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June 24, 2024
Memorandum to Alan Davis
Director
WhyNot Initiative

From: Janet Holtzblatt
Senior Fellow
Urban-Brookings Tax Policy Center

Re: Analysis of Wealth Tax Option

In response to your request, we have prepared an analysis of a wealth tax option. Under the option, a 5 percent tax would apply to net wealth exceeding $50 million. The rate would increase to 10 percent for net wealth above $250 million. The tax would be imposed on a broad base, including all types of assets. In addition, any US citizen who renounced their citizenship would have to pay an "exit" tax of 40 percent on net worth exceeding $50 million.

Specifically, you requested that the analysis include:

- An estimate of the amount of revenue derived from the proposal over a ten-year period; and
- Hypothetical examples of the impact of the wealth tax on the amount of assets held by individuals with net worth of $1 billion or $10 billion. Specifically, you asked how long it would take for their wealth to decline to $500 million and $1 billion, respectively.

REVENUE ESTIMATE

The proposal would raise **$6.8 trillion from fiscal years 2025 through 2034**. The year-by-year estimate is below.

Table 1
Impose a 5 Percent Tax on Net Wealth Greater Than $50 million and a 10 Percent Tax on Net Wealth Above $250 Million
Baseline: Current Law
Impact on Tax Revenue (billions of dollars), 2025 to 2034 Fiscal Years

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2034
565.6	729.7	697.0	651.8	596.7	613.9	658.4	705.6	755.9	807.4	6,781.1

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

The Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, estimated the proposals' revenue proposals and the hypothetical examples. Funders do not determine research findings or the insights and recommendations of our experts. Further information on Urban's funding principles is available at http://www.urban.org/aboutus/our-funding/funding-principles; further information on Brookings' donor guidelines is available at http://www.brookings.edu/support-brookings/donor-guidelines.

The estimates were computed using the Tax Policy Center's (TPC) microsimulation tax model. A description of the model can be found on the TPC website.[1]

TPC's revenue estimates 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. In particular, the total amount of the gross domestic product—and by extension, total net wealth—is assumed to be unchanged by proposals (commonly referred to as the fixed-GDP assumption).

In the revenue estimate of your option, we follow our standard methodology and assume that a taxpayer's aggregate net wealth is not affected by the proposal. The wealth tax is paid using investment income and other forms of income.[2] Although the revenue estimates assume that the total amount of wealth is not affected by the proposal, estimates can reflect changes in the amount of net wealth that would be *reported* to the Internal Revenue Service.

The amount of net wealth reported on tax returns is expected to deviate from the true amount for two reasons: First, taxpayers 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 in order reduce their wealth tax payments.

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 data from third parties to verify the amount reported by the taxpayer.[3] Underreporting of income varies by type, depending on the availability of third-party information. For example, W-2s and 1099s are filed by third parties—such as employers, financial institutions, and pension administrators—and can be matched to tax returns to confirm the amounts reported by taxpayers. When third-party data are not available, some taxpayers may see an opportunity to underreport income and thus reduce the amount of income taxes that they pay.[4]

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[1] https://www.taxpolicycenter.org/resources/brief-description-tax-model

[2] 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.

[3] Internal Revenue Service. 2022. "Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2014-2016." Publication 1415 (Rev. 08-2022). IRS: Washington DC.

[4] Joel Slemrod. 2019. "Tax Compliance and Enforcement." *Journal of Economic Literature* 57(4): 909-54.

The amount of third-party data available to verify investment income varies by source. 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, for which some third-party information is available. About 82 percent of capital gains is accurately reported on 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 government is trying to get a better measure of net wealth in the United States than can be inferred from household surveys. 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. 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.

Underreporting to Reduce Wealth Tax Payments

Researchers examined wealth taxes in Columbia, Denmark, Netherlands, Norway, Spain, and Switzerland.[5] (As of 2024, only Columbia, Norway, Spain, and Switzerland still tax wealth.) Wealth taxes are generally found to have a significant effect on the amount of wealth reported to authorities, though the magnitudes differ substantially with a one-percent tax rate found to reduce reported wealth by between 8 percent and 43 percent. The variation in the results reflect differences in the tax base (the assets subject to the tax), the tax rates across countries and regions, and the enforcement mechanism.

