FAIR TAXES NOW:

REVENUE OPTIONS FOR A FAIR TAX SYSTEM

AMERICANS FOR TaxFairness

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AMERICANS FOR TaxFairness

Americans for Tax Fairness is a diverse coalition of 425 national and state endorsing organizations that collectively represent tens of millions of members. The organization was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. ATF is playing a central role in Washington and in the states on federal tax-reform issues.

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TABLE OF CONTENTS

INTRODUCTION **1**

OPTIONS TO ACHIEVE FAIR TAXES NOW **2**

OPTIONS TO AMEND OR REPEAL TRUMP-GOP TAX CUTS FOR THE RICH & CORPORATIONS **5**

SAMPLE MID-LEVEL & HIGH-LEVEL REVENUE OPTIONS **6**

INDIVIDUAL TAXES **9**

TAX EXTREME WEALTH **9**

1. ASSESS AN ANNUAL TAX ON EXTREME WEALTH 10

REFORM THE TAXATION OF CAPITAL GAINS **11**

2. TAX INVESTMENT GAINS USING A MARK-TO-MARKET APPROACH OR DEFERRAL CHARGES 12

3. REFORM EXISTING CAPITAL GAINS TAXES 14

A. Increase Tax Rates on Dividends and Long-Term Capital Gains 14

B. Tax Capital Gains at Death and Upon Other Transfers 16

C. Reform Derivatives Valuations: Mark to Market 17

D. Completely Close the “Like-Kind Exchange” Loophole 18

RAISE TAX RATES ON INCOME OF THE WEALTHY **18**

4. ASSESS A SURTAX ON ANNUAL INCOMES OF THE WEALTHY 19

5. RAISE TOP INDIVIDUAL INCOME TAX RATES 20

6. RESTORE THE INDIVIDUAL ALTERNATIVE MINIMUM TAX (AMT) TO PRE-TCJA LEVELS 22

ESTATE, GIFT & INHERITANCE TAXES **23**

7. RESTORE ESTATE, GIFT AND GST TAXES TO PRE-TCJA PARAMETERS 24

8. RESTORE ESTATE, GIFT AND GST TAXES TO 2009 PARAMETERS 25

9. FURTHER STRENGTHEN THE ESTATE TAX 25

10. CLOSE THE “GRAT” AND ”CLAT” ESTATE AND GIFT TAX LOOPHOLES 27

11. REPLACE ESTATE AND GIFT TAXES WITH AN INHERITANCE TAX 28

CURB RETIREMENT TAX BREAKS DISPROPORTIONATELY BENEFITING THE WEALTHY **29**

12. CURB DEFERRAL OF TAXES ON INCOME FROM ANNUITIES AND LIFE INSURANCE POLICIES 29

13. REDUCE LIMITS ON ANNUAL CONTRIBUTIONS TO RETIREMENT PLANS 30

14. LIMIT TAX-FAVORED RETIREMENT ACCOUNT BALANCES OF THE WEALTHY 30

BUSINESS TAXES **31**

15. REPEAL 20% DEDUCTION FOR CERTAIN BUSINESS INCOME 32

16. REFORM EXPENSING & DEPRECIATION TAX BREAKS 33

17. REFORM HOW BUSINESSES ACCOUNT FOR ADVERTISING EXPENSES 33

18. CLOSE LOOPHOLES ALLOWING SOME WEALTHY BUSINESS OWNERS TO AVOID TAXES FUNDING HEALTHCARE PROGRAMS 33

19. TAX CARRIED INTEREST AS REGULAR INCOME 34

20. CLOSE REAL ESTATE TAX LOOPHOLES 35
REPEAL REAL ESTATE TAX LOOPHOLES CREATED BY THE TCJA 36
A. End Special Qualifying Rules for Pass-Through Income Deduction and Application of Those Special Rules to REIT Dividends 36
END REAL ESTATE EXEMPTIONS FROM TCJA LOOPHOLE CLOSURES 37
A. Eliminate Like-Kind Exchanges for Real Estate 37
B. End Unlimited Interest Deductions 37
CLOSE PRE-TCJA REAL ESTATE TAX LOOPHOLES 37
A. Limit Depreciation Tax Breaks for Properties Gaining Value 37
B. End the Exemption from At-Risk Rule 37
C. End the Exception to Passive Loss Rules 38
D. Prohibit Capital Loss Deductions Against Regular Income 38
E. End Tax-Free Cancelled Debt 38
CORPORATE TAXES 39
21. RAISE THE CORPORATE INCOME TAX RATE 39
22. IMPOSE A 7% SURTAX ON REPORTED CORPORATE PROFITS THAT EXCEED $100 MILLION 40
23. REMOVE TAX INCENTIVES PROMOTING CORPORATE OUTSOURCING AND PROFIT SHIFTING 41
24. REFORM EXPENSING AND DEPRECIATION DEDUCTIONS 43
25. REFORM HOW BUSINESSES ACCOUNT FOR ADVERTISING EXPENSES 45
26. FURTHER LIMIT DEDUCTIBILITY OF INTEREST ON BUSINESS DEBT 46
27. END MANIPULATION OF INVENTORY ACCOUNTING: LIFO & LCM 46
28. REPEAL TAX BREAKS FOR FOSSIL FUELS 47
29. FULLY CLOSE BONUS-PAY LOOPHOLE NOT COMPLETELY CLOSED BY TCJA 48
30. CLOSE STOCK OPTIONS LOOPHOLE 49
31. PLACE A FEE ON LIABILITIES OF LARGE FINANCIAL INSTITUTIONS 50
OTHER REVENUE SOURCES 51
32. CREATE A FINANCIAL TRANSACTIONS TAX 51
33. ASSESS A CARBON TAX TO ADDRESS CLIMATE CHANGE 52
34. RAISE THE MOTOR FUELS TAX 53
35. STANDARDIZE AND RAISE ALCOHOL TAXES 53
36. RAISE TOBACCO TAXES 54
37. INCREASE IRS ENFORCEMENT FUNDING 54
ENDNOTES 56

NOTE ON REVENUE ESTIMATES:

All revenue estimates are for 10 years (unless otherwise noted) and are the most recent ones available. In a few cases where noted, estimates are revenue lost from a loophole or tax break rather than revenue raised from its reform. Estimates are primarily from:
CBO: Congressional Budget Office
JCT: Joint Committee on Taxation
ITEP: Institute on Taxation and Economic Policy
Treasury Department

INTRODUCTION

For too long the "tax reform" debate in Washington has been focused on cutting taxes mostly to benefit the wealthy and corporations, rather than fundamentally reshaping our rigged tax system to help create an economy that works for all of us.

This tendency reached a climax in late 2017 with the passage of the Tax Cuts and Jobs Act (TCJA), a thoroughly partisan rush job that tilted an already skewed system further in favor of the rich and powerful. It's time for progressives to seize the debate and restore the proper definition of "tax reform" to mean ensuring everyone pays their fair share.

Taxes are collected for three important reasons: to raise revenues needed to fund public services we all rely on; to narrow income and wealth divides that destabilize economies and societies; and to encourage behaviors that promote social goods. The current federal tax system falls short of all three goals.

We can change that. This *Fair Taxes Now* report provides a comprehensive menu of progressive tax reform options that could raise trillions of dollars in revenue, demand the most from those with the most to give, and steer a better economic course. Written in laymen's language it doesn't take an accounting degree to understand, the report identifies about 40 specific reforms along with estimates of revenue raised. The options in this paper emphasize:

1. **Raising taxes on the wealthy:** Demanding significantly more from our nation's most fortunate, including by taxing extreme wealth; assessing higher income taxes; and strengthening the estate tax, or replacing it with an inheritance tax.

2. **Taxing wealth more like work:** Taxing income the wealthy enjoy from their investments at, or at least closer to, the same rate as workers pay on their wages and salaries.

3. **Reinvigorating corporate taxation:** Raising corporate tax rates; closing loopholes used by corporations to avoid taxes; ending tax incentives that encourage corporations to outsource jobs and shift profits to tax havens.

4. **Ending tax breaks for wealthy businesses:** Repealing President Trump's business tax cut that mostly benefits him and other wealthy business owners; closing real estate tax loopholes exploited by real estate investors like Trump; curtailing other special business tax favors.

5. **Identifying new revenue sources:** Including a tiny sales tax on Wall Street trading that would help curb speculation, and a tax on the carbon emissions that threaten our planet.

