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TAXING WEALTH IN THE UNITED STATES: ISSUES AND CHALLENGES

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ABSTRACT

Unlike some other countries, the United States does not have a wealth tax—a tax on the value of assets, net of debts. An appeal of a wealth tax is that it can be designed to raise substantial revenue while increasing taxes on a relatively small share of the population. Wealth taxes, however, are difficult to administer, and many taxpayers in other countries have adopted legal and illegal strategies to minimize their payments. Moreover, legal scholars have debated the constitutionality of a wealth tax in the United States. This report examines the issues and challenges of adopting a wealth tax in the United States and illustrates how varying the tax base, thresholds, and rates of a wealth tax would affect federal revenues and the taxes paid by households at various income levels. Specifically, we find that if all assets greater than \$50 million (\$25 million for unmarried filers) were subject to a 1 percent tax, the tax would raise nearly \$2 trillion over a 10-year period, with about 86 percent of the tax borne by families in the top 1 percent of the income distribution. Increasing the tax rate to 2 percent for assets above \$100 million (\$50 million for unmarried taxpayers) or reducing the threshold to \$30 million (\$15 million) would further increase the revenue estimate by roughly \$1 trillion. The revenue estimates are reduced by about 45 percent if the tax base excludes pension benefits, housing values above \$1 million, and businesses in which the owner is actively involved.

ABOUT THE TAX POLICY CENTER

The Urban-Brookings Tax Policy Center aims to improve tax and fiscal policy decision making by producing independent, timely, and accessible analysis. We help policymakers, advocates, journalists, researchers, and the broader public understand how tax policy affects different groups of people, government revenues, and the economy.

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EXECUTIVE SUMMARY

The concentration of wealth among the top 1 percent of families has led some lawmakers, academics, and others to propose a tax on assets—net of debt—to supplement the income taxes on investment income. Supporters have also found wealth taxes appealing because they can be designed to affect a relatively small share of the population and still raise substantial revenues. Wealth taxes, however, are difficult to administer, and many taxpayers in other countries have adopted legal and illegal strategies to minimize their payments. Moreover, legal scholars have debated the constitutionality of a wealth tax in the United States.

Although President Donald Trump’s administration has signaled their support for reducing taxes on high-income taxpayers by extending the temporary tax provisions in the 2017 Tax Cuts and Jobs Act, interest in a wealth tax has not subsided. Several states, for example, have considered wealth tax legislation (Valdez 2024; Shirk 2024), and a proposal by economist Gabriel Zucman (2024) to impose a global wealth tax has received some attention (Zucman 2024).

This brief examines the issues and challenges of adopting a wealth tax in the United States. Through an analysis of six hypothetical options, it further shows how impacts on revenues and taxpayers can vary greatly depending on the choice of assets subject to the tax, the tax rate, and the tax threshold.

Current Law on Assets and Capital Income

Although the United States does not have a wealth tax, some assets are directly taxed. The federal government taxes the estates of decedents, but the threshold is very high and relatively few estates are subject to the tax.¹ States and localities typically tax the value of personal residences and other types of real estate.

While the federal government does not levy a tax on most assets, the income derived from assets is often taxed. However, some types of capital income receive more favorable tax treatment than other types. For example, interest is taxed at the same rate as wages and salaries whereas dividends and long-term capital gains are subject to lower income tax rates. Some tax advantages are associated with other types of capital income—such as the income derived from taxpayers’ homes, pension contributions, and business receipts.

Lessons from Other Countries

Other countries have adopted wealth taxes, but they have become increasingly rare. Concern about their economic effects has sometimes led to their repeal. Countries have also found wealth taxes difficult to administer because of the challenges inherent in their design, such as the following:

- **The tax base and exemptions.** Countries typically exempt some assets—including homes, pensions, and privately held businesses—to achieve social or economic policy goals. However, those exemptions encourage taxpayers to shift away from taxed investments toward those that are not taxed and possibly less efficient.

- **Valuation of assets.** The market value of some assets—such as a privately held business—is difficult to determine because they are rarely sold, thus enabling taxpayers to understate their net wealth on tax returns.
- **Tax rate.** If capital income is also taxed, the interaction with the wealth tax rate can result in a combined very high tax rate on investments, further encouraging taxpayers to adopt legal (avoidance) or illegal (evasion) strategies to reduce their taxes.
- **Tax unit.** Without guardrails, taxpayers can avoid the tax by transferring assets to less wealthy members of the family.

Wealth Tax in the United States

After adjusting for taxpayers' avoidance and evasion strategies, we find that a wealth tax would raise a substantial amount of revenue while reducing wealth inequality. For example, a broad-base 1 percent tax on net wealth above \$50 million (\$25 million for unmarried individuals) would raise \$1.9 trillion between 2025 and 2034, with 86 percent of the revenue owed by families in the top 1 percent of the income distribution. The revenue estimate would fall by nearly half if, mirroring other countries, the tax exempted pensions, the value of personal residences above \$1 million, and privately held businesses in which the owner was actively involved in the operations of the company.

Those estimates, however, do not account for changes in investment in response to a wealth tax, nor have we estimated the costs to taxpayers for complying with the law, to third parties for reporting independent information on taxpayers' holdings, and to the government for administering a complicated tax. Those factors—along with the possibility that the Supreme Court would rule a wealth tax unconstitutional—may ultimately stymie efforts to enact a federal wealth tax.

INTRODUCTION

In the United States, as in many countries, wealth inequality has grown over the last several decades. Federal Reserve Board economists estimate that the share of net wealth owned by the wealthiest 1 per cent of families grew from 25 percent in 1989 to 34 percent in 2019 (Bricker, Goodman, Moore, and Henriques-Volz 2020). During that same time span, the federal debt held by the public rose from 39 percent of gross domestic product (GDP) to 79 percent and is projected to reach 119 percent by 2035, according to the Congressional Budget Office (2025).

The growth in both wealth inequality and government debt have spurred lawmakers to seek out policies that would reverse those trends. During the 2020 presidential campaign, Senators Bernie Sanders² and Elizabeth Warren³ proposed wealth taxes—a tax on total assets, net of debt, above a threshold.

President Joseph Biden favored other approaches to reducing wealth inequality and government debt (Treasury 2024). Those included increasing individual income tax rates on income and capital gains earned by high-income taxpayers. And President Donald Trump has taken the opposite view—supporting policies that would reduce taxes on high-income taxpayers. Still, some lawmakers in California and Washington continue to support legislation to create wealth taxes in their states. In the future, debt-to-GDP ratios more than 100 percent may retrigger interest in wealth taxes, which can be designed to raise substantial revenues while increasing taxes for a relatively small number of taxpayers.

In this brief, we explore the issues and challenges of implementing a wealth tax. First, we discuss the arguments for and against a wealth tax. Second, we describe current federal and local taxes on a limited number of assets, as well as the more common taxes on investment income. Some countries have enacted—and often repealed—wealth taxes, and in the next two sections we briefly discuss their experiences and the implications for developing a wealth tax in the United States. In the final sections, we analyze six wealth tax options that differ in the type of assets that are subject to the tax (the base), the amount of taxable assets (the threshold), and the tax rate.

WHAT ARE THE ARGUMENTS FOR AND AGAINST A WEALTH TAX?

A wealth tax is not a new idea in the United States. In 1934, the populist Senator Huey Long⁴ of Louisiana proposed a graduated tax on wealth as part of his “Share Our Wealth” plan, with the goal of preventing people from accumulating more than \$50 million in assets (\$1.2 billion in 2024 dollars). The revenues from the tax would have funded government benefits and public works. Long was assassinated two years later, and his plan lost any momentum it once had.

The 2020 presidential campaigns revived interest in wealth taxes, with proposals by both Senators Bernie Sanders (Vt-I) and Elizabeth Warren (Mass-D). A poll commissioned by the *New York Times* in July 2019 found that two-thirds of Americans favored a 2 percent tax on net wealth over \$50 million—the original design of the Warren wealth tax.⁵ Warren later modified her proposal by increasing the tax rate to 3 percent on net wealth above \$100 million. Sanders’s plan had eight rate brackets, beginning at \$32 million (\$16 million for unmarried individuals) with tax rates ranging from 1 percent to 8 percent for net wealth above \$10 billion. Both plans had a broad tax base: Taxable assets included cash in the bank, bonds, stocks, pensions, individual retirement accounts, 401(k) plans, personal residences and other real estate, businesses, farms, vehicles, artwork, jewellery, and similar items of value.

President Joe Biden proposed other approaches to taxing high-income and high-wealth individuals such as raising the income tax rates for taxpayers with income greater than \$400,000 and increasing the number of taxable estates. Still, while his budget plans did not include an explicit wealth tax, one of his proposals to increase individual income taxes on high-wealth individuals was triggered by a wealth test: taxpayers with over \$100 million of net assets would be subject to a minimum tax of 25 percent on total income including accrued capital gains on assets that had not yet been sold (Treasury 2024).⁶ Implementation of that wealth test would have faced some of the same design issues as a wealth tax, including the definition and valuation of assets.

Sanders,^{7,8} Warren,⁹ and others remain committed to a federal wealth tax, with Zucman even proposing a global wealth tax (Zucman 2024). And lawmakers in California and Washington state continue to push for wealth taxes in their states. While a bill for a wealth tax stalled in committee in California in early 2024 (Valdez 2024), legislators in Washington passed legislation in 2023 requiring the revenue department to prepare a report on the design and administration of a wealth tax. That report was issued in November 2024 (Shirk 2024).

The arguments for and against a wealth tax reflect three overarching concerns: first, the concentration of wealth and power within a relatively small group of families; second, the merits of a wealth tax compared with an income tax; and third, the constitutionality of a wealth tax.

Concentration of Wealth and Power

The recent interest in wealth taxes in the United States was spurred, in part, by studies finding that net wealth is increasingly concentrated at the very top of the wealth distribution. Those studies found that by 2016, the top 1 percent of adults on the wealth distribution held over a third of total net wealth in the United States; estimates of the share held by the top 0.1 percent ranged from 16 percent to 18 percent (Saez and Zucman 2020; Smith et al. 2023).

The studies by Saez and Zucman (2020) and Smith and colleagues (2023) relied largely on data from income tax returns. Because taxpayers do not report wealth on tax returns, the researchers took the reported amount of investment income and derived measures of assets by dividing categories of income by an assumed rate of

return—a method called capitalization. Under this approach, results are sensitive to assumptions about the rate of returns on different types of assets and the owners’ attitudes toward risk (Bricker et al. 2021).

Other studies have used different data and methodologies and extended the analysis beyond 2016. Bricker and colleagues (2021) based their estimates of wealth in 2019 primarily from the Federal Reserve’s Survey of Consumer Finances (SCF), which contains family’s self-reported values of most of their asset holdings. Their findings for 2019 are like those of the earlier studies: 34 percent of net wealth accrued to individuals in the top 1 percent of the wealth distribution.

The Congressional Budget Office (CBO 2024) also derived estimates of wealth from the SCF and other data. The CBO study is one of the first to examine the net wealth distribution after the COVID-19 pandemic and finds that the top 1 percent of families’ share of net wealth remained relatively stable in the immediate years before the COVID-19 crisis and the year after: 35 percent in 2016, 34 percent in 2019, and 33 percent in 2022. Unlike the other studies, CBO’s report includes an alternative measure of net wealth, which adds the value of accrued Social Security wealth to other assets. The inclusion of Social Security wealth reduces the share of the amount of wealth owned by the top 1 percent to 27 percent in all three years.

