Think Equal

GLOBAL CITIZEN

BRICS
Policy Center
Centro de Estudos
e Pesquisas BRICS

THE TECHNICAL AND POLITICAL VIABILITY OF THE BILLIONAIRE TAX

In February and April 2024, the finance ministers of the world's 20 largest economies discussed a proposal to institute a 2% annual minimum tax on billionaires' wealth[1]*. This paper explores what makes this proposal viable today, politically and technically, in ways that it wasn't necessarily before.*

Outline

1. Why believe there would be political will to tax billionaires? Why now?
2. Why would this tax be resistant to US or other countries staying out of the deal?
3. Why would this tax be resistant to tax havens?
4. Why would this tax be resistant to sophisticated tax advisory firms?
5. Why would this tax work better than past attempts at wealth taxes?

1. Why believe there would be political will to tax billionaires? Why now?

The recent agreement on the global minimum corporate tax shows that political will for global taxes can occur and overcome long-held ideological opposition and intensive contrary lobbying.

Politicians worldwide are recognising that the capture of growth among the top percentiles and the ensuing income stagnation of the middle class (a) are causally connected to voters' rising distrust of government and the attraction of conspiracy theorists and populists, and (b) those economic drivers of political instability are projected to worsen in the coming years if left unchecked.

For states worldwide, the emerging public investment priorities for the next decade are armed conflict preparedness (including weapons production), industrial base development (including AI), and decarbonisation (including renewable energy). Thus, states find themselves in a harsh competitive race to invest. These investment imperatives require them to increase public investments by several points of gross domestic product.

In high-income countries, funding this by cutting public spending on health, education, and retirees is an arithmetic option but is electorally riskier than taxing the world's 3,000 billionaires (67% support in the US alone[2]). In upper-middle-income countries, public budgets for health, education and retirement as a share of gross domestic product are lagging far behind those of high-income countries and are therefore not a practical funding source for the sizeable investments listed above. In addition, both the Chinese and the US Presidents have made repeated speeches about the need to control the explosion of extreme wealth to protect social cohesion.

[1] See original proposal by Gabriel Zucman of EU Tax Observatory: https://www.taxobservatory.eu/publication/global-tax-evasion-report-2024/ NB: the Zucman minimum tax isn't prescriptive as to how to tax (each country remains free to choose its own idiosyncratic approach), as long as all countries ensure at least the minimum tax is reached (eg that no billionaire pays less in tax in a year than 2% of their total assessable wealth).

[2] Data for Progress, 2021. *Taxing Billionaires is Enormously Popular*. [Online]. https://www.dataforprogress.org/blog/2021/11/23/taxing-billionaires-is-enormously-popular

Looking at the EU in particular, drivers of increased political will to tax billionaires might intensify in 2025, for instance in the scenario where Europe is forced to increase defence spending rapidly and to mirror the competitiveness challenges posed by the US Inflation Reduction Act. In such a context, with the ECB blocking a sovereign debt solution to the budgetary conundrum, EU governments might come to see a billionaire tax as expedient — especially since the ideological stigma against such taxes has now largely been removed, thanks to US and International Monetary Fund (traditional opponents) coming out in support. Likewise, in recent years, many billionaires have become vocally supportive of increased taxation of billionaires and have joined campaign organisations to actively promote it in debates with ruling politicians (e.g., Abigail Disney, Marlene Engelhorn, Valerie Rockefeller, Patriotic Millionaires, Millionaires for Humanity, etc.).

Finally, in today's politics, the incentives for doing something about tax injustice have shown to be quite powerful. Indeed, the underlying logic for the agreement on a global minimum corporate tax was the stark injustice of having the world's largest, most profitable multinationals pay hardly any tax while most street-corner small and medium enterprises have been paying rates ten times higher. The same injustice applies between the middle class and the billionaires — and the middle class votes when small and medium enterprises don't.

