

Taxing Ultra High Net Worth Individuals: a Proposal

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The Starting Point

- In 2024 the G-20 Presidency asked to prominent economists to draft a proposal for a minimum taxation of UHNWI in the world;
- China is a Member state of G-20;
- The Report has been delivered in 2025.



The Program of this Presentation

- **Analyse the theoretical foundation** of the G-20 Proposal from an economic point of view;
- **Test the feasibility** from a legal standpoint;
- **Evaluate the possible impact** assessment for the Chinese economy in terms of redistribution of wealth and tax liability.



Zucman's Proposal in a Nutshell

- **Internationally coordinated standard** ensuring an effective taxation of ultra-high-net-worth individuals;
- Individuals with **more than \$1 billion in wealth** would be required to pay a minimum amount of tax annually, equal to 2% of their wealth;
- The Methods:
 1. Presumptive income tax;
 2. Income tax on a broad notion of income;
 3. Wealth tax



His findings

1. Building on **recent progress in international tax cooperation**, such a common standard has become technically feasible;
2. It could be enforced successfully **even if all countries did not adopt it by strengthening current exit taxes and implementing “tax collector of last resort” mechanisms** (Pillar II alike);
3. A **minimum tax** on billionaires equal to 2% of their wealth would raise \$200-\$250 billion per year globally from about 3,000 taxpayers;
4. This international standard would **effectively address regressive features of contemporary tax systems at the top of the wealth distribution**;
5. It would support **domestic progressive tax policies**, by improving transparency about top-end wealth, reducing incentives to engage in tax avoidance, and preventing a race to the bottom;
6. Its economic impact must be assessed in light of the observed pre-tax rate of return to wealth for ultra-high-net-worth individuals which has been 7.5% on average per year (net of inflation) over the last four decades, and of the current effective tax rate of billionaires, equivalent to 0.3% of their wealth.



The Logic of the Tax

- The tax would be **added to the other** applicable as to preserve the progressivity of the tax system;
- Evidence is that **most of the tax systems are progressive** on paper, but actually regressive at the highest percentile of taxpayers;
- G-20 proposal is, as a consequence, a **correction**.
- Ideal target: the *wealthy undertaxed*.



The Ideologies of Taxation, Revisited

- Building up on classic American Literature (Eisenstein, 1961):
 - Progressivity of Taxation;
 - Worldwide income principle taxation;
- Are we justified in taxing UHNWI ?
 - A genuine link is needed (Greggi 2025)
 - The “**Disappearing taxpayer**” phenomenon.



The Starting point

- UHNWI individuals are **presumptively identified**;
- *Forbes 400, Hurun Report, Bloomberg Billionaire Indexes*;
- Measuring effective wealth is almost impossible without reliable data:
 - Realized?
 - Accrued?;
- In literature (Zucman 2025): **a common understanding exists** that effective tax rates are declining for taxpayers in the highest brackets and with the higher wealth index.



