Taxing capital income and wealth in L&MICs: practice, principles and gaps

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Growing demands to tax capital income and wealth more

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- High income and wealth inequality (Chancel et al, 2022)
  - Estimates vary within country, underlying data & method used matters (Advani et al, 2025, Alvaredo et al, 2025, Carranza et al, 2025)

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- High-income and high-net-worth individuals (top 1%-0.01%) pay proportionally less income tax (most evidence from HICs, Zucman, 2024)
  - capital income (business income) relatively more important at the top (Delestre et al, 2024, Del Carmen et al, 2025)
  - capital income often taxed more lightly than employment income (Hourani et al, 2023, Hourani & Perret, 2025)
  - avoidance - income-shifting (Pirttilä & Selin, 2011), migration (Advani et al, 2025)
  - evasion - hide income and wealth from authorities (Lejour & Schindler, 2024)

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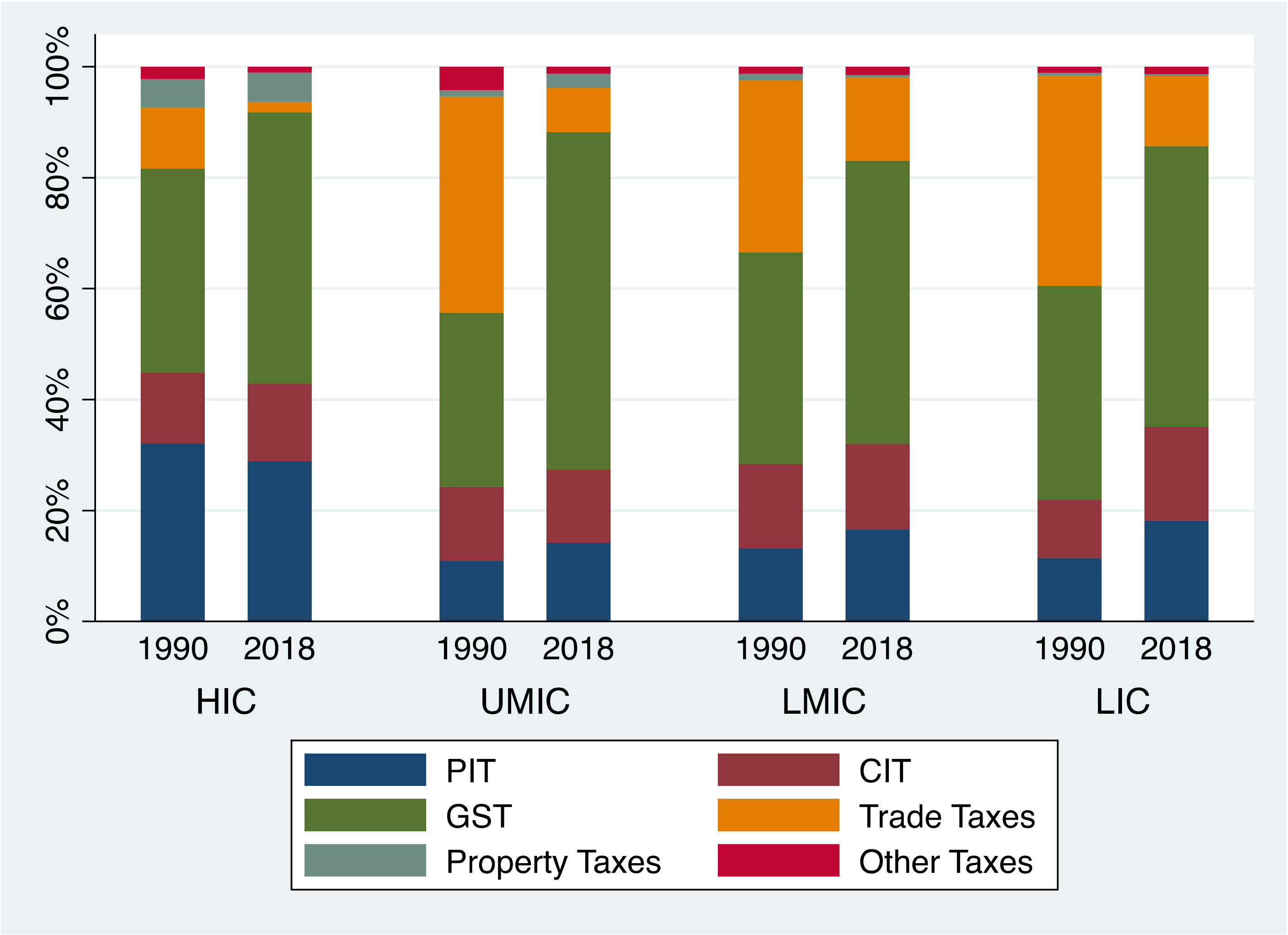
- Shifts in conventional principles (zero capital tax) & enforcement mechanisms (AEIO, technology)

