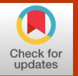


Wealth taxation in the United States

EDWARD N. WOLFF, PhD*

Article**
JEL: D31, H24
https://doi.org/10.3326/pse.44.2.1

* This article is based on the findings published in Wolff (1995). An earlier version of this paper was published as *NBER Working Paper* No. 26544. The author would like to thank two anonymous referees for their valuable comments and suggestions.

** Received: November 4, 2019
Accepted: February 10, 2020

Edward N. WOLFF
Department of Economics, New York University
19 West 4th Street 6th Floor, New York, NY 10012, USA
e-mail: ew1@nyu.edu
ORCiD: 0000-0003-0237-4594

PUBLIC SECTOR
ECONOMICS
44 (2) 153-178 (2020)

Abstract

The paper analyzes the fiscal effects of a Swiss-type tax on household wealth, with a $120,000 exemption and marginal tax rates running from 0.05 to 0.3 percent on $2.4 million or more of wealth. It also considers a wealth tax proposed by Senator Elizabeth Warren with a $50 million exemption, a 2 percent tax on wealth above that and a 1 percent surcharge on wealth above $1 billion. Based on the 2016 Survey of Consumer Finances, the Swiss tax would yield $189.3 billion and the Warren tax $303.4 billion. Only 0.07 percent of households would pay the Warren tax, compared to 44.3 percent for the Swiss tax. The Swiss tax would have a very small effect on income inequality, lowering the post-tax Gini coefficient by 0.004 Gini points. The effect of the Swiss tax and Warren tax on wealth inequality is miniscule, lowering the Gini coefficient by at most 0.0005 Gini points.

Keywords: household wealth, income inequality, wealth inequality, wealth taxation, United States

1 INTRODUCTION

Both the extreme nature of wealth concentration in the United States (U.S.) and its rise in recent years provide some urgency to a consideration of potential policy remedies. Personal wealth is currently taxed in two ways on the federal level in the United States: realized capital gains (as part of personal income taxes) and estate taxation. Should we also think about direct taxation of the wealth holdings of households? Almost a dozen European countries have or have had such a system in place (see Table 1 and Table 2 below). On the grounds of equity, a combination of annual income and the current stock of wealth provides a better gauge of real living standards and thereby the ability to pay taxes than income alone. Moreover, there does not appear to be any evidence from other advanced economies that the imposition of a modest direct tax on household wealth had any deleterious effect on personal savings or overall economic growth. Indeed, there are arguments to the contrary that such a tax may induce a more efficient allocation of household wealth, away from unproductive toward more productive uses.

In Wolff (1995), I proposed a very modest tax on wealth (a $100,000 exemption with marginal tax rates running from 0.05 to 0.3 percent). My calculations for year 1989 showed that such a tax structure would yield an average tax rate on household wealth of 0.2 percent, which is less than the loading fee on most mutual funds, and would reduce the average yield on household wealth by only 6 percent. Even the top marginal tax rate of 0.3 percent would reduce the average yield on personal wealth by only 9 percent. These figures suggested that disincentive effects on personal savings would be very modest. Moreover, there are arguments to the contrary as suggested above that personal savings might actually rise.

I estimated that such a tax could raise $50 billion in additional revenue and have a minimal impact on the tax bills of 90 percent of American families. This is not a large amount, representing about 3 percent of total federal tax receipts in that year.

However, on the margin such additional revenue could help provide the fiscal latitude to enact more generous social transfers to the poor and provide needed tax relief to the middle class.

PUBLIC SECTOR ECONOMICS
44 (2) 153-178 (2020)

This paper begins, in Section 2, with an overview of wealth taxation in the mid-1980s, Section 3 provides estimates of the impact of wealth taxes in the United States in 2016. Section 4 includes an analysis of the wealth tax proposed by Elizabeth Warren. Concluding remarks are made in Section 5.

2 PREAMBLE: SYSTEMS OF WEALTH TAXATION, MID-1980s

2.1 THE UNITED STATES

It is helpful to start with an historical overview of wealth taxation in advanced economies to see how this has devolved over time. I first summarize the forms of wealth taxation in place in the United States and other industrialized countries around 1985. In the United States, household wealth was (and is currently) taxed in two ways on the federal level: estate taxes and capital gains taxes. Federal estate taxes were first introduced in 1916, with major revisions in 1976, 1981, and more recently, a big overhaul in 2011. Capital gains were originally included in the personal income tax system, introduced into the country in 1913. Their provisions have been modified over time on a recurrent basis.[1]

The system in 1985 (and currently) provides for the taxation of the value of an estate at the time of death of an individual. The tax is levied on the value of the estate, in contrast to the value of an inheritance received. Moreover, the estate tax system is integrated with the gift tax, which refers to the voluntary transfer of assets from one (living) individual to another. Gifts are aggregated over the lifetime of the individual donor, and the lifetime aggregate of gifts is combined with the value of an estate at death. The estate tax applies to the full value of gifts and estates.[2]

In February of 2001, each individual was exempted from estate taxes on net worth up to $675,000. The basic exemption rose to $1 million in 2006. Wealth above that amount was taxed at marginal rates, which began at 37 percent and reached as high as 55 percent (for estates over $3.67 million). Estates of fewer than 48,000 individuals – about 2 percent of annual deaths – were subject to the estate tax. About half the total was paid out of estates worth $5 million or more – about 4,000 people. In 2016, the exemption on the estate tax was raised to $5.25 million for singles and $10.5 million for couples and the top marginal tax rate was 40 percent, up from 35 percent in 2012. The exemption level is now indexed to the consumer price index (CPI-U).

[1] A related tax is the property tax, levied on the value of all real property (buildings and land). Though this is often overlooked in current debates on tax reforms, the property tax was the third-largest source of household tax revenue in 1985 and has been rising steeply in years since then. This tax is generally levied by local governments in the United States and, as a result, will not be discussed in this paper. Of the twenty-four members of the OECD, all but Italy and Portugal had a separate tax on real property in the mid-1980s.

[2] Gifts within three years of death were (and still are) treated as transfers at death.

For gifts, the first $10,000 per recipient ($20,000 in the case of a married couple) was exempt from the combined gift-estate tax. In 2016 the figure was $14,000. There was (and is) also full exemption for transfers (both gifts and estates) between spouses. All forms of wealth are included in the tax base for calculating the gift-estate tax except pension annuities and life insurance. Assets are appraised at market value at time of death, though special rules apply to farm property, closely held business, and unquoted stock and shares. Several states also levy estate taxes, which are generally based on federal rules.

Capital gains refer to the difference between the selling price and purchase price of an asset. There are some adjustments made for the value of capital improvements in the case of real property (such as a home). These are figured in on a cost basis when computing capital gains. In the United States, capital gains are taxed as part of the federal income tax system (and state income tax systems). Only realized capital gains are included (that is, capital gains on actual sales of assets).

In 2001, capital gains on assets held more than five years were subject to a maximum tax of 18 percent (compared to the top marginal tax rate of 39.6 percent). In 2016, the maximum tax rate on long-term capital gains was 20 percent (also compared to the top marginal tax rate of 39.6 percent). Short-term capital gains are treated as ordinary income and do not receive tax preference. However, in the case of owner-occupied housing, there was no tax levied on capital gains in the case when a new primary residence was purchased whose price exceeds the selling price of the old home. There was also a one-time exclusion of $500,000 in capital gains on the primary residence. Capital gains on assets that enter an estate at time of death are exempt from taxation.

