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TAXING WEALTH & PROPERTY

WHAT WORKS?

A review of wealth and property taxation around the world

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Summary

In recent years there has been increased interest in wealth taxes, or at least broadening the income tax base to include all the income from wealth and property. This report does not discuss the ethics of this concept, it merely reviews what works overseas in terms of efficient generation of tax revenue.

The key takeaway points from the review are:

1. Taxation of wealth per se is difficult as we can see from France. People hide or shift their wealth off shore to avoid the tax, which is economically inefficient and ineffective in terms of tax collection. Without requiring statutory declarations from taxpayers and having strong penalties for evasion (as Roger Douglas introduced for overseas income) these types of taxes are weak.

2. The number one problem with most wealth-based and property-based taxes is progressive taxation rates, exemptions and loopholes. Although these are designed to appease those with little wealth, the wealthy are the ones that end up exploiting them. The result is that the poor don't pay the tax, the rich don't pay the tax, but the middle class end up paying it almost by accident – especially when their houses have rapidly appreciated in value. This pattern is common across wealth-based and property-based taxes but is particularly evident for estate, gift and inheritance taxes.

3. The use of property taxes, similar to rates is prevalent around the world, but generally other countries have more national consistency (across municipalities) of payment levels than there is in New Zealand.

4. Surprisingly, the taxation of imputed rental is common in Europe, although the house values taxed often don't keep up with real estate values.

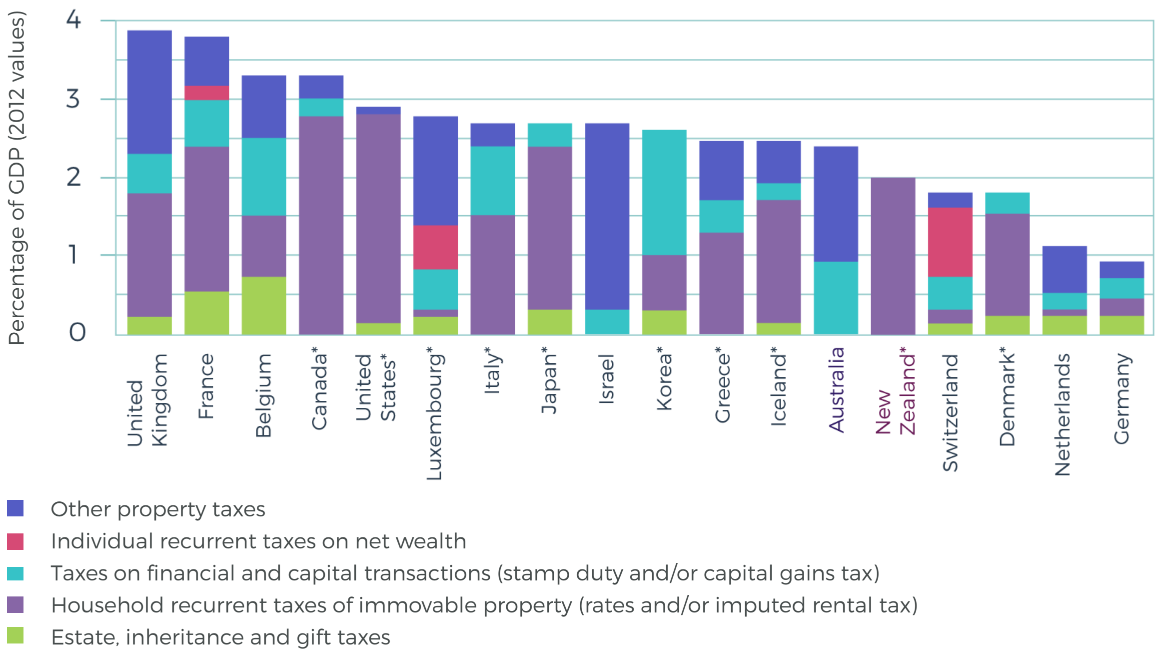
5. Transaction taxes such as stamp duties and capital gains are very popular capital-based taxes, despite being economically inefficient because they impede trading in assets.

