EU TAX Observatory

Resources for a Safe and Resilient Europe:

The Case for Minimum Taxation of Ultra-High-Net-Worth Individuals in the EU

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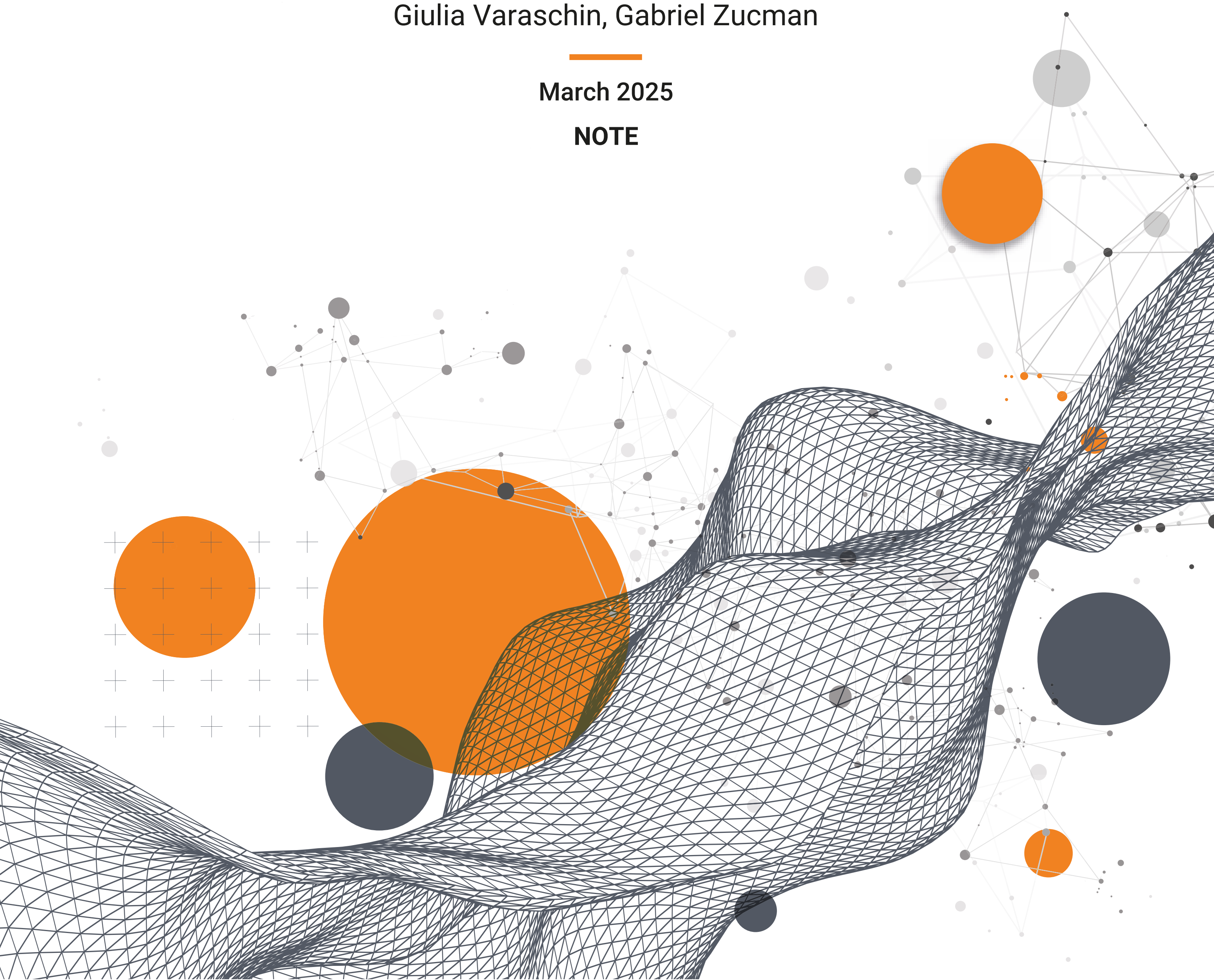
NOTE



Geopolitical tensions and the rapid fragmentation of diplomatic coalitions pose a threat to defense capabilities and economic stability of the European Union (EU), particularly in the context of the war of aggression of Russia against Ukraine.

