The billionaire tax: A (modest) proposal for the 21st century

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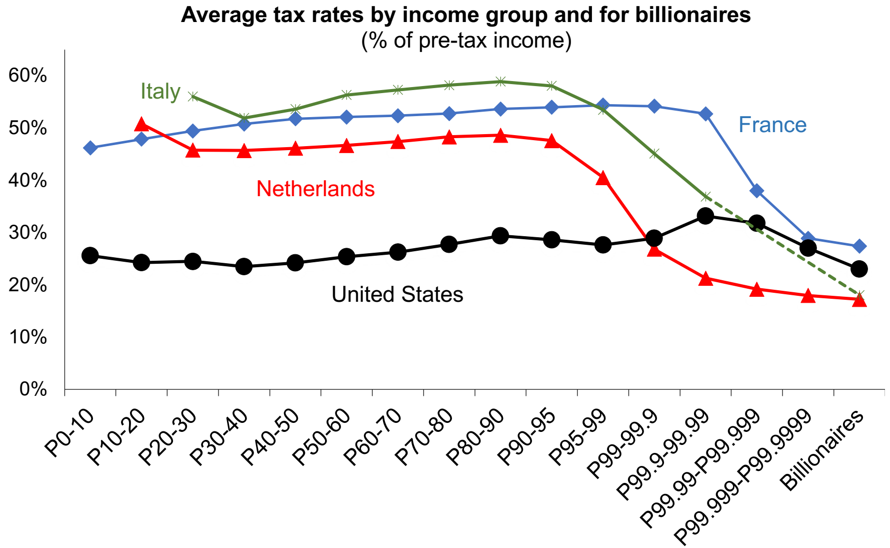
Progressive taxation is a key pillar of modern societies

A progressive tax system:

- Strengthens social cohesion and trust in governments
- Contributes to fund the public goods that drive economic growth
- Is key to distribute the gains from globalization fairly