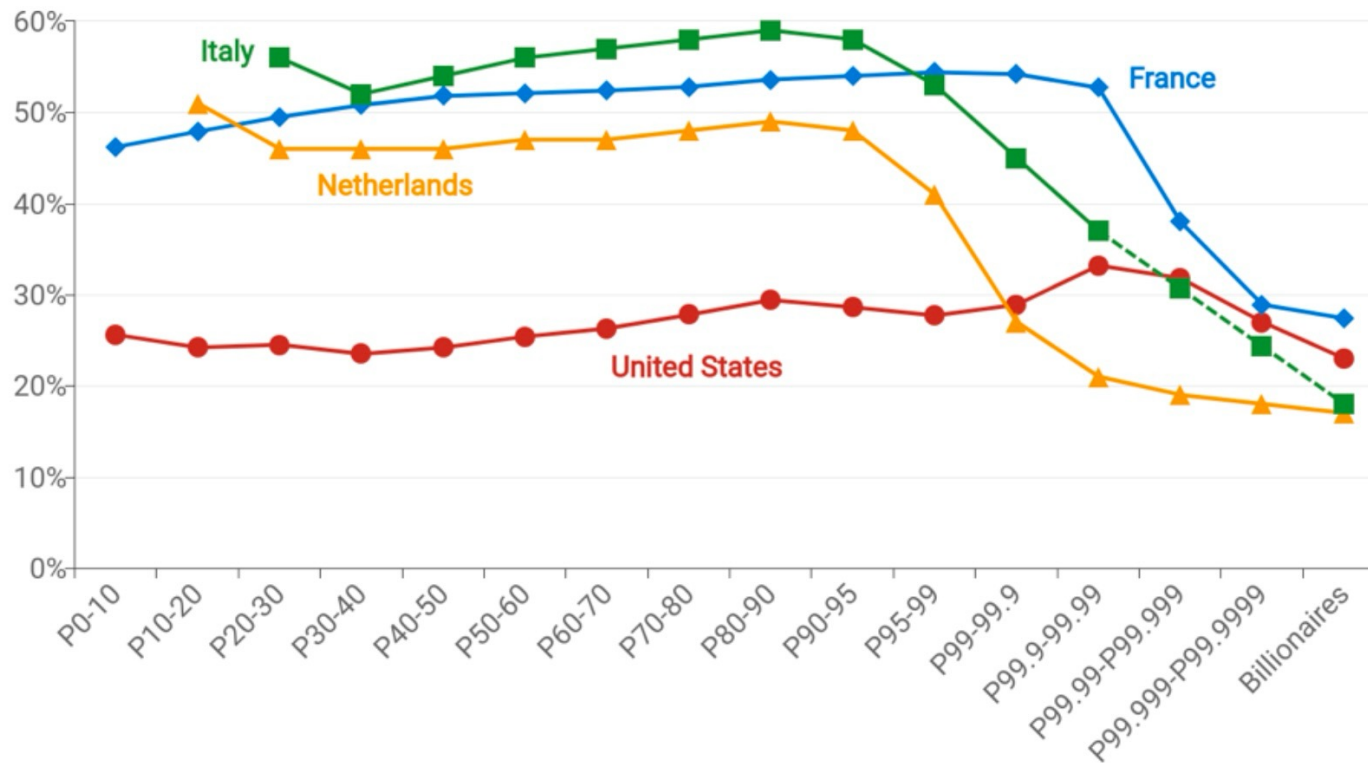
The Reasons of the Decline

- Globalization:
 - Aggressive tax planning strategies;
 - Use of multiple jurisdictions;
- Foreign allocation of assets and wealth, making the most of treaties (*inter alia*, base erosion and profit shifting);
- Unilateral national decision by several states:
 1. Carve-out of specific items of income;
 2. Favourable (i.e. non progressive) tax treatment of qualified revenues;
 3. Attractive tax regimes (in the case of Italy, for instance).



The Magnitude of the Problem

**Figure 1: Average tax rates by income groups and for billionaires
(% of pre-tax income)**





The Reasons, in particular ...

- Tax Deferral:

- With controlling stakes in corporations UHNWI can instruct these companies to avoid distributing dividends.
 - Consideration: even when wealthy individuals report no taxable income, they do earn economic income—their share of the profits made by the companies they own.
 - Even if this economic income is not distributed as dividends, it is neither “virtual” nor “trapped” in any meaningful sense.
 - UHNWI can also **consume that income by borrowing money** (for instance by pledging shares in their firms as collateral) and using the—tax free—proceeds of such loans to buy goods and services.



