

# Progressive Wealth Taxation

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# **PROGRESSIVE WEALTH TAXATION**

Surge in income and wealth concentration in recent decades

Concerns about oligarchic drift in the United States

Progressivity of the US tax system has eroded especially at the very top

Progressive wealth taxation proposed among academics (Piketty 2014) and politicians (Warren campaign) as a solution

What do economists have to say about wealth taxation? Has it worked in practice? What can make it work?

## PROGRESSIVE WEALTH TAXATION

Progressive wealth taxation: annual tax on families' net worth (Warren tax: 2% above \$50m exemption, 3% above \$1bn)

Tax base = total wealth  $\times$  top wealth share  $\times$  (1-evasion rate)

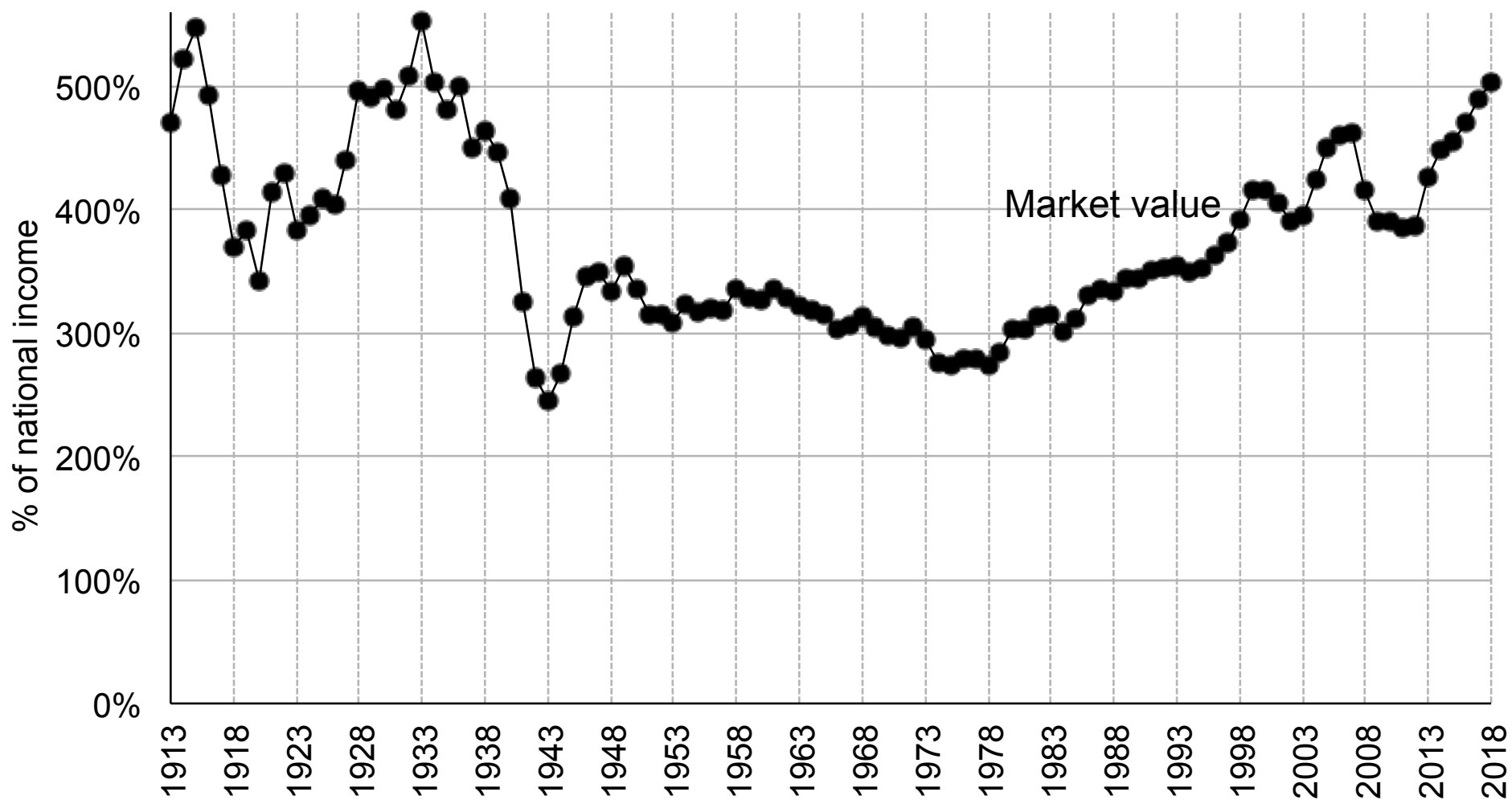
Household wealth includes all marketable assets: corporate equity, business assets, real estate, interest paying assets (but not human capital) net of all debts

Total (private) wealth is now 5 times national income (up from 3 in 1980)

Total wealth reflects both capital stock (accumulated through savings) and price effects (reflecting organization of production and firms market power)

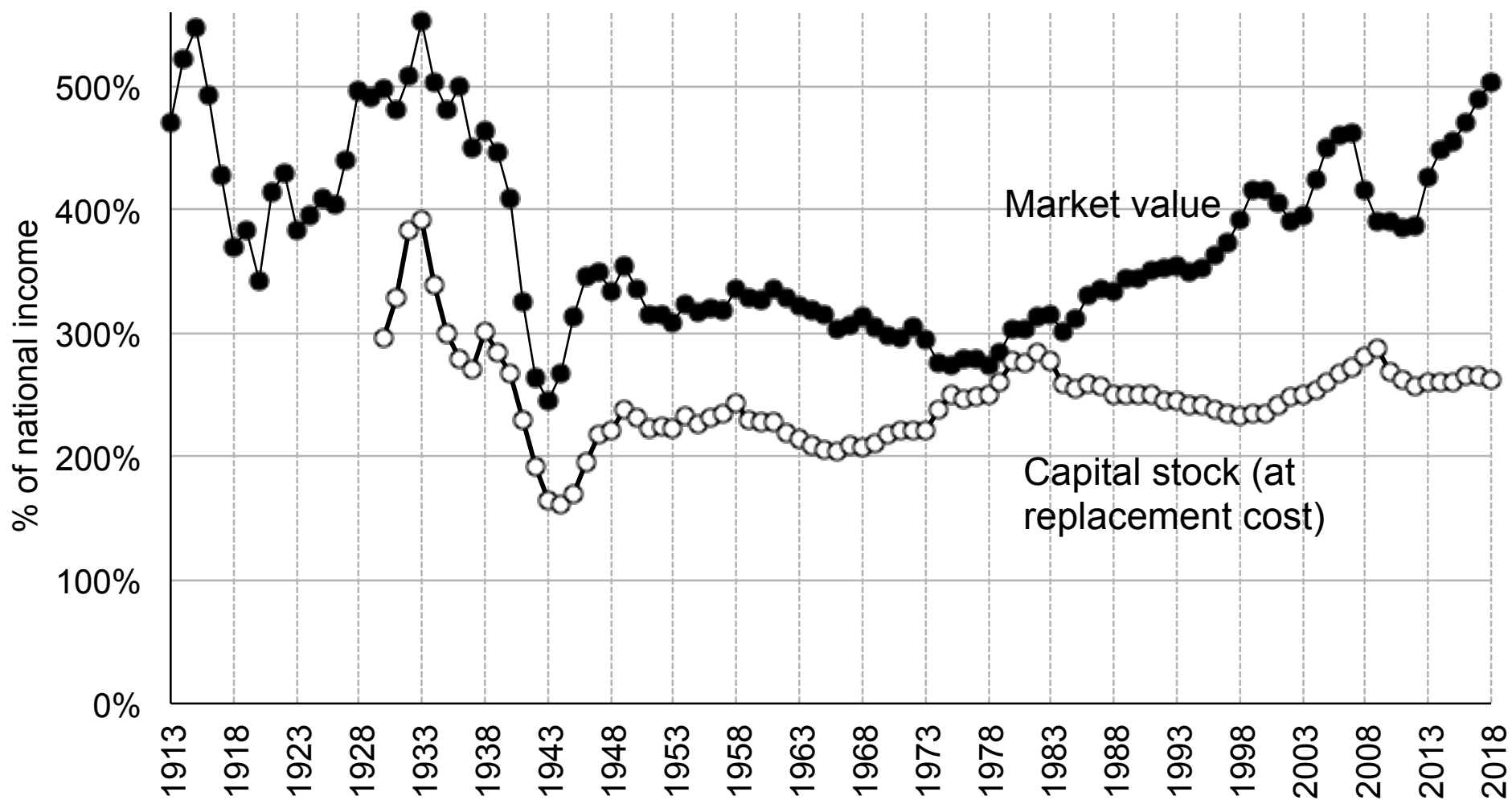
Example of Vanguard vs. Fidelity that imposes a .5% wealth tax on middle class funds and enriched Johnson family by \$40b

