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Wealth Taxation in the United States  
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**ABSTRACT**

The paper analyzes the fiscal effects of a Swiss-type tax on household wealth, with a \$120,000 exemption and marginal tax rates running from 0.05 to 0.3 percent on \$2,400,000 or more of wealth. It also considers a wealth tax proposed by Senator Elizabeth Warren with a \$50,000,000 exemption, a two percent tax on wealth above that and a one percent surcharge on wealth above \$1,000,000,000. Based on the 2016 Survey of Consumer Finances, the Swiss tax would yield \$189.3 billion and the Warren tax \$303.4 billion. Only 0.07 percent of households would pay the Warren tax, compared to 44.3 percent for the Swiss tax. The Swiss tax would have a very small effect on income inequality, lowering the post-tax Gini coefficient by 0.004 Gini points. The effect of the Swiss tax and Warren tax on wealth inequality is miniscule, lowering the Gini coefficient by at most 0.0005 Gini points.

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## 1. Introduction

Both the extreme nature of wealth concentration in the U.S. and its rise in recent years provide some urgency to a consideration of potential policy remedies. Moreover, if the intergenerational transfer of wealth plays an important role in the process of household wealth accumulation, as seems to be the case, will our basic sense of equity fray even more and lead to increasing political divisiveness?

Personal wealth is currently taxed in two ways on the federal level in the U.S.: realized capital gains (as part of personal income taxes) and estate taxation. Earlier work of mine suggested that the estate tax collection system may be subject to both tax evasion and tax avoidance. According to my estimates for 1992, total estate tax collections should have been in the order of 44 billion dollars, in comparison to actual tax receipts of 10 billion dollars (see Wolff, 1997). Moreover the estate tax system has the unusual feature that capital gains are "forgiven" at time of death -- that is, the capital gains that are incorporated in the value of the assets of the deceased are passed to the heirs untaxed. If these gains were taxed like ordinary income, my estimates suggested that they would yield another 30 to 40 billion dollars of revenue.

Should we also think about direct taxation of the wealth holdings of households? Almost a dozen European countries have or have had such a system in place, including Denmark, France, Germany, the Netherlands, Sweden, and Switzerland. On the grounds of equity, a combination of annual income and the current stock of wealth provides a better gauge of real living standards and thereby the ability to pay taxes than income alone. Moreover, there is no evidence from other advanced economies that the imposition of a modest direct tax on household wealth had any deleterious effect on personal savings or overall economic growth. Indeed, there are arguments to the contrary that such a tax may induce a more efficient allocation of household wealth, away from unproductive toward more productive uses.

In Wolff (1995), I proposed a very modest tax on wealth (a \$100,00 exemption with marginal tax rates running from 0.05 to 0.3 percent).<sup>1</sup> My calculations for year 1989 showed that such a tax structure would yield an average tax rate on household wealth of 0.2 percent, which is less than the loading fee on most mutual funds, and would reduce the average yield on household wealth holdings by only 6 percent. Even the top marginal tax rate of 0.30 percent

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<sup>1</sup> Much more recently, Piketty (2014) has also proposed direct taxation of household wealth. Elizabeth Warren also proposed a wealth tax in her presidential campaign in the U.S. (see below)

would reduce the average yield on personal wealth by only 9 percent. These figures suggested that disincentive effects on personal savings would be very modest indeed. Moreover, there are arguments as suggested above that personal savings might actually rise as a result of the imposition of a wealth tax.

I estimated that such a tax could raise 50 billion dollars in additional revenue and have a minimal impact on the tax bills of 90 percent of American families. This is not a large amount, representing about 3 percent of total federal tax receipts. However, on the margin such additional revenue could be critical. In particular, it could help provide the fiscal latitude to enact more generous social transfers to the poor and provide needed tax relief to the middle class.

This paper begins, in Section 2, with a reprise of my 1995 analysis of direct wealth taxation contained in Wolff (1995). Section 3 provides updated estimates to 2016. Section 4 includes an analysis of the wealth tax proposed by Elizabeth Warren. Concluding remarks are made in Section 5.

## **2. My earlier analysis of direct wealth taxation**

### 2.1 Systems of wealth taxation, mid-1980s

Given both the high and rising degree of wealth inequality in the U.S., it seems reasonable to consider the possibility of extending the tax base to include personal wealth holdings. Such a policy not only promotes greater equity in our society -- particularly, by targeting those who have a greater ability to pay -- but may also provide households with an incentive for switching from less productive (those with a low rate of return) to more productive forms of assets. This section summarizes the forms of wealth taxation in place in the U.S. and other industrialized countries around 1985 as a preliminary to analyzing some of the potential effects of introducing direct wealth taxation.

#### 2.1.1 The United States

Household wealth was (and is currently) taxed in two ways on the federal level in the United State: estate taxes and capital gains taxes. Federal estate taxes were first introduced in 1916, with major revisions in 1976, 1981, and more recently, a big overhaul in 2011. Capital gains were originally included in the personal income tax system, introduced into the country in 1913. Their provisions have been modified over time on a recurrent basis.<sup>2</sup>

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<sup>2</sup> A related tax is the property tax, levied on the value of all real property (buildings and land). Though this is often overlooked in current debates on tax reforms, the property tax was the third-largest source of household tax revenue

The system in 1985 (and currently) provides for the taxation of the value of an estate at the time of death of an individual. The tax is levied on the value of the estate, in contrast to the value of an inheritance received (see below for a discussion of the "inheritance tax"). Moreover, the estate tax system is integrated with the gift tax, which refers to the voluntary transfer of assets from one (living) individual to another. In principle, gifts are aggregated over the lifetime of the individual donor, and the lifetime aggregate of gifts is combined with the value of an estate at death. The estate tax applies to the full value of gifts and estates.<sup>3</sup>

In February of 2001, each individual was exempted from estate taxes on net worth up to \$675,000. The basic exemption rose to \$1,000,000 in 2006. Wealth above that amount was levied at marginal tax rates, which began at 37 percent and reached as high as 55 percent (for estates over \$3,675,000). Estates of fewer than 48,000 individuals -- about 2 percent of annual deaths -- were subject to the estate tax. About half the total was paid out of estates worth \$5,000,000 or more -- about 4,000 people. As of 2016, the exemption on the estate tax was raised to \$5,250,000 for singles and \$10,500,000 for couples and the top marginal tax rate was 40 percent, up from 35 percent in 2012. The exemption level is now indexed to the inflation rate (the CPI-U).

For gifts, the first \$10,000 per recipient (\$20,000 in the case of a married couple) was exempt from the combined gift-estate tax. In 2016 the figure was \$14,000. There was (and is) also full exemption for transfers (both gifts and estates) between spouses. All forms of wealth are included in the tax base for calculating the gift-estate tax except pension annuities and life insurance. Assets are appraised at market value at time of death, though special rules apply to farm property, closely held business, and unquoted stock and shares. Several states also levy estate taxes, which are generally based on federal rules.

Capital gains refer to the difference between the selling price and purchase price of an asset. There are some adjustments made for the value of capital improvements in the case of real property (such as a home). These are figured in on a cost basis when computing capital gains. In the United States, capital gains are taxed as part of the federal income tax system (and state

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in 1985 and has been rising steeply in years since then. This tax is generally levied by local governments in this country and, as a result, will not be discussed in this paper. Of the twenty-four OECD countries, all but Italy and Portugal had a separate tax on real property in the mid-1980s.

<sup>3</sup> Gifts within three years of death were treated as transfers at death.

income tax systems). Only realized capital gains are included (that is, capital gains on actual sales of assets).

In 2001, capital gains on assets held more than five years were subject to a maximum tax of 18 percent (compared to the top marginal tax rate of 39.6 percent). In 2016, the maximum tax rate on long-term capital gains was 20 percent (also compared to the top marginal tax rate of 39.6 percent). Short-term capital gains are treated as ordinary income and do not receive tax preference.<sup>4</sup> However, in the case of owner-occupied housing, there was no tax levied on capital gains in the case when a new primary residence was purchased whose price exceeds the selling price of the old home. There was also a one-time exclusion of \$500,000 in capital gains on the primary residence. Tax liability on capital gains on gifts is deferred until the asset is sold. Capital gains on assets that enter an estate at time of death are exempt from taxation.

#### 2.1.2 Other OECD countries<sup>5</sup>

Other member countries of the OECD have had much more extensive taxation of household wealth. Besides taxation of estates at death and of capital gains, many countries also imposed direct taxation on household wealth.

As of 1985, eleven OECD countries had systems in place with direct taxation of household wealth: Austria, Denmark, Finland, Germany, Luxembourg, the Netherlands, Norway, Spain, Sweden, and Switzerland (see Table 1). In addition, France had such a system in place from 1982 to 1987 and Ireland from 1975 to 1977.<sup>6</sup> Also, with the exception of Spain, most of these systems had been in place for at least sixty years. In all eleven countries, the wealth tax was administered in conjunction with the personal income tax. In all cases, except Germany, a joint tax return was filed for both income and wealth. Though actual provisions varied among these eleven countries, the basic structure of the tax was very similar in each.

#### **[Table 1 about here]**

Countries differed in terms of the level at which the wealth tax took effect. The thresholds for married couples with two children ranged from a low of \$9,000 in Luxembourg to

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<sup>4</sup> There are some complications that arise from capital losses and the carryover of capital losses from previous years, particularly in regard to short-term capital gains.

<sup>5</sup> Most of the information in this section was garnered from the Organization of Economic Cooperation and Development (1988). The figures in this section are as of 1988 in most cases.

<sup>6</sup> Japan also had a direct wealth tax for a short period after World War II.

a high of \$155,000 in Denmark. In Germany, the threshold was \$129,000; in the Netherlands, \$51,000; and in France, it was (when the tax was in effect) \$520,000. These threshold levels did not include the forms of wealth that are entirely excluded from the tax base (see below).

Moreover, there were income exclusions in many countries, so that a joint income-wealth threshold must be passed in order for the wealth tax to become effective.

