UNIVERSITY OF THE PHILIPPINES
CENTER FOR INTEGRATIVE AND DEVELOPMENT STUDIES
PROGRAM ON ALTERNATIVE DEVELOPMENT
POLICY BRIEF
ISSN 2619-7278 (PRINT) • ISSN 2619-7286 (ONLINE)

UP CIDS POLICY BRIEF 2022-12

Refuting Objections to a Wealth Tax[1]

Eduardo C. Tadem[2]

A wealth tax is one form of progressive taxation but covers a lot more than all other types. Thus, while "progressive taxation" would be the general demand, the specific and more meaningful call with the most far-reaching impact would be for a "wealth tax."

A wealth tax is based on the market value of owned assets minus debts and other liabilities, i.e., one's net worth. It covers all types of wealth, i.e., anything tangible or intangible that has monetary value (Piketty 2014, 505). These include cash, landholdings, bank deposits, shares of stocks, vehicles, real property, pension plans, cryptocurrency funds, housing, trusts, jewelry, yachts, planes, works of art, antique collections, copyrights, and so on.

Amidst the debates surrounding the issue of a wealth tax, opponents have outlined their objections, and the more prominent of these are:

1. It will be harmful to the economy and hamper growth;
2. It will impede recovery from the pandemic;
3. The rich will engage in "capital flight;"
4. It will drive away investors;
5. It provides incentives for tax evasion;
6. It is a form of double taxation; and
7. The returns have been insignificant.

The Management Association of the Philippines, through its then-president Alfredo Pascual,[3] said that "wealth taxes could be scary" and that "instead of gains, wealth tax may result in capital flight, reduced investments and therefore cut funds for economic growth and creation" (ABS-CBN News 2022). This view was echoed by Makati Business Club Chair Edgar Chua, who argued that "what we need to do is to increase the size of the pie . . . focus on attracting investments to generate more jobs or possible increases in value-added tax."

While promising to study wealth tax proposals, then Philippine Finance Secretary Carlos Dominguez III immediately prejudged them, saying "it's not a good idea" as it "will only result in capital flight" out of the country and "tax avoidance" (Leyco 2021). Dominguez proposed instead the improvement of the real property tax (RPT) through "proper land valuation," claiming that RPT is already a form of wealth tax (Daily Tribune 2022).

---

1 This is a sequel to Eduardo C. Tadem. 2022. "Tax the Rich: Nine Reasons for a Wealth Tax." UP CIDS Policy Brief (2002:7). https://cids.up.edu.ph/policy-brief/tax-rich-nine-reasons-wealth-tax/. Both are excerpted with revisions from Eduardo C. Tadem (2022), "Inequality, Tax Justice, and the Philippine Wealth Tax Campaign," a forthcoming study commissioned by the Asian Peoples' Movement on Debt and Development (APMDD).

2 Eduardo C. Tadem (ectadem@up.edu.ph) is Convenor of the University of the Philippines Center for Integrative and Development Studies (UP CIDS), Program on Alternative Development (AltDev) and Professor Emeritus and Professorial Lecturer in Asian Studies at the Asian Center, UP Diliman.

3 Alfredo Pascual, ironically, is the former president of the University of the Philippines (UP), the country's premier state university known for its activist and progressive traditions. He is the current Secretary of Trade and Industry under President Ferdinand Marcos Jr.

On the 27 May 2022 episode of *The Mangahas Interviews* on GMA News' digital platforms, then-Central Bank Governor and current Finance Secretary Benjamin Diokno (2022) expressed his preference for consumption taxes because it is "the most effective tax globally" that is also "easiest to collect."