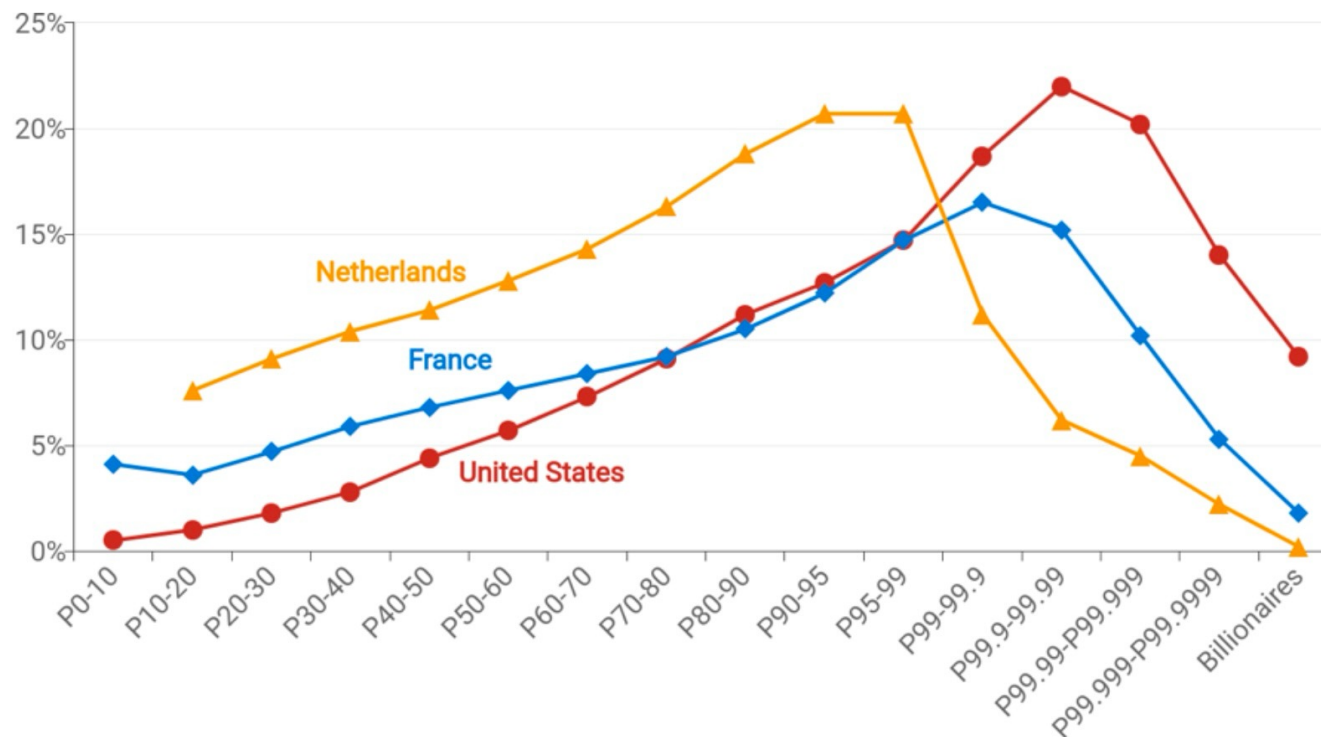
Continued ...

- The use of **Holding companies** (or other legal structures):
- Means to avoid income taxation on the UHNWI:
 - These holdings serve as **nominal owners** of shares in a corporation.
 - **Dividends paid by that corporation are formally received by another company (the holding)** and, as such, free of the individual income tax.
 - Dividends received by holdings are also **free of the corporate tax in most countries**;
- Overall consequence: erosion of the effective tax rate ...



