

Wealth taxation

Natasha Sarin
University of Pennsylvania

What is the objective of a wealth tax?

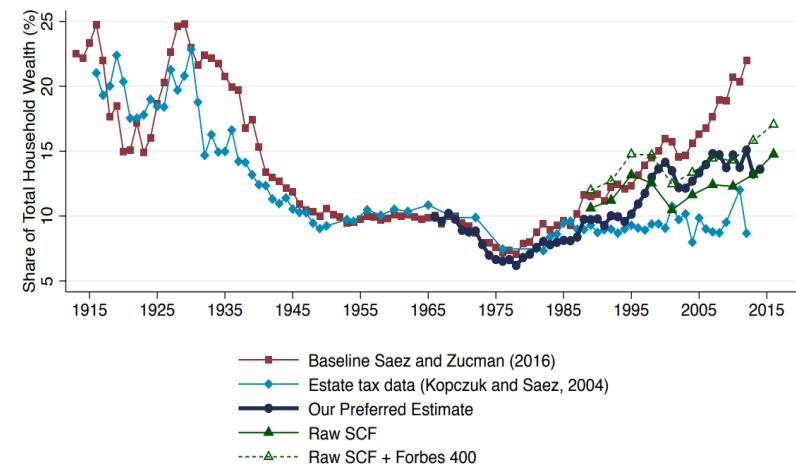
- Sen. Warren: "You make it to the top, then pitch in two cents, so every other kid in America has a chance to make it."
 - Medicare for All
 - Universal childcare
 - Student debt cancellation
 - Free college
- Emmanuel Saez and Gabriel Zucman: "Root justification is not about collecting revenue...It is about safeguarding democracy against oligarchy."
- Assuming that objective is **revenue-raising**, how credible should we find Warren estimates?

Unknown #1: How much wealth at the top?

- SZ top wealth estimates based on “capitalization” method
 - $I = r \times W$
- What is r ?
 - SZZ, Kopczuk (2015) make clear that returns are not equal across asset classes
 - Fixed income
 - Wealthy high-yield bonds
 - Non-wealthy bank accounts
- **This adjustment alone decreases wealth tax revenue by 50%**

Figure 1: Wealth Concentration in the United States

A. Top 0.1% Share of Total Wealth



Smith, Zidar, Zwick (2019)

Unknown #2: How much will wealth tax raise?

Comparison with estate tax

Benchmarking against Experience of Estate Taxation	
Estate tax rate	40%
Effective estate tax rate	14%
Mortality rate (avg. share of Forbes 400 deaths, last 4 years)	approx. 2%
Equivalent to a wealth tax (using effective rate)	0.3%
Taxes raised from estate tax	\$9B
Expected wealth taxes	\$69B
Saez and Zucman estimate for 2% tax on \$50M+	\$187B

- Very naïve
- Lower bound
- Likely if wealth tax implemented, would raise more
- But SZ estimates seem high (not “middle of road”)
- **This (naïve) adjustment decreases wealth tax revenue by 60%**

Unknown #2: How much will wealth tax raise?

*Problematic Saez-Zucman
estimates*

Avoidance estimates	1% wealth tax reduces reported wealth by:
Seim (2017)	0.5%
Jakobsen, Jakobsen, Kleven and Zucman (2018)	0.5%
Londono-Velez and Avila (2018)	2-3%
Brulhart, Gruber, Krapf, Schmidheiny (2016)	23-34%
SZ average	8
2% wealth tax reduces reported wealth by:	15%
3% wealth tax reduces reported wealth by:	21%
6% wealth tax reduces reported wealth by:	38%
SZ assumption (regardless of rate)	15%

- A few of (many) issues:
 - Avoidance
 - Sloppy math: CBO growth averages 4% in the decade, they assume 5.5%
- **These two alone decrease wealth tax revenue by 25%**

Unknown #2: How much will wealth tax raise?

Interaction effects?

Flawed exercise to illustrate (potential) impact on wealth tax estimates

Saez-Zucman total	\$3.75T
Adjusting for tax base	\$1.9T
Adjusting for avoidance and GDP issues	\$1.4T
Adjust for estate tax	\$560B

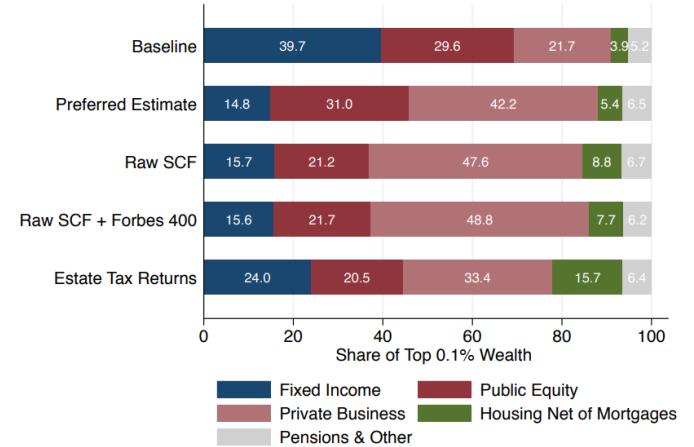
- This is problematic
 - Estate tax adjustment has avoidance associated w/ estimate tax
 - So likely double-counting
- Highlights (another) revenue estimation problem
 - ZERO consideration to interaction of proposals.
 - Mark-to-market + wealth tax = ?
- Combined impact of proposals is tax rate at the top well over 100%
- By design: objective is “a desire to reduce inequality”
- But means revenue numbers are mechanically too high

Administrative Issues

Unknown #3: Can we implement a wealth tax?