Therefore, it was no surprise that Diokno's announced eight-point socioeconomic agenda for the new government and President Marcos Jr.'s first State of the Nation Address (SONA) in July 2022 avoided mentioning a wealth tax (Nicolas 2022). These twin omissions drew criticisms from civil society groups and the media, with a *Philippine Daily Inquirer* editorial arguing that

> [g]iven that the poor and the middle class are already heavily burdened by the rising prices of goods, thereby weakening their purchasing power, the Marcos Jr. administration should exert utmost efforts to spare them from the brunt of new or heavier taxes, while making the country's richest citizens contribute a bit more of their immense wealth in the best way they can. (Philippine Daily Inquirer 2022)

Countering the Objections

Paul Krugman (2021) considers the argument that "raising taxes on corporations and high incomes will cripple the economy" to be an "unserious critique." He claims that "assertions that prosperity depends on keeping taxes at the top low have been refuted by experience time and time again—most recently in the failure of the Trump tax cuts to deliver the promised immense investment boom." Krugman says that "the only reason the obsession with low taxes for the rich retains any influence is that keeping this zombie shambling around serves the interests of corporations and the wealthy."

On the Department of Finance's opposition to a wealth tax, IBON Foundation says this is understandable as the DOF's bosses are

> [H]eirs to a long tradition started by the World Bank and IMF [International Monetary Fund] in the 1980s to make tax systems more regressive with higher indirect consumption taxes (especially VAT) and lower direct taxes on income and wealth. The bias for consumption taxes is because these are easier to collect, and the bias against income and wealth taxes is because rich and powerful elites oppose these. (2021, n11)

Harmful to the Economy?

Interviews with economist Jose Enrique Africa (2022) and lawyer Tony Salvador (2022) surface more pointed rebuttals against wealth tax objectors.[4] Both agree that a wealth tax cannot be harmful to the economy and hamper growth since revenues from the new tax on the super-rich will support responses to the COVID-19 pandemic and accelerate social protection in general. These will lead to economic growth through direct subsidies like food, health, transportation, and other services to the poor as well as to micro, small, and medium enterprises (MSMEs). Salvador (2022) argues that since "the rich got richer during the pandemic, it will be strange if they do not profit as well when the economy turns around for the better." Africa (2022), on the other hand, says that "experiences have shown that low taxes for the rich have not contributed to investments or economic growth."

Hansson (2002, 8) thinks that "a wealth tax may be less harmful to economic growth than popularly thought . . . because it leads to a substitution from physical to human capital formation." She admits that "[c]ertain attributes of the wealth tax may theoretically slow growth while others may encourage growth, and it is unclear in which direction the net effect will be" (16). In studying the relationship between wealth tax and economic growth for 20 member countries of the Organisation for Economic Co-operation and Development (OECD) over 20 years, Hansson (17–18) "found robust support for the contention that taxes on

4 Africa is the Director of IBON Foundation while Salvador is with the Third World Network.

wealth dampen economic growth," but added that "the estimated magnitude is . . . somewhat less alarming than popular account (between 0.02 and 0.04 percentage points for a one percentage point increase in the wealth tax rate)."

The Capital Flight Myth

Regarding the "capital flight" argument, Africa (2022) points out that "restricting the wealth tax to just billionaires already greatly minimizes capital flight." In the Philippines, this reduces the number of those to be taxed from several million individuals and entities to just around 3,000 billionaires. He doubts whether the latter will move their taxable assets abroad "because the foundations of their wealth, social circles, and economic and political networks (so essential to their amassing wealth) are all in the Philippines." A further self-limiting factor is that their "wealth is equity tied up in their corporations and control over their corporations." Besides, a government serious about a wealth tax "can impose an exit tax on the net wealth of Filipinos who renounce their citizenship."

Physical assets, such as real property, yachts, paintings, luxury cars, etc., will not be moved as the billionaires would want to enjoy them in the country. Africa (2022) also suggests a shame campaign by "publicizing tax evasion and avoidance efforts," thus refuting "corporate social responsibility" claims.

For the billionaires' financial assets parked in tax havens abroad, Africa (2022) proposes that governments be "more aggressive in collaborating at the international level on global assets registries and databases of beneficial ownership so that even financial wealth abroad can be caught by the wealth tax."

