Growing income concentration

- Driven by labor incomes
- Capital incomes and wealth concentration more controversial...
- ...though in any case likely to follow
- Changing composition of the top groups
Top 1% income and earnings share

Sources: income — updated series from Piketty and Saez (QJE, 2003); earnings — Kopczuk, Saez and Song (QJE, 2010).
Context: changes in income and wealth concentration

- Growing income concentration
- Driven by labor incomes
  - Capital incomes and wealth concentration more controversial...
  - ...though in any case likely to follow
- Changing composition of the top groups
Top 1% income and earnings share

Sources: income — updated series from Piketty and Saez (QJE, 2003); earnings — Kopczuk, Saez and Song (QJE, 2010).
Earnings of Top 1% vs Earnings of Next 9%

Sources: income — updated series from Piketty and Saez (QJE, 2003); earnings — Kopczuk, Saez and Song (QJE, 2010).
Context: changes in income and wealth concentration

- Growing income concentration
- Driven by labor incomes
- Capital incomes and wealth concentration more controversial...
  - ...though in any case likely to follow
- Changing composition of the top groups
Top 1% wealth share

Sources: SCF — Roine and Waldenström (2014); estates — Kopczuk and Saez (2004); capitalization — Saez and Zucman (2014)
Top 0.1% wealth share

Sources: SCF — Roine and Waldenström (2014); estates — Kopczuk and Saez (2004); capitalization — Saez and Zucman (2014)
Decomposition of Capitalization Top 0.1% Wealth Share

Sources: SCF — Roine and Waldenström (2014); estates — Kopczuk and Saez (2004); capitalization — Saez and Zucman (2014)
Context: changes in income and wealth concentration

- Growing income concentration
- Driven by labor incomes
- Capital incomes and wealth concentration more controversial...
- ...though in any case likely to follow
- Changing composition of the top groups
Top 10% wealth share

Sources: SCF — Roine and Waldenström (2014); estates — Kopczuk and Saez (2004); capitalization — Saez and Zucman (2014)
Growing income concentration
Driven by labor incomes
Capital incomes and wealth concentration more controversial...
...though in any case likely to follow
Changing composition of the top groups
Share of women at the very top of wealth distribution

Source: Edlund and Kopczuk (2009)

