

A minimum tax on the super-rich

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In this world nothing is certain except death and taxes, Benjamin Franklin famously said. Billionaires may not yet have achieved immortality, but they have certainly become more agile at avoiding the tax collector. Over the last decades, globalization has opened new tax avoidance possibilities exploited by wealthy individuals around the world - and for too long, this has been accepted as an inevitable byproduct.

In the 1960s, the 400 richest Americans paid more than half of their income in taxes. Today, the super-rich control a greater share of America's wealth than during the Gilded Age of the Carnegies and Rockefellers[1] and yet US billionaires pay only around 8% [2] of their income (including capital gains) in personal income taxes, corresponding to about 0.5% [3] of their estimated wealth. For the first time in the history of the United States, billionaires have a lower effective tax rate than working-class Americans.

That's partly because taxes on the wealthy have been reduced over time. Earlier, higher taxes on corporate profits affected the rich, since this was a major source of their income. And the wealth they passed on to their heirs was subject to the estate tax. But both taxes have been slashed in recent decades. In 2018, the maximum corporate tax rate in the United States declined from 35% to 21%. The estate tax has almost disappeared; relative to the wealth of US households, it now generates only a quarter of the tax revenues it raised in the 1970s.

It is time to change this. President Biden's proposal – the “Billionaire Minimum Income Tax”[4]- to require households worth over \$100 million to pay a 25% annual minimum tax on their full income, including realized and unrealized capital gains, would ensure that the super-rich start paying their fair share (even then, the tax rate faced by a hedge fund speculator would be lower than that paid by a hard working surgeon of comparable income). Because wealth can be easily shifted from one country to another, generating cross-border externalities, international coordination is also needed to ensure that each country can impose a minimum tax on their super-rich in an effective way.

The Brazilian G20 Presidency [5] is advancing discussions on the creation of a coordinated global minimum income tax on billionaires. One important approach is a minimum tax expressed as a fraction of wealth, designed as a top-up tax in addition to individual income tax, ensuring that the total tax (individual tax + top-up) adds up to at least 2% of wealth.

Backing Brazil's G20 initiative would go a long way to supporting President Biden and Secretary Yellen's efforts to tax the ultra-rich and reduce today's extreme levels of inequality. Global cooperation in the sharing of information and transparency requirements, including mandatory disclosure of beneficial ownership of assets, is important if such taxes are to be effectively enforced. Such measures make it harder for the ultra-rich to hide their money.

Making sure that billionaires pay their fair share of taxes and setting global minimum standards across countries will enable the US and other countries to raise billions of dollars to meet pressing needs, including fighting pandemics, addressing climate change, and combating inequality ■

[1] <https://gabriel-zucman.eu/files/PSZ2021JOEI.pdf>

[2] <https://www.whitehouse.gov/cea/written-materials/2021/09/23/what-is-the-average-federal-individual-income-tax-rate-on-the-wealthiest-americans/>

[3] https://www.taxobservatory.eu/www-site/uploads/2023/10/global_tax_evasion_report_24.pdf

[4] <https://www.whitehouse.gov/briefing-room/statements-releases/2024/03/07/fact-sheet-president-biden-is-fighting-to-reduce-the-deficit-cut-taxes-for-working-families-and-invest-in-america-by-making-big-corporations-and-the-wealthy-pay-their-fair-share/>

[5] <https://www.g20.org/en/news/taxation-is-at-the-heart-of-the-global-macroeconomic-issue-says-brasils-minister-of-finance>

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