

ECONOMY AND FINANCE

HOW TO TAX A BILLIONAIRE

The case of Argentina

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Less inequality is necessary for sustainable development and stable democracies. States play an important role in reducing inequality. They do so through pro-poor spending and regulation, but also through taxes.



But some taxes and even entire tax regimes do not actually reduce inequality. Tax privileges for the super-rich make many tax regimes less progressive than they could and should be, but are often overlooked.



Using the example of typical super-rich individuals and billionaires helps to make the tax privileges visible. In Argentina tax rates for the typical super-rich are much higher than for the average employee at least in theory, but a list of exemptions puts this in question in actual practice.

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INTRODUCTION

Less inequality is necessary for sustainable development and stable democracies. States play an important role in reducing inequality. They do so through pro-poor spending and regulation, but also through taxes. On the other hand, some taxes and even entire tax regimes do not actually reduce inequality. Tax privileges for the super-rich make many tax regimes less progressive than they could and should be. But because they are difficult to capture in standard tax data and tax regime analysis, they are often overlooked. To adequately address taxation of the super-rich additional research into these tax privileges is necessary. Following the core narrative of the Global Tax Evasion Report 2024 and based on experience from Germany, Christoph Trautvetter from the German Tax Justice Network proposes an easy-to-do and easy-to-communicate advocacy tool to fill this gap (Trautvetter 2024).

His suggestion is to use a typical super-rich individual and a real-world billionaire to illustrate the gaps and loopholes in the tax regime. Using a billionaire owning easy-to-trace assets such as shares in a listed company that publishes detailed information on its profits and taxation turned out to be the most convenient way to go about this. Constructing a portfolio of a typical super-rich and describing its taxation proved more challenging but not less interesting. For Germany the analysis shows that both the billionaire and the typical super-rich only pay about half of the top income tax rate and about half of the tax and contributions of an average employee and have managed to reduce their tax rate by more than half in the last thirty years.

In Argentina tax rates for the typical super-rich are much higher than for the average employee at least in theory, but a list of exemptions puts this in question in actual practice. In contrast, in Brazil tax-free dividends and a simplified calculation of corporate profits already create a huge difference in nominal tax rates in favour of the super-rich.

A comprehensive two per cent wealth tax would increase the tax rate of both the Brazilian and the German billionaire to approximately 50 per cent of their income, bringing it close to the rate of taxes and social security paid on average wages in these countries.

THE CASE OF ARGENTINA

1 AN ANALYSIS OF ECONOMIC INEQUALITY AND THE RICH

A A DESCRIPTION OF THE DISTRIBUTION OF INCOME AND WEALTH

Argentina has a population of 46 million people in a total of 17.8 million households according to the 2022 census.¹ The Permanent Household Survey, known in Argentina by its abbreviation in Spanish as ›EPH‹, has concluded that the economically active population totals 14.2 million people (INDEC 2023a). Of these, 13.2 million people are employed and one million are unemployed. The employed population can be broken down into 26 per cent that are ›non-salaried‹ (that is, employers or self-employed) and 74 per cent that are salaried, of which 63 per cent make contributions to the social security system (which means that they are registered in the formal, official system) and the remaining 37 per cent do not make any contributions and are considered ›unregistered‹ or ›informal‹.

Income inequality according to household income shows that the ratio between the per capita household income in the 10th decile and that in the first decile has fluctuated around 20 times during the last five years (INDEC 2023b). At the same time, the Gini coefficient of per capita household income during the same period has hovered around 0.440. Both figures show a slight improvement towards the end of 2021 and the beginning of 2022 with the post-pandemic economic recovery, but seem to have reverted back to the average value in 2023 due to rising inflation. The weakness of this method is that surveys tend to underestimate incomes.

At the same time, the World Inequality Database (WID), which takes information from surveys and its own estimates to construct public statistics, reported that in recent years, the top one per cent has earned 15 per cent of income on average and the next nine per cent has earned 32 per cent of income on average.² In other words, it calculated that the 10 per cent of the population with the highest income has earned nearly 50 per cent of the dis-

posable income in Argentina in recent years. In terms of wealth distribution, it identified that the one per cent of the population with the highest share of wealth has held on average 25 per cent of the wealth and the next nine per cent has held 33 per cent in recent years, which means that the 10 per cent of the population with the highest wealth holds almost 60 per cent of the national wealth.

