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CAN Europe position on a Tax on Extreme Wealth

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With 200 member organisations active in 40 European countries, representing over 1,700 NGOs and more than 40 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

1. Context

Two major types of taxes are levied on wealth: those applied sporadically (one-off) or periodically on a person's wealth (wealth taxes), and those applied on a transfer of wealth (such as gift tax or inheritance tax[1]).

We are here focusing on **net wealth taxes**, which are assessed on the net value of the taxpayer's assets, i.e. value of assets minus related liabilities (for example mortgage or other debts). They can be sporadic (often known as "capital levies") or on an annual or other periodic basis. The taxpayer can be a natural (individuals) or a legal person (corporation). The wealth covered can be all or a part of personal assets, including cash, bank deposits, real estate, valuable objects, assets in insurance and pension plans, ownership of unincorporated businesses, financial securities, personal trusts, etc.[2] Property taxes are an example of wealth tax that is levied on the value of the assets, regardless of whether they generate income or not. Wealth that is held indirectly through legal persons or other entities must be attributed to the physical person taxpayer.

Only three European countries levy a net wealth tax - Norway, Spain, and Switzerland. France and Italy levy wealth taxes on selected assets but not on an individual's net wealth *per se*. 12 OECD countries had net wealth taxes back in 1990. Decisions to repeal net wealth taxes have often been justified by efficiency and administrative concerns.[3] Their revenue mobilisation potential remained underwhelming due to the lack of a global transparency framework in times of increasing mobility of wealth (e.g. because financial assets had become increasingly mobile, because they involved many exemptions difficult to monitor and implement, notably justified by the complexity to evaluate some forms of wealth[4]) and did not always lead to sizeable revenue collection. Most countries had opted for relatively low thresholds and a variety of exemptions – with the consequence that a relatively large share of the population was subjected to a complicated wealth tax, opening many legal avenues to the extremely wealthy to avoid the tax. It has now become more difficult to hide wealth on the one hand, and digitalization allows tax

[1] See for example an initiative in Switzerland: https://initiative-pour-lavenir.ch/
[2] European Parliament Briefing, Solidarity and wealth tax, 2022.
[3] OECD, The Role and Design of Net Wealth Taxes in the OECD, 2018.
[4] Sarah Perret, Why were most wealth taxes abandoned and is this time different?, Institute for Fiscal Studies, 2021.

administrations to operate more efficiently to track wealth flight and to evaluate assets. In addition, to avoid yearly reassessments and lighten the related administrative burden, the OECD recommends keeping the value of hard-to-value assets or the value of taxpayers' total net wealth constant for a few years.[5] Both the IMF and the OECD recommend limiting exemptions as much as possible, with carefully articulated criteria.[6] Drawing lessons from past experiences, European (or national) wealth taxes should combine high thresholds (eg 1% of richest people) and no exemptions beyond possibly the primary residence up to a certain value. This would facilitate implementation and political acceptance by hitting only the super-rich, representing a very small proportion of the population. Adequate administrative capacity in tax administration is also needed.

Proposals have been made for a **one-time levy on financial assets**.[7] In **France**, a report delivered in 2023 to the prime minister suggested for example a temporary 5% wealth tax on the richest 10% of the population to finance the transition to net-zero emissions, covering net financial assets only.[8] By limiting the levy to financial assets, the complexity of the valuation of real estate or artworks can be avoided. However, in order to generate sufficient resources to meaningfully contribute to financing the ecological transition, such tax would have to apply to a broader group than the super-rich. In addition, it presents the risk of triggering "wealth shifting" to untaxed assets (people buying land or real estate to avoid the tax). Other examples include the proposal of the **Wealth Tax Commission** for the implementation of a comprehensive one-off wealth tax in the UK, putting forward a different design to the French example[9].

Under a net wealth tax, in general, residents are typically taxed on their worldwide net assets, while non-residents are frequently taxed only on their assets that are physically located within the jurisdiction.[10] In addition, an exit tax can complement the scheme, so that the super-rich leaving the country would nevertheless be taxed, for example during five years.[11] Existing bilateral tax and investment treaties should be screened to ensure that they do not prevent such exit taxes from being effective.

Various options have been proposed in terms of the tax rate, from a flat rate to a progressive or very progressive rate (i.e. the tax rate increases with the net wealth). Depending on the scheme, the amounts generated could be very different. Proposals range from 1% to 3 or 5% tax rate[12], and sometimes even up to a 10% tax rate on the top 0.001% (wealth above 500 million euros).[13]

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[5] Jakob Kapeller, Stuart Leitch and Rafael Wildauer, A European wealth tax for a fair and green recovery, FEPS and Renner Institut, 2021.

[6] IMF, Rebecca S. Rudnick and Richard K. Gordon, Taxation of wealth, 1996; OECD, The Role and Design of Net Wealth Taxes in the OECD, OECD Tax Policy Studies, 2018.

[7] Daniel Gros, A corona financial solidarity levy, 2020.

[8] Jean Pisani-Ferry and Selma Mahfouz, Les incidences économiques de l'action pour le climat, 2023, page 120.

[9] Arun Advani, Emma Chamberlain and Andy Summers, A wealth tax for the UK, Wealth Tax Commission, 2020.

[10] Rebecca S. Rudnick and Richard K. Gordon, Taxation of Wealth, 1996.

[11] Norway to Hit Fleeing Billionaires With Higher Exit Tax, 2022.

[12] Oxfam, Survival of the Richest: How we must tax the super-rich now to fight inequality, 2023; The Greens / EFA, Tax the Rich: From Slogan to Reality, 2023; Gabriel Zucman and others, A progressive European wealth tax to fund the European COVID response, 2020; Arun Advani, Emma Chamberlain and Andy Summers, A wealth tax for the UK, Wealth Tax Commission, 2020.

