TAX FOUNDATION | EUROPE

The High Cost of Wealth Taxes

Cristina Enache Economist

June 2024

Key Findings

- Many developed countries have repealed their net wealth taxes in recent years. Among Organisation for Economic Co-operation and Development (OECD) countries, only four currently impose one: Colombia, Norway, Spain, and Switzerland.

- Countries have repealed their wealth taxes for a variety of reasons. They raise little revenue, create high administrative costs, and induce an outflow of wealthy individuals and their money. Many policymakers have also recognized that high taxes on capital and wealth damage economic growth.

- The flawed design of these taxes has created problems in countries that have implemented them. In 1997, the German Constitutional Court declared the wealth tax unconstitutional. In the Netherlands, the Dutch Supreme Court ruled in 2021 that the wealth tax violates European law regarding property rights and non-discrimination. In 2023, the regional governments of Madrid, Andalusia, and Galicia appealed the new "solidarity wealth tax" to the Spanish Constitutional Court.

- Wealth taxes generate double or even triple taxation. For safe investments like bonds or bank deposits, a wealth tax of 2 or 3 percent may confiscate all interest earnings, leaving no increase in savings over time. Additionally, if the individual's wealth is not growing at a rate higher than the tax rate, the tax will ultimately reduce that individual's wealth.

- In the case of Spain, the combination of personal capital income taxes and net wealth taxes results in marginal tax rates well above 100 percent. This means that the entire real return on investment is taxed away and, by saving, the real value of people's wealth shrinks. Spain is the only country in the world that in addition to net wealth and capital gains taxes also levies taxes on capital transfers, a financial transaction tax, and one of the highest inheritance and gift taxes in Europe.

- Wealth taxes disincentivize entrepreneurship, leading to less innovation and less long-term growth. A wealth tax reduces wages, destroys jobs, and reduces the stock of capital. All income groups are worse off under a wealth tax due to decreased economic activity.

- Wealth taxes account for a very small share of tax revenues. In 2022, tax revenues from individual net wealth taxes ranged from 0.19 percent of GDP in Spain to 1.19 percent of GDP in Switzerland. As a share of total tax revenues, they ranged from 0.51 percent in Spain to 4.35 percent in Switzerland.

- Even a small increase in the wealth tax rate can lead to capital flight and wealthy individuals relocating to neighboring jurisdictions. For example, after a 1 percent increase in Norway's wealth tax, many high-net-worth individuals left the country. In 2023, after Spain introduced a new "solidarity wealth tax," Portugal extended its tax regime for nonresidents since more Spanish taxpayers were considering changing their tax residence.

- A global agreement on a net wealth tax is highly improbable since a critical number of countries would need to sign the agreement—including Switzerland, where taxpayers must approve any tax increases—making this proposal unfeasible. Additionally, wealth can move beyond borders to any country that is unwilling to sign the agreement.

Introduction

The United Nations, the EU Tax Observatory, the European Union, and even G-20 countries are eyeing new wealth taxes and a global agreement on a net wealth tax.[1] At the same time, Spain has recently enforced a new solidarity wealth tax on top of the current regional wealth taxes.[2] Over the last three decades, most EU countries have repealed their net wealth taxes, acknowledging that wealth taxes disincentivize entrepreneurship and harm innovation and long-term growth.

The current discussions about proposed wealth taxes have included little or skewed information about the trends in wealth taxation across developed countries. However, these trends, and the current state of wealth taxes in countries across the Organisation for Economic Co-operation and Development (OECD), can provide context for the proposals.

1 James Munson, "UN Draft Tax Treaty Urges Fairer Taxing Rights, Wealth Taxes," Bloomberg Tax, Jun. 7, 2024, https://news.bloombergtax.com/daily-tax-report/un-draft-tax-treaty-calls-for-fairer-taxing-rights-wealth-taxes; Annette Alstadsæter, Sarah Godar, Panayiotis Nicolaides, and Gabriel Zucman, "Global Tax Evasion Report 2024,", EU Tax Observatory, 2023, https://www.taxobservatory.eu/publication/global-tax-evasion-report-2024/; Cristina Enache, "The Wealth Tax Discussion Is Back," Tax Foundation, Jul. 6, 2023, https://taxfoundation.org/blog/eu-wealth-tax-discussion/; Richard Partington, "A historic step': G20 discusses plans for global minimum tax on billionaires," The Guardian, Feb. 29, 2024, https://www.theguardian.com/news/2024/feb/29/taxation-worlds-billionaires-super-rich-g20-brazil and https://x.com/gabriel_zucman/status/1800896953133469824

2 Impuesto Temporal de Solidaridad de las Grandes Fortunas (ITSGF) in Spanish.

Wealth Taxes around the World

Net wealth taxes are recurrent taxes on an individual's wealth, net of debt. The concept of a net wealth tax is similar to a real property tax. But instead of only taxing real estate, it covers all wealth an individual owns.

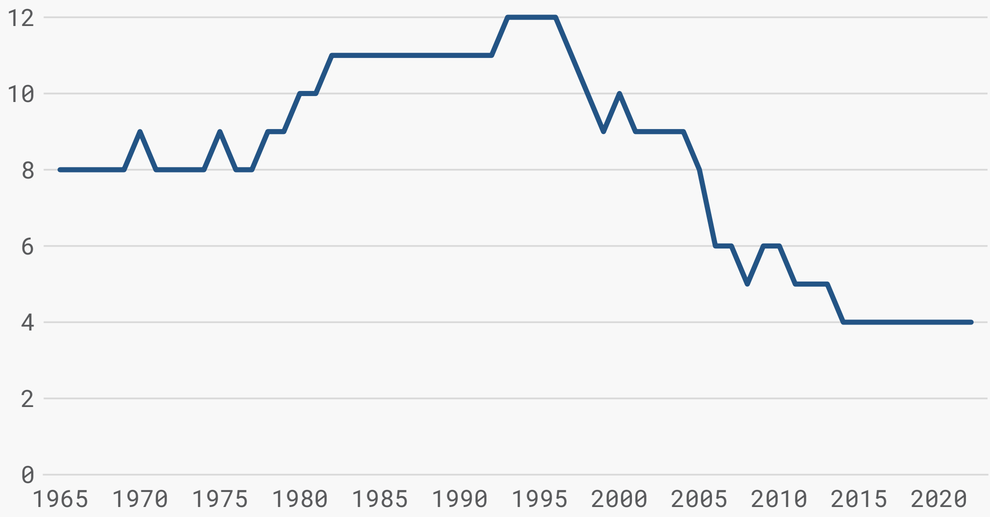
Which Countries Impose Wealth Taxes?

