TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

Should Wealth Be Taxed?

Issues and Options

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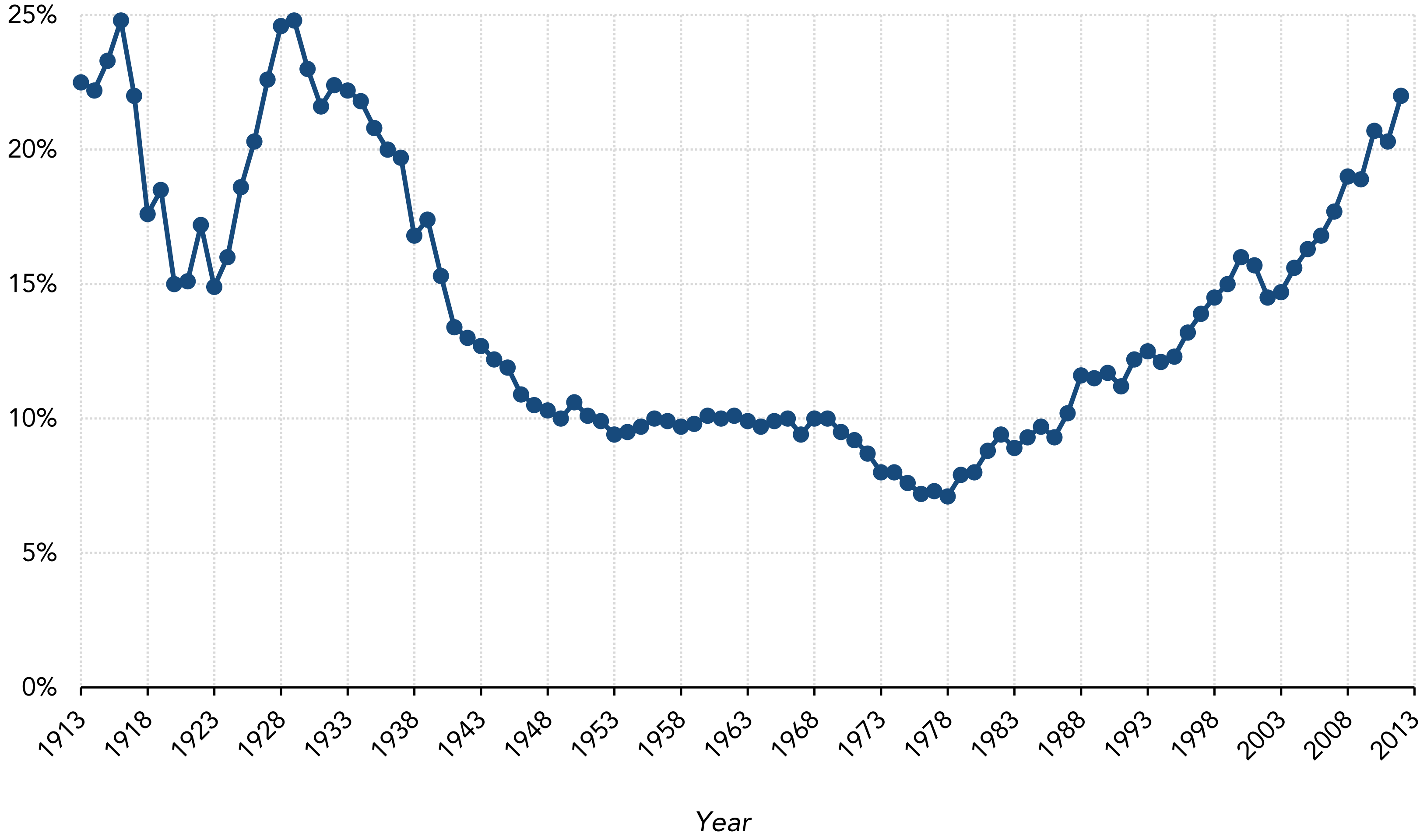
Top 0.1 Percent Net Wealth Share in the US

Percentage share of total household net wealth, 1913 - 2012



The chart that launched a thousand proposals.

