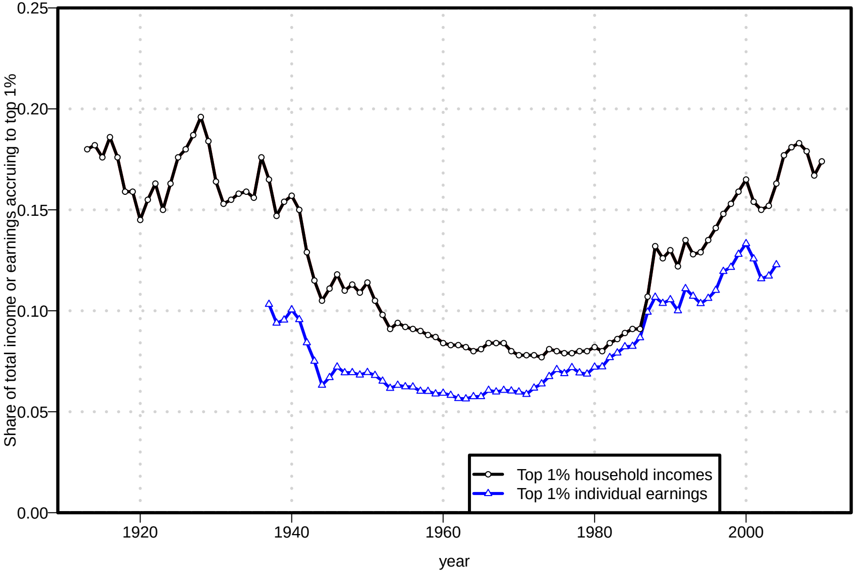
Context: changes in income and wealth concentration

- 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

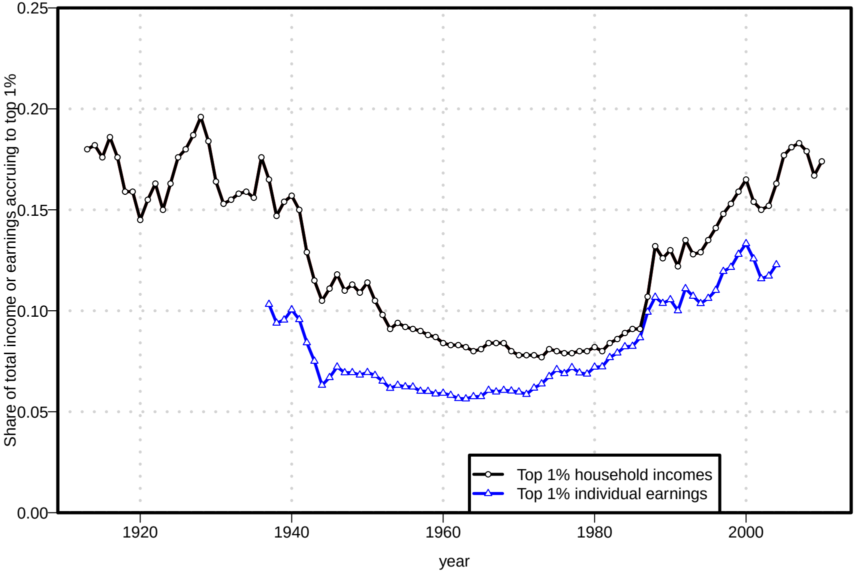


Sources: income — updated series from Piketty and Saez (QJE, 2003); earnings — Kopczuk, Saez and Song (QJE, 2010).

Context: changes in income and wealth concentration

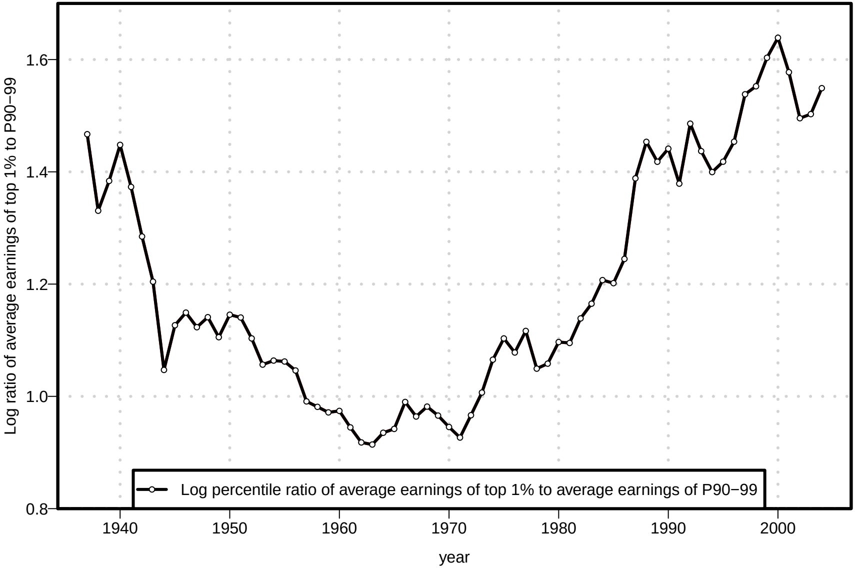
- Growing income concentration
- Driven by labor incomes
- Capital incomes and wealth concentration more controversial...
- ...though in any case likely to follow
- Changing composition of the top groups

