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LUMP-SUM TAX IS AN ALTERNATIVE TO WEALTH TAXATION

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Abstract. *The purpose* of the article is to study the topical issues of wealth taxation, which is due to the established stable trends of growth of welfare of market participants. This study can be considered relevant and in demand based on the steady trend of enrichment that has taken hold in the world. This is a consequence of the accelerated pace of economic progress aimed at improving the well-being of individuals. Modern society is characterized by a noticeable increase in the number of wealthy people and an increase in the level of well-being in general. The number of wealthy individuals is especially growing. The purpose of this paper is to determine the essence of taxation of wealthy individuals. The topic of the article is driven by the need to disclose various forms and methods of taxation of wealthy individuals. At the same time, the purpose of the article is to study not the taxation of wealth, but rather the taxation of wealthy individuals. In this regard, the mechanism of one-time taxation is considered. *Methodology*. A correct analysis of the structure of wealth and wealthy citizens in society makes it possible to assess the effectiveness of specific forms of taxation, including one-time taxation. *Results*. The article examines the issues and current specifics of the lump-sum tax. The lump-sum tax is currently applied only in some countries, but it is quite effective. *Practical implications*. The peculiarities of the application of a one-time tax for wealthy individuals are investigated. The economic essence of the one-time tax is investigated. The specifics of the functioning of a one-time tax for wealthy individuals in some countries of the world are considered. *Value/originality.* It is found that wealth is a complex, multifaceted category which can be characterized as a specific characteristic of the socio-economic structure of society, which determines its status, results, dynamics and development trends. The features of the functioning of the one-time tax in different countries of the world are considered. The use of a one-time tax as a fiscal instrument in the tax system of the state is proposed.

Key words: taxation, wealth, lump-sum tax, consumption, income, expenses, economy, well-being.

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1. Introduction

In the course of its evolution, society has gone through many different stages of development. There were different types of societies with their own social and economic structures. In the context of each component, different activities were carried out, which are closely interconnected and dependent on each other. It is the desire to develop the economy, stimulate economic growth, fight poverty, fight for equality, etc. In fact, all activities pursued the goal of enriching and improving the well-being of individuals (Creedy, 1996).

There are different definitions of the state of modern society. A society of wealth is probably the most appropriate definition to define the current economic status of individuals in the social hierarchy. This definition has been given before (Sverdan, 2020). Regardless of the various circumstances, the socio-economic structure of a society is always divided into layers. Thus, a certain pyramid is built that reflects the socio-economic structure of society. This pyramid is built depending on the level of people's well-being. At the top of the socioeconomic pyramid are the wealthy. These are rich and super-rich people who have significant wealth (income and property).

A wealthy society does not mean the same level of well-being for all people. It only refers to people with above average or higher levels of well-being. This does not mean that there are no

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other strata of society (with a minimum level of well-being; with a level of well-being below average). This indicates the presence of a significant number of wealthy people (as a growing indicator of the economic progress of society). The economy itself has the property of self-expansion. The economy is aimed at creating various goods and increasing the welfare of as many individuals as possible. This goal is gradually being achieved. An increase in the number of wealthy people is a logical consequence of economic development. The wealth society is a reality of the modern world.

High net worth individuals pay taxes on an equal basis with all other categories of taxpayers. Unlike all other individuals, high net worth individuals are subject to special taxes, some of which are mandatory and others potentially applicable. In general, the taxation system for high net worth individuals is simple.

Fiscal practice has developed various effective forms of the taxation of wealthy (Ahmad, 2015). The wealth tax occupies an important place in their general system (Carlos, 2016; Vasques, 2016). At the same time, there are various types of wealth tax. The existence of different types of taxes makes the system of wealth taxation very diverse. Each of them has its own fiscal specifics (Sverdan, 2022).

As an alternative to the wealth tax, there are also some other forms of taxation on the income and property of wealthy individuals (Eichengreen, 1989). One of them is a lump sum tax. In today's environment, this is not a very common, but at the same time quite effective form of taxation. The one-time tax has its own specific features. First of all, its amount does not depend on the activities of individuals. Also, its general prerequisite and feature is the practical impossibility of tax evasion. Some countries still use the mechanism of a one-time tax (Donovan, 2016; Goldberg, 2013).

2. Economic prerequisites for lump-sum taxation

Unlike other types of wealth tax, the lump-sum tax has clear features (Tam, 2004). This is a fixed tax with a specific amount of tax (Kambe, 1934). This amount does not depend on the value of the total wealth of the individual.