It should be emphasized that this report provides a set of options, not a tax reform plan. Since many of the items on the list are variations of the same or similar ideas, no legislative agenda, however ambitious, would include them all. Moreover, potential tax-code fixes often overlap, interact with or even depend on each other, so comprehensive tax reform requires a balancing act of many elements. Our aim in presenting all of these options is to demonstrate how many viable means are available to bring about powerful, progressive reform of our nation's tax system—one that raises the trillions of dollars necessary to meet the nation's critical needs and to begin addressing the enormous economic inequality undermining our democracy.

OPTIONS TO ACHIEVE FAIR TAXES NOW

The following are all of the tax reform proposals contained in this report. Some options stand on their own; others provide lower or higher revenue options within a tax category. As such, they are not to be added up as an entire package. Moreover, an option in one category can have an interactive effective with an option in another category, which would affect the revenue raised if they were part of the same tax-reform proposal. Not including double-counting, the maximum revenue estimated in the table below is roughly $10 trillion.

OPTIONS TO ACHIEVE FAIR TAXES NOW		
	10-Year Estimate LOW $ Billions	10-Year Estimate HIGH $ Billions
INDIVIDUAL TAXES		
TAX EXTREME WEALTH		
1. Assess an annual tax on extreme wealth. Proposals range from a 1% tax on the net worth of the richest 0.1%, 2% on people worth $50 million and 3% on billionaires. (Sources: Institute on Taxation and Economic Policy (ITEP); economists Saez & Zucman for Sen. Warren)	1,300	2,750
REFORM THE TAXATION OF CAPITAL GAINS		
2. Tax investment gains using a mark-to-market approach or deferral charges. Require wealthy taxpayers to pay tax on annual investment gains, whether realized or not. Lower estimate would only tax stock market gains. (ITEP; tax lawyer David Miller)	2,000	2,000
3. Reform existing capital gains taxes. According to ITEP, all four of the reforms below would need to be adopted as a package to forestall tax avoidance and raise the $2.4 trillion; the lower amounts could be raised through adoption of individual items identified below.	500	2,400
A. Increase tax rates on dividends and long-term capital gains ($70 billion to $1.5 trillion). Proposals range from raising the rates by 2 percentage points each, doing that in conjunction with lower bracket thresholds, and fully equalizing rates with those on regular income. (Congressional Budget Office (CBO); ITEP)		
B. Tax capital gains at death and upon other transfers ($400 to $780 billion). Higher estimate would tax asset appreciation upon the owner's death. Lower estimate would not tax assets at death but would prevent investment gains passed to heirs from disappearing for tax purposes. (Joint Committee on Taxation (JCT); ITEP)		
C. Reform derivatives valuations: mark to market ($19 billion). Requires investors to pay taxes on annual investment gains only for derivatives. (CBO)		
D. Completely close the "like-kind exchange" loophole ($22 to $134 billion). Applies a TCJA reform to real estate by requiring capital gains taxes to be paid when an asset is sold for a profit, rather than exchanged with a similar asset to indefinitely delay paying taxes. (JCT; ITEP)		
RAISE TAX RATES ON INCOME OF THE WEALTHY		
4. Assess a surtax on annual incomes of the wealthy. Low estimate applies a 5.5% surtax on AGI above $1 million for couples ($500,000 for singles). (CBO; JCT) Higher estimate applies a 10% surtax on AGI above $2.9 million. (EPI)	500	800
5. Raise top individual income tax rates. Lower estimate would raise the top marginal income tax rate from 37% to 39.6% (JCT for Senate Democrats' 2018 infrastructure plan). Higher estimate is a 70% rate on incomes of $10 million or more (Penn Wharton Budget Model for Rep. Ocasio-Cortez).	128	353
6. Restore the individual Alternative Minimum Tax (AMT) to pre-TCJA levels. Ensures that wealthier taxpayers pay at least a minimally acceptable level of tax. (JCT for Senate Democrats' 2018 infrastructure plan)	425	425

	10-Year Estimate LOW $ Billions	10-Year Estimate HIGH $ Billions
ESTATE, GIFT & INHERITANCE TAXES		
7. Restore estate, gift and GST taxes to pre-TCJA parameters. Applies a 40% tax on estates valued at $5.5 million/single and $11 million /couple. (JCT for Senate Democrats' 2018 infrastructure plan)	82	82
8. Restore estate, gift and GST taxes to 2009 parameters. Applies a 45% tax on estates of $3.5 million or more and on gifts of over $1 million. (Treasury Department)	202	202
9. Further strengthen the estate tax. Various proposals, all with a $3.5 million exemption and a sliding rate scale, ranging from the lowest bottom rate of 45% to the highest top rate of 77% for a $1 billion estate. (ITEP; Moody's Analytics for Sen. Warren)	336	400
10. Close the "GRAT" estate and gift tax loophole. Lengthen the minimum term of the trust and increase the presumed value of original assets. (Treasury Department)	19	19
11. Replace estate and gift taxes with an inheritance tax. Requires people who inherit wealth to pay similar tax rates as people who work. Tax exemptions range from $1.25 to $2.1 million and tax surcharges range from 10% to 15%. (NYU law school professor Lily Batchelder and Washington Center for Equitable Growth)	199	670
CURB RETIREMENT TAX BREAKS DISPROPORTIONATELY BENEFITING THE WEALTHY		
12. Curb deferral of taxes on income from annuities and life insurance policies. Taxes investment income from these products like other investment income. (CBO)	210	210
13. Reduce limits on annual contributions to retirement plans. Applies to 401(k) and IRA limits affecting higher-income workers. (CBO)	103	103
14. Limit tax-favored retirement account balances of the wealthy. (CBO, Treasury Dept.)	4	30
BUSINESS TAXES		
15. Repeal 20% deduction for certain business income. Eliminates the TCJA's partial income deduction for "pass-through" businesses. Estimate is revenue lost from tax break, not revenue gained. (JCT)	387	387
16. Reform expensing and depreciation tax breaks. (See Corporate Taxes section)	NA	NA
17. Reform how businesses account for advertising expenses. (See Corporate Taxes section)	NA	NA
18. Close loopholes allowing some wealthy business owners to avoid taxes that fund healthcare programs. To support Medicare and the Affordable Care Act, apply a 3.8% Medicare tax to all business profits of high-income taxpayers and ensure owners of professional services businesses pay self-employment taxes. (CBO; Treasury Department)	163	236
19. Tax carried interest as regular income. (JCT for Senate Democrats' 2018 infrastructure plan; CBO)	12	14
20. Close real estate tax loopholes. All figures are revenue lost not gained. (JCT for Government Reform Committee)		
A. End special qualifying rules for pass-through income deduction and application of those special rules to REIT dividends.	29	29
B. Eliminate like-kind exchanges for real estate. (Also listed under Option 3.D.)	22	22
C. End unlimited interest deductions.	16	16

	10-Year Estimate LOW $ Billions	10-Year Estimate HIGH $ Billions
CORPORATE TAXES		
21. Raise the corporate income tax rate. Each percentage point increase from current 21% rate raises $96 billion. Estimates are for rates of 25% and 35%. (JCT for Senate Democrats' 2018 infrastructure plan; CBO)	359	1,300
22. Impose a 7% surtax on reported corporate profits that exceed $100 million. (Economists Saez and Zucman for Sen. Warren)	1000	1,000
23. Remove tax incentives promoting corporate outsourcing and profit shifting. No official revenue estimate but it is believed could raise hundreds of billions of dollars.	NA	NA
24. Reform expensing and depreciation tax deductions. Limits or ends the ability of businesses to gain tax benefits by writing off the cost of capital investments faster than they wear out (known as full expensing or bonus depreciation). (Revenue lost estimate by ATF based on CBO and JCT estimates.)	293	293
25. Reform how businesses account for advertising expenses. Requires businesses to write off half their advertising expenses over time, rather than deduct them all in the year incurred. (CBO)	63	132
26. Further limit deductibility of interest on business debt.	NA	NA
27. End manipulation of inventory accounting. LIFO & LCM. End "Last-In, First-Out" (LIFO) & "Lower of Cost or Market" (LCM). (CBO)	58	58
28. Repeal tax breaks for fossil fuels. (CBO; JCT; Treasury Department)	10	10
29. Fully close bonus pay loophole not completely closed by TCJA. Prevents corporations from deducting cost of executive pay over $1 million. (JCT)	20	20
30. Close stock option loophole. Prevents corporations from lowering taxes by claiming higher costs for paying executives with stock options. (JCT)	25	25
31. Place a fee on liabilities of large financial institutions. Applies a 0.15% tax on uninsured liabilities of banks with at least $50 billion in assets. (CBO)	103	103
OTHER REVENUE SOURCES		
32. Create a Financial Transactions Tax. Assesses a 0.1% tax on stock, bond and derivatives trades, which would also help curb market volatility. (CBO)	777	777
33. Assess a carbon tax to address climate change. Proposals range from $25 to $70 per metric ton. (CBO; Treasury Department)	1,100	2,200
34. Raise the motor fuels tax. Increase it by 35 cents a gallon and index for inflation. (CBO)	515	515
35. Standardize and raise alcohol taxes. Tax all alcoholic beverages, regardless of type, at $16 per proof gallon (currently rates vary by type of beverage), with the tax indexed to inflation. (CBO)	83	83
36. Raise tobacco taxes. Estimate is a net figure that includes reduced healthcare spending. (CBO)	42	42
37. Increase IRS enforcement funding. Estimate is the net revenue gain after $20 billion in increased expenses. (CBO)	35	35