The Comprehensive Capital Income Tax (CCIT - see the Annex at the end of the document for an explanation of what it is and how it works), proposed by the Morgan Foundation as part of the Big Kahuna, avoids these problems. Two jurisdictions – South Korea and Netherlands - have systems that could be seen as similar to the CCIT. Netherlands is very similar in concept – including a broader definition of income, although the system is still riddled with exemptions. South Korea has land, property and asset taxes that amount to a similar outcome - taxing the non-cash benefits of owning assets.

Introduction and Methodology

In light of Max Rashbrooke's study highlighting wealth inequality in New Zealand, French economist Piketty's suggestion of taxing wealth, and our own desire to broaden New Zealand's tax base, the Morgan Foundation has reviewed capital-based taxation around the world to see what works.

According to **OECD statistics from 2012**, the countries that gather a reasonable proportion of revenue from wealth and property taxes (above 2% of GDP) are the United Kingdom (UK), France, Belgium, Canada, the United States (US), Luxembourg, Italy, Japan, Israel, Korea, Greece, Iceland and Australia.



Data sourced from https://stats.oecd.org/Index.aspx?DataSetCode=REV#
* Due to unavailable data, the household recurrent taxes of immovable property values (green bar) for these countries were given as the value of total recurrent taxes of immovable property
+ Other property taxes include taxes that weren't evaluated in this study, such as company property taxes.

After assessing the level of wealth tax efficacy in the above examples, we looked at the following countries in some detail: the UK, France, Belgium, Canada, Luxembourg, Korea and Iceland. Switzerland, Denmark, the Netherlands and Germany were added due to their use of a variety of wealth taxes.

Each country has its own peculiar exemptions and quirks. However, in general the types of taxes levied were fairly consistent: property-based tax (including land tax and tax on imputed rental income), transactions tax, pure wealth tax and estate tax. We will look at each of these groups of taxes in turn in the report. The Appendices include the comprehensive review of each country's wealth and property taxes.

1. Property Taxation

This seems to be a standard feature of wealth taxation around the world. Property taxes are generally levied by municipal or local government and are designed to pay for local amenities [1]. There are three types that have been instigated: council tax, imputed rental tax and land tax.

It is important to keep in mind that our analysis of property taxation is limited by the lack of statistics that break down revenue into that generated by each individual tax. As a result, we can currently only compare the efficacy of bundles of property taxes across countries, not the individual component taxes.

For some countries, we have also been unable to separate out the revenue from recurrent taxes on household immovable property from taxes of other types of immovable property (e.g. commercial), due to a lack of data. These countries have been denoted in the below tables with an asterisk (*).

1 IPPR report 2013 p.12-13

1.1 Council Tax

Council tax is levied on the total assessed value of the property[2]. It's a bit like rates here in New Zealand, but often with greater national consistency. When the real estate valuations used as the tax base and/or progressive rate band structures are outdated, they are ineffective in cooling house price rises[3] and can be downright regressive[4] (with a greater burden falling on the poor). They can also be levied on the owner or the occupier so aren't directly related to wealth (and hence the effective income or benefit from that capital) per se.

	Council Tax	Revenue (% of GDP)
Canada *	Rates are between **0.5% and 2.5%** with relief available in some provinces for the elderly or those on low incomes.	2.8
United Kingdom	Property values form the tax base and the rates are organised into bands. Both property values and bands are **outdated.**	1.6
Iceland	**Rates** are between 0.18% and 0.625% and it is collected alongside other taxes like a garbage collection tax	1.6
Denmark	The assessed property value is taxed at 1% up to a threshold of **DKK3,040,000**, with value above this taxed at 3%.	1.3
South Korea	Applies if the total value of the owner's South Korean residential property is **more than KRW600 million** (or KRW900 million for a household). The taxable base is 80% of the assessed property value after deduction of the threshold KRW600 million. Tax rates are between 0.5% and 2.0%.	0.7
Switzerland	Rates are between 0.1-0.15% but they vary between cantons and across years. It's levied on property owners in **19 of the 26 cantons**.	0.2
Germany	The tax base is outdated assessed property values multiplied by a municipal multiplier. Basic rates are **between 0.26% and 0.35%.**	0.2
Netherlands	Rates are between **0.1% and 0.3%** of the assessed property values. These are determined by each municipality.	0.1
Luxembourg	Rates are between **0.7% and 1%** multiplied by a municipal multiplier of between 1.2 and 9. Final rate depends on characteristics of the property like age, size and use.	0.1

It is worth noting that council tax (known as rates) is a relatively important source of tax revenue in Aotearoa New Zealand, generating 2.0% of GDP in 2012.