In several countries (such as Denmark, the Netherlands, and Sweden), there were also ceilings on the total amount payable in both income and wealth taxes combined. These ceilings were usually expressed as a percentage of taxable income (in the Netherlands, for example, it was 80 percent of taxable income).

Tax rates on household wealth tended to be quite low, on the order of a few percent at most. Five countries had a flat rate system: Austria (1.0 percent), Denmark (2.2 percent), Germany (0.5 percent), Luxembourg (0.5 percent), and the Netherlands (0.8 percent). The other countries had graduated marginal tax rates: Finland (1.5 percent at the threshold, rising to 1.7 percent at \$296,000), Norway (0.2 to 1.3 percent, the latter at \$47,000), Spain (0.2 to 2.0 percent, the top rate at \$7.1 million), Sweden (1.5 percent initially; reaching 3.0 percent at \$140,000), and Switzerland (0.05 percent, rising to 0.30 percent at \$334,000).<sup>7</sup>

Countries also varied in the forms of wealth that were included in the tax base. All the countries except Spain exempted household and personal effects. Most included the value of jewelry above a certain amount. All except Germany included the value of automobiles, and all included boats.

Several countries exempted savings accounts up to a certain level (\$4,600 in Germany, for example). All excluded pension rights and pension-type annuities. Other forms of annuities were generally exempt. About half the countries exempted life insurance policies, while the other half included some portion of them in the tax base.

Owner-occupied housing was taxable in all eleven countries. However, in Austria and Finland, a small deduction was allowed, while in the Netherlands and Norway housing was valued at only a small percentage of its actual market value. Other forms of wealth, including

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<sup>7</sup> In Switzerland, the wealth tax was actually a provincial (canton) tax, so that provisions varied among cantons.

bonds, stocks and shares, and unincorporated businesses were included in the tax base in all countries.<sup>8</sup>

Most countries required an annual reassessment of the total value of personal property. However, Austria, Germany, and Luxembourg reassessed every three years and Switzerland every two years. In principle, all eleven countries with a wealth tax system based the valuation of assets on current market value. However, in practice, this procedure was not always easy to enforce. First, some assets were not traded in the open market and hence did not have a readily available market price (small businesses and unquoted shares, for example). Second, housing presented a particular problem, since the usual method, based on the sale of "similar" property, depended in large measure on the definition of the similar class. On the other hand, bonds, quoted shares and stocks, and bank accounts were rather straightforward in their valuation.

Most countries used an "asset basis" to value unincorporated businesses, defined as the sum of the value of the individual assets contained in the business. This would typically understate the true value of the business, since no additional value was given to goodwill. Austria, Finland, and the Netherlands used a market value basis (the value of the business if it were sold immediately). Switzerland used a formula based on the capitalized value of the business' profits over time.

Whereas most countries based their valuation of real property on its open market value, Austria used a formula based on changes in the average costs of construction and changes in land prices. Germany used the assessed valuation for local taxes. Luxembourg used a formula based on the capitalized rental value of property.

Twenty-two of the twenty-four OECD countries had death or gift taxes, or both (see Table 1). The only exceptions were Australia and Canada. However, most of the OECD countries had "inheritance taxes" in lieu of the American-style estate tax. The difference between the two is that inheritance taxes are assessed on the recipient, whereas an estate tax is assessed on the estate left by the decedent. With an inheritance tax, the tax schedule is applied to each individual bequest, whereas with an estate tax, the assessment is on the total value of the transfer. The inheritance tax has certain advantages over the estate tax. First, it can be adjusted more

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<sup>8</sup> There was a technical issue related to debts on excluded assets. Since the wealth tax was based on the total value of assets less debts, the appropriate treatment would have been to exclude debts on assets that were themselves excluded from the tax base. However, because of the difficulty of assigning specific debts (such as bank overdrafts) to specific assets, countries varied in their treatment of this problem.



closely to the ability of an heir to pay the tax. Second, preferential treatment can be accorded to immediate family, as opposed to more distant relatives or friends (so-called consanguinity basis).<sup>9</sup>

Of the four countries with estate taxes -- Italy, New Zealand, the United Kingdom, and the United States -- the tax threshold varied from \$20,000 for Italy to \$600,000 for the United States (in 1985). Marginal tax rates ranged from 3 to 31 percent in Italy, 30 to 60 percent in the United Kingdom, and 37 to 55 percent in the United States. In New Zealand there was a flat rate of 40 percent. Spousal transfers were totally exempt in the United Kingdom and the United States but were taxed, with special treatment, in the other two countries. All four countries also had gift taxes. In Italy and the United States, these were aggregated over the person's lifetime and combined with the estate at death to determine the taxable base for the estate tax.

The structure of inheritance taxes was more complicated. Marginal tax rates varied with the relationship of the heir to the decedent, as did the tax thresholds. In France, for example, bequests to spouses had a threshold of \$40,000, and the marginal tax rates varied from 5 to 40 percent, whereas bequests to non-relatives had a threshold of \$1,500 with a flat rate of 60 percent applied to the transfer. All nineteen OECD countries with an inheritance tax also had an associated gift tax.

Fifteen of the twenty-four OECD countries also provided for a tax on capital gains (see Table 1). All fifteen taxed capital gains as they were realized (that is, at time of sale). In thirteen of the fifteen countries, capital gains were included as part of the personal income tax, whereas in the other two (Denmark and Ireland), a separate tax was collected. Interestingly, in eight countries -- Denmark, Finland, Iceland, Luxembourg, Norway, Spain, Sweden, and Switzerland - there was both a direct wealth tax and a tax on capital gains.

There was wide latitude in the tax treatment of these gains across countries. In the United States, long-term capital gains as of 2001 received tax preference, with a maximum tax rate of 18 percent. Short-term gains were treated as ordinary income. In Denmark, there was a flat rate of 50 percent; while in Switzerland, marginal rates ranged from 10 to 40 percent. In both cases, there was no separate treatment of short-term gains.

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<sup>9</sup> Actually, in the U.S. estate tax system, preferential treatment is given to a spousal transfer in the form of a complete exemption. There is also a special, additional tax levied on generation-skipping bequests.

In Australia, Norway (with some exceptions), and Spain, both short-term and long-term gains were treated as ordinary income and taxed in accordance with the personal income tax schedule. In Canada, three-quarters of capital gains were included as ordinary income. In Japan, half of long-term capital gains were taxed as ordinary income, while short-term gains were treated as ordinary income. In Sweden, a proportion of long-term gains were taxed as ordinary income, with the proportion depending on the nature of the property and the period held, while short-term gains were treated as ordinary income.

In most countries with capital gains taxes, gains on principal residences were exempt from taxation. Exceptions were Switzerland, where such gains were fully taxable; Japan, where the first \$178,000 of gains were exempt; Spain, where exemption was subject to the purchase of a new residence; and Sweden and the United States, where only the excess of the sale price over the purchase price of a new residence was subject to taxation.

Though on the books, these wealth taxation mechanisms appear to be a formidable way of collecting revenue, in fact, such levies accounted for only a very small part of total tax revenue in the various OECD countries. The last column of Table 1 summarizes the total tax collections from direct wealth and death/gift taxes as a percent of total government revenue in 1985. Unfortunately, these totals do not include capital gains tax, since it was very hard to break out from regular income tax receipts. Among the twenty-three countries shown here, the average percentage was only 0.67. The shares ranged from a low of 0.01 percent in Australia to a high of 3.06 percent in Switzerland. Switzerland was, moreover, the only country in which the direct wealth tax collected more than one percent of total tax revenue -- 2.25 percent in 1985. The U.S. was slightly above average, with 0.77 percent of its total tax revenue from estate and gift taxes (of which 0.74 was from estate taxes and 0.03 from gift taxes). In terms of the receipts from death and gift taxes as a share of the total personal tax intake, the United States ranked fifth among OECD countries, after Japan, Greece, Portugal, and Switzerland. In 1998, total federal tax collections from estate and gift taxes in the U.S. amounted to 24.0 billion, or 1.4 percent of total tax revenues.<sup>10</sup>

One may wonder why these wealth taxes collected so little revenue, particularly when some of them were in place for more than seventy years, plenty of time for refinement of their

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<sup>10</sup> The source is U.S. Council of Economic Advisers (2001), p. 422.

efficacy. Three possible reasons suggest themselves. First, particularly in Europe, tax proceeds from the personal income tax and the value-added tax on consumption were already quite substantial, so that relative to total tax revenues wealth tax collections appeared small. This is particularly germane to countries such as Sweden that had a cap on combined income and wealth taxes. Second, there is the strong possibility of evasion or non-criminal avoidance. Unlike labor earnings and interest and dividend payments, which can be recorded at their source, it was much more difficult for a tax collection agency to obtain independent information on the financial securities, stock holdings, unquoted shares, or value of a family business owned by a household. Though real property must be registered with local tax authorities, there was still a possibility that its value was underestimated for tax purposes.

A third and related reason is that it is easy to transfer financial wealth holdings across borders. With the exception of real property and most small businesses, a family normally can purchase assets outside the country of residence with ease. A country that imposes an excessive wealth tax may induce substantial capital flight. As a result, most countries with a wealth tax tried to keep it more or less in line with that of other countries.

## 2.2 Simulations of direct wealth taxation in the United States

This section provides simulation results of the potential revenue effects of three alternative wealth taxation systems as applied to U.S. household economic data in 1989. These were based on the actual tax codes of Germany, Sweden, and Switzerland. The distinctive characteristics of each plan are shown in Table 2.<sup>11</sup>

### **[Table 2 about here]**

The simulations were performed on the basis of the 1989 U.S. personal income tax schedules and the 1989 Survey of Consumer Finances.<sup>12</sup> While the data were not perfect, the

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<sup>11</sup> It should be noted that in the simulations all assets are appraised at market value (since this is the only valuation available).

