The Billionaires Income Tax

Senator Ron Wyden

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Working Americans like nurses and firefighters pay taxes out of every paycheck, but billionaires do not. They're able to avoid paying a fair share in taxes for decades, if not indefinitely, through a simple scheme:

Buy: Billionaires acquire and hold assets like stocks and real estate that are likely to rise in value.

Borrow: They borrow against those assets, effectively turning their stockpiled wealth into liquid income to fund their lifestyles and acquire more assets. They do not, however, pay taxes on that income. Instead they pay minimal borrowing fees to Wall Street institutions.

Die: After the billionaire's death, when the assets are eventually passed onto their spouse or children, the tax owed on the accumulated value of those assets disappears. They can be sold tax-free.

Expanding on an accounting method already used in the U.S. tax code, the Billionaires Income Tax would ensure wealthiest people in the country finally pay their fair share, just like wage earners who pay out of every paycheck. It would apply to roughly 700 taxpayers and raise hundreds of billions of dollars, which could be used to help shore up funding for vital programs like Social Security and Medicare. Only taxpayers with more than $100 million in annual income or more than $1 billion in assets for three consecutive years would be covered by the proposal. The Billionaires Income Tax will tackle this from three angles:

Taxation of gains and losses from assets like stocks

Tradable assets (like stocks that are easily valued on an annual basis) owned by billionaires will be marked to market each year. This means that billionaires will pay tax on gains or take deductions for losses, whether or not they sell the asset. Taxpayers would be able to carry back their losses for up to three years in certain circumstances. This will ensure billionaires start paying tax on their income each year, just like working Americans.

Deferral charge on gains from assets like real estate

When a billionaire sells a nontradable asset (like real estate or a business interest), they would pay their usual tax, plus a "deferral recapture amount," which is akin to interest on tax deferred while the individual held that asset. This approach simplifies compliance by eliminating the need for annual valuations of these nontradable assets.

The amount owed is calculated by allocating an equal amount of gain to each year the billionaire held that specific asset, determining how much tax would have been owed on the gain in each year, and assessing interest on unpaid tax for the time the tax was deferred. The interest rate used is the short-term federal rate plus one percentage point, and no interest accrues prior to the date of enactment of the proposal or the first tax year the individual is subject to the Billionaires Income Tax, whichever is later.

Transition and anti-abuse rules

The first time billionaires' tradable assets are marked-to-market, they may elect to pay the resulting tax over five years. They may also elect to treat up to $1 billion of tradable stock in a single corporation as a nontradable asset, which will help to ensure that the proposal does not affect the ability of an individual who founds a successful company to maintain their controlling interest. The proposal also contains rules to prevent avoidance of the Billionaires Incomes Tax.