2 IPPR report 2013 p.12-13
3 IPPR report 2013 p.13-14
4 IPPR report 2013 p.16

1.2 Imputed Rental Taxation

This differs from the council tax as an imputed rental property value forms the tax base and is always levied on the owner-occupier, with the exception of the French taxe foncière. It attempts to neutralise the inherent tax benefits of investing in your own home as opposed to renting[5]. If you chose to rent out your home and live elsewhere, you would be taxed on rental income received. If you invest in your own home you are effectively paying yourself rent. Since no cash changes hands, no tax is paid. An imputed rental tax corrects this distortion by taxing the equity in the home.

	Imputed Rental Tax	Revenue (% of GDP)
France	Broken up into **two main taxes**: one levied on the owner and the other on the occupier. Various rebates and exemptions are available. For the occupier-levied tax the rate is 1% for primary homes and 3% for others and an income-tested rebate is available for modest primary homes. Two other taxes apply for expensive or second properties with a rate of between 0.2% and 1.7%, and uninhabited properties in high population areas at a rate upwards of 12.5%.	1.9
Belgium	Rates range from **1.25% to 2.5%** depending on location, with exemptions and relief available. The tax base is the cadastral property value.	0.8
Switzerland	Imputed rent is **outdated** and thus lies well below market. Rates are around 0.2% depending on canton.	0.2
Netherlands	†Levied at up to 0.7% of the market value of a property .	0.1
Luxembourg	**Outdated imputed rental values** are calculated at 4-6% of property value and taxed as part of the owner-occupier's income stream.	0.1

† From email correspondence with Christine Hofkens, Embassy of the Kingdom of the Netherlands

5 Swiss housing report 2010 - p.268-269

The efficiency of this tax is impeded by the need to constantly update imputed rent for property prices. Some see this as an expense but this should be conducted as part of property tax calculations anyway. This tax becomes ineffective in many constituencies, due to the use of hugely outdated valuations. This is the case in Luxembourg, where valuations from 1941 are used[6]. In Switzerland, the imputed rent used to calculate the tax currently ends up at around 70 percent of the market rent due to outdated property valuations[7]. This is a politically unpopular tax, which could have lead to the rebranding of Belgium's imputed rent tax to a similar beast with a new name; the immovable withholding tax[8]. This is still a property tax based on estimated annual rent. The unpopular nature of the tax may explain why property valuations are not updated.

An OECD evaluation of Swiss imputed rental taxation found it to be ineffective, perhaps due to property owners overstating expenses to reduce their liability. Another trick used by people in Switzerland to reduce their imputed rental tax liability was to keep their mortgage high and pay the interest only, while depositing savings into a retirement fund to pay off their mortgage in one go[9]. Retirement savings are tax favoured there, creating this loophole option.

France also makes use of additional taxes for expensive residences and for voluntarily empty properties in high population areas[10]. These extra taxes could help explain the high level of tax revenue generated in France in comparison to other studied countries. However, they would come with considerable administration costs.

6 OECD Economic Surveys: New Zealand 2011 p.97

7 Housing Finance, Prices and Tenure in Switzerland 2010 p.269

8 http://www.expatica.com/be/finance/tax/Taxes-in-Belgium_100073.html

9 http://www.homegate.ch/buy/steps-to-home-ownership/news/taxes-2013/interests

10 http://www.french-property.com/guides/france/finance-taxation/taxation/local-property-taxes/

1.3 Land Taxation

Land tax is a tax on the assessed value of the land. Taxing land is thought to capture productivity gains that are realised through social developments, such as better infrastructure. It is viewed by proponents as a way of returning the inherent benefits of owning land to the whole community[11]. It was historically used to create an incentive to either develop land, or sell it on[12].

Land is also a store of wealth, so taxing ownership is seen as progressive. This is favoured by academics and is historically popular, as it is non-discriminatory so it places the onus on the landowners to maximise productivity on their land. It is also creates a relatively fixed tax base as land is theoretically of fixed supply.

