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David J. Shakow
University of Pennsylvania Law School, dshakow@law.upenn.edu

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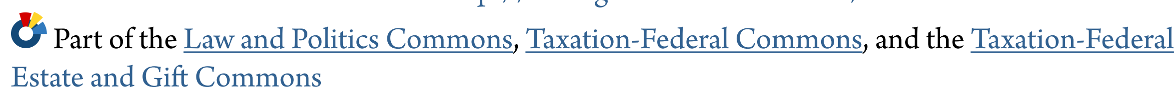
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A WEALTH TAX: TAXING THE ESTATES OF THE LIVING

DAVID J. SHAKOW*

Abstract: It has now been one hundred years since the passage of the first estate tax, and since that time the size and complexity of the federal tax system has only continued to grow. In the face of that complexity it is worthwhile for the United States to begin considering alternatives. Do we continue with our system of income and consumption taxation, or do we turn to a wealth tax? A wealth tax is sometimes criticized as being too complex, but there are reasons to suggest it is no more complex than our current system—and possibly even less complex. When analyzed, the main source of contention—valuation—is not actually as onerous as it seems. A wealth tax of about 1.6% may ultimately engender little opposition from taxpayers. Accordingly, this Article argues that the merits of a wealth tax are worth considering, and its drawbacks not insurmountable.

INTRODUCTION

The estate tax was first passed in 1916.[1] Congress's concern in passing the estate tax is made clear in the House Committee report: "What taxes can be levied that will be sufficient to meet the needs of the Treasury and at the same time place the least burden upon the people who are compelled to pay them and keep the burden of taxation equitably distributed?"[2]

Congress was looking to make the tax burden "equitable." At that time, over eighty-five percent of federal collections consisted of consumption taxes: import duties and various excise taxes including taxes on tobacco and liquor, and stamp taxes, including taxes on playing cards.[3] The Committee report added that "[n]o civilized nation collects so large a part of its revenues through consumption taxes as does the United States, and it is conceded by all that such taxes bear most heavily upon those least able to pay

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* Gabelli Fellow, Gabelli Graduate School of Business, Fordham University; Professor, Emeritus, University of Pennsylvania School of Law.

[1] Revenue Act of 1916, Pub. L. No. 64-271, §§ 200–212, 39 Stat. 756, 777–80 (codified as amended in scattered sections of 26 U.S.C.).

[2] H.R. REP. NO. 64-922 (1916), *reprinted in* 1939-1 C.B. (pt. 2) 22, 23 (1939).

[3] For data on federal revenues from 1789 to 1945, see BUREAU OF THE CENSUS, HISTORICAL STATISTICS OF THE UNITED STATES: 1789–1945, at 295–98 (1949), http://www2.census.gov/library/publications/1949/compendia/hist_stats_1789-1945/hist_stats_1789-1945-chP.pdf [https://perma.cc/9YZE-ZC23].

them."[4] After noting that Great Britain collected more than half of its revenue from income and inheritance taxes the Committee added:

> It is probable that no country in the world derives as much revenue per capita from its people through consumption taxes as does the United States. It is therefore deemed proper that, in meeting the extraordinary expenditures for the Army and Navy, our revenue system should be more evenly and equitably balanced and a larger portion of our necessary revenues collected from the incomes and inheritances of those deriving the most benefit and protection from the Government.[5]

Congress's solution was an inheritance tax.[6] But once the United States entered World War I, even the inheritance tax was not enough of a supplement to the consumption taxes to finance the war, and the United States turned to a much broader income tax than it imposed previously.[7] It is worth appreciating, however, what led Congress to impose the estate tax in 1916. Congress, as expressed in the Committee report, was concerned with the equity of the tax system, and was looking for a way to impose the tax burden on "those deriving the most benefit and protection from the Government."[8]

With that in mind, it is fair to ask what Congress concluded best measures the benefits and protections derived from the government. Applying the tax to estates suggests that those who have died in the current year (or their heirs) best fit that category. But presumably Congress did not conclude that the best indicator of someone's benefiting from the government was his or her death in the current year. It would seem that Congress introduced the estate tax because it felt that those with large holdings of wealth had benefitted from protection from the government in the past. This suggests that the estate tax was a surrogate for a wealth tax.[9] The visceral argument for a wealth tax remains to this day. When Warren Buffett criticizes

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[4] H.R. REP. NO. 64-922, *reprinted in* 1939-1 C.B. (pt. 2) at 23.

[5] *Id.*

[6] *See id.*

[7] *See generally* Revenue Act of 1917, Pub. L. No. 65-50, 40 Stat. 300 (1917) (imposing a variety of new taxes in order to fund the Unites States' involvement in World War I).

[8] *See* H.R. REP. NO. 64-922, *reprinted in* 1939-1 C.B. (pt. 2) at 23.

[9] A wealth tax as such was apparently not considered, probably because the need to value property annually seemed too daunting. That perception may be changing. There has been much renewed interest in a wealth tax generated by recent scholarship. *See, e.g.*, THOMAS PIKETTY, CAPITAL IN THE TWENTY-FIRST CENTURY (Arthur Goldhammer trans., 2014). An estate tax has an advantage, because compared to an annual wealth tax, its imposition is normally not precisely expected; thus, it is less subject to planning. *See* Alan Auerbach, *The Future of Capital Income Taxation*, 27 FISCAL STUD. 399, 417 (2006) (noting that an estate tax captures unintended bequests when a person holds onto assets to prepare for future expenses but dies having not encountered such expenses).

our current system because he pays tax at a lower rate than his secretary, he may well be appealing to the idea that wealth, rather than income, is a fairer way of gauging who should support our government.[10] The "Buffett Rule" is a tax on income, but it is phrased as a tax imposed on millionaires, a term traditionally based on wealth.[11]

In any event, when the needs of government escalated dramatically with the entrance of the United States into World War I, Congress expanded the individual income tax that it had first passed in 1913.[12] Presumably it relied on the income tax, rather than any form of wealth tax, because it appears much easier to measure income than to determine each individual's wealth.

After more than one hundred years of experience with the income tax, that presumption is worth reexamining. Although it may still seem difficult to evaluate everyone's wealth, the growth in size and complexity of the federal income tax suggests that measuring income may not be as easy as was first believed. That is not to suggest that measuring wealth would be easy. The point of this exercise is to compare the complexity of the wealth tax with the complexity of our income tax.

Accordingly, Part I addresses the question of why the United States should consider a wealth tax in the first place.[13] Part II provides a brief overview of the structure of the present wealth tax proposal.[14] Part III confronts potential valuation concerns and explains why those difficult valuations are not actually fatal for a wealth tax.[15] Part IV analyzes the problem created by distinguishing income from capital and labor, by way of comparisons to how Nordic tax systems address the problem.[16] Part V looks at possible economic effects of a wealth tax.[17] Part VI argues that the low rate imposed under the wealth tax is unlikely to generate significant negative consequences, as evidenced by behavior in relation to local property tax

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[10] *See* Chris Isidore, *Buffett Says He's Still Paying Lower Tax Rate Than His Secretary*, CNN MONEY (Mar. 4, 2013), http://money.cnn.com/2013/03/04/news/economy/buffett-secretary-taxes/ [https://perma.cc/L5VS-GY2Y]. Note that the assertion relates to Buffett's rate, not the amount of tax he pays. *See id.*

[11] *See* Jeanne Sahadi, *The Buffett Rule Is Back*, CNN MONEY (Feb. 2, 2015), http://money.cnn.com/2015/02/02/pf/taxes/obama-buffett-rule/ [https://perma.cc/54TT-DCSA]; *see also Millionaire*, MERRIAM WEBSTER DICTIONARY, http://www.merriam-webster.com/dictionary/millionaire [https://perma.cc/LM53-9K3V] (noting that "millionaire" is a term based on wealth).

[12] *Compare* S. REP. 64-793 (1916), *reprinted in* 1939-1 C.B. (pt. 2) 28, 29 (1939) (estimating the estate tax would raise $65 million per annum when fully phased in), *with* S. REP. 65-103 (1917), *reprinted in* 1939-1 C.B. (pt. 2) 56, 70 (1939) (estimating new war income tax to raise over $777 million and new war profits tax to raise $562 million).

[13] *See infra* notes 21–24 and accompanying text.

[14] *See infra* notes 25–32 and accompanying text.

[15] *See infra* notes 33–63 and accompanying text.

[16] *See infra* notes 64–90 and accompanying text.

[17] *See infra* notes 91–100 and accompanying text.

assessments.[18] Part VII answers additional concerns raised by a wealth tax, such as problems of liquidity and constitutionality.[19] Finally, Part VIII provides an overall evaluation of this wealth tax proposal.[20]

I. WHY BOTHER WITH A WEALTH TAX?

In deciding whether to rely on an income tax or a wealth tax, it is worth recognizing that there is a significant difference in complexity between the two. In the development of the income tax, we have seen that the distinctions that must be made require significant training and intellectual input in order to satisfy taxpayers that they are finding the most tax-efficient way of structuring their affairs. As a result, important intellectual resources of society are devoted to compliance with the income tax. If, in fact, the complexity of a wealth tax can be restricted to issues of valuation, the complexity that must be dealt with is at a lower level than the complexity of the income tax. It is easier to value a building than to decide whether a transaction satisfies § 355 of the Internal Revenue Code.[21] It has been suggested that "[a]ny system requiring appraisals is likely to be a loss for the government because it does not have the resources to win."[22] That argument has much more force where the issues are more complex, as they are in the income tax. In other words, it is more likely that the Internal Revenue Service ("IRS"), with limited resources, will be able to match the skills of taxpayers' advisors under a system based on appraisals than it can under our current complicated income tax law.[23] Moreover, local property taxes, which

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[18] *See infra* notes 101–123 and accompanying text.

[19] *See infra* notes 124–138 and accompanying text.

[20] *See infra* notes 139–148 and accompanying text.

