

Pillar 3: The new frontier

Leon Fernando Del Canto explains why, from a global perspective, private wealth is the next tax frontier.

Tax advisers and politicians may not like it, but governments are increasingly shifting focus from taxing corporations to taxing private wealth. As traditional tax bases erode under the weight of global inequality and corporate lobbying, attention is turning to high net-worth individuals, mobile ‘tax nomads’ and broader income definitions.

This article explores emerging approaches worth watching – wealth taxes, expanded tax residency rules, and cross-border enforcement – and argues that multilateral co-operation, building on the Organisation for Economic Co-operation and Development (OECD) Pillars 1 and 2 and the G7’s recent compromise, could lay the groundwork for a future, emerging, ‘Pillar 3: a co-ordinated global wealth tax.

Shifting landscape of global taxation

In recent years, the international tax community has witnessed significant reforms targeting multinational corporations through the OECD’s Pillar 1 and Pillar 2 frameworks. Yet as governments worldwide grapple with mounting public debt, shrinking tax bases, and growing wealth inequality, attention is rapidly shifting toward a new frontier: the taxation of private individual wealth.

As public expenditure increases, some governments argue that the current tax system, which often applies similar or lower effective tax rates to passive income (such as dividends, capital gains, and interest) compared to earned income from employment, may not reflect the principle of tax fairness. They suggest this can lead to an uneven distribution of the tax burden and limit the resources available for essential public

Key points

- The current tax system, which often taxes passive income at lower rates than earned income, is perceived by some as unfair.
- Global private wealth is staggeringly high.
- The methods of taxing private wealth are evolving.
- Pillars 1 and 2 show that when tax bases are threatened, countries can co-operate.
- Individuals with significant assets across multiple jurisdictions should consider their wealth planning.



services. This concern has prompted discussions about rebalancing tax policy to address differences in how various types of income are treated.

The emergence of what some tax scholars and policymakers refer to as a potential ‘Pillar 3’ – focused on taxing private wealth – reflects growing interest in exploring new revenue sources and addressing structural imbalances in the tax system. Some see this approach as a logical extension of existing international efforts, aimed at ensuring broader and more consistent taxation across different types of income and asset holdings.

Why target private wealth now?

The timing of this shift is no coincidence. According to PwC projections, global assets under management are set to reach a staggering \$145.4tn by 2025 – nearly double the \$84.9tn recorded in 2016. This explosion of private wealth occurs against a backdrop of eroding corporate tax revenues, creating a perfect storm that demands policy innovation.

Three key factors are driving this pivot toward wealth taxation:

- **Weakening corporate tax base:** International competition and corporate-friendly reforms have diminished traditional revenue sources, forcing governments to look elsewhere.
- **Rising wealth concentration:** As a small segment of the population is perceived by the media to hold a growing share of global wealth – particularly evident during recent economic shocks – public concern over inequality has intensified. This discontent is increasingly echoed in political discourse, with new parties and movements gaining momentum by calling for more equitable tax policies and stronger public investment. These developments reflect a wider shift in public expectations around fairness and the role of taxation in supporting social cohesion.

- Political evolution: Corporations have developed sophisticated lobbying capabilities and mobility, making them increasingly difficult to tax effectively.

Key approaches to taxing private wealth

As governments seek new revenue sources, attention is turning to the taxation of private wealth. Real estate, investment income, and the mobility of high net worth individuals present clear taxable targets, broadening the definition of personal income, and addressing the challenges posed by globally mobile tax nomads.

The following analysis is based on my professional experience and ongoing discussions with policymakers and tax experts. It outlines three key mechanisms that governments may adopt as part of evolving tax policy frameworks and does not advocate for or endorse these measures; rather, it aims to inform readers of emerging trends and potential developments in the global tax landscape.

Wealth or gift tax on real estate and local investments

Immovable assets are widely seen as the most practical starting point for wealth taxation. Unlike financial instruments, real estate and other fixed assets cannot be easily moved across borders, making enforcement more straightforward. Countries such as Spain, France, Norway and Switzerland have long applied wealth or property-based taxes, often targeting high-value real estate or assets held through corporate structures. These regimes offer governments a visible and reliable tax base, while also addressing intergenerational wealth transfers that often escape income-

based taxation. However, despite their administrative appeal, such taxes raise concerns about fairness and efficiency. They can disproportionately affect individuals who are asset-rich but cash-poor, such as retirees or long-standing homeowners, and may discourage investment or distort housing markets. As more jurisdictions revisit wealth taxation, striking a balance between enforceability and equity remains critical.

