

The Elephant in the Room: A Minimum Tax on Billionaires

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What is everyone talking about, but some don't even want to think about? The possibility for a minimum tax on high-net-worth individuals (HNWIs). Gabriel Zucman and other researchers from the EU Tax Observatory first wrote about this in a report of October 2023. In June 2024, at the request of the Brazilian G20 presidency, Zucman built up on this proposal. The OECD also addressed the taxation of HNWI in its report to the G20 finance ministers and central bank governors in July 2024. Will the European Union catch up on this trend?

1. The 2023 October report of the EU Tax Observatory

In October 2023, the EU Tax Observatory (EUTO) published the [Global Tax Evasion Report 2024](#), in which the proposal for a minimum tax on ultra-high-net-worth individuals (UHNWIs) was introduced.

For the EUTO, this discussion is vital, given rising income and wealth inequality, high public debt and government revenue needs for addressing climate change and funding health care, education and public infrastructure. At stake is the question of the social sustainability of globalization and the social acceptability of modern tax systems.

According to the data provided, billionaires have effective tax rates equivalent to 0% to 0.5% of their wealth: “[T]ax systems in major countries are, at least at the top, regressive, with the very rich paying a small fraction of their income in taxes compared to those below. ... [B]illionaires are proportionally taxed far less than ordinary citizens.”

The report further points out that “[i]f citizens don't believe that everyone is paying their fair share of taxes – and especially if they see the rich and rich corporations not paying their fair share – then they will begin to reject taxation. Why should they hand over their hard-earned money when the wealthy don't? This glaring tax disparity undermines the proper functioning of our democracy; it deepens inequality, weakens trust in our institutions and erodes the social contract”.

2. Gabriel Zucman's report of June 2024 at the request of the Brazilian G20 presidency

In June 2024, at the request of the Brazilian G20 presidency, Gabriel Zucman presented [A blueprint for a coordinated minimum effective taxation standard for Ultra-High-Net-Worth Individuals](#).

The proposal is for individuals with more than USD 1 billion in wealth to pay a minimum effective tax of 2% of their wealth, which, given the known universe of 3,000 billionaires, would raise USD 200-250 billion per year globally.

According to Zucman, wealth, for which market values are observable, is the best reference on which to calculate this tax. Additionally, wealth is harder to manipulate than income.

But for Zucman, the minimum tax should not be regarded as a wealth tax, but rather a tool to strengthen the income tax: “A billionaire who already pays the equivalent of 2% of their wealth in income tax ... would have no extra tax to pay.” As for the others, a top-up tax would apply to reach 2% of wealth.

According to Zucman, the minimum tax could be implemented domestically through:

- **a presumptive income tax:** UHNWIs would be presumed to earn a certain fraction of their wealth in income;
- **wealth taxation:** a direct wealth tax rate of 2%; it would be key to include all forms of wealth in the tax base; or
- **income tax on a broad notion of income**, including unrealized capital gains (such as the “billionaire minimum income tax” [proposed in the United States](#) by the Biden administration).

One of the main challenges, according to Zucman, would be the valuation of wealth, notably of private businesses not publicly listed, along with the possibility of an increased temptation for billionaires to shift their wealth into harder-to-value assets.

Zucman also proposes the addition of beneficial ownership requirements to the country-by-country reports and the adoption of rules allowing participating countries to tax non-participating countries’ undertaxed individuals.

Finally, Zucman advocates other options for more effective taxation at the top, such as a progressive inheritance tax. Nevertheless, he repeatedly concludes that a minimum tax would be more effective, as it tackles all forms of tax avoidance all at once and “the key virtue of an annual tax – as opposed to a one-off tax at the time of death – is that it more effectively safeguards progressivity at the top of the wealth distribution, because it ensures that the individuals with the highest ability to pay taxes cannot postpone taxation for years or decades”.

3. The OECD report of July 2024

In [Taxation and Inequality](#), the OECD shares the view that “effective tax burdens decline at the very top” and that this is “attributable to lower statutory tax rates as well as exemptions and deductions for certain categories of income and assets typically held by HNWIs”. In addition, the report notes that these individuals have a “greater capacity for international mobility”, which “may increase opportunities for aggressive planning”. The OECD doesn’t come up with any specific proposal but offers some advice: any reform should be administratively feasible, respect countries’ specific circumstances, take into account its interaction with existing taxes and pay special attention to tax design.