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%

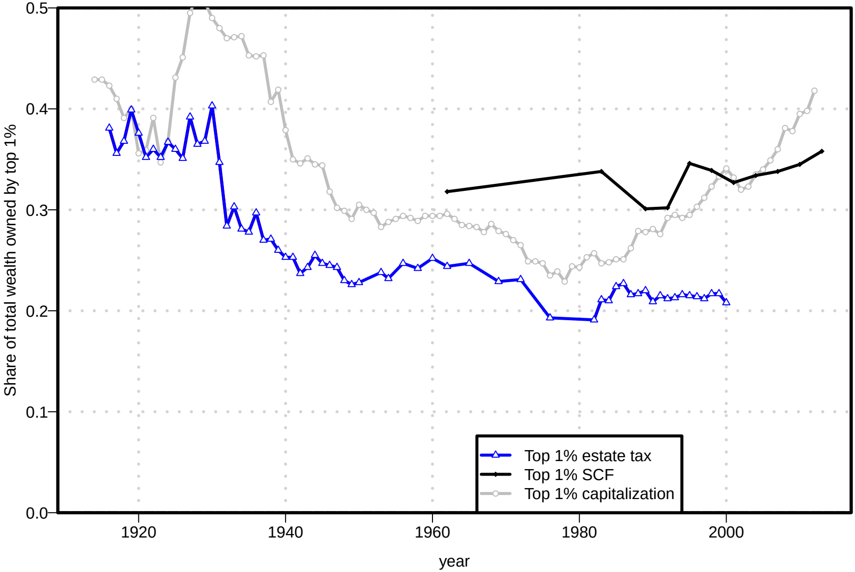


Sources: income — updated series from Piketty and Saez (QJE, 2003); earnings — Kopczuk, Saez and Song (QJE, 2010).

Context: changes in income and wealth concentration

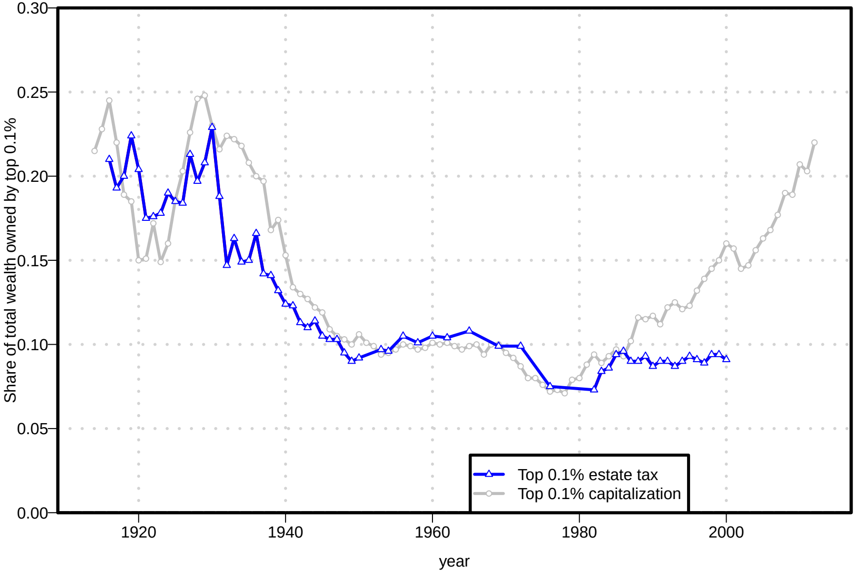
- Growing income concentration
- Driven by labor incomes
- Capital incomes and wealth concentration more controversial...
- ...though in any case likely to follow
- Changing composition of the top groups

