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Taxation of wealth

When it comes to addressing societal issues, how can we use wealth tax to maximum effect?

- Wealth taxes have the potential to address issues such as wealth imbalances and rising health and welfare costs.
- However, not all wealth taxes address all the issues completely — or even partially.
- Net wealth taxes have generally created neutrality, efficiency and equity issues.
- Annual real property taxes have proved a relatively efficient way of taxing wealth.



Widespread concerns about unequal wealth accumulation and growing government expenditure obligations have led many to call for increased taxation of personal wealth. Some see wealth tax reform as a means of funding essential government services, at the same time as supporting equality of opportunity through wealth redistribution. However, when implemented in the past, certain wealth taxes have proven to be inefficient, distortive and inequitable and have consequently become less popular. Given this history, a hasty and ill-considered revival of old wealth taxation policies could do more harm than good. The essay below sets out points that are beneficial to bear in mind when determining whether a wealth tax warrants further consideration, based on a particular country's fiscal and social circumstances.

Wealth tax — a brief background

Any worthwhile decision on tax reform needs to be informed by the current context, bearing in mind the challenges of current global fiscal policy. Wealth taxes may directly address the general issues of imbalances in wealth accumulation, and specifically the issues of wealth accumulation through real property (arising in part of population growth), and rising health and welfare expenditure. However, not all kinds of wealth taxation can address these problems totally or even partially.

The term 'wealth tax' could actually be applied to several different types of taxes, all of which are conceptually distinct. Taxes on land, capital gains, inheritance, and lifetime gift receipts each address certain elements of wealth, while 'net wealth taxes' are explicitly designed to be levied on total taxpayer wealth.