> OECD, Reforming the Tax on Immovable Property.

<sup>143</sup> Exchange rate as of June 2025.

<sup>144</sup> Exchange rate as of June 2025.



Precisely defining the scope of tax within legislation means that recurrent taxes on immovable property can be retained and applied to a wide tax base.<sup>146</sup> This is because tax bases covered in enduring legislation are more resistant to political pressures seeking to benefit select groups of taxpayers. In addition, the clearer the definition of the tax scope, the less room there is for changes due to 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 incentivize investment in home ownership. As discussed above, in several countries, special treatment is given to agricultural land and property within limits,<sup>147</sup> for example, on threshold cadastral values or up to a certain extent.<sup>148</sup>

#### 3.4.5 Tax rates

There are arguments in favour of both the uniformity of tax rates and differential rates, and there is empirical evidence of both options in different tax jurisdictions.<sup>149</sup> On the one hand, uniformity increases transparency, reduces complexity and corresponding administrative and compliance costs, minimizes distortions on land-use decisions and cuts incentives for tax avoidance. On the other, non-uniform tax rates can help to foster development and economic objectives. Rate differentials can 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, such as with property use, property characteristics and/or owner characteristics; vertically, such as with property value; and regionally, such as across jurisdictions. Most tax jurisdictions provide targeted tax benefits, in the form of exceptions or reduced tax rates, typically for low-income homeowners and businesses. For example, a lower rate for owner-occupied houses may 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 and decrease incentives for tax avoidance.

<sup>145</sup> OECD, *Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries*.

<sup>146</sup> F. Plimmer (2012). *Legal Issues in Property Tax: Administration and Policy*. In J. McCluskey and others, *A Primer on Property Tax*. Blackwell Publishing.

<sup>147</sup> For example, Chile, France, Finland and Uruguay.

<sup>148</sup> For example, in the Czech Republic, newly recultivated lands, not forests, are exempt for five years and/or newly cultivated forests for 25 years.

<sup>149</sup> McCluskey, *A Primer on Property Tax*.

### 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 acquired out of post-tax income. Multiple levels of taxation are not unique to wealth taxes, however. For example, consumption taxes are levied on post-tax income.<sup>150</sup> Equally, the extent to which the 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 immovable property is largely derived from asset revaluation, and that revaluation has not been taxed (as a country only taxes realized gains), then taxes on wealth do not constitute double taxation. Where wealth has been derived from capital income (such as capital gains), it is likely to have been taxed at a lower rate than labour income, meaning that double taxation is more limited. Wealth accumulated from capital income is particularly likely for the wealthy.<sup>151</sup>

As recurrent taxes on immovable property are often used by subnational governments to raise revenues, it is also important to consider the interaction of any local and federal taxes. If jurisdictions introduce a federal level surtax that springboards off existing local property taxes,<sup>152</sup> tax policymakers should consider the combined tax rate from federal and local taxes when modelling the impact on taxpayers.<sup>153</sup>

### 3.4.7 Cross-border issues

In the context of recurrent taxes on immovable property, double taxation might arise where tax jurisdictions levy tax on both immovable property located in the jurisdiction held by non-residents and worldwide assets (including immovable property) held by residents. To avoid such double taxation, countries could consider giving residents a tax credit for any foreign recurrent tax on immovable property paid, or ensure that their double taxation agreements cover taxes on wealth as well as capital income taxes.<sup>154</sup> To the extent that 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 immovable property on non-residents so that it is creditable in a non-resident's home country.<sup>155</sup>

<sup>150</sup> OECD, *The Case for and Against Individual Net Wealth Taxes*.

<sup>151</sup> *Ibid.*

<sup>152</sup> Oh and Zolt, *Wealth Tax Add-Ons*.

<sup>153</sup> For example, Norway has introduced a net wealth tax at both the federal and municipal levels but the combined net rate for both taxes is set at 1.1 per cent. For further details, see Appendix C.

<sup>154</sup> See, for example, Article 22 of the United Nations Model Tax Convention Between Developed and Developing Countries.

<sup>155</sup> Rudnick and Gordon, *Taxation of Wealth*.

### 3.5 Recurrent Taxes on Movable Property

This section addresses 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.

#### 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 movable 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. The former include motor vehicles, boats, aircraft, pieces of art and jewellery while the latter comprise financial assets or rights, etc.

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

Where taxes on movable property are applied, there is observable heterogeneity in how different tax jurisdictions determine the tax base. In some tax jurisdictions, the tax base is the adjusted market value,<sup>156</sup> while in others, a tax value previously determined by the tax administration is applied.<sup>157</sup> For motor vehicle taxes, some tax jurisdictions refer to engine cylinder capacity.<sup>158</sup> For a detailed discussion of methods of valuation, see section 6.2.

#### 3.5.4 Thresholds

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

<sup>156</sup> For example, Australia and Colombia.

<sup>157</sup> For example, Costa Rica.

<sup>158</sup> For example, Japan.

### 3.5.5 Tax rates

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

Non-uniform tax rates could be used to foster non-fiscal policy objectives, such as through steeper motor vehicle tax rates for highly polluting cars.

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

### 3.5.6 Economic double taxation

Similar double taxation issues arise as is the case with recurrent taxes on immovable property. While recurrent taxes on movable property can be criticized for taxing wealth acquired out of post-tax income, this critique does not apply where the value of wealth within the relevant tax base has either not been subject to tax (such as where it arises from an increase in the value of assets not subject to a capital gains tax) or has been taxed at a low rate (as with certain categories of capital income). See further discussion in section 3.4.6.

Again, where subnational governments use recurrent taxes on movable property for raising revenue (e.g., motor vehicle taxes), it is important to consider the interaction of local and federal taxes on taxpayers. See further discussion in section 3.4.6.

### 3.5.7 Cross-border issues

Similar to recurrent taxes on immovable property, double taxation might arise where tax jurisdictions levy taxes on both movable property located in the jurisdiction held by non-residents and worldwide assets (including movable property) held by residents. The problem may be compounded for taxation of movable property due to differing situs rules among jurisdictions. This might lead to more than one jurisdiction seeking 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 movable property paid, or ensure that their double taxation agreements cover taxes on wealth as well as capital income taxes.<sup>159</sup> See further discussion in section 3.4.7.

<sup>159</sup> See, for example, Article 22 of the United Nations Model Tax Convention Between Developed and Developing Countries.

## 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 for tax jurisdictions to consider when implementing a net wealth tax for individuals (see also section 2.4.3).

Efficient and effective administration of any net wealth tax will be vital to its successful implementation. When considering policy design choices, policymakers should consider the impact on administrability. Chapter 6 explores these issues in detail.

### 4.2 Determining Whether to Adopt a Net Wealth Tax

Policymakers face several major considerations when determining whether to adopt a net wealth tax. These include its revenue potential, the possibility for reducing income and wealth inequality, the tax jurisdiction's ability to administer a net wealth tax, and political support and potential resistance to its introduction. Other factors are the tax jurisdiction's prevailing tax system, such as the effectiveness of current capital income taxes, inheritance or estate taxes, and real property taxes in taxing high-net worth individuals.

For many tax jurisdictions, the question is how to adopt tax policies with the greatest impact on reducing poverty and inequality. Net wealth taxes are one potential tool to achieve that goal. Other measures may also be effective, such as improving the taxation of income from capital under the personal income tax system, or strengthening existing inheritance or estate taxes and real property taxes. Some wealth tax add-ons 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).<sup>160</sup> While this Handbook focuses on tax policy, there is of course a spending side. Social programmes may also be effective in reducing poverty as well as pre-tax and pre-transfer levels of inequality.

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<sup>160</sup> Oh and Zolt, Wealth Tax Add-Ons.

**Box 9: Wealth tax add-ons**

Wealth tax add-ons are an alternative to a comprehensive net wealth tax. As opposed to a standalone law on a net wealth tax, wealth tax add-ons **attach to existing tax law** and apply to particular **types of wealth**.

The intention is to **supplement existing taxes** and 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 such a tax but at a **lower administrative and political cost**, without the need to implement an additional tax instrument.

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

Designing wealth tax add-ons

Wealth tax add-ons allow a tax jurisdiction to target particular types of wealth and strengthen areas of the current tax system that tax income from capital (such as 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? 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 should balance the need to raise revenue with political considerations

Wealth tax add-ons as a temporary tool

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

- (i) An additional short-term source of revenue while 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 towards introducing 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: J. Oh and E. M. Zolt (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 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 it can be effectively designed and administered.

While deciding on the introduction of a net wealth tax as well as its design, such as its scope, base and rate, governments should contemplate several principles not exclusively related to tax, such as non-discrimination, neutrality, non-confiscation and equality.

### **4.3 Impact Assessment**

Fiscal policy plays a key role in mobilizing domestic resources and providing public services to achieve the SDGs. The impact of a new tax depends on several factors, for example, the existing tax system in a particular tax jurisdiction and the composition of the overall tax mix, which may reflect the level of economic development in a given jurisdiction. Subsequently, the revenues that a new tax may raise may vary according to 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 to estimate the potential revenue of a net wealth tax. This requires estimating the number of individuals and amount of assets that would be subject to the tax, the tax schedule, and assumptions about compliance and enforcement. Appendix A contains a brief description of a methodology for estimating the revenue of a net wealth tax and the key assumptions 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. Such information allows policymakers to design and decide the main 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, this guidance focuses 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 physically located in the relevant jurisdiction.<sup>161</sup>

The criteria to determine tax residence should as much as possible be consistent with those used for other taxes. The most common criterion to determine residency is the number of days the individual is present in a tax jurisdiction, but other factors, such as the taxpayer's permanent home, centre of vital interests, habitual abode, etc. may be considered.<sup>162</sup>

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 the income tax regime can provide coherence to the tax system and enables cross-checks between the two taxes. For example, information on wealth can be identified from an income tax return (and vice versa) for the same taxpayer (section 6.4.1).

It can be appropriate to give the option to be taxed as a household unit together with a spouse and minor children.<sup>163</sup> 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.<sup>164</sup> In practice, the most common approach in tax jurisdictions who have adopted a net wealth tax has been to use the household as the taxable unit.<sup>165</sup>

## 4.5 Taxable Events

For periodic net wealth taxes, the "taxable event" will normally be a specific date, typically every year, when 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".

<sup>161</sup> See more in: Rudnick and Gordon, *Taxation of Wealth*.

<sup>162</sup> See Article 4 in the United Nations Model Double Taxation Convention between Developed and Developing Countries.

<sup>163</sup> For example, in France, the taxpayer is either an individual or a family under the net wealth tax. A family is defined as including spouses and minor children as well as any "concubine" and minor children. FRA CGI art. 885E.

<sup>164</sup> OECD (Organisation for Economic Co-operation and Development) (2018). *Net Wealth Tax Design Issues. In the Role and Design of Net Wealth Taxes in the OECD*, chapter 4. Paris: OECD Publishing.

<sup>165</sup> World Bank Group (2018). *The Human Capital Project*. Washington, DC: World Bank Group.



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 to reduce the compliance burden and simplify 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 (section 4.10).

## 4.6 Taxable Base

The worldwide net assets of residents are generally included within the scope of a net wealth tax. This can help introduce fairness and horizontal equity to the tax system and reduce the risk of distorting the international allocation of capital (e.g., by reducing the incentive for taxpayers to invest capital abroad solely so that it falls outside the scope of a net wealth tax). It 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 relief for specific types of assets as much as possible. Use of appropriate thresholds (section 4.8) can be a way to ensure that the net wealth tax is progressive and avoid disproportionate administrative burdens, while 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 in different asset types are subjected to varying effective tax rates due to exemptions for certain asset classes. Vertical equity could be influenced by exemptions for assets disproportionately owned by the richest taxpayers.

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

- Immovable property
- Movable property, such as motor vehicles, ships/boats and aircraft
- Cash and bank deposits
- Shares, other certificates of participation in legal structures, bonds
- Intangibles, including intellectual property rights
- Artworks, collectible objects and antiquities
- Home furniture and personal belongings

Human capital is the present economic value of an individual's skills and experiences, which may enable them to earn future income.<sup>166</sup> It is typically exempt from the net wealth tax base. The rationale for excluding human capital is that it is dif-

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<sup>166</sup> World Bank Group, The Human Capital Project.

difficult to value as it is not directly transferrable or convertible into cash, and may not be durable.<sup>167</sup> As a result of this exclusion, a net wealth tax generally would lower the return on real and financial assets and promote investment in human capital.<sup>168</sup>

For net wealth taxes to efficiently target the capacity of individual taxpayers 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 a home is defined net the outstanding mortgage, which is treated as an allowable deduction.<sup>169</sup> If business assets are included within the scope of a net wealth tax (section 4.7.2), a similar approach should be followed. For non-residents, only specific debts in relation to property located within the tax jurisdiction should lead to allowable deductions.<sup>170</sup>

## 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; and the primary residence where the value is below a specified amount.<sup>171</sup>

### 4.7.1 Pension savings

Despite being one of the most important financial assets to accumulate wealth, pension savings are almost universally exempted from net wealth taxes. In addition to promoting savings, this exception is justified on social grounds, given the benefits that come from encouraging individuals to save for retirement. It is also challenging to tax pensions under a net wealth tax because different types provide beneficiaries with diverse economic benefits. One option<sup>172</sup> offers a stream of income, usually tied to final earnings, for the rest of pensioner's life. Another variation<sup>173</sup> establishes an investment account based on contributions by the beneficiary and an employer. This belongs to the beneficiary, who may elect to spend it in retirement and leave any remaining amounts to heirs.

<sup>167</sup> OECD, *The Case for and Against Individual Net Wealth Taxes*.

<sup>168</sup> *Ibid.*

<sup>169</sup> For example, Argentina, Article 22(a) of Law 23.966 on personal asset taxation.

<sup>170</sup> For example, Argentina, Article 17 of Law 23.966 on personal asset taxation.

<sup>171</sup> For example, Argentina, Articles 21 and 24 of Law 23.966 on personal asset taxation.

<sup>172</sup> Sometimes referred to as a defined benefit plan (such as in the United Kingdom and United States).