Some supporters of a wealth tax view the concentration of wealth in the United States as a threat to democracy and a precursor to an oligarchy (Saez and Zucman 2019).^{10,11} Saez and Zucman (2019) estimate that if Sanders’ wealth tax had taken effect in 1982, Warren Buffett’s net wealth would have been nearly 90 percent lower in 2018—assuming that he had taken no action to avoid or evade the tax. Research by political scientists Mark Gilens and Benjamin Page¹² support that view, finding that lawmakers are much more likely to adopt policies that are strongly favored by high-income Americans than those preferred by the middle class.

In response to those concerns, Jason Furman—former chair of the Council of Economic Advisers in the Obama Administration—argues that even if a wealth tax diminishes their holdings, the very richest would still have more resources than others and thus continue to influence political outcomes—including defeat of a wealth tax.¹³ And the research by Gilens and Page also supports that view: Lawmakers are even more likely to block the policies strongly opposed by those with high incomes than they are to back the policies favored by the high-income individuals.

The Merits of a Wealth Tax Compared with an Income Tax

In the United States, the individual income tax is the largest source of tax revenue. It is a progressive tax, meaning that the average effective federal tax rate rises as income increases.¹⁴ However, a person’s wealth may be a better indicator of people’s ability to pay taxes than income. For example, assets may appreciate in value over time, but those gains will not be included in taxpayers’ income until the assets are sold. Findings from a study by Federal Reserve economists confirm that the income and wealth distributions do not necessarily align: Among families in the top 1 percent of the wealth distribution, only half were also in the top 1 percent of the income distribution while 10 percent were in the bottom 90 percent (Bricker et al. 2020).

Moreover, a wealth tax has the potential to raise substantial revenues in a highly progressive manner. That revenue could fund new initiatives, replace a less progressive or inefficient tax, or reduce the deficit.

Still, a wealth tax could conflict with other tax policy goals. One concern is the tax could affect people with the same amount of wealth differently depending on the type of assets they own. For example, wealth taxes in other countries have exempted some types of assets, thus resulting in lower tax liabilities for people owning the exempt assets than those with the same amount of wealth but whose portfolio consists of nonexempt properties. A second concern is whether the tax would have unintended consequences that might lead to reductions in investment or the transfer of assets to other countries, with negative consequences for economic growth. A third concern is whether the tax could be effectively enforced. Notably, those three concerns also apply to the US income tax; thus, the perspective should be how a wealth tax would fare relative to a change to the income tax.

Constitutionality

Ultimately, the fate of a federal wealth tax in the United States may be decided by the Supreme Court. The US constitution bans the federal government from imposing direct taxes that are not collected evenly across states based on their populations.¹⁵ However, constitutional scholars have long debated the definition of a direct tax and whether a wealth tax would fall into that category and be judged unconstitutional. Adding to that uncertainty was the Supreme Court's 2024 decision in *Moore v. United States*.¹⁶ Although the case dealt with the timing of the Moores' capital gains realizations, the opinion described a tax on property as a direct tax—leading some legal scholars to conclude that the Court would find a wealth tax to be unconstitutional.¹⁷ (See appendix A for discussion of constitutional issues.)

States are not subject to the US constitutional limitations on direct taxes, but a state-legislated wealth tax might still be constrained by provisions in its constitution. For example, a 2024 Washington Department of Revenue report concluded that a wealth tax would have to comply with the state constitution's restrictions regarding the scope of the base and the rate for property taxes (Shirk 2024).

TREATMENT OF WEALTH AND CAPITAL INCOME IN THE UNITED STATES UNDER CURRENT LAW

Although the United States does not have a wealth tax, taxes are levied on some types of assets at the national and subnational level in the United States. At the national level, estate and gift taxes are imposed on transfers of most assets. In contrast, property taxes are usually imposed on only land and buildings and are one of the largest sources of revenues for local governments.¹⁸

While the federal government does not levy a tax on most assets, the income derived from assets is often taxed. The tax treatment of capital income varies across asset types. For example, interest income is generally taxed at higher rates than dividends and long-term capital gains.

The Allocation of Assets by Income Group

Because the tax treatment of investments differs across asset types, whether a tax on assets and capital income reduces wealth inequality depends, in part, on the composition of taxpayers' investment portfolios. To some extent, high-wealth families are more likely to own the type of assets that are tax-advantaged than other families.

Across all families in the 2019 and 2022 SCF, about three-quarters of the value of their investment portfolios was derived from their personal residences, defined contribution plans (such as individual retirement accounts and 401(k) plans), businesses, and stock (table 1). The same was true for families with over \$50 million of net worth. (This measure of wealth excludes traditional pensions [defined benefit plans], Social Security, and the asset holdings of people in the Forbes 400, a list of people with several billion dollars according to the magazine's estimates.)

TABLE 1
Major Sources of Net Wealth, 2019 and 2022



	2019		2022	
	All families	Families with at least \$50 million in net wealth	All families	Families with at least \$50 million in net wealth
	Percent with Asset			
Stock	20	82	27	91
Defined Contribution Retirement Plan	51	78	54	87
Personal Residence	65	99	66	96
Privately Held Business	12	85	12	85
Active owner	10	74	11	73
Passive owner	2	39	2	48
	Percent of Net Wealth			
Stock	14	20	16	23
Defined Contribution Retirement Plan	17	1	17	2
Personal Residence	20	3	21	4
Privately Held Business	21	54	21	48
Active owner	18	42	18	38
Passive owner	3	12	3	10

Source: Authors' computations based on data in the 2019 and 2022 Survey of Consumer Finances.
<https://www.federalreserve.gov/econres/scfindex.htm>

But within those portfolios, the relative importance of the four assets substantially differs between the very wealthy and the broader population. Across all families, personal residences and privately held businesses each represent about 20 percent of their net wealth with the remainder roughly evenly divided between stock and defined contribution retirement plans. But among those with over \$50 million of assets, the predominant asset is their privately held businesses, according to the SCF. In both 2019 and 2022, about half of the net wealth of this group was derived from those businesses. In most cases, the owner was actively involved in the operations

of the business. Another 20 percent of their portfolios consisted of stock. In contrast, about 5 percent of their net wealth was attributed to the combined worth of their residence and defined contribution plans.¹⁹

Tax on Assets: Estate Taxes

Since 1916, the federal government has taxed the estates of people who have died. The estate tax has a very broad base and high rates, but relatively few estates are subject to the tax because the estate must be very large to be taxable—and there are many legal ways to reduce the amount of the estate that is subject to the tax.²⁰

The estate tax base generally includes all the decedent’s assets, both financial (such as stocks, bonds, and mutual funds) and real (including homes, land, and other tangible property). In 2025, \$13,990,000 of wealth is exempt from the tax; that threshold is doubled for married couples. Assets above those thresholds are taxed at a rate of 40 percent.

Partly to prevent taxpayers transferring assets to their heirs during their lifetime to reduce the eventual tax on their estate, the estate tax is supplemented by a gift tax. A donor would not be subject to taxes on up to \$19,000, per recipient, in annual gifts. The \$13,990,000 cap applies to the combination of the value of the estate and gifts made by taxpayers over their lifetime.

The current estate and gift parameters were enacted in the 2017 Tax Cuts and Jobs Act (TCJA) and will expire at the end of 2025. At that time, the thresholds will be halved unless the TCJA provision is extended.

Tax on Assets: Property Taxes

Residents of all 50 states and the District of Columbia are subject to property taxes. A property tax can take two forms—either a tax on “real” property (land and buildings, both residential and commercial) or on personal property (business equipment, inventories, and noncommercial vehicles). Local governments—cities, counties, and school districts—generally tax real property, whereas personal property taxes are more common at the state level.²¹

Properties are valued in different ways. Some state and local governments assess a property based on how much the asset would sell for in an arms-length transaction (a transaction between two unrelated parties). Other assessment methods use the property’s last-sale price, the income it could yield, or its size and attributes.

State and local governments reduce the burden of property taxes on certain segments of the population. In some instances, homeowners who live in areas—such as California—with rapidly increasing home prices benefit from caps on both the growth in assessed home values and on tax rates. Localities may also reduce property taxes based on the homeowner’s residency, age, disability, income, or veteran status. But while any taxpayer can challenge the government’s valuation of their property, higher-income taxpayers are more likely to do so successfully (Berry 2021; Consulting Alliance 2018; Holz et al. 2024).

Taxes on Capital Income: Bank Accounts, Bonds, and Stock

With some exceptions, the federal tax code generally treats income from stock holdings more favorably than interest from bank accounts and bonds. As noted above, stock holdings are a larger share of the investment portfolio of the very wealthy than for other families.

Interest income is typically taxed at the same rate as most other types of “ordinary” income, such as wages and salaries. The top rate on ordinary income is 37 percent, which is scheduled to increase to 39.6 percent in 2026 unless the TCJA’s rates are extended.²²

Lower tax rates are applied to most dividends and long-term capital gains—the net receipts from the sale of assets held for longer than a year. The tax rates on long-term gains and qualified dividends are 0, 15, and 20 percent.²³ Those rates are not scheduled to change in 2026. Short-term capital gains are taxed at the same rate as interest income.

Capital gains receive preferential tax treatment in other ways. First, taxes on capital gains are deferred until the asset is sold. Second, those accrued capital gains may escape taxation entirely if the owner does not sell the asset during her lifetime. If the heirs sell the asset, they will—at most—owe taxes on capital gains that accrued from the date that they received their inheritance.

In addition, a 3.8 percent surtax—the net investment income tax (NIIT)—applies to most types of investment income, when adjusted gross income (after some modifications) exceeds \$250,000 for married couples filing a joint tax return and \$200,000 for unmarried taxpayers. The NIIT does not distinguish between interest, dividends, short-term capital gains, and long-term capital gains: All are included in the tax base and are subject to the same tax rate.

Tax Subsidies for Income Associated with Personal Residences

The tax code subsidizes homeownership in several ways. But though some of those subsidies are capped in ways that might seem progressive, other features cause those subsidies to disproportionately benefit higher-income, higher-wealth families.

The most pervasive subsidy is probably the least known of the housing tax benefits. Tax policy analysts use the term “imputed rent” to refer to the overall benefit of owning one’s own home. Homeowners’ incomes increase by the value of the shelter and other services they receive from investing in owner-occupied housing. But that income—or imputed rent—is tax free, in large part because of the administrative challenges of taxing unobserved income.

Moreover, homeowners can deduct all or a portion of the mortgage interest paid on their primary residence or secondary residence from taxable income. The amount of deductible interest depends partly on when homeowners took out their mortgages. Under the TCJA, mortgages taken out after December 16, 2017, must

be smaller than \$750,000 for the interest to be deductible.²⁴ That limitation will revert to \$1 million in 2026, unless the TCJA provision is extended.

Itemizers can also deduct property taxes, though the amount, combined with other state and local taxes, is capped at \$10,000 through the end of 2025. After 2025, the full amount is deductible. (This feature is commonly known as the SALT deduction.) The cap is set at the same amount for both unmarried individuals and married couples.

Net gains from the sale of certain other types of assets are treated differently than from stock sales. For example, homeowners can exclude up to \$250,000 (\$500,000 for married couples filing joint tax returns) of such gains from taxable income.

