Taxing Wealth

In a new book titled *Tackling the Tax Code: Efficient and Equitable Ways to Raise Revenue*, The Hamilton Project offers a range of detailed proposals by leading economists and other experts for better tax policies that can raise revenue in a progressive and growth-friendly manner. Included in the book is a proposal by Greg Leiserson of the Washington Center for Equitable Growth, which aims to raise revenue by taxing capital progressively.

Specifically, Leiserson's proposal describes four alternatives for taxing wealth. These alternatives include a 2 percent annual wealth tax (above a threshold) or accrual taxation at ordinary income tax rates of increases in the level of wealth (above a threshold) with:

- Annual valuation of accrued gains in non-traded assets; or
- A deferral charge and taxation upon sale of non-traded assets.

Issue Overview

- **The federal government needs to raise revenues to meet existing and future federal commitments.** In light of both existing spending commitments and the potential benefits of additional spending in a variety of areas, the federal government should raise additional revenues.
- **Structural weaknesses in the tax code lead to insufficient and inefficient taxation of the income earned from wealth.** The ability to defer tax on investment gains without paying interest is a primary limitation of current capital income taxation.
- **Well-designed wealth taxes could raise an estimated $3 trillion over the next decade.** Such revenue could be used to lower the debt, reduce inequality, and invest in important social programs.

The Challenge

The United States raises insufficient revenue to meet its growing fiscal challenges. At the same time, the U.S. has high levels of income and wealth inequality, in part because of shortcomings in how the United States taxes concentrated income and wealth. Many of these shortcomings derive from the tax code's intense incentives to defer realization of capital income. Preferential tax rates on long-term capital gains and dividends, stepped-up basis of assets at death, and taxpayers' ability to defer tax on investment gains (without interest) all compromise the taxation of income from wealth.

Recently, some advocates have called for a tax on wealth in order to address these problems. Comprehensive wealth taxes are not part of the standard U.S. tax policy toolkit, and as such they present implementation challenges that are sometimes unfamiliar. For example, the difficulty of conducting annual valuation of non-traded assets is often discussed. The author describes these challenges and shows how they can be addressed.

The Path Forward

To raise revenue and more effectively tax income from wealth, Greg Leiserson discusses four potential approaches to taxing wealth:

- **Approach 1:** A 2 percent annual wealth tax above $25 million ($12.5 million for individual filers).
- **Approach 2:** A 2 percent annual wealth tax with realization-based taxation of non-traded assets for taxpayers with more than $25 million ($12.5 million for individual filers).
- **Approach 3:** Accrual taxation of investment income at ordinary tax rates for taxpayers with more than $16.5 million in gross assets ($8.25 million for individual filers).
- **Approach 4:** Accrual taxation at ordinary tax rates with realization-based taxation of non-traded assets for those with more than $16.5 million in gross assets ($8.25 million for individual filers).

The two key dimensions on which the approaches vary are (1) taxation of wealth levels versus changes in wealth (i.e., accrual taxation), and (2) taxation of non-traded assets when sold versus annual valuation of those assets.

1. Approaches 1 and 2 tax the level of wealth that an individual has in a given year. By contrast, Approaches 3 and 4 tax the gains/losses that an individual experiences in the course of a year.
2. Approaches 1 and 3 require annual valuation of non-traded assets like privately held businesses. This is potentially difficult to accomplish but removes the taxpayer incentive to delay sales of assets. By contrast, Approaches 2 and 4 do not require annual valuation of non-traded assets, using instead a deferral charge that attempts to extinguish the taxpayer incentive to delay asset sales.

The author does not argue that one of these four approaches is clearly preferable, but instead provides policymakers and the public with the relevant design considerations for implementing wealth taxation.

About the Author

Greg Leiserson is the Director of Tax Policy and Chief Economist at the Washington Center for Equitable Growth.