	Land Tax	Revenue (% of GDP)
Denmark	Tax on the assessed value of the land, irrespective of use. The rate is determined by each municipality and sits between **1.6% and 3.4%**.	1.3
South Korea	The taxable base is 80% of the assessed value of the land after deducting the threshold exemption values. **Rates** are divided into two categories: one for vacant land that applies if all vacant land owned is valued at more than KRW500 million, and the other for land with buildings on it if the land is valued at more than KRW8 billion. Farmland, forests and golf courses are excluded. For vacant land, the tax rates range from 0.75% for a tax base of KRW 1.5 billion or less to 2% for a tax base of more than KRW4.5 billion. Land attached to buildings is taxed at a rate of 0.5% for a tax base of KRW20 billion or less to 0.7% for land worth more than KRW40 billion.	0.7

As both Denmark and South Korea have council and land taxes, a potential explanation for Denmark's higher combined property tax revenue could be the relative simplicity of their land and council taxes.

11 https://en.wikipedia.org/wiki/Land_value_tax

12 http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11438686

2. Transaction Taxes

These taxes are levied upon the changing hands of property.
Often capital gains tax doesn't apply to the sale of a primary residence.

	Stamp Duty	Capital Gains	Combined Revenue (% of GDP)
South Korea	Buyer and seller are **jointly liable.** An acquisition tax of 4% that can be tripled in large cities also applies	Tax is **calculated** as a deduction from the gain of expenses and a rate for the holding period (from 10% for three to four years to 30% for over ten years and a KRW2.5 million exemption for every year the property was held) with no adjustment for inflation.	1.6
Belgium	N/A	If a developed property is sold within five years the gain is taxed at **16.5%.** For undeveloped properties it's 33% within five years and 16.5% for five to eight years.	1.0
France	N/A	Eurozone residents are taxed at 34.5% and non-Eurozone residents are taxed at 48.8%. An additional rate of between two and six percent exists for gains above €50,000. Exemptions are available for primary homes and the rate declines with increasing length of the holding period. Applies for personal property gains of more than €5,000.	0.6
UK	Rates range **from 2%** for properties sold for between £125,000 and £250,000 and 12% for more than £1.5million	Taxed at 18% for gains over £11,000 but if the seller is paying **more than** the basic rate of income tax it's 28%.	0.5
Switzerland	Varies across cantons, but can be up to **3%** of a property value.	Rates are always inversely related to the holding period and in some cantons they increase with the magnitude of gains. In **Geneva,** the rate is 50% if sold within 2 years of holding.	0.4
Germany	Levied on both buyer and seller at between **3.5% and 6%** of the property value.	Tax on private income from capital and capital gains above €801 at roughly 28% including a solidarity surcharge and possibly a church tax. Real estate is **exempt** if held for more than 10 years.	0.4

Table Continued	Stamp Duty	Capital Gains	Combined Revenue (% of GDP)
Luxembourg	The higher of the purchase price or fair market value is **taxed at 7%**. An extra 3.5% is imposed in Luxembourg (municipality).	**Taxed** as income for residents and primary homes are exempt after two years of ownership. Other residences are taxed at the lower of the seller's marginal tax rate or 19.475%.	0.4
Denmark	N/A	Capital gains on non-share assets are taxed at up to 43.5%.	0.3
Iceland	**0.8%** but this is halved for first-home buyers.	Taxed at **20%** but tax-free for more than two years of ownership.	0.2
Canada	Taxed at **0.5% to 2%.** Doesn't apply in some provinces or if it's a resident's first property purchase worldwide.	**Half** of capital gains on resident's second homes and non-residents is taxed as income.	0.2
Netherlands	**8%** including smaller associated taxes and legal fees.	N/A	0.2

In terms of wealth-based taxes, they are the second most important source of revenue. The **French** generate a relatively high proportion of GDP (0.6%) through transactions taxation, although they have no stamp duty tax. This could be due to high rates of capital gains tax of 34.5 percent for residents, 48.8 percent for non residents and additional tax for gains above €50,000.

South Korea also generates a relatively high proportion of GDP (1.6%) through this route. This could be to do with the cultural pressure against tax evasion, coupled with the two separate stamp duty taxes and capital gains tax.

Luxembourg, however, only generates 0.4 percent of GDP this way, but levies a hefty 7 percent on the higher of the purchase price or fair market value. This relatively small revenue could be somewhat due to its comparatively lenient capital gains tax.

