

# Discussion of Top Incomes and Capital Tax Policy

Owen Zidar, Princeton and NBER

IFS Deaton Review of Inequalities—Tax and top incomes

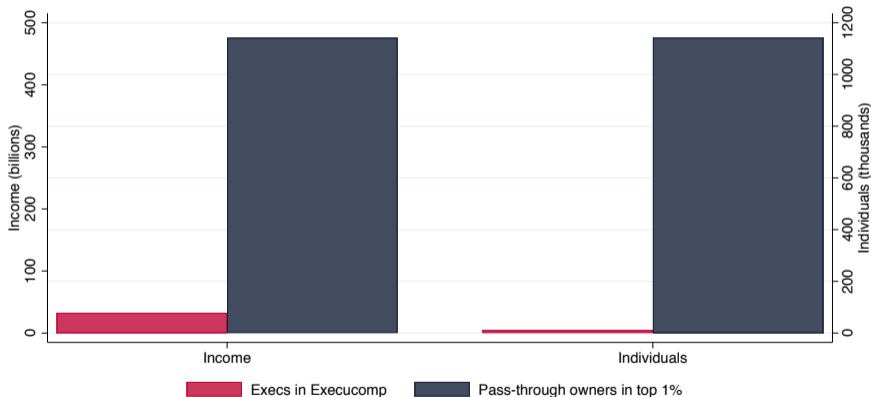
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## Three observations about top incomes and taxation

1. Striking world of business owners prevail at the top of the income distribution
2. Many missing millionaires
3. Revenue potential of top capital gains taxes is larger than many believe

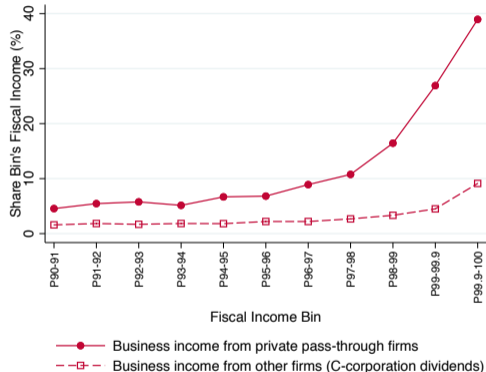
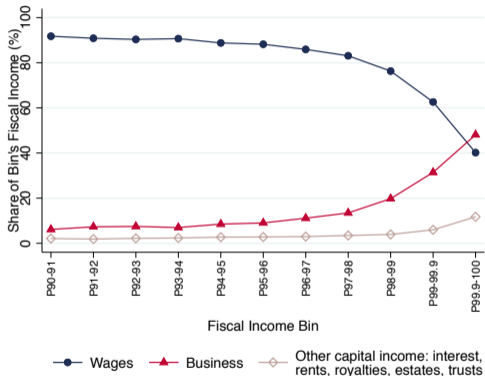
## #1. See the forest through the trees: a multitude of main street millionaires

Pass-through owners account for a much larger share of people and income in the top 1 percent than public company executives



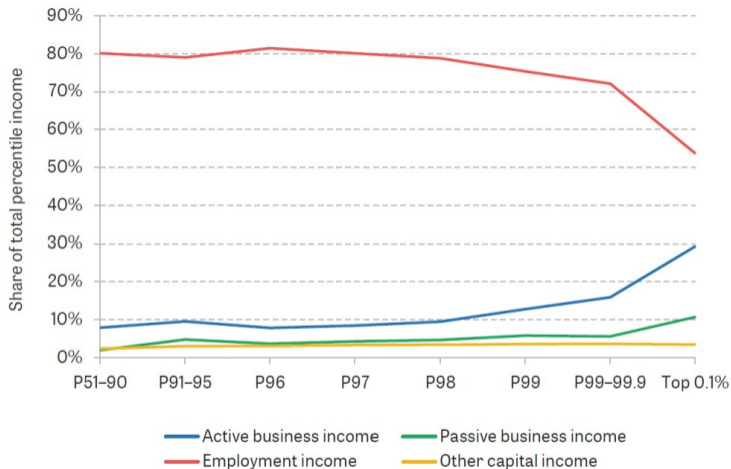
Source: Smith, Yagan, Zidar, and Zwick (2019)

# #1. The striking world of business owners at the top



Source: Smith, Yagan, Zidar, and Zwick (2019)

# #1. The striking world of business owners at the top in the U.K.



Source: Delestre, Kopczuk, Miller, and Smith (2022)