<table>
<thead>
<tr>
<th>Year</th>
<th>#Women</th>
<th>%Women</th>
<th>Total</th>
<th>Women</th>
<th>Men</th>
<th>Total</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>73</td>
<td>0.18</td>
<td>143</td>
<td>65</td>
<td>78</td>
<td>0.36</td>
<td>0.89</td>
<td>0.24</td>
</tr>
<tr>
<td>1983</td>
<td>75</td>
<td>0.19</td>
<td>142</td>
<td>68</td>
<td>74</td>
<td>0.36</td>
<td>0.91</td>
<td>0.23</td>
</tr>
<tr>
<td>1984</td>
<td>68</td>
<td>0.17</td>
<td>135</td>
<td>61</td>
<td>74</td>
<td>0.34</td>
<td>0.90</td>
<td>0.22</td>
</tr>
<tr>
<td>1985</td>
<td>84</td>
<td>0.18</td>
<td>159</td>
<td>76</td>
<td>83</td>
<td>0.34</td>
<td>0.90</td>
<td>0.22</td>
</tr>
<tr>
<td>1986</td>
<td>89</td>
<td>0.19</td>
<td>150</td>
<td>77</td>
<td>73</td>
<td>0.32</td>
<td>0.87</td>
<td>0.19</td>
</tr>
<tr>
<td>1987</td>
<td>88</td>
<td>0.18</td>
<td>143</td>
<td>74</td>
<td>69</td>
<td>0.29</td>
<td>0.84</td>
<td>0.17</td>
</tr>
<tr>
<td>1988</td>
<td>66</td>
<td>0.14</td>
<td>107</td>
<td>52</td>
<td>55</td>
<td>0.23</td>
<td>0.79</td>
<td>0.14</td>
</tr>
<tr>
<td>1989</td>
<td>67</td>
<td>0.14</td>
<td>114</td>
<td>51</td>
<td>63</td>
<td>0.24</td>
<td>0.76</td>
<td>0.16</td>
</tr>
<tr>
<td>1990</td>
<td>70</td>
<td>0.16</td>
<td>109</td>
<td>51</td>
<td>58</td>
<td>0.24</td>
<td>0.73</td>
<td>0.15</td>
</tr>
<tr>
<td>1991</td>
<td>74</td>
<td>0.16</td>
<td>110</td>
<td>51</td>
<td>59</td>
<td>0.24</td>
<td>0.69</td>
<td>0.16</td>
</tr>
<tr>
<td>1992</td>
<td>70</td>
<td>0.16</td>
<td>107</td>
<td>49</td>
<td>58</td>
<td>0.24</td>
<td>0.70</td>
<td>0.15</td>
</tr>
<tr>
<td>1993</td>
<td>73</td>
<td>0.16</td>
<td>104</td>
<td>49</td>
<td>55</td>
<td>0.23</td>
<td>0.67</td>
<td>0.15</td>
</tr>
<tr>
<td>1994</td>
<td>76</td>
<td>0.17</td>
<td>105</td>
<td>50</td>
<td>55</td>
<td>0.23</td>
<td>0.66</td>
<td>0.15</td>
</tr>
<tr>
<td>1995</td>
<td>75</td>
<td>0.17</td>
<td>96</td>
<td>46</td>
<td>50</td>
<td>0.21</td>
<td>0.61</td>
<td>0.13</td>
</tr>
<tr>
<td>1996</td>
<td>76</td>
<td>0.17</td>
<td>99</td>
<td>47</td>
<td>52</td>
<td>0.22</td>
<td>0.62</td>
<td>0.14</td>
</tr>
<tr>
<td>1997</td>
<td>73</td>
<td>0.16</td>
<td>91</td>
<td>42</td>
<td>49</td>
<td>0.20</td>
<td>0.58</td>
<td>0.13</td>
</tr>
<tr>
<td>1998</td>
<td>69</td>
<td>0.15</td>
<td>87</td>
<td>40</td>
<td>47</td>
<td>0.19</td>
<td>0.58</td>
<td>0.12</td>
</tr>
<tr>
<td>1999</td>
<td>67</td>
<td>0.14</td>
<td>84</td>
<td>37</td>
<td>47</td>
<td>0.18</td>
<td>0.55</td>
<td>0.12</td>
</tr>
<tr>
<td>2000</td>
<td>49</td>
<td>0.12</td>
<td>58</td>
<td>24</td>
<td>34</td>
<td>0.14</td>
<td>0.49</td>
<td>0.10</td>
</tr>
<tr>
<td>2001</td>
<td>47</td>
<td>0.12</td>
<td>60</td>
<td>25</td>
<td>35</td>
<td>0.15</td>
<td>0.53</td>
<td>0.10</td>
</tr>
<tr>
<td>2002</td>
<td>49</td>
<td>0.12</td>
<td>58</td>
<td>26</td>
<td>32</td>
<td>0.14</td>
<td>0.53</td>
<td>0.09</td>
</tr>
<tr>
<td>2003</td>
<td>52</td>
<td>0.13</td>
<td>66</td>
<td>30</td>
<td>36</td>
<td>0.16</td>
<td>0.58</td>
<td>0.10</td>
</tr>
</tbody>
</table>

Ways to tax wealth

- Tax income from wealth, i.e. capital income
- Annual wealth tax
- Taxation of transfers (gifts, estates, inheritances)
- Taxes imposed on specific categories of assets (e.g. real estate)
Ways to tax wealth

- Tax income from wealth, i.e. capital income
- Annual wealth tax
  - Taxation of transfers (gifts, estates, inheritances)
  - Taxes imposed on specific categories of assets (e.g. real estate)
Ways to tax wealth

- Tax income from wealth, i.e. capital income
- Annual wealth tax
- Taxation of transfers (gifts, estates, inheritances)
- Taxes imposed on specific categories of assets (e.g. real estate)
Ways to tax wealth

- Tax income from wealth, i.e. capital income
- Annual wealth tax
- Taxation of transfers (gifts, estates, inheritances)
- Taxes imposed on specific categories of assets (e.g. real estate)
Some tax identities

Tax on labor income

\[ C_1 + \frac{1}{1+r} C_2 = (1 - t^L)w_1 L_1 + (1 - t^L) \frac{1}{1+r} w_2 L_2 \]

is the same as tax on consumption with \( 1 - t^C = \frac{1}{1-t^L} \)

\[ (1 - t^C) C_1 + (1 - t^C) \frac{1}{1+r} C_2 = w_1 L_1 + \frac{1}{1+r} w_2 L_2 \]

