

Tackling inequality and ensuring financing for SDGs: wealth tax now globally

Ah Maftuchan

Executive Director of the PRAKARSA, Indonesia

amaftuchan@theprakarsa.org

Excellency Vice President of ECOSOC and Chair of this Meeting, Mr. Akan Rakhmetullin

Excellencies members of delegations of the UN member states,

Excellencies panelist,

Distinguished participants,

Ladies and gentlemen.

I'm Ah Maftuchan, the Executive Director of the PRAKARSA, an Indonesian CSO think-tank working on fiscal, social and sustainable development policy. It's my honor to speak in the panel at the 2024 ECOSOC Special Meeting on International Cooperation in Tax Matters at the UN HQ in New York.

Excellency the Chair, ladies and gentlemen,

- *Why do we need wealth-tax? We need a wealth tax to increase equity and distributive justice.* The concentration of wealth in a few individuals can bring negative consequences for social-economic well-being¹. Wealth tax can enhance social contract, tackle the existing asymmetric taxation system, foster a fair-inclusive economy, reduce income gaps & reduce socio-economic disparities.
- *We need a wealth tax to increase public-revenue for public services and financing for development, including SDGs.* The pandemic-induced economic downturn lowered tax revenues and increased fiscal deficits. However, many countries leaned on regressive indirect taxes for recovery instead of taxing the wealthy. Wealth tax is part of extensification

¹ World Inequality Report 2022 shows that the top 10% of the global population now commands 52% of global income, while the poorest half earns just 8.5%. The poorest half of the global populations own a mere 2% of total wealth, while the wealthiest 10% possess 76% of all wealth.

The PRAKARSA

 Komplek Rawa Bambu 1
Jl. A No. 8E Kel/Kec. Pasar Minggu
Jakarta Selatan 12520, Indonesia

 Perkumpulan@theprakarsa.org

 +62 21 7811 798

 +62 822 1122 9808

    The PRAKARSA

 www.theprakarsa.org

  PRAKARSA Podcast

the tax base, to finance essential services and alleviate debt, is imperative to avoid disproportionate effects on the poor.

- A wealth tax is levied on an individual's net worth, calculated by subtracting liabilities from the total value of assets. Wealth tax is applied to the holding of wealth, transactions involving transfer of wealth and appreciation of wealth stemming from capital gains.
- Taxes on net-worth are derived from taxes on a number of assets, including but not limited to bank savings, bank deposits, shares, vehicles, estimated property values, etc. Taxes on the transfer of wealth are imposed on inheritance, donations, and grants, while taxes on wealth are imposed on capital gains.
- A wealth tax is also necessary because of the tax burden asymmetry of active and passive income. This inequality of tax rates on active income and passive income is contrary to the principle of the burden of tax collection: the higher the income, the higher the tax charged. An ultra-rich person pays more taxes than a worker in nominal terms, but the worker bears a heavier tax burden than the ultra-rich.
- Although most countries use a progressive taxation system, the application is still asymmetric. Active and passive income are treated by different tax systems. Unlike active income, passive income is primarily the subject of final income tax. The difference in the range of tax rates on active and passive income reflects the inequality in tax rates. For example, in South-east Asia, tax rates on active income range from 5-35 percent, while passive of income range from 0.1-20%.
- Introducing a wealth tax on the wealthy presents a huge revenue potential². It would be ideal and impressive if the wealth tax is implemented in a straightforward scenario, applying to net individual wealth annually, progressively (with the highest rate being 10 percent).
- I demand the UN and member states to formulate a policy on wealth tax. The proposed wealth tax structure entails a progressive rate of: (i) 1%-2% applied to a net worth exceeding US\$1-5 million; (ii) 3% applied to a net worth exceeding US\$6-10, (iii) 4% applied to a net worth exceeding US\$11-30 million, (iv) 5% applied to a net worth exceeding US\$31-100 million, (v) 10% applied to a net worth exceeding US\$ 101 million-above. The wealth tax is to be levied annually, attributed to the taxpayer representing the entire family.

Excellency the Chair, *ladies and gentlemen,*

- The opponents of wealth tax often argue that implementing wealth tax can cause capital flight, investment behavior disincentives, and higher tax evasion-avoidance practices. As a

² In South Asia, using a 3% to 10% effective wealth-tax rate, the potential impact of net wealth taxes in Bangladesh could raise US\$1.82 billion, increasing healthcare spending by two-thirds. In India could raise US\$84.3 billion, more than triple healthcare spending and Pakistan could also raise US\$1.34 billion, increasing healthcare spending by 50%. In South-east Asia context, an annual progressive wealth tax using a 1% to 2% per cent effective tax rate will generate revenue of almost US\$8.2 billion in Indonesian, US\$3.1 billion in Vietnam and US\$2.3 in the Philippines.

The PRAKARSA

 Komplek Rawa Bambu 1
Jl. A No. 8E Kel/Kec. Pasar Minggu
Jakarta Selatan 12520, Indonesia

 Perkumpulan@theprakarsa.org

 +62 21 7811 798

 +62 822 1122 9808

    The PRAKARSA

 www.theprakarsa.org

  PRAKARSA Podcast

matter of fact, these problems are more likely to occur in the presence of tax haven countries rather than in countries that implement wealth tax. This is the reason why we support the inclusion of wealth tax in the UN Tax Convention.

- The opponents of wealth tax forgot the global consensus on taxing the income and wealth of the richest. The Addis Ababa Action Agenda³ recognizes the need to build progressive tax systems that promote fairness. The UN must support countries in building fairer, more progressive tax systems that reduce inequality by taxing the income and wealth of the richest.
- The ECOSOC must facilitate learning-hub among member states to share experiences, if they were to introduce wealth taxes, so that they could design them better. The better design could include broader tax bases, measures to reduce valuation costs and liquidity risks, and ‘tail’ provisions (i.e., leavers remaining subject to the wealth tax for a minimum period).
- The UN must ensure the tax transparency standards in the United Nations Framework Convention on International Tax Cooperation (FCITC) because it can enhance countries’ ability to tax capital income and assets. These standards essentially mean that information on foreign financial assets is shared between tax authorities globally, making it harder for taxpayers to evade taxation by concealing assets overseas.

Excellency the Chair, ladies and gentlemen,

- Together with civil society organizations across the globe, such as GATJ, TAFJA, TJN etc., the PRAKARSA campaigned the tax justice. The PRAKARSA also advocated for the wealth-tax through Civil-20, urging the G20 leaders to implement the wealth tax. The PRAKARSA is open to collaboration with the UN and stakeholders to advocate the wealth tax globally.
- The development of wealth tax as a global policy is needed, the process to become more open and involve the participation of stakeholders and member countries, especially developing countries.
- Finally, these are all from my side. Excellency Vice President of ECOSOC & the Chair, I thank you!

³ Resolution 69/313, paragraph 22

The PRAKARSA

 Komplek Rawa Bambu 1
Jl. A No. 8E Kel/Kec. Pasar Minggu
Jakarta Selatan 12520, Indonesia

 Perkumpulan@theprakarsa.org

 +62 21 7811 798

 +62 822 1122 9808

    The PRAKARSA

 www.theprakarsa.org

 PRAKARSA Podcast