2.2 OTHER OECD COUNTRIES

Other member countries of the OECD have had much more extensive taxation of household wealth.[3] Besides taxation of estates at death and of capital gains, many countries also imposed direct taxation on household wealth.

In 1985, eleven OECD countries had systems in place with direct taxation of household wealth: Austria, Denmark, Finland, Germany, Luxembourg, the Netherlands, Norway, Spain, Sweden, and Switzerland (see Table 1). In addition, France had such a system in place from 1982 to 1987 and Ireland from 1975 to 1977.[4] Also, with the exception of Spain, most of these systems had been in place for at least sixty years. In all eleven countries, the wealth tax was administered in conjunction with the personal income tax. In all cases, except Germany, a joint tax return was filed for both income and wealth. Though actual provisions varied among these eleven countries, the basic structure of the tax was very similar in each.

[3] Most of the information in this section was garnered from the OECD (1988). The figures in this section are as of 1988 in most cases.

[4] Japan also had a direct wealth tax for a short period after World War II.

Table 1
Wealth taxation systems among OECD countries on personal wealth, mid-1980s

Country	Direct wealth taxation	Transfer tax at death and on gifts	Capital gains taxation	Wealth, death, and gift tax receipts as % of total tax revenue[a]
Australia	no	none	income	0.01
Austria	yes	inheritance	none	0.51
Belgium	no	inheritance	none	0.58
Canada	no	none	income	0.03
Denmark	yes	inheritance	separate	0.92
Finland	yes	inheritance	income	0.50
France	1982-87	inheritance	income	0.85
Germany	yes	inheritance	none	0.42
Greece	no	inheritance	none	0.94
Iceland	yes	inheritance	income	–
Ireland	1975-77	inheritance	separate	0.30
Italy	no	estate/inheritance	none	0.23
Japan	no	inheritance	income	1.19
Luxembourg	yes	inheritance	income	0.51
Netherlands	yes	inheritance	none	0.94
New Zealand	no	estate	none	0.19
Norway	yes	inheritance	income	0.61
Portugal	no	inheritance	none	0.83
Spain	yes	inheritance	income	0.49
Sweden	yes	inheritance	income	0.68
Switzerland	yes	estate/inheritance	income	3.06
Turkey	no	inheritance	income	0.19
UK	no	estate	none	0.64
United States	no	estate	income	0.77

Note: [a]Figures are for 1985.
Source: OECD (1988).

Countries differed in terms of the level at which the wealth tax took effect. The thresholds for married couples with two children ranged from a low of $9,000 in Luxembourg to a high of $155,000 in Denmark. In Germany, the threshold was $129,000; in the Netherlands, $51,000; and in France, it was (when the tax was in effect) $520,000. These threshold levels did not include the forms of wealth that are entirely excluded from the tax base (see below). Moreover, there were income exclusions in many countries, so that a joint income-wealth threshold must be passed in order for the wealth tax to become effective.

In several countries (such as Denmark, the Netherlands, and Sweden), there were also ceilings on the total amount payable in both income and wealth taxes combined. These ceilings were usually expressed as a percentage of taxable income (in the Netherlands, for example, it was 80 percent of taxable income).

PUBLIC SECTOR
ECONOMICS
44 (2) 153-178 (2020)

Tax rates on household wealth tended to be quite low, in the order of a few percent at most. Five countries had a flat rate system: Austria (1.0 percent), Denmark (2.2 percent), Germany (0.5 percent), Luxembourg (0.5 percent), and the Netherlands (0.8 percent). The other countries had graduated marginal tax rates: Finland (1.5 percent at the threshold, rising to 1.7 percent at $296,000), Norway (0.2 to 1.3 percent, the latter at $47,000), Spain (0.2 to 2.0 percent, the top rate at $7.1 million), Sweden (1.5 percent initially, reaching 3.0 percent at $140,000), and Switzerland (0.05 percent, rising to 0.3 percent at $334,000).[5]

Countries also varied in the forms of wealth that were included in the tax base. All the countries except Spain exempted household and personal effects. Most included the value of jewelry above a certain amount. All except Germany included the value of automobiles, and all included boats.

Several countries exempted savings accounts up to a certain level ($4,600 in Germany, for example). All excluded pension rights and pension-type annuities. Other forms of annuities were generally exempt. About half the countries exempted life insurance policies, while the other half included some portion of them in the tax base.

Owner-occupied housing was taxable in all eleven countries. However, in Austria and Finland, a small deduction was allowed, while in the Netherlands and Norway housing was valued at only a small percentage of its actual market value. Other forms of wealth, including bonds, stocks and shares, and unincorporated businesses were included in the tax base in all countries.[6]

Most countries required an annual reassessment of the total value of personal property. However, Austria, Germany, and Luxembourg reassessed every three years and Switzerland every two years. In principle, all eleven countries with a wealth tax system based the valuation of assets on current market value. However, in practice, this procedure was not always easy to enforce. First, some assets were not traded in the open market and hence did not have a readily available market price (small businesses and unquoted shares, for example). Second, housing presented a particular problem, since the usual method, based on the sale of "similar" property, depended in large measure on the definition of the similar class. On the other hand, bonds, quoted shares and stocks, and bank accounts were rather straightforward in their valuation.

Most countries used an "asset basis" to value unincorporated businesses, defined as the sum of the value of the individual assets contained in the business. This

[5] In Switzerland, the wealth tax was (and is) actually a provincial (canton) tax, so that provisions varied among cantons. The example here is based on the Canton of Zurich.

[6] There was a technical issue related to debts on excluded assets. Since the wealth tax was based on the total value of assets less debts, the appropriate treatment would have been to exclude debts on assets that were themselves excluded from the tax base. However, because of the difficulty of assigning specific debts (such as bank overdrafts) to specific assets, countries varied in their treatment of this problem.

PUBLIC SECTOR ECONOMICS
44 (2) 153-178 (2020)

would typically understate the true value of the business, since no additional value was given to goodwill. Austria, Finland, and the Netherlands used a market value basis (the value of the business if it were sold immediately). Switzerland used a formula based on the capitalized value of the business' profits over time.

Whereas most countries based their valuation of real property on its open market value, Austria used a formula based on changes in the average costs of construction and changes in land prices. Germany used the assessed valuation for local taxes. Luxembourg used a formula based on the capitalized rental value of property.

Twenty-two of the twenty-four OECD countries had death or gift taxes, or both (see Table 1). The only exceptions were Australia and Canada. However, most of the OECD countries had "inheritance taxes" in lieu of the American-style estate tax. The difference between the two is that inheritance taxes are assessed on the recipient, whereas an estate tax is assessed on the estate left by the decedent. With an inheritance tax, the tax schedule is applied to each individual bequest, whereas with an estate tax, the assessment is on the total value of the transfer. The inheritance tax has certain advantages over the estate tax. First, it can be adjusted more closely to the ability of an heir to pay the tax. Second, preferential treatment can be accorded to immediate family, as opposed to more distant relatives or friends (so-called consanguinity basis).

Of the four countries with estate taxes – Italy, New Zealand, the United Kingdom, and the United States – the tax threshold varied from $20,000 for Italy to $600,000 for the United States (in 1985). Marginal tax rates ranged from 3 to 31 percent in Italy, 30 to 60 percent in the United Kingdom, and 37 to 55 percent in the United States. In New Zealand there was a flat rate of 40 percent. Spousal transfers were totally exempt in the United States and the United Kingdom but were taxed, with special treatment, in the other two countries. All four countries also had gift taxes. In Italy and the United States, these were aggregated over the person's lifetime and combined with the estate at death to determine the taxable base for the estate tax.