<sup>12</sup> The procedure was as follows: First, adjusted gross income (AGI) was estimated as the sum of all income items (excluding Social Security income). Second, the number of exemptions was computed. Third, the standard deduction was calculated. This was based on the filing status of the household and the number of persons age 65 or older in the household. Fourth, taxable income was calculated by taking AGI minus the number of exemptions multiplied by \$2,000 and subtracting the standard deduction. Federal income tax was then computed on the basis of the appropriate tax tables. After the initial run, the estimation procedure could be calibrated. Total individual federal income taxes collected in 1989 amounted to \$445.7 billion (the source is the U.S. Council of Economic Advisors (1991), Table B-77). The tax estimation used here produced a total tax figure for all households of \$526.4 billion (an 18 percent discrepancy). The tax estimates were subsequently reduced by 18 percent to align with the actual figure.

results were encouraging.<sup>13</sup> Even a very modest wealth tax (like the Swiss system, with marginal tax rates ranging from 0.05 percent to 0.30 percent and an exclusion of about \$50,000 in wealth) could have raised \$38 billion in 1989. Such a tax could have gone a long way toward providing additional revenue for such programs as expanded welfare (TANF) coverage, Medicaid, Food Stamps, an expanded prescription drug plan in Medicare, increased Unemployment Insurance coverage, and the like. Moreover, in the process only 3 percent of families would have seen their federal tax bill rise by more than 10 percent.

Simulations of alternative schemes for wealth taxation also suggested that a combined income-wealth taxation system might indeed be more equitable than the income tax system alone. The wealth tax was, not surprisingly, progressive with respect to wealth. Its incidence also fell more heavily on older households than younger ones (older households were wealthier, on average), on married couples than singles (the former were also richer, on average), and on white individuals than nonwhites (white families were generally much wealthier). Although this approach did not take into account behavioral responses of families to the imposition of a wealth tax, the calculations nonetheless gave some guidance as to the overall magnitude of likely revenues and redistributive effects.

There are three questions of interest. First, how much additional tax revenue would be raised under each alternative wealth taxation scheme (revenue effects)? Second, which groups would likely bear the burden of the new taxation of wealth (incidence effects)? Third, how would the alternative wealth tax systems affect overall inequality in the population and within different demographic groups (distributional effects)?

The actual U.S. personal income tax produced revenues of \$445.7 billion, or 11.4 percent of total family income (details are tabulated in Table 3.) A wealth tax following the German system would have produced total additional tax revenues of \$67.5 billion in 1989, or 1.7 percent of total income. Adopting the German-style wealth tax would have increased tax revenues by 15

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With this system, taxes were then recomputed in the same way, except in treating household wealth as an additional taxable item in accordance with the details of each of the three plans shown in Table 13.2.

<sup>13</sup> Data problems included the following: (i) itemized deductions, particularly interest payments and state and local tax payments, could not be included in the analysis; (ii) capital gains could not be incorporated in family income; (iii) tax-exempt interest income was not excluded from AGI; and (iv) any adjustments to income were not included in the computation of AGI. It was assumed that the net effect of these omitted adjustments was approximately captured by the 18 percent adjustment to tax revenues.

percent overall. Imposing the Swedish wealth tax, in contrast, would have added an additional \$328.7 billion of personal taxes, amounting to 8.4 percent of total income and increasing the total tax intake by 74 percent. The Swiss wealth tax would have raised \$38.0 billion in taxes, representing 0.9 percent of total income and 8 percent of the total income tax proceeds. The Swedish wealth tax would thus have had a massive effect on total tax revenues, while the other two would have had moderate effects. However, even the German- and Swiss-style wealth taxes yielded new revenues considerably in excess of the actual collections from the estate and gift taxes, \$8.7 billion in 1989.<sup>14</sup>

**[Table 3 about here]**

The incidence of wealth taxes depends on the joint distribution of income and wealth. If the two were perfectly correlated, then everyone would experience a similar proportional increase in taxes (depending on the wealth tax schedule). However, income and wealth are not perfectly correlated. There are certain groups, such as the elderly, that have large wealth holdings but relatively small income. On the other hand, some young households may have high earnings but relatively little wealth accumulation (the "yuppies"). This new tax may thus shift the burden away from young households onto elderly ones.

Table 3 shows estimates of the new effective tax rates by income class, wealth class, age group, family type, and race.<sup>15</sup> The Swedish wealth tax system, like the graduated income tax in this country, was highly progressive with respect to income, rising from 0 percent for the lowest income class to 15.7 percent for the highest. Moreover, the proportionate increase in total taxes paid would have been somewhat higher for upper-income families than lower-income ones. In contrast, both the German and Swiss wealth tax systems tended to lay claim to an almost constant percentage of income, except for the highest income class, which would have paid a

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<sup>14</sup> The revenue effect estimated on the basis of the Swiss system (2.2 percent of total U.S. tax revenues) was not very far out of line with the actual experience of that country; in 1985, the Swiss wealth tax accounted for 2.3 percent of total tax revenues in Switzerland. On the other hand, the relative revenue effects estimated from the German and particularly the Swedish system were much greater than the actual wealth tax yields in those countries. There are four possible reasons for the discrepancy in results. First, total tax revenues were a higher proportion of GDP in Germany (37 percent in 1988) and in Sweden (55 percent) than in the U.S. (30 percent). Second, household wealth holdings relative to income may have been lower in Germany and Sweden than in the U.S. Third, there may have been substantial tax evasion and avoidance in the two European countries. Fourth, in the case of Sweden at least, there was a cap on the joint income and wealth tax, which limited liability for the wealth tax for a large proportion of wealthy Swedish families because of the very high marginal tax rates on income that existed in the 1980s.

<sup>15</sup> However, as indicated in footnote 13, the incorporation of itemized deductions, tax preference items, and other income adjustments would have made the effective tax rates on income considerably less progressive.

greater share with respect to its earnings. Moreover, in both cases, lower-income families would have seen their total tax bill rise proportionately more than higher-income families. While this may appear unfair, one must remember that the tax did not fall uniformly on lower-income families. Only a household with much wealth, regardless of income, would be liable for taxation. Any household with substantial net worth may legitimately be viewed as capable of contributing to the public good.

The American income tax system was also progressive with respect to household wealth, with tax rates on income rising from 7.2 percent for the lowest wealth class (under \$25,000) to 17.2 percent for the richest (\$1,000,000 or more). All three European-type wealth tax systems, not surprisingly, were also progressive with respect to wealth. Tax rates measured as a percentage of income would have risen from zero for the lowest wealth class to 5.7 percent for the highest under the German tax system; from zero to 25.5 percent under the Swedish system; and from zero to 3.2 percent under the Swiss system. The proportionate increase in taxes would also have been greater for wealthier families than poorer ones under all three systems.

Referring again to Table 3, we see that income tax rates in the U.S. showed relatively little variation across age groups, rising from 9.2 percent for the youngest families to 12.3 percent for those 35-54, then falling back a bit for older cohorts. In contrast, under all three wealth tax systems, tax rates on income would have risen monotonically with age group, reflecting the fact that wealth-income ratios increased with age. Under the German system, tax rates would have ranged from 0.5 to 4.1 percent; under the Swedish system, from 2.3 to 16.9 percent; and under the Swiss system, from 0.3 to 1.9 percent. Under all three systems, taxes would have increased proportionately more for older Americans than younger ones.

There was also relatively little variation in income tax rates by family type. Unmarried males faced the highest average income tax rates, 12.3 percent, followed by married couples (11.7 percent) and single females (8.9 percent). Under all three wealth tax systems, married couples would have faced the highest tax rates, with unmarried male and female households taxed almost identically. Under the German system, married couples would have paid 1.8 percent of income in wealth taxes, compared to 1.5 percent for unmarried males or females; in the Swedish system, the respective rates were 9.3 and 5.9 percent, and in the Swiss system, 1.0 and 0.7 percent.

White families in the U.S. generally paid higher tax rates than non-whites -- 11.9 percent compared to 8.7 percent -- reflecting the higher relative incomes of whites. Under all three wealth tax systems, white families, on average far better endowed than minority families, would have paid considerably higher taxes than non-whites. Also, in all three cases, white families would have seen their tax bill rise proportionately more than non-white families.

One can measure the effect of wealth taxation on inequality in three steps. First, figure out the inequality (based on the Gini coefficient) in the distribution of pretax income. Second, calculate the Gini coefficient of after-tax income resulting only from the imposition of the personal income tax. Third, compute the same measure for after-tax income resulting from both the income tax and each of the wealth tax systems. The distributional effect of the wealth tax will depend on its progressivity with respect to income, its magnitude, and the proportionate increase in taxes it generates by income class.

Results are shown in panel A of Table 4. Among all families, the Gini coefficient for pretax income was 0.52 in 1989. The Gini coefficient for income after income taxes was 0.50, indicating that the personal income tax system had a modest equalizing effect on income distribution. Adding the Swedish wealth tax to the personal taxation formula resulted in a further reduction of the Gini coefficient to 0.48. The Swedish wealth tax thus had an equalizing effect on the income distribution similar in magnitude to the personal income tax system. However, neither the German nor the Swiss wealth tax had much effect on measured income inequality, mainly because of the small amount of revenue that they generated and their lack of progressivity with respect to income.

**[Table 4 about here]**

The distributional effect of the wealth tax systems did show some variation by age group, family type, and race. The equalizing effects of the wealth tax exerted greater influence within older age groups than among younger ones. For age group 70 and over, the imposition of the Swedish wealth tax system caused the Gini coefficient to fall from 0.54 to 0.49. The effects were stronger among married couples than unmarried individuals: among married couples, the Gini coefficient declined from 0.45 to 0.42 when Swedish wealth taxes were added to income taxes. The equalizing effect was also larger among white families than among non-white ones.

Panel B of Table 4 shows the same set of computations for an alternate measure of income called Income\*. Income\* is defined as family income plus 3.28 percent of family net

worth (3.28 percent is an estimate of the average annual real rate of appreciation on household wealth over the 1962-89 period). Income\* is logically a more inclusive measure of family welfare than normal income. The effects of a wealth tax on this more inclusive measure of income may be considered a better measure of the overall distributional effects of a wealth tax.