OPTIONS TO AMEND OR REPEAL TRUMP-GOP TAX CUTS FOR THE RICH & CORPORATIONS

The following are provisions from the Tax Cuts and Jobs Act that we recommend repealing. They largely if not exclusively benefit corporations and the wealthiest individuals and businesses. The total revenue raised is greater than the roughly $1.5 trillion in TCJA tax cuts ($1.9 trillion counting interest costs) because revenue-raising provisions of the TCJA (e.g., revenue generated by the transition tax on offshore profits) are not proposed to be repealed.

OPTIONS TO AMEND OR REPEAL TRUMP-GOP TAX CUTS FOR THE RICH & CORPORATIONS		
	10-Year Estimate LOW $ Billions	**10-Year Estimate HIGH $ Billions**
INDIVIDUAL TAXES		
1. Return top individual income tax rate to 39.6% from 37%. (JCT for Senate Democrats' 2018 infrastructure plan)	128	128
6. Restore the individual Alternative Minimum Tax (AMT) to pre-TCJA levels. Ensures that wealthier taxpayers pay at least a minimally acceptable level of tax. (JCT for Senate Democrats' 2018 infrastructure plan)	425	425
7. Restore estate, gift and GST taxes to pre-TCJA parameters. Applies a 40% tax on estates valued at $5.5 million/single and $11 million /couple. (JCT for Senate Democrats' 2018 infrastructure plan)	82	82
SUBTOTAL	**635**	**635**
BUSINESS TAXES		
15. Repeal 20% deduction for certain business income. Eliminates the TCJA's partial income deduction for "pass-through" businesses. Estimate is revenue lost from tax break, not revenue gained. (JCT)	387	387
20. Close real estate tax loopholes. All figures are revenue lost not gained. (JCT for Government Reform Committee)		
A. End special qualifying rules for pass-through income deduction and application of those special rules to REIT dividends.	29	29
B. Eliminate like-kind exchanges for real estate.	22	22
C. End unlimited interest deductions.	16	16
SUBTOTAL	**454**	**454**
CORPORATE TAXES		
21. Raise the corporate income tax rate. Each percentage point increase from current 21% rate raises $96 billion. Estimates are for rates of 25% and 35%. (JCT for Senate Democrats' 2018 infrastructure plan; CBO)	359	1,300
23. Remove tax incentives promoting corporate outsourcing and profit shifting. No official revenue estimate but it is believed could raise hundreds of billions of dollars.	NA	NA
24. Reform expensing and depreciation tax deductions. Limits or ends the ability of businesses to gain tax benefits by writing off the cost of capital investments faster than they wear out (known as full expensing or bonus depreciation). (Revenue lost estimate by ATF based on CBO and JCT estimates.)	293	293
26. Further limit deductibility of interest on business debt.	NA	NA
SUBTOTAL	**652**	**1,593**
TOTAL	**1,741**	**2,682**

SAMPLE MID-LEVEL & HIGH-LEVEL REVENUE OPTIONS

The following are progressive tax-reform options that target corporations and the wealthiest individuals and businesses. They are a combination of TCJA tax cuts to repeal, old tax loopholes that the TCJA never closed (and in some cases made worse), and new revenue sources.

SAMPLE MID-LEVEL & HIGH-LEVEL REVENUE OPTIONS	Mid-Level 10-Year Estimate $ Billions	High-Level 10-Year Estimate $ Billions
INDIVIDUAL TAXES		
TAX EXTREME WEALTH		
1. & 2. Assess either an annual tax on extreme wealth or tax investment gains using a mark-to-market (MTM) approach or deferral charges. Wealth tax on the richest 0.1% would be set at 2% on people worth $50 million and 3% on billionaires. MTM would require wealthy taxpayers to pay tax on annual investment gains, whether realized or not. Even with an MTM approach, a more modest wealth tax could be created to tax existing assets. (Sources: ITEP; tax lawyer David Miller; economists Saez & Zucman for Sen. Warren)		2,400
REFORM THE TAXATION OF CAPITAL GAINS		
3. Reform existing capital gains taxes. The estimates below assume items would be adopted on an individual basis, as opposed to an integrated package to minimize tax avoidance.		
A. Increase tax rates on dividends and long-term capital gains ($70 billion to $1.5 trillion). Proposals range from raising the rates by 2 percentage points each, doing that in conjunction with lower bracket thresholds, and fully equalizing rates with those on regular income. (Congressional Budget Office (CBO); ITEP)	70	
B. Tax capital gains at death and upon other transfers ($400 to $780 billion). Higher estimate would tax asset appreciation upon the owner's death. Lower estimate would not tax assets at death but would prevent investment gains passed to heirs from disappearing for tax purposes. (Joint Committee on Taxation (JCT); ITEP)	400	
C. Reform derivatives valuations: mark to market ($19 billion). Requires investors to pay taxes on annual investment gains only for derivatives (CBO).	19	
D. Completely close the "like-kind exchange" loophole ($22 to $134 billion). Applies a TCJA reform to real estate by requiring capital gains taxes to be paid when an asset is sold for a profit, rather than exchanged with a similar asset to indefinitely delay paying taxes. (JCT; ITEP)	22	
RAISE TAX RATES ON INCOME OF THE WEALTHY		
5. Raise top individual income tax rates. Lower estimate would raise the top marginal income tax rate from 37% to 39.6% (JCT for Senate Democrats' 2018 infrastructure plan). Higher estimate is a 70% rate on incomes of $10 million or more (Penn Wharton Budget Model for Rep. Ocasio-Cortez).	128	353
6. Restore the individual Alternative Minimum Tax (AMT) to pre-TCJA levels. Ensures that wealthier taxpayers pay at least a minimally acceptable level of tax. (JCT for Senate Democrats' 2018 infrastructure plan)	425	
ESTATE, GIFT & INHERITANCE TAXES		
8. Restore estate, gift and GST taxes to 2009 parameters. Applies a 45% tax on estates of $3.5 million or more and on gifts of over $1 million. (Treasury Department)	202	
11. Replace estate and gift taxes with an inheritance tax. Requires people who inherit wealth to pay similar tax rates as people who work. Tax exemptions range from $1.25 to $2.1 million and tax surcharges range from 10% to 15%. (NYU law school professor Lily Batchelder and Washington Center for Equitable Growth)	199	670

	Mid-Level 10-Year Estimate $ Billions	High-Level 10-Year Estimate $ Billions
CURB RETIREMENT TAX BREAKS DISPROPORTIONATELY BENEFITING THE WEALTHY		
12. Curb deferral of taxes on income from annuities and life insurance policies. Taxes investment income from these products like other investment income. (CBO)	210	210
13. Reduce limits on annual contributions to retirement plans. Applies to 401(k) and IRA limits affecting higher-income workers. (CBO)	103	103
14. Limit tax-favored retirement account balances of the wealthy. (CBO, Treasury Dept.)	30	30
SUBTOTAL	**1,609**	**3,766**
BUSINESS TAXES		
15. Repeal 20% deduction for certain business income. Eliminates the TCJA's partial income deduction for "pass-through" businesses. Estimate is revenue lost from tax break, not revenue gained. (JCT)	387	387
17. Reform how businesses account for advertising expenses. (Accounted for under Option 25)		
18. Close loopholes allowing some wealthy business owners to avoid taxes that fund healthcare programs. To support Medicare and the Affordable Care Act, apply a 3.8% Medicare tax to all business profits of high-income taxpayers and ensure owners of professional services businesses pay self-employment taxes. (CBO; Treasury Department)	163	163
19. Tax carried interest as regular income. (JCT for Senate Democrats' 2018 infrastructure plan; CBO)	14	14
20. Close real estate tax loopholes. (All figures are revenue lost not gained from JCT for Government Reform Committee.)		
A. End special qualifying rules for pass-through income deduction and application of those special rules to REIT dividends.	29	29
B. Eliminate like-kind exchanges for real estate. (Also listed under Option 3.D. so not counted here.)		
C. End unlimited interest deductions.	16	16
SUBTOTAL	**609**	**609**