<sup>173</sup> Sometime referred to as a defined contribution plan (such as in the United Kingdom and United States).

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 hard to justify taxing individuals on wealth that they cannot control or access to settle taxes 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 for them.<sup>174</sup> There should, however, be a limit to the capital value of the pension exempted from a net wealth tax to ensure that pension savings are not misused to evade the net wealth tax.

#### **4.7.2 Business assets**

Business assets directly used in the professional activity of the taxpayer or stakes or shares in unincorporated or closely held businesses are often excluded from net wealth taxes. Examples comprise 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, the exclusion of certain assets or a lower tax rate.<sup>175</sup>

### **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 take into account their ability to pay.<sup>176</sup> 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 liable for the tax and the less wealth within the scope of the net wealth tax.

Choosing the right threshold will depend on socioeconomic factors, the tax system as a whole and how wealth is taxed, the targeted revenue potential of the net wealth tax, and a given society's attitudes towards net wealth taxes, such as whether only the very wealthiest should be covered or if the tax should be more broadly applied.

As a practical matter, threshold questions should be closely intertwined with the decision on eligible taxpayers and application to individuals or on a household basis. The latter holds especially true for jointly held immovable property and household goods.

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<sup>174</sup> A. Advani et al. (2020). A Wealth Tax for the UK. Final Report of the Wealth Tax Commission.

<sup>175</sup> For example, Ireland, Luxembourg and Norway. S. Perret (2020). Why Did Other Wealth Taxes Fail and Is This Time Different? Wealth Tax Commission Evidence Paper no. 6.

<sup>176</sup> For example, Argentina, Article 24 of Law 23.966 on personal asset taxation.

## 4.9 Tax Rates

Progressivity in a net wealth tax may also be achieved using differential tax rates. When setting rates, policymakers 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 revenue. Levying high tax rates can have a distortionary effect. Although a high rate may increase total tax revenue, beyond a certain peak, the economic costs can erode the tax base, reducing total tax revenue.<sup>177</sup>

Tax jurisdictions implementing net wealth taxes for individuals generally establish progressive tax rates from 0.5 to 2.25 per cent. For example, a progressive tax rate of 0.5 to 1.75 per cent for assets located in a tax jurisdiction and 0.75 to 2.25 per cent for offshore assets has been observed in some tax jurisdictions.<sup>178</sup> Tax jurisdictions may also consider applying a flat tax rate, for example, 0.5 per cent, on the net value of in-tax jurisdiction immovable property owned by non-residents.<sup>179</sup>

Some tax jurisdictions have taken measures to encourage skilled workers by establishing exemption periods or lower tax rates upon arrival in the tax jurisdiction. To incentivize domestic investments, some tax jurisdictions levy a higher tax rate on offshore property. 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 returns on their investment assets to have enough 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 property to fulfil their tax obligation.

<sup>177</sup> L. Vogel (2012). *Tax Avoidance and Fiscal Limits: Laffer Curves in an Economy with Informal Sector*. Economic Papers 448. Directorate General Economic and Financial Affairs, European Commission.

<sup>178</sup> For example, Argentina, Article 25 of Law 23.966 on personal asset taxation.

<sup>179</sup> For example, Argentina, Article 26 of Law 23.966 on personal asset taxation.

#### 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 for determining wealth to make the assessment and file their tax returns. Tax jurisdictions should consider aligning the filing date for personal income tax returns with the filing date for the net wealth tax.

Tax jurisdictions should also consider how to address a scenario where taxpayers do not have enough liquid assets to pay their net wealth tax liability and may have to dispose of assets. To alleviate liquidity concerns, tax jurisdictions may opt for a system that permits gradual settlement of the net wealth tax liability in instalments throughout the year in an anticipated/estimated manner, based on actual tax liabilities from previous years.<sup>180</sup> Alternatively, tax jurisdictions could allow taxpayers to gradually settle their net wealth tax liability after the due date through instalment payments.

#### 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 is invested in a covered asset through the net wealth tax. Both taxes can be said to fulfil different purposes so there may be no need to provide relief (similar to a consumption tax levied on post-tax income where no relief is commonly given).<sup>181</sup> A tax jurisdiction may, however, 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 interactions among different types of wealth taxes should be considered where individuals are subject to different taxes on the same items of property, such as where local authorities or political subdivisions levy a tax on real estate and the national or federal government also taxes such immovable property as part of the net wealth tax. In these circumstances, jurisdictions that introduce net wealth taxes are encouraged to design relief mechanisms to address such concerns, for example, by granting tax credits for the tax paid at the subnational level.<sup>182</sup>

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<sup>180</sup> For example, Argentina, Title III of Resolution 2151/2006 and its modifications, issued by the Argentine Federal Tax Administration

<sup>181</sup> A. Summers (2021). *Ways of Taxing Wealth: Alternatives and Interactions*. Fiscal Studies.

<sup>182</sup> One example of a tax where relief for the payment of one type of tax is granted for a different tax is Ecuador's Money Outflow Tax. It was introduced by the Amendatory Law for Tax Fairness. On certain imported raw materials, inputs and capital goods can be used as a tax credit against income tax. This credit is applicable for the year in which the Money Outflow Tax payments were made, and it can be extended to the following four years.

## 4.12 Cross-Border Issues

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

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 as taxes covered and allocating taxing rights on different elements of property owned by residents of one or both contracting states. In fact, jurisdictions may consider following guidance in Articles 2 (taxes covered), 22 (capital) and 23 (methods for the elimination of double taxation) of the United Nations Model Tax Convention between Developed and Developing Countries.<sup>183</sup>

Several existing double taxation treaties on the avoidance of double taxation on income and capital make explicit reference to net wealth taxes and include them as covered taxes, as defined by Article 2 of the treaty.<sup>184</sup> For developing countries with net wealth taxes, the inclusion of Article 22 (taxation of capital) in their tax treaties allocates the source State's natural taxing rights on certain capital items with sufficient nexus. This also requires residence states to recognize the source State's priority and provide relief for double taxation in levying a residence-based net wealth tax. There are also existing double taxation treaties on the avoidance of double taxation involving estate, inheritance and gift taxes.

<sup>183</sup> United Nations Model Double Taxation Convention between Developed and Developing Countries.

<sup>184</sup> See, for example, Argentina's tax treaties, where most double taxation agreements address wealth taxation by allocating shared taxing rights in relation to sensible assets following the recommendation of the United Nations Model Tax Convention between Developed and Developing Countries, and also contemplate the source taxation of shares and interests in local companies and other entities or arrangements.

## 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 wealthier taxpayers to mobilize resources to mitigate and recover from a specific crisis. Such taxes have been used for post-war national reconstruction<sup>185</sup> and to respond to economic downturns, natural disasters such as earthquakes,<sup>186</sup> health emergencies such as AIDS<sup>187</sup> and pandemics such as COVID-19. The term *exceptional* implies the tax is triggered by a crisis and is hence time-bound. *Solidarity* indicates the obligation of the wealthy to contribute to the common good during the crisis. Such taxes can be levied as a one-off tax or over a longer period.

Exceptional solidarity net wealth taxes have been a renewed area of focus since the COVID-19 pandemic, which required high levels of government expenditures and witnessed a steep rise in inequality.<sup>188</sup> They can be levied on income or wealth and/or on individuals or companies, but the following guidelines focus on individuals. Section 5.2 considers the purpose, advantages and disadvantages of an exceptional solidarity net wealth tax. See section 1.5 on the rationale for taxing wealth more generally.

Legislation for exceptional solidarity net wealth taxes can be stand-alone or incorporated into existing laws to tax wealth. For the sake of administrative ease and procedural fairness for taxpayers, it is recommended to incorporate such provisions into legislation ahead of a crisis so that they can be activated when needed. Legislation should define what constitutes a “crisis” that will trigger the application of the tax. 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.<sup>189</sup>

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<sup>185</sup> For example, Czechoslovakia, Finland and France.

<sup>186</sup> For example, Ecuador.

<sup>187</sup> For example, Zimbabwe.

<sup>188</sup> N. Ahmed, A. Marriott, N. Dabi et al. (2022). *Inequality Kills: The Unparalleled Action Needed to Combat Unprecedented Inequality in the Wake of COVID-19*. Oxford, England: Oxfam GB.

<sup>189</sup> An example of a tax that is in abeyance until triggered by a certain event is Uganda's windfall tax. It is applicable in situations where the international oil price equals \$75 per barrel or more on any day of a year of income for specified contract areas. The windfall tax is paid in addition to corporate income tax, royalties, surface rentals and other taxes. While this tax is not a net wealth tax, nor applicable to individuals, its principles could be applied more broadly.

Efficient and effective administration of any net wealth tax is vital to its successful implementation. When exploring the policy design choices outlined in this chapter, policymakers should consider the impact of any policy choice on administration. Chapter 6 examines in detail the issues that arise when administering wealth taxes, including exceptional solidarity 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 a jurisdiction to overcome a crisis. The advantages of such a tax include its temporary nature and link to a crisis.

Where an exceptional solidarity net wealth tax is introduced, it is recommended that it place a higher obligation 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 the wealthy tend to increase their asset ownership during periods of crisis.<sup>190</sup> A progressively higher rate for the very rich may help to counter this trend.

Exceptional solidarity net wealth taxes can be problematic where the crisis triggering the tax is broadly or vaguely defined, leading to an unjustifiably prolonged application. Without clear revenue targets, it may also 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 net wealth taxes can be difficult in normal times. During periods of crisis, tax administration may be stretched thin with other overlapping priorities, such as shortfalls in the collection of regular revenue, and have no capacity to administer an exceptional solidarity net wealth tax. Further, administrative resources deployed to implement the tax might be useful only for a short time. For a general discussion of administrative issues arising in the context of wealth taxes, see chapter 6.

## 5.3 In-scope Taxpayers

See section 4.4 on determining taxable persons for periodic net wealth taxes on individuals.

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<sup>190</sup> M. B. Christensen, C. Hallum, A. Maitland et al. (2023). *Survival of the Richest: How We Must Tax the Super-Rich Now to Fight Inequality*. Oxford, England: Oxfam GB.



## 5.4 Taxable Events

The taxable event for exceptional solidarity net wealth taxes should be the onset of a crisis. For tax certainty, it is recommended to incorporate the trigger for such a tax into tax legislation and link it to any existing legislation on crisis response.<sup>191</sup> This would provide certainty on 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 with 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 exceptional solidarity net wealth tax law.

Tax jurisdictions should not rely on administrative guidance to implement an exceptional solidarity net wealth tax. Such guidance risks being ad hoc and inconsistent, and may not offer the certainty provided by a legislative framework, rendering it vulnerable to tax disputes.

## 5.5 Taxable Base

See section 4.6 on 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 an exceptional solidarity net wealth tax, tax credits for any other taxes paid may be disallowed. As these are exceptional and temporary, they should be treated as stand-alone taxes, unrelated to regular property or wealth taxes.<sup>192</sup>

## 5.6 Thresholds

See section 4.8 on setting thresholds for periodic net wealth taxes on individuals.

Considerations for setting a threshold differ somewhat for an exceptional solidarity tax, since it is time-bound and meant to generate resources to recover from a crisis. Countries, particularly developing countries, with a large proportion of individuals with a low stock of wealth might ordinarily choose a high or moderately high threshold. In a crisis, they could consider a lower threshold to mobilize maximum resources. This approach may be more acceptable because of the temporary nature of the tax.

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<sup>191</sup> Please see footnote note 194 for a tax that is in abeyance until it is triggered by a certain event.

<sup>192</sup> A distinction could be made regarding a one-off solidarity net wealth tax and one levied over a longer time horizon in line with the duration of the crisis. For the former, exemptions should be very limited, whereas they may be somewhat more generous for the latter.

On the other hand, countries with high levels of inequality<sup>193</sup> may find it more appropriate to use a high threshold to target disproportionately wealthy individuals.

After the Second World War, some countries introduced a one-off capital levy of 90 per cent on the top 2 to 3 per cent of the population.<sup>194,195</sup> Others introduced a capital levy on high-value property ownership.<sup>196,197</sup> For countries with significant inequality, a crisis could also be an opportunity to reduce disparities. As discussed in chapter 1, this could be a more effective way to eliminate extreme poverty than a focus on increasing growth rates. It would contribute directly to SDGs 1 (poverty eradication) and 10 (reduce inequality).

## 5.7 Tax Rates

Regarding the rate, tax jurisdictions follow a variety of practices. For example, progressive rates of up to 3.5 per cent on in-tax jurisdiction wealth and up to 5.25 per cent on offshore wealth have been used<sup>198</sup> to finance COVID-19-related debt.<sup>199</sup>

High tax rates for the super wealthy are important to prevent an increase in and/or to reduce inequality, and directly contribute to SDG 10. High exceptional solidarity net wealth tax rates ranging from 3 to 6 per cent may be applied to the net wealth of high-net-worth individuals during a crisis. This assumes that rates are implemented as a top-up tax to avoid economic double taxation (see box 10). If the tax is implemented 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 as 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 and where the

<sup>193</sup> Countries with high levels of inequality are those with a Gini coefficient of more than 40. C. Gini (1912). Variability and Mutability, *Economic Journal* 22(91): 425-436.

<sup>194</sup> For example, Japan targeted the so-called zaibatsu, a group of exceptionally wealthy individuals who apparently had benefitted from the war and were considered beneficiaries of Japanese militarization and aggression.

<sup>195</sup> H. Klug (2020). Time for a Social Solidarity Tax? University of Wisconsin Legal Studies Research Paper No. 1604.

<sup>196</sup> For example, Czechoslovakia.

<sup>197</sup> A. Waris (2021). Solidarity Taxes in the Context of Economic Recovery Following the COVID-19 Pandemic. New York, NY: Pathfinders.

<sup>198</sup> For example, Argentina.

<sup>199</sup> A. Schwarcz (2022). Solidarity and Wealth Tax. Briefing requested by European Parliament's Budget Committee.

average capacity to contribute is similar. For countries with high levels of inequality, a greater threshold can be considered with either a significant flat rate or progressive rates.