Even with caps, the value of tax exclusions and deductions increases with income—making those subsidies more valuable to higher-income families. The progressive rate structure of the income tax has the inverse effect of making exclusions and deductions more valuable to higher-income taxpayers than for those with lower incomes.

Tax Subsidies for Income Associated with Retirement Plans

The federal income tax system encourages families to save for retirement through preferential treatment of defined benefit plans—such as traditional employer pensions—or defined contribution plans, including individual retirement accounts (IRAs) and 401(k) plans. As with the housing tax subsidies, the treatment of retirement income reflects both progressive and regressive elements.

Defined benefit and contribution plans share some common features. For many types of plans, taxes are deferred on at least some of the income deposited into the accounts; the saver pays taxes on the deferred income when the money is withdrawn from the plan. That approach is especially advantageous if the taxpayer will be in a lower tax rate bracket when he or she retires. If the taxpayer anticipates moving into a higher tax bracket upon retirement, Roth plans may be more advantageous.²⁵ For those plans, the contributions are paid out of after-tax income, and the benefits are not taxed.

One feature is common to all tax-preferred retirement plans. The income earned on the contributions to the plans is tax free.

Eligibility for the tax preferences associated with defined contribution plans is targeted to middle-income people with caps placed on the amount of tax-preferred contributions—up to \$7,000 for IRAs and \$23,500 for 401(k) plans in 2025.²⁶ Employer contributions to defined benefit plans do not contain explicit limits, but caps are placed on the annual amount of the retirement benefits (\$280,000 in 2025) and contributions must be sufficient to finance future distributions.²⁷

Yet despite those restrictions, defined benefit and defined contribution plans provide substantial benefits to higher-income taxpayers. First, like some of the housing tax subsidies, those for retirement tax benefits are

designed as exclusions and thus more valuable for people in higher tax rate brackets than for those lower rate brackets.

Second, a confluence of events has enabled high-wealth individuals to shelter substantial amounts in tax-preferred plans. In 2000, Congress repealed caps on the combined amount in defined benefits and defined contribution plans. Then, in recent years, cash balance plans became more prevalent. The IRS treats those accounts as defined benefit plans and thus not subject to the same contribution caps as a 401(k) plan. But unlike a defined benefit plan, the cash balance can roll over into an IRA when people change jobs or retire. For wealthy people with the ability to accumulate substantial sums in a cash balance plan, the ability to rollover funds from those accounts—especially in combination with a 401(k) plan—can result in “mega-IRAs.”²⁸

Taxes on Income from Sole Proprietorships and Partnerships

Privately held businesses—such as sole proprietorships and partnerships—make up the largest share of the investment portfolio of very wealthy families. Relative to shares in corporations or wage income, ownership in a privately held business can offer certain tax advantages.

Businesses can be organized in several ways, and various legal factors may be weighed in making those choices. One of those factors is the tax code, which treats businesses very differently depending on their organizational structure. Net income on C corporations is taxed twice: first at the corporate income tax rate (21 percent) and again when that income is distributed to shareholders through dividends or capital gains (with a rate of up to 23.8 percent)—for a combined rate of up to 39.8 percent.²⁹

Income from noncorporate businesses, in contrast, is only taxed once. When partnerships, S corporations, and sole proprietorships distribute net income to owners, they are effectively “passing through” the tax liabilities to the owners. The owner’s share of the pass-through business’s income is taxed as ordinary income earned by those owners (with a tax rate of up to 37 percent before 2026 and 39.6 percent after 2025 if TCJA’s individual income tax provisions are not extended).

However, owners of pass-through businesses are distinguished by the degree of their involvement and the legal structure of their business. One tax consequence of those distinctions is that the owners may face a tax rate that is substantially higher or lower than the tax on corporate income. For example, owners who are not actively involved in the operation of their business may be subject to the NIIT—bringing their tax rates up to 40.8 percent in 2025 and 43.4 percent in later years.

In contrast, owners who are actively involved in running the business do not pay the NIIT on their share of the businesses’ net profits, although—depending on the structure of their business—they may owe self-employment insurance taxes. Moreover, active owners may be able to claim the Section 199A deduction. Although the details are complicated, Section 199A essentially allows qualifying owners to deduct from taxable income the lesser of 20 percent of their qualified business income or 20 percent of their taxable ordinary income minus net capital gains and qualified dividends.³⁰ The deduction will expire at the end of 2025 unless

Congress extends the provision. Because very high-income taxpayers receive most of pass-through income, more than half of the tax benefits of the section 199A deduction flow to the top 1 percent of taxpayers by income (Boddupalli and Rodriguez 2024).

WHY HAVE OTHER COUNTRIES REPEALED WEALTH TAXES?

Some countries tax wealth in addition to certain types of capital income. But wealth taxes have become increasingly rare. In 1990, wealth taxes had been adopted by 12 countries belonging to the Organisation for Economic Cooperation and Development (OECD 2018). In 2024, only three of those countries still had a wealth tax: Norway, Spain, and Switzerland.³¹

Wealth taxes are not only rare, but they have typically been a small share of a country's total revenue and its gross domestic product (GDP). Among the three countries that still had wealth taxes in 2022,³² wealth taxes as a share of total revenue and a share of GDP were lowest in Spain (.6 percent and .2 percent, respectively), and highest in Switzerland (4.1 percent and 1.2 percent, respectively).

For countries that repealed their wealth taxes, a common rationale was to encourage investment and entrepreneurship. In some countries—such as Sweden and Luxembourg—lawmakers argued that repeal of the wealth tax was necessary to be competitive in an increasingly global economy. In France, concern that people were moving their assets to other countries led to the replacement of the wealth tax with a tax on an unmovable asset—property (real estate). During an economic downturn in 2008, Spain effectively repealed its wealth tax and adopted provisions meant to spur investment and employment.³³ But when the economy improved, Spain reinstated the wealth tax in 2011—first as a temporary measure before making it permanent again (OECD 2018, Perret 2021, Rehr 2020).³⁴

Yet, few studies showed a strong relationship between a wealth tax and the economy. In both Spain and Switzerland, wealth taxes vary across regions, and there is some evidence that some taxpayers moved—both themselves and their assets—from high-rate regions to other parts of the country with either low rates or no wealth tax at all (Advani and Tarrant 2021; Brülhart et al. 2022; Duran-Cabre et al. 2019). Researchers have not examined the extent to which wealth taxes cause people to transfer assets abroad or renounce their citizenship, though Advani and Tarrant (2021) conclude that the impact would be relatively small based on their review of studies of international migration in response to other types of taxes.

A bigger challenge revealed by those studies was that many taxpayers were able to legally avoid or evade a wealth tax because of its design and administration (Brülhart et al. 2022; Duran-Cabre et al. 2019; Jakobsen et al. 2020; Londono-Valez and Javier Avila-Mahecha 2021; OECD 2018; Perret 2021; Ring and Kallenberg 2020; Zoutman 2018).

DESIGNING WEALTH TAXES

Designing a wealth tax has presented challenges in other countries. Their experiences—combined with lessons learned from existing wealth-related taxes in the United States—provide insight into the issues that would have to be addressed in a US or state wealth tax. Four of the most fundamental design issues are as follows:

- **Tax base:** Which assets are taxed?
- **Valuation:** How is the value of the assets determined?
- **Tax rate and threshold:** What is the tax rate structure?
- **Tax unit:** Is the tax applied to the individual's wealth or the combined assets of a couple or family?

Tax Base

A broad-based wealth tax would apply to all types of assets, including bank accounts, real estate, stock, privately held businesses, pensions, yachts, vehicles, jewellery, and art. If some assets were excluded, investors would have an incentive to base investment decisions on which one would result in a lower wealth tax liability rather than which would be most efficient.

Yet, countries with wealth taxes have treated certain assets favorably because of conflicts with other social or economic goals.

Social policy exemptions. Some assets are excluded from wealth taxes because they help achieve a social policy goal. For example, the OECD countries with wealth taxes typically exempt pension plans. Personal residences are generally not exempted but usually receive other types of preferential tax treatment.

If the United States enacted a wealth tax, adopting similar preferences for pensions and personal residences would reinforce the existing subsidies for wealthy individuals in the federal income tax code. Those subsidies have often led to unintended consequences—encouraging wealthy individuals to shelter substantial wealth in mega-IRAs or buy more expensive homes than they would have purchased without the home mortgage interest deduction.³⁵ Capping the exemptions would limit the subsidy: In Spain, taxpayers can exempt up to EUR 300,000 of their home's value from the tax,³⁶ whereas up to 75 percent of the value of a taxpayer's personal residence is excluded from the wealth tax in Norway.^{37,38}

Entrepreneurship exemptions. Under certain circumstances, privately held businesses receive preferential treatment in countries with wealth taxes. That favorable treatment is often justified as an incentive for entrepreneurship and investment in productive activities (OECD 2018). Another concern is that businesses are large investments that cannot be easily divided into pieces and may be the source of a substantial share of owners' income; thus, without some limitations on the tax, an owner might have to sell their entire business to pay the tax on its value.

Among the OECD countries, the preferential treatment of businesses is achieved either through a full exemption (Spain) or through the exclusion of selected assets, lower tax rates, or advantageous valuation rules (Norway and Switzerland). Favorable treatment is typically restricted to owners who meet certain requirements—for example, the owner manages the business, owns a specified share of the business (5 percent in Spain), and most of the business’s revenue is generated by its primary activity. To alleviate liquidity constraints, some countries place caps on the combined total amount of income and wealth tax payments (OECD 2018).

Excluding those businesses from the wealth tax base would involve some of the same challenges that the IRS already experiences in administering the income tax. While the individual income tax differentiates between active and passive participants in noncorporate businesses, the rules are complicated and often lead to complex avoidance strategies to categorize the owner’s activity in the most tax beneficial manner. Identifying the individual who owns a share of the business can also be unwieldy—especially when partnerships own other partnerships or are foreign investors (Cooper et al. 2015).

Debt. The wealth tax base generally is the difference between the value of the taxpayer’s assets and their debt. Especially when all assets are taxed, a net tax base treats taxpayers equitably. Consider the case of two taxpayers who own similar assets with the same gross value. They will not have the same resources to pay the wealth tax if one taxpayer has taken on more debt than the other did to pay for those assets.

But a narrow tax base could encourage taxpayers to take on more debt to lower their wealth tax liabilities. The taxpayer could lower taxable net wealth by borrowing but then use the loan to pay for exempted assets. Consequently, some countries have limited the amount of debt that can be subtracted from wealth. In Spain, for example, investors can only deduct debt used to purchase nonexempt assets (OECD 2018).

Assets outside the United States. Another concern about wealth taxes is that some wealthy families will move their assets—including businesses—to another country. To reduce the migration of assets to other countries, the United States could tax all assets of US citizens regardless of where those assets are located. This approach would mirror the income tax, which applies to the income—above a threshold—of US citizens living abroad. Moreover, taxation of US assets abroad would be facilitated by the current reporting requirements for amounts held in certain foreign financial accounts (such as savings accounts and mutual funds), though that system highlights one of the vulnerabilities of reporting from foreign entities: They may not possess or report the Social Security number (or other unique identification number) that enables the IRS to match the foreign reports to the taxpayer’s tax return (Government Accountability Office 2019).

Ultimately, taxpayers could avoid the wealth tax by renouncing their citizenship. In their wealth tax plans, both Senators Sanders and Warren proposed substantial exit taxes on at least a portion of the assets of any US citizen who would renounce their citizenship. For example, Sanders would require people who expatriate to pay an exit tax set at 40 percent on assets below \$1 billion and 60 percent on assets above \$1 billion.