[21] A suggestive comparison is salaries of tax lawyers and salaries of people who value real estate and businesses. The median salary and bonus of a senior residential real estate appraiser is $66,149. *Appraiser Sr. (Residential Real Estate) Salaries*, SALARY.COM, http://www1.salary.com/Appraiser-Sr-Residential-Real-Estate-Salaries.html [https://perma.cc/K9E2-Q8TZ]. For commercial real estate, the figure is $91,525. *Appraiser (Commercial Real Estate) Salaries*, SALARY.COM, http://www1.salary.com/Appraiser-Commercial-Real-Estate-Salaries.html [https://perma.cc/G8AW-H8AM]. The median salary and bonus of the highest ranked "Collateral Appraiser" (one "responsible for conducting complex appraisals and property ratings in conjunction with investment in equity and loans") is $107,093. *Collateral Appraiser III*, SALARY.COM, http://swz.salary.com/SalaryWizard/Collateral-Appraiser-III-Salary-Details.aspx [https://perma.cc/FB5C-J48F]. The median salary and bonus of a tax attorney ranges from $97,609 for the least experienced to $204,543 for the most experienced. *Tax Attorney I Salaries*, SALARY.COM, http://www1.salary.com/Tax-Attorney-I-Salary.html [https://perma.cc/PJ3B-2LHT]; *Tax Attorney IV Salaries*, SALARY.COM, http://www1.salary.com/Tax-Attorney-IV-Salary.html [https://perma.cc/P6TD-9D4Z].

[22] Noël B. Cunningham & Deborah H. Schenk, *Taxation Without Realization: A "Revolutionary" Approach to Ownership*, 47 TAX L. REV. 725, 743 n.78 (1992).

[23] The salaries paid to tax lawyers and others in the real estate industry are evidence of their skill and the resources available to them. *See supra* note 21 and accompanying text (providing median salaries).

have been the mainstay of income for local governments for many years, survive despite the need for appraisals.

In addition, to the extent that the wealth tax described in this Article leads to a flat tax rate on wealth that is around 1.6%, valuation issues must be quite great for taxpayers to pursue them very far. More generally, a tax with a low rate is less likely to attract tax planners than a high rate tax. That is a practical advantage of a wealth tax over the theoretically more popular consumption tax. Potentially, replacing the income tax with a wealth tax would lead to more productive uses of society's assets.

Part of the goal of this Article is to demonstrate that the obvious area of concern in adopting a wealth tax—the difficulty of valuation—is significantly less severe for the vast majority of assets than might be feared. Consequently, it is fair to imagine that such a wealth tax is practicable. If concerns about valuation can be overcome, the discussion of the practicality of a wealth tax can shift to the question of whether a wealth tax as described below can avoid the type of complexity that has grown up around the income tax. In particular, the issue that may be most difficult is distinguishing income from labor and income from capital. Although that issue raises serious problems that require additional investigation, it already arises under the income tax, and it is a significant problem for tax systems that have been functioning for over twenty years in Finland and the Scandinavian countries.[24] In other words, it seems reasonable to conclude that a functioning tax system can cope with the issue.

II. The Structure of the Wealth Tax

Professor Reed Shuldiner and this author have previously proposed a wealth tax.[25] The proposed wealth tax was structured with a number of constraints.[26] It was intended to replace both the individual and the corporate income tax and to leave the burden on labor and the burden on capital roughly the same as under current law.[27]

The wealth tax described had two components. One was a flat tax on net worth.[28] The other was a flat tax on wages.[29] A tax on wages can be fit under the rubric of a wealth tax if viewed as a surrogate for a wealth tax on

[24] *See infra* notes 66–89 and accompanying text (discussing dual-income tax systems).

[25] *See generally* David Shakow & Reed Shuldiner, *A Comprehensive Wealth Tax*, 53 TAX L. REV. 499 (2000) (proposing a wealth tax).

[26] *See id.* at 499–500.

[27] *See id.*

[28] *Id.* at 546–50.

[29] *Id.*

human capital.[30] The base case described excluded from net worth items that currently are not substantially subject to income tax—most importantly, people's homes and their tax-favored retirement savings.[31]

Operating with those constraints, the authors showed that such a tax—with a flat tax on wages of less than 18% and a flat tax on net worth of about 1.6%—would satisfy the criteria described above, taking into account the use of a credit against the calculated tax liability to provide some progressivity in the tax structure.[32]

III. THE VALUATION ISSUE

There is no question that the valuation issue is the one that people considering a wealth tax find most troubling. For example, several scholars, in their discussion of the base for direct taxation, assume that the annual measurement of wealth is not available, noting that "[whereas] the values of some types of wealth are readily measureable, others are not."[33]

It is easier to respond to critics who point to specific problems with valuation. One scholar, discussing the possibility of a wealth tax, lists the following assets as being hard to value (noting percentages of all assets held by persons with at least $2 million of gross assets)[34]:

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[30] It is appropriate to consider the place of human capital in the context of a wealth tax. About one-third of Professors Joseph Bankman and Daniel Shaviro's review of Thomas Piketty's *Capital in the Twenty-First Century*, *supra* note 9, is devoted to human capital in the context of a wealth tax. *See* Joseph Bankman & Daniel Shaviro, *Piketty in America: A Tale of Two Literatures* 48–72 (N.Y. Univ. Ctr. for Law, Econ. & Org., Law & Economics Research Paper Series, Working Paper No. 14-31, Nov. 3, 2014), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2518586 [https://perma.cc/2RUQ-U3HE].

[31] Shakow & Shuldiner, *supra* note 25, at 533–38.

[32] *Id.* at 561–62.

[33] James Banks & Peter Diamond, *The Base for Direct Taxation*, *in* DIMENSIONS OF TAX DESIGN: THE MIRRLEES REVIEW 548, 553 n.7 (Stuart Adam et al. eds., 2010). Alan Viard, discussing the related valuation issues that arise in mark-to-market income tax proposals, is more blunt, saying "[t]hose proposals, which resort to a variety of questionable ad hoc methods to impute market values, clearly extend mark-to-market taxation beyond its reasonable bounds." Alan Viard, *Moving Away from the Realization Principle*, 145 TAX NOTES 847, 852 n.16 (2014). Full disclosure requires noting that one of the proposals Viard refers to is the present author's suggestion of a market-to-market system under the income tax. David J. Shakow, *Taxation Without Realization: A Proposal for Accrual Taxation*, 134 U. PA. L. REV. 1111, 1118–19 (1986).

[34] David Kamin, *How to Tax the Rich*, 146 TAX NOTES 119, 123 (2015) (citing Brian Raub & Joseph Newcomb, *Personal Wealth, 2007*, 31 STAT. INCOME BULL., no. 3, Winter 2012, at 156, https://www.irs.gov/pub/irs-soi/12pwwinbulwealth07.pdf [https://perma.cc/NN7W-CRGH]). The percentages, derived from estate tax returns, are not necessarily compatible with other figures, such as the Federal Reserve's Flow of Funds figures. The precise percentages are not important, however; the point here is to identify those assets that a critic of a wealth tax considers hard to value.

Real estate 22%
Closely held stock 12%
Noncorporate business assets 7%
Farm assets 3%
Private equity and hedge funds 3%
Other (other limited partnerships, art) 2%

An examination of the assets in these categories, as provided below, will reduce critics' concerns about valuing them.

A. Real Estate

The first, and largest, category of assets that must be valued is real estate. Constituting twenty-two percent of all assets,[35] real estate is already widely subject to tax in the United States based on value. Of course, local property taxes are not precise and raise issues that lead to disputes involving the value of the real estate. Local governments, however, have been able to enforce a property tax since colonial times.[36]

Websites, such as Zillow, allow anyone to obtain estimates of values of most real estate in the United States. Zillow claims a national median error rate of 7.9%.[37] Because Zillow uses a proprietary valuation method, there is no independent test of this claim. A study of real estate appraisals in large sales in liquidation concluded that, for appraisals made within a year of the liquidation sale, the ratio of appraised value to gross proceeds was off by about 27.6%.[38] The great majority of errors were on the high side, however, which may be a function of a failure to take proper account of the fact that the properties were being sold on liquidation.[39]

The fact that the valuation numbers used in property tax administration (and in websites like Zillow) are not precise means that there will be disagreements between taxpayers and administrators; but this issue does not appear to raise an insurmountable problem of administering a property tax. In part, this is probably because the rates that are applied in enforcing the property tax are low. Data collected and analyzed by the Minnesota Department of Revenue show that the ratio of property taxes to value ranges

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[35] Kamin, *supra* note 34, at 123.

[36] JEROME R. HELLERSTEIN & WALTER HELLERSTEIN, STATE AND LOCAL TAXATION: CASES AND MATERIALS 2–3 (5th ed. 1988).

[37] *How Accurate Is the Zestimate?*, ZILLOW, http://www.zillow.com/zestimate/#acc [https://perma.cc/R4U9-92XW].

[38] Brian Olasov & K.C. Conway, *Valuing Appraisals: Evidence from the CMBS Industry*, 14 CRE FINANCE WORLD, no. 1, Winter 2012, at 35, 37 (noting $2.1 billion in absolute value of errors compared to $7.6 billion gross proceeds).

[39] *See id.* at 36.

from 4.040% to 0.117% for urban homes, with an average of about 1.5%.[40] For urban commercial properties, the rates range from 4.215% to 0.692%, with an average of about 2.1%.[41] For urban industrial properties, the range is 3.972% to 0.512%, with an average around 1.55%.[42] The average for rural homes is about 1.3%; for rural commercial, around 1.7%; and for rural industrial, around 1.25%.[43]

Because we are dealing with a wealth tax at a rate of around 1.6%, it should be realized that a disagreement on the order of $250,000 in value would lead to a tax dispute on the order of $4000. When the tax rate is low, valuation issues become much less significant, unless there is a very large dispute over the value of the property.

Also, in contrast to the operation of local property taxes, the taxpayer under our wealth tax (as under the income tax) sets a figure, and it is up to the IRS to challenge it.[44] The IRS could use local property tax figures as an indication of whether the taxpayer's figure is reasonable. It is also possible that the IRS could combine forces with local governments to improve valuations. It should be remembered that this wealth tax would not be applied to owner-occupied homes, which reduces the scope of the valuation issue as it pertains to real estate.[45]

B. Closely Held Stock, Noncorporate Business Assets, and Private Equity and Hedge Funds

1. In General

Closely held stock, noncorporate business assets, and private equity and hedge funds, which together constitute another twenty-two percent of assets,[46] would appear to raise a more serious problem. Although those assets certainly are valued by potential investors, one could imagine that the

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[40] LINCOLN INST. OF LAND POLICY & MINN. CTR. FOR FISCAL EXCELLENCE, 50-STATE PROPERTY TAX COMPARISON STUDY 14 (2015), https://www.lincolninst.edu/pubs/dl/3550_2891_Pay_2014_PT_Report.pdf [https://perma.cc/PH8J-5H7S] [hereinafter LINCOLN INST.]. This is the average of the rates in the largest city of each state, plus the District of Columbia, New York City, and Chicago, for homes worth $150,000. *Id.* For $300,000 homes, the average is around 1.56%. *Id.* at 15. Although the figures cover only the largest city in each state, it is likely that those cities' rates are near the higher end of the state. Telephone Interview with Aaron Twite, Research Dir., Minn. Ctr. for Fiscal Excellence (Mar. 30, 2015) (stating his opinion based on his particular knowledge of the state and work on the 50-State Property Tax Comparison Study).