A revenue target can help to determine a clear cut-off to apply the tax. The target could also serve as a milestone indicator to evaluate if the tax has achieved its objective. This requires regular interaction with concerned government ministries or departments so that budgetary needs and levels of achievement can be appropriately updated.

## **5.9 Period of Taxation**

The tax, being essentially temporary, must be linked to the crisis and discontinued as soon as it has ended. Care must be taken to avoid links to vague or poorly defined crises that may continue indefinitely. This would defeat the purpose of an exceptional tax and become unfairly burdensome. It may even lead to a social backlash.<sup>200</sup>

One option to avoid such an outcome could be to set revenue targets at the outset. These would define the resources required to cope with the crisis. Ideally, such targets should be based on an economic impact assessment. The exceptional solidarity tax would be seen as complementing rather than substituting for existing revenue sources. Targets would provide an objective basis to measure the performance of the tax and determine when it could be discontinued.

Another option could be to provide a maximum duration for the tax, such as three years, after which extension would be contingent on 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 exceptional solidarity net wealth tax could be designed to complement other existing levies or funds 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 crisis. The revenue target for the solidarity net wealth tax may then be periodically revised based on receipts from other non-tax sources, such as a voluntary contribution fund. Accounting for the total sum of resources mobilized would support lifting the tax as soon as appropriate.

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<sup>200</sup> Waris, Solidarity Taxes in the Context of Economic Recovery Following the COVID-19 Pandemic.

## 5.11 Economic Double Taxation and Other Design Issues

The exceptional solidarity tax could function as a “top-up” to existing net wealth taxes (see box 10). Another option could be to structure the tax as a surcharge on top of existing taxes (see box 11).

### *Box 10: An example of an exceptional solidarity net wealth tax functioning as a “top-up”*

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

The country introduces an exceptional solidarity tax regime of 3 to 6 per cent for the same brackets. Taxpayers A and B would ordinarily face 1 and 3 per cent rates, respectively, under the general net wealth regime.

Assume taxpayer A has net wealth of \$100 and taxpayer B has net wealth of \$500. The net wealth tax payable by the two 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 per cent of \$100 and 3 per cent of \$500. 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.

### *Box 11: An example of an exceptional solidarity net wealth tax structured as a surcharge*

This example applies the same elements in box 10, except that the exceptional solidarity tax regime now functions as a surcharge. If a crisis hits country X, a surcharge of 3 per cent of \$1 and 6 per cent of \$15 would apply to taxpayers A and B. The exceptional solidarity tax would thus generate an additional \$0.03 and \$0.90 in revenue.

Risks of double taxation that arise in net wealth taxes, as discussed in section 4.11, apply for exceptional solidarity net wealth taxes, requiring safeguards.

## 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 rate, as elaborated in the previous chapters. The full potential of any wealth tax, however, can only be achieved through efficiency and effectiveness in administering the tax. A poorly managed wealth tax system negatively impacts tax revenues, creates asymmetries in tax obligations that do not reflect design features, treats taxpayers unfairly and generates distortions.

This chapter considers some key issues in administering taxes on wealth, in particular:

- Valuation
- Access to information
- Improving authorities' approach to information
- Methods of collection
- Compliance management
- Appeal systems
- Changes in tax residency and exit taxes
- Addressing tax evasion
- Interactions among taxes

While there is some variation in the importance and approach to each of these issues for each type of wealth tax, most are relevant across all types of wealth taxes. The following discussion is pertinent to all kinds unless noted as being relevant only to a specific wealth tax.

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. This may help prevent the costs of administration from outweighing potential revenue received. Box 12 illustrates this point for recurrent taxes on immovable property; very similar deliberations and calculations should be undertaken for other taxes on wealth.

***Box 12: Recurrent tax on immovable property and the interaction of policy with administration***

Tax collection depends 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 ratio (CVR), the valuation ratio (VR) and the collection ratio (CLR), with values ranging from 0 to 1.<sup>201</sup>

$$\text{Tax Revenue} = (\text{Tax Base} \times \text{Tax Rate}) \times (\text{CVR} \times \text{VR} \times \text{CLR})$$

The 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 VR is defined as the value currently taxed by the tax administration in respect of taxable immovable property divided by the real market value of that property. This ratio measures the accuracy of the property valuation.

The CLR is defined as annual tax revenue collected from immovable property divided by 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 without a sale (i.e., there is not a readily available sale price as the basis for assessing the tax). This is the case for wealth transfer taxes, recurrent taxes on movable and immovable 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.<sup>202</sup>

The method of valuing assets for levying wealth taxes is therefore vital. It 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 reassessment of asset values or approximations for asset

<sup>201</sup> R. Kelly (2013). Making the Property Tax Work. Working Papers, 42. International Center for Public Policy.

<sup>202</sup> The valuation of capital income, particularly where only taxing realized gains, is generally less complex. Capital income received in cash (e.g., interest income or rent from moveable and immoveable property) generally does not create valuation issues, except in 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, such as where taxes on dividends need to be levied on an in-kind distribution to shareholders.

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 that 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. 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. To avoid the complexity of determining a fair market value, some tax jurisdictions opt for simplified valuation techniques for certain asset classes. These are designed to act as a proxy for market value. They include 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. There is also an increasing role that technology can play in valuations (see box 13).

Methods of valuation and the difficulty of determining valuations vary across asset classes. Special rules apply to certain classes, as the following subsections discuss.

***Box 13: Can the challenges of valuation be overcome through technology?***

Valuations are often characterized as challenging for taxpayers to comply with and for tax administrations to audit. Many valuation techniques used for wealth taxation rely on input data and have room for subjectivity that may be conducive for tax avoidance and evasion.

Recent technological advancements may offer a solution to these problems. Artificial intelligence in particular is being lauded as a potential solution. There are many types of artificial intelligence. The most relevant for valuation is machine learning, where sophisticated computers “learn” through experience rather than by programming.

Machine learning has been successfully employed to value assets such as art, real estate and closely held businesses. Recent studies have found that it is particularly useful for the valuation of immovable property and, according to recent studies, outperforms other valuation techniques.

The advantages of machine learning are that it is faster and more efficient than many traditional appraisal methods. There are, of course, costs to initiating a machine learning model related to building the model and training it with input data. The machine learning process, however, may not only contribute to valuation accuracy but also produce instantaneous valuations that, over time, can substantially reduce overall compliance expenses.

***Box 13: Can the challenges of valuation be overcome through technology? (cont'd)***

Sources: J. A. Soled and K. D. Thomas (2023). AI, Taxation and Valuation. University of North Carolina School of Law.

Note: For examples of the use of technology in developing countries, in particular in relation to the taxation of immovable property, see a webinar organized by the International Centre for Tax and Development, “Information Technology for Property Taxation – Strategies for Effective Design and Implementation”. Available at: <https://www.ictd.ac/event/webinar-information-technology-property-taxation-effective-design-implementation/>.

### **6.2.1 Immovable property**

The following valuation systems are commonly used across tax jurisdictions to determine the value of immovable property.<sup>203</sup> These systems have largely been developed in the context of recurrent taxes on immovable property, but the principles could be readily applied to determining immovable property values for wealth transfer or net wealth taxes.

Where countries impose both recurrent taxes on immovable property (including at the subnational level) and net wealth taxes, it is recommended that they align the valuation methods and values used for both types (section 6.10).

#### **(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 of future rent receipts. To calculate the net present value, one estimates the timing and amount of expected future cash flows and discounts them.<sup>204</sup> This system is applied in many tax jurisdictions, most commonly in countries that were previously under British colonial rule.<sup>205</sup>

#### **(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 the

<sup>203</sup> R. Bah and S. Wallace (2008). Reforming the Property Tax in Developing Countries: A New Approach. International Studies Program Working Paper 08-19. International Center for Public Policy, Andrew Young School of Policy Studies, Georgia State University.

<sup>204</sup> See, for example, A. Damodaran (2012). Valuing Real Estate. In Investment Valuation: Tools and Techniques for Determining the Value of Any Asset, chapter 26.

<sup>205</sup> For more information, please see R. Bahl and S. Wallace (2008). Reforming the Property Tax in Developing Countries: A New Approach. International Center for Public Policy, Andrew Young School of Policy Studies, Georgia State University.



sale 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 the sale 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. This is arguably the simplest method.

**(v) Indexed historical cost**

Some jurisdictions use an indexed cost to determine the value of the property.<sup>206</sup> While 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 are available, and there is sufficient valuation skill and capacity to determine credible property values on a significant scale and a regular basis. These systems are most common in developed countries. Developing countries might, however, find them difficult to implement, administer and monitor given a lack of adequate databases and updated cadasters (box 14) as well as little access to third-party information, such as provided by financial institutions, that would allow access to the market value of real estate.

**(vi) Minimum prices**

Some countries have adopted specific principles for determining the taxable value of immovable property, for example, a “circle rate” fixed by governments.<sup>207</sup> The circle rate is the lowest 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 the 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, state governments adjust circle rates periodically to reflect changes in the property market. For example, where the market

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<sup>206</sup> For example, Argentina, Article 22(a)2 of Argentine Law 23.966 on Personal Asset Taxation.

<sup>207</sup> For example, in India, state governments determine circle rates.

indicates rising property prices, circle rates are adjusted upwards and vice versa. 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 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 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.

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 selling prices, the source of information, how far back prices are considered relevant for the valuation and what constitutes comparable properties/areas should be defined.

## **6.2.2 Movable property such as automobiles, aircraft and vessels**

It is common to make use of valuation tables for movable property. For example, valuation tables of most vehicle values are published.<sup>208</sup> These may be categorized by make, model or year, etc., which allows the assignment of an approximate value.

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

## **6.2.3 Cash and cash deposits**

Cash and cash deposits are normally assessed at nominal value, including accrued interest. Where these are in a foreign currency, the conversion should be made at the official exchange rate on 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.

<sup>208</sup> For example, Argentina, Article 1(a) of Resolution 4466/2019 issued by the Argentine Federal Tax Administration.

#### **6.2.4 Bonds, certificates and shares traded in recognized financial markets**

The valuation of bonds, certificates and shares 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 on the date of the taxable event.

#### **6.2.5 Unquoted shares**

Shares or participations in unlisted companies are complex to value. The significance 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.

Multiple methods that stem from the theory of business valuation can be used to value such assets, such as based on cash flow, earnings, equity, the last transaction, etc. The resulting values can differ significantly. Depending on the size of the business, and 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 that reflects the taxpayer's shareholding should be included in the tax base.

#### **6.2.6 Securities and participation in funds or trusts not quoted in financial markets**

For securities and participation in funds or trusts not quoted in financial markets, valuation might be made with reference to the investment cost increased, if applicable, by accrued interest, and the amount of undistributed profits accrued by the trust fund in favour of its holders.<sup>209</sup>

#### **6.2.7 Collectibles, including jewellery, artwork and antiquities**

It is often difficult to value collectibles such as jewellery, artwork and antiquities due to the lack of a formal market. The complexity of valuing jewellery is further complicated due to aspects such as the certification of purity levels determined through expert evaluation and reports from registered valuers. Artwork and precious stones are particularly difficult to value as both skill and judgement are involved. 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.

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<sup>209</sup> For example, Argentina, Article 22(i) of Law 23.966 on personal asset taxation.

Some practical ways to address common valuation issues for collectible/investment assets include referring to the insured value or negotiated sales.<sup>210</sup>

### 6.2.8 Personal and household items

Personal and household items are often exempted, especially for wealth transfer taxes. 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, discussed in 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.<sup>211</sup> For example, some countries value personal and household assets at their acquisition cost, subject to a 5 per cent maximum limit on the combined value of the individual's global immovable property.

### 6.2.9 Intellectual property

Levying wealth taxes on intellectual property presents several valuation challenges. It is essential to have a good understanding of the intellectual property 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 to determine the value of intangible assets. The unique nature of intellectual property assets, exclusivity and patent restrictions limit 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 with less protection. The value of intellectual property can be very dependent on who is using it.

Market-based and income-based techniques exist for the valuation of intellectual property. The former is the most commonly used approach. 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 the following circumstances apply: comparable assets are purchased or licensed, an active market for the intellectual property exists, and data are sufficient to enable a suitable analysis of the underlying market. It is very difficult to apply the market-based approach to unique intellectual property assets where there is no active market.

Alternatives to market-based valuation include income-based valuation approaches such as:

<sup>210</sup> A. Tennant (2020). The Valuation of Chattels. Wealth Tax Commission Background Paper no. 140.

<sup>211</sup> For example, Argentina, Article 22(g) of Law 23.966 on personal asset taxation

**(i) Relief from royalty**

This is based on the economic theory of deprival value where the value of the intellectual property is estimated to be equal to the capitalized amount of the royalties that would be payable if the intellectual property were not owned but had to be licensed at market rates from a third party.

**(ii) Residual value**

This considers the profits and value generated across the entire value chain of the business. It allows each element of the business a reasonable return based on the functions it performs and the risks it bears. Any residual or “excess” value is deemed attributable to the intellectual property assets of the business not already accounted for in returns allowed along the value chain.

Other methods include the *With and Without Method*, *Multi-Period Excess Earnings Method*, *Distributor Method* and *Greenfield Method*.<sup>212</sup>

An alternative is the cost approach. It is frequently employed for determining the value of acquired or internally generated intangible assets such as software or technology when market and income approaches cannot be applied. It is important to exercise caution when employing the cost approach.<sup>213</sup>

### **6.2.10 Cryptoassets**

As the prevalence of cryptoassets increases, the valuation of them for wealth tax purposes gains importance. The ease of valuing cryptoassets depends on the frequency with which they are traded. Highly liquid cryptoassets, such as Bitcoin, have a readily ascertainable market value, derived from quoted prices on leading crypto exchanges.<sup>214</sup> The prices of tokens can differ widely from one exchange to another, however, and there are difficulties in establishing which exchange is authoritative in determining the rate.<sup>215</sup> A practical suggestion is to average rates across different exchanges.<sup>216</sup> For cryptoassets that are not traded frequently, the use of crypto indices for appreciation or depreciation may be a pragmatic valuation approach.