Source: Saez and Zucman (2016).
Note: Authors estimate wealth by capitalizing income reported on tax returns, accounting for assets that do not generate taxable wealth.

Wealth Taxes and the Race for the White House

- Senator Elizabeth Warren (D-MA)
  - 2 percent on net wealth in excess of $50 million
  - 3 percent above $1 billion
- Senator Bernie Sanders (D-VT)
  - Wealth tax on top 0.1 percent in wealth distribution
- Mayor de Blasio (former candidate)
  - 1 percent on net wealth in excess of $10 million
  - 2 percent on net wealth above $25 million
  - 3 percent above $100 million

Why adopt policies that reduce wealth inequality from the top down?

- For supporters, taxing the wealthy serves at least four purposes:
  - Curbs the accumulation of power that comes with accumulation of wealth
  - Ensures wealthy pay fair share of taxes
  - Finances new initiatives
    - *Sen. Warren: Wealth tax would pay for free child care, student debt relief, and other policies*
    - *Sen. Sanders: Wealth tax would pay for housing initiative*
  - Provides better data for research on wealth inequality

But others are less optimistic

- Skeptics—including many who support higher taxes on higher-income taxpayers—say:
  - Even with a wealth tax, the rich would still be richest and most powerful.
  - Incremental changes to current taxes would be easier to implement.
  - Wealth tax would discourage saving, investment, and entrepreneurship.
  - Wealth taxes would not raise as much revenue as supporters claim—making other campaign promises more difficult to meet without increasing deficit.

Wealth taxes are not entirely new in the US.

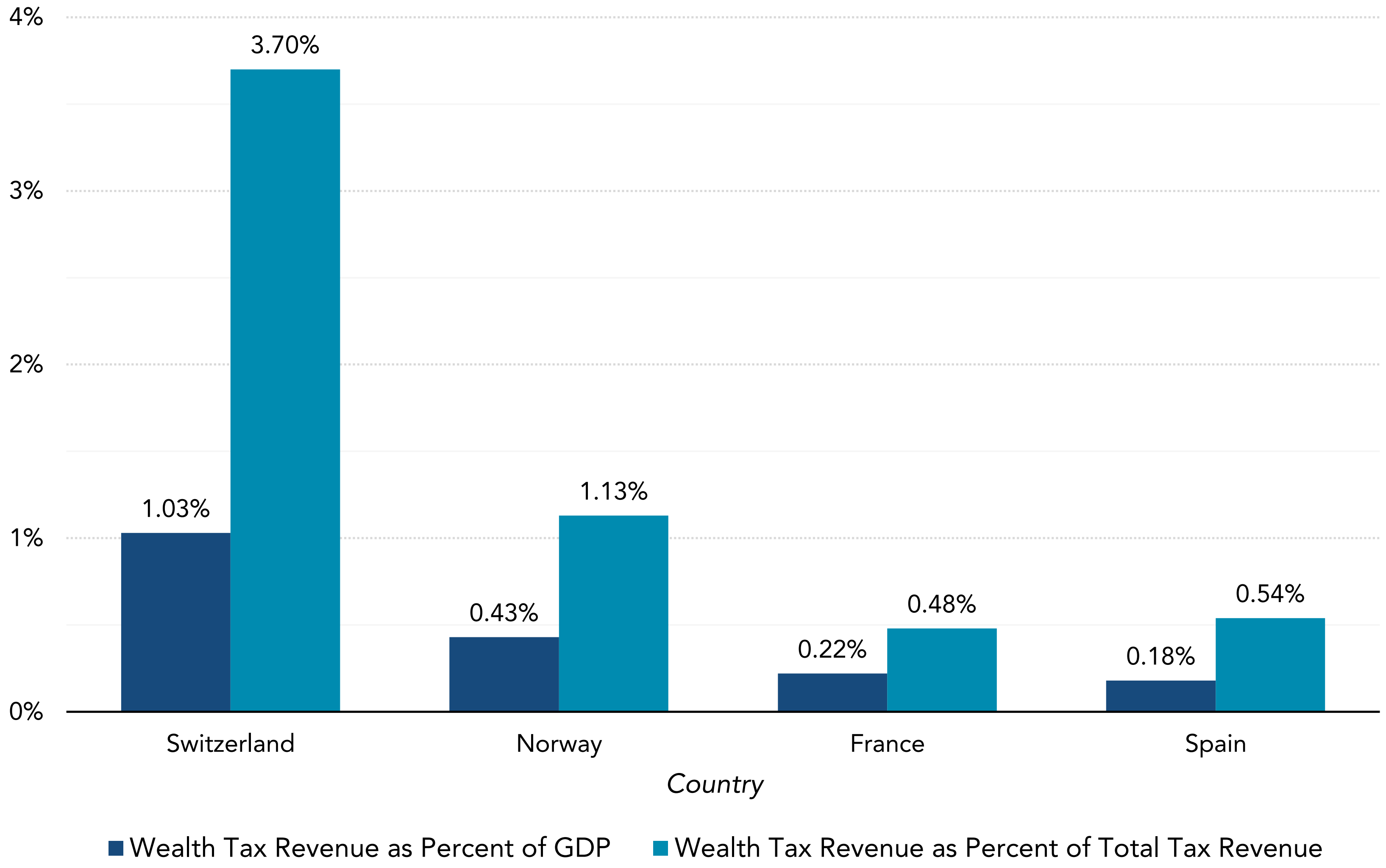
- Property taxes are the largest source of revenues for localities.
- Estate and gift taxes are imposed on transfers of wealth.
- And we tax many types of capital income.