Broader definition of personal income

Many high net worth individuals derive substantial economic benefit from capital gains, dividends and other investment returns that receive preferential tax treatment compared to employment income. Redefining and expanding the concept of taxable personal income would close these gaps.

The most aggressive proposals would include unrealised capital gains - taxing the appreciation of assets before they're sold. While technically complex, such approaches would dramatically reduce opportunities for wealth accumulation without corresponding taxation.

Targeting tax nomads

Perhaps the most challenging aspect of wealth taxation involves highly mobile individuals who structure their affairs to avoid establishing clear tax residence. The case of Shakira in Spain highlighted the complexities of determining tax residence for international high net worth individuals.

To combat this phenomenon, tax authorities are increasingly implementing:

- substance-based residence criteria;
- deemed-residence tests;

- enhanced international data-sharing mechanisms;
- questioning the validity of tax residence certificates from countries where the 183-day residence rule is not required; and
- exit taxes on individuals changing residence.

Lessons from Pillars 1 and 2

The development of Pillars 1 and 2 offers valuable insights into how a potential Pillar 3 might evolve. The OECD's BEPS 2.0 framework marks a shift from traditional source-based taxation, which has struggled to address profit-shifting through intangibles and intra-group payments.

- Pillar 1 reallocates a portion of residual profits from the largest multinationals to market jurisdictions, regardless of physical presence.
- Pillar 2 introduces a global minimum tax of 15% on multinational profits, based on parent company residence.

In practice, both pillars face limitations from a tax collection perspective.

Pillar 1's scope is narrow and administratively complex, capturing only a fraction of global profits.

Pillar 2 relies on consistent global implementation, but divergences, safe harbours, and carve-outs dilute its impact.

Both remain anchored to a flawed residence-source model and fall short of addressing broader tax base erosion linked to private wealth and global mobility.

The only thing the above pillars demonstrate is that when tax bases are threatened, countries can co-operate – even imperfectly – to defend them. Therefore, they open a door for a potential Pillar 3.

June 2025 G7 compromise

The G7's June 2025 compromise highlights the complex political realities of international tax reform and offers a glimpse into how future negotiations on wealth taxation might unfold. Despite strong US opposition, including threats to withdraw from the global minimum tax (Pillar 2) or impose retaliatory tariffs, negotiators ultimately agreed on a 'side-by-side' system that allows partial exemptions for US firms. This outcome underscores a key lesson: even when international co-operation is achieved, it is often imperfect and politically sensitive. Rather than aiming for a flawless system, progress will depend on pragmatic compromises that uphold core principles while allowing room for major economies to safeguard their interests.

Toward a potential Pillar 3

Building on the above reasoning and their experience, some academics and tax policy makers are starting to talk about a potential Pillar 3 focused on private wealth taxation, which could include:

- Minimum standards for wealth taxation: Establishing floor rates for taxing assets above certain thresholds.
- Harmonisation of inheritance and gift tax rules: Closing loopholes that allow wealth to transfer across generations without appropriate taxation.
- Co-ordinated measures for taxing mobile individuals: Ensuring that changing residence doesn't enable complete tax avoidance.

Such a framework would address existing gaps where individuals can avoid taxation through asset mobility or residence changes - a particularly relevant concern for clients with connections to both the UK and Spain or other EU jurisdictions.

Practical implications for high net worth individuals

For those with significant assets across multiple jurisdictions, the emergence of Pillar 3 would necessitate comprehensive wealth planning that:

- Anticipates changing regulations: Structures that rely heavily on jurisdiction arbitrage may become vulnerable.
- Focuses on substance over form: Arrangements must reflect genuine economic reality rather than tax-motivated constructions.
- Prioritises compliance and transparency: As information sharing increases, voluntary disclosure and proactive compliance become essential.
- Considers social license alongside legal requirements: Aggressive tax avoidance, even if technically legal, faces increasing reputational risks.

A matter of tax policy

For most democratic governments, the growing pressure to choose between taxing private wealth and cutting essential services is no longer just an economic dilemma - it is increasingly a political and moral reckoning. The idea that safety nets for the disabled or elderly should be sacrificed while vast pools of untaxed wealth remain untouched is becoming harder to justify.

As countries grow more assertive in defending their tax bases, wealth taxation is no longer a fringe debate. Whether through OECD-led frameworks or more flexible regional coalitions, the drive toward a co-ordinated approach is accelerating. A global minimum wealth tax, once considered aspirational, is now part of serious policy discussion.

If the experience of Pillars 1 and 2 has taught us anything, it is that incremental yet imperfect progress is possible. For individuals and families with international holdings, engaging in forward-looking, jurisdictionally sound tax planning is no longer optional – it is urgent. ●

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