

# Wealth Inequality and Tax Policy

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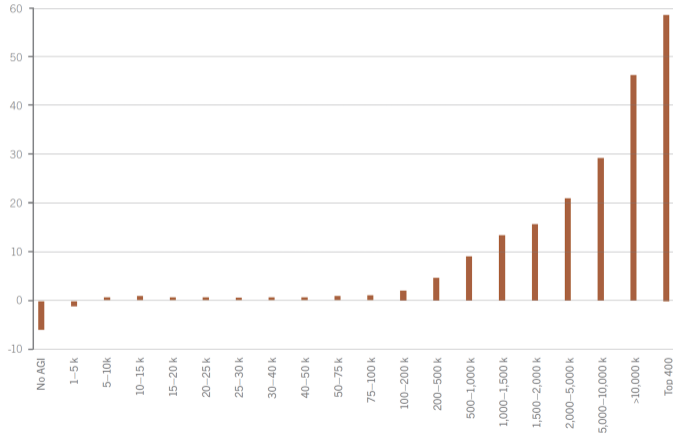
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# The role of capital gains for the superrich

Net capital gains (% of AGI) in the US in 2016 in U.S. \$



Source: Scheuer and Slemrod, "Taxation and the Superrich," *Annual Review of Economics* (2020)

## 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

Country/Plan	Years of enforcement	Revenue as % of GDP	Top marginal rate		Exemption level		# of marginal rates	Cap on liability?	Treatment of:				Estate/inheritance /gift tax?
			Most recent	Ever	Single	Married			Main residence	Life Insurance	Pension	Business assets	
	[1]	[2]	[3a]	[3b]	[4a]	[4b]	[5]	[6]	[7a]	[7b]	[7c]	[7d]	[8]
Austria	1954-1994	0.14%	1.00%	1.00%	None	None	1	N	T	T	T	T	N
Denmark	1903-1997	0.06%	0.70%	2.20%	€ 320,657	€ 641,314	1	Y	T	E	E	T	Y
Finland	1919-2006	0.08%	0.80%	4.00%	€ 250,000	€ 500,000	1	Y	TP	E	E	T	Y
France	1982-1986, 1989-2017	0.22%	1.50%	1.80%	€ 1,300,000	€ 1,300,000	5	Y	TP	T	E	E	Y
Germany	1952-1997	0.11%	1.00%	2.50%	€ 61,355	€ 122,710	1	N	T	T	E	TP	Y
Iceland	1096-2006, 2010-2015	0.48%	2.00%	2.00%	€ 473,248	€ 630,997	2	N	T	E	E	TP	Y
Ireland	1975-1978	0.10%	1.00%	1.00%	€ 88,882	€ 126,974	1	Y	E	T	E	TP	Y
Luxembourg	1934-2006	0.55%	0.50%	0.50%	€ 2,500	€ 5,000	1	N	T	T	E	TP	Y
Netherlands	1965-2001	0.18%	0.70%	0.80%	€ 90,756	€ 113,445	1	Y	TP	E	E	TP	Y
Norway	1892-present	0.45%	0.85%	1.10%	€ 157,833	€ 315,666	1	N	TP	E	E	TP	N
Spain	1977-2008, 2011-present	0.18%	0%-3.75%	3.75%	€ 400,000-700,000	€ 800,000-1,400,000	8	Y	TP	T	E	E	Y
Sweden	1947-1991; 1991-2007	0.19%	1.50%	4.00%	€ 166,214	€ 221,619	1	Y	T	T	E	E	N
Switzerland	(1840-1970)-present	1.08%	0.1%-1.1%	3.72%*	€ 25,380-116,250	€ 51,150-232,500	1-1000	Y*	TP	T	E	TP	Y
Sanders	n/a	1.56%	8.00%	n/a	\$16,000,000	\$32,000,000	8	N	T	T	T	T	Y
Warren	n/a	1.34%	6.00%	n/a	\$50,000,000	\$50,000,000	2	N	T	T	T	T	Y

Source: Scheuer and Slemrod, "Taxing Our Wealth," *Journal of Economic Perspectives* (2021)

## 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"

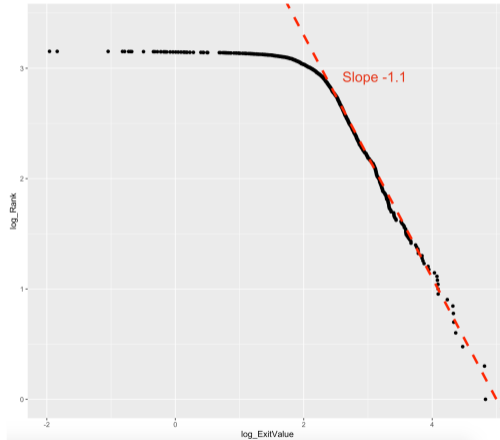
- Bank secrecy within Switzerland
- Formula-based valuation of closely-held businesses

→ Limits to enforcement

## Behavioral responses: entry into entrepreneurship?

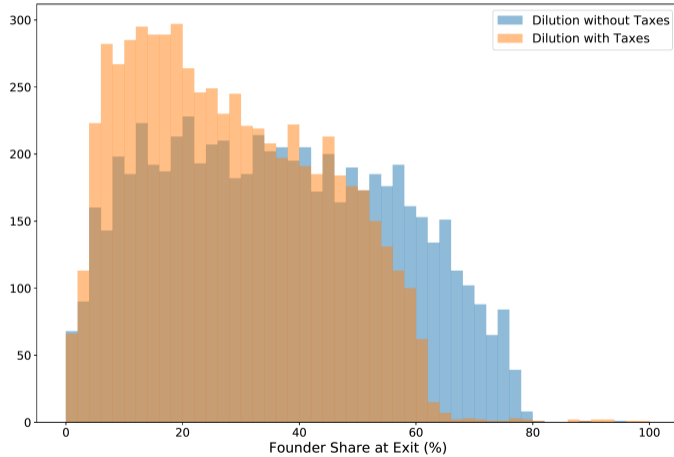
- Entrepreneurs face lots of risk
  - Under-entry?
- Additional dilution due to tax liability and lack of liquidity
  - Loss of control
- But: tax only applies in case of success
  - Low marginal utility

## 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  $\leftrightarrow$  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  $\sim$  rents, compensation for labor

→ Wealth tax targets only normal return, not excess returns

- Sources of return heterogeneity crucial!