Results for Income\* were quite similar to those for standard family income. Among all families, the Gini coefficient was 0.544 for pretax Income\*, 0.527 for Income\* after the payment of income taxes, and 0.502 for Income\* after both income and Swedish wealth taxes are paid. As before, the German and Swiss wealth tax systems had little distributional impact. The equalizing effects of wealth taxes on the distribution of Income\* increased with age, were greater for married couples than for singles, and were stronger among white than nonwhite families.

### **3. Update to 2016**

Almost thirty years have elapsed since the publication of the OECD (1988) report on wealth taxation in member nations. What was the state of wealth taxation among these nations in 2015? This is summarized in Table 5. Of the 11 countries with a direct wealth tax in 1985, only four still had one in 2015 – the Netherlands (on the provincial level only), Norway, Spain, and Switzerland (on the canton level). Spain abolished its wealth tax on January 1, 2009, but then reintroduced it in 2012. Austria and Denmark discontinued their wealth tax in 1995, Germany in 1997, Finland and Luxembourg in 2006, and Sweden in 2007. Iceland abrogated its wealth tax in 2006, reintroduced it in 2010 for four years, and then eliminated it in 2015. However, France reintroduced a direct wealth tax in 2011 and it was still in effect as of May 1, 2016. As of 2016, three of the original 24 OECD countries have a national wealth tax and two have a provincial (or canton-level) wealth tax.

#### **[Table 5 about here]**

With regard to inheritance, gift, and/or estate taxes, of the 22 countries with one form of these in 1985, all but four still had one in effect in 2015. New Zealand eliminated its estate duty in 1992. Sweden abolished its inheritance tax in 2005, Austria in 2008, and Norway in 2014.

Why the retrenchment in wealth taxes (both direct and inheritance)? One can think of a backlash on taxes in general beginning with Reagan and Thatcher in the 1980s. This was followed by conservative backlash in continental Europe in the 1990s and 2000s. For example, a conservative government was elected to power in Sweden in the mid-2000s, which engineered the elimination of both the direct wealth tax and the inheritance tax.



The tax simulations were updated to 2016 on the basis of the 2016 SCF and the 2016 income tax schedules for individuals.<sup>16</sup> The 2016 SCF is the most recent one currently available. It should be noted that by design, the SCF excludes the so-called Forbes 400 – a list compiled by *Forbes Magazine* of the 400 richest Americans. However, I shall include data from this list in Section 4 below.

In the new analysis, I have used only the Swiss wealth tax system since it seems to provide the most reasonable amount of revenue generated. Following the Swiss convention, thresholds and tax brackets are indexed to consumer price changes. Using the CPI-U, the new exemptions in 2016 are \$121,242 for married couples and \$73,611 for singles. The top bracket (the 0.30 percent range) now begins at \$2.4 million. A new restriction is now added such that the sum of income and wealth taxes cannot exceed total income.

The Swiss style wealth tax would have generated \$182.1 billion in extra tax revenue in 2016. This is 4.29 times greater than in 1989, considerably more than the 1.94 rise in the CPI. This also represents 1.0 percent of total personal income and 10.5 percent of total federal income tax revenue, up from 0.9 percent and 8 percent, respectively, in 1989 (see Table 6). This figure compares with actual U.S. personal income tax proceeds of \$1,546.1 billion in 2016, or 9.6 percent of total income. It also contrasts with total federal estate and gift taxes of about 20 billion dollars in 2016.<sup>17</sup> While 44 percent of families in 2016 would pay an additional wealth tax, only 20.0 percent of families would see their tax bill rise by more than \$200 and only 15.1 percent by more than \$500.

As in the 1989 simulations, the Swiss wealth tax system is generally progressive with respect to income, rising from 0.4 percent for the second lowest income class to 2.2 percent for the highest bracket. However, now the percentage increase in total taxes paid would also be generally higher for upper-income families than lower-income ones. Moreover, the fraction of

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<sup>16</sup> I used a different procedure than for the 1989 data. First, I updated the income data, which are for 2015, to 2016 dollars on the basis of the CPI-U (a factor of 1.01465). Second, federal income taxes for each household were computed on the basis of the NBER TAXSIM model, available at <http://users.nber.org/~taxsim/>. After the initial run, the estimation procedure could be calibrated. Total individual federal income taxes collected in 2016 amounted to \$1,546.1 billion (the source is the U.S. Council of Economic Advisors (2018), Table B-19). The tax estimation used here produced a total tax figure for all households of \$1,594.1 billion (a 3.1 percent discrepancy). The tax estimates were subsequently reduced by 1.3 percent to align with the actual figure.

<sup>17</sup> The sources for this section are: the U.S. Council of Economic Advisors (2018), Table B-19 and Bureau of Economic Analysis National Income and Product Accounts, available at <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey>.

families paying any wealth tax would rise with income level, from 15 percent for the lowest income bracket (under \$15,000 of income) to 100 percent for the highest income class (\$250,000 of income and over). The wealth tax is again highly progressive with respect to wealth. The only groups that would pay an additional one percent or more of income in federal taxes are the millionaires. Upper wealth families would also see a higher proportionate increase in total federal taxes paid. Very few families (only 4 percent) worth less than \$100,000 in net wealth would pay any wealth taxes, whereas virtually all families above this amount would wind up paying some wealth tax.

In terms of wealth tax incidence by demographic characteristic, the wealth tax would fall more heavily on older households than younger ones. Wealth tax rates on income would rise monotonically with age group, from 0.2 percent for the youngest age group (age 34 and under) to 2.4 percent for the oldest (age 70 and over), and wealth taxes as a percentage of income taxes would also increase with age, from 3.1 percent for the youngest age group to 24 percent for the oldest. The share of families paying a wealth tax would likewise rise with age, from 13 percent for the youngest to 68 percent for the oldest age group.

Under the Swiss wealth tax system, married couples would face a slightly higher tax rate than unmarried male (1.2 versus 1.1 percent) and female households would be taxed at the lowest rate (0.6 percent). A higher percentage of married couples (50 percent) would pay any wealth tax compared to unmarried male householders (36 percent) and unmarried female householders (36 percent). All three groups would see their overall tax bill grow by about the same percentage (between 8 and 9 percent).

As in the 1989 simulations, (non-Hispanic) white families would pay the highest wealth tax rate – 1.3 percent. The "other" racial group (mainly Asian Americans) would face the second highest rate (1.2 percent), followed by Hispanics and (non-Hispanic) African-Americans (0.3 percent). Whereas 53 percent of white families would pay some wealth tax, only 47 percent of others and 20 percent of Hispanic and African-American families would be subject to this tax. Whites and others would see about the same proportionate increase in their overall tax bill (9 percent), while Hispanics and African-Americans would see their total federal taxes rise by only five or six percent.

As in the 1989 simulations, the distributional effects of the tax system is measured by the change in the Gini coefficient. Among all families, the Gini coefficient for pretax income was

0.574 in 2016, while the Gini coefficient for income after income taxes was 0.532 (See Table 7). Adding the Swiss wealth tax to the personal income tax results in a further reduction of the Gini coefficient to only 0.528 (0.004 Gini point difference). The reason for this rather minimal effect, as in the 1989 simulations, is mainly the small amount of revenue generated by the Swiss-style wealth tax relative to income taxes (10.4 percent). The distributional effects of the Swiss-style wealth tax does vary by age group, family type, and race. The equalizing effects of the wealth tax exerts greater influence within older age groups than younger ones. The reduction in the Gini coefficient from adding the wealth tax to the income tax rises systematically with age, from 0.001 Gini points for the youngest group to 0.008 points for the oldest. The effects are stronger among married couples than unmarried individuals: among married couples, the Gini coefficient declines by 0.005 Gini points when wealth taxes are added to income taxes, compared to a decline of 0.004 among unmarried men and 0.001 among unmarried women. The equalizing effect is also larger among white and other (mainly Asian) families (a 0.004 point reduction in the Gini coefficient) than among blacks and Hispanics combined (0.001 Gini points).

**[Table 7 about here]**

I have been assuming that total net worth is the correct base for a wealth tax. It is true that most wealth taxes that have been employed use this (or some small variant) as the base. However, there are other possibilities which might be fairer or, at least, more politically palatable. Table 8 shows the effects of altering the tax base on wealth tax collections. The base case is net worth NW (excluding vehicles). It is first of interest to note the concentration of tax collections by socio-economic characteristic. The top income class, which comprised 4 percent of all households, would account for 66 percent of total wealth taxes, and the top two income classes, which amounted to 20 percent of all households, would pay 86 percent of the total tax bill. The top wealth class, 1.7 percent of all households, would pay 66 percent of all wealth taxes, and the top two, 3.7 percent of households, 80 percent of the total taxes. Age class 55-69, 26 percent of all families, would account for 46 percent of wealth taxes. Married couples, 57 percent of all households, would pay 85 percent of all taxes, and whites, 70 percent of households, would contribute 92 percent of tax revenues.

**[Table 8 about here]**

I alter the tax base in five ways. First, I exclude principal homes (and the associated mortgage) from the tax base. One rationale for this is that homes are already subject to a local

property tax. Total wealth tax revenues now fall by 17 percent. The lower income and wealth cases would get the most benefit (the largest percentage reduction in taxes owed), as would families over age 34, unmarried females, and non-whites. However, there is no perceptible effect on the after-income tax and wealth tax Gini coefficient.

Second, small businesses could be exempted from the wealth tax since they are particularly difficult to value (see Section 4) and their inclusion is likely to be opposed by a powerful interest group. This exclusion would cause the total tax bill to fall by 30 percent. The main beneficiaries would be upper income and wealth households (who own most of the businesses), as well as young families and, surprisingly, Hispanics. This restriction would result in a slight increase in the post-tax Gini coefficient (a 0.0014 change). Third, trust funds might be excluded since they are generally excluded from the estate tax base. The overall reduction in the wealth tax bill would be tiny – 3.8 percent. Once again the main beneficiaries would be upper income and wealth households, as well as the youngest and oldest age group, surprisingly unmarried females, and whites. This change, however, would have almost no effect on the post-tax Gini coefficient.