Valuating the Worth of Assets

A first step in defining the tax base is determining which assets are taxable. A closely related step is placing a monetary value on those investments.

An IRS regulation³⁹ sums up the challenge of estimating value when assets are not often on the market: “A sound valuation will be based upon all the relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate significance.” A blunter view comes from attorney Beth Shapiro Kaufman—a well-regarded expert on estate and gift taxes—who said at a 2019 Tax Policy Center event, “Appraisals are just appraisals, and they’re basically all wrong” (Curry 2019).

The OECD (2018) recommends that valuation of assets in a wealth tax base should be guided by two principles—the value should be the amount that the asset would sell for in an open market and the methodology should be consistent across different asset types. But countries with wealth taxes have failed to achieve those goals, and it is unlikely that the United States would be more successful.

Even the simplest types of assets—such as a savings accounts—present challenges. For the US federal estate tax, the value of a bank account is easily determined: It is the amount of money in the account on the day the holder died.⁴⁰ But there is no obvious date for determining the value of bank accounts for a wealth tax, and some simple choices—say, the first or the last day of the year—may create openings for taxpayers to minimize their tax liabilities (by, for example, accelerating or delaying purchases so as to lower their accounts on valuation day).

The timing of the valuation of publicly traded securities raises the same question, with countries typically choosing either the closing stock value at a point in time or an average price for some period during the tax year. Spain, for example, uses the average stock price over the last quarter of the tax year (OECD 2018).

Since the taxpayer’s home is not routinely on the market for sale, determining its value raises more difficult questions than simply setting the date for the valuation. The federal government could accept the property values determined by state and local governments that have property taxes. However, the goal of consistency would not be achieved because localities differ in how they choose to value real estate, and home values are more likely to be understated for wealthy homeowners than for other families. Zillow-reported values are another alternative, but the company warns that the accuracy of their estimates depends on the amount of recent publicly available data.⁴¹

By excluding pensions from the tax base, European countries have avoided the difficulty of placing a value on defined benefit retirement plans—a challenge, in particular, for estimating the lifelong value of pensions for workers who have not yet retired. If all retirement plans were included in a wealth tax base, Saez and Zucman (2020) suggest that the benefits of current workers be determined by dividing the pension plan’s total assets in proportion to the accrued benefits of each worker with the accruals estimated by using simple formulas that

include their current salary, years with the organization, and age. Daly and Loutzenhiser (2020) propose a more complicated approach linked to each worker’s estimated entitlement, relying on assumptions about their retirement age and mortality. But they conclude that the complexity of accurately valuing each individual’s defined benefit plans is another reason for their exclusion from wealth tax bases.

Certain types of assets—particularly, privately held businesses—are seldom on the market, and establishing their value is especially challenging. For the estate tax, the value of the business may be based on “facts and circumstances,” taking into consideration eight factors described in the IRS’s regulations. Those factors include the nature of the business, the economic outlook of the industry, the financial condition of the business, and whether the business has goodwill or other intangible value.⁴²

In some instances, the estate may claim a valuation discount for privately held businesses. One such discount is allowed if the decedent’s share of the business was too small to exercise control over the firm’s decisions. Another discount considers the marketability of the decedent’s interest in the business—that is, whether the estate’s share of the business could be sold as easily as stock from a publicly traded business. The eligibility rules for those discounts are complicated and may especially rely on the factors listed in the IRS regulation cited above: common sense, informed judgment, and reasonableness. And given the subjectivity of those factors, the availability of valuation discounts may prompt the adoption of aggressive strategies (both legal and illegal) by the estate executors to reduce the tax liabilities.

Saez and Zucman (2020) offer alternative simpler approaches for determining the business’s value for a wealth tax. For large privately held businesses, they suggest using their values on secondary markets or the values determined by financial institutions when making decisions about venture capital funding, mergers and acquisitions, or share issuance. Legislation might be needed to force the financial institutions to report that information, however. And businesses might respond by seeking less visible sources of funding—even if less efficient—to avoid a high valuation (Hemel 2019). Another approach would have the government ascertaining a business value by applying formulas to available data, as is done in Switzerland (OECD 2018).

Tax Rates and Thresholds

In most countries, wealth tax rates have hovered around 1 percent. In Spain and Switzerland, rates varied by region (OECD 2020). In Spain, for example, rates ranged from zero in Madrid to over 3 percent in certain regions (Duran-Cabre et al. 2019).

A wealth tax rate of 1 percent may appear to be low, especially when compared with the double-digit income tax rates. However, a seemingly low wealth tax rate can have a substantial effect on taxpayers’ after-tax income. In this simple example, the wealth tax rate is set at 1 percent on the total net value of all taxable assets (table 2). Thus, people with \$100 million in their investment portfolio would owe \$1 million in wealth taxes. Consider Fran whose investment portfolio consists only of stocks, yielding a 10 percent rate of return, providing her with \$10 million of investment income. For Fran, the \$1 million wealth tax is equivalent to a 10 percent tax

on capital income. Contrast her situation with her friend Max, who is risk averse and invests solely in bonds guaranteed to yield a 2 percent rate of return. His investment income is \$2 million, resulting in an effective tax of 50 percent on his capital income.

TABLE 2
Interaction between Wealth and Individual Income Taxes Results in High Marginal Tax Rates on Capital Income



Rate of return on capital income	Wealth tax		Top individual income tax rates on capital income			Combined tax rates on capital income		
	Wealth tax rate on net value of assets	Effective wealth tax rate on capital income	Unrealized capital gains	Realized capital gains and dividends	Interest	Unrealized capital gains	Realized capital gains and dividends	Interest
2.0%	1.0%	50.0%	0.0%	23.8%	40.8%	50.0%	73.8%	90.8%
10.0%	1.0%	10.0%	0.0%	23.8%	40.8%	10.0%	33.8%	50.8%

Source: Authors' computations.

The interaction between the wealth tax and income tax further reduces after-tax investment income and, in some circumstances, would raise the federal tax rate to close to 100 percent. In the example above, Fran’s individual income tax rate on her capital income would range from zero (if she earned no dividends and did not sell her stock) to 23.8 percent (if she received dividends and had long-term capital gains realizations). With his interest-bearing bonds, Max would be subject to an income tax rate of 40.8 percent on his interest income. In combination with the current US income tax, Fran’s and Max’s marginal tax rates on capital income would increase to as high as 33.8 percent and 90.8 percent, respectively.

The lesson from the example is that a wealth tax will be a greater burden for taxpayers who invest in low-yield assets—typically, the “safe” investments, such as government bonds—than those whose portfolios are dominated by high-yield, often riskier investments.

The choices of tax rates and tax thresholds—the amount of wealth that triggers the tax—are often linked. The higher the threshold, the fewer families are subject to the tax—but they are also the families with greater ability to pay the tax than the rest of the population.

Countries with relatively high thresholds tend to also choose higher tax rates than those with lower thresholds (OECD 2018). One exception is Norway, which has a relatively high rate (1.1 percent) and a low threshold (about \$150,000 in 2024).⁴³

Tax Unit

Another design issue is how taxable wealth is aggregated across family members. In Spain, the tax is imposed on an individual’s assets (OECD 2018). But in most other countries that have attempted to impose a wealth tax, a married couple’s assets are combined when computing their wealth tax liabilities—just as in the United States, a married couple’s income tax is based on their combined income.

Treating the married couple as a tax unit recognizes that spouses generally share resources and often own assets jointly. Joint filing also reduces opportunities for tax avoidance. For example, if the tax unit was the individual and the threshold was \$50 million, a couple with \$60 million of assets could put half of their assets in

the wife's name and the other half in the husband's name—and avoid the wealth tax entirely. They could not adopt that strategy if the couple was taxed on their combined assets.

Joint filing, however, can result in marriage penalties. Consider if the threshold was \$50 million for both unmarried individuals and single individuals. If two unmarried individuals each have \$30 million of assets, neither would owe the wealth tax. But once married, they would be liable for a wealth tax on \$10 million of their combined assets. To avoid marriage penalties, the tax threshold for unmarried individuals could be set at half the level as for couples.

Joint filing is not sufficient, however, to prevent asset shifting among family members. A couple might shift ownership of some assets to their children or other relatives. That issue also arises in the estate tax, which allows people to transfer assets to others during their lifetime without being subject to estate taxes after the taxpayer dies—but only if the transfer is to an irrevocable trust. People must be willing to give up control of their transferred assets if they use that approach. Alternatively, they could make gifts during their lifetimes, though they may owe income taxes on amounts above the gift tax thresholds.

Similar safeguards regarding trusts and gifts could apply to a wealth tax—that is, for example, a trust would be included in taxable wealth unless it is irrevocable. Spain (and previously France) requires the trustee to allocate the assets proportionately to the beneficiaries and the person or entity that established the trust and apply the wealth tax to each person or entity accordingly (OECD 2018).

ADMINISTERING A WEALTH TAX

While lawmakers have cited concerns about detrimental economic effects of wealth taxes, administrative hurdles have been another reason why many countries scale back or repeal their wealth taxes (OECD 2018). Researchers commonly find that taxpayers report less wealth after imposition of a net wealth tax. The studies generally do not attribute that reduction to a decline in investment or other changes in economic activities. Instead, the decline in reported wealth is often due to taxpayers' strategies to reduce the amount of taxes owed—either through aggressive, but legal, avoidance strategies or by illegal evasion (Advani and Tarrant 2021; Brühlhart et al 2022; Duran-Cabre et al 2019; Jakobsen et al 2020; Londono-Valez and Javier Avila-Mahecha 2021; OECD 2018; Perret 2021; Ring and Kallenberg 2020; Zoutman 2018).

Notably, the reduction in reported wealth in response to a wealth tax rate was highest in Switzerland, where bank secrecy laws block validation of many asset holdings. Researchers found that a 1 percent wealth tax immediately reduced reported wealth by 18 percent; by the fifth year, a tax rate of 1 percent was associated with a 43 percent reduction in reported wealth (Bruehart et al. 2022).

In contrast, third-party reporting of wealth was extensive in Denmark, and the impact of a 1 percent wealth tax was a reduction of reported net wealth of 9 percent for the moderately wealthy and 11 percent for the very

wealthy—among the lowest response rates in the studies. Still, even in Denmark, third-party data on net wealth was incomplete, with the value of privately held businesses among the self-reported assets (Jakobsen 2020).

Were a wealth tax enacted in the United States, it would—to some extent—be able to build on the extensive third-party information reports already required for various forms of income, deductions, and credits. In 2023, the IRS received over 5 billion information returns, including 1099s from financial institutions reporting interest, dividends, and capital gains (IRS 2023).

Still, there may be hurdles to expansions of information reporting. Because financial institutions already report interest income, it would seem relatively straightforward to add the amount in each customer’s accounts on the 1099-INT. However, financial institutions successfully fought a Biden administration proposal to require additional reporting on deposits and withdrawals from their clients’ accounts.⁴⁴ While the Biden administration’s proposal might have been more costly for banks to implement than reporting a fixed amount each year, the financial institutions’ resistance might be a harbinger of opposition to any additional reporting requirements.

In some cases, third-party information already exists but is not routinely reported to IRS. For example, states and localities do not report property taxes to the IRS, even though taxpayers can potentially claim an itemized deduction for that amount. A wealth tax might spur Congress to extend reporting requirements to include both property taxes and assessed values, though doing so would increase costs for state and local governments. And as noted earlier, state and local government methods for assessing home values can vary widely.

