

Behavioral Responses to Special Tax Regimes for the Super-Rich: Evidence from Switzerland

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Motivation: Reducing inequality by taxing the (super-)rich

- Rise in income and wealth inequality in many countries

Atkinson et al. (2011), Piketty (2014), Saez and Zucman (2016), Föllmi and Martínez (2017), Garbinti et al. (2018), Chancel et al. (2022)

- Policy: calls to increase the tax burden on the rich

U.S.: Sanders/Warren wealth tax proposals in presidential campaigns

CH: abolition of preferential tax treatments for wealthy foreigners (2014)

- Taxation and location decisions of the rich

Football stars (Kleven et al., 2013); inventors (Akcigit et al., 2016; Moretti and Wilson, 2017); foreigners in DK (Kleven et al., 2014) and CH (Schmidheiny and Slotwinski, 2018); wealthy in CH (Brülhart et al., 2022) and ES (Agrawal et al., 2020); super-rich in the U.S. (Moretti and Wilson, 2022) and the U.K. (Advani et al., 2022); review (Kleven et al., 2019)

But can we tax the (super-)rich in a globalized world?



Why Switzerland: expenditure-based taxation?

RQ: How responsive is the global wealth elite to this special tax regime?

Outline I

- 1 Introduction
- 2 Data: BILANZ Magazine Rich List
- 3 Institutional Background: Expenditure-Based Taxation
- 4 Preferential Tax Treatment and the Location Decisions of the Super-rich
- 5 Conclusion

No admin data on expenditure-based taxpayers

Highly cherished Swiss tax secrecy → no admin data

Alternative: Swiss rich list data (Baselgia and Martínez, 2023):

- 300 richest with net wealth $>$ CHF 150m (like Forbes 400)
- # of super-rich per year and canton for 1999–2020
 - foreign-born vs. Swiss-born super-rich
 - only wealthy foreigners affected by policy change of interest
- limitation: we need to infer tax status from country of birth

▶ data example

Switzerland - home to stars and big business



Super-wealthy foreigners: F1 drivers



Or: The French-Team in the Davis Cup Final 2014



(a) Jo-Wilfried Tsonga (12)



(b) Gilles Simon (18)



(c) Gael Monfils (20)

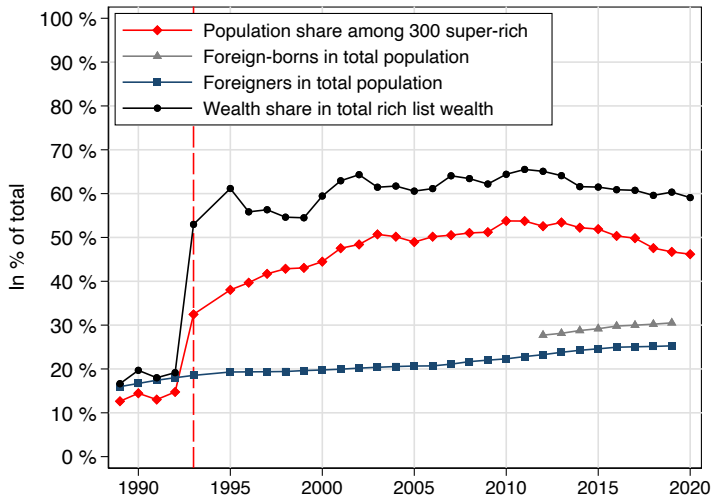


(d) Richard Gasquet (22)



(e) Julien Benneteau (26)

The role of foreigners among the super-rich



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Why Switzerland is so attractive for these wealthy foreigners? Expenditure-based taxation

Preferential tax scheme explicitly aimed at wealthy foreigners moving to and living in Switzerland

Requirements:

- ① Non-Swiss citizenship
- ② Being wealthy
- ③ No labor income earned within Switzerland