Another way to establish economic inequality is the measurement of the share of value added by salaried workers in the development of the economy's gross domestic product. This ratio does not have a single continuous historical statistical set of data for Argentina, so the historical datasets established by Kidyba and Vega (2015) and Maito (2019) have been consulted. This figure reached 50 per cent in several years during the 1950s and then in several years prior to the military coup of 1976, after which it plummeted, only to recover values close to 50 per cent several times between 2010 and 2015 and from there again to fall until 44 per cent where it is currently (INDEC 2023c).

Finally, we need to make reference to Rossignolo (2022) and Del Valle et al. (2022) who identified the manner in which Argentina's fiscal policy has had a considerable impact on reducing inequality: Rossignolo's paper found that taxes and direct transfers reduce the Gini index by 14.8 per cent and extreme poverty by 61 per cent, and Del Valle et al. determined that fiscal redistribution reduces the Gini index by 16.9 per cent.

B AN ANALYSIS THE TYPICAL SOURCES OF WEALTH AND INCOME OF THE RICH (TOP 0.1 PER CENT / TOP ONE PER CENT).

The AFIP statistical yearbook (MECON, 2023b) shows the composition of the share of wealth and income held by the richest portion of the population, particularly based on the information for the tax on personal property (or ›net wealth tax‹, known in Argentina by its abbreviation in Spanish as ›ISBP‹, or *impuesto sobre los bienes personales*), where it can be seen that the share of the population subject to the tax is made up of 19 per cent corporate shares and equity interests and 81 per cent by filings for personal property. If the share of the 13,000 people with the highest net worth

¹ Available at https://censo.gob.ar/index.php/datos_provisionales/.

² Available at: <https://wid.world/country/argentina/>.

is identified, it is made up of 19 per cent of corporate shares and equity interests and 81 per cent by filings for personal property, of which 20 per cent of the net worth is declared to be held domestically and 80 per cent abroad. Of the assets held domestically, the main components are: 23 per cent in cash and cash deposits, 21 per cent in real estate, 20.5 per cent in loans and debentures, nine per cent in personal property, 8.5 per cent in securities and shares, and eight per cent in corporate assets. Of the assets held abroad, the main components are: 63 per cent in securities and shares, 26.5 per cent in cash and deposits and six per cent in real estate.

In turn, the income tax filings for individuals and property jointly owned (known in Argentina by its abbreviation in Spanish as »IGPH«) show that on average, the 13,000 people with the highest income in the population earn their main income as follows: 20.5 per cent from capital income, 18 per cent from personal work, 13 per cent from profits obtained from shares in companies, 12 per cent from profits from partnerships and sole proprietorships, nine per cent from dividends and other equivalent profits and five per cent from other non-taxed capital income. It is important to clarify that these figures are affected by the tendency of individuals with higher assets and income to underdeclare their wealth.

Likewise, it is possible to provide general characteristics regarding the main sources of income and wealth of these people based on lists of the richest people in the country (for example, see Forbes 2023 and CEPA 2022). In general, there is a high participation in the ownership of business groups that have a high market power in their respective industries, for example, Aluar and Fate, Ledesma, Techint-Tenaris, Grupo Clarín, among others. There are also cases where essential goods and services are provided to the population, such as internet and phone services, food, health services or financial intermediation. Finally, there are supply chains with a high degree of collusive behaviour and companies that produce consumer goods and are beneficiaries of special tax schemes.

C PROFILE(S) OF THE »TYPICAL« RICH

The profile of a typical rich person in the country is someone who is male³ and an owner of a business group or is businessman with activities in different sectors of the economy (manufacturing or services) and financial activities holding considerable market power in at least one of them. Likewise, these business groups operate internationally with holdings in shell companies located in countries with low or no taxation, where both profits not associated with a real economic activity and assets owned by the owners are recorded for accounting purposes, as well as assets

owned by the owners, for example, real estate, with the sole motive of avoiding and evading taxes (CEPA 2022 and Gaggero/Zanotti 2023).

The historical construction of such a situation in general was directly or indirectly driven by various policy decisions of the government. Some contemporary examples are the acquisition of companies in situations of dubious legality in the framework of the last de facto government, the nationalisation of the private foreign debt in 1982, the privatisations in the 1990s, the cartelisation of public works, the concession of public services, the industrial and fiscal promotion schemes,⁴ among others. Likewise, this historical construction of wealth is associated with the non-existence of a national inheritance tax, encouraging accumulation of wealth in the richest segments.

