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## Policy Forum: The Case for an Annual Net Wealth Tax

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### PRÉCIS

Le public et les décideurs politiques montrent un intérêt renouvelé pour les impôts sur la fortune comme réponse possible au problème de l'inégalité de la richesse. Cet article décrit la tendance récente à l'augmentation de l'inégalité de la richesse, et les facteurs qui y contribuent dans les pays développés, y compris le Canada. Les auteurs font valoir qu'un impôt annuel sur la fortune pourrait et devrait contrer cette tendance, et qu'un tel impôt est à la fois justifiable sur le plan économique et réalisable sur le plan technique. Ils affirment que l'imposition du revenu du capital ne résout pas adéquatement le problème de l'accumulation de grandes fortunes en grande partie en franchise de l'impôt, et qu'un impôt annuel sur la fortune est préférable aux impôts fonciers, qui excluent l'imposition des actifs financiers et sont prélevés sur le patrimoine brut plutôt que sur le patrimoine net. L'article répond en détail aux principales critiques concernant un impôt annuel sur la fortune, en faisant valoir qu'un tel impôt est nécessaire pour parvenir à une répartition plus équitable de la richesse tout en générant des recettes supplémentaires.

### ABSTRACT

The public and policy makers are showing a renewed interest in wealth taxes as a possible response to the problem of wealth inequality. This article describes the recent trend of rising wealth inequality, and the factors contributing to it, in developed countries, including Canada. The authors argue that an annual wealth tax could and should counter the trend, and that such a tax is both justifiable on economic grounds and technically feasible. They assert that the taxation of capital income does not adequately address the largely tax-free accumulation of large fortunes, and that an annual wealth tax is preferable to property taxes, which exclude the taxation of financial assets and are levied on gross rather than net wealth. The article responds in detail to major criticisms of an annual tax on wealth, arguing that such a tax is needed to achieve a more equal distribution of wealth while raising additional revenues.

**KEYWORDS:** WEALTH TAXES ■ INEQUALITY ■ TAX POLICY ■ TAX REFORM ■ CAPITAL TAXES ■ ECONOMIC GROWTH

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**INTRODUCTION**

Growing inequalities in wealth worldwide have contributed to renewed interest in wealth taxes. The first part of this article provides a brief description of wealth inequality in Canada and how tax policy has contributed to it; discusses why extreme inequalities in wealth are not deserved or beneficial; and summarizes recent proposals from US and Canadian politicians for annual net wealth taxes.

A number of experts who agree that growing wealth inequality is a problem that should be addressed by tax changes argue that there are better alternatives than an annual wealth tax. In the second part of the article, we summarize and counter the various critical arguments raised. While a number of different measures are needed, we conclude that an annual net wealth tax with a high threshold would be an effective way to address wealth inequality by targeting individuals at the very top of the wealth distribution.

**GROWING INEQUALITIES IN INCOME AND WEALTH**

Inequalities in income and wealth have increased significantly in recent decades in many affluent countries, including Canada. The rise in inequality has been especially pronounced at the very top of the income and wealth spectrum.

Globally, the top 26 billionaires in 2018 had as much wealth as the bottom 50 percent of the world's population.<sup>1</sup> In Canada, the 87 wealthiest families (households) had net wealth of \$259 billion in 2016, equivalent to the combined net

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1 Max Lawson et al., *Public Good or Private Wealth?* (Oxford, UK: Oxfam, January 2019), at 28 ([www.oxfam.org/en/research/public-good-or-private-wealth](http://www.oxfam.org/en/research/public-good-or-private-wealth)). The wealth of the top 26 billionaires is from the Forbes 2018 billionaires list, with wealth calculated for March 2018.

wealth of the 12 million Canadians at the bottom of the wealth distribution.<sup>2</sup> More shocking perhaps is the rate of growth: between 2012 and 2016, the wealth of those 87 families rose by 37 percent—more than two and a half times the overall average increase in net wealth over that period.<sup>3</sup>

Data reported by the Organisation for Economic Co-operation and Development (OECD) and by Statistics Canada show that wealth inequality has increased, including at the top; however, these data understate the extent of the disparity, since household surveys do not adequately account for wealth held by the top 1 percent.<sup>4</sup> Annual calculations by Credit Suisse estimate that Canada's top 1 percent increased their share of net wealth from 17.9 percent in 2010 to 25.7 percent in 2019. This is very similar to the 25.6 percent share of total wealth that the parliamentary budget officer (PBO) estimated that Canada's top 1 percent held in 2016.<sup>5</sup>

