OXFAM IRELAND SUBMISSION TO THE COMMISSION ON WELFARE AND TAXATION

ABOUT OXFAM IRELAND

Oxfam is a global movement of people working together to beat poverty for good. Around the globe, Oxfam works to find practical, innovative ways for people to lift themselves out of poverty and thrive.

As part of the Oxfam confederation, Oxfam Ireland delivers specific programmes in Africa – in Malawi, Rwanda, Tanzania, Uganda and Zimbabwe – while last year, Oxfam Ireland also responded to emergencies in the Democratic Republic of Congo, the Occupied Palestinian Territory and Israel, South Sudan, Tanzania, Vanuatu and Zimbabwe.

Supported by people across the island of Ireland for more than six decades, Oxfam Ireland is an independent, secular and not-for-profit organisation. Oxfam Ireland have 46 shops across the island, offices in Belfast and Dublin, and more than 1,200 volunteers supporting the fight against poverty and inequality.

For the last number of years Oxfam has been documenting the impact of rising wealth inequality around the world and how it is negatively impacting the fight against poverty.

INTRODUCTION

In this submission, Oxfam Ireland calls for the consideration of a wealth tax in Ireland.

We believe this is merited by the continued significant levels of wealth inequality that exists in Ireland, reflecting global trends. Wealth inequality has become a defining characteristic of our era, and which has been exacerbated by the economic effects of the pandemic.[1]

Along with its affiliates across the world and in the European Union, and along with several other organisations in Ireland, Oxfam Ireland believes that now is the time for an introduction of this form of tax, in order to wider the tax base and ensure that Ireland has a sustainable revenue source to help fund the recovery from the Covid 19 pandemic and to fund the just transition to a zero-carbon society.[2]

[1] The lead figure in Oxfam's new report, Inequality Kills, provided by the World Inequality Database, is that the top 1% of the world's richest people have captured more than 19 times the wealth of that of the bottom 50% of humanity from 1995-202. UBS's 2020 Billionaires Report, quoted in the Oxfam report, shows the greatest surge in billionaire wealth ever during the pandemic. For the *World inequality Database*'s statistics on inequality in Ireland, see here.

[2] Notably ICTU which in its *No Going Back* document of 2020 argues that "the time has come for the introduction of net wealth taxes".

We note the Commission for Taxation and Welfare's mandate for this consultation to "review how best the taxation and welfare system can support economic activity and income redistribution, whilst promoting employment and prosperity in a resilient, inclusive and sustainable way…"

It is with this broad perspective in mind, motivated by the need to create more balanced and sustainable societies both in Ireland and abroad, that we make this submission.

WHY TAX WEALTH?

Progressive. Taxes on wealth tend to be highly progressive, targeting richer groups in society. However, their progressivity and success depend on their design.

Wealth inequality is higher than income inequality. Wealth inequality is in general significantly higher than income inequality. Oxfam has repeatedly shown across the world that wealth inequality is far greater, and growing far more rapidly, than income inequality - most recently in our *Inequality Kills* report.[3] This is because the earnings on wealth (especially property and financial investments) have been higher than growth in income from labour, hence outstripping the growth rate overall.

Wealth inequality in Ireland is much more extreme than income inequality, mirroring global trends. The most up to date data we have from 2018 places the Gini coefficient for net wealth inequality in Ireland at 0.67.[4] This is over twice as high as net income inequality in Ireland. In Ireland the bottom twenty percent of the Irish population have little/no assets, while top 20% own nearly half the wealth (43%) of wealth in Ireland.[5] This is because about 40-50% of Irish people have no ability to save money after they cover all their basic expenses.[6]

Increase domestic revenues. Wealth taxes can raise additional domestic revenues over the long term. Taxing wealth increases the tax base, and so enables countries to raise more revenues which should be used to fund essential inequality -reducing public services, such as health and education. The IMF has called for the use of wealth taxes on the wealthiest to help pay for costs of the pandemic[7] and has noted that "marginal tax rates can be raised without sacrificing economic growth".[8]

Stimulate economic activity and spur growth. Taxing wealth can boost economic growth by incentivising individuals to use assets productively. If holding wealth is exempted from tax but earning an income is taxed, the wealthy have little incentive to use their capital productively.

Economically efficient. Taxes on wealth can be less economically distortionary than taxes on income or consumption, as they have a much smaller impact on labour and spending patterns (though they can have some impact on savings for small or medium households). Every tax has some impact on economic decisions but not taxing individuals, in turn, has impacts on economic growth. By not taxing wealth, economic inequality will continue to grow, which is proven to hinder growth.

