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## 10 Frequently Asked Questions about Taxing the Rich

**Updated March 28, 2022**

***Author***: *Catherine Rowland, Legislative Affairs Director (catherine@progressivecaucuscenter.org)*

1. **Why don't the mega-rich pay the same taxes as low-to-middle income people?**

   There are two main ways extremely rich Americans avoid taxes. The first has to do with how these Americans make money. Most people make their money from a job. The mega-rich, on the other hand, make money *from their money*, and money made from money is given privileged tax treatment. The second way is through legal loopholes that allow certain kinds of income—the kinds of income the mega-rich tend to earn—to go untaxed for years, sometimes forever.

2. **How is "money made from money" given privileged tax treatment?**

   Individuals pay taxes on their income, which for most of us typically means wages, which are taxed all year, every year. The biggest source of income for the richest Americans is not wages, but instead the growing value of their assets, like stocks and real estate. This growth in asset value is only taxed if and when the assets are sold. Because the wealthy aren't necessarily selling assets annually, they only pay taxes on a minuscule fraction of their wealth each year. What's more, even when assets *are* sold, any "capital gains" are usually taxed at a lower rate than work income. The top tax rate on wages and salaries is 37 percent; the top rate on capital gains is only 20 percent.

   An example can help demonstrate how little of the rich's wealth income is taxed: Amazon founder Jeff Bezos' *net worth* grew by $75 billion in 2020. His *salary* that year was $81,840—meaning Bezos paid income taxes on only 0.00010912 percent of his total income in 2020. That wealth, even if not in the form of cash, is still hugely beneficial. CNBC reports, "wealthy households don't necessarily need to sell appreciated assets to fund their lifestyles. For example, they can borrow against their investments to avoid selling them and paying income tax on gains."

   So, the mega-rich benefit from the way current tax laws treat wealth, even though they often use that wealth to pay for their expenses in the same way ordinary Americans use the income they earn from jobs.

3. **I've heard about billionaires paying $0 in taxes—how is that possible?**

   Billionaires can make an enormous amount of money while telling the Internal Revenue Service (IRS) that they *lost* money because of tax loopholes of which most ordinary Americans don't or can't take advantage. A ProPublica report examined the instructive case of real estate mogul Stephen Ross:

   > *Though the developer brought in some $1.5 billion in income from 2008 to 2017, he reported even more — nearly $2 billion — in losses. And because he reported negative income, he didn't pay a nickel in federal income taxes over those 10 years.*

   Ross claimed that the value of property he owned was depreciating over time and, therefore, that his real estate business was losing money. Reporting these business losses to the IRS means he was able to claim negative income *and* simultaneously nearly double his personal net worth over the same period "by adding $3 billion to his fortune," according to ProPublica.

4. **What are other tax "loopholes" that the rich supposedly take advantage of?**

   On top of the tax code's failure to recognize the wealth-growth income of the mega-rich, it allows that massive growth in fortune to be passed down to heirs tax-free, creating wealthy dynasties *and* avoiding taxes. The gap in the law that allows this is known as the "stepped-up basis" loophole.

   Briefly, the loophole works like this: if a rich person purchases $20 million worth of stock and eventually sells it for $50 million, that person would have to pay capital gains taxes on the $30 million profit. This profit is already taxed at a far lower rate than income made from wages. But the rich can use the stepped-up basis loophole to avoid capital gains taxes *entirely* by passing assets on to their heirs. In this example, if a rich person, instead of selling the stock that was purchased for $20 million, leaves it to an heir, and the heir later sells it for $50 million, the heir would pay *zero* taxes on that $30 million profit.

   For more information about this loophole and how it can be remedied, check out "Revenue Vanishing into the Heir: Closing the Stepped-Up Basis Loophole," an explainer from the Progressive Caucus Action Fund.

5. **So what if the mega-rich can amass giant fortunes—they're not hurting anybody, right?**

   When the mega-rich exploit the law to avoid paying their fair share in taxes, the government misses out on revenue that could be used to fund services for all Americans, such as health care for seniors, access to higher education and job training programs, action to clean up polluted communities, improved public transit, and much more.

The harms of the current tax code, however, are not limited to the opportunity cost of foregone revenue. It hurts all Americans by suppressing wages, perpetuating systemic inequalities, and endangering our democracy.

When the wealthy shareholders and executives of corporations know they can avoid paying taxes on any excessive wealth they amass, they have an incentive to accumulate more of it, and that changes their calculus when they decide how to invest corporate profits. A report from the Roosevelt Institute explains, “a lower top tax rate increases the rate of return from bargaining for higher compensation, which has encouraged corporate executives and managers to do so.” The tax discount on capital gains and dividends created the same incentive for shareholders to seek more of that type of income. This leaves a smaller share of corporate profits available to invest in workers’ salaries.

An incentive structure that discourages paying workers more both harms individual workers *and* perpetuates income inequality, especially for marginalized communities. The incentive structure created by the Tax Cuts and Jobs Act (TCJA) of 2017 provides an instructive example. A report by the National Women’s Law Center and the Roosevelt Institute describes how Starbucks executives responded to the law in a way that disadvantaged its workforce, made up largely of women and people of color:

> *Starbucks’ workforce is 68 percent women and almost half people of color. In 2018, the year following passage of the TCJA, Starbucks increased spending on [stock] buybacks by nearly 240 percent to $7.2 billion…The $7.2 billion spent to reward shareholders could have paid for a $24,729 compensation increase for its 291,000 workers. That compensation increase could help a mother pay for 12 months of child care, nine months of groceries, eight months of rent, and 12 months of health insurance premiums.*

Higher taxes on the wealthy, then, wouldn’t just mean more revenue with which the government can fund services—it could mean higher wages for working people. Those higher wages can help alleviate persistent economic, gender, and racial inequalities and, in turn, improve the stability of American democracy. Multiple studies have found that rampant inequality harms people’s faith in democratic government. As a 2020 United Nations report found, “runaway inequality is eroding trust in democratic societies and paving the way for authoritarian and nativist regimes to take root.”