Effective Tax Rate in Selected Countries

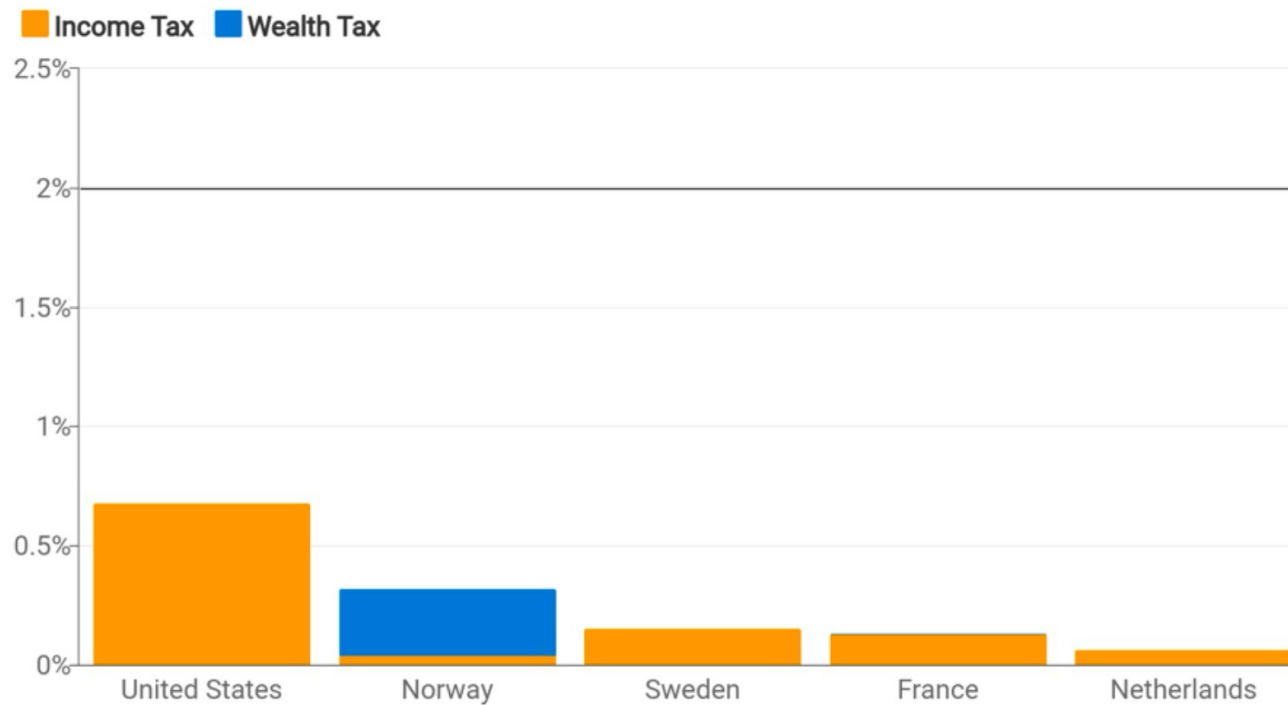
**Figure 2: Effective income tax rates by income groups and for billionaires
(% of pre-tax income)**