The burden of those taxes is eased by provisions such as:

- Circuit breakers and homestead exemptions (property taxes)
- High thresholds and discounts (estate taxes)
- Deferral and step-up basis (capital gains)

Net Wealth Taxes in France, Norway, Spain, and Switzerland

Percentage share of GDP and total tax revenue, 2016



In 1990, 12 OECD countries had wealth taxes.

In 2017, only four still had wealth taxes.

France replaced wealth tax with property tax in 2018.

Source: Organisation for Economic Co-operation and Development

Key Design Questions

- What is taxed?
- How much is taxed?
- What is the tax rate?
- How and when is wealth valued?
- How are gifts, trusts, and foundations treated?
- How is wealth prevented from leaving the country?
- Can wealth tax be enforced?

What is taxed?

- Broad-based taxes are generally favored by tax experts because they:
  - Do not distort investment decisions; and
  - Limit opportunities for tax avoidance.
- Yet, OECD countries had full or partial exemptions for some assets such as:
  - Pensions;
  - Privately held businesses—to extent participation is active;
  - Personal residences; and
  - Artwork and antiques,

How is wealth measured?

- Net wealth should be measured at market value.

- Some assets—such as stocks and bonds—trade on the market often, so their value can be assessed.
  - But at what point during the year?

- Market value is more difficult to assess when the asset is not traded often on market, is intangible, or not visible.

What should the rate be?

- A 1 percent wealth tax sounds low—but is it?

- The total tax burden of a wealth tax partly depends on rates of returns.
  - Sylvia earns 10 percent on her investments. A 1 percent wealth tax lowers her after-tax rate of return to 9 percent—equivalent to 10 percent tax on capital income.
  - Maxwell earns only 2 percent on his investments. That 1 percent wealth tax is equivalent to a 50 percent tax on capital income.

- That would be on top of any income tax they already pay on capital income.

What should the tax threshold be?

- OECD countries had lower thresholds than those included in the candidates' proposals.
  - In 2017, threshold ranged from 67,000 euros for single filers in Switzerland to 1.3 million euros in France.
- The lower the threshold, the more likely the tax will affect people who are "asset rich" but "cash poor."
  - Liquidity constraints can be eased by tax caps and deferral.
  - Spain, for example, limits total income and wealth tax to 60 percent of taxable income.

