# Brazil's push for 'super-rich tax' at G20 sparks inequality debate

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Lekha Chakraborty / 24 November 2024,


Climate activists from the Glasgow Actions team project a message with an appeal for the taxation of the super-rich on a building during the G20 Summit in Rio de Janeiro, Brazil November 18, 2024

At the G20 meetings in Brazil, a progressive taxation proposal was brought forward, advocating for a 2% minimum tax on the wealth of the world's billionaires.

The initiative, introduced by the Brazilian government, is based on a study by French economist Gabriel Zucman, a professor at the Paris School of Economics and the University of California

The proposal targets high-net-worth individuals, with an estimated annual revenue potential of $200–250 billion. However, many countries raised concerns, arguing that it is too early to commit to the plan and that detailed country-specific deliberations are required.

This proposal for taxing the ultra-rich is placed for "tax justice," as the serious concern for G20 Rio was to ensure that the ultra-rich should pay a fair amount of taxes from their wealth, including assets, real estate, shares and company ownership.

Though the proposal for tax justice has been justified, many economic diplomats raised concerns regarding the country-specific tax reforms required for its implementation. Different countries will be implementing the super-rich tax in different ways.

Measuring India's income and wealth inequality is going to be a tough call, given the data constraints and methodological challenges. Using income tax data combined with the Consumer Expenditure Survey (CES) of the national sample survey rounds, Thomas Piketty and his co-authors have tried to arrive at these inequality estimates.

Using a combination of household survey, fiscal and national accounts data, they estimated that in 2022–23, 22.6% of national income went to just the top 1%, the highest level recorded. The top 1% wealth share stood at 40.1% in 2022–23, also at its also at its highest level recorded. These extreme levels of inequality in India, compared to international standards, triggered debates in India like never before. This indeed has significant public policy implications for taking effective measures to tackle widening inequality.

The Forbes billionaire rankings, which track all individuals with net wealth exceeding $1 billion at the market exchange rate, revealed that the number of Indians with such net wealth has increased from 1 to 52 to 162 in 1991, 2011, and 2022, respectively.

In terms of India's net national income, the total net wealth of these billionaires has increased from under 1% in 1991 to an enormous 25% in 2022. However, the percentage of the Indian population that filed an income tax return, which had remained under 1% till the 1990s, also grew significantly to over 5% by 2011 and to around 9% during 2017–2020.

These revelations were highlighted in the paper titled "Income and Wealth Inequality in India, 1922–2023: The Rise of the Billionaire Raj," published in March 2024 by Thomas Piketty and his co-authors. They raised an important question regarding the implementation of a "super tax" on India's super-rich, with the aim of financing capital expenditure and social infrastructure for the economic growth recovery process and human capital formation in the country.

Can taxation be a powerful tool for redistributive justice? The hysteresis of taxation policy and reforms in India is crucial to understanding the efficacy of an inheritance tax in India, as history tells us that inheritance and wealth taxes had not been able to reduce poverty or inequality in India; rather, they resulted in intense tax evasion and black money in those decades. We experimented with it and failed due to huge administrative costs, meagre revenue mobilisation, and undesirable fiscal behaviour, which resulted in tax evasion.

A highly progressive taxation had not resulted in the reduction of inequality in India when we experimented with it. The former Prime Minister Indira Gandhi implemented the highest marginal rate of basic income tax applicable to above 2 lakhs from 75% to 85% (with an increase in the surcharge of 10%, it was a 93.5% tax rate).

After winning the elections, her government further increased the surcharge from 10% to 15%, resulting in the highest marginal rate of tax at 97.75%. This exorbitantly high level of income tax discouraged the entrepreneurial class from investing in high-risk, high-return ventures. These high rates were subsequently brought down by the Indian government over the years.

India experimented with inheritance tax for over three decades, since 1953, with an estate duty of a maximum of 85% if the value of the property or estate of the deceased passed on to the inheritor exceeded Rs 1.5 lakhs at those times.

However, the tax administration cost was extremely high to levy this insignificant revenue mobilised from estate duty, and in 1985 it was abolished. High tax rates also led to intensive tax havens, black money and parking the money in countries where tax rates were comparatively lower. The Wealth Tax (under the Wealth Tax Act, 1957, to impose a tax at the rate of 1% on assets of Rs 30 lakhs or more, excluding first houses, bonds, and equities) in India was repealed in the 2015-16 Union Budget, replacing it with a surcharge of 2% on income of over Rs 1 crore.

In Scandinavian countries, the tax rates are very high. At the same time, there is no rich vocabulary of tax evasion just because people love paying taxes there. People love paying taxes only when there is a powerful link between the tax paid and the units of utility they derive from the public service provisioning. Economists call this link the “Wicksellian link." In the context of India, there is no incentive to pay taxes as the Wicksellian link is broken. All that is doable is the is the overall tax design.

If the overall structure of taxation in a country is consistently more direct taxes than indirect taxes, we can safely say it is a relatively progressive tax regime. Indirect taxation is regressive, as poor people pay taxes (indirect taxes) when they consume.

Redistributive justice can be addressed by the national and subnational governments through public expenditure design. Revenue stability is indeed the basis for public expenditure design. Given the fiscal rules and threshold ratios of debt and deficits, the fiscal space for designing programmes to reduce inequality is limited.

“Keeping the fiscal policy accommodative” is the only plausible mantra, and I do not think that G20 leaders have differences of opinion regarding this, given the constraints of monetary policy in its impact on economic growth recovery.

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