



COMMENTS

Wealth Taxation in an Uncertain World

Jason S. Oh

Professor of Law

UCLA School of Law



Overview of Paper

- Timely and Important Topic
 - Warren proposes annual wealth tax for households with assets over \$50 million.
 - Wyden proposes to tax unrealized capital appreciation using a mark-to-market approach at ordinary income rates.
- Fiscal Context
 - Large federal deficits, exacerbated by TCJA
 - Increasing wealth and income inequality
 - Disproportionate tax burden on labor income



Overview (continued)

- Considers three alternatives:
 - Annual wealth tax
 - Mark-to-market
 - Retrospective capital gains tax
- Uncertainty on three dimensions:
 - Valuation uncertainty
 - Political uncertainty
 - Constitutional uncertainty



Summary Table

	Valuation Uncertainty	Political Uncertainty	Constitutional Uncertainty
Annual wealth tax	HIGH	LOW	HIGH
Mark-to-market income tax	MEDIUM	MEDIUM	LOW
Retrospective capital gains tax	LOW	HIGH	VERY LOW



Roadmap of Commentary

• WHY THESE COLUMNS?

- Should there be more columns?
 - Why these three types of uncertainty?
- Should some of the columns be subdivided?
 - Political uncertainty may depend on whether uncertainty is about rates going up, rates going down, or regime repeal.

• WHY THESE ROWS?

- Design choices interact non-trivially with different types of uncertainty.
- Are the rows mutually exclusive?
 - Does your analysis suggest that we may be best off trying to tax different categories of wealth with different instruments?



Uncertainty?

- Valuation Uncertainty – “[IRS and/or taxpayer] uncertainty regarding the fair market value of illiquid assets”
- Political Uncertainty – “lack of foreknowledge regarding legislative changes to rates and other rules”
- Constitutional Uncertainty – “possibility that the Supreme Court ... will hold that the capital taxation regime in question lies beyond Congress’s power”



COLUMNS: Are there other types of uncertainty?

	Valuation Uncertainty	Political Uncertainty	Constitutional Uncertainty
Annual wealth tax	HIGH	LOW	HIGH
Mark-to-market income tax	MEDIUM	MEDIUM	LOW
Retrospective capital gains tax	LOW	HIGH	VERY LOW



COLUMNS: Are there other types of uncertainty?

	Administrability		Political Uncertainty	Constitutional Uncertainty
	Valuation	Liquidity		
Annual wealth tax	HIGH	HIGH	LOW	HIGH
Mark-to-market income tax	MEDIUM	HIGH	MEDIUM	LOW
Retrospective capital gains tax	LOW	LOW	HIGH	VERY LOW



COLUMNS: Should we be more granular?

	Valuation Uncertainty	Political Uncertainty	Constitutional Uncertainty
Annual wealth tax	HIGH	LOW	HIGH
Mark-to-market income tax	MEDIUM	MEDIUM	LOW
Retrospective capital gains tax	LOW	HIGH	VERY LOW



COLUMNS: Should we be more granular?

	Valuation Uncertainty	Political Uncertainty			Constitutional Uncertainty
		Rates UP	Rates DOWN	Regime Repeal	
Annual wealth tax	HIGH	LOW	LOW	LOW	HIGH
Mark-to-market income tax	MEDIUM	LOW	MEDIUM	HIGH	LOW
Retrospective capital gains tax	LOW	LOW	HIGH	HIGH	VERY LOW



ROWS: Design Choices Affect Uncertainty

	Valuation Uncertainty	Political Uncertainty	Constitutional Uncertainty
Annual wealth tax	HIGH	LOW	HIGH
Mark-to-market income tax	MEDIUM	MEDIUM	LOW
Retrospective capital gains tax	LOW	HIGH	VERY LOW



ROWS: Design Choices Affect Uncertainty

	Valuation Uncertainty	Political Uncertainty	Constitutional Uncertainty
Annual wealth tax (no exemption)	HIGH	LOW	HIGH
Annual wealth tax (exclusion for real property)	MEDIUM	LOW	MEDIUM?
Mark-to-market income tax	MEDIUM	MEDIUM	LOW
Retrospective capital gains tax	LOW	HIGH	VERY LOW



ROWS: Are the rows mutually exclusive?

- “The weight of these various uncertainties depends, in large part, on the attributes of particular assets.” (14)
 - Real property – strong case for retrospective capital gains tax
 - Avoids constitutional uncertainty
 - Reduces valuation uncertainty
 - Liquid securities – strong case for mark-to-market
 - Avoids some political uncertainty
 - Little valuation uncertainty
- Taking it one step further: would it be worth the administrative cost of running two (or more) regimes?
 - Modular approach to wealth taxation. Oh and Zolt (2018).



Thank you!