Taxation and Inequality

OECD REPORT TO G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

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Executive summary

This report, commissioned by the Brazilian G20 Presidency ahead of the July 2024 G20 Finance Ministers and Central Bank Governors meeting, contributes to discussions on the role of tax systems in addressing inequality. Largely drawing upon research on OECD countries, it explores how tax systems can mitigate or exacerbate inequality with a focus on the distribution of income and wealth and identifies scope for potential reform. It zooms in on the specific tax policy and compliance challenges associated with taxing high-net-worth individuals (HNWIs), some of which have a cross-border dimension.

Persistent income inequality and the rising concentration of wealth at the highest end of the distribution have strengthened calls for tax policy action to mitigate inequality and support more inclusive growth. Some countries, in particular middle-income countries, have seen declines in income and wealth concentration at the top, but overall inequality has persisted and the share of wealth held by the top 0.001% globally has risen markedly. These trends are drawing more focus on policies to address these disparities and heightening the interest in tax policies as essential tools – alongside others – to address inequality and support inclusive growth.

Strengthening progressivity through domestic tax systems can take the form of setting more progressive tax schedules, broadening the bases of progressive taxes, and reducing scope for tax arbitrage. In particular, differential tax treatment of different types of income and assets can reduce the progressivity and efficiency of tax systems and encourage shifts in favour of those that are less taxed. Examples include the favourable tax treatment of capital income compared to labour income and the favourable taxation of asset classes held primarily by wealthier households. This suggests scope to enhance progressivity, though any tax reform should also take account of incentives to work, save and invest, and ultimate implications for economic growth.

In low- and middle-income countries, pre-tax inequality tends to be high and tax and benefit systems often do little to mitigate it. This is primarily due to limited revenue mobilisation, which strongly constrains their capacity to deliver redistributive policies. Improving equity calls for increasing overall tax revenues, including by boosting economic growth, bolstering the formal economy, and strengthening enforcement to prevent tax avoidance and evasion.

Within the tax and inequality debate, there also has been an increasing focus on HNWIs. They are a diverse group (e.g. HNWIs, very-HNWIs and ultra-HNWIs)[1], and evidence suggests that effective tax burdens decline at the very top. This is primarily attributable to lower statutory tax rates as well as exemptions and deductions for categories of income and assets typically held by HNWIs. In addition, variations in tax rates and tax benefits across jurisdictions, coupled with greater capacity for international mobility, may increase opportunities for aggressive planning both at the domestic and international level. Tax evasion and ineffective tax enforcement can further exacerbate disparities in tax burdens, though

[1] The term HNWIs refers broadly to individuals at the top of the income and wealth distributions, although different thresholds are commonly applied (e.g. USD 1 million for HNWIs, USD 5 million for very-HNWIs and 30 million for ultra-HNWIs, see section 0).

much progress has been achieved to address tax evasion through the widespread adoption of international tax transparency standards.

International tax collaboration can empower countries to more effectively implement their domestic tax policies. Progress in international tax transparency – in particular with the Common Reporting Standard – has significantly strengthened the effectiveness of domestic taxation and gives governments new scope to tax capital. The Crypto-Asset Reporting Framework (CARF) will bring a similar level of transparency to crypto-asset markets, with automatic exchanges of information expected to start in 2027. Further progress, such as by enhancing tax transparency in real estate, improving beneficial ownership transparency, and through capacity building, is underway.

Overall, policy interest in addressing inequality leveraging progressive tax policies, including relating to the taxation of HNWIs, is increasing. This has been driven by a number of factors including views on the need to reduce inequality and the role of tax in it, and awareness that revenue raising capacity and the need to finance sustainable development requires considering the distribution of tax burdens.

To help inform domestic policy options and identify opportunities for further international tax co-operation, it will be important to continue analysing vulnerabilities in existing domestic and international tax systems that could exacerbate inequality and limit the potential for inclusive growth. This requires a better understanding of how countries' varying circumstances and objectives can influence the effectiveness of domestic tax policies. Furthermore, there could be room to build on areas in which international co-operation has already made a difference – most notably co-operation on international transparency – and explore the scope and desire for additional co-operation to enhance the effectiveness of domestic policies. In this regard, significant work is already underway at the OECD and other fora. Building on the existing body of work and ongoing initiatives could help inform and accelerate countries' potential policy responses and enhance their ability to achieve positive outcomes.

This report is divided into four sections. Section 1 presents data on income and wealth inequality and discusses the general interactions between tax systems and inequality. Section 2 examines how specific tax policies can mitigate and sometimes exacerbate inequality, highlighting scope for domestic tax reform. Section 3 focuses on the taxation of HNWIs. Finally, section 4 summarises key observations and suggests opportunities for potential further work and international collaboration.

1 Inequality and the role of taxation

Interest in the role of tax systems in addressing inequality has increased in recent years. This interest has been driven by concerns about high income and wealth inequality in several countries. Tax systems directly and indirectly affect inequality and are among the key policy tools that governments can use – in conjunction with other policy tools – to reduce disparities and support more inclusive growth. The equitable distribution of tax burdens is also a key consideration for countries as many seek to meet growing public revenue needs.

1.1 Inequality levels and trends

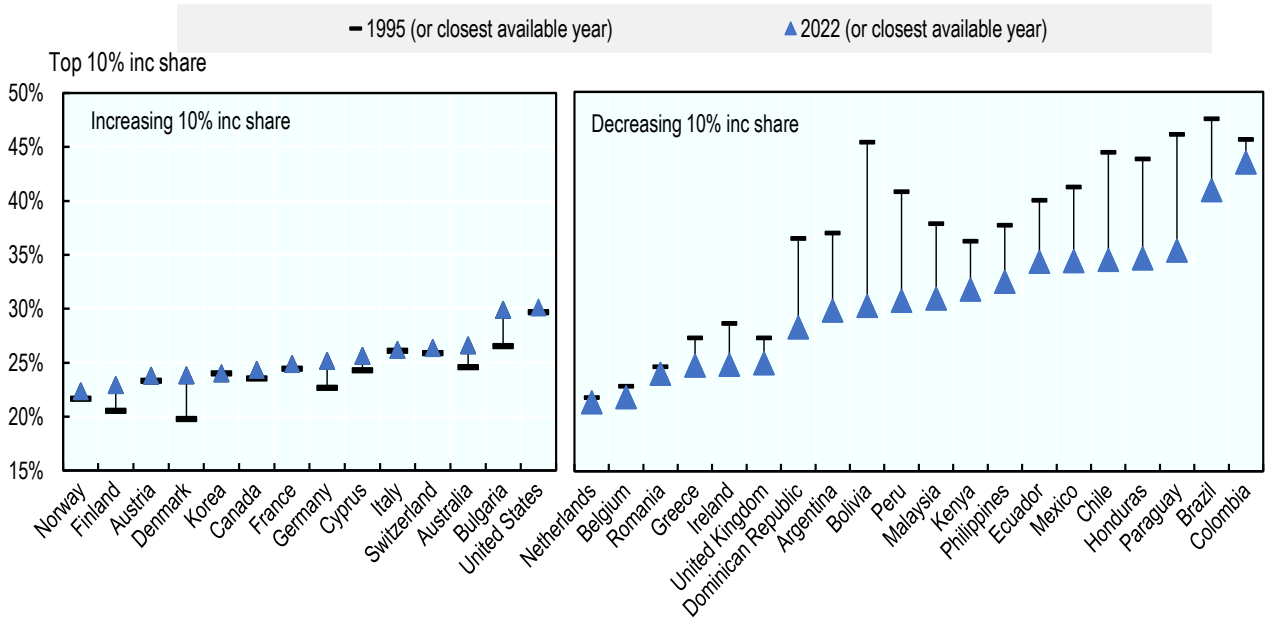
Income tends to be concentrated at the top of the distribution, though to varying degrees across countries. The share of disposable income earned by the top 10% of households[2, 3] ranges from 21.4% (Netherlands, 2021) to 43.5% (Colombia, 2022) for the countries shown in Figure 1.[4] Some countries experienced increases in the concentration of income in the top decile from 1995, although in many countries the change was modest. The largest increase occurred in Denmark, where the top 10% income share rose by 4 percentage points from 1995 to 2021, albeit from the initially low level of 19.8%. Of the countries shown, a larger number saw decreases in top income shares, with particularly large reductions in many middle-income countries. The largest reduction occurred in Bolivia, where the top 10% share declined by 15.1 percentage points between 1997 and 2021.

[2] Different indicators measure inequality, including the Gini coefficient and the concentration of income and wealth within certain population sub-groups. This section examines inequality at the top of the income and wealth distributions by focusing on top income and wealth shares.

[3] Several methodological challenges emerge in measuring inequality. These may include sampling biases (when using surveys), choice of income definition (e.g. before or after redistribution), assumptions surrounding indirect methods to estimate income (e.g. distributional national accounts) and wealth (e.g. capitalisation method). While estimates for some countries are very precise (e.g. US, France), the data available in many others is too limited to construct fully accurate series, according to the World Inequality Database (WIL, 2024[172]). The continued accessibility and enhancement of tax data as well as further refinement in reconciling tax and survey data are essential to more accurately measuring inequality.

[4] Countries were selected to represent a diversity of geographical regions and stages of development, subject to data availability.

