

4th ITD Global Conference on “Tax and Inequality”
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INEQUALITY: CAN TAX MAKE A DIFFERENCE?

TAX AND INEQUALITY:

A SHARED CONCERN OF BOTH DEVELOPED AND DEVELOPING COUNTRIES

Main conference issues:

Trends in *Poverty*

Trends in *Inequality*

Fairness and Efficiency

Trends in *Tax Structures*

Tax Administration and
Equity

High Net Worth Individuals
Migration and Taxation

SETTING THE
RIGHT GOALS

PUTTING THE RIGHT
POLICIES IN PLACE

GOOD
ADMINISTRATION
AND EFFECTIVE
INTERNATIONAL
CO-OPERATION

THEMATIC CONFERENCE ISSUES

- SMEs

- Informality and equity

- **Wealth and Inheritance Taxes**
- **Real Property Taxes**

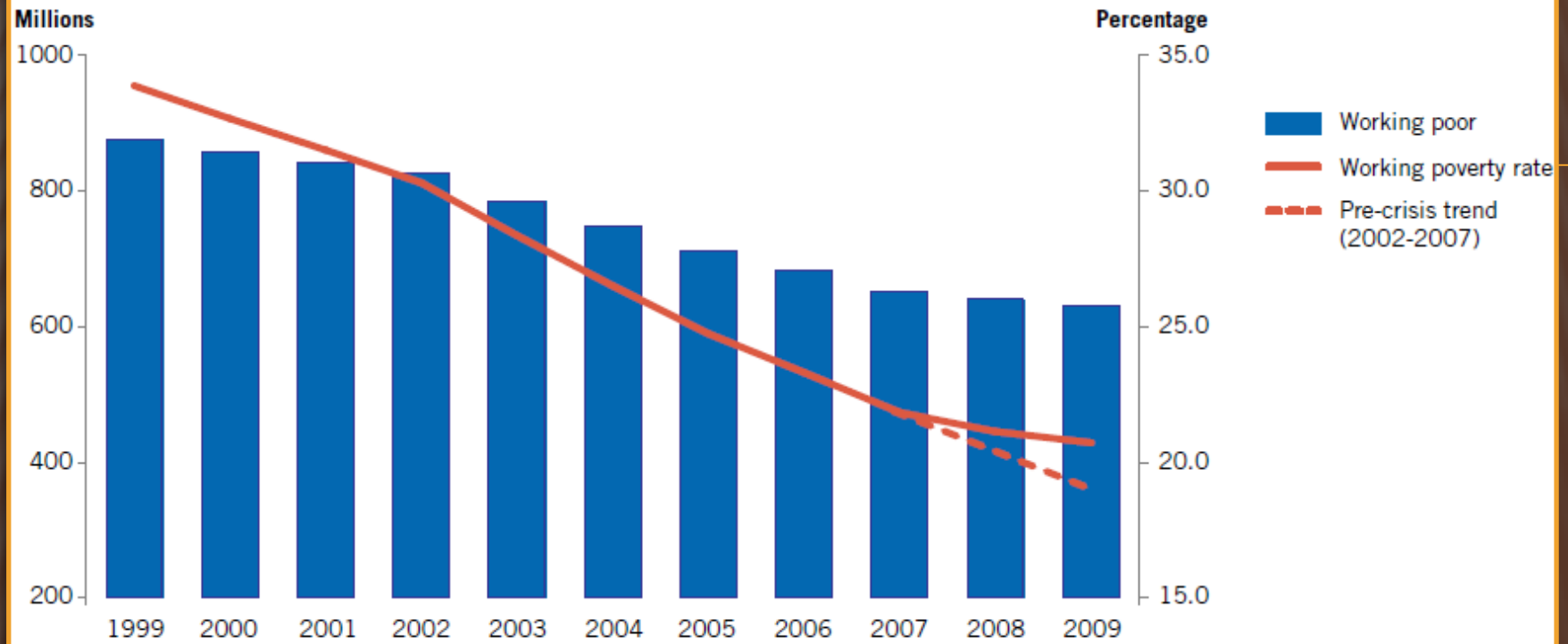
- **Taxing mobile and immobile factors**

- **Role of Better Compliance**
- **Inter-generational Issues**
 - **Taxation and Gender**
 - **Tax and Aid**

- **Taking forward the debate**

LESS POVERTY

Proportion of employed people living on less than \$1.25 a day (Percentage) and number of working poor (Millions), 1999-2009



Source :ILO & UNDP 2011

ECONOMIC REFORM

DRIVES ECONOMIC GROWTH AND LARGE REDUCTIONS IN ABSOLUTE POVERTY

- In China and India combined, the number of people living in extreme poverty between 1990 and 2005 declined by about 455 million, and an additional 320 million people are expected to join their ranks by 2015.



- The UN now believes that the extreme poverty rate in the Sub-Saharan African region will fall below 36 per cent in 2015 compared with 56% in 1990 .