## Total household wealth (to national income)



This figure depicts the share of total household wealth relative to national income Source: Piketty, Saez, and Zucman (2018).

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## WEALTH CONCENTRATION

All sources (capitalized incomes, SCF, Forbes 400, estate multiplier) show sharp increase in wealth concentration since 1980

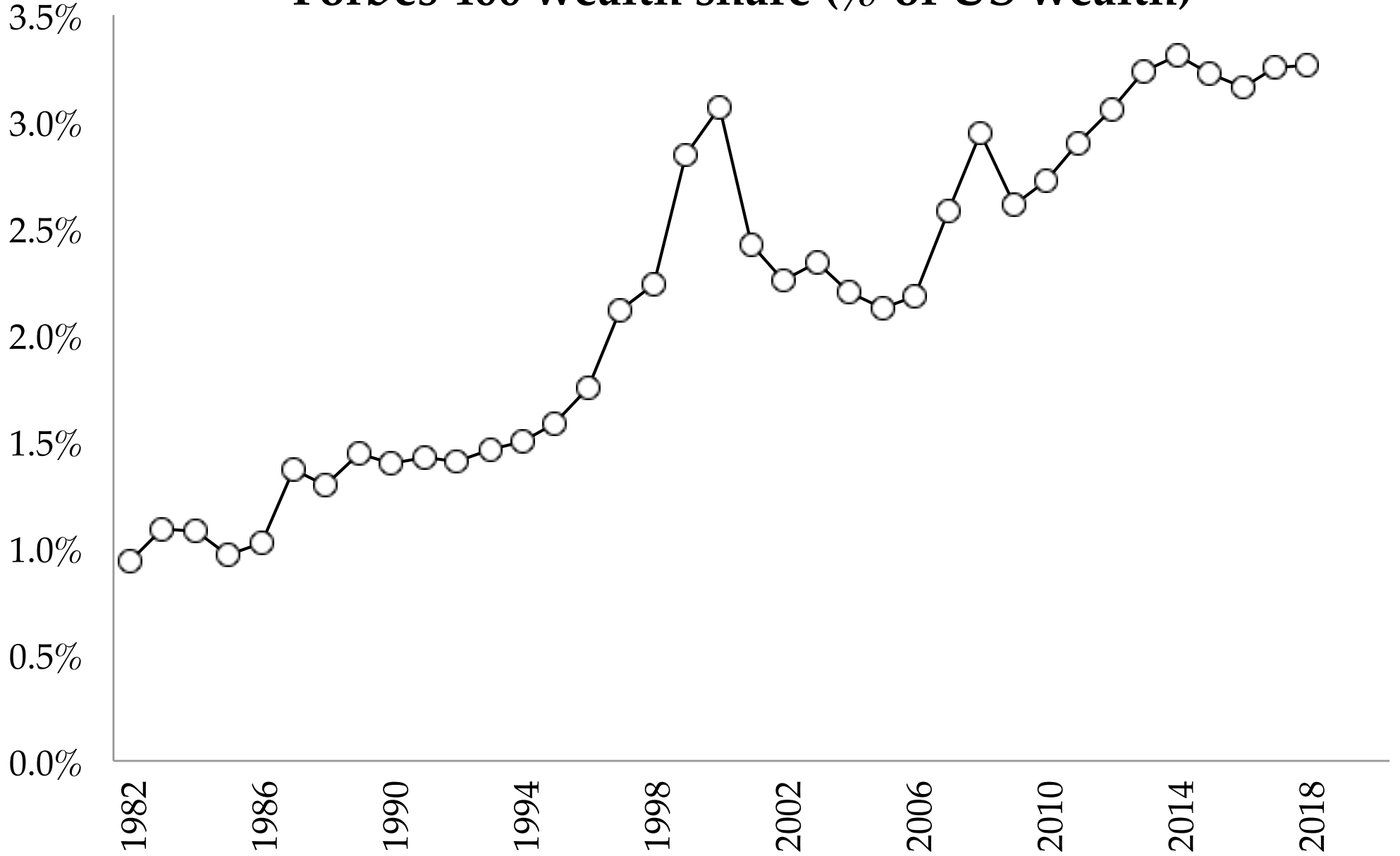
Estate multiplier series show an increase after factoring in longevity gains of the rich (from Chetty et al. 2016)

Top .1% wealth share is about 20% today up from less than 10% in 1980

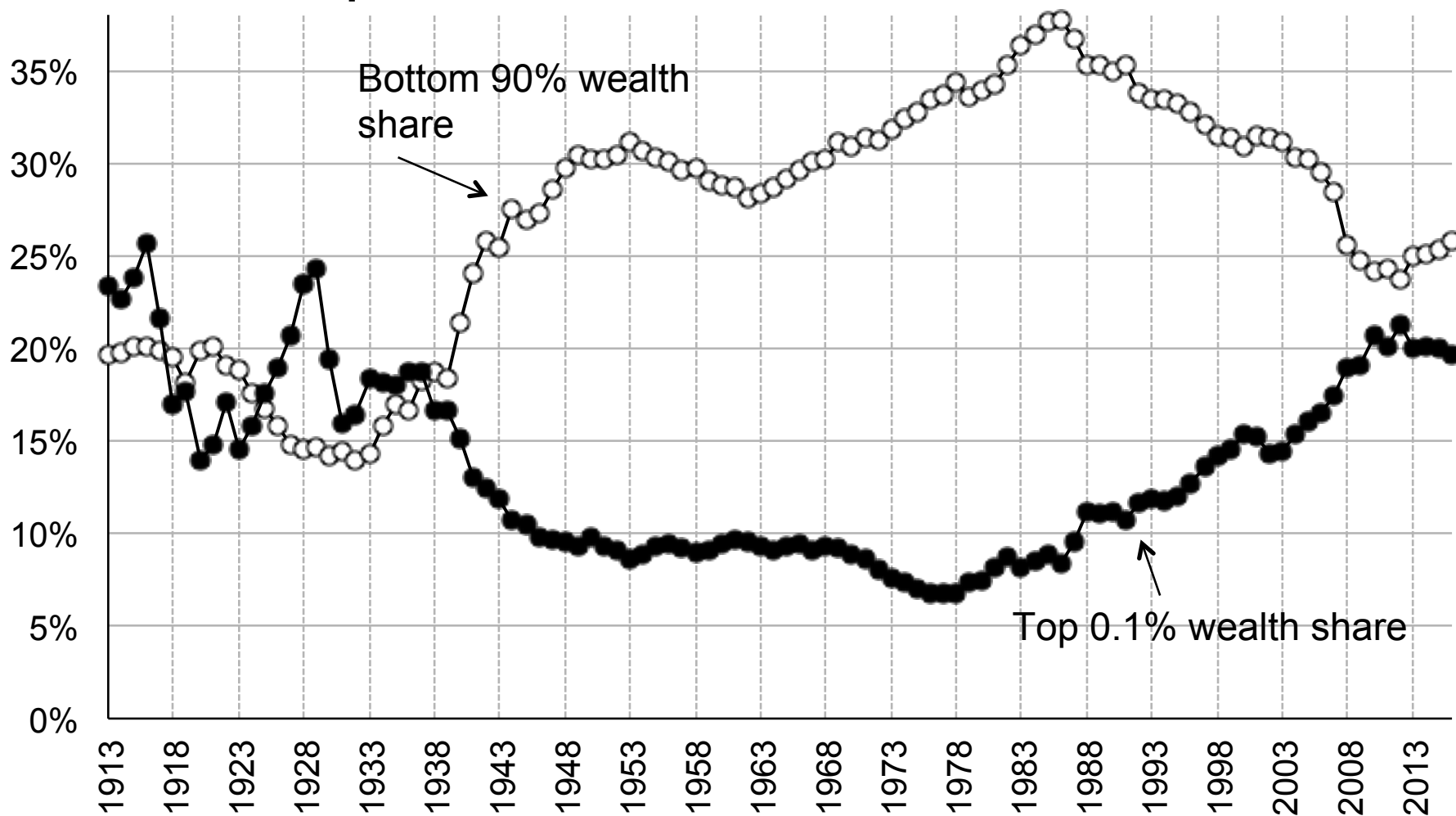
Revenue potential: Wealth above .1% threshold (\$30m) is  $20\% \times (1 - 1/3) = 13.5\%$  of total wealth = \$12tr