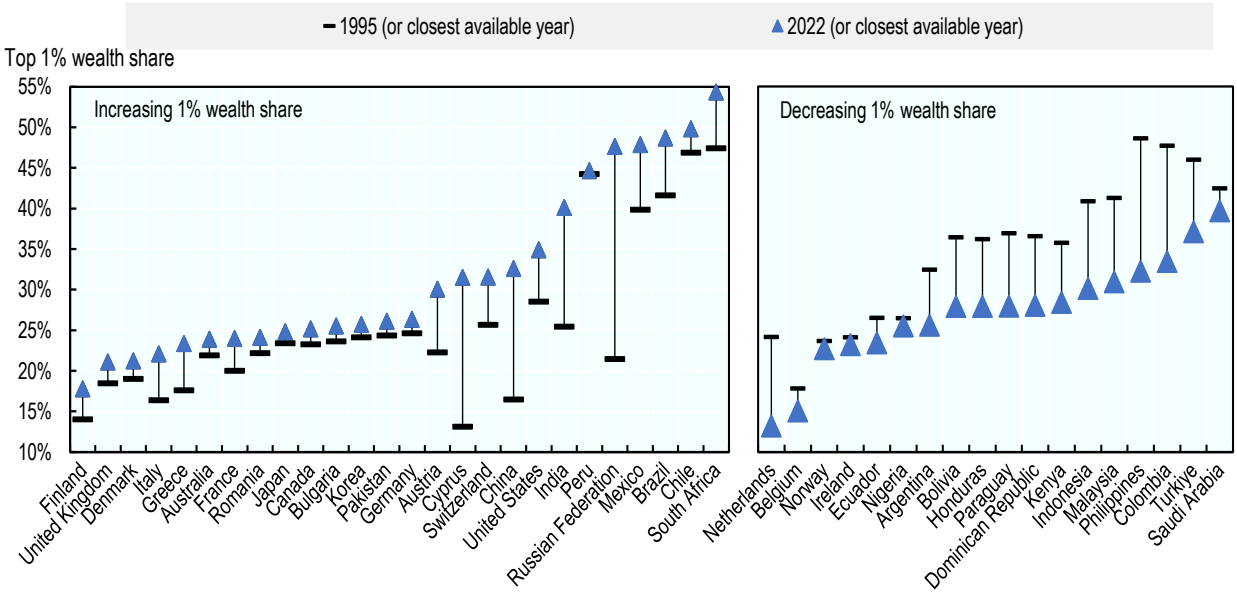
Figure 1. Top 10% disposable income share in selected countries, 1995 and 2022



Note: The chart shows the share of income received by those in the highest income decile. Income is measured using disposable income, defined as the sum of labour and non-labour income (including transfers) minus taxes and contributions. Some countries may have fewer years of available data. The observations for Korea span a shorter time period than for the other included countries, with the earliest data point being from 2006 and the most recent one from 2016.
Source: World Bank Poverty and Inequality Indicators Database (The World Bank, 2022[1])

Wealth is concentrated at the top in many countries. Figure 2 shows that the share of net personal wealth owned by the top 1% of individuals ranges from just below 15% to above 50% across the selected countries. Among the countries shown, South Africa had the highest level of wealth concentration, with the top 1% of the wealth distribution owning 54.4% of all net personal wealth in 2022. At 13.1%, the Netherlands had the lowest top 1% wealth share in 2022. Trends in wealth concentration have varied between countries over the past two decades, both in terms of the size and direction of change.

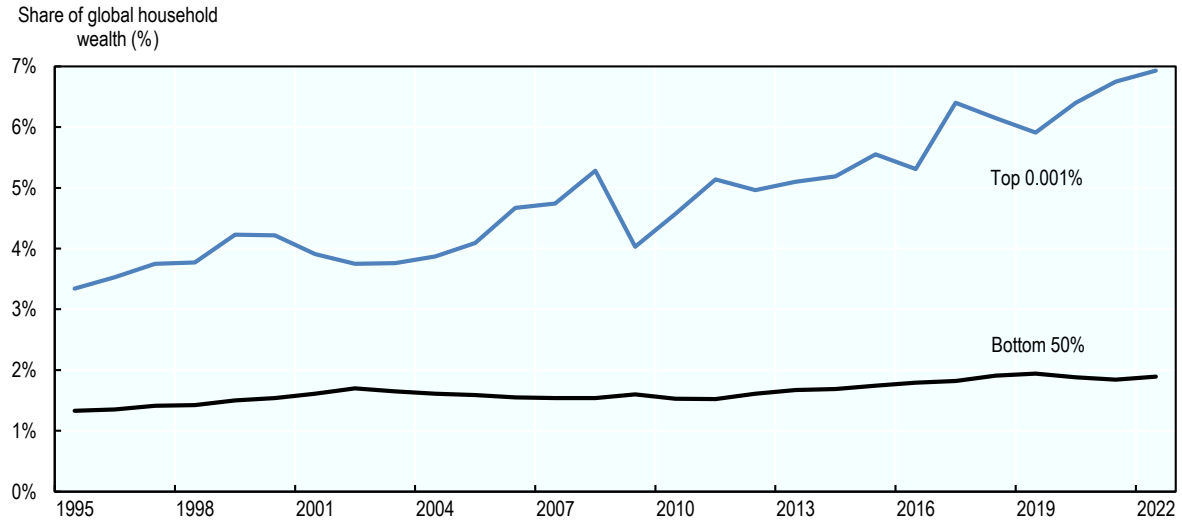
Figure 2. Top 1% wealth share in selected countries, 1995 and 2022



Note: The top 1% share refers to the wealth owned by the top 1% of the wealth distribution, divided by the total for the entire population. The measure of wealth used in this chart is net personal wealth defined as the sum of non-financial and financial assets (housing, land, deposits, bonds, equities, etc.) held by private individuals, net of their debts.
Source: World Inequality Database (Alvaredo et al., 2022[2])

Global wealth concentration at the very top of the distribution has increased. For instance, the estimated share of wealth held by the wealthiest 0.001% globally more than doubled between 1995 and 2022, rising from around 3.3% to 6.9% (Figure 3). The bottom 50% share of global personal wealth, on the other hand, increased very slightly from the low starting point of 1.3% in 1995 to 1.9% in 2022. In 2022, the top 1% of the global wealth distribution owned around 20 times more wealth than the bottom half of the distribution, while the top 0.001% alone owned more than three times as much as the bottom 50% (Alvaredo et al., 2022[2]). Data discussed in section 3 shows a substantial rise in the number of HNWIs and their wealth holdings.

Figure 3. Shares of global wealth held by the bottom 50% and the top 0.001%



Note: The top (or bottom) x% share refers to the wealth owned by the top (or bottom) x% of the wealth distribution, divided by total global wealth, calculated based on countries with available data. Methodological detail on global wealth calculations is available at Bajard et al. (2022[3]). Net personal wealth is defined as the sum of non-financial and financial assets (housing, land, deposits, bonds, equities, etc.) held by private individuals, net of debt.
Source: World Inequality Database (Alvaredo et al., 2022[2]); chart reproduced from Chancel et al., (2022[4])

Overall, income inequality is persistent and the concentration of wealth at the highest end of the distribution has been increasing. While some countries, in particular middle-income countries, have seen declines in income and wealth concentration at the top, inequality persists in many countries and the share of wealth held by the top 0.001% globally has been rising.

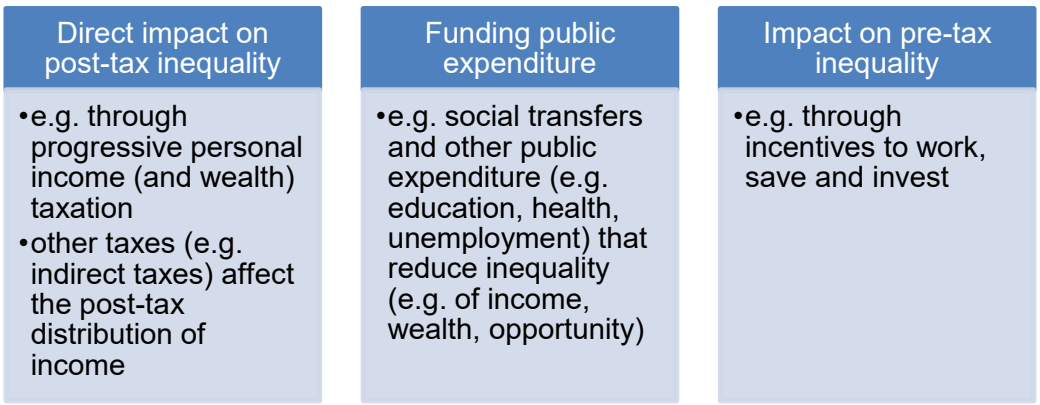
While income and wealth inequalities often receive the most attention, other forms of inequality exist. Despite progress in recent decades in many countries, gender disparities remain prevalent (OECD, 2017[5]; World Economic Forum, 2023[6]). There are also shortcomings in equality of opportunity, i.e. in the extent to which individuals have an equal chance to succeed in life regardless of circumstances outside of their control (OECD, 2022[7]). Additionally, there are inequalities between generations and significant regional disparities, especially between urban and rural areas (Cattaneo et al., 2022[8]; Cournède and Plouin, 2022[9]; Eurostat, 2015[10]; Young, 2013[11]). These other forms of inequality are also relevant when discussing the role of tax systems.

1.2 The role of tax systems in reducing inequality

Tax is an important policy tool, among others, for governments that wish to address inequality. A broad array of policy tools can help mitigate inequality. Non-tax policies including the removal of barriers to labour market participation, minimum wages, and in-kind social transfers such as education and healthcare are essential to reducing inequality, especially at the lower end of the income distribution. Competition policies that reduce market power can also help mitigate rising wealth concentration at the top (Ennis, Gonzaga and Pike, 2019[12]). Tax measures can complement these policies. Tax policy can influence inequality across the income and wealth distributions, including at the higher end where other policy tools may have more limited reach.

Tax systems influence inequality through various channels (Figure 4). First, taxes directly affect the post-tax distribution of income and wealth. Progressive personal income taxes (PIT) are the most commonly used tax tools to directly reduce income inequality, though reliance on PIT varies significantly across countries and is comparatively limited in low- and middle-income countries (Figure 5). Another major channel, often the largest, through which taxes reduce inequality is by generating revenue for redistributive public expenditure (e.g. social transfers).[5] This highlights the importance of considering public spending when evaluating the overall progressivity of fiscal policy. Tax revenue collection varies across countries, implying significant heterogeneity in the scope for tax systems to fund expenditure, including for efforts to reduce inequality (Figure 6). Lastly, taxes can affect pre-tax inequality through the incentives they create to work, save, or invest. Assessing the impact of tax systems on inequality requires considering all these channels.