INEQUALITY:

A COMPLEX DEBATE

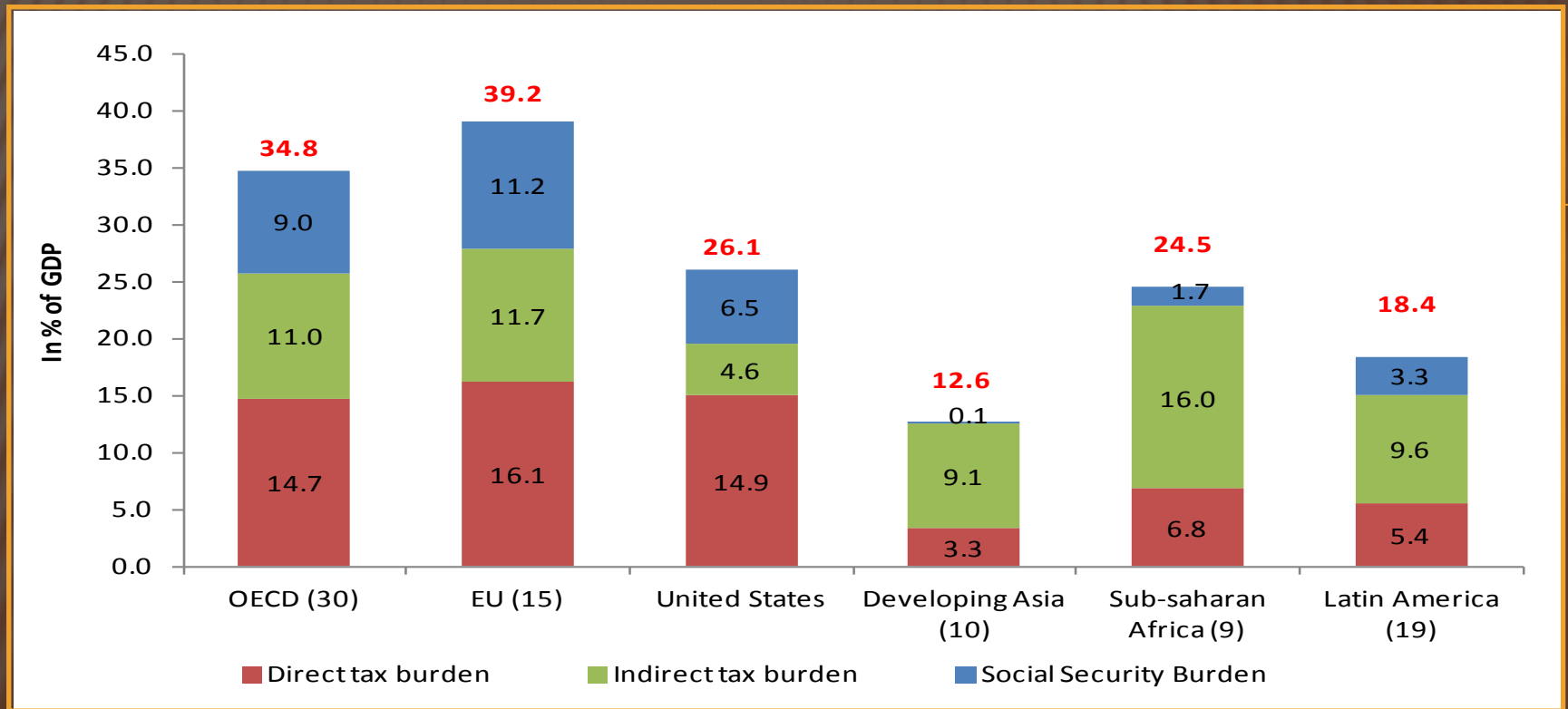
- **Distribution** of income over time and across countries
- **Measurement** issues and **impact** of demographic and household formation
- **Redistribution** and **cash transfers** (Robin Hood vs. the Piggy Bank motive for taxation)
- **Measuring** national poverty and inflows and outflows
- Intergenerational **mobility** (e.g. via impact of assortative mating)
- **Effect** of publicly provided services (housing, health and education)
- **Equality** of opportunity: the role of government

CAUSES OF INEQUALITY

Inequalities of (pre taxes & transfers) income:

- Product of differences in ability and effort
- Compensating variations in wages
- Wage bargaining arrangements
- Effect of international trade on factor incomes
- Skill bias in technological changes
- Changes in family formation

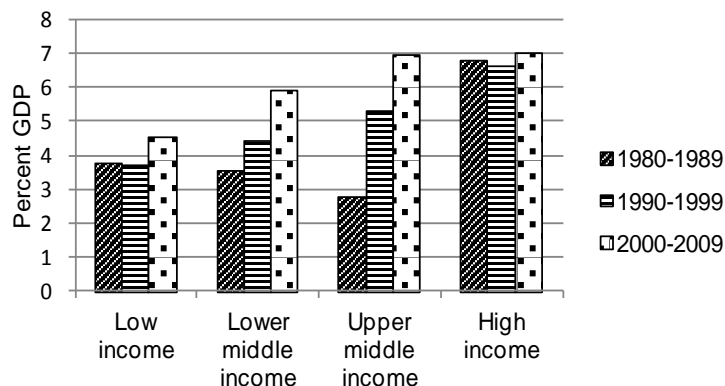
INTERNATIONAL COMPARISON: TAX TO GDP RATIO



