The Wealth Tax Question

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TL;DR

The empirical debate over wealth tax feasibility is intensifying as subnational experiments reveal extreme capital mobility, while U.S. state and federal proposals run into severe constitutional and data-sharing roadblocks. Recent empirical data from Norway and Switzerland highlights that tax flight dominates behavioral responses to wealth tax changes, while the lack of global information-sharing networks leaves U.S. state tax administrators largely blind to offshore capital.

Subnational Tax Flight and the Mobility of the Ultra-Wealthy

Subnational wealth tax cuts trigger immense capital mobility rather than real economic expansion, demonstrating that the ultra-wealthy will rapidly relocate to shield their assets. In Norway, the northern municipality of Bø unilaterally slashed its municipal wealth tax, acting as an onshore tax haven, while Swiss cantons have historically engaged in intense subnational tax competition.

> *"We document a significant 66.6% increase in average taxable wealth in response to a 1 percentage point drop in the wealth tax rate. The elasticity of taxable wealth increases to 71.6% when focusing exclusively on wealth taxpayers."* — Bø Experiment & Swiss Evidence

> *"...a 1 percentage point drop in the wealth tax rate raises reported wealth by at least 43% [after five years]."* — Bø Experiment & Swiss Evidence

These dynamics, documented in a working paper by Roberto Iacono and Bård Smedsvik for the International Inequalities Institute, prove that subnational jurisdictions are highly vulnerable to tax competition. When a mere 52 individuals relocating to a tiny Norwegian municipality can drastically shift the localized tax base, any wealth tax design must reckon with the physical reality of capital flight over actual wealth generation.

What to watch: Watch whether other subnational jurisdictions attempt unilateral tax cuts to attract high-net-worth individuals, despite central government equalization schemes that claw back tax gains.

The Administrative Information Gap and Valuation Hurdles

Designing an enforceable subnational wealth tax requires bridging a massive global information gap and relying on rigid, easily exploited valuation formulas. While European countries leverage international data networks, U.S. state-level proposals—like the California 2026 Billionaire Tax initiative designed by tax experts Brian Galle, David Gamage, Emmanuel Saez, and Darien Shanske—must build their own administrative workarounds.

> *"The implementation of these tax transparency standards has enhanced countries' ability to tax capital income and assets. These standards essentially mean that information on foreign financial assets is now being shared between tax authorities globally..."* — Washington Wealth Tax Study

> *"The tax applies by default a simple formula for private business valuations, which is: book value (the sum of all assets in the business) plus 7.5 times annual book profits (averaged over the most recent 3 years)."* — California 2026 Initiative

Because the United States completely opts out of global transparency networks like the Common Reporting Standard, highlighted in an evidence paper by Sarah Perret for the Wealth Tax Commission, individual states are blind to offshore holdings and must resort to highly imperfect, formulaic defaults for illiquid assets. This leaves state-level proposals vulnerable to extreme undervaluation and evasion, exposing a massive gulf between theoretical revenue scoring and actual administrability.

What to watch: Watch how the California ballot campaign defends its optimistic 10% avoidance assumption against historical international evidence of massive tax base erosion.

Constitutional Boundaries and Legal Gymnastics

Proponents of wealth taxation are forced to design increasingly complex, retroactive, or mark-to-market legal structures to survive strict state and federal constitutional limits. This is evident in the Washington State Department of Revenue Wealth Tax Study and federal proposals navigating the fallout of the Supreme Court's ruling in *Moore v. United States*.

> *"Allowing liabilities to offset either the value of property or the rate of tax on such property would likely raise constitutional concerns, as it would erode the concept of true and fair value..."* — Washington Wealth Tax Study

> *"Our analysis today does not address the distinct issues that would be raised by (i) an attempt by Congress to tax both the entity and the shareholders of partners on the entity's undistributed income; (ii) taxes on holdings, wealth, or net worth; or (iii) taxes on appreciation."* — Federal Proposals & Moore v. US

The legal landscape imposes a brutal double-bind: state efforts are choked by uniformity clauses that prevent standard net-wealth deductions, while federal efforts face a brick wall in the Supreme Court's apportionment requirement for direct property taxes, as analyzed in the Supreme Court's Moore decision. This constitutional reality forces legislators to choose between vulnerable "mark-to-market" income tax variations or highly litigated retroactive residency traps.