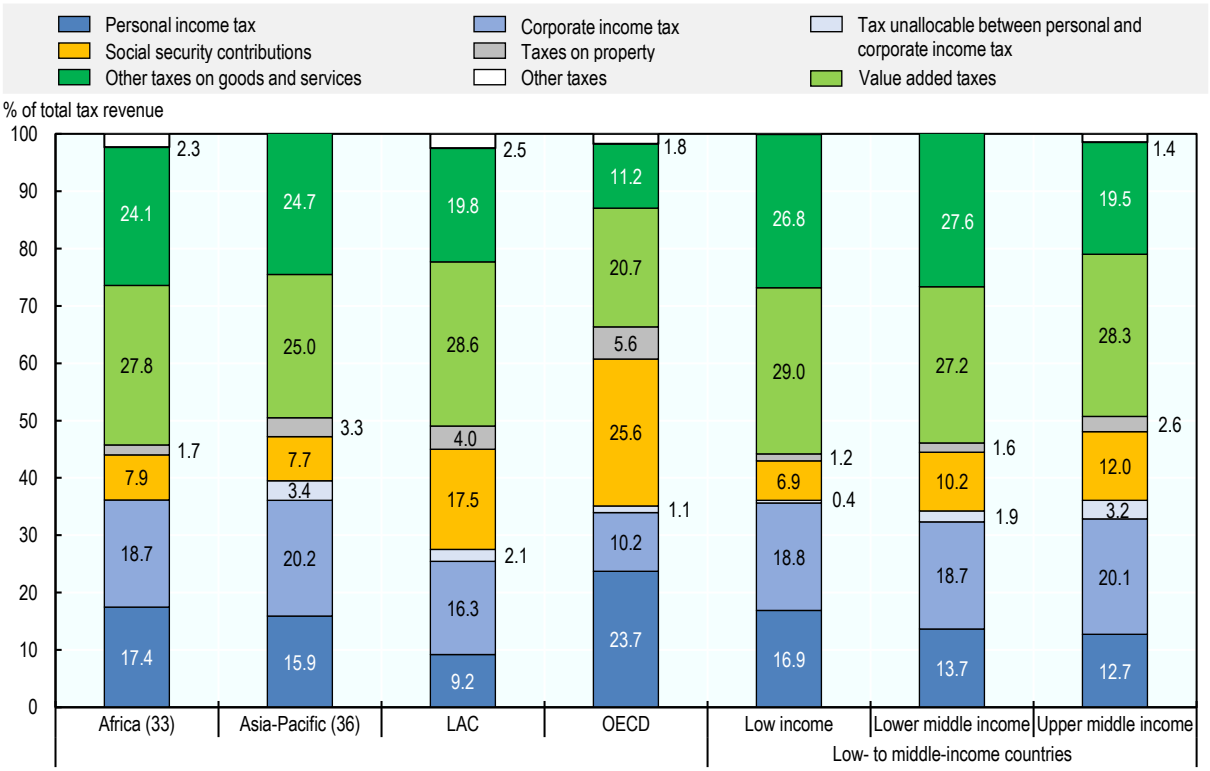
Figure 4. Channels through which tax systems affect inequality



[5] On average in OECD countries, around three-quarters of the reduction in inequality from market to disposable incomes occurs through transfers. Personal income taxes and social security contributions (SSC) account for the remaining quarter of redistribution (Causa and Hermansen, 2019[88]).

Figure 5. Average composition of tax revenues in different groups of countries

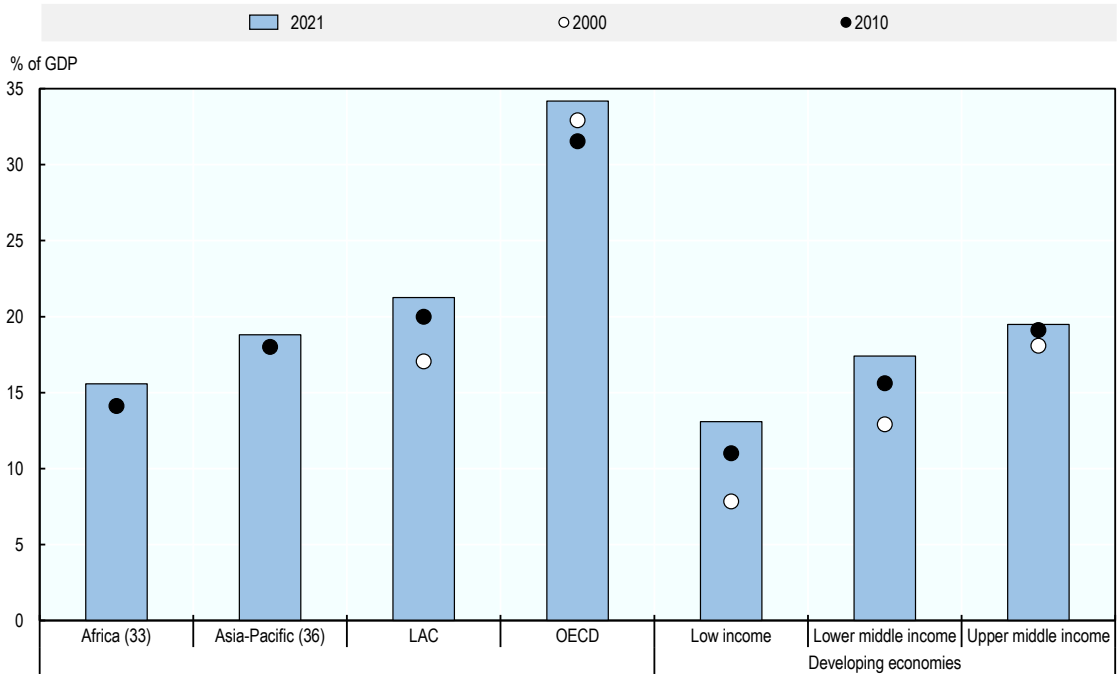
Average tax structure in Africa (33), Asia-Pacific (29), LAC (27), OECD and developing economies, 2021



Note: Developing economies (76) include those in the Global Revenue Statistics database that are defined as “low income" (11), "lower-middle income" (33) and "upper-middle income" (32) economies according to the World Bank.
Source: OECD Global Revenue Statistics (database) (OECD, 2024[13]).

Figure 6. Average tax-to-GDP ratios in different regions

Average tax-to-GDP ratios in Africa (33), Asia-Pacific (29), LAC (27), OECD, and developing economies, 2000, 2010 and 2021



Note: Developing economies (76) include those in the Global Revenue Statistics database that are defined as “low income" (11), "lower-middle income" (33) and "upper-middle income" (32) economies according to the World Bank.
Source: OECD Global Revenue Statistics (database) (OECD, 2024[13])

1.3 Growing calls for action on tax and inequality, including the taxation of high-net-worth individuals

High and persistent income and wealth inequality may have negative social and economic consequences. Income and wealth inequality tend to persist across generations and can be an obstacle to social mobility (OECD, 2018[14]). Income inequality has also been found to have a negative effect on populations’ well-being and health outcomes (Pickett and Wilkinson, 2015[15]). Some research has also suggested that wealth and income inequality may weaken economic growth (OECD, 2015[16]; Stiglitz, 2015[17]; Berg et al., 2018[18]), although the relationship between inequality and economic growth is still subject to debate (Baselgia and Foellmi, 2022[19]).

Tax policies that are perceived as equitable can enhance tax morale. Tax morale, or the intrinsic motivation to pay taxes, is crucial to a tax system (OECD, 2019[20]). While several factors influence tax morale (e.g. quality of public services, trust in government), some studies emphasise the importance of perceptions of fairness (Besley, Jensen and Persson, 2023[21]) and progressive taxation in the willingness to pay tax (Doerrenberg and Peichl, 2013[22]; Hoy, 2023[23]). Evidence of lower effective taxation among HNWIs may be viewed as a source of tax inequity and negatively affect tax morale (Dom et al., 2022[24]). Ensuring an equitable distribution of tax burdens along the income and wealth distributions could thus contribute to strengthening tax morale and voluntary tax compliance.

Ensuring equitable distribution of tax burdens may be important given rising fiscal pressures. Public revenue needs are significant and expected to rise in many countries[6] in the face of structural challenges, including population ageing and climate change adaptation and mitigation. Additional revenues are also needed to support progress towards the Sustainable Development Goals (SDGs), with the current SDG financing gap estimated to be up to USD 4 trillion per year (United Nations, 2024[25]). Failure to enhance the effectiveness of top income and wealth taxation could not only affect perceptions of fairness but also exacerbate revenue gaps.

Recent years have seen tax reforms designed to enhance progressivity and address inequality. For instance, the OECD *Tax Policy Reforms* report, which tracks tax reforms in 90 jurisdictions, shows an increasing focus on raising top PIT rates to boost government revenue and enhance progressivity (OECD, 2022[26]; OECD, 2023[27]); in 2022 and 2023, several countries increased their top PIT rates and introduced additional tax brackets for high-income earners. In some countries, these reforms have been complemented by measures aimed at reducing the tax burden on low- and middle-income earners.

Progress in international tax transparency has significantly enhanced the effectiveness of domestic taxation and increased countries' scope to tax capital. In particular, the broad-based adoption and implementation of the international standards on the exchange of information, through the collective efforts of the 171 members of the Global Forum on Tax Transparency and Exchange of Information for Tax Purposes, has led to the end of bank secrecy and has been a game changer in enabling enforcement of domestic taxation of HNWIs. Progress on international tax transparency also gives governments greater domestic tax policy space to tax individuals' capital income and assets by substantially reducing risks of tax evasion.

There have been calls for action to reduce inequality at the top end of the distribution. These have come from governments in high-, middle- and low- income countries, NGOs, some academics, and some HNWIs.[7] More recently, the increasing mobility of individuals and the rise in concessional tax regimes targeting high income and wealth individuals (Godar, Flamant and Gaspard, 2021[28]) have raised concerns about escalating personal tax competition across countries, prompting some to advocate for enhanced international coordination in this area (see, for example, Zucman (2024[29])).

[6] According to long-term OECD projections from 2021, in the absence of policy reforms, the median OECD country would need to increase structural revenue by 8 percentage points of GDP by 2060 to stabilise public debt levels while maintaining current benefit and public service levels (Guillemette and Turner, 2021[159]).

[7] E.g. https://patrioticmillionaires.org/ ; WAS WIR TUN (taxmenow.eu)

2 Tax policy and inequality: issues and opportunities for reform

There is significant scope for domestic tax reforms to reduce inequality and support more inclusive growth. Recent analysis shows how labour income taxes, capital income and wealth taxes, as well as indirect taxes affect inequality and can in some cases exacerbate it. This highlights the importance of careful tax policy design. It also suggests that there are various options available to governments wishing to reduce inequality through their tax systems, though country context is key. In particular, low- and middle-income countries face distinct challenges to mobilising resources to reduce inequality. Policy makers must also carefully weigh the trade-offs of different policy options, such as balancing equity and efficiency objectives. This section primarily draws on recent OECD research, which focuses largely on OECD countries, as well as on other studies covering a broader range of countries.