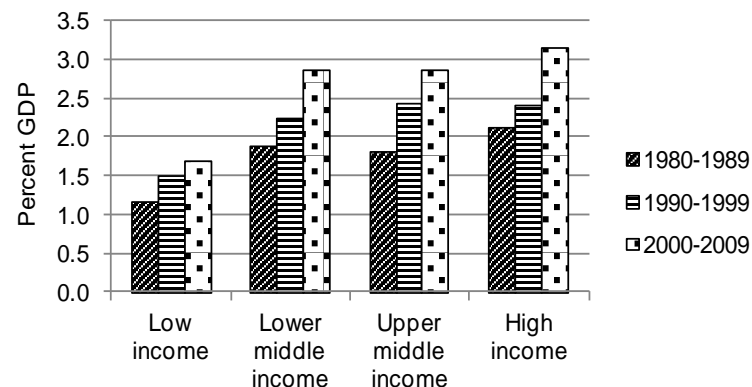
Source: ECLAC, OECD & IMF

DIFFERENCES IN TAX STRUCTURES: CHOICES OR CONSTRAINTS

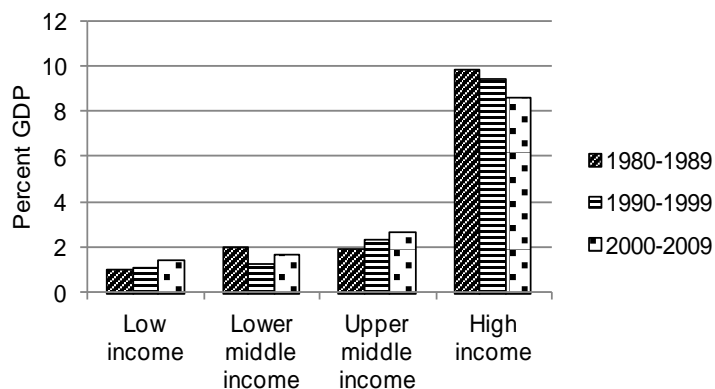
VAT revenues have increased...



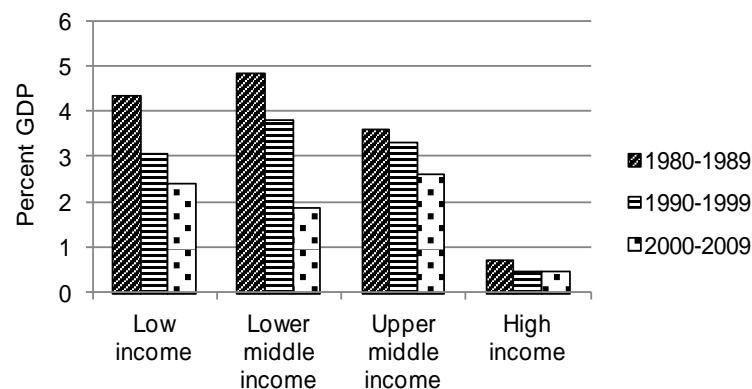
...and CIT receipts have been robust.



The PIT is modest and flat...



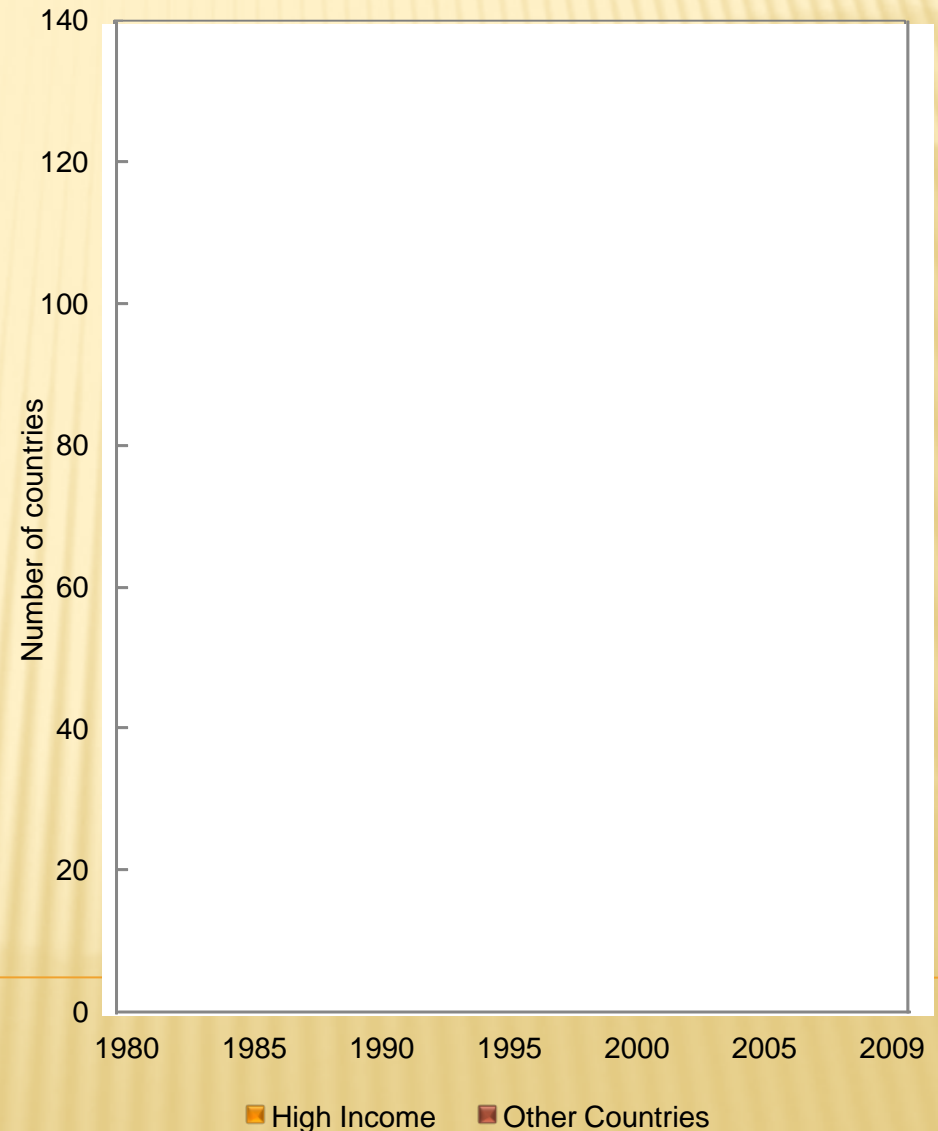
... and trade tax receipts are in decline.