The tax is intended for foreign individuals who do not conduct profitable activities.

This is an expenditure-based taxation (based on the expenses of an individual). It is not a tax on expenditures (Kaldor, 1955). This tax takes into account the estimated consumption of an individual. Consumption is an integral part of the economy and human life (Jappelli, 2017; Ilmonen, 2011; Mayer, 1972). Particularly significant consumption is among wealthy individuals (Kyrk, 1923; Waite, 1939; Wyand, 1937). Thus, the tax is associated with income that is spent on consumption (Duesenberry, 1949; Friedman, 1957; Canoyer, 1951). This is not a consumption tax, which are indirect taxes. It's a concept of presumptive taxation (Tanzi, 1987; Yitzhaki, 2007). Presumptive taxation involves the use of indirect methods for determining tax liabilities that differ from the usual rules based on the taxpayer's financial statements (Panagariya, 1999; Rajaraman, 1995). The level of income is not important; it is only important as a source of covering a person's expenses (Balestrino, 2005; Bovenberg, 1995; Erbas, 1993).

Thus, a lump sum tax is a one-time tax on wealth, or rather a tax on the rich.

Over the past century, a number of countries have tried to introduce one-time wealth taxes or capital taxes. A one-time wealth tax involves a lump-sum charge based on the value of assets held by individuals. These can be different assets (e.g., property, savings, investments). In the twentieth century, one-time wealth taxes were widely discussed and somewhat less used. In the twenty-first century, interest in this form of fiscal policy has been revived. Some of these taxes can be viewed as a type of one-time wealth tax, offering interesting variations on the traditional capital tax format. A one-time wealth tax involves shifting the tax burden to people with a higher marginal propensity to consume.

Historical examples provide valuable insights into the design and administration of one-time wealth taxes today. After the First World War, one-time wealth taxes were levied in countries such as Italy, Austria, Hungary, and Czechoslovakia (Italy even repeated this policy in 1937). Finland introduced a one-time wealth tax after the first Russo-Finnish war in 1941. After the Second World War, wealth taxes played an important role in the reconstruction of France, West Germany, Japan, Belgium, the Netherlands (twice), Finland (again), Luxembourg, Norway, and Denmark. These taxes proved to be successful. They often brought in substantial revenues for the state. The fact that these taxes often stretched over several years (usually three to seven years, although in the case of West Germany up to 30 years) meant that wealthy business owners could afford to pay even high tax rates (up to 50% in West Germany) (O'Donovan, 2021).

One-time wealth taxes are an unusual form of taxation. They are a highly efficient form of wealth taxation that does not distort the economic behavior of citizens and, moreover, contributes to economic stabilization.

The global history of taxation has extensive experience and practice of using one-time taxes.

One example of one-time taxation is the German experience of the nineteenth century. This was due to the formation of the German Customs Union (Zollverein). The territories located outside the common customs border had to participate in the expenses of the empire by paying an "aversum" (a lump sum or an amount of justification). Hamburg paid this tax. The taxation system in Hamburg is specific compared to other states of the German Empire because of the relationship that existed between Hamburg as a free port and the imperial government. The main sources of revenue for the imperial government were import duties and taxes on consumer goods. Hamburg is not considered an inland city because it is a free port; some consumer goods (spirits, beer, sugar, salt, tobacco, etc.) are not directly taxed. But since Hamburg is a state of the German Empire and receives benefits and advantages from institutions maintained by imperial revenues, it was necessary to find a way in which the city of Hamburg could contribute its due share to the imperial treasury. This is done with the help of the so-called "aversum". In addition to this "aversum" there is collected from "aversum" a per capita tax of 5 marks, which is levied in consideration of the fact that Hamburg's population, being a well-to-do people, consume more of the taxed articles than the population residing within the Zollverein (Henderson, 1939).

Another example of a one-time taxation is the tribute paid by the Russian lands to the Golden Horde in the 13th-15th centuries (Smith, 1970). This was a consequence of the formation of the Mongol-Tatar yoke as a system of dependence of the Russian principalities on the Mongol Empire. In economic terms, it was tribute dependence. A little earlier, a system of one-time fees existed in Kievan Rus'. It was a kind of tribute paid from lands (principalities) in the 9th-12th centuries in Kievan Rus'. At the level of taxpayers, the most common unit of taxation was the "dym", i.e., a house (or family home). It was a fixed tax that did not depend on the number of household members, income, or property. The tax base did not matter, as it was absent, only the presence of an individual as a taxpayer was important. A similar tax structure was later formed in the Tsardom of Muscovy (which separated from Kievan Rus' and was formed both from a part of its principalities and with the formation of new principalities and the annexation of new lands).

