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# **Tax on Large Fortunes:** recent international debates and the situation in Brazil

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**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 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.

We hope to present an overview of the situation of wealth tax in Brazil and worldwide, and to present considerations from economic and tax theory regarding such a tax.

Wealth tax captures the personal assets of an individual or household, although in certain countries it can also be assessed on company 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 tax 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.

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. All countries in Western Europe, with the exception of Belgium, Portugal and the UK, implement or have implemented wealth tax at some point. Currently, only five European countries levy the tax: France, Switzerland, Norway, Spain and Luxembourg. In Latin America, the tax has always existed in Argentina, Uruguay and Colombia.

International experience reveals rather diverse aspects of taxation on large fortunes. Enthusiasts of the IGF in Brazil pay greater attention to countries with a successful history of implementing and raising revenue through the tax, as well as one of de-concentrating income. Its opponents focus on the abolition of the tax in various countries and its low revenue-generating performance. However, our paper shows that although the tax was abolished in many European countries in the 1990s, there are successful cases where the tax has survived. It is important to consider the causes of challenges, as well as possible mechanisms to overcome them, before any attempts at implementation.

Debate in the Brazilian Congress around the theme has been largely based on outdated international comparative studies, which are superficial and do not estimate revenues. With the rejection of PLP 202/89 after 10 years of procedural stasis, the subject was rekindled once more in 2008. Since then, five bills have been proposed in the Lower House, and three bills have been proposed in the Senate.

Regarding the issues presented by wealth tax, our paper, in light of international experience, highlights that it can be an effective instrument in the Brazilian context, given the country's inequality, the size of its economy, current technology (which has significantly reduced the administrative cost of the tax) and, finally, the low level of taxation of inheritances and property in Brazil in general. Luxembourg, Switzerland, Norway, Uruguay and Colombia demonstrate that the tax can collect revenues in excess of 0.5 per cent of gross domestic product (GDP).

*Reference:*

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*Note:*

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