“Progressive Wealth Taxation” by Saez and Zucman

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BPEA, September 2019

Plan

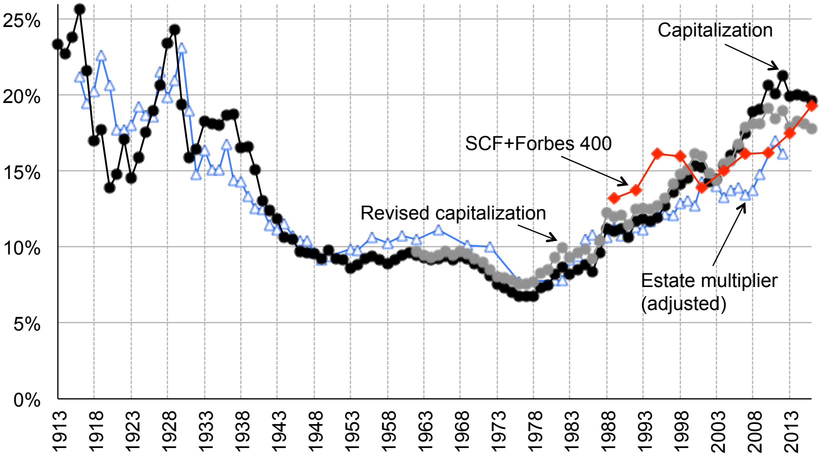
1. Wealth base estimates
2. Implementation issues
3. Rate and responses
4. Alternatives

Wealth concentration series

- Improvement relative to Saez and Zucman (2016)
    - partially addressing overestimating fixed income
    - extended estate tax multiplier series with improved mortality assumptions (though ad hoc unit of observation adjustment)

Saez-Zucman (2019)

(a) Top 0.1% wealth share



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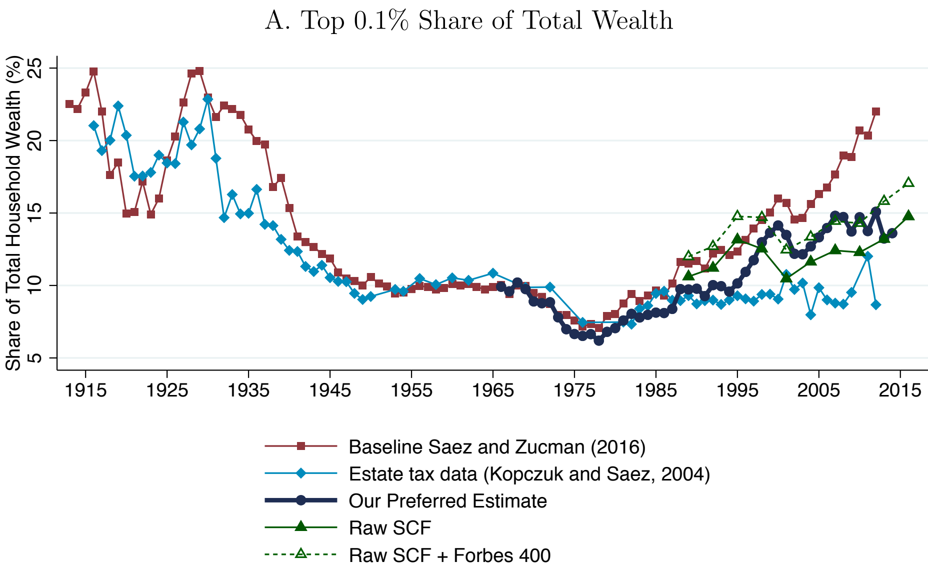
Smith-Zidar-Zwick (2019)