But for some types of assets, third-party information—most notably, privately held businesses—is scarce. As noted earlier, Saez and Zucman (2020) suggest that the IRS could obtain valuations of businesses from financial institutions, although that too would most likely require legislation.

Even if it were available, third-party information would not be sufficient to identify complicated strategies to avoid or evade wealth taxes—such as through questionable valuations, shifting of assets offshore, complex webs of partnerships, and intrafamily transfers of wealth. In recent years, the IRS—enabled by a substantial boost to its budget in the 2022 Inflation Reduction Act (IRA)—has initiated various efforts to detect underreported income of high-income and high-wealth individuals through technological advancements and the recruitment of individuals with the skills required to audit high-income and high-wealth taxpayers (IRS 2024). Those improvements also have the potential of enhancing the agency’s ability to administer a wealth tax.

However, Congress rescinded 25 percent of the IRA funding within a year of passage and frozen the IRS’s annual appropriations. Further cutbacks in the IRA funds and the annual appropriations, as well as layoffs, are on the horizon and would likely weaken the IRS’s ability to maintain the investments in technology and personnel, diminishing its ability to enforce the current income tax as well as a future wealth tax.

POTENTIAL RESPONSES TO A WEALTH TAX IN THE UNITED STATES

The combination of design and administrative approaches will affect how taxpayers respond to a wealth tax—with implications for the amount of revenue that will be collected through the tax. In the next section, we present and analyze the revenue and distributional effects of various options for a wealth tax in the United States. As described below, the revenue estimates will account for certain behavioral responses to the tax, while those will be omitted in the distributional analysis.

Scorekeeping Conventions

Estimates of wealth taxes are sensitive to assumptions about taxpayers' responses to the tax. TPC's revenue estimates⁴⁵ follow the budget scoring conventions used by both the Executive and Legislative branches of the US federal government. Those conventions restrict the type of behavioral responses that can be accounted for in estimates of spending and revenue proposals.⁴⁶

In the revenue estimate of the wealth tax options, we follow the budget scoring conventions and assume that gross domestic production—and consequently, aggregate net wealth—is not affected by a proposal.⁴⁷ Therefore, the wealth tax would be paid using income.⁴⁸

Moreover, the estimates reflect changes in the amount of net wealth that would be *reported* to the IRS. The amount of net wealth reported on tax returns is expected to deviate from the true amount for two reasons: First, if there was no wealth tax but taxpayers were required to report their assets for another reason, we expect that they would report an amount of net wealth that would be consistent with the amount of capital income already reported on individual income tax returns; and second, with the imposition of a wealth tax, taxpayers would reduce reported assets by an additional amount to reduce their wealth tax payments.

Unlike the revenue estimates, TPC's distributional analysis does not reflect changes in reported wealth. TPC generally distributes only the static impacts of tax changes.

Underreporting of Net Wealth Due to Interactions with the Individual Income Tax

Data from the IRS show that underreporting of income is likely to occur when the IRS does not have sufficient information from third parties to verify the amount reported by the taxpayer. The amount of third-party data available to verify investment income varies by source (IRS 2022). Banks and other financial institutions are required to report payments of interest and dividends on 1099s that are sent each year to the IRS and account holders, and 96 percent of that income is accurately reported by taxpayers on their returns. At the other extreme, independent information on income earned by sole proprietors is not available, and less than half of that income is reported on tax returns. In the middle of the reporting spectrum is income from capital gains and partnerships, for which some third-party information is available. About 82 percent of capital gains and 88 percent of partnership income are accurately reported on individual income tax returns.

Underreporting capital income would likely have implications for requirements to report net wealth on returns—even in the absence of a wealth tax. Consider a scenario where taxpayers are required to report the value of their assets on their tax returns, even though there was no wealth tax—perhaps because the IRS would be using information on wealth to support income tax enforcement, as is done in Argentina, Brazil, and Columbia (Londona-Velez and Avila-Mahecha 2024). It is likely that many taxpayers would underreport the value of their assets to be consistent with the amount of taxable investment income that they were already reporting to the IRS. In our analysis, we assume that taxpayers—even in the absence of a wealth tax—would underreport their wealth (if mandated) by the same rate as they underreport the taxable income derived from the assets. Given the cutbacks in the IRA funding, freezes in appropriations and delays in hiring additional skilled examiners, we assume that the compliance rates remain the same as in the 2014 to 2016 period—the last years covered by the most recently available IRS compliance study.

Underreporting to Reduce Wealth Tax Payments

From our review of existing studies of wealth taxes, we determined that a US wealth tax—with a broad base, a 1 percent tax rate, and third-party reporting comparable to the current requirements for capital income—would reduce reported taxable net wealth by 4 percent in the first year. The response rate would rise over time, peaking at an 8 percent reduction in reported taxable net wealth by the tenth year. The impact was assumed to change proportionately with the tax rate: For example, a 2 percent tax would cause reported taxable net wealth to decline by 8 percent in the first year and by 16 percent in the tenth year. We also assume a *feedback response*—that taxpayers would lower their reported capital income as reported wealth declines, causing a reduction in individual income taxes.

Those response rates are conservative relative to the findings of the studies discussed in the previous section, but a broad-based tax would provide fewer opportunities for tax avoidance and evasion than the taxes with narrower bases in other countries. After reviewing those studies, researchers at the London School of Economics concluded that a broad-based wealth tax with a 1 percent rate would reduce reported wealth by 7 percent to 17 percent in the United Kingdom (Advani and Tarrant 2021). As we did, they assumed that the effect would increase proportionately with the tax rate.

WEALTH TAX OPTIONS

For many supporters, an appeal of a wealth tax is its potential to raise a considerable amount of revenue and yet be owed by relatively few people who have the resources to pay the tax. The impact on revenues and taxpayers, though, varies greatly depending on the choice of base, rates, and tax thresholds. This section contains 10-year revenue estimates and distributional analysis for six different options for a wealth tax.

The options are first divided into two categories, reflecting different tax bases: a broad base and a narrow base. All net wealth is included in the broad base, whereas the narrower base excludes the following three assets:

- pensions (both defined benefit plans and defined contribution plans)
- up to \$1 million of the net value of personal residences
- privately held businesses in which the owner is actively involved in their operations

The exempted assets are similar to those that typically receive preferential treatment in other countries' wealth taxes. For both the broad-base and narrow-base options, the following three options are presented, which differ by tax rate structure and tax thresholds:

- **Option 1.** Under this option, net wealth below \$40 million would be exempted from the tax if the taxpayers are married and filing a joint return. To prevent marriage penalties, the threshold would be \$20 million for unmarried filers. Initially, the tax rate would be .01 percent of net wealth above the tax threshold but would increase gradually until reaching a maximum rate of 1 percent at \$50 million for joint filers and \$25 million for other filers.
- **Option 2:** This option adds a second wealth tax bracket, with the tax rate increasing to 2 percent for net wealth more than \$100 million (\$50 million for unmarried taxpayers).
- **Option 3:** Under this option, the tax rate structure would be the same as under option 1—a 1 percent rate for net wealth over a threshold. But for joint filers, the net wealth tax threshold would be reduced to \$20 million, with the rate gradually increasing to 1 percent when net wealth is above \$30 million. Those wealth thresholds would be halved for unmarried filers.

Broad Base

As anticipated, the wealth tax options—particularly with a broad base—would increase revenues substantially, with the burden imposed on a small number of taxpayers with very high income. With a broad tax base, the first option, with a 1 percent rate above \$50 million for married couples, would raise \$1.9 trillion from 2025 through 2034 (table 3).⁴⁹ Adding a second tier (option 2) would boost the ten-year savings by \$1 trillion to \$2.9 trillion. The lower threshold (option 3) would raise a total of \$2.8 trillion. By comparison, the corporate income tax is projected by CBO (2025) to yield \$4.8 trillion over the same 10-year span.

TABLE 3

Amount of Revenue Raised by Wealth Taxes with Broad or Narrow Base¹
(billions of dollars)

Taxable net wealth base	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2034
1 percent tax on taxable net wealth above \$50 million if filing jointly or \$25 million if unmarried ²											
Broad base	113.4	158.3	168.3	177.5	187.2	197.8	209.0	221.3	232.9	244.1	1,909.7
Narrow base	62.8	87.0	92.1	96.9	102.2	108.0	114.0	120.6	127.0	133.3	1,043.9
1 percent tax on taxable net wealth above \$50 million if filing jointly or \$25 million if unmarried; 2 percent at double the tax thresholds ²											
Broad base	180.3	249.4	262.8	275.0	287.6	301.5	316.0	332.0	346.8	360.4	2,911.7
Narrow base	100.5	138.1	145.0	151.4	158.3	166.0	173.7	182.3	190.4	198.1	1,603.8
1 percent tax on taxable net wealth above \$30 million if filing jointly or \$15 million if unmarried ³											
Broad base	164.6	230.9	246.0	259.3	273.1	288.1	304.2	321.8	337.6	352.9	2,778.5
Narrow base	89.5	125.0	132.7	139.8	147.3	155.8	165.0	174.8	184.0	192.9	1,506.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0324-1).

Note: ¹ The base is the amount of taxable wealth. The broad base includes the value of all assets, net of debt. The narrow base excludes three types of assets: (1) pensions (both defined benefit plans and defined contribution plans); (2) the value of personal residences in excess of \$1 million; and (3) privately held businesses in which the owner actively participates.² Tax rate would begin phasing in at \$40 million for joint filers and \$20 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.³ Tax rate would begin phasing in at \$20 million for joint filers and \$10 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.

The three options are very progressive. Under the first two options, between 86 to 88 percent of the tax change would be borne by families in the top 1 percent of the income distribution; that share declines to 77 percent when the tax threshold is lowered (table 4).

TABLE 4

Share of Total Federal Tax Increase under Wealth Tax Options by Income, 2025



Expanded cash income percentile	Share of total federal tax increase (%)					
	Broad base ¹			Narrow base ¹		
	1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³	1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³
Lowest Quintile	0.6	0.6	0.6	0.7	0.5	0.7
Second Quintile	0.3	0.2	0.4	0.1	0.1	0.3
Middle Quintile	0.1	0.1	0.3	0.2	0.1	0.4
Fourth Quintile	0.9	0.7	1.6	0.6	0.5	1.4
Top Quintile	94.9	95.0	94.1	97.2	97.6	96.0
All	100.0	100.0	100.0	100.0	100.0	100.0
Addendum						
80-90	1.3	1.3	1.7	1.0	0.9	1.5
90-95	1.2	0.9	2.6	1.3	0.9	3.0
95-99	6.3	4.5	12.4	6.1	4.4	11.9
Top 1 Percent	86.1	88.4	77.4	88.9	91.4	79.7
Top 0.1 Percent	54.7	61.2	41.9	63.1	69.2	49.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0324-1).

Note: ¹ The base is the amount of taxable wealth. The broad base includes the value of all assets, net of debt. The narrow base excludes three types of assets: (1) pensions (both defined benefit plans and defined contribution plans); (2) the value of personal residences in excess of \$1 million; and (3) privately held businesses in which the owner actively participates.² Tax rate would begin phasing in at \$40 million for joint filers and \$20 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.³ Tax rate would begin phasing in at \$20 million for joint filers and \$10 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.