[41] LINCOLN INST., *supra* note 40, at 18.

[42] *Id.* at 20.

[43] *Id.* at 1, 4, 6.

[44] *See generally* Shakow & Shuldiner, *supra* note 25 (proposing a wealth tax that would follow procedures currently used for the income and estate tax).

[45] *Id.* at 535–37.

[46] Kamin, *supra* note 34, at 123.

differences in valuation would be significant, and that the numbers involved will be large enough to lead to disputes, even in the wealth-tax system at a rate of 1.6%. Moreover, valuing a business is a lot more complicated than valuing a parcel of real estate, and would require more resources.

A preliminary valuation of a business reportedly costs $3000 to $10,000.[47] In contrast, an appraisal of a home costs around $300 on average.[48] Books giving guidance to those who would value a business can be quite weighty.[49] A wealth-tax system might look to shortcuts to reduce disputes in this area, for example by prescribing a particular method to use to value a business. Any such attempt at a shortcut, however, will undoubtedly encourage manipulation of whatever limited factors are given for valuation. There are theoretical auction models which allow one high bidder to buy an asset if its owner undervalues it,[50] but such a solution probably cannot work politically.[51] Presumably, if the need for valuing businesses increases, more efficient approaches to valuing businesses will be developed. Nevertheless, this is undoubtedly an area of concern.

In deciding whether this valuation issue makes a wealth tax infeasible one should compare the estimate of the inaccuracy of such valuations with the state of income tax enforcement for privately held businesses. In 2007, the U.S. Government Accountability Office ("GAO") issued a report on the tax gap.[52] They concluded that, in the case of sole proprietors, only 43% of

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[47] Karen E. Klein, *Is It Worth Getting a Valuation for Your Small Business?*, BLOOMBERG (June 9, 2014), http://www.bloomberg.com/bw/articles/2014-06-09/is-it-worth-getting-a-valuation-for-your-small-business [https://perma.cc/BW5D-ZUBG] (citing a study by independent research firm IBISWorld).

[48] This figure is reported on the HomeAdvisor web site, based on reports they have received. *How Much Does It Cost to Hire a Property Appraiser?*, HOMEADVISOR, http://www.homeadvisor.com/cost/inspectors-and-appraisers/hire-a-property-appraiser [https://perma.cc/LSN2-AC9V].

[49] *See, e.g.*, SHANNON P. PRATT & ALINA V. NICULITA, VALUING A BUSINESS: THE ANALYSIS AND APPRAISAL OF CLOSELY HELD COMPANIES (5th ed. 2008) (providing over 1100 pages of information); *see also* DAVID LARO & SHANNON P. PRATT, BUSINESS VALUATION AND FEDERAL TAXES: PROCEDURE, LAW, AND PERSPECTIVE (2d ed. 2011) (providing 482 pages of information).

[50] These models stem from "Vickrey auctions," with the academic literature following William Vickrey, *Counterspeculation, Auctions, and Competitive Sealed Tenders*, 16 J. FIN. 8 (1961).

[51] That may be overly pessimistic. For example, a variation of the Vickrey auction is used by the Federal Communications Commission to sell radio spectrum licenses. *See* Jonathan Levin & Andrzej Skrzypacz, *Are Dynamic Vickrey Auctions Practical?: Properties of the Combinatorial Clock Auction* 1 (Nat'l Bureau of Econ. Research, Working Paper No. 20,487, Sept. 2014), http://www.nber.org/papers/w20487 [https://perma.cc/4US5-2DQW].

[52] *See generally* U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-07-1014, TAX GAP: A STRATEGY FOR REDUCING THE GAP SHOULD INCLUDE OPTIONS FOR ADDRESSING SOLE PROPRIETOR NONCOMPLIANCE (2007), http://www.gao.gov/assets/270/265399.pdf [https://perma.cc/8SNB-SDJ5] (describing findings of a tax gap for sole proprietorships and proposing solutions); Susan Cleary Morse et al., *Cash Businesses and Tax Evasion*, 20 STAN. L. & POL'Y REV. 37 (2009) (referencing the GAO report on the sole proprietorship tax gap within a qualitative analysis of tax evasion).

income was being reported.[53] Although sole proprietors obviously do not constitute the full 22% of assets represented by closely held businesses, noncorporate business assets, and private equity and hedge funds, it seems reasonable to assume that if sole proprietors are reporting only 43% of income, these other private businesses are not reporting substantially more on average. Accordingly, although these assets may be difficult to value, it is not unreasonable to assume that such valuations will be more successful than the current income tax system in capturing an appropriate tax liability for these assets.

2. Minority Interests and Closely Held Businesses

In the context of a wealth tax, the sum of all ownership interests should equal the value of the entity as a whole. Valuation issues arise, however, when ownership interests in an entity are divided up in complicated ways. For example, a partnership may have elaborate rules for allocating profits and losses. Alternatively, the ownership of a closely held corporation could be structured in such a way that some minority interests may be discounted because of their minority position, whereas majority positions may properly demand a premium. Measuring those discounts and premia is very difficult.

Valuing ownership interests is particularly problematic in the context of closely held businesses.[54] Involving the entity itself in the solution could ameliorate the valuation issue. For example, a procedure somewhat similar to the partnership audit structure could be adopted.[55] Closely held entities might be required to provide the IRS with the valuations that their owners have placed on the owners' interests in the entity. The IRS could then decide to challenge those valuations, based on its determination of the value of the entity as a whole when compared to the sum of the values the owners have placed on their interests in the entity. If the owners of any entity did not wish to deal with the valuation issue in that manner, the entity could pay the flat-rate tax on its own value, thus avoiding any issue of how the tax should be apportioned among the owners of the entity. The underlying principle is that the value of an enterprise cannot be reduced by its owners carving up their interests in a particular way.

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[53] U.S. GOV'T ACCOUNTABILITY OFFICE, *supra* note 52, at 1 (estimating that sole proprietors misreport 57% of their income).

[54] Note the length of the books on valuing closely held businesses. *See supra* note 49 and accompanying text.

[55] I.R.C. §§ 6221–6234 (2012). Although the partnership is not the taxpayer, it may deal with the IRS on an audit in some circumstances.

C. Farms, Other Limited Partnerships, and Art

Farm assets raise problems similar to real estate and, along with other limited partnerships, present issues resembling those relating to closely held businesses discussed above.[56]

Additionally, artwork and similar assets present special problems because they are unique and often very valuable. The IRS uses an Art Advisory Panel to evaluate art works for purposes of the income, estate, and gift taxes.[57] Any work with a claimed value of $50,000 or more is reviewed by this Panel.[58] Under a wealth tax there would be substantially more items to evaluate. It is unlikely, however, that the increase in evaluations will increase the number of challenges by taxpayers. With a 1.6% wealth tax, a $50,000 item results in only $800 of tax. For each $1000 of disagreement between the IRS and taxpayers, only $16 of tax is implicated. Once initial valuations are determined for assets, it is not likely that there would be many significant disagreements (at $16 of tax per $1000 of disagreement) about changes from year to year. The initial valuation process would likely present a significant burden to the IRS. Initially, it might rely on the figures taxpayers used in insuring their works of art and similar objects. It is worth noting that works of art constitute less than 1% of all personal assets in the United States, and are held mostly by the wealthiest taxpayers.[59]

D. Retirement Accounts

To the extent they would be treated as assets of a taxpayer, retirement accounts would be difficult to value because of the uncertainty as to when the taxpayer would make use of the funds. In developing the original wealth tax proposal referenced herein, the authors omitted retirement accounts from the wealth tax base.[60] This was done to reflect the favorable treatment given to retirement accounts under current law.[61] As noted in the proposal, it would be possible to deal with retirement accounts by imposing a tax to be collected from the account itself.[62] In this way, the burden of the tax on the

[56] *See supra* notes 35–52 and accompanying text.

[57] For a general description, see *Art Appraisal Services*, INTERNAL REVENUE SERV., https://www.irs.gov/Individuals/Art-Appraisal-Services [https://perma.cc/36GJ-9BZK].

[58] *Id.*

[59] *See* Raub & Newcomb, *supra* note 34, at 169–70 & tbl.1 (showing art as 0.79% of all wealth, more than 80% of which is held by persons with net worth over $20 million). The author calculated these percentages.

[60] Shakow & Shuldiner, *supra* note 25, at 533–34 (explaining that retirement accounts were excluded from the net worth portion of the wealth tax and contributions to retirement accounts would be excluded from the wage tax).

[61] *Id.*

[62] *Id.*

beneficiary of the account would not necessarily equal the amount of the tax collected from the retirement account, in the same way that each dollar in the retirement account is not necessarily worth a dollar to the owner of the account. In the context of the proposal, the authors did not push to include retirement accounts in the wealth tax base, because, among other reasons, it would then become difficult to determine how to distribute the burden of such a tax to taxpayers based on available data.[63]

In any event, one lesson from this discussion is that, in the context of a wealth tax, the valuation problem may be solved by considering a structure that collects the tax from the entity whose value is difficult to determine, rather than by making the valuation with respect to the owner of the asset.

IV. Distinguishing Income from Labor and Capital

A. In General

Although the wealth tax proposal previously described had only a zero bracket amount and two flat rates, there is one obvious area where tax planning is possible and, therefore, rules will be needed to deal with the issue. Because income from capital is not taxed (capital itself is taxed), there could be a strong push to convert any amounts paid to a shareholder-employee from wages (taxed at about eighteen percent) to dividends, which are not taxed at all. This is not a new issue to the tax law, as there is a history of litigation in which taxpayer-employees of C corporations attempt to characterize distributions from their corporations as deductible wages rather than non-deductible dividends.[64] Because the differences in the rates of dividends and wages are so great, it is likely that this will be an area of controversy between the IRS and taxpayers. Moreover, the issue is expanded under a wealth tax because the self-employed will want to distinguish between their income that arises from their own efforts (taxed at the higher wage rate) and their income that arises from the capital used in their self-employment activities (taxed only as additional wealth).