	Mid-Level 10-Year Estimate $ Billions	High-Level 10-Year Estimate $ Billions
CORPORATE TAXES		
21. Raise the corporate income tax rate from 21% to 28% and to 35%. (CBO)	675	1,300
23. Remove tax incentives promoting corporate outsourcing and profit shifting. No official revenue estimate but it is believed could raise hundreds of billions of dollars.	NA	NA
24. Reform expensing and depreciation tax deductions. Limits or ends the ability of businesses to gain tax benefits by writing off the cost of capital investments faster than they wear out (known as full expensing or bonus depreciation). (Revenue lost estimate by ATF based on CBO and JCT estimates.)	293	293
25. Reform how businesses account for advertising expenses. Requires businesses to write off half their advertising expenses over time, rather than deduct them all in the year incurred. (CBO)	63	132
26. Further limit deductibility of interest on business debt.	NA	NA
27. End manipulation of inventory accounting. LIFO & LCM. End "Last-In, First-Out" (LIFO) & "Lower of Cost or Market" (LCM). (CBO)	58	58
28. Repeal tax breaks for fossil fuels. (CBO; JCT; Treasury Department)	10	10
29. Fully close bonus pay loophole not completely closed by TCJA. Prevents corporations from deducting cost of executive pay over $1 million. (JCT)	20	20
30. Close stock option loophole. Prevents corporations from lowering taxes by claiming higher costs for paying executives with stock options. (JCT)	25	25
31. Place a fee on liabilities of large financial institutions. Applies a 0.15% tax on uninsured liabilities of banks with at least $50 billion in assets. (CBO)	103	103
SUBTOTAL	**1,247**	**1,941**
OTHER REVENUE SOURCES		
32. Create a Financial Transactions Tax. Assesses a 0.1% tax on stock, bond and derivatives trades, which would also help curb market volatility. (CBO)		**777**
37. Increase IRS enforcement funding. Estimate is the net revenue gain after $20 billion in increased expenses. (CBO)	35	35
SUBTOTAL	**35**	**812**
TOTAL	**3,500**	**7,128**

INDIVIDUAL TAXES

The top income tax rate—the rate paid by the wealthy on the highest part of their incomes—declined by more than two-thirds between the early 1950s and the late 1980s, dropping from 92% to 28%.[1] Since then it has fluctuated, but never again been as high as 40%, about half what it was for much of the last century. As top income tax rates have fallen, income inequality has grown: in 1979, the top 1% received 10% of national income; by 2017, that share had risen to 21%.[2]

Even worse than the growing gap in income (what you make each year) is the wider chasm of wealth (what you own, minus what you owe). While the top 1% takes in over one-fifth of all the nation's income,[3] it holds two-fifths (40%) of the nation's wealth,[4] according to inequality scholars Emmanuel Saez and Gabriel Zucman.

A bigger culprit for growing inequality than the steadily declining top income tax rate is the preferential treatment the tax code gives to wealth over work. The code is riddled with loopholes that allow the owners of great wealth to delay, reduce and even eliminate their tax obligations.

Following are some examples of how the tax code privileges wealth:

- Unlike the wages and salaries of workers, income from assets of the wealthy often goes untaxed year after year, even as they grow in value.
- Even when the income generated by wealth is taxed, much of it is taxed at a lower rate—a top base rate of 20%—than a lot of work income, which is taxed as high as 37%.
- The American ideals of self-reliance and equal opportunity are being undermined by a weak estate tax that facilitates the intergenerational transfers of great wealth, creating and sustaining powerful family dynasties that threaten our democracy.
- The top corporate tax rate was slashed from 35% to 21% (and to about half that on offshore profits) under the TCJA, greatly benefitting the wealthy, who receive most corporate income.

This section offers a range of ways to reduce the privileges of wealth described above through progressive tax reform.

TAX EXTREME WEALTH

The degree of wealth concentration at the pinnacle of the economic pyramid is truly breathtaking. The country's 400 richest individuals collectively own $2.9 trillion, which is as much as the bottom two-thirds of Americans,[5] or about 220 million people.[6] Just three men alone—Jeff Bezos, Warren Buffett and Bill Gates—are worth as much as the whole bottom half of society,[7] or about 165 million people.

A democracy cannot thrive amidst such inequities. Outsized riches bring outsized power, distorting our politics and policies.

The accumulation of these fortunes is facilitated by a tax system that allows the very wealthy to engineer relatively low taxable incomes even as their annual investment returns reach into the hundreds of millions of dollars. Many of the very wealthy do not even need deductions—though they certainly claim them—as their full income never shows up on their tax return in the first place.

Progressive tax reform can simultaneously raise trillions of dollars needed for vital public services while also reducing these staggering wealth ratios to a more reasonable level. Two approaches to reform would both deliver this result: a tax on extreme wealth (Option 1, below) or a comprehensive reform to the taxation of capital gains (Option 2, in the next section).

A wealth tax is not an alien idea. Estate taxes already assess and tax the assets of wealthy individuals, though only once, just before those assets are transferred to heirs. Homeowners, and in some states the owners of cars and other tangible property, pay annual taxes to local governments each year—essentially a wealth tax on the middle-class.

But unlike with middle-class families, homes and other personal property represent just a small fraction of the net worth of the super-wealthy, much of whose fortune is invested in the stock market and other business assets. As a result, the great bulk of their wealth goes under-taxed or tax-free year after year, even as it grows and grows.

1. ASSESS AN ANNUAL TAX ON EXTREME WEALTH

***Type of proposal*:** New revenue source
***Proposed by or revenue estimated by*:** Institute on Taxation and Economic Policy (ITEP); Sen. Elizabeth Warren
***Revenue raised*:** $1.3 Trillion to $2.75 Trillion

SUMMARY: This reform would assess an annual tax of 1% to 3% on the extreme wealth of the richest 0.1% of Americans.

BACKGROUND: Sen. Elizabeth Warren (D-MA) has proposed an "Ultra-Millionaires Tax" of 2% on the portion of a household's net worth exceeding $50 million, and a 3% tax on the portion exceeding $1 billion.[8] It's estimated by economists Emmanuel Saez and Gabriel Zucman to raise $2.75 trillion over 10 years.[9] This new revenue would more than make up the nearly $2 trillion lost by the Trump-GOP tax cuts and leave a substantial sum for new investments besides.[10]

Senator Warren has proposed dedicating about a quarter of the revenue ($700 billion) to a universal child care plan that would make quality child care free for millions of working families and affordable for all.[11]

Warren's wealth tax would apply to only about 75,000 families, less than 0.1% of all U.S. households. Leading scholars have written to support the constitutionality of such a wealth tax, which has been criticized by some as running afoul of the Constitution's restrictions on "direct" taxes.[12]

Similarly, the Institute on Taxation and Economic Policy (ITEP) has proposed a 1% annual tax on that portion of fortunes exceeding the threshold for membership in the top 0.1%, which it says will be about $32 million in 2020.[13] ITEP estimates its wealth tax would raise around $1.3 trillion.

The public strongly supports a wealth tax. Two polls in late January and early February of 2019 both found that 61% of respondents support the Warren tax on extreme wealth (YouGov/Data for Progress

and Morning Consult/Politico).[14] In fact, in each poll almost half of Republicans were supportive, along with a solid majority of Independents and three-quarters of Democrats.

Other approaches to taxing wealth are also possible. Law professor Ari Glogower has proposed translating wealth into income for tax purposes.[15] This is done by determining the income that a taxpayer's wealth could provide each year over his remaining lifetime and adding that to his actual income. He would then pay tax on the combined value each year. This proposal is insufficiently developed for there to be an estimate of the revenue it could raise.