Can tax avoidance be minimized?

- Set different thresholds for married and unmarried taxpayers;
- Include dependents' wealth in parents' wealth;
- Count (to some extent) assets in family-run foundations;
- Apply more restrictive limits to trusts; and
- Impose exit taxes.

Can tax evasion be minimized?

- The recipe for minimizing evasion is the same as for other taxes:
  - Expand IRS's access to third party data;
  - Impose penalties; and
  - Increase IRS enforcement.

- But the hurdles are higher than for other taxes because of:
  - Limited IRS resources, especially those trained to assess wealth
  - Wealthy taxpayers' sizable resources to dispute IRS's claims

The Controversy Over Estimates of Wealth Taxes

- Street fights over revenue estimates do not often break out among top public finance economists, but wealth taxes have ignited such a brawl.

- Conceptually, the disagreement has its basis in three questions:
  - How much wealth is there in the US?
  - How is wealth distributed among households?
  - Can a wealth tax be avoided or evaded?

How to Estimate Household Wealth

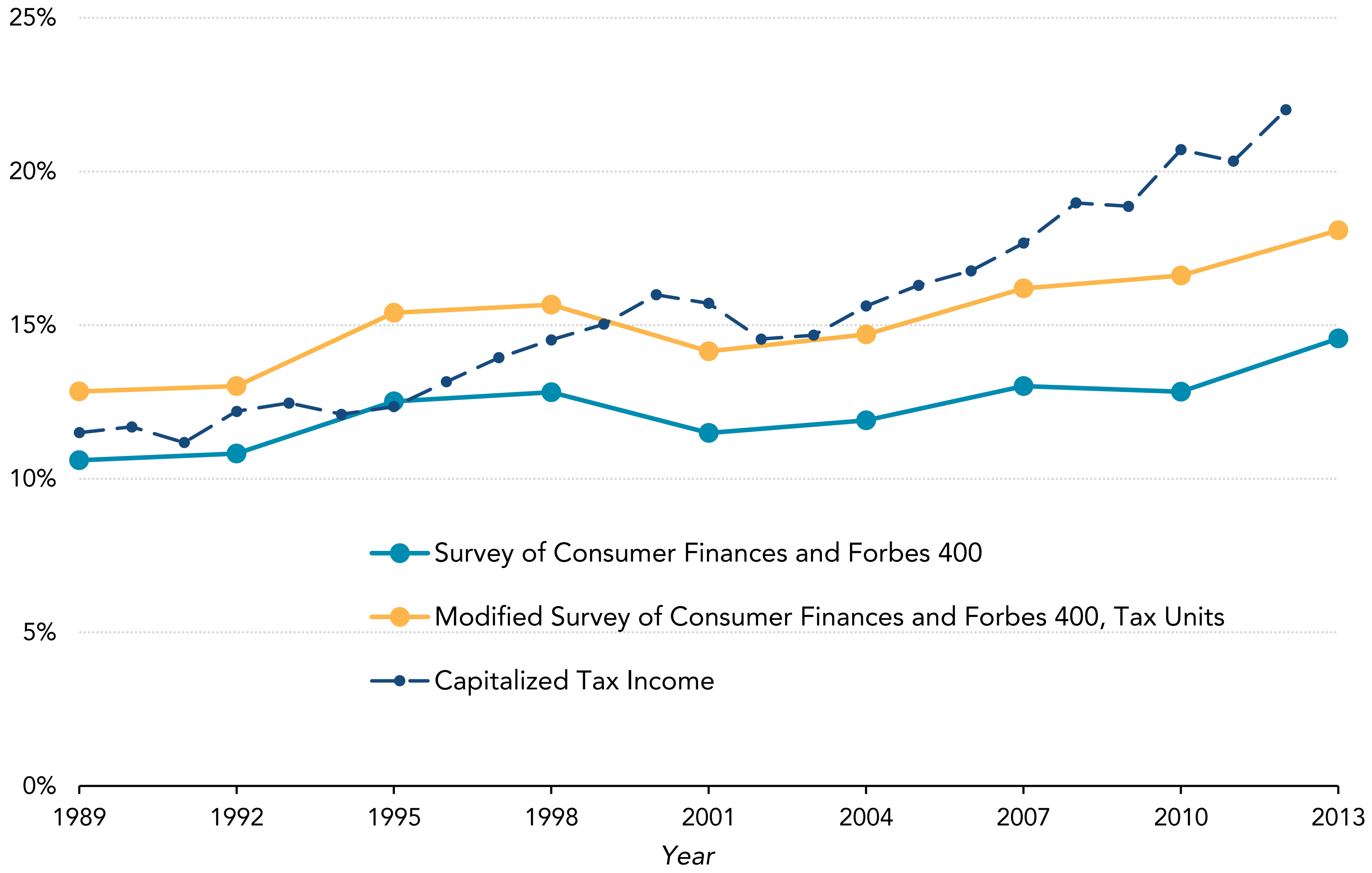
- Federal Reserve publishes two wealth estimates:
  - Financial Accounts every quarter
    - *Based on macro data and computed as residual*
  - Survey of Consumer Finances every three years
    - *Based on survey of about 6,000 families but omits Forbes 400 and some pension wealth*
- Tax data
  - Estate tax data
    - *Researchers adjust data for population and mortality probabilities.*
  - Income tax data
    - *Researchers “capitalize” income by assuming rates of returns.*