The Consequences of Regressivity

**Figure 3: Individual taxes paid by billionaires
(% of wealth)**





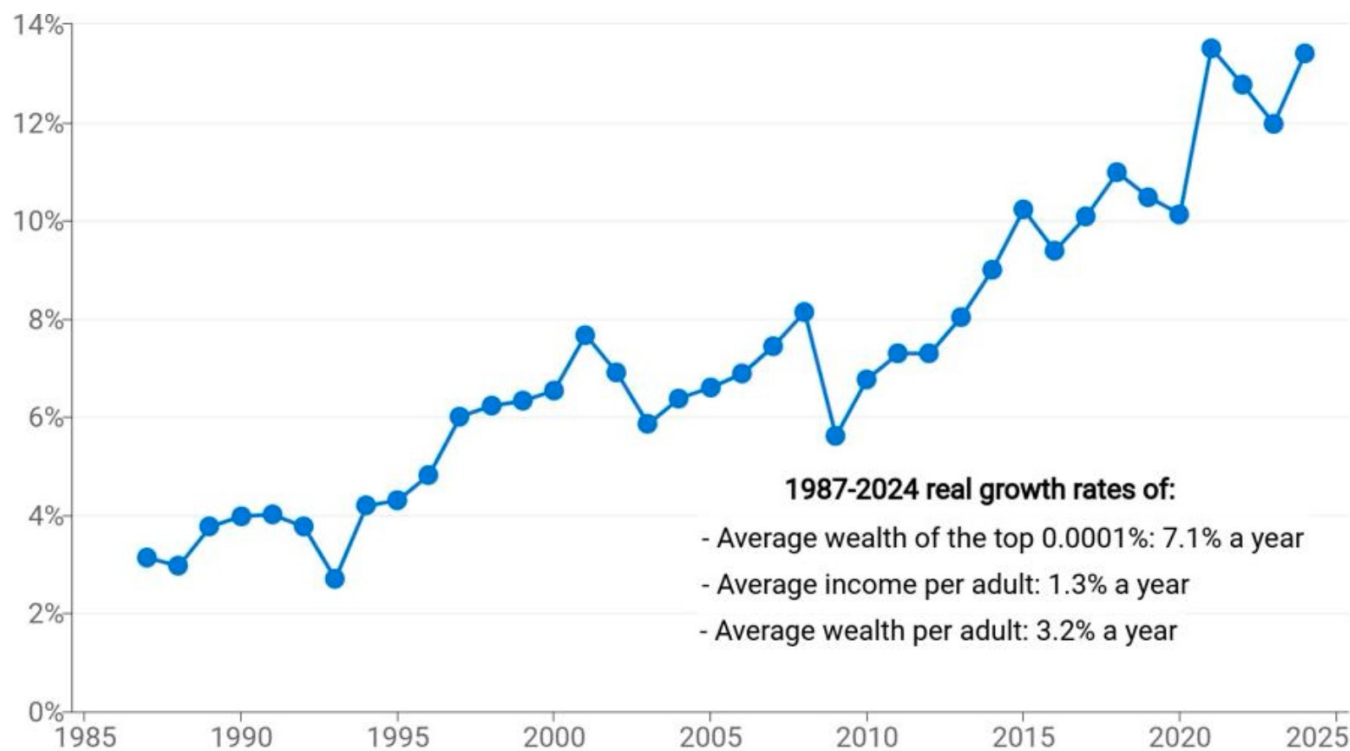
The Current Trends

- According to data compiled by Forbes, the wealth of global billionaires **has grown on average** by 7.1% (net of inflation) per year between 1987 and 2024;
- With a capital tax rate of 0.3% and consumption equivalent to 0.1% of wealth, this growth rate implies a gross return to wealth of 7.5% per year.
 - This is higher than the comparable average global pre-tax return to wealth, which can be estimated to be in the range of around 6%-7% over this period.
 - This returns differential is larger after tax: around 7% for billionaires vs. 5%-6% for the average person globally.



The Accumulation Trend

Figure 4: Wealth of the global top 0.0001% (as a % of world GDP)





Forecast according to the current trend

- As long as ultra-high-net-worth individuals keep having higher net-of-tax returns than the rest of the population, **their share of global wealth will keep rising—an unsustainable path;**
- **This is a plausible scenario if the world keeps getting increasingly economically integrated;**
 - Most of the wealth of billionaires derives from their ownership stakes in multinational companies, which benefit from low trade costs, free capital movements, and strong cross-border property rights to access larger markets, boosting their profit and valuation.



From Economics to the Law

- The baseline proposal involves ensuring that dollar billionaires (about 3,000 taxpayers today) pay at least 2% of their wealth in individual taxes each year;
- The individual taxes taken into account to compute this minimum would be **individual income taxes, wealth taxes, and economically equivalent levies**;
- Payroll taxes, property taxes, corporate taxes, consumption taxes, or other business-level and indirect levies would not be considered.



Continued ...

