



Capital income taxation

A very good idea

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Introduction

A little bit of history



Ideas

- Comprehensive income tax (Haig/Simon) + estate taxation
- Corlett/Hague: differential taxation on labor and capital
- Nordic system: Belgian withholding tax on capital income
- Chamley/Judd + Atkinson/Stiglitz: zero tax
- Meade Report/ Blueprint: Expenditure tax + inheritance tax
- Mirrlees Review: about the same message: TEE or EET
- Lately: not a bad idea after all.

Facts

- Increasing income inequality, wealth concentration and increasing role of inheritance
- Decline of wealth and wealth transfer tax
- The more tax burdened: capital or labor?
- The threat is not the standard inefficiency, but the mobility of the tax base

To sum up: a puzzling situation

Outline of my presentation

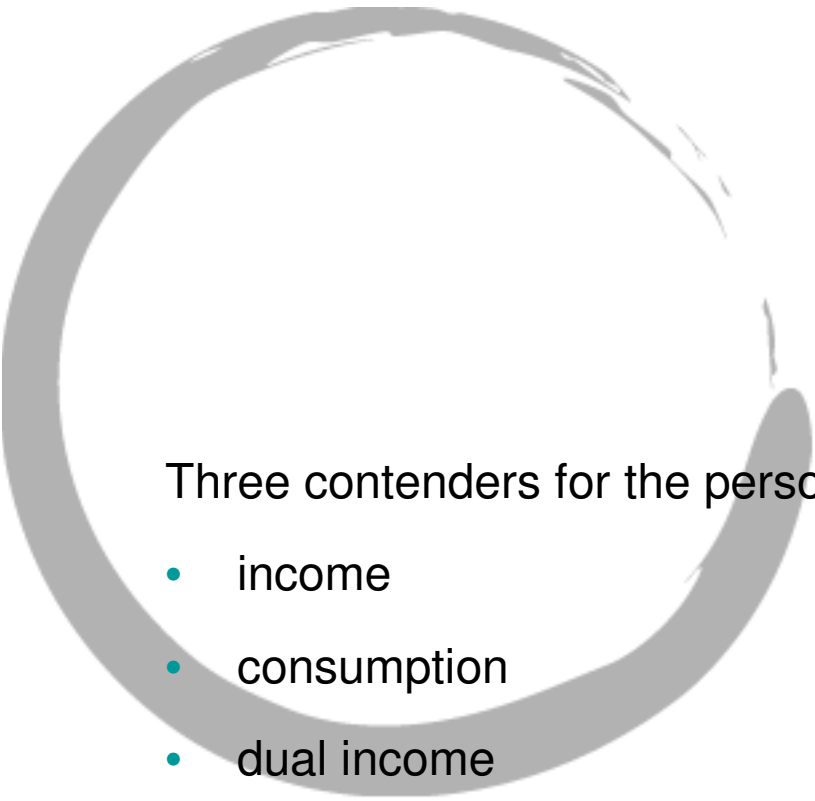
- Introduction
- A representative individual: Ramsey; Corlett/Hague; Chamley/Judd
- Heterogeneous individuals: no bequest: Atkinson/Stiglitz
- Bequests



Single individual

Linear taxation





Three contenders for the personal income tax:

- income
- consumption
- dual income

Key role of capital income taxation



Dynamic Ramsey problem

- **Simple model:** Corlett-Hague 3 goods, 2 periods (c_1, l_1, c_2)
Taxing the good being more complementary with leisure
Separability: uniform tax on consumption, zero tax on capital income
OLG and $r > n$: tax on capital income
- **More complex model** of life-cycle: (c_1, l_1, c_2, l_2)
Age specific tax and no need of capital income tax; age invariant tax and capital income tax
Infinite number of periods: Chamley-Judd: no need of capital income tax

Limits

- Operative bequests
- Steady state (except with specific utility)
- Identical private and social discount rate
- Unrestricted instruments
- Commitment

Extension


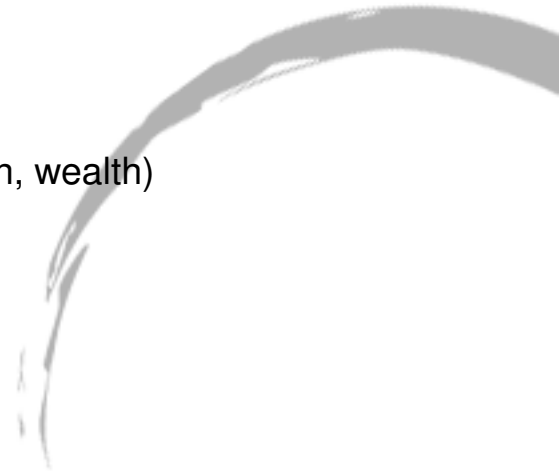
- Liquidity constraints
- Uncertainty makes capital income tax desirable
- Non linear tax: truncated wealth distribution