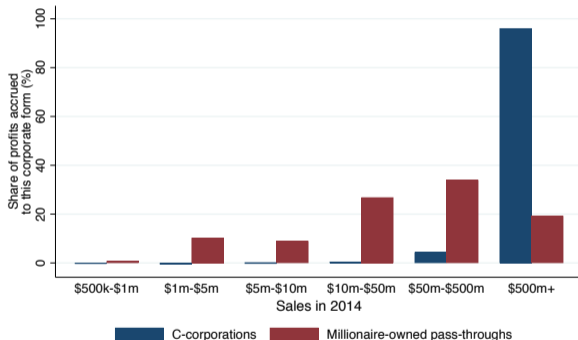
# #1. See the forest through the trees: a multitude of main street millionaires

2014 S-corporation sample. Statistics in millions of 2014 USD.

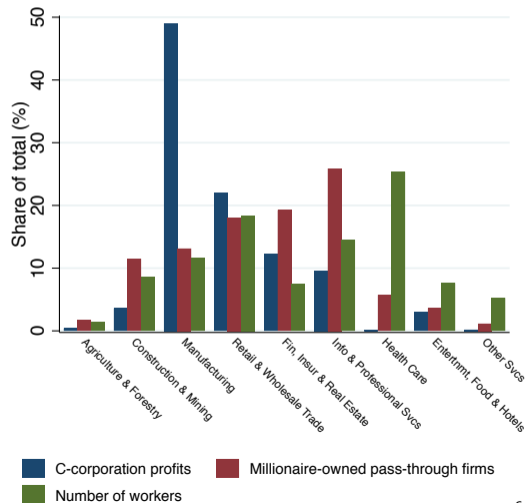
Industry (NAICS)	Top 1-0.1%		Industry (NAICS)	Top 0.1%	
	Rank	Profits		Rank	Profits
Offices of physicians (6211)	1	9062	Other financial investment actvty (5239)	1	5785
Other professional/technical svc (5419)	2	4778	Automobile dealers (4411)	2	5176
Offices of dentists (6212)	3	4316	Oil/gas extraction (2111)	3	4820
Other specialty trade cntrctr (2389)	4	3893	Other professional/technical svc (5419)	4	4185
Legal svc (5411)	5	3485	Offices of physicians (6211)	5	3621
Insurance agencies/brokerages (5242)	6	2677	Computer sys design/related svc (5415)	6	3206
Computer sys design/related svc (5415)	7	2662	Management/techncl consulting svc (5416)	7	3185
Architectural/engineering svc (5413)	8	2642	Other specialty trade cntrctr (2389)	8	3085
Building equipment cntrctr (2382)	9	2594	Legal svc (5411)	9	2847
Restaurants (7225)	10	2420	Misc. durable goods merch whlsl (4239)	10	2836
Management/techncl consulting svc (5416)	11	2195	Other fabricated metal prod mfg. (3329)	11	2726
Nonresidential building constr (2362)	12	1905	Other miscellaneous mfg. (3399)	12	2476
Offices of other health practitioners (6213)	13	1886	Activities related to real estate (5313)	13	2285
Misc. durable goods merch whlsl (4239)	14	1683	Other heavy constr (2379)	14	2247
Other fabricated metal prod mfg. (3329)	15	1669	Nonresidential building constr (2362)	15	1939

# #1. See the forest through the trees: a multitude of main street millionaires

Cf. C-corps are big, public companies

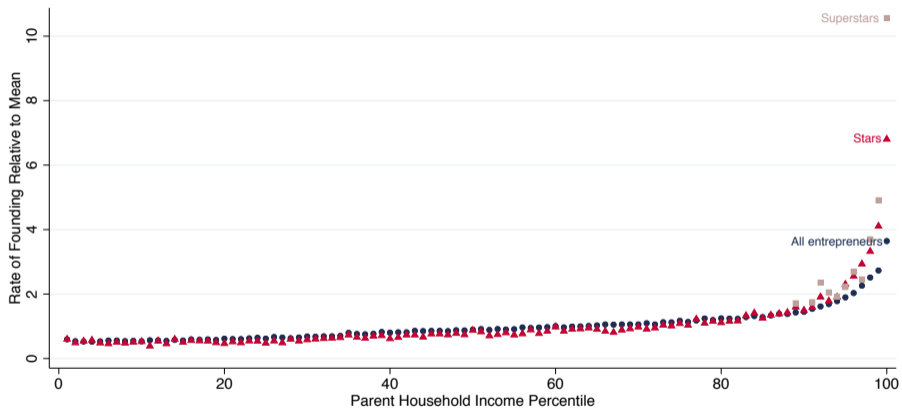


Cf. C-corps are capital-intensive



## #2. Many missing entrepreneurs

Entrepreneurship rates are lower for children of low-income families



Source: Chetty, Van Reenen, Zidar, and Zwick (2022)