Expenditure-based taxation in a nutshell

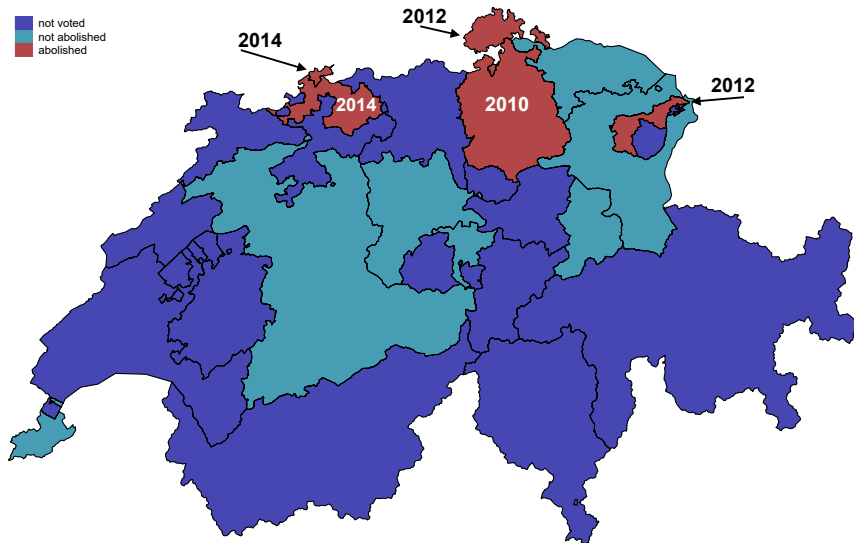
How it works:

- Tax base: estimate of total annual expenditures
- Tax rates: ordinary legal rates apply
- Income tax base:
 - 7 times owner-occupied rental value (or 7 times the actual rent); min. 400'000 CHF
 - expenses for yachts, private jets, holiday homes and estates, ...
- Wealth tax base:
 - multiple of the income tax base, typically factor 20

Relevance (in 2018):

- 4,557 taxpayers ($\approx 0.1\%$) subject to expenditure-based taxation

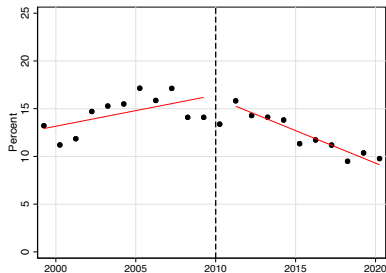
Abolition of expenditure-based taxation (2010–2014)



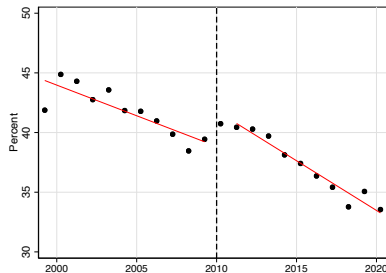
Outline

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Share of super-rich living in an abolition canton



(a) Foreign-born



(b) Swiss-born

Effect of the abolition on super-rich' location choices

Approach 1: Difference-in-Differences (DiD)

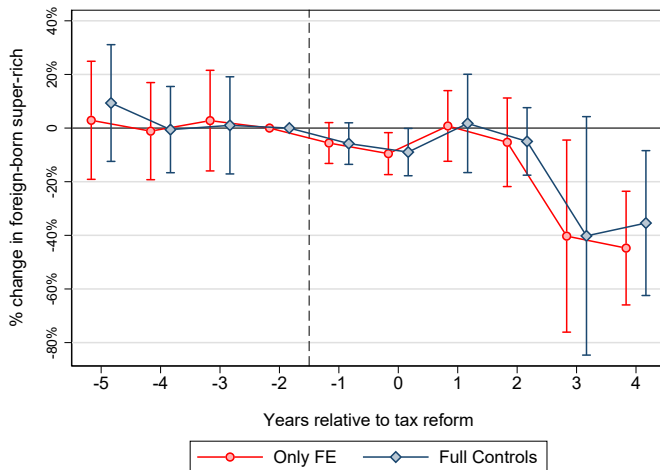
$$\ln N_{c,t} = \beta^{DD} \tau_{c,t} + \theta_c + \theta_t + \Theta_c \cdot t + \Psi X_{c,t} + \epsilon_{c,t}$$

- $\ln N_{c,t}$: log of number of super-rich
- $\tau_{c,t}$: treatment dummy
- θ_c, θ_t : canton and year fixed effects
- $\Theta_c \cdot t$: canton-specific linear trend
- $X_{c,t}$: time-varying canton controls
 - top avg. net-of-tax rate on wealth ($1 - \tau^w$)
 - top avg. net-of-tax rate on income ($1 - \tau^y$)
 - top avg. net-of-tax rate on bequests ($1 - \tau^b$)
 - total population (proxy for urbanization)
 - share of foreigners in total population (proxy for internationalization)