Based on their analysis, most researchers conclude that the reduction in reported net wealth is primarily due to tax avoidance and evasion. A taxpayer is said to avoid a tax if he or she adopts a legal strategy to minimize the amounts of taxes owed. Often, avoidance strategies are not anticipated by the lawmakers when a tax provision is legislated. Tactics that are illegal are tax evasion. The studies do not distinguish between avoidance and evasion as the cause of

[5] Marius Brülhart, Jonathan Gruber, Matthias Krapf, and Kurt Schmidheiny. 2022. "Behavioral Responses to Wealth Taxes: Evidence from Switzerland." *American Economic Journal: Economic Policy* 14(4): 111-50; Juliana Londono-Velez and Javier Avila-Mahecha. 2021. "Enforcing Wealth Taxes in the Developing World: Quasi-Experimental Evidence from Colombia." *American Economic Review: Insights* 3 (2): 131–48; Katrine Jakobsen, Kristian Jakobsen, Henrik Klevan, and Gabriel Zucman. 2020. "Wealth Taxation and Wealth Accumulation: Theory and Evidence from Denmark." *The Quarterly Journal of Economics* 135(1): 329-88; Marius Ring and Marius Alexander Kalleberg. 2020. "Wealth Taxation and Household Saving: Evidence from Assessment Discontinuities in Norway;" Jose Ma. Duran-Cabré, Alejandro Esteller-Moré, and Mariona Mas-Montserrat. 2019. "Behavioural Responses to the (Re)Introduction of Wealth Taxes. Evidence From Spain." Institut d'Economia de Barcelona Working Paper 2019/04. Barcelona: IEB; Floris Zoutman. 2018. "The Elasticity of Taxable Wealth: Evidence from the Netherlands."

underreporting. But whether avoidance or evasion, the strategy results in a smaller tax base and lower revenues.

When considering underreporting, three important factors to consider are the tax base, the tax rates, and enforcement mechanisms:

Tax base. Generally, the broader the base—that is, the more types of assets that are taxable—the fewer opportunities to avoid or evade taxes. However, countries with wealth taxes have treated certain assets more favorably than others, either by exempting an investment from the tax or by taxing the asset at a lower rate than other resources.

Some assets are excluded because they are viewed as addressing a social or economic policy goal. Pension savings, for example, were exempted from the wealth tax in all the studied countries. Personal residences typically were effectively taxed at lower rates than other taxable assets.

Other assets were treated favorably because of valuation challenges or liquidity constraints. The market value of privately held businesses is especially difficult to determine because comparable businesses do not come up for sale often. Moreover, a taxpayer whose wealth largely consists of their business may not be able (or willing) to sell off a portion of the company in order to have the funds to pay the tax. As a consequence, most countries with wealth taxes either partially or fully exempted business assets under certain conditions (such as the owner's participation in the business). To alleviate liquidity constraints, some countries placed caps on the combined total amount of income and wealth tax payments.

Tax rates. The incentive to avoid or evade a tax rises with its rate. In most countries, wealth tax rates hovered around 1 percent. In Spain and Switzerland, rates varied by region. In Spain, for example, rates ranged from zero in Madrid to over three percent in certain regions.

On the surface, wealth tax rates may appear to be low, compared to the much higher rates in the individual income tax. However, a low wealth tax rate can have a substantial effect on taxpayers' after-tax income. Consider a person who earns $5 million on an asset worth $100 million (a 5 percent rate of return). They would owe $1 million in wealth taxes—or 20 percent of the investment's earnings (equivalent to a 20 percent tax on capital income). In combination with individual tax rates on capital income, the effective rate on wealth would be substantially higher.

Enforcement. A tax agency's ability to detect and enforce the tax code reduces the incentive to evade a tax. As with the US experience with third-party income reporting, wealth tax compliance is related to the availability of independent data on possession and value of assets.

Notably, in the research described above, the responsiveness of reported wealth to a wealth tax rate was highest in Switzerland, where bank secrecy laws block validation of 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.

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.

Third-party data are not sufficient to prevent tax avoidance and evasion. In the case of a wealth tax, taxpayers may find ways to minimize their tax liability through intra-family transfers, leveraging debt, undervaluation of assets, and foundations and trusts. In Spain and Switzerland, taxpayers were able to move assets and residences from high-rate regions to low-rate regions within the countries. Other approaches may also evolve over time, if taxpayers find it less costly to hire creative tax lawyers than to pay the additional tax.

TPC Estimates of Wealth Effect

In 2019, TPC reviewed existing studies of wealth taxes and 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.

Those response rates were conservative relative to the findings of the studies discussed in the previous section. 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. As we did, they assumed that the effect would increase proportionately with the tax rate.