4. What about the European Union?

At this moment, no initiative or ongoing research at the EU level is publicly known, but it wouldn’t be surprising if the European Union were to follow suit. Tax fairness concerns have been on the policymaker’s agenda for some time, and the European Union also ended up being one of the first to get on the Pillar Two “train”. Even if it takes a couple of years, why would this be any different?

The first call was made by Zucman, and the second was made by the OECD. Now, more voices are joining the choir. Oxfam [recently asked](#) the EU Economy Commissioner, Paolo Gentiloni, who attended the G20 summit in July, to endorse these initiatives.

Among decision makers in EU Member States, Svenja Schulze (Germany’s minister for economic cooperation and development), María Jesús Montero (Spain’s first vice president and minister of finance) and Carlos Cuerdo (Spain’s minister of economy, trade and business) have shared in an [opinion article](#) that it is crucial to fight

inequality, which harms economically sustainable tax growth and undermines democracy and social cohesion. At stake also is the goal of accelerating decarbonization and fighting climate change, reaching the Sustainable Development Goals, eradicating poverty and combating the disparity between the richest and poorest countries. They state that “we need to enhance the ability of our tax systems to fulfil the principle of fairness, such that contributions are in line with the capacity to pay”, which “would boost social justice and increase trust in the effectiveness of fiscal redistribution”.

On the other hand, given that several EU Member States have in place tax incentives for HNWIs, probably only a coordinated mandatory initiative at the EU level would lead to the implementation of a minimum tax. It would be very difficult to achieve this on a case-by-case basis or via a joint agreement, as Zucman suggests.

A possible legislative proposal at the EU level could result from the European Citizens’ Initiative [Taxing great wealth to finance the ecological and social transition / Tax the Rich](#). This initiative is currently open for signature until 9 October 2024, and if 1 million signatures are collected, the organizers of the initiative can approach the EU Commission directly with a request to submit a proposal. But, as we know, the road to EU tax law is long and bumpy. Curiously enough, more and more groups of HNWIs calling for their own taxation, among them [Patriotic Millionaires](#) and [Tax Me Now](#), are emerging.

5. The known parallel (Pillar Two for multinational enterprises) and final remarks

Pillar Two for multinational enterprises (MNEs) was (is!) an unparalleled achievement in respect of tax coordination worldwide.

However, the rules have been subject to long debate, and their scope has been narrowed with the creation of carve-outs, safe harbours and transitional rules. This may give rise to questions on legitimacy/justification, as well as on their effectiveness – let alone questions of practicability, due to their extreme complexity.

Additionally, while it is true that 140 countries have agreed to enact Pillar Two under an OECD Inclusive Framework, it is also true that countries like Brazil, China (People’s Rep.), India and the United States [haven’t done so](#). Meanwhile, all EU Member States are required to transpose the EU Directive, which may raise concerns about tax competitiveness.

Finally, there’s a lot more to come on MNEs’ Pillar Two, let alone on HNWIs. But what’s to come will surely help to show whether a “Pillar Two for HNWIs” is a feasible or adequate solution to the underlying goals.

IBFD references

- > [Brazil-Commissioned G20 Plan Recommends Minimum 2 Percent Wealth Levy for Super-Wealthy \(26 June 2024\)](#)
- > [More G20 Ministers Join Call for Global Minimum Tax on Billionaires \(29 Apr. 2024\)](#)
- > [President Biden Proposes Increasing Corporate Minimum Tax, Extending Healthcare Credit, Introducing Annual Mortgage Credit, and Restoring Child Tax Credit in Sweeping State of the Union Address \(8 Mar. 2024\)](#)
- > [G20 to Explore Minimum Wealth Tax for Billionaires to Address Inequality and Revenue Needs \(1 Mar. 2024\)](#)
- > [European Commission Releases Initiative to Tax Great Wealth in the EU \(12 July 2023\)](#)
- > [F. Krajcuska, The Future of Special Individual Income Tax Regimes for Inward Expatriates in the European Union, 64 Eur. Taxn. 2/3 \(2024\), Journal Articles & Opinion Pieces IBFD](#)

- > [R.H.M.J. Offermanns & R. Botelho Moniz, Special Tax Regimes for High Net Worth Individuals, 60 Eur. Taxn. 8 \(2020\), Journal Articles & Opinion Pieces IBFD](#)
- > [Global Minimum Tax Monitor Map](#)

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