2. Why would this tax be resistant to US or other countries staying out of the deal?

If Biden wins the presidential election, the US is actually likely to collaborate with this international scheme. However, there are conditions under which the scheme could work even without US cooperation.

a) US participation/collaboration if Biden wins the 2024 US presidential election

Joe Biden has been campaigning for a US-specific tax on billionaires since 2022 — well before the minimum tax on billionaires garnered global attention. While there are differences between the Biden Billionaire Tax and the tax discussed in G20,[3] the spirit is the same, and the differences are manageable.

While international taxes are generally seen as anathema to the US public (especially any legal commitment to apportion part of the proceeds of a US tax to an international scheme), US polls show that taxing billionaires is acceptable. The current Democratic establishment recognises that runaway inequality is a political and economic liability, and it now has the political will to do something about it: the proposed Biden Billionaire Tax. If Biden wins the White House as well as one of Congress' houses, it becomes possible that a deal be struck in Congress to shift US taxes on billionaires to levels closer to what low-income and middle-class Americans are paying.

In other words, if Biden wins, the US will be likely to collaborate with an international scheme to tax billionaires, with or without becoming a formal party to an international agreement about it (on account of being the world's most powerful country, the US has often had the wherewithal to help set international norms without applying them). From a domestic political perspective, the red line for the US will be to keep out of international obligations concerning the use of the tax proceeds, such that the US can be expected to either stay out of the international agreement altogether or to negotiate a complete carveout on use of revenues (like the partial carveouts that the UK used to enjoy under the budget provisions of the EU Treaty, which never stopped the other EU countries from contributing their share to Brussels' budget).

[3] The main difference between the Biden Billionaire Tax and the global minimum tax on billionaires' wealth is what gets taxed and how. For US-specific legal and political reasons, the Biden Billionaire Tax is designed as an income tax (not a wealth tax) that captures something currently untaxed: increases in billionaires' net worth (i.e. when Microsoft shares gain 20% in value, Bill Gates would pay some tax on this 20% gain on his shares, even if he doesn't sell any). However, from an economic standpoint, taxing the increases in wealth is almost the same thing as taxing the wealth itself because, on average, billionaires' wealth has grown at 7.5% *annually* over the last 30 years.

b) The feasibility of the billionaire tax without US collaboration

The billionaire tax can work even if the US doesn't collaborate, as long as a significant share of the world's *other* economic powers do participate (e.g., China, Japan, Germany, India, the UK, France, Brazil, etc.).

How do we know this? The indication comes from an international tax precedent set by the US. In 2010, under Barack Obama, the US adopted tax legislation to compel foreign banks in tax havens to transmit all tax information concerning the foreign accounts of US clients to the US tax authority. This legislation (named FATCA – Foreign Account Tax Compliance Act) introduced substantial penalties on foreign banks for failing to transmit the tax information required (the penalty was to be, in practice, blacklisted from all global financial circuits that connect back to the US economy). This legal setup has proven extremely effective: almost all banks worldwide have chosen to either turn their US clients over to the US tax authorities or simply desist from serving US clients altogether, rather than risk legal warfare with the US government.

Similarly, a group of countries that would total a share of world wealth similar to that of the US (say a subset of China, Japan, Germany, the UK, France and Italy, who together would have a similar share of the world economy as the US), would be able to enforce similar levels of compliance from banks worldwide. 75% of the world's billionaires are not American, totalling 63% of world billionaire wealth.

3. Why would this tax be resistant to tax havens?

a) Shifting assets to tax havens

In the past, taxes on the rich — including wealth taxes — were vulnerable to assets being moved to accounts in tax havens, because hiding the assets there effectively deprived the tax authorities of the information needed to assess the tax owed.

However, since 2015, 140 countries have adopted the international agreement on automatic exchange of bank information. This means that these countries assist each other in taxing the foreign accounts of their respective citizens and/or residents by automatically sharing bank information between banks and tax authorities. Most tax havens have had to sign this agreement, including Andorra, Bahamas, Bermuda, Cayman Islands, Hong Kong, Liechtenstein, Luxembourg, Macao, Monaco, San Marino, Singapore, Switzerland and the United Arab Emirates. The agreement also addresses the common tax-dodging practice of using shell companies and trusts, by requiring banks to identify and disclose the true owners of accounts held in the name of shell companies and trusts. While some loopholes remain, they are too limited to defeat a global minimum tax on billionaires' wealth altogether.