<sup>212</sup> Institute of Chartered Accountants of India (2021). Technical Guide on Valuation. Para. 7.13, p. 50.

<sup>213</sup> Institute of Chartered Accountants of India (2018). Valuation Standards 2018. Para. 78, p. 103.

<sup>214</sup> United Nations (2023). Report on the Challenges Which Digital Assets Pose for Tax Systems with a Special Focus on Developing Countries. New York: United Nations.

<sup>215</sup> C. Stevie, A. Vayser and R. Schwaba (2019). Valuation of Cryptocurrencies and ICO Tokens for Tax Purposes. Estate Planning and Community Property Law Journal 25(35).

<sup>216</sup> IRAS (2020). IRAS e-Tax Guide: Income Tax Treatment of Digital Tokens. Paras 5.4-5.5, pp. 3-4.

### 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 (e.g. 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 domestic law along with the required update of the valuation (section 6.2.12).

For wealth transfer taxes, the valuation date will typically be the date of the transfer. If assets are going to be sold within a short time after the transfer of wealth, tax jurisdictions could consider allowing the actual sale price to be substituted for 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 (such as property and net wealth taxes), frequent valuation reassessments 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 Valuation and access to information

The tax administration's access to public and private databases, including information from financial institutions, and its ability to analyse 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 system, drastically reducing the cost of property reassessments.

See section 6.3 for a discussion of the importance of access to information for wealth taxes generally.

### 6.2.14 Valuation for solidarity net wealth taxes

In an ongoing national crisis, tax jurisdictions will need to rapidly raise revenue. They could consider providing 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 that will be analysed 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).

#### 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.<sup>217</sup>

Countries with special administrative units focusing on high-net-worth individuals may have additional information that can be used for wealth tax purposes (see box 15).

#### 6.3.2 Information held by other domestic government agencies

Tax authorities can coordinate with other government agencies to make use of wealth information held by them, such as from household surveys and censuses, on stock holdings held by government authorities that regulate stock and securities exchanges, and bank deposits held by individuals that could be accessible through the central bank. The authorities in charge of cadasters are also helpful (see box 14), in addition to vehicle registration agencies. Some countries gather information about real estate from other government bodies, such as power and water utility companies.<sup>218</sup> Intellectual property registers could also be a source of information on intellectual property ownership.

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<sup>217</sup> For example, Argentina and Colombia.

<sup>218</sup> For example, Kenya.

**Box 14: Cadasters**

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

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 per cent while developing countries typically have a ratio between 40 and 60 per cent. In addition, cadasters in developing countries are often incomplete and out of date in terms of property value and ownership information. This has significant ramifications for the taxation of wealth.

Recent technological advances and progress on international exchanges of information have enhanced the capacity of 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 construction 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. Where domestic legislation allows, this information can be used for the administration of wealth taxes.

**6.3.4 Information held by other jurisdictions**

As those with 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. Work on the automatic exchange of information through the Common Reporting Standard under the Multilateral Convention on Mutual Administrative Assistance in Tax Matters and the Multilateral Competent Authority Agreement has enabled the automatic exchange of financial account information among participating tax administrations. It has removed legal barriers allowing bank secrecy and allowed participating



tax administrations to access relevant information.<sup>219</sup> Many developing countries are not participating, however, and thus do not have access to this information.<sup>220</sup>

### 6.3.5 Information from amnesty programmes and leaks

Several countries have adopted amnesty programmes for taxpayers that typically allow favourable tax treatment, such as a full or partial reprieve from any tax, interest and penalties otherwise due in relation to previously unreported taxable assets. Many tax amnesties include the tax regularization of assets held abroad, also referred to as an offshore voluntary disclosure programme.<sup>221</sup> Amnesty programmes often last for a limited period of time. Information gained can generally be used to administer wealth taxes for those applying for amnesty.

A series of high-profile leaks of financial information, most notably the Pandora Papers<sup>222</sup> and Panama Papers,<sup>223</sup> provided valuable information to tax authorities. Other leaks of financial information include the Paradise Papers, HSBC Jersey, HSBC Geneva and Off-Shore Leaks. The International Consortium of Investigative Journalists maintains an offshore leaks database that tax jurisdictions would find useful in tracing assets held by residents.<sup>224</sup>

### 6.3.6 Beneficial ownership registers

For levying wealth taxes on individuals, it is important to identify the ultimate beneficial and legal ownership of assets. Tracing beneficial ownership in relation to high-net-worth individuals can be complex as they are likely to be better informed, organized and able to engage in tax planning. A lack of transparency in beneficial ownership opens opportunities for tax avoidance and evasion by facilitating the possibility of hiding wealth at home and offshore. Trusts, usufructs and foundations have been common tools to avoid wealth taxes. While all 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 movable property assets is complex, more so in many developing countries where identification could be hindered, for example, by the lack of information systems for database cross-referencing. While it is common for

<sup>219</sup> For further information, see the OECD Automatic Exchange Portal. Available at: <https://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/>.

<sup>220</sup> For more information, see: Committee of Experts on International Cooperation in Tax Matters (2021). Increasing Tax Transparency. E/C.18/2021/CRP.31.

<sup>221</sup> L. Martin and A. Camarda (2017). Best Practices in Tax Amnesty and Asset Repatriation Programmes. Transparency International.

<sup>222</sup> International Consortium of Investigative Journalists (2021). Pandora Papers.

<sup>223</sup> International Consortium of Investigative Journalists (2016). Panama Papers.

<sup>224</sup> International Consortium of Investigative Journalists (2013). Offshore Leaks Database. Available at: <https://offshoreleaks.icij.org/>.

countries, for road safety reasons, to keep track of vehicles, including their owners and value, it is less common to maintain registers of other types of tangible movable property. A register of these types, for example, a national inventory, could be beneficial for 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 by offering tax-motivated reasons to register them. Incentives could include opportunities to obtain tax relief, for example, through an exemption from capital gains tax when assets are donated to entities such as museums, charities, educational institutions, the State, etc.

Difficulty in identifying the beneficial owner can be a major problem with intangible assets. Enforcing the registration of industrial or intellectual property rights at the corresponding patent office, intellectual property registry or similar bodies would be helpful, including for tax purposes.

An increasing number of countries are implementing a centralized beneficial owner registry to ensure that 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 sanctions system for 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 analysing 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<sup>225</sup> and Credit Suisse's Global Wealth Report,<sup>226</sup> provide information about income and wealth inequality. Both on a global and country basis, magazines and newspapers contain lists of the wealthiest individuals, for example, Forbes's ranking of wealthy individuals.<sup>227</sup>

### **6.4 Improving Authorities' Approach to Information**

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

<sup>225</sup> World Inequality Database. Available at: <https://wid.world/>.

<sup>226</sup> Credit Suisse (n.d.). Global Wealth Reports.

<sup>227</sup> Forbes (2024). Forbes Billionaires 2024: The Richest People In The World.

#### 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 on tax collection and enforcement. To convert data into useful information to 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 not only in technology but also, critically, in skilled manpower and related training programmes. 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.<sup>228</sup> 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 terms 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 the tax administration

At the domestic level, it is necessary to be aware of existing data privacy laws and regulations, and, in compliance with these laws, to improve the quality of information that tax administrations can access from public sources, for example, through cooperation among 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, in

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<sup>228</sup> H. Une, H. Nyapola, C. Mbaria et al. (2003). Towards the Establishment of Kenya National Spatial Data Infrastructure. Proceedings of the 21st International Cartographic Conference, pp. 1678-1687.

terms of both quality and quantity, while respecting data privacy laws and regulations. Finding relevant databases from the private sector and establishing access for tax administrations is essential for progress in administering and monitoring wealth taxation.

#### **6.4.4 Exchange of information with foreign tax authorities**

Increasing the quality and quantity of information exchanged for tax purposes generally requires countries to effectively implement information exchanges both automatically and upon request. Developing countries face capacity constraints on information exchange, however.

To increase the usefulness of information exchanges, there may be a need to allow flexibility for developing countries regarding the implementation of the Common Reporting Standard<sup>229</sup> or to complement it with additional measures based on their needs. Multilateral organizations could contribute to the training/capacity-building of a skilled labour force and the provision of technology for effective exchanges.

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 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 the following.

#### **6.5.1 Withholding approach**

The withholding approach is commonly used for collecting capital income taxes. The payor of the capital income deducts the tax at source and remits it to the tax authority. This is particularly common for taxation of interest, where tax is typically withheld by the financial institution involved in the transaction.<sup>230</sup> This approach shifts the administrative burden from the recipient of interest to financial institutions on the basis that the latter are typically under intense regulatory scrutiny and therefore unlikely to default on their tax obligations.

In the context of a capital gains tax, an obligation to withhold tax may be placed on the buyer, who is obliged to deduct the tax from the sale proceeds paid to the seller

<sup>229</sup> For further information, see the Committee of Experts on International Cooperation in Tax Matters, Increasing Tax Transparency.

<sup>230</sup> P. Oravec (2002). Taxation of Interest Income in European Countries. BIATEC X(7).

and remit it to the tax authority.<sup>231</sup> For wealth transfer taxes, it may be appropriate to place a withholding obligation on the transferor with respect to an inheritance or gift tax at the time of the transfer of wealth.<sup>232</sup>

In 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. An interest and penalties regime can be used to encourage voluntary compliance, together with other measures discussed in section 6.6.<sup>233</sup>

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

## **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 that tax authorities have on the ownership and value of their assets is accurate. For example, in the context of recurrent taxes on immovable property, only when the tax is effectively collected and enforced do taxpayers worry about appealing overvaluations of property 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 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.<sup>234</sup>

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<sup>231</sup> For example, Uganda.

<sup>232</sup> Rudnick and Gordon, *Taxation of Wealth*.

<sup>233</sup> C. Waerzeggers, C. Hillier and I. Aw. (2019). *Designing Interest and Tax Penalty Regimes*. Tax Law IMF Technical Note 1/2019. Washington, DC: International Monetary Fund.

<sup>234</sup> R. Kelly (2013). *Making the Property Tax Work*. Working Papers 42. International Center for Public Policy, Andrew Young School of Policy Studies, Georgia State University.

As for other taxes, 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 wealth tax liabilities. Digital portals, where taxpayers can log in, self-register and administer their tax liabilities and partly pre-filled tax returns, could reduce both compliance and enforcement costs.

Technology may play an important role in reducing taxpayers' compliance costs and therefore helps 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 analyse 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 individuals units

Some tax jurisdictions have established high-net-worth individuals (HNWI) units to administer this taxpayer segment.<sup>235</sup> These units are resourced with highly skilled staff to promote collaborative compliance 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, standard-setting and training on specific issues.

These units send a strong signal to non-compliant HNWI that they are at risk of investigation by the tax authority. They provide an opportunity to concentrate skills through dedicated training and retention of staff, leading to an improved understanding of the high-net-worth population over time, and greater ease in monitoring and improved responses to HNWI compared to scenarios where resources are spread throughout the tax administration.<sup>236</sup>

<sup>235</sup> For example, the United Kingdom.

<sup>236</sup> OECD (Organisation for Economic Co-operation and Development) (2009). *Engaging with High Net Worth Individuals on Tax Compliance*. Paris: OECD Publishing.

***Box 15: Taxing high-net-worth individuals: lessons from the Uganda Revenue Authority***

Despite a robust legal framework, the Uganda Revenue Authority (URA) has faced challenges in collecting various taxes (personal income taxes, rental tax, value added tax and stamp duty) from HNWI for various reasons including their political influence. At the same time, the revenue authority was not fully using the information available to it and encountered challenges in sharing information with other governmental organizations.

In 2015, the URA established a HNWI unit as part of the Large Taxpayer Office in the Domestic Taxes Department. In 2017, the unit was moved to the Public Sector Office due to its experience in dealing with politicians. It was then merged with a unit established to deal with individuals considered politically influential.

As a starting point, the office generated a list of potential HNWI and collected as much information as possible. Afterwards, meetings were held with such individuals. These sessions, which included high-ranking officials of the URA, sought to educate taxpayers on their rights and obligations, and to signal that the authority was looking into the tax affairs of high-net-worth individuals.

Since the unit's establishment, the URA has greatly improved the filing of income tax returns and the revenue collected from such individuals. The unit was able to raise tax collected from wealthy people from about \$390,000 in fiscal year 2014–2015 to over \$5.5 million in less than a year after its establishment. The success of the unit was, in part, due to support from URA's top management.

Source: J. Kangave, S. Nakato, R. Waiswa et al. (2018). Taxing High Net Worth Individuals: Lessons from the Uganda Revenue Authority's Experience. Working Papers 13543. Institute of Development Studies, International Centre for Tax and Development.

## **6.7 Appeal Systems**

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

## 6.8 Changes in Tax Residency and Exit Taxes

The taxation of wealth can elicit behavioural responses from individuals 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 the digitalization of the world economy, have contributed to increased global offshore wealth over the last four decades. Some studies estimate that the equivalent of about 10 per cent of world GDP, approximately \$7 trillion, is held offshore.<sup>237</sup>

To address the issue of taxpayers changing tax residence to avoid wealth taxes, tax jurisdictions may consider introducing an exit tax. This would deem taxpayers who become non-resident to have alienated their assets at the date they cease to be resident. They would therefore be subject to taxable capital gains (see box 16). 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 emigration. This measure could have a negative impact on immigration, as individuals may be reluctant to move to the relevant tax jurisdiction.

### *Box 16: Exit tax charges for individuals in Germany*

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, 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.

The exit taxation only applies to individuals who have lived in Germany for at least 7 of the past 12 years, and have possessed, directly or indirectly, private shareholdings of at least 1 per cent 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 60 per cent 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

<sup>237</sup> L Lijun and C. Wellisz (2019). Gimme Shelter: Counting Wealth in Offshore Tax Havens Boosts Estimates of Inequality. Washington, DC: International Monetary Fund.



***Box 16: Exit tax charges for individuals in Germany (cont'd)***

per cent, plus a solidarity surcharge if the income exceeds a certain threshold, and a church tax if applicable. Depending on the income tax rate applicable this can lead to an effective tax rate of up to 28.5 per cent.