Comparison of Estimates of Net Wealth, 2016

Source	Amount ($ trillions)
Federal Reserve: Financial Accounts	91.5
Federal Reserve: Survey of Consumer Finances	86.9
Batty et al: Modified Survey of Consumer Finance	97.9
Tax Policy Center	101.2

Top 0.1 Percent Net Wealth Share in the US

Share of total household net wealth, 1989 - 2013



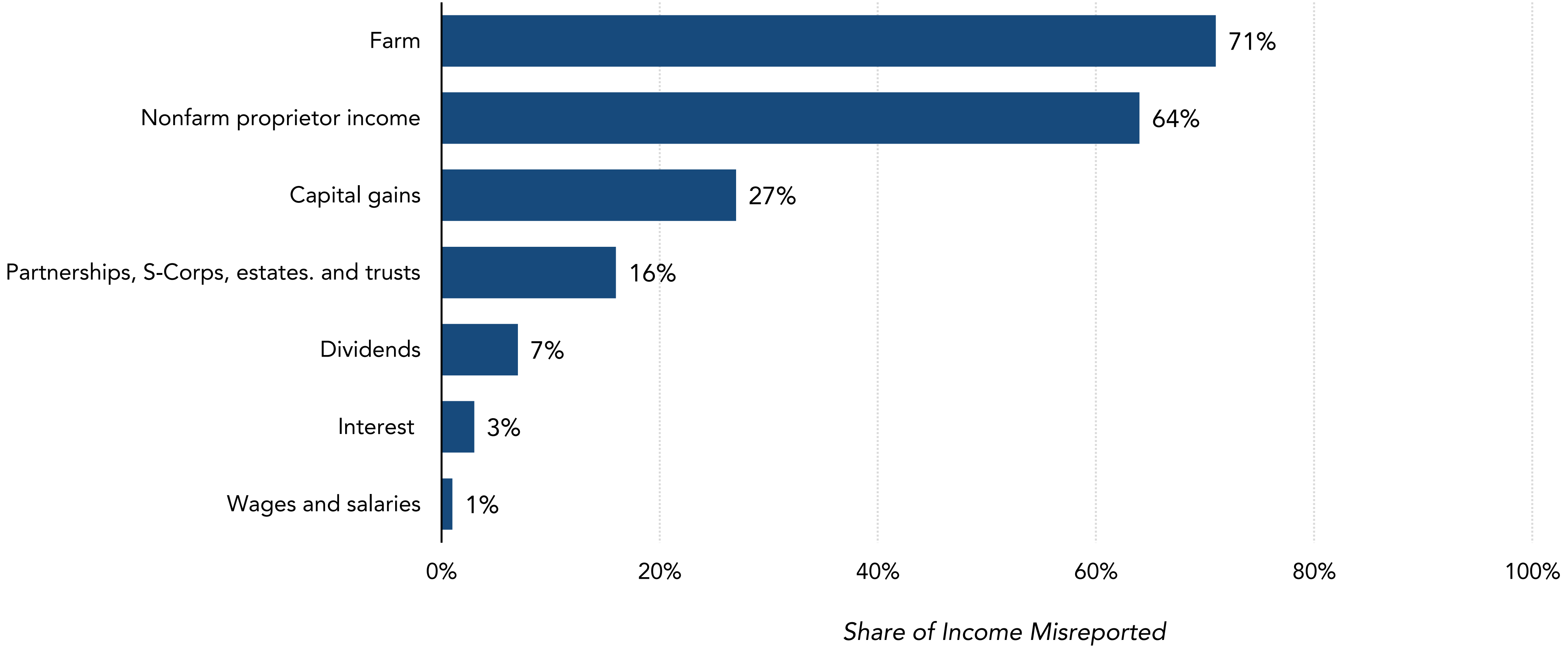
The distribution of net wealth depends on the data and methodology.