VALUE ADDED TAX

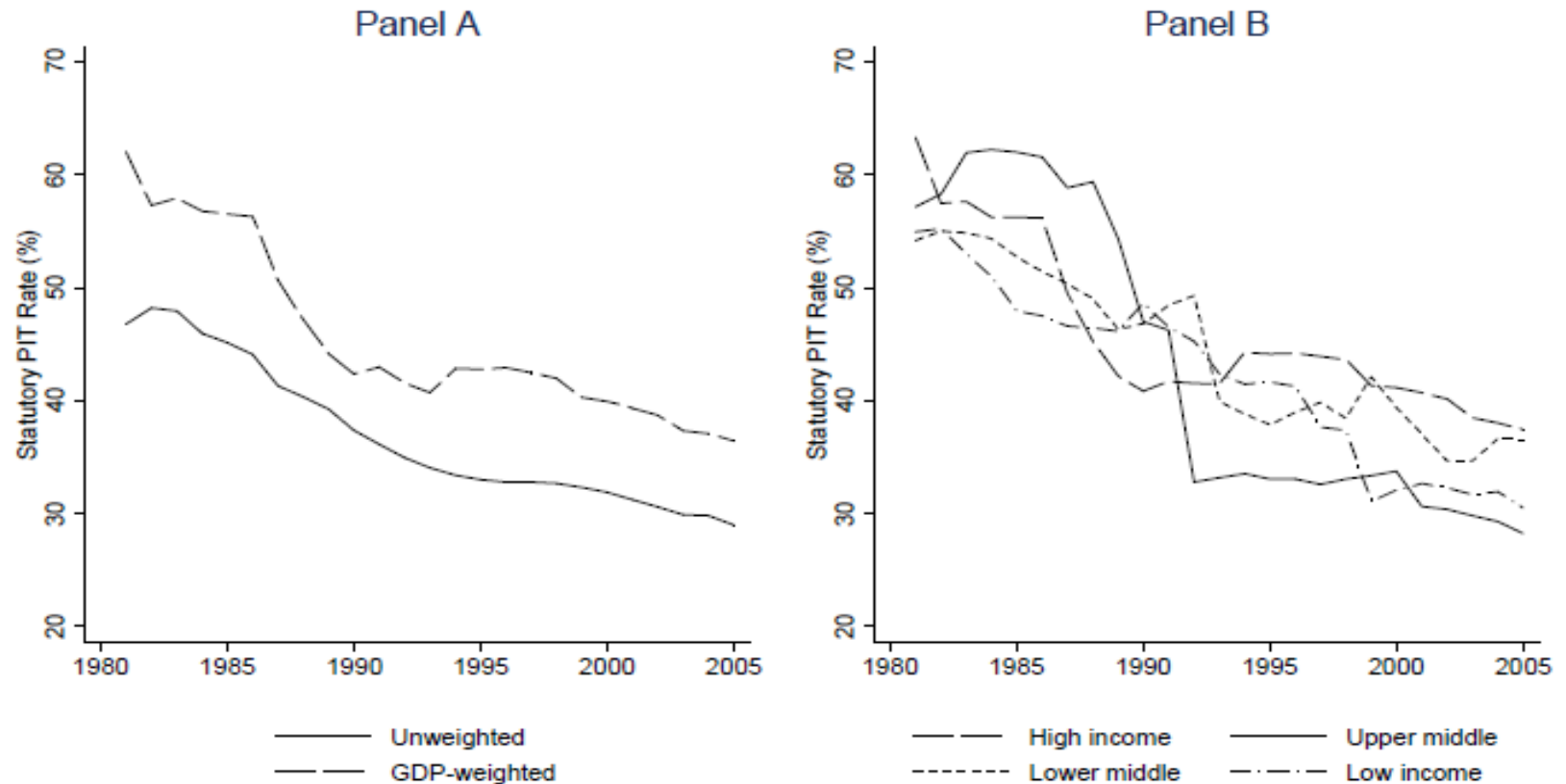
- Now the norm
- Often 25% all revenue
- Evidence that relatively efficient

