FACT SHEET

The Environmental Toll of Tax Dodging by the Ultra-Wealthy

What's at Stake?

Key Facts

- Governments globally lose an estimated USD 200–250 billion annually in tax revenue due to low tax rates for billionaires.
- Wealth concentration accelerates, fuelling global inequality, weakening democratic institutions, and undermining trust in governments.
- Wealth inequality has direct links to climate change, with the wealthiest individuals contributing disproportionately to carbon emissions.
- Taxing billionaires, or the ultra-wealthy, is primarily discussed at the G20, but has also emerged as a key issue in negotiations on the UN Framework Convention on International Tax Cooperation and in the Pact for the Future.

1 Tax (in)justice in Germany

- The German government's 2024 budget proposal sticks to strict saving policies, but concedes tax cuts primarily to higher-income earners. This places **a greater burden on lower-income families** and **reduces funding for key areas** like climate protection, transformation, and education (Fratzscher, 2023).
- Despite growing calls for change from political parties like the Left and the Greens, and BMZ Minister Schulze (SPD), Finance Minister Lindner (FDP) has **blocked reforms**, arguing that Germany already has high taxes (Scholle, 2024). In reality, **the ultra-wealthy in Germany pay less in taxes than in places like 'tax haven' Switzerland** (Jirmann & Schuster, 2024).
- Germany is home to 255 billionaire households, with a combined wealth of EUR 630 billion. Some billionaires with a German citizenship reside abroad, meaning they do not pay the majority of their taxes in Germany (Fratzscher, 2024).
- In Germany, **middle-class families pay a higher effective tax rate (43%) than billionaires (26%)**, far below the national maximum tax rate (47.5%). This is because most of the money of the ultra-wealthy comes from **investments**, i.e. profits, dividends, and investment returns from their businesses, which are **taxed less than salaries**, from which most middle-class people derive their income (Jirmann & Schuster, 2024).
- A key factor driving the unusually high levels of wealth in Germany is that **hardly any other country taxes wealth so lightly while at the same time taxing labour so heavily** (Fratzscher, 2023).

2 How are German billionaires skirting taxes?

- Billionaires effectively minimise their tax liabilities due to **Germany's challenges in taxing** (1) ***stocks of wealth*** through a direct wealth tax, (2) wealth ***transfers*** through inheritance and gift taxes, and (3) ***financial returns*** on wealth, such as capital income, where loopholes and exemptions undermine tax enforcement.
- Germany **discontinued its wealth tax in 1997**, but **still taxes real property**, which disproportionately affects the middle class, as these taxes fail to account for debt and primarily target immovable assets like real estate. This situation contributes to **low homeownership** rates and exacerbates wealth inequality, as wealthier households with diverse financial assets are less impacted (Dustmann et al., 2022; Hebous et al., 2024).
- Around 70% of billionaire wealth in Germany stems from inheritances and gifts rather than personal economic performance (Fratzscher, 2023), partly due to Germany's regressive tax system, in which **smaller inheritances (under EUR 500,000) face effective tax rates exceeding 10%**, while **inheritances over EUR 20 million are taxed at just 1.8%** (OECD, 2020).
- Germany attempts to tax the ultra-wealthy's income from wealth primarily through corporate equity, which constitutes the majority of their wealth, but the system remains regressive. Billionaires often use holding companies to avoid paying personal income taxes on dividends and can indefinitely delay paying capital gains taxes by not selling shares (Jirmann & Schuster, 2024).
- Ultra-wealthy individuals often find ways to move their profits to low-tax jurisdictions, which helps them pay less overall (Zucman, 2024a).
- These strategies **let the ultra-rich grow their wealth while paying far less in taxes** than regular people (Christensen et al., 2023).

3 Environmental toll of wealth accumulation

- The wealthiest 1% in Germany emit **15 times more** carbon than the poorest half; globally, the top 0.01% emit 2,300 tons of CO2 per person annually compared to 1.4 tons by the poorest 50% (Deutschlandfunk, 2024). While the ultra-wealthy emit the most carbon, poorer populations bear the brunt of climate impacts.
- The ultra-wealthy's **consumption patterns** (e.g., usage of private jets and yachts, space tourism) contribute significantly to their carbon footprint (Dabi et al., 2022; Khalfan et al., 2023). Their role in shaping climate policies, through financial power, political connections, or lobbying, often preserves frameworks that favour their economic interests, potentially slowing or blocking more ambitious climate actions needed to address environmental challenges (Khalfan et al., 2023).

4 The global minimum billionaires tax proposal

- Economist Gabriel Zucman proposes a **minimum tax for billionaires**, setting a baseline of 2% of their wealth annually. This tax aims to ensure that the ultra-wealthy contribute a fair share, focusing on their wealth rather than just income (Zucman, 2024b).
- **The tax applies to the value of all assets owned by billionaires, minus any debts**. It's designed to be a minimum standard, complementing existing income taxes rather than replacing them (Zucman, 2024a).
- The proposal primarily targets billionaires, but could also include high-net-worth individuals with wealth starting at USD 100 million, known as centi-millionaires. This would help make the tax system more comprehensive.
- If implemented, **the tax could generate an annual USD 200–250 billion** globally from only 3,000 individuals (Zucman, 2024a). In Germany alone, a 2% tax on the assets of billionaires residing in Germany could generate approximately EUR 5.7 billion in additional annual revenue (Fratzscher, 2024).
- Extending the tax to centi-millionaires would **generate an additional USD 100–140 billion** a year globally (Zucman, 2024a), with nearly EUR 16.9 billion in Germany alone (Fratzscher, 2024). While this is modest compared to the EUR 450 billion German federal budget, it could **help address fiscal gaps and fund significant public investments** (Fratzscher, 2024), e.g. in healthcare, education, or climate action.
- Countries would collaborate to implement this tax, allowing for flexibility in its application, while preventing tax competition. This coordinated approach would significantly reduce opportunities for tax avoidance and evasion by ensuring consistent enforcement across borders, closing loopholes, and strengthening domestic tax policies (Zucman, 2024a).
- Advancements in technical tools enhance our capacity to implement this tax effectively. The establishment of an international framework for a minimum tax on corporations illustrates that a similar approach can be applied to billionaires, offering a replicable model. Past successes with the OECD's automatic exchange of information enable the tracking of offshore assets (Zucman, 2024a).