Calls for increasing DRM via progressive taxes, also in L&MICs



Source: Granger et al (2022) using UNU-WIDER GRD (2020)

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Taxing capital income and/or wealth more? How? Unsettled question

- Tax systems vary in design, scope and administration across countries
- Balance equity, efficiency & revenue objectives using imperfect & complementary instruments
  - Recent normative work ambiguous, evidence varies
- Need more evidence from L&MICs on taxpayers and responses

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- Need more evidence from L&MICs on taxpayers and responses
- Future work
  - Characterise tax treatment of capital and labour income in Sub-Saharan African countries (different sources of capital income)
  - Compute stylised ETR for hypothetical individuals
  - Ideally combine with micro data (survey and admin)

Different ways to tax capital income and wealth

- Taxes on capital income:
  - Interests, dividends, royalties, rental income, capital gains
- Taxes on the transfers of wealth:
  - Estate /inheritance, gifts, market exchange of assets (e.g. financial assets, bank transfers, property)
- Taxes on the stock of wealth:
  - Broad or net wealth imposed on the value of most or all types of assets held by an individual minus the related debts
  - Specific assets
    - E.g. recurrent taxes on immovable property or movable property (from cars and aircrafts to financial assets)

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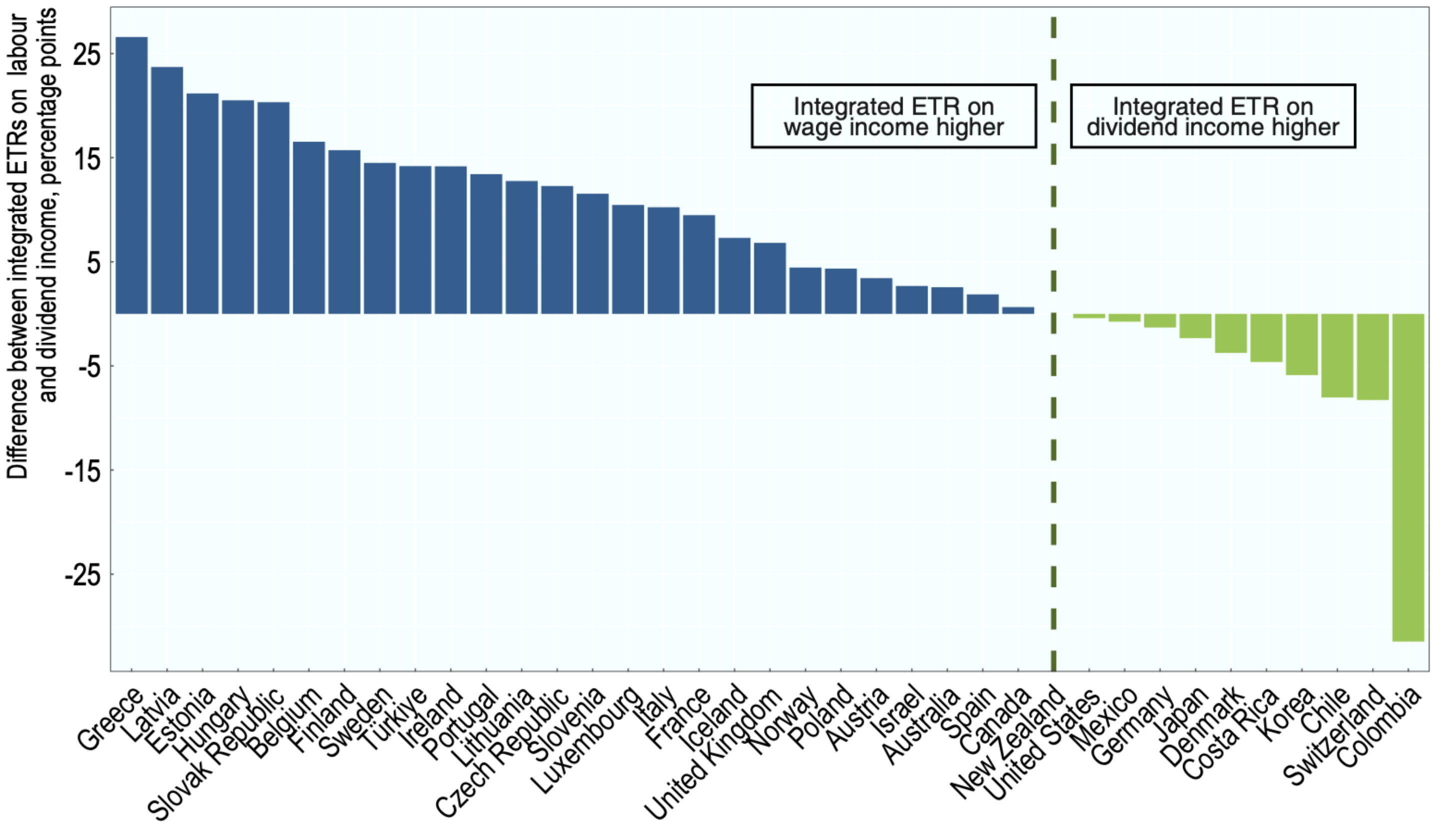
Dividends taxed less than employment income in most OECD countries