The Spread of the VAT, 1980–2009



TAXES: FROM TOO HIGH TO TOO LOW

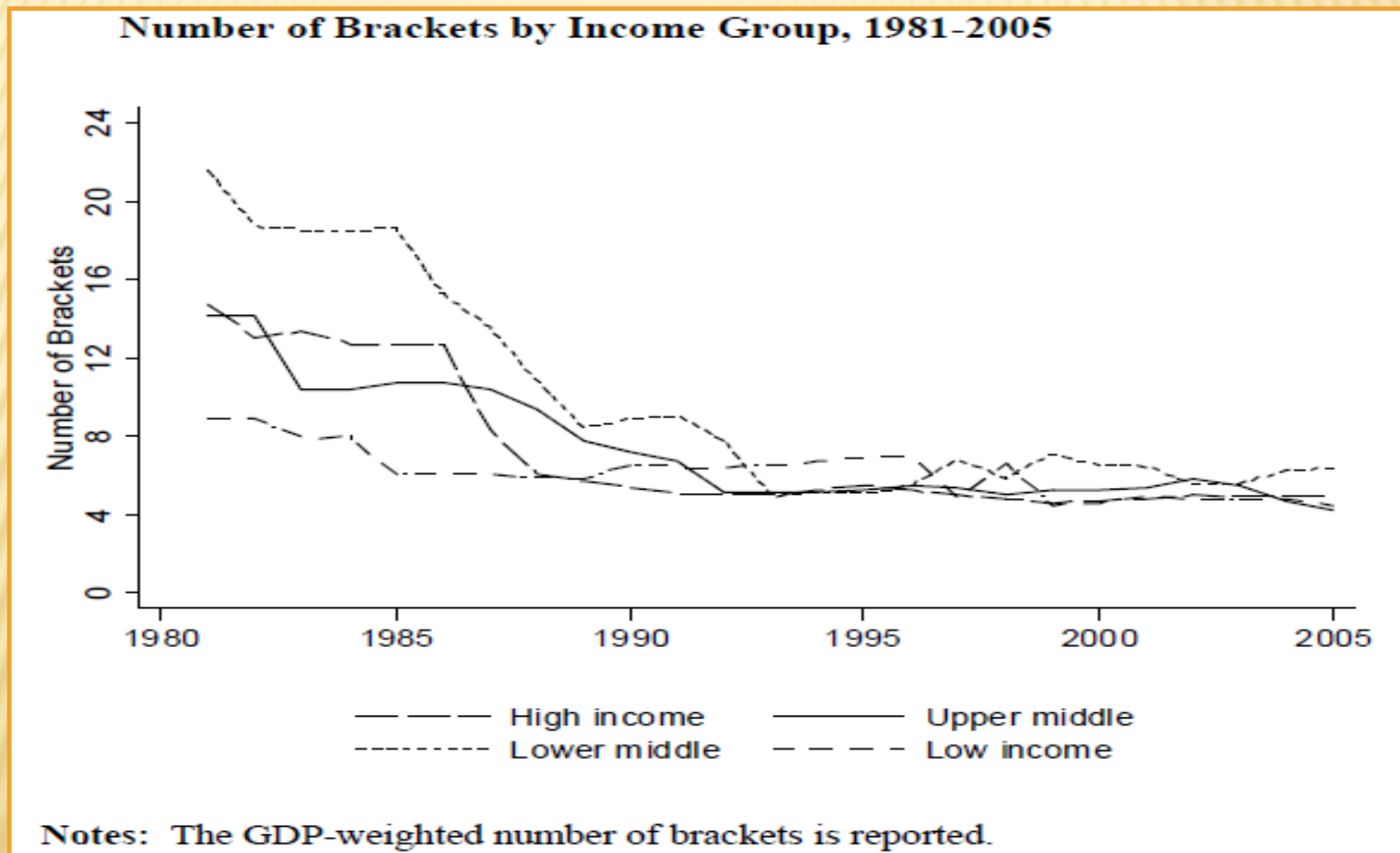
Top Statutory PIT Rate, 1981-2005



Notes: GDP-weighted top PIT rates are reported in Panel B.