The issue of correctly characterizing the salaries paid to owners of a closely held business is very important for valuing such businesses. As such, it receives attention from those interested in valuing a business. Not surprisingly, in a book about business valuation co-authored by a tax court

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[63] *See id.*

[64] *See generally* Mulcahy, Pauritsch, Salvador & Co. v. Comm'r, 680 F.3d 867 (7th Cir. 2012) (affirming Tax Court's holding that the IRS properly reclassified consulting fees as dividends rather than wages).

judge, the need to examine the salaries paid to owners of the business is highlighted.[65]

B. Dual-Income Tax Systems

A possible solution to the problem could be found by looking at countries that have dual-income tax systems. Dual-income tax systems have experience distinguishing income from labor and capital. Nordic countries introduced dual-income tax systems in various forms starting in the late 1980s.[66] These systems impose a flat tax on income from capital yet maintain a progressive tax schedule for income from labor.[67] The lowest personal marginal rate for income is set at the capital rate, but additional taxes on labor push the rates higher than for capital income.[68]

When an individual runs a business, either as a sole proprietorship or a closely held corporation, it is necessary to distinguish between a return on the proprietor's capital (taxed at a lower rate) and a return on the proprietor's labor (taxed at higher, graduated rates). The Nordic systems deal with this problem by imputing a fixed return on the capital invested in the activity and treating that as the return on capital.[69] Other income derived from the business is treated as labor income.[70]

The basis for imposing a lower tax rate on capital than on labor is that, to a significant degree, income from labor has a distinct advantage over income from capital.[71] Investments that generate income from capital are amortized over time, with deductions ideally matching the actual decrease in value of the capital investment.[72] When the investment is deducted im-

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[65] *See* LARO & PRATT, *supra* note 49, at 138 (citing Estate of Renier v. Comm'r, 80 T.C.M. (CCH) 401 (2000)).

[66] *See* Søren Bo Nielsen & Peter Birch Sørensen, *On the Optimality of the Nordic System of Dual Income Taxation*, 63 J. PUB. ECON. 311, 311–12 (1997). Based on Bloomberg BNA Tax Management Portfolios, at least Finland and Sweden still have such systems. *See infra* note 69 and accompanying text.

[67] Nielsen & Sørensen, *supra* note 66, at 311–12.

[68] *Id.* at 312, 315.

[69] *See* Petri Manninen & Kalle Kyläkallio, *Portfolio 7120-1st: Business Operations in Finland*, BLOOMBERG BNA TAX MGMT. PORTFOLIOS, at pt. X.C (discussing how Finland distinguishes between different forms of income, including capital income); Espen Nordbø & Eva Linn Gjerlaug, *Portfolio 7280-1st: Business Operations in Norway*, Bloomberg BNA TAX MGMT. PORTFOLIOS, at pt. XIII.C (discussing how Norway treats income from capital differently than other forms of income); Peter Sjögren & Roland S. Dahlman, *Portfolio 985-4th: Business Operations in Sweden*, BLOOMBERG BNA TAX MGMT. PORTFOLIOS, at pt. X.C (discussing how Sweden treats different forms of income distinctly).

[70] *See supra* note 69 and accompanying text.

[71] *See generally* Nielsen & Sørensen, *supra* note 66 (providing an extended discussion of the dual tax systems and why capital is taxed at a lower rate than labor).

[72] Paul A. Samuelson, *Tax Deductibility of Economic Depreciation to Insure Invariant Valuations*, 72 J. POL. ECON. 604, 604–06 (1964). Paul Samuelson proves that a stream of income from

mediately, and the investor is able to make use of that deduction, the investment effectively generates tax-free income.[73] In contrast to the usual treatment of capital expenditures, a major investment in developing labor skills—the opportunity cost of pursuing additional education—is effectively deducted immediately, inasmuch as the individual is generating no income to tax. This argument has been made with particular force in the Nordic countries, which are generous in providing low-cost education.[74] In the United States, where education costs are high and are generally not deductible for tax purposes, the argument loses some of its force.[75]

Another perceived advantage of dual-tax systems is that they reduce taxes on income from capital while maintaining a progressive income tax system. To the extent that those who argue for a consumption tax emphasize the need to reduce the burden of tax on capital investment, the dual-tax systems move in the direction supported by consumption tax advocates.[76]

One scholar has suggested that a dual-income tax system might be adopted in the United States.[77] The proposal recognizes, as did the architects of the Nordic systems, that a major concern in any such system is the need to distinguish income from labor and income from capital because they are taxed at different rates.[78] In particular, it is difficult to separate an owner-manager's return from an enterprise into its components of labor and capital.[79]

This distinction is important under current law in the United States for a number of different reasons.[80] A distribution to an owner-employee will

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a depreciable asset will be valued by all taxpayers equally, no matter what tax rate they are subject to, if the depreciation allowed on the asset equals its actual economic loss of value. *Id.* When that procedure is followed, there is no tax incentive for a high-bracket taxpayer to buy an asset from a low-bracket taxpayer, or vice versa. *Id.*

[73] *See* Theodore Sims, *Debt, Accelerated Depreciation, and the Tale of a Teakettle: Tax-Shelter Abuse Reconsidered*, 42 UCLA. L. REV. 263, 280–82 (1994).

[74] *See* Nielsen & Sørensen, *supra* note 66, at 322.

[75] Normally a capital expenditure, such as the purchase of a machine, reflects the loss of an asset (the cost of the machine) with no immediate deduction for tax purposes. In the case of a taxpayer who extends the period of education rather than entering the workforce, however, the "expenditure" consists of the earnings the taxpayer would have had which the taxpayer foregoes. That can be thought of as a receipt of income and its immediate deduction. To that extent, students in the United States have the same benefit as those in the Nordic countries. To the extent that students in the United States must pay for their education, however, with no deduction at any point for tax purposes, they are at a relative disadvantage.

[76] *See* Edward Kleinbard, *An American Dual Income Tax: Nordic Precedents*, 5 NW. J.L. & SOC. POL'Y 40, 46 (2010).

[77] *See generally id.* (proposing United States policymakers consider adopting a dual-income tax system).

[78] *See id.* at 45, 49–52.

[79] *Id.* at 49–52.

[80] *See id.*; Daniel N. Shaviro, *Evaluating the Case for 1986-Style Corporate Tax Reform*, 145 TAX NOTES 1267, 1272–73 (2014).

be deductible if it is salary, but not if it is a dividend.[81] On the recipient's side, though, the dividend will currently be taxed at a lower rate than salary.[82] On the other hand, if the business is a pass-through entity such as an S corporation, the salary payment will attract additional employment tax obligations that do not arise if the payment is a distribution of profits.[83] This labor-capital dichotomy also underlies the difficulties that have arisen in settling on the proper tax to be applied to "carried interests."[84] The distinction between income from labor and income from capital has been described by more than one author discussing the Nordic systems as the "Achilles heel" of this structure.[85]

In the context of the wealth tax described here, the issue becomes more complicated. Although it is true that wages are taxed at a rate almost ten times that of wealth, it is also true that a business may be valued by applying a multiple to its profits.[86] To take a very simple case, suppose the rate on labor income were 18% and the rate on wealth were 1.8%. Suppose also that the value of a business were determined by applying to its profits a multiple of ten. Then $100 of salary would attract an $18 tax liability when received by the owner. That $100 deductible payment, however, would reduce the business's income. Using a multiple of ten, that would reduce the value of the business by $1000, reducing the wealth tax on the business by 1.8% of $1000, or the same $18. Thus, in this situation, the tax authorities would not care how the $100 was characterized: if it is deductible salary, it attracts a tax under the labor portion of the wealth tax. But if it is a nondeductible dividend, it remains part of the profits of the business and increases the value of the business that is taxed under the capital portion of the wealth tax.

Although actual cases will not be so neat, the interplay between the payment of salary and the profitability of the business should serve to reduce, at least somewhat, the tension between salary and distributions of profits. Because the Nordic systems will tax the hypothetical $100 payment under an *income* tax structure, but will apply different rates depending on

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[81] *Mulcahy, Pauritsch, Salvador & Co.*, 680 F.3d at 869–70.

[82] *Id.* at 870.

[83] Proposals to end this perceived loophole have been offered. *See, e.g.*, Lindsey McPherson, *Democrats List Tax Targets for Elimination in Budget Talks*, 141 TAX NOTES 591, 591 (2013).

[84] *See* DONALD J. MARPLES, CONG. RESEARCH SERV., RS22689, TAXATION OF HEDGE FUND AND PRIVATE EQUITY MANAGERS 5 (2014), https://www.fas.org/sgp/crs/misc/RS22689.pdf [https://perma.cc/9J5A-Z65K] (discussing the tax treatment of carried interests).

[85] Annette Alstadsaeter, *The Achilles Heel of the Dual Income Tax: The Norwegian Case*, 20 FINNISH ECON. PAPERS 5, 5–7 (2007); Peter B. Sørensen, Dual Income Taxes: A Nordic Tax System 9 (2009) (unpublished manuscript), http://www.econ.ku.dk/pbs/diversefiler/DUAL%20INCOME%20TAXES%20OUCBT.pdf [https://perma.cc/JH9K-F366].

[86] *See* Shakow & Shuldiner, *supra* note 25, at 541. As noted in the original article, this point was first brought to the authors' attention by Professor James Repetti. *Id.* at 541 n.96.

the character of the income, this interplay between deductible payments and *value* does not arise in those systems to reduce the significance of the wage-dividend distinction.

Note how this wealth tax structure affects the controversial issue of carried interests. A carried interest is compensation that a hedge fund or private equity fund manager receives through the appreciation of an interest in a business that the manager is helping to run.[87] The manager realizes this profit when the manager sells the interest.[88] Normal tax principles would classify this as a favorably taxed capital gain.[89] This result has been criticized by some because the source of the profit earned is essentially the manager's work for the company, and arguably should be treated as ordinary income.[90]

Under a wealth tax, the manager would receive the ownership interest in the managed entity as wage income when received. At that time the ownership interest would presumably not be worth very much. Thereafter, the manager would continue to be taxed on the presumably increasing value of those ownership interests, because the wealth tax would not wait for an event—such as the sale of the ownership interest—in order to begin taxing the manager. Although the wealth tax rate that the manager would pay would be lower than if taxation were deferred until sale of the ownership interest, the manager would be taxed sooner and regularly on the value of the ownership interest.