Top 1% wealth share



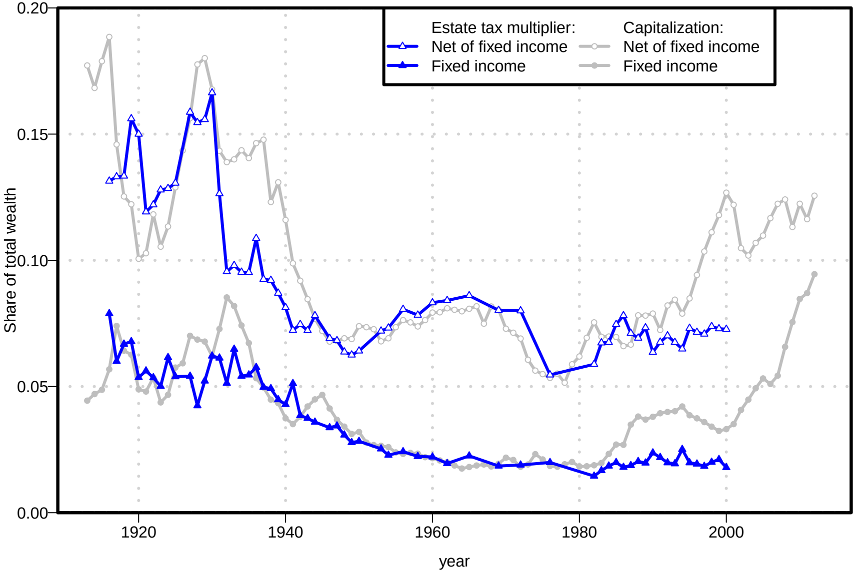
Sources: SCF — Roine and Waldenström (2014); estates — Kopczuk and Saez (2004); capitalization — Saez and Zucman (2014)

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

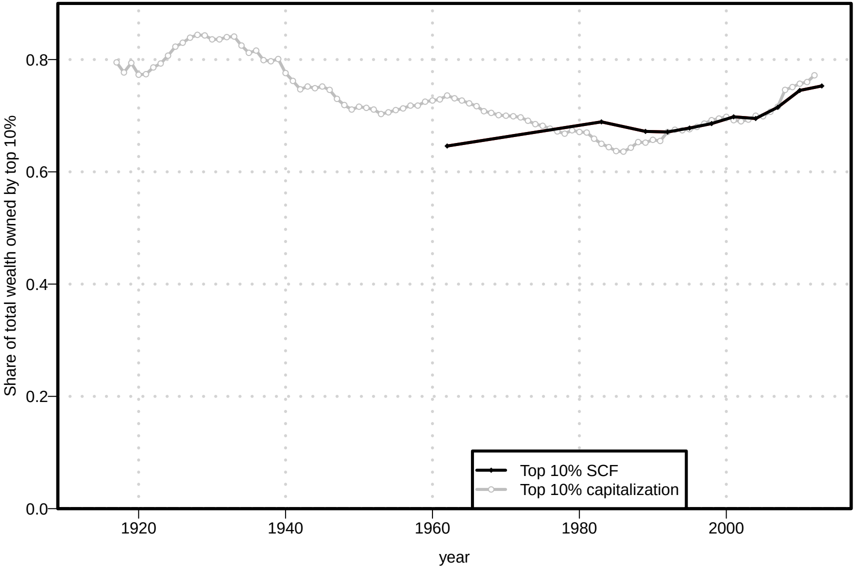


Sources: SCF — Roine and Waldenström (2014); estates — Kopczuk and Saez (2004); capitalization — Saez and Zucman (2014)

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

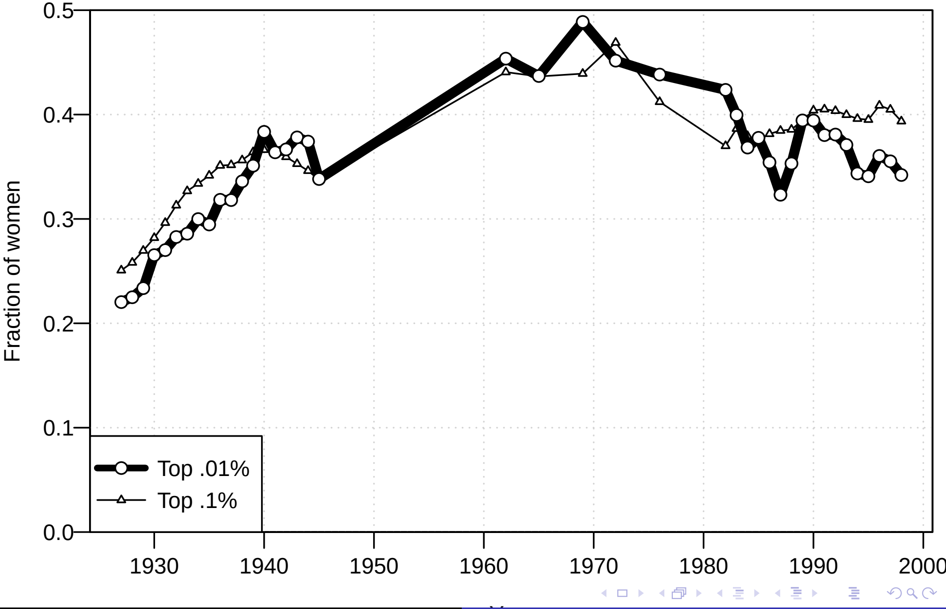


Sources: SCF — Roine and Waldenström (2014); estates — Kopczuk and Saez (2004); capitalization — Saez and Zucman (2014)