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[3] https://www.oxfamireland.org/sites/default/files/bp-inequality-kills-170122-en.pdf
[4] https://www.cso.ie/en/releasesandpublications/ep/p-hfcs/householdfinanceandconsumptionsurvey2018/incomeandwealthinequality/
[5] https://www.cso.ie/en/releasesandpublications/ep/p-hfcs/householdfinanceandconsumptionsurvey2018/wealth/
[6] https://www.cso.ie/en/releasesandpublications/ep/p-hbs/hbs20152016/hinc/
[7] https://www.theguardian.com/business/2021/apr/07/imf-wealth-tax-cost-covid-pandemic-rich-poor
[8] K. Georgieva. (January 7, 2020). *Reduce Inequality to Create Opportunity*. IMF Blog. https://blogs.imf.org/2020/01/07/reduce-inequality-to-create-opportunity/?utm_medium=email&utm_source=govdelivery

Prevent concentrations of wealth at the top of society. Wealth taxes are vital to prevent excessive concentrations of wealth and power in the hands of a few and to ensure greater equality of opportunity across generations by reducing the amount of wealth that can be handed down through families. A concentration of wealth at the top of society leads to political capture which further fuels inequality.

Political signalling. It is important for governments to show that the wealthy are paying their fair share of tax to signal that everyone in society is contributing according to their means, especially at times of austerity. More broadly, wealth taxes can be a way to enhance the social contract where those with more pay more in tax. When wealthier people are taxed effectively, tax morale in general improves as the government has increased fiscal legitimacy.

KEY PRINCIPLES

Oxfam Ireland proposes the following key principles of how a wealth tax could work in Ireland.

In many ways, our principles address the shortcomings of wealth taxes which have been previously introduced in other countries and builds on the comprehensive response to these published by Emmanuel Saez and Gabriel Zucman, two French economists working at the University of California, Berkeley.[9]

Here are the key principles for an Irish wealth tax:

- It should be progressive with two or three graduated rates targeting higher wealth holdings.
- It should be based on net wealth of individuals accounting for debts and liabilities
- All types of assets held globally should be included in an individual's wealth assessment: property and financial assets– without exceptions
- It should be complementary with other existing forms of taxes
- It should be commensurate with the capacity of revenue authorities to implement
- It should be implemented in cooperation with other jurisdictions and with the ambition for a unified wealth tax across the European Union and globally

As outlined by Saez and Zucman:

"A progressive wealth tax is an annual tax levied on the net wealth that a family (or an individual) owns above an exemption threshold. Net wealth includes all assets (financial and nonfinancial) net of all debts. The tax can be levied at progressive marginal tax rates above the exemption threshold…

"Wealth taxes are very progressive because net wealth is more concentrated than income. Wealth taxes are more progressive than property taxes because property taxes are only levied on real estate, which is more equitably distributed than net wealth (Saez and Zucman 2016). Wealth taxes also more closely track ability to pay than property taxes because they allow people to deduct debts. The progressivity of a wealth tax depends on how high the exemption threshold is and on whether a graduated rate schedule is applied among taxpayers…

"A wealth tax would be procyclical as the stock of wealth is more procyclical than income…

[9] Saez and Zucman, 2019, Progressive Wealth Taxation, Brookings Papers on Economic Activity.

Furthermore, the most procyclical component of wealth is corporate equity, which is even more concentrated than overall wealth. Therefore, a wealth tax would add to automatic macro stabilizers." [10]

TAX BASE

It can be extremely difficult to accurately obtain data on wealth holdings in Ireland. The CSO currently only undertakes a household survey on wealth in Ireland (Household Finance and Consumption Survey) every five years, the latest being 2018.[11] While a valuable tool, household surveys are well recognised as underestimating wealth holdings for the assets of the very wealthiest in society.[12]

For the purposes of this submission, we have used data generated from Wealth X. Wealth X's proprietary Wealth and Investable Assets model produces statistically significant estimates for total private wealth and estimates population by wealth segment for the world and for the top 70 economies, which account for 98% of world GDP.

They use a two-step process. Firstly, to estimate total private wealth, they use econometric techniques that incorporate many national variables such as stock market values, GDP, tax rates, income levels, and savings from sources such as the World Bank, IMF, OECD and national statistics authorities.

Secondly, they estimate wealth distribution and distribute wealth across each country's population. Due to a lack of wealth distribution data, most wealth models estimate wealth distribution patterns using income distribution data. However, Wealth-X's proprietary database of over 150,000 dossiers of ultra-high net worth individuals (those with a net worth of over US$30m) across the globe as well as further dossiers on individuals lower down the wealth pyramid, allows them to construct wealth distribution patterns using real – rather than implied – wealth distributions, making the model more reliable. They then use the resulting Lorenz curves to distribute the net wealth in a country/city across its population.

