Do We Need a Wealth Tax? Of Course, but That's not All We Need!

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New Adva Center position paper: "We need to significantly increase state revenues from taxation in order to provide the wherewithal for upgrading Israel's economy and society."

Adva Center just published a new position paper, **Taxation as an Engine of Equality**, written by Shlomo Swirski, Yaron Hoffmann-Dishon and Barbara Swirski.

The report points out directions for changes in Israel's taxation policy, so as to not only cope with the present corona crisis but also to stimulate long-range economic and social development policy, for the purpose of upgrading the standard of living of Israelis and, at the same time, increasing social equality.

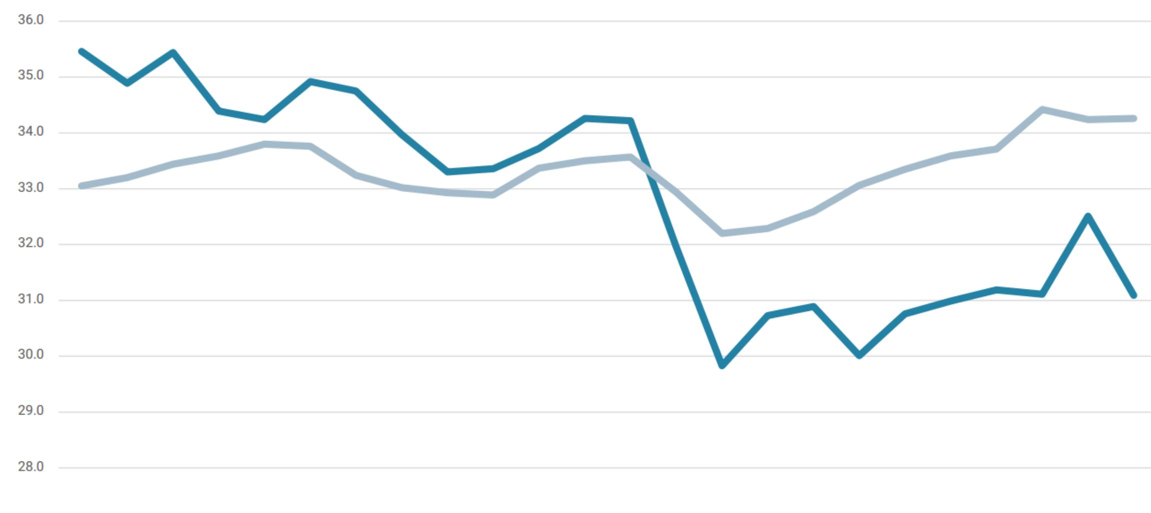
The authors contend that Israel is a low-wage economy. Over most years, the level of taxation (in terms of GDP) in Israel has been relatively low. It was raised only during the period of Israel's two big wars, the Six Day War and the Yom Kippur War.

The corona epidemic revealed to one and all public service systems suffering from under-funding, first and foremost the public health system, in which there is a dearth of equipment, laboratories, hospital beds and training personnel.

Proper state funding requires higher taxation.

Shlomo Swirski: "The call to significantly increase state revenues from taxation is not just a specific response to the economic implications of the corona epidemic, but rather, it is a call to adopt a taxation system that promotes equality, one that would enable Israel to undertake active policies of universal economic and social development, so that the entire population of Israel approaches the standard of living and cultural and scientific level of activity of western European countries."

State Revenues (All Levels of Government) from Taxation as a
Percentage of GDP – 1995-2018, Israel and Average of OECD Countries



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Israel	35.5	34.9	35.4	34.4	34.2	34.9	34.8	34.0	33.3	33.4	33.7	34.3	34.2	32.0	29.8	30.7	30.9	30.0	30.8	31.0	31.2	31.1	32.5	31.1
OECD	33.1	33.2	33.4	33.6	33.8	33.8	33.2	33.0	32.9	32.9	33.4	33.5	33.6	32.9	32.2	32.3	32.6	33.1	33.4	33.6	33.7	34.4	34.2	34.3

OECD (2020), *Tax revenue* (indicator). doi: 10.1787/d98b8cf5-en (Accessed on 19 July 2020).