What to watch: Watch for the inevitable legal challenges to California's retroactive residency capture date if the 2026 billionaire initiative succeeds at the ballot box.

What surprised us

- **The futility of local tax-haven strategies:** The sheer disparity in the Bø experiment was staggering. Just 52 individuals moving to a remote Norwegian municipality completely warped the local tax base, yet Sweden-style revenue equalization schemes clawed back 60% of that excess revenue anyway, making the tax-haven gamble largely useless for the local government's actual expenditures. Bø Experiment & Swiss Evidence
- **The U.S. self-sabotage on offshore tracking:** Because the federal government does not participate in the OECD's Automatic Exchange of Information (AEOI), state revenue departments are fundamentally locked out of the global reporting infrastructure required to track and tax offshore wealth, reducing state-level administration to a voluntary guessing game. Washington Wealth Tax Study
- **The federal government's legal self-own:** During oral arguments in *Moore v. United States*, the federal government conceded that a net worth tax would likely be classified as a direct property tax requiring apportionment. This admission essentially handed opponents the legal playbook to dismantle future federal wealth tax legislation before a bill is even passed. Federal Proposals & Moore v. US

Appendix: Findings

The Norwegian Bø Municipality Experiment and Swiss Empirical Evidence on Wealth Tax Elasticities

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Empirical evidence from subnational tax reforms in Norway and Switzerland reveals extraordinarily high elasticities of taxable wealth with respect to net-of-tax rates, though these responses are almost entirely driven by the short-run mobility of wealthy individuals rather than changes in real savings accumulation or asset appreciation.

The Bø Municipality Experiment (Norway, 2021)

In 2021, the northern Norwegian municipality of Bø unilaterally reduced its municipal wealth tax rate from 0.70% to 0.20%, lowering the overall marginal wealth tax rate (which includes a 0.15% central state surcharge) from 0.85% to 0.35%. This represented the first time since 1892 that a Norwegian municipality unilaterally reduced its wealth tax rate, effectively acting as an onshore tax haven.

A comprehensive empirical analysis of this reform by Roberto Iacono and Bård Smedsvik (2023), using Statistics Norway's administrative registers, documented a massive behavioral response that was heavily concentrated among the ultra-wealthy:

> "We document a significant 66.6% increase in average taxable wealth in response to a 1 percentage point drop in the wealth tax rate. The elasticity of taxable wealth increases to 71.6% when focusing exclusively on wealth taxpayers."

However, the authors demonstrated that this response was not driven by real economic growth, savings, or investment, but rather by the physical relocation of a very small number of extremely wealthy individuals:

> "Non-real effects of the reform dominate: mobility of wealthy taxpayers appears as the major behavioral response to the change in the net tax rate, accounting for a staggering 79% of the post-treatment total net wealth in the treated municipality (up from 19% in the pre-reform period)."

The actual migration was small in absolute numbers but massive in fiscal impact. The number of wealth taxpayers in Bø rose from 188 in 2020 to 240 in 2021—a net increase of only 52 people. Yet, the average net wealth of these 52 in-movers was an astronomical 93 million NOK (~$10.3 million USD), compared to the average resident wealth taxpayer's net wealth of 8.5 million NOK.

Furthermore, the incentive for Swiss-style tax competition among Norwegian municipalities is heavily blunted by a central government revenue equalization scheme. Under this scheme, municipalities with excess per capita tax revenues are forced to pay back approximately 60% of their excess revenues to the state to be redistributed to municipalities in deficit:

> "Due to this revenue equalization scheme imposed by the central government, for each 1 NOK of increased tax revenue in per capita terms, each municipality is forced to pay back 0.6 NOK to the other municipalities experiencing a deficit in tax revenues... effectively neutralizing part of the potential effect of increased revenues on future expenditures."