In turn, at least 80 per cent of his declared net worth is held abroad, mainly in financial investments in securities and shares and in bank deposits and also, although to a lesser extent, in real estate directly in this person's name. As for the maximum 20 per cent of this person's equity that is in the country, the main types of assets held are personal property, credits and debentures, cash, securities and shares, and to a lesser extent real estate, possibly very undervalued compared to actual market prices.

2 ANALYSING TAXATION OF THE RICH AT PRESENT AND IN THE PAST

A CALCULATING THE TAX RATE DUE FOR THE »TYPICAL« RICH

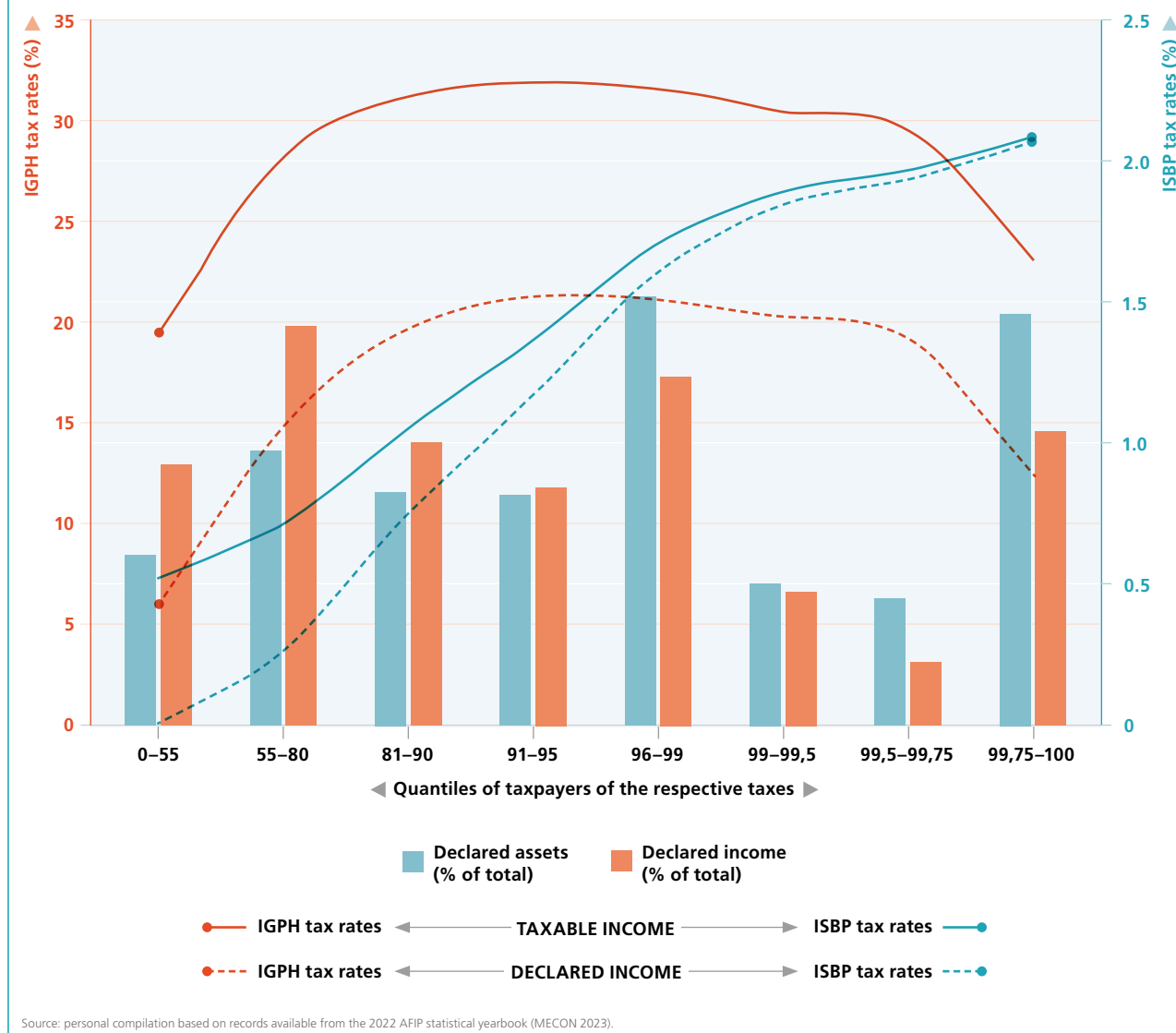
As seen in Figure 1, the effective rate of the net wealth tax (ISBP), calculated on the basis of the declared net wealth, exceeds two per cent in the top decile. However, this would not be the case in the lower deciles. This is explained by the higher share of assets abroad in the total wealth (the net wealth tax (ISBP) rate is currently between 0.5 per cent and 2.25 per cent, with the rates for assets held abroad being higher than those for assets held domestically). The declaration of assets in the net wealth tax is affected by significant undervaluations (due to tax evasion) and also by the technique established by law for the valuation of the different assets that make up the taxable base. The tax contains several exemptions and reduced rates that affect the richest one per cent more, such as the exemption to rural real estate, which results in a loss of revenue of 0.48 per cent of GDP,⁵ and the reduced rates for investments in financial trusts and equity interests, among others.

