EDITORIAL BOARD MEMO

To: Editors and Columnists
From: Frank Clemente, Executive Director
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TRUMP'S CAPITAL GAINS PROPOSAL IS ANOTHER TAX GIVEAWAY TO THE VERY, VERY RICH

WASHINGTON, D.C. – After signing into law massive tax cuts costing nearly $2 trillion that mostly benefit the wealthy and big corporations, President Trump wants to give the very rich another tax break—this time without approval from Congress. It would cost between $100 and $200 billion over 10 years. Both Trump (net worth: $3.7 billion) and Treasury Secretary Mnuchin (net worth: $385 million) would personally benefit significantly.

We urge you to write an opinion column informing your readers of this latest proposal and how growing the deficit with more costly tax cuts will result in further hypocritical demands from Republicans to pay for tax cuts by slashing Medicare, Medicaid, Social Security, education and other services for working families. Both President Trump and House Republicans have proposed such cuts in their budgets for the next fiscal year.

THE PROPOSAL

Owners of corporate stock, real estate, and other assets are only taxed when they sell those assets. Income taxes are paid on the difference between the sale price and the purchase price. For example, under the current system if an asset is bought in one year for $1,000 and sold 10 years later for $2,000, the amount of income that capital gains tax would apply to is $1,000 (the difference between the initial cost of the asset and what it was sold for).

The Treasury Department is deciding whether it can take unilateral action without Congress passing a law to index capital gains for inflation. So, if inflation over 10 years is 20 percent, then the owner of the asset initially purchased for $1,000 would be able to exclude an additional $200 from the capital gains tax, meaning that rather than paying the tax on $1,000 they would pay it on $800.

INDEXING CAPITAL GAINS WOULD BE A HUGE GIVEAWAY TO THE UBER-RICH

Since most of the income from capital gains flows to wealthy taxpayers, Trump's capital gains giveaway would be highly skewed to the very wealthy. According to the Penn Wharton Budget Model:

- 86% of the tax cuts would go to the top 1%. Their incomes are at least $732,000.

- Two-thirds (63%) would go to the top 0.1%. Their incomes are at least $3.4 million.

CAPITAL GAINS TAX GIVEAWAY IS VERY COSTLY AND WILL THREATEN CRITICAL SERVICES
Indexing capital gains for inflation will cost $100 billion to $200 billion over 10 years. [Penn Wharton & Tax Policy Center] This is on top of the nearly $2 trillion cost of the Trump-GOP tax cuts, according to the Congressional Budget Office. Already, the president and Republicans in Congress have proposed cuts of $1.3 trillion and $2 trillion, respectively, to Medicare, Medicaid and the Affordable Care Act to help pay for last year's huge tax cuts. See reports here showing the impact on each state.

TRUMP MAY BYPASS CONGRESS TO GET HIS CAPITAL GAINS TAX GIVEAWAY
Knowing that another tax cut for the rich has little chance of passing Congress this year, the Trump Administration may skip that step and take unilateral action that is likely illegal.
In 1992, the Treasury and Justice departments determined that Treasury did not have the legal authority to make this tax law change without Congress. But that may not stop the imperial presidency of Donald Trump.

A BETTER ALTERNATIVE: TAX WEALTH THE SAME AS WORK
Income from capital gains already has significant tax advantages. It is taxed at much lower rates than wage and salary income—about 24% vs. 37%. More than three-quarters of the benefits of this loophole go to taxpayers with incomes over $1 million. Instead of giving wealthy investors deeper tax cuts, their income from investments should be taxed at the same rate as income from work. Taxing income from long-term capital gains and dividends at regular individual income tax rates could raise nearly $2 trillion over 10 years, according to the Institute on Taxation and Economic Policy (ITEP). Eliminating other existing loopholes associated with capital gains could bring the total revenue gain up to nearly $3 trillion. Those revenues could be used to protect and strengthen Social Security, Medicare and Medicaid and make necessary investments in education and infrastructure.

WHAT OTHERS ARE SAYING

New York Times editorial, Trump's Crony Capitalists Plot a New Heist: The Treasury Secretary Floats a Plan to Hand $100 billion in Capital Gains tax Savings to His Moneyed Friends. It's Almost Certainly Illegal. (July 31, 2018)

Washington Post editorial, Our Nation Is Too Strapped to Focus on Making the Rich Richer (July 31, 2018)

Washington Post op-ed (Jared Bernstein column), The Administration's Pitch to Lower Capital Gains Taxes Is Another Trickle-Down Sales Job Designed to Deliver a Fat Pay Packet to its Donors (Aug. 1, 2018)

Bloomberg, Five Reasons Trump's Trial Balloon on Capital Gains Taxation Should Sink (July 31, 2018)

Houston Chronicle editorial, Capital Gains Tax Proposal Prompted by Greed and Texans Should Oppose It (Aug. 1, 2018)

TaxVox, Tax Policy Center, Indexing Capital Gains via Regulations is Still a Bad Idea (July 31, 2018)

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