Many developed countries have repealed these taxes in recent years, including Austria (1994); Denmark and Germany (1997); the Netherlands (2001); Finland, Iceland, and Luxembourg (2006); and Sweden (2007).[3] France was the last country to repeal its wealth tax in 2018, replacing it with a real estate wealth tax. Among OECD countries, there are just four—Colombia, Norway, Spain, and Switzerland—that currently impose one.[4] Even among these four countries, the tax rates and bases vary.

Figure 1.

Many OECD Countries Adopted and Then Later Repealed Their Net Wealth Taxes

Countries with Revenues from Individual Net Wealth Taxes, 1965-2022



Source: Author's calculations using OECD, *Global Revenue Statistics Database*.

TAX FOUNDATION | EUROPE

Colombia levies a progressive net wealth tax ranging from 0.5 percent to 1.5 percent on wealth stock above COP 3.38 billion (EUR 0.8 million or USD 0.86 million). From 2027 onward, the tax rate will be reduced to 1 percent.

3 Daniel Bunn, "What the U.S. Can Learn from the Adoption (and Repeal) of Wealth Taxes in the OECD," Tax Foundation, Jan. 18, 2022, https://taxfoundation.org/blog/wealth-taxes-in-the-oecd/.

4 Cristina Enache, "Wealth Taxes in Europe, 2024," Feb. 27, 2024, https://taxfoundation.org/data/all/eu/wealth-taxes-europe-2024/.

Net Wealth Taxes in Europe

In Europe, only three countries levy net wealth taxes—Norway, Spain, and Switzerland. France and Italy levy wealth taxes on selected assets but not on an individual's net wealth per se.[5]

Figure 2.

Wealth Taxes in Europe

Net Wealth Taxes and Wealth Taxes on Selected Assets in EU Member States and European OECD Countries, 2024

Net Wealth Tax | Wealth Tax on Certain Assets

Note: While net wealth taxes are levied on all wealth an individual owns (net of debt), wealth taxes on selected assets cover only part of an individual's wealth (e.g., financial assets).
Source: EY, "Worldwide Estate and Inheritance Tax Guide 2023"; and PwC, "Worldwide Tax Summaries."

TAX FOUNDATION | EUROPE

Norway levies a net wealth tax of 1 percent on individuals' wealth stocks exceeding NOK 1.7 million (EUR 150,000 or USD 160,000), with 0.7 percent going to municipalities and 0.3 percent to the central government. Norway's net wealth tax dates to 1892. Additionally, for net wealth exceeding NOK 20 million (EUR 1.74 million or USD 1.88 million), the tax rate is 1.1 percent.

Spain's net wealth tax is a progressive tax ranging from 0.16 percent (in Navarra) to 3.5 percent on wealth stocks above EUR 700,000 (USD 752,783; lower in some regions), with rates varying substantially across Spain's autonomous regions (Andalusia, Extremadura, and Madrid offer 100 percent relief). Spanish residents are subject to the tax on a worldwide basis while nonresidents pay the tax only on assets located in Spain.

5 EY, "Worldwide Estate and Inheritance Tax Guide 2023," Jul. 20, 2023, https://www.ey.com/en_gl/tax-guides/worldwide-estate-and-inheritance-tax-guide.

Additionally, the Spanish central government introduced a "solidarity wealth tax" in 2022 and 2023 (to be collected in 2023 and 2024) ranging from 1.7 percent to 3.5 percent on individuals with net assets exceeding EUR 3 million (USD 3.23 million).[6] Under this new tax scheme, the central government collects any additional revenue from the solidarity tax once the regional wealth tax collection is deducted. Consequently, Madrid, Extremadura, and Andalusia restored the wealth tax so that the regional governments retain the revenues the central government plans to collect in 2024. Additionally, three other regions raised the exception threshold to EUR 3 million (Balearic Island and Cantabria) and EUR 3.7 million (Murcia) to equal the tax relief offered by Andalusia, Extremadura, and Madrid.

Wealth Taxes in Europe: Spain Subnational Rates

Autonomous Community	Wealth Tax Rate	Note:
Álava	0.2-2.5%	
Andalucía	0%	0.2%-2.5% with 100% relief
Aragón	0.2-3.5%	
Asturias	0.22-3%	
Baleares	0.28-3.45%	Exemption threshold of EUR 3 million
C. Valenciana	0.25-3.5%	
Canarias	0.2-3.5%	
Cantabria	0.24-3.03%	Exemption threshold of EUR 3 million
Castilla y León	0.2-3.5%	
Castilla-La Mancha	0.2-3.5%	
Cataluña	0.21-3.48%	
Extremadura	0%	0.3%-3.75% with 100% relief
Galicia	0.1-1.75%	0.2%-3.5% but with a 50% discount
Guipúzcoa	0.2-2.5%	
La Rioja	0.2-3.5%	
Madrid	0%	0.2%-3.5% with 100% relief
Murcia	0.24-3%	Exemption threshold of EUR 3.7 million
Navarra	0.16-3.5%	
Vizcaya	0.2-2%	

Source: EY, "Worldwide Estate and Inheritance Tax Guide 2023"; and PwC, "Worldwide Tax Summaries."

TAX FOUNDATION | EUROPE

Switzerland levies its net wealth tax at the cantonal level and covers worldwide assets (except real estate and permanent establishments located abroad). The tax rates and allowances vary significantly across cantons. The Swiss net wealth tax was first implemented in 1840.

Wealth Taxes on Selected Assets

France abolished its net wealth tax in 2018 and replaced it that year with a real estate wealth tax. French tax residents whose net worldwide real estate assets are valued at or above EUR 1.3 million (USD 1.40 million) are subject to the tax, as well as non-French tax residents whose net real estate assets located in France are valued at or above EUR 1.3 million. Depending on the net value of the real estate assets, the tax rate ranges from .5 percent to 1.5 percent.

Italy taxes financial assets held abroad by individual resident taxpayers without Italian intermediaries at 0.2 percent and 0.4 percent for assets held in certain countries. In addition, real estate properties held abroad by Italian tax residents are taxed at 1.06 percent in 2024, up from 0.76 percent in 2023.

6 Rodrigo Orihuela, "Spain to Increase Tax on the Rich With $2.9 Million in Assets," Bloomberg News, Sep. 29, 2022, https://news.bloombergtax.com/daily-tax-report-international/spain-to-increase-tax-on-the-rich-with-2-9-million-in-assets.

Since 2021**, Belgium** has had a solidarity tax or tax on securities accounts (TSA) of 0.15 percent on securities accounts with an average value of EUR 1 million (USD 1.08 million).