Difference-in-Differences results (OLS) I

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: Foreign-born Super-rich, 1999-2020							
β^{DD}	-0.31*** (0.09)	-0.30 (0.18)	-0.32 (0.30)	-0.33** (0.15)	-0.31 (0.34)	-0.29* (0.15)	-0.28* (0.15)
No. of obs.	411	411	375	375	375	375	375
adj. R^2	0.922	0.952	0.952	0.952	0.952	0.953	0.953
Panel B: Swiss-born Super-rich, 1999-2020							
β^{DD}	-0.27*** (0.09)	0.11 (0.08)	0.10 (0.10)	0.11 (0.08)	0.07 (0.10)	0.08 (0.09)	0.07 (0.10)
No. of obs.	466	466	421	421	421	421	421
adj. R^2	0.925	0.952	0.954	0.954	0.954	0.954	0.954
Controls	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Canton Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Canton-specific linear trend	No	Yes	Yes	Yes	Yes	Yes	Yes
Top average wealth-tax rates	No	No	Yes	Yes	Yes	Yes	Yes
Top average income-tax rates	No	No	No	Yes	Yes	Yes	Yes
Bequest-tax rates	No	No	No	No	Yes	Yes	Yes
Share of foreigners	No	No	No	No	No	Yes	Yes
Total population	No	No	No	No	No	No	Yes

Event study results: foreign-born super-rich



► Swiss-born

► All Super-rich

► Wealthy Taxpayers

Effect of the abolition on super-rich' location choices

Approach 2: pairwise model of stock-ratios of super-rich

(Moretti and Wilson, 2017; Agrawal and Foremny, 2019)

$$\ln \left(\frac{N_{d,t}}{N_{o,t}} \right) = \beta^{SR} \tau_{do,t} + \theta_d + \theta_o + \theta_t + \Theta_{do} \cdot t + \Psi X_{do,t} + \epsilon_{do,t}$$

- $\ln (N_{d,t}/N_{o,t})$: log ratio # of super-rich across canton-pairs
- $\tau_{do,t} \equiv \tau_{d,t} - \tau_{o,t}$: indicator variable
 - $\tau_{do,t} = 1$ if d abolishes but not o
 - $\tau_{do,t} = -1$ if o abolishes but not d
 - $\tau_{do,t} = 0$ if o and d both abolish / don't abolish
→ it does not matter which canton enters the model as o or d
- $\theta_d, \theta_o, \theta_t$: destination, origin, year fixed effects
- $\Theta_{do} \cdot t$: canton-*pair*-specific linear time trends
- $X_{do,t}$: time-varying canton-*pair* controls (in log ratios)

Pairwise model of stock-ratios – results I

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: Foreign-born Super-rich, 1999-2020							
β^{SR}	-0.33*** (0.09)	-0.36*** (0.11)	-0.37*** (0.10)	-0.37*** (0.10)	-0.34*** (0.10)	-0.33*** (0.09)	-0.32*** (0.09)
No. of obs.	3'198	3'198	2'926	2'926	2'926	2'926	2'926
No. of canton-pairs	171	171	171	171	171	171	171
adj. R^2	0.920	0.952	0.953	0.953	0.954	0.954	0.954
Panel B: Swiss-born Super-rich, 1999-2020							
β^{SR}	-0.38*** (0.06)	0.13* (0.07)	0.13** (0.06)	0.13** (0.06)	0.07 (0.06)	0.07 (0.06)	0.04 (0.06)
No. of obs.	3'659	3'659	3'279	3'279	3'279	3'279	3'279
No. of canton-pairs	190	190	190	190	190	190	190
adj. R^2	0.919	0.947	0.950	0.950	0.952	0.952	0.952
Controls	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Destination Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Origin Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Canton-pair-specific linear trend	No	Yes	Yes	Yes	Yes	Yes	Yes
Top average wealth-tax rates	No	No	Yes	Yes	Yes	Yes	Yes
Top average income-tax rates	No	No	No	Yes	Yes	Yes	Yes
Bequest-tax rates	No	No	No	No	Yes	Yes	Yes
Share of foreigners	No	No	No	No	No	Yes	Yes
Population density	No	No	No	No	No	No	Yes

(More) Robustness of our Results

- 1 DiD-Analysis — Accounting for zeros in the dependent variable:

▶ DiD with PPML

- 2 DiD-Analysis — TWFE-Estimator with staggered treatment:

- Callaway and Sant'Anna (2021)
- Sun and Abraham (2021)

▶ Modern Estimators

- 3 Pairwise stock-ratio Analysis — Endogeneity of the treatment:

▶ Placebo Test

Conclusions

- Super-rich foreigners love Switzerland for low taxes and expenditure-based taxation:
 - Their location decisions are sensitive to preferential tax treatments: abolition led to minus 30% super-rich foreigners
 - Foreigners are an important group among the ultra wealthy
- Rich list data adds flavor to top wealth and taxation research

Thank you.

