

High-powered entrepreneurship is thought to be responsible for a significant amount of innovation. For example, over half of the IPOs in the United States are venture capital backed companies.

This project considers taxation in a career choice model of entrepreneurship with high probability of failure and skewed payoffs from success. This is work in progress so I will focus on two preliminary theoretical results. First, the average earnings by a marginal entrepreneur are much higher than their earnings as workers, due to risk aversion. Second, the elasticity of the share of entrepreneurs with respect to top tax rates tend to be low. We will also discuss optimal taxation and an empirical application to American venture-capital funded entrepreneurs.

This is joint work with Kent Smetters and Florian Scheu