IMF eyes tax potential of the world's super-rich

US budget crisis should not deflect attention from the fact the rich need to help economies balance the books

By Larry Elliott
October 13, 2013 – *The Guardian*

It was impossible to find anybody at last week's meeting of the International Monetary Fund willing to believe that the US will actually default on its debts. The universal belief was that the game of chicken would end before Thursday's deadline for raising the debt ceiling, if perhaps only at the eleventh hour.

Even so, the budget battle overshadowed the meeting of the fund. The first question for every finance minister or central bank governor was: "How bad could it get if there is no deal?" Very, very bad was the unsurprising reply. Five years ago this weekend, Alistair Darling and Mervyn King flew home early from the IMF meeting to put the finishing touches to the bail-out plan for Britain's banks. Other governments were doing likewise. Nobody wants to go through that again.

In reality, a replay of the events following the collapse of Lehman Brothers looks unlikely, and that would be the case even if the US went into technical default. There is a difference between a US treasury bond and the trash that passed for AAA-rated assets five years ago, and Washington would eventually honour its debts in full.

That doesn't mean the budget row is a storm in a teacup. On the contrary, it is of great significance, although not for the reasons that have been prominent in the past few weeks.

The reality is that the short-term budgetary position in the US has been improving rapidly. After avoiding the temptation to front-load austerity, the US began its recovery before most other advanced countries and is experiencing a period of modest growth. The IMF estimates the US budget deficit will be down to 3.6% next year, much lower than the 5.8% pencilled in for the UK.

The US's budgetary problems – as with most other developed nations – are medium-term ones, caused by the cost of benefits to an ageing population. In recent years, the US has seen its growth rate fall and its labour participation rate plummet. These trends are not compatible with rising bills for social security and medical entitlements. Especially not when corporations and rich individuals are becoming ever more skilled at minimising their tax bills.

This tension was acknowledged by the fund in its fiscal monitor, its half-yearly analysis of how well member countries are doing when it comes to balancing the books.

Traditionally, the fund has been seen as siding with those who believe licking the public finances into shape is really just about cutting spending. Many developing countries that have been subjected to harsh structural adjustment programmes would testify there is some truth in that reputation.

But the current fiscal monitor belies that because it suggests there are ways of raising extra tax revenue, beyond the fund's long-term support for broadening the tax base through the wider application of VAT.

First, it supports the idea of a financial activities tax, which would be levied on the wages and profits of financial institutions. This would be the equivalent of levying VAT on financial services, which are currently exempt. It is the fund's alternative to the financial transaction tax.

Second, the IMF thinks it is time to do something about an international tax system that allows companies such as Google and Starbucks to pay little corporate tax. The fund says they can do this because the global tax order is mind-bogglingly complex and outdated. Instead of a race to the bottom where countries compete with each other to offer the lowest rate of corporate tax, it urges co-operation. This is not going to be easy, as the fund freely admits, but it adds: "The chance to review international tax architecture seems to come around about once a century; the fundamental issues should not be ducked."

Finally, the fund comes out in favour of having a long hard look at whether those on the highest incomes should pay more. In some countries, the US in particular, the IMF research suggests the rich are substantially under-taxed.

Over the past quarter of a century or so, tax systems have tended to become regressive due to the increased reliance on indirect taxes, which weigh more heavily on the less well-off. Despite that trend, income tax is still progressive because the rich pay a large proportion of revenue from that source. The top 10% of earners account for 30%-50% of all revenue from personal income tax and social contributions, with the top 1% accounting on average for 8%.

The IMF study looked at whether there is untapped revenue potential at the top. It compared the current tax rate paid by highest earners with the tax rate that would maximise revenue, taking into account a number of factors such as whether rich people would work less hard if they were taxed more heavily, and whether they would find ways round a tougher regime.

This is quite a complex process, and sensitive to the assumptions made by those doing the calculations. So while the fund concluded the top rate of tax that maximised income was 60%, it was careful to set a range for each country studied. In the US, the current top rate of tax was more than 10 percentage points below the bottom of the range following the reductions in taxes on the rich in the past three decades.

Returning the top rate of tax on the US's rich to the level in the 1980s would, the fund estimates, raise about $150bn a year for the US treasury. That would comfortably solve the country's budget problems.

In the UK, the position according to the fund is less clear cut than it is in the US, but also less clear cut than George Osborne would have had us believe when he cut the top rate to 45%. The IMF's calculations for Britain use data for 2010, when the 50% tax rate introduced by Alistair Darling was in force. Even then, the UK only just crept into the bottom end of the revenue-maximising range. The fund's conclusion is that "in many countries it might indeed be possible to raise more from those with the highest incomes".

How much more? "The implied revenue gain if top rates on only the top 1% were returned to their levels in the 1980s averages about 0.25% of GDP but the gain could in some cases, such as that of the United States, be more significant." Applying the IMF's formula to Britain would mean that the exchequer would raise an additional £4bn from taxing top earners, since 1% of national output is about £15bn.

This is not exactly a fortune but in tough times better than nothing. The Treasury's argument is that cutting the top rate to 45% is raising more tax. But that claim is based on little hard evidence; the IMF work suggests it should be scrutinised extremely carefully.

According to the World Economic Outlook report of the International Monetary Fund (IMF), the world economy has broadly strengthened and is expected to continue this strengthening during 2014-2015, with a major portion of the impetus for growth coming from advanced economies. The IMF sees that the downside risks have diminished overall, however lower than expected inflation poses risks for advanced economies.Â Agricultural outlook. The World Food Situation, released by the Food and Agriculture Organization of the United Nations (FAO) in July 2014 forecasts an improved situation for global cereal supplies in the 2014/15 marketing season from what was previously thought. Super rich in Nassim. cecilia.chow@bizedge.com. EdgeProp 1 August 2019.Â Others reckon the buyer of the GCB at Nassim Road could be the family of the late Hong Kong tycoon Cheng Yu-tung who passed away in 2016 at the age of 91. The Cheng familyâ€™s vast empire includes the Hong Kong-listed New World Development real estate business; Knight Dragon, the master developer of Greenwich Peninsula in London; and the Chow Tai Fook jewellery business. The family is reported to have a net worth of US$22.5 billion, making them one of Asiaâ€™s richest, according to Forbes.