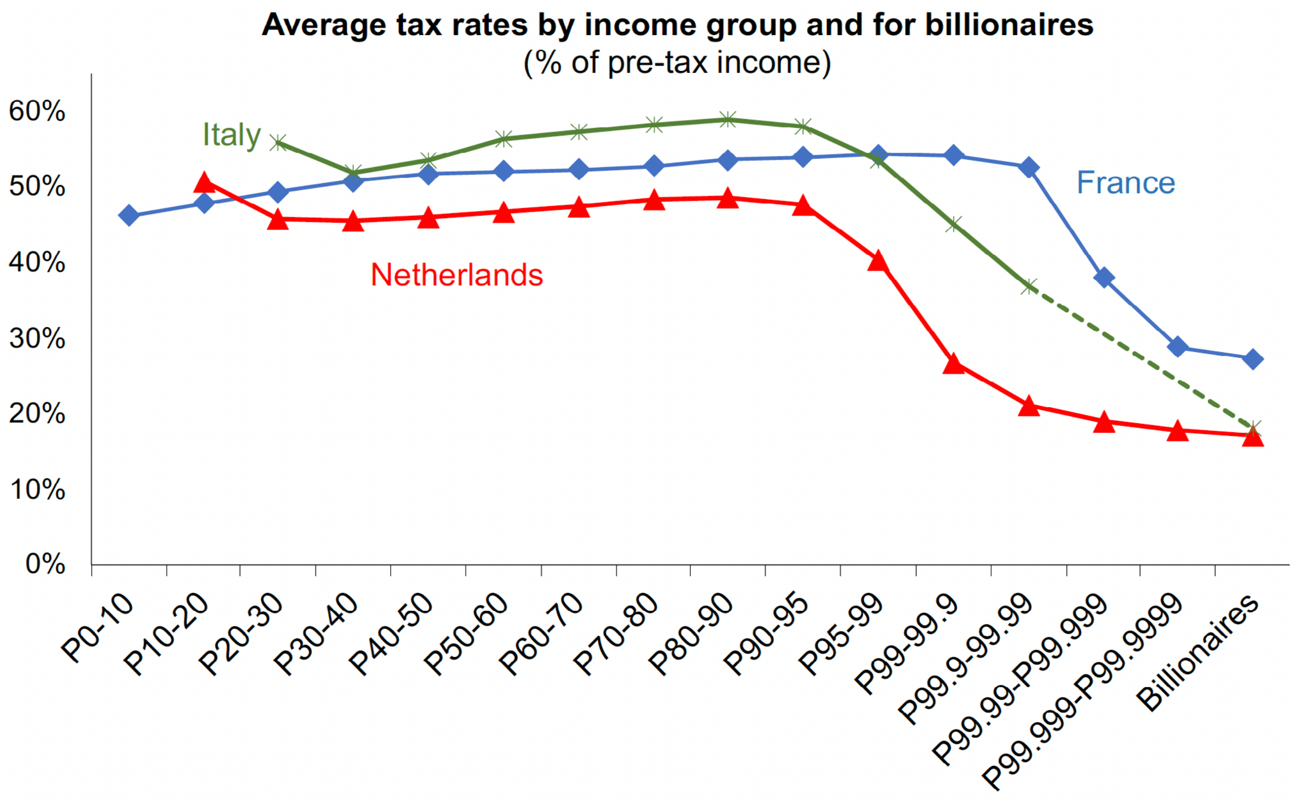
According to a recent note by the think tank Bruegel, the EU needs an additional €250 billion annually to meet defense investment needs.[1] This comes on top of existing investment gaps to fund reindustrialization, public goods and services that are key to ensure EU competitiveness, tackle climate change and inequality. The Mario Draghi report on the Future of European Competitiveness estimates that the EU needs an investment of EUR 800 billion per annum to keep pace with competitors.[2]

The EU Commission has already announced a new instrument providing €150 billion in loans on top of a relaxation of deficit rules for defense spending as part of the ReArm Europe plan.[3] However, this still leaves a substantial financing gap that will require additional resources – whether at national or European level.

Retreating from existing investment pledges for European industry, climate transition, and social development to fund defense needs would risk weakening Europe's international stance. These investments are not just economic policies but strategic tools that enhance the EU's resilience, technological leadership, and global influence. The challenge for EU institutions and the Member States will therefore be to find avenues to rapidly raise revenue to face urgent needs without undermining economic development and competitiveness.

When faced with conflict or war, European governments have historically funded increases in defense spending through a mix of debt and tax increases on high-net-worth individuals. During World War II, both France and the UK introduced extraordinary taxes on the wealthy to finance their military efforts, with France relying on progressive war levies and the UK significantly increasing income tax rates for the richest citizens.[4] Taxes on high-net-worth individuals can easily secure support from European taxpayers. They are highly popular amongst European citizens: 67% support such instruments according to Eurobarometer.[5] They would also strengthen tax consent, trust in government, and ultimately the social model of EU democracies.

Recent research conducted by the EU Tax Observatory in cooperation with scholars in several countries highlights that modern tax systems fail to effectively tax high-net-worth individuals. Last year, the G20 presidency commissioned a report to study how to address this issue. The blueprint released in June 2024 compares various options that are technically feasible at a global, regional and national level to ensure that ultra-high-net-worth individuals do not have lower effective tax rates than other social groups.[6]



Notes: This figure reports estimates of effective tax rates by pre-tax income groups and for U.S. dollar billionaires in France, the Netherlands, and Italy. These estimates include all taxes paid at all levels of government and are expressed as a percent of pre-tax income. P0-10 denotes the 10% of adults at the bottom of the pre-tax income distribution, P10-20 the next decile, etc. Pre-tax income includes all national income (measured following standard national account definitions) before taxes and transfers and after the operation of the pension system. Source and methodology in Zucman (2024).