Bottom 90% wealth (=middle class wealth) is eroding due to low savings (growing debt)

## Forbes 400 wealth share (% of US wealth)



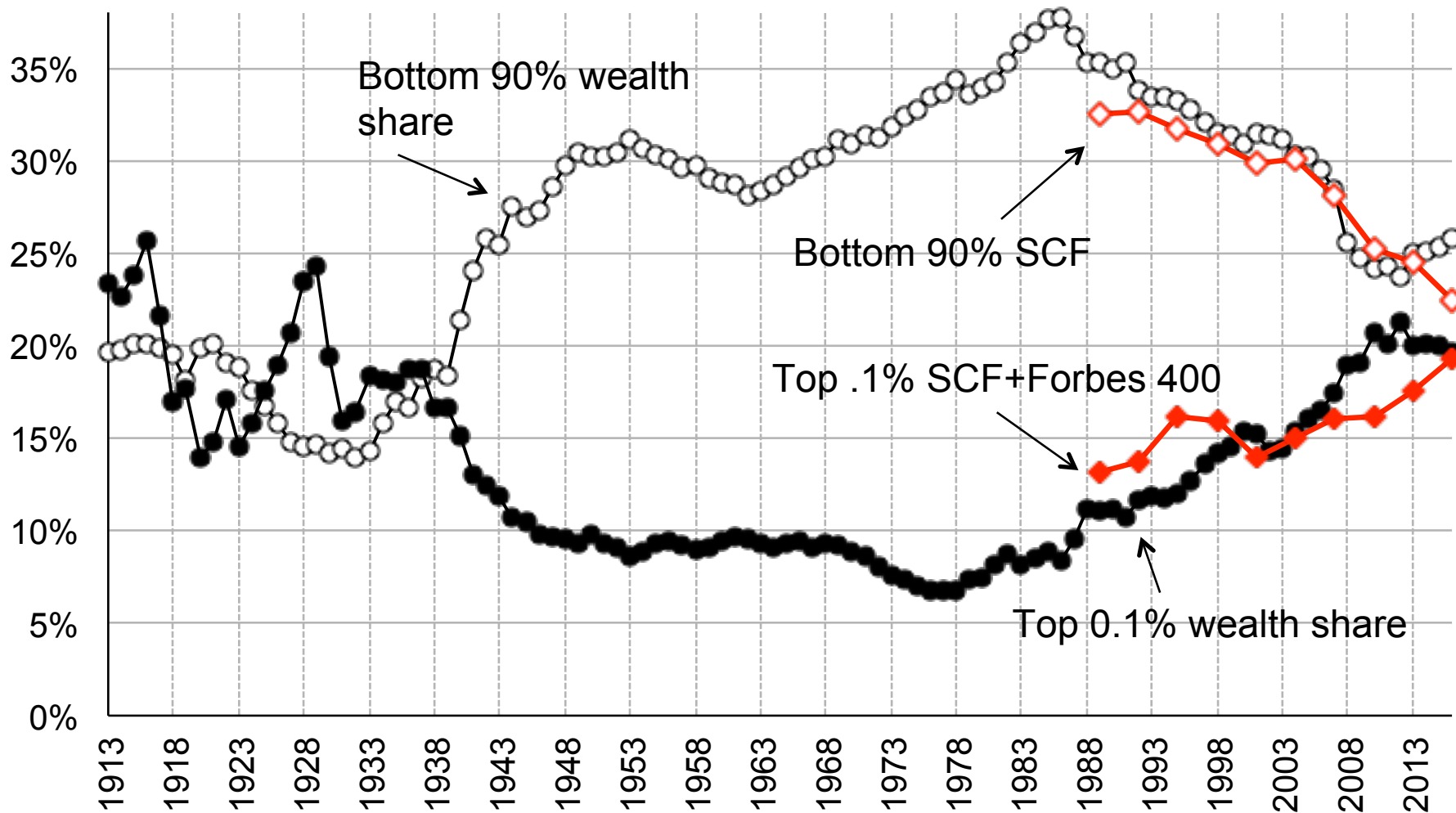
## Top 0.1% and Bottom 90% Wealth Shares



This figure depicts the share of total household wealth owned by the top 0.1% of families (tax units) and bottom 90% from capitalized incomes (Saez and Zucman, 2016) and survey data SCF+Forbes 400.

