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TAX ON LARGE FORTUNES: THE RECENT INTERNATIONAL DEBATE AND THE SITUATION IN BRAZIL[1]

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1 INTRODUCTION

Many discussions have taken place in Brazil about legislation pertaining to subparagraph VII of article 153 of the 1988 Federal Constitution—the regulation, through a Complementary Law, of the Tax on Large Fortunes (*Imposto sobre Grandes Fortunas*—IGF). In the current scenario, with the country facing a second consecutive annual decrease in tax revenue, the subject of the implementation of the IGF is gaining some traction, with its proponents vehemently arguing that it can represent a balancing mechanism for a possible increase in the tax burden, so that this increased burden would not fall exclusively on the poorest population through indirect taxes. The economic crisis, together with the political crisis, has reactivated the debate on tax reform, especially regarding demands for a less regressive and more efficient system.

Based on the French experience of the 1980s, with its corresponding *Impôt sur les Grandes Fortunes*, the IGF was introduced into the Brazilian Constitution by Congressman Plínio de Arruda and would be the only case of non-compliance of taxation in Brazil. On the other hand, after the 1988 Constitutional Assembly, some social contributions were created, assessed on the transmission of financial ownership (provisional contribution on financial transactions—*contribuição provisória sobre movimentação financeira*—CPMF) or on production (social integration programmes, *programas de integração social*—PIS, and contribution towards the financing of social security, *contribuição para financiamento da securitdade social*—COFINS), with an exclusively fiscal purpose, to finance the increased spending on social security.

Many supplementary bills were proposed in Congress to regulate the IGF, but only two were considered and rejected. The first one, by Senator Fernando Henrique Cardoso (PLP 162/1989), was approved by the Senate in 1989 but rejected by the Commission for Taxes and Finances in the House of Representatives in 2000. The second, by Senator Paulo Paim (PLS 128/2008) was rejected by the Commission for Economic Affairs in 2010. The main arguments used by congressmen to reject the projects were the same in both cases: low revenue, high administrative costs and its abolition in several European countries.

1.This paper was originally published in Portuguese (Carvalho Jr., Pedro and Luana Passos 2017).

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All countries in Western Europe, except for the UK, Portugal and Belgium, implement or have implemented some form of wealth tax, however with substantial differences in application. In addition, some countries in South America, such as Argentina, Uruguay and Colombia, have a long-lasting tradition of this type of taxation.

Since the 1990s, there has been a movement to eliminate wealth tax in certain European countries, which has been a strong deterrent to its implementation in Brazil. On the other hand, in some countries where the tax remains, most notably France, Norway, Switzerland, Uruguay and Colombia, it has presented an increase in the number of taxpayers as well as in revenue.

Given the current scenario, six questions might be posed regarding the discontinuation of wealth tax in various countries in the 1990s:

- What are the reasons that led some countries in Europe to discontinue the wealth tax in the 1990s, and which have led others, such as France, Norway, Switzerland, Uruguay and Colombia to achieve significant and increasing revenues starting in the 2000s?
- After solving problems related to inequity, would some European countries still be interested in continuing to tax wealth progressively?
- Given that European countries already have income taxes and inheritance taxes, was wealth tax seen as unnecessary?
- If the administrative costs to evaluate property and identify taxpayers are high, why are countries such as the USA, the UK and Canada able to achieve high revenues from real estate taxes and inheritance taxes?
- If revenue is so incipient, why did Iceland and Spain reintroduce wealth tax in light of the fiscal and financial crisis that has affected Europe since 2009?
- In the 1990s, the high administrative cost of wealth tax was one of the main reasons for its discontinuation. However, with the current level of computerisation and modernisation of tax administration, would these costs remain high?

Despite the growing interest in the subject over recent years, the national literature is still embryonic compared to the breadth of international literature, which has considered the issue especially since the 1990s. In Brazil we can highlight the works of Corsatto (2000), Carvalho Jr. (2011), Pellegrini and Silva (2015) and Nascimento (2016). In the international literature, we have studies from Canada, where the tax was considered in the early 1990s, such as Kessler and Pestieau (1991), Bird (1991) and Smith (1994). In Switzerland, in the wake of the discontinuation of wealth tax in 2007, several studies were published, such as Jennergren (2004), Roine and Waldenström (2007) and Silfverberg (2009). In addition, there are papers from the International Monetary Fund, such as Rudnick and Gordon (1996), and the case studies for specific Organisation for Economic Co-operation and Development (OECD) countries, such as Van den Noord (2000). Regarding Latin American countries, the study by Juan Carlos Vicchi (2005) discussed the tax situation in Argentina. As debates are under way in various countries regarding the abolition or reintroduction of wealth tax, a recent study by Ristea and Trandafir (2010) provides a general overview of the European scenario from the perspective of Romania.

Clearly, the IGF is part of the larger issue of dire inequality indicators in Brazil. Historically, countries that have adopted a system of progressive taxation of income, wealth and inheritances, such as Japan, Switzerland, France and Germany, have gradually and persistently 'de-concentrated' income and wealth over the 20th century. Other, more liberal societies, such as the UK and the USA, would probably have a more significant redistributive problem if not for the high taxation of inheritances and real estate. In Brazil, there is no indicator for the concentration of wealth, although in light of analysing the cases of other countries, we know that it is usually larger than the indicator for the concentration of income. Brazil has one of the lowest performances in the world regarding this last indicator, and according to Medeiros, Souza and Castro (2015), the concentration of income among the richest people is, according to tax data, substantially higher than attested by household sample surveys, with no downward trend between 2006 and 2012.

Income tax in Brazil, considering its application, has proven to have little distributive potential, failing to compensate for other, regressive taxes on production, which comprise most of the tax base. The tax on inheritances and donations (*Imposto sobre Heranças e Doações*—ITCM), which falls under the jurisdiction of states, yields negligible revenue due to low rates, high levels of exemptions and benefits, and administrative issues. Although the property tax (*Imposto Predial e Territorial Urbano*—IPTU) is a real estate tax and can have progressive rates, it has also suffered from administrative problems in many municipalities, such as outdated fiscal records and property evaluations, and high default rates. Therefore, it could be feasible to use the IGF legislation to reduce inequities, depending on the format of the supplementary law that introduces it and how the federal government administers it.

Therefore, the objective of this paper is to provide an overview of wealth tax in Brazil and around the world, as well as to present reflections on it from the perspective of economic and taxation theory.

This paper comprises an updated and re-edited version of a Technical Note, published in 2011 by the Ipea, entitled *As discussões sobre a regulamentaçao do Imposto sobre Grandes Fortunas: a situação no Brasil e a experiência internacional* (Carvalho Jr. 2011). It is subdivided into six sections. The first section is an introduction to the study. The second section defines the wealth tax and assesses the main theoretical discussions, as well as economic and administrative challenges, related to this type of taxation. It also discusses what is usually considered its calculation basis, the tax rate structure, asset evaluations and anti-evasive manoeuvres. The third section presents data from the distribution and composition of global wealth, since it is a justification for the application of wealth tax and can determine its potential revenue. The fourth section provides an overview of the international experience of wealth tax in seven countries and presents a series of revenue indicators of wealth tax by gross domestic product (GDP). The fifth section addresses the Brazilian debate on the IGF, the frustrated attempts to enact this tax in the country since 1989 and the current scenario of projects under way. The sixth and final section provides concluding remarks.

2 DEFINITIONS AND THEORETICAL DISCUSSIONS OF WEALTH TAX

Two main types of taxes on wealth can be defined: those applied periodically on a person's wealth, termed wealth tax (*Imposto sobre Riqueza Líquida*), and those applied sporadically on a transfer of wealth, termed tax on inheritances and donations (*Imposto sobre Heranças ou Doações*). These two types of taxes have been considered the most desirable from an equity perspective (Kessler and Pestieau 1991), and this paper will focus exclusively on the analysis of wealth tax.