Africa (2022) challenges the government to face the "capital flight issue" rather than "surrender to it without even trying." He concludes that "despite best efforts, [and] there's still some kind of capital flight taking place, the issues shouldn't be seen one-sidedly; i.e., highlight the bigger picture instead through the offsetting social, economic and political benefits."

Billionaires will be taxed on their worldwide net worth, regardless of where they are located. Salvador (2022) says that governments should establish legal and regulatory frameworks that would ensure efficient and effective tax collection. The Philippines can make use of its existing bilateral tax treaties where information exchanges can take place, thus enabling the state "to go after even those hidden in tax havens."[5]

Chowdhury and Sundaram (2022) doubt whether investors will stay away if wealth tax is imposed. They argue that while tax incentives "may influence investment decisions, [they] are far from being the most important factor. Other factors—such as political stability, legal and regulatory environments, skills and infrastructure quality—are more significant." For the Philippines, Salvador (2022) notes that foreign investments will continue, as current wealth tax proposals exclude investments from abroad by non-Filipinos and foreign corporations.

Tax Evasion

Opposers claim that wealth tax will only incentivize tax evasion, but Salvador (2022) notes that assets parked abroad are still included in the computation of a billionaire's net worth. A diligent search will enable governments to account for all of the assets of rich individuals and "will provide a disincentive for transferring assets to heirs and dummies."

Increases in wealth due to assets increasing in value, e.g., land and stock shares, will not result in income tax leakage, Salvador (2022) avers. But real increases such as "inexplicable increase in cash . . . could raise a red flag as regards non-payment of income tax." One remedy is for government to repeal the bank secrecy law (Republic Act No. 1405

5 The *Financial Times* (2018) defines a "tax haven" as "[a] country with little or no taxation that offers foreign individuals or corporations residency so that they can avoid tax at home."

of 1955), "thus facilitating the collection of income tax as well."

Salvador (2022) disagrees with the view that a wealth tax is a double taxation because it is the net wealth that is being taxed, "not income that is already taxed, without prejudice to paying for taxes that have not yet been paid." Besides, the rich managed to increase their wealth during the pandemic and had been "in fact subsidized by the low wages of workers."

Barkai's (2020, 2459) research validates Salvador's (2022) last point. His study uncovered a growing gap between increases in labor productivity and stagnating workers' compensation in the United States. This led to the accumulation of unearned profits that are not plowed back into the economy through new investments. This process of increasing divergence between labor and capital shares has been going on for several decades.

International Agreements

Currently, there are three international mechanisms to counter tax evasion and capital flight.

The first mechanism, the "exchange of tax information agreements" under the 2014 Multi-Lateral Competent Authority Agreement, "designate[s] which institution in each country is responsible for transferring tax data to other member states" (Wolf and Reif 2014). This enables "the exchange of information on new accounts and pre-existing individual high-value accounts."

As of 2014, a total of 65 countries and jurisdictions have "agreed on implementing this global standard for the automatic exchange of information between tax authorities," thus allowing the flow of banking information between these countries and jurisdictions (Wolf and Reif 2014). Under voluntary disclosure programs in 2013 and 2014, Wolf and Reif (2014) report that "more than USD 37 billion in income and wealth hidden from tax authorities have been declared," thus diminishing "the world of tax havens and stashing money away in secret bank accounts."

The second mechanism is the framework on "domestic tax base erosion and profit sharing (BEPS)." It consists of global intercountry institutional agreements and mechanisms to counteract "tax strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax" (OECD n.d.).

Developing countries are most vulnerable as "they suffer from BEPS disproportionately." OECD (n.d.) notes that "BEPS practices cost countries USD 100–240 billion in lost revenue annually." An "Inclusive Framework on BEPS" has been outlined, with 141 countries and jurisdictions signing on and "collaborating on the implementation of 15 measures to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment" (OECD n.d.).

