Quick summary

- Property taxation is ubiquitous (across space *and time*!)

- But there's only scattered evidence on how property taxes affect behavior
  - E.g., Wong (2020), Shan (2010), Zhao and Burge (2017)

- This paper exploits new new property tax scheme introduced in 1732, differentially affected housing units
  - Shock is really at the house-level, which provides a lot of variation, allowing the authors to focus on one city (Amsterdam)
  - Authors exploit this to look at responses/adjustment to unexpected property tax shock

The wealth tax literature

- Lit review session starts with wealth tax literature. How does it fit?
  - Seim 2017; Zoutman 2018; Duran-Cabre, Esteller-More, and Mas-Montserrat 2019; Londoño-Velez and Avila-Mahecha 2021; Londoño-Velez and Avila-Mahecha 2023; Jakobsen, Jakobsen, Kleven, Zucman 2020; Brülhart, Gruber, Krapf, and Schmidheiny 2021; Ring 2020; Fagereng, Guiso, and Ring 2022; Ring and Thoresen 2022; Berg and Hebous 2021
- There are at least five potential effects of wealth taxes on households
  1. Intertemporal distortions by changing marginal return on savings
  2. Income effects from reducing disposable income/wealth
  3. Financial distress
  4. Evasion
  5. Avoidance
- This paper tells us about 2 and 3
  - My own research (Ring 2020; Ring and Thoresen 2022) suggest 1 is not important
  - So pinning down 2 and 3 *is* important.
  - I wouldn't worry about external validity in terms of it being *housing wealth:*
  - *Even in a comprehensive wealth tax,* housing wealth would be the #1 asset class being affected
  - I'm also not worried about external validity wrt. this not being the ultra wealthy: it's not set in stone that all (future) wealth tax schemes only affect the ultra wealthy (as e.g. Warren's proposal)

The key findings in this paper

1. Property tax shock → Wealth effect → Downsizing ?
   - Interestingly, no! Households seem to stay put
   - Consistent with substantial housing-adjustment frictions
     - Even in a relatively liquid housing market, as authors point out

2. Shocked households die with considerably less total wealth
   - Much less wealth than we'd expect from a pure house-price capitalization effect
   - Partly driven by less non-housing wealth: Dissaving?
   - Partly driven by excess reduction in housing wealth: Neglect? Less maintenance?

- These are important findings!
  - Housing wealth effect > capitalization effect → Important distortion
    - Optimal prop tax is lower? (Think laffer curve)
  - Prop-tax reduces non-housing wealth? → Another important distortion
    - This sort of spillover typically not modelled in optimal tax frameworks

What would I expect based on a simple life-cycle model?

- Paper has a model based on budget constraints, would be useful to specify preferences as well (perhaps just with words..)
  - The current conceptual framework doesn’t seem appropriate to me: it is focused on dynamics when the paper just observes outcomes at death

- Households could derive utility from annual consumption, the stock of housing, and end-of-life bequests
  - Where there are frictions that inhibit downward adjustment of housing stock
  - But not upward: could still renovate, etc.

- What would we expect in a model like this?
  - Prop tax shock lowers end-of-life housing wealth beyond house price capitalization: wealth effect causes less housing investment (e.g., renovations).
  - Prop tax lowers bequests; in particular, non-housing bequests since these are easier to adjust: reduction in non-housing wealth at death