Comments and questions welcome:

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Appendix

How the data is portrayed by BILANZ magazine

Stein Erik Hagen ZH

Kaufhäuser, Haushaltswaren,
Elektrohandel

3–4 Milliarden

Weil Reiche in Norwegen «wie Abschaum» behandelt würden, floh Stein Erik Hagen in die Schweiz. Der Handelsmilliardär, der in Skandinavien eine schillernde öffentliche Figur ist, hält sich hierzulande bedeckt. Zunächst hatte er nur einen Ableger seiner Holding Canica in Zürich angemeldet. Genau ein Jahr später, im März 2010, folgte ein zweiter Schritt: Hagen übertrug das Präsidium seiner Zürcher Canica International auf seine Tochter Caroline Marie, ausserdem zog Sohn Carl Erik in



Flucht in die Schweizer Normalität: Stein Erik Hagen.

den Verwaltungsrat ein. Beide sind in Freienbach SZ gemeldet. Die dritte Tochter, Nina Camilla, ist bisher nicht offiziell in Erscheinung getreten. Stein Erik Hagen ist mit Milie-Marie Treschow verheiratet, die selbst Spross einer Unternehmerfamilie ist und als reichste Frau Norwegens gilt.

Erich und Helga Kellerhals TI

Elektrohandel, Immobilien

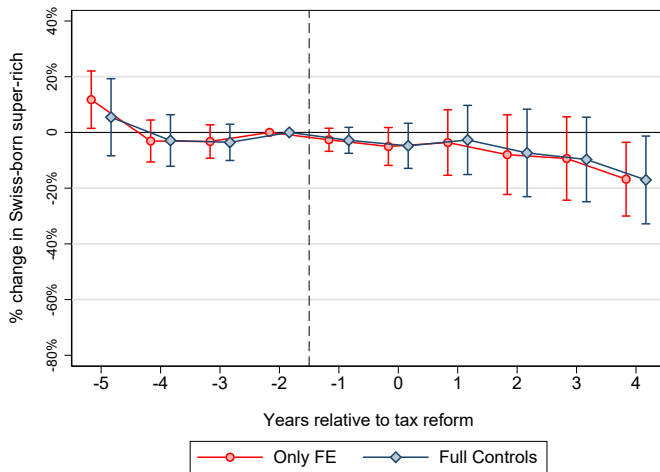
3–4 Milliarden

Weshalb sich die Gründer der Elektrohändelskette Media Markt ärmer darstellen, als sie sind, bleibt ihr Geheimnis. Im elektronischen Bundesanzeiger Deutschlands, in dem Unternehmer ihre Abschlüsse offenlegen, streichen Erich (71) und Helga Kellerhals (70) bei ihrer Finanzgesellschaft, der Convergenta Invest, drei Nullen, wodurch drei Milliarden Euro Anlagen zu drei Millionen schrumpfen. Dafür wäre nicht einmal ihre Tessiner Villa Palma in Melide direkt am Luganersee zu haben. Die Wahlschweizer kreuzen immer häufiger in