Source: Peter, Buttrick & Duncan 2010

MORE IS NOT ALWAYS BETTER

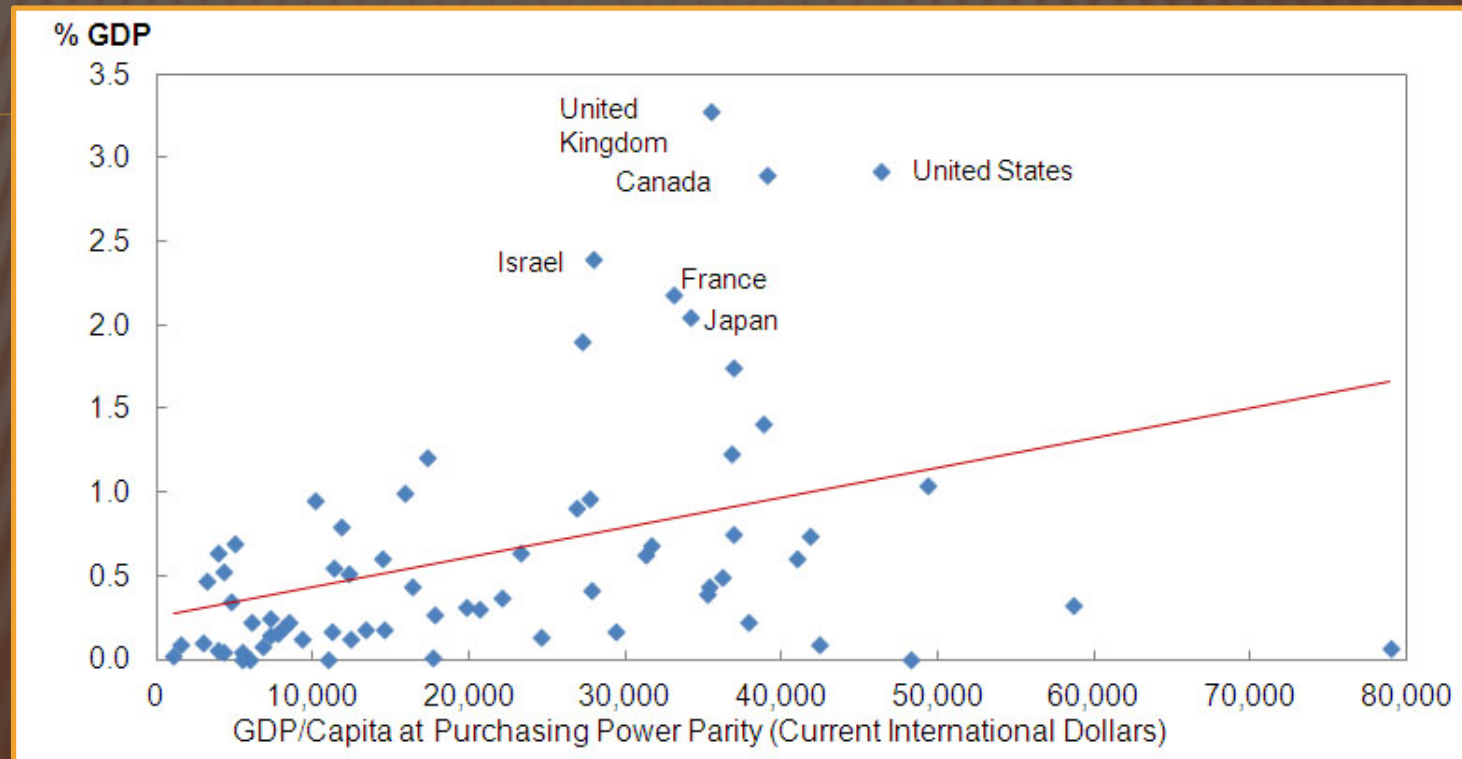


Source: Peter, Buttrick & Duncan 2010

PROPERTY TAXES ARE UNDER-EXPLOITED IN LOW AND MIDDLE-INCOME COUNTRIES

- Efficient and equitable revenue source
- Revenue potential is largely untapped

Immovable Property Tax Collections
(OECD and selected non-OECD countries, 2008)



Source: IMF staff calculations.

RESIDENTIAL PROPERTY TAXES



Good economics

Immobile tax base

High collection efficiency in developed countries

Direct link to services provided

Encourage efficient use of the housing stock



Bad politics

Unpopular due to some distributional impacts and high visibility.

TAX INCIDENCE: THE CONSENSUS VIEW

Consumption taxes are almost fully borne by consumers.



Income taxes, payroll taxes and social security contributions are normally assumed to be borne by workers.



Corporate taxes is mostly borne by workers in the form of lower wages, at least for small open economies.