Wealth tax captures the personal assets of an individual or household, although in certain countries it can also be assessed on company assets. Of the total appraised assets, after excluding tax-exempt assets, tax benefits and exemption limits, (generally progressive) tax rates are applied on whatever surpasses the limit of exemption. The basis for calculating wealth rate is quite broad; it generally applies to accumulated assets such as stocks, banking and savings account deposits, investments in real assets and privately held companies, financial securities, urban and rural real estate (including primary residence), automobiles, works of art, jewellery, aircraft and household goods.

Wealth tax can be differentiated from property tax because property tax applies to the gross value of the specific asset, without any reduction for debts and without taking into consideration the taxpayer's other assets. In general, they are specific taxes assessed on certain types of assets (real estate, automobiles, etc.) and which fall under the responsibility of local governments, while wealth tax is generally a broad tax on net worth—in other words, the value of a person's wealth minus debts and obligations. Property tax is not related to the owner's level of wealth (number of properties) or entitlements (family unit and/or number of beneficiaries of the asset).

Even though wealth tax does not produce a significant effect on the distribution of wealth, even a marginal effect is preferable to none. Wealth carries with it a degree of security, independence, influence and social power that cannot be compared to someone's revenue stream. It constitutes, at least in part, an independent fiscal base, which might be taxed by an annual and recurring property tax. Most countries that institute or have instituted a wealth tax are societies based on a welfare State, with public expenditure representing a high proportion of GDP.

The European Commission (2015) highlights that wealth tax has traditionally been considered to have high administrative costs and a high probability of evasion. Issues such as registering properties, discovering their true ownership and precisely determining their net worth can make application difficult. According to Ristea and Trandafir (2010), experience has shown that wealth tax tends to be applied more frequently to real estate assets, despite their usual underappreciation, due to how easy it is to transfer and/or obscure financial assets. Tax revenues are usually higher in countries with high real estate prices. Nonetheless, the debate around the (re)institution of wealth tax and its effects on equity and distribution has gained traction due to the rising concentration of income in European Union countries.

Diamond and Saez (2011) and Jacobs (2013) have criticised the central role of wage tax, to the detriment of taxing capital and net wealth, in European tax systems. Wage and consumption taxes have usually produced little impact on the wealthiest population, and ineffective wealth tax leads to the problem of comparatively higher taxation on labour income. In addition, high taxation on labour income yields negative economic effects, as it is necessary to incentivise saving behaviour among workers, increased labour offer, investment in human capital and education, and international competitiveness.

The European Commission (2015) highlights the increased concern over tax evasion and states that the administrative costs of wealth tax have been reconsidered. New local and international agreements regarding the exchange of information and the cross-referencing of tax declarations have been developed so as to render wealth tax evasion a less lucrative endeavour. The high level of computerisation and the reduction in costs for building large databases are also important factors to consider in the general reduction of administrative costs.

The work by Piketty (2014) rekindles the debate on wealth tax by showing that, after analysing the concentration of income and the evolution of capital over the 21st century in many countries, there is a global tendency for the concentration of wealth. For the author, this accumulation must be limited; therefore, the State must intercede with ameliorating public measures, through fairer and progressive taxation and welfare policies. To that end, the author suggests a global progressive tax on wealth. In defence of wealth tax, the author argues that it would complement income and property taxes, allowing for greater revenue and disincentivising hoarding.

In response, Nascimento (2016) argues that taxation, beyond its classic objective of financing the expenses of the State, can serve as a mechanism to reduce inequality. To that end, collection must be oriented by principles that render it fairer and more efficient. As taxation is not restricted to a state financing tool, but also a mechanism to promote social justice, the debate on wealth tax is neither limited to nor divorced from the objectives of de-concentrating wealth and promoting equity.

2.1 CALCULATION BASIS

Wealth tax is usually applied annually on net wealth after a certain exemption limit. It can tax the individual in isolation or the household according to the total aggregated assets, and rates can be progressive. To ensure that there is no inequity in taxation between the individual taxpayers and the household as a whole, different tax rates and exemption limits are usually set for each individual.

In broad terms, residents are taxed according to their assets worldwide, while non-residents are taxed only according to their assets in the country. The same exemption limit is not usually applied to foreign taxpayers (in general, there is no exemption limit for them), and companies abroad which possess assets in the country are also usually taxed according to the same rules for non-resident individuals. In this case, the tax assumes a real rather than personal character, given that it would be very difficult for the administration to control the global assets of non-residents and include them in exemption limits and progressive tax rates. The solution, in this case, is to tax the assets of foreign residents according to a single rate, in the same way that taxation on real assets works, unless specific international agreements are reached.

A variant of wealth tax, as it is usually applied, would be the tax on presumed capital gains (*Imposto sobre Ganho Presumido de Capital*), where a rate is placed according to presumed capital income, regardless of whether it existed or not. For example, a taxpayer might have some asset stock, and legislation presupposes that it generates an income of 8 per cent per year, which is then taxed at 30 per cent. This would be exactly equal to a wealth tax at a single rate of 2.4 per cent. The difference between this tax and a tax on capital gains would be that the income would be presumed as a fixed percentage of capital and that actual gains would not be necessary. According to the International Monetary Fund (IMF 2014), although this type of tax works as a wealth tax, it is classified as income tax or tax on capital gains. Many countries could probably achieve effective taxation on personal wealth through this system, though this is not represented in the main international databases. It is argued that it can be more easily administered than taxes on effective profits (*Imposto de Renda sobre o Lucro Efetivo*), and many developing countries prefer to tax presumed capital gains rather than actual gains. The Netherlands, for example, applies taxes on presumed capital gains for individuals (Carvalho Jr. 2011 *apud* Niessen 2000).

Proponents of wealth tax, such as Thuronyi, argue that the contributive capacity derived from income could not possibly be the only reason to levy progressive taxes and achieve tax justice. Great concentrations of wealth among a relatively small number of people can have undesirable social and political effects. If these concentrations might be reduced through the taxation of wealth, the social context could be improved. The main challenges are that very rich people are able to influence the government, whether through legal or illegal means and disproportionately to their physical numbers; such influence can result in public actions destined to exclusively protect the interests of landowners and elites.[4] Furthermore, as it is historically common for some groups to have accumulated their assets without the incidence of taxes on income and/or on the intergenerational transmission of property, only taxes on inheritance and personal fortunes could reduce historically high inequities.

2.2 RATES

It might be argued that the low rates adopted by wealth taxes demonstrate their frailty and low revenue capacity (Corsatto 2000). However, as it is an annual and recurring tax on property, rates cannot have an expropriating character. If, for example, an asset earns its owner an annual income of 10 per cent, the introduction of a tax with an effective rate of 2 per cent of the asset value would tax these earnings at 20 per cent.[5] If we consider that the tax is paid annually, the sum in present value, at a given discount rate, of the perpetuity of tax payments—even with a small rate—would be equal to a one-time tax at a high rate. For example, if the present value of the perpetuity of a tax of 2 per cent of the value of an asset (supposing it does not decrease over time), at a 10 per cent discount rate, would represent 20 per cent of its present value.[6] For inheritance tax, as it is a one-time tax, the application of rates up to 50 per cent is justified in some countries.

UN-Habitat (2011) discusses the 'liquidity problem' of non-recurring taxes, such as inheritance tax. When the tax falls on liquid assets, even high rates would allow the payment of the tax with little cost to the taxpayer (similarly to what happens with income tax). This does not happen when tax falls on real assets (i.e. real estate). In this case, the partial or total sale of the inherited real estate might be necessary to pay the tax. A possible solution would be an instalment plan for inheritance tax, payable over several fiscal years. Wealth tax does not suffer from this 'liquidity problem', as it is a recurring tax.

It is possible to state that the higher the tax exemption limit and the higher the number of progressive tax rates, the higher the probability of tax evasion. Depending on the cost of transferring property (which can be high, in the case of real estate, or low, in the case of financial assets), it is possible to transfer assets between members of the same family or to people of trust, to remain under the exemption limit or remain in lower tax brackets. The establishment of a single rate, the option to provide a joint family tax statement, the existence of family records and a higher exemption limit, as well as brackets between rates for joint tax declarations for couples are usually applied to alleviate the problem.