Thus, in addition to funding needed services,  improving wages, and reducing inequality, fairer tax laws could revive our democracy. By leaving the U.S. more vulnerable to authoritarianism, the failure to enact such laws harms all Americans.

6. **Don't wealthy Americans do a lot of philanthropy that improves communities? What difference does it make if they fund those improvements instead of the government?**

   Some ultra-wealthy individuals do, indeed, donate large amounts of money to charitable causes. The idea, though, that these donations are a substitute for public policy that makes the wealthy pay their fair share is flawed.

   First, charitable donations can themselves be a way for the mega-rich to avoid paying taxes. Billionaire Stephen Ross, for example, claimed a $33 million tax deduction after donating a stake in a California property to the University of Michigan, which the university eventually sold for less than $2 million. After almost a decade of legal battles, the IRS rejected his claim—but the rich, with armies of lawyers and accountants, often win those battles with the tax agency.

   Second, this argument assumes that the rich will choose to donate money to address the issues that are of the greatest importance to the American public. In reality, as former labor secretary Robert Reich points out, "the giving preferences of the wealthy are not a mirror of the giving preferences of all people." Rich individuals are not elected and, therefore, cannot be held accountable by voters for their decisions.

   Third, billionaires' charitable contributions cannot erase any harms perpetrated as they amass their wealth. When John D. Rockefeller created the Rockefeller Foundation more than a century ago, President Teddy Roosevelt said, "no amount of charities in spending such fortunes can compensate in any way for the misconduct in acquiring them." This principle holds true still today: when the mega-rich engage in philanthropy, it does not negate the damage their pursuits may have done to working people, communities, or the environment.

7. **Wouldn't these sorts of tax changes punish people who have earned their fortunes through hard work?**

   Closing loopholes and implementing fair reforms to tax accumulated wealth would not penalize the mega-rich—it would level the playing field so that their money is treated like that of working families across this country. Furthermore, fortunes amassed by billionaires don't result from the work of one person. They are the result of workers' labor and, too often, exploitation—workers who sometimes deal with grueling conditions and earn far, far less than the executives profiting from their efforts.

   Take the example of Jeff Bezos. Again, Bezos' net worth grew by $75 billion in 2020. That same year, the median Amazon worker made $29,007. Amazon workers have also been forced to endure deplorable—even deadly—conditions, from urinating in bottles because of inadequate bathroom breaks to one worker being threatened with termination if she stopped delivering packages amidst tornado warnings.

With fairer tax laws, the U.S. could help ensure the funds workers' labor generates for their employer doesn't merely line the pockets of wealthy executives, but allows for tangible improvements to workers' lives and communities.

**8. How much tax revenue would a more fair tax system raise?**

There are various proposals for taxing the mega-rich more fairly, each of which would result in different amounts of revenue. For example, the Ultra-Millionaire Tax Act proposed by Senator Elizabeth Warren, Congresswoman Pramila Jayapal and Congressman Brendan Boyle would levy a 2 percent tax on wealth between $50 million and $1 billion, and a 3 percent tax on wealth above $1 billion. This change would affect only the richest 0.05 percent of Americans and raise $3 trillion over 10 years. Another proposal, the Millionaires Surtax Act, sponsored by Senator Chris Van Hollen and Congressman Don Beyer, would add an annual 10 percent surtax on adjusted gross income (including capital gains) for families with incomes over $2 million and raise $634 billion over 10 years. Senator Ron Wyden's Billionaires Income Tax would annually tax the wealth-growth income of the nation's richest households—fewer than 1,000—and raise $550 billion over 10 years.

To see how much tax revenue other proposals would raise, check out "Tax the Ultra-Rich," a one-pager from the Progressive Caucus Action Fund, National Women's Law Center, Patriotic Millionaires, Americans for Tax Fairness, and the Center for American Progress.

**9. Do Americans want to see the mega-rich pay higher taxes?**

Numerous polls have found strong support among all voters for higher taxes on the wealthy. For example, Morning Consult found that roughly 3-out-of-4 voters believe the wealthiest Americans should pay higher taxes. Vox and Data for Progress, meanwhile, found that more than 70 percent of voters backed higher taxes for the top 2 percent of wealthy Americans to fund President Biden's proposed Build Back Better Act. What's more, a poll by ALG Research and Hart Research found that more than 2-in-3 voters became *more* supportive of President Biden's agenda after learning that it would be paid for through higher taxes on the rich and corporations.

**10. If I make a lot of money one day, I don't want to have to give it all back in taxes. Will taxing the rich hurt me one day?**

The proposals most often discussed for taxing the mega-rich will never impact the vast majority of people in this country. This is by design—they are meant to target only the very wealthiest Americans. Take proposals to create a wealth tax: the Roosevelt Institute explains, "by setting an exemption threshold on net worth, policymakers can ensure that households below that threshold simply do not pay the tax." The example of the Ultra-Millionaire Tax Act is instructive: again, it would impose a 2 percent tax on wealth between $50 million and $1 billion, and a 3 percent tax on wealth above $1 billion. According to the Federal Reserve Board, the median net worth for Americans aged 65-74 is $266,400. For all other age brackets, that number is even lower.

Therefore, most Americans will never accumulate even close to enough wealth to be affected by this tax. But they will benefit from the public services such tax reforms on the super-wealthy will fund, as well as from the fairer and more stable economy they will help create.

***The author thanks the Roosevelt Institute and Americans for Tax Fairness for their comments and insights.***