Ensuring Effective Tax Progressivity: The Fiscal Challenge of the 21st Century

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Progressive taxation is a key pillar of democratic societies

A progressive tax system:

- Strengthens social cohesion and trust in governments
- Is critical to fund the public goods that drive economic growth
- Is key to keep wealth concentration in check
Increasingly clear that our tax systems are not progressive

- Recent research taking comprehensive view of taxation
- Summarized in Global Tax Evasion Report 2024
- Finds rich individuals pay proportionately less than others
Lack of tax progressivity in Latin America

Distribution of effective tax rate until the richest 0.1%. Effective tax rates of billionaires are not observed.

Source: De Rosa, Flores, Morgan (2022)
Lack of tax progressivity in Latin America

Distribution of effective tax rate until the richest 0.1%. Effective tax rates of billionnaires are not observed.

(a) Argentina 2019
(b) Brazil 2019
(c) Chile 2017
(d) Colombia 2018
(e) Costa Rica 2019
(f) Ecuador 2019
Billionaires have the lowest effective tax rates

Average tax rates by income group and for billionaires
(% of pre-tax income)

France
Netherlands
Italy
United States
We need a coordinated minimum tax on the superrich

Best way to address this regressivity is by creating a common minimum standard through international coordination:

- Main obstacle to taxing the rich is risk that they may move to low-tax places
- With international coordination, a binding floor can be put
- In 2021, 140 countries agreed to a minimum tax on multinationals
- Under leadership of Brazil (G20 chair), discussions to create a new minimum tax, this time on the super-rich
Concrete proposal: a 2% minimum tax on global billionaires

- Billionaires should pay at least 2% of their wealth in tax each year
- 3,000 taxpayers involved
- At least $250 billion in tax revenue
- Technical report in June
Tax evasion is not a law of nature, it’s a policy choice

• We can choose coordination over competition
• Some (limited) coordination successes in past 10 years: automatic exchange of bank information, minimum tax on corporations
• Much more to be done, starting with taxation of rich individuals

Ideal is international coordination, but a lot can also be achieved unilaterally
Thank you

https://taxobservatory.eu/