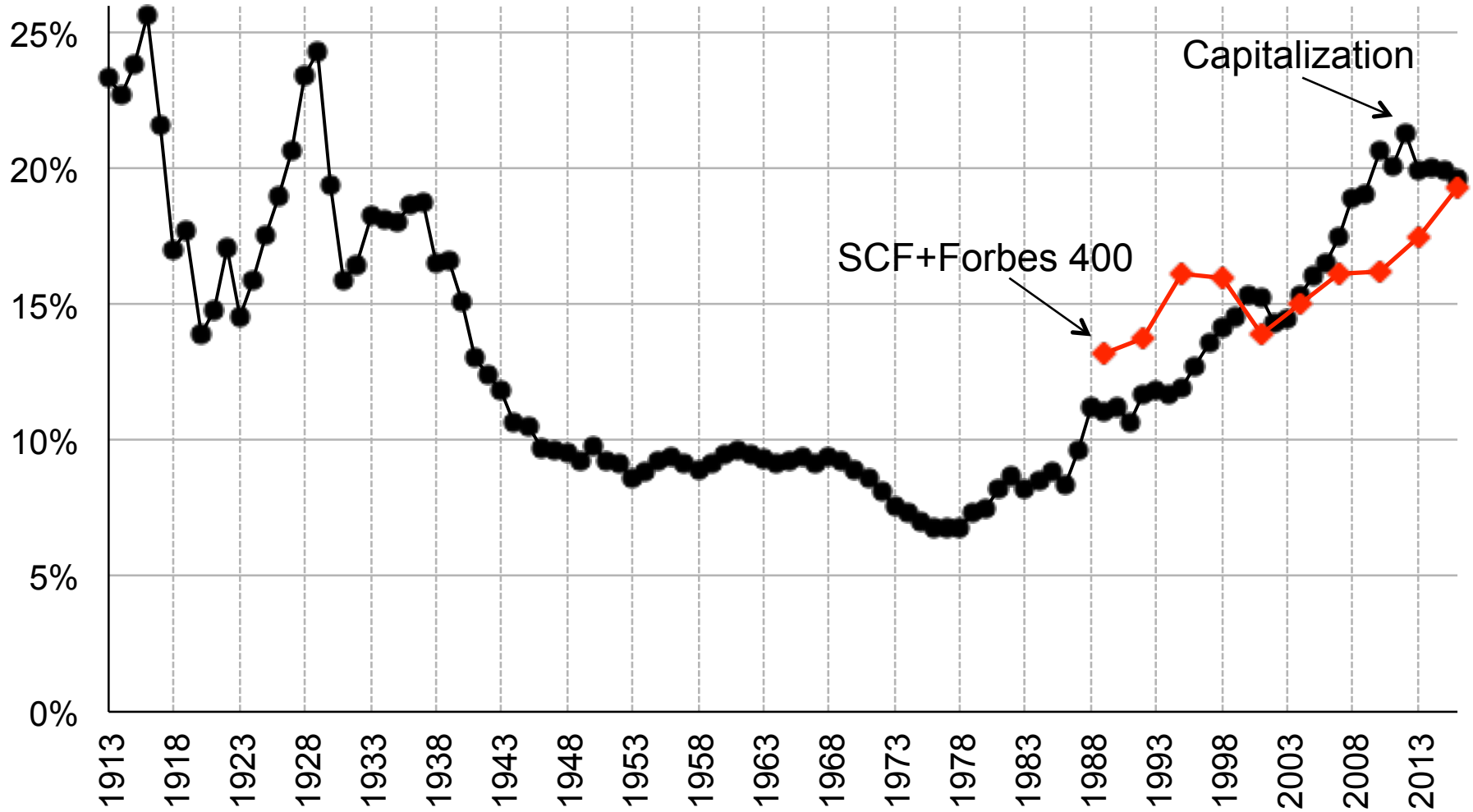


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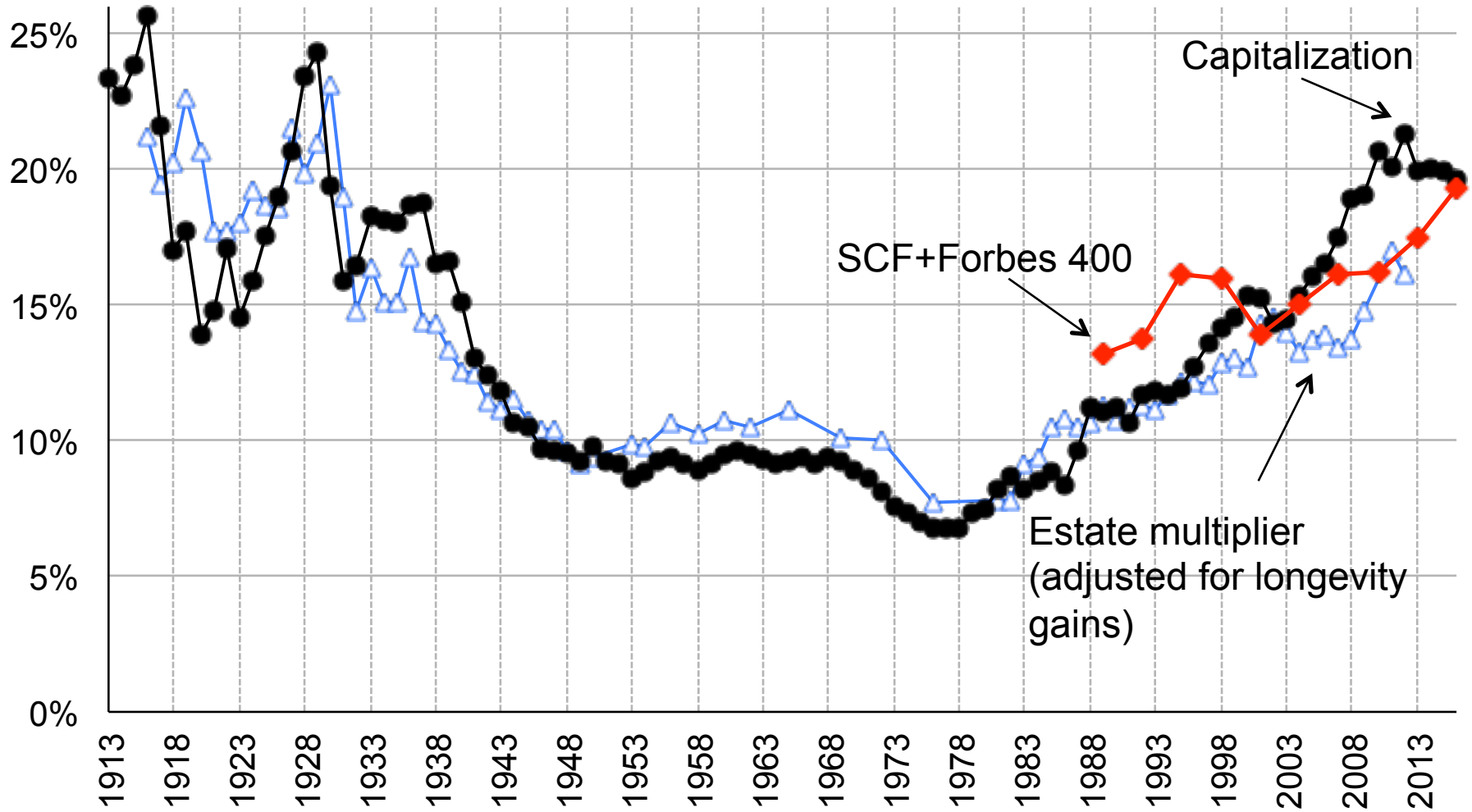
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## Top 0.1% Wealth Share Estimates



This figure depicts the share of total household wealth owned by the top 0.1% of families (tax units) from various data sources.

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**Table 2: Wealth Tax Base Estimates, 2019**

	<b>Top 1% cut-off</b>	<b>Top .1% cut-off</b>	<b>Top .01% cut-off</b>	<b>\$50 million cut-off</b>
<b>Capitalized incomes</b>				
Threshold (\$m)	5.9	30.8	171.8	50.0
Base above threshold (\$tr)	25.9	13.0	6.3	10.9
<b>SCF+Forbes 400</b>				
Threshold (\$m)	9.0	40.6	172.3	50.0
Base above threshold (\$tr)	27.5	11.5	5.5	9.7
<b>Estates with multiplier</b>				
Threshold (\$m)		25.5	123.6	50.0
Base above threshold (\$tr)		8.9	4.3	6.8
Estate tax implied evasion		31.6%	32.2%	37.8%

Tax base by source assuming no extra tax evasion (over and beyond what's already in the source). Tax assessed on family tax units.