Taxpayers can request to pay the exit tax without interest in seven annual instalments upon filing an application with 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 requires, for example, that no profit distributions have been made since the exit event that amounted to more than one quarter of the fair market value of the shares at the time of the exit.

## **6.9 Addressing Tax Avoidance and Evasion**

The ability to vest ownership of an otherwise indivisible property in the name of several family members with the main purpose of availing multiple basic thresholds may be a challenge for many jurisdictions in the area of wealth taxation. Such tax avoidance could be addressed by domestic anti-abuse legislation. Raising the issue here is intended to sensitize countries of its existence and prompt them to address it by developing solutions that fit well within their overall legal systems.

General anti-avoidance rules could be introduced to counteract tax-driven transactions or arrangements that could erode the wealth tax base.<sup>238</sup> An effective tax penalty regime, potentially including both administrative and criminal penalties, could also compel taxpayer compliance.<sup>239</sup> Another possible approach to tackle ownership concealment could involve imposing higher taxation rates on assets whose real beneficial owners are not disclosed. Some countries have tried this approach.<sup>240</sup> There is also an increasing trend of encouraging voluntary disclosure by taxpayers through tax amnesty arrangements (section 6.3.5).

## **6.10 Interaction Among Taxes**

The design of any new wealth tax or reform of any existing wealth tax must consider a tax jurisdiction's tax system, and in particular, its approach to taxing different

<sup>238</sup> See more at: C. Waerzeggers and C. Hillier (2016). Introducing a General Anti-Avoidance Rule (GAAR)—Ensuring That a GAAR Achieves Its Purpose. Tax Law IMF Technical Note 2016/1. Washington, DC: International Monetary Fund.

<sup>239</sup> Waerzeggers, Hillier and Aw, Designing Interest and Tax Penalty Regimes.

<sup>240</sup> For example, Ecuador.

elements of wealth. This section focuses on the interaction of wealth taxes, including among different types of these taxes and with the wider tax system.

### 6.10.1 Interactions among wealth taxes

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

#### *Interaction between gift and inheritance taxes*

There is a clear interaction between gift and inheritance taxes. Both taxes together cover *inter vivos* gifts and those 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 commonly apply the same rules, including those governing exempt transfers and 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 and inheritance tax. This is because a significant difference in rates could create tax avoidance opportunities.

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 available exemption thresholds.

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

#### *Interaction among gift, inheritance and estate taxes*

Some tax jurisdictions have implemented a tax regime that covers both inheritance and estate taxes.<sup>241</sup> An estate tax regime could interact with a gift tax regime in several ways, such as through a rule that deems an *inter vivos* gift as part of the estate where the deceased, despite having gifted the asset during his or her lifetime, continued to enjoy its benefits. Such an asset would, under the deeming rule, be included in his or her death estate for 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.

<sup>241</sup> For example, the United Kingdom.

A tax jurisdiction may face several considerations in deciding whether to adopt an inheritance tax, an estate tax or a blended tax regime that contains inheritance and estate tax elements. One consideration is whether the taxpayer should be 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 taxes on estates, which might be fewer in number compared to heirs.

*Interaction between wealth transfer 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, the situs of assets and rules for the payment of tax liabilities. A common question relating to capital assets held by the deceased's estate, since the general rule is to value such assets at a fair market price, is whether a capital gains tax charge may be deemed as arising on 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 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. Some countries, however, 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.<sup>242</sup>

In some cases, a transaction could incur both capital gains and inheritance taxes. 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.

*Interaction between wealth transfer 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 immovable property.<sup>243</sup>

*Interaction between wealth transfer 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.

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<sup>242</sup> For example, Canada.

<sup>243</sup> For example, Brazil.

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 a 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 a “resident”, the general definition used for income taxes could be carried across to these taxes, possibly with modifications to fit any relevant policy objectives.<sup>244</sup>

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 stipulate that a non-resident is liable only for gifts of property situated within that tax jurisdiction. The net wealth tax rules could be aligned with this principle, providing that a non-resident would be liable for a net wealth tax only on assets 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 assets that should come within the scope of the tax – in essence, which assets should be taxable or exempt, and should this classification apply in a uniform manner across all wealth taxes?

For gift and inheritance tax purposes, there may be public policy reasons for a gift or bequest of a particular asset to benefit from favourable 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 employees) and agricultural holdings. The public policy rationale for exempting these assets may not always apply to a net wealth tax, particularly for an exceptional, one-off, solidarity tax. For a one-off net wealth tax to be successful, it should encompass as wide 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:*** Rules on the valuation of assets should be uniform across all types of wealth taxes. In the first place, this would mean that the “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) to which types of assets should be subject to special valuation rules as well as to the mechanics of the operation of those special rules. There should be scope for different treatment of issues specific to each type of tax, however. A good example would be rules on

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<sup>244</sup> For example, concepts of “domicile” are often used in the context of inheritance tax and estate taxes.

the relevant date for the valuation. Inheritance tax rules<sup>245</sup> would necessarily be different from those that apply to a net wealth tax.<sup>246</sup>

**Payment of tax:** A common feature of wealth taxes is that they are 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 funds to pay the tax.

In such cases, it is not uncommon for the tax jurisdiction to make provisions for payment by instalment. It is worth considering whether these rules should be aligned across different wealth taxes 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 the 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 triggered by certain events.<sup>247</sup> It is easier to administer instalment payments for the latter category. The situation is more complex with a recurring tax. There may be differing approaches taken by a tax jurisdiction and between the two types of tax.

#### *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. The capitalization of these 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 generally result in a smaller net wealth tax base and potentially a reduction in wealth tax revenues.<sup>248</sup> A net wealth tax combined with capital income taxes may result in an excessive overall tax burden.<sup>249</sup>

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 subject to the net wealth tax in that jurisdiction, thereby narrowing the net wealth tax base.<sup>250</sup>

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<sup>245</sup> Generally, the date of death would be the relevant date for determining the value of the asset. This could be displaced by the date of the disposal of the asset if it occurs within a stipulated period after the statutory valuation date.

<sup>246</sup> 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).

<sup>247</sup> For example, a gift of a taxable asset or the death of an individual.

<sup>248</sup> OECD, The Case for and Against Individual Net Wealth Taxes.

<sup>249</sup> Schwarcz, Solidarity and Wealth Tax.

<sup>250</sup> OECD, The Case for and Against Individual Net Wealth Taxes.

### 6.10.2 Interaction among wealth and other taxes

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

#### *Interaction between wealth transfer and income taxes*

Wealth transfer taxes are generally treated as distinct from income taxes, with separate rules for elements including chargeable events, exemptions, deductions and rates. There are some instances where the wealth transfer tax regime is part of the income tax regime, for example, where gift taxes apply and are cumulated with overall taxable income.<sup>251</sup> A rare approach is where both an income and a gift tax are applied but, depending on the identity of the donee, the gift tax is applied on gifts to a spouse or other prescribed relatives and the income tax on gifts to other persons.<sup>252</sup> By levying a tax on 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 taxpayers a choice between gift or income taxes. In this approach, the general rule is that even though gifts are taxed, and no personal allowances are granted, taxpayers can elect to have their gifts taxed under the income tax laws. This way, taxpayers can claim the personal income tax allowance.<sup>253</sup> 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 elements 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. For inheritance tax regimes, however, the concept of residence may be too narrow. Some tax jurisdictions choose to supplement this with additional concepts, such as citizenship or domicile tests.

A typical estate tax regime presents general rules on handling the income tax liability of the deceased individual in the year of their passing as well as that of the estate.

#### *Interaction between wealth transfer 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 (valuation and taxable event) to be aligned

<sup>251</sup> For example, Albania and the Czech Republic.

<sup>252</sup> For example, Denmark.

<sup>253</sup> For example, Thailand.

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.<sup>254</sup> Rather than levy a gift tax or inheritance tax, some tax jurisdictions may opt to tax gifts via a stamp duty tax regime.<sup>255</sup>

Some tax jurisdictions levy both a transfer and an inheritance tax for gifts of immovable property. Where both charges simultaneously arise, one of the taxes could be waived to prevent double taxation. The introduction of recurrent taxes on immovable property could coincide with a reduction in taxes levied on transfers of property.

#### *Interaction between wealth transfer taxes and corporate income taxes*

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. These include, for example, rules on the transfer of assets from private holdings to a business.

#### *Interaction of taxes on capital income and on income from labour*

The tax rate on income from capital, particularly capital gains, is often lower than the tax rate on income from labour.<sup>256</sup> The lower tax rate for income from capital is often justified on the basis of international capital mobility, which means that capital income taxes are relatively more distortive than taxes on labour income. Where the effective tax rate on capital income differs too much from the rate on labour 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 labour income) or dividends (taxed as capital income). Capital income from shares is typically taxed at lower effective tax rates than labour income at the personal level, benefitting high-income earners.<sup>257</sup> Imposing a moderately high tax rate on capital income should minimize incentives for arbitrage while limiting the risk of changes in tax residence.<sup>258</sup>

#### *Interaction between net wealth and other taxes*

A periodic net wealth tax could, in theory, bring some stability in revenue relative to a more volatile type of tax, such as a capital gains tax. It would mirror the improvement in property-related taxes where a recurrent tax on immovable

<sup>254</sup> For example, Peru.

<sup>255</sup> For example, Portugal.

<sup>256</sup> For example, the United Kingdom or United States. See also D. Hourani, B. Millar-Powell, S. Perret et al. (2023). *The Taxation of Labour vs. Capital Income: A Focus on High Earners*. OECD Taxation Working Papers. Paris: OECD Publishing.

<sup>257</sup> Ibid.

<sup>258</sup> R. De Mooij, R. Fenochietto, S. Hebous et al., *Tax Policy for Inclusive Growth after the Pandemic*.

property provides a more stable stream of revenue than volatile stamp duties on transfers.<sup>259</sup>

A net wealth tax could also assist with the administration of other taxes, providing information to collect income and property taxes (sections 6.3 and 6.4).<sup>260</sup>

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<sup>259</sup> Commission on Taxation and Welfare Secretariat (2022). Taxes on Wealth. Briefing paper.

<sup>260</sup> Rudnick and Gordon, Taxation of Wealth.



## 7. Appendix A: Methodology for Estimating Potential Net Wealth Tax Revenue

### I. REQUIREMENTS

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

**1. The precise definition of the tax base:** Which assets will be part of the tax base? How will they be valued? What exemptions or deductions will be allowed? See sections 4.5, 4.6 and 6.2 for detailed discussions of these topics.

**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 sections 4.7 and 4.8.

**3. Data set:** Once the previous issues have been addressed, it is necessary to build a data set consistent with the envisioned structure of the tax. This helps to estimate potential revenue by applying the tax rate structure to the estimated tax base. Building the data set can involve considering the following characteristics:

- a. The assets must be disaggregated to allow more precise projections and attend to possible differentiated treatment of some 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 precisely as possible, of the tax rate structure to the calculation of the potential revenue from the tax.
- c. In case there is differential treatment due to the geographical location of different assets or based on any other criterion, the database must incorporate this. For example, if there are differential rates for assets located abroad, the database must consider this distinction.

Interval of assets	Number of individuals	Total assets	Asset 1	Asset 2	Asset 3	Asset 4
0,00 – 1,000.00	X	a+b+c+d	a	b	c	d
1,000.01 – 2,000.00	Y	e+f+g+h	e	f	g	h
2,001.01 – 3,000.00	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. This calculation may require some adjustments, as follows.

**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 making 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 where the value depends 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.

**Tax actually paid:** Several issues can reduce the tax actually paid and must be considered for a realistic estimation of potential revenue. The following parameters must be estimated:

- a. Percentage of revenue loss due to non-payment
- b. Percentage of revenue loss due to tax credits, exemptions and other mechanisms of tax compensation
- c. Percentage of revenue loss due to tax avoidance
- d. Percentage of revenue loss due to changes of tax residence driven by the wealth tax

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

### III. SOURCES OF INFORMATION

A fundamental requirement to implement the methodology described above is information about the tax base. Assembling this information may differ, depending on existing resources.

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

**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:

- a. Asset declarations held by the tax administration and any other organization, such as transparency offices
- b. Real estate registries
- c. Vehicle registries
- d. Bank account information from the central bank
- e. Regulatory entities for stock and securities exchanges
- 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 data set described in the first part of this section is incomplete or has an asset composition that significantly differs from that of the net wealth tax.

In collecting information, relevant taxpayer privacy laws need to be followed.



## 8. 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 wealth tax on individuals.

### I. ENABLING PROVISIONS

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

**Aims and objectives for the law:** Provisions specify what the law is set to achieve, along with its rationale.

**Title, extent and commencement:** The title is what the law is called. The 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 is deemed to have come into force.

**Definitions of 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 the taxpayers affected, wealth covered, exemptions if any, the tax rate and applicable thresholds. Suggestions for legislative elements to include are outlined below.

**Taxpayers:** Provisions specifying who pays the tax and define, for the purposes of the law, residents and non-residents. Further information can be found in section 4.4.

**In-scope wealth:** Provisions defining the tax base, namely, what constitutes wealth for residents and non-residents. Legislative drafters can refer to further details in sections 4.5 and 4.6.

**Allowable deductions:** Provisions outlining which liabilities can be deducted from the taxable base.

**Exemptions and thresholds:** Exemptions defining 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 sections 4.5, 4.6 and 4.7.

**Rate:** Provisions specifying the tax rate, or rates, depending on the design of the tax. Legislative drafters can refer to further details in section 4.8.

### III. ASSESSMENT

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

**Assessment:** The law should 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 required and so on.

**Administration:** These provisions could 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 chapter 6 for further guidance.

**Timing:** Provisions would specify when the tax should be paid and the period over which such payments may be applicable. Refer to section 4.9 for further guidance.

**Double taxation issues:** Provisions should cover how double taxation, both domestic and/or international, can be avoided in case wealth is subject to other taxes, such as recurrent taxes on immovable property, gift taxes, inheritance taxes, etc. See additional guidance in sections 4.10 and 4.11.