Wealth X estimates indicate that there are 18,350 people in Ireland worth €4.36 million (US$5 million) and above, including 1,285 people with €43.61 million (US$50 million) and above, with a combined total wealth of €350 billion. This represents 0.36 of the Irish population. A flat 1.5% wealth tax on this cohort on wealth above €4.36m would raise €4.05 billion.

A 2% wealth tax on wealth above €43.61 million (US$50 million) held by the 1,285 individuals who have a combined wealth of €171.3 billion would raise €2.3 billion.

Between 2016 and 2021, the number of individuals with wealth over €43.61 million (US$50 million) increased from 700 to 1,285. Their combined wealth increased from €106 billion to €171.3 billion, an increase of 61.7%, adjusted for inflation. These estimations are consistent with Central Bank figures of total Irish Household wealth which saw an increase of approx. 55% from 2016-2021.[13] This implies that previous estimations of the tax revenue to be potentially raised from a wealth tax need to be updated.

[10] Ibid.
[11] https://www.cso.ie/en/releasesandpublications/ep/p-hfcs/householdfinanceandconsumptionsurvey2018/wealth/
[12] https://stonecenter.gc.cuny.edu/measuring-inequality-and-the-missing-rich-the-challenges-of-capturing-the-income-and-wealth-of-the-most-affluent/
[13] https://www.centralbank.ie/statistics/data-and-analysis/financial-accounts#:~:text=Household%20net%20worth%20rose%20by,housing%20assets%20(%E2%82%AC19bn).

ADMINISTRATION

Oxfam Ireland proposes a graduated wealth tax on wealth holdings over €4m. This could be administered on an assessment basis similar to the Property Tax. As it would cover a relatively small number of people, it should be easy for Revenue to introduce measures to prevent fraud.

Based on a high exemption threshold and graduated rates to ensure progressivity, it is essential that all forms of assets are included in a successful wealth tax, adjusted to market values (including the assets that high net worth individuals can be said to control).

Preferential treatment, based on the lobbying of sectoral groups, has eroded the base, effectiveness and credibility of wealth taxes in recent decades. Moreover, these experiences have allowed us to propose remedies to the strategies that have undermined wealth taxes in the past, again amply demonstrated by Saez and Zucman.[14]

Therefore, retaining the cohesion of high value assets in a wealth tax is central - "no exceptions," as Thomas Piketty wrote, including the most difficult classes of business and non-listed assets.[15]

Similarly, the complementarity of wealth taxes with other existing taxes on income, inheritance and capital is essential to a successful overall evaluation of individual wealth.

The Local Property Tax in Ireland, with its successful assessment procedure, is a good example of a tax which could be made complementary to a wealth tax to provide a fairer, more progressive basis for overall wealth taxation.

There are two ways the wealth could be collected- either based on residency or citizenship and there are effective remedies to minimise avoidance and fraud.

For a wealth tax based on residency, asset flight wouldn't be more difficult as it would be on all global assets wherever they are held. The issue would be under declaration or hiding of assets. Ireland and EU could step up step toward enforcement by implementing legislation similar to the US Foreign Account Tax Compliance Act (FATCA), which imposes steep penalties on foreign financial institutions that fail to report accounts of U.S. residents to the U.S. tax authorities.

The EU and Ireland have already agreed sophisticated exchange of information protocols to prevent tax fraud in response to various tax scandals. The issue of people changing residency to avoid the tax could be dealt with by issuing an Exit Tax and having a coordinated approach in the EU. Exit Taxes are a common tool used to fight corporate tax avoidance - Ireland has recently brought in one in relation to corporate tax as part of coordinated efforts at the EU.

Furthermore, concerns about wealthy taxpayers moving to another jurisdiction to reduce their tax obligations are often over-estimated. As the OECD states: "taxation is only one of many factors that affect taxpayers' location decisions and there is only limited evidence of tax-induced migration".[16]

In terms of collecting the tax based on citizenship – again, asset flight would be more difficult as the tax is on global wealth holdings. Also, the tax couldn't be avoided by changing residency as it

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[14] Ibid.

[15] Piketty, T, 2013, Capital in the Twenty-First Century.

[16] OECD (2016) Tax design for Inclusive Growth https://www.oecd-ilibrary.org/taxation/tax-design-for-inclusive-economic-growth_5jlv74ggk0g7-en

would be based on citizenship. Under declaration or hiding of assets could be dealt with as above. An Exit Tax could be issued to deter people giving up citizenship to avoid the tax.

