The case for a wealth tax

The European Union face numerous crises – social, health, environmental, economic and climate - which are all interrelated and symptomatic for the failure of our economic system which is largely profit driven and not fit for the future. Climate and environment are collapsing while inequality and injustices have been massively aggravated, to the detriment of the weakest. To put this into numbers: since 2020 the EUs five richest billionaires increased their wealth by a staggering 76%, from 244 to 429 billion euros, whereas most of the population has become poorer. That means that the richest 1% of the population hold 32% of total net wealth in the EU22 while the poorest half only hold about 4.5% of total net wealth. At the same time, the world richest have a higher contribution to climate change due to their high carbon emission activities. For example, rich people often have higher levels of consumption, including luxury goods, travel, and energy-intensive lifestyles. This increased consumption contributes to higher emissions, particularly from transportation (e.g., frequent flying), energy use (e.g., larger homes, multiple properties), and consumption of goods and services with high embodied carbon (e.g., high-end fashion, electronics). As a result, the world's richest 1% own 43% of all global financial assets and emit as much carbon pollution as the poorest two-thirds of humanity. In addition, current green tax mechanisms such as carbon pricing are not designed in a socially just manner and failed to tackle inequalities. Research suggest that they often disproportionally affect low-income and low-emission groups. Meanwhile, the carbon pricing signal for high-income and high-emission individuals remains relatively low, failing to induce significant changes in their consumption or investment behaviours.

To meet the challenges ahead, it is urgent to fundamentally reorient the European Union towards a just and democratic climate transition. One the one side, a transformative social, economic and environmental agenda needs adequate finances. On the other hand, we need measures to decrease inequalities and distribute wealth (and income) more equally in our societies. Many countries, including EU states, have tax measures that benefit the super-rich from abroad, and are often much lower than for their own citizens. Due to this de facto non-taxation, the EU loses around 7.5 billion euros in tax revenue every year. This corresponds to 0,7% of the current EU budget.

One way out could be the introduction of **an EU wide wealth tax on Europe's richest individuals**. Studies have shown that such a tax could combat the climate crises while reducing inequalities. It could also tackle gender racial inequalities as its often women and other vulnerable groups who have lower levels of wealth due to gender roles, pay and pension gap, unequal distribution of unpaid and paid care work and limited inheritance. Furthermore, such a tax could raise the financial resources needed to close the EU green and social spending gap. For example, the estimated revenues could be used to finance 81% of the EU Member States' transport budget or extend all ongoing investments into housing development by more than eight times.

A key reason for the persistence of unequal structures is the disproportionate influence of the rich elites in political decision-making, which ensures that political rules are designed in a way that ensures their continued accumulation of wealth. Extreme wealth inequality means that there is highly unequal access to the sources of wealth, such as natural resources and land, technology, and knowledge and ideas. Some of the key questions we need to ask are who owns natural resources and appropriates the benefits derived from them, who owns key technologies, and who owns patents and other forms of private appropriation of ideas. All of this, of course, is highly dependent on political rules regulating the rights to use and benefit from these sources of wealth. Yes, we need to tax the rich, but we also need policies and measures that break the exploitative structures and political and economic concentration of our current economic system.

What is a Wealth Tax?

An EU wealth tax (on the richest) is a proposal to impose a tax specifically targeted at the wealthiest individuals within the European Union (EU). While taxation remains primarily competencies of member states, there are avenues through which the EU could potentially implement a wealth tax, either through coordination, harmonization, or direct EU-level action.[1] We focus on a wealth tax on individuals because many of the super-rich have little income and hence pay little income tax. Rich people like Warren Buffett and Mark Zuckerberg earn little more than they spend. Their wealth increases as a result of capital gains, not saved income. And because such gains are taxable only when the corresponding assets are sold, their annual increase in wealth essentially escapes taxation. In addition, wealth inequality is much higher than income inequality. That's why a wealth tax is needed.