## 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 for legislative elements to include are outlined below.

**Wealth tax authorities:** These provisions outline the roles of various officials involved in enforcing the tax, such as assessing officers, valuation officials, etc.

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

**Anti-avoidance:** 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 a focus on beneficial ownership and improved use of technology. Legislative drafters can find additional guidance in section 6.9.

**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 at the time of leaving. Alternatively, provisions could specify that individuals would continue to be taxed on the net value of their assets for a specified number of fiscal years after their emigration. Legislative drafters can refer to section 6.8 for more details.

## V. DISPUTE RESOLUTION

The law must also provide for how disputes shall be resolved, including options for settlement. See section 6.7.





## 9. Appendix C: Country Experiences in the Design and Administration of Net Wealth Taxes

The following discussion examines experiences in two countries, Colombia and Norway, with designing and administering net wealth taxes. It is aimed at identifying lessons learned to give practical insights on the implementation and administration of these taxes.

Three key observations may be helpful for policymakers in deliberations about whether to adopt net wealth taxes and how to best design and administer them.

**Country-specific factors:** Decisions on whether and how to tax wealth are strongly influenced by country-specific factors, including a society's ideas of social justice. In both countries, the design and scope of their net wealth tax reflects a combination of historical, political and administrative factors.

**Availability of information:** An important challenge for net wealth taxes has been access to relevant information about taxpayers' assets held domestically or outside the country.

**Challenges in administering the wealth tax:** These generally entail difficulties in valuing and attributing assets to taxpayers.

### 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 into a local (0.7 per cent) and national (0.3 per cent) tax, the tax base and other characteristics are the same, and taxpayers view the net wealth tax paid to the federal State and municipalities as a single tax.

In Norway, wealth taxes are strongly linked to the personal income tax. A primary purpose of the net wealth tax is to tax wealthy individuals with substantial assets but little taxable income. While Norway's total net wealth tax revenues are small compared to personal income tax revenues, the net wealth tax has helped to improve

the progressivity of the overall individual tax system compared to the income tax in isolation.<sup>261</sup>

The proportion of net wealth tax collection varies significantly between the national and municipal levels. At the state level, 7.8 billion Norwegian kroner (around \$775 million)<sup>262</sup> is estimated to be collected as net wealth taxes, representing 0.38 per cent of total revenue of 2,063.9 billion kroner. At the municipal level, 18.8 billion kroner (around \$1.85 billion)<sup>263</sup> is collected as net wealth taxes, representing 9 per cent of the total revenue collection of 210.7 billion kroner.<sup>264</sup>

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. An estimated 13.7 per cent of taxpayers will pay a net wealth tax in 2022, down from 15 per cent in 2000. The average amount of net wealth tax remitted per individual has generally increased over the same period, from approximately 7,000 kroner (around \$700) in 2000 to nearly 5,000 (around \$4,500) in 2022.<sup>265</sup>

The threshold for levying the Norwegian net wealth tax is 1.7 million kroner (approximately \$170,000) with a tax rate of 1 per cent. The tax rate increases to 1.1 per cent for wealth holdings above 20 million kroner (around \$2 million). This rate comprises a municipal tax at 0.7 per cent and a 0.3 per cent state wealth tax for individuals who hold a taxable net wealth not exceeding 20 million kroner. For net wealth exceeding 20 million kroner, the state wealth tax rate increases to 0.4 per cent.

**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 tax returns that are largely pre-filled, including a list of assets attributable to taxpayers. These pre-filled tax returns are provided to taxpayers for authentication and/or completion. This makes the administration of the net wealth tax significantly easier.

The Tax Administration Act (*Skatteforvaltningsloven*) sets out an extensive list of third parties required to provide relevant information to the tax authorities, including on:

- Salaries, pensions, gratuities, etc. from employers, among others
- Financial relations and insurance, etc., from banks, mortgage companies, finance companies, e-currency companies, insurance companies, pension funds, securities companies, securities centres,

<sup>261</sup> Norwegian Ministry of Finance (2023). Proposition to the Storting (Bill and Draft Resolution) for the 2023 Budget Year. Taxes 2023.

<sup>262</sup> Exchange rate as of June 2025.

<sup>263</sup> Exchange rate as of June 2025.

<sup>264</sup> Norwegian Ministry of Finance, Proposition to the Storting (Bill and Draft Resolution).

<sup>265</sup> Exchange rate as of June 2025.

securities funds, investment funds, etc.

- Debts and interest payments to personal taxpayers from limited liability companies and partnerships
- The rent of real estate, other than for personal housing
- 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
- Ownership and transactions of real estate from the mapping authority (*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 dialogues with individual taxpayers. The Norwegian tax authority also uses relevant information from past amnesty programmes and information leaks, such as the Pandora and Panama papers.

**3. Relationship between wealth taxes and other taxes on wealth:** Norway's net wealth tax is coordinated with the personal income tax system. There is no dedicated team within the tax administration working only to collect wealth taxes. There is no longer any coordination with the inheritance tax, as Norway abolished this in 2014. The inheritance tax was politically unpopular, had various imperfections and 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. It has adopted some simplified, standardized methods for assets that are either difficult or time-consuming to value.

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

Some assets are included in the wealth tax base with only a certain proportion of

their market value (valuation discounts).

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

### **Real estate/immovable property**

- The primary residence is valued at 25 per cent of the estimated market value, if this value is 10 million kroner (approximately \$1 million) or less. If the value is above this threshold, the surplus is valued at 70 per cent 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 is an estimated sales value per square metre, taking into consideration the type of residence, year of construction, size and geographical location.
- A holiday residence is valued at the historic construction cost, generally adjusted upwards, or at a maximum of 30 per cent of the documented market value. A proposal for a new valuation method was sent to a public hearing in October 2022 and is currently under preparation with the Ministry of Finance.
- Other secondary residences are valued at 100 per cent of the estimated market value, which is calculated in the same manner as for primary residences.
- Business property is valued at 80 per cent of the estimated notional letting value.

### **Shares/participations in limited liability companies, partnerships and closely held businesses**

- Assets held by individual enterprises are valued on the basis of the 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 per cent, except for real estate, which has a reduction of 20 per cent. Some assets are valued lower than market value, for example, office machines, vehicles etc. These are valued at their written-down value or net of depreciation.
- Shares in unlisted/unquoted limited liability companies and partnerships are valued based on the total value of the net wealth of taxable assets of the company. Assets are not granted the 30 per cent discount allowed for those held by individual enterprises. They are instead

granted a 20 per cent discount/reduction on the value of the shares.

- Shares in companies listed/quoted on the stock exchange are valued at 80 per cent 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 per cent of their written-down value.

- Art and personal belongings are valued based on the insurance value. If the value is below 1 million kroner (approximately \$100,000), art and personal belongings are not included in the tax base.

The Norwegian tax authorities face challenges in identifying assets held outside the country by Norwegian citizens as well as assets held in Norway by foreign corporations owned by Norwegian citizens.

## II. COLOMBIA

**1. Net wealth taxes have a long history in Colombia.** The country first adopted them in 1935. Their evolution has been strongly influenced by political and other factors over time.

Colombia's introduction, abolition and reintroduction of net wealth taxes has been influenced by tax reforms, political changes and government policies. For the 2023 tax year, the Colombian wealth tax threshold was lowered from 5 billion Colombian

Wealth, in United States dollars	Tax rate, percentage
0 - 750,000	0
750,000 - 1,200,000	0.5
1,200,000 - 2,400,000	1
> 2,400,000	1.5

pesos to 3 billion pesos (approximately \$1.2 million to \$715,000).<sup>266</sup> The flat tax rate was replaced with a progressive tax rate according to the following scheme.

In 2023, the net wealth tax generated revenue of approximately 1.2 trillion pesos (about \$290 million). For comparison, in the same year, revenues from the value added tax generated 36 per cent of total revenue; the corporate income tax contributed 42 per cent. While revenues from the net wealth tax have been earmarked for specific purposes in the past, such as to finance the government's security budget in 2012 or to fund the agricultural sector in 2020 and 2021, the current net wealth tax is allocated to the Government's central budget. For many years, Colombian net wealth taxes served as a substitute or backstop to the personal income tax.

**2. Taxable persons:** Colombian legislation does not include legal entities as taxable persons under the net wealth tax as this would generate double taxation. The net wealth tax already considers the value of wealth held in legal vehicles by including the intrinsic or net asset value of the shares or participations held by individuals being taxed. When taxable persons report shares in private companies in certain jurisdictions or participation in private equity funds or trusts, however, tax authorities find it very difficult to audit the real value of the underlying assets, given the flexibility of many jurisdictions in accounting requirements for these types of vehicles.

**3. Asset valuation:** In line with the above, Colombian legislation, since a 2022 reform, includes a requirement to report shares at their book value adjusted by inflation. This is the result of a political compromise, as the goal was to include these shares under the net wealth tax at their fair market value.

**4. Non-corporate schemes:** Colombia's net wealth tax requires reporting deemed interests in private interest foundations, trusts and other non-corporate schemes for both the founder/settlor and beneficiaries, trustees and protectors, even when legally the assets held in trusts or private interest foundations are not owned by these individuals. This legal fiction was necessary to tax assets subject to these types of estate/succession planning schemes under the net wealth tax. It is difficult to ensure that the value of assets held in these vehicles is adequately reported. Colombia created a rule in the prior version of the net wealth tax allowing the tax administration to impose a penalty if the audit finds material differences between the fair market value of the underlying assets and the reported value of the trust or private interest foundation.

**5. Ownership of non-financial assets:** Colombia's net wealth tax relies primarily on voluntary reports from taxpayers on their ownership of property, aircraft, yachts and other luxury assets.

**6. Change in tax residency and the Colombian anti-avoidance rule:** Colombia has experienced the massive departure of high-net worth taxpayers from

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<sup>266</sup> Exchange rate as of June 2025.

Colombian tax residency. This triggered the adoption of a specific anti-avoidance rule that requires Colombian nationals to demonstrate that at least 50 per cent of their income and assets are located in the same jurisdiction as the one chosen as their new tax residence. This anti-avoidance rule has been circumvented by some taxpayers by renouncing their Colombian citizenship. High-net-worth taxpayers are very mobile and therefore can easily escape unilateral domestic wealth taxation.

**7. To improve its ability to tax high-net-worth individuals, Colombia is looking for international cooperation on several dimensions.** The tax administration finds that wealth tax measures aimed at high-net-worth individuals must have a global dimension to face the challenge of mobility. If an individual is required to pay/comply regardless of their residence, nationality or location of their assets, governments could more effectively reduce inequality by redistributing the revenue from these measures. In particular, in light of the difficulty in detecting the ownership or enjoyment by individuals of properties, aircraft, yachts and other luxury assets, the Colombian tax administration favours a global ultimate beneficial owner registry for non-financial assets.





## 10. Appendix D: UN Sample Net Wealth Tax Law

### *Foreword*

Tackling wealth inequality is at the top of the policy agenda for many countries since the distribution of wealth is persistently unequal, with the fortunes of the wealthiest increasing disproportionately, across the world.<sup>267</sup> Public opinion is increasingly favouring higher taxes on the wealthy and their effective application so that they can contribute to fund the provision of public goods and services.<sup>268</sup>

Ensuring effective taxation of wealth is a tool to address inequality, increase progressivity in tax systems, and raise domestic revenues to finance investments in the Sustainable Development Goals (SDGs).

Taxing wealth can be complex, however, and governments should structure wealth taxes in a way that fits into their current tax system and administrative capacity. In this respect, reference is made to the United Nations Committee for International Cooperation in Tax Matters Handbook on Wealth and Solidarity Taxes, which contains this Sample Net Wealth Tax Law and provides practical guidance on the policy options available to countries when considering how to adequately tax wealth. It discusses the rationale for taxing wealth, alongside practical tools, advice, including on impact assessment,<sup>269</sup> and country examples.

<sup>267</sup> According to the World Inequality Lab, the wealth of the richest individuals has grown at 6 to 9% per year since 1995, whereas average wealth has grown at 3.2% per year. Since 1995, the share of global wealth possessed by billionaires has risen from 1% to over 3%.

<sup>268</sup> See for example K. Rowlingson, A. Sood and T. Tu (2021). Public attitudes to a wealth tax: the importance of 'capacity to pay'. *Fiscal Studies*, 42: 431–455. Available at: <https://doi.org/10.1111/1475-5890.12282>; Patriotic Millionaires (2022). Polling on Extreme Wealth in G20 Countries. Available at: Davos Polling Research ([patrioticmillionaires.org](http://patrioticmillionaires.org))

<sup>269</sup> As section 4.3. of this UN Handbook on Wealth and Solidarity Taxes explains, the revenue impact of these types of taxes may vary according not only to their design (tax base, rates, etc.) but also to the jurisdiction's economic development, size, tax administration effectiveness, etc. A brief description of a methodology for estimating the revenue of a net wealth tax and the key assumptions at the base of such estimates is found in Appendix A of this Handbook. Moreover, there are tools available that offer broad estimates, the methodology and assumptions of which should be considered carefully. Examples of such tools are those offered by the Tax Justice Network (<https://taxjustice.net/reports/taxing-extreme-wealth-what-countries-around-the-world-could-gain-from-progressive-wealth-taxes/>) and the World Inequality Database (World Wealth

Net wealth taxes, i.e. taxing the stock of wealth directly, is increasingly being discussed but effective laws are difficult to design. The primary intention behind creating this UN Sample Wealth Tax Law (“Sample Law”) include:

**Guidance:** To provide a well-researched, carefully considered legal structure that can guide lawmakers in drafting their own laws. In a very practical way, this Sample Law aims to assist policy makers with evaluating the different approaches and solutions available to them and to choose the one most suitable for the local context. This Sample Law is meant to assist countries with the drafting of a net wealth tax, but it does not substitute the national, democratic process of developing a law. Such a process is crucial to ensure that a net wealth tax fits into a country's domestic tax system and is responsive to socio-economic factors. Both aspects – the process through which a law is drafted and how well it is adapted to the local context – determine its acceptance and administrability.