Fourth, IRAs, 401(k) plans, and other defined contribution pension plans might be eliminated from the tax base, since they are not taxed for income tax purposes. Overall, total wealth taxes would decline by 19 percent. The groups that would gain the most (that is, experience the greatest reduction in wealth taxes owed) are middle income and middle wealth families, age group 55-69, and whites. This restriction would cause the after-tax Gini coefficient to rise by a very small 0.0006 points. Finally, we might add defined benefit pension wealth to the base since this is an important component of augmented wealth. This would add 9 percent to the wealth tax intake. Middle income families would be hit hardest, as would lower wealth families, age groups 55 and over, unmarried females, and African-Americans (43 percent increase in wealth taxes). Overall, there is almost no effect on the after-tax Gini coefficient.

#### **4. The Warren Wealth Tax and Effects of Wealth Taxes on Wealth Inequality**

As noted above, Elizabeth Warren proposed a direct tax on household wealth in her presidential campaign. The structure is quite straightforward: There is a basic exemption of \$50,000,000 per family. The bottom bracket is 2.0 percent up to one billion dollars of net worth. The top bracket is 3.0 percent for one billion or more of net worth.

Let us first compare revenue effects. To do this, I first add data from the Forbes 400. In 2016, the combined wealth of the Forbes 400 is estimated to be 2.4 trillion dollars.<sup>18</sup> Total household wealth in that year for all households is 84.1 trillion dollars on the basis of the 2016 SCF. Thus, 2.86 percent of total wealth is excluded from the SCF. How does the inclusion of the Forbes 400 affect the estimate of total wealth tax revenue?

On the basis of the SCF data alone, the Swiss wealth tax would have yielded 182.1 billion dollars in 2016. Including the Forbes 400 raises the amount to \$189.3 billion, a rather small 4.0 percent increase (see Figure 1). The Warren wealth tax would have yielded \$231.4 billion excluding the Forbes 400 and \$303.4 billion including the Forbes 400. The Forbes 400 alone would have collectively paid \$72.0 billion, or 23.7 percent of the total tax revenue. Including the Forbes 400, the ratio of total tax revenue between the Warren tax and the Swiss tax is 1.60. Another notable difference between the two taxes is their incidence. Whereas 44.3 percent of all families would be subject to the Swiss wealth tax, only a tiny 0.07 percent would pay the Warren tax (see Figure 2).

**[Figure 1 and Figure 2 about here]**

What about the effect of these taxes on wealth inequality? The Gini coefficient for net worth based on the 2016 SCF data alone is 0.8771. The Gini coefficient drops to 0.8770 after applying the Swiss wealth tax and to 0.8768 after the Warren tax. In both cases, the effect is miniscule. When I now include the Forbes 400, the Gini coefficient for net worth rises to 0.8830 (see Figure 3). The Gini coefficient for net worth net of the Swiss wealth tax now falls by 0.0001 Gini points to 0.8828, almost exactly the same decline as before without the Forbes 400 included. Likewise, the Gini coefficient for net worth net of the Warren wealth tax declines by 0.0005 Gini points to 0.8825, also about the same reduction as before without the Forbes 400 included.

**[Figure 3 about here]**

## **5. Concluding remarks**

There has been a pronounced rise in wealth inequality since the early 1980s and particularly over the Great Recession. The most telling statistic is that virtually all the growth in (marketable) wealth between 1983 and 2016 accrued to the top 20 percent of households (see

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<sup>18</sup> The source is: [https://en.wikipedia.org/wiki/List\\_of\\_Americans\\_by\\_net\\_worth](https://en.wikipedia.org/wiki/List_of_Americans_by_net_worth).

Wolff, 2017, Chapter 2). Indeed, the bottom 40 percent of households saw their wealth decline in absolute terms. This was compounded by the stark reality of a growing proportion of households with zero or negative net worth.

What, if anything, should be done about this? If one policy goal is to moderate the rising inequality of recent years, direct taxation of wealth is one proposed remedy. This would compensate for the reduced progressivity of the income tax system. The years since 1980 witnessed falling marginal tax rates on income, particularly for the rich and very rich. The top marginal tax rate fell from 70 percent in 1980 to 35 percent in 2012, though it was since raised to 39.6 percent under President Obama.

What do the simulation results of Section 3 suggest regarding a Swiss-style wealth tax? First, the current personal income tax system of this country helps mitigate the disparities in earnings, but its overall effects are modest (indeed, they would probably appear even smaller if full information were available on itemized deductions and income adjustments). Second, the Swiss wealth tax system would increase total tax revenues (over and above the personal income tax) by only 10 percent in 2016 -- too small to have much distributional impact. Third, the wealth tax would fall proportionately more on older families than younger ones; more on married couples than singles; and more on whites and Asians than blacks and Hispanics. Moreover, the equalizing effects of the wealth tax would be greater among older families, married couples, and whites.

Fourth, the rather modest Swiss-style system would have yielded an additional \$189.3 billion of revenue in 2016, including the Forbes 400. In spite of the proposed tax's potency as a revenue-raising tool, in 2016 only 11 percent of families would have seen their federal tax bill rise by more than 10 percent and only 8 percent would have paid an additional \$500 or more of taxes. In conclusion, a direct wealth taxation system like Switzerland's could ease the country's budgetary strains and provide greater equity across generational, racial, and familial categories.

Besides its effects on equity and revenue, two other arguments have been advanced in support of a wealth tax. First, beyond considerations of overall ("vertical") equity, some have argued that a wealth tax can be justified in terms of "taxable capacity." Income alone is not a sufficient gauge of well-being or of the ability to pay taxes. The possession of wealth, over and above the income it yields directly, must be figured into the calculation. Two families with identical incomes but different levels of wealth are not equivalent in terms of their well-being,

since a wealthier family will have more independence, firmer security in times of economic stress (such as occasioned by unemployment, illness, or family breakup), and readier access to consumer credit. Greater wealth thus confers on the affluent family a larger capacity to pay taxes; in the interests of "horizontal equity," wealth should be taxed along with income.

A second argument is that an annual wealth tax may induce individuals to transfer their assets from less productive uses to more productive ones. A tax on wealth may provide an incentive to switch from low-yielding investments to high-yielding ones, in order to offset the additional taxes. For example, a wealth tax based on the market value of property might induce neglectful owners to seek to realize potential returns through development, renovation, or sale. Likewise, a wealth tax might induce individuals to seek more income-generating assets in place of conspicuous consumer durables such as luxury cars and yachts. A direct wealth tax has the added feature that it may inhibit the avoidance of income taxes by encouraging investors to switch assets into income-yielding forms.

It should be noted, too, that existing wealth taxation in this country works poorly. The estate tax has historically been an extremely porous tax. The thresholds have been raised over time (from \$50,000 in 1916, when the estate tax was first instituted, to \$60,000 in 1942, then to \$175,000 in 1981, to \$600,000 in 1987, and to \$5,250,000 for singles and \$10,500,000 for couples in 2016),<sup>19</sup> so that only a very small percentage of estates (typically on the order of 1 or 2 percent) have been subject to estate tax. The threshold is currently indexed to the CPI-U and will continue to rise over time.

Estate taxes on assets can even today be avoided altogether by setting up a trust fund with children or other desired "heirs" as beneficiaries (though provisions for such trusts were tightened up in the 1993 federal tax legislation). Moreover, gift exclusions allow a considerable amount of wealth to be passed on before death exempt from taxation. In addition, there are the usual problems of underreporting, valuation of assets, and compliance (how to value a family business?).

Finally, the estate tax system has a provision that capital gains on assets are essentially excluded from consideration. Normally, realized capital gains are counted as part of the taxable base in computing income taxes. However, if an asset is not sold and winds up in an estate, the

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<sup>19</sup> The ceiling was actually raised to \$100,000 in 1926 but then lowered back to \$50,000 in 1932.

capital gains are forgiven by the tax authorities. This loophole by itself probably more than equals the total revenue collected by the estate tax system. Given the history of estate taxes in this country and the vested interest of the wealthy in maintaining the current system (not to speak of the estate planners and lawyers who profit from the system), it may be easier politically to institute a new wealth tax than to try to revamp the existing estate tax regime. Indeed, we may want to consider abandoning the estate tax altogether in lieu of a wealth tax.

What are the counterarguments? Perhaps the strongest argument against direct wealth taxation is that it will inhibit savings and lower capital investment. One unavoidable implication of wealth taxation is that the (after-tax) return to capital will be lowered. By exerting a strong disincentive on the already low U.S. savings rate, it may simply encourage increased consumption. Another possibility is that a wealth tax, by lowering the after-tax rate of return on financial assets, may encourage families to invest in nonfinancial assets, such as certain forms of real estate, collectibles, precious metals, luxury items, and the like. The search for greater opacity to thwart the Internal Revenue Service could perversely result in shifting of household portfolios to unproductive uses; though, as suggested above, one can reasonably argue the opposite case -- that taxing both income-yielding and non-income-yielding forms of wealth will induce households to shift to higher-yielding assets.

One simple, though relatively crude, way of addressing this issue is to compare the average savings rates of countries with direct wealth taxes to those without such taxes. This was done in Wolff(1995).<sup>20</sup> On the basis of OECD national accounts data, within both sets of countries there was large variation in average household savings rates over the period 1980-1990.<sup>21</sup> Among those with a wealth tax, savings rates ranged from 4.0 percent in Spain to 10.5 percent in Switzerland. Among those without a wealth tax, figures ranged from 3.6 percent in the United Kingdom to 11.6 percent in Japan. The average savings rates among countries with a wealth tax was 8.0 percent, and that for countries without a wealth tax was 9.8 percent. Econometric analysis indicated that the presence of absence of a wealth tax is not a statistically significant factor in explaining the cross-country variation in savings rates.

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<sup>20</sup> There are currently too few countries with a wealth tax to replicate the earlier analysis.

<sup>21</sup> Organization for Economic Cooperation and Development (1992). Technically, the savings rates are for the sector grouping households, nonprofit institutions, and unincorporated businesses. The sample of countries includes all those listed in Table 13.1 except Denmark, Iceland, Ireland, Luxembourg, and Turkey.