In the **Netherlands**, the value of net wealth, excluding primary residence and substantial interests in companies, is included in the income tax. Nevertheless, the Dutch Supreme Court ruled in 2021 that this system violates European law regarding property rights and non-discrimination. In 2022, a new temporary alternative system for the years 2023, 2024, and 2025 was proposed where each asset category (e.g., savings, debts, and others) would have its own deemed return. For 2024, the weighted average yield over all categories will be applied to the total assets above a personal exemption of EUR 57,000 (USD 61,298) to determine the taxable benefit that will be subject to tax at a flat rate of 36 percent. The government is aiming to have a new system based on actual returns by 2026.

Why Wealth Taxes Should Be (and Have Been) Abolished

Countries have repealed their wealth taxes for a variety of reasons: they raise little revenue, create high administrative costs, and induce an outflow of wealthy individuals and their money. Many policymakers have also recognized that high taxes on capital and wealth damage economic growth.

Wealth Taxes Create Legal Challenges

One reason wealth taxes should be repealed is because they generate legal challenges.

In January 1997, the German Constitutional Court concluded that the preferential treatment of real estate over other assets, such as bank deposits, did not comply with the principle of equality and declared the German wealth tax unconstitutional. The wealth tax was introduced in Germany in 1952 as a general tax on net wealth, at a relatively low rate of 1 percent. The wealth tax barely managed to collect 0.3 percent of the total tax revenue, representing 0.1 percent of GDP.

In the Netherlands, the Dutch Supreme Court ruled in 2021 that this system violates European law regarding property rights and non-discrimination. In spite of a new temporary alternative introduced in 2022—for the years 2023, 2024, and 2025—the Supreme Court ruled in June 2024 that the new wealth tax is still discriminatory, and savers and investors should be compensated on the high tax rates paid on fictitious returns.[7]

In 2023, the wealth tax developments in Spain pushed the regional governments of Madrid, Andalusia, and Galicia to appeal the new "solidarity wealth tax" to the Constitutional Court.[8] When the court ruled in December 2023 that the solidarity wealth tax was constitutional (despite what experts argued), the Spanish central government then extended the solidarity tax's application until the regional financing system was reformed.[9]

7 NL Times, "New policy for taxing wealth in box 3 still discriminating, Supreme Court rules," Jun. 6, 2024, https://nltimes.nl/2024/06/06/new-policy-taxing-wealth-box-3-still-discriminating-supreme-court-rules.

8 Cristina Enache, "Spain Is Doubling Down on Poor Tax Policy," Tax Foundation, Apr. 10, 2023, https://taxfoundation.org/blog/spain-wealth-tax-windfall-tax/.

9 Spanish Constitutional Court, "El pleno del Tribunal Constitucional desestima el recurso de inconstitucionalidad interpuesto por el gobierno de la Comunidad de Madrid contra el impuesto sobre grandes fortunas," Nov. 7, 2023, https://www.tribunalconstitucional.es/NotasDePrensaDocumentos/NP_2023_092/NOTA%20INFORMATIVA%20N%C2%BA%2092-2023.pdf; Eva Martin Diaz and Joaquin Huelin, "Constitucionalidad del Impuesto Temporal de las Grandes Fortunas," Cuatrecasas, Dec. 1, 2023, https://www.cuatrecasas.com/es/spain/fiscalidad/art/itsgf-impuesto-grandes-fortunas-constitucional.

Wealth Taxes Generate Double Taxation and Could Be Confiscatory in Some Instances

Net wealth taxes generate double or even triple taxation. If wealth is accumulated from wage earnings or personal business income, then these flows will have already been taxed. Taxpayers would have already paid capital gains and dividend taxes on earnings from capital assets, income taxes, property taxes, and other taxes. If households accumulate wealth to smooth consumption over their lifetime, wealth will be taxed again when it is used for consumption.

Wealth taxes apply a tax rate to an individual's net wealth, usually above a certain threshold. A person with EUR 2.5 million in wealth and EUR 500,000 in debt would have a net wealth of EUR 2 million. If the tax applies to all wealth above EUR 1 million, then under a 5 percent wealth tax the individual would owe EUR 50,000 in taxes. Compared to income taxes, wealth tax rates seem much lower, but this rate can be deceptive.

The best way to interpret wealth tax rates is to translate them into an equivalent income tax rate. For example, consider an investor who owns a long-term bond with a fixed rate of return at 5 percent each year. A 3 percent annual wealth tax would imply that 60 percent of the capital income from owning the long-term bond would be remitted as tax—the 3 percent wealth tax translates to a 60 percent income tax rate in this example. A 5 percent annual wealth tax would equal a 100 percent income tax rate because the wealth tax would take all this taxpayer's capital income. A 10 percent wealth tax, calculated in the same manner, implies that all capital income earned in this year plus part of the stock would have to be turned over as taxes, which means a 200 percent income tax.

Table 1. A Wealth Tax Rate of 3 Percent May Confiscate All Interest Earnings

	Pre-Tax Return	Annual Wealth Tax Rate	Implied Income Tax Rate	After-Tax Return
Scenario A	5%	2%	40%	3%
Scenario B	5%	3%	60%	2%
Scenario C	5%	5%	100%	0%
Scenario D	5%	10%	200%	-5%

Source: Author's calculations.

For safe investments like bonds or bank deposits, a wealth tax of 2 or 3 percent may confiscate all interest earnings, leaving no increase in savings over time. A wealth tax of 6 or 8 percent will reduce wealth accumulation for low-risk and low-return investments. Asset owners with a 6 or 8 percent return on higher-risk investments may still be able to accumulate wealth. However, they will face taxes on their assets return in the form of capital gains and dividend taxes. Other taxes, like property taxes or transfer taxes, can also apply.

How does a 5 percent wealth tax impact investors with different pre-tax return rates? For three investors with different pre-tax returns, as specified in Table 2, a 5 percent wealth tax results in different tax burdens. For a lower-return asset with a 2 percent pre-tax return, a 5 percent wealth tax means a 250 percent effective tax rate, but the same wealth tax applied to a return of 10 percent results in a 50 percent tax on its return.

Table 2. Wealth Tax on Different Rates of Returns

	Pre-Tax Return	Annual Wealth Tax Rate	Equivalent Income Tax Rate	After-Tax Return
Scenario A	2%	5%	250%	-3%
Scenario B	5%	5%	100%	0%
Scenario C	10%	5%	50%	5%

Source: Author's calculations.

Therefore, a wealth tax would be less neutral toward normal rates of returns, placing a higher burden on those at the margin of deciding whether to consume now or invest for the future. On the other hand, a wealth tax is more lenient toward higher or supernormal rates of return; investors achieving supernormal returns will be less sensitive to the extra layer of wealth tax since their wealth tax burden would be relatively lower.

Additionally, if the individual's wealth is not growing at a rate higher than the tax rate, the tax will ultimately reduce that individual's wealth. This means that individuals with lower rates of return on their wealth will face higher effective tax rates.