Difference-in-Differences results (OLS) II

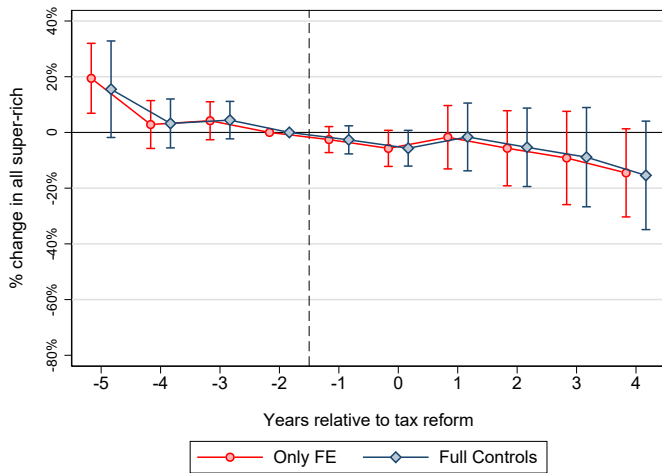
Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel C: All Super-rich, 1999-2020							
β^{DD}	-0.26*** (0.09)	0.04 (0.13)	0.04*** (0.00)	0.04 (0.07)	0.02 (0.07)	0.04 (0.05)	0.02 (0.06)
No. of obs.	506	506	460	460	460	460	460
adj. R^2	0.955	0.970	0.969	0.969	0.969	0.970	0.970
Panel D: Wealthy Taxpayers, 2003-2017							
β^{DD}	-0.27*** (0.08)	-0.00 (0.04)	-0.01 (0.04)	0.00 (0.04)	0.00 (0.05)	-0.00 (0.04)	-0.03 (0.04)
No. of obs.	390	390	390	390	390	390	390
adj. R^2	0.984	0.995	0.995	0.995	0.995	0.995	0.996
Controls	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Canton Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Canton-specific linear trend	No	Yes	Yes	Yes	Yes	Yes	Yes
Top average wealth-tax rates	No	No	Yes	Yes	Yes	Yes	Yes
Top average income-tax rates	No	No	No	Yes	Yes	Yes	Yes
Bequest-tax rates	No	No	No	No	Yes	Yes	Yes
Share of foreigners	No	No	No	No	No	Yes	Yes
Total population	No	No	No	No	No	No	Yes

Event study results: Swiss-born super-rich



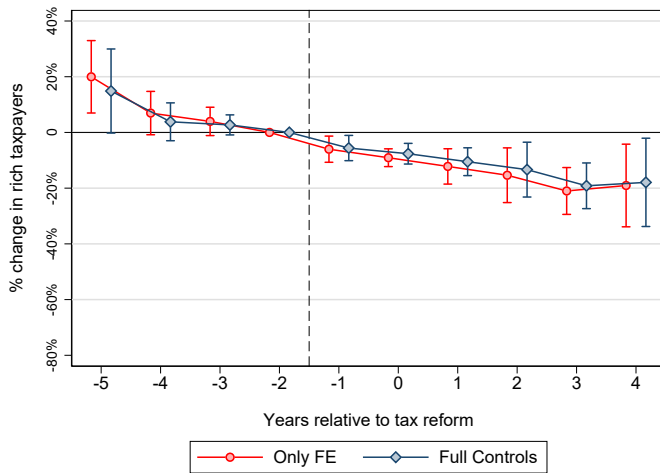
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Event study results: all super-rich



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Event study results: rich taxpayers



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Pairwise model of stock-ratios – results II

Panel C: All Super-rich, 1999-2020							
β^{SR}	-0.36*** (0.05)	0.03 (0.06)	0.02 (0.06)	0.02 (0.06)	0.01 (0.06)	0.01 (0.06)	0.01 (0.06)
No. of obs.	4'180	4'180	3'800	3'800	3'800	3'800	3'800
No. of canton-pairs	190	190	190	190	190	190	190
adj. R^2	0.946	0.967	0.967	0.967	0.967	0.968	0.968
Panel D: Wealthy Taxpayers, 2003-2017							
β^{SR}	-0.35*** (0.04)	0.02 (0.02)	0.02 (0.02)	0.02 (0.02)	0.02 (0.02)	0.01 (0.03)	-0.02 (0.03)
No. of obs.	2'850	2'850	2'850	2'850	2'850	2'850	2'850
No. of canton-pairs	190	190	190	190	190	190	190
adj. R^2	0.980	0.993	0.993	0.993	0.993	0.994	0.994
Controls	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Destination Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Origin Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Canton-pair-specific linear trend	No	Yes	Yes	Yes	Yes	Yes	Yes
Top average wealth-tax rates	No	No	Yes	Yes	Yes	Yes	Yes
Top average income-tax rates	No	No	No	Yes	Yes	Yes	Yes
Bequest-tax rates	No	No	No	No	Yes	Yes	Yes
Share of foreigners	No	No	No	No	No	Yes	Yes
Population density	No	No	No	No	No	No	Yes

DiD with Poisson pseudo-maximum likelihood (PPML)