Whereas in the past Israel depended to a large extent on foreign aid from Jewish communities abroad and friendly governments, today we are a country that is able to stand on its own. We no longer need "Uncle Sam." We have developed our own affluent strata, including a wealthy stratum that has the ability to provide the government of Israel with the wherewithal for a wide variety of social policies. The lion's share of additional taxation recommended in this report is to be paid by the two highest income deciles, and among them by the top one percent and top 0.1 percent. Such an investment, if well addressed to education, training and strategic investment in peripheral areas, will eventually lead to the broadening of the tax base.

Facts and Figures from the Position Paper:

<u>Income Tax:</u>

1. **In 2017, 55.4% of salaried and self-employed workers did not earn enough income to reach the income tax threshold** (but they did pay value added tax, health tax and social insurance tax). These figures reflect, among others, the fact that a large proportion of workers in Israel – 22.4% -- earn no more than what is defined by OECD as low wages – that is wages that amount to up to two-thirds of the median wage. This compares with the OECD average of 15.3%.

2. The two upper income deciles now pay 91.6% of income tax in Israel. Any increase in the income tax means raising the level of taxation of these two income brackets. However, within the top income bracket there is a top 1% and a top 0.1%, which compose a social stratum

very different from the others. There is a huge distance between the average monthly income of the top income decile – today amounting to some NIS 45,000 – and that of the top one percent – some NIS 145,000 – three times higher.

3. In 2017, the top one percent paid 31.7% of its gross income in income taxes. **We are of the opinion that they can pay more**.

The cut-off point for the highest marginal income tax – NIS 54,000 – is close to the average earned monthly income of the top income decile – some NIS 45,000. We are of the opinion that a higher marginal tax rate would be appropriate for those with top incomes.

Value Added Tax:

4. VAT, which at the time of writing stands at 17%, provides the state with more revenues than income tax. **In 2016, the state collected about NIS 90 billion in VAT, amounting to 32% of the total taxes collected by the central government that year. For comparison's sake, income tax revenues amounted to 27% of tax revenues, and corporate taxes – 13%.**

In Israel, VAT is a purely regressive tax, as it involves a fixed percentage for all, regardless of income level. State revenues from VAT, a regressive tax imposed on everyone, including low-earners, is intended to cover state revenue losses resulting from the lowering of marginal income taxes. In contrast to the VAT, the income tax is a progressive tax paid primarily by higher earners.

Capital Gains Tax:

5. Since its very founding, taxation in Israel has been imposed mainly on income from work. In contrast, capital gains taxes were generally low, and most income from capital was exempt from taxation. For the majority of the population, income from capital gains comprises a low or negligible percentage of household income. This is not the case for the more affluent. Income from capital gains comprises 9.9% of the total income of households in the top income bracket.

6. At present, the capital gains tax preserves and even deepens income inequality, as the highest marginal tax rate for income from work is 50%, while that for capital gains is 25% (30% for persons with a significant percentage of shares).

We are of the opinion that the best way to increase the tax on capital gains would be to make it cumulative, imposing the same tax rates on income from work and on capital gains from both financial and real estate investments.

Inheritance and Wealth Taxes:

7. Inherited capital creates what can be called ''deep inequality,'' that is, inter-generational inequality. In an attempt to reduce the extent of inter-generational wealth transfers, many governments impose estate or inheritance taxes. **In Israel an inheritance tax was imposed in April 1949, but it was abolished in 1981 and has not been reinstated since that time.**

8. A wealth tax allows taxing individuals and households that possess large amounts of capital and other assets, even if their regular income is not particularly high. Israel has never had a wealth tax. In contrast to other countries, Israel lacks systematic data on the extent of wealth and its distribution among households.

At present, during the corona crisis, the subject of a wealth tax has been raised against the background of the need to finance assistance packages to households negatively affected by the crisis, at a time when there is considerable opposition to raising income taxes.

We are of the opinion that despite the reservations put forward from time to time vis-à-vis a wealth tax, taxing earned income will not be sufficient; moreover, the imposition of a wealth tax would contribute to reducing the high level of inequality in Israel.

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