ETR for hypothetical taxpayer - Difference in the share of income payable at the combined personal and firm levels (no behaviour, economic incidence, evasion).

Source: Hourani et. al. (2023), The taxation of labour vs. capital income: A focus on high earner

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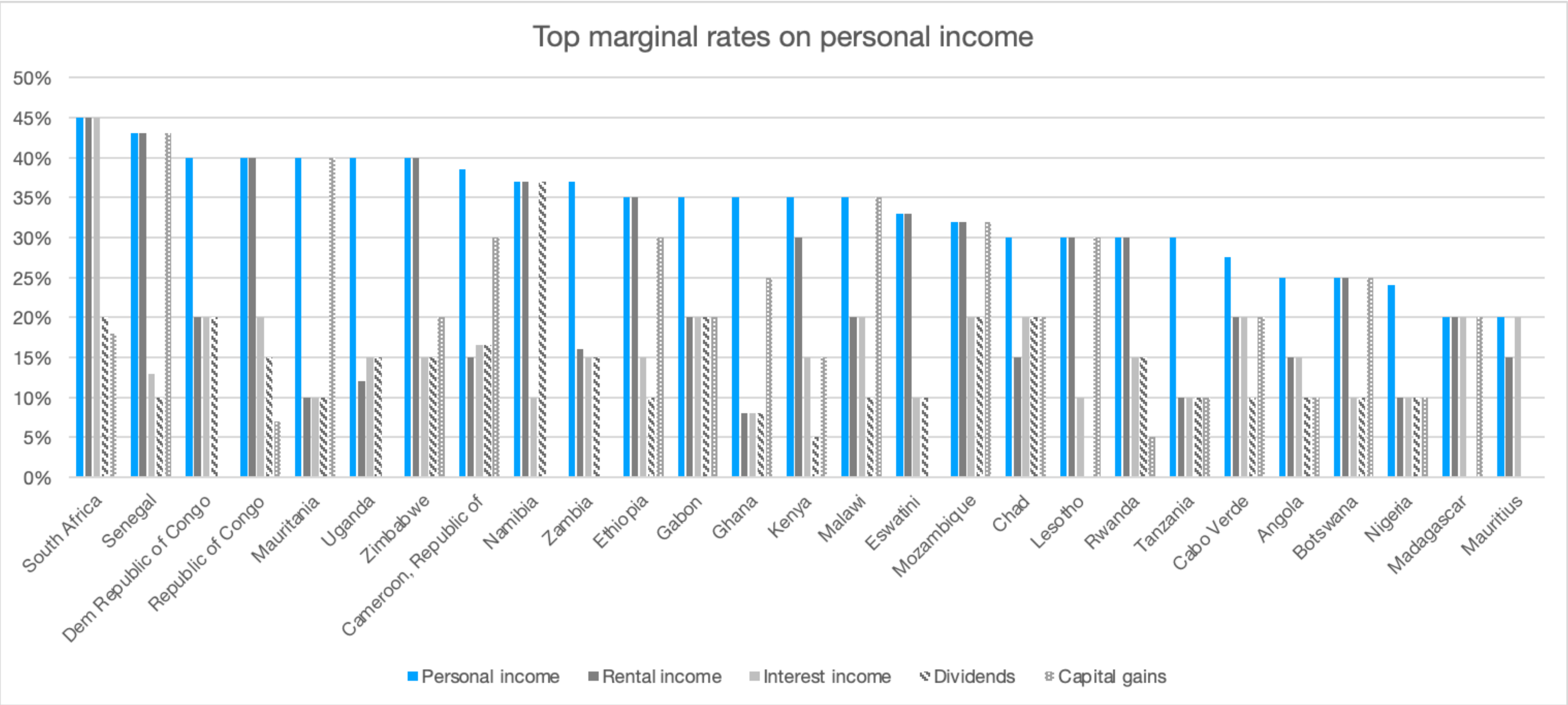
Lower statutory rates on capital income in Africa (selected countries)