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- 2 David Macdonald, *Born To Win: Wealth Concentration in Canada Since 1999* (Toronto: Canadian Centre for Policy Alternatives, July 2018) ([www.policyalternatives.ca/publications/reports/born-win](http://www.policyalternatives.ca/publications/reports/born-win)). Statistics Canada's Survey of Financial Security for the 12 million cited included both financial and non-financial tangible capital assets. The wealth of the vast majority of Canadians is concentrated in private pensions and non-financial assets, such as principal residences, other real estate, and vehicles. Together these amount to, on average, 80 percent of total assets held by Canadians. See Statistics Canada, "Survey of Financial Security, 2016," *Daily*, December 7, 2017 ([www150.statcan.gc.ca/n1/daily-quotidien/171207/dq171207b-eng.htm](http://www150.statcan.gc.ca/n1/daily-quotidien/171207/dq171207b-eng.htm)). Assets held by the wealthiest families are predominantly financial assets. While there has been a lively debate about whether the value of human capital should be included in wealth distribution calculations, we believe that a clear distinction should be made between capital and wealth.
  - 3 Macdonald, *supra* note 2, at 8. The mean average net wealth of all Canadians increased from \$584,600 in 2012 to \$669,300 in 2016—an increase of 14.4 percent over this period, according to the Survey of Financial Security, *supra* note 2. The average net wealth of the 87 wealthiest Canadian families increased from \$2.17 billion in 2012 to \$2.98 billion in 2016—an increase of 37 percent. Figures are in 2016 constant dollars.
  - 4 Osberg estimated that the top 1 percent in Canada held 20 percent of the total net household wealth in 2006. Lars Osberg, *A Quarter Century of Economic Inequality in Canada: 1981–2006* (Toronto: Canadian Centre for Policy Alternatives, April 2008) ([www.policyalternatives.ca/sites/default/files/uploads/publications/National\\_Office\\_Pubs/2008/Quarter\\_Century\\_of\\_Inequality.pdf](http://www.policyalternatives.ca/sites/default/files/uploads/publications/National_Office_Pubs/2008/Quarter_Century_of_Inequality.pdf)). The OECD's wealth database estimated that the share of net household wealth held by the top 1 percent increased from 15.5 percent in 2012 to 16.7 percent in 2016. See Carlotta Balestra and Richard Tonkin, *Inequalities in Household Wealth Across OECD Countries: Evidence from the OECD Wealth Distribution Database*, Working Paper no. 2018/01 (Paris: OECD, June 2018) (<https://doi.org/10.1787/7e1bf673-en>).
  - 5 Survey data omit ultra-high net wealth individuals, so some researchers combine them with lists of the wealthiest, such as those produced by Forbes to create a synthetic database. See Giles Keating, Michael O'Sullivan, Anthony Shorrocks, James B. Davies, and Rodrigo Lluberas, *Global Wealth Report 2010* (Zurich: Credit Suisse Research Institute, October 2010); and Anthony Shorrocks, James Davies, and Rodrigo Lluberas, *Global Wealth Report 2019* (Zurich: Credit Suisse Research Institute, October 2019) ([www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html](http://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html)). For the PBO data on Canada's top 1 percent, see Nigel Wodrich and Aidan Worswick, *Estimating the Top Tail of the Family Wealth*

## HOW TAX POLICY HAS CONTRIBUTED TO WEALTH INEQUALITY

Many factors have contributed to growing inequalities, but significantly they include tax policy changes that lowered tax rates for capital and business income, particularly during the 2000-2015 period. A 2016 study modelling historical changes in wealth distribution in the United States found that “the most important factor—by far—behind the developments [in wealth inequality] is the significant decline in tax progressivity that began in the late 1970s.”<sup>6</sup> While similar analysis has not been carried out in Canada, recent increases to top personal income tax rates in a number of provinces and by the federal government in 2016, along with some anti-avoidance measures (such as constraints on the diversion of wealth through private corporations), have restored progressivity at the top end; however, it is too early to tell whether these changes will reverse growing inequalities.<sup>7</sup>

Analysis of the incidence of the overall Canadian tax system (including income, sales, payroll, property, and other taxes) found that tax policy measures reduced the overall effective tax rate on the top 1 percent to the extent that by 2005 it was lower than the rate for all other income groups, including the lowest income decile.<sup>8</sup> With opportunities for wealthy individuals and businesses to shelter their assets and income through international tax planning, the effective tax rates at the very top end are very likely lower than these incidence studies calculate.<sup>9</sup>

Over 90 percent of the firms listed on the S & P/TSE60—representative of the largest corporations in Canada—have at least one subsidiary based in a tax haven.<sup>10</sup>

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*Distribution in Canada* (Ottawa: Office of the Parliamentary Budget Officer, June 17, 2020) ([https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-007-S/RP-2021-007-S\\_en.pdf](https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-007-S/RP-2021-007-S_en.pdf)), at 1.

- 6 Joachim Hubmer, Per Krusell, and Anthony A. Smith Jr., *The Historical Evolution of the Wealth Distribution: A Quantitative-Theoretic Investigation*, NBER Working Paper no. 23011 (Cambridge, MA: National Bureau of Economic Research, December 2016), at 30 (<https://www.nber.org/papers/w23011>).
- 7 Kevin Milligan, “The Future of the Progressive Personal Income Tax: How High Can It Go?” (2019) 67:3 *Canadian Tax Journal* 693-710.
- 8 Marc Lee, *Eroding Tax Fairness: Tax Incidence in Canada, 1990 to 2005* (Toronto: Canadian Centre for Policy Alternatives, November 2007).
- 9 International tax avoidance and evasion among the top 1 percent of the wealth distribution is far higher than in the general population. A landmark study by Alstadsæter, Johannesen, and Zucman found that the top 0.01 percent in Norway, Sweden, and Denmark evade an average of 25 percent of their taxes, compared to less than 5 percent throughout the rest of the distribution: Annette Alstadsæter, Niels Johannesen, and Gabriel Zucman, “Tax Evasion and Inequality” (2019) 109:6 *American Economic Review* 2073-2103 ([www.aeaweb.org/articles?id=10.1257/aer.2017.2043](http://www.aeaweb.org/articles?id=10.1257/aer.2017.2043)).
- 10 Diana Gibson, *Bay Street and Tax Havens: Curbing Corporate Canada's Addiction* (Ottawa: Canadians for Tax Fairness, 2017), at 5 (<https://www.taxfairness.ca/en/page/report-bay-street-and-tax-havens>).