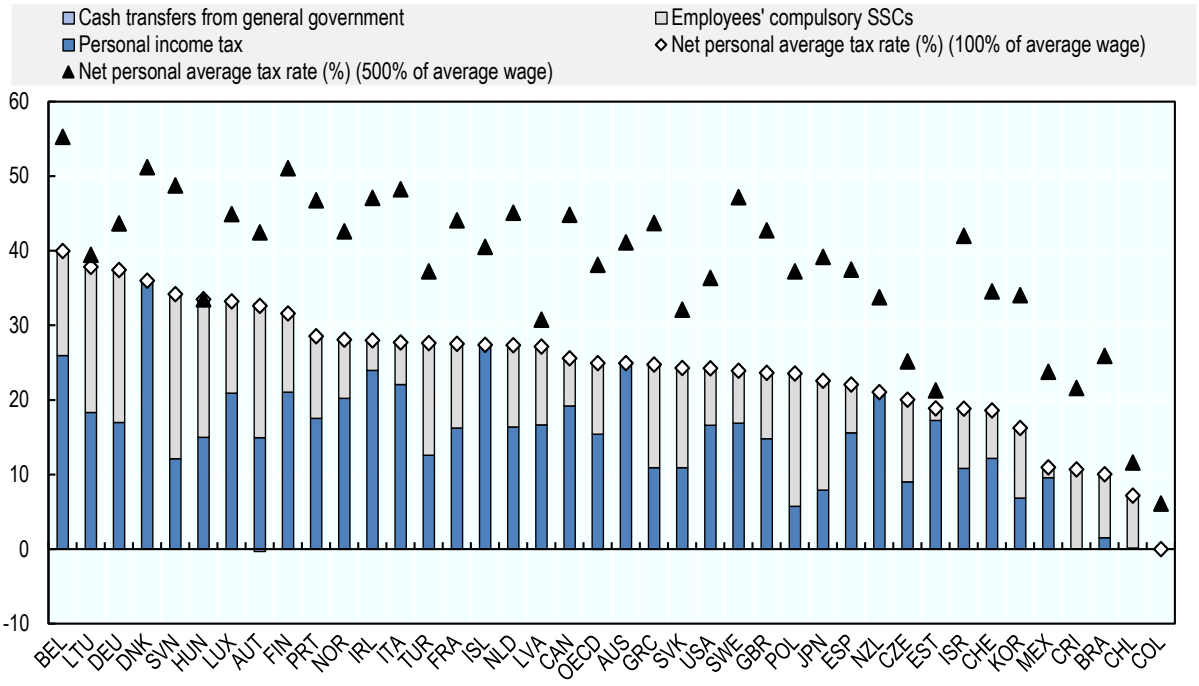
2.1 Labour income taxes

Labour income taxes are a common tool to reduce income inequality. Progressive labour taxation is an important mechanism through which governments can reduce income inequality (Blanchet, Saez and Zucman, 2024[30]; World Bank, 2022[31]). At the same time, high labour income taxes may generate efficiency costs by reducing incentives to work and invest in human capital, and negatively affect pre-tax inequality (Brys et al., 2016[32]). Governments typically seek a balance between these efficiency and equity considerations.

Labour income tax rates and progressivity vary widely across countries. Figure 7 shows net average personal tax rates (the share of gross wage earnings that is paid in personal income taxes and social security contributions (SSCs) after cash benefits).[8] It shows that employees earning the average wage faced rates ranging from 0% in Colombia to 39.9% in Belgium in 2023. While labour income taxes are almost always progressive, mirroring PIT rate schedules, the degree of progressivity varies across countries. For example, Figure 7 shows large cross-country differences between tax burdens on employees earning the average wage and those earning five times more. Across countries, the progressivity of labour taxes has generally been found to be greater at lower income levels, levelling off as incomes rise (OECD, 2013[33]). This is largely because means-tested tax reliefs aimed at low earners taper as earnings increase, while SSCs are often capped, which limits progressivity at high earnings levels.

[8] Most countries also levy employer SSCs, which are at least partly borne by employees (Bozio, Breda and Grenet (2019[163]); Deslauriers et al., (2021[164]); Melguizo and González-Páramo (2013[165]); Saez, Schoefer and Seim (2019[166]))

Figure 7. Levels and decomposition of net personal average tax rates, 2023



Note: Data shown refer to a single worker earning the average wage and five times the average wage, without children. Net average personal tax rates show the share of gross wage earnings that is paid in personal income taxes and SSCs after cash benefits.
Source: *Taxing Wages 2024* (OECD, 2024[34]), information on the average wage for Brazil have been retrieved on Sistema IBGE de Recuperação Automática – SIDRA.

Labour income taxes can discourage female workforce participation. *Taxing Wages 2024* shows that second earners in married couples without children face higher net personal average tax rates than single workers when they take up work across a majority of OECD countries (OECD, 2024[34]). In a context where the vast majority of second earners are women,[9] this is likely to affect their incentives to take up employment. Fiscal disincentives for second earners are larger in countries where taxation occurs at the household level or in countries with individual-level taxation where tax reliefs are nonetheless computed at the household level. Marginal tax rates also tend to be higher for part-time workers than full-time workers in OECD countries, a phenomenon that is likely to disproportionately affect the labour incentives of women, who are three times more likely than men to work part-time (Harding, Paturot and Simon, 2022[35]).

Targeted measures such as earned income tax credits (EITCs) can support labour market participation and strengthen progressivity at the bottom of the income distribution. EITCs reduce tax liabilities for low-income workers, providing incentives to engage in the labour market. Such measures may also reduce gender inequalities as second earners tend to be more responsive to labour tax changes (Blundell, Bozio and Laroque, 2011[36]). However, while the design of EITCs can improve labour market participation and reduce poverty, they may carry high fiscal costs or lead to low-income traps from high marginal tax rates due to EITC withdrawal (Brys et al., 2016[37]; Blundell, Bozio and Laroque, 2011[36]). A large body of academic literature finds that EITCs have had positive impacts on labour market participation and in-work poverty (see, for example, Nichols and Rothstein (2015[38]); Hoynes and Patel (2017[39]); Bastian (2020[40])), though some studies question the positive impact of EITCs (e.g. Kleven (2024[41])) or

[9] For instance, in almost all OECD countries, more than 75% of second earners are women.

suggest their effectiveness depends on country context (Bloemen and Stancanelli, 2007[42]; Arnaud, Cochard and Junod-Mes, 2008[43]).

Tax systems may induce shifts between different forms of employment where these are taxed differently. A recent OECD study finds that differences in applicable SSCs and deductions across standard employment and self-employment, for example, can create tax arbitrage opportunities (Milanez and Bratta, 2019[44]). Differential tax treatment can reduce the efficiency of tax systems by distorting the choice of employment form. It can also reduce horizontal equity by imposing different tax burdens on individuals earning similar levels of incomes, even though some tax-advantaged forms of employment may not benefit from as much social protection as standard employment.

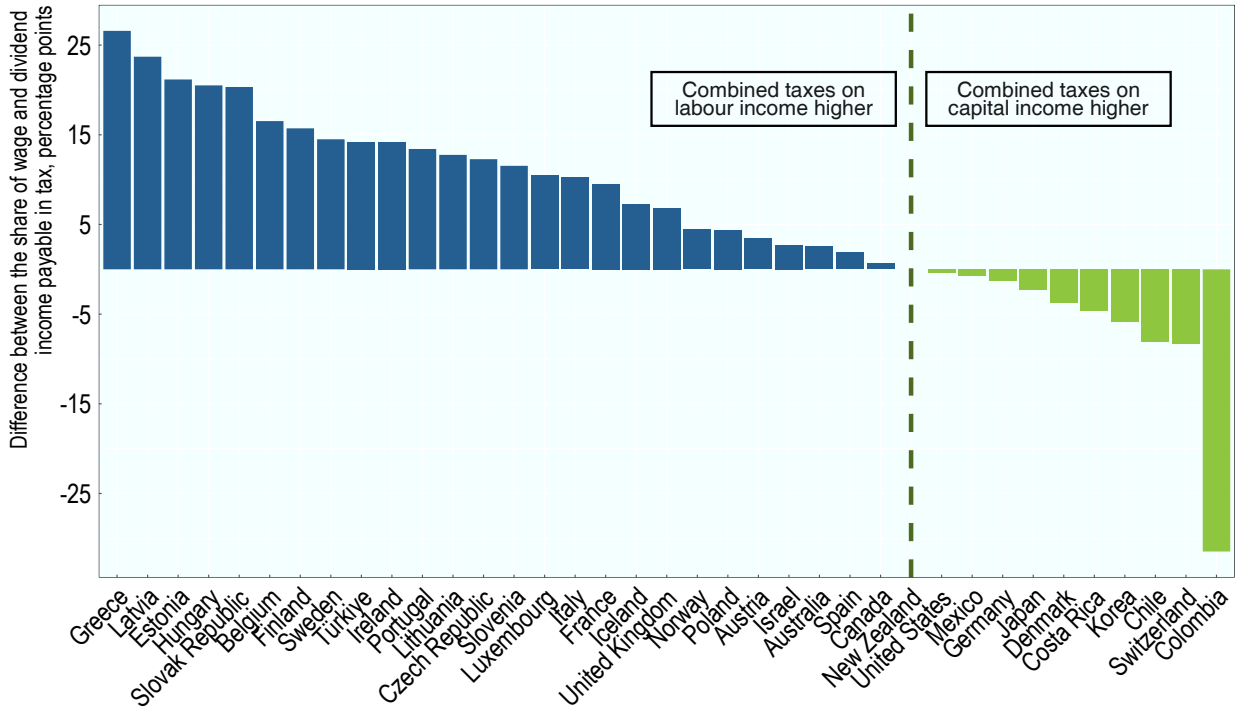
2.2 Personal capital income and wealth taxes

Given the concentration of capital income and wealth, their tax treatment can significantly affect inequality. As discussed in section 3, HNWIs receive a large share of capital income, reflecting a highly concentrated distribution of assets. The taxation of capital income and wealth therefore significantly influences the progressivity of tax systems. Governments typically need to balance progressivity with other objectives (e.g. promoting savings and investment) when designing and implementing taxes on capital income and wealth.