Source: Authors' own elaboration based on data from EY, Deloitte and PwC publicly available.
Note: Year 2024, not for circulation – data needs further checks and validation.

Lower prevalence of wealth taxes across countries

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	% LICs	% LMICs	% UMICs	% HICs
Stock of wealth				
Any wealth tax	10%	11%	16%	13%
Net wealth tax	10%	8%	9%	9%
Property tax	80%	79%	88%	79%
Tax on transfers of wealth				
Inheritance (or estate) taxes	20%	42%	51%	45%
Gift taxes	10%	50%	49%	45%

Source: Authors' own elaboration based on data from EY, Deloitte and PwC publicly available.
Note: Year 2024. Sample of 158 countries - 10 low-income, 38 lower-middle, 43 upper-middle, 67 high-income countries. Not for circulation – data needs further checks and validation.

Taxes on wealth transfers account for small % of tax revenue, even in HIC

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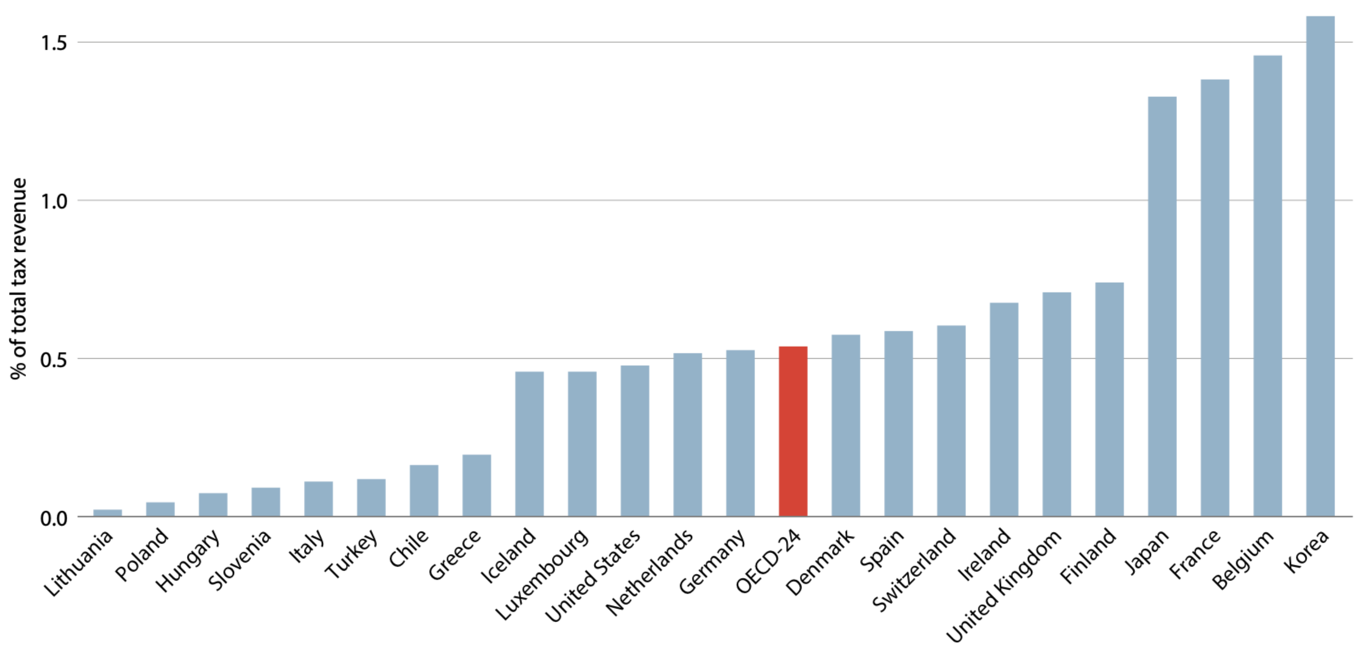
Inheritance, estate & gift tax revenues, 2019 (% of tax revenue)