Overall, the options would reduce after-tax income by between 1 percent (option 1) and 2 percent (options 2 and 3). However, after-tax income would drop by between 8 percent and 14 percent among families in the top 1 percent of the income scale. And among those in the top 0.1 percent, option 2—with its top rate of 2 percent—would reduce after-tax income by 20 percent (table 5).

TABLE 5

Percent Change in After-Tax Income under Wealth Tax Options by Income, 2025



Expanded cash income percentile	Percent change in after-tax income (%)					
	Broad base ¹			Narrow base ¹		
	1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³	1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³
Lowest Quintile	-0.2	-0.3	-0.2	-0.1	-0.1	-0.1
Second Quintile	0.0	0.0	-0.1	0.0	0.0	0.0
Middle Quintile	0.0	0.0	0.0	0.0	0.0	0.0
Fourth Quintile	-0.1	-0.1	-0.1	0.0	0.0	-0.1
Top Quintile	-2.5	-4.0	-3.4	-1.3	-2.1	-1.8
All	-1.3	-2.1	-1.8	-0.6	-1.1	-0.9
Addendum						
80-90	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
90-95	-0.2	-0.2	-0.5	-0.1	-0.1	-0.3
95-99	-0.7	-0.8	-1.8	-0.3	-0.4	-0.9
Top 1 Percent	-8.1	-13.5	-10.1	-4.2	-7.1	-5.4
Top 0.1 Percent	-11.1	-20.2	-11.7	-6.4	-11.7	-7.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0324-1).

Note: ¹ The base is the amount of taxable wealth. The broad base includes the value of all assets, net of debt. The narrow base excludes three types of assets: (1) pensions (both defined benefit plans and defined contribution plans); (2) the value of personal residences in excess of \$1 million; and (3) privately held businesses in which the owner actively participates.

² Tax rate would begin phasing in at \$40 million for joint filers and \$20 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.

³ Tax rate would begin phasing in at \$20 million for joint filers and \$10 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.

Moreover, the burden of the tax would be concentrated even within income groups. About 0.3 percent of all families would pay higher taxes if the first option, with the \$40 million threshold for joint filers, was enacted (table 6). Half of those families would be in the top 1 percent of the income distribution; still, taxes would not rise for roughly 75 percent of families even in that very high-income group. The second option—with a second-rate bracket—would not change the number of affected families because the tax threshold would be the same. But by lowering the tax threshold in the third option, the share of families with a tax increase would rise to 0.8 percent; the share of families in the top 1 percent with a tax increase would nearly double.

TABLE 6

Shares of Families Subject to a Wealth Tax under Wealth Tax Options by Income, 2025



Expanded cash income percentile	Number of families	Percent of families with wealth tax increase, by income group					
		Broad base ¹			Narrow base ¹		
		1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³	1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³
Lowest Quintile	49,600,000	0.0	0.0	*	0.0	0.0	*
Second Quintile	42,340,000	*	*	0.1	*	*	*
Middle Quintile	40,030,000	0.0	0.0	0.1	0.0	0.0	0.1
Fourth Quintile	32,230,000	0.1	0.1	0.4	*	*	0.3
Top Quintile	26,390,000	1.8	1.8	4.8	0.9	0.9	2.8
All	192,350,000	0.3	0.3	0.8	0.1	0.1	0.5
Addendum							
80-90	13,530,000	0.1	0.1	0.8	*	*	0.5
90-95	6,620,000	0.4	0.4	2.2	0.3	0.3	1.2
95-99	5,030,000	2.5	2.5	8.8	1.2	1.2	4.8
Top 1 Percent	1,210,000	24.2	24.2	46.1	12.7	12.7	27.9
Top 0.1 Percent	130,000	57.9	57.9	76.8	40.1	40.1	59.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0324-1).

Note: ¹ The base is the amount of taxable wealth. The broad base includes the value of all assets, net of debt. The narrow base excludes three types of assets: (1) pensions (both defined benefit plans and defined contribution plans); (2) the value of personal residences in excess of \$1 million; and (3) privately held businesses in which the owner actively participates.

² Tax rate would begin phasing in at \$40 million for joint filers and \$20 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.

³ Tax rate would begin phasing in at \$20 million for joint filers and \$10 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.

* Non-zero value rounded to zero

The highly concentrated feature of the wealth tax is reflected in a comparison of the average tax increases for different groups (table 7). Across all families, the average tax increase would range from \$1,300 for the first option to \$2,100 for the second option. But among those in the top 0.1 percent, the average tax increase would be about \$1.1 million for both options 1 and 3 and nearly twice that amount under option 2. For families who incur a tax increase, the average tax increase would range from about \$230,000 under the third option to \$800,000 under the second option; the average tax increase among the top 0.1 percent would be between \$1.5 million (option 3) and \$3.4 million (option 2).

TABLE 7
Average Wealth Tax under Options by Income, 2025

Expanded cash income percentile	Average wealth tax for families with tax increase					
	Broad base ¹			Narrow base ¹		
	1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³	1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³
Lowest Quintile	0	0	**	0	0	**
Second Quintile	**	**	66,740	**	**	**
Middle Quintile	0	0	20,390	0	0	21,510
Fourth Quintile	111,880	144,150	46,330	**	**	30,040
Top Quintile	509,470	832,910	255,870	499,130	831,140	236,440
All	492,410	803,630	227,580	473,000	784,260	203,370
Addendum						
80-90	211,470	349,000	51,370	**	**	39,590
90-95	103,020	125,910	61,180	82,350	95,840	65,350
95-99	125,020	145,350	96,190	121,820	148,010	88,360
Top 1 Percent	726,640	1,216,950	473,460	713,050	1,216,150	422,450
Top 0.1 Percent	1,867,170	3,408,870	1,491,220	1,558,850	2,834,340	1,183,370

Expanded cash income percentile	Average wealth tax for all families					
	Broad base ¹			Narrow base ¹		
	1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³	1% above \$50 million (\$25 million if unmarried) ²	1% above \$50 million (\$25 million if unmarried) and 2% above \$100 million (\$50 million if unmarried) ²	1% above \$30 million (\$15 million if unmarried) ³
Lowest Quintile	30	50	40	20	20	20
Second Quintile	20	20	30	*	*	10
Middle Quintile	10	10	30	10	10	20
Fourth Quintile	70	90	170	20	30	80
Top Quintile	8,890	14,540	12,210	4,570	7,610	6,520
All	1,290	2,100	1,780	650	1,070	930
Addendum						
80-90	230	380	430	90	130	200
90-95	430	530	1,320	240	280	800
95-99	3,100	3,610	8,460	1,500	1,820	4,230
Top 1 Percent	175,530	293,960	218,370	90,870	154,990	117,640
Top 0.1 Percent	1,080,730	1,973,060	1,144,820	625,200	1,136,760	703,330

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0324-1).

Note: ¹ The base is the amount of taxable wealth. The broad base includes the value of all assets, net of debt. The narrow base excludes three types of assets: (1) pensions (both defined benefit plans and defined contribution plans); (2) the value of personal residences in excess of \$1 million; and (3) privately held businesses in which the owner actively participates.

² Tax rate would begin phasing in at \$40 million for joint filers and \$20 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.

³ Tax rate would begin phasing in at \$20 million for joint filers and \$10 million for unmarried filers. The initial rate would be .01 percent and would increase in \$1,000 increments before reaching the maximum rate of 1 percent.

* Non-zero value rounded to zero; ** Insufficient data

While wealthy taxpayers are most likely to have high incomes, a very small number of taxpayers in lower-income groups have substantial amounts of assets and would also incur a tax increase. About 3 percent of the

net wealth tax liability would be owed by families with negative income. In some cases, those families have very high gross income but incur even larger losses from their businesses or sale of assets.

Under all three options, married couples would be more likely to incur a tax increase than unmarried filers, and their average tax change would be over twice the amount among all taxpayers. In contrast, relatively few heads of households—unmarried individuals living with children or other dependent relatives—would see their taxes rise because of a wealth tax. Among all heads of households, the average tax increase would be less than \$300. Families with one or both spouses ages 65 or older would see their average taxes rise about twice the amount incurred by all families.

Narrow Base

Narrowing the tax base would reduce the revenue attributable to all three options by about 45 percent. The magnitude of the change is primarily due to the exclusion of privately held businesses, in which the owner takes on an active role.⁵⁰

With the asset exclusions, a slightly higher share—about 90 percent—of the tax increase would be borne by families in the top 1 percent under the first two options; about 80 percent of the tax increase under the third option would be concentrated in that income group. But relative to the broad-base options, the three narrow-base options would reduce the percent change in after-tax impact by roughly half.

As with the broad-based estimates, the numbers of taxpayers with a tax increase are the same under the first two options because the wealth tax thresholds are identical. But relative to the broad-base option, the number of families with a tax increase would drop by about two-thirds—from 0.3 percent of all families to 0.1 percent. The share of families in the top 1 percent with a tax increase would drop by nearly half when the base is narrowed.

When the tax threshold is lowered to \$30 million (\$15 million for unmarried filers), the percent of taxpayers subject to a wealth tax would fall by just a third relative to the comparable broad-based option—from 0.8 percent to 0.5 percent. Moreover, the share of families in the top 1 percent with a wealth tax liability would fall from 46 percent to 28 percent.

Among all taxpayers, the average tax increase would be halved when the base is narrowed. However, among just those with a tax increase, the average change would be about the same under both the broad-base and narrow-base options.

WOULD A WEALTH TAX REDUCE WEALTH?

Some lawmakers and analysts support a wealth tax as a means of reducing the concentration of wealth (Saez and Zucman 2019).^{51,52}

In this section, we consider the impact of a wealth tax on a hypothetical individual with a net worth of \$1 billion. In these examples, we estimate their wealth holdings in the tenth year after enactment of the first broad-based option described in the previous section—a 1 percent tax on all net wealth more than \$50 million for married couples and \$25 million for other families. Unlike the revenue estimates, we assume that the family will sell assets to pay the tax if their investment income is insufficient to cover their liabilities.⁵³

In these simple examples, we find that the impact of a wealth tax on asset holdings depends on the rate of return on the investment, the tax rate, and the taxpayer’s propensity for compliance. We start with a very basic (if unrealistic) case where a couple does not receive any capital income, and they accurately report the net value of their assets to the IRS. In this instance, the 1 percent wealth tax would reduce their holdings by about \$90 million by the 10th year of the tax.

The more likely case is that the couple’s return on investment is positive, and that they do not report all their net wealth to the IRS. We find that if the rate of return, after income taxes, is greater than the wealth tax rate, their assets will not decline. That effect will be reinforced if they underreport their wealth.

In this example, consider if the couple’s return on investment, after income taxes, is 7.5 percent. We assume that they would report 81 percent of their wealth if there was no wealth tax and would further reduce reported wealth initially by 4 percent and then up to 8 percent in the tenth year in response to a 1 percent tax increase.⁵⁴ At the end of the decade, their net wealth would have increased from \$1 billion to \$1.9 billion. While their wealth has increased despite the tax, the rate of growth slowed—so that their total net assets are \$300 million lower in 2034 than if there had been no mandated reporting of wealth or a wealth tax.

CONCLUSION

During the 2020 presidential campaign, several candidates proposed broad-based wealth taxes on very wealthy families. The goals of those proposals were primarily to address wealth inequality and finance the expansion and creation of new spending programs and tax credits.

