“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
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)

Very large discrepancy though with Smith, Zidar and Zwick (2019) that makes additional adjustments to capitalization of fixed income and equities

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.
Figure 2: US Wealth Inequality and Its Evolution

(a) Top 0.1% wealth share

Notes: The top panel depicts various estimates of share of wealth held by the top 0.1% of family tax units in the United States: (1) survey data combining the SCF and the Forbes 400 rich list, (3) the capitalization method of Saez and Zucman (2016) updated to 2016 and improved upon in Piketty, Saez, and Zucman (2018), (3) the capitalization method with adjustments to capitalizing interest income and valuing pass-through businesses, (4) the estate multiplier method from Kopczuk and Saez (2004) updated in Saez and Zucman (2016), smoothed out after 2000, adjusted for more accurate mortality differentials by wealth from Chetty et al. (2016) and converted into tax units (instead of individual adults). See Figure 3 below for a step by step decomposition of these adjustments. The bottom panel depicts estimates of the share of wealth held by the bottom 90% of families (households for the SCF) (no estate multiplier estimates are available for this measure). To improve comparability, the SCF estimates exclude consumer durables and add back the wealth of the Forbes 400 which are excluded by design from the SCF.
Wealth concentration series

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Figure 1: Wealth Concentration in the United States

A. Top 0.1% Share of Total Wealth

Notes:
This figure plots the share of total household wealth for different wealth groups. Panel A graphs the top 0.1% share of net household wealth from Saez and Zucman (2016), Kopczuk and Saez (2004), and the SCF, as well as our preferred specification. Panel B plots the share of net household wealth of the bottom 90%, P90-99, and the top 1% of the wealth distribution under the baseline and our preferred alternatives.
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Figure 11. Reconciling Survey of Consumer Finances (SCF) and Administrative Data Top 1% Wealth Shares

Sources: Federal Reserve Board, Survey of Consumer Finances (SCF); and Saez and Zucman (2014). See Appendix B for details on SCF and FA wealth concepts. Wealth thresholds for identifying the top 1% of households and tax units are reported in Appendix C.
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- 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.
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.
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?)
Tax unit — individual vs family.
Quantitatively non-trivial decision — under Pareto assumptions in the paper 26% of the base is between threshold and $2 \times \text{threshold}$ (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
"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:

normal rate of return + risk + 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?

Table 4: Effect of Long-Term Wealth Taxation on Top 15 Wealth Holders in 2018

<table>
<thead>
<tr>
<th>Top Wealth Holder</th>
<th>Source</th>
<th>Current 2018 wealth ($ billions)</th>
<th>With moderate wealth tax since 1982 (3% above $1b)</th>
<th>With radical wealth tax since 1982 (10% above $1b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Jeff Bezos</td>
<td>Amazon (founder)</td>
<td>160.0</td>
<td>86.8</td>
<td>24.1</td>
</tr>
<tr>
<td>2. Bill Gates</td>
<td>Microsoft (founder)</td>
<td>97.0</td>
<td>36.4</td>
<td>4.3</td>
</tr>
<tr>
<td>3. Warren Buffett</td>
<td>Berkshire Hathaway</td>
<td>88.3</td>
<td>29.6</td>
<td>3.2</td>
</tr>
<tr>
<td>4. Mark Zuckerberg</td>
<td>Facebook (founder)</td>
<td>61.0</td>
<td>44.2</td>
<td>21.3</td>
</tr>
<tr>
<td>5. Larry Ellison</td>
<td>Oracle (founder)</td>
<td>58.4</td>
<td>23.5</td>
<td>4.0</td>
</tr>
<tr>
<td>6. Larry Page</td>
<td>Google (founder)</td>
<td>53.8</td>
<td>35.3</td>
<td>13.3</td>
</tr>
</tbody>
</table>

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.