2.3 EVALUATION OF NON-FINANCIAL ASSETS

The assessment of non-financial assets in a country might seem, at first glance, a very costly tax administration task. The non-financial assets that are usually inserted in a wealth tax system include real estate, rural lands, automobiles, boats, aeroplanes, jewellery, works of art and furniture, among others. Family jewellery, works of art and furniture are usually tax exempt due to being difficult to measure.

For real estate, there is the information base of registries and tax assessments on properties, which generally falls under the purview of local governments. The use of local databases might require agreements to be forged and a good federative relationship, since wealth tax usually falls under the purview of the federal government. Although problems related to discrepancies and equity of local taxing might exist, there are other sources of data, such as purchase values and information from real estate financing systems, registry offices and other entities linked to the real estate sector. With modern technology, it is possible for software to efficiently assess a real estate property. For specific taxes, automobiles, boats, aeroplanes and helicopters can be assessed by their reference values, by their purchase value (subject to devaluation) or by average values determined by market research. Although difficult to manage, to register the ownership and assess the value of jewellery and works of art that were purchased after the tax structure came into effect, commercial establishments might provide the necessary information regarding the buyers and purchasing values of these assets.

Perhaps the greatest administrative difficulty of wealth tax is not the evaluation of assets, given that many countries such as the USA, Canada and the UK efficiently tax real estate property through the property tax. The real difficulty is to identify the real owners or usufructuaries of the properties so that rates might be applied on the personal asset declarations on what exceeds the tax exemption limit. The correct identification of debts and obligations is also needed for wealth tax. On the other hand, one might argue that the same difficulty in identifying the taxpayer applies to progressive income tax, as income is not visible either, and it would be necessary to identify the owners of income; even so, a progressive tax on income[7] is applied in many countries worldwide. There are many tax substitutes in income tax that are designed to collect the tax (employers) or supply information (financial institutions) and which could also be applied in wealth tax.

2.4 EVALUATION OF FINANCIAL ASSETS

Financial agents might act as tax substitutes or as a base of information for tax administration regarding the value and ownership of financial assets. The value of deposits and savings accounts for taxation purposes is usually taxed as the balance on the final date of the fiscal year or an average for a given period of the year.[8] In the case of publicly traded bonds, the market value can be defined as the average between the highest and the lowest market price quotations over a period, and the tax administration can map the values of the most commonly traded bonds. The law could introduce a tax increase for all controlling shareholders and a percentile decrease for all minority shareholders, for example. Obviously only saved deposits (which were not used for personal consumption) should be considered financial assets. However, to reduce the sum used to calculate the tax due, occasional withdrawals and transfers might occur near the end of the fiscal year, only to be deposited at the beginning of the next fiscal year. A possible solution to this problem is to set the taxable value of the deposits as the one from the last day of the previous fiscal year, or the average saved over the year, whichever is highest.

2.5 DOUBLE TAXATION

Taxpayers whose overseas net wealth is already taxed might be subjected to double taxation. This can be eliminated, whether by unilateral discount or tax treaties. For example, regarding treaties, real estate assets are usually taxable in the country where the property is located. An important difficulty to keep in mind regarding treaties is that there are relatively few countries that levy taxes on net wealth.

Developing countries might not have the resources to negotiate fiscal treaties. Therefore, it would be practical for them to structure their wealth tax to impose a formula on non-residents that renders taxation equitable, in the same way that it is applied to residents of the country of origin. For example, a single rate might be applied to all assets of someone who does not reside in the country, so as not to spend public resources on inspections or international treaties to verify the global wealth of non-residents and insert them in the tax rules for residents (exemption limits, tax benefits, deductions, tax rate progressivity, etc.). In a more sophisticated system, there might be an exemption limit and a level of progressivity of rates that is somewhat lower for non-residents, so that only assets of lesser value are excluded from taxation.

The same mechanism can be applied to residents whose wealth is taxed outside the country. In this case, lower rates and larger discounts can be applied to properties already taxed abroad. Total exemption of overseas assets might be easier to manage, but it would greatly favour countries that do not tax wealth. Under a wealth tax with well-developed rules, residents' assets in tax havens would be perfectly taxable, although many such havens ensure the secrecy of the asset owners. To infer the rates to be applied on the wealth of those residing overseas, it would be necessary to know each country's tax system. Surveys published by the OECD or the IMF might provide a good starting point for many countries.

2.6 TAXATION OF INDIVIDUALS AND COMPANIES THROUGH WEALTH TAX

The exclusive taxation of the net wealth of individuals through a wealth tax is the model that yields the least negative impacts on economic activity and has the most redistributive potential. Taxing the productive assets of companies through wealth tax might lead to capital flight and poor allocation of resources. However, in a system where only personal wealth is taxed, it is possible to transfer the ownership of the assets enjoyed by the individual to a family-owned company as a form of tax evasion. The transfer of real estate assets requires disbursements such as the payment of the *Imposto sobre a Transmissão de Bens Imóveis* (ITBI) or ITCM and registry office fees; for financial assets, automobiles and other assets, transfer costs are low.

However, wealth tax legislation can determine the types of company-owned assets that are presumed to be used by individuals, and in these cases they are subject to taxation. In the case of real estate, the problem might be avoided by forging agreements with municipalities or other institutions. In this case, residential real estate, vacant lots, leisure vehicles, boats and private aircraft (which are not related to productive activity), even under the ownership of companies, could be taxed by a wealth tax by indicating their real users or through a higher (punitive) tax rate if the real users are not identified.[9]
In fact, for certain types of assets that are typically used by individuals, legislation might compel the company that owns the asset to declare the individual who will make use of the asset, and they would in turn have to include it in their list of personal assets in their personal income tax declaration.

Taxing individuals and companies abroad regarding assets they own in the reference country exists in the legislation of almost every country that has adopted some kind of wealth tax. Residents abroad must be taxed at a single rate over the total value of their assets in the country (excluding small-value assets), as it is difficult to estimate the international wealth of non-resident taxpayers.

3 INTERNATIONAL DISTRIBUTION OF WEALTH

The analysis of the composition and concentration of global wealth allows us to examine the best way to apply wealth tax and on which countries such a tax would be most effective. This would be important to shed light on which class of asset would be the most taxed. Establishing the participation of Brazilian families in the distribution of global wealth would be important. If a country has a small number of rich families, it would be inefficient to build a tax structure for a wealth tax, as there would be few taxpayers. If a country has many rich families, but a low level of inequity of income or wealth, it would be unnecessary to use a wealth tax as a redistributive tool, and progressive rates of taxation could be applied instead, for instance.

Financial assets and real estate are undoubtedly some of the main components of family wealth. There are no studies estimating what proportion of the wealth of Brazilian families is represented by different types of financial and non-financial assets, but a study by Davies et al. (2006) estimated this composition for many countries worldwide in 2000. The results varied between countries, and differentiated between financial assets, welfare funds (very low liquidity) and assets comprising bonds, stocks, deposits and savings accounts (high liquidity). Table 1 presents a simplified depiction of the data from this study.

TABLE 1
Family wealth composition, selected countries, 2000 (percentage)

Countries	Primary residence real estate	Other non-financial	Net financial assets	Stocks and shares	Welfare funds
Australia	20.7	38.4	9.0	8.2	23.8
Canada	19.8	23.2	14.3	18.2	24.5
Taiwan	19.7	21.3	23.0	18.9	17.1
Denmark	23.4	21.6	11.6	29.7	26.4
France	29.4	30.6	13.2	12.8	14.0
Germany	42.0	18.0	13.6	14.8	11.6
Italy	49.9	8.1	9.7	23.1	8.8
Netherlands	38.2	7.8	10.3	13.0	30.8
NewZealand	59.8	8.2	11.2	12.8	8.0
Poland	62.4	17.6	11.8	5.0	3.4
Portugal	39.3	11.7	23.0	18.6	7.4
Singapore	47.3	7.7	19.8	9.5	15.8
South Africa	16.5	18.6	13.7	13.0	39.0
UK	34.8	12.2	11.1	13.3	30.2
USA	26.4	6.6	8.7	34.2	24.1

Source: Davies et al. (2006).