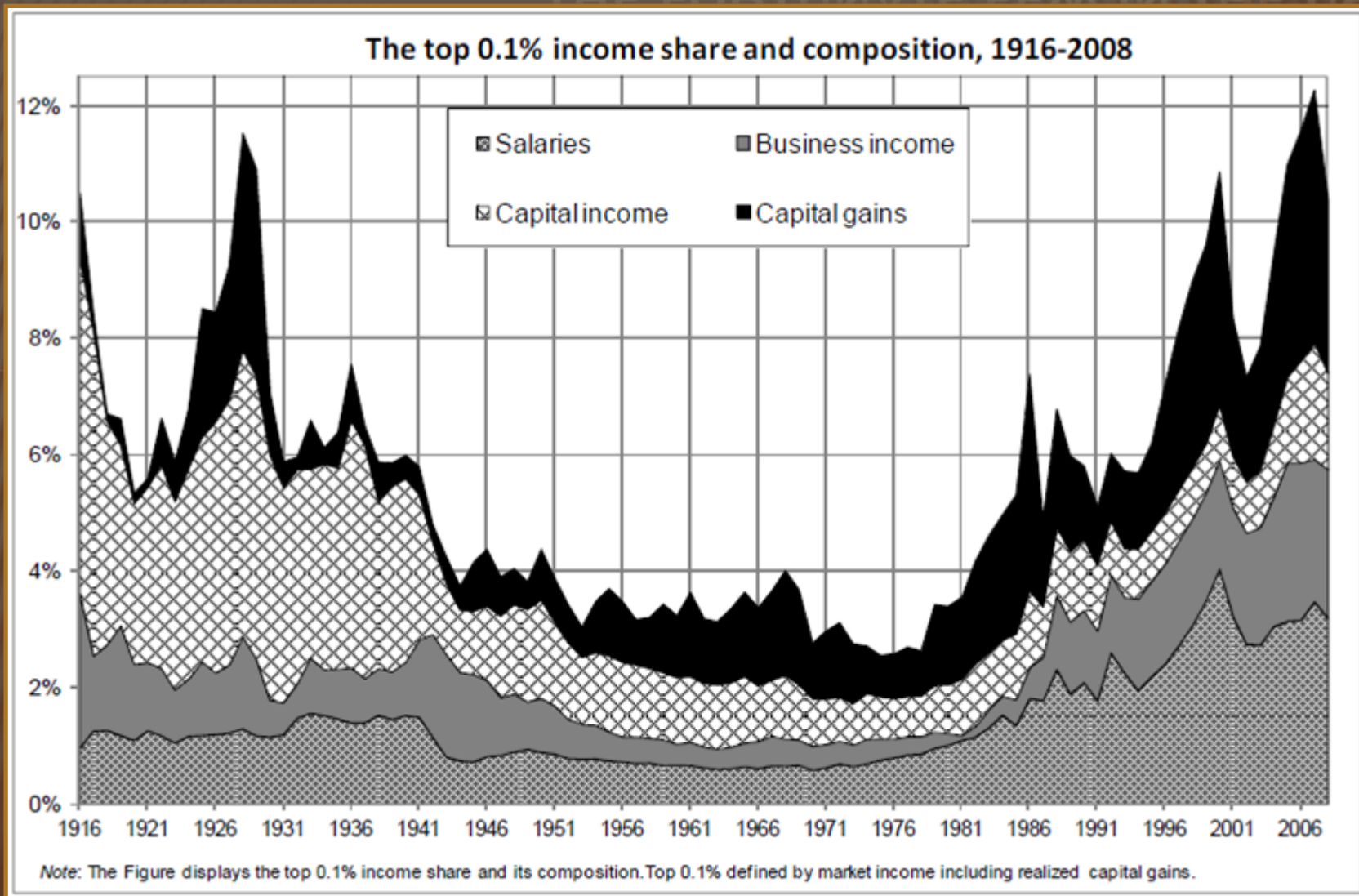
WHAT HAPPENED TO TOP INCOMES?

For most developed countries, income concentration within the high income groups has increased:

- ✗ Shares of the top 0.5%, 0.1%, 0.05% and 0.01% **increase by a greater proportion** than the share of the top 1%.
- ✗ Shares of the top 5% and 10%, **increased by a smaller proportion** than the share of the top 1%.

