Executive Summary for the Media -- Report by professor Gabriel Zucman

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

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## Background

In February 2024, the Brazilian G20 Presidency invited professor Gabriel Zucman to address G20 Finance Ministers gathered in Sao Paulo and make the case for a reform to safeguard global tax progressivity. In his speech, Zucman advocated for a coordinated minimum taxation standard on billionaires, a reform that would build on the previous steps of international cooperation to address the issue of low effective taxation of the super-rich. Following the meeting, the Brazilian G20 Presidency commissioned a report to detail the feasibility of the proposal.

Zucman's report was made public on June 25, 2024, ahead of the G20 Finance Ministers in Rio de Janeiro (July 25-26, 2024).

International cooperation is essential to advance tax fairness. In a 2021 historic decision, more than 130 countries and territories have agreed to a common 15% minimum corporate tax for large multinational companies in 2021. What was collectively done with multinational corporations can in principle be done now with billionaires. Building on past steps, the report shows that it has become technically possible to implement a coordinated minimum tax on ultra-high-net-worth individuals.

## A coordinated, global minimum standard on the effective taxation of the super-rich

The report presents a proposal for an internationally coordinated standard ensuring an effective taxation of ultra-high-net-worth individuals. In the baseline proposal, individuals with more than $1 billion in total wealth (assets, real estates, equities, participation in companies' ownership, etc.) would be required to pay a minimum amount of tax annually, equal to 2% of their wealth. Variations to the baseline scenario are also explored.

Similarly to the minimum tax on multinational corporations adopted in 2021, taxes would only have to be paid by billionaires that do not already pay the equivalent of 2% of their wealth in income tax: only ultra-high-net-worth individuals with particularly low tax payments would be affected. As such, the proposal is not a wealth tax but functions as a top-up mechanism. This minimum is expressed as a fraction of wealth, rather than income, as wealth is far more difficult to manipulate.

This standard can be flexibly implemented by participating countries through a variety of domestic instruments, including a presumptive income tax, an income tax on a broad notion of income, or a wealth tax. The report presents evidence that contemporary tax systems fail to tax ultra-high-net-worth individuals effectively, clarifies the case for international coordination to address this issue, analyzes implementation challenges, and provides revenue estimations.

The report draws six main conclusions:

(i) building on recent progress in international tax cooperation, such a common standard has become technically feasible;

(ii) it can be enforced successfully even if all countries did not adopt it, by strengthening current exit taxes and implementing "tax collector of last resort" mechanisms as in the coordinated minimum tax on multinational companies;

(iii) a minimum tax on billionaires equal to 2% of their wealth would raise $200-$250 billion per year globally from about 3,000 individuals; extending the tax to individuals with a net-worth over $100 million dollar would add $100-$140 billion a year;

(iv) this international standard would effectively address regressive features of contemporary tax systems at the top of the wealth distribution;

(v) it would not substitute for, but support domestic progressive tax policies, by improving transparency about top-end wealth, reducing incentives to engage in tax avoidance, and preventing a race to the bottom;

(vi) its economic impact must be assessed in light of the observed pre-tax rate of return to wealth for ultra-high-net-worth individuals which has been 7.5% on average per year (net of inflation) over the last four decades, and of the current effective tax rate of billionaires, equivalent to 0.3% of their wealth.

## Why creating a 2% minimum tax on the world billionaires– and why now

Progressive taxation is a key pillar of democratic societies. A progressive tax system strengthens social cohesion and trust in governments to work for the common good. It is critical to fund the public goods and services—such as education, health care, public infrastructure—that are engines of economic growth, as well as the investments needed to address the climate crisis. Changes in the progressivity of taxation have historically been a major driver of the evolution of income and wealth concentration.

As all recent research clearly shows, contemporary tax systems, instead of being progressive, do not effectively tax the wealthiest individuals. All taxes included, ultra-high-net-worth individuals tend to pay less in tax relative to their income than other social groups, regardless of the specific tax design choices and enforcement practices of countries. Income taxes—which in principle constitute the main instrument of tax progressivity—fail to effectively tax ultra-high-net-worth individuals. This failure deprives governments of substantial tax revenues and contributes to concentrating the gains of globalization into relatively few hands, undermining the social sustainability of economic globalization.

The world is in a better situation to successfully implement the proposal made in this Report today than in the past. Over the last 15 years, bank secrecy has been curtailed through increased information exchange between countries. As a result, the Global Tax Evasion Report 2024 estimates that offshore tax evasion has declined by a factor of about three in less than 10 years.

## The Challenges Ahead

Two main challenges remain to make this minimum standard a reality.

First, such standard needs to plug the gaps in international information exchange and in the identification of the beneficial owners of assets. These issues could be tackled by adding beneficial ownership information to the country-by-country reports of multinational companies introduced in 2016, and creating new forms of cross-border information exchange on ultra-high-net-worth individuals. Since the bulk of billionaires' wealth derives from owning shares in multinational companies, the mere inclusion of beneficial ownership information in country-by-country reports (e.g., listing individuals owning more than 1% of the stock) would allow tax authorities to capture most of their wealth, facilitating enforcement.

Second, a variety of political and geopolitical factors could make it difficult to obtain truly global participation. The Report discusses possible approaches to limit incentives for billionaires to relocate to non-participating countries including extended exit taxes. One option involves adapting some of the "tax collector of last resort" mechanisms included in the coordinated minimum tax on multinational companies—rules that allow participating countries to tax non-participating countries' undertaxed multinationals—to ultra-high-net-worth individuals.

If a minimum taxation standard on billionaires was successfully enforced, some critics claim, there would be potential economic costs, such as reduced incentives to work or to accumulate wealth for the affected taxpayers. The Report argues that costs must be assessed in the context of (i) the observed pre-tax rate of return to wealth for ultra-rich, which has been globally around 7.5% on average per year (net of inflation) over the last four decades, and (ii) the current effective tax rate of billionaires, equivalent to 0.3% of their wealth. Everything else equal, a well-enforced minimum tax of 2% would reduce their net-of-tax return from 7.2% (7.5% before tax minus 0.3% in tax today) to 5.5%. Therefore, adverse incentive effects are unlikely to be significant at the level of net-of-tax return. Because the population affected would be small, the overall impact of a 2% minimum tax on global economic growth is likely to be limited.

## About the author

Gabriel Zucman, a French national, is a professor of economics at the Paris School of Economics, Ecole Normale Supérieure – PSL, and the University of California Berkeley. He is the founding director of the EU Tax Observatory, headquartered in Paris, France. His research focuses on the accumulation, distribution, and taxation of global income and wealth. Zucman is also a commissioner of ICRICT (Independent Commission for the Reform of International Corporate Taxation), an organization co-chaired by economists Joseph Stiglitz and Jayati Ghosh.

In 2023, professor Zucman received the John Bates Clark medal of the American Economic Association, awarded to that economist under the age of forty who is judged to have made the most significant contribution to economic thought and knowledge.

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**The full Report will be available on the EU Tax Observatory website from June 25, 2024**

(https://www.taxobservatory.eu/).

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