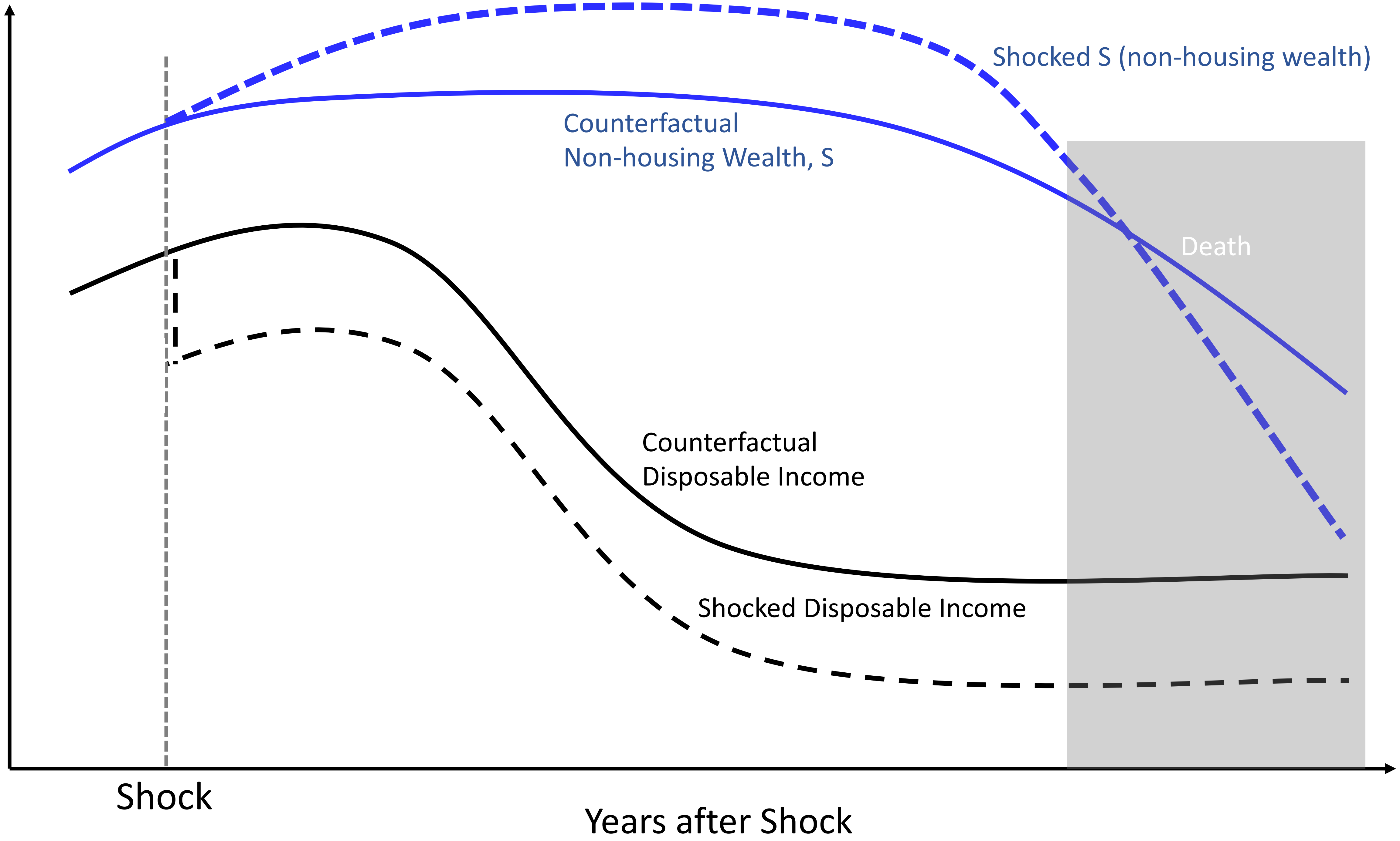
Unclear what we can say about *Saving*

"changes in taxation primarily affected annual saving."