Your option, however, is unique, with a base that is broader than in other countries that have taxed wealth. It is unique in another way—the option's tax rates are substantially larger than the rates elsewhere. *Those unique features—with offsetting incentives—make it challenging to apply the results of prior studies to an analysis of the behavioral response to your option.*

Consider again the earlier example of a taxpayer with $100 million of net assets and a 5 percent rate of return. Under your proposal, that individual would owe $2.5 million in wealth taxes (5 percent of $50 million)—the same amount as their investment income attributable to $50 million of assets. The incentive to avoid or evade the tax would be high.

Under our standard behavioral assumptions, the option would result in a substantial reduction in reported wealth to minimize payments: ultimately, a 40 percent reduction in reported taxable net wealth above $50 million and an 80 percent reduction in reported taxable net wealth in excess of $250 million.

But presumably, there are limits to how much reported net wealth can be reduced through avoidance and evasion. We thus *capped* the response rates:

- $50 million to $250 million range of net wealth: In 2025, the amount reported would be reduced by 12 percent for each additional dollar of net wealth in excess of $50 million—up to $250 million of assets. The response rate would gradually increase to 24 percent in 2029 and would remain at that level in subsequent years.

- $250 million of net wealth or more: In 2025, the amount reported in excess of $250 million would be reduced by $24 million ($200 million multiplied by 12 percent) plus 16 percent of the amount greater than $250 million. The response rate would gradually increase. By 2029, the reduction in reported taxable wealth would be equal to $48 million plus 32 percent of the amount of net wealth above $250 million.

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. That assumption is embedded in the revenue estimates, but we ignore that effect in the analysis of the hypothetical examples below.

HYPOTHETICAL EXAMPLES

This section contains three different sets of hypothetical examples, which examine how long the proposed wealth tax would take to reduce the true amount of net wealth from either $1 billion to $500 million or from $10 billion to $1 billion.

The first set of examples considers the wealth tax in isolation and ignores any avoidance or evasion action by the taxpayer. The second set examines the interaction between the wealth tax and the individual income tax, still assuming taxpayers do not respond to the wealth tax. The third set of estimates incorporates avoidance and evasion responses to the wealth tax.

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. 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.[6]

[6] Arun Advani and Hannah Tarrant. 2020. "Behavioral Responses to a Wealth Tax." Wealth and Policy, Working Paper 105. London: Wealth Tax Commission.

Because the impact of a wealth tax varies by the composition of the investment portfolio, each set contains four examples with different investment approaches with annual rates of returns on the investment portfolio ranging from zero to 10 percent. Except for the first scenario in each set, the taxpayer reinvests post-tax earnings from their portfolio.

In the analysis of the hypothetical examples, we deviate from certain assumptions underlying the revenue estimates. As in the revenue estimates, we assume that the taxpayer would pay the wealth tax using the earnings attributable to taxable wealth. However, the taxpayer would not make up any shortfalls by using income from other sources. When there are insufficient investment earnings, the taxpayer would withdraw funds from financial accounts or sell assets. Hence, net wealth may decline as a consequence of the wealth tax.

A. Disregards Interactions With Individual Income Tax And Behavioral Responses To Net Wealth Tax

Table 2
Number of Years Before Taxpayer Reduces Assets to Targets When Taxpayers Do Not Engage in Avoidance or Evasion: No Individual Income Tax

Portfolio Scenarios (Descriptions below table)	Number of Years For	
	Wealth tax to reduce assets from $1 billion to $500 million	Wealth tax to reduce assets from $10 billion to $1 billion
A1. All tax-exempt bonds (0% rate of return)	7	22
A2. Low-yield financial accounts (3-month Treasury bill)	12	31
A3. Stocks (30-year average S&P index)	Does not decline	Over 100 years
A4. Mixed portfolio (weighted average)	Over 100 years	Over 100 years

The scenarios in this section demonstrate that net wealth declines more rapidly when the tax rate is higher than the rate of return on the taxable assets.

Scenario A1. The taxpayer's portfolio consists solely of bonds that are exempt from the income tax, and they do not reinvest any capital income. They pay the wealth tax by withdrawing funds from their financial investments or by selling more intangible assets.

Scenario A2. Assets are held in low-yield accounts, earning the equivalent of the return on a 3-month Treasury bill.[7] According to Congressional Budget Office's projections, that rate will be 3.8 percent in 2025 and then hover between 2.7 and 3.1 percent over the next decade.

[7] Economic projections are from Congressional Budget Office's Budget and Economic Outlook, February 2024.