- The minimum tax should be seen not as a wealth tax, but as a tool to strengthen the income tax;
 - A billionaire who already pays the equivalent of 2% of their wealth in income tax (e.g., because that person realizes a significant amount of capital gains or earns a significant amount of dividend income directly) would have no extra tax to pay;
- **Only billionaires who currently pay less than 2% of their wealth in tax would have to pay more** as their individual income tax payments would be topped up to reach 2% of wealth;
- This mechanism differs from a wealth tax of 2% for billionaires.
 - A wealth tax would come in addition to any individual income tax paid, while the minimum tax proposed here would merely offset the failure of the income tax, when it fails.



Diving into Technicalities

- Technically, the minimum tax proposed here is what is known as a **presumptive income tax**;
- The idea is that a billionaire who reports little taxable income—and as a result pays little income tax—must be presumed to earn economic income that is not being captured by the tax code.
 - Recent research highlights (see slides before) the large gap between economic income and taxable income at the top of the wealth distribution.
 - Billionaires earn large amounts of economic income—their share of the profits made by the businesses they own—but can report no taxable income by avoiding dividend distributions and capital gains realization.



The National Factor

- The minimum tax proposed would set a **common standard** while respecting national sovereignty;
- Participating countries would need to agree on a common norm (say, that billionaires must pay at least 2% in tax each year), a norm which they would then enforce through domestic measures ...
- ... these might include:
 1. Presumptive income taxation;
 2. Wealth taxation;
 3. Income tax on a broad notion of income.



Presumptive Income Taxation

- With a presumptive income tax, ultra-high-net-worth individuals would be **presumed to earn a certain fraction of their wealth in income**;
 - For instance, billionaires could be presumed to earn 6% of their wealth in economic income;
- To arrive at a minimum tax rate of 2% when expressed as a fraction of wealth, **this imputed income would have to be taxed at a rate of 33%**.
 - In practice, billionaires would also compute the amount of tax normally owed according to the regular income tax code;
 - They would then pay the greater of the two numbers.
 - A person reporting a large amount of taxable income would typically not be affected by the presumptive income tax;
 - Vice versa, someone reporting little taxable income would be affected by it.



Wealth Taxation

- If the wealth tax rate is at least 2% on billionaires, then by definition this tax would fulfill the international standard.
- As with presumptive income taxation, **to maximize effectiveness it is key to include all forms of wealth in the base, to rely on observable market values to measure wealth**, and to approximate market values when these values are missing;



Income Tax on a Broad Notion of Income

- Another way to implement the tax would be with a 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 (former) administration of Joe Biden.
- Billionaire tax would affect Americans with more than \$100 million in wealth and subject their income, defined broadly to include unrealized capital gains, to a minimum individual income tax rate of 25%.
 - This tax would in effect **subject the full pre-tax return** to wealth of ultra-high-net-worth Americans to a minimum Individual tax rate of 25%, no matter whether this return takes the form of dividends, realized capital gains, or unrealized gains.



Lights and Shadows

- The different possible implementations of the coordinated minimum tax proposed have potential strengths and weaknesses:
 - A presumptive income tax and a wealth tax implement the standard with certainty;
 - A presumptive income tax stays firmly in the realm of income taxation (thus overcoming potential issues about the constitutionality of wealth taxes that might arise in certain countries), as does a tax on a broad notion of income including unrealized capitals;
 - **A tax on unrealized capital gains provides less certainty** (given returns heterogeneity), but that uncertainty and the implied volatility in tax revenues can be addressed through proper smoothing mechanisms.



Why an International approach?

- International (inclusive) approach needed to address (and curb) potential distortions:
 1. Race to the bottom;
 2. Support the effectiveness of domestic policies.



Tackling Mobility (Race to the Bottom)

- Most countries **tax resident individuals on their worldwide income** (and worldwide wealth when there is a wealth tax);
 - To avoid taxes, taxpayers can change their country of residency and move to a low-tax country, or to countries that are high-tax overall but offer favorable regimes for high-net-worth foreigners;
 - The risk of such **tax-driven migration** has been a major argument in favor of reforms reducing the taxation of high-net-worth individuals in recent decades.