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<b>Summers-Sarin '19 WaPo</b>				<b>1.25</b>
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## SUMMERS-SARIN RECONCILIATION

Summers-Sarin WaPo article: estate tax nominal tax rate of 40% collects only \$10b from estates above \$50m in 2017  
⇒ 2% **estate** tax rate would collect only \$.5b

1/50 rich people die per year: 2% **wealth** tax rate raises \$25b  
⇒ Tax base above \$50b only \$1.25tr (Forbes 400 = \$2.9tr)

But taxable estate base is only 1/3 of estate due to unlimited spousal and charitable deductions

Chetty et al. (2018) mortality: rich die at rate  $1/(50 \times \mathbf{1.9})$

Corrected base:  $\$1.25b \times 3 \times 1.9 = \$7.1tr$  (close to our \$6.8tr)

Smaller corrections: a) estate tax applies to individual (not family) wealth, b) estate tax started at \$5m/\$10m (not \$50m)

Summers-Sarin scoring = evasion rate of 85%

## US TAX PROGRESSIVITY

US invented tax progressivity in the 20th century with high top tax rates on income and estates and big corporate tax

US tax progressivity has eroded: current US tax system pretty flat and regressive at the very top

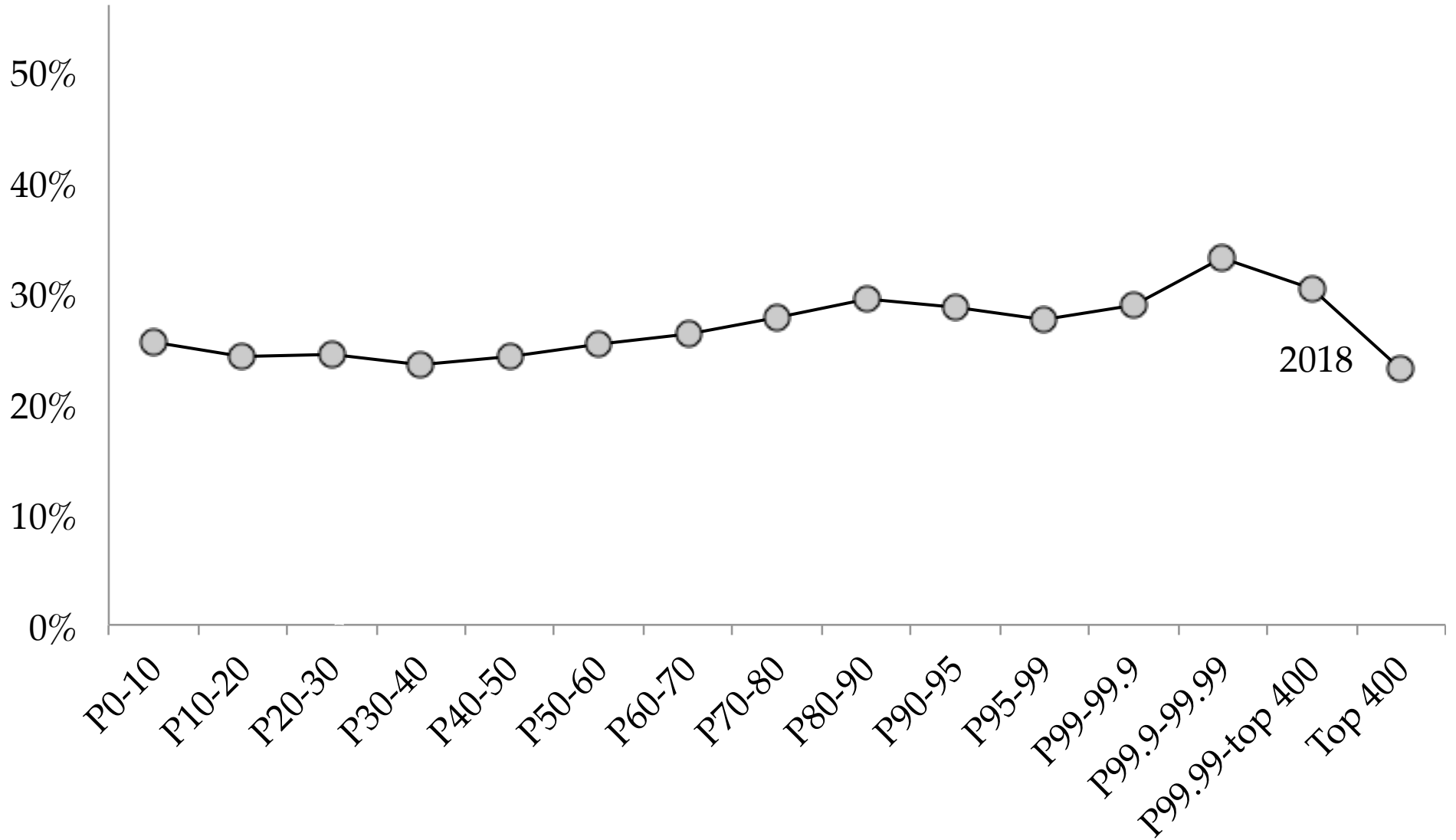
**Corporate tax** revenue (state+fed) = 16% of profits in 2018 [down from 50% in 1960s]

**Estate tax** revenue (state+fed) = .15% of top 0.1% wealth in 2016 [top 0.1% was paying .72% of wealth in 1976]

**Income tax:** Wealthiest do not need to realize much income (W. Buffett reported only \$12m with wealth of \$65b in 2015)

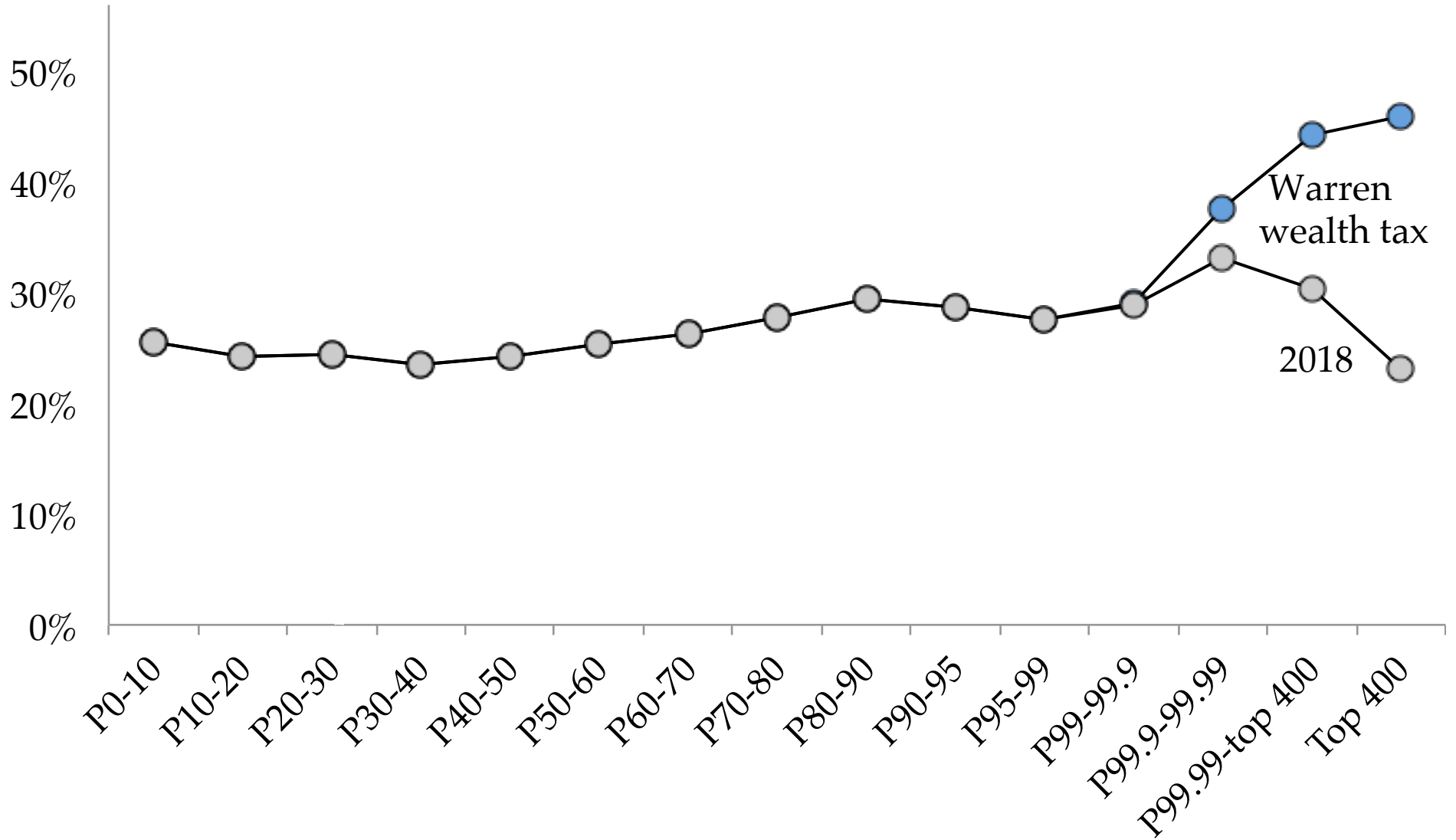
⇒ Using estate-income tax and SCF wealth-income links, we estimate that reported income (AGI) is only 45% of true income among top 400 (while it is 70% economy wide)

