

Wealth Tax and Entrepreneurs: A Simple Model inspired by ?

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1 Model

- Household model:

$$V(a, z) = \max_c \left\{ \frac{c^{1-\sigma}}{1-\sigma} + \beta E[V(a', z')|z] \right\}$$

subject to

$$c + a' = Y(a, z) + w(e)\ell, \quad a' \geq 0$$

$$Y(a, z) = \begin{cases} a + (\pi(a, z) + ra)(1 - \tau_k) & \text{if CI tax} \\ a(1 - \tau_a) + \pi(a, z) + ra & \text{if wealth tax} \end{cases}$$

where CI stands for “capital income”.

- Entrepreneurial ability z follows Markov chain with values

$$z = [0, z_L, z_H]$$

and transition matrix Π_z .

- Households with $z = 0$ are normal workers
 - Households with $z = z_L$ are *unproductive* entrepreneurs
 - Households with $z = z_H$ are *productive* entrepreneurs.
- Entrepreneurial profits $\pi(a, z)$ are given by:

$$\pi(a, z) = \max_{k \leq \lambda a} \{zk^\nu - (r + \delta)k\}$$

where $\nu \in (0, 1)$ is the span-of-control parameter.

2 Fiscal Experiments

- Calibrate benchmark model to US economy with $\tau_k = 25\%$.
- Replace capital income tax with wealth tax $\tau_a > 0$ is a revenue-neutral way (in Guvenen paper this requires setting $\tau_a = 1.2\%$).
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