A similar fiscal practice of one-time fees existed at different times in different countries of the world, especially in Europe. This was an important reason for the formation of a better taxation system. Subsequently, this motivated the use of the valuation of individuals' property for taxation. Thus, the prototype of the wealth tax was formed.

3. Practice of lump-sum taxation

An effective system of wealth taxation has long been established in the world. The lump sum tax is not as common as other types of wealth taxes.

Some practice of collecting lump-sum tax.

Liechtenstein. Cost-based taxation, or lump-sum tax, was introduced into the tax law as early as 1923. In Liechtenstein, cost-based taxation is still widely used. Individuals can apply to the fiscal authority for a one-time taxation. Liechtenstein provides foreign nationals with preferential taxation based on annual expenditures if they meet certain requirements. They can choose to be taxed on the basis of their expenditures instead of paying the usual income and property tax. This type of taxation is provided by the Liechtenstein fiscal administration only upon request. If an individual owns real estate in Liechtenstein, it is subject to ordinary wealth tax (the so-called Sollertrag) without deduction for liabilities or tax-exempt property. Given that only a fraction of the world's income and wealth is taxed on an expenditure basis, moving to Liechtenstein may be attractive to wealthy foreign nationals. Liechtenstein nationals are not eligible to apply for such a one-time taxation. The discretionary decision on one-time taxation is made by the Liechtenstein fiscal authority. A one-time taxation takes into account all expenses of the taxpayer. The tax can be determined for several years depending on the regularity of the amount of expenses.

The sum of all expenditures of an individual constitutes the tax base for a single taxation. If a foreign national owns property located in Liechtenstein, he or she is subject to ordinary property tax and local income tax only. The exemptions and deductions (e.g., for mortgages) that are generally available to persons with unlimited liability for (ordinary) property tax and income tax do not apply.

In order to be eligible for lump-sum tax, applicants must fulfil the following requirements:

– move their principal or habitual residence to Liechtenstein; if they previously resided in Liechtenstein, they must have been absent from the country for at least 10 years before returning;
– not have Liechtenstein citizenship;
– not have a paid job in Liechtenstein;
– live on income from their assets or other income received from outside.

The one-time tax benefit is granted only after submitting an application to the tax authorities. The application must provide detailed information on the applicant's living expenses. This is due to the fact that the amount of the one-time tax is determined based on the total annual living expenses of the taxable person and his/her family members (in Liechtenstein and abroad), and not on actual income or assets.

Before approving an application for a one-time tax, the tax authorities will require payment of a one-time minimum tax. This minimum tax was originally set at CHF 100 per year in 1923. In 1995, the government raised the minimum tax to CHF 300'000 and it has remained at this level ever since.

Since 2013, the tax rate has been set at 25% of expenditures. At this rate, a minimum tax of CHF 300'000 is typically levied on expenditures of CHF 1.2 million. Accordingly, lump-sum taxation is worth considering in case one has assets worth CHF 30 million or more.

It should be noted that the one-time tax does not cover the property tax payable on real estate in Liechtenstein, the real estate capital gains tax, and the income tax levied on Liechtenstein companies. However, any assets owned by the lump sum taxpayer are not subject to gift or inheritance tax.

The Liechtenstein lump sum tax offers a simple and attractive solution for individuals planning to relocate to Liechtenstein. Some tax jurisdictions (e.g., some Swiss cantons and the UK) have recently abolished the lump sum tax or increased the tax base due to changing public opinion. Some Swiss cantons offer similar tax regimes for foreign nationals. However, expenditure-based taxation is under scrutiny and many cantons have already abolished it. Some other cantons still offer this type of taxation, but have tightened the conditions to be met and/or increased the tax base. Given that many Swiss cantons are seeing a decline in the adoption of favorable regimes for foreign nationals, Liechtenstein may be an alternative to Switzerland worth considering. Given these global trends, Liechtenstein is becoming an even more attractive tax jurisdiction for high-net-worth individuals.

