

TABLE 23-1 Taxation and Risk Taking by Betsey

Policy	Investment	Payoff if Win	Payoff if Lose	Tax Rate if Win	Tax Deduction if Lose	After-Tax Winnings	After-Tax Loss
(1) No tax	\$100	\$20	−\$20	0	0	\$20	−\$20
(2) Tax	\$100	\$20	−\$20	50%	50%	\$10	−\$10
(3) Loss offset	\$200	\$40	−\$40	50%	50%	\$20	−\$20
(4) No loss offset	\$200	\$40	−\$40	50%	0	\$20	−\$40
(5) Progressive tax	\$200	\$40	−\$40	75%	50%	\$15	−\$20

In row 1, Betsey makes a \$100 investment that yields \$20 if the investment is successful and −\$20 if the investment fails. In row 2, the government imposes a 50% tax on her investment, so that Betsey now earns only \$10 if successful and loses \$10 if the investment fails. Betsey can undo the government's actions, as in row 3, by doubling her investment to \$200, leaving her with the same returns as in row 1, so that taxation has increased risk taking. If, however, there is no loss offset, as in row 4, or progressive taxation, as in row 5, Betsey will be unable to undo the government's action, so her risk taking won't necessarily increase under taxation.

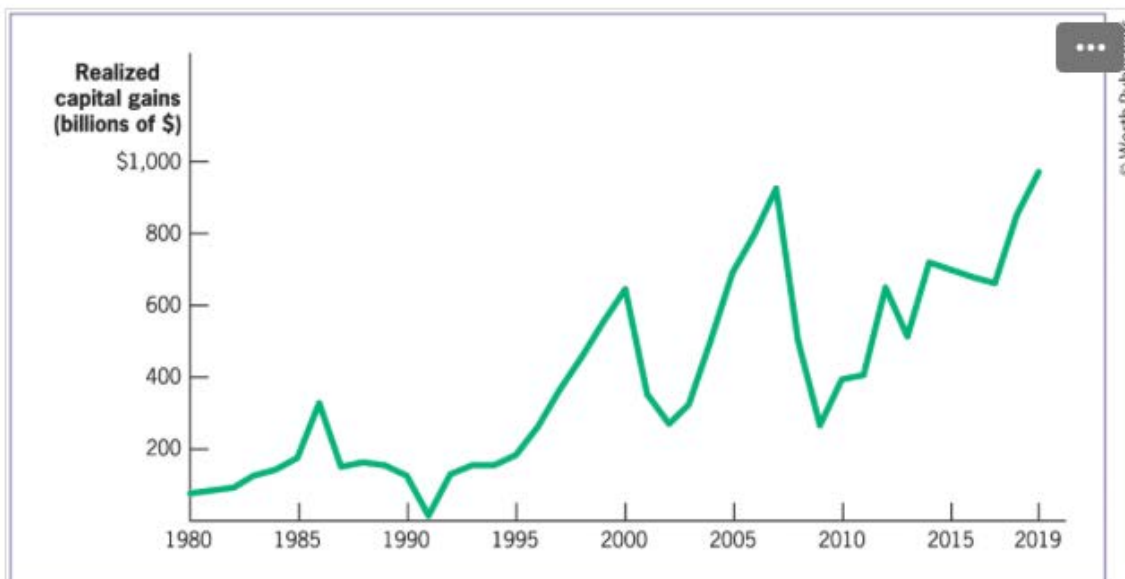


FIGURE 23-1 Capital Gains Tax Rates and Capital Gains Realizations over Time • There is a clear effect of tax changes on capital gains realizations. Realizations peaked in 1986 in anticipation of the increase in capital gains tax rates scheduled for 1987. Realizations peaked again during the stock market run-ups of the mid-2000s and late 2010s.

Data from: U.S. Department of the [Treasury \(2014\)](#) and [Tax Policy Center \(2021\)](#).

Log real capital
gains realizations
by state

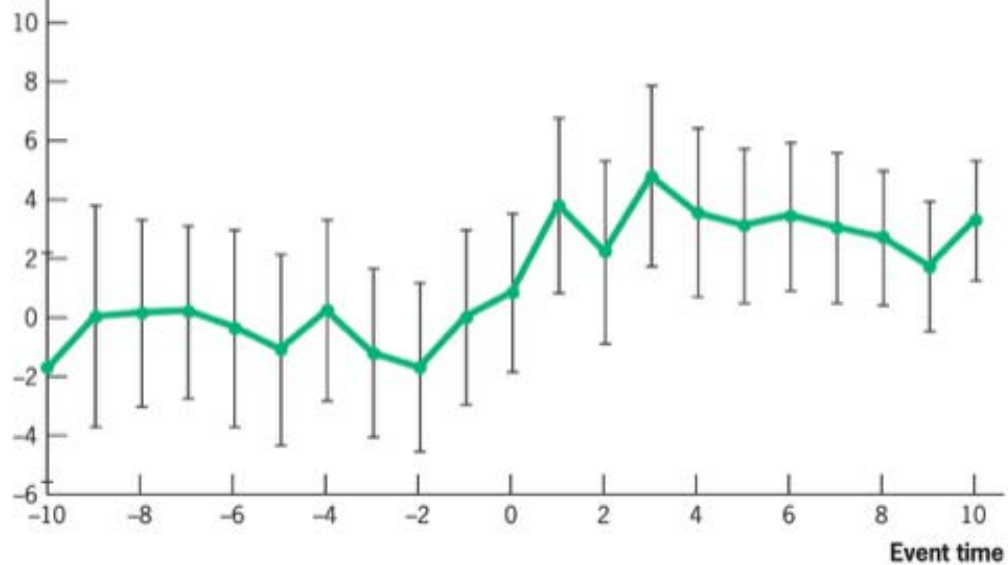


FIGURE 23-2 Measuring the Response of Capital Gains Realizations to Tax Cuts • In the graph above, the point marked 0 on the x axis refers to the year when capital gains taxes are cut. The graph shows a definite increase in capital gains realizations in response to capital gains tax cuts.

Data from: [Agersnap and Zidar \(2020\)](#) figure 2a.

TABLE 23-2 Transfer and Wealth Taxes (% of Government Revenue)

	Transfer Taxes	Wealth Taxes	Transfer and Wealth Taxes
Australia	0.0%	0.0%	0.0%
Canada	0.0	0.1	0.1
Finland	0.7	0.0	0.7
France	1.4	0.2	1.6
Germany	0.5	0.0	0.5
Japan	1.3	0.0	1.3
Norway	0.0	1.5	1.5
Spain	0.6	0.5	1.1
Switzerland	0.6	4.7	5.3
United Kingdom	0.7	0.0	0.7
United States	0.5	0.0	0.5
OECD average	0.3	0.5	0.8

Data from: [Organization for Economic Cooperation and Development \(2021d\)](#).

The use of transfer taxes and wealth taxes varies widely around the world. On average, the United States has higher transfer taxes than the typical developed nation but lower taxes on wealth.

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