Capital income tax is different because it distorts intertemporal prices

\[ C_1 + \frac{1}{1 + r(1 - t^K)} C_2 = (1 - t^L)w_1 L_1 + (1 - t^L) \frac{1}{1 + r(1 - t^K)} w_2 L_2 \]

Current income tax — labor and capital taxation
Some tax identities

Tax on labor income

\[ C_1 + \frac{1}{1 + r} C_2 = (1 - t^L)w_1 L_1 + (1 - t^L) \frac{1}{1 + r} w_2 L_2 \]

is the same as tax on consumption with \( 1 - t^C = \frac{1}{1 - t^L} \)

\[ (1 - t^C) C_1 + (1 - t^C) \frac{1}{1 + r} C_2 = w_1 L_1 + \frac{1}{1 + r} w_2 L_2 \]

Capital income tax is different because it distorts intertemporal prices

\[ C_1 + \frac{1}{1 + r(1 - t^K)} C_2 = (1 - t^L)w_1 L_1 + (1 - t^L) \frac{1}{1 + r(1 - t^K)} w_2 L_2 \]

Current income tax — labor and capital taxation
Some tax identities

Tax on labor income

\[ C_1 + \frac{1}{1+r} C_2 = (1 - t^L)w_1 L_1 + (1 - t^L)\frac{1}{1+r} w_2 L_2 \]

is the same as tax on consumption with \( 1 - t^C = \frac{1}{1-t^L} \)

\[ (1 - t^C)C_1 + (1 - t^C)\frac{1}{1+r} C_2 = w_1 L_1 + \frac{1}{1+r} w_2 L_2 \]

Capital income tax is different because it distorts intertemporal prices

\[ C_1 + \frac{1}{1+r(1-t^K)} C_2 = (1 - t^L)w_1 L_1 + (1 - t^L)\frac{1}{1+r(1-t^K)} w_2 L_2 \]

Current income tax — labor and capital taxation
Some tax identities

Tax on labor income

\[ C_1 + \frac{1}{1+r} C_2 = (1 - t^L)w_1 L_1 + (1 - t^L)\frac{1}{1+r} w_2 L_2 \]

is the same as tax on consumption with \( 1 - t^C = \frac{1}{1-t^L} \)

\[ (1 - t^C)C_1 + (1 - t^C)\frac{1}{1+r} C_2 = w_1 L_1 + \frac{1}{1+r} w_2 L_2 \]

Capital income tax is different because it distorts intertemporal prices

\[ C_1 + \frac{1}{1+r(1-t^K)} C_2 = (1 - t^L)w_1 L_1 + (1 - t^L)\frac{1}{1+r(1-t^K)} w_2 L_2 \]

Current income tax — labor and capital taxation
Where is wealth here?

\[ W_1 = (1 - t^L)w_1 L_1 - C_1 + W_0 \]

and

\[ C_2 + B = W_1 \cdot (1 + r(1 - t^K)) + (1 - t^L)w_2 L_2 \]

Tax on capital income is a tax on wealth people accumulate over their lifetime.

Initial wealth and bequests are conceptually different (and closely related) — they break equivalence between labor and consumption taxes.

Switching to consumption tax imposes a tax on initial wealth.

A tax on consumption without bequest tax encourages bequests (though it depends on the extent to which we can think of them just as consumption of future generations).
Adding wealth and bequests

Where is wealth here?

\[ W_1 = (1 - t^L)w_1L_1 - C_1 + W_0 \]

and

\[ C_2 + B = W_1 \cdot (1 + r(1 - t^K)) + (1 - t^L)w_2L_2 \]

Tax on capital income is a tax on wealth people accumulate over their lifetime.

Initial wealth and bequests are conceptually different (and closely related) — they break equivalence between labor and consumption taxes.

Switching to consumption tax imposes a tax on initial wealth.

A tax on consumption without bequest tax encourages bequests (though it depends on the extent to which we can think of them just as consumption of future generations).
Adding wealth and bequests

Where is wealth here?

\[ W_1 = (1 - t^L)w_1L_1 - C_1 + W_0 \]

and

\[ C_2 + B = W_1 \cdot (1 + r(1 - t^K)) + (1 - t^L)w_2L_2 \]

Tax on capital income is a tax on wealth people accumulate over their lifetime.