However, in an interview, Montes (2022) sees the BEPS framework as needing drastic improvements as it excludes financial and mining companies. It should also cover domestic firms on top of transnational corporations to make it more effective in implementing progressive taxation.

The third mechanism is an agreement among the Group of Seven (G7) countries[6] in June 2021 on tax rates and profits. The G7 encouraged countries to (a) impose "a minimum corporate tax rate of 15 percent" and (b) "[share] the excess profits of the 100 largest companies with the countries where they operate" (Aiyar 2021). The aim is to prevent giant corporations from moving their profits to tax havens by setting up "shell companies."

Oxfam (2021), however, sees the 15 percent minimum tax as "far too low," saying "it's absurd for the G7 to claim it is 'overhauling' a broken global tax system" when their recommended minimum rate is just "similar to the soft rates charged by tax havens like Ireland, Switzerland, and Singapore."

6 The G7 is composed of Canada, France, Germany, Italy, Japan, the United Kingdom, the United States, and the European Union (a "non-enumerated member").

All these agreements, while necessary, may still be insufficient to support wealth tax regimes. In an open letter to the Group of Twenty (G20)[7] leaders, the Independent Commission for the Reform of International Corporate Taxation (ICRICT), urged the creation of a global asset registry (GAR) "to link all types of assets, companies, and other legal structures not to the legal owner, . . . but to the beneficial owner, the person who really owns them" (ICRICT 2022). The GAR is "a network interconnecting all national asset registries of all the different forms of wealth that an individual can own . . . while encouraging all countries that have not yet created comprehensive asset registries to do so."[8]

"Insignificant Returns" Argument

As for the alleged "insignificant returns" from a wealth tax, this may have been the case with some earlier cases. However, the recent Argentinian initiative shows that returns can be substantial and exceed expectations. Five months after imposing a 5.25 percent one-off tax on the country's wealthiest in December 2020, and with "worldwide critics saying it "wasn't feasible," Argentina gained USD 2.4 billion with 10,000 targeted individuals paying an amount equivalent to 0.5 percent of the country's gross domestic product (GDP) (Kaplan 2021).

Wealth tax revenues have been seen as "insignificant" mainly due to the exemptions accorded the rich. In the case of France, these exemptions protected "business assets" and "in practice, nearly large stakes in listed and unlisted companies." Also, in Italy, stocks and second homes were exempt, thus "draining much of the content from the progressive tax on capital" (Piketty 2020, 528).

These exemptions rendered the wealth tax a form of regressive taxation since the largest fortunes consist mainly of financial assets and especially stocks (Piketty 2014, 528). Despite these exemptions, "total receipts from (France's wealth tax) quadrupled between 1990 and 2018, while nominal GDP only doubled. This case shows that the arguments of capital flight "was a myth and confirms that it is possible to reintroduce a modernized wealth tax without delay" (Piketty (2021, 803–04).

Role of the Citizenry

The required caveats, conditionalities, safety valves, and a well-constructed design can be built into a meaningful wealth tax law and its implementing rules and regulations. Ultimately, however, an organized, socially conscious, and vigilant population will spell the difference between the success or failure of a wealth tax policy. The role of civil society organizations, sectoral groups, community organizations, social movements, academics, and civic and religious groups will be important and crucial.

References

ABS-CBN News. 2022. "Ka Leody's Wealth Tax Proposal Seen to Have Adverse Effect on Economy." ABS-CBN News, 7 February 2022. https://news.abs-cbn.com/business/02/07/22/tax-the-rich-proposal-to-have-adverse-effect-on-economy-biz-groups

Africa, Jose "Sonny" Enrique. 2022. Interview with Eduardo Tadem on the wealth tax via Facebook chat. 22 February 2022.