In one study, researchers tried several methods. They found estimates of the top 0.1 percent's share of net wealth ranging from 15 percent to 22 percent in 2013.

Source: Bricker, Henriques, Krimmel, and Sabelhaus (2016).

Individual Income Tax Net Misreporting Rates

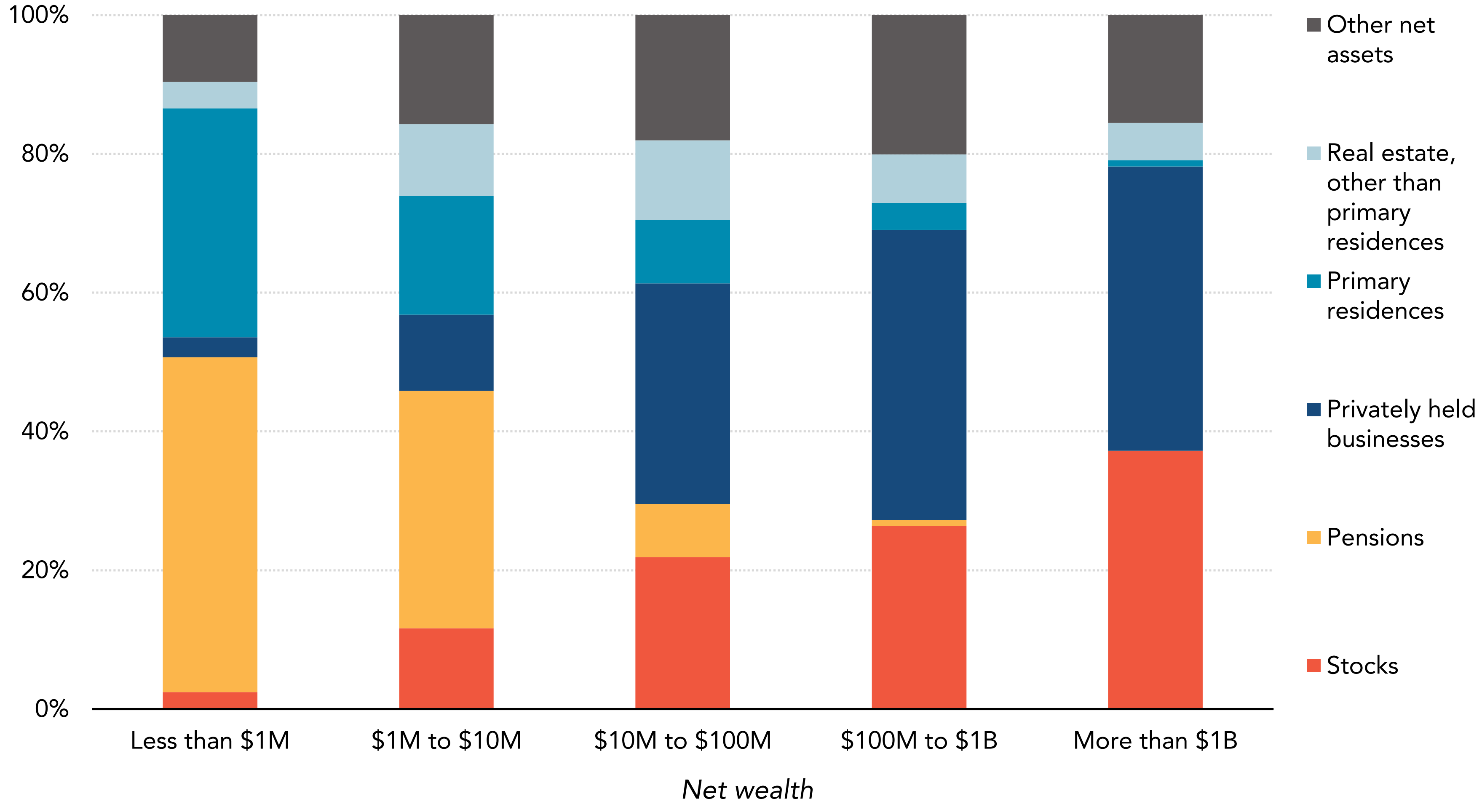
By source of income, tax years 2008 - 2010