Initial wealth and bequests are conceptually different (and closely related) — they break equivalence between labor and consumption taxes.

Switching to consumption tax imposes a tax on initial wealth.

A tax on consumption without bequest tax encourages bequests (though it depends on the extent to which we can think of them just as consumption of future generations).
Adding wealth and bequests

Where is wealth here?

\[ W_1 = (1 - t^L)w_1 L_1 - C_1 + W_0 \]

and

\[ C_2 + B = W_1 \cdot (1 + r(1 - t^K)) + (1 - t^L)w_2 L_2 \]

Tax on capital income is a tax on wealth people accumulate over their lifetime.

Initial wealth and bequests are conceptually different (and closely related) — they break equivalence between labor and consumption taxes.

Switching to consumption tax imposes a tax on initial wealth.

A tax on consumption without bequest tax encourages bequests (though it depends on the extent to which we can think of them just as consumption of future generations)
Where is wealth here?

\[ W_1 = (1 - t^L)w_1L_1 - C_1 + W_0 \]

and

\[ C_2 + B = W_1 \cdot (1 + r(1 - t^K)) + (1 - t^L)w_2L_2 \]

Tax on capital income is a tax on wealth people accumulate over their lifetime.

Initial wealth and bequests are conceptually different (and closely related) — they break equivalence between labor and consumption taxes.

Switching to consumption tax imposes a tax on initial wealth.

A tax on consumption without bequest tax encourages bequests (though it depends on the extent to which we can think of them just as consumption of future generations)
Optimal tax policy

- More inequality $\Rightarrow$ increased redistribution
- Standard optimal taxation argument: use labor income tax for redistribution
- Why? Labor income ($wL$) directly tied to skills ($w$) that are the source of differences between individuals
- Using other information (taxing other things, $C$) useful if it provides information about skills that labor income does not provide. Not useful if consumption depends on skills only via income ($C(wL)$).
Why tax capital income (or perhaps wealth) if labor income can be taxed?

- endogenous saving with over life-cycle or with infinite horizon (Chamley-Judd, Straub-Werning; controversy)
- interaction of saving with work incentives (New Dynamic Public Finance), not about the top of the distribution
- taxation of inheritances — heterogeneity beyond skills, incentive effects on recipients, strength of behavioral response, negative externalities from wealth concentration
- backstop to tax avoidance
Why (not) have annual wealth tax?

- Capital income vs wealth tax
- Implementation problems:
  - valuation issues
  - liquidity
- But perhaps it captures assets that don’t generate income (though, in practice, these turn out to be the assets that are hard to observe and/or value)
- Few countries have it (France, Norway); some repealed it (Denmark, Sweden); practical experience not encouraging
Tax on capital income vs annual tax on wealth

- Wealth of $W$, rate of return $r$
  - Tax on wealth $\tau^W \cdot (1 + r)W$, tax on capital income $\tau^K \cdot rW$
  - When $\tau^W = \tau^K \cdot \frac{r}{1+r}$, these two taxes collect the same revenue
  - For example, when $\tau^K = 0.2$ and $r = 0.05$, “equivalent” $\tau^W \approx 0.01$
- Rate of return: $r = r^N + R$ where $r^N$ is normal rate of return and $R$ are extraordinary returns (rents)
- Using wealth rather than capital income tax implies light taxation of rents (1% vs 20% in the above example)
- Tax on wealth is primarily a very heavy tax on normal rate of return — precisely the component of rate of return that is least appealing as the tax base
Tax on capital income vs annual tax on wealth

- Wealth of $W$, rate of return $r$
- Tax on wealth $\tau^W \cdot (1 + r)W$, tax on capital income $\tau^K \cdot rW$
- When $\tau^W = \tau^K \cdot \frac{r}{1+r}$, these two taxes collect the same revenue
- For example, when $\tau^K = 0.2$ and $r = 0.05$, “equivalent” $\tau^W \approx 0.01$
- Rate of return: $r = r^N + R$ where $r^N$ is normal rate of return and $R$ are extraordinary returns (rents)
- Using wealth rather than capital income tax implies light taxation of rents (1% vs 20% in the above example)
- Tax on wealth is primarily a very heavy tax on normal rate of return — precisely the component of rate of return that is least appealing as the tax base
Tax on capital income vs annual tax on wealth

