FAQ
Wealth Tax

Millionaires for Humanity

1. Aren't governments inefficient, not able to spend the money from a wealth tax well?

Revenue raising and expenditure are essential elements of the democratic process, and can strengthen the social contract between citizen and state.

Raising money, and how that money is spent, are two sides of the same coin. But who and what a government taxes, is a very different thing to whether that money is spent on - hospitals or roads etc.

At Millionaires for Humanity our focus is very much on the first part- raising the money. But we also want to see it spent well and for it to have the greatest impact. Which is why we encourage governments to increase their funding to financial oversight bodies, audit institutions, revenue authorities, and to civil society bodies who monitor budgets and how budgets are spent. Revenue raising and expenditure are essential elements of the democratic process, and can strengthen the social contract between citizen and state.

Citizens agree to pay taxes to the government, and in turn hold governments to account for how they spend that money. This deepens the democratic process and increases government legitimacy and responsiveness. And at the end of the day, if we don't like what governments are doing, we can always vote them out in the next election!

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2. Wealth taxes have been tried in many countries in Europe and it didn´t work. Why do you think it would work this time?

The European wealth taxes of the past are not examples to follow. They kicked in at far too low a threshold (around €1.3 million ($1.5 million)) and were riddled with loopholes as a consequence. In the French case, a business owner was exempt as long as he or she did not sell the company. That led to successful serial start-up founders being taxed while sleepy entrepreneurs were not. And whereas a moderately wealthy French household's financial portfolio could easily generate a negative after-tax return, the effective tax rate on the wealth of the country's 100 richest individuals was a ridiculously low 0.02%.

The European wealth taxes of the past are not examples to follow. They kicked in at far too low a threshold and were riddled with loopholes as a consequence.

A wealth tax should treat all assets equally and have a high enough threshold. Warren is proposing a 2% tax on wealth above $50 million. The equivalent threshold in Europe would probably be lower. However, the estimates for a European wealth tax suggest that a progressive tax on net wealth could generate revenues between 3% and 10.8% of GDP (A European Wealth Tax Study , 2021)

Currently, the world's dollar millionaires account for 1.1% of the global population and the combined wealth of all these individuals sits at an estimated $192 trillion (Credit Suisse, 2021, p, 17). A modest wealth tax of 1% on these millionaires could look to generate up to $2 trillion per year, money that could be put to good use financing our responses to the world's most pressing issues.

Source: European University Institute: The Great Wealth Tax Debate (2019)

3. Won't wealth taxes push the wealthy to move to lower- or no-tax regimes?

It's understandable that many people have the wrong idea about millionaire tax flight. For a start, rich people are well known to avoid taxes, and there is a large "income defense industry" of lawyers that help them minimize their tax burden. Millionaires would prefer to relocate to another jurisdiction than to pay more tax. Or so the story goes. But it turns out that place still matters for the rich — much more so than we might think.

With success comes many spoils that tie rich people to a place, which makes them unlikely to move to a lower tax regime - despite the myth!

The rich may travel a lot, but they rarely change where they live and file their taxes. In a study from the US only 2.4% of millionaires move across state lines in a given year. Low-income earners have almost twice that rate of migration (4.5%). In general, migration declines with income: The poor are searching for economic opportunity, but the rich have found it.

With success comes many spoils that tie people to a place. Most millionaires are the "working rich," and have established careers in finance, consulting, medicine or law. They are homeowners, and a quarter of them own a business too. While there will always be some who will do whatever it takes to avoid taxes, for most, moving to another country to avoid a tax is just not worth it - despite the myth!

Source: Cristobal Young: The Myth of Millionaire Tax Flight - How Place Still Matters for the Rich (2017)

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4. Rich people avoid paying taxes through established tax havens. Wouldn't it be better to concentrate on fixing that?

Of course shutting down the role that tax havens play in helping people avoid taxes is important, but it's not one or the other- both need to happen.

It is much more difficult now than in the past for the super rich to stash their cash in far flung tax shelters.

Fortunately, it is more difficult now for the super rich to stash their cash in far flung tax shelters. There have been high profile cases outing grand corruption and extreme tax minimization, (e.g. Swissleaks, Panama Papers, Kleptopia etc), but the real story is the general trend. 141 countries have now signed up to the OEC, BEPS measures (Base Erosion and Profit Shifting) reducing the opportunity for tax avoidance. And one of the few positives from the Russia-Ukraine war has been the growing calls for a global registry of who owns what assets and where, so that governments could freeze the assets of oligarchs.