Source: Internal Revenue Service, 2016.

Composition of Portfolio by Net Wealth Group

Percentage share of total net wealth within group, 2021



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-1).
Note: Tax units with negative net wealth are excluded from their respective wealth group. Values for pensions and stocks exclude debt.

How much more would a wealth tax spur avoidance and evasion?

- Studies of European wealth taxes find that wealth taxes reduce reported wealth largely through adoption of avoidance and evasion.

- Studies differ on the magnitude of the impact:
  - One study found a 1 percent tax reduced reported wealth by less than 1 percent; and
  - Another study found the effect could be as high as 34 percent.

- But those studies may not be relevant to US.

Revenue Estimates of Wealth Tax Options

Impact on tax revenue, 2021 - 2030

Plan Details	Amount ($ Billions)
Option 1: 1 percent tax on net wealth in excess of $20 million ($40 million if married filing jointly).	1,098.1
Option 2: 1 percent tax on net wealth in excess of $20 million ($40 million if married filing jointly); 2 percent above $100 million	1,631.7
Option 3: 1 percent tax on net wealth in excess of $100 million; 2 percent above $1 billion	815.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-1).

Note: Baseline is current law as of January 1, 2019.

Distribution of Wealth Tax Among Affected Taxpayers

By net wealth, 2021

Plan Details	99-99.9 Percentile		99.9+ Percentile	
	Number of Tax Units	Share of Wealth Tax	Number of Tax Units	Share of Wealth Tax
Option 1: 1 percent tax on net wealth in excess of $20 million ($40 million if married filing jointly).	40,000	2.7%	127,000	97.3%
Option 2: 1 percent tax on net wealth in excess of $20 million ($40 million if married filing jointly); 2 percent tax above $100 million.	40,000	1.7%	127,000	98.3%
Option 3: 1 percent tax on net wealth in excess of $100 million; 2 percent above $1 billion.	0	0.0%	31,000	100.0%

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-1).

Note: Baseline is current law as of January 1, 2019.

