



BIDEN WOULD TAX WEALTH LIKE WORK BY REFORMING CAPITAL GAINS TAXES

TOPLINES

- President Biden's [American Families Plan](#) would make the wealthy begin to pay their fair share of taxes by changing how “capital gains” are taxed. He wants to **tax wealth like work by closing two major loopholes that let the rich pay a lower tax rate on the income they receive from wealth than many middle-class workers pay on their wages.**
- The biggest source of income for the superrich—**capital gains**—is the profit they make from the gain on stock or other assets. **Biden's plan will only affect people making more than \$1 million a year—0.3% of the richest taxpayers.** These are among the top 1% who saw their wealth grow by \$4 trillion during the pandemic as millions of other Americans suffered, sickened and died.
- Biden wants to **eliminate the nearly half-off discount the wealthy now get when they sell their assets at a profit. They currently pay a top tax rate of 20%—Biden would raise that to the nearly 40% they already pay on their salaries.** The current discount on income from wealth allows a **billionaire to pay a lower tax rate** than a teacher or truck driver.
- Biden also wants to **tax the wealthy on the accumulated gains of assets they inherit—gains that now go completely untaxed.** The plan would only apply to gains over **\$1 million per individual, \$2 million per couple.** This reform will narrow the wealth gap, limit the perpetuation of economic dynasties, and raise revenue for public services vital to all of us who do not inherit a fortune.
- Biden's two reforms would **raise nearly \$400 billion from the rich** we could use to better serve the needs of working families. It will also restore basic fairness to our tax code to the benefit of workers, small businesses, communities, and our economy.

President Biden wants the wealthy to begin paying their fair share of taxes by changing how “capital gains” are taxed. He wants to tax wealth like work by closing two big loopholes letting the rich pay a lower tax rate on income they receive from wealth than many middle-class workers pay on their wages.

- **For people making more than \$1 million a year, or the richest 0.3% of taxpayers, Biden wants to eliminate the nearly half-off tax discount they currently get when they sell assets at a profit.** Instead of paying today's top tax rate of 20% on the profits from the sale of assets like corporate stock, the rich would pay the same nearly 40% they already pay on their big salaries and other income. The current capital-gains discount is what allows a billionaire to pay a lower tax rate than a teacher or truck driver.
- **Biden also wants to tax the wealthy on the accumulated gains of assets they inherit—gains that now go completely untaxed.**
The plan would only apply to gains over **\$1 million per individual, \$2 million per couple** (\$2.5 million per couple when combined with existing real estate exemptions).
This reform will narrow the wealth gap, limit the creation of economic dynasties, and raise revenue for services vital to all of us who do not inherit a fortune.
- **Together, these two reforms would raise \$324 billion over 10 years exclusively from rich people.** This will narrow the wealth gap and limit the creation of economic dynasties. It will also fund investments in healthcare, childcare, education and tax credits for working families that raise millions of children out of poverty.

A capital gain is the increase of an asset value over its purchase price. Rich people get almost all capital gains income.

- If you buy an investment for \$100 and later sell it for \$150, you have a capital gain of \$50 (\$150 sales price minus \$100 purchase price).
- Rich people get most capital gains income subject to preferential rates, [Tax Policy Center](#):
 - 88% of capital gains income goes to the wealthiest 10%—making at least \$240,000.
 - 75% goes to the richest 1%, who make at least \$819,000.
 - 55% goes to the richest 0.1%, who make at least \$3.8 million.
- The richest 1% saw their [wealth rise by about \\$4 trillion](#) in 2020 during the pandemic, according to the Federal Reserve. They captured about 35% of the extra wealth generated. The bottom half of the population only got about 4% of overall wealth gains.
- Middle-class people are already shielded from capital gains taxes because those taxes do not apply to 401k or IRA savings and because there is a large exemption for home sales. Furthermore, Biden’s proposal is specifically targeted only toward those with \$1 million of annual income and those with more than \$1 million of gains outside of retirement plans and on top of the home sale exemption.

Capital gains are currently taxed at a much lower rate than wage income—as little as about half—allowing the superrich to pay lower tax rates than working people.

- The [top basic tax rate](#) on long-term capital gains—gains on assets owned over a year—is 20%. The top basic rate on wage and other [ordinary income is 37%](#), though Biden in a separate reform wants to increase it to 39.6%. Capital gains were taxed at the [same rate as ordinary income](#) for several years following the landmark tax reform of 1986, but were afforded a discount rate again beginning in 1990.
- In 2021, an unmarried middle-income worker like a teacher or truck driver [will pay 22% of income tax](#) on every dollar of taxable salary she makes over \$40,525. A billionaire living entirely off long-term capital gains (or related investment income known as dividends) will pay no more than 20% on his millions of dollars of unearned income.

Capital gains are not taxed at all when they are inherited, helping create and perpetuate economic dynasties, widening the wealth gap, and costing billions of dollars in lost revenue. Biden will close that loophole for individuals inheriting over \$1 million (\$2 million per couple).

- Under current law, if the owner of an investment that’s gone up in value dies before selling it, neither the owner or his or her heirs will owe any tax on that gain. That increase in value simply disappears for tax purposes. This reset of the base price of the investment is called valuation “step up.” The inheritor is only responsible for any gains that occur after the inheritance (and again, the heirs would only pay tax on the gain during their lifetime if they sold the asset – they could also avoid tax by passing assets onto their heirs).
- Example: Jeff Bezos’ wealth, which is largely derived from his ownership stake in Amazon, has soared from nothing to [nearly \\$200 billion](#) over the last 25 years or so. Under current rules, if he sells his Amazon stock the day before he dies he would have made a capital gain on most of that wealth and a 20% capital gains tax would be due. Instead, if his estate passes the stock onto his children and they sell it the day after Bezos dies, they would owe zero tax on the nearly \$200 billion in capital gains— avoiding the more than \$40 billion of tax that would apply at today’s lower capital gains rates or the roughly \$80 billion that would apply if they paid tax at ordinary rates, as Biden is proposing. This tax handout to rich inheritors helps create undemocratic economic dynasties, widens the nation’s destabilizing wealth gap. It also creates a drag on the economy because people hold unproductive assets until death to avoid taxation.