³ The seven richest people in the country who made the Forbes list for 2023 are all men. Likewise, of the 13,000 high-net worth contributors determined by the Solidarity and Extraordinary Contribution [to mitigate the effects of the Covid pandemic], 74 per cent are men.

⁴ Tax expenditure in Argentina represented 2.67 per cent of GDP in 2022, with the impact of tax expenditure originating in promotion schemes for industry amounting to 0.75 per cent of GDP (see: <https://www.argentina.gob.ar/economia/ingresospublicos/gastotributarios>).

⁵ See: Presupuesto General de la Administración Nacional; available at: <https://www4.hcdn.gob.ar/dependencias/dsecretaria/Periodo2023/PDF2023/TP2023/3ANEXOMENSAJE.pdf>.

Figure 1
Effective rates in terms of the net wealth tax and income tax for individuals and property jointly owned by decile according to affidavits



Regarding the income tax for individuals and property jointly owned, the tax brackets are progressive until 35 per cent, with some exceptions, for example, dividends, which are taxed at seven per cent, and profits generated from the sale of real estate, taxed at 15 per cent (Errepar 2020). Some sectors of the population (for example, judges) are exempt from the income tax for individuals and property jointly owned. On the other hand, the tax takes into account deductions for children, spouse, health and education expenses, among other items. In effect, Figure 1 shows that the effective rate in the top decile is around 23 per cent when calculated on the basis of the taxable income and 12 per cent when calculated on the basis of the total taxable income due to the deductions from which it benefits.

Argentina is a federal state, which means that immovable, rural and urban property taxes are the responsibility of the 24 jurisdictions (23 states (or *provincias*) and one autonomous city (Buenos Aires)) although, in some cases, they have

been decentralised, with the responsibility having been transferred to the municipalities; the tax brackets are progressive, in general, and situated between 0.35 to 2.3 per cent (Accotto/Martínez/Mangas 2014).

Buenos Aires state is the only one that currently taxes inheritance (tax on the free transfer of goods (known by its abbreviation in Spanish as *ITGB*, or *impuesto a la transmisión gratuita de bienes*) above a certain threshold, with progressive rates from 1.6 per cent to 9.5 per cent (Argentine Law 15.391 of 2022⁶). The tax is intended to reach the top decile, which at the time of its reestablishment in 2010 meant 0.04 per cent of the population of Buenos Aires state (Arlía 2011). In 2022, the revenue from this tax represented 0.2 per cent of the revenue of Buenos Aires state.⁷

6 See: <https://normas.gba.gob.ar/documentos/0Z6MOGiE.html>.

7 See: https://www.gba.gob.ar/economia/direccion_provincial_de_politica_tributaria/recaudacion_provincial.

B CALCULATING THE COMPARABLE TAX RATE 20 YEARS AGO OR BEFORE THE LAST MAJOR REFORMS

The net wealth tax was created in 1991. The percentage of the population required to pay this tax has never exceeded two per cent (AFIP, 2023a). The tax burden from the net wealth tax has gone from 0.34 per cent of GDP in 2004 to 0.51 per cent in 2022, recording a minimum of 0.10 per cent in 2018 and a maximum of 0.76 per cent in 2020. Argentine Law 25.585⁸ of 2002 established a schedular tax for the holding of shares and equity interests in companies that brought the share of these assets to 0.50 per cent, which was reduced to 0.25 per cent for the 2016 to 2018 tax years, growing again to 0.50 per cent for the 2019 and subsequent tax years. In 2018, rural real estate was exempted from the tax. From 2019 onwards, Law 27.541⁹ on public emergency established a tax rate for assets held abroad, which may reach a maximum of 2.25 per cent for cases in which taxpayers do not repatriate at least five per cent of the assets; in cases where they comply, the tax bracket for assets in the country applies, reaching a maximum rate of 1.75 per cent (MECON, 2023). As of 2021, exceptions have been added for financial assets aimed at promoting investment in domestic financial assets (Law 27.638 of 2021¹⁰). Regarding real estate held domestically between 2013 and 2017, as well as of the 2021 tax year, the valuation of those held in the city of Buenos Aires for the purpose of determining the net wealth tax improved, since it takes the taxable base of the real estate tax of the city of Buenos Aires (Ruling 1/2022¹¹).

