# Wealth Taxation and Portfolio Allocation

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**Abstract**

The desirability of taxing household wealth has been at the forefront of global tax policy debates. A concern about wealth taxes is that they may discourage investment in productive capital, in contrast to property taxes focused on real estate. This paper investigates how wealth taxation affects households' portfolio choices. Leveraging a major wealth tax reform introduced in 2017 that transformed the French wealth tax into a real estate tax, I estimate the degree of substitution between real estate and financial wealth. To identify causal effects, I use comprehensive administrative-linked income and wealth microdata for France and a difference-in-differences design comparing French residents to non-French residents subject to the wealth tax but not affected by the policy change.

Five years after the reform, the stock of real estate held by French taxpayers decreased by an average of 6%, with little variation along the wealth distribution. This decrease in real estate is driven by investment rather than owner-occupied housing and is mirrored by a surge in dividend income, consistent with taxpayers reshuffling by selling some of their investment properties in order to invest in stocks. The reduced-form estimates can be converted into a cross-elasticity of 5: a 1 percentage point increase in the tax rate differential between real estate and financial assets leads to a 5% reallocation of households' housing stock to financial capital. Overall, the response is relatively modest, which suggests that property taxes are a poor corrective tool to foster investment in financial assets.