In broad terms, there is a significant disparity in the composition of family wealth among countries. Stocks and shares represent 34 per cent of the wealth of North American families, whereas tangible assets—especially real estate—comprise over 70 per cent of the wealth of families in New Zealand and Poland. The low level of participation of welfare funds in Italy and Portugal is due to the nature of the public welfare systems in those countries, which are outside the scope of this present paper.

Table 2 represents part of the data extracted from the same study, showing the nationality of families among the richest 1 per cent in the sample, for 2000, in purchasing power parity (PPP) terms. Clearly, this distribution represents the global reality in 2000, which has changed according to the later ascension of emerging countries. In any case, the table shows Brazil in a privileged position in the ranking of the wealthiest families in the world—ranking seventh in the distribution of global wealth, considering the group of the richest 1 per cent of families in the world. Therefore, one might consider that Brazil could have a good number of families with assets that could be taxed after the introduction of the IGF. Countries such as the Netherlands, Switzerland and Argentina have a lower share of families among the top 1 per cent, but they apply wealth tax.

TABLE 2
Global wealth distribution of the wealthiest 1 per cent of families in PPP terms: selected countries, 2000 (percentage)

Country	Top 1% globally	Country	Top 1% globally
USA	36.8	Taiwan	1.9
Japan	11.7	Netherlands	1.7
UK	6.3	Australia	1.2
France	5.6	Mexico	1.2
Italy	5.3	Switzerland	1.0
Germany	3.9	Russia	0.9
Canada	2.5	Argentina	0.9
Brazil	2.3	South Korea	0.9
Spain	2.3	Others	13.6

Source*:* Davies et al. (2006).

Wolff's study (2010) *apud* Carvalho Jr. (2011) shows the composition of the wealth of American families in 2007. The study found that financial assets comprise the main basis of the wealth of the wealthiest 1 per cent of American families, and primary residence real estate the main basis of the wealth of the least wealthy 90 per cent of families. According to the study, 1 per cent of the families had 35 per cent of the country's net wealth, an indicator that would increase to 50 per cent if considering primary residence real estate properties. These families possessed over 60 per cent of the stock of bonds and financial safeguards and almost 40 per cent of share funds and privately held shares. Considering the income concentration indicator, the richest 1 per cent held 21.3 per cent of American income in 2006. Therefore, the concentration of wealth is greater than the concentration of income, and a progressive tax on wealth would have a much stronger distributive function than income tax.

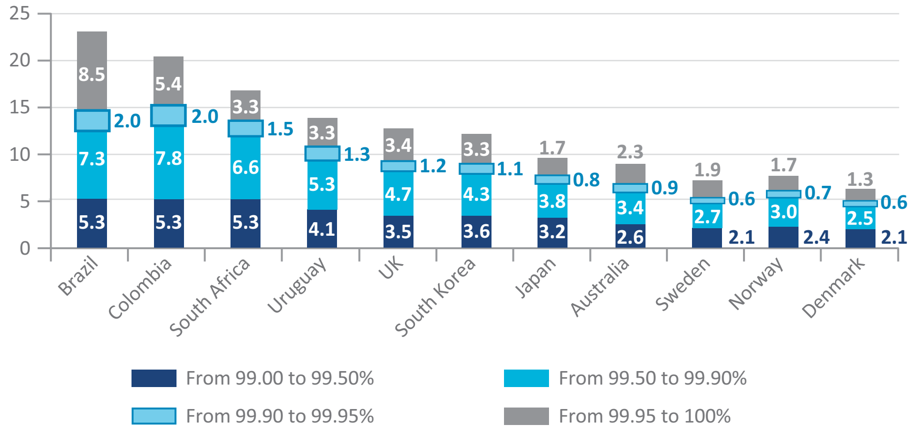
Given that the banking system can offer important information for tax administration (until levying the wealth tax) and that financial assets comprised the greater share of the wealth of the wealthiest 1 per cent of families in certain countries, a recurring tax on wealth, if well thought out, could have satisfactory fiscal results. In the USA this could be true, since 36.8 per cent of the wealthiest 1 per cent of families in the world were North American in 2000 (see Table 2).

It is worth pointing out that the demand for taxing wealth purports to slow down the concentration of wealth. According to Oxfam (2015), the richest 1 per cent of the world's population concentrated 48 per cent of the world's total wealth in 2015, tending to increase to 50 per cent in 2016.

The debate on taxation and equity cannot, therefore, excuse itself of discussions about income and wealth concentration and mechanisms to mitigate them. In his study, Piketty (2014) rekindled this debate at the global level, demonstrating through a vast sampling of countries that wealth inequality is much larger than income inequality, which was already perceived as absurd.

Using data from the study by Gobetti and Orair (2016), Figure 1 shows, among the group of selected countries for 2013, how income concentration is unreasonable at the top of the distribution. Even in Nordic countries, which are references in terms of social equity, the richest 1 per cent of the population concentrate 10 per cent of total income. The situation is even more dramatic when considering Brazil, in which the richest 0.05 per cent concentrate 8.5 per cent of all income.

FIGURE 1
Share of the richest 1 per cent of total income (percentage)



Source: Gobetti and Orair (2016).

4 THE CURRENT INTERNATIONAL SITUATION OF WEALTH TAX

This section will provide a brief outline of the current situation of wealth tax in various countries (4.1), as well as their recent revenue indicators (4.2).

4.1 SOME INTERNATIONAL EXPERIENCES

With the 2009 global financial crisis, the controversial subject of wealth tax gained attention worldwide. According to Nascimento (2016, 31) " wealth tax is now being discussed again in countries that have never adopted it, such as the USA, in countries that have revoked it and are now considering reintroducing it, such as Germany, and even in countries that have revoked and reintroduced it, such as Spain".

Carvalho Jr. (2011) highlights that all countries in Western Europe apply wealth tax or have applied it at some point, with the exceptions of Belgium, Portugal[10] and the UK. Currently in Europe, only France, Switzerland, Norway, Spain, the Netherlands,[11] Italy,[12] Luxembourg[13] and Hungary[14] apply the tax. Since the 1990s, it has been abolished in Austria (1994), Denmark, Germany (1997), Iceland (2005), Finland (2006), Sweden (2007), Spain (2008) and Greece (2009). Due to the fiscal and financial crisis that ravaged many European countries after 2009, it was reintroduced in Iceland (between 2010 and 2014) and in Spain. In Latin America, wealth tax is enacted in Argentina (since 1972), Uruguay (since 1996) and Colombia (since 2002).

Based on the studies by Carvalho Jr. (2011) and Nascimento (2016), the following sections offer a brief description of the recent structure of the wealth tax in seven countries: Spain, Switzerland, Norway, France, Argentina, Uruguay and Colombia. Given that tax legislation in these countries can change quickly, the following sections might not represent the current reality, and the source's reference year must be carefully considered.

4.1.1 Spain

In Spain, *Ley* 19/1991 was modified in 2004 so that the *Impuesto sobre el Patrimonio* (wealth tax) would be completely abolished in 2008, except for the province of Guipuzcoa, in the Basque region (Spain 1991). However, due to the 2009 financial crisis, the tax was reintroduced by Royal Decree (*Real Decreto-ley*) no. 13, of 16 September 2011, to last two fiscal years—2012 and 2013—and being later renewed until 2017. After exemptions, assets above EUR700,000 are taxed at progressive rates between 0.5 per cent and 2.5 per cent. The 2.5 rate only applies to assets above EUR10 million (Nascimento 2016).