V. Economic Effects

A. How Should Capital Income Be Taxed?

It seems obvious that a tax on capital *income* will discourage saving and hinder economic growth. Because the tax reduces the return on investment, it should discourage people from investing. If less money is invested, economic growth should be reduced.

Despite the obvious nature of this conclusion, there is no consensus that this is the case. One scholar recently concluded: "On balance, academic research supports a skeptical view of the assertion that capital income taxation hinders economic growth."[91]

[87] Marples, *supra* note 84, at 4.
[88] *Id.*
[89] *Id.* at 4–5.
[90] *See id.* at 5.
[91] Chris Sanchirico, *Do Capital Income Taxes Hinder Growth?* (U. of Pa. Law Sch. Inst. for Law & Econ., Wharton Pub. Pol'y Initiative, Research Paper No. 13-6, Feb. 22, 2013), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2222843 [https://perma.cc/M9MR-58DC].

Taxing capital under a wealth tax can be viewed as an income tax on the risk-free return from capital, with no tax on the return to risk-bearing and inframarginal returns.[92] No adjustment need be made for inflation.[93] Using round numbers, if the risk-free return on capital is 5%, a 1.5% tax on wealth is equivalent to a 30% tax on that expected income,[94] with an after-tax return of 3.5% (plus whatever risk-bearing and inframarginal return *i* is earned). If inflation drives returns up to 10%, a 1.5% tax on wealth is equivalent to a 15% tax on income. It may be viewed more accurately, in income tax terms, as a 30% tax on expected returns (with no tax on inflation returns or on *i*).

Whether it is sensible to effectively tax only the expected return on an asset depends in part on whether the evaluation starts with assuming an income tax norm or a wealth tax norm. From an income tax standpoint, it seems odd that the same tax is imposed no matter what income is generated. From a wealth tax standpoint, it would be odd if the tax on an asset, the value of which has not changed, varied every year. Even from an income tax perspective, it is wrong to tax returns due solely to inflation, and odd that no tax is imposed under a realization-based income tax when the value of property increases but the property is not disposed of. In contrast, a wealth tax takes account of all changes in value, and effectively does not tax income from inflation.

A loss under the wealth tax described here will only reduce future tax liability by 1.6% of the loss. It is important to recognize, though, that this reduction will continue to be given annually. Using the example of a 5% expected return, the reduction in tax resulting from the loss in value would have a present value that increases the longer the property is held. If it is held for five years, the decrease is 6.93%; ten years, 12.36%; twenty years, 19.94%.

As can be seen, a loss on an asset that will be held for a long time translates into a significant tax reduction. Note that this is a wealth tax measure, not an income tax measure. That is, the loss in value translates into a significant reduction in what the wealth tax would have been had the value not been lost. Moreover, in a sense this value is lost forever. That is, because realization events are of no moment under the wealth tax, the loss will continue to be reflected in the taxpayer's asset base if the taxpayer sells this asset and reinvests the proceeds in another asset. So there is no reason to think of this table as the present value of a loss on a particular asset. It is simply a loss from the taxpayer's asset base, no matter whether the particu-

[92] *See* Shakow & Shuldiner, *supra* note 25, at 522–23.
[93] *See id.* at 523.
[94] Note that 1.5% is 30% of the 5% expected return.

lar asset is held, sold, or given away. The calculation ends when the proceeds are consumed rather than reinvested.[95]

Of course, this applies equally to increases in value. Thus, an increase in value, although taxed at only a 1.6% rate, is taxed every year that it remains in the taxpayer's asset base until that value is consumed.

B. Effects of the Proposed Wealth Tax

Much recent tax scholarship has compared the income tax and a consumption tax, and has favored switching our tax system to a consumption tax.[96] The simple reason is that a consumption tax seems more likely to favor saving compared to our current tax system (which is a hybrid income-consumption tax system). The debate, however, has arguably shifted away from favoring a pure consumption tax towards favoring an income tax.[97] Some advocate a value-added tax to supplement, and reduce the rates of, the income tax.[98] In the face of an extended period of focus on an income tax and a consumption tax, Professor Piketty's advocacy of a wealth tax[99] has attracted substantial interest.

One problem with much of the analysis of a wealth tax is that it has been done from the standpoint of an income tax. The wealth tax may appear to tax the wrong people, to the extent that it can apply a significant tax liability to someone who has little income. But if instead wealth is seen as the best indicator of who should bear the tax burden, it would follow that the income tax, in fact, seems to play a peculiar role. The income tax distorts investment decisions because of its realization requirement.[100] As a result, people naturally want to invest in assets that do not have a current return in order to avoid the income tax. And even if the realization requirement were

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[95] It could equally well be said that these figures reflect the present value of the tax reduction generated by selling an investment and using the proceeds for consumption. Note that the same sort of calculation could be made with respect to the income tax when, for example, someone sells a fixed-income investment and spends the proceeds on a vacation.

[96] *See generally* Joseph Bankman & David Weisbach, *Consumption Taxation Is Still Superior to Income Taxation*, 60 STAN. L. REV. 789 (2007) (analyzing and concluding that a consumption tax is superior to an income tax); Daniel Shaviro, *Beyond the Pro-Consumption Tax Consensus*, 60 STAN. L. REV. 745 (2007) (analyzing the arguments for a consumption tax and noting there is a "wide consensus" in academic circles that an ideal consumption tax is preferable to an ideal income tax). *But see generally* Reuven S. Avi-Yonah, *The Rise and Fall of the Consumption Tax: A Historical Perspective*, 146 TAX NOTES 247 (2015) (pointing out that there is limited support for a consumption tax outside of academia).

[97] Avi-Yonah, *supra* note 96, at 250.

[98] *See id.* at 251; Michael Graetz, *The Tax Reform Road Not Taken—Yet*, 67 NAT'L TAX J. 419, 424 (2014).

[99] *See generally* PIKETTY, *supra* note 9 (proposing a wealth tax).

[100] *See generally* Shakow, *supra* note 33 (discussing the merits of an accrual method of taxation over the current realization requirement).

removed from the income tax, the result would be that a taxpayer's annual success would determine the taxpayer's burden, even when two taxpayers are basically in the same wealth category. In other words, a wealthy person whose activities do not generate gain in the current year need not contribute to the government as much as a person working for the minimum wage. To look at it another way, a wealth tax is more likely to keep taxpayers' tax burdens at more or less the same level from year to year, as opposed to an income tax, which can lead to substantial fluctuations in tax burdens from year to year. From a wealth tax perspective, not surprisingly, the income tax result seems wrong.

VI. LOCAL PROPERTY TAX

A. Drawing Support from Implementation

Part of the argument in this Article is that, because the tax rate on wealth is so low, the projected effects that would follow a logical analysis are not likely to occur.

Some support for this assertion can be found in the relationship between property tax rates and homeownership in the United States. If property tax rates affected homeownership, it might be expected that states with higher property taxes would have lower rates of homeownership. In fact, there is no significant correlation between property tax rates and homeownership.[101] And what correlation exists is positive, although admittedly not significant.[102] This suggests that, if anything, higher tax rates encourage homeownership. But perhaps using property tax rates is misleading, as higher rates may simply reflect higher incomes in the states where those higher rates are found. To correct for that, we can divide the property tax level by the average income per capita in each state. Running the correlation again, there was still no significant correlation, and the non-significant correlation that was found (0.197) was still positive.[103]

Although it would seem easy to extrapolate lessons from the property tax to a more general wealth tax, an examination of the property tax literature reflects many of the problems that exist with that approach. First, at least some of the costs of property taxes get reflected in the value of the house.[104] A careful examination of this issue over twenty-five years ago concluded that only about thirty percent of the expense of real estate taxes

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[101] *See infra* app. tbl.1.

[102] *See infra* app. tbl.1.

[103] *See infra* app. tbl.1.

[104] JOHN YINGER ET AL., PROPERTY TAXES AND HOUSE VALUES: THE THEORY AND ESTIMATION OF INTRAJURISDICTIONAL PROPERTY TAX CAPITALIZATION 1–3, 51–52 (1988) (studying intrajurisdictional property tax capitalization using cities and towns in Massachusetts).

is reflected in home values.[105] Those authors speculated that the reason there was not more capitalization of real estate taxes is that buyers expect that real estate valuations would change in relatively short order.[106] A simpler explanation, which reflects that same point, is that differences in property tax burdens are included in homeowners' property valuations only to the extent it is expected that the assessment will not change to reflect actual property values.[107]

B. Generalizing from the Property Tax

Drawing lessons from local property taxes is complicated further by the "Tiebout Model."[108] Charles Tiebout's insight was that the services offered by local governments were an important factor in locational decisions.[109] Accordingly, if local property taxes are used to pay for those services, taxpayers will choose the community they wish to live in based on the services offered.[110] Taking that analysis to its extreme, two identical houses located close to each other in different governmental jurisdictions, but subject to different property tax rates, could have exactly the same price but with potential buyers choosing between the two based on which collection of local services they would prefer to pay for with their taxes.

Such an extreme view is clearly overstated, because we recognize that many other factors play a role in a person's decision to purchase a house in a particular location. [111] But the Tiebout Model undercuts any attempt to draw conclusions about how people react to increases in their property taxes.

As a result of court decisions in a number of states, the connection between taxes paid and the quality of one major service provided locally—schooling—has been attenuated. This makes the Tiebout Model much less

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[105] *Id.* at 124.

[106] *Id.*

[107] William A. Fischel, *Review of* Property Taxes and House Values: The Theory and Estimation of Intrajurisdictional Property Tax Capitalization, *by John Yinger, Howard S. Bloom, Axel Börsch-Supan, and Helen F. Ladd*, 9 J. POL'Y ANALYSIS & MGMT. 282, 283 (1990). *See generally* William A. Fischel, *Capitalization and Home Values: An Introductory Explanation*, 24 ST. TAX NOTES 507 (2002) (explaining the variety of factors that affect home value). Professor John Yinger expresses the point this way: "[T]he present value of *expected* future property taxes is at least roughly fully capitalized into house values." Email from John Yinger, Professor, Syracuse Univ. (Aug. 19, 2015) (on file with author) (emphasis added). He observes that this assertion lacks some evidence behind it, "but the logic is clear." *Id.*

[108] *See generally* Charles M. Tiebout, *A Pure Theory of Local Expenditures*, 64 J. POL. ECON. 416 (1956) (presenting a model for expenditures for local public goods).

[109] *Id.* at 418.

