Macro Roundup Article

Headline: Taxing Top Wealth: Migration Responses and Their Aggregate Economic Implications

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Tweet: In Sweden and Denmark, a 1pp increase in the mean wealth tax reduced the stock of rich taxpayers by 2%. When an entrepreneur subject to the wealth tax emigrates, employment in their businesses drops by 33%, and tax payments by 50%. @MathildeMunoz

Summary: We show that, when an entrepreneur subject to the wealth tax out-migrates, employment in their businesses drops by 33%, value-added by 34%, tax payments by 50%, and gross investments by 21%. Our data enable us to delve beyond firm-level effects and explore the reallocation of economic activity within Sweden following the out-migration of wealthy entrepreneurs. We find substantial reallocation: 60% of the firms closed by their wealthy owners upon out-migration end up being absorbed by other companies in Sweden, and employees at these firms experience limited persistent losses in labor earnings or employment prospects. Overall, our results indicate that the impact of wealthy entrepreneur expatriation on aggregate domestic activity is mitigated by reallocation forces in the Swedish labor market. We show that wealthy out-migration is associated with tax revenue losses from wealth, income, and local taxes. We also find evidence of negative spillovers of out-migration through reduced employment, investments, and tax payments at firms held by wealthy entrepreneurs. A 1pp increase in the effective average tax rate on wealth increases net out-migration by .22pp (+0.17 pp for out-migration and -.05 pp for in-migration). Our results indicate that these aggregate effects are small. A 1pp decrease in the effective average tax rate on wealth increases the size of the wealthy population by at most 2% in the long run, with an induced impact on aggregate employment and total investment in the economy of .03% and .04%, respectively.

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