Assets reported by Canadian corporations located in the top 12 tax havens increased from \$9 billion in 1988 to \$353 billion in 2018, more than doubling as a share of total Canadian direct investment abroad, from 11 percent to 27 percent.<sup>11</sup>

## ARE EXTREME WEALTH INEQUALITIES DESERVED OR BENEFICIAL?

Some will argue that the rich deserve their wealth because it is a product of an economic contribution to society: just deserts for hard work. However, more than half of the wealthiest 87 families in Canada inherited a large part of their wealth, including all but one of the top 10 on the Canadian Business Richest 2017 list.<sup>12</sup> The wealthiest individuals and families in Canada are predominantly the scions or founders of large corporations, whose wealth is based on their significant share ownership. These corporations are often dominant in their markets, giving them leverage to achieve higher growth and returns, limit competition, control costs, and expand their economic power.

Piketty argues that

the idea that strictly private property exists and that certain people have an inviolable natural right to it cannot withstand analysis. The accumulation of wealth is always the fruit of a social process, which depends, among other things, on public infrastructures (such as legal, fiscal, and educational systems), the social division of labor, and the knowledge accumulated by humanity over centuries. Under such conditions, it is perfectly logical that people who have accumulated large amounts of wealth should return a fraction of it to the community every year.<sup>13</sup>

Societies with greater economic equality have better social and health outcomes measured by a wide range of indicators, including outcomes for those at the top of the economic spectrum.<sup>14</sup> Emotional well-being increases with income, but only up to an annual income level of about US\$75,000, after which it plateaus, while evaluation-of-life measures plateau at slightly higher levels.<sup>15</sup>

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11 Calculations by the author using Statistics Canada data on Canadian direct investment abroad and a list of tax havens compiled by the US Congressional Research Service: see Statistics Canada, table 36-10-0008-01 (formerly CANSIM table 376-0051), “International Investment Position, Canadian Direct Investment Abroad and Foreign Direct Investment in Canada, by Country, Annual”; and Jane G. Gravelle, *Tax Havens: International Tax Avoidance and Evasion* (Washington, DC: Congressional Research Service, Library of Congress, September 2010). Half of Canadian direct investment abroad is through the finance, insurance, and management of companies sectors.

12 Macdonald, *supra* note 2, at 14 and 23.

13 Thomas Piketty, *Capital and Ideology* (Cambridge, MA: Harvard University Press, 2020), at 990.

14 Richard Wilkinson and Kate Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better* (London: Allen Lane, 2009).

15 See Daniel Kahneman and Angus Deaton, “High Income Improves Evaluation of Life, but Not Emotional Well-Being,” in *Proceedings of the National Academy of Sciences of the United*

While previously many had assumed that tradeoffs between equity and efficiency justified inequalities and trickle-down economic policies, more recently even mainstream economic organizations such as the International Monetary Fund (IMF) and the OECD have become increasingly concerned about growing inequalities. These organizations and other mainstream economists now argue that excessive inequalities are hampering economic growth.<sup>16</sup>

Both Piketty and the OECD have argued that there is a natural tendency for wealth disparities to increase if measures, including more progressive taxes, are not in place to counter growing extreme concentrations of wealth. As the OECD has observed, “wealth begets wealth.”<sup>17</sup> Those with high incomes can save more, returns increase with wealth, and those with wealth can more easily borrow money at lower rates of interest, allowing them to borrow more and accumulate more wealth. Wealth also begets power, enabling the wealthy to influence policies and the development and prosecution of legislation to suit their interests.<sup>18</sup>

## THE RECENT RESURGENCE OF INTEREST IN WEALTH TAXES

Wealth and property taxes are among the oldest forms of taxes, but only a handful of wealthy countries now levy an annual tax on broadly defined individual net wealth. Only four OECD countries still had an annual wealth tax in 2017, down from 12 in 1990.<sup>19</sup>

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*States of America* (Washington, DC: PNAS, 2010), 16489-93 (<https://doi.org/10.1073/pnas.1011492107>); and Andrew T. Jebb, Louis Tay, Ed Diener, and Shigehiro Oishi, “Happiness, Income Satiation and Turning Points Around the World” (2018) 2 *Nature Human Behaviour* 33-38 (<https://doi.org/10.1038/s41562-017-0277-0>).