A second potential problem stemming from a wealth tax is capital flight. By inserting a wedge between what an asset earns and what the owner receives, a tax understates the return in the owner's eyes and encourages the owner to look for higher returns elsewhere. This argument applies to every tax, however, and if capital indeed moved like quicksilver, it would render any taxation of capital and wealth all but impossible. The very fact that the wealth tax proposal presented below is based on the Swiss model suggests that capital flight is unlikely to be a serious concern. Like Switzerland, the United States is a safe haven for international wealth, a status unlikely to be threatened by the very low wealth tax rates suggested here.<sup>22</sup>

Elizabeth Warren's presidential campaign has stimulated new interest in a wealth tax. The statistics point to an enormous degree of inequality in household net worth in this country today, and an even greater degree in terms of household financial wealth. On the grounds of (horizontal) equity, a combination of annual income and the current stock of wealth provides a better gauge of the ability to pay taxes than income alone. Moreover, there is no evidence from other advanced economies that the imposition of a modest direct tax on household wealth has had a deleterious effect on personal savings or on overall economic growth. In fact, there are arguments to the contrary, that such a tax may induce a more efficient allocation of household wealth, toward more productive uses. Finally, the possibility that such a levy might promote capital flight is not borne out by the evidence.

A wealth tax modeled after the Swiss system might work as follows. The basic exclusion could begin at \$74,000 for singles and \$121,000 for married couples. The marginal tax structure might look as follows: 0.05 percent (applied to household wealth after the exclusion valued from 0 to \$179,999); 0.10 percent (from \$180,000 to \$479,999); 0.15 percent (from \$480,000 to \$967,999); 0.20 percent (from \$968,000 to \$1,689,999); 0.25 percent (from \$1,690,000 to \$2,399,999); and 0.30 percent (\$2,400,000 and above). As in the Swiss system, all household effects, pensions, and annuities would be excluded.<sup>23</sup> In addition, the rules would provide a \$30,000 exemption on automobiles (that is, only expensive cars would be subject to the tax).

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<sup>22</sup> Piketty (2014) has proposed a unified wealth tax across countries to address the problem of capital flight.

<sup>23</sup> Other, more subtle exclusions might be warranted as well. For example, provisions to protect old people living with low income in valuable family homes appear worthwhile. The law could, for example, postpone taxes on this wealth, incorporating them into estate taxes.

The wealth tax could be fully integrated with the personal income tax and the same tax form used for both. The family would be required to list the value of all assets and debts on a new subsidiary form (say, "Schedule W"). Verification of most of the assets and debts would be administratively easy to implement. Insofar as banks and other financial institutions provide records to the Internal Revenue Service (IRS) that list interest payments (Form 1099), such documents could be modified to include also the value of the interest-bearing accounts as of a certain date (say, December 31). A similar procedure could be applied to dividend forms. Moreover, financial institutions that provide the IRS with information on mortgage payments made by households could now add the value of the outstanding mortgage. Other types of loans (and loan payments) could be similarly recorded by these institutions. Insurance companies could provide the IRS with statements on the value of life insurance equity (they already send these to individuals).

The two main stumbling blocks are the current market value of owner-occupied housing (and other real estate) and the valuation of unincorporated businesses. For the former, there are several possible solutions, some of which are currently in use in other countries. The family could be asked to estimate the current market value (as is now done in household surveys). Alternatively, it could be asked to list the original purchase price and date of purchase, and the IRS could use a regional (or locale-specific) price index based on housing survey data to update the value. Another method would ask residents to provide the figure for assessed valuation of the property, and the IRS could provide a locale-specific adjustment factor, based on periodic survey data, to estimate current market value.

For unincorporated businesses, the simplest technique is to accumulate the value of individual assets invested in the business over time (these figures are already provided in Form C of the personal tax return). Another possibility is to capitalize the net profit figures (also provided on Form C), as the Swiss currently do.

Calculations show that such a tax structure would yield an average tax rate on *household wealth* (as of 2016) of 0.19 percent. Previous work indicates that the annual real rate of return on household wealth over the period from 1983 to 2016 averaged 3.10 percent per year (see Wolff, 2017, Chapter 3). Thus, the new tax regime would reduce the average yield on household assets by only 6.2 percent. Even the top marginal tax rate of 0.3 percent would reduce the average yield

on personal wealth by only 9.7 percent. These figures suggest that disincentive effects, if any, on personal savings would be very modest.

The Swiss wealth tax would affect a very small percentage of the population. Only 11 percent of American families would see their overall personal tax bill (combining income and wealth taxes) rise by more than 10 percent. Only 15 percent would pay \$500 or more of additional taxes. A full 56 percent would fall below the wealth tax threshold and would therefore be exempted from paying.

A substantial 189 billion dollars could have been raised from levying such a tax in 2016. This is not a large amount, representing 4.4 percent of total federal tax receipts. However, on the margin such additional revenue could be critical. The revenue from a wealth tax could be used to support many programs such as expanded welfare (TANF) coverage, Medicaid, Food Stamps, increased Unemployment Insurance coverage, higher EITC payouts, additional federal aid to education, and the like.

The proposed Warren wealth tax would raise more tax revenue than the Swiss tax – 303.4 billion versus 189.3 billion. Moreover, only 0.07 percent of American households would pay any wealth tax, compared to 44.3 percent with the Swiss tax. How do the Swiss and Warren wealth tax affect overall wealth inequality? On the basis of the Gini coefficient, there would be virtually no impact from either tax. Of course, the Gini coefficient by construction is not very sensitive to changes in the upper tail of the wealth distribution, particularly the very upper tail. It is much more sensitive to changes in the middle of the distribution. However, the main reason is that neither tax produces much tax revenue relative to total household wealth. So, if one objective of a wealth tax is to substantially reduce wealth inequality, neither of these taxes will achieve that objective.

One other point of comparison is with regard to the marginal tax rate. The top marginal tax rate for the Swiss tax is 0.3 percent in comparison to 3.0 percent for the Warren tax. As argued above, the top Swiss tax rate is not likely to induce much if any capital flight. However, the top rate for the Warren tax would reduce the after-tax rate of return on investments by 97 percent if top household received the average real rate of return of 3.10 percent per year on household wealth. This might be viewed by many very rich households as “confiscatory” and could induce considerable capital flight.

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**Table 1. Wealth Taxation Systems Among OECD Countries  
On Individual or Family Wealth Holdings, mid-1980s**

	<b>Direct Wealth Taxation</b>	<b>Transfer Tax at Death and on Gifts</b>	<b>Capital Gains Taxation</b>	<b>Wealth, Death, and Gift Tax Receipts as Percentage of Total Tax Revenue<sup>a</sup></b>
Australia	No	None	Income	0.01
Austria	Yes	Inheritance	None	0.51
Belgium	No	Inheritance	None	0.58
Canada	No	None	Income	0.03
Denmark	Yes	Inheritance	Separate	0.92
Finland	Yes	Inheritance	Income	0.50
France	1982-87	Inheritance	Income	0.85
Germany	Yes	Inheritance	None	0.42
Greece	No	Inheritance	None	0.94
Iceland	Yes	Inheritance	Income	--
Ireland	1975-77	Inheritance	Separate	0.30
Italy	No	Estate/ Inheritance	None	0.23
Japan	No	Inheritance	Income	1.19
Luxembourg	Yes	Inheritance	Income	0.51
Netherlands	Yes	Inheritance	None	0.94
New Zealand	No	Estate	None	0.19
Norway	Yes	Inheritance	Income	0.61
Portugal	No	Inheritance	None	0.83
Spain	Yes	Inheritance	Income	0.49
Sweden	Yes	Inheritance	Income	0.68
Switzerland	Yes	Estate/ Inheritance	Income	3.06
Turkey	No	Inheritance	Income	0.19
United Kingdom	No	Estate	None	0.64
United States	No	Estate	Income	0.77

Source: Organization for Economic Cooperation and Development (1988).  
a. Figures are for 1985.

**Table 2. Details of Direct Wealth Taxation Systems of Germany, Sweden, and Switzerland, mid-1980s**

	<b>Germany</b>	<b>Sweden</b>	<b>Switzerland</b>
<b>A. Thresholds</b>			
1. Single persons	\$33,000	\$56,000	\$34,000
2. Married couple, no children	\$57,000	\$56,000	\$56,000
3. Married couple, two children	\$129,000	\$56,000	\$56,000
<b>B. Tax Rate Schedules</b>	<b>Flat Rate of 0.5 %</b>	<b>1.5% (to \$28,000) 2.0% (next \$28,000) 2.5% (next \$140,000) 3.0% (over \$196,000)</b>	<b>0.05% (to \$83,000) 0.10% (next \$139,000) 0.15% (next \$225,000) 0.20% (next \$333,000) 0.25% (next \$333,000) 0.30%(over \$1,110,000)</b>
<b>C. Exclusions</b>	<b>Household Effects Automobiles Savings (up to \$4,600) Pensions/ Annuities Life Insurance (up to \$4,600) Unincorporated business (up to \$58,000; excess taxed at 75%)</b>	<b>Household Effects  Pensions/ Annuities Life Insurance</b>	<b>Household Effects  Pensions/ Annuities</b>
<b>D. Ceiling</b>	<b>none</b>	<b>75 percent up to \$50,000 of taxable income; 80 percent on excess.</b>	<b>none</b>

Source: Organization for Economic Cooperation and Development (1988).