Revenue from the *Imposto sobre el Patrimonio* is still low, despite having the highest rates in Europe—representing only 0.3 per cent of total revenue and 0.2 per cent of Spain's GDP in 2013 (IMF 2017). Although the Spanish wealth tax is well elaborated, with high tax rates, the causes of low revenue need to be investigated thoroughly. According to Spanish legislation, in addition to an exemption for primary residence real estate (up to a limit of EUR300,000), there is a device that limits income tax to 60 per cent of the taxpayer's total income, if he is a resident of the country. Depending on how these mechanisms are applied, this can directly impact the revenue raised by the wealth tax.

4.1.2 Switzerland

According to Carvalho Jr. (2011), in Switzerland the wealth tax is the purview of individual cantons and communes. The exemption limit is autonomously established by each canton. In 2015, for example, the tax was applied solely on individuals' assets above EUR119,000, EUR210,000, EUR470,000 and EUR597,000 (in February 2017 values) in the Geneva, Basel, Zurich and Lausanne cantons, respectively. The maximum rates in these four cantons were set between 0.59 per cent and 0.94 per cent for assets exceeding EUR55.4 million (FTA 2016). In Switzerland, non-resident individuals without any income or property in the country are exempt from the wealth tax. According to the OECD (2015), the revenue from wealth tax collected by Switzerland has remained stable over the last decade, representing 4.6 per cent of total revenue and 1.2 per cent of GDP in 2015.

4.1.3 Norway

In Norway, wealth tax has been in place for over 50 years, falling under the shared purview of central and local government (communes), with rates determined annually by the central government. The country has an aggregate rate of 1 per cent (0.7 per cent at the municipal and 0.3 per cent at the federal level), which is applied to net assets above NOK1 million

(EUR112,000 in February 2017) (Nascimento 2016 *apud* Government of Norway 2015). The Norwegian tax is applied to all assets of citizens residing in the country and abroad, with international treaties in place to avoid double taxation. Norway has more than doubled its revenue from wealth tax over the last 20 years; it represented 1.4 per cent of total revenue and 0.4 per cent of GDP in 2015 (IMF 2017).

4.1.4 France

The *Impôt sur les Grandes Fortunes* was enacted in France in 1981, taking effect from the 1982 fiscal year. According to Carvalho Jr. (2011), it initially spanned the assets of individuals and companies, but in 1984 it was restricted to only the assets of individuals. In 1986, the tax was paid by only 0.5 per cent of French families (84,700) and was then abolished by the new conservative parliament. In 1988, the *Impôt Solidarité sur la Fortune* (ISF) was reinstituted by the new socialist government, in the current mould. French legislation exempts from wealth tax certain work tools, copyrights and authors' rights, and assets of artistic, historical or ecological importance, as well as collections and furniture. Similar to every other country that has instituted wealth tax, in France assets from welfare funds are also exempt. The ISF has five progressive rates (between 0.5 per cent and 1.5 per cent), which fall on net assets exceeding EUR1.3 million. As Nascimento (2016) points out, despite this exemption limit, taxpayers who fall under the ISF rules are taxed according to their net assets exceeding EUR800,000. In 2015, ISF revenue represented 0.25 per cent of French GDP and 1.7 per cent of the central government's total tax revenue (OECD 2015).

4.1.5 Argentina

Since 1973, Argentina has had a tax on personal assets (excluding the assets of companies), falling under the purview of the central government. As the tax on individual assets has been in place for nearly four decades, there have been many changes to its structure. The main one refers to the basis for calculation, which between 1973 and 1989 was net wealth—that is, assets minus any debts and obligations. However, in 1991 it was changed to gross wealth. *Ley* 23.966/1996 (and its subsequent modifications) regulates the tax, which in 2015 applied to gross wealth at a 0.75 per cent rate on whatever exceeded the exemption limit of ARS800,000 in 2016 (Argentina 1997). Since then, this limit increased to ARS950,000 in 2017 and will be ARS1,050,000 from 2018 onwards.[15] The rate was reduced to 0.5 per cent in 2017 and will be 0.25 per cent from 2018 onwards, in a clear downward trend for the tax.

According to Carvalho Jr. (2011), in 2008 it was observed that real estate represented almost 40 per cent of the tax base on gross assets, and financial assets—including stocks, bonds, holdings, credits, negotiable obligations, debentures and cash deposits—represented 33 per cent. Overseas assets (83 per cent of which were financial assets) represented 12 per cent of the declared total.

Since its introduction in the Argentinian tax framework, the then-termed tax on net wealth represented an average of 4.5 per cent of the central government`s revenue between 1977 and 1990. From 1993 onwards, this level was kept between 1 per cent and 2 per cent of revenue. Although the proportion of total revenue remained stable, the amount collected has increased in real terms together with the collection of other taxes. According to Carvalho Jr. (ibid.), the tax represented 0.7 per cent of GDP in 1982, but only 0.17 per cent in 2002. However, since 2003 the level has been stabilised at 0.3 per cent of GDP.

4.1.6 Uruguay

Uruguay has had the *Imposto al Patrimonio* since 1989, covering the net assets of individuals and companies (Uruguay 1996). Wealth tax in Uruguay was revised in 2004, at which point it presented an exemption rate of UYU2 million (USD130,000 in February 2017), with progressive rates for residents varying from 0.7 per cent to 3.0 per cent. The highest rate falls on values exceeding UYU10 million (USD650,000 in February 2017). However, this rate is expected to fall annually until it reaches 1 per cent in 2024 (Nascimento 2016).

The revenue from the wealth tax in Uruguay has represented between 1 per cent and 1.1 per cent of GDP between 2003 and 2015. This equates to between 5.5 per cent and 6.5 per cent of the central government's total revenue during the period. Tax on company assets contributed, on average, 96 per cent of the total tax revenue between 2008 and 2015. On the other hand, the total tax on individual assets fell from an average of 7 per cent between 2000 and 2007 to 4 per cent between 2008 and 2015. Therefore, one might consider the tax burden on individual assets in Uruguay to have been only 0.5 per cent of GDP.

4.1.7 Colombia

The *Impuesto al Patrimonio* was introduced in Colombia in 2002. In 2014, the country underwent significant tax reforms (*Ley* 1,379 of 2014) and enacted the *Impuesto a la Riqueza* for individuals and companies with a net worth above COP1 billion (USD336,000 in February 2017) in the fiscal years of 2015, 2016 and 2017 (Colombia 2014). The rates are progressive—between 0.125 per cent and 1.5 per cent for individuals, and between 0.05 per cent and 0.4 per cent for companies in 2017. According to the Dirección de Impuestos y Aduanas Nacionales (Colombia/DIAN 2017), the tax has represented, on average, 4.3 per cent of the central government's revenue since 2011. This revenue represented an average of 0.65 per cent of GDP from 2011 to 2015.

4.2 THE REVENUE PERFORMANCE OF WEALTH TAX

In the early 1990s there was widespread debate about the viability of wealth tax, which led to the elaboration of several studies in Europe. The abolition of the tax was considered by various right-wing governments that started winning parliamentary elections. We might cite the study by Bird (1991), which found that during the period between 1965 and 1988 taxation on net wealth and on wealth transfers decreased from 0.5 per cent to 0.4 per cent of OECD countries. As the proportion of tax revenue, the average reduction was from 2 per cent to 1 per cent, with the exception of France, Japan, Switzerland and Norway, where the indicator increased. In France, revenue tended to increase, and in Japan, 1.4 per cent of revenues were from taxes on wealth transfers (inheritances and donations). In Switzerland, these two classes of tax represented 3.2 per cent of the total tax revenue; in Norway, 1.3 per cent.

Kessler and Pestieau (1991) stated that, empirically, a country's wealth represents between two and three times its GDP.[16] Therefore, a 1 per cent tax rate falling on the entirety of a country's wealth would yield a potential revenue of between 2 per cent and 3 per cent of GDP. However, the authors have argued that revenue from wealth tax has been low in Europe for four main reasons:

- Many categories of assets are excluded from the tax base. No European country considered furniture, works of art, patents, copyrights, welfare rights or pension funds. In addition, few countries taxed the assets of companies.