The structure of inheritance taxes was more complicated. Marginal tax rates varied with the relationship of the heir to the decedent, as did the tax thresholds. In France, for example, bequests to spouses had a threshold of $40,000, and the marginal tax rates varied from 5 to 40 percent, whereas bequests to non-relatives had a threshold of $1,500 with a flat rate of 60 percent applied to the transfer. All nineteen OECD countries with an inheritance tax also had an associated gift tax.

Fifteen of the twenty-four OECD countries also provided for a tax on capital gains (see Table 1). All fifteen taxed capital gains as they were realized (that is, at time of sale). In thirteen of the fifteen countries, capital gains were included as part of the personal income tax, whereas in the other two (Denmark and Ireland), a separate tax was collected. Interestingly, in eight countries – Denmark, Finland,

PUBLIC SECTOR
ECONOMICS
44 (2) 153-178 (2020)

Iceland, Luxembourg, Norway, Spain, Sweden, and Switzerland – there was both a direct wealth tax and a tax on capital gains.

There was wide latitude in the tax treatment of these gains across countries. In the United States, long-term capital gains as of 2001 received tax preference, with a maximum tax rate of 18 percent. Short-term gains were treated as ordinary income. In Denmark, there was a flat rate of 50 percent; while in Switzerland, marginal rates ranged from 10 to 40 percent. In neither case was there separate treatment of short-term gains.

In Australia, Norway (with some exceptions), and Spain, both short-term and long-term gains were treated as ordinary income and taxed in accordance with the personal income tax schedule. In Canada, three-quarters of capital gains were included as ordinary income. In Japan, half of long-term capital gains were taxed as ordinary income, while short-term gains were treated as ordinary income. In Sweden, a proportion of long-term gains were taxed as ordinary income, with the proportion depending on the nature of the property and the period held, while short-term gains were treated as ordinary income.

In most countries with capital gains taxes, gains on principal residences were exempt from taxation. Exceptions were Switzerland, where such gains were fully taxable; Japan, where the first $178,000 of gains was exempt; Spain, where the exemption was subject to the purchase of a new residence; and Sweden and the United States, where only the excess of the sale price over the purchase price of a new residence was subject to taxation.

Though on the books, these wealth taxation mechanisms appear to be a formidable way of collecting revenue, in fact, such levies accounted for only a very small part of total tax revenue in the various OECD countries. The last column of Table 1 summarizes the total tax collections from direct wealth and death/gift taxes as a percent of total government revenue in 1985. Unfortunately, these totals do not include capital gains tax, since it was very hard to break out from regular income tax receipts. Among the twenty-three countries shown here, the average percentage was only 0.67. The shares ranged from a low of 0.01 percent in Australia to a high of 3.06 percent in Switzerland. Switzerland was, moreover, the only country in which the direct wealth tax collected more than 1 percent of total tax revenue – 2.25 percent in 1985. The United States was slightly above average, with 0.77 percent of its total tax revenue from estate and gift taxes. In terms of the receipts from death and gift taxes as a share of the total personal tax intake, the United States ranked fifth among OECD countries. In 1998, total federal tax collections from estate and gift taxes in the United States amounted to 24.0 billion, or 1.4 percent of total tax revenues (U.S. Council of Economic Advisers, 2001: 372).

One may wonder why these wealth taxes collected so little revenue, particularly when some of them were in place for more than seventy years, allowing plenty of

time for refinement of their efficacy. Three possible reasons suggest themselves. First, particularly in Europe, tax proceeds from the personal income tax and the value-added tax on consumption were already quite substantial, so that relative to total tax revenues wealth tax collections appeared small. Second, there is the strong possibility of evasion or non-criminal avoidance. Unlike labor earnings and interest and dividend payments, which can be recorded at their source, it was much more difficult for a tax collection agency to obtain independent information on financial securities, stock holdings, or the value of a family business.

A third and related reason is that it is easy to transfer financial wealth holdings across borders. With the exception of real property and most small businesses, a family normally can purchase assets outside the country of residence with ease. A country that imposes an excessive wealth tax may induce substantial capital flight. As a result, most countries with a wealth tax tried to keep it more or less in line with that of other countries.

3 WEALTH TAXATION IN 2015

Almost thirty years have elapsed since the publication of the OECD (1988) report on wealth taxation. What was the state of wealth taxation in 2015? This is summarized in Table 2. Of the eleven countries with a direct wealth tax in 1985, only four still had one in 2015 – the Netherlands (on the provincial level only), Norway, Spain, and Switzerland (on the canton level). Spain abolished its wealth tax on January 1, 2009, but then re-introduced it in 2012. Austria and Denmark discontinued their wealth tax in 1995, Germany in 1997, Finland and Luxembourg in 2006, and Sweden in 2007. Iceland abrogated its wealth tax in 2006, reintroduced it in 2010 for four years, and then eliminated it in 2015. However, France reintroduced a direct wealth tax in 2011 and abolished it again in 2018, except on high-value real estate assets.[7] As of 2016, three of the original 24 OECD countries had a national wealth tax and two had a provincial (or canton-level) wealth tax.

[7] Separately, it introduced a 30 percent flat tax rate on capital gains, dividends and interest.

PUBLIC SECTOR
ECONOMICS
44 (2) 153-178 (2020)

Table 2
Wealth taxation systems among OECD countries, 2015

Country	Direct wealth taxation	Transfer tax at death and on gifts
Australia	no	none
Austria	no	none
Belgium	no	inheritance
Canada	no	none
Denmark	no	inheritance
Finland	no	inheritance
France	yes	inheritance
Germany	no	inheritance
Greece	no	inheritance
Iceland	no	inheritance
Ireland	no	inheritance
Italy	no	inheritance
Japan	no	inheritance
Luxembourg	no	inheritance
Netherlands	yes[a]	inheritance
New Zealand	no	none
Norway	yes	none
Portugal	no	inheritance
Spain	yes	inheritance
Sweden	no	none
Switzerland	yes[a]	estate/inheritance[a]
Turkey	no	inheritance
United Kingdom	no	estate
United States	no	estate

Note: [a]Provincial (or canton) tax.

Sources: European Commission (2014); Deloitte (2014); OECD (2018) and Cole (2015).

With regard to inheritance, gift, and/or estate taxes, of the 22 countries with one form of these in 1985, all but four still had one in effect in 2015. New Zealand eliminated its estate duty in 1992. Sweden abolished its inheritance tax in 2005, Austria in 2008, and Norway in 2014.

Why the retrenchment in wealth taxes (both direct and inheritance)? One can think of the backlash on taxes in general that began with Reagan and Thatcher in the 1980s. This was followed by a conservative backlash in continental Europe in the 1990s and 2000s. For example, the conservative government elected to power in Sweden in the mid-2000s engineered the elimination of both the direct wealth tax and the inheritance tax.