Ireland could also advocate for and support the introduction of a global asset register (recording ownership of equities, bonds and other financial assets) would make wealth taxes far easier to administer.[17]

Tax credits can be issued for wealth taxes paid in other jurisdictions as well for property taxes paid in Ireland. The current highest property tax rate in Ireland is 0.3% for properties valued able €1.75m.[18]

By contrast, less-than successful European wealth taxes, which have been based on the residency criterion, have fallen victim to tax competition across EU countries which try to attract high earners or wealthy residents.

Using modern information technology, there is greater capacity for tax authorities to collect data on the market value of most forms of wealth and use this information to produce wealth tax returns, reducing evasion possibilities to a minimum.

The most important aspect of information reporting remains that financial institutions report year-end wealth balances.

Overall, we hope to encourage Irish revenue authorities to mobilize internal resources effectively, as they have shown the capacity to do, with adequate levels of support.

A further advantage of a high exemption threshold wealth tax is that it would make only a small number of individuals liable, as indicated.

The overarching goal is for a uniform, international wealth tax, starting in the EU and developing globally, that would eliminate harmful tax competition and evasion.

To this extent, cooperation within the European Union and with other important jurisdictions, both at technical and political levels, is essential.

AIMS

Finally, it is important to ask what is the purpose, or aims, of a wealth tax in Ireland.

Obviously, its rate schedule will affect its revenue-raising potential - but revenue-raising may not be a wealth tax's most important objective, at least not initially.[19]

Over a long period, even set a low rate, a wealth tax should help modify the structure of wealth distribution and inequality, the so-called de-concentration effect. Therefore, the durability or longevity of a potential wealth tax is an important consideration.

But perhaps the most important aim of a wealth tax, in an Irish context, is its demonstrative or exemplary effect, both domestically and internationally.

[17] See Global Inequality Report, 2018, Chapter 5, Section 5.3 at https://wir2018.wid.world/part-5.html

[18] https://www.revenue.ie/en/property/local-property-tax/valuing-your-property/valuation-bands-rates-local-adjustment-factor.aspx

[19] Yet we have shown in our press release example that even a low rate of tax at 1.5%, aimed at all millionaires above €4.4m without graduation, could raise over €4 billion per annum which could be targeted at areas most in need, such as homelessness and acute poverty.

Democratic and financial transparency, both nationally and internationally, increased through an Irish wealth tax, can both help to stem the tide of global inequality and avoid future financial crises by generating better information about the distribution of wealth.

It therefore has further normative, or principled, implications for the fairness of our society.

Once again, to quote Thomas Piketty:

"It is important to understand that a tax is always more than just a tax: it is also a way of defining norms and categories and imposing a legal framework on economic activity."[20]

A final note on the thorny question of enforcement of wealth taxes.

The modern literature on this issue, quoted above, is quite clear that the enforcement of wealth taxes is now a political choice.

RECOMMENDATIONS

- Establish a progressive Wealth Tax in Ireland including global holdings of wealth.
- Ensure there is accurate and up-to-date data on holdings of wealth in Ireland and globally to ensure political discussions as to the potential revenue raising capacity at different rates is well informed.
- Take steps to reduce the ability of wealth individuals to hide their assets, including implementing public and centralised registers of beneficial ownership for companies, trusts, foundations and other financial assets.
- Establish a specific unit in Revenue to deal with administering the wealth tax. Ensure administration is designed based on international best practice.
- Ensure whistleblowing protection for those who expose tax avoidance and evasion schemes by the ultra-wealthy.
- Work with other governments to advocate for a global asset register. Utilise the Common Reporting Standard and promote automatic exchange of information between revenue authorities.
- Work with EU partners to agree a common approach to wealth taxation in the EU.
- Support calls from organisations like Millionaires for Humanity for a global wealth tax.[21]

CONCLUSION

This submission aims to facilitate further discussion and consideration of a wealth tax in Ireland.

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[20] Piketty, T, 2013, Capital in the Twenty-First Century.

[21] Djaffar Shalchi, founder of Millionaires for Humanity, recently made this call for higher wealth taxes on the OECD Development Matters blog.

It is placed in the context of rising wealth in capital in this generation leading to dangerous levels of inequality throughout the world, exacerbated by the pandemic.

We acknowledge the need for Ireland to tread cautiously along this path as a small, open economy.

However, we call for a full and open conversation of this issue on the basis of some of the principles and findings that we have suggested here.

A public debate on this issue, considering its potential social, economic and environmental benefits, as well as its exemplary effect in international terms, is merited.

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