MUSK’S $11 BILLION TAX BILL IS BIG NEWS—BECAUSE IT’S JUST 10% OF HIS WEALTH INCREASE SO FAR THIS YEAR

Tesla Founder Still Worth $239 Billion After Paying Up; Most Years for Most Billionaires, Taxation is Basically Voluntary, Showing Need for Billionaires Income Tax

WASHINGTON, D.C. – The self-congratulatory announcement by Elon Musk that he is paying $11 billion in income taxes this year is a big deal, but not for the reasons he and his Twitter fans apparently believe. What his tax bill really proves is that an eye-popping figure is just a nuisance when you’re sitting on that big a pile of cash; that billionaires still play by their own set of tax rules; and that we need the Billionaires Income Tax to fix a rigged system.

First, as to the number: Musk did not say whether the $11 billion is all federal income taxes or if it also includes tax owed to California, where he lived much of the year. It likely does include state tax, since Forbes recently estimated that Musk owes federal income tax of $8.3 billion based on his stock sales this year. $8.3 billion represents about a 10% federal income tax rate on the $86 billion increase in his wealth in 2021. (Musk was worth $153.5 billion on December 31, 2020, according to Forbes, and $239.5 billion on December 20, 2021, based on the magazine’s real-time data.)

The average effective tax rate was 13.3% for all Americans in 2018 (the latest year with available data).

Moreover, Musk may have paid little or no federal income taxes since at least 2014—despite his ballooning fortune—so the one-time payment of $8.3 billion (or even $11 billion) in essence covers multiple years. According to ProPublica’s analysis of IRS records, Musk paid no federal income taxes in 2018. Between 2014 and 2018 his wealth grew by $13.9 billion, yet he paid just $455 million in federal income taxes, a rate of only 3.27%.

“I’m sure all hard-working Americans trying to afford health insurance for their family, childcare for their kids and eldercare for their parents are worried about how Elon Musk will get by with only $240 billion after paying the taxes he owes,” facetiously commented Frank Clemente, executive director of Americans for Tax Fairness, which focuses on getting the rich and corporations to pay more of their fair share of taxes. “In all seriousness, the Musk tax bill is not a sign taxation of billionaires is working—it’s an indication of how distorted the system has become that we are supposed to be grateful when a rich person actually pays some taxes.”
Musk is in the unusual-for-a-billionaire situation of having to pay taxes because of a huge payday this year from one of the companies he controls, Tesla Motors. His compensation came in the form of stock options—the right to buy Tesla stock at far below the market price—which if not exercised before next August would expire worthless. Musk decided to exercise them this year because of the effort by President Biden and Democrats in Congress to raise taxes on the highest incomes starting next year.

The biggest source of income for billionaires and other super-wealthy people is the growth in their wealth. Under current tax rules, that wealth growth goes untaxed as long as the underlying assets are not sold. But billionaires generally don’t have to sell because they can live off cheap loans borrowed against their ballooning fortunes. And when they die and pass along those investment gains to their heirs, that income simply disappears for income tax purposes.

The Billionaires Income Tax (BIT) introduced by Senate Finance Committee Chairman Ron Wyden (D-OR) would mostly end the outrage of tax-free billionaires by taxing the increase in the value of their tradable assets whether or not they convert them into cash. It would close the main loophole that makes their taxation essentially voluntary. The BIT would raise at least $550 billion for public investments in healthcare, education, childcare, housing and other vital services to lower expenses for working families.

Musk also gets an indirect benefit from all his exercising of stock-options, because Tesla can deduct the value of the exercised options from its taxable income, even though it is not incurring any cash expense. As the single biggest shareholder in the company, what’s good for Tesla is good for Musk.