Regarding the income tax for individuals and property jointly owned, the tax reform from 2017 turned the tax into a schedular tax for the case of financial income, which was taxed at rates between five and 15 per cent generally (MECON 2019). On the other hand, the dividend tax rate has remained stable at seven per cent in recent years.

Until 2019, the minimum assumed income tax (known in Argentina by its abbreviation in Spanish as »IGMP«, or *impuesto a la ganancia mínima presunta*) taxed all the assets of companies domestically and abroad, not permitting the deduction of liabilities, through a single rate of one per cent, effectively acting as a minimum tax in practice.

In general, the representation of the tax on the free transfer of goods in the revenue from the individual states has been at the same level, generally remaining at 0.2 per cent, recording a minimum of 0.1 per cent in 2011 and a maximum of 0.4 per cent in 2015.¹²

The revenue from the immovable and rural property tax from the individual states has been losing importance over time, decreasing from 0.54 per cent of the GDP in 2004 to 0.32 per cent in 2022, recording a minimum of 0.28 per cent in 2011. The fiscal burden of this tax varies greatly depending on the specific state and its property revaluation system (Accotto/Martinez/Mangas 2014).

In 2020, a one-off Solidarity and Extraordinary Contribution levied on the assets of individuals was enacted (Law 27.605)¹³: for individuals and property jointly owned, resident in Argentina or abroad (for cases of people who had been residents in Argentina as of the end of 2019 and had transferred their domicile to a jurisdiction of low or no taxation and whose assets exceeded 200 million Argentine pesos).

C PROVIDING AN OUTLOOK ON INFORMATION CONCERNING TAX EVASION (WHERE AVAILABLE)

Argentina's wealthy have figured significantly in all data leaks (CEPA 2022), which only highlights the use of corporate shells to hide assets and the use of arbitration between different tax regulations and different jurisdictions.

The tax amnesty (Law 27.260 of 2016)¹⁴ carried out prior to the beginning of the exchange of information for tax purposes based on the Common Reporting Standard (CRS) resulted in an increase in the value of assets declared in the net wealth tax (ISBP) amounting to US\$116.8 billion with respect to the 2016 tax year (US\$55.9 billion in investments, US\$33.6 billion in accounts, US\$20.5 billion in real estate, among others), corresponding to 254,000 taxpayers; and in total taxes, interest and penalties paid of US\$9.5 billion. The value of taxable foreign income disclosed was US\$93.3 billion (AFIP 2017). The value of disclosed assets represented slightly more than 20 per cent of the GDP in 2016.

Argentina received information from 608,519 accounts from 87 jurisdictions for the 2018 tax year (AFIP 2022)¹⁵. Based on the cross-checking of information by AFIP for said tax year, 821 cases were detected in which differences were found between what was declared in the net wealth tax and the information received from abroad greater than US\$2.5 million and 405 cases with differences between what was declared and what was reported by the partner countries between US\$1.5 and 2.5 million. Clearly this realm corresponds to high net-worth taxpayers. The tax adjustments made based on CRS information, both to the income tax for individuals and property jointly owned and the net wealth tax, between 2018 and March 2023 amounted to US\$15 million.

⁸ See: <http://servicios.infoleg.gob.ar/infolegInternet/anexos/70000-74999/74287/norma.htm>.

⁹ See: <http://servicios.infoleg.gob.ar/infolegInternet/anexos/330000-334999/333564/textact.htm>.

¹⁰ See: <https://servicios.infoleg.gob.ar/infolegInternet/anexos/350000-354999/352586/norma.htm>.

¹¹ See: <https://trivia.consejo.org.ar/>.