These kinds of taxes are complex but difficult to avoid completely (except for all the thresholds and loopholes). The main problem is that a tax levied on a transaction is arbitrary and discourages transactions to take place. In other words, it encourages people not to move house. This can lead to inefficient outcomes, like old people living alone in massive homes.

Stamp duty has been a particularly controversial tax in the **UK**. It was previously levied at a progressive rate with the whole value of the property charged at one rate. This meant that huge jumps in the tax bill existed around the thresholds between rates. For example, the old tax bill for a £250,000 property sale was £2,500, while the bill for a £250,001 house leapt to £7,500. This resulted in **clusters of property sales** just under the thresholds, as there was an incentive for property sellers to settle for a lower price and avoid paying the higher rate. This also meant that house price inflation led to bracket creep. Changes in 2014 have brought it in line with the income tax system, where tax is levied on bands of price rather than the whole price. Carrying on from the above example, the same £250,000 property is charged the same amount but the £250,001 property is now charged an additional 5 pence (£0.05) rather than £5,000.

The real difference can be felt in the expensive property market. Previously a £1.5 million house would have attracted £75,000 in tax but now that has leapt to £93,750. This is thought to have created a **substantial disincentive** for wealthy Brits not only to move house, but also to buy an expensive house as a store of wealth as they'll have to pay larger stamp tax when they eventually sell. These changes have been hailed as a tragedy for the premium property market, particularly in London, and have led to more wealthy people choosing to purchase property outside of the UK.

3. Pure Wealth Taxes

These are levied on the net wealth of households or individuals by taxing a percentage of their wealth and are designed to target the rich. However, those who are truly rich are known to hide (by sending their money overseas) or under-declare their assets to evade it. As a result, wealth taxes are generally seen as ineffective and controversial.

	Wealth Tax	Revenue (% of GDP)
South Korea	Separate cantonal and communal tax rates that work out to 0.3% to 0.5% of an individual's net worth. Some cantons include church tax.	0.9
Iceland	Taxed at 1.5% of the net capital for single individuals with more than ISK90 million or couples with more than ISK120 million in net wealth.	0.3
France	Households with worldwide assets greater than €1.3 million are taxed at banded rates from €0.8 million at 0.5% to above €10 million at 1.5%, with exemptions for possessions such as antiques and art collections.	0.3
Netherlands	Possessions worth over €21,139 are taxed at an overall rate of 1.2% (assets assumed to have a 4% return, which is taxed at 30%) as part of income tax. The tax base is calculated as total value of assets minus debt. Consumer goods that aren't held as an investment and primary homes are excluded (but they are subject to the imputed rental tax as above).	N/A*

*Wealth tax in the Netherlands is no longer captured separately in data because it is part of the income tax stream

French wealth taxation applies to households with worldwide wealth of greater than €1.3 million. For these households, wealth is taxed in five bands: 0.5 percent on their wealth from €0.8 million to €1.3 million; 0.7 percent from €1.3 million to €2.57 million; 1 percent on wealth from €2.57 million to €5 million; 1.25 percent from €5 million to €10 million and then above that at 1.5 percent. Residents also have a 30 percent allowance against the value of their principal home. It is up to each household to decide if they qualify for the tax and per-month penalties are in place for non-payment [13].

France has long been an advocate for wealth taxation, although this is in the face of hypocrisy from the highest level of government. François Hollande, President of France, has in the past been accused of substantially undervaluing his property to evade wealth tax. This type of tax evasion leaves the true burden to either middle-income households who lack the resources to conduct evasion or, even worse, to the elderly who brought their home some time ago and found that it has since significantly increased in value.

13 www.telegraph.co.uk/news/worldnews/europe/france/11187602/The-wealth-tax-a-tax-on-the-rich-that-cripples-the-poor.html

Of particular concern is those who find themselves unexpectedly asset-rich, so they don't have time to avoid the tax. One such example is from Île de Ré, in France. Property prices on the island skyrocketed after a bridge was built, increasing accessibility and transforming it into a popular tourist trap. As some locals were unaware of the property price hike, they were also unaware of their wealth tax liability. A pensioner couple, after eventually becoming known to tax authorities, were charged with years of back-tax, financially crippling them. It was cases like this that brought pressure for a maximum payment threshold. This was later introduced at 75% of net taxable income. Another option to overcome this problem (as suggested for the CCIT) would be to include a provision for payments related to property to be deferred and made as part of settling the estate.

