Capital Gains Elasticities from Large Tax Changes with Controls for Other Taxes

Supplemental analysis for "The Tax Elasticity of Capital Gains and Revenue-Maximizing Rates"

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Table 2 of Agersnap and Zidar (2021) reports estimates of the elasticity of capital gains realizations with respect to the net-of-tax rate from three specifications: a baseline; a specification identified only from state capital gains tax changes larger than one percentage point ("big changes only"); and a specification that adds controls for changes in state income and corporate tax rates ("control for other taxes"). This note reports estimates from a specification that applies both modifications at once. The estimates use the code and data from the published replication package, and each modification is implemented exactly as in the published Table 2. As a check, re-running the three published specifications through the modified program reproduces every cell of the published Table 2 at the reported precision.

The table below reports the total elasticity ε^{CG}, the policy elasticity $\varepsilon^R = \varepsilon^{CG} - \varepsilon^N$, where ε^N is the migration elasticity, and the implied elasticity with respect to the tax rate, $\varepsilon^{tax} = \varepsilon^R \cdot \frac{-0.22}{1-0.22}$, evaluated at a 22 percent rate. The combined specification produces lower point estimates than either modification alone. It also leaves less identifying variation, so the estimates are less precise, particularly at the longer horizons: the 0–10 year policy elasticity of 0.37 has a 95 percent confidence interval of $[-1.9, 2.7]$, which includes both zero and the baseline estimate of 1.87. The 3–5 year estimates are the most precisely estimated in this specification.

Elasticity estimates across specifications

	Baseline			**Big changes**			**Other-tax ctrls**			**Big + ctrls**		
	ε^{CG}	ε^{R}	ε^{tax}	ε^{CG}	ε^{R}	ε^{tax}	ε^{CG}	ε^{R}	ε^{tax}	ε^{CG}	ε^{R}	ε^{tax}
0–10 years	3.39	1.87	-0.53	2.81	1.48	-0.42	2.28	1.01	-0.29	1.34	0.37	-0.10
	(1.01)	(0.91)	(0.26)	(1.02)	(0.89)	(0.25)	(1.32)	(1.18)	(0.33)	(1.39)	(1.17)	(0.33)
0–2 years	3.32	2.09	-0.59	3.54	2.50	-0.71	2.38	1.25	-0.35	2.40	1.44	-0.41
	(0.97)	(0.91)	(0.26)	(0.97)	(0.98)	(0.28)	(1.19)	(1.16)	(0.33)	(1.18)	(1.16)	(0.33)
3–5 years	4.78	2.28	-0.64	4.96	2.40	-0.68	3.58	1.64	-0.46	3.50	1.63	-0.46
	(1.10)	(0.88)	(0.25)	(1.10)	(0.92)	(0.26)	(1.24)	(1.01)	(0.29)	(1.24)	(0.99)	(0.28)
6–8 years	4.07	1.94	-0.55	3.77	1.65	-0.46	3.32	1.40	-0.39	2.87	1.01	-0.28
	(1.20)	(0.92)	(0.26)	(1.19)	(0.91)	(0.26)	(1.43)	(1.14)	(0.32)	(1.35)	(1.13)	(0.32)
6–10 years	3.66	1.47	-0.41	2.80	0.99	-0.28	2.98	1.18	-0.33	1.93	0.66	-0.19
	(1.27)	(0.97)	(0.27)	(1.30)	(1.00)	(0.28)	(1.54)	(1.19)	(0.34)	(1.54)	(1.20)	(0.34)

Notes: The first three panels reproduce columns 1–2 of Table 2 of Agersnap and Zidar (2021), together with the implied tax-rate elasticity; "Big + ctrls" applies the big-changes restriction and the other-tax controls simultaneously. All specifications control for capital gains tax reforms in three 3-year bins before and after the reform in question and include state and year fixed effects. The policy elasticity uses the contemporaneous migration elasticity. Standard errors, clustered by state, in parentheses.

Reference: Agersnap, Ole, and Owen Zidar. 2021. "The Tax Elasticity of Capital Gains and Revenue-Maximizing Rates." *American Economic Review: Insights* 3(4): 399–416.

This note responds to a request from HM Treasury for use in its review of capital gains tax elasticities. Code and detailed output are available on request.