## Average Tax Rates (Fed+State+Local) by Income Groups

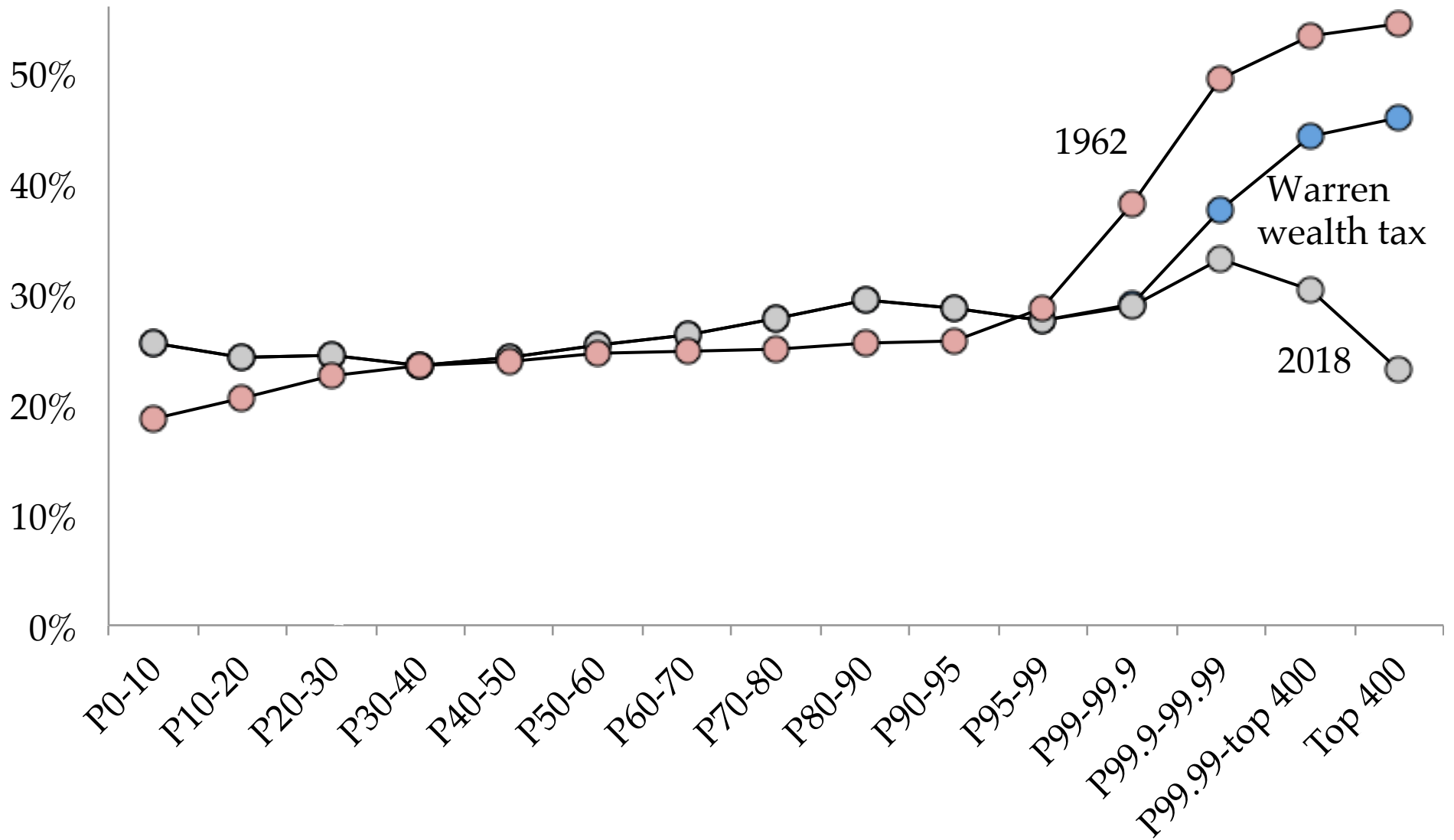




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## EVASION DEPENDS ON ENFORCEMENT

Clear evidence of behavioral responses to wealth taxes whenever avoidance opportunities exist:

- 1) Offshore tax evasion is large and concentrated (60% comes from top .1%, Zucman et al.) but can be curbed by leaks risk, cracking down on tax havens or their banks (FATCA)
- 2) Mobility is a serious threat if moving is easy and tax advantageous (Kleven-Kreiner-Saez '13 on EU football players, Moretti-Wilson '19 on Forbes 400 and state inheritance taxes)
- 3) Asset class exemptions can lead to massive shifting (Alvaredo-Saez '09 on Spain with stock exemption for owners managers)
- 4) Valuation discounts can reduce wealth by creating artificial illiquidity if such schemes allowed (US estate tax)

## WHY DID WEALTH TAXES FAIL IN EUROPE?

- 1) Tax competition concerns through offshore tax evasion and mobility of the rich
- 2) Exemption threshold too low (like \$1m) creating hardship for illiquid millionaires (led to inefficient illiquid asset exemptions or tax limits based on reported income)
- 3) Reliance on self-assessment (making enforcement hard)

All 3 weaknesses could be remedied:

- 1) Fight offshore tax evasion (FATCA) and tax expatriates
- 2) Set high exemption threshold (\$50m rather than \$1m)
- 3) Develop systematic information reporting

## KEY ENFORCEMENT ASPECTS

- 1) Use a comprehensive tax base with no asset class exemption
  - 2) Use information reporting (publicly traded stocks, fixed claim assets, mutual+pension funds, real estate, and debts)
  - 3) Closely held stock ( $\simeq$  30% of top .1% wealth) toughest:
    - a) Large: pay tax in stock and create missing market
    - b) Small/medium: use valuation formula based on profits/capital stock/sales (as in Switzerland)
  - 4) Always value underlying assets when assets held through intermediaries (pension and mutual funds, trusts, businesses)
  - 5) Clear rules to assign shared assets (such as trusts)
- ⇒ with good enforcement, evasion rate of 15-20% possible

