The proposed inequality tax: A critical analysis

July 2023

In recent years, income inequality has become an increasingly pressing issue. The gap between the wealthiest individuals and the rest of the world's population has widened, leading to concerns about the impact of inequality on social and economic outcomes. The World Economic Forum in Davos in 2020 saw the proposal for an "inequality tax," which aims to address this issue by taxing the wealthiest individuals and corporations to fund social programs. This was reiterated in Davos 2023 when a group of over 200 millionaires (which included *The Hulk* actor Mark Ruffalo and *Disney* heiress Abigail Disney) called on world leaders to "*tax us, the ultra-rich, now*". But what does it really entail?

Is this Robin Hood concept of taking from the rich and giving to the poor a practical one?

Background

Inequality has been a growing concern for decades, but has gained increased attention in recent years due to growing income disparities. According to the World Inequality Database, global multimillionaires have captured a disproportionate share of growth in global wealth over the past several decades: the top 1% took 38% of all additional wealth accumulated since the mid-1990s, whereas the bottom 50% captured just 2% of it. The wealth of the richest individuals on earth has grown at 6 - 9% per year since 1995, whereas average wealth has grown at 3.2% per year. Since 1995, the share of global wealth possessed by billionaires has risen from 1% to over 3%. This increase was exacerbated during the COVID pandemic. In fact, 2020 marked the steepest increase in global billionaires' share of wealth on record.

The proposed inequality tax has been suggested as one possible solution to address the issue of income inequality. The tax would target the wealthiest individuals and corporations, who have benefited the most from economic growth, and would use the revenue generated to fund social programs.

What are the benefits of inequality tax?

One of the key benefits of the proposed inequality tax is that it could help to reduce income inequality. By targeting the wealthiest individuals and corporations, the tax would ensure that they pay a fair share of the tax burden.

In addition, the proposed inequality tax could also help to fund social programs that could benefit the broader population. For example, the revenue generated from the tax could be used to fund education, healthcare, and affordable housing. This could help to improve social and economic outcomes and promote greater equality.

Critics of the proposed inequality tax have argued that it could lead to capital flight and discourage investment in certain countries. However, supporters of the tax argue that this is unlikely to occur if the tax is designed and implemented effectively. They also argue that the tax could help to promote economic growth by increasing demand for goods and services and reducing the concentration of wealth.

What are the drawbacks of inequality tax?

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While the proposed inequality tax has the potential to address the issue of income inequality, there are also potential drawbacks that need to be considered. One of the main concerns is that it could be difficult to design and implement a fair and effective tax system that targets only the wealthiest individuals and corporations without creating unintended consequences. This could lead to reduced investment and economic growth if the tax is perceived as unfair or overly burdensome.

Another potential drawback is that the proposed inequality tax could lead to reduced incentives for wealth creation and entrepreneurship. The tax could discourage wealthy individuals and corporations from investing in innovative new businesses or pursuing other forms of wealth creation. This could lead to reduced economic growth and innovation, which could have negative long-term consequences for society as a whole.

Conclusion

As long as there is severe financial inequality, there will always be a call on the wealthy to consider the plight of the less fortunate. Winston Churchill once spoke about unemployment at Kinnaird Hall in Dundee, Scotland where he said "*What is the use of living, if it be not to strive for noble causes*…".

It is an open question if proposals to take from the rich to give to the poor will considerably close the inequality gap, especially in the digital age we are in. Should a wealth tax be implemented, it would need some careful consideration by lawmakers as it has the potential for capital flight by the top earners, which may have unintended consequences for the jurisdictions who benefitted from the tax paid on investment growth initially. In the capitalist world we live in, it would be interesting to see how this idea will be implemented.

While the debate continues, Philanthropic Trusts are another way to give to or lead a noble cause. Should you wish to explore the possibility to set up a Philanthropic Trust, please arrange a consultation with a member of our team and we will guide you through the process.

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