

2010-12-06

PRESS RELEASE

Trends in taxation of privately held assets

(Article published in the Economic Review, December 2010)

In most advanced countries, the budgetary rebalancing effort to be accomplished is considerable, with the result that new sources of finance are frequently being sought out. In Belgium, where levies on labour are already very high, there are those raising the possibility, in this context, of additional taxes on consumption or activities that cause pollution, as well as that of a rise in taxation on wealth and the income from wealth of private individuals.

The article attempts to position Belgium's existing levies on income from wealth and wealth itself in relation to those applying in the other countries of the EU. Whilst not claiming to be exhaustive in any way, it is intended to present the main characteristics and trends. It takes a look firstly at some statistical and methodological aspects of levies on wealth and the income from wealth. Then, the situation in Belgium is analysed. This analysis is followed by an international comparison, within the bounds of what is possible, of the scope and level of the various levies linked to the assets of private individuals. Lastly, a concise account is provided of advances with respect to cooperation on tax matters at the international level as well as the European directive on the taxation of savings.

It is no simple matter to compare levies on the wealth of private individuals, owing to the complexity of the systems and the diversity of the components of wealth. Nevertheless, several general findings can be expressed.

Compared to the average in the EU, levies on the wealth of private individuals and the income that they draw from it in relation to GDP are fairly substantial in Belgium overall. This is due in part to the relatively significant volume of assets held by private individuals in Belgium, but also to the rates of certain levies. It should be noted that in Belgium, the annual income from wealth is generally taxed moderately and levies on capital gains are virtually non-existent. On the other hand, wealth-related transactions such as the purchase of housing and the inheritance of estates are taxed relatively heavily. The actual rate of taxation is distributed very unfairly between the different forms of assets. Some are heavily subsidised, by way of tax deductions granted in the context of taxation of natural persons, such as pension savings, whilst some financial products, particularly those with short terms to maturity, are taxed quite heavily. At the international level, it is the case that levies on wealth in the strict sense have disappeared in most countries over the last twenty years. They have persisted in a number of countries and it is not impossible that the need to undertake budgetary consolidation will prompt others to reinstate them.

In the last few years, an effort has been made to reduce international tax evasion, particularly tax evasion relating to income from wealth. In fact, the free circulation of capital and the lack of coordination between countries provided private individuals with the opportunity to evade tax on income from wealth. In order to combat tax evasion effectively, the OECD has been encouraging transparency and the exchange of tax information for about fifteen years. In 2009, under international pressure, numerous countries (including Belgium) took measures to comply with the OECD's tax standards. At the EU level, the member states adopted a directive on the taxation of income from savings in 2003. Omissions in the current text, which has been in effect since 1 July 2005, provide private individuals with various opportunities to get round the directive. In 2008, the EC proposed some modifications to the directive in order to rectify these problems. Nevertheless, the new text has not yet been adopted by the Ecofin Council.