The income from the bonds partially offsets the wealth tax, and the individual makes up the difference from drawing on their assets.

Scenario A3. The asset portfolio consists entirely of stock with an annual 9.9 percent rate of return—the 30-year S&P average. The effect on asset holdings differs based on the value of the initial portfolio and the extent to which their wealth is taxed at the 10 percent rate—which is 0.1 percentage point higher than the rate of return.

Consider first the taxpayer who begins the first year with $1 billion of stock. With a 9.9 percent rate of return, the portfolio grows by $99 million at the end of the year when taxes are computed. With a net worth of $1,099,000, the taxpayers owes $95 million in wealth taxes. After paying the tax, the taxpayer has $4 million left to reinvest—enabling net wealth to continue to increase but at a very slow pace. But if the taxpayer had $10 billion of stock at the beginning of the year, they would have to sell some of their stock to pay the tax. Their investment earnings would be $990 million; however, they would owe $1,084 million on their end-of-year assets—meaning that they would not have sufficient earnings to pay the tax and thus would have to obtain $94 million from sales of the stock.

Scenario A4. The share of assets in the taxpayer's portfolio roughly matches the average allocation of assets among families with net wealth exceeding $50 million. According to the 2022 Survey of Consumer Finances, 80 percent of net wealth was held in privately owned businesses (47 percent), stock (22 percent), and real estate (12). We assume the weighted average rate of return on cash-equivalent assets (inclusive of stock), which peaks at 10 percent in 2025 and then fluctuates between 8.1 percent and 8.5 percent for the remainder of the decade. With an average return of investment somewhat below the highest tax rate, net wealth declines—but slowly.

B. Includes Interactions With Individual Income Tax But Disregards Behavioral Responses To Net Wealth Tax

Table 3
Number of Years Before Taxpayer Reduces Assets to Targets When Taxpayers Do Not Engage in Avoidance or Evasion: With Individual Income Tax

Portfolio Scenarios (Descriptions below table)	Number of Years For	
	Wealth tax to reduce assets from $1 billion to $500 million	Wealth tax to reduce assets from $10 billion to $1 billion
B1. All tax-exempt bonds (0% rate of return)	7	22
B2. Low-yield financial accounts (3-month Treasury bill)	10	29
B3. Stocks (30-year average S&P index)	Over 100 years	Over 100 years
B4. Mixed portfolio (weighted average)	71	84

This set of scenarios introduces the individual income tax into the analysis. Assuming that the person is subject to the top income tax rate, interest and short-term capital gains (gains on assets held for a year or less) will be taxed at a rate of 37 percent in 2025. With the expiration of most of the Tax Cuts and Jobs Act's individual income tax provisions at the end of 2025, the top tax rate will revert to 39.6 percent. In contrast, the top rate on long-term capital gains and most dividends will remain indefinitely at its current 20 percent rate. Throughout the decade, a 3.8 percent surtax—the net investment income tax—will apply to most types of investment income greater than $200,000 ($250,000) if unmarried.

The combination of the wealth tax and the individual income tax has two somewhat offsetting factors.

- As discussed earlier, some taxpayers underreport their income to lower their income taxes (see earlier discussion). They would consequently reduce the amount of reported wealth to a level consistent with their reported capital income—even without the consideration of the underreporting incentives created by a wealth tax.

- The individual income tax effectively reduces their return to investment. Thus, the amount of after-tax investment income declines, requiring taxpayers to pay more of the wealth tax out of their assets.

The first factor reduces the amount of wealth taxes paid—and thus slows the reduction in net wealth. The second factor has the opposite impact. In Scenarios B1 and B2, the first factor dominates and net wealth declines at a slower rate than in Scenarios A1 and A2. In Scenarios B3 and B4, the second factor dominates and net wealth declines at a faster rate than in Scenarios A3 and A4.

*Scenario B1***.** The hypothetical taxpayer does not receive any taxable investment income and thus is unaffected by the introduction of the individual income tax into the analysis.

*Scenario B2***.** Data from the IRS indicates that 96 percent of interest income is reported accurately. Hence, we assume that 96 percent of the low-yield investment portfolio would also be included in the reported wealth tax base. Interest income would be taxed at 40.8 percent in 2025 and 43.4 percent in the subsequent years. Consequently, the after-tax return on the bonds would fall from 3.8 percent to 2.3 percent in 2025 and from 2.8 percent to 1.6 percent in most of the subsequent years.