For more information:

- Washington Center for Equitable Growth (WCEG): Wealth Taxation: An Introduction to Net Worth Taxes and How One Might Work in the United States, Jan. 2019
- WCEG: Net Worth Taxes: What They Are and How They Work, Mar. 2019
- Ari Glogower: Taxing Inequality, Jan. 2019

REFORM THE TAXATION OF CAPITAL GAINS

A partial alternative to a tax on extreme wealth—though not a complete substitute, since it addresses only increases in fortunes, not the fortunes themselves—is reform of the way capital gains are taxed.

While the wages of working people are taxed every year, taxes on the growing value of assets mostly held by the wealthy—a skyrocketing stock portfolio, rapidly appreciating modern art, a booming private business—can be indefinitely delayed, greatly diminished or even made to completely disappear. On top of this glaring loophole, income from wealth—when taxed—is taxed at rates much lower than income from work. This greatly reduced or even tax-free growth of wealth is a significant contributor to the nation's destabilizing wealth inequality.

A capital gain[16] is the profit made from selling an asset for more than it cost; qualified dividends are the most common corporate payments to shareholders.[17] The top tax rate on capital gains and qualified dividends is just 20%, plus a 3.8% net investment income tax (NIIT) on higher-income taxpayers (married couples with AGI over $250,000 and singles over $200,000).[18] The top tax rate for regular income such as wages and salaries is 37%, plus a total top Medicare tax of 3.8% (the normal 2.9% plus an additional tax of 0.9%[19]).

Currently, capital gains are only taxed when an appreciated asset is sold—the gain is "realized." But, unlike workers who must report their earnings each April and pay tax on it all year long, owners of appreciated assets can avoid taxes on capital gains simply by holding onto their assets. In addition, assets that have grown in value can be disposed of in other ways that do not trigger any tax at all: through bequests, donations, gifts and—in the case of real estate—in exchange for other property.

Income from capital gains and dividends is concentrated among the wealthy. According to the most recent IRS information, in 2017 households with over $250,000 in income received nearly 60% of all the

nation's qualified dividends ($114 billion of $193 billion) and nearly 80% of all capital gains ($561 billion of $716 billion).[20] (Not all capital gains qualify for the reduced rate.)
It's little wonder, then, that nearly 80% of the benefits from lower tax rates on capital gains and dividends goes to America's richest 1%.[21]

Sen. Ron Wyden, the top Democrat on the Senate Finance Committee, announced in early April 2019 that he would soon release a comprehensive plan for the reform of capital-gains taxes, the centerpiece of which would be the annual taxation of unrealized gains under a system known as mark-to-market (see Option 2).[22] According to his staff, the reforms—which would only apply to the richest 0.1% of taxpayers—would also include the equalization of capital-gains tax rates with those on regular income (Option 3.A), and the partial or complete closure of the loophole that allows inheritors of appreciated assets to avoid taxes on all the gains enjoyed by the previous owner (Option 3.B).[23]

Progressive tax reform demands a wholesale replacement of the current system of taxing capital gains and dividends. Option 2 below presents several ways to comprehensively reform the taxation of investment income based on a "mark-to-market" regime. But if Congress is unwilling to embrace fundamental reform, it should at least reform the four key elements of capital gains and dividends taxation discussed in Option 3.

2. TAX INVESTMENT GAINS USING A MARK-TO-MARKET APPROACH OR DEFERRAL CHARGES

***Type of proposal*:** Reform of pre-TCJA provision
***Proposed by or revenue estimated by*:** ITEP; Tax lawyer David Miller
Revenue raised: About $2 Trillion (very rough estimate)

SUMMARY: This reform would require wealthy investors to pay tax on their annual investment gains whether realized or unrealized in the same way that workers must pay tax on their annual labor earnings.

BACKGROUND: Taxpayers do not pay taxes on their investment gains until they sell the assets or otherwise realize those gains. That means wealthy taxpayers can choose when and how to realize gains to minimize their taxes, and can even eliminate those taxes entirely when passed onto their heirs, thanks to a loophole known as "stepped up basis."[24]

As with an annual tax on wealth (see Option 1), mark-to-market taxation of investment gains ensures that wealthy taxpayers pay tax on their growing investments regardless of whether they choose to sell assets in any given year. But a mark-to-market system would less likely be challenged on constitutional grounds than would a wealth tax.

One mark-to-market system of taxation has been proposed by tax lawyer David Miller.[25] His plan recognizes that some assets—such as stocks, bonds and other publicly traded financial instruments—are priced nearly every day, so figuring their gain over a year is as easy as comparing the asset value on the morning of January 1 versus the afternoon of December 31. Other assets—such as real estate, privately held businesses, fine art and other collectibles—are each unique, do not change hands frequently and so are harder to value.

Under Miller's proposal, publicly traded assets would be taxed every year on their change in value. Annual taxes on harder-to-price assets, on the other hand, would be due but deferred until the asset was sold, establishing its value. Using an assumed rate of investment returns, the sales price would be used to establish the asset's value in past years. The tax paid at the time of sale would be the accumulated taxes that would have been paid if the asset had been valued each year, plus interest to make up for the delayed payment. The additional payment when an asset is sold to reflect the delayed payment is known as a deferral charge.

Miller would assess his mark-to-market tax exclusively on individuals in the top 0.1% by either income or wealth, which he defined in 2016 as having an annual income of at least $2.5 million or wealth of at least $20.6 million.

Variations on this approach rely on different assumptions about the pattern of investment returns over time. Economist Alan Auerbach has outlined a tax system that would assume that assets appreciate according to the risk-free return (such as the interest rate on federal debt) and use that assumption and the sales price to compute the income subject to tax when an asset is sold.[26] Law professor James Kwak has fleshed out a version of this proposal.[27]

Estimating revenue raised from such a bold and innovative tax is difficult. In 2016, the Tax Policy Center proposed a mark-to-market system of taxation at regular income tax rates not limited to the top 0.1% but applying only to investors' stock market holdings that would raise approximately $1.3 trillion.[28] Given the nation's hyper-concentration of wealth, limiting the tax to the top 0.1% would probably not lose much revenue, while expanding the assets taxed beyond stocks would likely gain a great deal.

Moreover, ITEP has estimated that comprehensive reform of capital gains taxes could generate $2.4 trillion (see Option 3). Many of its recommendations are captured under a mark-to-market approach. Therefore, it seems reasonable to roughly estimate the broader Miller reform could raise about $2 trillion, if not more.

A comprehensive approach to reforming the taxation of capital gains like those discussed in this section would either include or render moot the reforms in Option 3. However, those reforms implemented on their own would still offer incremental progress.

For more information:

- David S. Miller: A Comprehensive Mark-to-Market Tax for the 0.1% Wealthiest and Highest-Earning Taxpayers, Jan. 4, 2016
- ITEP: Progressive Revenue-Raising Options, Feb. 2019
- Washington Center for Equitable Growth: Taxing Capital: Paths To a Fairer and Broader U.S. Tax System, Aug. 10, 2016

3. REFORM EXISTING CAPITAL GAINS TAXES

Type of proposal: Reform of pre-TCJA provisions
Proposed by or revenue estimated by: CBO; JCT; ITEP
Revenue raised: $500 Billion to $2.4 Trillion

A less sweeping approach to reforming the taxation of capital gains than mark-to-market is to undertake the four reforms to the existing system described below. If enacted collectively, ITEP estimates these could raise as much as $2.4 trillion.[29] However, that would only be possible if the reforms are done as one package to minimize the behavioral effects from taxpayers shifting how they generate investment income. For instance, if capital-gains tax rates were raised to match regular income tax rates as an isolated reform, investors would likely avoid sales that would trigger the tax through more tax-free exchanges of one asset for another, and even make gains vanish altogether from a tax perspective by passing more assets onto their heirs.

Without a comprehensive approach these four reforms would not come close to generating $2.4 trillion. The revenue raised could instead be about $500 billion per the individual estimates below from CBO and the JCT. (Those estimates include in at least one case the cost of the tax loophole rather than the revenue raised from closing it.)

A. Increase Tax Rates on Dividends and Long-Term Capital Gains

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO; ITEP
Revenue raised: $70 Billion to $1.5 Trillion

SUMMARY: These reforms seek to reduce or erase the disparity between the taxes paid on long-term capital gains and qualified dividends, which are limited to a base rate of 20%, and the top marginal tax rate paid on wages and salaries—37%. (Both rates are supplemented by additional payroll or equivalent investment taxes.) This would make the system much fairer and, in conjunction with curbs on capital-income tax avoidance, raise significant revenue.