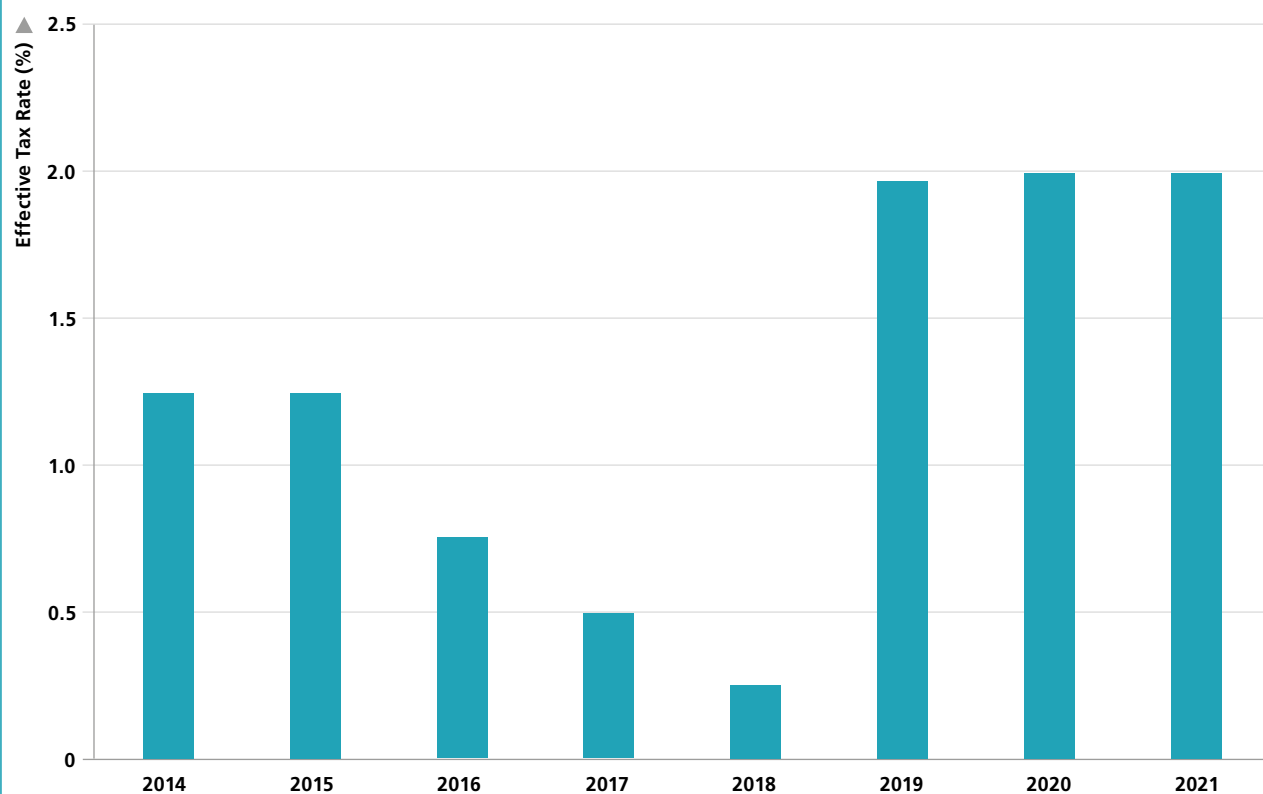
¹² See: https://www.gba.gob.ar/economia/direccion_provincial_de_politica_tributaria/recaudacion_provincial.

¹³ See: http://biblioteca.afip.gob.ar/dcp/LEY_C_027605_2020_12_04.

¹⁴ See: <http://servicios.infoleg.gob.ar/infolegInternet/anexos/260000-264999/263691/textact.htm>.