5 Challenges and opportunities

- **Political resistance**: Implementing the tax faces challenges due to opposition from political parties like Germany's FDP, which resists new tax measures despite growing support from other parties. Addressing these reservations is crucial for the proposal's success.
- **Strategic importance**: Taxing the ultra-wealthy offers a vital opportunity to advance tax justice, reduce carbon emissions, and fund essential climate actions. Upcoming events such as the G20 Summit and the UNFCCC's COP 29 provide platforms to advocate for fair tax measures that support global sustainability efforts. This momentum should be sustained beyond 2024, looking toward the South African G20 Presidency, the Financing for Development agenda, and the upcoming German Federal elections.

References

All online references last accessed on 1 October 2024.

Christensen, M.-B., Hallum, C., Maitland, A., Parrinello, Q., Putaturo, C., Abed, D., Brown, C., Kamande, A., Lawson, M., & Ruiz, S. (2023). Survival of the Richest: How We Must Tax the Super-rich Now to Fight Inequality. Oxfam. www.doi.org/10.21201/2023.621477

Dabi, N., Maitland, A., Lawson, M., Stroot, H., Poidatz, A., & Khalfan, A. (2022). Carbon Billionaires: The Investment Emissions of the World's Richest People. Oxfam International. www.doi.org/10.21201/2022.9684

Altgeld, J.-M. (2024, 31 May). Luxus und CO2-Ausstoß – Wie Reiche den Klimawandel antreiben. www.deutschlandfunk.de/klimawandel-reichtum-vermoegen-co2-fussabdruck-ausstoss-reiche-100.html

Dustmann, C., Fitzenberger, B., & Zimmermann, M. (2022). 'Housing Expenditure and Income Inequality'. The Economic Journal, 132 (645), 1709–1736. www.doi.org/10.1093/ej/ueab097

Fratzscher, M. (2023, 16 June). 'Superreiche könnten den Staat retten'. Zeit Online. www.zeit.de/wirtschaft/2023-06/vermoegen-milliardaere-steuern-ungleichheit-deutschland

Fratzscher, M. (2024, 13 September). 'Vermögensteuer für Milliardäre: Selbst Warren Buffett ist dafür'. Zeit Online. www.zeit.de/wirtschaft/2024-09/vermoegenssteuer-milliardaere-reichtum-steuerpolitik-geld

Hebous, S., Klemm, A. D., Michielse, G., & Buitron, C. O. (2024). 'How to Tax Wealth'. IMF How To Notes 2024 (1), 1. www.doi.org/10.5089/9798400266881.061

Jirmann, J., & Schuster, B. (2024). Superreiche (wieder) gerecht besteuern. Eine Analyse des effektiven Steuerbeitrags von Superreichen in der Schweiz, Österreich und Deutschland. Netzwerk Steuergerechtigkeit, Oxfam Deutschland, Momentum Institute. www.netzwerk-steuergerechtigkeit.de/wp-content/uploads/2024/04/Besteuerung_Reichtum_D_Aut_CHE.pdf

Khalfan, A., Nilsson Lewis, A., Aguilar, C., Persson, J., Lawson, M., Dabi, N., Jayoussi, S., & Acharya, S. (2023). Climate Equality: A Planet for the 99%. Oxfam International. www.doi.org/10.21201/2023.000001

OECD. (2020). OECD Economic Surveys: Germany 2020. OECD. www.doi.org/10.1787/91973c69-en

Scholle, L. (2022, 9 November). 'Alle wollen Reiche besteuern – Außer Christian Lindner'. Jacobin Magazine. www.jacobin.de/artikel/alle-wollen-reiche-besteuern-ausser-christian-lindner

Zucman, G. (2024a). A Blueprint for a Coordinated Minimum Effective Taxation Standard for Ultra-High-Net-Worth Individuals. www.taxobservatory.eu//www-site/uploads/2024/06/report-g20-24_06_24.pdf

Zucman, G. (2024b). 'It's Time to Tax the Billionaires'. The New York Times. www.nytimes.com/interactive/2024/05/03/opinion/global-billionaires-tax.html

Authors: Nouhaila Zaki

Edited by: Germanwatch e. V.

Suggested citation: Zaki, N., 2024, The Environmental Toll of Tax Dodging by the Ultra-Wealthy: What's at Stake?

Download this document at: www.germanwatch.org/en/91543

November 2024

Germanwatch e. V.

Office Bonn
Kaiserstr. 201
D-53113 Bonn
Phone +49 (0)228 / 60 492-0, Fax -19
Website: www.germanwatch.org

Office Berlin
Stresemannstr. 72
D-10963 Berlin
Phone +49 (0)30 / 5771 328-0, Fax -11
Email: info@germanwatch.org

GERMANWATCH