Taxing Billionaires: Estate Taxes and the Geographical Location of the Ultra Wealthy

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Research question

Are ultra-wealthy (Forbes 400 billionaires) residence decisions' sensitive to estate tax?

- Up to 2001, state estate tax + federal estate tax did not vary across states.
- By 2001, Estate tax is larger in states implementing a state estate tax (ET states) compared to the other states.

⇒ Double differences: Do the numbers of Forbes 400 increase in non-ET states and do the numbers of Forbes 400 decrease in state ET after the 2001 reform? In a nutshell: Yes

⇒ Triple differences: Are these responses larger for older Forbes 400? In a nutshell: Yes

- The revenue raised by state using an estate tax outweighs the foregone income tax revenue lost in (present discounted value) by Forbes 400 when they leave, ... except if the top personal income tax is very high (California...).
- In state with no state-PIT, even ultra wealthy should pay some sales tax?
- A very stimulating paper to read!

Discussion (1): on the specific role of estate tax

- I used to argue that estate tax should be less distorsive than capital income tax, because “once your are dead, you can no longer modify your behavior”.
- This paper concludes I am wrong. Forbes 400 do care about the estate tax that will be paid by their inheritors and not by themselves!

Q1 Beyond identifying migration responses, would it be possible to estimate intensive responses on capital accumulation behaviors?

Q2 How different are the responses to change in estate tax rates compared to change in other tax rates?

Q3 With only 400 Forbes 400 in the US, how to be sure the estimates are caused by the ET reform in 2001 and not by some other aspects of the 2001 tax reform?

Discussion (2): How specific are the ultra-wealthy?

- An information (at least for me) by itself: the death of a single Forbes 400 may have a huge impact on estate tax revenue of its residing state (James Walton death in 1995 generates $148,300,000 additional tax revenues in Arkansas !)

Q4 Are migration elasticities identical for Forbes400 and for very-but-not-ultra wealthy?
In a QJE (2014) with Simula and Trannoy, we argue that the optimal nonlinear income tax schedule not only depends on the average migration elasticity within the top 1%, but also on how these responses vary inside the top 1%. What can we learn from your study?