BACKGROUND: As discussed earlier, the top tax rate on capital gains and dividends is just 20%, plus a 3.8% net investment income tax (NIIT) on higher-income taxpayers. However, the top tax rate for regular income (such as wages and salaries) is 37%, plus the Medicare tax of 3.8%.

The tax discount enjoyed by these two types of investment income can result in average workers paying a higher tax rate than billionaires. For example, in the fourth quarter of 2018, the median earnings for a worker between age 35 and retirement age was roughly $1,000 a week, or something over $50,000 a year.[30] Assuming that worker took the standard deduction on her taxes, she would pay a higher marginal income tax rate (22%) than a billionaire enjoying millions of dollars a year in capital gains and dividends (which are never taxed at more than 20%).[31] If payroll and equivalent investment taxes are included, the comparison is even more disturbing: the worker's total marginal tax rate rises to 37.3% (22% income tax plus 15.3% Social Security and Medicare taxes),[32] while the billionaire owes only 23.8% (20% income taxes plus 3.8% in NIIT).

The injustice of this is palpable: while the worker goes off to her job each day, the billionaire can sit around and watch the unearned income spill into his bank accounts.

Taxing income differently based on its source adds to the complexity of the tax code. It also leads to game-playing by sophisticated taxpayers who can disguise earned income as unearned to qualify for the lower rates. An infamous example is the "carried interest loophole," which allows wealthy money managers to call what is really a salary a capital gain in order to reduce their tax bill (see Option 19).[33]

The JCT estimates the reduced tax rates on capital gains and dividends loses roughly $1.3 trillion in revenue.[34] It does not provide a published estimate for how much could be raised by eliminating the discounted rate. (Because of presumed behavioral changes by taxpayers in the face of changed rules and rates, revenue lost by a tax provision is not considered synonymous with revenue raised by reforming it. The estimated revenue lost is almost always higher than the estimated revenue raised.)

There are several options for reforming income-tax rates on capital gains and dividends:

- **Equalize capital gains and dividend tax rates with regular income tax rates and take steps to curb avoidance.** Scrapping the discount rate on investment income and taxing regular and investment income at the same rate top rate of 37% (plus the 3.8% Medicare tax or NIIT on higher-income taxpayers) would be fairer, simpler and raise a lot of revenue. ITEP estimated in 2018 that equalizing the rates could raise $1.5 trillion provided this reform is made in combination with the other capital gains reforms described in Option 3, so that taxpayers could not simply change behaviors to avoid taxation.[35]

- **Raise each of the two investment tax rates (15% and 20%) by 2 percentage points or do so in conjunction with lowering income brackets to make more income subject to the higher rate, as described by CBO.** Less desirable than fully equalizing taxes on wealth and work, but better than leaving the current investment-income tax discount in place, would be slightly raising the rates on capital gains and dividends by 2 percentage points, still well below the top rate on regular income. The benefit would be greater if bracket thresholds were lowered, exposing more investment income to higher rates. Various reforms of this type could raise between $70 and $81 billion, per CBO.[36]

Conservatives claim raising the tax rate on capital gains hurts economic investment and growth. But leading tax economist Leonard Burman of the non-partisan Tax Policy Center (TPC)—who helped draft the 1986 tax reform and worked over 10 years for CBO—has stated in congressional testimony: "There is no obvious relationship between capital gains taxes and economic growth."[37] Looking at over 60 years of data, he noted that growth rates were often higher when capital-gains rates were also higher, and growth sometimes lagged when capital-gains rates were cut.

Another TPC study found that careful analysis of investors' behavior shows their investment decisions are less affected by tax rates than it would at first seem.[38] What's more, a third researcher determined that a higher tax rate on capital gains—because it also means a higher tax

deduction from capital losses—can actually increase an investor's appetite for riskier investments.[39]

For more information:

- ITEP: Congress Should Reduce, Not Expand, Tax Breaks for Capital Gains, Feb. 2019
- Tax Policy Center Briefing Book: How Might the Taxation of Capital Gains Be Improved?, accessed Mar. 25, 2019

B. Tax Capital Gains at Death and Upon Other Transfers

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: JCT; ITEP
Revenue Raised: $400 Billion (revenue lost by loophole) to $780 Billion

SUMMARY: This reform would tax unrealized capital gains—asset appreciation that has not been taxed because the asset has not been sold—upon the death of the asset's owner or upon its gifting during the owner's lifetime. Current law exempts taxation of these unrealized gains on assets that are passed onto heirs or transferred as gifts.

BACKGROUND: One way wealthy people get even richer without paying taxes is through unrealized capital gains.[40] These gains are the increase in value on assets that have not been sold. Tax is due only when the owner sells the asset and realizes the gain. But if the owner dies without selling, that increase in value is never taxed. Whoever inherits the asset assigns it a new cost: its market price at the time of the original owner's death, rather than when it was first acquired.[41]

Say someone buys 100 shares of stock for a total cost of $1,000. After 20 years, the stock's value has risen to $11,000. If the original owner sells the stock, she will owe tax on the $10,000 capital gain ($11,000 minus the cost of $1,000 = $10,000). But if after that same 20 years she dies still owning the stock, her heirs can assign it a cost (a "basis") equal to the market price on the day of death, or $11,000. If they then immediately sell it for $11,000, they are allowed to pretend that they sold the asset for exactly the amount it cost, meaning there is no capital gain, and therefore no tax due on their income from the sale. From a tax perspective, that $10,000 profit and the taxes owed on it simply vanish.

Unrealized capital gains should be taxed at death as if the asset had been sold. The same rule should apply to taxable gifts of appreciated property: the gain in the property's value should be taxed at the time of the gift, just as if the property had been sold.[42] (As with bequests, there is currently no capital gains tax immediately due on such gifts, although the recipient takes on the original cost, so the capital gain does not disappear.[43])

It's a matter of logic and fairness. If the appreciated property had been sold by the original owner and the resulting cash left to heirs or given as a gift, the capital gains tax would have been paid. Identical transfers of wealth should not be treated differently for tax purposes based on the form of that wealth. Taxable gains should not evaporate between generations or go on endlessly unrealized as they travel from hand to hand.

The JCT estimated in 2018 that the exclusion of capital gains at death would lose $204 billion over five years, or more than $400 billion over 10 years.[44] In 2014, the Treasury Department estimated this loophole would cost over $900 billion over 12 years.[45]

ITEP has estimated that taxing capital gains at death and upon other transfer could raise about $780 billion, provided this reform is made in combination with the other capital gains reforms in this section so that taxpayers would not be able to change behaviors to avoid taxation.[46] A primary reason JCT's estimate of revenue lost from the loophole is so much smaller than ITEP's estimate of revenue gained through its reform is that ITEP's reform is part of a package that would also raise capital-gains tax rates, equalizing them with the rates for regular income and thereby greatly increasing the opportunity for revenue gains.

For more information:

- Tax Policy Center: President Obama Targets the "Angel of Death" Capital Gains Tax Loophole, Jan. 18, 2015

C. Reform Derivatives Valuations: Mark to Market

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO; Sen. Ron Wyden (S. 1005, 2017); Treasury Department
Revenue raised: $19 billion

SUMMARY: This reform—a single part of the broader mark-to-market proposal described in Option 2—would require only the owners of financial instruments known as derivatives to pay taxes due at the end of each year on any increase in the instruments' value, as if they had been sold.

BACKGROUND: Derivatives are financial instruments that derive their value by reference to other assets or liabilities. The current taxation of derivatives is complicated and inconsistent: there are different tax rules for different derivatives, for different uses of the same derivative, and for different taxpayers owning the same derivative. Taxpayers as a result often use derivatives to manipulate their tax liability.

Derivatives should be "marked to market." That is, a derivative should be treated as if sold for its fair market value at the end of the year, with the taxpayer recognizing the gain or loss and paying any tax due. Any gain or loss from the deemed sale would be considered regular income, not a capital gain, and therefore subject to the rules and rates covering regular income.

Taxing derivatives on a mark-to-market basis is crucial for denying wealthy taxpayers access to schemes that avoid other tax increases on capital gains. Rich investors have used derivatives to mask what are for all practical purposes profitable sales in order to dodge capital gains taxes for years on end.[47]

This reform could raise $18.7 billion, according to a 2018 CBO estimate.[48]

Among those who have proposed this type of reform in recent years are President Obama[49] and Senator Ron Wyden (S. 1005), the current ranking Democrat on the Senate Finance Committee.[50]

D. Completely Close the "Like-Kind Exchange" Loophole

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: JCT; ITEP
Revenue raised: $22 Billion (revenue lost) to $134 Billion

SUMMARY: This reform would prohibit investors from avoiding capital gains taxes on the profitable sale of an asset by buying another asset with the proceeds.