All of this apparatus against tax havens means that it is now much harder to use these territories to escape taxes. This is especially the case for billionaires, whose wealth is almost entirely concentrated in financial securities (e.g., shares in companies and other investment vehicles), which are relatively easy to track. Tracking the holdings of 3,000 individuals (the total number of billionaires worldwide) is well within the capacity of the international network of tax authorities, using the 2015 Organisation for Economic Co-operation and Development agreement on the automatic exchange of tax information.

b) Shifting residence or citizenship to tax havens

The proposed minimum tax on billionaires would allocate taxing rights between participating states based on long-term residency status. For example, a billionaire born in Country A but, spent 50 years in Country B and suddenly decided to move to Country C for tax reasons would be taxed on their wealth by Country B — the country where they made their fortune. However, most cases would be more straightforward than this, with taxing rights allocated to the country where billionaires are nationals (irrespective of where they are domiciled) — exactly like the US does today.

Under this tax doctrine, emigrating to a tax heaven or switching citizenship for that of a tax haven does not change the amount of wealth tax a billionaire would owe. This largely defeats the point of shifting residency or citizenship in the first place.

4. Why would this tax be resistant to sophisticated tax advisory firms?

It is true that many billionaires spend millions hiring firms with expertise in tax optimisation (as was made famous by the 2016 release of the law firm Mossack Fonsecca's 'Panama Papers'). However, the billionaire tax under discussion in the G20 would be designed explicitly as a *minimum floor* tax on billionaires' total wealth (for example, 2%): even when a billionaire can claim all the exemptions and loopholes listed under the tax code, they would still have to pay at least this minimum tax on their wealth.[4]

For these two reasons (minimum tax on wealth above 1 billion USD, with no exemptions; high levels of financial asset ownership transparency at those levels of wealth), the expert advisors that tax-reluctant billionaires employ would have limited capacity to shield their clients from having to pay most of the tax owed.

5. Why would this tax work better than past attempts at wealth taxes?

The proposed tax would be more sophisticated than a typical wealth tax. It would be the first *minimum* tax, specifically on *billionaires*. Past taxes on wealth started much lower in the wealth distribution — at around $1 million, creating a lot of pressure to carve out exemptions. There are only 3,000 billionaires on the planet, and most of their wealth is concentrated in financial securities that are easily trackable. This makes collecting the billionaire tax relatively easy for tax authorities.

Since the tax is limited to billionaires and is defined as a minimum tax, the government will face little need to create tax exemptions. This exemption-free feature is key to the success of the tax, especially vis-à-vis sophisticated tax advisory firms. In particular, it will be critical to avoid reproducing the tax ceiling mechanisms of some of the previous wealth taxes (whereby total wealth tax liability was capped below some per cent of income), as this is deadly to billionaire taxes (since tax advisory firms are adept at magicking away billionaires' incomes).

Finally, no asset class should be excluded from the tax base. All assets should be assessed at their prevailing market value. In most cases (e.g., shares in listed companies, diversified portfolios of securities, real estate), market values are very easy for tax authorities to observe. As for privately-traded shares (i.e. shares in businesses that are not listed on any stock exchange), tax authorities should use the same valuation techniques that are used routinely by the financial industry each time a firm buys shares in a privately-held company (usually, specialist advisory firms use a combination of market value to profits, market value to assets, and market value to sales — comparing these between privately traded and publicly traded companies in the same industry — in order to assess the value of shares in unlisted companies).

Whereas previous wealth taxes relied on self-reporting by the rich, it is proposed that tax administrations should leverage the boon of modern technology and the richness of the data available to tax authorities, and instead send pre-populated tax returns to the billionaire taxpayers. Nowadays, this operation can be streamlined thanks to tax authorities' access to automatic international bank information sharing. This will significantly expedite the assessment and collection of the billionaire wealth tax.

[4] For those billionaires whose annual income tax is already at 2% of their total wealth, the 2% minimum tax will be considered already paid. However, data shows that very few billionaires are at that level today.