16 For instance, one of the IMF’s flagship reports stated, “While some inequality is inevitable in a market-based economic system, excessive inequality can erode social cohesion, lead to political polarization, and ultimately lower economic growth”: International Monetary Fund, *Fiscal Monitor, October 2017: Tackling Inequality* (Washington, DC: IMF, 2017), at ix ([www.imf.org/en/publications/fm/issues/2017/10/05/fiscal-monitor-october-2017](http://www.imf.org/en/publications/fm/issues/2017/10/05/fiscal-monitor-october-2017)). In 2014, the OECD reported that “[n]ew OECD analysis suggests that income inequality has a negative and statistically significant impact on medium-term growth”: Organisation for Economic Co-operation and Development, Directorate for Employment, Labour and Social Affairs, *Focus on Inequality and Growth* (Paris: OECD, December 2014), at 2 ([www.oecd.org/social/Focus-Inequality-and-Growth-2014.pdf](http://www.oecd.org/social/Focus-Inequality-and-Growth-2014.pdf)). Osberg states that “[t]here is now a growing chorus of economists arguing that increasing inequality implies Western economies have a structural tendency to secular stagnation, due to an excess and ever increasing flow of savings coming from the rising incomes of the very affluent”: Lars Osberg, *The Age of Increasing Inequality: The Astonishing Rise of Canada’s 1%* (Toronto: Lorimer, 2018), at 143. While these analyses focus on income inequality, there are strong correlations between income and wealth inequality.

17 Organisation for Economic Co-operation and Development, *The Role and Design of Net Wealth Taxes in the OECD*, OECD Tax Policy Studies no. 26 (Paris: OECD, 2018), at 52.

18 *Ibid.*

19 *Ibid.*, at 16.

All OECD countries have some form of tax on immovable property—the main asset held by individuals in middle and lower income groups—but very few levy recurrent taxes on the main types of assets held by the top income groups, particularly various forms of financial assets. Many OECD countries also have some form of wealth transfer tax, such as an inheritance or estate tax, but revenues from these taxes have also been low and declining over time. In contrast, revenues from immovable property taxes are relatively significant and have grown as a share of tax revenues in recent decades.<sup>20</sup>

The resurgence of interest in the taxation of wealth was sparked in part by the arguments made by Piketty in his 2014 book, that economic and political power will become even more concentrated over time, and will result in a form of patrimonial capitalism, unless strong measures are taken to more equally redistribute wealth and political power.<sup>21</sup> While Piketty may have ignited much interest, he was not the first prominent proponent of annual wealth taxes in recent years. The IMF's October 2013 fiscal monitor report estimated the potential revenues from recurrent net wealth taxes for a number of countries, indicating that a 1 percent tax on the wealthiest 10 percent of households would generate revenues averaging about 1.0 percent of gross domestic product (GDP) for Group of Seven countries and 0.6 percent of GDP for Canada.<sup>22</sup>

Political interest in wealth taxes was further raised during the recent US Democratic primaries, in which Senators Elizabeth Warren and Bernie Sanders included in their respective campaigns proposals for an annual tax on very large holdings of wealth. Warren called for a 2 percent tax on fortunes exceeding \$50 million, rising to 6 percent on fortunes exceeding \$1 billion.<sup>23</sup> Sanders proposed an even higher top tax rate of 8 percent on fortunes exceeding \$10 billion, which he estimated would generate \$4.35 trillion over a decade.<sup>24</sup> When Warren first proposed her wealth tax on Twitter, she articulated a view that many no doubt agreed with: “The ultra-rich have rigged our economy & rigged our tax rules. We need structural change. That’s why I’m proposing something brand-new: An annual wealth tax on the tippy-top 0.1%.”<sup>25</sup>

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20 Ibid., at 22.

21 Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge, MA: Belknap Press of Harvard University Press, 2014). See also Thomas Piketty, *Capital and Ideology*, supra note 13, at 982.

22 International Monetary Fund, *Fiscal Monitor, October 2013: Taxing Times* (Washington, DC: IMF, 2013), at 41 ([www.imf.org/en/Publications/FM/Issues/2016/12/31/Taxing-Times](http://www.imf.org/en/Publications/FM/Issues/2016/12/31/Taxing-Times)), at 41.

23 Elizabeth Warren, “Ultra-Millionaire Tax,” *Warren Democrats* (<https://elizabethwarren.com/plans/ultra-millionaire-tax>).

24 Bernie Sanders, “Tax on Extreme Wealth,” *Bernie* (<https://berniesanders.com/issues/tax-extreme-wealth>).

25 Elizabeth Warren, @ewarren, *Twitter.com*, January 24, 2019 (<https://twitter.com/ewarren/status/1088622462470946817>).

In the 2019 Canadian federal election campaign, the New Democratic Party (NDP) also called for an annual wealth tax, levied at a rate of 1 percent on net wealth of more than \$20 million.<sup>26</sup> The PBO estimated that this would raise revenues averaging \$7 billion annually over the next decade.<sup>27</sup>

While these proposed wealth taxes are expected to generate significant revenues, raising revenues is only one of their objectives for the proponents. As Piketty wrote, a wealth tax “would never be more than a fairly modest supplement to the other revenue streams on which the modern social state depends. . . . [T]he goal is to stop the indefinite increase of inequality of wealth.”<sup>28</sup>

There is now strong popular support for wealth taxes in many countries, including Canada. In 2019, 67 percent of Canadians polled supported a wealth tax of 2 percent on individuals with assets of more than \$50 million.<sup>29</sup> More recently, 75 percent supported a wealth tax in the range of 1 to 2 percent on the assets of Canada’s wealthiest.<sup>30</sup> Support for a wealth tax is not limited to those who would not have to pay it. In recent years, a number of organizations of the wealthy and privileged have been formed—notably, Patriotic Millionaires and Resource Generation in the United States, and the Resource Movement in Canada—which have been outspoken in calling for more progressive taxes, including wealth taxes.