The Swiss Experience

The Norwegian findings are highly consistent with the Swiss experience, which historically represents the highest revenue-generating wealth tax system in the OECD (raising up to 3.9% of total tax revenues in Switzerland in 2018). In Switzerland, wealth taxes are administered at the cantonal level, resulting in intense subnational tax competition.

A seminal study by Marius Brülhart et al. (2022) exploiting rich intra-national variation across Swiss cantons found that:

> "a 1 percentage point drop in the wealth tax rate raises reported wealth by at least 43% [after five years]."

As in Norway, the Swiss response is heavily dominated by tax avoidance and subnational migration rather than real wealth accumulation.

Sources

- Behavioral responses to wealth taxation: evidence from a Norwegian reform
- Why did other wealth taxes fail and is this time different?

The Washington State Wealth Tax Study and State-Level Constitutional Constraints

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The November 2024 final report by the Washington State Department of Revenue (DOR) provides a rigorous, empirical analysis of the administrative, legal, and operational realities of implementing a wealth tax at the subnational level. The report highlights that state-level wealth taxes face severe state constitutional restrictions and administrative information gaps that do not exist at the national level.

State Constitutional Constraints: Uniformity and Property Tax Limits

In Washington State, a tax on the mere ownership of property is legally classified as a property tax. Consequently, any recurrent wealth tax must comply with the strict limitations of the Washington State Constitution:

1. **The 1% Aggregate Rate Limit:** The aggregate of all property taxes imposed on any piece of property cannot exceed 1% of its true and fair value.
2. **The Uniformity Clause (Article VII, Section 1):** This clause requires that all taxes be uniform on the same class of property. This significantly reduces or eliminates the Legislature's ability to grant exemptions, deductions, or credits.

As a result, a "net" wealth tax—which allows taxpayers to deduct liabilities (such as mortgages or debts) from their assets—is likely unconstitutional in Washington:

> "Many wealth taxes take the form of a 'net' wealth tax, whereby taxpayers are able to deduct liabilities from the value of the assets they own. However, allowing liabilities to be deductible, and thus levying a 'net' wealth tax, raises Uniformity Clause concerns... Allowing liabilities to offset either the value of property or the rate of tax on such property would likely raise constitutional concerns, as it would erode the concept of true and fair value and create different effective rates on property based on the liabilities attached to the property..."

Furthermore, while attributing intangible assets to an owner's domicile is legally valid, the DOR notes that once a taxpayer leaves the state, the state loses all legal authority to tax their worldwide intangible wealth:

> "if a person's domicile were to change, including, for example, if the person were to move out of the state with the intent to create a new domicile, Washington may lack the legal authority to impose any sort of tax on the ownership of intangible assets by that person."

Attempts to prevent capital flight using "tail" provisions (forcing former residents to pay the tax for a set number of years after leaving) or exit taxes face high litigation risks under the state's Uniformity Clause and the U.S. Constitution's nexus requirements.

Historical Precedent: The Failure of Taxing Intangibles

Washington State's historical experience with taxing intangible personal property (such as stocks, bonds, and patents) provides a cautionary tale. Prior to 1998, a broad array of intangible assets was subject to property tax. However, the tax was notoriously difficult to administer, leading to the passage of Engrossed Substitute Senate Bill (ESSB) 5286 in 1997, which expanded exemptions to exclude almost all intangibles.

The DOR's historical evaluation of the pre-1997 regime noted several major administrative failures:

- **Inconsistent Valuations:** Assessments varied wildly based on the appraisal methods used and the skill level of individual local appraisers.
- **Difficulty for Assessors:** Intangible assets were difficult to identify or value accurately across counties due to a lack of physical presence and the fact that these assets are often not recognized until a sale occurs.
- **Reliance on Voluntary Compliance:** The tax relied almost entirely on self-reporting, resulting in highly inconsistent application and widespread non-compliance.