Foreign nationals who are eligible for expenditure-based taxation can apply for a temporary residence permit. Persons who intend to apply for a one-time taxation should also consider the relevant provisions in conjunction with a residence permit in Liechtenstein. The number of residence permits is currently quite limited, although there is a lottery open to citizens of the European Economic Area. In addition, the issue of issuing more residence permits to wealthy or highly skilled foreigners has been discussed several times in the political process, but no final decision has been reached. Due to the small size of the country, only a limited number of residence permits are issued each year. Any one-time payments are non-refundable.

Italy. In 2017, the Italian government introduced a new tax regime: The Taxation Regime for Non-Residents Without Permanent Residence (flat tax regime), with the aim of attracting wealthy individuals wishing to relocate to Italy.

Individuals who move their tax residence from abroad to Italy may elect to have their non-Italian source income taxed in Italy by applying a fixed substitute tax at a fixed rate. The Italian flat tax regime ("Italian substitute tax", or ‘imposta forfettaria’) exempts persons of all nationalities (including Italians) who have not resided in Italy for the last 9 out of 10 years from reporting to the Italian tax authorities and paying taxes on income earned abroad (including gift and inheritance tax, rent and interest tax, and capital gains tax), subject to payment of an annual flat tax.

The mentioned tax regime could substitute:
– tax on income from foreign investments (foreign interest, dividends and capital gains), except for capital gains from qualified participation received during the first five years;
– wealth tax on real estate and financial investments owned outside Italy;
– the obligation of financial monitoring through the Italian tax return (this means that an individual is not obliged to declare his or her foreign investments in the Italian tax return).

Generally, Italian tax residents pay income tax on worldwide income, a tax of 0.2% on the value of certain financial assets wherever located, and a tax of 0.76% on the value of real estate located in Italy and abroad.

Under the law, a person who meets certain conditions can be considered resident but not domiciled in Italy. This allows them to pay the usual tax on income earned in Italy, as well as a one-time payment of EUR 100,000 per year to cover the tax on income earned outside Italy. This does not depend on the type or source of the international income. In such a case, each family member may be subject to a flat tax, replacing confiscation, on income derived from outside Italy at a lower flat rate of €25,000. The maximum period for which this preferential tax regime can be used is 15 years and can be canceled by the taxpayer at any time.

In order to choose this regime, a person must meet several requirements:
– not being a tax resident of Italy for 9 of the previous 10 years preceding the application for this tax regime;
– transfer tax residence to Italy;
– has income earned abroad.

The new package allows certain resident taxpayers to elect to pay an annual lump sum tax of EUR 100,000 instead of income tax:
– income tax on non-Italian source items of income (under Italian laws income includes dividends and capital gains);
– 0.2% tax on the value of foreign financial assets;
– 0.76% tax on the value of foreign real estate.

Thus, a one-time tax payment of EUR 100,000 per year will be paid on income from foreign investments, foreign financial assets and any other income from a foreign source.

Since Italian taxation of financial income is generally levied at a rate of 26%, a one-time tax of €100,000 corresponds to the normal taxation of approximately €385,000 of financial income (excluding the fact that this tax also replaces the wealth tax on foreign financial assets and real estate).

Under the Res Non-Dom regime, taxpayers can choose in which country or countries to tax their income with a substitute fixed tax (the so-called "cherry on top" principle). Any income earned in "non-elected countries" (if any) is excluded from the Res Non-Dom regime (as well as income earned in Italy) and is therefore subject to ordinary Italian taxation, as well as receiving a tax credit for taxes paid abroad (within the usual limitations) and the relevant tax treaty protection. Any income earned in "non-elected countries" is excluded from the flat tax regime (as well as any income earned in Italy) and is therefore subject to ordinary Italian taxation at a rate of up to 45%. Foreign assets and income can be transferred at any time and will not be subject to Italian income tax. As noted, the regime can be extended to family members for an additional EUR 25,000 per person per year (family members are defined very broadly and are not limited to spouse and children).

Any one-time payments made are non-refundable. The special one-time taxation regime will be automatically terminated after the expiration of the 15-year period, which cannot be extended.

Greece. In recent years, Greece has implemented austerity measures, with sharp cuts in public spending to reduce its budget deficit. This has been accompanied by tax increases and decisive measures to combat tax evasion. The introduction of a favorable tax regime is aimed at attracting wealthy individuals to Greece, as the country seeks to generate additional tax revenues from a sector that can make a significant economic contribution, while generally not overly burdening its resources. In early 2020, Greece established the conditions and procedure for high-net-worth individuals who transfer their tax residence to Greece to qualify for alternative lump-sum taxation.