## ECONOMIC EFFECTS OF WEALTH TAXATION

**Wealth concentration:** well enforced wealth tax reduces wealth concentration (consensus)

**Capital stock:** Any reduction in saving from the wealthy could be compensated by higher public savings or higher middle class saving (pension, mortgage, debt regulations)

**Entrepreneurship/innovation:** No good empirical evidence. Wealth tax comes late. Early interventions (education / immigration / peers) might be more impactful. Founders may lose control sooner but could be hired as CEOs

**Giving:** Wealth tax could accelerate giving to charities and heirs. Socially desirable as long as they are not “straws”

## SHOULD TAX RATE ON CAPITAL BE ZERO?

Zero capital tax results hinge on unrealistic assumptions:

- 1) Chamley-Judd: infinitely elastic responses in the long-run
- 2) Atkinson-Stiglitz: no heterogeneity in wealth conditional on labor income

Relaxing these assumptions leads to a positive capital tax obeying equity-efficiency trade-off (Piketty and Saez '13, Saez and Stantcheva '18)

Progressive consumption tax = progressive income tax with (net) savings exemption [super rich already benefit from this]  
⇒ Very regressive as savings rates increase with income

If high wealth concentration generates negative externality (political capture / monopoly power) and direct tools (campaign finance / antitrust) imperfect then extra tax justified

## TAXING BILLIONAIRES

Forbes 400 tracks billionaires since 1982

Top wealth life-cycle: a) explosive new wealth growth (Zuckerberg Facebook), b) lower growth of mature wealth (Gates Microsoft), c) inherited wealth (Walton family Walmart)

Basic assumption: wealth tax at average rate  $\tau$  reduces billionaires wealth by  $1 - \tau$  after 1 year,  $(1 - \tau)^2$  after 2 years, ...  $(1 - \tau)^t$  after  $t$  years

⇒ Elasticity of wealth wrt to  $1 - \tau = \#$  years being billionaire

⇒ Old wealth gets eroded most by permanent wealth tax

Normatively appealing (although goes against Ramsey rule)

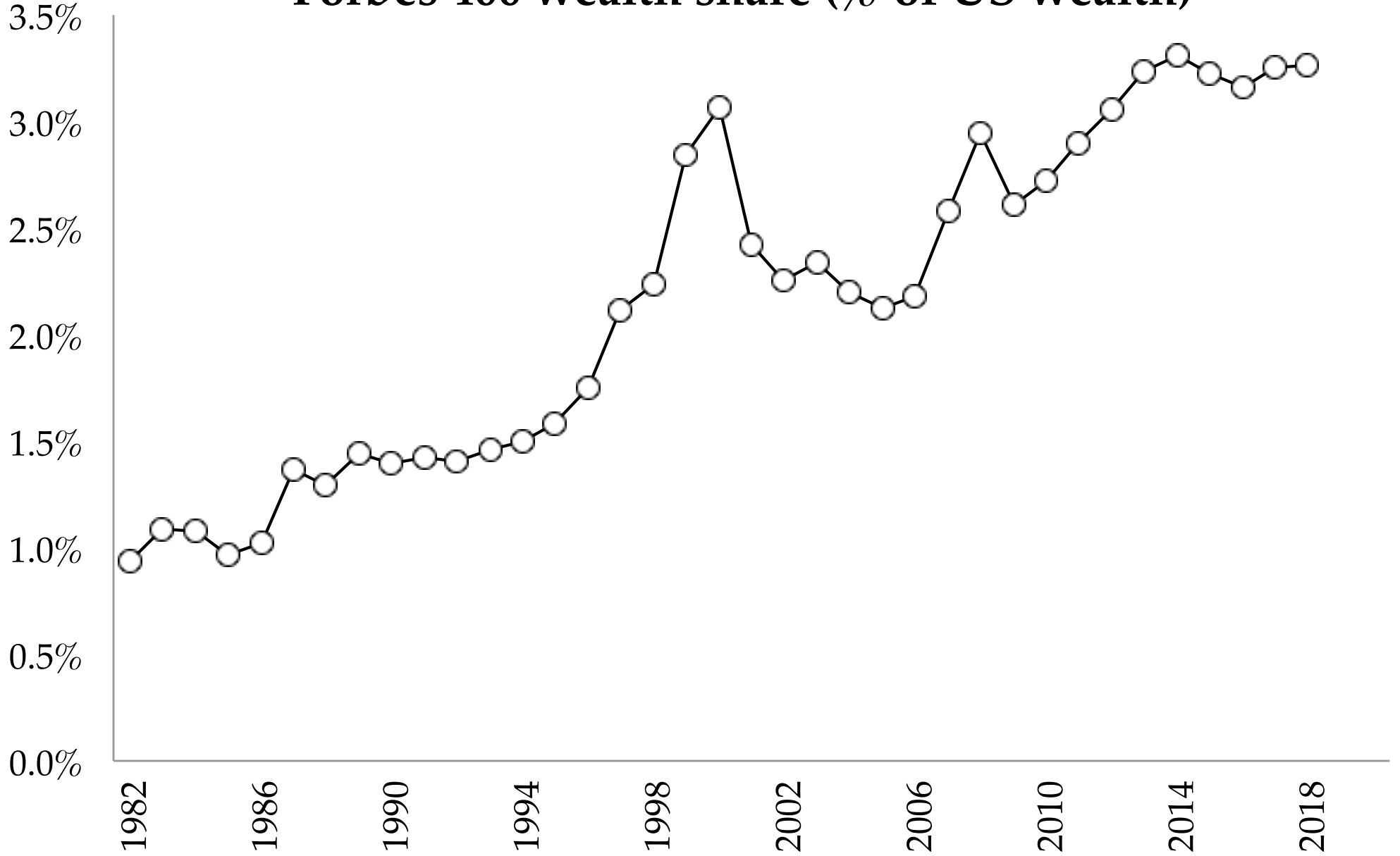
Can simulate how wealth taxes in place since 1982 would affect the Forbes 400