Aiyar, Swaminathan S. Aklesaria. 2021. "Why G7's Global Minimum Corporate Tax Won't Work." Times of India, 12 June 2021. https://timesofindia.indiatimes.com/blogs/Swaminomics/why-g7s-global-minimum-corporate-tax-wont-work/

Barkai, Simcha. 2020. "Declining Labor and Capital Shares." *Journal of Finance* 75 (5, October): 2321–63. https://doi.org/10.1111/jofi.12909

7 The G20 is composed of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States, and the European Union.

8 ICRICT commissioners include Joseph Stiglitz, Jayati Ghosh, Thomas Piketty, Gabriel Zucman, and Kim Jacinto Henares, among others. See complete list at https://www.icrict.com/the-commission

Chowdhury, Anis, and Jomo Sundaram. 2022. "OECD's Regressive World Corporate Income Tax Reform." Jomo, 20 June 2022. https://www.ksjomo.org/post/oecd-s-regressive-world-corporate-income-tax-reform

Daily Tribune. 2022. "Dominguez says proper land valuation is the right way to impose wealth tax on the rich." Daily Tribune, 11 April 2022. https://tribune.net.ph/index.php/2022/04/11/dominguez-says-proper-land-valuation-is-the-right-way-to-impose-wealth-tax-on-rich/

Diokno, Benjamin. 2022. "BBM Economic Team: Incoming Finance Sec. Benjamin Diokno." The Mangahas Interviews, GMA News, 27 May 2022. https://www.youtube.com/watch?v=gI0C127_M64

Financial Times. 2018. "Tax Haven." *Financial Times Lexicon. Internet Archive,* version as of 17 June 2018. https://web.archive.org/web/20180617115721/http://lexicon.ft.com/Term?term=tax-haven

Hansson, åsa. 2002. "The Wealth Tax and Economic Growth." Working Papers 2002:20. Lund University Department of Economics. IDEAS/RePEc, November. https://ideas.repec.org/p/hhs/lunewp/2002_020.html

Ibon Foundation. 2021. "Billionaire wealth tax: Historic progressive taxation for our time." Powerpoint presentation dated 9 November 2021 and given to the author by Sonny Africa.

ICRICT (International Commission for the Reform of International Corporate Taxation). 2022. "Open Letter to G20 Leaders: It's Time for a Global Asset Registry to Target Hidden Wealth." 19 April 2022. https://www.icrict.com/press-release/2022/4/19/icrict-open-letter-to-g20-leaders-its-time-for-a-global-asset-register-to-target-hidden-wealth-ej44h

Kaplan, Juliana. 2021. "Critics Say a Wealth Tax Wouldn't Work. Argentina Brought in $2.4 Billion with One." Business Insider, 5 May 2021. https://www.businessinsider.com/one-time-wealth-tax-in-argentina-brought-in-24-billion-2021-5

Krugman, Paul. 2021. "Can the Rich Pay for a Better America?" New York Times, 3 June 2021. https://www.nytimes.com/2022/02/02/briefing/labor-shortage-part-time-workers-us.html

Leyco, Chino. 2021. "Dominguez Rejects Wealth Tax Proposal." Manila Bulletin, 21 September 2021. https://mb.com.ph/2021/09/21/dominguez-rejects-wealth-tax-proposal/

Montes, Manuel "Butch." 2022. Interview with author via email exchange. 30 November 2022.

Nicolas, Bernadette D. 2022. "Facing Headwinds, PHL Bares Economic Agenda." Business Mirror, 27 July. 2022 https://businessmirror.com.ph/2022/07/27/facing-headwinds-phl-bares-economic-agenda/

OECD (Organisation for Economic Co-operation and Development). n.d. "What Is BEPS." Accessed 24 November 2022. https://search.oecd.org/tax/beps/about/

Oxfam. 2021. "G7 Global Corporate Tax Deal Is Far from Fair." Oxfam Press Release, 5 June 2021. https://www.oxfam.org/en/press-releases/g7-global-corporate-tax-deal-far-fair-oxfam

Philippine Daily Inquirer. 2022. "Editorial: Wealth Tax Dilemma." 28 July 2022. https://opinion.inquirer.net/155507/wealth-tax-dilemma

Piketty, Thomas. 2014. *Capital in the Twenty-First Century*. Translated by Arthur Goldhammer. Cambridge, MA: Belknap Press of Harvard University Press.

