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How Do Taxpayers Respond to Wealth Taxes ?

Marius Brülhart
University of Lausanne

Workshop « Fiscalité du patrimoine et de la transmission en Europe »

France Stratégie, Paris, 27 June 2017

Private wealth is on the rise again

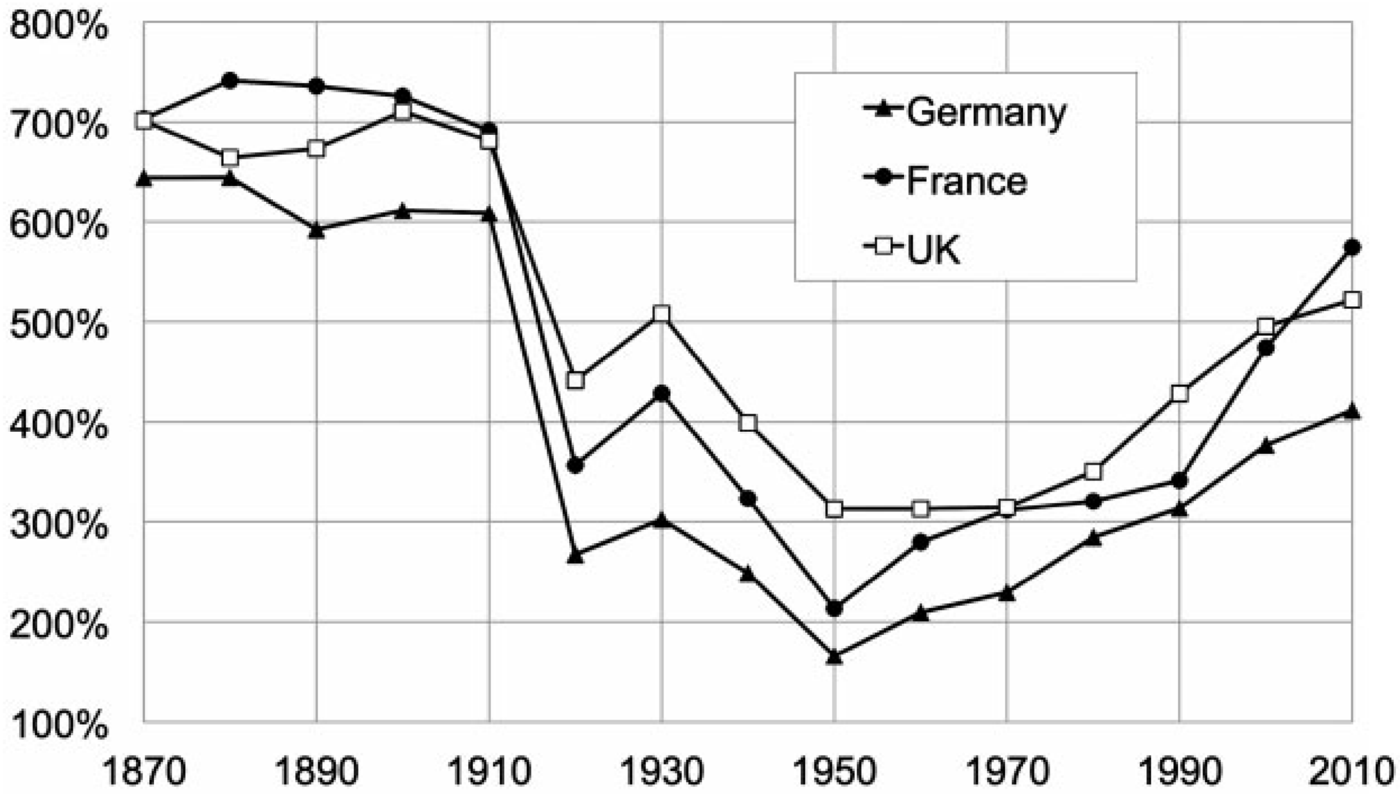

FIGURE II

Private Wealth-National Income Ratios in Europe, 1870–2010

Piketty and Zucman (2014)

Tax the wealth!

Piketty, Saez and Zucman (2013): an annual wealth tax is part of the “ideal tryptich” (income, wealth and inheritance taxes) and “could be part of the fiscal package of the future”.

Tax the wealth?