In many countries, capital income receives more favourable tax treatment than labour income. Recent OECD analysis reveals that dividends and capital gains are taxed preferentially compared to wages in most OECD countries. Figure 8 shows that, when comparing the overall share of tax on labour income and dividends, the tax paid is relatively higher for labour income than for dividend income, even when considering combined taxes levied at the individual level and those paid by firms. This is often driven by lower tax rates applying to capital income as well as exemptions and other reliefs. However, there is wide variation across countries in whether and the extent to which capital income is tax-preferred compared to labour income. Large gaps between labour and capital income taxation significantly reduce horizontal equity, as similar levels of income end up being taxed differently, as well as vertical equity, given the concentration of capital income at the top. They also encourage income shifting behaviours among owners of closely-held businesses (see section 3).

Figure 8. Differences in the total tax burden on labour (wages) and capital (dividends)

Difference in the share of income payable in combined (personal- and firm-level) taxes



Note: The chart shows the difference in the share of labour income and capital income that is payable in tax at the combined firm and personal levels of taxation. The taxation of a full-time wage earner illustrates the taxation of labour, while the taxation of dividend income illustrates the taxation of capital. The chart shows the taxation payable as a percentage of total labour costs for wage income or pre-tax distributed profits for dividend income. The results rely on hypothetical incomes calculated at five times the average wage, and do not show effective tax rates across the actual income distribution. Further methodological detail and a discussion of the results are available at Hourani et. al., (2023[45]).
Source: Hourani et. al., (2023[45])

The taxation of household savings is often highly heterogenous across types of assets and can be regressive. Marginal effective tax rates vary widely across asset types[10], and current tax systems often favour the savings of households that are financially better-off across a range of OECD and G20 countries (OECD, 2018[46]). For example, poorer households tend to hold a significantly greater proportion of their wealth than richer households in bank accounts, which are typically highly taxed, whereas richer households tend to hold a greater proportion of their wealth in investment funds, pension funds and shares, which are all often taxed relatively lightly. This suggests that a more homogenous tax treatment across types of household savings could simultaneously enhance efficiency – by reducing distortions between asset types – and equity.

Property taxes tend to be under-utilised. Property taxes generally represent a relatively small share of tax revenue in most countries (Figure 5), despite having been found to be among the least distortive taxes for long-run growth in GDP per capita (Johansson, Heady and Matthias, 2008[47]). They can also be

[10] Marginal effective tax rates (METRs) on savings show the difference between the pre-tax and post-tax rates of return, divided by the pre-tax rate of return (OECD, 2018[46]). METR modelling incorporates the impact of a wide range of taxes and tax design features into a single indicator, making it possible to compare the tax payable on an additional currency unit across a range of potential household savings vehicles.

designed in ways that enhance the progressivity of tax systems (OECD, 2022[48]). In practice, however, several tax design features tend to reduce their efficiency, equity and revenue-raising potential. In particular, many countries rely on significantly outdated property values for tax purposes (OECD, 2022[48]). In low-income countries, the role of property taxes is even more limited, with many countries struggling to have complete registers of taxable properties (OECD, 2021[49]).

Inheritance taxes generally play a minor role in tax systems, and their design has often limited their progressivity, efficiency and revenue-raising capacity. Inheritance taxes are levied in many countries, but they typically generate limited revenues. In OECD countries, for instance, while a majority of countries levy them, they account on average for only 0.5% of their total tax revenues. This is largely because inheritance taxes are levied on narrow tax bases, with large asset classes benefitting from tax relief (OECD, 2021[50]). Additionally, existing inheritance and gift taxes often provide opportunities for tax planning, for instance through in-life giving, which benefits from preferential tax treatment in many countries. Overall, in addition to reducing revenues, these inheritance tax features reduce progressivity and introduce additional complexity.

Countries' experiences with wealth taxes have differed and the number of wealth taxes, at least in high-income countries, has declined. Recurrent net wealth taxes were more common in the past, with for instance a dozen OECD countries levying such taxes in 1990 against only four today. In general, the revenues raised from these taxes were low, with the exception of Switzerland which still collects around 4% of its total tax revenues from wealth taxes (OECD, 2024[13]). Low revenues were largely the result of narrow tax bases, with a number of assets benefitting from preferential tax treatment, which also reduced their progressivity. Furthermore, wealth taxes were often levied on relatively moderate levels of wealth, generating liquidity issues for some households. They were also relatively easy to avoid and evade, and other issues more inherent to wealth taxation – such as the regular valuation of assets – made their implementation difficult (OECD, 2018[51]; Perret, 2021[52]).

2.3 Corporate income taxes

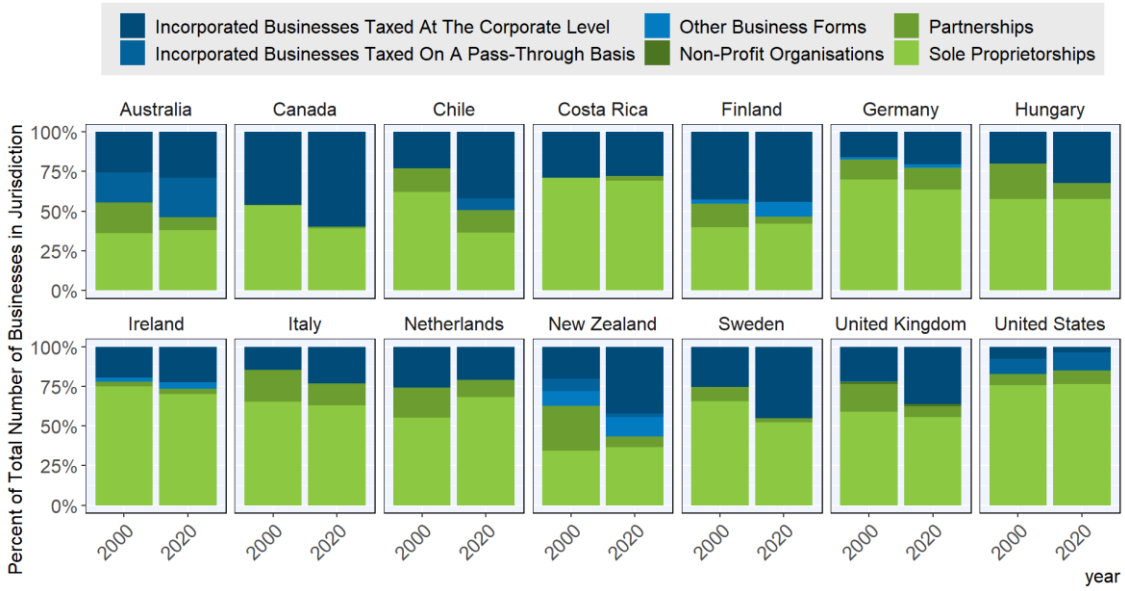
Declines in corporate income tax (CIT) rates and the narrowing of CIT bases have led to widespread low effective tax rates. Intensifying international tax competition has contributed to a decline in CIT rates worldwide, which are now at historic lows (OECD, 2023[53]). More countries are exempting foreign-source dividends, reducing the taxation of cross-border income (Matheson, Perry and Veung, 2013[54]). In addition, the use of tax incentives to attract mobile income has increased (Celani, Dressler and Wermelinger, 2022[55]; González Cabral et al., 2023[56]; Klemm and Van Parys, 2012[57]; PCT, 2015[58]). A large body of evidence also points to high levels of tax avoidance in recent decades (Beer, de Mooij and Liu, 2020[59]; OECD, 2015[60]). While empirical evidence has highlighted the impacts of the Base Erosion and Profit Shifting (BEPS) project in reducing aggressive tax avoidance by multinational enterprises, large shares of corporate income have been subject to low effective tax rates over recent years (Hugger, González Cabral and O'Reilly, 2023[61]).

CIT supports overall tax progressivity. Capital income and business ownership are concentrated among HNWIs (see section 3.2), and evidence suggests that CIT is at least partly borne by owners of corporations (Fuest, Peichl and Siegloch, 2018[62]; Ohrn, 2023[63]). CIT also performs an important backstop function with respect to PIT, by reducing individuals' opportunities to avoid or reduce their PIT burdens by incorporating their business and altering the form or timing of their income (Smith et al., 2019[64]). Specific evidence from the United States also suggests that CIT may be the only tax levied on some capital income, since owners of capital are increasingly tax-exempt entities or structures such as pension funds, non-profits, and foreign investors (Rosenthal and Mucciolo, 2024[65]; Grubert and Altshuler, 2016[66]; Gravelle, 2022[67]). However, the decline in CIT rates has reduced the backstop function of CIT, and evidence suggests that widening PIT-CIT gaps have contributed to rising levels of incorporation in a number of

countries (see de Mooij and Nicodème (2008[68]); Lejour and Massenz (2020[69]); Tazhitdinova (2020[70])). Ultimately, low CIT rates can reduce the revenue-raising capacity of PIT and the progressivity of tax systems (Zawisza et al., forthcoming[71]).

The global minimum tax can strengthen overall tax progressivity. The taxation of cross-border income via PIT is constrained by lack of information on assets not covered by international tax transparency standards and by avoidance strategies including offshore indirect transfers (Menkhoff and Miethe, 2019[72]; PCT, 2020[73]). Corporate tax avoidance can also impact pre-tax inequality, with some evidence suggesting that higher levels of tax avoidance are associated with higher CEO pay and reduced wages for other employees (Alstadsaeter et al., 2022[74]; Alstadsæter et al., 2023[75]; Souillard, 2020[76]). In this context, the global minimum tax can support tax progressivity by raising effective tax rates on large multinational enterprises, limiting tax avoidance, and limiting downward pressure on statutory CIT rates (Hebous and Keen, 2023[77]; Hugger et al., 2024[78]).