Wealth taxes in Europe are also nothing new. Spain has a tax on net wealth (wealth minus debt) and other EU countries tax different kinds of wealth like Italy, France and Belgium. Many other countries such as Austria (until 1994), Denmark (until 1997), Germany (until 1997), the Netherlands (until 2001), Finland (until 2006), Luxembourg (until 2006), Sweden (until 2007) and France (until 2017) used to have wealth taxes. The reason why they don't have them is largely due to their design and how they have been administered. While some exceptions exist, the majority of countries have chosen relatively low thresholds and a range of exemptions. This has led to a significant portion of the population being subject to complex wealth taxes. These taxes had many exemptions and loopholes and were not specifically targeted towards to very rich. Another factor was that the exchange of tax information between countries was not that advanced as it is today. The belief in trickle-down economics, the idea that that the wealth of and tax cuts for the rich would benefit everyone in society as rich people would create jobs, invest and spark innovation was also very prominent.

This is important to consider when designing an EU wealth tax. An EU wealth doesn't limit effectiveness or implementation on national level. On the contrary, an EU approach can guarantee a more coherent and effective implementation of wealth taxes and reduce the risk of tax evasion (FEPS Study). Moreover, there is evidence that Europeans want a wealth tax in Europe. According to a survey from May 2023 both a national tax on millionaires to fund public services and a global tax on millionaires to fund low-income countries receive great public support across 5 countries/region polled (US, Europe, France, Germany, Spain, UK. According to the Eurobarometer (2022), 67% - nearly 7 in 10 - Europeans agree or strongly agree that it is important that governments tax the rich to support the poor.

What about relocation and tax evasion?

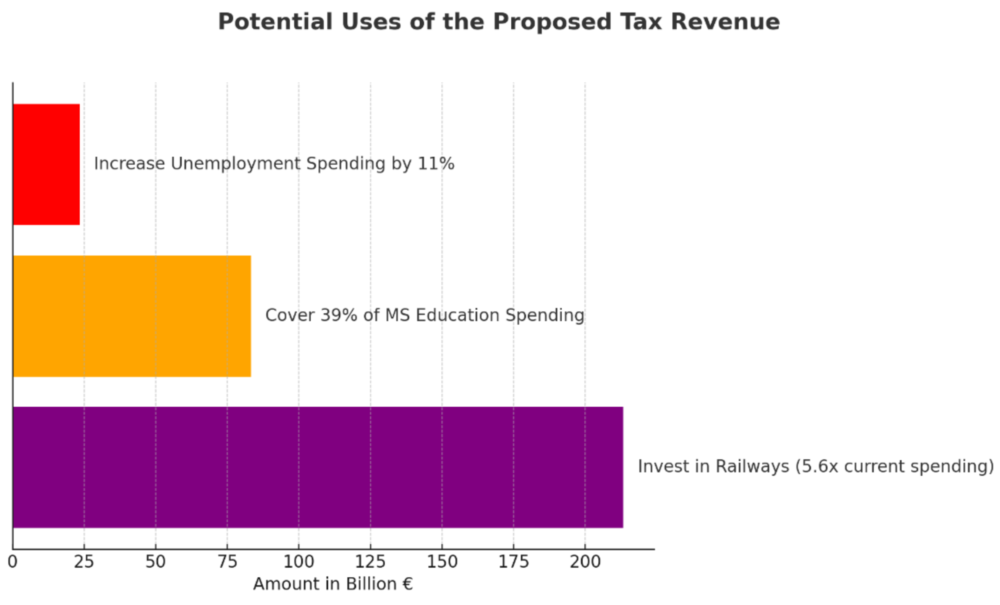
There are a number of myths and misconceptions about wealth tax (for information see here), but a very prominent one is that the implementation of a wealth tax could lead to the relocation of wealthy individuals and capital flight or tax evasion. On relocation, studies have shown that wealthy people are often less mobile than commonly assumed. Many factors influence a person's decision to relocate, including family ties, business interests, quality of life as well as social and cultural ties to their home countries. Relocating to another country solely for tax purposes may not be practical or desirable for everyone. For example, after the introduction of a wealth tax in Norway, out of 236,000