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: Foreign-Born Super-Rich, 1999-2020							
β^{DD}	-0.20* (0.12)	-0.16 (0.14)	-0.18 (0.14)	-0.19 (0.14)	-0.19 (0.16)	-0.20 (0.17)	-0.20 (0.15)
No. of obs. pseudo R^2	484 0.679	484 0.700	438 0.702	438 0.702	438 0.702	438 0.703	438 0.703
Panel B: Swiss-Born Super-Rich, 1999-2020							
β^{DD}	-0.17* (0.09)	0.11 (0.08)	0.13 (0.08)	0.14 (0.09)	0.13 (0.10)	0.13 (0.10)	0.11 (0.12)
No. of obs. pseudo R^2	550 0.701	544 0.718	497 0.727	497 0.727	497 0.727	497 0.727	497 0.727
Panel C: All Super-Rich, 1999-2020							
β^{DD}	-0.18** (0.09)	0.05 (0.13)	0.07 (0.09)	0.07 (0.08)	0.06 (0.07)	0.05 (0.06)	0.04 (0.06)
No. of obs. pseudo R^2	550 0.764	544 0.775	497 0.782	497 0.782	497 0.782	497 0.782	497 0.782
Panel D: Rich Taxpayers, 2003-2017							
β^{DD}	-0.30*** (0.06)	0.02 (0.03)	0.03 (0.03)	0.04* (0.02)	0.04 (0.03)	0.05 (0.03)	0.04 (0.03)
No. of obs. pseudo R^2	390 0.978	390 0.985	390 0.985	390 0.985	390 0.985	390 0.985	390 0.985
Controls	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Canton Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Canton-specific linear trend	No	Yes	Yes	Yes	Yes	Yes	Yes
Top average wealth-tax rates	No	No	Yes	Yes	Yes	Yes	Yes
Top average income-tax rates	No	No	No	Yes	Yes	Yes	Yes
Bequest-tax rates	No	No	No	No	Yes	Yes	Yes
Share of foreigners	No	No	No	No	No	Yes	Yes
Population density	No	No	No	No	No	No	Yes

Robustness: Sensitivity of TWFE Estimators, Effect on Foreign-born Super-rich

Model	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Standard TWFE Estimator w/o Trend						
β^{DD}	-0.31*** (0.09)	-0.22** (0.08)	-0.22** (0.09)	-0.23*** (0.06)	-0.23*** (0.08)	-0.22** (0.08)
Panel B: Callaway and Sant'Anna (2021) Estimator						
β^{DD}	-0.30*** (0.09)	-0.18*** (0.07)	-0.18*** (0.07)	-0.17*** (0.05)	-0.31*** (0.08)	-0.25*** (0.07)
Panel C: Sun and Abraham (2021) Estimator						
β^{DD}	-0.21*** (0.07)	-0.18*** (0.07)	-0.18** (0.07)	-0.18** (0.08)	-0.18** (0.07)	-0.18** (0.08)
No. of obs.	411	375	375	375	375	375
Controls	(1)	(2)	(3)	(4)	(5)	(6)
Canton Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Top average wealth-tax rates	No	Yes	Yes	Yes	Yes	Yes
Top average income-tax rates	No	No	Yes	Yes	Yes	Yes
Bequest-tax rates	No	No	No	Yes	Yes	Yes
Share of foreigners	No	No	No	No	Yes	Yes
Total population	No	No	No	No	No	Yes

► back

Placebo Test – Foreign-born Super-rich, 1999-2015

Placebo: shift $\tau_{do,t}$, by five years into the pre-treatment period

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
β^{PBO}	-0.05 (0.08)	-0.05 (0.11)	-0.04 (0.10)	-0.04 (0.10)	0.00 (0.10)	-0.01 (0.11)	-0.01 (0.10)
No. of obs.	2'518	2'518	2'518	2'518	2'518	2'518	2'518
No. of canton-pairs	171	171	171	171	171	171	171
adj. R^2	0.942	0.958	0.958	0.958	0.958	0.958	0.959
β^{SR}	-0.17** (0.08)	-0.27*** (0.10)	-0.26*** (0.10)	-0.26*** (0.09)	-0.25*** (0.09)	-0.24*** (0.09)	-0.22** (0.09)
Controls	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Destination Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Origin Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Canton-pair-specific linear trend	No	Yes	Yes	Yes	Yes	Yes	Yes
Top average wealth-tax rates	No	No	Yes	Yes	Yes	Yes	Yes
Top average income-tax rates	No	No	No	Yes	Yes	Yes	Yes
Bequest-tax rates	No	No	No	No	Yes	Yes	Yes
Share of foreigners	No	No	No	No	No	Yes	Yes
Population density	No	No	No	No	No	No	Yes

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