- Wealth of $W$, rate of return $r$
- Tax on wealth $\tau^W \cdot (1 + r)W$, tax on capital income $\tau^K \cdot rW$
- When $\tau^W = \tau^K \cdot \frac{r}{1+r}$, these two taxes collect the same revenue
- For example, when $\tau^K = 0.2$ and $r = 0.05$, “equivalent” $\tau^W \approx 0.01$
- Rate of return: $r = r^N + R$ where $r^N$ is normal rate of return and $R$ are extraordinary returns (rents)
- Using wealth rather than capital income tax implies light taxation of rents (1% vs 20% in the above example)
- Tax on wealth is primarily a very heavy tax on normal rate of return — precisely the component of rate of return that is least appealing as the tax base
Tax on capital income vs annual tax on wealth

- Wealth of \( W \), rate of return \( r \)
- Tax on wealth \( \tau^W \cdot (1 + r)W \), tax on capital income \( \tau^K \cdot rW \)
- When \( \tau^W = \tau^K \cdot \frac{r}{1+r} \), these two taxes collect the same revenue
- For example, when \( \tau^K = 0.2 \) and \( r = 0.05 \), “equivalent” \( \tau^W \approx 0.01 \)
- Rate of return: \( r = r^N + R \) where \( r^N \) is normal rate of return and \( R \) are extraordinary returns (rents)
- Using wealth rather than capital income tax implies light taxation of rents (1% vs 20% in the above example)
- Tax on wealth is primarily a very heavy tax on normal rate of return — precisely the component of rate of return that is least appealing as the tax base
Tax on capital income vs annual tax on wealth

- Wealth of $W$, rate of return $r$
- Tax on wealth $\tau^W \cdot (1 + r)W$, tax on capital income $\tau^K \cdot rW$
- When $\tau^W = \tau^K \cdot \frac{r}{1+r}$, these two taxes collect the same revenue
- For example, when $\tau^K = 0.2$ and $r = 0.05$, “equivalent” $\tau^W \approx 0.01$
- Rate of return: $r = r^N + R$ where $r^N$ is normal rate of return and $R$ are extraordinary returns (rents)
- Using wealth rather than capital income tax implies light taxation of rents (1% vs 20% in the above example)
- Tax on wealth is primarily a very heavy tax on normal rate of return — precisely the component of rate of return that is least appealing as the tax base
Tax on capital income vs annual tax on wealth

- Wealth of \( W \), rate of return \( r \)
- Tax on wealth \( \tau^W \cdot (1 + r)W \), tax on capital income \( \tau^K \cdot rW \)
- When \( \tau^W = \tau^K \cdot \frac{r}{1+r} \), these two taxes collect the same revenue
- For example, when \( \tau^K = 0.2 \) and \( r = 0.05 \), “equivalent” \( \tau^W \approx 0.01 \)
- Rate of return: \( r = r^N + R \) where \( r^N \) is normal rate of return and \( R \) are extraordinary returns (rents)
- Using wealth rather than capital income tax implies light taxation of rents (1% vs 20% in the above example)
- Tax on wealth is primarily a very heavy tax on normal rate of return — precisely the component of rate of return that is least appealing as the tax base
Tax on capital income vs annual tax on wealth

- Wealth of $W$, rate of return $r$
- Tax on wealth $\tau^W \cdot (1 + r)W$, tax on capital income $\tau^K \cdot rW$
- When $\tau^W = \tau^K \cdot \frac{r}{1+r}$, these two taxes collect the same revenue
- For example, when $\tau^K = 0.2$ and $r = 0.05$, “equivalent” $\tau^W \approx 0.01$
- Rate of return: $r = r^N + R$ where $r^N$ is normal rate of return and $R$ are extraordinary returns (rents)
- Using wealth rather than capital income tax implies light taxation of rents (1% vs 20% in the above example)
- Tax on wealth is primarily a very heavy tax on normal rate of return — precisely the component of rate of return that is least appealing as the tax base
Why (not) have annual wealth tax?

- Capital income vs wealth tax
- Implementation problems:
  - valuation issues
  - liquidity
- But perhaps it captures assets that don’t generate income (though, in practice, these turn out to be the assets that are hard to observe and/or value)
- Few countries have it (France, Norway); some repealed it (Denmark, Sweden); practical experience not encouraging
Why (not) have annual wealth tax?

