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Wealth and social responsibility

COUNTRIES AROUND THE WORLD ARE LOOKING FOR RESOLUTIONS TO COVID-19 ECONOMIC DEFICITS. **HELEN SWIRE** ASKS IF WEALTH TAXES ARE A WORKABLE SOLUTION

The quote goes that 'in this world, nothing is certain except death and taxes', but the reality is that the question of who should pay, how much, where and for how long is in a constant state of flux according to countries' economic needs and international standards.

The COVID-19 pandemic has shined a light both on global economic deficiencies and wealth inequalities, with charity Oxfam pointing to the fact that the world's ten richest men doubled their income during the first two years of the health crisis 'while over 160 million more people [have been] forced into poverty'.[1] According to the charity, the wealth of billionaires internationally has risen more since COVID-19 began than it did in the preceding 14 years.

'The pandemic not only created a need for government revenue to help address emergency expenditures and other losses but also reinforced sentiments about the realities of income and wealth inequality,' says Philip Marcovici TEP,[2] Chair of the STEP Responsible Stewardship of Wealth Thought Leadership Group. 'Governments do not want to do anything to slow economic growth, but addressing revenue needs and fairness will remain at the forefront.'

In 2021, the International Monetary Fund (IMF) recommended that governments consider levying higher taxes on the income and wealth of the rich to help pay for the costs of tackling the pandemic. Several countries have acted accordingly, either through the introduction of a new tax on high- and ultra-high-net-worth individuals (HNWIs/UHNWIs) or through the increase of rates or changes to income bands of existing taxes.

The conversation has been particularly prevalent in countries across Latin America. Governments in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela have all debated imposing a tax on HNWIs and UHNWIs over the past two years, and several have gone on to impose a one-off tax to apply until at least December 2022. Indeed, in Argentina the tax was proposed under the *Law of solidarity and extraordinary contribution to help mitigate the effects of the pandemic* (*Proyecto de Ley de aporte solidario y extraordinario para ayudar a morigerar los efectos de la pandemia*): a clear indication of the government's view that it is the social responsibility of the wealthiest individuals to provide additional financial support during the global crisis.

Wealth taxes have not just been the province of Latin America, nor have they been a subject of discussion during the pandemic only: France, Norway, Spain and Switzerland all have their own variations on a progressive tax for wealthier individuals and, in 2020, the UK Wealth Tax Commission (the Commission) examined the practicalities and execution of a possible such tax.

The Commission's December 2020 report argues that a one-off wealth tax 'would be fairer and more economically efficient than alternative tax rises',[3] although it noted that an annual wealth tax would be much more difficult to deliver, less efficient and more costly than undertaking 'major structural reforms to existing taxes on wealth including IHT, CGT and council tax'.

CREATING UNIFORMITY

The debate around taxing HNWIs and UHNWIs does not just focus on the viability of one-off or annual taxes in specific countries. Some have taken the conversation a step further, asking if a global wealth tax, applied equally to them, wherever their location, could work in practice.[4]

'A global wealth tax faces peculiar problems as it needs to address issues such as trusts, foundations, usufructs and other entities that typically hold wealth and these entities are very differently characterised for tax purposes between countries,' notes Emma Chamberlain OBE TEP,[5] a member of the STEP UK Technical Committee, who sat on the Commission. 'There would need to be some common ground in this area first. It may be more constructive to look at reforming existing capital taxes first, which in so many countries are complex, uncertain and unfair.'

Gina Pereira TEP,[6] a member of the STEP Responsible Stewardship of Wealth Thought Leadership Group and Ashley Fife TEP,[7] Chair of STEP Bermuda, add that governments would need to be mindful of the risk of double taxation that might arise if an additional global wealth tax were introduced.

'Governments should strive to put into place tax systems that are, as far as possible, widely regarded as simple, fair and providing certainty,' Pereira and Fife say. 'Systems of taxation have evolved to meet the needs of countries' particular economies and resources. Important things to consider include the types of taxes being collected and the demographics of those paying the lion's share, the amount of revenue generated and the efficiency of the implementation, reporting and collection process. In terms of a wealth tax, governments need to ask if it should be one-off or ongoing, if it should only apply in respect of certain assets and if it should be imposed on a wider group than just UHNWIs.'

