

How Taxing the Rich Fits Into Campaign to Oust Trump: QuickTake

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The U.S. Democratic Party, pulled to the left by its self-described [progressive](#) wing, is percolating with ideas on how to make the richest Americans pay more in taxes. Ideas include higher income-tax rates on the biggest earners, higher capital gain levies and more taxes on real-estate investors. The issue, which echoes debates in other economies around the world, is arising as a major schism between Democrats and President Donald Trump, who is seeking a second term in November and says cutting taxes for all Americans was a major achievement of his presidency so far.

1. What are the proposals?

They can be divided into six categories. Former Vice President Joe Biden, the presumptive Democratic nominee to challenge Trump in November, subscribes to four of them:

- **RAISE TAX RATES ON INCOME** for the biggest earners. Biden would restore the top rate to 39.6%, its level before the 2017 Republican tax cuts became law. At the extreme, New York Representative [Alexandria Ocasio-Cortez](#) has floated taxing [income above \\$10 million](#) at 70%, up from the current top 37% tax rate that kicks in above \$500,000.
- **TAX MORE INHERITANCES**. Biden would end a provision that allows people to pass capital gains to heirs without tax after death. Vermont Senator [Bernie Sanders](#), in his unsuccessful campaign against Biden for the Democratic nomination, proposed [expanding the estate tax](#) so it covers holdings left at death by the wealthiest 0.2% of Americans, applying a rate of as much as 77% on the value of estates above \$1 billion.
- **TAX CAPITAL GAINS** like ordinary income. Investors are taxed on the difference between what they paid for a stock or property and what they sold it for. The federal rate in the U.S. currently tops out at 20%, well below the top marginal rate of 37% on wages and salaries. Biden would tax capital gains [the same as regular income](#) for taxpayers earning more than \$1 million annually.
- **KILL TAX BREAKS**. Biden has [called for](#) ending so-called [like-kind exchanges](#), a tax maneuver popular among real-estate investors, to finance his plan to expand care for children and the elderly.

2. What do Democrats other than Biden propose?

Taxing wealth in addition to income, for one. Massachusetts Senator [Elizabeth Warren](#), whose unsuccessful campaign for the presidential nomination drove much of the discussion about taxing the rich, proposed a [2% annual tax](#) on household wealth in excess of \$50 million, rising to [6% on every dollar above \\$1 billion](#). Sanders proposed a 1% tax on households worth at least \$32 million that graduates to an 8% levy on wealth above \$10 billion. Also unlike Biden, Warren and Sanders proposed taxing financial trades. Sanders proposed a tax of 0.5% on stock trades, 0.1% on bond trades and 0.005% on derivatives transactions. Warren was among the other candidates who called for a 0.1% tax on all financial trades.

3. Who would be hit?

Primarily the richest of the rich -- only a fraction of the top 1% of households, in the case of some of these proposals. The wealth tax proposed by Warren, for instance, would hit the wealthiest [75,000 households](#), while a 70% top rate as proposed by Ocasio-Cortez would hit the top 0.01% of earners, according to [IRS data](#). Biden's increases to income taxes affect those earning above \$400,000. His higher capital gains rates kick in after \$1 million in income. Financial transactions taxes would fall most heavily on high-frequency traders, while annual taxes on derivatives, a proposal known as mark to market, would hit investors, including hedge funds, but some plans limit the tax hit for pension funds, insurance contracts and college endowments.

4. How much would such taxes raise?

Biden's campaign says his tax package would raise about \$4 trillion over 10 years.

5. What would wealth taxes do for inequality?

That's hotly debated. Targeting what people have, rather than what they earn, is generally seen as a more potent way to redistribute wealth, because [wealth inequality](#) is greater than income inequality. Some [new research](#) also suggests that raising tax rates wouldn't reduce inequality much, because much of the wealth among the richest Americans stems from private business profit taxed at lower rates and from assets that have grown in value but go un-taxed until they are sold.

6. What's the argument for raising taxes on the rich?

Democrats argue -- and [polling suggests](#) an increasing number of voters agree -- that the government should use the tax code to redistribute wealth downward. Since the Republican tax cuts passed in 2017 gave the highest income taxpayers a larger proportion of reductions, they say the first order of business is to reverse that trend. They also favor increasing overall tax revenues to pay for an ambitious agenda on health care, higher education and action to limit climate change.

7. What do opponents say?

Biden's plan would [decrease gross domestic product](#) over the long term, raising only \$3.2 trillion after accounting for macroeconomic effects. More broadly, they [say](#), high taxes on income and on accumulated wealth would discourage innovation and investment. They also argue wealth tax would be an administrative nightmare, requiring taxpayers or the IRS to calculate annually the [value of assets](#), including real estate and investments in private businesses that are notoriously hard to assess. Other critics say that taxes on financial trades would make capital more expensive for companies, meaning they'd raise less of it. Such a tax could also reduce liquidity in markets, [opponents say](#).

8. Is this a U.S.-only thing?

Many European nations have experimented with a wealth tax of some form, with support ebbing and flowing throughout the decades. Thomas Piketty's 2014 book "Capital in the Twenty-First Century" [re-invigorated](#) the debate particularly in European countries with high debt loads, which have eyed wealth taxes as ways to replenish their treasuries. Spain effectively abolished its wealth tax in 2008 but brought it back in 2011. French President Emmanuel Macron's [2017 decision to exempt](#) financial holdings from a longstanding wealth tax contributed to the anger that set off the so-called Yellow Vest protests a year later. Neither Germany nor the U.K. has a wealth tax, but there's been debate within both countries about creating one. In Asia, where inequality has been rising especially rapidly, some countries that aren't strapped for cash have considered increases in taxes on large property holdings as a way of putting a lid on inequality. China's push to cut taxes for its middle class has led to expectations that the government will squeeze more from its growing ranks of affluent households.

The Reference Shelf

- A Bloomberg News [article](#) on how the richest Americans might avoid these taxes.
- Trump -- [yes, Trump](#) -- also once proposed a big one-time tax on the rich.
- [One year](#) after the GOP tax cut, the rich were the winners.
- Ocasio-Cortez's idea for a 70% top tax rate is a [reality](#) in Sweden.
- The [Washington Center for Equitable Growth](#) explains how a [wealth tax could work](#) in the U.S.
- The IRS explains [like-kind exchanges](#).

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