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Policy Brief

A European Wealth Tax

Jakob Kapeller
University Duisburg-Essen and Johannes Kepler University Linz

Stuart Leitch
University of Greenwich

Rafael Wildauer[1]
University of Greenwich

Abstract

The distribution of wealth in the European Union is heavily concentration at the top. The richest 1% of households hold a third of total aggregate net wealth while the poorest 50% of households hold less than 5% of total net wealth. The flipside of this strong concentration of wealth is the high revenue potential of wealth taxes. The estimates presented here suggest that a progressive tax on net wealth could generate revenues between 3% and 10.8% of GDP.

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[1] Corresponding author: r.wildauer@gre.ac.uk

The Economic Background

In its April Fiscal Monitor, the International Monetary Fund (IMF) points out that the Covid-19 pandemic is increasing existing inequalities in the distribution of income, wealth as well as the access to healthcare and education. The IMF as well as academics (Advani et al. 2020, OECD 2020, Piketty 2020, Saez and Zucman 2019) advocate for progressive taxation of wealth and income in order to reduce existing inequalities and generate fiscal revenues. Progressive income taxes or taxes on wealth are especially able to achieve these goals in current situation as they are less likely to hamper a fragile economic recovery after the pandemic (OECD).

Approach and Data

Against this background, this policy brief summarises the findings of a concise analysis of the distribution of net wealth in Europe and the revenue potential of competing wealth tax designs (Kapeller, Leitch and Wildauer 2021). The study is the first to provide a detailed picture of the distribution of net wealth in Europe and uses these results to estimate the revenue potential of different wealth tax designs, including progressive forms. The analysis employs data from the European Central Bank's (ECB) survey on household balance sheets (Household Finance and Consumption Survey) for 22 EU countries[2] in the year 2017. By combining this data with a statistical model of the tail of the distribution we obtain a realistic picture of the European net wealth distribution which is in line with the best available country level data. In line with the relevant academic literature the study focuses on net wealth as core variable which constitutes the total value of a household's assets, minus the total sum of all outstanding liabilities. This means a household which owns a property worth €700,000 with an outstanding mortgage of €500,000 is recorded in our data as having net wealth of €200,000.

Key Results

Result #1: Wealth is highly concentrated

Net wealth in the EU22 is highly concentrated at the top of the distribution. The poorest 25% of the population have net wealth holdings of € 15,000 or less. The dividing line between the richer and the poorer half of the population (median) is at € 90,000. This contrasts with the richest 10% of the population starting at net wealth of € 485,000 and the richest 1% start at net wealth of € 1,870,000.

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[2] Austria, Belgium, Croatia, Cyprus, Germany, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Latvia, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, and Spain.

Another way of looking at the net wealth distribution is to calculate the share of total net wealth held by the most affluent 1% of the population. For the EU22 we find the top 1% share at 32% and the top 10% share at 61% of total net wealth. This means that a third of the EU's net wealth is held by the richest 1% of all households in the EU and almost two thirds is held by the most affluent 10%. In comparison, the poorer half of the population owns less than 5% of total net wealth.

Table 1: Wealth distribution in the EU22

	starting point	**share of total wealth**
top 1%	€ 1,870,000	32%
top 10%	€ 485,000	61%
poorest 50%	€ 90,000	5%
poorest 25%	€ 15,000	0% (net debtors)

Result #2: Wealth taxes have substantial revenue potential

The flip side of the high degree of wealth concentration is that wealth taxes exhibit high revenue potential. This is even more the case for progressive tax designs which apply higher tax rates to households which are higher up the wealth distribution. The general pattern which emerges from our results is that both the revenue potential as well as the reduction of wealth inequality increases with more progressive tax designs.

Table 2: Revenue estimates

model	**measure**	**scenario: no tax avoidance**	**scenario: some tax avoidance**
flat tax 2%	in % of EU22 GDP	2.3%	1.6%
	in billion €	271	192
strongly progressive	in % of EU22 GDP	4.3%	3.0%
	in billion €	505	357
Piketty wealth cap	in % of EU22 GDP	15.5%	10.8%
	in billion €	1,837	1,281

The study compares a flat tax with a 2% tax rate on net wealth holdings in excess of € 1 million (affects the top 3% of the wealth distribution) with progressive forms of wealth taxation such as a strongly progressive design with a top tax rate of 10% on net wealth holdings in excess of € 500 million (only 0.001% of the population fall into this bracket). We also model a design proposed by Piketty (2020) which implements a maximum wealth level at around € 260 million which is 1,000 times the average level of wealth in the EU22. The revenue potential in % of GDP is summarised in Table 2.

Result #3: Taxing only the richest households does not undermine revenues

Wealth taxes generate substantial revenues even when they are restricted to the richest households in society. A wealth tax which starts at net wealth of € 1 million, only affects the richest 3% of all households in the EU22. Shifting the starting point up to net wealth of € 2 million would affect less than 1% of the population. In addition, the tax burden for households which are only slightly above the threshold, would be low. For example, a household with net wealth of € 1.2 million would face a yearly tax bill of € 4,000 with a flat tax of 2% starting at € 1 million.

While flat taxes exhibit substantial revenue potential, they will not be effective in reducing the high degree of wealth concentration in Europe. In contrast, progressive tax designs specifically targeted at the top 1% do not only have much greater revenue potential but are also much more effective in reducing the strong concentration of wealth at the very top of the distribution.

References

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