millionaires and billionaires only 30 of them relocated which translates into 0.01% of the country's very rich.
Another valid concern for an effective implementation of a wealth tax is tax abuse and evasion. That means wealthy individuals hide their assets and wealth in secret offshore accounts. While this is certainly happening, it is already more difficult than it used to be due to global sharing of financial information. Nevertheless, it will be important to simultaneously implement effective enforcement mechanisms, transparency measures, and international cooperation efforts to support limiting the risks of tax abuse. To find this hidden wealth, the EU should:

- Introduce a European assets registry;
- Improve beneficial ownership registries and make them public, and
- Screen harmful tax regimes for individuals inside and outside the EU.

What could a wealth tax look like?

There are many different ideas floating around. A study commissioned by the Greens, proposes a progressive tax on individual net wealth, i.e. on individual assets net of individual liabilities, above a certain threshold bases on relative wealth (on the top x% instead of Euro values) following the Spanish proposal but excluding the numerous exemptions. They conclude that such an EU wide tax could collect 213.3 billion €. This could be used for example to invest in public transport as the amount allows to invest 5,6 times more into railways than MS do currently. 213,3 billion EUR are also enough to cover 39% of MS education spending and even increase the unemployment spending by 11%.



Tax the Rich: From Slogan to Reality, The Greens/EFA (2023)

According to Oxfam, a progressive wealth tax on EU multi-millionaires and billionaires between 2 and 5 percent could raise 286.5 billion euros each year. According to Zucman, a European wealth tax can levy 1.05% of EU GDP each year, accounting for evasion and avoidance responses. According to the FEPS study, a strongly progressive wealth tax can generate up to 505 billion euro, 303/357 billion euro if taking into account tax avoidance, that is 3% of EU GDP (€350 billion) per year. These are all significant numbers. For example, 350 bn EUR is roughly the same that the EU is currently handing out as grants to MS over 10 years.

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What are the next steps?

It is interesting for the EEB, its members and the environmental movement in Europe to support the EU-wide wealth tax. If designed in a progressive and transformative manner, the wealth tax can provide additional crucial resources to combat the climate crisis, promote fairness, as well as advance social justice within the EU borders and beyond.

One concrete first step is to support the European Citizen initiative for an EU wealth tax initiated by a group of politicians, activists, experts and business owners. The "Tax the Rich" campaign seeks to push the European Commission to introduce a European tax on excess wealth and redirect the resources to fund environmental initiatives. Read more about the initiative here. A second step will be to continue discussions with EEB members, other CSO and think tanks and political parties. Its vital to have a broad civil society movement supporting a wealth tax agenda. Advocating for a wealth tax is part of a wider need to secure sufficient funding for the transformation especially considering the recent agreement on the EU fiscal rules (which will no create sufficient fiscal space but austerity) and the end of the Recovery and Resilience Facility post-2026.

Another concrete step is to join the working group on taxation as part of the Fiscal Matters coalition. The group started meeting in June 2024 and the idea is to use the group for intel sharing and joined advocacy.

If you would like to be added to the group, please contact Katy Wiese (katharina,wiese@eeb.org).

Do you want to read more?

- European Citizen Initiative for an EU wealth tax
- Survival of the richest report by Oxfam
- Inequality Inc. report by Oxfam
- Climate Equality: A planet for the 99% by Oxfam
- Tax the rich study commissioned by the European Greens
- World Inequality 2022 report by Lucas Chancel, Thomas Piketty, Emmanuel Saez, Gabriel Zucman
- A European Wealth tax for a fair and green recovery report published by FEPS
- EEB META article on wealth tax