A protocol addressing tax evasion and avoidance by high-net worth individuals (HNWI) and ensuring their effective taxation in relevant Member States.

Why this protocol is important?

Several recent studies have highlighted the evidence on income and wealth inequality estimates in both high-, middle- and low-income countries. Income concentration of the super-rich has risen sharply, as between 1987 and 2024 the average wealth of the top 0.0001% richest households globally has increased by about 7% a year on an average net of inflation, much faster than average wealth (3% a year).

High-net worth individuals benefit from low effective tax rates, typically lower than those paid by other economic strata. Instead of being progressive, contemporary tax systems fail to effectively tax HNWIs.

In a similar way to MNEs, 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.

HNWIs have de-localized their wealth, diversifying it into various assets located in different jurisdictions, underneath layers of shell companies, trusts and other opaque legal arrangements that disguise the actual or beneficial owners.

Moreover, the taxation of wealth has been reduced over the past decades, contributing to increasing the income gap between the wealthiest individuals and the rest of the population. The resulting **reduced effective taxation** of such individuals undermines the possibility of addressing equality and redistribution, as some individuals successfully manage to escape the reach of the national States.

This also undermines trust in democratic institutions and thereby affects social cohesion. The rise of wealth concentration leads to a concentration of political power in the hands of the wealthy on the one hand, and a growing sense of economic injustice among the electorate on the other.

The global design of the tax system is again part of the problem in this case. The same limitations referred to in tax treaties for the taxation of payments between MNEs at source are applicable to the case of personal income. Further, many tax treaties limit the possibility of extending tax residency or applying exit taxes to individuals, in a world in which there is a growing tendency for some jurisdictions to offer tax residency to HNWIs, with tax benefits in exchange for investment.

Therefore, a coordinated approach to taxation of HNWIs is required to address global tax regressivity and enable countries to raise revenues and enable effective taxation of HNWIs.

An objective of North-South progressivity (as well as across-gender progressivity) and fair allocation of taxing rights must be a guiding principle in the design of the protocol addressing tax evasion and avoidance by high-net worth individuals (HNWI) and ensuring their effective taxation in relevant Member States.

This globally agreed allocation of taxing rights should in principle take into consideration both the location of the assets and the residence of the taxpayer. In the absence of published consolidated country-by-country accounts for HNWIs (in contrast to the position for large multinational corporations) it is necessary for the relevant tax jurisdictions to share wealth data with other jurisdictions affected. In the case of small and/or poor countries in the Global South with limited administrative capacity, it may be necessary for advanced economies (and their associated low tax jurisdictions) to provide direct assistance in tax collection as well as information.

Moreover, because the wealth of HNWIs is globally created in the sense that it arises from private control over international assets and markets, there is a strong case for at least a part of the new wealth tax revenue to be applied to the provision of global public goods such as pandemic disease control, environmental resilience and economic security for the poorest. Such provision must be exercised through multilateral institutions with adequate representation of the Global South.

Key aspects that should be included in a protocol addressing tax evasion and avoidance by HNWI and ensuring their effective taxation in relevant Member States

To effectively address the issue of the effective taxation of HNWI, the protocol should be designed in a way as to:

1. Help improve transparency and information exchange to strengthen domestic initiatives by:

- Requiring country-by-country reporting for multinationals to feature legal and Beneficial Ownership (BO) information to get a more comprehensive mapping of the ownership of listed & unlisted corporations.

- Working towards a global reach of transparency on beneficial owners of legal entities and other legal arrangements (e.g. trusts, private foundations, etc) and their use for addressing tax evasion and avoidance (e.g. effective abolition of bearer shares; verification of BO through international cooperation; sharing of best practices on personal income tax and wealth taxation going beyond legal ownership).

- Extend existing tax cooperation standards by: (a) Improving the effective use of the Common Reporting Standard in as many countries as possible; (b) Extending automatic exchange of information to more asset classes, working towards the creation of a global asset registry.

2. Address the following issues that have historically limited the ability of countries to effectively tax wealth:

- Methodology for the valuation of assets.
- Liquidity issues regarding tax payment.
- Identification of limitations posed by tax treaties.
- Solutions for effective taxation of trusts.

3. Move towards harmonized standards to fight the race to the bottom & unfair competition by:

- Creating guidelines to harmonize wealth valuation to facilitate the work of tax administrations in assessing asset valuation of high-net-worth taxpayers and enable countries to introduce national wealth taxes.
- Ensuring that the work of the United Nations Committee of Experts on International Cooperation in Tax (UNTC) will be incorporated to the UN FCITC and its protocols; in particular in view of the work the UNTC has done in providing countries with tools to implementing wealth taxes and wealth taxation more broadly through the **UN Handbook on Wealth and Solidarity Taxes** and the upcoming UN Sample Law on Wealth Taxes.
- Designing rules to prevent unfair tax competition, including extended exit taxes or trailing rules (extending tax residency after exiting the country), among others.
- Modifying the model tax convention and existent tax treaties in order to introduce changes in residence definition and taxing rights.
- Agreeing to a common minimum effective taxation standard for HNWI, defining threshold, tax base, and rate. This should include the design of rules for self-enforcement of a common standard.