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

Share of women at the very top of wealth distribution



Inheritances in Forbes 400 (1982-2003)

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

Source: The Forbes 400 Richest American, Forbes Magazine, various issues 1982-2003, reported in Edlund and Kopczuk (2009)

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

$$C_1 + \frac{1}{1+r}C_2 = (1-t^L)w_1L_1 + (1-t^L)\frac{1}{1+r}w_2L_2$$

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

$$(1-t^c)C_1 + (1-t^C)\frac{1}{1+r}C_2 = w_1L_1 + \frac{1}{1+r}w_2L_2$$

Capital income tax is different because it distorts intertemporal prices

$$C_1 + \frac{1}{1+r(1-t^K)}C_2 = (1-t^L)w_1L_1 + (1-t^L)\frac{1}{1+r(1-t^K)}w_2L_2$$

Current income tax — labor and capital taxation

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)

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)

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)

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)

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)

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

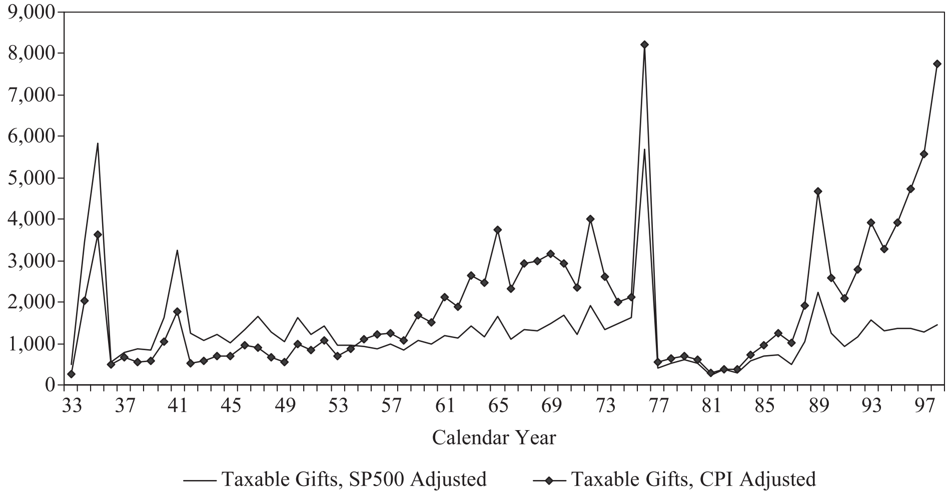


Fig. 1. Inter-vivo gifts, 1933 – 1998 (US$1982 millions).

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

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

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)

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)

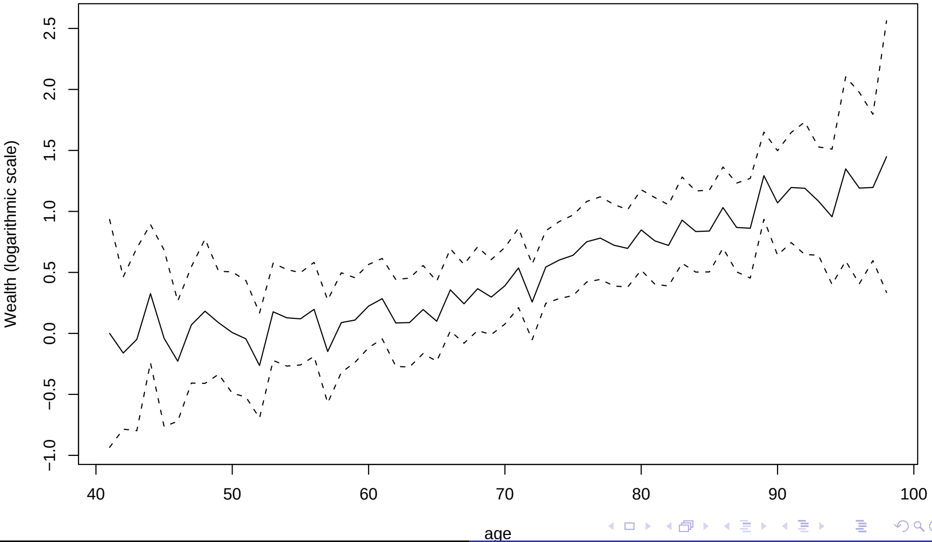
Control vs tax minimization

- 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



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

Main points

- 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