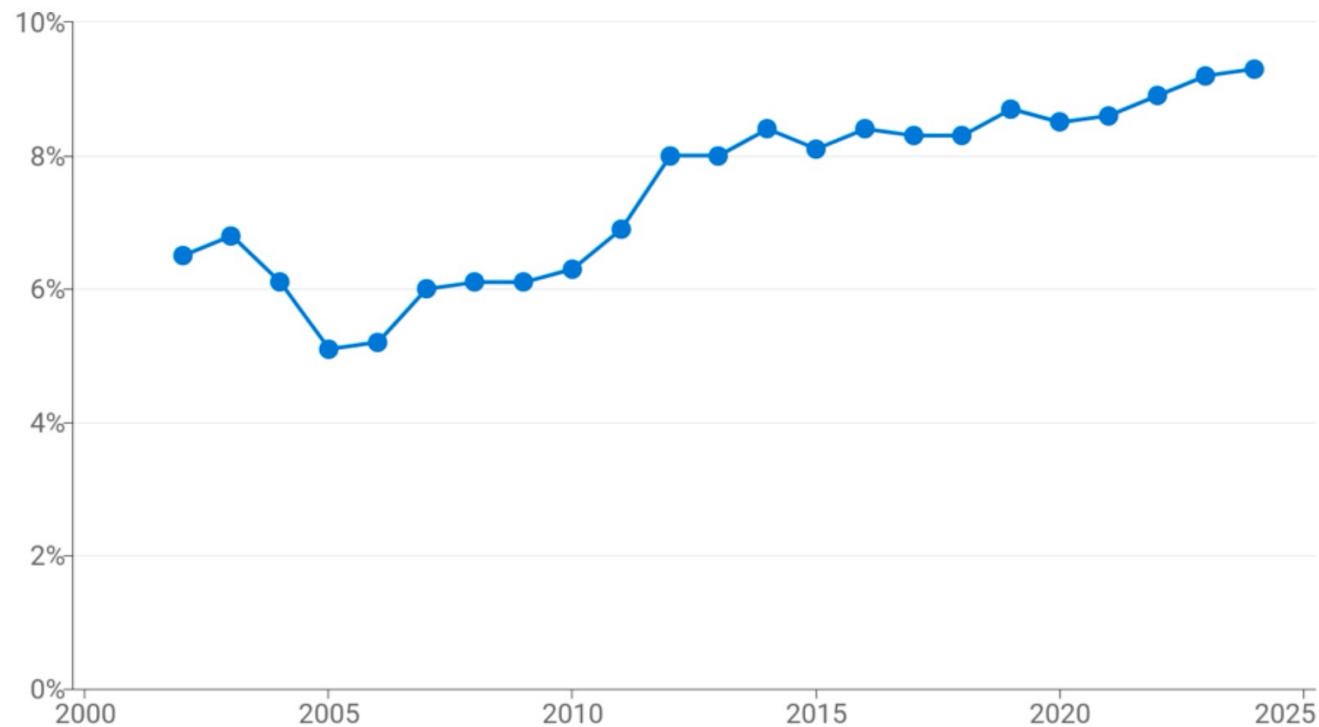
Remedies

- The risk of tax-driven migration can be exaggerated in the public debate (Zucman 2025);
 - A common standard would limit the risk of tax-driven mobility;
 - If all countries implemented a minimum tax on ultra-high-net-worth individuals, effective tax rate differentials would be small;
 - There is no need for the participation of all countries for the standard to be effective: effective implementation of the standard by a critical mass of countries would be enough to curb a race to the bottom.



Data Confirming the Statement

Figure 8: Share of global billionaires living in a country different from their country of citizenship





National Tools to Prevent Mobility

- Countries have a **variety of tools** at their disposal to effectively tax ultra-high-net-worth individuals while limiting tax-driven mobility:
 1. Exit taxes;
 2. Taxation for non-resident individuals;
 3. Connection of taxation not to residency but to citizenship (as done in the United States).