- Capital income vs wealth tax
- Implementation problems:
  - valuation issues
  - liquidity
- But perhaps it captures assets that don’t generate income (though, in practice, these turn out to be the assets that are hard to observe and/or value)
- Few countries have it (France, Norway); some repealed it (Denmark, Sweden); practical experience not encouraging
Why (not) have annual wealth tax?

- Capital income vs wealth tax
- Implementation problems:
  - valuation issues
  - liquidity
- But perhaps it captures assets that don’t generate income (though, in practice, these turn out to be the assets that are hard to observe and/or value)
- Few countries have it (France, Norway); some repealed it (Denmark, Sweden); practical experience not encouraging
Why (not) have annual wealth tax?

- Capital income vs wealth tax
- Implementation problems:
  - valuation issues
  - liquidity
- But perhaps it captures assets that don’t generate income (though, in practice, these turn out to be the assets that are hard to observe and/or value)
- Few countries have it (France, Norway); some repealed it (Denmark, Sweden); practical experience not encouraging
Why (not) have annual wealth tax?

- Capital income vs wealth tax
- Implementation problems:
  - valuation issues
  - liquidity
- But perhaps it captures assets that don’t generate income (though, in practice, these turn out to be the assets that are hard to observe and/or value)
- Few countries have it (France, Norway); some repealed it (Denmark, Sweden); practical experience not encouraging
Estate/inheritance taxation

- Old form of taxation because death is administratively convenient time to observe wealth
- Valuation issues still hard but it has to be done anyway
- Infrequent tax, possible to have much higher rates than under wealth tax
- Equality of opportunities, intergenerational transmission of concentration of wealth
- Theoretical case for estate taxation depends on the strength of behavioral response, which in turn depends on bequest motivations
Estate/inheritance taxation

- Old form of taxation because death is administratively convenient time to observe wealth
- Valuation issues still hard but it has to be done anyway
- Infrequent tax, possible to have much higher rates than under wealth tax
- Equality of opportunities, intergenerational transmission of concentration of wealth
- Theoretical case for estate taxation depends on the strength of behavioral response, which in turn depends on bequest motivations
Estate/inheritance taxation

- Old form of taxation because death is administratively convenient time to observe wealth
- Valuation issues still hard but it has to be done anyway
- Infrequent tax, possible to have much higher rates than under wealth tax
- Equality of opportunities, intergenerational transmission of concentration of wealth
- Theoretical case for estate taxation depends on the strength of behavioral response, which in turn depends on bequest motivations
Estate/inheritance taxation

- Old form of taxation because death is administratively convenient time to observe wealth
- Valuation issues still hard but it has to be done anyway
- Infrequent tax, possible to have much higher rates than under wealth tax
- Equality of opportunities, intergenerational transmission of concentration of wealth
- Theoretical case for estate taxation depends on the strength of behavioral response, which in turn depends on bequest motivations
Estate/inheritance taxation

- Old form of taxation because death is administratively convenient time to observe wealth
- Valuation issues still hard but it has to be done anyway
- Infrequent tax, possible to have much higher rates than under wealth tax
- Equality of opportunities, intergenerational transmission of concentration of wealth
- Theoretical case for estate taxation depends on the strength of behavioral response, which in turn depends on bequest motivations
Responses to transfer taxes — gifts

- Joulfaian (2004) and Ohlsson (2011), massive temporal responses
- Bernheim, Lemke, Scholz (2004) — real effects
- McGarry (2000) and Poterba (2001) — underutilization of simple tax avoidance that relies on gifts
- Joulfaian and McGarry (2004) document it also applies to the very high income individuals. Flow of gifts too small to be consistent with tax minimization
Gifts are responsive

Second, individual life expectancies are set at 20 years \( (n=20) \). Third, and in order to allow for consistent comparisons between gifts and bequests, donees are assumed to sell assets in period \( t+n \). Third, assets are assumed to appreciate at the donor’s discount rate, i.e. \( p = d \), with share of accrued gains of \( b = 0.5 \) (Auten and Wilson, 1999).9

Finally, I assume that assets held by the wealthy are 30% cash, or equivalent, and 70% non-cash, which reflects the average portfolio reported on estate tax returns. This allocation is then applied to Eqs. (5) and (6) in constructing a weighted price for gifts.