### Arguments Against—and For—an Annual Net Wealth Tax

Despite the growing support for the taxation of wealth, many who accept that income and wealth should be more equally redistributed believe that annual net wealth taxes are not the best tool to achieve this. For example, Boadway and Pestieau argue that the objectives of an annual wealth tax could be better achieved by reform of existing capital income taxes and by the introduction of wealth transfer taxes such as inheritance taxes.<sup>31</sup>

In a similar but more extensive analysis, the OECD concludes that while

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26 Alex Ballingall, “NDP Touts Its Proposed ‘Super Wealth Tax’ on Eve of the Election Campaign,” *Toronto Star*, September 10, 2019 ([www.thestar.com/politics/federal/2019/09/10/ndp-touts-its-proposed-super-wealth-tax-on-eve-of-the-election-campaign.html](http://www.thestar.com/politics/federal/2019/09/10/ndp-touts-its-proposed-super-wealth-tax-on-eve-of-the-election-campaign.html)).

27 Office of the Parliamentary Budget Officer, *Cost Estimate of Election Campaign Proposal: Net Wealth Tax* (Ottawa: PBO, 2019) ([www.pbo-dpb.gc.ca/web/default/files/Documents/ElectionProposalCosting/Results/32630202\\_EN.pdf](http://www.pbo-dpb.gc.ca/web/default/files/Documents/ElectionProposalCosting/Results/32630202_EN.pdf)).

28 Piketty, *Capital in the Twenty-First Century*, supra note 21, at 518.

29 Ethan Cox, “Poll: Over Two-Thirds of Canadians Back a Wealth Tax,” *Ricochet*, May 2, 2019 (<https://ricochet.media/en/2599/poll-over-two-thirds-of-canadians-back-a-wealth-tax>).

30 David Coletto, “Canadians Want a Recovery That Is Ambitious, Fair, and Makes the Country More Self-Sufficient,” *Abacus Data*, May 22, 2020 (<https://abacusdata.ca/what-kind-of-recovery-broadbent-institute>).

31 Robin Boadway and Pierre Pestieau, *Over the Top: Why an Annual Wealth Tax for Canada Is Unnecessary*, C.D. Howe Institute Commentary no. 546 (Toronto: C.D. Howe Institute, June 2019).

there is a case for addressing wealth inequality through the tax system . . . there are limited arguments for having a net wealth tax on top of broad-based personal capital income taxes and well-designed inheritance and gift taxes. However, there are stronger arguments for having a net wealth tax in the absence of broad-based capital income taxes and taxes on wealth transfers.<sup>32</sup>

While Canada has relatively broad taxes on personal income from capital, income from capital is taxed at preferential rates, and a range of exemptions and avoidance opportunities exists.<sup>33</sup> Canada also has relatively low wealth transfer taxes: there are currently no taxes on inheritances or gifts, such as those imposed in many other countries, and provincial probate fees on estates are set at comparatively low rates and can be fairly easily avoided through tax-planning measures. These considerations suggest that in Canada, in the words of the OECD, there may be “stronger arguments for having a net wealth tax.”

Given the powerful opposition to the taxation of wealth, it is important to address the major arguments that have been levied against adopting an annual wealth tax. These include the following:<sup>34</sup>

- An annual wealth tax would be inferior to equivalent taxation of annual income from that wealth since it would not apply to above-average or windfall gains.
- Accumulated wealth that remains untaxed as personal income could be subject to inheritance taxes instead.
- An annual wealth tax could result in double taxation.
- Annual wealth taxes could have detrimental effects on savings, investment, and economic growth.
- Some individuals who would be subject to an annual wealth tax may be cash-poor and may not have the liquid funds available to pay the tax annually.
- An annual wealth tax would lead to capital flight and expatriation and/or increased tax avoidance and evasion.
- There would be difficulties in valuing some assets.

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32 *The Role and Design of Net Wealth Taxes in the OECD*, supra note 17, at 98-99.

33 Arguments for lower taxes on income from capital can be based on the tax integration view of comprehensive income—that the total effective tax rate should be similar whether income flows directly to households or through corporations—and/or on the economic argument that lower rates of tax on income from capital will stimulate investment and economic growth. But as Boadway has argued, Canada’s tax system clearly taxes capital income preferentially, and the integration argument is neither convincing nor compelling since Canada’s income tax system has moved more toward a consumption-based system and its economy has become more globalized. See Robin Boadway, “Rationalizing the Canadian Income Tax System” (2019) 67:3 *Canadian Tax Journal* 643-66. Significant cuts to corporate income tax rates, to the taxation of income from capital, and to the marginal effective tax rate on investment over the past two decades have failed to increase rates of business investment as a share of the economy.

34 See “The Case Against Net Wealth Taxes” in *The Role and Design of Net Wealth Taxes in the OECD*, supra note 17, at 57-71.