Like inheritance taxes, exemptions also plague the effectiveness of wealth taxes. In France, antiques, art collections and historical cars are exempt from inheritance and gift taxation, providing an incentive for the rich to store their wealth in this way.

An example of a wealth tax that has been hailed as a success is in Iceland. Following the great financial crisis of 2008, they instated a wealth tax of 1.5 percent of net capital for single individuals with more than ISK90m (£390,000) or couples with more than ISK120m (£519,000) as a temporary measure to generate additional government revenue [14]. Few wealthy Icelandic individuals found it worthwhile to uproot their lives in search of greener pastures and cheaper tax bills for only four years, so it is possible that it didn't damage the Icelandic economy in the same way that wealth tax has in France. However, Icelandic economics professor Thórólfur Matthaisson considered it to be ineffective due to it's short shelf life. It was replaced with a large increase in the tax on fishing quota revenue, seen as progressive as Icelandic fisherman dominate the higher wealth group.

Perhaps because of political concerns, **The Netherlands** rebranded their wealth tax in 2001 to fall under income tax. This is a more accurate description, because (as with the CCIT) wealthy people may not have to pay any more tax if their assets are already generating a taxable return. Falling interest rates in recent years have exposed a flaw in the method that the Dutch use to calculate wealth tax. This means for the period when interest rates plummeted to well below 4%, Dutch residents were being taxed heavily on the returns from their assets. This could be overcome by a deferral system, as discussed above. This would not be an issue if it was a temporary shift in interest rates. Taxpayers would be undertaxed in the good years and overtaxed in the tight years, creating a balance over time. The issue arises from a permanent shift in interest rates, which would necessitate an evaluation of the rate of return used in tax calculations.

14 Email correspondence with Professor Thórólfur Matthaisson, Faculty of Economics at the University of Iceland

4. Inheritance, Gift, Estate Taxation

Inheritance and gift tax policy optimally follow a similar policy to remove the incentive to gift assets before death as a tax avoidance scheme. They are generally seen as ineffective due to the large list of exemptions associated with them, normally excluding close family from tax liability. This could be due to the tax's political unpopularity. In terms of economic theory they should be more popular than they are, as taxing income you didn't earn yourself is surely more desirable than taxing earned income.

	Inhertance/Gift/Estate Taxation	Revenue (% of GDP)
Belgium	Inheritance tax rates depend on municipality - Flanders charges up from 27% for inheritance greater than €250,000, while Wallonia charges up to 95% for unrelated heirs. Gift tax is 3% for movable goods and 7% for others. Once gift tax is paid, there's no liability for inheritance tax.	0.7
France	One gift every 15 years is tax-free. Exemptions are granted for gifts depending on donor-donee relationship and gift tax rates range from 5-60%. Inheritance tax is the same but with an additional £100,000 tax-free allowance on the death of a parent.	0.5
United Kingdom	Inheritance tax is also charged on gifts or trusts made less than 7 years before death. The tax rate is 40% of estate value above £325,000, with exemptions for spouses.	0.2
Germany	The tax rate is 7% to 50%, with up to a 100% depreciation for the value of family homes and inheritances/gifts left to families.	0.2
Luxembourg	Inheritance taxed at 0 to 48% depending on relationship and the amount of assets. Gifts of movable assets without a notarial deed are tax-free, while those requiring a deed are taxed at between 1.8% and 14.4%, and immovable property may be subject to an extra transfer duty of 1%. Gifts to direct heirs are exempt.	0.2
Netherlands	Tax-free thresholds exist for children and spouses and tax rates are between 5% and 63%.	0.2
Denmark	A rate of 15% is paid on the value of the estate above a defined value. The rate can reach 36.25% if beneficiaries have no closely defined relationship with the deceased. Exemptions are in place for spouses, property and trusts, for children and stepchildren under 24, and for estates valued below DKK255,400 (about €34,200) for inheritances and DKK58,700 for gifts.	0.2

Switzerland	It's calculated from a basic rate (0-40%) based on the relationship, then a 100% to 300% surcharge is levied on top of that based on the value of the property. It's levied on worldwide assets by the canton where the deceased had their last residence. Many different levels of exemption exist, depending on canton.	0.1
Cananda	The estate is treated as a sale upon death unless inherited by a spouse and the estate pays taxes rather than the beneficiaries	N/A

As a result of these exemptions, most of the inheritance and gift taxes collect a paltry amount of revenue – generally from the middle class. The poor don't reach the thresholds and the rich have the resources to plan their taxes to avoid them. The unsuspecting middle class who don't realise they are rich (for example through rising house prices) are the ones that get caught in the net.