The large distortive effect of wealth taxes comes from the fact that when wealth taxes are levied, they are often imposed on top of capital income taxes. If imposed on top of high income taxes, a net wealth tax can significantly increase marginal effective tax rates (METRs), especially at higher inflation rates and lower real rates of return. In these cases, wealth taxes not only discourage saving but can potentially encourage disinvestment.

The cumulative nature of a net wealth tax and its potentially negative effects on saving and investment depends on the rest of the tax system and interactions with other taxes on capital. Some of the countries that levy net wealth taxes do not impose taxes on the transfer of capital or on capital gains. For instance, in Switzerland, there is no capital gains tax on movable assets (for example, shares of stock in a company) unless the owner professionally trades securities and almost all cantons have abolished taxes on inheritance and gifts from parents to children. The Swiss wealth tax substitutes a capital gains tax and an estate tax, which are common in other countries. In Norway, the inheritance tax was repealed. Spain, in addition to net wealth taxes, levies taxes on capital transfers, capital gains, a financial transaction tax, and one of the highest inheritance and gift taxes in Europe.[10]

However, the Spanish system and certain Swiss cantons feature a cap on the sum of wealth and income taxes as a fraction of taxable income. Additionally, the wealth tax in Spain also features a minimum amount of 20 percent (25 percent in some regions) of the wealth tax liability. Such a cap limits the liquidity problem of a high ratio of income plus wealth tax liability to disposable income. However, this doesn't stop the wealth tax from wiping out all returns on investment.

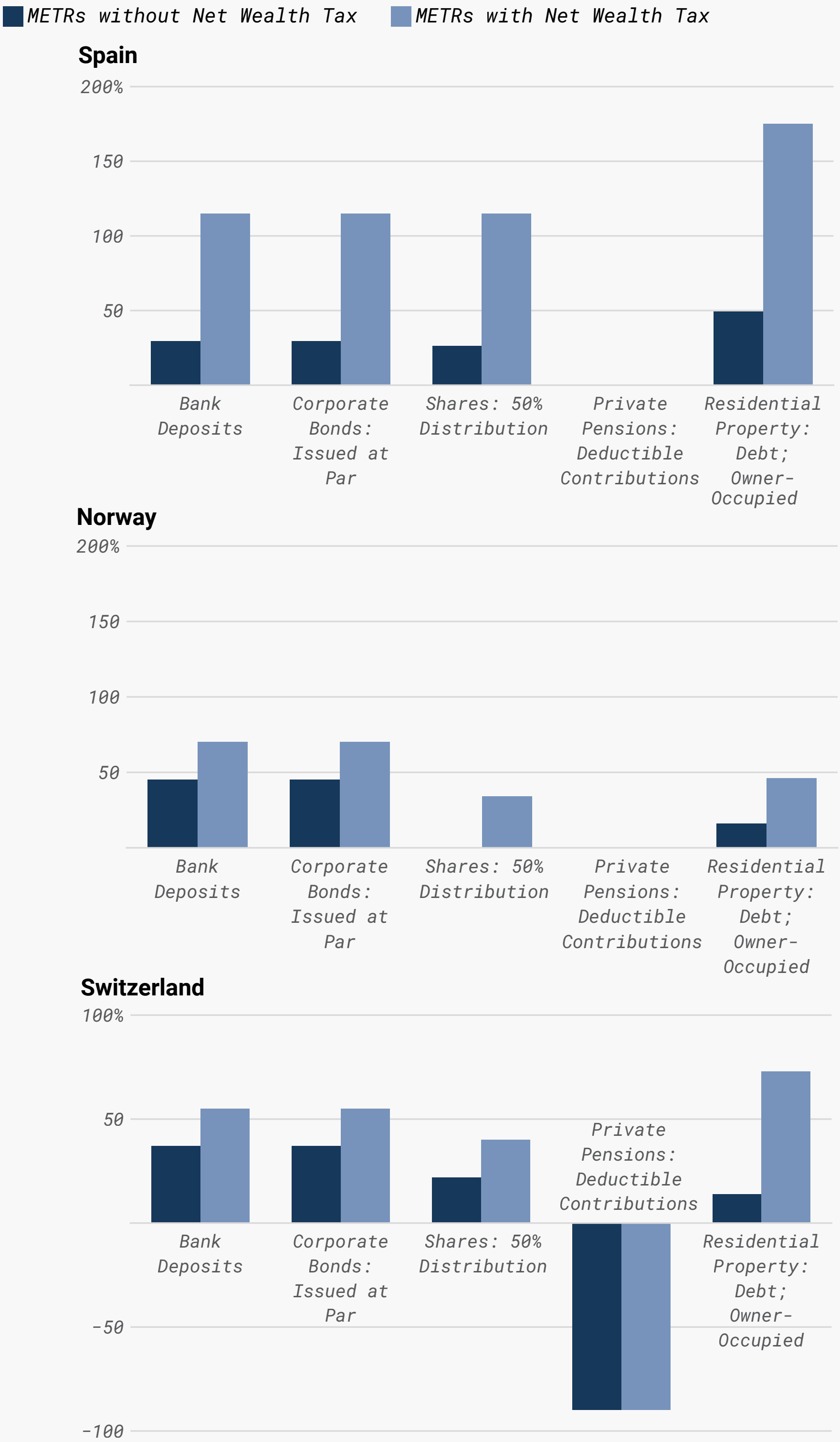
Figure 3 shows the METRs with and without wealth taxes on different types of assets for taxpayers subject to the top personal income tax and net wealth tax rates in the countries that currently have net wealth taxes. The results show that net wealth taxes significantly raise the tax burden on capital

10 Alex Mengden, "Capital Gains Tax Rates in Europe, 2024," Tax Foundation, Mar. 12, 2024, https://taxfoundation.org/data/all/eu/capital-gains-tax-rates-in-europe-2024/; Marie Borst and Cristina Enache, "Estate, Inheritance, and Gift Taxes in Europe, 2024," Tax Foundation, Apr. 23, 2024, https://taxfoundation.org/data/all/eu/estate-taxes-inheritance-taxes-gift-taxes-europe-2024/.

income. In contrast to Norway and Switzerland, Spain's combination of personal capital income taxes and net wealth taxes results in very high METRs, above 100 percent. This means that the entire real return is taxed away and, by saving, people would see the real value of their wealth shrunk.

Figure 3.

Marginal Effective Tax Rates (METRs) with and without Wealth Taxes on Different Assets



Note: Assuming a 3 percent real return on assets. Tax rules as of July 1, 2016. Spain's top wealth tax rate was 2.5 percent in 2016; currently 3.5 percent, in 2024.

Source: OECD, "The Role and Design of Net Wealth Taxes in the OECD."

