The Daily Dish

The Warren Wealth Tax

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Eakinomics: The Warren Wealth Tax

Media reports indicate that presumptive 2020 presidential candidate Elizabeth Warren will propose a tax on the wealth of affluent Americans. Specifically, “Ms. Warren’s so-called ultramillionaire tax would levy a 2 percent annual tax on all assets — including stocks, real estate and retirement funds, held either in the United States or abroad — owned by households with a net worth of $50 million or more. It would add an additional 1 percent ‘billionaire surtax’ on households with net worth exceeding $1 billion, a group that includes President Trump. No assets would be exempt. The plan also calls for increased spending at the Internal Revenue Service to ensure that Americans are not evading the tax. And it would impose an ‘exit tax’ on those seeking to avoid the wealth tax by renouncing their American citizenship.”

How should one think about this proposal?

From a policy perspective, there are a number of issues. To begin, setting up an entirely new tax is a hefty undertaking. This tax, in particular, appears to be difficult to set up and administer, costly to comply with, and perhaps illegal.The tax would be based on the ownership of wealth, which provides clear incentives to shift ownership to children and other relatives, and otherwise dodge the tax. It also requires accurate valuation of wealth. That might be easy enough for broadly traded assets like stocks, but how much is your Renoir worth this year? Next, while the tax is aimed at a relative handful of Americans, everyone would have to comply and file if only to prove they have no liability. Finally, the tax may not be constitutional, which requires that direct taxes be apportioned among the states on the basis of population. The wealth tax would be apportioned based on, well, wealth. (The income tax became legal only through the passage of the 16th Amendment.)

An alternative approach would be to disguise the wealth tax as a tax on the return to wealth. For example, if the rate of return to invested wealth is 5 percent, the 3 percent tax on the 2nd billion dollars (which raises $30 million) is the same as a 60 percent tax on the $50 million of earnings (which also raises $30 million). Put differently, it would be a sharply higher capital income tax on a very narrow base. This also seems misguided. From a policy perspective, it makes more sense to first broaden the base as much as possible to raise needed revenue. Only if that is insufficient should rates be pushed north.

Justice Oliver Wendell Holmes once said “Taxes are the price we pay for civilized society.” The policy analysis follows from the notion that taxes are not good in and of themselves, but rather are needed to finance beneficial programs. Accordingly, the economic cost of those taxes should be kept as low as possible. The politics of the Warren proposal are a very different proposition. There is no spending program that needs financing and provides benefits that offset the costs of the tax. Instead, the sole goal appears to be simply to make affluent Americans worse off.