

An Integrated Assessment of the Redistributive Effects of Income and Wealth Taxes

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Over the last decade, many researchers and policymakers have made strong arguments for broadening the taxes on wealth and income from wealth. These arguments relate both to horizontal and vertical equity reasons, as well as to revenue considerations. Although the theoretical literature on (optimal) wealth taxation is relatively large and growing, there exists a large void in empirical research. Little is known about how in practice current and proposed wealth taxes affect aspects such as redistribution and inequality, choices of financial investment and labour supply, etc. In this paper we address this void by empirically analysing the redistributive and budgetary impact of existing and proposed wealth taxes. We use data from the Eurosystem Household Finance and Consumption Survey (HFCS), which have been included in the tax-benefit microsimulation model EUROMOD (Kuypers, Figari & Verbist, 2016). We consider a selection of six countries representing different welfare regimes and inequality levels; namely Belgium, Germany, France, Finland, Italy and Spain.

The paper starts by analysing to what extent current wealth taxes act as a redistributive instrument. We focus on aspects such as size and progressivity and consider both recurrent taxes on wealth such as real property taxes and net wealth taxes as well as taxes on transfers of wealth such as real property transfer taxes and inheritance & gift taxes. In a first step we analyse these wealth taxes against their main tax base, i.e. net wealth. In a second step we adopt a more integrated perspective by studying taxes on income and wealth jointly and assessing their redistributive effects against a broader measure of ability to pay, i.e. the joint distribution of income and wealth (see also Kuypers, Figari and Verbist, 2017). This framework allows us to focus on the specific situations of households which are income rich-asset poor and vice versa (Hills, 2013; Skopek et al., 2012). We show that existing wealth taxes do not achieve any significant redistribution due to the fact that they are more or less proportional, or even regressive in some cases, and they are also much smaller in size than personal income taxes. Hence, in the prevalent tax system there is a lack of neutrality with regard to the source from which households draw their financial living standard, which violates horizontal and vertical equity considerations. Currently, those with the highest labour incomes bear the highest taxes, but – due to the imperfect correlation between income and wealth – these are not necessarily those with the highest ability to pay. In a final step we discuss and empirically assess the pros and cons of some of the reforms and alternative wealth taxes proposed in

political debates and the academic literature. We again focus on aspects such as equity considerations, potential budgetary impact, etc.