It should be emphasized that the annual wealth tax proposed recently in Canada by the NDP would have a high threshold, applying only to wealth in excess of \$20 million. It would also have a modest rate of just 1 percent annually, which is similar to the average property tax rate across Canada.<sup>35</sup> This is a significantly higher threshold than the wealth taxes that still exist, or existed until recently, in European countries. In those countries, the thresholds above which wealth taxes applied in 2017 (or in the latest year of operation) ranged from €67,550 in Switzerland to €1.3 million in France.<sup>36</sup> Because the characteristics, forms of wealth, and current tax treatment of the wealthy differ from those for the merely rich and middle class, some arguments levied against wealth taxes in general are less relevant to an annual tax that would apply only to the very wealthiest; however, other arguments may be of concern to individuals who are not at the top of the wealth spectrum.

The alternative forms of wealth tax that both the OECD and Boadway and Pestieau propose as being preferable to an annual wealth tax—reform of capital income taxes and the imposition of inheritance taxes—are commendable but would arguably be more challenging than the introduction of a targeted annual tax on the very rich.<sup>37</sup>

### **An Annual Wealth Tax Versus a Capital Income Tax**

The main criticism advanced by both the OECD and Boadway and Pestieau is that, if an annual wealth tax is conceptualized as an alternative to taxation of the future capital income returns from that wealth, it would apply only to expected returns, and not to actual above-expected or windfall gains. In some cases, the effective tax rate on those returns would be lower or higher than the equivalent tax rate on capital income.

However, this criticism applies only if an annual wealth tax is considered as an alternative to taxation of the income from future presumptive returns from wealth

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35 Altus Group, *Canadian Property Tax Rate Benchmark Report* (Toronto: Altus Group and REALPAC, 2018) (<https://www.altusgroup.com/wp-content/uploads/2019/08/Canadian-Property-Tax-Rate-Benchmark-Report-2018.pdf>).

36 *The Role and Design of Net Wealth Taxes in the OECD*, supra note 17, at 81, table 4.2.

37 Increasing the capital gains inclusion rate would be a straightforward measure, but it would likely be more politically challenging since it would affect a larger share of the population. Graduated capital gains inclusion rates could be introduced, building on lifetime capital gains exemptions, but these would make the system even messier, and would apply only when capital gains were realized. While inheritance taxes may be popular among economists, they appear to be much less popular among the general public. A UK YouGov poll found that inheritance taxes were considered by far the least fair of 11 different types of taxes, with only 22 percent of respondents considering them fair: Stephan Shakespeare, “Voters in All Parties Think Inheritance Tax Unfair,” *YouGov*, March 19, 2015 (<https://yougov.co.uk/topics/politics/articles-reports/2015/03/19/inheritance-tax-most-unfair>). An inheritance tax would likely need to be introduced at a lower threshold and accompanied by a range of anti-avoidance measures. While there would, of course, be many challenges with introducing an annual wealth tax, the relatively small number of individuals who would be subject to the tax would reduce the overall compliance and administration costs.

assets. If an annual wealth tax is seen as compensation for the past undertaxation of the income and wealth that accrued into these fortunes, this criticism does not apply. An annual wealth tax can instead be viewed as a tax on the accrued value of the assets' historical endowments and returns, less consumption and any transfers or gifts.

In fact, Boadway and Pestieau acknowledge that

[i]f the wealth had been accumulated from above-normal returns due to windfall gains or monopoly rents, taxing them *ex post* might be justified to the extent that the tax system did not tax them as they were earned . . . [and] would reinforce the case for progressive wealth taxation.<sup>38</sup>

This certainly appears to be a widespread view and perhaps explains why there is such strong popular support for wealth taxes.

An annual wealth tax provides certain advantages over taxation of capital income. It would apply to the gains accrued on an annual basis, instead of upon realization. This makes it fairer in relation to other forms of income taxes, and also avoids the problems associated with tax planning for large realized capital gains.

In addition, an annual wealth tax could cover a broader range of assets than capital income taxes, including not just those that generate monetary income but also real property, art, luxury boats, vehicles, and other high-value non-financial investments. It could also apply to assets that might not ever be adequately taxed as capital income during the lifetime of the wealthy individual and so could be passed on tax-free to heirs (assuming that there are no inheritance or estate taxes).

### **An Annual Wealth Tax Versus an Inheritance Tax**

Annual wealth taxes provide an advantage over inheritance taxes in that the wealth is taxed immediately and on an annual basis, rather than years hence at death. Many of the world's wealthiest billionaires today are relatively young, and so inheritance taxes, if they were introduced, would likely not be levied on their wealth for decades, if at all. Some wealthy individuals choose to give away much of their wealth during their lifetime, and trusts and foundations can form another vehicle for tax avoidance. As Alepin has highlighted, low disbursement requirements allow private foundations to grow perpetually tax-free, while providing potentially larger tax benefits to their founders—and tax losses to governments—than the amounts disbursed annually.<sup>39</sup>

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38 Boadway and Pestieau, *supra* note 31, at 8.

39 Brigitte Alepin, Brief (summary) Submitted to the House of Commons Standing Committee on Finance, October 21, 2014 ([www.ourcommons.ca/Content/Committee/412/FINA/WebDoc/WD6615327/412\\_FINA\\_PBC2014\\_Briefs/AlepinBrigitte-8990326-e.pdf](http://www.ourcommons.ca/Content/Committee/412/FINA/WebDoc/WD6615327/412_FINA_PBC2014_Briefs/AlepinBrigitte-8990326-e.pdf)).

