Observations on the proposed 'wealth' tax

SAJJAD ZOHIR

In a recent discourse on wealth/property tax, one proposal suggests of assessing wealth from statements of individual tax-payers on the ground of ease in its administration. The wealth statement, if recorded truthfully and on time, captures the wealth stated at the time of one's entry into the tax-net, plus the accumulated savings from one's incomes over the years, which have been reported and have been assessed for income tax purposes.

In the common parlor, and ignoring any understatement of expenditure, the most probable operational definition of 'white money' would be this reported 'wealth' -- be it in cash, furniture, gold, apartment, land or any other form -- including all forms of investments.

Two possible elements of discrepancy in the last assertion may arise -- firstly, during the first year of assessment, if a tax-payer records unusually high (and unjustified) wealth and it is accepted by the tax authority; and secondly, if the government allows previously unrecorded wealth ('black money') to be recorded as 'legal' wealth ('white money'), either by paying a nominal tax on total additional wealth recorded in such route, or, by allowing for capital gains from share market transactions without having to declare the source of investments leading to such gains.

Barring these two, one may say that a tax on the value of wealth stated to the tax authority is equivalent to the 'white money' that is so often associated with 'honesty'; and therefore, a tax on the former may be construed as a tax on honesty!

Any wealth has two dimensions that are relevant for our discussion -- physical quantity and value. Current proposal mentions of the value of assets reported in wealth statements. Actual ownership of wealth valued in current market prices may grossly differ from that stated due to several reasons. An important reason for discrepancy is due to an understatement or non-recording of wealth. A second reason is undervaluation of properties, which is further complicated by the long practice of allocating valuable properties by government agencies to a privileged few at prices lower than market prices.

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The time difference in acquisition adds further complication, even if one reports honestly. Wealth statements reflect prices paid by tax payers at the time of their purchases or inheritance. With persistently increasing prices of assets, the same item bought (say) 20 years back will cost several folds more now, and a tax-payer having recent acquisition will appear to be that much richer than someone owning identical amount of assets but acquiring those many years back.

Thus, capital gains made (if any) by someone getting a (say) RAJUK plot or being in possession of land for many years, will be higher than those buying it from open market or in the recent past. And yet, the latter group will be paying higher 'wealth tax' under the proposed scheme.

The implications of the proposed wealth tax should be obvious. Those who gained ownership of assets at undervalued prices have lower reported wealth and therefore have to pay lower wealth tax. This group would include government officials, politicians connected to power at one or the other time, and others who were on the priority list during allocation of government plots or officials of armed forces who could buy plots in DOHs across the country at token prices, etc.

A second group who would benefit from the proposed method of assessing wealth tax includes those who have undisclosed money in real estates that keep moving and inflating, but not surfacing in wealth statements. Controlling for all other variations, a third group less affected by the proposed tax scheme includes those who accumulated wealth in the early years and therefore, the stated value at cost is relatively lower.

Compared to these groups, there are several groups of people who will be relatively more affected -- those who have not benefited from special allocations of land and rely exclusively on markets, and those who have enjoyed the conversion of black to white money by paying nominal taxes.

The most adversely affected people are those who had honestly reported their income, paid due taxes and accumulated personal wealth; and the injustice of proposed scheme lies in here.

After many costly efforts to improve governance in tax administration and to encourage tax payers to reveal truthfully through self-assessment, such a tax on honesty is bound to take us back by miles.

Will the proposed wealth tax achieve anything it says it will?

In one of the consultation meetings organised by the National Board of Revenue (NBR), it was suggested that the 'wealth tax' will (i) reduce inequity in the country; (ii) discourage private resource allocations on real estates and other unproductive assets (as one NBR member stated, "Wealth tax will check excess purchase of land and house"); (iii) extract some of the unusual capital gains made from ownership of real estates and some other unproductive assets; and in the process, (iv) raise government revenue to realise a 'respectable' tax-GDP ratio.

As long as an average tax-payer owns more wealth than an average non-payer, a wealth tax reduces inequity. On the contrary, if, amongst the taxpayers, the wealthy people in the real world happen to be less wealthy on 'papers' when compared to the less wealthy ones in reality, the proposed wealth tax will increase inequity amongst taxpayers.

There is no a prior reason to believe that the proposed tax will raise the cost of holding unproductive assets and therefore, discourage private resource allocations to such assets. In a closed economy with transparency in resource transactions and good tax governance, taxes on ownership of unproductive assets will induce increases in allocation to productive assets.

The same is not true in case of an open economy. The introduction of wealth tax in France caused capital flight, brain drain, loss of jobs, and ultimately, a net loss in the tax revenue. More importantly, when unproductive assets (particularly, land and real estates) may be owned without those having to be recorded in the wealth statements, taxes on recorded wealth statements will have little or no bearing on resource allocations across productive and unproductive assets.

It has already been noted that stated wealth reflect value of assets at the time of acquisition and have no relation with capital gains, unless those are shown to be sold. And, in cases of land and tangible properties, there is already a capital gain tax in place, collected during registration.