The most significant changes relate to the introduction of the Greek Res Non-Dom regime for tax residents of Greece, who can benefit from tax exemption on their foreign income subject to a one-time tax payment of EUR 100,000 and provided that they have not been tax residents of Greece for seven of the last eight years.

Individuals who choose to use the alternative taxation method in Greece, as in Italy, are obliged to pay a one-time tax of €100,000 annually. Family members can also benefit from this regime by paying €20,000 annually (€5,000 less than in Italy).

Once admitted to the special tax regime, an individual can use it for a maximum of fifteen years, which also corresponds to the Italian equivalent.

The next requirement is that such person or their relatives, directly or through a company in which they are majority shareholders, must invest in real estate or other assets, including shares in legal entities located in Greece, worth at least €500,000. However, this is not mandatory for persons who have received a "golden visa" or other residence permit based on a previous investment in Greece. If the investment is not finalized within three years, taxpayers will not be considered subject to the special tax regime. Any one-time payments made are non-refundable. The special one-time taxation regime will be automatically terminated after the expiration of the 15-year period, which cannot be extended.

The similarities between the Greek regime and the similar Italian scheme are obvious and can also be seen in the inheritance regime with inheritance and gift tax exemption for foreign situs assets.

Switzerland. Private individuals who are not Swiss citizens can agree with the tax authorities of most Swiss cantons to tax their income agreed with the administration on a one-time basis. The system originates from the 19th century when wealthy foreigners spent a long time in Switzerland, i.e., for health reasons. At the time, the only real relief for tuberculosis patients was a fresh breeze from the Alps. Since it was difficult to obtain tax returns from these foreigners living in Swiss sanatoriums, practical Swiss tax administrations developed a taxation system based on local expenses incurred by these foreign residents.

The taxable income must be at least seven times the annual rent for the dwelling. A lump-sum taxpayer is not allowed to work in Switzerland. However, they may receive income from abroad in the form of rent, interest or royalties. The taxpayer's income must have a foreign source in order to avoid being taxed in Switzerland more than the previously agreed amount.

Another limitation relates to the minimum taxable income below which the tax authorities do not agree to such taxation. This amount is CHF 400'000 (for federal and cantonal taxation). Nevertheless, some cantons still agree to tax a lower amount.

The issue of minimum taxable income leads to another problem. In order to become a taxpayer in Switzerland, it is necessary to obtain a residence permit. Such a permit can be granted if the new immigrant brings economic benefits to Switzerland. This happens if he pays a one-time tax based on an amount that is at least twice the required minimum amount, i.e., at least CHF 800'000.

The one-time taxation regime has proven to be very attractive not only for newly arrived high-net-worth individuals (HNWIs), but also for entrepreneurs and investors who, for example, stopped their professional activities before moving to Switzerland.

4. Conclusions

Many countries are trying to create attractive tax regimes, especially for the wealthy. As a rule, the tax burden is generally quite high, but this is not an obstacle to choosing a place of residence or placing assets. The high level of taxation is effectively compensated by the high standard of living, which is the key reason.

A lump sum tax is quite convenient and fiscally beneficial, and therefore may have an advantage over other forms of taxation. A tax whose amount does not depend on the actions of the taxpayer. If the lump sum tax is the same for all taxpayers, it is called a poll tax. There are different types of taxes for the rich. A flat tax is not a novelty in tax practice. In fact, the history of taxation began with the use of fixed taxes. A one-time tax is a flat tax.

An important difference between the lump-sum tax and the wealth tax and other types of property taxation is that the taxpayer voluntarily chooses this form of taxation. Only in this case is it mandatory. The lump-sum tax is not mandatory for the entire wealthy population of a country, but only for a small part of it, who are not citizens. The choice of a one-time tax is based solely on a person's own desire to live in the country. The living conditions in the country meet the needs of the citizens, and they agree to pay a one-time tax for this. A one-time tax regime can be introduced in any country. The higher the standard of living in a country, the higher the one-time tax can be.

Wealth can be viewed as an estimated amount of expenditures, not as an individual's income and property. This is its main difference from all other types of wealth taxation. In this case, the tax is levied once. This taxation practice exists in Greece, Italy, Liechtenstein, Switzerland, and Italy.

Based on the results of the study, it is advisable to propose to divide wealth taxes into taxation of wealth (including wealth tax) and taxes on the rich who own wealth. Such a proposal would improve and make the wealth tax system more efficient. It will also improve the mechanisms of wealth taxation.

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