Wealth Inequality and Tax Policy

Florian Scheuer

University of Zurich

CEPR-TFI Panel on "Finance and Inequality"
CEPR 6th European Workshop on Household Finance

April 14, 2021
The role of capital gains for the superrich

Tax progressivity at the top

- Capital gains are tax-favored
  - Lower rate
  - Taxed upon realization
  - Step-up at death

- Solution?
  - Tax at higher rates, upon accrual/constructive realization (Biden)
  - Wealth tax (Warren/Sanders, just passed in Argentina, suggested by IMF, debated in Chile, Bolivia, CA, NY...
## European wealth tax experience

<table>
<thead>
<tr>
<th>Country/Plan</th>
<th>Years of enforcement</th>
<th>Revenue as % of GDP</th>
<th>Top marginal rate</th>
<th>Exemption level</th>
<th># of marginal rates</th>
<th>Cap on liability?</th>
<th>Treatment of:</th>
<th>Estate/inheritance/gift tax?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ever</td>
<td>Single</td>
<td>Married</td>
<td></td>
<td>Main residence</td>
<td>Life Insurance</td>
</tr>
<tr>
<td>Austria</td>
<td>1954-1994</td>
<td>0.14%</td>
<td>1.00%</td>
<td>None</td>
<td>None</td>
<td>1</td>
<td>N</td>
<td>T</td>
</tr>
<tr>
<td>Denmark</td>
<td>1903-1997</td>
<td>0.06%</td>
<td>0.70%</td>
<td>2.20%</td>
<td>€320,657</td>
<td>€641,314</td>
<td>1</td>
<td>Y</td>
</tr>
<tr>
<td>Finland</td>
<td>1919-2006</td>
<td>0.08%</td>
<td>0.80%</td>
<td>4.00%</td>
<td>€250,000</td>
<td>€500,000</td>
<td>1</td>
<td>Y</td>
</tr>
<tr>
<td>France</td>
<td>1982-1986, 1989-2017</td>
<td>0.22%</td>
<td>1.50%</td>
<td>1.80%</td>
<td>€1,300,000</td>
<td>€1,300,000</td>
<td>5</td>
<td>Y</td>
</tr>
<tr>
<td>Germany</td>
<td>1952-1997</td>
<td>0.11%</td>
<td>1.00%</td>
<td>2.50%</td>
<td>€61,355</td>
<td>€122,710</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>Iceland</td>
<td>1086-2006, 2010-2015</td>
<td>0.48%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>€473,248</td>
<td>€630,997</td>
<td>2</td>
<td>N</td>
</tr>
<tr>
<td>Ireland</td>
<td>1975-1978</td>
<td>0.10%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>€88,882</td>
<td>€126,974</td>
<td>1</td>
<td>Y</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1934-2006</td>
<td>0.55%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>€2,500</td>
<td>€5,000</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1965-2001</td>
<td>0.18%</td>
<td>0.70%</td>
<td>0.80%</td>
<td>€90,756</td>
<td>€113,445</td>
<td>1</td>
<td>Y</td>
</tr>
<tr>
<td>Norway</td>
<td>1892-present</td>
<td>0.45%</td>
<td>0.85%</td>
<td>1.10%</td>
<td>€157,833</td>
<td>€315,666</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>Spain</td>
<td>1977-2008, 2011-present</td>
<td>0.18%</td>
<td>0%-3.75%</td>
<td>3.75%</td>
<td>€400,000-700,000</td>
<td>€800,000-1,400,000</td>
<td>8</td>
<td>Y</td>
</tr>
<tr>
<td>Sweden</td>
<td>1947-1991, 1991-2007</td>
<td>0.19%</td>
<td>1.50%</td>
<td>4.00%</td>
<td>€166,214</td>
<td>€221,619</td>
<td>1</td>
<td>Y</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1840-1970-present</td>
<td>1.08%</td>
<td>0.1%-1.1%</td>
<td>3.72%*</td>
<td>€25,380-116,250</td>
<td>€51,150-232,500</td>
<td>1-1000</td>
<td>Y*</td>
</tr>
<tr>
<td>Sanders</td>
<td>n/a</td>
<td>1.56%</td>
<td>8.00%</td>
<td>n/a</td>
<td>$16,000,000</td>
<td>$32,000,000</td>
<td>8</td>
<td>N</td>
</tr>
<tr>
<td>Warren</td>
<td>n/a</td>
<td>1.34%</td>
<td>6.00%</td>
<td>n/a</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
<td>2</td>
<td>N</td>
</tr>
</tbody>
</table>

The Swiss wealth tax

Stable revenues (1.1% of GDP), regular popular support

An example for other countries?

- No capital gains tax
- No bequest tax for direct descendants

→ Wealth tax as "backstop"

- Bank secrecy within Switzerland
- Formula-based valuation of closely-held businesses

→ Limits to enforcement
Behavioral responses: entry into entrepreneurship?

- Entrepreneurs face lots of risk
  → Under-entry?

- Additional dilution due to tax liability and lack of liquidity
  → Loss of control

- But: tax only applies in case of success
  → Low marginal utility
VC-backed startups: payoff distribution

Source: Azevedo, Scheuer and Smetters, "Taxing High-Powered Entrepreneurship" (2021)
Dilution

Source: Azevedo, Scheuer and Smetters, "Taxing High-Powered Entrepreneurship" (2021)
Should we tax wealth?

- Wealth tax ↔ capital gains tax

\[
2\% \text{ wealth tax} = \begin{cases} 
50\% \text{ capital gains tax if } r = 4\% \\
100\% \text{ capital gains tax if } r = 2\%
\end{cases}
\]

→ Wealth tax favors productive wealth holders!

- Capital gains ~ rents, compensation for labor

→ Wealth tax targets only normal return, not excess returns

- Sources of return heterogeneity crucial!