[110] *Id.*

[111] For example, the roles that neighborhoods play in providing benefits to residents, but also limiting which potential residents will feel comfortable in the neighborhood, is explored in ROBERT J. SAMPSON, GREAT AMERICAN CITY (2012).

relevant in those states. In California and Florida, notably, school funding comes through the state, and expenditures on schooling in a local district are not a function of the amount of property taxes paid in that school district.[112] Perhaps more significantly, in both California and Florida, the highest-poverty districts receive about the same percentage of state and local funds per student as the lowest-poverty districts (adjusting for the additional needs of low-income students).[113] As a result, it can be said, with more assurance than in other jurisdictions, that a potential buyer should be looking at property tax levels mostly divorced from the services that the taxpayer will receive in that location.

One aspect of the property tax regime that can be explored in California and Florida is the extent to which taxpayers challenge their real estate tax assessments. Both states publish annually a very detailed description of the challenges made to real estate assessments. The data in both states are complicated by rules that limit the state's power to increase assessments on owner-occupied homes to fair market value. In California, Proposition 13 limits an annual increase in the assessment of a residence to one percent (and the assessment can never exceed fair market value).[114] The assessment is adjusted to actual market value (the sale price) whenever a sale takes place.[115] As a result of this system, in a rising market, houses that have been held for a long time will become more and more undervalued.

In Florida, the limits on assessment increases have been 3% on homesteads since 1993 or 1994, and 10% on others since 2009.[116] Data from Florida shows that the level of appeals was fairly low, but started rising in 2007.[117] This presumably reflects the fall in Florida real estate values, which steadily declined from a high in 2006 until 2012.[118] This decline also attracted "tax reps"—people who would handle assessment appeals on a contingent basis.[119]

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[112] *See, e.g.*, Serrano v. Priest, 569 P.2d 1303 (Cal. 1977); Serrano v. Priest, 557 P.2d 929 (Cal. 1976); Serrano v. Priest, 487 P.2d 1241 (Cal. 1971).

[113] NATASHA USHOMIRSKY & DAVID WILLIAMS, THE EDUC. TR., FUNDING GAPS 2015, at 5 fig.2 (2015), http://edtrust.org/wp-content/uploads/2014/09/FundingGaps2015_TheEducationTrust1.pdf [https://perma.cc/G57R-NZK6].

[114] CAL. CONST. art. XIII.A, § 1.

[115] For a description of the California property tax system, see generally CAL. STATE BD. OF EQUALIZATION, CALIFORNIA PROPERTY TAX: AN OVERVIEW (2015), http://www.boe.ca.gov/proptaxes/pdf/pub29.pdf [https://perma.cc/YZ8K-K5Z4].

[116] Details of the situation in Florida were learned in a discussion with Lizette Kelly. Telephone Interview with Lizette Kelly, Fla. Dep't of Revenue (Aug. 20, 2015); *see also* FLA. DEP'T OF EDUC., 2015–16 FUNDING FOR FLORIDA SCHOOL DISTRICTS (2015), http://www.fldoe.org/core/fileparse.php/7507/urlt/Fefpdist.pdf [https://perma.cc/MVY9-QBGJ].

[117] *See infra* app. tbl.2.

[118] *See Florida Home Prices & Values*, ZILLOW, http://www.zillow.com/fl/home-values/ [https://perma.cc/T5VZ-L96M].

[119] Telephone call with Lizette Kelly, *supra* note 116.

The question most relevant for the purposes of this Article is whether the level of assessment appeals in these states suggests how many controversies might arise under a federal wealth tax. When estimating whether the data for real estate appeals would be duplicated in a federal wealth tax, note that the real estate assessment process involves an initial valuation from the government. In contrast, the wealth tax described here is one based on self-assessments. It is also worth noting that the highest percentages of appeals can be found in Florida's two largest counties, Dade and Broward.[120] The large number of properties there presumably serves as an inducement for tax reps. In addition, those counties have significant numbers of condominiums.[121] If a representative is hired to challenge the assessment of a condominium development, the number of appeals recorded will be the number of units in the development.[122] So again, the attraction of representing such a development is quite great, as even a small reduction applied to a large number of units can lead to a significant payday for the tax rep.[123]

VII. OTHER POTENTIAL PROBLEMS

A. Expatriation

When Professor Piketty suggested the adoption of a wealth tax, he recognized that such a proposal would be much easier to accept if all nations were to adopt such a tax system.[124] The proposal in this Article, however, is limited to a U.S. wealth tax. Does that mean that many U.S. citizens will expatriate in order to avoid such an estate tax?

The goal of Professor Piketty's wealth tax is to reduce the concentration of wealth among the wealthiest individuals in the world.[125] The goal of the wealth tax proposed here is more limited: to produce a tax system that is easier to administer than the current system, and is at least as fair. In structuring this wealth tax, an attempt was made to keep the burden of the income tax roughly where it is currently. Of course, this is being done only on an income-group-by-income-group basis. Undoubtedly, particular individuals may find that this wealth tax does substantially increase their tax liabilities.

It is not easy to determine whether adopting a wealth tax would lead to a substantial increase in expatriations. As the United States has increased its attempts to impose a tax on taxpayers with foreign holdings of income-

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[120] *See infra* app. tbl.2.
[121] Telephone Interview with Lizette Kelly, *supra* note 116.
[122] *Id.*
[123] *Id.*
[124] *See* PIKETTY, *supra* note 9, at 515–18.
[125] *See id.*

producing properties, expatriation has increased.[126] It is not yet clear, however, to what extent these expatriation totals reflect U.S. residents leaving the country, as opposed to U.S. citizens (often dual citizens) escaping the substantial burden of complying with U.S. disclosure rules that target tax-avoiding residents.

B. Foreign Issues

How would non-resident foreigners be treated under this system? If they are to be incorporated under the wealth tax, the current system of withholding and bilateral treaties, which depend on income items,[127] will have to be rethought. Although it may be possible to withhold on actual payments based on the value of the asset that generated the income item, a new structure would be needed for assets that do not generate current income. More importantly, the wealth tax would seem at odds with the methods that have been adopted internationally to allocate tax collections among different countries.[128]

In the absence of a global movement to a wealth tax, it would seem that a withholding system based on actual payments may have to remain in place for non-residents. This would appear to create incentives, in some cases, to move appreciating assets into the hands of non-residents. These would not, however, be new incentives; under current law, non-residents do not pay tax on most gains from the sale of assets in the United States.[129]

C. The Liquidity Issue

When considering a tax system in which liabilities are based on valuations, the issue of liquidity becomes very important. Because the tax is assessed on values, and the tax rate (albeit low compared to the current rate)

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[126] Andrew Velarde, *Expatriations Ramp up to Even Higher Annual Record Pace*, 149 TAX NOTES 624, 624 (2015); Robert W. Wood, *New Un-American Record: Renouncing U.S. Citizenship*, FORBES (May 8, 2015), http://web.archive.org/web/20160403192136/http://www.forbes.com/sites/robertwood/2015/05/08/new-un-american-record-renouncing-u-s-citizenship/#7ad41fa23d0d.

[127] U.S. payors withhold on items of income of non-residents. I.R.C. §§ 871, 881 (2012). Our bilateral tax treaties are predominantly *income* tax treaties.

[128] Countries enter into bilateral *income* tax treaties to allocate tax burdens between them. The major project for international tax reform, spearheaded by the Organisation for Economic Co-Operation and Development, ("OECD") deals with base erosion and *profit* shifting ("BEPS"). *Base Erosion and Profit Shifting*, ORG. FOR ECON. CO-OPERATION & DEV., http://www.oecd.org/ctp/beps.htm [https://perma.cc/CX5A-ZG4J]; *see also* Orly Mazur, *Transfer Pricing Challenges in the Cloud*, 57 B.C. L. REV. 643, 646–67 (2016) (discussing the OECD's action plan to address BEPS).

[129] *See* I.R.C. § 871(a)(1) (taxing income other than gains). *But see* I.R.C. § 897 (2012) (taxing disposition of U.S. real estate).

is not insignificant, there certainly could be taxpayers who experience liquidity problems.

In the context of the wealth tax as discussed here, however, liquidity is much less significant than it appears. To the extent of the wage tax portion of the wealth tax, where taxpayers are normally paid in cash, the rate for many taxpayers is lower than the rate under current law, and so no particular liquidity issue would seem relevant.

For the other portion of the wealth tax, a rate of, say, 1.6% on the net value of all assets, the low rate should mean that, for most taxpayers, liquidity is not a major issue. Although many assets will not produce cash returns on an annual basis, it is reasonable to expect that almost all taxpayers will have sufficient diversity in their portfolios that some of those assets will be liquid assets and assets producing cash returns, which can be used to pay the tax. For the small number of taxpayers for whom this is not true, the solutions that exist under our income tax may well suffice.[130] It may be necessary to sell some assets to have cash for the payment of taxes. But because this issue arises under current law, and the distribution of the wealth tax appears similar to that of the current income tax structure, it is likely that very few taxpayers will be in a more difficult position under a wealth tax system than under current law.

D. Retirees and Transition Issues

The burden of the wealth tax described here weighs more heavily on those in the lowest adjusted-gross-income group than the current income tax. The reason for this is twofold. First, some of the taxpayers in the lowest adjusted-gross-income bracket are wealthy individuals whose income fluctuates from year to year. Thus, they may find themselves in the lowest income bracket one particular year, even though over a period of years, they would be in a much higher bracket. There is no problem, from an equity standpoint, in taxing such people based on their actual wealth.

The larger group of individuals who will be taxed at a higher rate under this wealth tax (compared to the current income tax) are retirees. Retirees on relatively small incomes would not be affected, as the main sources of their wealth—their homes (mortgages which they may already have paid off) and their pensions—are excluded from the base of the wealth tax.[131] Although distributions from pension plans will be taxed at the same rate as wages, this should not make a big difference in the burden that would fall on typical retirees (compared to their current income tax burden). This is because distributions from tax-favored retirement plans are taxed as ordi-

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[130] I.R.C. § 6159 (2012) (permitting installment payment of taxes).

[131] *See* Shakow & Shuldiner, *supra* note 25, at 533–36.

nary income under current law,[132] and the rate on such income under the wealth tax is usually lower than under our current income tax system.