To account for the expiration of the US$2 million per donee exemption in 1989 under the GST tax introduced in 1986, I set a dichotomous variable equal to one in 1989. Ideally, the GST should be reflected in the gift price to grandchildren and similar or younger generations using Eqs. (1) and (2). Unfortunately, and given the aggregate nature of the data, we do not observe the size of generation-skipping transfers. This, and the temporary nature of the per donee exemption, makes it rather difficult to use a separate price measure for grandchildren.

For presentational purposes, and to render the data somewhat comparable over time, I divide gift tax collections by the maximum effective gift tax rate, i.e. \( \text{Gifts} = \text{Tax} / (1 + s_g) \). Next, I deflate the adjusted data for inflation using CPI. The resulting trend, reported in Fig. 1, is quite interesting. Here, for instance, we observe that real gifts made in 1935, prior to the increase in tax rates in 1936, exceed the annual gifts made in much of the 1980s and the 1990s. Similarly, gifts made in 1976, in anticipation of the higher tax rates in effect in 1977, surpass those made in any other year since the enactment of the tax.

Fig. 1. Inter-vivo gifts, 1933–1998 (US$1982 millions).

Following a tax minimization strategy, as in Balcer and Judd (1987), individuals may sell assets with high basis and hold those with low basis until death. Thus, \( b \) may very well be larger in the case of assets held at death. Note, however, that the estimates in column one (cash only) would be consistent with the view that capital gains taxes can be avoided painlessly.


---

9 Following a tax minimization strategy, as in Balcer and Judd (1987), individuals may sell assets with high basis and hold those with low basis until death. Thus, \( b \) may very well be larger in the case of assets held at death. Note, however, that the estimates in column one (cash only) would be consistent with the view that capital gains taxes can be avoided painlessly.
Responses to transfer taxes — gifts

- Joulfaian (2004) and Ohlsson (2011), massive temporal responses
- Bernheim, Lemke, Scholz (2004) — real effects
- McGarry (2000) and Poterba (2001) — underutilization of simple tax avoidance that relies on gifts
- Joulfaian and McGarry (2004) document it also applies to the very high income individuals. Flow of gifts too small to be consistent with tax minimization
Responses to transfer taxes — gifts

- Joulfaian (2004) and Ohlsson (2011), massive temporal responses
- Bernheim, Lemke, Scholz (2004) — real effects
- McGarry (2000) and Poterba (2001) — underutilization of simple tax avoidance that relies on gifts
- Joulfaian and McGarry (2004) document it also applies to the very high income individuals. Flow of gifts too small to be consistent with tax minimization
Joulfaian (2004) and Ohlsson (2011), massive temporal responses
Bernheim, Lemke, Scholz (2004) — real effects
McGarry (2000) and Poterba (2001) — underutilization of simple tax avoidance that relies on gifts
Joulfaian and McGarry (2004) document it also applies to the very high income individuals. Flow of gifts too small to be consistent with tax minimization
Control vs tax minimization

- Cooper (1979) — an estate tax is a voluntary tax
- Schmalbeck (2001) — yes, but you lose control over assets

Deathbed planning

- Kopczuk (2007) looks at the (cross-section of) estate taxpayers from 1977
- Wealth robustly increases with age starting when people are in their 60s until the maximum age of 98 observed in the data — 1 to 2% per year
- However, those who died from a lasting terminal illness have estates that are nearly 20% lower. The effect is there even for illness lasting “days to months”
- Evidence of importance of tax avoidance (“lifetime gifts” schedule responds, cash falls) beyond other factors (e.g., loss of income or increased spending do not seem to explain much)
Control vs tax minimization

- Cooper (1979) — an estate tax is a voluntary tax
- Schmalbeck (2001) — yes, but you lose control over assets

Deathbed planning

- Kopczuk (2007) looks at the (cross-section of) estate taxpayers from 1977
- Wealth robustly increases with age starting when people are in their 60s until the maximum age of 98 observed in the data — 1 to 2% per year
- However, those who died from a lasting terminal illness have estates that are nearly 20% lower. The effect is there even for illness lasting “days to months”
- Evidence of importance of tax avoidance ("lifetime gifts" schedule responds, cash falls) beyond other factors (e.g., loss of income or increased spending do not seem to explain much)
Control vs tax minimization

- Cooper (1979) — an estate tax is a voluntary tax
- Schmalbeck (2001) — yes, but you lose control over assets

