Basic economics of wealth tax

- tax on future wealth (say, 2%)

\[ 1 + r = 1 + \text{normal rate of return} + \text{risk} + \text{rents} \]

- tax on capital income (say, 40%)

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(2% of 1.05 ≈ 40% of 0.05)

Wealth tax shifts burden from rents/risk toward principal (ie normal rate of return)

What can wealth tax do that capital income tax cannot: (1) impose income tax rates over 100% and (2) be an effective tool of one-time confiscation of ill-gotten gains
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Externalities

- dynastic wealth — estate tax
- political power — political reform (wealth tax encourages spending, including on politics, and it also increases benefits of political spending!)
- monopoly power — anti-trust
- garden-variety rents — capital income tax
- misdirected charity — time to rethink how charity is treated/subsidized
Tax (observable) arm’s length market transactions...

...that’s what makes 3rd party reporting possible, keeps base easily measurable, and makes compliance costs low (eg., VAT, labor income tax)

Where we don’t tax arm’s length transactions? E.g., transfer pricing, small businesses, real estate assessments

In particular, valuation (especially, but not just, of businesses) is a major problem with the wealth tax (well tested in the case of estate taxation)...

...work-arounds are costly, imprecise (and therefore gameable) or very experimental

Depth of public markets is not guaranteed
My short list of reforms

- 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 (to address liquidity when annual valuation is possible)
- Reforming charity (credit rather than deduction; no double dipping via donation of accrued gains; valuation(!) games; what’s legitimate charity?)
- Improving estate tax (enforcement and base)
- Rolling back pass-through deduction
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- ...and VAT
Revenue (%GDP) — VAT and excise

Highest VAT revenue:
- Denmark 9.4%
- New Zealand 9.4%
- Hungary 9.3%
- Sweden 9.2%
- Finland 9.1%

United States
Revenue: 25.9%

Canada
Revenue: 32.7%

OECD – Average
Revenue: 34.0%
Revenue (%GDP) — Social Security and payroll taxes

Consumption+Income+Corporate | Social Security/payroll | All other sources

United States

Canada

OECD – Average