PUBLIC SECTOR ECONOMICS
44 (2) 153-178 (2020)

3.1 SIMULATIONS OF DIRECT WEALTH TAXATION IN THE UNITED STATES, 2016

This section provides simulation results of the potential revenue effects of the Swiss wealth taxation system as applied to U.S. household economic data in 2016. These are based on the actual tax code of Switzerland updated to 2016 U.S. dollars. The distinctive characteristics of the Swiss plan are shown in Table 3.[8]

Table 3

*Details of the direct wealth taxation system of Switzerland, 2016**

Taxpayer type	**Thresholds ($)**
single person	74,000
married couple	121,000
Tax rate schedule (%)	**Tax base ($)**
0.05	to 180,000
0.10	next 295,000
0.15	next 493,000
0.20	next 722,000
0.25	next 710,000
0.30	over 2,400,000
Exclusions	
household effects	
pensions/annuities	
Ceiling	
none	

*Note: *Based on the Canton of Zurich. The original figures are converted to U.S. dollars on the basis of PPP exchange rates and updated to 2016 using the CPI-U.*

Source: OECD (1988).

The simulations were performed on the basis of the 2016 U.S. personal income tax schedules and the 2016 Survey of Consumer Finances (SCF). The procedure was as follows. First, I updated the income data, which are for 2015, to 2016 dollars on the basis of the CPI-U (a factor of 1.01465). Second, federal income taxes for each household were computed on the basis of the NBER TAXSIM model.[9] After the initial run, the estimation procedure could be calibrated. Total individual federal income taxes collected in 2016 amounted to $1,546.1 billion.[10] The tax estimation used here produced a total tax figure for all households of $1,594.1 billion, a 3.1 percent discrepancy. The tax estimates were subsequently reduced by 3.1 percent to align with the actual figure.

The 2016 SCF is the most recent one currently available. The survey consists of a core representative sample combined with a high-income supplement. The first

[8] The "Swiss" wealth tax used in the simulations here is based on the Canton of Zurich (see OECD, 1988: 252).
[9] Available at: http://users.nber.org/~taxsim/.
[10] See Table B-19 in U.S. Council of Economic Advisors (2018).

PUBLIC SECTOR ECONOMICS
44 (2) 153-178 (2020)

sample was selected from a standard multi-stage area-probability design. This part of the sample was intended to provide good coverage of asset characteristics that are broadly distributed, such as home ownership. The second sample, the high-income supplement, was selected as a so-called "list sample" from statistical records (the Individual Tax File) derived from tax data by the Statistics of Income (SOI) Division of the Internal Revenue Service (IRS). This second sample was designed to disproportionately select families that were likely to be relatively wealthy. About two thirds of the cases come from the representative sample and one third from the high-income supplement. As a result, the SCF provides a good representation of very wealthy families. It should be noted, however, that by design, the SCF excludes the so-called Forbes 400 – a list compiled by *Forbes Magazine* of the 400 richest Americans. However, I shall include data from this list in Section 4 below.

The principal wealth concept used here is marketable wealth (or net worth), which is defined as the current value of all marketable or fungible assets less the current value of debts. Net worth is thus the difference in value between total assets and total liabilities. Total assets are defined as the sum of: (1) owner-occupied housing; (2) other real estate; (3) bank deposits, certificates of deposit, and money market accounts; (4) financial securities; (5) life insurance plans; (6) defined contribution pension plans, including IRAs and 401(k) plans; (7) corporate stock and mutual funds; (8) unincorporated businesses; and (9) trust funds. Total liabilities are the sum of: (1) mortgage debt; (2) consumer debt, including auto loans; and (3) other debt such as educational loans.

This measure reflects wealth as a store of value and therefore a source of potential consumption. I believe that this is the concept that best reflects the level of well-being associated with a family's holdings. Thus, only assets that can be readily converted to cash (that is, "fungible" ones) are included. Though the SCF includes information on the value of vehicles owned by the household, I exclude this from my standard definition of household wealth, since their resale value typically far understates the value of their consumption services to the household. The value of other consumer durables such as televisions, furniture, household appliances, and the like are not included in the SCF.[11] Another justification for their exclusion is that this treatment is consistent with the national accounts, where purchases of vehicles and other consumer durables are counted as expenditures, not savings.

Also excluded here is the value of future Social Security benefits the family may receive upon retirement (usually referred to as "Social Security wealth"), as well as the value of retirement benefits from defined benefit pension plans ("DB pension wealth"). Even though these funds are a source of future income to families, they are not in their direct control and cannot be marketed.

[11] On the other hand, the value of antiques, jewelry, art objects and other "valuables" are included in the SCF in the category "other assets".

3.2 REVENUE, INCIDENCE AND DISTRIBUTIONAL EFFECTS

Simulations of wealth taxation suggest that a combined income-wealth taxation system might indeed be more equitable than the income tax system alone. The wealth tax was, not surprisingly, progressive with respect to wealth. Its incidence also fell more heavily on older households than younger ones (older households were wealthier, on average), on married couples than singles (the former were also richer, on average), and on white individuals than nonwhites (white families were generally much wealthier). Although this approach did not take into account behavioral responses of families to the imposition of a wealth tax, the calculations nonetheless gave some guidance as to the overall magnitude of likely revenues and redistribution effects.

There are three questions of interest. First, how much additional tax revenue would be raised under a Swiss-style wealth taxation scheme (revenue effects)? Second, which groups would likely bear the burden of the new taxation of wealth (incidence effects)? Third, how would a wealth tax affect overall inequality in the population and within different demographic groups (distributional effects)?

Following the Swiss convention, thresholds and tax brackets were indexed to consumer price changes. Using the CPI-U, the exemptions in 2016 are $121,242 for married couples and $73,611 for singles. The top bracket (the 0.3 percent range) begins at $2.4 million. A restriction is now added such that the sum of income and wealth taxes cannot exceed total income.

A Swiss style wealth tax would have generated $182.1 billion in extra tax revenue in 2016.[12] This represents 1.0 percent of total personal income and 10.5 percent of total federal income tax revenue (see Table 4). This figure compares with actual U.S. personal income tax proceeds of $1,546.1 billion in 2016, or 9.6 percent of total income.[13] It also contrasts with total federal estate and gift taxes of about $20 billion in 2016.[14] While 44 percent of families in 2016 would have paid an additional wealth tax, only 20 percent of families would have seen their tax bill rise by more than $200 and only 15.1 percent by more than $500.

[12] It should be noted that in the simulation all assets are appraised at market value (since this is the only valuation available).

[13] The revenue effect estimated on the basis of the Swiss system (2.2 percent of total U.S. tax revenues) was not very far out of line with the actual experience of that country; in 1985, the Swiss wealth tax accounted for 2.3 percent of total tax revenues in Switzerland. More recent data are not available.

[14] The sources for this section are: U.S. Council of Economic Advisors (2018, table B-19) and BEA (2020).