1 Percent Tax on Net Wealth in Excess of $20M ($40M if Married Filing Jointly)

Federal tax change by expanded cash income percentile, 2021

Expanded Cash Income Percentile	Tax Units with Tax Increase: Percent of Tax Units With Tax Increase	Tax Units with Tax Increase: Average Tax Change ($)	All Tax Units: Share of Total Federal Tax Change	All Tax Units: Average Federal Tax Rate: Change (% Points)	All Tax Units: Average Federal Tax Rate: Under the Proposal
Lowest quintile	*	**	0.1	*	3.2
Second quintile	*	**	*	*	7.8
Middle quintile	*	**	0.8	*	12.6
Fourth quintile	*	**	0.5	*	15.8
Top quintile	0.6	600,520	97.3	1.0	23.8
All	0.1	589,040	100.0	0.5	18.5
Addendum					
80-90	*	**	0.1	*	18.4
90-95	0.1	83,100	0.6	*	19.8
95-99	0.5	109,500	2.7	0.1	22.2
Top 1 Percent	11.0	723,240	94.0	3.2	32.6
Top 0.1 Percent	37.8	1,480,520	67.7	5.0	35.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-01)
Notes: Baseline is current law as of January 1, 2019
* Non-zero value rounded to zero; ** Insufficient data

1 Percent Tax on Net Wealth in Excess of $20M ($40M if Married Filing Jointly), 2 Percent Tax Above $100M

Federal tax change by expanded cash income percentile, 2021

Expanded Cash Income Percentile	Tax Units with Tax Increase		All Tax Units		
	Percent of Tax Units With Tax Increase	Average Tax Change ($)	Share of Total Federal Tax Change	Average Federal Tax Rate: Change (% Points)	Average Federal Tax Rate: Under the Proposal
Lowest quintile	*	**	0.1	*	3.2
Second quintile	*	**	*	*	7.8
Middle quintile	*	**	0.6	*	12.6
Fourth quintile	*	**	0.4	*	15.9
Top quintile	0.6	959,350	97.7	1.5	24.3
All	0.1	936,890	100.0	0.8	18.8
Addendum					
80-90	*	**	0.1	*	18.4
90-95	0.1	84,360	0.4	*	19.8
95-99	0.5	114,230	1.7	0.1	22.2
Top 1 Percent	11.0	1,169,680	95.6	5.1	34.5
Top 0.1 Percent	37.8	2,586,700	74.3	8.7	39.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-01)
Notes: Baseline is current law as of January 1, 2019
* Non-zero value rounded to zero; ** Insufficient data

1 Percent Tax on Net Wealth in Excess of $100M, 2 Percent Above $1B

Federal tax change by expanded cash income percentile, 2021

Expanded Cash Income Percentile	Tax Units with Tax Increase: Percent of Tax Units With Tax Increase	Tax Units with Tax Increase: Average Tax Change ($)	All Tax Units: Share of Total Federal Tax Change	All Tax Units: Average Federal Tax Rate: Change (% Points)	All Tax Units: Average Federal Tax Rate: Under the Proposal
Lowest quintile	*	**	*	*	3.2
Second quintile	*	**	*	*	7.8
Middle quintile	*	**	0.2	*	12.6
Fourth quintile	*	**	0.2	*	15.8
Top quintile	0.1	2,538,840	98.9	0.8	23.6
All	*	**	100.0	0.4	18.4
Addendum					
80-90	*	**	*	*	18.4
90-95	*	**	*	*	19.8
95-99	*	**	0.2	*	22.1
Top 1 Percent	2.6	2,565,490	98.7	2.6	32.0
Top 0.1 Percent	14.9	3,884,370	88.9	5.2	35.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-01)
Notes: Baseline is current law as of January 1, 2019
* Non-zero value rounded to zero; ** Insufficient data

Conclusions

- Many challenges!
- Wealth tax raises a lot of money, but perhaps less than advocates hope.
- The estimates, though, do not account for:
  - Anticipation effects;
  - Start-up costs; and
  - Additional funding for IRS.