TAX FOUNDATION | EUROPE

Wealth Taxes Disincentivize Entrepreneurship and Incentivize Risk-taking

One of the arguments in favor of a wealth tax is that on top of capital income taxes, it could encourage taxpayers to use assets more productively. For example, if a household owns land that is not being used, no income is generated and no income tax is being paid. However, if a wealth tax is levied, the household will have an incentive to make a more productive use of the land or to sell it to someone who will.[11]

A 2017 paper suggests that replacing capital income taxes with a wealth tax shifts the tax burden onto unproductive entrepreneurs and that this reallocation increases productivity and output.[12] Efficiency gains can occur because capital is reallocated to high-return individuals, and because the higher yield of high-return individuals can motivate the accumulation of greater savings.[13] Wealth taxes do not discourage investment in general, but they do discourage investments in low-return assets and strengthen the incentives to invest in higher-return assets or consume one's wealth because there is an additional cost to holding assets, which is not linked to the return they generate.

Nevertheless, an OECD report argues that these taxes can discourage risk-taking and entrepreneurship, harming innovation and impacting long-term growth.[14] However, it also suggests that, in some cases, a net wealth tax could spur investment and risk-taking (particularly if it replaces an income tax). Since the wealth tax would erode the after-tax return for an entrepreneur, that entrepreneur might engage in even riskier ventures to maximize a potential return. However, a wealth tax would be a particularly poor way to encourage risk-taking because wealthy individuals could choose to increase their consumption to reduce their wealth.

A 2020 Tax Foundation analysis found that a potential wealth tax in the U.S. would reduce economic output and shrink national income owned by Americans. A wealth tax would induce foreign inflows of hundreds of billions of dollars a year to replace reductions in U.S. savings, which would cause international investors to replace home-grown billionaires as owners of capital.[15]

Another recently published paper describes a different mechanism through which wealth taxes affect corporate financial policies.[16] The study finds that a significant increase in dividend payouts occurs when a substantial increase in stock prices is paired with the existence of individual wealth taxes. This pattern is more pronounced in closely held companies. As the value of a company rises to the point of substantially increasing the wealth tax of controlling shareholders, these shareholders can induce companies to make a dividend payout. Additionally, these larger dividend payouts are associated with lower levels of subsequent investment.

11 T. A. McDonnell, "Wealth Tax: Options for its Implementation in the Republic of Ireland," NERI Working Paper Series, 2013.
12 Fatih Guvenen, Gueorgui Kambourov, Burhan Kuruscu, Sergio Ocampoa, and Daphne Chen, "Use It or Lose It: Efficiency Gains from Wealth Taxation," The Quarterly Journal of Economics 138:2 (May 2023), https://doi.org/10.1093/qje/qjac047.
13 Andreas Fagereng, Luigi Guiso, Davide Malacrino, and Luigi Pistaferri, "Heterogeneity and Persistence in Returns to Wealth," NBER Working Paper Series, No. 22822, 2016.
14 OECD, "The Role and Design of Net Wealth Taxes in the OECD," OECD Tax Policy Studies, Apr. 12, 2018, https://doi.org/10.1787/9789264290303-en.
15 Huaqun Li and Karl Smith, "Analysis of Sen. Warren and Sen. Sanders' Wealth Tax Plans," Tax Foundation, Jan. 28, 2020, https://taxfoundation.org/research/all/federal/wealth-tax/.
16 Raúl Barroso, Donald N'Gatta, and Gaizka Ormazabal, "Individual Wealth Taxes and Corporate Payouts," *The Accounting Review* 98:5 (September 2023), https://doi.org/10.2308/TAR-2021-0475.

Wealth Taxes Reduce Employment, Wages, Investment and Output

Another argument in favor of the wealth tax is that it is a well-targeted means of reducing inequality. In his book, *Capital in the Twenty-First Century,* Thomas Piketty considers that wealth taxes would be able to take from the very rich without supposedly hurting the poor or middle class. His initial proposal of a wealth tax involves applying a 1 percent rate for net assets between EUR 1 million and EUR 5 million, and a 2 percent rate for assets above EUR 5 million. Although this plan includes a tax exemption for the first EUR 1 million, he also considers it effective to introduce an additional 0.5 percent rate for net assets between EUR 0.2 million and EUR 1 million.

Table 3. Piketty's Wealth Tax Proposal

Net Wealth (Euros)	Rate
0 - 200,000	0%
200,000 - 1,000,000	0.5%
1,000,000 - 5,000,000	1%
5,000,000 and above	2%

Source: Own elaboration.

A Tax Foundation analysis from 2014 found that the effect of a potential version of Piketty's wealth tax on the U.S. economy, even with a EUR 200,000 exemption, would be devastating. Over a 10-year period, wages would be 5.2 percent lower, 1.12 million jobs would be lost, the capital stock would be 16.5 percent lower than otherwise, and the overall economy would have 6.1 percent less output than the status quo, resulting in a loss of USD 1 trillion (EUR 0.92 trillion). Additionally, the revenue generated by the new tax, accounting for the GDP decline, would amount to only USD 63 billion (EUR 58 billion).

Table 4. The Impact of Piketty's Wealth Tax Proposal on the U.S. Economy

	Percentage Change
GDP	-6.08%
Capital Stock	-16.48%
Jobs	-1.16%
Wages	-5.2%

Source: Michael Schuyler, "The Impact of Piketty's Wealth Tax on the Poor, the Rich, and the Middle Class," Tax Foundation, October 2014, https://files.taxfoundation.org/legacy/docs/TaxFoundation_SR225.pdf.

Even though it is theoretically a tax only for the rich, all social classes, including the poorest, would be affected by the wealth tax due to the reduction in economic activity. In monetary terms, people in the highest income percentiles would see their after-tax incomes reduced by between 11 percent and 13 percent. Similarly, those in the lower percentiles (between the 40th and 60th) would also see their incomes fall by 8 percent. This supposed reduction in inequality between the rich and the poor is achieved at the cost of both groups seeing their incomes diminished, although some more than others. Is it worth reducing the incomes of the middle class by 7 percent so that the rich (the top 1 percent) see their incomes reduced by 13 percent?

No matter what, households at the bottom of the wealth distribution and middle-income households would be most affected by the drop in employment (1.16 percent), lower wages (5.2 percent), and the reduction in the supply of goods and services.