- The exemption limits vary considerably, from only USD9,000 in Luxembourg to USD520,000 in France.
- Many European countries limited the proportion of income that could be taxed by both the wealth tax and income tax (which already had high rates). This limit was 60 per cent in France, Spain and Denmark, and 80 per cent in the Netherlands.
- There were deficiencies in the real estate evaluation systems, and it was usual not to declare overseas financial assets.

In the case of France, the authors argue that in the early 1990s there were around 100,000 taxpayers, corroborating the theory that the exemption limit was too high. In addition, only 30 per cent of the total wealth of these taxpayers was recorded by the tax. They estimate that the wealth tax taxed the total private wealth in France at only 0.04 per cent in 1990.[17]

Currently, the revenue of some countries where wealth tax remains active has tended to increase. Table 3 shows indicators of revenue from wealth tax as a proportion of GDP in a sample of nine countries.

TABLE 3
Wealth tax as a proportion of GDP, selected countries, 2000–2015 (per centage)

Country	2000–2003*	2004–2007*	2008	2009	2010	2011	2012	2013	2014	2015
Uruguay	0.75	1.01	1.05	1.18	1.08	1.06	1.06	1.06	1.14	1.11
Colombia	0.48	0.18	0.69	0.44	0.41	0.72	0.66	0.63	0.58	0.69
Argentina	n.d.	0.30	0.29	0.32	0.31	0.27	0.27	0.31	0.31	0.31
Switzerland	1.20	1.20	1.19	1.20	1.17	1.13	1.12	1.17	1.21	1.24
Norway	0.50	0.45	0.43	0.51	0.48	0.47	0.46	0.47	0.45	0.40
France	0.16	0.19	0.21	0.18	0.22	0.21	0.24	0.21	0.24	0.24
Spain	0.20	0.20	0.26	0.06	0.06	0.06	0.14	0.20	0.18	0.18
Iceland	0.70	0.10	0.00	0.00	0.24	0.37	0.53	0.47	0.54	0.03
Italy	0.07	0.05	0.04	0.04	0.04	0.04	0.07	0.07	0.06	0.06

Note: * Average value for the period.

Source*:* IMF (Government Finances and Statistics, 2017) and OECD (Revenue Statistics, 2017); except for Colombia (Colombia/DIAN, 2017), Argentina (Argentina/Mecon, 2017) and Uruguay (Uruguay/DGI, 2017). Authors' elaboration.

Table 3 shows that Switzerland, Uruguay and Colombia had the best wealth tax revenue indicators, above 1 per cent of GDP in 2014. However, as mentioned in Sections 4.1.6 and 4.1.7, the tax base of the Uruguayan and Colombian wealth tax is expanded by the taxation of companies.

To better represent the main differences in wealth tax, Table 4 combines the data from Section 4.1 with the main characteristics of the tax in the seven countries analysed:

Table 4 clearly shows that countries with better wealth tax revenue performance present a greater tax base, such as the taxing of company assets (Uruguay and Colombia) and/or a lower exemption limit (around USD120,000 in Uruguay, Switzerland and Norway). On the other hand, countries with higher progressive taxes (France and Spain), but which at the same time present an exemption limit that is, on average, seven times higher than in other countries, present significantly lower revenues.

TABLE 4
Main characteristics of the wealth tax: selected countries (2014-15)

Country	Base year	Purview	Calculation basis	Taxpayers	Exemption limit*	Rates (in %)	Revenue as a proportion of GDP (%, 2015)	Proportion of revenue (%, 2015)**
Uruguay	2015	Central	Net wealth	Individuals and companies	130,000	0.7–3.0	1.11	6.5
Colombia	2017	Central	Net wealth	Individuals and companies	336,000	0.125–1.5	0.69	4.3
Argentina	2017	Central	Gross wealth	Individuals	61,700	0.5	0.31	1.2
Switzerland	2015	Regional and Local	Net wealth	Individuals	116,000***	0.1–0.94	1.24	11.3
Norway	2015	Regional and Local	Net wealth	Individuals	119,000	1.0	0.40	7.0
France	2015	Central	Net wealth	Individuals with net worth above USD1.39 million	850,000	0.5–1.5	0.25	1.7
Spain	2015	Central and Regional	Net wealth	Individual	744,000	0.5–2.5	0.18	1.2

Notes: * In 2017 USD. ** Contribution to the revenues of central governments, except for Norway and Switzerland (subnational governments). *** For the Geneva canton.

Source: OECD (2017) and Finance Departments of selected countries.

5 THE DEBATE AROUND THE IGF IN BRAZIL

As seen in Section 2, a broad range of arguments inform discussions about the regulation of taxation on large fortunes. It is fitting to synthesise some of the main ones here.

International experience reveals rather diverse aspects of taxation on large fortunes. Enthusiasts of the IGF in Brazil grant greater attention to countries with a successful history of implementation of the tax and revenue from it, as well as of de-concentration of income. Its opponents focus on the abolition of the tax in various countries and its low revenue performance. Although our assessment does not allow for a definitive, incontrovertible interpretation of the IGF experience, the underlying learning process is that there are successes and failures which make it necessary, in the Brazilian case, to reflect on the causes of potential challenges, and possible mechanisms to overcome them, before any attempt at implementation.

Regarding the problems presented by wealth tax, this paper—in light of international experience—highlights that such a tax could be effective in the case of Brazil, given the level of inequality in the country, the size of its economy, the current technology (which has significantly reduced its administrative costs) and, finally, the low rate of taxation of inheritances and property in general. France, Switzerland, Uruguay, Colombia and Argentina are examples of the viability of the tax.

Proponents of the IGF have seen in it a mechanism to address social inequities through the taxation of those with greater contributive capacity. The tax would have a redistributive function, favouring—especially in the case of regressive tax systems such as in Brazil—greater tributary justice. In other words, the argument for IGF rests significantly on the social focus of promoting the de-concentration of wealth and social justice, with minimal discussion of its revenue-generating capacity.

According to Piketty (2014), the primary goal of wealth tax is not the financing of the State. To the author, other goals include regulating capitalism, restricting the excessive accumulation of income, disincentivising unproductive capital and attenuating inequality.

In Brazil, the critics of the IGF—although not completely discarding the distributive role of the tax—focus on four aspects: the economic impact, double taxation, administrative costs and revenue-generating potential.

The economic impact of the IGF would be the most easily refutable argument, given that every tax has negative economic consequences, and the economic literature has demonstrated that taxes on the property of individuals are the least damaging to economic activity, when compared to income tax or production tax (IMF 2014).

The argument about the possibility of double taxation, with real estate assets being subjected to both the IPTU and the *Imposto Territorial Rural* (ITR), or automotive assets being subjected to the *Imposto sobre a Propriedade de Veículos Automotores* (IPVA), is related to the judicial sphere. However, the entirety of personal wealth can be considered a distinct triggering event, apart from real estate or automotive property.[18] According to the Brazilian Supreme Court's Binding Precedent no. 29 (Brazil 2010), every tax might have an element in its tax base that includes, to some extent, the basis of another tax, given that this other tax is incomplete.

The argument about high administrative costs is also currently rebuttable. As demonstrated In Section 2, the administrative costs of the IGF would not be as significant, given the complete computerisation of tax administration, economies of scale and scope with the administration of the personal income tax and the greater access to greater computational databases and data exchange with other institutions (European Commission 2015).

The argument about the low revenue potential would be the most plausible one, given that few countries currently adopt wealth tax. In 2015, revenue in Argentina and Colombia represented 0.3 per cent and 0.7 per cent of GDP, respectively. In addition, Switzerland and Uruguay have indicators above 1 per cent of GDP. Therefore, one might state that the tax has adequate revenue potential—if well administered.

However, it is important to highlight that these two factors—revenue and extra-fiscal distributive purposes—cannot be mutually exclusive. Kelly (2013) argues that every tax is only effective in its extra-fiscal goals if it is indeed paid by taxpayers. Therefore, if the IGF presents low revenue, this might mean that its legislation was poorly structured, that it is being poorly administered or that it is being evaded and thus fails to reach the better-off classes it purports to reach. Hence, both concerns must be tackled together.