BACKGROUND: Capital gains taxes are usually due when an asset is sold for a profit. But, prior to the TCJA, investors in tangible items could indefinitely delay paying these taxes if they kept reinvesting the proceeds in another, similar asset—known as a "like-kind exchange."[51] If these gains were continuously rolled over until the taxpayer died, they were never taxed.[52] The TCJA eliminated like-kind-exchanges except for owners of real property[53]—meaning real estate investors get to keep this handy way of avoiding taxes on their gains.[54]

The assets exchanged in "like-kind" exchanges are often not very much like each other and often of a completely different kind. All real estate is considered equivalent, which as a report to Congress once noted, would allow "a retiring farmer from the Midwest to swap farm land for a Florida apartment building tax-free."[55]

This tax break will cost $21.7 billion, per the JCT.[56] ITEP estimates this reform could raise $134 billion provided it is made in combination with the other capital gains reforms in this section so that taxpayers would not be able to change behaviors to avoid taxation.[57]

A primary reason JCT's estimate of revenue lost from the loophole is so much smaller than ITEP's estimate of revenue gained through its reform is that ITEP's reform is part of a package that would also raise capital-gains tax rates, equalizing them with the rates for regular income and thereby greatly increasing the opportunity for revenue gains.

RAISE TAX RATES ON INCOME OF THE WEALTHY

The top marginal tax rate—the rate paid by the wealthy on the highest part of their incomes—is much lower now than in the recent past. Between 1936 and 1980, the top marginal rate was at least 70%.[58] It was 90% or more from 1951 to 1963. The top rate dropped from 70% to 28% under President Reagan, and then was set at 39.6% in 1993. It dropped as low as 35% during the first decade of this century, then was restored to 39.6% in 2013, where it stayed until President Trump's Tax Cuts and Jobs Act dropped it to 37% in 2018.

Despite conservative claims that taxing the wealthy hurts the economy, economic growth has often been better when taxes were higher on the rich than when they were lower, as Nobel economist Paul Krugman has pointed out.[59]

But even though there's plenty of room to raise the top marginal rate, that move alone would not ensure the wealthy pay close to their fair share of taxes. The top marginal rate only applies to the top section of a wealthy taxpayer's regular income, which for most taxpayers means salary and wages. Much of the rest of their income, which for very wealthy people tends to come from investments, is subject to lower rates (the loophole addressed by Options 2 and 3). This blending of rates results in an "effective" tax rate that is always much lower than the top marginal rate. Wealthy taxpayers much more than working families also benefit from deductions and other special tax breaks that further lower their effective tax rates.[60] One way to accomplish a higher rate on both salary and investment income of the wealthy is through a surtax, described below.

Probably the biggest contributor to low effective tax rates among the wealthy is the reduced tax rates on long-term capital gains and dividends, which are taxed at a top rate of 20% (or 23.8% if including the Net Investment Income Tax), as explained in "Reform the Taxation of Capital Gains" above. Such investment income is highly concentrated among the rich. As noted above, the discount they receive on this passive income can result in billionaire investors paying a lower effective tax rate than many middle-income families. That's the perverse phenomenon billionaire investor Warren Buffett is flagging every time he announces that he pays a lower tax rate than his secretary.[61]

As referenced above, the wealthy also claim a disproportionate share of deductions from itemized expenses like mortgage interest and charitable contributions, reducing their taxable income and thus their effective tax rates even more.[62]

The IRS says that in 2016 (the latest year for which data are available), the top 1% of tax returns—those reporting over roughly $481,000 in adjusted gross income (AGI)—showed taxes paid at a rate of a little under 27%, even though the top marginal rate at the time was 39.6%.[63] Even more perverse: the top 0.001%—returns reporting incomes over $50 million in AGI—showed taxes paid at an even lower rate, under 23%. (Note: elsewhere in this report, ATF uses the Tax Policy Center's estimate that the richest 1% will have an AGI of $624,000 in 2019.[64] This estimate is more recent, but also uses different criteria in measuring income.)

So, while higher marginal tax rates on the wealthy is one way of raising more revenue and restoring tax fairness, it must be combined with other tax changes to ensure the rich actually pay a higher percentage of their income in taxes than they do now.

Below are options for raising tax rates on the incomes of the wealthy, including what they make from wages and salaries.

4. ASSESS A SURTAX ON ANNUAL INCOMES OF THE WEALTHY

Type of proposal: New revenue source
Proposed by or revenue estimated by: CBO and JCT for House and Senate Democrats in earlier Congresses; Economic Policy Institute
Revenue raised: $500 Billion to $800 Billion

SUMMARY: These reforms would require taxpayers making more than $1 million a year for a couple ($500,000 for an individual) to pay an extra tax, or surtax, on all of their income exceeding that amount. The rate could vary but should start at no lower than 5%.

BACKGROUND: In lieu of a tax on wealth or a major overhaul of taxation of capital gains, a way to raise significant revenue in a progressive manner from the very rich is to impose a surtax on the Adjusted Gross Income (AGI) of the wealthy, taxing both their earned and investment income, including capital gains and dividends. A 5.4% surtax on AGI exceeding $1 million for couples ($500,000 for individuals) passed the House of Representatives in 2009 as part of the bill that would become the Affordable Care Act. (The surtax didn't make it into the final law, which instead taxed investment income of wealthier taxpayers—the NIIT described earlier.) It would have raised $460.5 billion over ten years, per the JCT.[65]

Similarly, Senate Democrats in the American Jobs Act of 2011 proposed a 5.6% surtax on the same income levels that would have raised $453 billion, per the CBO.[66] This new tax would have only applied to about the richest one in 200 households.[67]

Because income has grown among the super-wealthy since those plans were formulated a decade ago, a millionaire's surtax at those original levels could raise much more today, at least $500 billion—and considerably more if the rate were higher, say 10%.

The Economic Policy Institute estimates that a 10% surtax on AGI over the top 0.1% threshold, or $2.9 million a year in 2019, could raise $800 billion.[68]

5. RAISE TOP INDIVIDUAL INCOME TAX RATES

Type of proposal: Repeal of TCJA provision; reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO; Senate Democrats' infrastructure plan; JCT; Rep. Jan Schakowsky (H.R. 636, 2017); Rep. Alexandria Ocasio-Cortez per the Penn Wharton Budget Model
Revenue raised: $123 Billion to $353 Billion

SUMMARY: These reforms would raise top marginal income tax rates that primarily apply to the richest 1%.

BACKGROUND: The much-publicized suggestion by Rep. Alexandria Ocasio-Cortez that income exceeding $10 million could be usefully taxed at up to 70% brought an important focus to the problem of receding high-income tax rates.[69] The top tax rate has been falling for the past 65 years, contributing to the wealthy's ability to avoid their fair share of tax.[70]

The TCJA cut the top marginal tax rate from 39.6% to 37% and raised the income thresholds over which that top tax rate applies. In 2017, the old top rate of 39.6% applied to taxable income (income left after adjustments and deductions are subtracted) above $471,700 for married couples.[71] In 2019, the new top rate of 37% applies to taxable income above $612,350.[72]

The former 39.6% top rate was already considerably lower than it had been for most of the 20th century, including periods of robust economic growth and relatively low income inequality.

Of course, taxpayers owe more than federal income taxes, including payroll taxes (or their equivalent) and state and local taxes. The current cumulative top tax rate is around 47%, after adding to the top federal income tax rate of 37% the Medicare tax of 3.8%, as well as state and local taxes, which average around 6.5%.[73]

Economists Peter Diamond and Emmanuel Saez have calculated that a top cumulative tax rate of 73% would be "optimal": raising the greatest amount of revenue possible without discouraging work or investment among the very wealthy.[74] Considering Ocasio-Cortez's proposal within the context of cumulative taxation means the top federal income tax rate could be usefully raised to about 63%, or roughly 25 points higher than the current 37%.

But greater tax fairness does not depend solely on a higher top rate. There are now just seven federal income tax brackets.[75] For the first 75 years or so of the federal tax system, there were on average dozens of brackets up and down the income scale.[76] All those relatively thin brackets more precisely differentiated the middle-income from the rich and better reflected ability to pay.