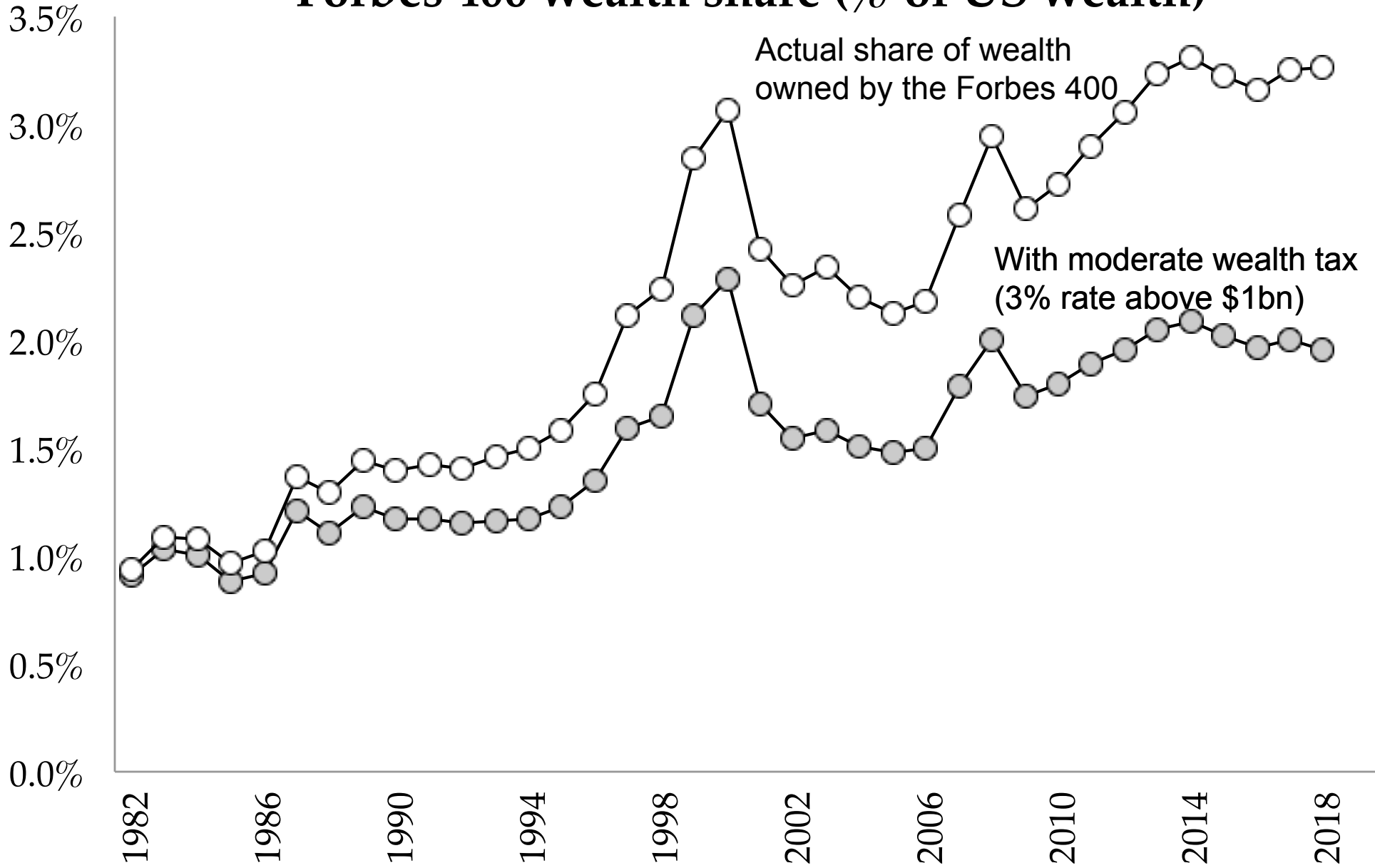
## 4. Long-Term Wealth Taxation and Top Wealth Holders

		Current 2018 wealth (\$ billions)	With 3% wealth tax (above \$1b) since 1982	With 10% wealth tax (above \$1b) since 1982	
<b>Top Wealth Holder Source</b>					
1.	Jeff Bezos	Amazon (founder)	160.0	86.8	24.1
2.	Bill Gates	Microsoft (founder)	97.0	36.4	4.3
3.	Warren Buffett	Berkshire Hathaway	88.3	29.6	3.2
4.	Mark Zuckerberg	Facebook (founder)	61.0	44.2	21.3
5.	Larry Ellison	Oracle (founder)	58.4	23.5	4.0
6.	Larry Page	Google (founder)	53.8	35.3	13.3
7.	David Koch	Koch industries	53.5	18.9	3.6
8.	Charles Koch	Koch industries	53.5	18.9	3.6
9.	Sergey Brin	Google (founder)	52.4	34.4	13.0
10.	M. Bloomberg	Bloomberg LP (f.)	51.8	24.2	5.8
11.	Jim Walton	Walmart (heir)	45.2	15.1	2.0
...					
Total top 15			942.5	433.9	111.5

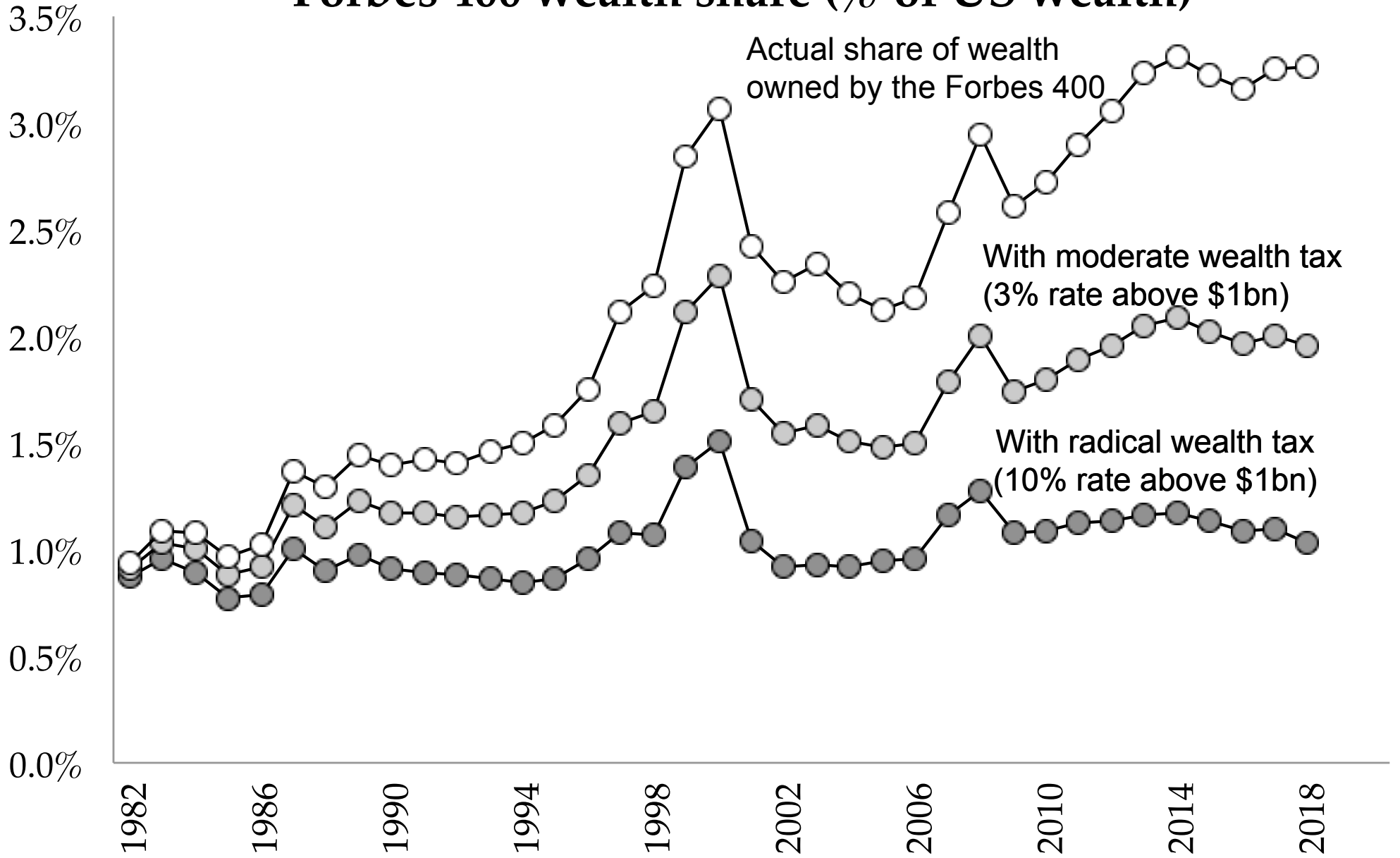
## Forbes 400 wealth share (% of US wealth)



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## **PROGRESSIVE WEALTH TAX PROSPECTS**

Wealth tax likely the most powerful tax to restore tax progressivity at the very top

Great revenue potential and de-concentration potential in the top heavy US context

With successful enforcement, you get at least one of these 2 (revenue first, de-concentration second)

Empirical evidence: Enforcement is a policy choice

Caveat: Tax could be undermined by weak enforcement or bad reforms from the left (exemption threshold too low) and from the right (asset exemptions, tax limits based on income)