Scenario B3: According to TPC's analysis of IRS data, about 91 percent of income from (either as dividends or capital gains) is reported accurately on taxpayers' returns. The income qualifies for the preferential lower tax rates for long-term capital gains and dividends. Consequently, the investment income would be taxed at 23.8 percent in all years and the effective rate of return would drop from 9.9 percent to 7.5 percent.

Scenario B4: For the portfolio that mirrors the average allocation of assets, the reporting rate is estimated to be 81 percent. That rate is lower than for bonds and stocks because of the dominance of privately held businesses in the investment portfolio. The weighted rate of return would drop to 6.3 percent in 2025 and to about 5 percent in later years.

Set C: *Includes Interactions With Individual Income And Behavioral Responses To Net Wealth Tax*

Table 4

Number of Years Before Taxpayer Reduces Assets to Targets When Taxpayers Do Not Engage in Avoidance or Evasion: With Individual Income Tax and Avoidance and Evasion Response to Wealth Taxes

Portfolio Scenarios (Descriptions below table)	Number of Years For	
	Wealth tax to reduce assets from $1 billion to $500 million	Wealth tax to reduce assets from $10 billion to $1 billion
C1. All tax-exempt bonds (0% rate of return)	14	35
C2. Low-yield financial accounts (3-month Treasury bill)	26	50
C3. Stocks (30-year average S&P index)	Does not decline	Does not decline
C4. Mixed portfolio (weighted average)	Does not decline	Over 100 years

In this set of estimates, we incorporate the avoidance and evasion responses to the wealth tax. As a consequence of more underreporting, it would take longer for net wealth to decline in all scenarios.

Appendix: Additional Background Information Regarding Estimate of Wealth Tax Option (7/25/24)

On June 24, the Tax Policy Center (TPC) sent Alan Davis, director of WhyNot Initiative, a revenue estimate of a wealth tax option that had been specified by Mr. Davis. Under the option, a 5 percent tax would apply to net wealth exceeding $50 million. The rate would increase to 10 percent for net wealth above $250 million. The tax would be imposed on a broad base, including all types of assets. In addition, any US citizen who renounced their citizenship would have to pay an "exit" tax of 40 percent on net worth exceeding $50 million.

The June memorandum contained an explanation of the revenue estimate. Upon receipt, Mr. Davis asked for additional background about the estimate.

How does TPC add wealth to its microsimulation model?

- TPC's tax model is based on a random sample of individual income tax returns, supplemented by household survey data and other administrative data.
- Individual income tax returns do not include data on wealth, so TPC relies largely on information from the Survey of Consumer Finances and other sources to develop imputations for major asset classes.

What assets are included in the Survey of Consumer Finances?

- All financial assets, including cash (e.g., savings accounts), bonds, stocks, defined contribution plans (e.g., IRAs and 401k plans), cash value of life insurance plans, and other financial assets.
- All nonfinancial assets, including vehicles, personal residence, other real estate, privately owned businesses, farms, and other nonfinancial assets.
- Debt, including farm debt, mortgages/home equity loans, other residential debt, credit card balances, lines of credits, and other debt.

According to the SCF, how much net wealth was held by families in 2022?

- Total net wealth: $139 trillion.
  - Families with $50 million to $250 million of net wealth: $15 trillion
  - Families with $250 million or more of net wealth: $8 trillion

Does the SCF include all net wealth? Does the TPC model?

- The Fed does not survey people in the Forbes 400 because of confidentiality concerns. A random sample of the Forbes 400 would be very small enabling savvy data users to identify who they were. Forbes estimates that the top 400 families held $4 trillion in 2022 and $4.5 trillion in 2023.

- The SCF omits the value of defined benefit retirement plans (traditional pensions). Individuals—particularly current employees—typically do not know the value of their future pension benefits, which depend in part on the number of years they stay with the

company and the number of years in retirement. TPC estimated that the value of defined benefit plans in 2016 was $11 trillion.

- The TPC's imputations of net wealth include the Forbes 400 and estimates of the value of the defined benefit plans.

TPC estimates of net wealth in 2025

TPC imputations of net wealth are extrapolated from the SCF into future years based on Federal Reserve finance accounts (through the last year available) and then by CBO's projections of GDP growth. TPC's estimates of net wealth in 2025 are:

- Total net wealth: $187 trillion
    - Families with $50 million to $250 million of net wealth: $21 trillion
    - Families with $250 million or more of net wealth: $14 trillion.