**Table 3. U.S. Income Tax and New Wealth Taxes as a Percent of Family Income  
For Alternative Wealth Taxation Systems by Income Class,  
Wealth Class, Age Group, Family Type and Race, 1989**

	U.S. Income Tax	German Wealth Tax		Swedish Wealth Tax		Swiss Wealth Tax	
		Percentage of Income	Ratio to Income Tax	Percentage of Income	Ratio to Income Tax	Percentage of Income	Ratio to Income Tax
<b>All Families</b>	<b>11.4</b>	<b>1.7</b>	<b>0.15</b>	<b>8.4</b>	<b>0.74</b>	<b>0.9</b>	<b>0.08</b>
<b>A. Income Class</b>							
Under \$5,000	0.0	1.3	--	0.0	--	0.6	--
\$5,000-\$9,999	1.1	0.9	0.76	0.7	0.57	0.3	0.27
\$10,000-\$14,999	3.1	1.1	0.35	2.3	0.75	0.5	0.15
\$15,000-\$24,999	5.2	1.4	0.27	4.2	0.82	0.7	0.13
\$25,000-\$49,999	8.0	1.1	0.13	5.0	0.62	0.5	0.06
\$50,000-\$74,999	11.2	0.9	0.08	5.0	0.45	0.4	0.04
\$75,000-\$99,999	13.5	1.7	0.13	8.8	0.66	0.8	0.06
\$100,000 & over	17.1	3.0	0.18	15.7	0.92	1.7	0.10
<b>B. Wealth Class</b>							
Under \$25,000	7.2	0.0	0.00	0.0	0.00	0.0	0.00
\$25,000-\$49,999	8.3	0.0	0.00	0.0	0.00	0.0	0.00
\$50,000-\$74,999	9.2	0.1	0.02	0.4	0.05	0.2	0.02
\$75,000-\$99,999	9.4	0.3	0.03	1.4	0.15	0.5	0.05
\$100,000-\$249,999	10.8	0.7	0.07	4.2	0.39	0.4	0.04
\$250,000-\$499,999	12.9	1.8	0.14	10.3	0.80	0.4	0.03
\$500,000-\$999,999	14.4	3.1	0.22	17.8	1.24	1.0	0.07
\$1,000,000 & over	17.2	5.7	0.33	25.5	1.48	3.2	0.19
<b>C. Age Class</b>							
Under 35	9.2	0.5	0.05	2.3	0.25	0.3	0.03
35-54	12.3	1.2	0.09	6.6	0.54	0.6	0.05
55-69	11.9	3.2	0.27	14.6	1.22	1.5	0.13
70 and over	10.5	4.1	0.39	16.9	1.60	1.9	0.18
<b>D. Household Type</b>							
Married Couple	11.7	1.8	0.15	9.3	0.79	1.0	0.08
Males, Unmarried	12.3	1.5	0.12	5.9	0.48	0.7	0.05
Females, Unmarried	8.9	1.5	0.17	5.9	0.66	0.6	0.06
<b>E. Race</b>							
White	11.9	1.9	0.16	9.2	0.77	0.9	0.08
Non-White	8.7	0.9	0.10	3.9	0.44	0.5	0.05

Source: author's calculations from the 1989 Survey of Consumer Finances. See text for details on tax calculations.

**Table 4. Distributional Effects of Alternative Wealth Taxation Systems  
By Age Group, Family Type and Race, 1989**

	All	Age Group				Family Type			Race	
		18-34	35-54	55-69	70+	Married	Unmarried	Unmarried	White	Non-White
						Couple	Male	Female		
<b>A. Gini Coefficients for Income</b>										
Pre-Tax Income	0.521	0.441	0.477	0.568	0.568	0.473	0.529	0.451	0.504	0.525
Original Post-Tax Income	0.497	0.420	0.454	0.543	0.539	0.446	0.502	0.426	0.479	0.503
New Post-Income/ German Wealth Tax	0.495	0.421	0.451	0.537	0.534	0.442	0.501	0.424	0.477	0.503
New Post-Income/ Swedish Wealth Tax	0.476	0.414	0.434	0.505	0.487	0.421	0.487	0.415	0.458	0.490
New Post-Income/ Swiss Wealth Tax	0.495	0.420	0.452	0.539	0.536	0.444	0.502	0.425	0.477	0.503
<b>B. Gini Coefficients for Income<sup>a</sup></b>										
Pre-Tax Income*	0.544	0.453	0.499	0.599	0.603	0.500	0.549	0.468	0.526	0.542
Original Post-Tax Income*	0.527	0.435	0.482	0.583	0.586	0.481	0.528	0.449	0.509	0.524
New Post-Income*/ German Wealth Tax	0.522	0.433	0.478	0.577	0.578	0.475	0.524	0.445	0.504	0.521
New Post-Income*/ Swedish Wealth Tax	0.502	0.426	0.460	0.550	0.548	0.453	0.509	0.430	0.483	0.510
New Post-Income*/ Swiss Wealth Tax	0.524	0.434	0.480	0.580	0.582	0.478	0.526	0.447	0.506	0.522

Source: author's calculations from the 1989 SCF. See text for details on tax calculations.

a. Income\* is defined as family income plus 3.28 percent of family net worth.



**Table 5. Wealth Taxation Systems Among OECD Countries  
On Individual or Family Wealth Holdings, 2015**

	Direct Wealth Taxation	Transfer Tax at Death and on Gifts
Australia	No	None
Austria	No	None
Belgium	No	Inheritance
Canada	No	None
Denmark	No	Inheritance
Finland	No	Inheritance
France	Yes	Inheritance
Germany	No	Inheritance
Greece	No	Inheritance
Iceland	No	Inheritance
Ireland	No	Inheritance
Italy	No	Inheritance
Japan	No	Inheritance
Luxembourg	No	Inheritance
Netherlands	Yes <sup>a</sup>	Inheritance
New Zealand	No	None
Norway	Yes	None
Portugal	No	Inheritance
Spain	Yes	Inheritance
Sweden	No	None
Switzerland	Yes <sup>a</sup>	Estate/ Inheritance <sup>a</sup>
Turkey	No	Inheritance
United Kingdom	No	Estate
United States	No	Estate

Sources: (1) European Commission, *Cross-country Review of Taxes on Wealth and Transfers of Wealth*, available at:

[http://ec.europa.eu/taxation\\_customs/resources/documents/common/publications/studies/2014\\_eu\\_wealth\\_tax\\_project\\_finale\\_report.pdf](http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/2014_eu_wealth_tax_project_finale_report.pdf)

(2) [https://en.wikipedia.org/wiki/Wealth\\_tax](https://en.wikipedia.org/wiki/Wealth_tax)

(3) [https://en.wikipedia.org/wiki/Inheritance\\_tax](https://en.wikipedia.org/wiki/Inheritance_tax)

(4) <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-icelandhighlights-2015.pdf>

(5) <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-turkeyguide-2014.pdf>

a. Provincial (or canton) tax.

**Table 6. Original Income Tax and New Wealth Taxes Modeled After the Swiss System  
By Income Class, Wealth Class, Age Group, Family Type and Race, 2016**

	Ratio of Income Tax to Family Income (percentage)	Swiss Wealth Tax		Percent of Families Paying Wealth Tax
		Percentage of Income	Ratio to Income Tax	
<b>All Families</b>	<b>9.6</b>	<b>1.0</b>	<b>0.10</b>	<b>44.3</b>
<b>A. Income Class</b>				
Under \$15,000	-3.1	2.0	--	14.6
\$15,000-\$24,999	-3.2	0.4	--	23.7
\$25,000-\$49,999	1.6	0.2	0.14	32.7
\$50,000-\$74,999	5.9	0.4	0.06	46.3
\$75,000-\$99,999	7.6	0.5	0.07	58.2
\$100,000-\$249,999	11.5	0.9	0.07	77.8
\$250,000 & over	23.4	2.2	0.10	98.1
<b>B. Wealth Class</b>				
Under \$100,000	4.7	0.0	0.00	3.6
\$100,000-\$249,999	7.6	0.0	0.01	89.6
\$250,000-\$499,999	9.1	0.2	0.02	100.0
\$500,000-\$749,999	10.3	0.7	0.07	100.0
\$750,000-\$999,999	11.6	0.9	0.08	100.0
\$1,000,000-\$2,499,999	14.5	1.0	0.07	100.0
\$2,500,000-\$4,999,999	20.7	2.1	0.10	100.0
\$5,000,000 & over	25.1	3.8	0.15	100.0
<b>C. Age Class</b>				
Under 35	5.8	0.2	0.03	13.1
35-54	13.6	0.8	0.06	40.9
55-69	14.7	1.6	0.11	59.4
70 and over	10.0	2.4	0.24	67.7
<b>D. Household Type</b>				
Married Couple	13.4	1.2	0.09	50.4
Males, Unmarried	13.6	1.1	0.08	36.3
Females, Unmarried	6.8	0.6	0.09	36.1
<b>E. Race or Ethnicity</b>				
White	13.8	1.3	0.09	52.9
African-American	5.4	0.3	0.05	19.8
Hispanic	5.0	0.3	0.06	20.4
Other	12.4	1.2	0.09	46.8

Source: author's calculations from the 2016 SCF. The figures are based on the Swiss tax schedule as spelled out in Table 2 except that the brackets have been updated to 2016 dollars on the basis of the CPI-U.

**Table 7. Distributional Effects of the Swiss Wealth Taxation System  
By Age Group, Family Type and Race, 2016**  
(Gini coefficients)

	All	Age Group				Family Type			Race	
		18-34	35-54	55-69	70+	Married	Unmarried	Unmarried	Whites & Others	Blacks & Hispanics
						Couple	Male	Female		
<b>Pre-Tax Income</b>	<b>0.574</b>	<b>0.439</b>	<b>0.548</b>	<b>0.612</b>	<b>0.574</b>	<b>0.538</b>	<b>0.575</b>	<b>0.438</b>	<b>0.578</b>	<b>0.437</b>
<b>Original Post- Tax Income</b>	<b>0.532</b>	<b>0.407</b>	<b>0.504</b>	<b>0.572</b>	<b>0.537</b>	<b>0.491</b>	<b>0.530</b>	<b>0.404</b>	<b>0.537</b>	<b>0.403</b>
<b>New Post-Income/ Swiss Wealth Tax</b>	<b>0.528</b>	<b>0.406</b>	<b>0.501</b>	<b>0.568</b>	<b>0.528</b>	<b>0.487</b>	<b>0.525</b>	<b>0.403</b>	<b>0.533</b>	<b>0.401</b>

Source: author's calculations from the 2016 SCF. See text for details on tax calculations.