The fiscal aspect must also be considered in light of Brazil's political and financial crises which started in 2015, and their detrimental effects on the poorest population. This is a politically apt time to incentivise solidarity in order to avoid the tearing of the social fabric; thus, wealth tax must occupy an important place on society's agenda. A more striking example of how the IGF could be integrated into current political and economic propositions is the welfare reform project that is currently under way. This project is basically centred around a shrinkage of rights to justify the welfare budget deficit—around 3 per cent of GDP. Even if agreeing with the notion that there are many elements of the current Brazilian welfare system that must be adjusted (a subject which lies outside the scope of this paper), at no point during the welfare reform debate has it been considered to increase the tax burden on the wealthiest population (and, therefore, those least susceptible to the current tax), in an inclusive manner, to help reduce this deficit. Given that the IGF could have a significant revenue-generating potential as a percentage of GDP, it could be a valuable instrument to help mitigate the welfare deficit.

5.1 ATTEMPTS TO INTRODUCE THE IGF IN BRAZIL

The tax on large fortunes figures in article 153, paragraph VII of the Brazilian 1988 Federal Constitution, which established that the tax must be regulated through supplementary law. During the pre-constitutional debates, a set of studies was concerned with reversing the progressive tax system based solely on the income of salaries and self-employed people. When it was brought to a vote, under fierce discussions led by Plínio de Arruda Sampaio, MP, the tax was added to the constitutional body by the 1988 Constitutional Commission (Barbosa and Freitas 2015) by 47 votes to 37.

The debate around the constitutionality of the IGF is largely based on the discussion about the definition of the term 'large fortunes'. It is argued that it could refer to the fortune that exceeds a certain value, or the wealth of a fraction of the wealthiest people in the country. Many legal experts, from a literal point of view, posit that "fortune is greater than wealth, and large fortune is greater than fortune; therefore, the IGF has a very restricted tax range" (Martins 1990, 249). To Barbosa and Freitas (2015), controversies surround what is considered large fortunes and the triggering event of the tax. To them, this controversy is based on the subjectivity of what might be considered a large fortune, given that this depends on the economic situation of whoever is considering the subject.

Since 1989 there have been many projects in both houses of the Brazilian Congress to regulate the IGF. In total, two bills and 16 supplementary law bills had been submitted in the Lower House, and five bills proposed in the Senate, as of March 2016 (Nascimento 2016). Initially, the first supplementary law bill was an initiative by then Senator Fernando Henrique Cardoso—PLP 162/1989. In the Senate Commission for Economic Affairs, PLP 162/1989 was favourably considered by rapporteur Senator Gomes Carvalho, and later approved on 6 December 1989 and forwarded to the Lower House. Many proposals for the institution of the IGF were later attached, giving rise to PLP 202-B/1989. After 11 years in procedural transit, a joint analysis of this PLP was undertaken by the Commission for Finance and Taxing of the Lower House (*Comissão de Finanças e Tributação da Câmara*—CFT) and by the Commission for the Constitution, Justice and Drafting of the Lower House (*Comissão de Constituição e Justiça e Redação da Câmara*—CCJR). The CCJR approved the constitutionality of the bill, but it was refused by the CFT.

In the CCJR report, from a technical point of view, the main judicial concern was the literal interpretation of 'large fortunes'. It was understood that the tribute could not tax wealth exclusively. 'Fortune' was considered a greatly valued estate, and 'great fortune' something even greater. Therefore, the CCJR report suggested increasing the original project's exemption limit. Catering to some amendments by Members of Parliament and to the modification of the exemption limit, the legality of the final project was approved by majority by the CCJR on 6 December 2000. After its constitutionality was verified by the CCJR, the bill was rejected by a majority in the CFT. Rapporteur Marcos Cintra, MP, in his winning vote, highlighted several reasons for the rejection. These included the fact that wealth tax was being abolished in many European countries, its high administrative costs at the time and its low revenue, in a macroeconomic and ideological context that praised direct foreign investment, fiscal incentives, economic globalisation and savings.

After the bill was rejected by the Lower House in 2000, the discussions around the regulation of the IGF were rekindled in both houses in 2008. In the Senate, Senator Paulo Paim, through Senate bill PLS 128/2008, proposed the institution of the IGF with some significant differences from earlier drafts. The project paid special attention to the evaluation of properties, established a single rate, of 1 per cent, above the exemption limit, and granted deductions in the values of the IPTU, ITR, ITBI and ITCM actually paid.[19] Fines were to be applied in the case of omission or undervaluation of properties, and in the case of simulation, fraud or collusion with the objective of concealing the true owner of the asset or its value. Unlike Argentinian, Colombian and Swiss legislation, the project established a high exemption limit—BRL10 million—and did not cover overseas companies with assets in the country, or residential real estate.

Paulo Paim's project was analysed and rejected by a majority in the Senate's Commission for Economic Affairs on 9 February 2010. In his rapporteur vote, Senator Antonio Carlos Junior highlighted that the wealth tax had been abolished in various European countries, with unsatisfactory revenue results. He highlighted that in countries such as Austria, Denmark and Sweden, the tax only represented 0.4 per cent of revenues, and that its administration was costly. Finally, the senators agreed that the way to improve fiscal justice and reduce inequality would be to tax income streams that create wealth. Only Senator Eduardo Suplicy voted in favour of the bill. He considered that the existence of the tax in various European countries and their experience in reducing inequality through taxation should be taken into account.

Today, the work of Nascimento (2016) can inform parliamentarian discussions about the benefits of the IGF in Brazil. Using data from Brazil's Federal Revenue Service, the author estimates the revenue potential of the IGF at around BRL13 billion—or 0.24 per cent of GDP in 2014—in two different scenarios. The first one applies an exemption limit of BRL1 million and rates of 0.5 per cent and 1 per cent applied to taxpayers with a monthly income between BRL57,920 and BRL115,840 (average net worth of BRL16.88 million), respectively. The second scenario applies an exemption limit of BRL5 million and a 1.5 per cent rate on taxpayers whose monthly income is above BRL115,840. Based on these estimates, it is possible to infer that the tax has a not insignificant revenue-generating potential; therefore, the implementation of the tax should be considered as another tool to strengthen the Brazilian welfare State. Moreover, the implementation of the IGF is not restricted to the objective of effective revenue collection. The tax is based on principles of equity and social justice, which are difficult to obtain without the de-concentration of income and wealth that is so prevalent in the country.

6 FINAL REMARKS

Controversial from the start, the tax on large fortunes in Brazil has enthusiasts and detractors searching for justification for its implementation (or not) in the international experience. As the experience of other countries translates into stories of both success and failure, it is problematic to deduce the effects of the tax in Brazil. However, this study has demonstrated that countries with a larger wealth tax base—that is, a lower exemption limit and the inclusion of companies as taxpayers—have obtained revenues that were at least four times higher. For example, in 2015, the average revenue in Argentina, Spain and France was 0.24 per cent of GDP, while in Colombia, Switzerland and Uruguay it was 1 per cent of GDP.

Finally, the increase in the concentration of income at the top of the distribution in recent years in Brazil, demonstrated by Medeiros et al. (2014), reinforces the need to discuss wealth tax and an improvement in the taxation of income and property in the country. Supporting this argument is the fact that the wealth of 15 Brazilian families represents over 10 times the income of 14 million families which are beneficiaries of the *Bolsa Família* programme (Nascimento 2016). In the same vein, the estimates by Gobetti and Orair (2016) show that the concentration of income in Brazil at the top of the distribution is among the worst in the world, with the richest 1 per cent of the population concentrating over 20 per cent of the country's total income.

The 2009 global financial crisis has rekindled the debate around wealth tax, including the IGF. Given the significant fiscal crises faced by many countries, the tax has been identified—even in Brazil—as a tool to increase revenue and promote social justice. In addition, the work by Piketty (2016), which uses a vast sample of countries to show the high degree of concentration of wealth in the world, revitalises the discussion around taxation and equity.

