



TOPIC THREE | PROGRESSIVE TAX MEASURES TO REALIZE RIGHTS

Main Takeaways

- Governments must seek innovative and progressive means to finance the large-scale social spending needed to protect lives and livelihoods in the wake of the COVID-19 pandemic.
- Taxing excess profits and wealth is one way to raise large amounts of money to fund COVID-19 responses and to narrow gaps between the advantaged and disadvantaged.
- These policy proposals would be in line with international human rights law, which requires governments to mobilize the “maximum of available resources,” in a socially just manner, to realize everyone’s socioeconomic rights.

Why is this topic important in the context of COVID-19?

To respond to the COVID-19 pandemic and its economic fallout, there is overwhelming agreement that a massive mobilization of resources—often referred to as “fiscal stimulus”—is needed to protect people’s health and prevent huge economic devastation.

Fiscal policy has two sides to it: how governments generate resources and how they spend them. So far, most countries have been more radical on the spending side. They’ve introduced economic relief and recovery packages worth billions to guarantee people’s incomes and support collapsing businesses. But what they’ll do to raise money remains less certain.

Governments generate resources in two main ways: they raise money or they borrow money. Taxation is often the most sustainable, effective and accountable way for governments to raise money. But over the last 40 years governments have rolled back tax policies that oblige powerful corporations and wealthy individuals to pay their fair share. This has frequently been prompted by political pressure from powerful elites, foreign investors, and international financial institutions.

For example, most countries tax income. Yet tax rates on corporate income, highly-paid individuals, property and inheritance have declined in most countries. What’s more, the fortunes of the richest are mostly held in assets (e.g. stocks, shares, and real estate) rather than earned through wages. But such wealth is taxed at very low rates or there are big loopholes that allow money to be hidden overseas. There’s some \$8-35 trillion sitting

offshore (depending on how it is measured). These trends have resulted in unprecedented wealth concentration and soaring inequality.

The pandemic has dramatically amplified inequalities of all kinds. Economic disadvantage is translating into a key underlying precondition. People living in poverty, racial minorities, and immigrants are suffering the highest infection and mortality rates. Because they’re overrepresented in precarious employment, women’s livelihoods have been hit severely—often without adequate social protection.

How governments finance COVID-19 responses affects such inequalities. Government borrowing has an important role to play. But it can come with a risk of burdening poorer people when loans have to be repaid—in the short or long term. Progressive taxation narrows gaps between the advantaged and the disadvantaged more directly.

What is being proposed?

Taxing excess profit: A few individuals and corporations (such as the tech giants) are reaping huge rewards from the pandemic. In its first months, billionaires in the US reportedly got \$434 billion richer, for example. An excess profits tax could help to fund necessary spending while remedying disparities. Governments would calculate the extra profits earned due to the pandemic by comparing recent profits with averages from previous years. Then, the “excess” profit would be taxed at a very high rate (e.g. 75%). Multinational companies could be taxed on extra profits earned globally, with revenue divided up depending on where real economic activity took place.



Taxing wealth: Calls for robust wealth taxes have taken on renewed urgency, framed by some as a “solidarity surcharge.” For example, some economists have proposed the creation of a progressive European-wide wealth tax to be assessed on the wealthiest 1% of individuals. Such taxes could raise huge amounts. A 5% tax on the richest 5% US households could raise \$2 trillion, for example. In South Africa, a wealth tax on the richest 1% could raise an amount equivalent to 29% of the government’s recent relief package. Despite resistance from elites, wealth taxes are a very progressive way to fund social spending. They also have a high potential to tackle gender and racial inequalities, which are typically much wider for wealth than they are for wages.

Excluding tax dodgers from state bailouts: This proposal—adopted in several countries already—bars companies registered in tax havens from benefiting from certain relief measures. Tax Justice Network has a “bail or bailout” test to determine which companies are using tax havens to pay less tax, or prioritizing shareholders over employees.

Creating more progressive tax systems overall: Tax systems should ask proportionally more from those most able to pay. Concretely, this means:

- Ending over-reliance on “indirect” taxes like sales tax and VAT, which tend to take a bigger bite out of the income of poorer people;
- Increasing rates of “direct” taxes on high incomes and the most profitable businesses.
- Introducing or boosting taxes on assets like property, wealth, inheritance and income from investments.
- Cracking down on tax evasion and avoidance by wealthy individuals and powerful corporations—e.g., by introducing beneficial ownership registers (public records of all direct or indirect owners of companies, trusts and foundations) and by requiring multinational companies to provide publicly accessible accounts for each country where they operate.

These systemic reforms are essential for resourcing a just recovery to COVID-19 in the long-term.

How do these proposals advance human rights?

Most of the world’s governments have signed up to binding treaties that commit them to taking concrete steps to guarantee people’s rights and to remedy inequalities of all kinds using the *maximum of their available resources* (see [Topic 1](#) in this series).

In line with this obligation, governments must raise money in a way that generates sufficient revenue to finance the infrastructure, goods and services needed to guarantee people’s rights. Taxation must also be progressive, socially equitable and based on the principle of ability to pay. In this sense, taxation (like other policies) must contribute to remedying inequalities—between rich and poor, men and women, different racial groups, etc. If well-designed, the proposals outlined above do this. In line with human rights requirements, they target the places in the economy where resources are most concentrated and *redistribute* them from wealthy companies and individuals to those whose rights are most at risk from the impacts of COVID-19.

Of course, whether the revenue raised advances rights depends on how it is spent. So, tax policies and budgetary decisions must be analyzed together. COVID-19 relief packages in the US have been described as a “corporate coup” due to the benefits collected by large companies, for example.

Sustainability is also important from a human rights perspective. If seen as temporary “one-off” measures, these proposals are unlikely to remedy pre-pandemic economic injustices. Governments should use this political opening to find redistributive solutions for the medium- and long-term.

The obligation to cooperate internationally to realize human rights (see [Topic 2](#)) is also crucial here. Inclusive, global cooperation is essential to introduce such proposals; advance other urgent reforms to international taxation; and prevent illicit financial flows from Global South countries. For example, cracking down on tax abuses depends on equal access of all countries to financial information and a common set of rules that are fair and transparent, not imposed by a club of rich countries.

Critical Questions

- ▶ In recent years, what type of taxes were cut and which were increased in your country?
- ▶ How progressive is your country’s tax system? Is the tax burden higher on women or particular racial groups? Has this changed over the years?
- ▶ How is wealth taxed in your country? What have been the political obstacles to introducing or boosting taxes on wealth?
- ▶ What industries or companies are making extraordinary profits during the pandemic? How much tax do they pay ordinarily?
- ▶ Is an “excess profits tax” on the political agenda?
- ▶ Does your government facilitate tax evasion or avoidance? (Tip: see the Financial Secrecy Index or the Corporate Tax Haven Index.)