All included, the super-rich pay proportionately less than others

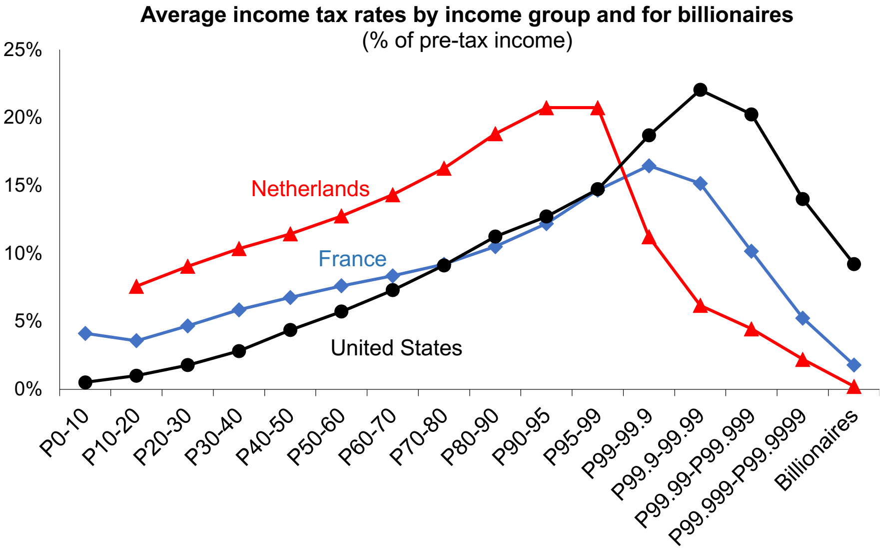


The failure of the income tax at the top

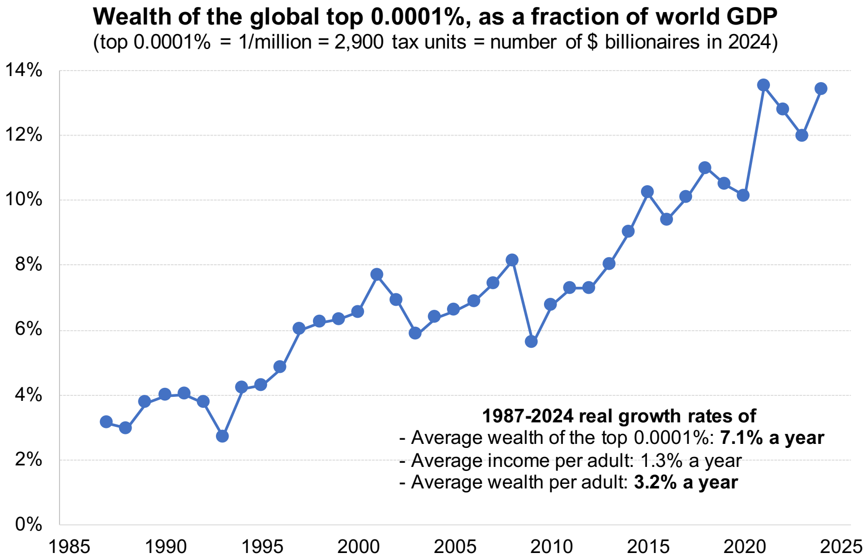
Billionaires have low tax rates because they pay relatively **little income tax**

- By avoiding dividend distribution and capital gains realizations
- By using holding companies and similar structures

The failure of the income tax at the top



The rise of global billionaire wealth



A new proposal

A BLUEPRINT FOR A COORDINATED MINIMUM EFFECTIVE TAXATION STANDARD FOR ULTRA-HIGH-NET-WORTH INDIVIDUALS

Commissioned by the Brazilian G20 presidency

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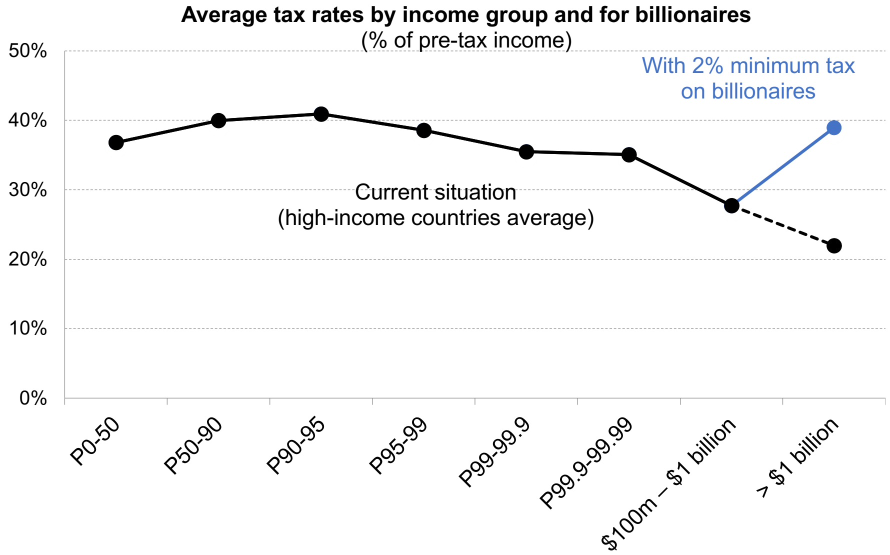
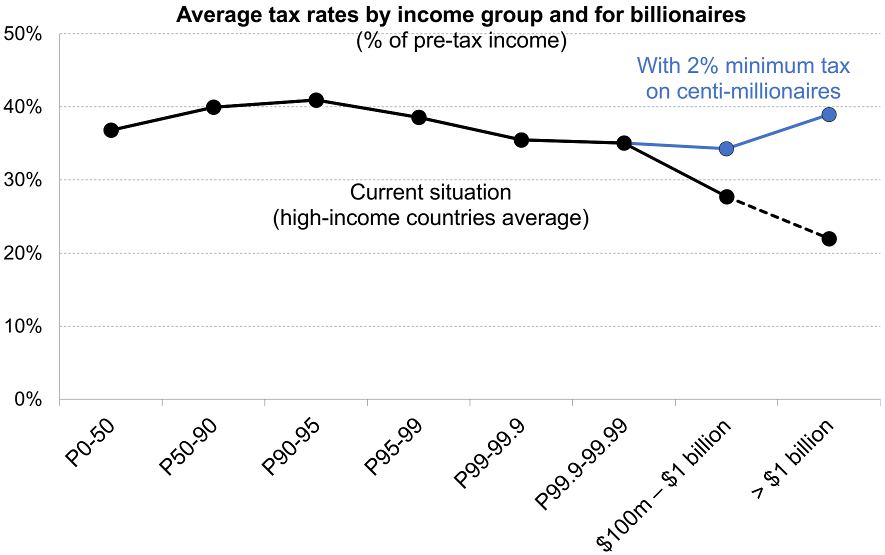
A coordinated minimum taxation standard:

- Baseline proposal: minimum rate of 2% of wealth for $ billionaires
- 3,000 taxpayers globally
- About $200–$250 billion in tax revenue

A powerful tool to safeguard progressivity at the top



Extending the standard to centimillionaires



The need for international cooperation

A **<u>coordinated</u>** minimum tax standard adds value because:

- Main obstacle to taxing the very rich is risk they may hide income or move to low-tax countries
- To overcome this issue:
  - Need information exchange
  - Need international coordination **to avoid race-to-the-bottom**
- We can do it: in 2021, more than 130 countries agreed to a minimum tax on multinational companies (Pillar Two)

A tool to strengthen the income tax

This coordinated minimum tax is **not a wealth tax** but stays in the realm of income taxation:

- If one pays sufficient income tax, no extra tax is owed
- If one pays little income tax, a top-up is applied to reach the agreed minimum
- Key is to define the minimum relative to something hard to manipulate
  - For the super-rich the best reference is wealth itself
  - Technically, this is known as a **presumptive income tax**

Coordination while respecting national sovereignty

Idea is to set **a common standard** that allows for flexible domestic implementation, for instance using:

- A presumptive income tax
- A tax on broad notions of income (e.g., including unrealized capital gains)
- A wealth tax

$\rightarrow$ Any of these taxes would qualify as long as the super-rich meet the minimum standard (say, 2% of wealth) as a result

Like Pillar Two, does not require a multilateral treaty, only domestic measures

Implementation challenge #1: Wealth valuation

Main ingredient needed to administer the proposed tax: **wealth valuation**

- If wealth is as manipulable as income, then minimum tax is ineffective
- Research shows $\approx$ half of billionaires' wealth is shares in publicly listed stock
- Other half is primarily stakes in large private businesses $\rightarrow$ can be valued using standard formulas (Price/Earnings, Price/Sales, Price/Assets)
- Boats, art, etc., negligible as a share of wealth at the top

$\rightarrow$ Even with imperfection valuations, massive improvement over status quo

Implementation challenge #2: Overcoming financial opacity

Tax evasion is not a law of nature. We can build on recent progress to improve transparency:

- Extend automatic exchange of bank information to real estate and other assets
- Add **beneficial ownership information** to country-by-country reports of multinationals
- Create new reporting standard on ultra-high-net-worth individuals

Implementation challenge #3: Imperfect coordination

Global participation is not necessary: minimum tax can be implemented by any country or group of countries

To limit race-to-bottom, need to create incentives to join agreement:

- Strengthened exit taxes: keep taxing residents moving to non-participating countries
- “Tax collector of last resort mechanisms" as in the minimum tax on multinationals

Conclusion

A coordinated minimum tax is a powerful—and in fact, the most effective—option to safeguard tax progressivity at the very top of the income distribution

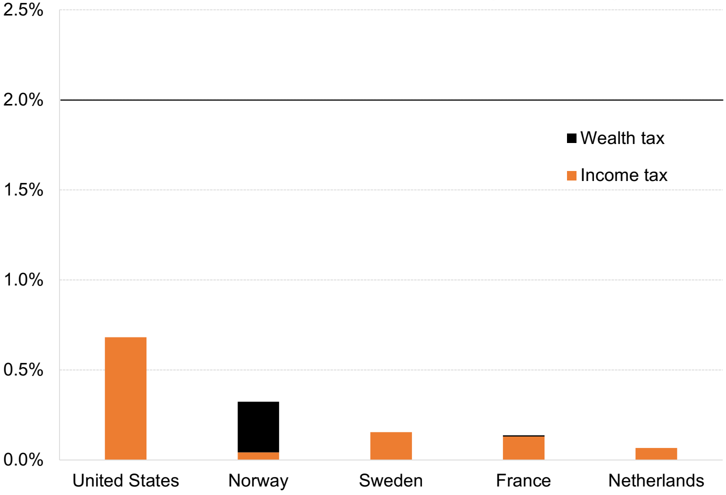
Thanks to recent progress in international cooperation, such a tax:

- Has become technically feasible
- Could be enforced successfully

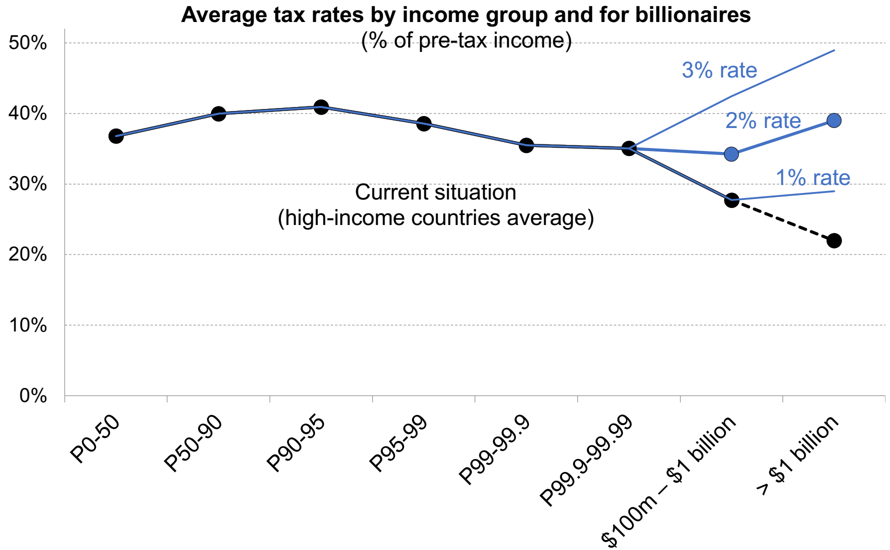
Additional slides

Billionaire pay around 0.3% of their wealth in tax

Individual taxes paid by billionaires (% of wealth)



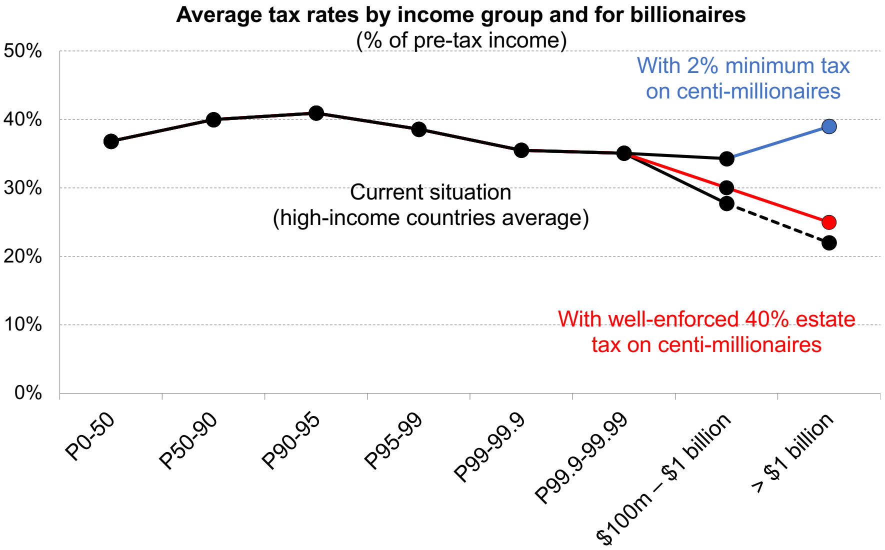
Considering different rates



Revenue potential ($ billion, 2024)

	1% rate	2% rate	3% rate
>$1 billion	80 – 100	193 – 242	307 – 384
$100m – $1 billion	0	108 – 135	244 – 305
>$100 million	**80 – 100**	**302 – 377**	**551 – 688**

Alternative option #1: Strengthening the estate tax



Alternative option #2: Strengthening the income tax