The Information Gap: The Missing Global Reporting Infrastructure

The most critical administrative hurdle for state-level wealth taxes is the lack of access to international tax transparency tools.

Foreign countries that successfully administer wealth taxes (such as Norway, Spain, and Switzerland) rely heavily on the OECD's **Automatic Exchange of Information (AEOI)** under the **Common Reporting Standard (CRS)**, which automatically transmits bulk financial account data across jurisdictions:

> "The implementation of these tax transparency standards has enhanced countries' ability to tax capital income and assets. These standards essentially mean that information on foreign financial assets is now being shared between tax authorities globally, making it harder for taxpayers to evade taxation by concealing assets overseas."

However, because the United States does not participate in the AEOI/CRS, U.S. states are completely cut off from this global reporting infrastructure:

> "As of 2024, the U.S. does not participate in the AEOI. Additionally, it's not clear if Washington state would be invited to participate in or receive information from the AEOI even if the U.S. were to participate in the future."

Without AEOI data, state tax authorities must rely on voluntary self-reporting and domestic federal IRS tax returns. Yet, federal income tax returns (such as IRS Form 1040) are insufficient because they only report *income flows*, not *wealth stocks*. The DOR notes that high-net-worth individuals can have massive wealth but negligible reportable income (e.g., Warren Buffett's adjusted gross income is a tiny fraction of his true net worth), making income data an unreliable proxy for identifying wealth tax liabilities.

Sources

- Wealth Tax Study Final Report
- Why did other wealth taxes fail and is this time different?

State-Level Wealth Tax Proposals and the California 2026 Billionaire Tax Initiative

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State-level wealth tax proposals in the United States have evolved from broad net wealth taxes to highly targeted measures aimed exclusively at billionaires. The most significant active proposal is the California 2026 Billionaire Tax ballot initiative, which attempts to bypass traditional administrative and capital flight hurdles through innovative design choices.

The California 2026 Billionaire Tax Ballot Initiative

Designed by tax law and economics experts Brian Galle, David Gamage, Emmanuel Saez, and Darien Shanske, this proposed ballot initiative for the November 2026 California election is structured as a "one-time" tax rather than a recurring annual levy:

> "Specifically, the proposed ballot initiative for the November 2026 election would impose a one-time 5% wealth tax on California billionaires, payable in annual installments of 1% over five years (with a small deferral charge). The tax is based on worldwide net worth of taxpayers valued as of December 31, 2026, excluding real estate property directly held."

Revenue Scoring and Assumptions

The initiative is estimated to raise $100 billion over five years (2027–2031), targeting only the roughly 200 wealthiest taxpayers in California. The scoring assumes a remarkably low 10% rate of tax avoidance and evasion:

> "The Forbes billionaire list has 213 California billionaires with a collective wealth of $2.182 trillion... A 5% tax on $2.18 trillion raises $109 billion. Factoring in 10% of tax avoidance and evasion leads to a scoring of $99 billion that we round to $100 billion for simplicity."

This 10% avoidance assumption is highly optimistic compared to historical European wealth tax experiences, where narrow tax bases and numerous exemptions led to massive base erosion.

Private Business Valuation Mechanics

To address the notorious "valuation challenge" of non-marketable private business assets, the California initiative prescribes a rigid, formulaic default valuation:

> "The tax applies by default a simple formula for private business valuations, which is: book value (the sum of all assets in the business) plus 7.5 times annual book profits (averaged over the most recent 3 years)."

While simple to compute, the authors of the Washington State Department of Revenue (DOR) Wealth Tax Study (2024) warn that such formulaic approaches can lead to severe undervaluation because they fail to account for a private business's "workforce or future prospects."

Capital Flight Mitigation

To prevent billionaires from fleeing the state to escape the tax, the California proposal relies on a retroactive residency capture date:

> "Billionaires who are California residents, as defined by law, as of January 1, 2026 will have to pay the one-time tax in full; leaving after January 1, 2026 will not allow billionaires to avoid the tax... residency is already largely set and moving does not allow billionaires to avoid the tax."