[13] Jakob Kapeller, Stuart Leitch and Rafael Wildauer, A European wealth tax for a fair and green recovery, FEPS and Renner Institut, 2021.

As for the threshold, studies focusing on Europe refer to wealth above 1 million[14], 2 million euros [15] or 2.7[16] or 4.7 million euros.[17] A London-based real estate consultancy firm, in contrast, considers that "high net worth individuals" are those with a net worth over one million U.S. dollars excluding their primary residence, while "ultra-high-net-worth individuals" have a net worth of over thirty million U.S dollars excluding primary residency.[18] Most of these ultra-rich are based in the US.

It is to be noted that at the global level, Lucas Chancel et al propose a '1.5% wealth tax for 1.5 °C on the world's very richest individuals (roughly 65,000 centimillionaire individuals globally, i.e. a little more than 0.001% of the global adult population, with more than US$1 billion wealth - but these thresholds are extremely high for the EU, where only very few individuals would be covered.[19]

In terms of existing wealth taxes, Norway, for example, levies a net wealth tax of 0.95 per cent on individuals' wealth stocks exceeding EUR 140,000, the tax rate is 1.1 per cent if the wealth stock exceeds EUR 1.73 million. The Spanish central government introduced a "solidarity wealth tax" ranging from 1.7 per cent to 3.5 per cent on individuals with net assets exceeding EUR 3 million for 2022 and 2023.

And still, the underlying issues of missing out on taxing the wealthy and powerful sit deeper: the current global taxation structures have been developed over the past 60 years under the leadership of the Organisation for Economic Co-operation and Development (OECD).[20] Bowing to pressure from multinational corporate giants and the super-rich, and while not-including large parts of the Global South in its decision-making processes, governments have created tax rules that prioritise the wealthiest, putting a system of financial secrecy and tax havens at the core of the global economy.

According to the Tax Justice Network[21] corporate and wealthy individuals' tax abuse leads to the loss of at least $483 billion USD each year, out of which $311 billion is lost to cross-border corporate tax abuse by multinational corporations and $169 billion is lost to offshore tax abuse by wealthy individuals. This tax abuse disproportionately deprives Global South countries of finance for critical public services. Their losses are equivalent to, e.g., half of their public health budgets.

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[14] Arun Advani, Emma Chamberlain and Andy Summers, A wealth tax for the UK, Wealth Tax Commission, 2020.
[15] Jakob Kapeller, Stuart Leitch and Rafael Wildauer, A European wealth tax for a fair and green recovery, FEPS and Renner Institut, 2021.; Gabriel Zucman and others, A progressive European wealth tax to fund the European COVID response, 2020.
[16] Greens / EFA, Tax the Rich: From Slogan to Reality, 2023.
[17] Oxfam, Survival of the Richest: How we must tax the super-rich now to fight inequality, 2023.
[18] https://www.statista.com/topics/4507/high-net-worth-individuals-in-europe/#topicOverview
[19] Lucas Chancel and others, Climate Inequality Report 2023: Fair taxes for a sustainable future in the Global South, 2023.
[20] Tax Justice Network and others, Litany of failure: the OECD's stewardship of international taxation, 2024.
[21] Tax Justice Network, The State of Tax Justice, 2023.

The ongoing process at the UN to develop and agree upon a 'United Nations Framework Convention on International Tax Cooperation' offers a historic opportunity towards establishing a fully inclusive international cooperation and governance on tax.[22] It has the potential to dry up tax-related illicit financial flows, to end international tax dodging, to bring forward corporate tax reform for the benefit of all, and to promote wealth taxes and environmental tax issues.

CAN Europe supports the following policy options regarding a wealth tax:

- A **comprehensive wealth tax**, that ensures **progressivity** (i.e. different tax rates depending on net wealth levels) for a fair distribution of tax burden. Main proposals by think tanks and researchers refer to wealth tax rates between 1% and 5%, depending on the level of wealth.
- A tax that applies **only to the super-rich**, i.e. with a very high threshold (e.g. people with net wealth above several million euros (2 million euros represent approximately 1% of the population in the EU[23] but a larger percentage in several single member states. A threshold like 5.7 million euro represent 0.1% of the EU population[24]). Defining the threshold for the super-rich is context-specific.
- **Flanking measures to limit tax avoidance,** such as an EU asset registry, full transparency of beneficial ownership (who owns companies) and exit taxes (applying when wealth is moved abroad) while at the same time working towards global standards on Automatic Information Exchange under a United Nations framework convention on international tax cooperation. EU or national measures can be adopted without waiting for a UN agreement, but international cooperation is extremely important and requires constructive EU engagement.
- **A wealth tax on all assets, with no exemptions** except maybe the primary residence up to a certain value
- A **pan-European wealth tax and**, pending an agreement at the EU level, the introduction of net wealth taxes **at the national level**
- Part of the revenues raised should accrue to the EU budget (either directly or via national budgets) to finance **climate and biodiversity action and the broader socio-ecological transition**, including the EU's fair contribution to **international climate finance and the Sustainable Development Goals (SDGs)**. In the context of the UNFCCC negotiations on a New Collective Quantified Goal (NCQG) on climate finance, this could be an element in contributing a share of the much greater public finance transfers to the global south that the EU is expected to take on due to its responsibilities and capacities.
- The EU and Member States should support the G20 process towards a minimum tax on the super-rich.

[22] Eurodad, Proposal for a United Nations Convention on Tax, 2022.
[23] Gabriel Zucman and others, A progressive European wealth tax to fund the European COVID response, 2020.
[24] The Greens / EFA, Tax the Rich: From Slogan to Reality, 2023.