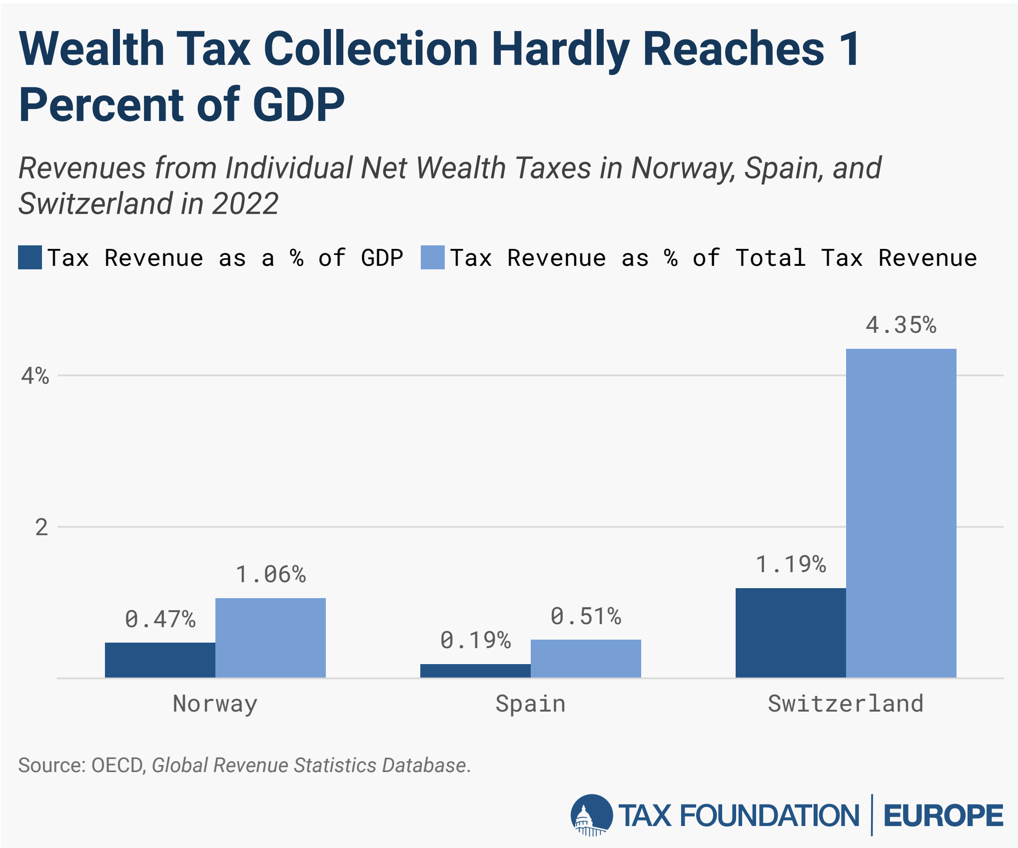
A wealth tax can reduce income and wealth inequality but at the cost of making everyone poorer.

Spain's experience of enacting a similar wealth tax to the one proposed by Piketty corroborates the idea that wealth taxes are not an effective tool to redistribute wealth and narrow wealth inequality.

Collect Little Revenue

Wealth taxes have generally accounted for a very small share of tax revenues. In 2022, tax revenues from individual net wealth taxes ranged from 0.19 percent of GDP in Spain to 1.19 percent of GDP in Switzerland. As a share of total tax revenues, they ranged from 0.51 percent in Spain to 4.35 percent in Switzerland.

Figure 4.



Longer-term trends show Switzerland has always been an exception, with tax revenues from net wealth taxes consistently higher than other countries. Figure 5 compares net wealth tax revenues as a share of GDP in different years from 1980 to 2022. Tax revenue trends show that revenues remained stable or declined over time.

The only exception is Switzerland, where tax revenues increased over time. Historically, Switzerland has collected considerably higher revenues from its wealth taxes than other countries.

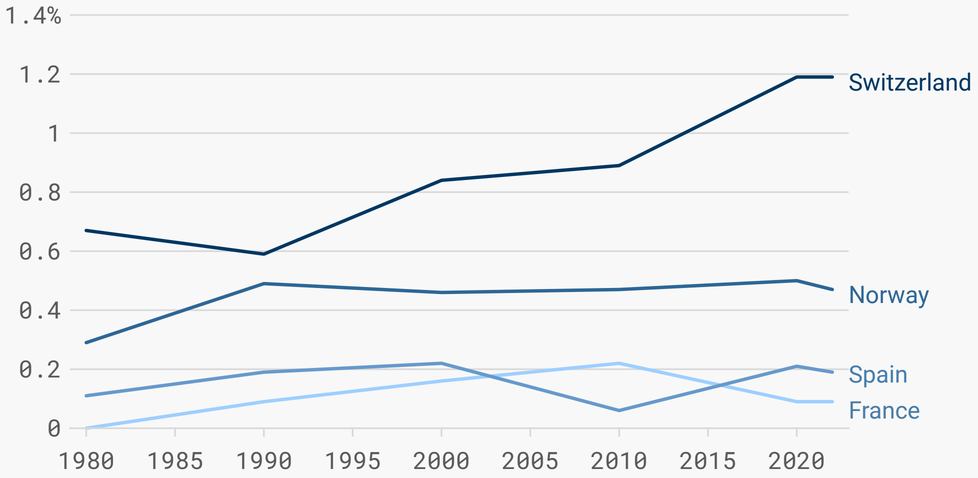
In Norway, despite relatively higher tax rates compared to Switzerland and a low exemption threshold, revenues appear to be low. But Norway is still raising twice as much revenue as a fraction of GDP than Spain does, while Spain's top tax rate triples Norway's tax rate.

With lower tax rates, Switzerland is collecting three times as much revenue as any other country. This could be explained by low exemption thresholds, a broader tax base, and a higher share of wealthy individuals in the country. Additionally, since 2013, Switzerland has experienced a steep increase in revenues collected from individual net wealth taxes as a share of GDP, from 0.88 percent of GDP in 2013 to 1.19 percent of GDP in 2022. This increase could be explained by an increase in the number of wealthy individuals in Switzerland, who prefer the country for its greater stability over other more volatile countries and regions in the world.[17]

Figure 5.

Wealth Taxes Have Never Been an Important Source of Revenue

Revenues from Individual Net Wealth Taxes as a Share of GDP in France, Norway, Spain, and Switzerland



Source: OECD, *Global Revenue Statistics Database*.

TAX FOUNDATION | EUROPE

Differences in individual net wealth tax revenues across countries reflect a variety of factors, including the design of the tax, taxpayers' possibilities and propensity to avoid and evade taxes, the distribution of wealth in the country, and the effects of other countries' tax policies, which may contribute to the erosion of domestic tax revenues through capital flight.

17 Swissinfo and agencies, "Switzerland moves up billionaire list," Sep. 17, 2024, https://www.swissinfo.ch/eng/society/switzerland-moves-up-billion-aire-list/40776194.