While Biden proposed other approaches to meet those goals and the Trump administration is unlikely to raise taxes on the very rich, the supporters of wealth taxes have continued to press for enactment of such a tax: Zucman has proposed a global tax on wealth, while wealth tax legislation has been considered in several states. In the future, interest in wealth taxes may be sparked again if the federal debt and wealth inequality continue to rise.

When policymakers debate such proposals, they should consider the following:

- **The tax base** and how it may affect people’s choices between investment opportunities and their ability to avoid the tax

- **The valuation of assets** and the ease with which taxpayers could avoid or evade the tax by underreporting the value of their assets
- **The threshold and the wealth tax rate** and the interaction with the individual income tax treatment of capital income
- **The tax unit** and the opportunities for people to minimize their tax liability by transferring assets to relatives

Studies in other countries show declines in the amount of wealth reported to government authorities in response to a wealth tax. The studies also attribute those declines to avoidance and evasion as result of complexity of the laws and the challenges faced by tax authorities in tracking and verifying asset values.

We have considered six options for wealth taxes in this paper. Three options involve a broad-based wealth tax that varies based on tax rates and thresholds. Even when assuming avoidance and evasion, we find that the options raise roughly between 40 and 60 percent of corporate income tax receipts. Under the first two options, between 86 and 88 percent of the tax would be borne by families in the top 1 percent of the income distribution. We estimate the following:

- A 1 percent tax rate on net wealth above \$50 million (\$25 million for unmarried filers) would raise \$1.9 trillion between 2025 and 2034 and reduce after-tax income by 1 percent overall and by 8 percent for families in the top 1 percent of the income distribution
- The addition of a second-tax rate bracket—with wealth above \$100 million taxed at a 2 percent rate—would increase the revenue savings to \$2.9 trillion between 2025 and 2034 and reduce after-tax income by 2 percent overall and by 14 percent for families in the top 1 percent of the income distribution
- A flat 1 percent rate beginning at \$30 million for married couples and \$15 million for unmarried individuals would raise \$2.8 trillion between 2025 and 2034 and reduce after-tax income by 2 percent overall and by 10 percent for families in the top 1 percent of the income distribution

Countries with wealth taxes have often treated certain assets more favorably than others. Following their lead, we also estimated three options that excluded pensions, housing values below \$1 million, and privately held businesses in which the owner was actively involved in the operations of the companies. The 10-year revenue estimates for the narrow-based wealth tax options would reduce revenue by about 45 percent of the amounts under the broad-based options. About 90 percent of the tax would be borne by families in the top 1 percent under the first two options. We estimate the following:

- A 1 percent tax rate on net wealth above \$50 million (\$25 million for unmarried filers) would raise \$1.0 trillion between 2025 and 2034 and reduce after-tax income by 0.6 percent overall and by 4 percent for families in the top 1 percent of the income distribution
- The addition of a second-tax rate bracket—with wealth above \$100 million taxed at a 2 percent rate—would increase the revenue savings to \$1.6 trillion between 2025 and 2034 and reduce after-tax income by 1 percent overall and by 7 percent for families in the top 1 percent of the income distribution
- A flat 1 percent rate beginning at \$30 million for married couples and \$15 million for unmarried individuals would raise \$1.5 trillion between 2025 and 2034 and reduce after-tax income by 1 percent overall and by 5 percent for families in the top 1 percent of the income distribution

As the estimates of the options confirm, a wealth tax can raise substantial revenues while concentrating the increased taxes in the top of the income distribution. Those estimates, however, do not account for changes in investment in response to a wealth tax. Nor have we estimated the costs to taxpayers for complying with the law, to third parties for reporting independent information on taxpayers' holdings, and to the government for administering a complicated tax. Those factors—along with the possibility that the Supreme Court would rule a wealth tax unconstitutional—may ultimately stymie efforts to enact a federal wealth tax in the future.

APPENDIX: CONSTITUTIONALITY OF A WEALTH TAX

Written by Steven Rosenthal

Ultimately, the fate of a federal wealth tax in the United States may be decided by the US Supreme Court. The US constitution bans the federal government from imposing direct taxes that are not collected evenly across states based on their populations. However, constitutional scholars have long debated the definition of a direct tax and whether a wealth tax would fall into that category and must be collected evenly to be constitutional. Adding to the uncertainty about the constitutionality of a wealth tax was the Supreme Court's 2024 decision in *Moore v. United States*.⁵⁵

Court Decisions before 2024

The US Constitution requires "direct" taxes to be "apportioned" among the states by population (that is, collected evenly).⁵⁶ But it requires "duties, imposts, and excises," commonly known as "indirect" taxes, to be uniform throughout the states (e.g., applied at the same rate).

In the late 18th century, the Supreme Court held that a tax on carriages was not a direct tax, with the Justices intimating that only head taxes—a per capita tax—and real estate taxes are direct.⁵⁷ But a century later, the Supreme Court held that a tax on income from any property, real or personal, equated to a tax on the property itself, which would be direct.⁵⁸ After the second case, the US adopted the 16th Amendment, which provided, "Congress shall have power to lay and collect taxes on income, from whatever source derived, without apportionment." So, after adoption of the 16th Amendment, Congress could impose income taxes without apportionment but must apportion other direct taxes.

Some commentators, however, argue that direct taxes should be construed narrowly because the clause in the Constitution is tainted by its origins in an unsavory deal between Northern and Southern states at the nation's founding over enslavement and state representation in Congress. Under such a narrow interpretation, direct taxes might only include head taxes and real estate taxes (Ackerman 1999). And for broader historical reasons, others contend that taxes should be classified as indirect whenever plausible. So, a wealth tax might be considered indirect, as a tax on the "activity or privilege of holding of extreme levels of net worth (Brooks and Gamage 2022)."

Moore v. United States

In 2024, the Court heard arguments in *Moore v. United States*. In this case, the plaintiffs challenged a one-time retroactive provision in the 2017 Tax Cuts and Jobs Act requiring investors to pay a tax on undistributed profits earned by American-controlled foreign corporations. The plaintiffs argued that the provision was unconstitutional because a tax on undistributed profits was not income within the meaning of the 16th Amendment.

APPENDIX: CONSTITUTIONALITY OF A WEALTH TAX

The Supreme Court's ruling in *Moore v. United States* was narrow, determining in this instance that the income had been realized by the company and thus, effectively, realized by its owners as well; hence, the Moores' share of the business's undistributed profits could be taxed pursuant to the 16th Amendment. But in another passage, the justices took an expansive view of direct taxes, reiterating that a tax on property to be a direct tax. Writing for the majority, Associate Justice Brett Kavanaugh explained that "generally speaking, direct taxes are those taxes imposed on persons or property." And "indirect taxes" are taxes on "activities or transactions." Kavanaugh gave an example of apportionment for a direct tax:

If Congress imposed a property tax on every American homeowner, the citizens of a State with five percent of the population would pay five percent of the total property tax even if the value of their combined property added up to only three percent of the total value of homes in the United States. To pay five percent, the tax rate on the citizens of that State would need to be substantially higher than the tax rate in the neighboring State with the same population but more valuable homes.... That kind of complicated and politically unpalatable result has made direct taxes difficult to enact.... It appears that Congress has not enacted an apportioned tax since the Civil War (*Moore v. United States*, 602 US 572, 2024).

Implications of Moore for Wealth Tax

Some taxes cannot be apportioned. For example, the Constitution explicitly labels a per capita (i.e., head) tax as a direct tax.⁵⁹ But a head tax on every American billionaire could not be apportioned among the states. That is because no billionaires reside in certain states, such as Alaska,⁶⁰ and the tax therefore cannot be apportioned because there cannot be any tax collected from those states.

But is a wealth tax, as examined in this report, a direct tax within the meaning of the Constitution? If so, it must be apportioned, as a wealth tax is not an income tax. But apportionment of a wealth tax is impractical or impossible (especially if the wealth threshold is very large).

The decision in *Moore* expressly did not address "taxes on holdings, wealth, or net worth."⁶¹ But some features of the case raised questions about the constitutionality of a future wealth tax.

During the oral argument in *Moore*, Kavanaugh asked US Solicitor General Elizabeth Prelogar if she agreed that a federal tax on "the value of someone's property" or "holdings" is a direct tax that would have to be apportioned. He thought the answer was an "easy" yes, and she agreed. Later, in the Supreme Court's decision, Kavanaugh noted the Government's concession that "a tax on an individual's holdings or property (for example, on one's wealth or net worth) might be considered a tax on property, not income." The Government's concessions suggest that defending a wealth tax to this court might be difficult. However, some uncertainty remains regarding the final outcome of a potential challenge to a wealth tax.

NOTES

- ¹ "Who pays the estate tax?," Urban-Brookings Tax Policy Center, accessed January 18, 2025, <https://taxpolicycenter.org/briefing-book/who-pays-estate-tax>.
- ² "Tax on Extreme Wealth," Bernie Sanders Website, accessed January 12, 2025, <https://berniesanders.com/issues/tax-extreme-wealth/>.
- ³ "Ultra-Millionaire Tax," Elizabeth Warren Website, accessed January 12, 2025, <https://elizabethwarren.com/plans/ultra-millionaire-tax>.
- ⁴ "Share Our Wealth," The Huey Long Website, accessed January 12, 2025, <https://www.hueylong.com/programs/share-our-wealth.php>.
- ⁵ "Wealth Tax and Free College Get Poll Support. Democrats Worry It Won't Last," New York Times, accessed February 24, 2025, <https://www.nytimes.com/2019/07/21/business/wealth-tax-polling-democrats.html?module=inline>.
- ⁶ The minimum tax would be phased in, beginning at \$100 million. The tax would be fully phased in for all taxpayers with wealth greater than \$200 million.
- ⁷ "Issues: Economy," Bernie Sanders Website, accessed January 12, 2025, <https://www.sanders.senate.gov/issues/>.
- ⁸ "Bill Gates and Bernie Sanders met to discuss taxing the super rich," Yahoo Finance, accessed January 12, 2025, <https://finance.yahoo.com/news/bill-gates-bernie-sanders-met-111736579.html?guccounter=1>.
- ⁹ "Warren, Jayapal, Boyle Reintroduce Ultra-Millionaire Tax on Fortunes Over \$50 million," Elizabeth Warren Website, accessed January 12, 2025, <https://www.warren.senate.gov/newsroom/press-releases/warren-jayapal-boyle-reintroduce-ultra-millionaire-tax-on-fortunes-over-50-million>.
- ¹⁰ "Tax on Extreme Wealth," Bernie Sanders Website, accessed January 12, 2025, <https://berniesanders.com/issues/tax-extreme-wealth/>.
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- ¹² Mark Gilens and Benjamin Page, "Critics Argued with Our Analysis of U.S. Political Inequality. Here Are 5 Ways They're Wrong," *The Washington Post*, May 23, 2016, <https://www.washingtonpost.com/news/monkey-cage/wp/2016/05/23/critics-challenge-our-portrait-of-americas-political-inequality-heres-5-ways-they-are-wrong/>.
- ¹³ David D. Stewart, Joseph J. Thorndike and Jason Furman, "Interview: The Wealth Tax Debate," Tax Notes, February 18, 2020, <https://www.taxnotes.com/opinions/interview-wealth-tax-debate/2020/02/18/2c5wd>.
- ¹⁴ "Are federal taxes progressive?," Urban-Brookings Tax Policy Center, accessed January 12, 2025, <https://taxpolicycenter.org/briefing-book/are-federal-taxes-progressive>.
- ¹⁵ US Const. Art. I, Section 2.
- ¹⁶ *Moore v. United States* of 2024, 602 U.S. 572 (2024).
- ¹⁷ Ian Millhiser, "The Supreme Court's New Tax Decision Is Great News for Billionaires," *Vox*, June 20, 2024, <https://www.vox.com/scotus/355969/supreme-court-moore-us-wealth-tax-billionaires>.
- ¹⁸ "How Do State and Local Property Taxes Work?" Tax Policy Center Briefing Book, Urban-Brookings Tax Policy Center, accessed January 12, 2025, <https://taxpolicycenter.org/briefing-book/how-do-state-and-local-property-taxes-work>.
- ¹⁹ Using an alternative approach to measuring net wealth, some researchers conclude that privately held businesses are not the dominant asset held by very wealthy individuals. According to Saez and Zucman, a greater share of the 2016 investment portfolios of individuals in the top 0.1 percent consisted of equities and fixed-interest accounts than of privately held businesses. Bricker and his colleagues determine that the difference is chiefly due to Saez and Zucman's capitalization method of measuring wealth.