Will those retirees who accumulated substantial wealth, but received little income from those investments in the past, find themselves subject to a heavier tax burden under this wealth tax than they would under the income tax? Consider a sixty-five-year-old who has accumulated savings outside a retirement account. Such a person could invest those savings and receive a guaranteed return of about 6%.[133] At the current second bracket tax rate of 28%, that would be the equivalent of a wealth tax of 1.68%. Using the 15% first bracket, it is equivalent to a wealth tax rate of only 0.9%.[134]

As a transitional issue, does this raise any significant concerns? For instance, the wealth that has been accumulated under the income tax has already been taxed under that tax system. If it is now taxed like any other wealth, those who accumulated their wealth under the income tax will complain that they are being taxed on essentially the same item of value. This issue would concern not only retirees, but anyone who accumulated wealth under the income tax system.

The author tentatively suggests that a relatively short transitional period—from five to ten years—should be adopted, during which both a wealth tax and an income tax would be in place. Taxpayers holding assets accumulated in the pre-wealth-tax period could elect to be taxed under the income tax system during the transitional period. Because the wealth tax can be viewed as an income tax on an asset's risk-free return, the main disadvantage to taxpayers in operating under the wealth tax is that it requires no realization events and does not give substantial benefits for losses. On the other hand, for taxpayers who are still working, the lower rate on wages may well make the wealth tax regime more appealing. Thus, for most taxpayers, operating under the wealth tax system will not result in a substantial disadvantage, and the transitional problems may not be as formidable as they may initially appear.

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[132] *See, e.g.*, I.R.C. § 402 (2012) (taxing beneficiary of otherwise tax-exempt retirement plan trust under the rules for annuities, which results in ordinary income except to the extent the employee made after-tax contributions to the plan).

[133] A calculator at the Fidelity website gives a monthly payment of $498 for a sixty-five-year-old male investing in an annuity with a guaranteed return of the original investment. *See Guaranteed Income Estimator*, FIDELITY, https://gie.fidelity.com/estimator/jsp/IncomeDuration.jsp?cola=false [https://perma.cc/2FVU-DVJU].

[134] For this rough calculation, assume the effect of the zero brackets in both systems will be equivalent.

E. Constitutionality

There is no question that the constitutionality of a wealth tax is debatable. Professors Bankman and Shaviro, in their recent discussion of Piketty's book, conclude that a full-blown wealth tax would not pass muster under a constitutional evaluation.[135] They recognize the arguments in favor of the constitutionality of a wealth tax,[136] but they are not persuaded.[137] Likewise, they believe that the current Supreme Court has signaled that it would not be sympathetic to an argument in favor of the constitutionality of a wealth tax.[138]

The possible unconstitutionality of a wealth tax is not a good reason for disregarding it in the public discourse, however. It would take a great deal of public discussion for a significant percentage of the populace to consider a wealth tax a viable possible alternative. If and when that happens, it may be possible to confront the constitutional issue directly with an amendment to the Constitution, if needed.

VIII. AN OVERALL EVALUATION

This Part summarizes the issues that should be considered in evaluating the wealth tax as described thus far.[139]

Inflation: The income tax overtaxes investment returns in times of inflation.[140] Solutions to this problem are complicated, and even in times of substantial inflation, there has not been sufficient political will to devise a solution.[141] The wealth tax does not tax the return arising from inflation.[142]

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[135] Bankman & Shaviro, *supra* note 30, at 46–49.

[136] *See id.*; *see, e.g.*, Bruce Ackerman, *Taxation and the Constitution*, 99 COLUM. L. REV. 1 (1999); Calvin H. Johnson, *Apportionment of Direct Taxes: The Foul-up in the Core of the Constitution*, 7 WM. & MARY BILL RTS. J. 1 (1998); John T. Plecnik, *The New Flat Tax: A Modest Proposal for a Constitutionally Apportioned Wealth Tax*, 41 HASTINGS CONST. L.Q. 483 (2013); Deborah Schenk, *Saving the Income Tax with a Wealth Tax*, 53 TAX L. REV. 423 (2000).

[137] Bankman & Shaviro, *supra* note 30, at 47 (stating that an unapportioned wealth tax would face a strong constitutional challenge).

[138] *Id.* at 47 n.102 (citing Nat'l Fed'n of Indep. Bus. v. Sebelius, 132. S. Ct. 2566, 2599 (2012)); *see also* Joseph M. Dodge, *What Federal Taxes Are Subject to the Rule of Apportionment Under the Constitution?*, 11 U. PA. J. CONST. L. 839, 875–82 (2009) (analyzing Supreme Court jurisprudence on direct taxes). *But see* Jasper Cummings, *Form, Substance, and* PPL, 140 TAX NOTES 365, 367 (2013) (arguing that the Supreme Court's decision in *PPL Corp. v. Commissioner* may have unintentionally supported an unapportioned federal wealth tax).

[139] These categories come from Sørensen, *supra* note 85, at 7–8.

[140] RONALD REAGAN, THE PRESIDENT'S TAX PROPOSALS TO CONGRESS FOR FAIRNESS, GROWTH, AND SIMPLICITY 135 (1985), https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/OTA-Report-Reform-Proposal-1985.pdf, [https://perma.cc/NB29-GG3C] ("Thus, pre-[Accelerated Cost Recovery System] depreciation deductions for many assets understated real economic depreciation and thus resulted in overtaxation of the income from such assets.").

[141] *See id.* at 139 (adjusting depreciation allowances for inflation); *id.* at 169 (adjusting basis of capital assets for inflation); *id.* at 175–76 (indexing inventories for inflation).

Capital mobility: As the Organisation for Economic Co-Operation and Development's BEPS Project[143] recognizes, significant problems stem from the ability of taxpayers to move capital from one jurisdiction to another in order to minimize their tax liabilities.[144] One simple suggestion for reducing capital flight is to reduce the rate of tax on capital. Arguably, this wealth tax does that.

Tax neutrality: Proponents of a dual-tax system suggest the following support for their proposal:

> Capital income accrues in many forms, some of which are hard to tax (for practical or political reasons). Lowering the tax rate on those types of capital income that *can* be taxed reduces the distortions arising when certain types of capital income cannot be included in the tax base. A low tax rate also makes it easier to broaden the tax base, for instance by including capital gains without causing severe lock-in effects.[145]

If the valuation issues are satisfactorily dealt with, no significant form of capital need be omitted from the wealth tax system. The wealth tax imposes a low rate on capital, and there is *no* lock-in effect. There is no effect on investors' decisions regarding either risk or liquidity of investments.[146]

Tax arbitrage: Because there is only one tax rate on labor income,[147] there is little incentive to shift income among taxpayers, except to take advantage of unused uniform credits. If the effective rate on labor is relatively close to that of capital, the problem of shifting income away from the earned income category will be reduced. To the extent it is not eliminated, that simply reproduces a problem that already exists in the tax code,[148] although, in this simplified system, it will loom large to the extent other issues no longer exist.

Clientele effects: Under the income tax, high-income persons prefer investments that produce no current income under the realization rules, or that produce tax-favored income. Because all forms of capital are taxed the

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[142] *See* Shakow & Shuldiner, *supra* note 25, at 523.

[143] Anyone unfamiliar with the BEPS Project, and with time on their hands, is welcome to dip into the many reports that have been generated by this project. *See generally* Mazur, *supra* note 128 (explaining the BEPS problem and analyzing the OECD's proposed solutions); *Base Erosion and Profit Shifting*, *supra* note 128 (providing information about the BEPS Project).

[144] *See About Base Erosion and Profit Shifting (BEPS)*, ORG. FOR ECON. CO-OPERATION & DEV., http://www.oecd.org/ctp/beps-about.htm [https://perma.cc/8CD9-8R85].

[145] Sørensen, *supra* note 85, at 7.

[146] *See* Yair Listokin, *Taxation and Liquidity*, 120 YALE L.J. 1682, 1730 (2011).

[147] *See supra* note 29 and accompanying text (proposing a flat tax on wages).

[148] *See* Kleinbard, *supra* note 76, at 50.

same way under the wealth tax, there is no reason for wealthier taxpayers to seek out investments that are taxed at a favorable rate.

Tax administration: The administration of a relatively uncomplicated wealth tax system, in which the main issues are those of valuation, should be simpler than our current system.

CONCLUSION: A FINAL THOUGHT EXPERIMENT

If this Article has not convinced you that valuation is not a disqualifying stumbling block for a wealth tax, consider the following thought experiment. Suppose a renegade Congress passes a wealth tax of the type described herein, and a congressional committee is now evaluating that wealth tax. Suppose there has been a day of witnesses testifying to the recurring problems that exist in valuing property for purposes of the wealth tax. You now come forward to deliver the coup de grâce to the wealth tax. You come before the committee and open your briefcase. You take out two thick volumes of Code and six volumes of regulations, most of which are unneeded for purposes of a wealth tax. You turn to the members of the committee and say: "This, an income tax, is the solution to our problems."

Are you sure that you would convince the members of the committee with this presentation?

APPENDIX

Table 1. Homeownership rates, average property tax, income per capita, and average tax as a percentage of income, by state.[149]

State	Homeownership Rates (2014)	Avg. Property Tax (2014)	Income/Capita (2011)	Avg. Tax/Income (2014)
AL	72.1%	$752	$34,763	2.16%
AK	64.9%	$2075	$47,354	4.38%
AZ	63.5%	$1483	$35,889	4.13%
AR	65.4%	$1068	$33,182	3.22%
CA	54.2%	$1431	$45,254	3.16%
CO	65.0%	$1089	$46,767	2.33%
CT	67.4%	$3301	$60,287	5.48%
DE	74.3%	$917	$41,521	2.21%
D.C.	41.5%	$1001	$68,795	1.46%
FL	64.9%	$1913	$40,296	4.75%
GA	62.9%	$1675	$36,611	4.58%
HI	58.4%	$482	$44,255	1.09%
ID	69.6%	$1331	$33,741	3.94%
IL	66.4%	$3939	$45,664	8.63%
IN	70.1%	$1507	$35,592	4.23%
IA	69.4%	$2542	$40,147	6.33%
KS	64.7%	$2411	$40,913	5.89%
KY	67.6%	$1445	$33,435	4.32%
LA	65.3%	$832	$37,889	2.20%
ME	71.0%	$2165	$37,701	5.74%
MD	66.2%	$1895	$52,805	3.59%

[149] LIZ MALM & GERALD PRANTE, TAX FOUND., ANNUAL STATE-LOCAL TAX BURDEN RANKING FY 2011, at 6 tbl.1 (2014), http://taxfoundation.org/sites/taxfoundation.org/files/docs/Burdens_2014_Final.pdf [https://perma.cc/SBS6-H6FV] (providing average income); *Housing Vacancies and Homeownership (CPS/HVS)*, U.S. CENSUS BUREAU, http://www.census.gov/housing/hvs/data/ann14ind.html [https://perma.cc/2GXA-B63A] (providing homeownership rates; to view homeownership rates, select "Table 15. Homeownership Rates by State"); John S. Kiernan, *2016's Property Taxes by State*, WALLETHUB, http://wallethub.com/edu/states-with-the-highest-and-lowest-property-taxes/11585/ [https://perma.cc/3BLP-9HUX] (providing average property tax). "Real-estate property tax rates . . . [were calculated by] divid[ing] the 'median real-estate tax payment' by the 'median home price' . . . . [The author] then used the resulting rates to obtain the dollar amount paid as real-estate tax on a house worth $173,200, the median value for a home in U.S. [in 2014] . . . ." Kiernan, *supra*.