People Vote with Their Feet

One of the reasons Sweden abolished its wealth tax was because capital and high-net-worth individuals fled the country. It was argued that the special treatment of business equity made the wealth tax regressive—taxing middle-class wealth and exempting the wealthiest individuals' assets (closely held firms)—and it was responsible for spurring tax avoidance, including capital flight to tax havens.[18]

In Norway, after a 1 percent increase in the wealth tax, the government decided to approve a higher exit tax as billionaires fled the country.[19] Currently, due to the exodus of high-net-worth individuals to countries like Switzerland, Sweden's largest banks are opening new offices in Zurich.[20]

In 2023, after the Spanish solidarity wealth tax was declared constitutional, Portugal decided to extend its tax regime for nonresidents since more Spanish taxpayers were considering changing their tax residence.[21]

In the United States, Washington State has recently advanced a wealth tax proposal of a one percent tax on tradable net worth above $250 million. While the state's economists projected that the wealth tax would raise about $3.2 billion a year, $1.44 billion, almost 45 percent, would have been collected from Jeff Bezos. But his decision to move to Florida just eliminated potential wealth tax collections worth nearly half the official estimate.[22]

When a tax is so heavily concentrated on a few wealthy, highly mobile individuals, that's what happens when just one person moves.

In other countries like Switzerland, taxpayers need to approve any tax increases. In 2023, voters in Geneva rejected an extra "solidarity" levy on individuals with more than CHF 3 million (EUR 1.04 million or USD 3.4 million) in assets. Even the local government spoke out against the increase.[23]

18 Daniel Waldenström, "Inheritance and Wealth Taxation in Sweden," Ifo DICE report 16, 2018, https://www.ifo.de/DocDL/dice-report-2018-2-waldenstroem.pdf.

19 Ott Ummelas, "Norway to Hit Fleeing Billionaires With Higher Exit Tax," Bloomberg Tax, Nov. 29, 2022, https://news.bloombergtax.com/daily-tax-report-international/norway-to-hit-fleeing-billionaires-with-higher-expatriate-tax.

20 Love Liman and Bloomberg, "Wealthy Nordics are fleeing to Zurich due to high wealth taxes—and Sweden's largest bank is following," Fortune, May 16, 2024, https://fortune.com/europe/2024/05/16/wealthy-nordics-fleeing-zurich-high-wealth-taxes-swedens-largest-bank-seb/.

21 Eva Diaz, "Fuga de ricos a Portugal tras el aval del Constitucional al impuesto a grandes fortunas," El Economista, Nov. 23, 2023, https://www.eleconomista.es/legal/noticias/12552174/11/23/fuga-de-ricos-a-portugal-tras-el-aval-del-constitucional-al-impuesto-a-grandes-fortunas.html; Mercedes Serraller and Ángel Ortiz, "El Gobierno confirma que el hermano de Sánchez tributa en Portugal y lo justifica: 'Es ético,'" Vozpopuli, Apr. 22, 2024, https://www.vozpopuli.com/espana/gobierno-confirma-hermano-sanchez-tributa-portugal-justifica-es-etico.html.

22 Jared Walczak, "Jeff Bezos's Move Undercuts Proposed Washington State Wealth Tax," Tax Foundation, Nov. 3, 2023, https://taxfoundation.org/blog/jeff-bezos-move-taxes/.

23 Bastian Benrath, "Swiss Back OECD Minimum Tax; Geneva Rejects Millionaires Levy," Bloomberg Tax, Jun. 18, 2023, https://news.bloombergtax.com/daily-tax-report-international/swiss-pass-oecd-minimum-tax-2050-climate-goal-in-vote-1.

Five Decades of the Wealth Tax in Spain

From a Temporary Measure to a Permanent Tax

In 1977, the Law of Urgent Measures for Tax Reform introduced a tax on households' net wealth for the first time in Spain. The aim of this "exceptional and temporary" tax was to create an asset registry of the wealth held by Spanish residents and to monitor possible income concealments through changes in asset composition. However, this reasoning mistakenly assumed that those who evade income taxes would declare the eluded amount in their wealth tax declaration.

Later on, with the Wealth Tax Law 19 of 1991, the principles of a "temporary and exceptional" wealth tax were abandoned, and the tax was completely integrated into the Spanish tax system. This new law acknowledged that the primary purpose of the wealth tax had been to create an asset registry and control the truthfulness of taxpayers' income tax declarations. The new law reasoned the reintroduction of the wealth tax as a means to:

- Increase equity by taxing the greater payment capacity that asset ownership entails
- Encourage a more productive use of assets
- Redistribute income and wealth
- Complement the personal income tax (IRPF) and the inheritance and gift tax

The wealth tax is borne by Spanish residents on their worldwide wealth and non-residents on their Spanish-based assets. The 1991 reform raised the exemption threshold and increased the progressivity of the wealth tax, increasing the top rate from 2 percent to 2.5 percent. In 1994, assets used by entrepreneurs for their business activity became exempt. Since 1997, the tax benefit has been extended to publicly traded companies, making business assets fully exempt. Between 1982 (Catalonia) and 2002 (Madrid), the authority to levy the tax was transferred to the regional governments. Furthermore, since 1997, the regional governments have been given fiscal legislative power to modify the tax brackets, tax rates, exemption thresholds, deductions, and tax credits, although within certain limits. In 2000, an exemption was established for the main residence up to a certain limit.

In 2001, the reform of the regional financing system gave full sovereignty to the regions to legislate the wealth tax without restrictions. Navarra and Basque Country also have full power to regulate and apply the tax within their territorial scope.

By 2008, the tax hadn't achieved its objectives, and changes in international tax policy motivated Spain's central government to abolish the tax by offering 100 percent relief.

However, three years later, in September 2011, due to the prolonged economic crisis that Spain was going through and the need to raise more revenue, the wealth tax was temporarily restored for 2011 (retroactively) and 2012. At the end of 2012, the tax was extended to the 2013 fiscal year. However, over the following years, the state budgets extended the tax for each fiscal year. Nonetheless, 13 years later, the tax remains in effect. Additionally, the 2021 state budget law repealed the 2008 tax relief to avoid the need to restore the tax year after year.

A Second "Temporary" Wealth Tax

At the end of 2022, the Spanish central government introduced a new, temporary "solidarity wealth tax" in 2022 and 2023 (to be collected in 2023 and 2024) ranging from 1.7 percent to 3.5 percent on individuals with net assets exceeding EUR 3 million (USD 3.23 million). In practice, the state tax only affects taxpayers in autonomous communities with a common tax regime (all Spanish regions except Navarra, and the three provinces in the Basque Country) that apply a lower tax rate than the state rate. Under this new tax scheme, the central government collects any additional revenue from the solidarity tax once the regional wealth tax collection is deducted. Consequently, Madrid, Extremadura, and Andalusia restored the wealth tax so that the regional governments retain the revenues the central government plans to collect in 2024. Additionally, three other regions raised the exemption threshold to EUR 3 million (Balearic Island and Cantabria) and EUR 3.7 million (Murcia) to equal the tax relief offered by Andalusia, Extremadura, and Madrid.

