

# Progressive Wealth Taxation: Past and Future

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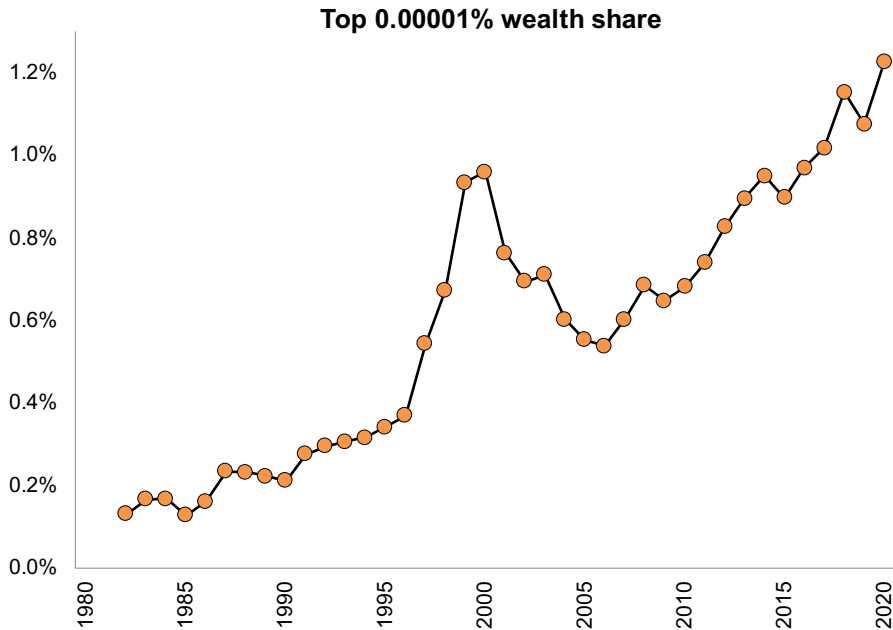
Princeton JRCPPF, February 2021

# Introduction

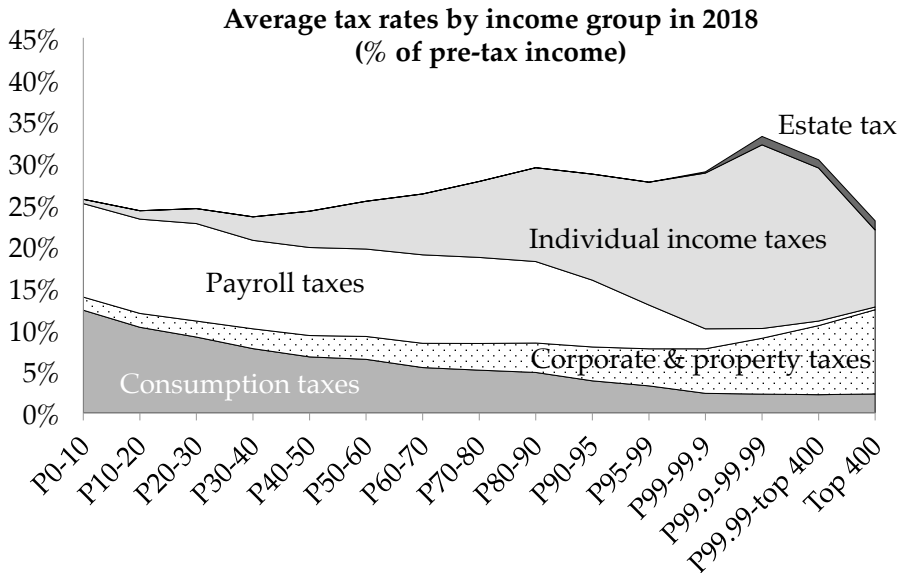
## **Demand for progressive wealth taxation:**

- ▷ 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



# 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

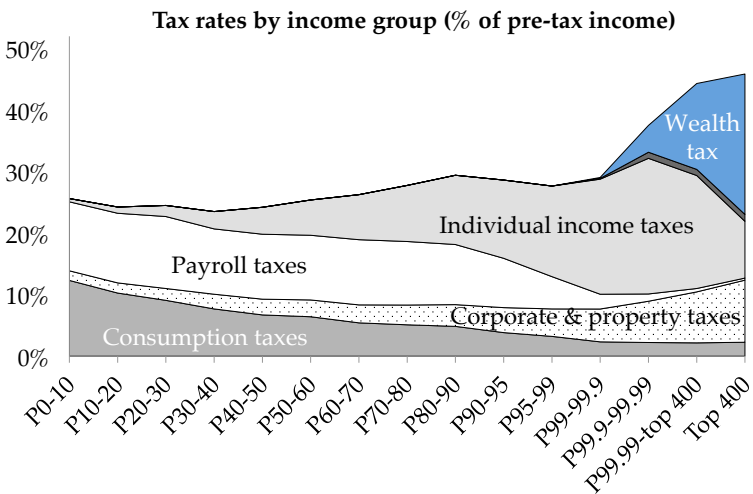
→ Need to learn from this history to understand how countries could do better today