Through poor organisation of inheritance tax law, Belgium has created a situation where estate planning is possible within the country. Gift tax is staggeringly low in comparison, with only 3 percent tax for donees that are relatives of the donor and 7 percent for non-relatives. With inheritance tax rates sitting as high as 95 percent[15] in the region of Wallonia, it's not hard to imagine why estate planning would be attractive. The UK have a similar loophole, in which gifts are tax-free if given more than 7 years prior to the donor's death[16].

Contrast this situation with South Korea. The heirs to the Samsung fortune in South Korea are in a pickle surrounding their inheritance tax, with a KRW6 trillion bill looming over their heads once their 72 year old father (the chairman of Samsung) passes away. Korean culture plays an interesting role in the success of their inheritance tax. Estate planning is felt to be immoral, as paying the correct amount of tax is simply doing your duty to the country. There is large social pressure for the Lee family to do their bit, particularly as there has been media interest both locally and abroad. South Korea's inheritance tax climbs to 50% for the top tax bracket. The influence of social pressure on reducing tax evasion could play an important part in ensuring tax bills are properly paid.

15 http://www.bespaarbelastingen.be/algemeen/belgium-tax-haven/

16 IPPR report 2013 - p.15

Annex

Explaining the Comprehensive Capital Income Tax (CCIT)

The Comprehensive Capital Income Tax is designed to ensure that all effective income received by owners of (non-financial) capital is covered by the income tax regime. It excludes financial capital because that is already covered via taxation of interest and dividends. The largest omission by the current income tax regime of income to capital owners is the exclusion of imputed rent, i.e.; the effective benefit the owner receives by deploying the capital for own-use.

The need to extend the income tax regime can be illustrated most simply by comparing the tax liability of two owners of capital - one a house, and the other a bank deposit of equivalent value. Both receive a benefit, the home-owner deploys the house for own-use, while the deposit owner receives interest. Only the deposit owner is taxed on that benefit however. That is anomalous and unfair.

As well as issue of inequitable treatment of income earners, economic efficiency would also be enhanced by correcting this taxation anomaly. A business investor would be irrational to own a business that consistently earned a return on assets that was below the risk-free rate they could earn from holding government stock. And yet that happens - indicating either that the business cannot offer an adequate return for risk and hence is a drag on national income, or the owner is receiving a benefit that justifies their investment but does not appear in the firm's taxable income (for example the use of tax write-offs). In other words issues of economic efficiency and fairness may well arise with low returning businesses.

The CCIT extends the income tax regime to include a wider definition of income to capital for taxable purposes. Even then it does not include all of the return to capital as it deems capital to have a minimum taxable income equivalent to the risk free return only. Because of the risk that comes with investment it is most unlikely that owners of capital would be satisfied with such a paltry return, they are likely to require more. However the CCIT does recognise that there is minimum return to capital that owners would receive over the long term at least.

Under the CCIT, the tax base is extended to include the income from land, structures, plant and equipment, brands and intellectual property. All categories of taxpayer are affected by this - from homeowners, to private owners of boats, aircraft and motor vehicles, and businesses that have assets on balance sheets. The capital value is defined as net of debt (debt already attracts tax from the lender via the interest charged). The CCIT tax rate would ideally be the average income tax rate (straightforward if there's a single flat income tax rate) or the corporate tax rate if personal income tax rates are variable. Assuming then a 5% risk free rate of return, and a corporate tax rate of 30% say, the following illustrate how the CCIT is applied;

Examples below

Examples

Example 1	A homeowner with equity in their home of $300,000. The annual tax payable would be 30% * 5% * $300,000 = $4,500.
Example 2	A firm with net equity on the balance sheet of $1,000,000 The annual CCIT tax liability would be 30% * 5% * $1,000,000 = $15,000 This defines the minimum tax the firm must pay. If the business pays tax on profit of $20,000 anyway then it would have no additional tax to pay under the CCIT regime. If the firms taxable profit was $8,000 then it would have $7,000 additional tax to pay under the CCIT regime.

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