In the case of Navarre and the Basque Country, both regions have full sovereignty to legislate and apply the tax within their territorial scope. Nonetheless, Navarra raised the top tax rate to 3.5 percent to harmonize it with the new solidarity wealth tax.

Unexpected Consequences of a Bad Tax Policy

With this solidarity tax, the central government expected to collect over EUR 1.5 billion in 2023 (fiscal year 2022), but in the end, it only collected 40 percent of that amount: EUR 0.6 billion.[24]

Not only did the solidarity tax not collect the revenue announced, but the three regional governments of Madrid, Andalusia, and Galicia also appealed the "solidarity wealth tax" to the Constitutional Court. However, after the Constitutional Court ruled that the solidarity wealth tax is constitutional, Andalusia, Extremadura, and Madrid restored the wealth tax so that the regional governments retain the revenues the central government plans to collect in 2024.

Additionally, three other regions raised the exception threshold to EUR 3 million (Balearic Island and Cantabria) and EUR 3.7 million (Murcia) to equal the tax relief offered by Andalusia, Extremadura, and Madrid. In the end, each region used a different tax mechanism to counterbalance the state wealth tax, adding an unnecessary burden on taxpayers and regional tax legislators.

Spanish legal tax experts argue that the reform might be unconstitutional since it violates the principle of legal certainty and operates retroactively (to the year 2022, instead of 2023 as initially announced). It might also violate the EU legal order.[25]

However, this was not the initial plan of the Spanish central government. Previously, the Spanish government named an external tax reform committee to review environmental taxation, corporate tax, taxation of the digital economy, and harmonization of regional tax policies. The committee released a list of 118 tax reform measures, most of which consisted of tax hikes.[26]

24 Ministerio de Hacienda y Función Pública, "El Impuesto de Solidaridad de las Grandes Fortunas recauda 623 millones de euros," Nota de prensa, Sep. 20, 2023, https://www.hacienda.gob.es/GabineteMinistro/notas%20prensa/2023/s.e.hacienda/20-09-23-np-impuesto-grandes-fortunas.pdf.
25 Eva Martin Diaz and Joaquin Huelin, "Constitucionalidad del Impuesto Temporal de las Grandes Fortunas."
26 Jesús Ruiz-Huerta Carbonell, "Libro blanco sobre la reforma tributaria," 2022, https://www.aece.es/descargararchivo_docnoticias_2731.

The Spanish tax reform committee also made recommendations on how to harmonize wealth taxes among regions, especially in response to the wealth tax relief in Madrid. The experts recommended a minimum threshold and the maintenance of regulatory powers upwards and downwards for both the tax rate and threshold within a certain range (to be determined). The experts recommended increasing the wealth tax threshold from the current EUR 700,000 (USD 752,783) to EUR 1 million (USD 1.07 million). The experts also recommended reducing the progressive tax rates ranging from 0.20 to 3.5 percent to rates ranging from 0.5 to 1 percent, in line with what other countries currently apply (see Norway and Switzerland).

Contrary to the recommendations of the reform committee, the government chose to maintain the 3.5 confiscatory top tax rate and harmonize the rate across regions. As seen in the previous chapter, the wealth tax in Spain was already confiscatory at a 2.5 percent rate. This tax hike will shrink Spain's wealth at an unprecedented speed.

Meanwhile, Portugal's decision to extend its tax regime for non-residents for one more year was timely, since more Spanish taxpayers were considering changing their tax residence.[27]

Conclusion

Wealth taxes generate double or even triple taxation. In the case of Spain, the combination of personal capital income taxes and net wealth taxes results in marginal tax rates well above 100 percent. This means that the entire real return is taxed away and, by saving, people would see the real value of their wealth shrunk. Spain is the only country in the world that, in addition to net wealth taxes and capital gains, also levies taxes on capital transfers, a financial transaction tax, and one of the highest inheritance and gift taxes in Europe. This translates into a quadruple or quintuple taxation. Policymakers should work to redesign Spain's fiscal policy by eliminating double and quadruple taxation following Tax Foundation's principles for a sound tax policy.[28]

The recent tax policy developments in Spain have already generated legal problems and forced taxpayers, small investors, and companies to relocate to countries with more reliable and stable tax policy. [29] Taxpayers fleeing the country are not only taking the wealth tax revenue with them but also the income and consumption tax revenue, which are the most important sources of revenue for European countries and Spain.

Wealth taxes have always collected little revenue. Only in Switzerland—the only country in the world with a low tax rate, broad base, and a large number of billionaires—do tax revenues from individual net wealth taxes reach one percent of GDP. Additionally, wealth taxes are a poor and ineffective way to reduce wealth gaps, not only due to their low revenues but also because a solid redistribution mechanism would need to be in place, and that would create new impacts on its own. Also, if the tax base for these policies were to be broadened, it would make households further down the wealth distribution worse off.

As tempting as wealth taxes might look, especially when so many international organizations note

27 Eva Diaz, "Fuga de ricos a Portugal tras el aval del Constitucional al impuesto a grandes fortunas."
28 Tax Foundation, "Principles of Sound Tax Policy," https://taxfoundation.org/taxedu/principles/.
29 Cristina Enache, "Spain Is Doubling Down on Poor Tax Policy," Tax Foundation, Apr. 20, 2023, https://taxfoundation.org/blog/spain-wealth-tax-windfall-tax/.

them as a way to reduce wealth inequality, their limited capacity to collect revenue and their negative impact on entrepreneurial activity, savings, innovation, and long-term growth should make policymakers consider their repeal instead of boosting them.

At the EU or global level, a coordinated wealth tax, like the 15 percent global corporate minimum tax, is highly improbable. Instead of a Pillar Two approach, a worldwide wealth tax would need an approach more like Pillar One, where a critical number of countries must sign the agreement, including China, Switzerland, and the United States. In Switzerland, taxpayers need to approve any tax increases, making this proposal unfeasible.[30] Another flaw in this approach is the fact that wealth can move beyond borders to any country that is unwilling to sign the agreement.

Instead, policymakers should focus on policies that do not undermine economic growth. Spain should consider full expensing for capital investment to increase private investment and accelerate the economic recovery. The government is looking to boost its revenue and at the same time protect the poor. Because of this, policymakers should simplify value-added tax and make it more efficient and neutral by broadening the tax base, lowering the tax rate, and eliminating unnecessary tax exemptions. The government can then implement compensation measures for poorer households, such as targeted tax credits or direct transfers to low-income earners.

Policymakers should shy away from unnecessary tax hikes and harmonization measures and implement tax reforms that could eventually accelerate economic growth.

30 In 2023, voters in Geneva, Switzerland, rejected an extra "solidarity" levy on individuals with more than CHF 3 million (EUR 1.04 million or USD 3.4 million) in assets. Even the local government spoke out against the increase.