Figure 9. Composition of businesses by tax regime, selected OECD countries, 2000 and 2020



Source: Zawisza et. al. (forthcoming[71])

CIT can be particularly important in supporting progressivity in low- and middle- income countries. While CIT revenues as a share of GDP are similar amongst low-, middle-, and high-income countries, PIT revenues as a share of GDP are markedly different (OECD, 2024[13]). The taxation of personal income remains challenging for many low and middle-income countries, due to high levels of informality, low tax morale, lower wages on average, and limited administrative capacity. The function of CIT in supporting progressivity is even more important where PIT revenues are low. Moreover, effective corporate taxation can support domestic resource mobilisation, which can help address inequality in other ways, including through spending policies.

2.4 Indirect taxes

Indirect taxes affect distributional outcomes. Evidence on the distributional effects of value added taxes (VAT) indicates that, in high-income countries, VAT is slightly regressive when measured as a percentage of current income but either proportional or slightly progressive when measured as a percentage of current expenditure (which is often considered preferable)[11], (OECD/KIPF, 2014[79]). However, even a proportional or slightly progressive VAT may push some households into poverty (Thomas, 2020[80]), which emphasises the importance of compensating poor households for their loss in purchasing power from paying VAT. Similar findings carry over to low- and middle-income economies (Warwick et al., 2022[81]), but VAT tends to be more progressive in countries with high informality as poorer households are disproportionately likely to purchase goods and services from the informal sector (Bachas, Gadenne and Jensen, 2023[82]).

Cushioning the adverse impacts of VAT on lower-income households may be done best through transfers. VAT rate reductions may not be fully passed on to consumers through lower prices (Benedek et al., 2020[83]; Benzarti et al., 2020[84]; Fuest, Neumeier and Stöhlker, 2024[85]). OECD research also finds that direct cash transfers are typically more effective in supporting low-income households than reduced VAT rates or exemptions that provide greater absolute benefits to high-income households (OECD/KIPF (2014[79]); Thomas (2020[80])). The potential benefits from preferential VAT rates on basic goods are limited for low-income households in developing economies because a large share of their expenditure occurs in informal markets. Even when targeted benefit schemes are unavailable or limited in scope (e.g. in some developing economies), universal transfer schemes can deliver larger benefits to poorer households than reduced VAT rates or exemptions for the same fiscal cost (Warwick et al., 2022[81]).

The incidence of taxes on energy use and carbon pricing[12] varies with socio-demographic characteristics including income. The distributional impacts vary across countries and depend on many factors, including household consumption patterns and associated carbon intensity as well as the coverage and level of carbon prices. There is evidence that the regressive impacts of carbon taxes and fuel excise taxes relate mostly to electricity consumption, followed by heating fuel use. Taxes on transport fuels are not always regressive, reflecting more widespread car ownership in higher income deciles, particularly in middle-income countries (Flues and Thomas, 2015[86]). Carbon prices from emission trading systems (ETSs) generally result in regressive impacts by increasing the prices of necessities such as food, clothing and education (Elgouacem et al., 2024 [forthcoming][87]). Carbon pricing may also differentially affect urban and rural households (Flues and Thomas, 2015[86]; Causa and Hermansen, 2019[88]; Elgouacem et al., 2024 [forthcoming][87]).

Accompanying measures can mitigate regressive impacts or loss in purchasing power from carbon pricing. Such measures include direct transfers to households (OECD, 2022[5]). Evidence on the use of revenue from carbon taxes (Marten and Van Dender (2019[89]); Elgouacem et al. (2024 [forthcoming][87]) shows that it is generally targeted to households based on their income or other characteristics, e.g. their location. Addressing the impacts of carbon pricing on real incomes can reduce public resistance to it. For instance, public support depends in part on respondents' perceptions of burdens on lower-income households (Dechezleprêtre et al., 2022[90]). Revenue use from carbon pricing can also influence support

[11] As has been highlighted by various authors, a key problem with the income-based approach is that it fails to account for savings behaviour. More specifically, it ignores the fact that income that is saved in the current year will still incur VAT when it is eventually consumed. Similarly, current expenditure, and the VAT incurred on it, may have been funded from income earned in a previous year. Because savings rates tend to increase with income, this biases income-based VAT burden results downwards at higher income levels (Thomas, 2020[160]).

[12] In OECD analysis, carbon pricing is captured by the Effective Carbon Rate (ECR) indicator, which includes explicit carbon pricing instrument like carbon taxes, ETS permit prices and implicit carbon pricing such as via fuel excise taxes (OECD, 2023[162]). The latter are considered carbon prices as they levy a tax on a base that is directly proportional to greenhouse gas emissions.

from households and firms (Flues and van Dender, 2020[91]). However, reserving part of the revenues from higher carbon prices to reduce adverse impacts on households or businesses limits the potential of these instruments to enlarge fiscal space.

2.5 Challenges in low- and middle-income countries

Many low- and middle-income countries need to mobilise additional resources to finance spending to support growth and reduce inequality. In low- and middle-income countries, pre-tax inequality tends to be high and tax and benefit systems often do little to mitigate it (Bachas, Jensen and Gadenne (2024[92]). This is primarily because many low- and middle-income countries collect comparatively limited revenue (Figure 6). Boosting the revenue-raising capacity of tax systems in turn requires strengthening administrative and enforcement capacity, fostering economic growth and ensuring that this growth translates into higher tax revenue (Okunogbe and Tourek, 2024[93]).

Broadening the PIT base can support revenue mobilisation. Low- and middle-income countries rely heavily on indirect taxes as a share of their total tax revenue (Figure 5). Broadening the PIT base would enhance revenue collection and progressivity. The digitalisation of tax administrations, which increases access to information, both domestically and through the exchange of information between tax administrations, can support more effective taxation of personal income, including of HNWIs (Benitez et al., 2023[94]).

The presence of large informal sectors can negatively affect equity. Informality diminishes productivity, reduces the revenue-raising capacity of tax systems, and excludes informal sector workers from social protection (Ohnsorge and Yu, 2022[95]). In many low- and middle-income countries, informality spans the income distribution and includes higher-income individuals (e.g. professionals) whose tax contributions are therefore limited (OECD, 2023[96]). This can compromise perceptions of tax fairness and can limit voluntary compliance along the income distribution.

Presumptive tax regimes can help reduce informality. Regular tax systems can create incentives for businesses and workers to remain in the informal sector, especially where tax burdens and compliance costs are high. Attempts to reduce informality can result in an increased tax burden for lower-income households and businesses entering the formal sector. This may justify the use of presumptive (i.e. simplified) tax regimes with targeted lower tax burdens (e.g. for small businesses). OECD analysis finds that well-designed presumptive tax regimes can encourage businesses to enter the formal economy and eventually transition to the regular tax system (Mas-Montserrat et al., 2023[97]).

The distributional impacts of tax expenditures need to be carefully assessed. Tax expenditures, such as tax allowances, credits, reduced rates and exemptions, should be designed in ways that minimise forgone revenues and regressive effects. In low- and middle-income countries, tax relief is often provided for private health insurance, private pension savings, and private education expenses. While these tax expenditures help compensate for inadequate public service provision, they mainly benefit higher-income individuals, as low-income taxpayers typically cannot afford these private services and often fall below the PIT exemption threshold (Abdel-Kader and de Mooij, 2020[98]). They also place significant pressure on tax revenues, limiting governments' ability to fund high-quality public services and thereby reducing tax systems' effectiveness in addressing inequality and fostering inclusive growth.

3 The taxation of high-net-worth individuals: evidence and challenges

Interest in the role of tax systems in addressing inequality has included considerations of the taxation of HNWIs. This focus has largely been driven by increasing wealth concentration at the very top of the wealth distribution (section 1), the significant rise in the number of HNWIs globally and evidence of their declining and comparatively low tax burdens.

3.1 Evolution of the HNWI population

There are different definitions and segmentations of the HNWI population. The term HNWIs can refer broadly to individuals at the top of the income and wealth distributions, as in this report, but it often designates individuals owning, directly or indirectly, wealth above a certain threshold. Most commonly, this threshold is set at USD 1 million or more in financial or investable assets (excluding the primary residence, collectibles, consumables, and consumer durables) (OECD, 2009[99]). Wealth reports published by private firms also divide HNWIs into sub-segments. For instance, very-high-net-worth individuals (VHNWIs) usually refer to individuals who own between USD 5 million and 30 million in assets, while ultra-high-net-worth individuals (UHNWIs) have wealth above USD 30 million (e.g., Capgemini (2024[100]); Altrata (2023[101])). These absolute thresholds represent greater levels of wealth in relative terms in some countries than in others, and tax administrations in different jurisdictions may use different thresholds.

In addition to wealth levels, the profiles of HNWIs vary widely. For instance, there may be significant differences between high-earning executives, wealthy entrepreneurs, individuals who have largely inherited their wealth, and entertainers or sportspeople, regarding the type and origin of their income and assets, and their wealth-building trajectories (OECD, 2009[99])). There may also be significant differences between HNWIs across economic sectors. HNWIs also differ by age and whether they are at the stage of building, preserving, or planning to transfer their wealth. The impacts of tax changes, as well as incentives and strategies for tax planning, are likely to vary for each group.

There has been a significant increase in the estimated number of HNWIs globally. In 2023, there were an estimated 22.8 million HNWIs, defined as individuals owning USD 1 million or more in investable assets worldwide. This is up from 13.7 million a decade earlier (Capgemini, 2024[100]). Most live in North America (7.9 million), the Asia-Pacific region (7.4 million), and Europe (5.8 million). Using a more comprehensive definition of net household wealth, including both financial and non-financial assets, the World Inequality Lab estimated the number of millionaires globally at 62.2 million in 2021, while there were just short of 2 600 billionaires (Chancel et al., 2022[4]).

The total value of assets held by HNWIs has risen considerably, though available estimates vary. In line with trends discussed in section 1.1, some estimates find that the global financial wealth of HNWIs increased from USD 52.6 trillion in 2013 to USD 86.8 trillion in 2023, while that of UHNWIs increased from

USD 12.8 trillion to USD 29.3 trillion (Capgemini, 2024[100]). Based on their more comprehensive definition of net wealth, the World Inequality Lab estimates that the total wealth of millionaires globally reached USD 178.2 trillion in 2021, with billionaires accounting for USD 7.6 trillion (Chancel et al., 2022[4]). Different estimates by UBS suggest that the total value of real and financial assets owned by billionaires stood at USD 13.9 trillion globally in 2023, and that a group of just 14 individuals, each with a net worth exceeding 100 billion, collectively accounted for almost USD 2 trillion (UBS, 2024[102]).