PUBLIC SECTOR ECONOMICS
44 (2) 153-178 (2020)

Table 4

*Income tax and wealth taxes modeled after the Swiss system, 2016**

	Ratio of income tax to family income (%)	Swiss wealth tax		% of families paying wealth tax
		% of income	Ratio to income tax	
All families	9.6	1.0	0.10	44.3
A. Income class ($)				
Under 15,000	-3.1	2.0	–	14.6
15,000 – 24,999	-3.2	0.4	–	23.7
25,000 – 49,999	1.6	0.2	0.14	32.7
50,000 – 74,999	5.9	0.4	0.06	46.3
75,000 – 99,999	7.6	0.5	0.07	58.2
100,000 – 249,999	11.5	0.9	0.07	77.8
250,000 and over	23.4	2.2	0.10	98.1
B. Wealth class ($)				
Under 100,000	4.7	0.0	0.00	3.6
100,000 – 249,999	7.6	0.0	0.01	89.6
250,000 – 499,999	9.1	0.2	0.02	100.0
500,000 – 749,999	10.3	0.7	0.07	100.0
750,000 – 999,999	11.6	0.9	0.08	100.0
1,000,000 – 2,499,999	14.5	1.0	0.07	100.0
2,500,000 – 4,999,999	20.7	2.1	0.10	100.0
5,000,000 and over	25.1	3.8	0.15	100.0
C. Age class				
Under 35	5.8	0.2	0.03	13.1
35-54	13.6	0.8	0.06	40.9
55-69	14.7	1.6	0.11	59.4
70 and over	10.0	2.4	0.24	67.7
D. Household type				
Married couple	13.4	1.2	0.09	50.4
Males, unmarried	13.6	1.1	0.08	36.3
Females, unmarried	6.8	0.6	0.09	36.1
E. Race or ethnicity				
White	13.8	1.3	0.09	52.9
African-American	5.4	0.3	0.05	19.8
Hispanic	5.0	0.3	0.06	20.4
Other	12.4	1.2	0.09	46.8

*Note: *Based on the Canton of Zurich.*

Source: Author's calculations from the 2016 SCF. The figures are based on the Swiss tax schedule as spelled out in Table 3 with brackets updated to 2016 dollars on the basis of the CPI-U.

The incidence of wealth taxes depends on the joint distribution of income and wealth. If the two were perfectly correlated, then everyone would experience a similar proportional increase in taxes (depending on the wealth tax schedule). However, income and wealth are not perfectly correlated. There are certain groups, such as the elderly, that have large wealth holdings but relatively small income. On the other hand, some young households may have high earnings but relatively

little wealth accumulation (the "yuppies"). This new tax may thus shift the burden away from young households onto elderly ones.

The Swiss wealth tax system is generally progressive with respect to income, rising from 0.4 percent for the second lowest income class to 2.2 percent for the highest bracket. The percentage increase in total taxes paid would also be generally higher for upper-income families than lower-income ones. Moreover, the fraction of families paying any wealth tax would rise with income level, from 15 percent for the lowest income bracket (under $15,000 of income) to 100 percent for the highest income class ($250,000 of income and over). The wealth tax is also highly progressive with respect to wealth. The only groups that would pay an additional 1 percent or more of income in federal taxes are the millionaires. Upper wealth families would also see a higher proportionate increase in total federal taxes paid. Very few families (only 4 percent) worth less than $100,000 in net wealth would pay any wealth taxes, whereas virtually all families above this amount would wind up paying some wealth tax.

In terms of wealth tax incidence by demographic characteristic, the wealth tax would fall more heavily on older households than younger ones. Wealth tax rates on income would rise monotonically with age group, from 0.2 percent for the youngest age group (age 34 and under) to 2.4 percent for the oldest (age 70 and over), and wealth taxes as a percentage of income taxes would also increase with age, from 3.1 percent for the youngest age group to 24 percent for the oldest. The share of families paying a wealth tax would likewise rise with age, from 13 percent for the youngest to 68 percent for the oldest age group.

Under a Swiss wealth tax system, married couples would face a slightly higher tax rate than unmarried males, and female households would be taxed at the lowest rate. A higher percentage of married couples would pay any wealth tax compared to unmarried male householders and unmarried female householders. All three groups would see their overall tax bill grow by about the same percentage (between 8 and 9 percent).

Non-Hispanic white families, on average far better endowed than minority families, would have paid considerably higher wealth taxes than blacks or Hispanics. The "other" group – mainly, Asian-Americans – would face a similar wealth tax burden to whites. Likewise, white and "other" families would have seen their tax bill rise proportionately more than the other two minority groups. Whereas 53 percent of white families would pay some wealth tax and 47 percent of others, only 20 percent of Hispanic and African-American families would be subject to this tax.

One can measure the effect of wealth taxation on inequality in three steps. First, figure out the inequality (based on the Gini coefficient) in the distribution of pre-tax income. Second, calculate the Gini coefficient of after-tax income resulting only from the imposition of the personal income tax. Third, compute the same

measure for after-tax income resulting from both the income tax and the Swiss wealth tax system. The distributional effect of the wealth tax will depend on its progressivity with respect to income, its magnitude, and the proportionate increase in taxes it generates by income class.

Among all families, the Gini coefficient for pretax income was 0.574 in 2016, while the Gini coefficient for income after income taxes was 0.532 (see Table 5). Adding the Swiss wealth tax to the personal income tax results in a further reduction of the Gini coefficient to only 0.528 (0.004 Gini point difference). The reason for this rather minimal effect is mainly the small amount of revenue generated by the Swiss-style wealth tax relative to income taxes (10.4 percent).

The distributional effect of the wealth tax systems did show some variation by age group, family type, and race. The equalizing effects of the wealth tax exerts greater influence within older age groups than younger ones. The reduction in the Gini coefficient from adding the wealth tax to the income tax rises systematically with age, from 0.001 Gini points for the youngest group to 0.008 points for the oldest. The effects are stronger among married couples than unmarried individuals: among married couples, the Gini coefficient declines by 0.005 Gini points when wealth taxes are added to income taxes, compared to a decline of 0.004 among unmarried men and 0.001 among unmarried women. The equalizing effect is also larger among white and other (mainly Asian) families (a 0.004-point reduction in the Gini coefficient) than among blacks and Hispanics combined (0.001 Gini points).

TABLE 5

*Distributional effects of the Swiss wealth taxation system by age group, family type and race (Gini coefficients), 2016**

		Age group				Family type			Race	
	All	18-34	35-54	55-69	70+	Married couple	Unmarried male	Unmarried female	Whites and others	Blacks and Hispanics
Pre-tax income	0.574	0.439	0.548	0.612	0.574	0.538	0.575	0.438	0.578	0.437
Original post-tax income	0.532	0.407	0.504	0.572	0.537	0.491	0.530	0.404	0.537	0.403
New post-income/ Swiss wealth tax	0.528	0.406	0.501	0.568	0.528	0.487	0.525	0.403	0.533	0.401

*Note: *Based on the Canton of Zurich.*

Source: Author's calculations from the 2016 SCF. See text for details on tax calculations.

PUBLIC SECTOR
ECONOMICS
44 (2) 153-178 (2020)

3.3 ALTERNATIVE WEALTH TAX BASE

I have been assuming that total net worth is the correct base for a wealth tax. It is true that most wealth taxes that have been employed use this (or some small variant) as the base. However, there are other possibilities which might be fairer or, at least, more politically palatable. Table 6 shows the effects of altering the tax base on wealth tax collections. The base case is net worth (excluding vehicles). It is first of interest to note the concentration of tax collections by socio-economic characteristic. The top income class, which comprised 4 percent of all households, would account for 66 percent of total wealth taxes, and the top two income classes, which amounted to 20 percent of all households, would pay 86 percent of the total tax bill. The top wealth class, 1.7 percent of all households, would pay 66 percent of all wealth taxes, and the top two, 3.7 percent of households, 80 percent of the total taxes. Age class 55-69, 26 percent of all families, would account for 46 percent of wealth taxes. Married couples, 57 percent of all households, would pay 85 percent of all taxes, and whites, 70 percent of households, would contribute 92 percent of tax revenues.

