The problem with taxing the rich

Fiscal systems designed around levies on income and consumption struggle to capture wealth held in assets that are illiquid and hard to value — and whose owners tend to be highly mobile.

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When Forbes magazine released its first global billionaires list in 1987, just 140 names appeared on it. The 2025 version featured more than 3,000 people, worth a collective $16tn.

Even allowing for factors such as the rise of China and more than three decades of inflation, it is a staggering increase in both numbers and values; the net worth of Elon Musk, judged the world's richest person in April 2025, was estimated at $342bn — compared with $295bn for the entire class of 1987.

Globally, the average wealth of the top 0.0001 per cent of the population grew on average 7.1 per cent a year between 1987 and 2024, compared to 3.2 per cent for the average adult, according to Gabriel Zucman, a professor of economics at the Paris School of Economics and at the University of California, Berkeley.

"The priority should be to do something with the super-rich," says Zucman. "Not only are they the wealthiest people on the planet, it turns out they also happen to be the ones who pay the least tax," he adds.

But when it comes to taxes on the wealthy, obtaining the "largest number of feathers with the least amount of hissing", as per Jean-Baptiste Colbert's analogy, is easier said than

done.
Income taxes and social security contributions, along with sales taxes, tend to be the main revenue-raisers in developed countries. But they do not address the capital wealth of the super-rich, which is concentrated in real estate, investments or equity in businesses.

Imposing higher capital taxes on a relatively small number of very wealthy individuals often prompts changes in their behaviour that limit or even reduce the amounts raised. Raising taxes on the moderately wealthy, a larger and less mobile cohort, usually has consequences at the ballot box.

The history of wealth taxes provides a prime example. In the mid-1980s, about half of OECD countries had an annual net wealth tax on their richest inhabitants. Today, in Europe only Spain, Norway and Switzerland retain them — and they raise relatively small amounts.

“Given the rich are extremely mobile and less and less attached to the country that made their wealth, they can shift and they do,” says Pascal Saint-Amans, a former head of tax at the OECD. “I suspect if you were to ask most billionaires, ‘Where is your loyalty, with your country or with your money?’, most would say, ‘My loyalty is with my money.’”

Even those countries that retain wealth taxes are considering their future. The issue was a flashpoint in Norway’s recent election campaign, with the country’s centre-right party pledging to scrap the levy. Switzerland has spooked some of its wealthy inhabitants with talk of a new inheritance tax.

In the UK, both Labour and Conservative governments have dismantled the country’s centuries-old “non-domiciled” regime, leading to some highprofile departures, though early tax data has yet to confirm fears of a fullscale non-dom exodus.

While some developed nations are looking at ways to extract more tax revenue from the well-off, others are rolling out the red carpet with new fiscal regimes. The UAE and Italy have both seen an influx of wealthy people, while in the US, President Donald Trump has launched a $5mn golden visa scheme.

“Providing an attractive tax system for the rich is becoming something of a commodity for governments,” SaintAmans says, contrasting the “race to the bottom to attract the rich” with OECD efforts to moderate international competition on corporate tax rates.

The trend risks creating a “disconnected elite”, he warns, adding that democracies with open borders and liberalised capital markets are “more vulnerable” to the resulting high-end nomadism than more repressive nations.

León Fernando Del Canto, a Spanish lawyer and barrister based in London, wrote recently in the Tax Journal that for most democratic governments the choice between taxing private wealth and cutting essential services “is no longer just an economic dilemma — it is a political and moral reckoning”.

"The idea that safety nets for the disabled or elderly should be sacrificed while vast pools of untaxed wealth remain untouched is becoming harder to justify."

When politicians talk of "taxing the rich" or the wealthy "paying their fair share", they rarely spell out the specific level of wealth they are thinking about.

The general public also has a tendency to regard "the rich" as being other people, rather than themselves. Reliable data on wealth is hard to come by, making it hard for finance ministries and their advisers to perform the kind of cost-benefit analysis that informs good policymaking.

Yet there are significant differences between billionaires and mere millionaires, which experts say should be reflected in how governments approach the question of how to tax them.

As one analyst puts it: "It depends if we're talking about the billionaires — or about lots of people who have seen their houses rise a lot in value and who have more generous pension provision than cohorts before or since."

It can be technically easier to tax these individuals, as they tend to have more ties to their home country and are less likely to move in response to tax changes. But "it's politically harder to go after that bigger group of middle-class baby boomers", the analyst adds.

John Barnett of the Chartered Institute of Taxation, says that while "everybody is in favour of progressive taxation, one of the problems is there are no limits to it . . . At what point does the final straw break the camel's back?"

While the super-rich are politically easier targets, they have the most incentive to avoid taxes and access to the best lawyers and accountants. They are also highly mobile; steel magnate Lakshmi Mittal, cement billionaire Nassef Sawiris and art dealers Iwan and Manuela Wirth are among those who have left the UK, or signalled intent to do so, following changes to the non-dom regime. Critics of wealth taxes warn that their expenditure and philanthropy may depart with them.

Income-based taxes are not particularly effective in taxing this cohort, according to Zucman. He cites research from a team he led, based on anonymised tax returns filed at the US Internal Revenue Service, which found that the top 400 wealthiest Americans had a total effective tax rate of 23.8 per cent of income in the years from 2018 to 2020. The rate for the wider US population was 30 per cent, rising to 45 per cent for the highest-earning workers.

To address this, Zucman has advocated for a global tax of 2 per cent levied annually on those with more than $1bn in total wealth, including assets such as real estate, equity stakes and larger corporate shareholdings.