Other State Proposals

Similar state-level wealth taxes have been proposed in Hawaii (1% tax on assets over $20 million), Illinois (a mark-to-market tax on taxpayers with assets over $1 billion), Vermont (taxing 50% of unrealized gains for individuals with net worth over $10 million), and Washington (1% tax on financial intangible assets over $250 million). However, none of these proposals have successfully passed into law, and many face severe state constitutional hurdles.

Sources

- Expert Report On The California 2026 Billionaire Tax: Revenue, Economic, and Constitutional Analysis
- Wealth Tax Study Final Report

Federal Wealth Tax Proposals and the Constitutional Impact of Moore v. United States

Federal Wealth Tax Proposals and the Constitutional Impact of Moore v. United States

The constitutionality of federal wealth tax proposals—such as Senator Elizabeth Warren's Ultra-Millionaire Tax Act (a 2% to 3% annual tax on net worth over $50 million) and Senator Ron Wyden's Billionaires Income Tax Act (a mark-to-market tax on unrealized gains for households with over $100 million)—remains one of the most contentiously debated legal questions in the United States. The Supreme Court's June 20, 2024 decision in *Moore v. United States* provided critical, albeit narrow, guidance on the outer limits of federal taxing power.

The Narrow Holding in Moore v. United States

The *Moore* case challenged the constitutionality of the Mandatory Repatriation Tax (MRT) enacted under the 2017 Tax Cuts and Jobs Act, which imposed a one-time tax on the accumulated, undistributed foreign earnings of foreign corporations owned by American shareholders. The petitioners argued that the tax was unconstitutional under the Sixteenth Amendment because it taxed "unrealized" gains, asserting that "realization" is a constitutional prerequisite for any unapportioned income tax.

In a 7-2 decision, the Supreme Court upheld the MRT, but explicitly declined to resolve the broader question of whether the Sixteenth Amendment requires income to be realized:

> "The Mandatory Repatriation Tax does not tax an increase in the value of shares of stock, which is more clearly a case of unrealized gain... [W]hether realization is required for an income tax. We do not decide that question today."

Instead, the majority opinion, written by Justice Kavanaugh, based its holding on a long line of precedent allowing Congress to attribute the realized income of an entity (such as a corporation or partnership) to its shareholders or partners:

> "Our analysis today does not address the distinct issues that would be raised by (i) an attempt by Congress to tax both the entity and the shareholders of partners on the entity's undistributed income; (ii) taxes on holdings, wealth, or net worth; or (iii) taxes on appreciation."

Implications for Federal Wealth Taxes

While the majority opinion side-stepped the realization requirement, it included a significant warning regarding the viability of a federal wealth tax. Under Article I of the U.S. Constitution, "direct taxes" must be apportioned among the states according to their population—a requirement that is politically and practically impossible for a wealth tax (as it would require higher tax rates in poorer states with fewer wealthy residents).

During oral arguments, the federal government made a crucial concession that a tax on wealth or net worth would likely be classified as a direct property tax rather than an income tax, meaning it would be subject to the apportionment requirement:

> "In its brief and at oral argument, for example, the Government indicated that a hypothetical unapportioned tax on an individual's holdings or property (for example, on one's wealth or net worth) might be considered a tax on property, not income."

If the Supreme Court officializes this classification in a future case, it would render any unapportioned federal wealth tax (like Warren's proposal) unconstitutional.

The Mark-to-Market Alternative

To bypass this hurdle, some federal proposals, like Wyden's Billionaires Income Tax Act, are structured as "mark-to-market" income taxes rather than wealth taxes. These bills would require taxpayers with net worths exceeding $100 million to recognize annual gains or losses on their tradable assets as if they had been sold, taxing the appreciation as income.

However, because *Moore* left the realization requirement open, a federal mark-to-market tax on unrealized appreciation would immediately face intense constitutional challenges. Opponents would argue that taxing annual paper gains on unsold stock is an unapportioned tax on property appreciation rather than income.

Sources

- Moore v. United States
- Wealth Tax Study Final Report