Source: Reproduced from OECD (2021), Inheritance taxation in OECD countries

→ Narrow bases: in many countries most estates exempted (OECD, 2021).

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Tax capital income, stock or transfer of wealth? Equity-efficiency trade-offs

- Policy objective:
  - ↑ tax burden on the rich, ↑ tax revenues, improve welfare

- Results from normative theory vary with key assumptions (*Bastani & Waldenström, 2023*)
  - drivers of (heterogeneous) levels in wealth & capital income
  - externalities from wealth or income concentration (Kleven, 2025)
  - (heterogenous) evasion level
  - (heterogenous) elasticities of (reported) wealth & income

Tax capital income, stock or transfer of wealth? Equity-efficiency trade-offs

- Broad wealth tax: taxpayers with = wealth pay = tax
  - taxes "imputed" normal returns to capital/unrealised gains, favours *excess returns*

→ *Two contrasting normative results from stylised models:*

- If excess returns driven by productive activities, <u>tax wealth</u>
  - better allocation of capital, ↑ productivity & growth (Guvenen et al, 2023)
- If excess returns driven by luck or rent-seeking, <u>tax capital income</u>
  - (exempt normal return, Mirrlees et al, 2011)
  - challenge to tax unrealised gains
- In practice, excess returns likely driven by a combination of factors and vary across individuals

Design and implementation of taxes matter

Considerations

- Partial tax base or differential tax rates
- Mobility of residence and assets
- Liquidity constraints (for taxes on stock or transfers of wealth, or other unrealised capital gains)
- Determining tax bases and liabilities

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- Determining tax bases and liabilities
    - Valuation of assets
    - Relying on self-assessment (misreporting)
        - More problematic in many L&MICs
            - Often no legal obligation to file self-assessment (WHT agents report aggregates, no individual tax records).
            - Third-party data to not only to enforce but build records

→ All shape efficiency, equity & revenue impact of these taxes

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How do individuals respond to capital income and wealth taxes?

- Most evidence from HICs shows individuals respond
  - How and by how much varies by tax, rates, base, nature of reform, context, methodology (Advani & Tarant, 2021, Scheuer & Slemrod, 2021, Lefebvre et al, 2024)
    - Short- vs long-term effects, micro vs aggregate effects
    - Real vs reported incomes & wealth

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    - Short- vs long-term effects, micro vs aggregate effects
    - Real vs reported incomes & wealth
- Emerging evidence from LMICs, responses may be larger (Bachas et al, 2024)
  - ↑ PIT top rate (Uganda, Jouste et al, 2025, South Africa, Axelson et al, 2024, Uruguay, income shift of self-employed, Bergolo et al, 2022)
  - Improvement in enforcement (AEOI) combined with tax amnesties can ↓ elasticities, ↑ revenues & progressivity
    - ↑ reported wealth offshore (Colombia, Londoño-Velez & Avila-Mahecha,2021, Argentina, Londoño-Velez & Avila-Mahecha,2023)

Taking stock

- (Capital) income and wealth concentrated at the top

- Individuals respond to capital and wealth taxes (most evidence from HICs)
  - (Reported) income and wealth, their composition, savings, mobility
  - Policy details, enforcement, context, methodology matters

Taking stock

- (Capital) income and wealth concentrated at the top
- Individuals respond to capital and wealth taxes (most evidence from HICs)
- Room for improvement of capital income taxes, even in L&MICs with little revenue potential from this tax base in short run
  - Growing evidence that EOI has already contributed to reducing offshore tax evasion ([Alstadsæter et al., 2023](#))
  - Priority to develop data infrastructure, analytical capacity at both revenue authorities and Ministry of Finance and administrative capacities
    - Key to exploit AEOI & other third-party reporting → shape responses
- Significant gaps remain, call for more work!

Thank you!

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