**Best practices:** To incorporate and disseminate best practices from various jurisdictions, ensuring that policy makers take advantage of, and reflect upon, the latest legal thinking and practical experiences with net wealth taxes. In that sense, this Sample Law seeks to build upon and synthesizes previous legislation, as well as research into its effectiveness. It identifies key principles and structures that govern net wealth taxes across legal systems in practice, while giving flexibility to those seeking guidance from it.<sup>270,271</sup> In order to be responsive to the needs of a particular country, the Sample Law offers different approaches and encourages countries to exclude or modify provisions as policy makers see fit.

**Tool for technical assistance:** Model laws are often used as a tool for technical assistance and to support developing countries in developing their capacity by providing them with best practices that they can adapt to their specific needs.<sup>272</sup> This Sample Law intends to inform and assist reform, providing a reference tool for policy makers when considering or preparing new laws and regulations or reviewing the adequacy of existing laws and regulations.

It should be noted that this Sample Law, in its entirety or in certain parts, will not be suitable in all cases. Policy makers will need to develop legislation that meets the needs and fits the particularities of their country, including, importantly, the state of their economy, existing tax laws on capital income, the transfer and stock

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Tax Simulator - WID - World Inequality Database). 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.

<sup>270</sup>E. Cohen (2011). Normative Modeling for Global Economic Governance: The Case of the United Nations Commission on International Trade Law (UNCITRAL). *Brooklyn Journal of International Law*, 36.

<sup>271</sup>M. Whisner (2014). There Oughta Be a Law – A Model Law. *Law Library Journal*, 106.

<sup>272</sup>S. Block-Lieb and T.C. Halliday (2006). Legitimation and Global Lawmaking. *Fordham Law Legal Studies Research Paper No. 952492*. Available at: <http://dx.doi.org/10.2139/ssrn.952492>.

of wealth as well as administrative tax laws and regulations. However, the Sample Law aims to provide considerations, guidance, options, and perhaps inspiration for countries to develop their own laws tailored to their particular priorities, requirements, and constraints.

It is strongly recommended that this Sample Law is considered in conjunction with the United Nations Committee for International Cooperation in Tax Matters' Handbook on Wealth and Solidarity Taxes which contains this Sample Law in its Appendix.

# United Nations Sample Net Wealth Tax Law

## *Preamble*

WHEREAS the [Government] [Parliament] of [Jurisdiction] considers it desirable to tax individual net wealth so as to achieve reduction of inequality, mobilization of domestic resources for investment in sustainable development and promotion of social justice.

Be it therefore enacted as follows:

## Chapter I: Enabling Provisions

### Article 1: Title, Territorial Scope and Commencement

- (1) This law may be cited as [XXX] of [Jurisdiction], [year of adoption].
- (2) This law shall apply to the whole of [Jurisdiction] [, except for territories/autonomous regions/etc.].<sup>273</sup>
- (3) Save as otherwise provided in this law, it shall enter into force on [date].<sup>274</sup>

### Article 2: Definitions<sup>275</sup>

- (1) For the purposes of this law:
  - (a) The term “asset” shall have the meaning which it has under the [civil code/name of applicable legislation if different] of [Jurisdiction]. The term shall in any case include property of whatever nature, whether movable or immovable, tangible or intangible, and rights or interests of whatever nature to or in such property.

<sup>273</sup> An exclusion may be necessary for certain jurisdictions where tax laws are in general not applicable to specific territories or regions. However, for an effective implementation of a net wealth tax, countries should consider limiting exemptions as much as possible.

<sup>274</sup> Article 3 (1) provides for the entry into force of this law from the first complete fiscal year after its date of commencement. If a different date of entry into effect applies, this could be introduced in this section in accordance with Article 3 (1).

<sup>275</sup> Either existing domestic legislation or the regulations to this law may include definitions. Hence, jurisdictions may keep the list in this Article as short as possible. Terms in this Sample Law consist of some relevant definitions, however, that may need to be included. This could be on a stand-alone basis or through references.

(b) The term “benefit” means any exception or reduction of the tax provided by this law, including the exclusion of assets directly owned by an entity under paragraph (5) of Article 5.

(c) The term “fiscal year” [means any year beginning on January 1<sup>st</sup> and ending on December 31<sup>st</sup>] [has the meaning provided for it under the legislation on income tax levied on individuals/name of applicable legislation if different].

(d) The term “net wealth” means the value of financial and non-financial taxable assets owned by the taxpayer, determined under the conditions, valuation approaches and after deducting liabilities as provided by this law and its regulations.

(e) The term “non-resident individual” means any individual who is not resident under [the income tax legislation/name of applicable legislation if different].

(f) The term “related party” has the meaning provided for under the [income tax legislation/name of applicable legislation if different].

(g) The term “resident individual” has the meaning provided for under the [legislation on income tax levied on individuals/name of applicable legislation if different].

(h) The term “valuation date”, in relation to any fiscal year for which an assessment is to be made under this law, means the last day of such fiscal year.

(2) Any term not defined in this law shall have the meaning that it has under the applicable laws, any meaning under the [General/Administrative Tax Code] [and Income Tax Law] prevailing over a meaning given to the term under other laws. Regulations to this law may include definitions of terms not defined in the laws or a different definition if required by the context.

## Chapter II: Imposition of the Wealth Tax

### Article 3: Charge of Wealth Tax

There shall be levied under the provisions of this law, for every fiscal year ending after the date of its commencement, a tax, hereinafter referred to as Wealth Tax, on the net wealth of individuals exceeding [ \_\_\_\_\_ ].<sup>276</sup>

### Article 4: Taxpayer

(1) For the purposes of this law, a taxpayer is:

a) Any resident individual;<sup>277</sup> or

b) Any non-resident individual who owns taxable assets situated in [Jurisdiction].

(2) Resident individuals shall be taxed on a global basis, taking into consideration all taxable assets they own and the deduction of all deductible liabilities, regardless of where the assets are situated.

(3) Non-resident individuals shall be taxed only on assets they own situated in [Jurisdiction], with the deduction of deductible liabilities.

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<sup>276</sup> It is for the domestic legislation to fix the threshold, considering the need to raise revenue, the wealth distribution and composition, tax administration matters and other political considerations. It is suggested to introduce a rather high threshold that would enable a more limited list of exemptions, a considerable reduction of taxpayers and a better administrability of the tax. Consideration of an automatic inflation-related adjustment may be useful in case there are concerns about inflation. The threshold could apply only to resident taxpayers and a lower threshold could be introduced for non-resident taxpayers, if deemed appropriate.

<sup>277</sup> It is suggested that only individual persons should be liable to the net wealth tax. However, comparative analysis shows that there may be good reasons to complement or replace this definition of taxable person by the family unit, household or married couple, similar to the long-standing rules in certain countries that require or allow the aggregation of the income of married couples for income tax purposes. Relying on the taxation of wealth of a type of family unit instead of the individual may require the adoption of alternative rates and exemption thresholds, depending on the pursued policy objectives.

## Article 5: Taxable Assets<sup>278</sup>

- (1) Taxable assets of a resident individual comprise all assets of economic value owned by such individual.
- (2) Taxable assets of a non-resident individual comprise all those assets of economic value owned by such individual and situated in the territory of [Jurisdiction].
- (3) Assets shall be deemed to be owned by a taxpayer according to *prima facie* proof of ownership (legal title).
- (4) Assets and liabilities shall be deemed to be owned proportionally by an individual according to the [civil code/name of applicable legislation if different] of [Jurisdiction] to the marital status of that individual.
- (5) Subject to Articles 23 and 25, assets directly owned by an entity, trust or similar arrangement, either resident or non-resident, shall be deemed not to be owned by a taxpayer.

## Article 6: Deductible Liabilities

- (1) For the purposes of the calculation of the value of the net wealth of the taxpayer, the value of charges, liabilities, debts and personal obligations of the taxpayer shall be taken into account provided that they are duly supported, and unless provided in this law and corresponding regulations.
- (2) The value of liabilities, the debtor of which is a taxpayer that is a resident individual, shall be deductible from the value of taxable assets of that taxpayer in assessing the Wealth Tax.<sup>279</sup>
- (3) The value of a liability, the debtor of which is a taxpayer that is a non-resident individual, shall be deductible from the value of taxable assets of that taxpayer to assess the Wealth Tax only if the liability is directly connected to such taxable assets

<sup>278</sup> Since individuals may own assets through entities, trusts and similar arrangements, jurisdictions may decide to provide for those assets to be “attributed” to such individuals as taxable assets and specify “attribution” rules. However, in general, the value of such assets underlies the value of shares and comparable interests in those entities, trusts or similar arrangements. Therefore, it is suggested here to define taxable assets as, in general, those directly owned by the taxpayer, and exceptionally those beneficially owned by the taxpayer in cases where the general anti-avoidance rule is triggered.

<sup>279</sup> Since individuals may own assets through entities, trusts and similar arrangements, jurisdictions may decide to provide for those assets to be “attributed” to such individuals as taxable assets and specify “attribution” rules. However, in general, the value of such assets underlies the value of shares and comparable interests in those entities, trusts or similar arrangements. Therefore, it is suggested here to define taxable assets as, in general, those directly owned by the taxpayer, and exceptionally those beneficially owned by the taxpayer in cases where the general anti-avoidance rule is triggered.

and its creditor is not a related party to that taxpayer.

(4) No deduction of the value of a liability shall be allowed if it is directly connected to an asset which is exempted or not taxable under this law.

(5) For the purposes of this law, a liability shall be considered to be directly connected to particular assets if the respective contractual terms between the creditor and the taxpayer expressly state that the purpose of the liability is to finance the acquisition, development or construction of such assets.

## Article 7: Assets Situated in the Territory of [Jurisdiction]

(1) For the purposes of this law, assets shall be deemed to be situated in [Jurisdiction] if they are:

- (a) movable property situated in the territory of [Jurisdiction];
- (b) rights that may be exercised in the territory of [Jurisdiction];
- (c) liabilities, the debtor of which is resident of [Jurisdiction];
- (d) shares of a company or comparable interests in an entity, such as a partnership, which is a resident of [Jurisdiction];<sup>280</sup> or
- (e) immovable property situated in the territory of [Jurisdiction], including:
  - i. real estate and immovable property, as defined in [the tax legislation/name of applicable legislation if different],
  - ii. property accessory to such immovable property,
  - iii. livestock and equipment used in agriculture and forestry,
  - iv. rights to which the provisions of the law respecting landed property in [Jurisdiction] apply,
  - v. usufruct of immovable property,

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<sup>280</sup> For the sake of improving the enforceability of the net wealth tax in relation to non-residents, jurisdictions may consider that shares of a resident company or comparable interests in a resident entity are only deemed to be situated in the jurisdiction if they form part of a substantial participation in the capital of the company or entity. Shares may be considered forming part of a substantial participation if the non-resident taxpayer owns, alone or with associated persons, directly or indirectly, 25 per cent or more of the share capital or comparable interests in that resident company or entity or has the right to 25 per cent or more of the profits of that company or entity. The 25 per cent threshold can be replaced by any other shareholding percentage deemed suitable. Countries may consider introducing the substantial participation threshold both in subparagraph 7(1)(d) and paragraph 7(2).



- vi. rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources,
- vii. rights granted under the law of [Jurisdiction] which allows the use of resources that are naturally present in [Jurisdiction] and that are under its jurisdiction.

(2) Securities, equity interests, shares and comparable interests, deriving more than 50 per cent of their value directly or indirectly from any assets under paragraph 1 situated in the territory of [Jurisdiction], shall be deemed to be situated in the territory of [Jurisdiction].

## Article 8: Exemptions<sup>281</sup>

(1) The following assets shall be exempted from tax on any taxpayer under this law:

- (a) Primary residence of that taxpayer up to a total value of [\_\_\_\_];<sup>282</sup>
- (b) Personal effects including furniture, household utensils, wearing apparel, provisions and other articles intended for the personal or household use of the individual up to a total value of [\_\_\_\_];<sup>283</sup> and
- (c) Investments in entities or arrangements established and operated in [Jurisdiction] exclusively or almost exclusively to administer or provide retirement benefits, death benefits and ancillary or incidental benefits to individuals and that are regulated as such, up to a total value of [\_\_\_\_].

(2) The exempted value of the assets referred to in the previous paragraph shall not be taken into consideration for the calculation of the threshold established in Article 3.

<sup>281</sup> The Sample Law only offers a basic list of assets exempted, considering those found in comparable net wealth tax legislation. Jurisdictions may consider eliminating this Article while increasing the threshold foreseen in Article 3; or maintaining both articles. Jurisdictions may also opt to establish an exemption of the whole value of the assets or establish a threshold value for any type of asset mentioned in the list. See section 4.7, p. 56 of this Handbook. Although it is recommended to keep this list as short as possible for the purposes of addressing inequality broadly, for different domestic policy reasons jurisdictions may include other assets in it. As business assets may represent a significant amount of wealth in jurisdictions, it was decided not to include them in the list of exemptions; however, jurisdictions may need to discuss policies to support their inclusion and conditions and/or limits for it (e.g. value thresholds, type of activity, etc.).

<sup>282</sup> For environmental, efficiency or other policy reasons, jurisdictions may consider limiting this exemption to a specific type of housing, for example, apartments.

<sup>283</sup> Depending on the definition of personal effects in domestic law or the absence of such definition, it could be clarified that certain non-essential assets, such as jewellery, cars and other luxury assets, shall not fall within the scope of such definition.

## Article 9: Valuation Rules

(1) For the purposes of the Wealth Tax, the following assets shall be valued in accordance with the following rules:

(a) Immovable property assets shall be valued according to their fair market value. However, if the value given to them [for other tax purposes/under name of applicable legislation] is higher, such value shall be used for the purposes of this law.

(b) Business assets and liabilities shall be valued according to the value recorded in the last available accounts or balance sheet fulfilled in compliance with applicable accounting regulations.<sup>284</sup> If there is no information available on such value, the other rules of this Article shall apply, as the case may be. Immovable property used for business purposes shall in any case be valued according to subparagraph (1) (a) of this Article.