3.2 Evidence and drivers of effective tax rates among HNWIs

HNWIs have been found to pay comparatively low effective tax rates (ETRs) that often decrease at the very top of the income or wealth distribution. Recent studies focusing on high-income countries have used different methodologies to estimate ETRs, or taxes actually paid by individuals as a share of their income. Some studies focus only on taxes on personal income (including realised capital gains) and find ETRs for top earners substantially lower than statutory tax rates; they also find that ETRs decline at the very top of the distribution (Advani, Hughson and Summers, 2023[103]; Bach, Corneo and Steiner, 2013[104]). Taking into account unrealised capital gains, Yagan (2023[105]) finds ETRs of 9.6% for the 400 wealthiest individuals in the United States. Other studies consider additional taxes in the analysis. For instance, Alstadsaeter et al. (2024[106]) use a broader ETR definition that also includes consumption, payroll, property, wealth, and corporate taxes.[13] They show that billionaires in France, the Netherlands, and the United States face ETRs around 20-30%, lower than for any lower-income groups.

Declines in top tax rates and in the use of taxes predominantly affecting HNWIs have contributed to lowering tax burdens on HNWIs. For instance, on average across OECD countries, top PIT rates on wages declined from 44.3% in 2000 to 42.5% in 2022. This follows a more pronounced decline prior to 2000, particularly in the 1980s, where top PIT rates dropped from levels in the order of 60%-70% in a number of countries (see, for example, Matthews (2011[107]); Peter, Buttrick and Duncan (2010[108]); Torres, Mellbye, and Brys (2012[109])). Top combined PIT and CIT rates on dividends also decreased on average from 47.5% in 2000 to 42.0% in 2022 across the OECD, largely as a result of the widespread decline in CIT rates (see section 2.3). There has also been a decline in the use of wealth and inheritance taxes in many countries in recent decades (see section 2.2, OECD (2018[51]); OECD (2021[50])). These changes suggest that tax burdens on HNWIs have fallen over time.

Lower ETRs at the top are largely explained by the more favourable taxation of the types of income predominantly earned by HNWIs. Evidence from different countries has confirmed the importance of capital income at the top of the income distribution (Piketty, Saez and Zucman, 2018[110]; Smith, Pope and Miller, 2019[111]; Guzzardi et al., 2023[112]; Delestre et al., 2022[113]; André, Germain and Sicsic, 2023[114]). Lower taxes on dividends and capital gains compared to labour income (see section 2.2) therefore disproportionately benefit HNWIs and effectively reduce progressivity. Similarly, carried interest[14], which is also highly concentrated among HNWIs (see, for example, Advani, Summers and Corlett (2020[115])), benefits from preferential capital gains tax treatment in a number of countries.

Capital gains tax deferral can reduce HNWIs' tax burdens. As capital gains taxes are typically due when assets are sold (or in few cases, deemed to be sold), individuals can defer paying tax, potentially over extended periods, while using financing techniques to access funds in ways that do not trigger gain

[13] The authors harmonise data from Saez and Zucman (2019[155]), Bach et al. (2023[156]), Bozio et al. (2024[157]), and Bruil et al. (2022[158]) for their analysis.

[14] Carried interest is a form of compensation involving the transfer of a profit share from limited partners (fund investors) to general partners (fund managers), typically through a private equity fund. The profit share is generally calculated as a percentage of fund profits exceeding a fixed hurdle rate, payable upon the liquidation of the fund and in addition to management fees.

recognition. This predominantly benefits HNWIs for whom unrealised capital gains comprise a significant share of wealth (OECD, forthcoming[116]). Some countries also exempt unrealised capital gains from taxation upon a taxpayer's death, so these gains may escape taxation entirely if assets are held until death (unless a wealth or inheritance tax applies) (OECD, 2021[50]).

Narrow personal income, inheritance and wealth tax bases also reduce ETRs at the top. Many countries have provisions such as exemptions or reliefs for certain categories of income and assets that narrow tax bases and disproportionally benefit HNWIs. For example, some countries provide for capital gains tax relief for sales of closely-held businesses, often with relatively high caps, or no caps, on the relief available (OECD, forthcoming[116]). Countries that levy wealth taxes or inheritance taxes commonly provide for relief for specific assets such as the main residence, business and farm assets, pension assets, and life insurance policies (OECD (2018[51]); OECD (2021[50])). Some countries may also tax assets transferred during life more favourably than inheritances, making it possible to avoid inheritance taxes by transferring wealth early (OECD, 2021[50]). While there may be justifications for such provisions, they reduce the effective progressivity of these taxes, in addition to eroding revenues and increasing complexity. In fact, evidence on inheritance taxes shows that effective tax rates decline for the highest-value estates in some countries (OECD, 2021[50]).

Evidence shows that HNWIs respond strongly to tax differentials and reliefs. As mentioned in section 2.3, owner-managers of closely-held corporations have some flexibility to determine the type and timing of the income they receive, and there is strong evidence of shifts between labour and capital income, as well as profit retention within corporations (López-Laborda, Vallés-Giménez and Zárate-Marco, 2018[117]; Alstadsæter and Jacob, 2016[118]; Miller, Pope and Smith, 2024[119]). Many countries have also seen a rise in incorporated businesses, at least partly driven by widening PIT-CIT gaps (see section 2.3). Such behaviours suggest that the disproportionate share of capital income among HNWIs is partially driven by strategic behaviours rather than exclusively incidental receipt of such income.

HNWIs often have greater capacity to benefit from differential taxation by relocating to lower-tax countries or regions, which, subject to domestic policy backstops, could reduce effective taxation at the top. HNWIs are typically more mobile and have been found to move to locations offering more favourable taxation or preferential regimes[15] (Akcigit, Baslandze and Stantcheva, 2016[120]; Baselgia and Martínez, 2023[121]; Kleven, Landais and Saez, 2013[122]; Kleven et al., 2014[123]; Muñoz, 2020[124]). This can reduce the effective tax burden in the absence of domestic backstops. Such opportunities might increase pressure on countries to offer similar opportunities. In this regard, recent developments, including the rise in concessional tax regimes targeting specific categories of individuals (Godar, Flamant and Richard, 2021[125]) as well as increased opportunities for mobility thanks to remote work have heightened concerns about intensifying personal tax competition.

Additional factors such as tax planning can allow HNWIs, in particular very- and ultra-HNWIs, to reduce their tax burdens. Very- and ultra-HNWIs may have their wealth spread across a number of structures such as closely-held companies (including holding companies), partnerships, trusts or foundations. While these structures may be driven by commercial reasons, they may also present opportunities for tax planning that reduce effective tax burdens. For example, reclassifying income between sources, reallocating income to other individuals, or deferring income receipt (Ministerie van Financiën, 2022[126]; Sainsbury and Breunig, 2020[127]). Very-HNWIs may also be able to avoid gain recognition by using assets as collateral against loans to finance consumption rather than sell them and incur a tax liability (McCaffery, 2020[128]). The structures used by those at the very top may also be located in different countries to leverage favourable taxation in foreign jurisdictions. Given the complexity of such

[15] Preferential tax regimes refer to special regimes typically used by countries to attract certain individuals, such as those above certain income or wealth thresholds.

arrangements, however, further work would help get a more accurate and comprehensive understanding of tax planning risks.

Significant progress has been achieved in preventing offshore tax evasion. Total offshore wealth globally is estimated at around 10% of global GDP (Alstadsæter, Johannesen and Zucman, 2018[129]) and studies have confirmed that the proportion of wealth held in offshore financial centres is highly concentrated at the very top of the distribution (e.g. Alstadsæter, Johannesen and Zucman (2019[130]). There is evidence that some of this offshore wealth was under-reported, or not reported at all, to tax authorities (Alstadsæter, Johannesen and Zucman, 2019[130]; Guyton et al., 2021[131]; Henrekson and Du Rietz, 2014[132]; Londoño-Vélez and Ávila-Mahecha, 2021[133]; Seim, 2017[134]). However, much progress has been achieved to prevent such tax evasion with the broad adoption of the Common Reporting Standard (CRS). Evidence shows that the Automatic Exchange of Information between tax authorities has led to a reduction in offshore bank deposits (Alstadsæter et al., 2023[135]; Beer, Coelho and Leduc, 2019[136]; Casi, Spengel and Stage, 2020[137]; O'Reilly, Ramírez and Stemmer, 2019[138]). However, recent studies show a rise in offshore real estate (Alstadsæter and Økland, 2022[139]; Johannesen, Miethe and Weishaar, 2022[140]), which may partly reflect attempts to circumvent the CRS (Bomare and Le Guern Herry, 2022[141]).

3.3 Policy and compliance considerations for taxing HNWIs

The policy objective for reforming HNWI taxation is to enhance equity and revenue collection, while ensuring economic efficiency and administrative feasibility. Discussions about more effectively taxing HNWIs have primarily been motivated by equity concerns and ensuring a distribution of tax burdens that reflects individuals' capacities to contribute. Revenue generation is another objective. Depending on their design, reforms specifically aimed at taxing HNWIs may yield substantial revenue, though broader-based tax reforms are likely to raise more, highlighting the importance of complementary reforms to achieve revenue targets. At the same time, reforms aimed at enhancing the taxation of HNWIs should avoid large disincentive effects in particular on labour supply, savings and productive investment and minimise risks of capital flight or individuals relocating. The administrative feasibility of reforms is another key consideration.

Recent work has explored various options to better tax the income or assets of HNWIs. Among the debates are whether countries should tax the income from assets, the assets themselves through a wealth tax, or both (e.g. Bastani and Waldenström (2023[142]); Hebous et al. (2024[143]); Guvenen et al. (2024[144]); Boar and Midrigan (2023[145]), Piketty, Saez and Zucman (2023[146])). There is also significant discussion about whether wealth should be taxed on a recurrent basis, when wealth is transferred through an inheritance and gift, or as an extraordinary measure on a one-off basis (Advani, Chamberlain and Summers, 2020[147]; OECD, 2018[51]; OECD, 2021[50]). There are also unsettled academic and policy debates surrounding the tax treatment of capital gains, with renewed proposals to tax (some) capital gains on an accrual basis, as opposed to when assets are sold (e.g. Miller (2016[148]); Toder and Viard (2016[149]); Saez, Yagan, and Zucman (2021[150])). In addition, there are differing views as to whether it is preferable to fix existing tax instruments, in particular by broadening tax bases (e.g. PIT, capital gains tax, and inheritance tax), or to introduce new taxes (e.g. wealth taxes) instead. The scope of the HNWI population that should be targeted is also a matter of ongoing debate.