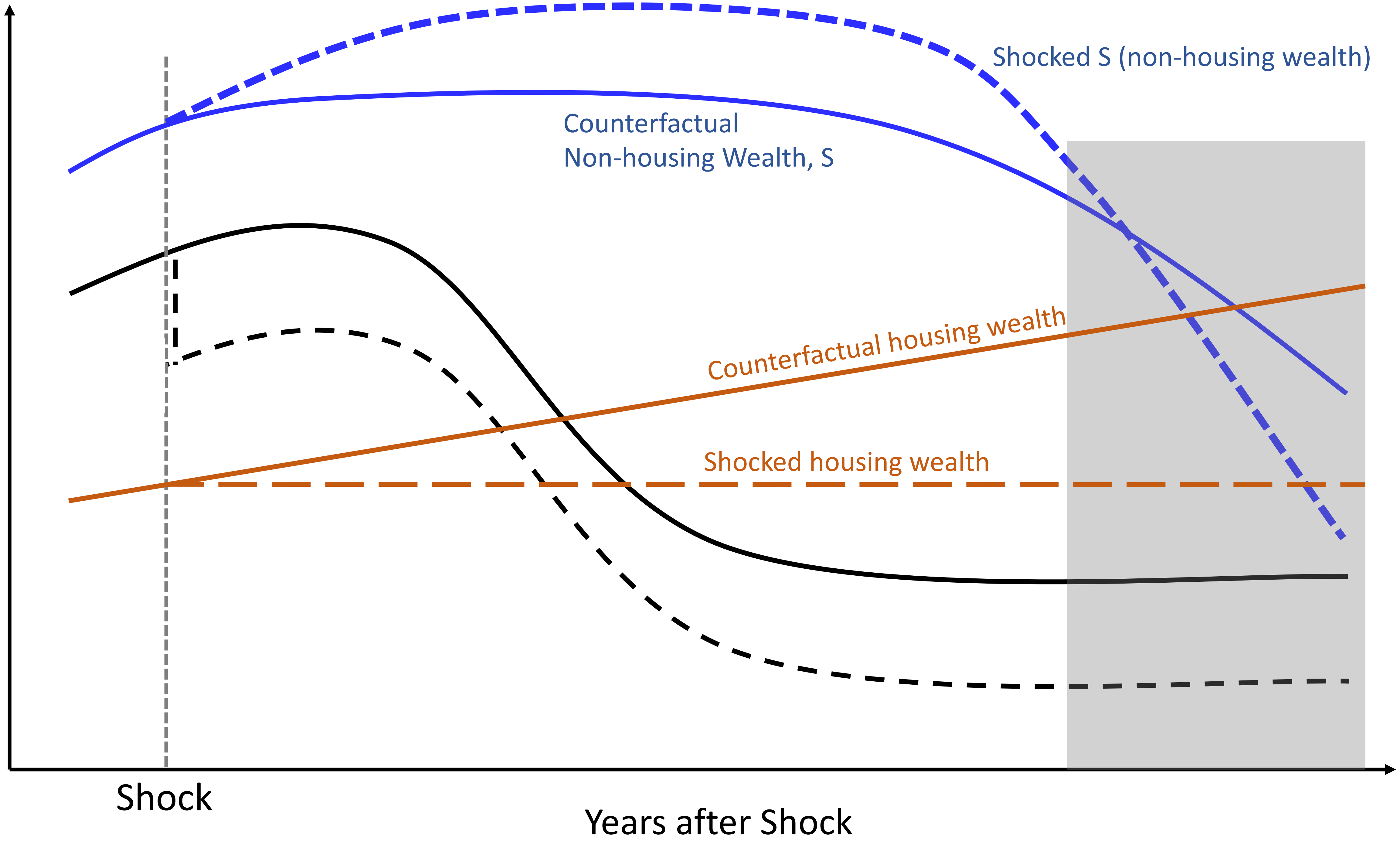
- Authors suggest that that tax shock caused dissaving
- We don't see annual saving, we see the effect on *wealth at death*

- It could be that households temporarily saved more following the reform
  - Which is what we'd expect in a life-cycle model in which income-profiles are downward sloping
  - Households may want to frontload the tax burden to smooth consumption
    (which I think is what's going on in my paper on wealth taxes and saving)
  - Thereafter households dissave at a faster rate since they wish to bequest less

  - *Next slide gives an example for households nearing retirement*



Shocked S (non-housing wealth)
Counterfactual
Non-housing Wealth, S
Death
Counterfactual
Disposable Income
Shocked Disposable Income
Shock
Years after Shock



Shocked S (non-housing wealth)
Counterfactual
Non-housing Wealth, S
Counterfactual housing wealth
Shocked housing wealth
Shock
Years after Shock

Paper would benefit from event-study style analyses

- For example, regress wealth at death on the shock interacted with year fixed effects
  - I realize there are data limitations here, but could perhaps use data from wealth tax at death? These appear to be available from 1699
  - For those who die prior to 1732, assign shock based on the subsequent tax assessment on the house they owned prior to death

- Did higher property taxes affect (ex-post) selection into housing?
  - Regress wealth at marriage on shock interacted with year fixed effects
  - Hypothesis would be that we'd be more likely to see higher-wealth people buying more-shocked houses (less wealthy can't afford)?

Paper might also benefit from a formal model (with preferences!)

- Something along the lines as sketched out earlier
  - Costly downward adjustment of housing stock
  - Ability to invest in existing house (renovations, maintenance, etc)
  - Bequest motive
  - Perhaps also precautionary saving due to uncertain mortality

- Maybe this is outside the scope of the paper, but future research on behavioral responses to property taxes could benefit from such a reference