Reported Net Wealth in TPC

- Counting only filing units with $50 million or more, the amount of reported taxable net wealth is $20 trillion.
    - In addition, TPC also included the net wealth of married couples who file separate returns. The threshold for each spouse, when they file separate returns, was set at $25 million (half of the $50 million threshold for married spouses filing together). When their wealth is included, the amount of reported taxable net wealth increases to as much as $24 trillion.

- Why is TPC's estimate of reported net taxable wealth lower than the total amount of net wealth held by taxpayers with $50 million or more of assets?
    - The first $50 million of net wealth is exempted from the tax.
    - Even without a wealth tax, taxpayers would underreport assets to be consistent with underreporting of capital income—that is, if required to report net wealth even without a wealth tax, people would report an amount consistent with reported capital income.
    - A wealth tax would encourage more underreporting of net wealth through either avoidance or evasion. As discussed in the June memo, the revenue estimate was estimated using the standard "fixed GDP" assumption and thus the true amount of total net wealth was not allowed to change for this analysis.

Tax Estimates

TPC's estimates of wealth tax proposals include (1) gross receipts from the wealth tax and (2) an income tax offset.

- An income tax offset is not unique to the wealth tax estimate. Many revenue estimates include some type of tax offset—whereby an increase in one tax triggers a reaction that results in a reduction in another tax.
- When taxpayers report less wealth, they will also report less capital income attributable to their assets. Consequently, income taxes on investment income also fall.

- TPC's ten-year estimate of the wealth tax option is about $7 trillion.
- Without the income tax offset, TPC's ten-year estimate would be about $9 trillion.

Behavioral assumptions

- TPC's behavioral assumptions are described in the June memorandum.
- As noted in the memorandum, TPC lowered its conventional behavioral parameters for the estimate of this proposal. Those parameters were conservative relative to those implied by many studies of responses to wealth taxes in other countries.
    - Given this proposal's uniquely high tax rates and broad base, the conventional behavior parameters would have resulted in extraordinarily high reductions in reported net wealth. Presumably, there are limits to the amount of wealth that can be protected from a wealth tax. We thus capped the parameters.
- Without that cap, we estimate that the wealth tax would have raised about $5 trillion.

Can the IRS Administer a Wealth Tax?

One source of uncertainty in the revenue estimate concerns the IRS's ability to administer a wealth tax—a hurdle that other countries found difficult to overcome. The decade-long decline in inflation-adjusted funding for the IRS hindered the administration of the existing taxes, let alone a new complicated tax. The recent influx of funding, as a result of the passage of the Inflation Reduction Act, enhances the IRS's capabilities to administer the income taxes, especially with respect to high-wealth individuals and large businesses.

Improvements in the IRS's targeting and auditing of high-wealth individuals could also enhance the agency's ability to administer a wealth tax. However, there are several factors that will impede and delay those spillover effects.

- The IRA funding was cut by 25 percent a year after passage. Appropriations have also been frozen since IRA's passage, causing the IRS to shift $2 billion out of the IRA funds to pay for normal operating expenses.
- The IRS did not begin recruitment of new examiners who have the background to handle complicated tax returns until September 2023.
- Even with accounting degrees and private sector experience, most new hires will not arrive at the IRS with the skills to audit complicated returns. In July 2024, the IRS requested bids from outside contractors to develop training materials for examiners who will handle the returns of high-wealth individuals and large businesses. The contractors will also be required to train many of the new examiners; the contract for training would cover two and a half years, though it is not clear how long the training period will be for an individual examiner. In addition, experienced examiners may be diverted from other case work to aid new examiners in their initial audits.
- Audits of high-income taxpayers take longer than audits of other taxpayers. As of the end of fiscal year 2023, 18 percent of audits of 2018 tax returns filed by taxpayers with $1 million or more of income had not closed—and that is not accounting for appeals or litigation following the closure of an audit. It is not obvious whether an increase in IRS

resources will speed or lower the time between filing a return and resolution of a tax dispute: Audits may begin earlier because of better detection capabilities, but a better-resourced IRS may be less willing to settle a dispute with taxpayers who have the resources to hire aggressive tax advisors—thus prolonging the audit.

The IRS's current focus is the improvement and expansion of audits of income tax returns. Some of the necessary skills to audit high-wealth returns will carry over to auditing wealth taxes (e.g., valuation). However, the IRS has a backlog of questionable high-wealth income tax returns. And more generally, new taxes require new infrastructures, which take some time to build.

Consequently, the new funding has the potential to improve the IRS's ability to enforce wealth taxes, but those effects will not be felt for some years.