Table 6

*Percentage change in total wealth tax collection from changes in the wealth tax base, 2016**

	Baseline	Exclude				Add
	total wealth tax revenue (billions)	Home equity on principal home	Businesses	Trust funds	Defined contribution pension plans	Defined benefit pension wealth
All families	182.1	-17.0	-29.9	-3.8	-19.1	9.1
A. Income class ($)						
Under 15,000	3.6	-17.5	-59.0	-0.2	-3.9	1.4
15,000 – 24,999	1.7	-40.8	-20.0	-1.6	-13.7	8.8
25,000 – 49,999	3.7	-47.3	-8.7	-2.3	-22.5	43.6
50,000 – 74,999	6.1	-30.7	-16.4	-3.7	-28.3	35.1
75,000 – 99,999	7.7	-28.9	-16.9	-0.1	-30.8	25.7
100,000 – 249,999	33.1	-22.6	-19.6	-3.8	-30.6	19.7
250,000 and over	107.1	-12.2	-34.8	-4.3	-14.7	2.2
B. Wealth class ($)						
Under 100,000	0.0	-68.5	-2.7	0.0	-44.5	–
100,000 – 249,999	0.8	-71.5	-5.9	-0.4	-37.4	223.8
250,000 – 499,999	2.8	-60.5	-5.8	-1.8	-40.9	123.7
500,000 – 749,999	5.9	-57.9	-10.5	-1.9	-47.9	31.7
750,000 – 999,999	6.0	-40.9	-10.3	-2.4	-42.7	13.6
1,000,000 – 2,499,999	16.6	-23.9	-12.7	-1.7	-32.1	17.2
2,500,000 – 4,999,999	23.7	-25.0	-24.0	-2.1	-28.8	6.0
5,000,000 and over	107.2	-9.0	-36.9	-4.8	-11.3	1.0

PUBLIC SECTOR
ECONOMICS
44 (2) 153-178 (2020)

	Baseline total wealth tax revenue (billions)	Exclude				Add
		Home equity on principal home	Businesses	Trust funds	Defined contribution pension plans	Defined benefit pension wealth
C. Age class						
Under 35	3.0	-12.3	-54.3	-9.5	-5.7	1.4
35-54	47.2	-17.7	-42.9	-3.0	-15.9	4.3
55-69	74.7	-16.9	-25.5	-2.8	-22.2	11.8
70 and over	38.1	-16.8	-20.7	-6.3	-18.1	10.3
D. Household type						
Married couple	138.0	-16.2	-30.3	-3.2	-19.8	8.5
Males, unmarried	14.9	-15.4	-38.0	-5.5	-11.8	7.2
Females, unmarried	10.2	-29.8	-12.8	-9.9	-20.6	19.8
E. Race or ethnicity						
White	150.2	-16.5	-28.8	-4.0	-19.6	8.8
African-American	2.5	-19.0	-46.1	-3.0	-18.5	43.4
Hispanic	2.2	-24.1	-58.2	-2.4	-8.1	6.2
Other	8.1	-24.1	-39.0	-0.3	-13.5	4.8
Memo: Post-income and wealth tax Gini coeff. for all households						
	0.528	0.528	0.529	0.528	0.529	0.528

*Note: *Based on the Canton of Zurich.*

Source: Author's calculations from the 2016 SCF. See text for details on tax calculations.

I alter the tax base in five ways. First, I exclude principal homes (and the associated mortgage) from the tax base. One reason for this is that homes are already subject to a local property tax. Total wealth tax revenues now fall by 17 percent. The lower income and wealth classes would get the most benefit (the largest percentage reduction in taxes owed), as would families over age 34, unmarried females, and non-whites. However, there is no perceptible effect on the after-income tax and wealth tax Gini coefficient.

Second, small businesses could be exempted from the wealth tax since they are particularly difficult to value and their inclusion is likely to be opposed by a powerful interest group. This exclusion would cause the total tax bill to fall by 30 percent. The main beneficiaries would be upper income and wealth households (who own most of the businesses), as well as young families and, surprisingly, Hispanics. This restriction would result in a slight increase in the post-tax Gini coefficient (a 0.0014 change). Third, trust funds might be excluded since they are generally excluded from the estate tax base. The overall reduction in the wealth tax bill would be tiny, at 3.8 percent. Once again the main beneficiaries would be upper income and wealth households, as well as the youngest and oldest age group, surprisingly unmarried females, and whites. This change, however, would have almost no effect on the post-tax Gini coefficient.

Fourth, IRAs, 401(k) plans, and other defined contribution pension plans might be eliminated from the tax base, since they are not taxed for income tax purposes. Overall, total wealth taxes would decline by 19 percent. The groups that would gain the most (that is, experience the greatest reduction in wealth taxes owed) are middle income and middle wealth families, age group 55-69, and whites. This restriction would cause the after-tax Gini coefficient to rise by a very small 0.0006 points. Finally, we might add defined benefit pension wealth to the base since this is an important component of augmented wealth. This would add 9 percent to the wealth tax intake. Middle income families would be hit hardest, as would lower wealth families, age groups 55 and over, unmarried females, and African-Americans (43 percent increase in wealth taxes). Overall, there is almost no effect on the after-tax Gini coefficient.

4 THE WARREN WEALTH TAX AND EFFECT OF WEALTH TAXES ON WEALTH INEQUALITY

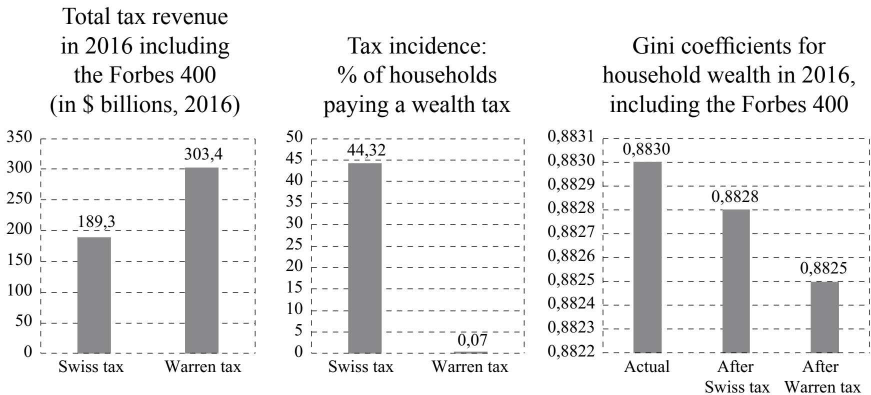
As noted above, Elizabeth Warren proposed a direct tax on household wealth in her presidential campaign. The structure is quite straightforward: there is a basic exemption of $50 million per family. The bottom bracket is 2 percent up to one billion dollars of net worth. The top bracket is 3 percent for one billion or more of net worth.

Let us first compare revenue effects. To do this, I first add data from the Forbes 400. In 2016, the combined wealth of the Forbes 400 is estimated to be $2.4 trillion (Forbes, 2019). Total household wealth in that year for all households is $84.1 trillion on the basis of the 2016 SCF. Thus, 2.86 percent of total wealth is excluded from the SCF. How does the inclusion of the Forbes 400 affect the estimate of total wealth tax revenue?

On the basis of the SCF data alone, the Swiss wealth tax would have yielded $182.1 billion in 2016. Including the Forbes 400 raises the amount to $189.3 billion, a rather small 4 percent increase (see figure 1, left-hand panel). The Warren wealth tax would have yielded $231.4 billion excluding the Forbes 400 and $303.4 billion including the Forbes 400. The Forbes 400 alone would have collectively paid $72.0 billion, or 23.7 percent of the total tax revenue. Including the Forbes 400, the ratio of total tax revenue between the Warren tax and the Swiss tax is 1.60. Another notable difference between the two taxes is their incidence. Whereas 44.3 percent of all families would be subject to the Swiss wealth tax, only a tiny 0.07 percent would pay the Warren tax (Figure 1, center panel).