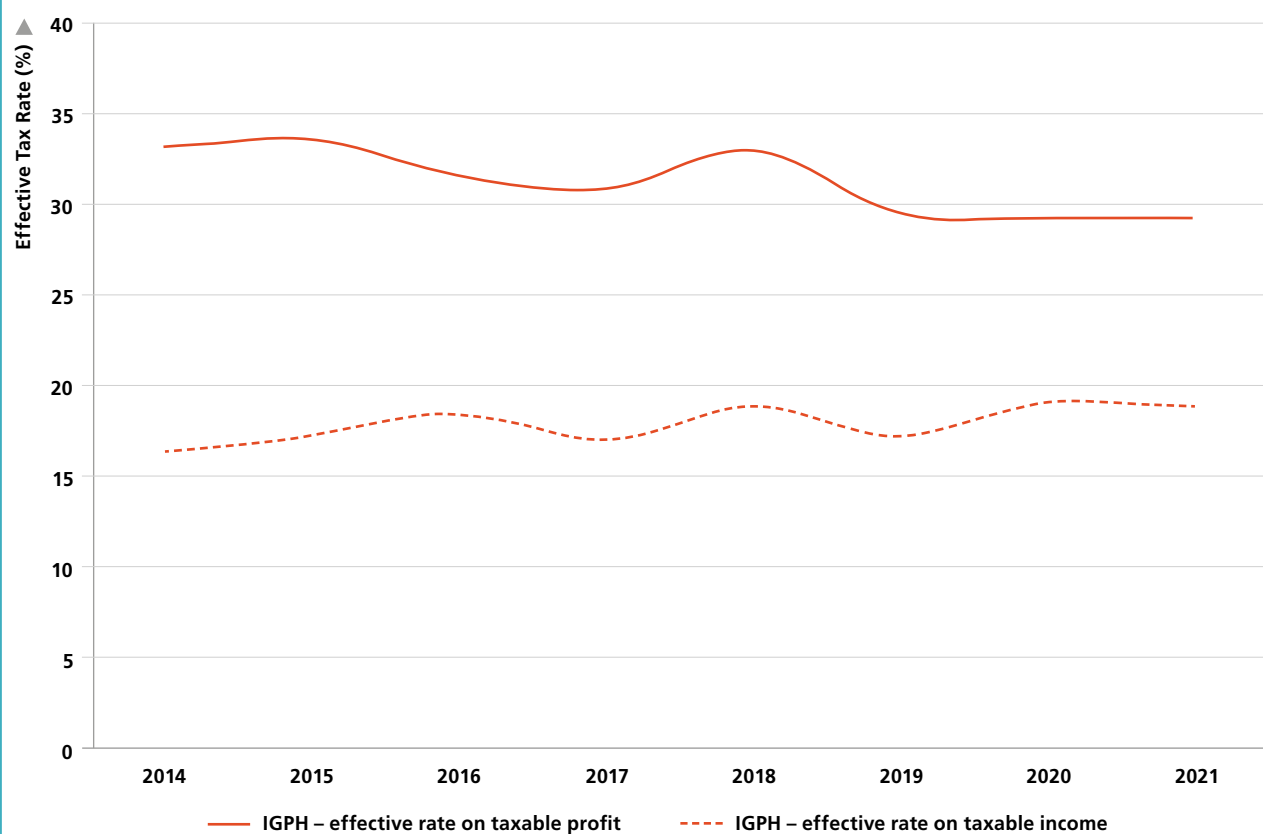
¹⁵ It should be noted that these data may include duplicate accounts and accounts with co-ownership. Moreover, this exchange of information does not include the US.

Figure 2
Effective tax rate of the Argentine wealth tax of the top decile over time



Source: personal compilation based on records available from AFIP.

Figure 3
IGPH – effective tax rate for 13 thousand taxpayers



Source: personal compilation based on records available from AFIP.

Regarding the net wealth tax, tax valuations of personal and real estate property often reflect values considerably lower than the potential market values of these properties. On the other hand, the international exchange of information on real estate is not automatic, but rather upon request. So, even though the 2016 tax amnesty resulted in a 176 per cent increase in the value of declared foreign real estate, it is to be expected that such real estate will still continue to be underdeclared.

According to somewhat outdated estimates, the gap attributable to tax evasion in the income tax for individuals and property jointly owned would have reached 49.7 per cent in 2005 (Cetrángolo/Gómez Sabaini 2009). In spite of the changes listed above, it is to be expected that the figures are nevertheless similar to those currently.

Particular attention should be paid to the collection of the income tax for individuals and property jointly owned levied on the transfer of real estate property, which has a high level of evasion due to underdeclaration of the value of the real estate transferred and by the excessive use of the purchase option for owner-occupied homes, which is exempt (Molinatti 2011).

On the other hand, Argentina does not provide for the application of the Convention on Mutual Administrative Assistance in Tax Matters (the Convention) for the assessment of subnational taxes, since it has not been ratified by the National Congress of Argentina. Therefore, the information exchanged under the Convention with the 147 jurisdictions that currently participate in the Convention cannot be sent to the tax authority of Buenos Aires state for an audit of the tax on the free transfer of goods nor to any other state in Argentina. For this reason, and considering that the richest one per cent holds a portion of its wealth abroad, and that it has the possibility of hiding it behind various corporate structures, the succession of such assets is invisible to Buenos Aires state, so it is evident that there is significant underdeclaration of this tax.