Rather than focus on introducing higher taxes, many jurisdictions are implementing measures aimed at stimulating their economies and are providing temporary relief measures to the sectors and individuals most affected.

The discussion of how to provide an ongoing revenue boost to economies is also one that has moved to a worldwide playing field with the OECD/G20's 2021 multilateral agreement on a global corporation tax of 15 per cent for multinational enterprises (MNEs). The OECD intends that the initiative reallocate more than USD125 billion of profits from the world's largest and most profitable MNEs to countries worldwide, ensuring MNEs pay a 'fair share' of tax wherever they operate and generate profits.

This focus on a global corporation tax could provide a welcome alternative for those governments with concerns about the impact of implementing a wealth tax.

STEP'S PRACTITIONER GUIDE ON RESPONSIBLE WEALTH STEWARDSHIP

In 2021, STEP launched a new guide for advisors on the responsible stewardship of wealth in a changing world, sponsored by IQ-EQ. *Family Dialogues on the Responsible Stewardship of Wealth: A Guide* discusses responsible stewardship principles and what they mean for wealth holders in an age of financial complexity, extended families, increasing inequality and the COVID-19 pandemic. Download it at **www.step.org/research-reports/responsible-stewardship-wealth**

News report

Helen Swire is News Editor at STEP

Even so, questions remain. Pereira and Fife point out that 'an important issue may be the extent to which unelected private individuals should perform this philanthropic role rather than pay higher taxes enabling an elected government to do so. Some governments are more efficient and accountable with expenditure of public funds than others.'

Marcovici believes that a wealth tax – whether individual to a country or a universal proposition – will continue to be a relevant conversation. 'There remains a recognition that, without taxation on wealth, there is a strong bias towards taxing in an unfair way between those who own capital and those who do not,' he argues. 'Having a wealth tax is part of a fairer tax system and one that broadens the tax base which, if effectively implemented, can help lower headline tax rates and increase simplicity.'

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1 bit.ly/34qGacy **2** Philip Marcovici TEP is Consultant at the Offices of Philip Marcovici Limited. **3** bit.ly/3HU7Jtp **4** STEP Thought Leadership Webinar Series 2021, bit.ly/34PXwzA **5** Emma Chamberlain OBE TEP is Barrister at Pump Court Tax Chambers. **6** Gina Pereira TEP is Managing Director, Client & Fiduciary Stewardship, at Meritus Trust Company. **7** Ashley Fife TEP is Counsel at Carey Olsen.

'Attitudes are changing, and indeed were changing before the pandemic, towards the obligation of wealth owners to pay taxes'

'Wealth taxes have historically had a bad name among governments in terms of high administrative costs, deterring wealthy investors and raising very little revenue for all their trouble,' says Chamberlain. 'There is no real sign that this view has changed.'

CLOSING THE GAP

The concern about putting off HNWIs and UHNWIs from investing in countries with a wealth tax is rooted in perceptions of fairness: both the fairness of certain individuals having to pay more than others and how governments with a wealth tax can ensure that it is paid by all those in its scope. An unheralded, one-time wealth tax, for example, is less easily subject to avoidance than an annual wealth tax.

'A one-off tax is less likely to alter the tax-planning behaviour of an individual, particularly if the rationale for the tax is widely accepted as being to fund appropriate causes,' remark Pereira and Fife. 'An ongoing wealth tax may lead to human and capital flight from the jurisdiction and (re)structuring in an attempt to avoid the tax.'

They observe, however, that there is a behavioural shift in general towards equality of wealth ownership among HNWIs and UHNWIs. 'Attitudes are changing, and indeed were changing before the pandemic, towards the obligation of wealth owners to pay taxes,' they comment. 'As the world becomes more interconnected and interdependent, attitudes are also changing regarding the responsible stewardship of wealth, including the manner in which businesses operate and how HNWIs invest to address social, environmental and other issues. Wealth owners with philanthropic commitments may contribute to meet social needs.'

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