Finally, once one accounts for lifecycle accumulation of wealth to ensure basic human living at a decent level, there will have to be a threshold below which tax cannot be justified. And, if a reasonable threshold is chosen, one estimate suggests that hardly Tk 20 crore can be raised as additional tax revenue, which hardly accounts for less than 0.3 percent of total tax revenue.

The obvious question is: can this amount justify a tax on honesty and the long term cost associated with non-compliance by taxpayers?

There are various ways to realise the objectives stated for imposing a wealth or a property tax, but those require efforts on several fronts, particularly on land and property management with continuous updating of information on ownership in an easily accessible database. The author favours the principle of a wealth tax that discourages accumulations in unproductive assets and promotes social justice; and would love to see such tax revenue tied to specific uses.

Unfortunately, the regulatory and information regimes pertaining to properties and other wealth have not matured enough in Bangladesh to enforce a wealth tax to realise those objectives without causing capital flight.

It is therefore more prudent to invest government effort and resources towards establishing those regimes -- digitisation of land records, time bounds on registration process, introducing advance income tax (AIT) at source for all transactions on real estate and making the real estate companies oblige to those requirements, making TIN information mandatory for all beneficiary owners accounts and introduce a nominal AIT for capital gains made against each beneficiary owners account, and strict enforcement through brokerage houses, etc.

As a general principle, tax collection policy needs to have central focus on agencies -- companies, banks, external agencies sponsoring projects, etc.

It is utopian to think that a perfectionist would be effective in this imperfect world. Thus, one may consider introducing a property tax in the coming budget, not expecting to raise additional revenue, but with a view to propagate the idea and to introduce good economic governance.

This may be done by confining to urban properties only, and consider the physical quantity and location of the property reported by a taxpayer. Most recent valuation exercises by a government agency (say, the finance ministry or the Public Works Department) on urban properties by locations may be used to arrive at total (assessed) value of the properties; and a property tax may be introduced on it with desired exemptions on account of use and the size of property value. Prior declaration of the unit values by locations in public domain will deter unnecessary harassment by tax-collection authority. It is important that we do not put to jeopardy the gradual improvements in tax administration achieved over the years; and taxing honesty, if at all necessary, should be the last in the list.

The writer is a director of Economic Research Group. He may be reached at sajjad@ergonline.org.

Fusion of work and play shapes Lenovo laptops

AFP, *San Francisco*

Chinese computer colossus Lenovo is infusing its leading business laptops with more fun features as Internet Age lifestyles blur lines between work and play.

Lenovo was at the San Francisco headquarters of Dolby Laboratories this week to show off theater quality sound, rich viewing and quick graphics handling in a ThinkPad laptop computer line that has become a top choice for businesses.

In this file photo dated August 19, 2010, the logo of Lenovo is displayed at a computer centre in Shanghai, China.

"We are adding elements that are more relevant and interesting to consumers," ThinkPad marketing director Tom Butler said while demonstrating new features that included audio enhanced with Dolby Home Theater 4.

Long popular with big corporations, Lenovo recently launched ThinkPad models aimed at small businesses whose operators tend to shop for gear at retail shops and whose employees increasingly make work computers part of home lives.

"We see a clear merger of consumer and business in the small business space," Butler said.

"At the same time workers are using systems 24 hours a day, seven days a week," he continued. "They are taking them home and checking personal email, searching the Web, playing music videos and other multi-media."

Dolby software added to freshly released ThinkPad laptop models dramatically ramps up the quality of any audio from film soundtracks or music to Internet conference calls.

"Even though you are listening over stereo speakers we are able to create a virtual surround-sound experience," said Kevin Brennan of Dolby.

"We are trying to re-create the immersive, cinematic experience that you enjoy at the movies, but on your personal computer," he continued.

Lenovo is the first to put Dolby Home Theater 4 on a business computer, according to Brennan.

"Lenovo is walking the walk and talking the talk by incorporating new features," he said.

Digital lifestyle enhancements included game-speed graphics, vivid screens, and HDMI ports for routing films or other data-rich digital content to high-definition television screens or muscular speakers.

ThinkPad laptops had keys devoted to quickly launching multimedia and slot-loading for DVDs.

"There is going to be a coolness factor to Lenovo's brand," said Lenovo 'ambassador' Stephen Miller.

"Like houses and phones, a computer says something about who you are," he continued. "We understand there has to be this consumerization feel."

Lenovo is the world's top seller of business laptops and the fourth largest computer company overall, according to Miller.

Lenovo's Bill Dominici provided an early look at an Edge 91Z all-in-one desktop computer hitting the market.

All the computing hardware was built into a sleek 2.5-inch (6.4 centimeter) thick black monitor with a 21.5-inch (54.6 centimeter) screen boasting high-definition imagery.

The starting price will be $699 with a "rich configuration" to be sold for $1,100.

"It competes quite nicely against an Apple (computer)," Dominici said while showing a 91Z to AFP.

"The business employee is really starting to drive the decision around what they are going to have on their desktop or what notebook they are going to carry, whereas IT managers used to rule the roost," he added.

The Lenovo team was mum about any plans to field a tablet computer in a market dominated by Apple's coveted iPads. Butler said his company was tuned into the trend of tablets being woven into home and work life.

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