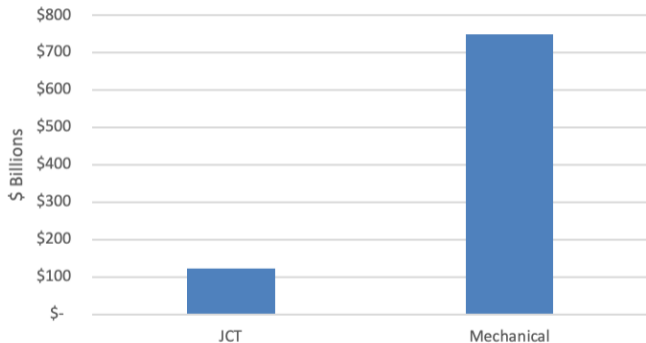
### #3. The revenue potential of top capital gains taxes is larger than many believe

1. **Many prior studies focus primarily on short-run taxpayer responses**, and so miss revenue from gains that are deferred when rates change
2. Rise of pass-throughs, index funds, has shifted **composition of capital gains**
3. Closer parity to income rates provides **backstop to rest of tax system**
4. **Base-broadening reforms** will likely decrease the elasticity of tax base to  $\tau_{cg}$

Source: Sarin, Summers, Zidar, and Zwick (2022).

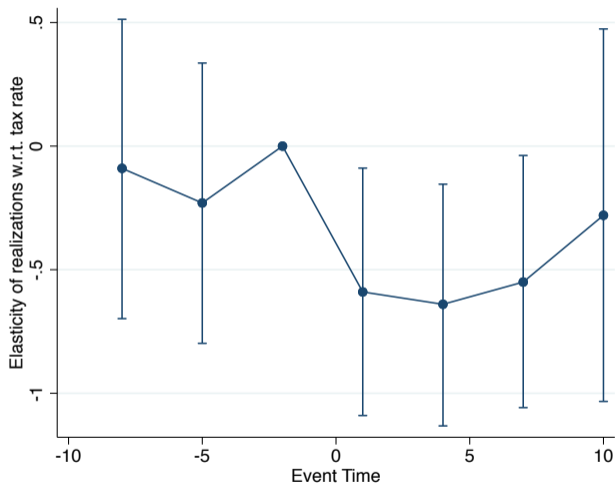
## #3b. JCT and Mechanical ten-year revenue estimates for 5 p.p. increase in $\tau_{cg}$

JCT estimates only 16% of mechanical revenue



- Sept2021 JCX-42-21 “Increase top tax rate on long-term capital gains and qualified dividends to 25% and lower income thresholds to which it applies” is **\$123B**
- CBO projections of cap gains realizations + qualified dividends 2022-2031:  $\approx$ \$15T

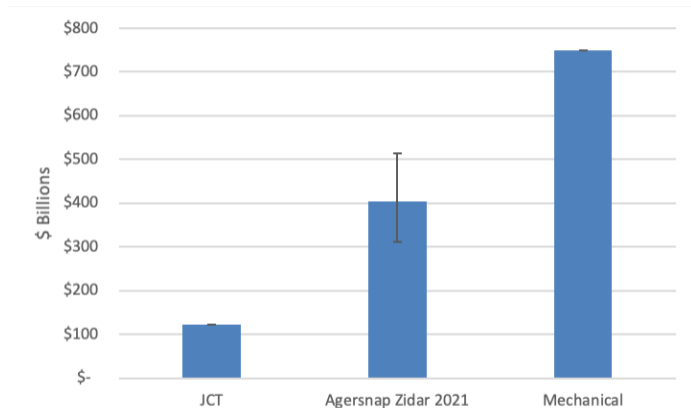
### #3b. Event studies over 10-year budget window (e.g., Agersnap Zidar, 2021)



Source: Agersnap and Zidar (AER: Insights, 2021).

### #3b. Crude ten-year revenue estimates for 5 p.p. increase in $\tau_{cg}$

JCT estimates only 16% of mechanical revenue; AZ estimates are 54% (other specifications give 42% to 68%)



- Plot shows estimates using  $\varepsilon_{NTR} = \{1.87, 1.48, 1.01\}$  from AZ Table 2.
- Use net-of-tax-rates at 22% rate (e.g.,  $e_{\tau} = -0.42 \Rightarrow e_{ntr} = \frac{-0.42}{.22/(1-.22)} = 1.48$ )