- Issues of liquidity, valuation
- Also from Smith, Zidar, Zwick (2019)
 - Not only does top wealth change
 - Composition of wealth changes
- 50% of assets of the top are illiquid, no public market valuations
 - Give shares to Treasury?
 - Bigger problem than SZ suggest (~20%)

C. Aggregate Top 0.1% Wealth Composition under Alternative Specifications



Smith, Zidar, Zwick (2019)

Constitutional issues

Unknown #3: Can we implement a wealth tax?

- Actual constitutional question
- Also practically, with this Court?

Opinion

The Big Problem With Wealth Taxes

Proposals by Senators Warren and Sanders may not pass constitutional muster. Then what?

By Daniel Hemel and Rebecca Kysar
The authors are law professors with expertise on tax law.

Nov. 7, 2019

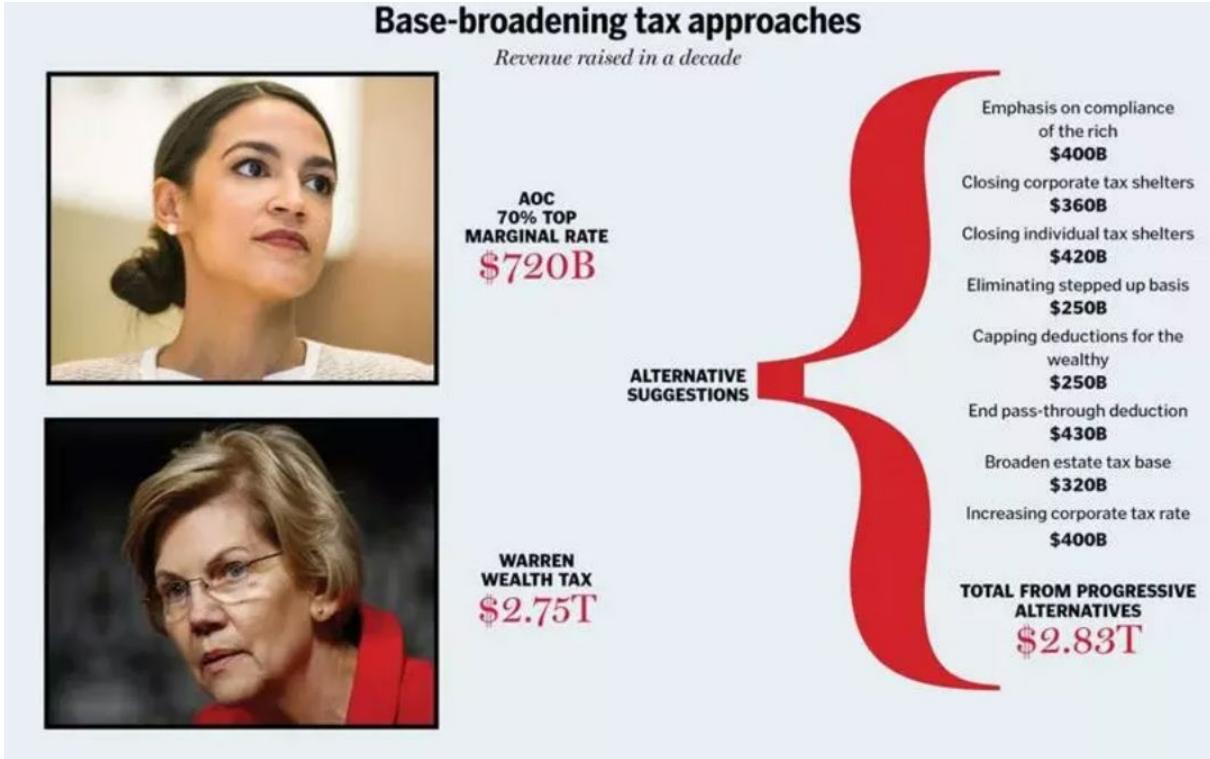


Senator Elizabeth Warren speaking in Dubuque, Iowa. Jordan Gale for The New York Times

Senator Elizabeth Warren [unveiled](#) a new wealth tax proposal last week that she says will raise — along with her previously announced [wealth tax plan](#) — [\\$3.75 trillion](#) over the next decade. Senator Bernie Sanders says his wealth tax will yield [\\$4.35 trillion](#) over the same period.

We fear these figures are vast overestimates. The likeliest outcome is that a [wealth tax](#) will raise exactly zero dollars. The problem, alas, is the Constitution. The Warren and Sanders plans run headlong into more than two centuries of precedent that cast doubt on the constitutionality of wealth taxation.

Alternatives



- Wealth tax now up to \$3.75T
- Our compliance estimate around \$1.1T
- Comparable