LIFE AT THE TOP

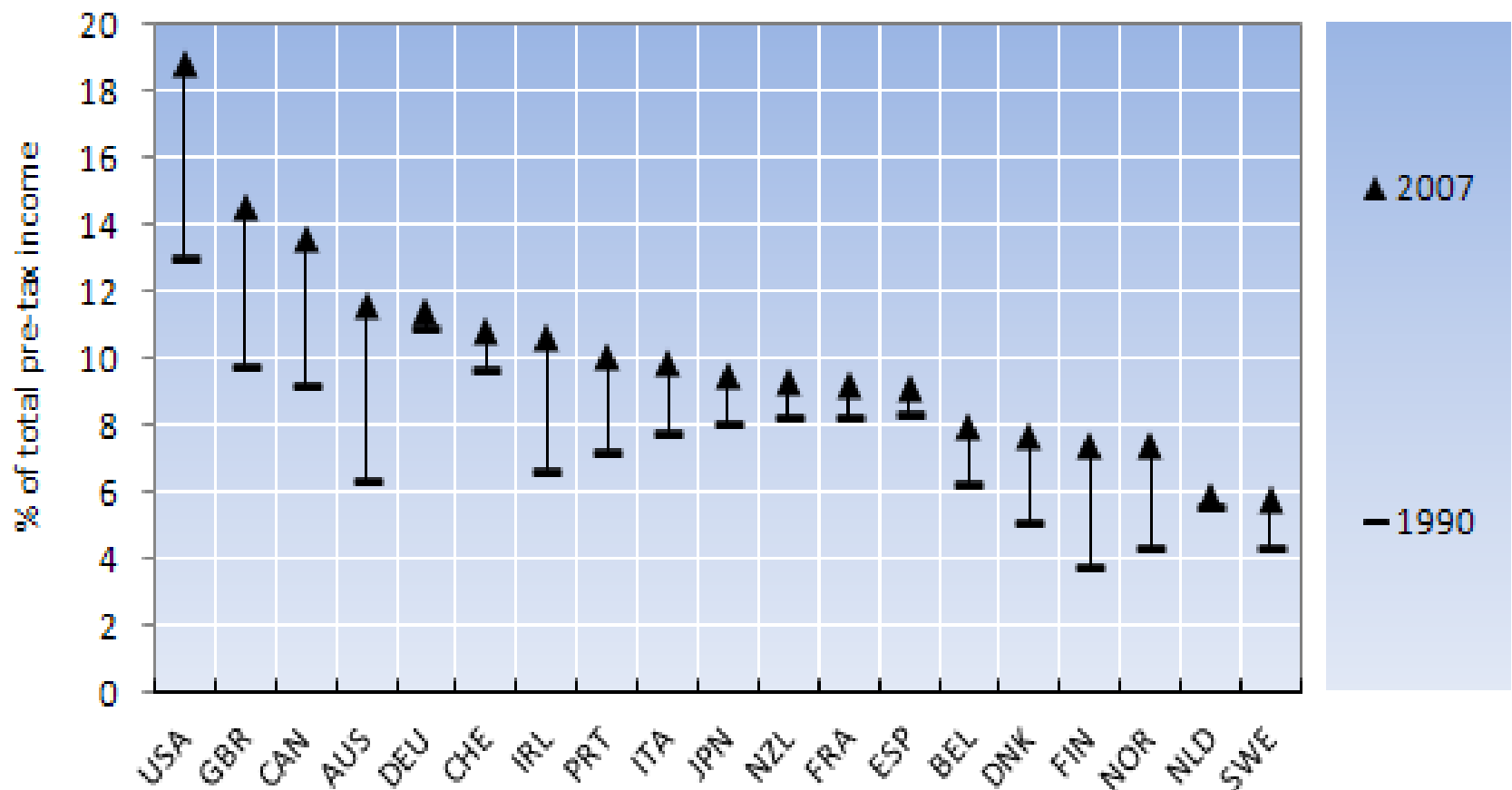
THE FORTUNATE FEW IN THE US



Source: OECD from US national data

MORE INEQUALITY IN MANY COUNTRIES

SHARES OF TOP 1% INCOMES IN TOTAL PRE-TAX INCOMES, 1990 – 2007 (OR CLOSEST)



ENTREPRENEURIAL INVESTORS

1975

Microsoft is founded by **Bill Gates** and Paul Allen in the US. Today Bill Gates is the richest person in the US with a fortune of \$59 billion.



1976

Apple Inc. Is founded by **Steve Jobs** and Steve Wozniak in Jobs' parents' garage. Before his recent death his wealth was estimated at \$8.3 bn.

1998

Celtel which when sold had over 24 million mobile phone subscribers in 14 African countries. **"Mo" Ibrahim** sold Celtel in 2005 for \$3.4 billion and has a personal fortune of around \$1.8 billion. In 2006 Ibrahim created the Mo Ibrahim Foundation. In 2007, the Foundation inaugurated the Mo Ibrahim prize for African Leadership.

THE UNDESERVING RICH

Bernie Madoff

Bernard L. Madoff is currently serving a 150-year sentence in US federal prison, orchestrated a multi-billion dollar Ponzi scheme that swindled money from thousands of investors. Madoff founded his investment advisory firm in 1960.



General Sani Abacha

General Sani Abacha was the military dictator of Nigeria from 1993 to 1998, when he died suddenly of a heart attack. According to post-Abacha government sources, some \$3 billion in foreign assets have been traced to Abacha, his family and their representatives, and accomplices.



A MATTER OF TASTE AND JUDGEMENT

Sources of transparent wealth:

Pop stars, sports stars, film stars and directors

Sources of less transparent wealth:

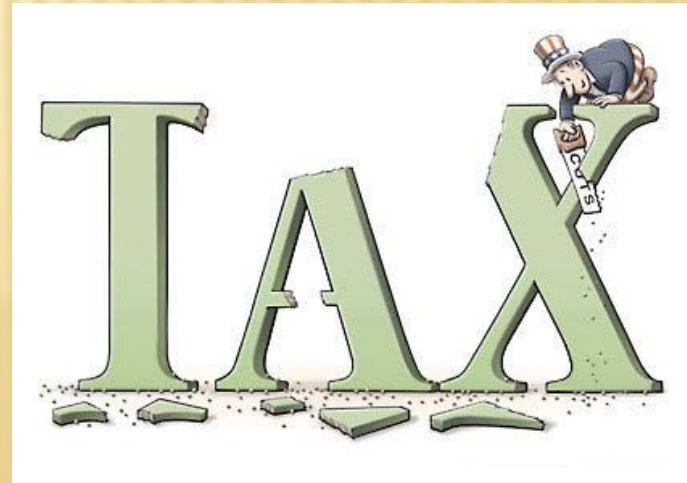
CEOs of public companies

Professional financial intermediaries, hedge fund managers and others who make their living in complex financial markets

Natural resources

BETTER OFFSHORE TAX COMPLIANCE: THE GREAT EQUALIZER?

- ✗ Wealthy have easier access to offshore jurisdictions.
- ✗ Recent G20/OECD initiatives closed off this route
- ✗ Outcome is more revenue for governments
- ✗ But also a fairer tax system



WEALTH, INHERITANCE AND GIFT TAXES

Wealth taxes are of declining popularity in OECD countries.

Why?

- Negative impact on investment
- Capital Flight (Is equality really enhanced by policies which provide incentives for the wealthy to emigrate- the “Johnny Halliday” effect?)
- Distorts asset allocation as some assets harder to tax
- Better alternatives (more comprehensive taxes on capital and capital gains)?

But will the crisis produce a reassessment?

THANK YOU FOR YOUR ATTENTION!

INTERNATIONAL TAX DIALOGUE

World Bank
Group



International
Monetary
Fund



European
Commission
Taxation and Customs Union



Inter-American
Development
Bank



Inter-American
Center of Tax
Administrations



A joint initiative.