MA	63.0%	$2042	$54,321	3.76%
MI	73.8%	$3168	$36,641	8.65%
MN	71.4%	$2086	$45,552	4.58%
MS	73.2%	$1350	$31,067	4.35%
MO	70.5%	$1749	$37,651	4.65%
MT	66.9%	$1492	$36,407	4.10%
NE	66.7%	$3228	$42,281	7.63%
NV	56.0%	$1620	$39,947	4.06%
NH	72.2%	$3649	$47,349	7.71%
NJ	65.2%	$3971	$54,422	7.30%
NM	66.3%	$1249	$35,328	3.54%
NY	52.9%	$2734	$52,417	5.22%
NC	66.4%	$1471	$36,195	4.06%
ND	64.5%	$2110	$46,218	4.57%
OH	67.3%	$2677	$38,073	7.03%
OK	69.3%	$1499	$37,617	3.98%
OR	62.8%	$1877	$38,219	4.91%
PA	69.7%	$2597	$42,268	6.14%
RI	61.8%	$2779	$44,367	6.26%
SC	72.9%	$984	$33,603	2.93%
SD	69.2%	$2331	$43,212	5.39%
TN	66.7%	$1287	$36,525	3.52%
TX	62.2%	$3327	$41,269	8.06%
UT	70.9%	$1210	$35,224	3.44%
VT	73.5%	$2934	$41,634	7.05%
VA	68.7%	$1369	$48,498	2.82%
WA	63.6%	$1920	$46,456	4.13%
WV	75.6%	$1015	$32,708	3.10%
WI	67.8%	$3398	$40,741	8.34%
WY	70.8%	$1069	$50,805	2.10%

Table 2. Percentage of Florida properties for which owners petitioned for reassessments, by county.[150]

COUNTY	2012	2011	2010	2009	2008	2007	2006	2005
Alachua	0.65%	0.91%	0.70%	0.90%	0.52%	0.02%	0.29%	0.02%
Baker	0.11%	0.14%	0.07%	0.10%	0.07%	0.27%	0.01%	0.01%
Bay	1.64%	0.55%	1.29%	0.93%	1.26%	2.29%	4.91%	0.08%
Bradford	0.08%	0.16%	0.17%	0.09%	0.17%	0.05%	0.12%	0.20%
Brevard	0.20%	0.34%	0.57%	0.86%	1.35%	0.52%	0.62%	0.17%
Broward	2.99%	3.41%	3.62%	5.93%	4.24%	3.03%	2.92%	2.48%
Calhoun	0.03%	0.08%	0.03%	0.02%	0.02%	0.01%	0.01%	0.01%
Charlotte	0.37%	0.31%	0.38%	0.42%	0.41%	0.51%	0.39%	0.17%
Citrus	0.27%	0.26%	0.56%	0.30%	0.59%	1.08%	0.62%	0.15%
Clay	0.23%	0.28%	0.28%	0.24%	0.92%	0.02%	0.05%	0.00%
Collier	0.49%	0.58%	0.77%	1.16%	0.40%	0.10%	0.16%	0.02%
Columbia	0.09%	0.23%	0.06%	0.12%	0.39%	0.00%	0.00%	0.03%
Dade	8.53%	10.30%	11.65%	15.18%	10.71%	6.53%	5.15%	4.38%
Desoto	0.18%	0.82%	0.70%	3.61%	1.28%	0.48%	1.05%	0.22%
Dixie	0.00%	0.04%	0.06%	0.09%	0.29%	0.26%	0.13%	0.16%
Duval	1.29%	2.20%	1.83%	1.82%	0.91%	0.68%	0.27%	0.30%
Escambia	0.09%	0.20%	0.13%	0.18%	0.08%	0.50%	0.80%	0.01%
Flagler	0.26%	0.07%	0.26%	0.44%	0.39%	0.03%	0.12%	0.02%
Franklin	0.26%	0.19%	0.29%	0.00%	0.89%	0.15%	0.43%	0.08%
Gadsden	0.08%	0.15%	0.06%	0.04%	0.01%	0.01%	0.00%	0.00%
Gilchrist	0.00%	0.04%	0.03%	0.00%	0.01%	0.02%	0.05%	0.00%
Glades	0.02%	0.08%	0.11%	0.31%	0.74%	0.08%	0.15%	0.05%
Gulf	0.04%	0.07%	0.06%	0.05%	0.48%	0.05%	0.02%	0.04%
Hamilton	0.01%	0.05%	0.01%	0.00%	0.02%	0.00%	0.01%	0.02%
Hardee	0.16%	0.11%	0.12%	1.42%	0.17%	0.14%	0.12%	0.21%
Hendry	0.12%	0.20%	0.19%	0.56%	0.40%	0.30%	4.89%	0.08%
Hernando	0.41%	0.42%	0.31%	0.22%	0.24%	0.08%	0.07%	0.11%
Highlands	0.04%	0.04%	0.06%	0.09%	0.05%	0.03%	0.01%	0.01%
Hillsborough	0.65%	0.63%	0.79%	1.97%	2.73%	1.41%	0.93%	0.51%
Holmes	0.04%	0.01%	0.06%	0.05%	0.06%	0.02%	0.02%	0.45%
Indian River	0.52%	0.46%	0.52%	1.39%	1.79%	0.29%	0.19%	0.06%
Jackson	0.03%	0.06%	0.04%	0.06%	0.03%	0.02%	0.01%	0.01%
Jefferson	0.00%	0.31%	0.00%	0.43%	0.06%	0.69%	0.15%	0.03%

[150] *Florida Property Tax Data Portal*, FLA. DEP'T OF REVENUE, http://dor.myflorida.com/dor/property/resources/data.html [https://perma.cc/UXL6-5VLN] (to access appeals data, select "VAB Summary"; to access number of parcels, select "Florida Ad Valorem Valuation and Tax Data (Data Book)").

Lafayette	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Lake	0.40%	0.31%	0.49%	0.41%	0.27%	0.12%	0.04%	0.01%
Lee	0.34%	0.42%	0.61%	1.20%	1.31%	1.56%	0.57%	0.20%
Leon	0.60%	1.52%	0.64%	0.58%	0.34%	0.05%	0.04%	0.03%
Levy	0.05%	0.03%	0.05%	0.08%	0.04%	0.02%	0.01%	0.01%
Liberty	0.00%	0.04%	0.02%	0.00%	0.02%	0.00%	0.00%	0.00%
Madison	0.03%	0.18%	0.01%	0.33%	0.03%	0.01%	0.12%	0.01%
Manatee	0.34%	0.65%	0.58%	1.34%	0.33%	0.41%	0.25%	0.21%
Marion	0.09%	0.32%	0.33%	0.40%	0.65%	0.21%	0.08%	0.02%
Martin	0.38%	0.92%	1.44%	1.85%	1.64%	0.21%	0.05%	0.05%
Monroe	0.57%	0.70%	1.80%	3.21%	1.44%	0.13%	0.13%	0.09%
Nassau	1.49%	2.66%	2.83%	2.78%	1.12%	0.43%	0.06%	0.11%
Okaloosa	0.12%	0.21%	0.15%	0.12%	0.15%	0.03%	0.11%	0.02%
Okeechobee	0.22%	0.24%	0.25%	0.18%	0.16%	0.03%	0.03%	0.01%
Orange	0.59%	1.69%	2.12%	3.39%	4.91%	0.61%	0.43%	0.19%
Osceola	0.33%	0.40%	0.53%	0.40%	0.38%	0.72%	0.01%	0.01%
Palm Beach	0.99%	1.26%	2.08%	5.96%	2.02%	1.61%	1.10%	0.53%
Pasco	0.18%	0.27%	0.41%	0.88%	0.41%	0.53%	0.17%	0.13%
Pinellas	0.29%	0.52%	0.58%	0.62%	0.94%	0.46%	0.37%	0.14%
Polk	0.19%	0.33%	0.48%	0.61%	0.60%	0.04%	0.03%	0.02%
Putnam	0.10%	0.11%	0.09%	0.12%	0.38%	0.13%	0.16%	0.06%
St. Johns	0.19%	0.18%	0.92%	3.70%	1.72%	1.03%	0.08%	0.04%
St. Lucie	0.55%	0.82%	0.83%	1.97%	1.18%	0.59%	0.29%	0.12%
Santa Rosa	0.04%	0.05%	0.04%	0.37%	0.01%	0.01%	0.05%	0.05%
Sarasota	0.27%	0.36%	0.47%	0.75%	0.36%	1.03%	0.43%	0.16%
Seminole	0.51%	0.46%	0.84%	1.26%	1.20%	0.49%	0.40%	0.27%
Sumter	0.04%	0.07%	0.06%	0.04%	0.09%	0.02%	0.00%	0.01%
Suwanee	0.00%	0.05%	0.09%	0.12%	0.09%	0.03%	0.19%	0.03%
Taylor	0.05%	0.06%	0.05%	0.08%	0.05%	0.04%	0.00%	0.02%
Union	0.39%	0.25%	0.00%	0.63%	0.62%	1.08%	0.71%	0.59%
Volusia	0.44%	0.51%	0.80%	1.28%	0.96%	1.48%	1.38%	0.50%
Wakulla	0.00%	0.47%	0.04%	0.16%	0.01%	0.01%	0.02%	0.00%
Walton	0.07%	0.58%	0.16%	0.62%	0.16%	0.01%	0.07%	0.02%
Washington	0.06%	0.22%	0.11%	1.78%	0.01%	0.02%	0.01%	0.00%
TOTALS	1.35%	1.71%	1.98%	3.02%	2.21%	1.35%	1.07%	0.71%