## Double Taxation

Another criticism of an annual wealth tax is that it could result in double taxation; however, double (and sometimes triple) taxation is common. With low rates of tax on savings, investments, and capital income, and numerous opportunities for tax avoidance, an annual wealth tax that is levied on the very wealthy might not result in much double taxation at all—and in some cases could be the only time that these individuals are effectively taxed.

## Savings and Investment

There are, of course, valid concerns that an annual wealth tax would have negative effects on savings and investment. Studies have found relatively small negative effects of annual wealth taxes on real behaviour or savings.<sup>40</sup> This may be because there have been sufficient opportunities for tax avoidance, and perhaps the real effects would be stronger if opportunities for tax avoidance and evasion were more limited. But despite the steep cuts in taxes on business and capital income over the past two decades, business investment as a share of the economy has declined rather than increased, as capital and wealth have become more concentrated.<sup>41</sup>

Given that many of the larger fortunes in Canada have been established through inheritances and/or through businesses that have attained a dominant position in their industry, an annual wealth tax that applied only to the ultra-wealthy could arguably also have positive economic impacts if it weakened the dominance of those businesses and ultimately resulted in greater competition. As Saez and Zucman state, “[t]he economics literature suggests that a highly progressive wealth tax could in fact have a positive effect on innovation.”<sup>42</sup>

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40 See *The Role and Design of Net Wealth Taxes in the OECD*, supra note 17, at 62.

41 Canada’s combined federal-provincial corporate income tax rate was cut from 42.9 percent in 1999 to 26.1 percent in 2012 (a reduction of about 40 percent) and has stayed close to that rate since, but business investment in machinery and equipment as a share of the economy has declined almost in lockstep with these decreasing tax rates. Canada’s marginal effective tax rate on new business investment has been cut by much more, from 44.3 percent in 1999 to 13.8 percent in 2019 (a reduction of almost 60 percent), but also with no discernible positive impact on business investment. See Toby Sanger, *Corporate Income Tax Freedom Day: 7 January 2020* (Ottawa: Canadians for Tax Fairness, 2020) ([https://www.taxfairness.ca/sites/default/files/resource/corporate\\_income\\_tax\\_freedom\\_report\\_2020.pdf](https://www.taxfairness.ca/sites/default/files/resource/corporate_income_tax_freedom_report_2020.pdf)). Brennan, however, argues that corporate income tax rate reductions have contributed to greater corporate concentration, which has led to lower investment and slower growth; he suggests that the cuts to corporate rates could “go down as one of the great public policy blunders of the past generation”: Jordan Brennan, *Do Corporate Income Tax Reductions Stimulate Growth?* (Ottawa: Canadian Centre for Policy Alternatives, November 2015), at 30 ([https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2015/11/Do\\_Corporate\\_Income\\_Tax\\_Rate\\_Reductions.pdf](https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2015/11/Do_Corporate_Income_Tax_Rate_Reductions.pdf)).

42 Emmanuel Saez and Gabriel Zucman, “How Would a Progressive Wealth Tax Work? Evidence from the Economics Literature,” *ICRICT*, June 17, 2019, at 12 ([www.icrict.com/](http://www.icrict.com/))

While an annual wealth tax might, as intended, slow the growth of large fortunes, it is unlikely that it would prevent the very wealthy from investing in a significant way. Indeed, it could make them look for higher-risk, higher-rate-of-return productive investments rather than just holding cash and low-rate-of-return bonds. This is because an annual wealth tax might encourage billionaires to pursue more aggressive investment in the hope of maintaining the higher value of their assets.

### Liquidity

There is legitimate concern that some individuals who would be subject to an annual wealth tax would not have adequate income or liquidity to pay their wealth tax bills without disposing of assets. However, this concern could be addressed by allowing tax deferrals or payment by instalment, as suggested in Senator Warren's proposal.<sup>43</sup> The ultra-wealthy who would be most affected by an annual wealth tax would no doubt have more diversified holdings, access to credit, and the ability to plan for more available cash to pay their annual tax bills.

### Capital Flight and Expatriation

A further argument against an annual wealth tax is that it could result in capital flight and relocation by those subject to the tax. While some researchers found significant capital flight from France following its introduction of a highly publicized wealth tax in 1989, others have found limited mobility and expatriation.<sup>44</sup> Saez and Zucman, and Senator Warren, have proposed that a wealth tax could be combined with measures to limit capital flight, such as an exit tax of 40 percent of net wealth for those who renounce their citizenship.<sup>45</sup>

### Tax Evasion

A common objection to an annual wealth tax is that it can be easily avoided through tax evasion. This certainly could have been the case in the past, but the rules of the game are changing as a result of the OECD's base erosion and profit-shifting (BEPS) reforms and the implementation of more stringent anti-avoidance measures by national governments. By far the largest share of assets held by the wealthiest individuals is represented by their equity ownership of either listed or privately held corporations.<sup>46</sup>

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you-should-also-read/2019/6/17/how-would-a-progressive-wealth-tax-work-evidence-from-the-economics-literature). ("ICRICT" refers to the Independent Commission for the Reform of International Corporate Taxation.)

43 See Warren, *supra* note 23.

44 *The Role and Design of Net Wealth Taxes in the OECD*, *supra* note 17, at 66.

