Progressive Wealth Taxation: Past and Future

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Introduction

Demand for progressive wealth taxation:

- Rising wealth concentration
- Limited progressivity of tax system at the top
  - Billionaires can own wealth that generates little taxable income (Bezos, Buffett, Brin, Page, etc.)
- Corporate tax used to be a backstop but now severely eroded by tax competition
The rise of mega billionaires in the US (top 0.00001% = 18 individuals today)
The US flat tax: Composition by type of tax

Average tax rates by income group in 2018 (% of pre-tax income)

- Corporate & property taxes
- Consumption taxes
- Payroll taxes
- Individual income taxes
- Estate tax
The European experience with wealth taxation

Long history with progressive annual wealth tax. Three main limitations:

▷ Tax competition

▷ Tax evasion

▷ Low exemption threshold → lobbying → base erosion

→ Need to learn from this history to understand how countries could do better today
Elasticities are not immutable parameters. With proper tax design, they can be reduced:

- Tax competition is not a low of nature: tax non-residents + exit tax
- Tax evasion: can be reduced with regulation of suppliers of evasion services
- Base erosion can be addressed by taxing all assets at their market values (when market values are missing, create a market)
Impact of a 2% wealth tax above $50m & 3% above $1 billion (Warren proposal)

Tax rates by income group (% of pre-tax income)

- Corporate & property taxes
- Consumption taxes
- Payroll taxes
- Individual income taxes
- Wealth tax
The history of taxation is full of U-turns

Top marginal tax rates in the US

Estate
Income
Presentation based on chapters 6–7:

- Tax avoidance, tax evasion, tax competition are not laws of nature
- Policy choices
- With good plumbing a wealth tax can work
Supplementary Slides
EU countries never attempted to address tax competition:

- In US, citizens are taxable no matter where they live
- In Europe, opposite extreme: tax liability disappears as soon as one moves abroad
- A middle-ground is possible: taxes follow you for a number of years
- Would also address issue of temporary preferential tax schemes for foreigners
Tax evasion

**Lack of enforcement:** limited information reporting; wealth self-reported (no pre-populated return)

**Offshore tax evasion:**

- Until 2017-18, limited attempts at fighting offshore evasion: no exchange of bank information
- Progress with the automatic exchange of bank information in recent years (at least on paper)
Wealth hidden at HSBC Switzerland by Scandinavians

Panel A. Probability to own an unreported HSBC account, by wealth group (HSBC leak)

- P90–P95 [0.6–0.9%
- P95–P99 [0.9–2.0%
- P99–P99.5 [2.0–3.0%
- P99.5–P99.9 [3.0–9.1%
- P99.9–P99.95 [9.1–14.6%
- P99.95–P99.99 [14.6–44.5%
- Top 0.01% [> 44.5%]
Hidden wealth disclosed in amnesties

Panel B. Probability to voluntarily disclose hidden wealth, by wealth group (Swedish and Norwegian tax amnesties)
Base erosion

Three key issues:

- Wealth taxes started relatively low in the distribution ($1 million or less) → lobbying for exemptions (e.g., undervaluation of real estate)

- Exemption of business wealth for owner-managers (would exempt Bezos today)

- Cap on wealth tax as a % of taxable income (negates the point of a wealth tax: Buffett would pay $0)