Deathbed planning

- Kopczuk (2007) looks at the (cross-section of) estate taxpayers from 1977
- Wealth robustly increases with age starting when people are in their 60s until the maximum age of 98 observed in the data — 1 to 2% per year
- However, those who died from a lasting terminal illness have estates that are nearly 20% lower. The effect is there even for illness lasting “days to months”
- Evidence of importance of tax avoidance (“lifetime gifts” schedule responds, cash falls) beyond other factors (eg., loss of income or increased spending do not seem to explain much)
Control vs tax minimization

- Cooper (1979) — an estate tax is a voluntary tax
- Schmalbeck (2001) — yes, but you lose control over assets

Deathbed planning

- Kopczuk (2007) looks at the (cross-section of) estate taxpayers from 1977
  - Wealth robustly increases with age starting when people are in their 60s until the maximum age of 98 observed in the data — 1 to 2% per year
  - However, those who died from a lasting terminal illness have estates that are nearly 20% lower. The effect is there even for illness lasting “days to months”
  - Evidence of importance of tax avoidance (“lifetime gifts” schedule responds, cash falls) beyond other factors (eg., loss of income or increased spending do not seem to explain much)
Control vs tax minimization

- Cooper (1979) — an estate tax is a voluntary tax
- Schmalbeck (2001) — yes, but you lose control over assets

Deathbed planning

- Kopczuk (2007) looks at the (cross-section of) estate taxpayers from 1977
- Wealth robustly increases with age starting when people are in their 60s until the maximum age of 98 observed in the data — 1 to 2% per year
- However, those who died from a lasting terminal illness have estates that are nearly 20% lower. The effect is there even for illness lasting “days to months”
- Evidence of importance of tax avoidance (“lifetime gifts” schedule responds, cash falls) beyond other factors (eg., loss of income or increased spending do not seem to explain much)
Age-wealth profile of estate taxpayers

Wealth (logarithmic scale) vs. age
Control vs tax minimization

- Cooper (1979) — an estate tax is a voluntary tax
- Schmalbeck (2001) — yes, but you lose control over assets

Deathbed planning

- Kopczuk (2007) looks at the (cross-section of) estate taxpayers from 1977
  - Wealth robustly increases with age starting when people are in their 60s until the maximum age of 98 observed in the data — 1 to 2% per year
  - However, those who died from a lasting terminal illness have estates that are nearly 20% lower. The effect is there even for illness lasting “days to months”
  - Evidence of importance of tax avoidance ("lifetime gifts" schedule responds, cash falls) beyond other factors (eg., loss of income or increased spending do not seem to explain much)
Control vs tax minimization

- Cooper (1979) — an estate tax is a voluntary tax
- Schmalbeck (2001) — yes, but you lose control over assets

Deathbed planning

- Kopczuk (2007) looks at the (cross-section of) estate taxpayers from 1977
- Wealth robustly increases with age starting when people are in their 60s until the maximum age of 98 observed in the data — 1 to 2% per year
- However, those who died from a lasting terminal illness have estates that are nearly 20% lower. The effect is there even for illness lasting “days to months”
- Evidence of importance of tax avoidance (“lifetime gifts” schedule responds, cash falls) beyond other factors (eg., loss of income or increased spending do not seem to explain much)
Heterogeneity

- Survey evidence: Laitner and Juster (1995), Light and McGarry (2004) — declared bequest intentions vary widely, somewhat but not very strongly correlated with things one would expect (like having kids)
- Charles and Hurst (2003) and others on importance of inherited tastes/habits in wealth accumulation
- Structural models of wealth accumulation — mixture of life cycle and bequest types, estimate % of each (Kopczuk and Lupton, 2007; Ameriks, Caplin, Laufer, van Nieuwerburgh, 2011)
Bequest motives of the rich

- Understanding large wealth holding requires going beyond accidental motives, altruism and exchange
- Multiple motives are present at the same time, wealth plays dual role
- There is a trade off between control and bequests (or tax minimization)
- Heterogeneity is important
- Estates responsive but do not fit assumptions in models that call for no estate taxation
Capital income tax preferred to wealth taxation
The case for capital income tax by itself is controversial
Consumption/expenditure taxation an alternative
Evidence on bequests takes us away from altruism and toward wealth having value to donors separate from its impact on donees (bequests are consumption!)
Taxation of bequests/inheritances/estates is a natural complement to consumption taxation