"You can't think of a more targeted measure than that to try and increase their taxes," he says, adding that advances in tax transparency, the ending of bank secrecy and the

exchange of financial information among tax authorities mean it is now harder for rich people to hide wealth.
The idea was discussed at the G20 last year, but did not secure backing from all its members. Zucman is now mounting a campaign to get his proposal adopted in his home country of France.

Norma Cohen, a former FT journalist who is now an honorary research fellow at Queen Mary University of London, points out that historically, asset-based taxes were the main revenue generators for many governments.

Taxes on income in the UK were "a mid to late 20th-century phenomenon" closely tied to the emergence of a welfare state. "Up until the first world war, there were barely any income taxpayers in the UK," she says. "Britain taxed other things: inheritances, land and, to a much lesser extent than other European countries, levied tariffs."

But tax experts say that turning to more asset-based taxation in the modern era is fraught with difficulty. Administration and enforcement are challenging, while defining wealth and valuing assets — especially those that do not trade on public markets — also present practical difficulties.

David Sturrock, associate director at the Institute for Fiscal Studies, warns that taxing wealth "is going to discourage accumulating wealth" and flies in the face of governments' efforts to persuade more people to save and invest for later life. "What you want to be doing is to try to raise revenue in a way which doesn't distort and discourage economic activity," he adds.

One option to address the issue of the rich moving their assets elsewhere is the exit tax. Australia, Canada, France, Germany and Japan are among the 14 OECD countries that tax unrealised capital gains for those who change their tax residence, while the US taxes individuals who relinquish citizenship.

"Tax flight happens less than most people think, but it does happen," says Arun Advani, director of CenTax, a UK based think-tank, and a professor at the University of Warwick. But he adds that "it is a policy choice to let them emigrate tax free".

An OECD working paper on capital taxation this year agreed that exit taxes could help curb revenue leakage and discourage tax-induced migration. But it added that these objectives needed to be balanced against other policy aims "such as attracting and retaining talent and entrepreneurs".

One country more accustomed to aligning the needs of its population with those of the itinerant wealthy is Switzerland, which operates a forfait or lump sum tax system for well-off foreigners who want to live there.

Rich foreign individuals can elect for this basis of taxation, which involves bespoke agreements with local cantonal authorities regarding the exact overall tax they pay on their

income and wealth. For those not eligible for forfait, all cantons levy a net wealth tax based on the balance of worldwide assets minus debts, with rates ranging from 0.1 per cent to 1 per cent.
Users of the forfait system are not allowed to work in Switzerland, so it is more suited to those who have already accumulated fortunes rather than active entrepreneurs and businesspeople. Wealth taxes raise more here than in other countries, but still account for less than 5 per cent of total tax revenues.

Lisa Cornwell, who leads PwC's private client and family office business in Switzerland, says the country is "never the cheapest" for rich foreigners wanting to move, but offers other attractions. "Switzerland is private, it's discreet," she adds. "You might pay more money, but there's a diversity of cities, it's safe, it's clean and it's beautiful."

The country's debt is also low relative to its GDP and its citizens enjoy enviable living standards. Yet even here, there is pressure for reform. In November, Switzerland will hold a referendum on the introduction of a federal tax on inheritances and gifts worth above SFr50mn ($63mn) on top of cantonal duties. The tax would not include an exemption for spouses or direct descendants.

The proposal was tabled by a far-left political party, but tax advisers and lawyers in the Alpine nation warn that some wealthy individuals are already leaving in response.

Other jurisdictions, such as the UAE and Italy, are happy to welcome them. The former has no personal taxes, while the latter charges a fixed fee of €200,000 a year for those seeking Italian tax residency.

Such practices "raise all sorts of problems and big issues of fairness", says Zucman, the Paris School of Economics professor. "Why should foreign billionaires be allowed to pay less, even though they benefit from infrastructure and access to markets?"

Emma Chamberlain, a UK tax barrister who advises wealthy international families, says "there seems a sense of resentment against the wealthy" and a popular notion "that we should just fleece them for as much as we can get".

Given the chequered history of wealth taxes, many experts advocate reforming existing levies on things like property, gifts and inheritances and capital gains before rushing to implement new ones.

"Do we need a wealth tax? My answer is no, we don't," said Richard Murphy, a professor of accounting at the University of Sheffield, in a recent blog. "Not only will it take time to put into place, but there will be a long learning curve before it can be got right."

He added that it would be much quicker and easier "to change the rates and allowances and reliefs on wealth and gains already reported" to the UK's tax authorities.

Chamberlain says increasing rates or finding new things to tax tends to result in "a lot of avoidance" that serves to limit the sums raised. "I think it would be better if the UK government could have a more positive narrative . . . and just rule out things like a wealth tax, an exit tax and more inheritance tax changes," she adds. "The Swiss wealth tax works because it's at such low rates."

But for European countries in particular, facing rising health and welfare costs from ageing populations and increased defence spending, the issue of who to tax and how is unlikely to recede, however tricky the mechanics.

Cohen, of Queen Mary University, warns that by 2050, "the percentage of [the UK's] population aged 65-plus will be around 25 per cent". With fewer workers supporting more retirees, "we need to find something other than income taxes, purely based on demographic change".

Daniel Bunn, president of the Tax Foundation, says that "governments have time to address things, probably through [reductions in] spending — although governments don't enjoy doing that". Stuart Adam, senior economist at the IFS, says boosting economic growth "would make life a lot easier".

But vast assets of the wealthy remain a tempting target, and Saint-Amans muses that the ranks of the super-rich are high even by historical standards.

"People looking back at this time in 100 years will say, 'These people were mad, they let a number of people become extremely rich, owning not billions but hundreds of billions,'" he says.

"A few individuals own the world and that is wrong. It fuels populism, which will just reinforce the situation."