

TABLE I – Capital Income Tax vs. Wealth Tax

	Capital Income Tax		Wealth Tax	
	$r_F = 0\%$	$r_M = 20\%$	$r_F = 0\%$	$r_M = 20\%$
Wealth	\$1,000	\$1,000	\$1,000	\$1,000
Pre-tax income	\$0	\$200	\$0	\$200
Tax rate	$\tau_k = \frac{\$50}{\$200} = 0.25$		$\tau_a = \frac{\$50}{\$2,200} = 2.27\%$	
Tax liability	\$0	\$50	$\$1,000 \times \tau_a \approx \23	$\$1,200 \times \tau_a \approx \27
After-tax rate of return	0%	$\frac{\$200 - \$50}{\$1,000} = 15\%$	$-\frac{\$23}{\$1,000} = -2.3\%$	$\frac{\$200 - \$27}{\$1,000} = 17.3\%$
After-tax wealth ratio	$\frac{W_M}{W_F} = \frac{\$1,150}{\$1,000} = 1.15$		$\frac{W_M}{W_F} = \frac{\$1,173}{\$977} = 1.20$	