Figure 1

Revenue, incidence and distributional effects of Swiss and Warren wealth taxes



Source: Authors' calculations.

What about the effect of these taxes on wealth inequality? The Gini coefficient for net worth based on the 2016 SCF data alone is 0.8771. The Gini coefficient drops to 0.8770 after application of a Swiss wealth tax and to 0.8768 after that of a Warren tax. In both cases, the effect is miniscule. When I now include the Forbes 400, the Gini coefficient for net worth rises to 0.8830 (Figure 1, right-hand panel). The Gini coefficient for net worth net of the Swiss wealth tax now falls by 0.0001 Gini points to 0.8828, almost exactly the same decline as before without the Forbes 400 included. Likewise, the Gini coefficient for net worth net of the Warren wealth tax declines by 0.0005 Gini points to 0.8825, also about the same reduction as before without the Forbes 400 included.

5 CONCLUDING REMARKS

The pronounced rise in wealth inequality since the early 1980s creates some urgency in policy remedies. The most telling statistic is that virtually all the growth in (marketable) wealth between 1983 and 2016 accrued to the top 20 percent of households (see Chapter 2 in Wolff, 2017). Indeed, the bottom 40 percent of households saw their wealth decline in absolute terms. This was compounded by the stark reality of a growing proportion of households with zero or negative net worth.

What, if anything, should be done about this? If one policy goal is to moderate the rising inequality of recent years, direct taxation of wealth is one proposed remedy. This would compensate for the reduced progressivity of the income tax system. The years since 1980 witnessed falling marginal tax rates on income, particularly for the rich and very rich. The top marginal tax rate fell from 70 percent in 1980 to 35 percent in 2012, though it was then raised to 39.6 percent under President Obama.

What do the simulation results of Section 3 suggest regarding a Swiss-style wealth tax? First, the current personal income tax system of this country helps mitigate the disparities in earnings, but its overall effects are modest. Second, the Swiss

PUBLIC SECTOR
ECONOMICS
44 (2) 153-178 (2020)

wealth tax system would have increased total tax revenues (over and above the personal income tax) by only 10 percent in 2016 – too small to have much distributional impact. Third, the wealth tax would have some desirable features from a demographic standpoint. It falls proportionately more on older families than younger ones; more on married couples than singles; and more on whites and Asians than blacks and Hispanics. Moreover, the equalizing effects of the wealth tax would be greater among older families, married couples, and whites.

Fourth, the rather modest Swiss-style system would have yielded an additional $189.3 billion of revenue in 2016, including the Forbes 400. However, in 2016 only 11 percent of families would have seen their federal tax bill rise by more than 10 percent and only 8 percent would have paid an additional $500 or more of taxes. In conclusion, a direct wealth taxation system like Switzerland's could ease the country's budgetary strains and provide greater equity across generational, racial, and familial categories. These characteristics argue in favor of its adoption in the United States.

Besides its desirable effects with regard to equity and revenue, are there any other characteristics of wealth taxation in its favor? Two other arguments have been advanced in support of a wealth tax. First, beyond considerations of overall ("vertical") equity, some have argued that a wealth tax can be justified in terms of "taxable capacity". Income alone is not a sufficient gauge of well-being or of the ability to pay taxes. The possession of wealth, over and above the income it yields directly, must be figured into the calculation. Two families with identical incomes but different levels of wealth are not equivalent in terms of their well-being, since a wealthier family will have more independence, firmer security in times of economic stress (such as occasioned by unemployment, illness, or family breakup), and readier access to consumer credit. Greater wealth thus confers on the affluent family a larger capacity to pay taxes; in the interests of "horizontal equity", wealth should be taxed along with income.

A second argument is that an annual wealth tax may induce individuals to transfer their assets from low-yielding to high-yielding investments, in order to offset the additional taxes. For example, a wealth tax might induce individuals to seek more income-generating assets in place of conspicuous consumer durables such as luxury cars and yachts.

It should be noted, too, that existing wealth taxation in this country works poorly. The estate tax has historically been extremely porous. The thresholds have been raised over time (from $50,000 in 1916, when the estate tax was first instituted, to $5.25 billion for singles and $10.5 billion for couples in 2016), so that only a very small percentage of estates (typically on the order of 1 or 2 percent) have been subject to estate tax. The threshold is currently indexed to the CPI-U and will continue to rise over time. Estate taxes on assets can even today be avoided altogether by setting up a trust fund. Moreover, gift exclusions allow a considerable

PUBLIC SECTOR
ECONOMICS
44 (2) 153-178 (2020)

amount of wealth to be passed on exempt from taxation before death. Finally, the estate tax system has a provision that capital gains on assets are "forgiven" at death. This loophole by itself probably more than equals the total revenue collected by the estate tax system.

What are the counterarguments? Perhaps the strongest one is that direct wealth taxation will inhibit savings and lower capital investment. One unavoidable implication of wealth taxation is that the (after-tax) return to capital will be lowered. By exerting a strong disincentive on the already low U.S. savings rate, it may simply encourage increased consumption. Another possibility is that a wealth tax, by lowering the after-tax rate of return on financial assets, may encourage families to invest in nonfinancial assets, such as certain forms of real estate, collectibles, luxury items, and the like. The search for greater opacity to thwart the IRS could perversely result in household portfolios being shifted to unproductive uses; though, as suggested above, one can reasonably argue the opposite case – that taxing both income-yielding and non-income-yielding forms of wealth will induce households to shift to higher-yielding assets.

A second potential problem stemming from a wealth tax is capital flight. This argument applies to every tax, however, and if capital indeed moved like quicksilver, it would render any taxation of capital and wealth all but impossible. The very fact that the wealth tax proposal presented above is based on the Swiss model suggests that capital flight is unlikely to be a serious concern. Like Switzerland, the United States is a safe haven for international wealth, a status unlikely to be threatened by the very low wealth tax rates suggested here.[15]

The time is now ripe for the introduction of a personal tax on wealth holdings. The statistics point to an enormous degree of inequality in household net worth in this country today. On the grounds of (horizontal) equity, a combination of annual income and the current stock of wealth provides a better gauge of the ability to pay taxes than income alone. Moreover, such a tax may induce a more efficient allocation of household wealth, toward more productive uses.

What about the additional administrative burdens such a tax might create for families and the IRS? The wealth tax would be fully integrated with the personal income tax. The same tax form could be used for both. The family would be required to list the value of all assets and debts on a new subsidiary form (say, "Schedule W"). Verification of most of the assets and debts would be administratively easy to implement. Insofar as banks and other financial institutions provide records that list interest and dividend payments (Form 1099) to the IRS, such documents could be modified to include the value of the accounts as of a certain date (say, December 31). Moreover, financial institutions that provide the IRS with information on mortgage payments could now add the value of the outstanding

[15] Piketty (2014) has proposed a unified wealth tax across countries to address the problem of capital flight.

PUBLIC SECTOR ECONOMICS
44 (2) 153-178 (2020)

mortgage. Other types of loans (and loan payments) could be similarly recorded by these institutions. Insurance companies could provide the IRS with statements on the value of life insurance equity (they already send these to individuals).