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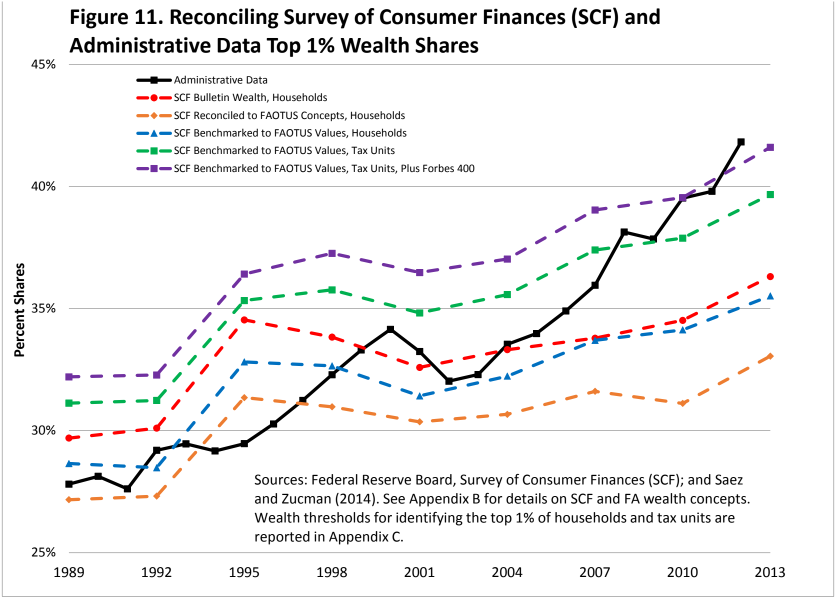
Bricker et al (2015, working paper version)



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- Unit of observation issues; tax units used here, but unclear why — that makes a large difference for levels (but it can't explain trend differences)
- The bottom line: wealth base estimates should be treated as suggestive not definitive; reasonable changes in assumptions can yield big differences. Still, closer to reconciliation.
- No easy way to put standard errors, but these are imputation exercises with a lot of judgment calls.

Implementation issues

- Key noncontroversial design principles applied here: comprehensive base, very strong enforcement, 3rd party reporting (all good if implemented)
- Large threshold to minimize valuation, liquidity, unpopularity.
- Key aspect that makes wealth tax difficult to implement: the base not based on (arm's length) market transactions. Familiar problems from transfer pricing, unrealized capital gains, property taxation etc.

Valuation

- Privately held businesses are very difficult and costly to value. A cursory look at the estate tax experience reveals that. Wealth tax would apply annually to 100 times as many taxpayers.
- Ideas in the paper:
  - reliance on public trading when it happens (of course, but how endogenous/elastic is public trading?)
  - reliance on existing private valuations (but those are costly, infrequent and incentives different)
  - formula valuation based on profits/assets, turning it into something akin to corporate tax (applied in Switzerland, at low rates though and it's the country with by far highest estimated responses)
  - paying government in shares, government as a market maker (political economy?)

Implementation (continued)

- Tax unit — individual vs family.
- Quantitatively non-trivial decision — under Pareto assumptions in the paper 26% of the base is between threshold and 2$\times$threshold (e.g. $50 and $100m).
- Gifts to children.
- Authors admit that the tax is "fragile" — threshold, base, enforcement are easy to erode
- Treatment of charity and trusts
- Lessons from other countries — countries that can collect 50% of GDP in revenue, somehow can't implement wealth tax well

Rates

- "Moderate" tax of 3%
  - if ROR is 3%, this is equivalent to 100% income tax..., even at 7% ROR it's a 43% tax).
  - ...and that's on top of of corporate and personal income taxes and estate tax
- Rate of return:

$$\text{normal rate of return} + \text{risk} + \text{rents}$$

- compare revenue-equivalent ("low rate") wealth tax and ("high rate") income tax:
  - wealth tax is a heavy tax on principal (ie normal rate of return), light tax on returns
  - income tax is a much heavier tax on rents, but lighter on normal rate of return (and opens up other design possibilities such as exempting normal rate, as has been tried in Scandinavian countries)

Should we worry about Atlas responding?

Top Wealth Holder	Source	Current 2018 wealth ($ billions)	With moderate wealth tax since 1982 (3% above $1b)	With radical wealth tax since 1982 (10% above $1b)
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

- Bezos (pre-divorce) owned 16% of Amazon; under "radical" tax he would own 2.4%. What difference would it make?

Alternatives

- Fixing capital gains taxation
  - Addressing step up
  - Solutions to valuation problem in wealth context are naturally solutions that allow for introducing accrual taxation
  - Auerbach's retrospective taxes (it solves liquidity and valuation) or notional liability if one has annual valuation (to address liquidity)
- Improving estate tax (enforcement and base)

- Data: I appreciate, though I'm not convinced everybody will, the idea that policy should be pursued in the interest of research rather than just the research in the interest of policy.