

Wealth Tax

Definition:

It is a **progressive** tax on the net value of **assets** of citizens. It includes real estate assets, banks deposits, financial securities investment, pensions funds and trusts. All the liabilities should be deducted and only the net wealth will be considered. Its main purpose is to fight concentration of wealth and power. Thomas Picketty demonstrated in his book, Capital of the Twenty First Century, that a feature of Capitalism is that the rate of return on capital has always been higher than the growth rate of the economies and it won't change. Thus, the importance of the tax on the rich to redistribute the wealth in a society.

Examples:

France: first imposed in 1982 until 2017, this tax was introduced on wealth for total net wealth of €1,300,000 or more. The marginal rate ranged between 0.5% to 1.5%

That tax received huge criticism from many wealthy actors (Gérard Depardieu) and celebrities, who threatened to leave the country or left to avoid paying such tax. Other exploited loopholes. In 2018, this tax was repealed and replaced by a tax on net real estate and excluding financial transaction

Spain: the tax rate ranged between from 0.2 to 3.75% of net assets above the threshold of €700,000. A deduction of €300,000 is allowed for primary residence. This may vary across provinces. Madrid repealed it.

Canada:

British Columbia has recently implemented a tax on personal homes. The tax is in addition to regular property tax and begins at homes worth more than \$3 million Canadian. The tax is 0.2% on the first million above the \$3 million and 0.4% on any value above that. The mortgages, any liabilities or taxes due on the home are not taken deducted.

In the United States:

Elizabeth Warren proposes a tax of 2% for net worth over \$50 million and 3% for net worth over \$1 billion. She claims that the American tax system is different than France and would be better at ensuring that loopholes won't be used against the tax.

Bernie Sanders proposed a wealth tax starting at 1% on net worth above \$32 million for a married couple, \$16 million for singles, increasing to 2% for net worth from \$50 million to \$250 million, and 4%/5%/6%/7% for incremental brackets up to 8% on wealth over \$10 billion.

Main Criticisms:

Capital flight: most of the criticism about this tax is about the drain of capital that it will cause. Many wealthy investors, actors and celebrities came out publicly against in many countries. The example of France is always brought to dissuade other countries adopting such tax.

Valuation issues: many wealthy people would hide behind false valuation of their properties and wealth to avoid paying this tax. So this would lead owners making their businesses look less valuable than they really are.

The constitutionality of such a tax: in the US, there are some observers who are attacking the wealth tax would violate the U.S. Constitution, even though the American bar association wrote a legal brief to explain otherwise

https://www.americanbar.org/groups/taxation/publications/abataximes_home/19aug/19aug-pp-johnson-a-wealth-tax-is-constitutional/

Some economists claim that the Spanish wealth tax may have contributed to a banking crisis and the French wealth tax had been undergoing review by its government for being unpopular and overly complex.

Source:

<https://www.washingtonpost.com/business/2019/01/24/elizabeth-warren-propose-new-wealth-tax-very-rich-americans-economist-says/>

<https://www.newyorker.com/news/our-columnists/the-growing-debate-over-elizabeth-warrens-wealth-tax>

https://en.wikipedia.org/wiki/Wealth_tax