45 See Saez and Zucman, *supra* note 42, and Warren, *supra* note 23.

46 Jeff Desjardins, "Chart: What Assets Make Up Wealth?," *Visual Capitalist*, January 19, 2018 (<https://www.visualcapitalist.com/chart-assets-make-wealth/>).

The Independent Commission for the Reform of International Corporate Taxation (ICRICT) notes:

Despite the scale of hidden wealth . . . the existing data-collection infrastructure includes potentially powerful tools for transparency, including the recent adoption of tax transparency measures, such as the automatic, multilateral exchange of bank accounts data at a global level between tax authorities, public registries of beneficial ownerships and exchange between tax authorities of country-by-country reporting from multinational companies.<sup>47</sup>

Following the passage of the US Foreign Account Tax Compliance Act<sup>48</sup> in 2010, foreign banks now routinely report foreign assets to the US tax authorities, under the threat of severe sanctions. A global asset registry, as proposed by Piketty and ICRICT, would combine existing data with additional data collected by national authorities.<sup>49</sup>

Tax enforcement and compliance are matters of political will, and tax dodging and evasion can be countered by setting strong standards for disclosure, eliminating opportunities for avoidance through legislative changes, strengthening anti-avoidance rules, increasing penalties, and increasing resources for investigation, enforcement, and prosecution. As Milligan concludes, elasticity of taxable income, which reflects both income shifting to avoid taxes and real economic factors, is not an immutable measure but “changes with circumstances and can be affected by a government’s choices about tax legislation and enforcement.”<sup>50</sup>

## Valuation

One serious objection to an annual wealth tax is that it is sometimes hard to value assets, including shares in partnerships and private corporations that are not regularly traded on the stock market and thus cannot always be priced regularly. However, Saez and Zucman note that these assets at most constitute about 20 percent of the wealth of the very rich, and since they are often traded on at least an occasional basis, a reasonable valuation by tax authorities is possible.<sup>51</sup> Saez and Zucman argue that the government could help to set a market for these assets—for example, by allowing companies to pay tax in the form of shares, which could then be sold, rather than in cash. The government could give itself the right

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47 Independent Commission for the Reform of International Corporate Taxation, *A Roadmap for a Global Asset Registry Measuring and Tackling Inequality: Curbing Tax Avoidance, Tax Evasion, Corruption and Illicit Financial Flows* (Paris: ICRICT, March 2019), at 3.

48 Enacted on March 18, 2010 as subtitle A of title V of the Hiring Incentives To Restore Employment Act of 2010, Pub. L. no. 111-147.

49 ICRICT, *supra* note 47, at 5.

50 Milligan, *supra* note 7, at 710.

51 Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How To Make Them Pay* (New York: W.W. Norton, 2019), at 150-52.

to buy shares in private assets at rates close to the declared value as a deterrent to underreporting.

## CONCLUSION

While others have argued that the taxation of wealth could be better accomplished through other measures, our review of the arguments against and for an annual wealth tax concludes that an annual net wealth tax with a high threshold would be a well-targeted way to address growing inequality of wealth at the very top, and is likely more immediately feasible than the alternatives proposed.

We agree that Canada's system of capital taxation should be reformed and that inheritance taxes should be reintroduced, but doing so at this time would likely be more challenging than the introduction of a new tax on the very wealthy. Undertaking comprehensive tax reform, as some have proposed, is of course an attractive idea, but it would take many years to complete, and the outcomes are uncertain. Targeted fixes can be more quickly achievable and more effective in the short term.

An annual net wealth tax could not only be targeted at the ultra-wealthy, but also cover a broader range of assets than are covered by capital income taxes, and it should do so in order to prevent avoidance. There are valid concerns about the impact of an annual wealth tax on savings and investment, about capital flight and tax evasion, and about liquidity and valuation; however, the same concerns would be present with any alternative measures, and they could largely be addressed. For example, an annual net wealth tax on the assets of the very wealthy could not only stimulate competition by reducing the dominant position of those business owners in industry, but also motivate them to look for higher-risk, higher-rate-of-return productive investments. Concerns about liquidity could be dealt with by allowing tax deferrals or payment by instalment.

To target those at the top, a wealth tax for Canada should be introduced at a high threshold—for example, wealth in excess of \$20 million, as the NDP has proposed—and with a broad base covering worldwide net assets. Those assets could include shares and other property held in corporations, trusts, immovable property, high-value jewellery, artwork, and other luxury goods such as yachts and vehicles; limited exemptions might be provided for principal residences and pensions. The new wealth tax should be accompanied by an exit tax, to prevent capital flight, and by reforms to improve the transparency of asset ownership (such as the creation of a global asset registry), along with a range of other reforms now under consideration to prevent international tax avoidance and evasion.

The approximately \$7 billion in annual revenues that would be generated by an annual wealth tax levied at a rate of 1 percent on net assets is a significant enough amount. While a tax at this rate would limit asset growth, it would not put too large a dent in the overall wealth held by those at the top, given the very large difference in growth rates for the assets of the wealthiest compared to average household wealth.

It is both reasonable and practical to add a wealth tax to Canada's current arsenal of fair taxes—one that would be levied at a low but rising rate on very large fortunes.

The aim would not be just to raise extra revenues, but also to compensate for the lower effective tax rates and the substantial economic rents that many of the wealthy have been able to achieve, and to limit the concentration of wealth and economic power among a few.