The value of collaboration

- **International coordination is also valuable** because it would support the implementation of domestic tax policy measures;
 - A common minimum standard for the taxation of UHNWI would **reduce incentives for the taxpayers** affected to engage in tax avoidance, making domestic reforms (such as increased taxation of capital gains) more effective;
- It would also create transparency about top-end wealth, facilitating the enforcement of domestic taxes on capital income and wealth taxes when they exist.



The Parallel with Pillar 2

- Just like tax avoidance by ultra-high-net-worth individuals, profit shifting by multinational firms can be tackled through a variety of domestic measures, especially in large economies.
 - For example, a country may choose to tax resident corporations on their worldwide profits (including their profits booked abroad) and combine this worldwide taxation with strong anti-inversion rules to prevent firms from changing their headquarter country.
- **Other anti-profit-shifting measures** that can be implemented domestically, which have merit independent of any international action.
 - Yet international coordination adds value because it provides additional protection against the weaknesses that even the most sophisticated domestic systems can have.



Problem: Wealth Valuation

- According to existing data, about half of the wealth of global billionaires is in shares of publicly listed companies, which are straightforward to value.
 - The other half consists mostly of shares in private companies.
- Private businesses owned by billionaires are typically large, making it possible to **ascertain their value by comparing them to similar publicly listed companies**;
 - To value private businesses, tax authorities could apply the valuation multiples observed for similar listed businesses in the same industry: multiple of market value to profits, market value to assets, and market value to sales.
 - Tax authorities could also rely on transactions in private business shares, which de facto value private companies and could be made reportable to tax authorities.



Problem: Exchange of Information

- **Both FATCA and the CRS have contributed to reducing offshore tax evasion:**
 - Summarizing this preliminary evidence, the Global Tax Evasion Report 2024 tentatively estimates that offshore tax evasion has declined by a factor of about three in less than 10 years;
 - Before 2013, households owned the equivalent of 10% of world GDP in financial wealth in tax havens globally, the bulk of which was undeclared to tax authorities and belonged to high-net-worth individuals;
 - Today there is still the equivalent of 10% of world GDP in offshore household financial wealth, but according to the Global Tax Evasion Report 2024 only about 25% of it evades taxation;
- This evolution shows that international cooperation and the creation of common standards can be powerful tools to support domestic taxation.
- **Despite this progress, limits in information sharing remain:**
 - First, it remains possible to own financial assets that escape being reported on, whether it is due to non-compliance by offshore financial institutions or to limitations in the design of the automatic exchange of bank information;
 - Second, not all assets are covered by this system, most importantly real estate, other non-financial assets (such as art), and shares in private companies.



Problem: Exchange of Information

- Improving the effective taxation of ultra-high-net-worth individuals requires **improving international information exchange**;
- The Common Reporting Standard should be extended to **include real estate** and other non-financial assets;
 - This would work best if combined with improved reporting on the ownership of shell companies, which are often used as nominal owners for luxury real estate.



Problem: Beneficial Ownership

- Identifying the main beneficial owners of multinational companies **should be possible even when the shares are held through intermediaries** (such as family holding companies, investment funds, trusts, etc.) because financial intermediaries themselves are required to identify beneficial owners by virtue of existing anti-money-laundering regulations.
- A second step would involve **creating new self-reporting requirements** for ultra-high-net-worth individuals, modelled on the country-by-country reports of multinational firms.
 - Resident billionaires would be asked to file confidentially a report on their wealth, detailing the assets they own in the different countries of the world.



Concluding Remarks

- Challenging scenario worth exploring;
- Taxing UHNWI is not to be intended as a retaliatory measure, but a tool to reintroduce fairness to the system;
- Need for coordinated effort.



Thank you for your Attention

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