Regarding property taxes in the individual states, there is a significant difference in valuation around the country. Even though there have been initiatives to homogenize the tax base (Errepar 2022), this still results in significant undervaluations.

3 POLICY RECOMMENDATIONS

In regard to the net wealth tax, it would be desirable to have the tax base incorporate the holding, possession and similar activities with indirect assets through offshore structures such as trusts and similar structures as well as companies of any kind domestically or abroad. What's more, the tax rates for different types of financial assets and equity interests should be brought to the general level. Finally, exemptions should be eliminated, mainly the one referring to rural real estate, due to its relevance for the richest one per cent.

Furthermore, large numbers of the wealthy – both in Argentina and in other countries – are moving their tax residence to countries with programmes for citizenship by investment (CBI), so it is necessary to legislate an exit tax or a tax for extension of the tax residence to reduce the evasion/elusion achieved in the net wealth tax due to a change in residence by taxing for an extended period of time the global wealth of people who move their residence to other jurisdictions.

In order to reduce inequality, we also recommend establishing a national inheritance tax or a tax on the free transfer of goods or promoting the establishment of such tax in the other 23 jurisdictions that have not yet reestablished it. In the same manner, and in order to improve the collection efficiency of subnational tax administrations, it is necessary that the National Congress ratify the Convention on Mutual Administrative Assistance in Tax Matters in order to eliminate the limitation for the information exchanged abroad to be used by subnational states for the determination of their taxes.

Both for the purpose of determining real estate taxes for the states and for the purpose of the net wealth tax, it is necessary to standardise the criteria for the valuation of real estate for the purpose of determining the taxable base, which should be standardised throughout the country, bringing them closer to market values. Likewise, it would be appropriate to tax unused and vacant urban real estate in a differential manner and to establish contributions for the improvement of the area (capital gain).

Regarding the income tax for individuals and property jointly owned, we recommend increasing the profit rate for the distribution of dividends, which currently stands at seven per cent, while it is around 10 per cent to 15 per cent, on average, in OECD countries. We also recommend taxing all forms of financial income (negotiable obligations, bonds, securities, shares, digital currencies, purchase and sale of real estate except for owner-occupied homes) in a tiered manner, reviewing the fairness of this with respect to the general scheme, as well as modifying and regulating the taxation of income obtained from the sale of crypto-assets. It would also be necessary to resolve the horizontal inequity resulting from the exemptions provided for in the income tax for individuals and property jointly owned. We also recommend to reestablish the minimum assumed income tax (*impuesto a la ganancia mínima presunta*).

On the other hand, we recommend reviewing tax expenditures in order to verify their efficiency in achieving the proposed objective as well as evaluating the relevance of temporarily limiting it until such time as these objectives are achieved.

Finally, we recommend pushing forward – on a multilateral scope – agreements that enable the automatic exchange of information on crypto-assets (CARF) (OECD 2023), personal and real estate property, balances of financial accounts in the US (the FATCA information exchange does not refer to balances, but to interest and dividend credits in the account) and income of Argentine residents abroad (Argentina shares this information with around ten countries).

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HOW TO TAX A BILLIONAIRE

The case of Argentina



Less inequality is necessary for sustainable development and stable democracies. States play an important role in reducing inequality. They do so through pro-poor spending and regulation, but also through taxes. On the other hand, some taxes and even entire tax regimes do not actually reduce inequality. Tax privileges for the super-rich make many tax regimes less progressive than they could and should be. But because they are difficult to capture in standard tax data and tax regime analysis, they are often overlooked. To adequately address taxation of the super-rich additional research into these tax privileges is necessary. Using the example of typical super-rich individuals and billionaires helps to make the tax privileges visible. In Argentina tax rates for the typical super-rich are much higher than for the average employee at least in theory, but a list of exemptions puts this in question in actual practice



Argentina taxes both capital income and wealth. Dividends are taxed at 7 per cent in addition to a progressive corporate income tax of up to 35 per cent, in sum total exceeding the top income tax rate of 35 per cent. Other capital income is taxed at 5 or 15 per cent, depending on whether it is adjusted for inflation. In addition, wealth is taxed starting at around USD 50,000 and faces progressive rates reaching 2.25 per cent for wealth held abroad. But taxable wealth is just a small fraction of actual wealth despite an increase following the introduction of automatic exchange of information and a tax amnesty in 2016. The super-rich benefit from wealth-tax exemptions for rural assets, tax subsidies for industrial development and profit-shifting – for example into Uruguayan holding companies.

Further information on the topic can be found here:

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