The two main stumbling blocks are the current market value of owner-occupied housing (and other real estate) and the valuation of unincorporated businesses. For the former, there are several possible solutions, some of which are currently in use in other countries. The family could be asked to estimate the current market value (as is now done in household surveys). Alternatively, it could be asked to list the original purchase price and date of purchase, and the IRS could use a regional (or locale-specific) price index based on housing survey data to update the value. Another method would ask residents to provide the figure for assessed valuation of the property, and the IRS could provide a locale-specific adjustment factor, based on periodic survey data, to estimate current market value.

For unincorporated businesses, the simplest technique is to accumulate the value of individual assets invested in the business over time (these figures are already provided in Form C of the personal tax return). Another possibility is to capitalize the net profit figures (also provided on Form C), as the Swiss currently do.

Thus, for almost all families, record-keeping for the wealth tax will be fairly straightforward. For the very rich, with complex portfolios, there will be additional burdens on record-keeping but almost all such families already pay accountants to handle such tax matters.

On the administrative side, there will be additional costs incurred by the IRS to administer such a (new) tax. However, one saving grace is that the IRS does not have to re-invent the wheel. Most of the "machinery" is now in place since many of the procedures needed by the IRS to value asset holdings already exist for the federal estate tax and the estate tax code has been around for over 100 years.

Another concern is the extent to which a universal system of monitoring the assets of the entire population is acceptable to a liberal economy such as the United States in comparison to European economies and their citizens, who are more accustomed to greater control and influence by the state in society. However, it is not clear that a wealth tax will be viewed as any more intrusive than an income tax, which has also been in use in the United States for over 100 years. Also, as noted above the federal estate tax has also been around for over a century and this tax also entails a fairly extensive accounting of individual wealth holdings.

One might also consider some of the behavioral response of individuals and families to the imposition of a wealth tax.[16] First, there is the initial shock at the time of introduction of the tax. If the wealth tax is not anticipated, current holders of

---

[16] I would like to thank an anonymous referee for pointing out these issues.

PUBLIC SECTOR
ECONOMICS
44 (2) 153-178 (2020)

assets may be forced to sell some of their assets at a discount in order to pay the wealth tax, particularly those people that have disproportionately high value assets compared to their current income. If so, they may be forced to sell the property at a (significantly) lower price than current market value, which means that a noteworthy portion of future taxes will be shifted (transferred) to the current owner of that property. As a result, current owners may bear the additional burden of the future owner-taxpayers after the price adjustment.

Second, as noted above, a wealth tax system opens the possibility (or at least induces) that existing properties be transferred to more productive uses – for example, to buy shares or stocks or to invest in entrepreneurial activity. However, this consideration neglects the government's ability to tax only the registered part of the property (savings in banks, stocks, real estate, vehicles, vessels, and so on). Available assets can be transformed into other forms (for example, artwork or jewelry) that are not likely to be taxed because the government does not keep records of their purchase. Moreover, as with an estate tax, the wealth tax could also be avoided through the establishment of trusts and even foundations.

Third, as I noted above, there are problems of identifying and continuously updating the value of the various assets held by a family, particularly real property and small businesses. What would be the impact of these difficulties on the fairness (or equality) of such taxes on taxpayers? Some taxpayers will avoid significant tax obligation either because of successful concealment of their assets or because of the inability of the tax administration to value them properly, while others may not be able to prove that their property is worth less than the tax administration estimates. Above, I suggested some solutions to these difficulties as used by other countries. The IRS likewise confronts many of these issues when auditing estate tax returns. Nonetheless, these difficulties may make many taxpayers feel that the wealth tax is unfair.

Despite these concerns, a wealth tax may make a lot of sense as an additional fiscal tool. If so, calculations show that a Swiss-based tax structure would yield an average tax rate on household wealth (as of 2016) of only 0.19 percent. Previous work indicates that the annual real rate of return on household wealth over the period from 1983 to 2016 averaged 3.1 percent per year (see Chapter 3 in Wolff, 2017). Thus, the new tax regime would reduce the average yield on household assets by only 6.2 percent. Even the top marginal tax rate of 0.3 percent would reduce the average yield on personal wealth by only 9.7 percent. These figures suggest that disincentive effects, if any, on personal savings would be very modest.

The proposed wealth tax would affect a very small percentage of the population. Only 11 percent of American families would see their overall personal tax bill (combining income and wealth taxes) rise by more than 10 percent. Only 15 percent would pay $500 or more of additional taxes. A full 56 percent would fall below the wealth tax threshold and would therefore be exempted from paying.

A substantial $189 billion would have been raised from levying such a tax in 2016. This is not a large amount, representing 5.8 percent of total federal tax receipts. However, on the margin such additional revenue could be critical. A direct annual tax on personal wealth could thus be a valuable addition to the fiscal toolbox.

The proposed Warren wealth tax would raise more tax revenue than the Swiss tax – $303.4 billion versus $189.3 billion. Moreover, only 0.07 percent of American households would pay any wealth tax, compared to 44.3 percent with the Swiss tax. How do the Swiss and the Warren wealth tax affect overall wealth inequality? On the basis of the Gini coefficient, there would be virtually no impact from either tax. Of course, the Gini coefficient by construction is not very sensitive to changes in the upper tail of the wealth distribution, particularly the very upper tail. It is much more sensitive to changes in the middle of the distribution. However, the main reason is that neither tax produces much tax revenue relative to total household wealth. So, if one objective of a wealth tax is to substantially reduce wealth inequality, neither of these taxes will make much of a dent in the high degree of wealth concentration.

One other point of comparison is with regard to the top marginal tax rate. The top marginal tax rate for the Swiss tax is 0.3 percent in comparison to 3 percent for the Warren tax. As argued above, the top Swiss tax rate is not likely to induce much if any capital flight. However, the top rate for the Warren tax would reduce the after-tax rate of return on investments by 97 percent if top households received the average real rate of return of 3.1 percent per year on household wealth. This might be viewed by many very rich households as "confiscatory" and would be likely to induce considerable capital flight.

Disclosure statement
No potential conflict of interest was reported by the author.

REFERENCES

1. BEA, 2020. *National Income and Product Accounts.* Washington: Bureau of Economic Analysis.
2. Cole, A., 2018. *Estate and Inheritance Taxes around the World*. Washington: Tax Foundation.
3. Deloitte, 2014. *Taxation and Investment in Turkey 2014: Reach, relevance and reliability*. Deloitte.
4. European Commission, 2014. *Cross-country Review of Taxes on Wealth and Transfers of Wealth*. Bruxelles: *European Commission.*
5. Forbes, 2019. *The Forbes 400: The Definitive Ranking Of The Wealthiest Americans.*
6. OECD, 1988. *Taxation of Net Wealth, Capital Transfers and Capital Gains of Individuals*. Paris: OECD.
7. OECD, 1992. *National Accounts, Detailed Tables, 1978-1990, Vol. 2.* Paris: OECD.
8. OECD, 2018. The Role and Design of Net Wealth Taxes in the OECD. Paris: OECD. https://doi.org/10.1787/19900538
9. Piketty, T., 2014. *Capital in the Twenty-First Century.* Cambridge, MA: Harvard University Press.
10. U.S. Council of Economic Advisers, 2001. *Economic Report of the President*. Washington: U.S. Government Printing Office.
11. U.S. Council of Economic Advisers, 2018. *Economic Report of the President: Together with The Annual Report of the Council of Economic Advisers*. Washington: U.S. Government Printing Office.
12. Wolff, E. N., 1995. *Top heavy: A Study of Increasing Inequality of Wealth in America*. New York: The Twentieth Century Fund Press.
13. Wolff, E. N., 2017. *A Century of Wealth in America.* Cambridge, MA: Harvard University Press.