Prospects for Direct (or Indirect) Taxation of Wealth

Roger Royse
Royse Law Firm, PC
Palo Alto, San Francisco, Los Angeles
rroyse@rroyselaw.com
www.rogerroyse.com
www.rroyselaw.com
Skype: roger.royse
Twitter @rroyse00

ABA Committee on Tax Policy and Simplification

Denver, September 19, 2014

ROYSE LAW
Royse Law Firm, PC

BACKGROUND

- Median incomes in the US have been stagnant for the past 40 years
- The top 1% and top 0.1% have increased their shares of total income
- Increased interest in issues of inequality
- “Capital in the 21st Century” Thomas Piketty
  - Analysis of income concentration
  - Theories of income distributions in a capitalist society
  - 300 years of data for France, UK, US, Germany, Canada, Sweden, and Japan

BACKGROUND

- In the US, the wealthiest 10% own 70% of the wealth
- The top 1%:
  - Own 35% of the wealth
  - Receive 22.5% of the income
- The bottom half own only 5%
- The richest 85 individuals own more than 3.5 billion people combined
- The ratio of CEO salaries to those of average employees has increased from 50:1 to 200:1 due to equity compensation

KEY POINTS

- Income and wealth inequality is an essential feature of capitalism
- Trend towards higher inequality (exceptions for war and depression when government redistributes wealth)
- Financial inequality continues to increase
- “Patrimonial capitalism” – inherited wealth dominates the economy
- Income from labor has decreased as a percentage (in the US, from 68% to 62% from 1970 to 2012)
- When the rate of economic growth is low, wealth accumulates faster from capital than labor, increasing wealth inequality

PIKETTY'S INEQUALITY RELATIONSHIP

- $r > g$
  - r = return on capital (dividends, interest, profits, and rents)
  - g = income or output
- When the rate of return on capital exceeds the economy's growth rate, capital income rises faster than wages or salaries, concentrating more wealth in fewer people
- Wages and salaries rarely grow faster than GDP
- Thus, the majority of people will become poorer and crises will result

CONCLUSIONS

- Economic change tied to political changes
- Proposes global wealth tax and high (80%) upper income tax rate
- Wealth tax – like a property tax, levied on net worth
- Raises numerous issues and criticisms

PIKETTY'S COMMENTS

- In my view, the right approach to wealth tax reform in the US might be to start from the existing wealth tax system, namely the property tax, which raises a lot of tax revenue in the US (as compared to other developed countries). My proposal would be to keep the tax revenues constant, but to transform the property tax into a progressive tax on net wealth. In effect, this would reduce significantly the tax burden of the bottom 90% of US households who have very little net wealth. Everybody would clearly see that the primary objective is to increase wealth mobility and access to wealth, not to tax the rich per se (although this would imply taxing the rich more). The point is that it makes no sense to tax heavily indebted households as much as those with huge financial wealth! The problem is simply that the property tax was created at a time when financial assets and liabilities did not matter as much as they do today. Of course I understand that this is constitutionally impossible to do such a property tax reform at the federal level. But (i) this was the same pb with the creation of the federal income tax a century ago, and finally it happened; (ii) state govts can move in this direction if they so wish.

  – Thomas Piketty, email correspondence of September 15, 2014

[RoyseLaw Incorporator.com]

Royse Law Incorporator: Designed to help you incorporate and structure your company in Delaware or California.

[RoyseUniversity.com]

Royse University: Providing business, tax, and personal finance ideas to founders and executives.

[RoyseLink.com]

RoyseLink: Connecting founders with investors and service partners.

[RoyseLaw Legal Wizard]

Royse Law Legal Wizard: Offering legal document templates and more.

Contact Us

Royse Law Firm, PC

Palo Alto Office: 650-813-9700

PALO ALTO
1717 Embarcadero Road
Palo Alto, CA 94303

SAN FRANCISCO
135 Main Street
12th Floor
San Francisco, CA 94105

LOS ANGELES
11150 Santa Monica Blvd.
Suite 1200
Los Angeles, CA 90025

www.rroyselaw.com

@RoyseLaw