(c) Deposits, current and savings accounts and other financial instruments shall be valued according to the balance shown at the valuation date. The average balance of the last [\_\_\_\_] months previous to the valuation date shall be considered as the minimum value.<sup>285</sup>

(d) Securities that represent equity and share capital publicly traded on a stock exchange shall be valued at their market value on the valuation date. The average balance of the last [\_\_\_\_] months previous to the valuation date shall be considered as the minimum value.

(e) Securities that represent equity and share capital on holdings not traded on organized markets shall be valued at the value recorded in the latest approved balance sheet.<sup>286</sup> The nominal value shall be considered as the minimum value.

(f) Shares, other securities and other participations and interests in collective investment undertakings shall be valued on the net assets value on the valuation date. The nominal value, including redemption, reimbursement or other premiums linked to the security shall be considered as the minimum value.

<sup>284</sup> Business assets may imply a difference between accounting values and higher fair market values due to unrecorded goodwill, internally developed intangibles and/or future expectations (especially for digitalized businesses and other business models). Since the value of such assets may vary widely, it may be difficult to determine and it does not represent wealth available to its owner until realization, this Sample Law suggests using accounting values. However, jurisdictions may introduce specific valuation rules to address those cases.

<sup>285</sup> There are alternatives for when and how to value investments in pension schemes and life insurance, and country-specific factors would influence whether and how to include these assets in the wealth tax base. See: S. Daly, H. Hughson and G. Loutzenhiser (2021). Valuation for the purposes of a wealth tax. *Fiscal Studies*, 42:615–650; Available at: <https://doi.org/10.1111/1475-5890.12287>.

<sup>286</sup> See footnote 278.

(2) Any other asset and right not specifically mentioned in paragraph (1) shall be valued according to its fair market value.

(3) Deductible liabilities shall be valued according to their nominal value on the valuation date.

(4) For the purposes of this law, tax authorities shall value assets, rights and liabilities according to the valuation mechanisms and procedures enshrined in other applicable laws.

## Article 10: Rates

Wealth Tax shall be levied at the following tax rates:

(a) Resident individuals shall be charged according to the following [table/  
tax rate \_\_\_\_]<sup>287</sup>

(b) Non-resident individuals shall be charged according to the following  
[table/tax rate \_\_\_\_]

## Article 11: Relief from International Double Taxation<sup>288</sup>

(1) Resident individuals shall be allowed a tax credit on any foreign tax of a similar nature, levied and paid on those taxable assets subject to tax in this law and its regulations.

(2) The tax credit shall not exceed the part of the Wealth Tax as computed before the deduction is given, which is attributable to the taxable assets which have been effectively taxed in one or more foreign jurisdictions.

(3) The provisions in the previous paragraph of this Article shall be applicable subject to the provisions of any international treaty or convention.

<sup>287</sup> Jurisdictions should establish the specific tax rates, or table rates, in the corresponding legislation. They may consider introducing table rates to foster progressivity and equality. Jurisdictions may also consider the introduction of specific tax benefits for certain tax policy goals.

<sup>288</sup> The inclusion of this Article implies that relief from international double taxation is granted unilaterally and in the absence of a tax treaty. Such provision is justified if both jurisdictions (of residence and location) apply the rules set forth in paragraphs (2) and (3) of Article 4 of this Sample Law. Jurisdictions may consider establishing limits to such tax credit or making the entitlement to double taxation relief under domestic law subject to reciprocity. This would imply that relief is granted only if there is proof that the other jurisdiction provides similar relief in its domestic law, which is not always easy to ascertain. Jurisdictions may also consider the option of omitting domestic law relief provisions altogether and granting double taxation relief solely based on applicable tax treaties, e.g. general Double Tax Conventions or specific treaties on this type of taxation. It should be noted that relief provisions in a tax treaty are only applicable to the net wealth tax if the tax treaty applies to taxes on capital (which is not always the case) and are subject to the tax treaty's allocation rules for taxes on capital.

**[Article X: Coordination with Other Taxes]<sup>289</sup>**

**[Article Y: Transitional Rules]<sup>290</sup>**

## **Chapter III: Administration of the Tax<sup>291</sup>**

### **Article 12: Tax Authorities**

(1) The Executive, [through the Ministry of Economy and Finance], is responsible for the management, assessment, collection, inspection and review of the Tax, and may delegate powers to the Tax Administration.

(2) For the purposes of fulfilling the tasks entrusted, the [Ministry of Economy and Finance/Tax Administration] shall have the powers to access and collect information provided in this law, notwithstanding the exercise of other powers granted to it by other applicable laws.

### **Article 13: Valuation Procedure**

Without prejudice to the special rules contained in this law, the procedure to determine the value of taxable assets and deductible liabilities shall be contemplated in the regulations to this law and in accordance with the provisions of the [General Tax Law/name of applicable legislation if different].

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<sup>289</sup> Jurisdictions may consider the introduction of a specific article to deal with the relationship of the Wealth Tax and other taxes of the domestic tax system in order to prevent unforeseen effects, such as confiscation or double taxation, or to ensure certain other objectives, such as minimum or maximum effective taxation, for example, combined with income tax. However, models for such diverse type of interactions are not provided in the present Sample Law.

<sup>290</sup> Jurisdictions may need to consider not only the interactions with existing provisions, but also transitional rules in a separate article, such as grandfathering of general or specific benefits, e.g. exemptions of investments made during a particular period. Other transitional rules might provide for a progressive increase of rates.

<sup>291</sup> Some of the provisions in this section may overlap with existing legislation on tax administrative procedures. If that is the case, jurisdictions are invited to refer to such existing legislation and adapt it to the Wealth Tax as appropriate.

## **Article 14: Information Reporting – Self-assessment**

- (1) The tax shall be settled by declaration of the taxpayer and shall be collected in the time and manner regulated by the [tax authorities/regulations to this law].
- (2) Taxpayers are obliged to file such declaration<sup>292</sup> as a self-assessment and, where appropriate, to pay the tax due in the place, form and by the deadlines determined by the [tax authorities/regulations to this law].
- (3) This declaration shall be taken to be an acknowledgement of the debt and allows the debt levy to proceed.
- (4) Taxpayers may rectify their self-assessment before a tax assessment performed by tax authorities if they found the information is not accurate.

## **Article 15: Obligations of the Legal Representative of Non-Resident Individuals**

If a non-resident individual does not comply with the obligation to file a tax return as taxpayer, the legal representative of such individual shall be responsible for such obligation and to pay the respective taxes.

## **Article 16: Confidentiality<sup>293</sup>**

Documents and information received by tax authorities by virtue of this law and its regulations shall be regarded and dealt with as secret. It may be disclosed only in the circumstances and to the persons provided by law.

## **Article 17: Submission of the Declaration**

- (1) For the purposes of the self-assessment declaration of the Wealth Tax, the use of simplified or special forms, or the obligation to file by electronic means may be established by the regulations to this law.
- (2) Taxpayers must fill in all the information required in the forms and submit the supporting documents established by [tax authorities/regulations to this law].

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<sup>292</sup> Jurisdictions may take advantage of information technology to introduce pre-populated forms, the information of which may be amended by the taxpayer as appropriate.

<sup>293</sup> If a jurisdiction does not have confidentiality legislation and rules, it is invited to introduce more detailed provisions in this Article. Information related to taxable assets may be highly sensitive for some taxpayers. To build trust in the administration of the Wealth Tax and to facilitate its implementation, it may be important to adopt and apply rigorous confidentiality standards.

## Article 18: Advance Payments

Tax authorities are empowered to establish rules on advance payments on account of the Wealth Tax.

## Article 19: Penalty Regime

Without prejudice to the special rules contained in this law, tax offences in this Wealth Tax shall be classified and penalized in accordance with the provisions of the General Tax Law and criminal law.

## Article 20: Assessment by Tax Authorities<sup>294</sup>

(1) Tax authorities may assess the Wealth Tax if the taxpayer did not perform the self-assessment through the respective declaration or if it finds that the information provided and processed for the self-assessment performed by the taxpayer, or its subsequent rectification, is false or inaccurate or that it has errors. Tax authorities may reject the self-assessment or its rectification and require an adjustment to the tax debt.

(2) During an assessment performed by tax authorities, they may estimate the value of taxable assets that were not declared or the information of which is found to be false, inaccurate or containing errors in the self-assessment, either by comparing them with similar assets on the market, or by applying a methodology that results in a value as close to the value resulting from the valuation rules provided by Article 9 as possible. Such assessed value shall be considered the *prima facie* value of the respective taxable assets for the purposes of determining the taxable base. The taxpayer may provide proof that a different value results from the valuation rules in Article 9 and the regulations to this law.

## Article 21: Burden of Proof

(1) Taxpayers must maintain accounting and financial records and documents relating to the assets and liabilities that result in the application of this law, including the declared value of each of them.

(2) It is up to the taxpayer to demonstrate that the declared values are in accordance

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<sup>294</sup> It is expected that assessments by tax authorities may be object of administrative or judiciary appeals procedures, which take different forms depending on the jurisdiction legal and institutional frameworks. If needed, jurisdictions are invited to introduce more detailed provisions in this Article to clarify the implementation of such procedures for the purposes of the Wealth Tax.

with the valuation rules of this law, that they are correctly valued using the best international accounting practice where relevant, and that the transactions used for applying such rules were at arm's length.

(3) Tax authorities may request such records and documents at any time, including from third parties, to verify the veracity of the information provided.

## Article 22: Ultimate Beneficial Owner

(1) For the correct attribution of wealth to taxpayers for the purpose of the assessment of the Wealth Tax, tax authorities shall have access to information on the legal persons or arrangements of which the taxpayer is the ultimate beneficial owner.<sup>295</sup>

(2) Any entity under the jurisdiction of the tax authorities shall provide the following information if requested by them:

(a) address and location of its registered office and place of operation, whether leased, rented or owned, in and outside of [Jurisdiction];

(b) the name, address and tax identification number and jurisdiction of residence of the ultimate beneficial owner(s).

# Chapter IV: Special Rules

## Article 23: General Anti-Avoidance Rule

(1) Notwithstanding the other provisions of this law, a benefit under this law shall not be granted in respect of an asset if it is reasonable to conclude, having regard to all relevant facts and circumstances, that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit, unless it is established that granting that benefit in these circumstances would be in accordance with the object and purpose of the relevant provisions of this law.<sup>296</sup>

(2) Assets directly owned by an entity shall be deemed to be owned by its ultimate

<sup>295</sup> Jurisdictions should make a reference to their domestic ultimate beneficial ownership laws for its definition and the disclosure of information on ownership chains.

<sup>296</sup> If a jurisdiction already has an applicable general anti-avoidance rule or similar provisions in its internal tax code or general tax law, this Article may not be necessary.

beneficial owners if the benefit of excluding such assets provided in paragraph (5) of Article 5 is not granted as a consequence of the application of paragraph (1) of this Article. The value of shares or comparable interests derived directly or indirectly from assets [and rights] deemed to be owned by the ultimate beneficial owners under this provision shall be disregarded as taxable assets of such ultimate beneficial owner.

(3) Assets directly owned by an individual who owns assets only nominally (nominee) shall be deemed to be owned by the ultimate beneficial owners.

## Article 24: Access to Information

(1) Tax authorities shall exercise the information gathering powers conferred to them in general or for the administration of any other tax to assist and verify the compliance of this law, including the identification of ownership and valuation of assets. For such purposes, information already in possession of the tax authorities as well as information exchanged with foreign competent authorities, may also be gathered and used under the conditions set by the international agreements on the basis of which the information was exchanged. In any case, taxpayers and third parties under its jurisdiction are obliged to submit relevant information in their possession if requested in writing by tax authorities under the conditions provided in the regulations to this law. This obligation does not include the disclosure of any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy.

(2) Financial institutions, nominees, agents and legal representatives and any other person to whom tax authorities request information may not decline to supply the requested information on the basis of bank or fiduciary secrecy or other equivalent secrecy provisions. However, tax authorities must treat the information received as secret.<sup>297</sup>

(3) Failure to comply with the obligation to provide relevant information in the possession of a requested person shall result in a fine of [\_\_\_\_\_].

## Article 25: Trusts and Similar Arrangements

(1) Assets directly owned by a trust or similar arrangement shall be deemed to be owned by its ultimate beneficial owners if the benefit of excluding such assets provided in paragraph (5) of Article 5 is not granted under paragraph (1) of Article 23. The value of shares or comparable interests derived directly or indirectly from assets

<sup>297</sup> Secrecy and disclosure of this information shall be subject to any general provisions on these matters in internal laws.



deemed to be owned by the ultimate beneficial owners under this provision shall be disregarded as taxable assets of such ultimate beneficial owner.

(2) Where a settlor has placed assets into a trust, and no beneficiary has received them yet or is identifiable as being entitled to the assets, then for the purpose of the previous paragraph such assets shall be deemed to be the property of the settlor, as ultimate beneficial owner.

(3) If the property of trust assets passes definitively away from the settlor or if the settlor dies, for the purpose of paragraph (1) of this Article such assets shall be deemed to be the property of the trust beneficiaries, as ultimate beneficial owners.

(4) If the rights of beneficiaries are not pre-determined, then for the purpose of this law each beneficiary shall be deemed to own a proportionate share of the trust assets in relation to the number of beneficiaries.

## **Article 26: Special Ownership Regimes**

If ownership rights to an asset have been distributed among various parties under special regimes such as usufructs, each right shall be valued separately and attributed to the ultimate beneficial owner accordingly. Regulations to this law shall establish special valuation methodologies for the purposes of this provision.

## **Article 27: Change of Resident Status<sup>298</sup>**

If an individual is considered resident in a fiscal year and becomes non-resident the following fiscal year, that individual shall nevertheless be deemed to be a resident of [Jurisdiction] for the purposes of the Wealth Tax after the change of its resident status, for the same number of consecutive years that such individual has been previously considered resident, and up to a maximum of [\_\_\_\_] years.

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<sup>298</sup> Jurisdictions may also introduce a pro-rated amount of net wealth tax based on the days an individual has a resident status within a fiscal year in case such individual becomes a resident during that fiscal year.





# UN Tax Committee

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