———. 2020. *Capital and Ideology.* Translated by Arthur Goldhammer. Cambridge, MA: Belknap Press of Harvard University Press.

———. 2021. *Time for Socialism: Dispatches from a World on Fire, 2016–2021*. Translated by Kristin Couper. New Haven: Yale University Press.

Salvador, Tony. 2022. Interview with Ed Tadem via FB Messenger Chat on the Philippine Wealth Tax Proposals. 7 March 2022.

Wolf, David, and Mirit Reif. 2014. "No More secrets: Automatic Sharing of Tax Information Between Countries." Dave Wolf Law Firm & Co, 15 December 2014. http://www.lawfirmwolf.com/automatic-exchange-of-tax-information

The **UP CIDS Policy Brief Series** features short reports, analyses, and commentaries on issues of national significance and aims to provide research-based inputs for public policy. The views and opinions expressed in this policy brief are those of the author/s and neither reflect nor represent those of the University of the Philippines or the UP Center for Integrative and Development Studies.

EDITORIAL RESPONSIBILITIES

The Editor-in-Chief, the Deputy Editor-in-Chief, and the Program Editors ensure that policy briefs contain findings on issues that are aligned with the core agenda of the research programs under the University of the Philippines Center for Integrative and Development Studies (UP CIDS).

The Editor-in-Chief, the Deputy Editor-in-Chief, and the Program Editors are responsible for maintaining high standards of scholarship, and for generating and disseminating new knowledge that can be utilized for the public good.

ABOUT UP CIDS

Established in 1985 by UP President Edgardo Angara, the **UP Center for Integrative and Development Studies (UP CIDS)** is a policy research unit of the University that connects disciplines and scholars across the several units of the UP System. It is mandated to encourage collaborative and rigorous research addressing issues of national significance by supporting scholars and securing funding, enabling them to produce outputs and recommendations for public policy.

The UP CIDS partakes in the University's leadership in knowledge creation and public service. This is carried out through the dissemination of research-based knowledge through activities such as fora, symposia, and conferences, and through its public policy-oriented publications. These research activities are initiated by the Center's twelve (12) research programs.

ABOUT THE PROGRAM

The **Program on Alternative Development (AltDev)** aims to look at paradigms, policies, practices, and projects largely marginalized and excluded from the mainstream. As these alternatives challenge dominant modes, they do not figure prominently in the national and international discourse. Hence, AltDev aims to bring these voices out of the margins and into the mainstream, leveling the playing field so that they may be regarded on an equal footing with the dominant discourse and thus offer alternatives to the existing system.

The UP CIDS Policy Brief Series is published by the
University of the Philippines
Center for Integrative and Development Studies (UP CIDS).

Editorial Office: Lower Ground Floor, Ang Bahay ng Alumni,
Magsaysay Avenue, University of the Philippines,
Diliman, Quezon City 1101
Telephone: 8981-8500 loc. 4266 to 4268 / 8426-0955
Email: cids@up.edu.ph / cidspublications@up.edu.ph

UNIVERSITY OF THE PHILIPPINES
CENTER FOR INTEGRATIVE AND DEVELOPMENT STUDIES
Lower Ground Floor, Ang Bahay ng Alumni
Magsaysay Avenue, University of the Philippines
Diliman, Quezon City 1101

Telephone: 8981-8500 loc. 4266 to 4268 / 8426-0955
Email: cids@up.edu.ph / cidspublications@up.edu.ph
Website: cids.up.edu.ph