OECD (2013) “Little hard evidence is available on the likely behavioural impact (of recurrent taxes on net wealth).”

McGrattan (2015): “without a quantitatively valid theory or previous experience with taxing financial wealth, economists cannot make accurate predictions about the impact that such taxes will have on either aggregate wealth or its dispersion. Thus, any proposals to tax wealth are, at this point, premature.”

Auerbach and Hassett (2015): “we find little support for Piketty’s particular approach (...) elsewhere in the literature”.

Our paper

M. Brülhart, J. Gruber, M. Krapf and K. Schmidheiny (2017) "The Elasticity of Taxable Wealth: Evidence from Switzerland", *Working paper*, University of Lausanne, MIT, University of Basel.

We exploit Swiss canton-level and municipality-level panel data to explore behavioural responses to wealth taxation.

Switzerland: Wealth tax world champion

Table 1: Wealth Taxes in OECD Countries

	1995	2000	2005	2010	2015
Switzerland	2.87	3.10	3.40	3.42	3.62
Luxembourg	1.59	1.77	1.45	1.39	2.00
Norway	1.31	1.09	1.02	1.12	1.01
Iceland	1.16	0.00	0.00	0.00	0.00
Netherlands	0.54	0.50	0.02	0.01	0.00
Spain	0.44	0.55	0.42	0.03	0.32
Sweden	0.41	0.69	0.36	0.00	0.00
Germany	0.26	0.03	0.01	0.00	0.00
France	0.25	0.38	0.40	0.53	0.52
Italy	0.21	0.00	0.00	0.00	0.00
Denmark	0.19	0.00	0.00	0.00	0.00
Finland	0.08	0.28	0.18	0.00	0.00
Austria	0.06	0.00	0.00	0.00	0.00
Greece	0.05	0.00	0.00	0.00	0.00

Notes: in percent of total tax revenue; only OECD countries that had non-zero wealth taxes in 1995; source: OECD Revenue Statistics (code 4210, Individual Recurrent Taxes on Net Wealth)

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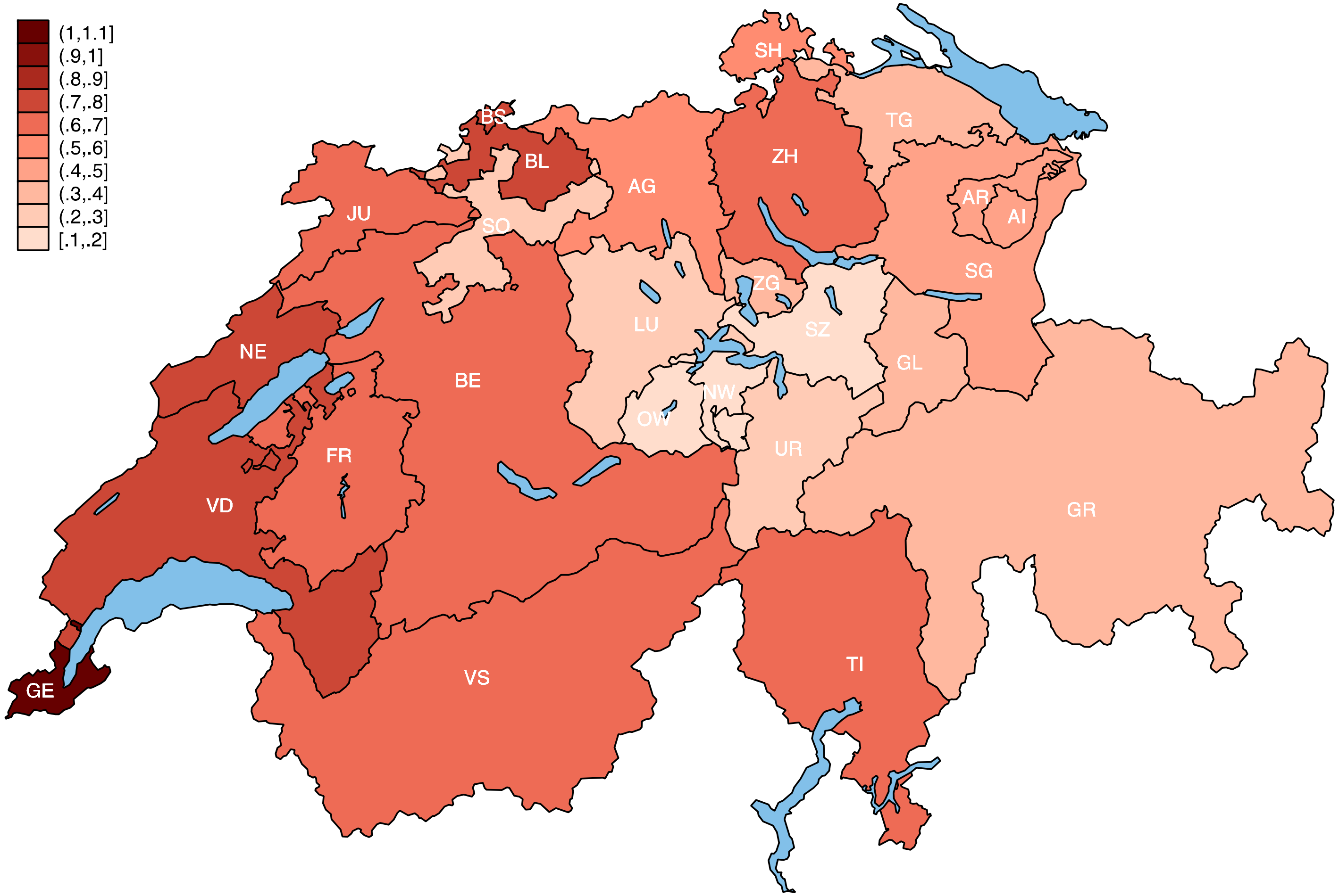
The Swiss "fiscal laboratory"



