Discussion of ”Quantitative Analysis of a Wealth Tax in the United States: Exclusions, Evasion, and Expenditures”

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The paper: a pragmatic approach to wealth tax

- Very interesting paper on the topical issue. Impressive model!

- The issue: wealth tax is heavily discussed but existing papers do not allow for exclusion of housing and privately-held businesses. These exclusions likely to be present in practice.

- The question: What are the macroeconomic and budgetary implications of providing exclusions for owner-occupied housing and noncorporate business equity from a stylized top-wealth tax?

- The method: MP write down a two-sector, large-scale overlapping generations model calibrated to the United States. Key features:
  - Households choose wealth composition: financial vs. housing assets.
  - Two-sector production to capture endogenous tax avoidance.

The findings

1. Main experiment: 1% tax on all household wealth exceeding the top 1% individual-level threshold, revenues generated by the policy used to pay down federal debt.
   - Increases federal tax revenue by 6.9% and 3.7% in the first and thirtieth years (decrease of debt of 31.8 points of GDP).
2. Alternative 1: exclusion of owner-occupied housing
   - No quantitatively meaningful macroeconomic and budgetary impact.
3. Alternative 2: exclusion of noncorporate business equity
   - Reallocation of 1.8 percentage of economic activity to noncorporate sector.
   - 15% reduction in revenues relative to main experiment.

Model vs. Legal Framework: who do you model?

Legal forms of business organization (LFO) in the US. Key margins:

- Limited liability: Corporate vs. Noncorporate
- Taxation of profits: Pass-through firms vs. C corporations
- Transferring ownership: Publicly traded vs. Privately held

The paper mixes the margins:

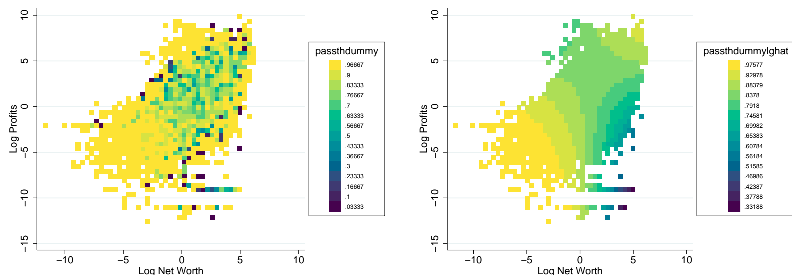
- Noncorporate sector: taxed like pass-through with limited liability and publicly traded via intermediary.
- Corporate sector: taxed like C corporations, otherwise the same.

Seems like key margin in the model is taxation, but:

- Non-corporate are not privately held and can be valued for tax purposes.
- There is selection into the LFOs in the data.

Selection: who is who in the data?

Figure: Conditional Probability of observing the pass-through - empirical distribution (left panel), logit regression (right panel)



Source: Dyrda, Pugsley (2021). Notes: SCF waves 2004-2016, the variables are deviations from annual average

- Wealthier business owners run also C corps. More profitable businesses are often C corps.
- Potential wealth tax would be levied on them, but this heterogeneity is absent in the model.

Further comments

1. Financial vs. housing assets: can be adjusted freely in response to change in fundamentals. In practice housing is illiquid.

2. Policy invariant margins:
   - Debt-to-capital ratio
   - Dividend payout ratio

   Are there empirical evidence to support these assumptions?

3. There is no risk in the model. Thus, no equity risk premium, counter to the existing evidence.
   - The only wedge between safe rate of return and returns on equity is due to tax differentials.