In tune with the global trend of giving importance to the theme of (de)concentration of income, in Brazil the demand for 'inclusive' tax reform has increased, especially regarding the taxation of those with greater contributive capacity.

The argument that the IGF is an expensive tax with low revenue-generating potential has prevailed in discussions in Congress, although the constitutionality of the proposed bills was not an issue. Opponents usually cite low revenue data from European countries and the abolition of wealth tax during the 1990s and 2000s. However, they do not cite the positive experiences of neighbouring South American countries—Colombia, Uruguay and Argentina—with a long tradition of wealth tax and significant revenue (0.7 per cent, 1.1 per cent and 0.3 per cent of GDP, respectively, in 2015). In France, another example of success, the revenue collected and the number of taxpayers have risen considerably, given the increase in the number of wealthy people in the country and administrative efficiency. France—a far less unequal country than Brazil—already has 500,000 wealth tax contributors, and revenue reached 1.1per cent of total revenue in 2015. It took time for the tax to reach these levels, and the high administrative costs, which were a significant problem for tax administration in the past, are being overcome due to technological innovations and information-sharing agreements between the Federal Revenue Service and other institutions.

Before voting on projects, parliamentarians should perform a revenue prediction analysis, which could be requested to the Federal Revenue Service and performed through a declaration of assets by taxpayers. This could provide the tax basis for the IGF, while still preserving tax secrecy. Nascimento (2016) produced a draft revenue estimation showing that the IGF has a solid revenue basis. An exchange of information through international seminars or lectures with the Argentinian, Colombian and French revenue services could be interesting, where these countries might demonstrate their practical experience in the application of the wealth tax in order to inform the legislative bills and broaden the debate beyond its usual focus of administrative and revenue capacity. For the IGF to be approved it will be necessary to demonstrate to legislators that the tax is feasible.

The way in which each country de-concentrates income through the tax system depends on the peculiarities of each. It is unlikely for Brazil to de-concentrate income through property taxes under its current tax system—IPTU, IPVA and ITCM. The IPTU is often regressive, given the precariousness with which many municipalities apply taxes on real estate property. The ITCM, under the purview of states, also fails to fill that role, by virtue of being a non-recurring tax, having a maximum allowed rate of only 8 per cent and suffering from deficiencies in the evaluation of inherited property and from high levels of exemption and incentives granted autonomously by the states. The IPVA also has no potential to de-concentrate wealth. The relatively low value and mobility of automotive assets and the competition between states precludes more effective IPVA taxation. In addition, the Supreme Court understands that boats and aeroplanes are tax immune (Brazil 2007).

The argument that property is formed by income that has already been taxed and that, therefore, the government must focus its efforts on reducing inequality exclusively through personal income tax is not theoretically or historically grounded. First, the permanence and increase of land ownership and of the global wealth of a few families have occurred for generations, through inheritances and incomes that are taxed very little or not at all. Brazilian history shows that personal income tax, such as it is, has not worked to increase equity, with many sectors of society committing fiscal fraud. The progressivity of personal income tax is unable to overcome the regressive nature of other taxes, resulting in a regressive overall tax system.

A significant share of the wealthiest families in the world reside in Brazil. This paper has shown that, according to data from 2000, 2.5 per cent of the wealthiest families in the world are Brazilian (the richest 1 per cent in a significant country sample). Many European countries which have abolished wealth tax since the 1990s, such as Austria, Sweden Finland and Denmark, present a social structure with little inequality and high personal income taxes. However, throughout the history of these countries, a significant tax on wealth and inheritances was levied to reduce inequality. In France and Switzerland, despite their good inequality indicators, the wealth tax still manages to obtain significant revenue. Brazil, with its high inequality and GDP, could also theoretically generate satisfactory revenue through wealth tax.

Finally, it is worth noting that the unfolding of financial and fiscal crises around the world brings into focus the importance of having progressive tax systems and of taxing those who concentrate income and wealth. In the case of Brazil, it is of paramount importance to enact a tax reform that can eradicate inequities and be a catalyst for mechanisms that promote an authentic welfare State. The resolution of the fiscal crisis must be thought of not only as a social security reform but also from the perspective of a progressive increase in tax burden.

This paper has sought to deepen the debate around the regulation of article 153, paragraph VI of the Federal Constitution, in light of growing demands for the reduction of fiscal inequities. At least in Congress, the constitutionality of the complementary laws for the institution of the IGF has been agreed. The issue that remains relates more to the political and economic arguments centred on the administrative and revenue-generating efficiency of the tax, without losing sight of the effects that might be achieved in terms of social equity and social justice. In fact, these two premises are not mutually exclusive and must always go hand in hand. The IGF will only be effective in distributive terms if its value is truly impactful and if it is effectively paid by the wealthiest segments of society.

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NOTES

4. It is worth noting that democracy is based on the premise of political fairness among citizens, who must be equally capable to influence political decisions (Osorio and Sarmento 2014). However, the democratic principle can be led astray by the influence of financial expenditures during the electoral process (Campos and Peixoto 2015), as they play an important part in a candidate's electoral performance (Jacobson 1990; Stramann 2005; Mancuso 2015) and can later influence political decisions. Economic influence in the political sphere can, in practice, destabilise the dispute between candidates and influence the power of certain private groups in the legislative field. The taxation of large wealth can ameliorate these asymmetries, contributing towards a more equal society in its capacity to influence political decision-making.

5. This only happens at the time the tax is introduced. If the asset is sold, its market value will be diminished by the introduction of the tax. The losing party in this process is the original asset owner.

6. One might be falsely led into the conclusion that a 5 per cent rate would be confiscatory in 20 years, but considering an annual discount rate of 10 per cent, the taxation at present values, achieved during the entire life of an asset, would be at 50 per cent.

7. It would be possible, for instance, to apply a punitive tax rate over the full value of the property if the proprietor is not known or not registered, and insert the taxed value and the asset under federal active debt. In this case, the property itself would be recorded with a restriction, and not only the proprietor.

8. The annual average is usually applied to avoid withdrawals or transfers to applications that are tax exempt during the last days of the year. Spanish legislation considers the value of a financial asset as the one determined on 31 December of the fiscal year or the average of the last quarter, whichever is the highest.

9. In Argentina, if a company does not declare the user of certain assets considered to be 'personal', the asset is taxed anyway and subjected to a higher rate.

10. The enactment of the Imposto Solidariedade sobre a Fortuna (solidary wealth tax) is part of the Portuguese Parliament's Left Block in 2011. In Canada, after considerable debate during the early 1990s, the proposal to implement wealth tax was rejected.

11. Through a recurrent annual tax on presumed capital gains, which, in practice, works as a wealth tax.

12. In Italy, wealth tax is restricted exclusively to the assets of Italian citizens which are located overseas.

13. In Luxembourg, the tax affects only the assets of companies, at a rate of 0.5 per cent. Argentina has a similar tax on company assets, applied at a 1 per cent rate to whatever exceeds USD200,000, deductible in income tax (Carvalho Jr. 2011).

14. In Hungary, the tax was introduced in 2010 and only falls on tangible assets such as real estate, aircraft, boats and high-horsepower automobiles.

15. ARS1 = USD15.5 in February 2017.

16. Reis et al. (2000) estimated that the value of residential real estate assets in Brazil would be close to the value of its GDP.

17. It is deduced that this percentile is greater in the 2010s, due to the increase in revenue in the country and the number of taxpayers, which increased from 100,000 to 500,000 over the period.

18. The IPVA is not applied to aircraft and boats (Brazil 2007), which would be perfect assets for the IGF because they are expensive, are owned by the richest strata and are not currently taxed.

19. The possibility of deducting municipal and state taxes such as the IPVA and IPTU could incentivise municipalities to coordinate on taxation, at least for properties of greater value, as the fiscal incentive granted by a municipality or state would be voided by the impossibility of deducting paid taxes in the IGF declaration.

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