Clarifying the ownership of assets in the form of a register would also make it much easier for governments to know on whom to apply wealth taxes. Without the register, governments would struggle to know what and who to tax.

Source: Oxfam: Stopping the Scandals (2017)

5. Rich people are already paying so much taxes. Why do they have to pay more?

Rich people generally don't make their money from big salaries; their wealth is built on investments in companies and other assets, from real estate to art - typically taxed at a much lower rate than income.

One of the richest people in the world, Amazon founder Jeff Bezos, reportedly earns a salary of just $81,840. Billionaires generally don't make their money from big salaries; their wealth is built on investments in companies and other assets, from real estate to art. The money they make on these investments is taxed lower than the money you make from working.

The wealthiest can — perfectly legally — pay income taxes that are only a tiny fraction of the hundreds of millions, if not billions, their fortunes grow each year.

Source: Propublica: How the Wealthiest Avoid Income Tax (2021)

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6. Isn't it better to let rich people do good in the world through philanthropy?

Problem with this is that the common assumption that philanthropy automatically results in a redistribution of money is wrong. A lot of elite philanthropy is about elite causes. Rather than making the world a better place, it largely reinforces the world as it is. Philanthropy very often favours the rich – and no one holds philanthropists to account for it.

Moreover, according to an OECD report, philanthropic funding only provided $23.9 billion for development over 2013-15, corresponding to 5% of the amount given through Official Development Aid (ODA). The figures are simply too small to change the world.

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If millionaires are going to be "for humanity," they have got to go beyond philanthropy and recognize that they need to be taxed. No matter how generous and smart they are in their private giving, unless millionaires shift from trying to minimize their taxes to advocating to be taxed more, they are not living up to being "for humanity."

Source: The Guardian: How philanthropy benefits the super-rich (2020)

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7. Are you sure wealth taxes do not distort behavior in a way that is harmful to economic growth and national prosperity?

There is no evidence that a wealth tax will halter economic growth. In fact, a wealth tax may encourage greater innovation.

There is no evidence that a wealth tax will halter economic growth. In fact, in a recent paper by economists Fatih Guvenen, Gueorgui Kambourov, Burhanettin Kuruscu, Sergio Ocampo-Diaz, and Daphne Chen argues that a wealth tax may encourage greater innovation.

This is because, in their view, wealthy taxpayers who use their wealth in unproductive ways would be expected to earn a lower rate of return than superstar innovators. This would mean that the wealth tax would disproportionately impact the unproductive wealth, incentivizing those owners to deploy their assets productively in search of a higher return.

Source: National Bureau of Economic Research: Efficiency Gains from Wealth Taxation (2019)

8. Why is a wealth tax necessary? Is wealth inequality actually rising?

According to the UN Department of Economic and Social Affairs , inequality is rising for more than 70% of the global population, exacerbating the risks of divisions and hampering economic and social development.

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The richest 1% of the population are the big winners in the changing global economy, increasing their share of income between 1990 and 2015, while at the other end of the scale, the bottom 40% earned less than a quarter of income in all countries surveyed.

One of the consequences of inequality within societies is slower economic growth. In unequal societies, with wide disparities in areas such as health care and education, people are more likely to remain trapped in poverty, across several generations.

Source: UN Department of Economic and Social Affairs: The World Social Report (2020)

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9. Aren't wealth taxes inefficient and ineffective because wealth is inherently difficult to measure?

Generally, a wealth tax works by taxing a person's net worth, rather than the income they earn in a given year. In countries that impose a wealth tax, the tax is only levied once assets reach a certain minimum threshold. In Norway, for instance, the net wealth tax is 0.85% on stocks exceeding $164,000 USD in value.

Switzerland collects considerably higher revenues from its wealth taxes than other countries, which may be explained by tax design features.

Wealth taxes can be applied to all of the assets someone owns or just some of them. For example, the wealth tax can include securities and investment accounts while excluding real property or vice versa.

In Argentina a one-off tax on Argentinian's wealthiest brought in around $2.4 billion for pandemic recovery. Overall, the amount that the taxes brought in comes to about 0.5% of the country's GDP, according to the Buenos Aires Times. Reportedly, this was a higher amount than expected.

And like we said before, a Global Asset Register would be an essential tool in knowing who the real beneficial owners of assets are, and being able then to tax them.

Source: OECD Tax Policy Studies - The Role and Design of Net Wealth Taxes in the OECD (2018)

Millionaires for Humanity is a growing international network of millionaires, who advocate for wealth taxes to help support the COVID-19 recovery, tackle poverty and climate change and achieve the UN Sustainable Development Goals.

www.millionairesforhumanity.org

Millionaires *for* humanity