NOTES

- ²⁰ “Who Pays the Estate Tax?” Tax Policy Center Briefing Book, Urban-Brookings Tax Policy Center, accessed January 12, 2025, <https://taxpolicycenter.org/briefing-book/who-pays-estate-tax>.
- ²¹ “How Do State and Local Property Taxes Work?” Tax Policy Center Briefing Book, Urban-Brookings Tax Policy Center, accessed January 12, 2025, <https://taxpolicycenter.org/briefing-book/how-do-state-and-local-property-taxes-work>.
- ²² An exception is made for bonds issued by state and local governments to fund certain projects; the interest income from those bonds may be exempted from federal income taxes though the pre-tax yield is generally lower than for other types of bonds.
- ²³ Since 2018, the tax brackets for long-term capital gains and qualified dividends have also deviated from those used for other types of income.
- ²⁴ Interest on mortgages taken out before October 31, 1987, are fully deductible. Mortgages taken out after that time but before December 16, 2017, must be smaller than \$1 million for the interest to be deductible.
- ²⁵ Roth plans are named for Senator William Roth, who sponsored the legislation that created the Roth IRA. The Roth 401(k) plan was enacted after his death and—like the Roth IRA—taxes contributions but not the benefits.
- ²⁶ If the individual is age 50 or older, the 401(k) and IRA caps rise to \$31,000 and \$8,000, respectively, in 2025. The thresholds are indexed for inflation. For people covered by a retirement plan at work, the amount of the deductible contribution is reduced when income exceeds a threshold (in 2025, \$79,000 for an unmarried individual and \$126,000 for a married couple filing a joint return).
- ²⁷ Under the tax code, nondiscrimination tests are intended to prevent companies from favoring highly compensated employees in their defined benefit plans.
- ²⁸ Steven M. Rosenthal, “Mega IRAs Reflect Mega Legislative Mistakes,” Urban-Brookings Tax Policy Center, August 13, 2021, <https://taxpolicycenter.org/taxvox/mega-iras-reflect-mega-legislative-mistakes>.
- ²⁹ The combined marginal tax rate equals the sum of the corporate tax rate (.21) and the top individual income tax rate, after adjusting for the corporate tax on the company’s distributed earnings (.408 times .21).
- ³⁰ Those deductions are subject to numerous restrictions. For example, some service providers (including lawyers and accountants) lose part, and eventually all, of the deduction when their income exceeds specified thresholds.
- ³¹ In Columbia, a wealth tax became effective in 1935 but was repealed in 1992. It was reinstated in 2002 to fund the government’s anti-drug trafficking, guerrilla, and paramilitary activities. Columbia was not included in the count of OECD countries with the tax in 1990 because it did not join the organization until 2020.
- ³² “Comparative tables of countries in the global database,” OECD Data Explorer, accessed January 13, 2025, [https://data-explorer.oecd.org/vis?fs\[0\]=Topic%2C1%7CTaxation%23TAX%23%7CGlobal%20tax%20revenues%23TAX_GTR%23&pg=0&fc=Topic&bp=true&snb=150&df\[ds\]=dsDisseminateFinalDMZ&df\[id\]=DSD_REV_COMP_GLOBAL%40DF_RSGLOBAL&df\[ag\]=OECD.CTP.TPS&dq=ESP%2BNOR%2BCOL..S1311.T_4210..USD%2BPT_B1GQ.A&to\[TIME_PERIOD\]=false&pd=1990%2C2022&vw=tb](https://data-explorer.oecd.org/vis?fs[0]=Topic%2C1%7CTaxation%23TAX%23%7CGlobal%20tax%20revenues%23TAX_GTR%23&pg=0&fc=Topic&bp=true&snb=150&df[ds]=dsDisseminateFinalDMZ&df[id]=DSD_REV_COMP_GLOBAL%40DF_RSGLOBAL&df[ag]=OECD.CTP.TPS&dq=ESP%2BNOR%2BCOL..S1311.T_4210..USD%2BPT_B1GQ.A&to[TIME_PERIOD]=false&pd=1990%2C2022&vw=tb).
- ³³ Spain did not formally repeal the wealth tax but instead installed a 100 percent tax credit that completely offset the liability.
- ³⁴ The reasons for the abolishment of the wealth tax in Germany were unique: The tax was ruled unconstitutional in 1995, in part, because immovable property was found to be valued at below market value whereas the valuation of other assets was more consistent with their market value (Rehr 2020).
- ³⁵ “Do existing tax incentives increase homeownership?,” The Urban-Brookings Tax Policy Center, accessed January 12, 2025, <https://taxpolicycenter.org/briefing-book/do-existing-tax-incentives-increase-homeownership>.
- ³⁶ “Spain: Individual - Other taxes, Social security contributions” PWC, accessed January 12, 2025, <https://taxsummaries.pwc.com/spain/individual/other-taxes>.

- ³⁷ Prior to 2022, the 75 percent exemption applied to the full value of the home. In 2022, the exemption was reduced to 50 percent for the portion of the home's value that exceeded NOK 10 million; that exemption for high-priced homes was further reduced to 30 percent in 2023.
- ³⁸ "Valuation discount in connection with assessment of wealth," The Norwegian Tax Administration, accessed January 12, 2025, <https://www.skatteetaten.no/en/person/taxes/get-the-taxes-right/valuation-discount-in-connection-with-assessment-of-wealth/>.
- ³⁹ IRS Rev. Rul. 59-60.
- ⁴⁰ Under certain circumstances, executors can choose to value assets at their worth up to six months later.
- ⁴¹ "What is a zestimate?" Zillow, accessed January 13, 2025, <https://www.zillow.com/z/zestimate/>.
- ⁴² IRS Rev. Rul. 59-60 establishes eight factors that can reflect market value when market quotations are unavailable or scarce. Those factors are (a) the nature of the business and the history of the enterprise from its inception; (b) the economic outlook in general and the condition and outlook of the specific industry in particular; (c) the book value of the stock and financial condition of the business; (d) the earning capacity of the company; (e) the dividend-paying capacity; (f) whether or not the enterprise has goodwill or other intangible value; (g) sales of the stock and the size of the block of stock to be valued; and (h) the market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either at an exchange or over-the-counter.
- ⁴³ "Social security contributions." PWC, accessed January 18, 2025, <https://taxsummaries.pwc.com/norway/individual/other-taxes>.
- ⁴⁴ Kate Kelly and Alan Rappoport, "Biden's Proposal to Empower I.R.S. Rattles Banks and Their Customers," The New York Times, October 11, 2021, <https://www.nytimes.com/2021/10/11/business/irs-bank-accounts.html>.
- ⁴⁵ "Brief Description of the Tax Model," Urban-Brookings Tax Policy Center, accessed January 13, 2025, <https://taxpolicycenter.org/resources/brief-description-tax-model>.
- ⁴⁶ The scorekeeping rules do allow for one type of behavioral assumption, commonly known as "tax form behavior." For example, some people would switch from itemizing to claiming an increased standard deduction. The distributional analysis would reflect that type of behavioral response.
- ⁴⁷ Assuming that the person would rely on assets to pay the wealth tax would add another layer of complexity to the revenue estimate. It is not clear if the conventional fixed-GDP assumption could be maintained if capital was effectively transferred through a wealth tax from individuals to the government. Depending on the use of proceeds from a wealth tax (e.g., assistance to needy family, infrastructure investments), there could be economic impacts that result in changes to GDP and total wealth. Moreover, considerations of those effects would require assumptions about rates of returns and the time paths of returns from government spending relative to private investments. For the hypothetical examples, we relax the fixed-GDP assumption.
- ⁴⁸ For the definition of income used in this analysis, see <https://taxpolicycenter.org/resources/income-measure-used-distributional-analyses-tax-policy-center>.
- ⁴⁹ The revenue estimates are measured relative to a current law baseline. That baseline assumes the expiration of the individual income tax provisions that were enacted in the 2017 Tax Cuts and Jobs Act and scheduled to expire at the end of 2025. Those provisions affect the estimates because the wealth tax would encourage not only underreporting of assets on wealth tax returns but also underreporting of the income derived from the omitted asset on individual income tax returns.
- ⁵⁰ For these simplified options, we have not specified the exemption rules or the guardrails for maintaining the line between exempt and non-exempt assets. Especially for privately held businesses, the precise specification and administration of those guardrails would have a substantial effect on taxpayers' ability to avoid or evade the wealth tax. Given the lack of detail in the options, we assume that taxpayers' responses to the wealth tax are the same as in the broad-base options.

NOTES

- ⁵¹ "Tax on Extreme Wealth," Bernie Sanders Website, accessed January 12, 2025, <https://berniesanders.com/issues/tax-extreme-wealth/>.
- ⁵² "Ultra-Millionaire (2 Cent) Tax," Elizabeth Warren Website, accessed January 12, 2025, <https://elizabethwarren.com/plans/ultra-millionaire-tax>.
- ⁵³ None of the estimates include changes in saving decisions. The impact of a wealth tax on saving is ambiguous. Taxpayers might reduce saving because the return to wealth decreases as a result of the tax. Or saving could rise because taxpayers have a target for savings and will act to compensate for the assets that were used to make tax payments (Advani and Tarrant).
- ⁵⁴ The reporting rate of 81 percent is a weighted average, reflecting the allocation of assets and associated reporting rates within this wealth group.
- ⁵⁵ *Moore v. United States* of 2024, 602 U.S. 572 (2024).
- ⁵⁶ US Const. Art. I, Section 2.
- ⁵⁷ *Hylton v. United States*, 3 US 171 (1796).
- ⁵⁸ *Pollock v. Farmers' Loan & Tr. Co.*, 157 US 429 (1895); *Pollock v. Farmers' Loan & Tr. Co.*, 158 US 601 (1895).
- ⁵⁹ Article 1, Section 9 explicitly labels a per capita tax a direct tax (and implies there are other, unspecified, direct taxes). It restates that "[n]o Capitation, or other direct tax," shall be imposed unless apportioned (emphasis added).
- ⁶⁰ Annika Grosser, "The Richest Billionaire In Every State 2024," *Forbes*, March 8th, 2024, <https://www.forbes.com/sites/forbeswealthteam/2024/05/02/the-richest-person-in-every-state-2024/>.
- ⁶¹ Moore at footnote 53

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