Consolidated (cantonal+municipal) rate for wealth > 10 Mio

What we find

- **0.1%-point rise in wealth tax lowers declared wealth holdings by around 3.5%**
- Assume annual return of 4.5% and wealth tax of 0.5%
  - → Implies 0.005/0.045 = 11.1% rate on return
  - → 0.1%-point rise is 2.2%-points rise on return to 0.006/0.045 = 13.3%
- Take marginal capital income tax rate of 35%
  - → Keep rate is 1-(0.35+0.11) = 54%
  - → Net-of-tax rate falls by 2.2%-points or 4.1%
  - → **Net-of-tax elasticity wrt income: 0.035/0.041 = 0.85**
  - → Saez *et al*. (2012) typical range of ETI: (0.1, 0.4)

What we also find (wealth taxes)

- No evidence (yet) of significant mobility responses
- Taxable *income* much less affected
- Financial wealth responds more strongly than non-financial (real-estate) wealth
- Some “bunching” of wealth below the exemption threshold

→ Tax-base elasticity appears to be largely due to avoidance strategies rather than to “real” responses

- Elasticity wrt to the tax rate ≈ -0.18

→ Well on the left of the Laffer peak

What we also find (inheritance taxes)

- Taxable wealth reacts significantly to changes in inheritance taxation
  - Equivalent net-of-inheritance-tax elasticity wrt income of around 1.1
  - Larger than but not statistically significantly different from estimated wealth tax elasticity (0.85)

- Prior work (Brülhart and Parchet, 2014) suggests inheritance tax does not trigger significant moving responses

What others find (wealth taxes)

- Seim (2017) on Sweden:
  - Implied net-of-tax elasticity wrt income <0.01
- Zoutman (2015) on the Netherlands:
  - Implied net-of-tax elasticity wrt income ≈ 0.85
- Duran-Cabré, Esteller-Moré and Mas-Montserrat (2017) on Spain:
  - Implied net-of-tax elasticity wrt income ≈ 0.15
- Jakobsen, Jakobsen, Kleven and Zucman (2017) on Denmark:
  - Implied net-of-tax elasticity wrt income ≈ 0.08

Conclusions

- Swiss data:
  Elasticity of taxable wealth > elasticity of taxable income
- Available evidence points towards mainly avoidance responses rather than “real” responses (labour supply, wealth accumulation, mobility)
- Two main open research questions:
  - Nature, relative importance, and welfare implications of *different avoidance mechanisms*
  - Effects of *different institutional settings* (third-party reporting, valuation of illiquid assets, auditing, exemptions, deductions, etc.)