Twitter Thread by Villi ■■



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A few thoughts on tax policy. Thread:

So you are worth >$100M or perhaps even a few billion. There are only two ways to become this rich.

1. You start a business that becomes very successful.
2. You inherit wealth from your family. 1/

Whether you created a great company or inherited a lot of wealth, you are now sitting on a capital asset. You don't really have any ordinary income (not meaningful to be relevant) and you never will. To the extent you ever pay taxes, it will be capital gains. 2/

The highest tax rate that the super rich will ever pay on their income (or wealth) is 20% capital gains tax. So, the super rich pay the equivalent effective tax rate of any American earning $75K (when you include FICA taxes). Same as a teacher or a cop. 3/

The question following from this obvious injustice in the tax system is the appropriate policy for taxing capital income. Economic policy would suggest that the best tax rate on capital is 0%. Why? ...4/

...Because in a capitalist society you want capital flowing efficiently without friction to its most productive use. Benefits of that are obvious. 5/

The problem, however, is the apparent injustice this creates in terms of how the tax burden is shared among citizens. I doubt any hard working American would be able to find a rational justification for why they should pay a higher effective tax rate than the super rich. 6/

This is why policy making is required to reconcile this conflict and find an approach that balances the various objectives. There are many ways of approaching this issue, but they all start with a conversation and an acknowledgement of the other side's POV. 7/

Now, it does get more complicated from a policy perspective bc the reality is that the super rich do not pay 20% effective tax rate. They pay less. A lot less. 8/

The extreme example of the Bezos or Buffets is that they never will pay any taxes. Probably nothing even approaching 10% of their net worth - cumulatively over their entire life! 9/

The reason most billionaires will never pay any taxes is because they will never be able to spend all of that money, which means they will never sell the assets/stock that made them billionaires. 10/

They can also use stock to fund initiatives in controlled corporations (tax free) and make donations of zero basis stock which has big tax advantages and reduces taxable income. 11/

So, such billionaires will die never having paid any meaningful amount in taxes. Which brings a few other policy questions. Should we tax the super rich on their wealth during their life to ensure that they pay some taxes, like the rest of us? 12/

A wealth tax would make sense, especially in combination with a very low tax on capital. What would that look like and what would be the consequences? This is a legitimate policy question. 13/

And of course, there is the estate tax, which is another policy question. What should we allow the estate of the rich to obtain without paying a tax and at what rate. As discussed, much of this wealth has never been taxed. Nor has the estate done anything to earn this money. 14/

Unless there is such a thing as free lunch, an estate tax seems to make a lot of sense. What is absent in our conversation is a debate about policy, which is not to be confused with a debate about religion. End.