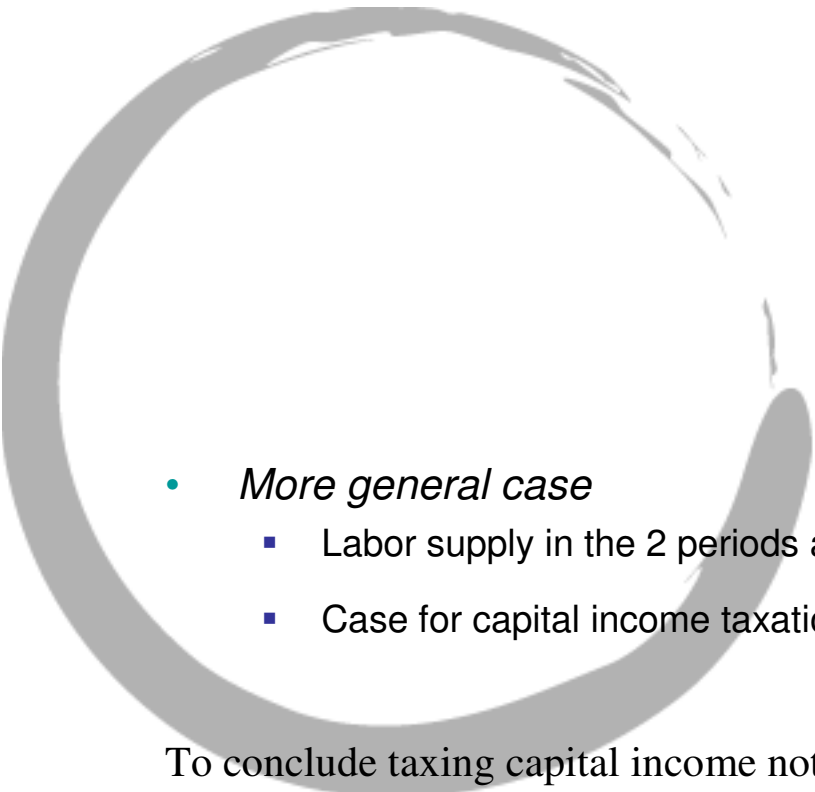


Heterogeneous individuals

non-linear taxation



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- Atkinson-Stiglitz in a 3-good, 2-period model
 - With weak separability, no need of capital income taxation if optimal income taxation
 - *Qualifications*
 - In an OLG model: $r = n$
 - Separability (weaker)
 - Optimality of income taxation
 - No second characteristic (longevity, discount rate, needs, health, wealth)

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- *More general case*
 - Labor supply in the 2 periods and uncertainty over wage rates
 - Case for capital income taxation: dynamic macroeconomic public finance


To conclude taxing capital income not a bad idea after all

Is the issue an economic issue grounded on efficiency and equity consideration ?

Or just a political issue based on opportunistic arguments?

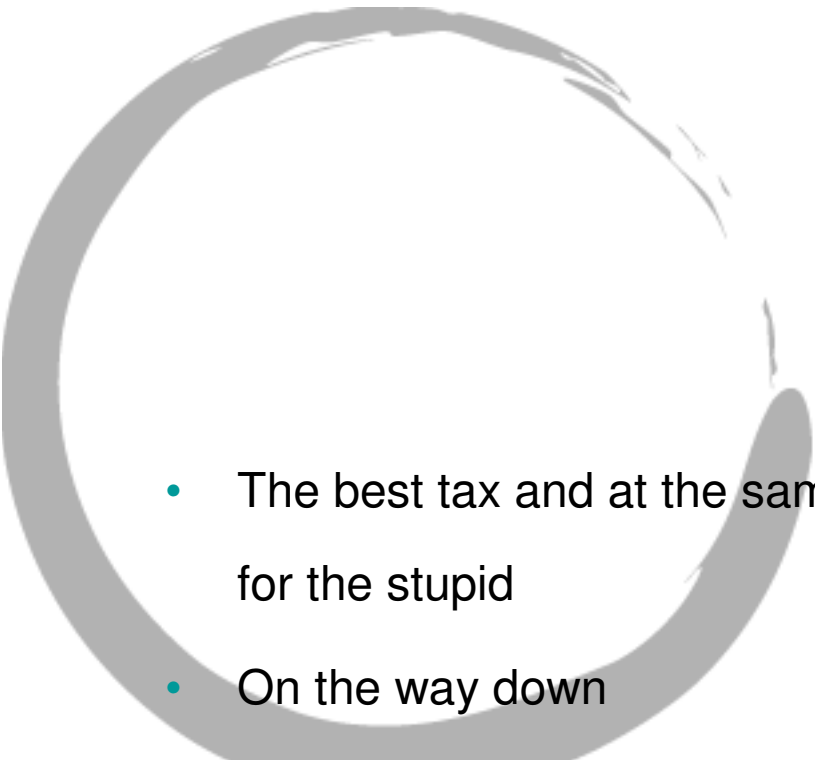
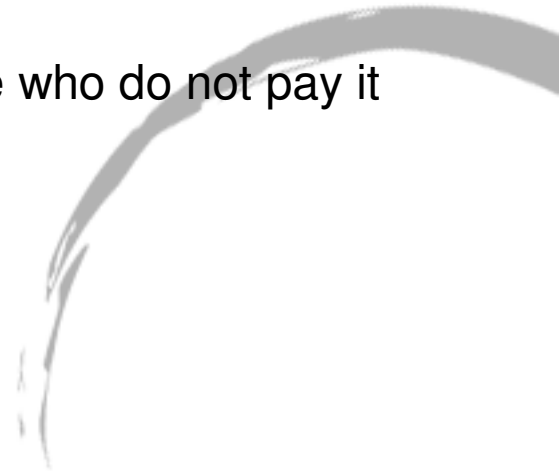
Neglected issue: tax on capital gains: accrued or realized

May explain annual wealth tax or wealth transfer tax.





Wealth transfer tax

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- The best tax and at the same time the most disparaged: death tax, tax for the stupid
 - On the way down
 - Tax revenue independent of coverage: 1% in the US and 50% in Belgium
 - Supported by the most wealthy and rejected by those who do not pay it

Two important features

- Bequest motives
 - Accidental bequest 100% tax
 - Altruistic bequests disincentive effects
- Functioning of the family
 - Estate tax versus inheritance tax: equal sharing and lower rates for spouses and children
 - Human capital transmission
 - Tax on inter vivos gifts
 - Access tax