The main conclusion is that a minimum tax equal to 2% of wealth is the most effective way to achieve that goal. A minimum tax addresses all potential forms of tax avoidance, without the need to target specific schemes. A minimum tax expressed as a fraction of wealth is more effective than a minimum tax expressed as a fraction of income, because wealth is better defined than income for ultra-high-net-worth individuals. Even though the tax would be expressed as a fraction of wealth, it would generally not raise liquidity issues, because 2% is significantly lower than the return to capital for ultra-high-net-worth individuals (which has exceeded 7% a year on average over the last four decades, net of inflation). Finally, because any individual income tax (and similar levies) already paid would be creditable against this new tax, it does not create any double taxation. That is, someone already paying a significant amount of income tax would have no extra tax to pay: by construction, the instrument proposed would only affect taxpayers who are both extremely wealthy and undertaxed. It seems difficult to construct a more targeted or fairer levy.

This proposal is inspiring conversations in the EU parliament as well as in national parliaments. In February, the French National Assembly voted for a 2% minimum tax on centi-millionaires.[7] Others could follow.

This policy note provides a revenue estimate of how much European Member States could raise with a minimum tax of 2% or 3% on the wealth of people owning more than €100 million or €1 billion in wealth – the scenarios considered in the report commissioned by the G20 presidency.

A 2% minimum tax on centi-millionaires would neutralize the regressivity of European tax systems and raise €67 billion, equivalent to a quarter of the revenue needs estimated by Bruegel to meet defense investment needs. A 3% minimum tax would make European tax systems slightly progressive and raise €121 billion, close to 50% of the revenue needs estimated by Bruegel.

TABLE 1

Revenue estimation of a minimum tax on ultra-high-net-worth individuals in the EU

				Revenue with 2% rate (€B)		Revenue with 3% rate (€B)	
	Number of Billionaires	Billionaire Wealth ($B)	Billionaire Wealth (€B)	On centi-millionaires	Of which: Billionaires	On centi-millionaires	Of which: Billionaires
France	147	730.0	695.2	**19.4**	12.5	**34.8**	19.5
Germany	128	637.0	606.7	**16.9**	10.9	**30.4**	17.0
Italy	71	314.0	299.0	**8.3**	5.4	**15.0**	8.4
Spain	27	195.0	185.7	**5.2**	3.3	**9.3**	5.2
Sweden	43	174.0	165.7	**4.6**	3.0	**8.3**	4.6
Austria	10	72.0	68.6	**1.9**	1.2	**3.4**	1.9
Czech Republic	11	64.0	61.0	**1.7**	1.1	**3.1**	1.7
Ireland	11	54.0	51.4	**1.4**	0.9	**2.6**	1.4
Denmark	8	48.0	45.7	**1.3**	0.8	**2.3**	1.3
Cyprus	10	45.0	42.9	**1.2**	0.8	**2.1**	1.2
Greece	13	39.0	37.1	**1.0**	0.7	**1.9**	1.0
Belgium	10	38.0	36.2	**1.0**	0.7	**1.8**	1.0
Netherlands	12	36.0	34.3	**1.0**	0.6	**1.7**	1.0
Poland	9	28.0	26.7	**0.7**	0.5	**1.3**	0.7
Finland	7	15.0	14.3	**0.4**	0.3	**0.7**	0.4
Romania	6	12.0	11.4	**0.3**	0.2	**0.6**	0.3
Hungary	5	9.0	8.6	**0.2**	0.2	**0.4**	0.2
Portugal	1	6.0	5.7	**0.2**	0.1	**0.3**	0.2
Bulgaria	2	5.0	4.8	**0.1**	0.1	**0.2**	0.1
Slovakia	2	3.0	2.9	**0.1**	0.1	**0.1**	0.1
Estonia	2	3.0	2.9	**0.1**	0.1	**0.1**	0.1
Croatia	1	2.0	1.9	**0.1**	0.0	**0.1**	0.1
Luxembourg	1	1.0	1.0	**0.0**	0.0	**0.0**	0.0
European Union Total	**537**	**2,530**	**2,410**	**67.2**	**43.4**	**120.8**	**67.5**

Notes: This table is estimated using Real-Time Billionaire data from Forbes, retrieved on March 3, 2025. Total billionaire wealth for France is upgraded by $150 billion to be reconciled with the 2024 ranking by Challenges (the number of French billionaires reported in col. 1 is also taken from Challenges). We assume that the current effective tax rate of billionaires is equal to 0.2% of their wealth in each EU country, consistent with the evidence discussed in Zucman (2024). We assume simple multiplicative factors of 1.55 (for 2% rate) and 1.79 (for 3% rate) when moving from revenue for billionaires to revenue for centi-millionaires (multiplicative factors taken Zucman, 2024). The minimum tax would yield up to €17 million in Luxembourg, which is rounded down in the table above.

References

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