**Table 8. Percentage Change in Total Wealth Tax Collection from Changes in the Wealth Tax Base, 2016**

	Baseline Total Wealth Tax Revenue (billions)	Exclude:				Add: Defined Benefit Pension Wealth
		Home Equity on Principal Home	Businesses	Trust Funds	Defined Contribution Pension Plans	
<b>All Families</b>	<b>\$182.1</b>	<b>-17.0</b>	<b>-29.9</b>	<b>-3.8</b>	<b>-19.1</b>	<b>9.1</b>
<b>A. Income Class</b>						
Under \$15,000	\$3.6	-17.5	-59.0	-0.2	-3.9	1.4
\$15,000-\$24,999	1.7	-40.8	-20.0	-1.6	-13.7	8.8
\$25,000-\$49,999	3.7	-47.3	-8.7	-2.3	-22.5	43.6
\$50,000-\$74,999	6.1	-30.7	-16.4	-3.7	-28.3	35.1
\$75,000-\$99,999	7.7	-28.9	-16.9	-0.1	-30.8	25.7
\$100,000-\$249,999	33.1	-22.6	-19.6	-3.8	-30.6	19.7
\$250,000 & over	107.1	-12.2	-34.8	-4.3	-14.7	2.2
<b>B. Wealth Class</b>						
Under \$100,000	\$0.0	-68.5	-2.7	0.0	-44.5	--
\$100,000-\$249,999	0.8	-71.5	-5.9	-0.4	-37.4	223.8
\$250,000-\$499,999	2.8	-60.5	-5.8	-1.8	-40.9	123.7
\$500,000-\$749,999	5.9	-57.9	-10.5	-1.9	-47.9	31.7
\$750,000-\$999,999	6.0	-40.9	-10.3	-2.4	-42.7	13.6
\$1,000,000-\$2,499,999	16.6	-23.9	-12.7	-1.7	-32.1	17.2
\$2,500,000-\$4,999,999	23.7	-25.0	-24.0	-2.1	-28.8	6.0
\$5,000,000 & over	107.2	-9.0	-36.9	-4.8	-11.3	1.0
<b>C. Age Class</b>						
Under 35	3.0	-12.3	-54.3	-9.5	-5.7	1.4
35-54	47.2	-17.7	-42.9	-3.0	-15.9	4.3
55-69	74.7	-16.9	-25.5	-2.8	-22.2	11.8
70 and over	38.1	-16.8	-20.7	-6.3	-18.1	10.3
<b>D. Household Type</b>						

<b>Married Couple</b>	<b>138.0</b>	<b>-16.2</b>	<b>-30.3</b>	<b>-3.2</b>	<b>-19.8</b>	<b>8.5</b>
<b>Males, Unmarried</b>	<b>14.9</b>	<b>-15.4</b>	<b>-38.0</b>	<b>-5.5</b>	<b>-11.8</b>	<b>7.2</b>
<b>Females, Unmarried</b>	<b>10.2</b>	<b>-29.8</b>	<b>-12.8</b>	<b>-9.9</b>	<b>-20.6</b>	<b>19.8</b>
<b>E. Race or Ethnicity</b>						
<b>White</b>	<b>150.2</b>	<b>-16.5</b>	<b>-28.8</b>	<b>-4.0</b>	<b>-19.6</b>	<b>8.8</b>
<b>African-American</b>	<b>2.5</b>	<b>-19.0</b>	<b>-46.1</b>	<b>-3.0</b>	<b>-18.5</b>	<b>43.4</b>
<b>Hispanic</b>	<b>2.2</b>	<b>-24.1</b>	<b>-58.2</b>	<b>-2.4</b>	<b>-8.1</b>	<b>6.2</b>
<b>Other</b>	<b>8.1</b>	<b>-24.1</b>	<b>-39.0</b>	<b>-0.3</b>	<b>-13.5</b>	<b>4.8</b>
<b>Memo: Post-Income and Wealth Tax Gini Coeff. for all Households</b>	<b>0.528</b>	<b>0.528</b>	<b>0.529</b>	<b>0.528</b>	<b>0.529</b>	<b>0.528</b>

**Source: author's calculations from the 2016 SCF. The figures are based on the Swiss tax schedule whose brackets have been updated to 2016 dollars on the basis of the CPI-U.**

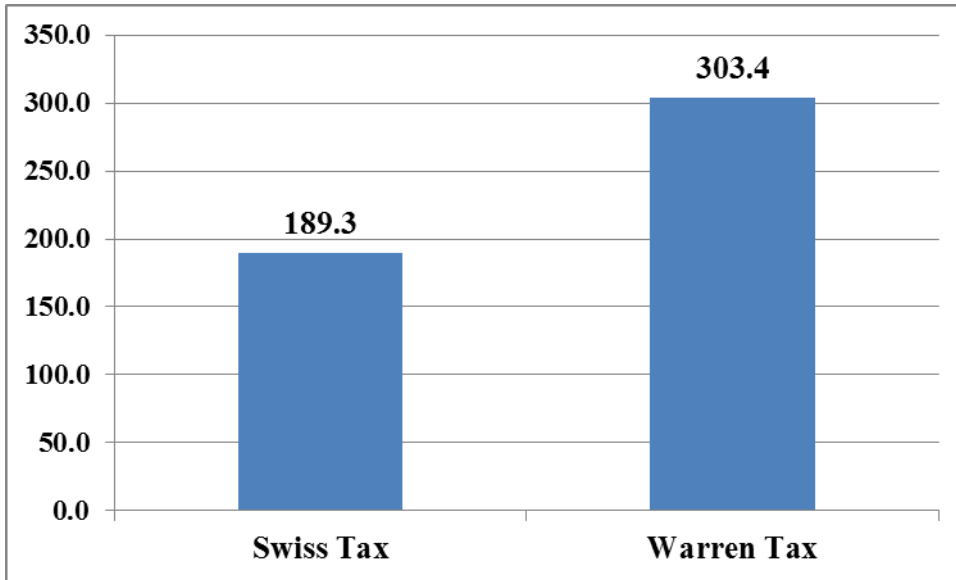


Figure 1. Total Tax Revenue in 2016 including the Forbes 400 [in billions, 2016\$]

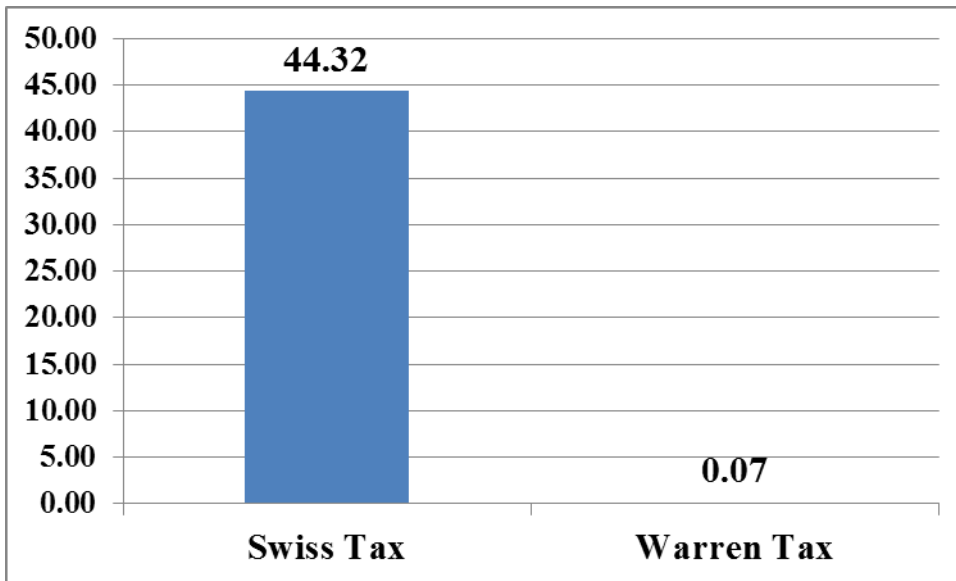


Figure 2. Tax Incidence: The Percentage of Households Paying a Wealth Tax

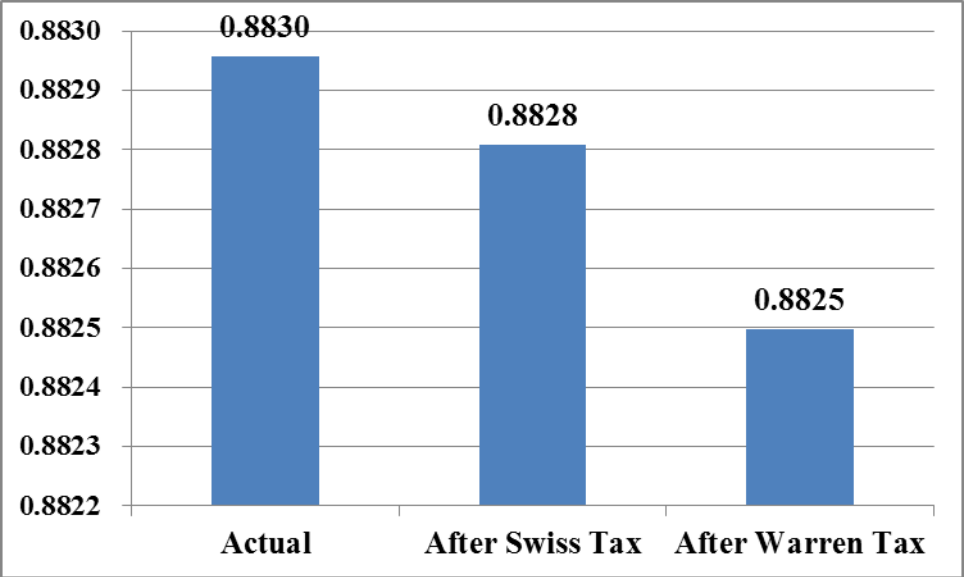


Figure 3. Gini Coefficients in 2016 including the Forbes 400