When considering approaches to HNWI taxation, looking at the specific design of taxes is crucial. Current debates on HNWI taxation often centre around determining the most suitable type of tax, yet often overlook the importance of tax design. In particular, the effectiveness of taxes on income and wealth in enhancing progressivity can be compromised by narrow tax bases and opportunities for tax avoidance and evasion. Thus, the focus must extend beyond the choice of tax alone to encompass practical design and implementation considerations.

Country context and interactions with the broader tax system should inform how best to tax HNWIs. The most adequate approaches to taxing HNWIs will vary across countries, depending for instance on their administrative capacities, inequality levels, and social preferences for income and wealth redistribution. The profiles of HNWIs also vary across countries, and available tax minimisation strategies tend to be specific to each context. It is also important to consider interactions with existing taxes on capital income and assets as well as the broader tax system. For instance, in addition to taxes on personal income, CIT can affect the rate of return on individuals' investments. Where taxes on both income (e.g. PIT) and assets (e.g. wealth taxes) apply, tax policy design may need to consider the cumulative tax burden on individuals (OECD, 2018[51]; OECD, 2021[50]).

Strengthening tax compliance and international tax co-operation can improve the effectiveness of domestic tax policies. Tax policy approaches to taxing HNWIs need to go hand-in-hand with tax compliance efforts by tax administrations. Dealing with the complexity of the tax affairs of HNWIs, in particular understanding their income sources and the connections between individuals and various entities and structures, can be challenging. It also raises numerous cross-border issues related for instance to tax residence, the application of tax treaties, and the classification of foreign entities and arrangements. This calls for targeted tax compliance efforts. Recent empirical evidence has revealed the potentially large revenue gains from efforts aimed at strengthening tax compliance at the top end of the distribution (Boning et al., 2023[151]). Ensuring tax compliance among HNWIs is particularly challenging in low-and middle-income countries (Bergolo, Londoño-Vélez and Tortarolo, 2023[152]), though dedicated HNWI tax units can have a strong impact on the number of HNWI tax filers and revenue collected (Kangave et al., 2018[153]). Continuing international co-operation is also key to ensuring access to accurate and up-to-date information on taxpayers' offshore income and wealth through the exchange of information between tax administrations.

Political economy factors significantly influence the potential to reform the taxation of HNWIs. Reforms aimed at taxing HNWIs are likely to encounter political opposition from some segments of the population, but may be supported by others. Some HNWIs have even endorsed being subject to higher effective taxation. Misconceptions about the distribution of income and wealth and the functioning of specific taxes can also constitute obstacles to reform, though evidence has shown that exposing people to facts about the rationales for reform (e.g. addressing inequality) can increase support for them (Bastani and Waldenström, 2021[154]; OECD, 2021[50]).

4 Conclusions

In light of data pointing to persistent income inequality and the rising concentration of wealth at the highest end of the distribution, there are calls for stronger tax policy action. While some countries, in particular middle-income countries, have seen declines in income and wealth concentration at the top, inequality persists in many countries, and the share of wealth held by the top 0.001% globally has been rising. These trends are drawing more focus on policies to address these disparities, and tax policies are essential policy tools – among others – to mitigate inequality and support more inclusive growth.

There is significant scope for exploring potential tax reforms that could strengthen progressivity. For example, the common approach of taxing capital income more favourably than labour income reduces horizontal and vertical equity and encourages income shifting. The taxation of household savings is also often highly heterogenous across types of assets and can be regressive as tax systems often favour the savings of households that are financially better-off. There is therefore significant scope to improve the progressivity of tax systems, such as by amending tax schedules, broadening tax bases, and achieving greater neutrality between the taxation of different types of income and assets. However, any reform requires a careful consideration of potential policy trade-offs and potential impacts on economic growth.

Low- and middle-income countries face specific challenges in addressing inequality. Pre-tax inequality tends to be high, and tax and benefit systems often do little to mitigate it. This is primarily because low- and middle-income countries tend to collect comparatively limited revenue. Improving equity therefore generally calls for economic growth that results in greater revenue collection, bolstering the formal economy, and strengthening enforcement to prevent tax avoidance and evasion.

Further analysis could examine how reforms aimed at enhancing progressivity and inclusive growth should be tailored to countries' specific challenges and objectives. Additional analysis could investigate how structural pressures (e.g. from ageing, informality, automation, the rise of artificial intelligence, market power, and climate change) might affect different tax systems and their ability to support equity and inclusive growth.

The focus on tax and inequality has also increased attention to the taxation of HNWIs, especially given evidence of the comparatively low effective tax burdens they face. Effective tax rates have been found to decline at the very top of the income and wealth distributions. This largely stems from certain design features of tax systems including lower statutory tax rates as well as exemptions and deductions that predominantly benefit income and assets earned and owned by HNWIs. Additionally, variations in tax rates and tax benefits across jurisdictions, coupled with greater capacity for international mobility may increase opportunities for aggressive tax planning both at domestic and international levels. Tax evasion also plays a role, though significant progress has been made, especially with the broad adoption of the Common Reporting Standard (CRS).

International tax co-operation can enable countries to implement their domestic tax policies more effectively. Crucially, progress in international tax transparency has significantly enhanced the effectiveness of domestic taxation and has given countries new scope to tax capital. The Crypto-Asset Reporting Framework (CARF) will bring transparency to crypto-asset transactions, with automatic exchanges of information expected to start in 2027. There is scope for further progress, such as by

enhancing tax transparency in real estate, improving beneficial ownership transparency, and through capacity building. In addition, since CIT serves as a backstop to PIT, the global minimum tax under Pillar 2 of the BEPS project contributes to supporting tax progressivity by reducing downward pressure on CIT rates.

Overall, interest in considering tax policy options for addressing inequality, including through the taxation of HNWIs, is increasing. This is driven by a number of factors including views on the need to reduce inequality and the role of tax in it, and awareness that revenue raising capacity and the need to finance sustainable development requires considering the distribution of tax burdens.

Further analysis could be undertaken to inform domestic policy options and explore opportunities for further international co-operation. To help inform domestic policy options it will be important to: fully understand the scope and scale of the issues across jurisdictions; identify vulnerabilities in existing domestic and international tax policies that can exacerbate inequality and limit the potential for inclusive growth; survey domestic tax policies that can effectively address these issues; and understand how differing circumstances and conditions across jurisdictions can impact the effectiveness of various domestic policy options.

To identify opportunities for international co-operation, it will be important to build on areas in which international co-operation has already made a difference, such as co-operation on transparency. Countries could consider where there may be scope and desire for additional co-operation to support domestic objectives. Enhanced international co-operation could take various forms ranging from collaboration to understand systemic vulnerabilities and alternative domestic policy approaches and challenges; to co-operation to close remaining gaps in international tax transparency; to coordination on best practices; to co-operation on bolder coordinated international rules and standards.

In evaluating policy options, whether domestic or cross-border, there is a need to assess how tax policies can contribute to supporting other objectives, such as economic growth. This would require a better understanding of how the choice and design of tax policies should be adapted to take into account countries' specific circumstances, such as their varying reliance on different types of taxes, administrative capacity, economic development, and levels of inequality.

Significant work in several of these areas is already in progress, including at the OECD. Building on the existing body of work and ongoing initiatives will accelerate responsiveness and enhance the ability to achieve tangible outcomes.

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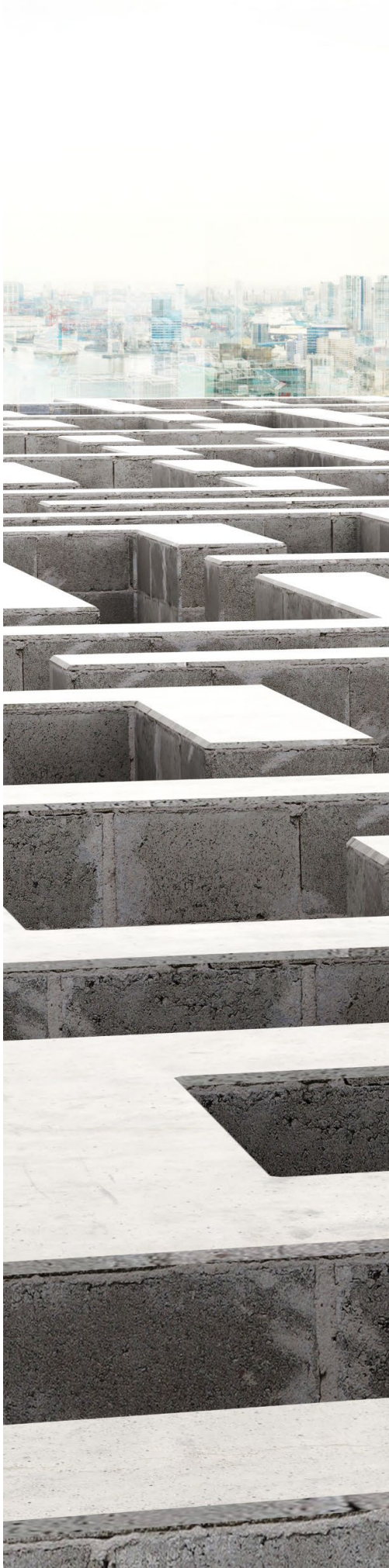
Taxation and Inequality

OECD REPORT TO G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS, JULY 2024, BRAZIL

This report, commissioned by the Brazilian G20 Presidency ahead of the July 2024 G20 Finance Ministers and Central Bank Governors meeting, contributes to discussions on the role of tax systems in addressing inequality. It explores how tax systems can mitigate or exacerbate inequality with a focus on the distribution of income and wealth and identifies scope for potential reform. It zooms in on the specific tax policy and compliance challenges associated with taxing high-net-worth individuals (HNWIs), some of which have a cross-border dimension.



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