# Learning from the past

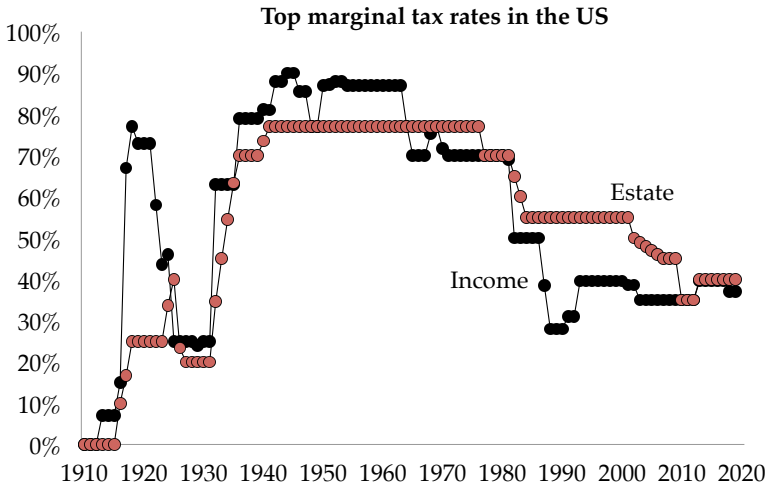
**Elasticities are not immutable parameters.** With proper tax design, they can be reduced:

- ▷ Tax competition is not a law 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)



# The history of taxation is full of U-turns





# THE TRIUMPH OF INJUSTICE

How the Rich Dodge  
Taxes and How to  
Make Them  
Pay



EMMANUEL SAEZ AND GABRIEL ZUGMAN

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

# Tax competition

## **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

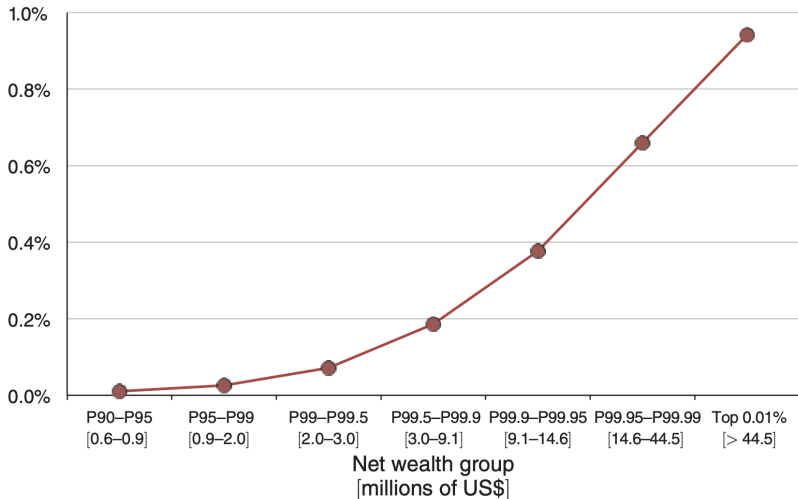
**Lack of enforcement:** limited information reporting;  
wealth self-reported (no pre-populated return)

## **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)

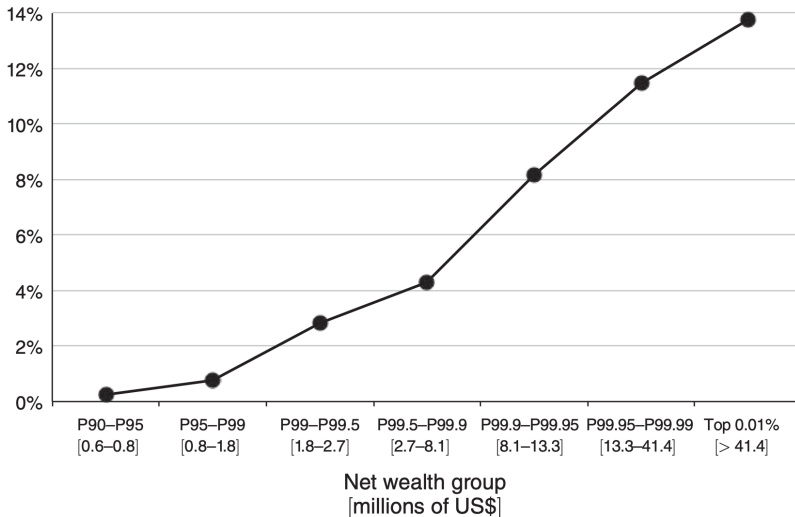
# Wealth hidden at HSBC Switzerland by Scandinavians

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



# 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 (eg, 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  $\approx 0$ )