Despite purposely misleading conservative claims that fewer tax brackets makes the tax code simpler and therefore fairer, just the opposite is true.[77] Adding brackets (which, as a simple list of ranges, is not the complicated part of the tax system) better ensures everyone pays a fair share.

The problem with the current "flattened" rate structure is clear. For instance, every married couple that makes more than half a million dollars now pay 37% tax on the amount over that level. The same rate applies whether you make $100,000, or $100 million, over that threshold. But the corporate CEO, professional athlete or movie star making tens of millions of dollars a year should not be paying the same rate on the top part of their income as the successful doctor or dentist making $500,000. Additional upper income brackets would fix that glaring anomaly.

There are a range of proposals for raising rates and adding tax brackets—from the modest to ambitious, as explained below in ascending order of ambition.

- Increasing the top two rates—35% and 37%—by one percentage point each. This reform would raise $123 billion, according to **CBO**.[78] It would only affect couples with taxable income over $400,000 and individuals making over $200,000.

- Restoring the pre-TCJA top rate of 39.6%—as recommended by **Senate Democrats in their 2018 infrastructure plan**—would raise $128 billion between 2019 and 2025 when the tax break expires per the JCT (as updated by ATF).[79] Such a rate increase would only affect married couples making over about $612,000 this year and individuals making over $510,000.[80] This is roughly the richest 1%.[81]

- Raising the top rate back up to 39.6%, and lowering the top bracket back down to what it would have been in 2018 and in future years if the TCJA had not been enacted, would raise $220 billion,

per **JCT**.[82] In 2018, the new top rate would only have affected married couples with taxable income above $479,000 and individuals with taxable income over about $426,000, with those figures subsequently rising each year with inflation.

- **Rep. Jan Schakowsky's** (D-IL) Fairness in Taxation Act (H.R. 636 in 2017) would create extra tax rates on earned income above new thresholds, which would apply to both individual and married taxpayers: 45% on income over $1 million, 46% over $10 million, 47% over $20 million, 48% over $100 million, and 49% over $1 billion.[83] It would also end the tax-rate discount for capital gains and dividends on such income over $1 million. Schakowsky estimated her plan would raise $800 billion, but there is no independent estimate, and it is not known how much the regular income tax-rate changes alone would raise.

- **Rep. Ocasio-Cortez's** (D-NY) proposal to tax income above $10 million at a 70% rate could raise $164 billion to $353 billion, estimates the Penn Wharton Budget Model.[84] But their analysis shows the importance of other tax-code reforms that complement raising the top marginal rate on regular income in order to prevent wealthy taxpayers from gaming the system. For instance, their estimates would have been much higher but they "project that a significant amount of pass-through business owners will respond to this tax by reorganizing as C corporations." That's because the reorganized corporations' tax rate would be capped at the TCJA's corporate tax rate of 21% and that of the dividends paid to the owners at nearly 24%, including the net investment income tax. The two rates combined would still be substantially lower than Ocasio-Cortez's proposed 70% rate.

The public is very supportive of raising tax rates on the wealthy. For years, the Gallup poll has found that 60% or so of the public say "upper income people" are paying too little in federal taxes.[85] A January 2019 Fox News poll found that 65% of registered voters support increasing taxes on families making over $1 million a year.[86] Another January 2019 poll, by The Hill and Harris X, found that 59% of registered voters supported a 70% marginal tax rate on income over $10 million.[87] There was solid bipartisan support in favor of the proposal: 71% of Democrats, 60% of independents and 45% of Republicans.

6. RESTORE THE INDIVIDUAL ALTERNATIVE MINIMUM TAX (AMT) TO PRE-TCJA LEVELS

Type of proposal: Repeal of TCJA provision
Proposed by or revenue estimated by: JCT for Senate Democrats' infrastructure plan
Revenue raised: $425 Billion (over 7 years)

SUMMARY: This reform would ensure that wealthier taxpayers pay at least a minimally acceptable amount of tax by returning the income and exemption parameters of the Alternative Minimum Tax (AMT) to pre-TCJA levels.

BACKGROUND: The AMT has been an important check on the abuse of tax deductions and loopholes by higher-income taxpayers. Prior to the AMT, wealthier taxpayers could sometimes claim enough deductions and other special breaks to substantially or even completely eliminate their tax liability.[88]

The TCJA exempts much more income from exposure to the AMT and keeps those exemptions in place at much higher income levels, in addition to eliminating a lot of the exemptions and deductions that in the past triggered the AMT. This loosening of the rules makes it more likely that wealthy taxpayers will avoid paying their fair share.

In 2017, prior to the TCJA, the first $84,500 of income for a married couple ($54,300 for an individual) was fully exempted from the AMT.[89] Those exemptions began to gradually "phase out"—leaving more and more income subject to the AMT—when the income of married couples exceeded $160,900, and that of individuals, $120,700. The exemption completely disappeared once married income exceeded roughly half a million dollars, less for individuals.[90]

The TCJA raised the exemption amounts to $109,400 for married filers, $84,500 for individuals.[91] Even more significant is the increase in the income level at which the exemption starts to phase out: to a full million dollars for married couples and half a million for individuals. Under this regime, some income is still being shielded from the AMT until a married couple's income reaches almost $1.5 million and an individual's income, something over $750,000.

Depending on what other tax reforms are made to ensure wealthier Americans pay their fair share, it may make sense to at least restore the lower AMT exemption and phaseout levels in place before the TCJA. This proposal would raise $425 billion between 2019 and 2025 when the tax break expires per the JCT (as updated by ATF). It was included in the Senate Democrats' 2018 infrastructure plan.[92]

For more information:

- TPC: Key Elements of the U.S. Tax System: What Is the AMT?, accessed Apr. 3, 2019

ESTATE, GIFT & INHERITANCE TAXES

Much wealth is created and retained without ever being taxed. That's because among the super-rich the big paydays don't come in the form of a check every two weeks, but in the quiet constant growth of asset values—in the stock market, real estate holdings and elsewhere—that can make every day a payday. This accelerating wealth accumulation is only taxed when assets are sold, and even then, there are loopholes that allow the rich to delay, reduce and even eliminate their tax bill.

The estate tax is the only federal curb on the accumulation of dynastic wealth. It reduces economic inequality by taxing the excess riches of wealthy inheritors, raising revenues that can then be used to increase opportunities for everyone who wasn't born rich. Repeatedly weakened in recent years, the estate tax should instead be strengthened.

Because of the hefty exemptions in place even prior to passage of the TCJA—roughly $5.5 million per individual, or $11 million per couple, could pass to future generations without any tax due—fewer than 2 out of every 1,000 estates paid the tax each year.[93] Yet, in 2017, the last year before the TCJA, the estate tax (and related gift tax) raised nearly $23 billion from this select group of wealthy families.[94]

Under the TCJA, fewer than one in a thousand estates will pay the estate tax each year,[95] or just 1,900 households.[96] That's because, despite the estate tax's already careful targeting that excluded of all but the very wealthy, the TCJA more than doubled the amount of family fortunes exempt from the tax. Now, a wealthy individual can pass along $11.4 million to heirs without the estate paying a dime in federal tax (the figure is $22.8 million for couples).[97] That exemption will keep growing each year with inflation.

The estate tax rate is a flat 40%, although the average effective rate is under 17%.[98] The effective rate is so much lower because the 40% tax only applies to the value of an estate over the initial thresholds of $11.4 million and $22.8 million, and because there are numerous loopholes in the law that allow the rich to reduce what they should owe.

Contrary to relentless conservative propaganda, the reality is that virtually no family farms or small businesses are ever sold to pay the estate tax for the simple reason that the vast majority are not valuable enough to trigger the tax.[99] The average net worth of farm families was about $830,000 in 2015.[100] Only 20 small farm or business estates (defined as those in which the farm or business is worth less than $5 million and makes up over half the estate) are estimated to have owed any estate tax in 2017.[101]

Though not as comprehensive or effective as the tax on extreme wealth described earlier, the following proposals to strengthen the estate tax, or to replace the estate tax with an inheritance tax, offer other ways to tax otherwise largely untaxed family fortunes. They would all restore greater fairness to our system and raise significant revenue to fund the public services required by all of us who weren't born into wealth.

7. RESTORE ESTATE, GIFT AND GST TAXES TO PRE-TCJA PARAMETERS

Type of proposal: Repeal of TCJA provision
Proposed by or revenue estimated by: JCT for Senate Democrats' infrastructure plan
Revenue raised: $82 Billion (over 7 years)

SUMMARY: This reform would lower the portion of family fortunes exempt from estate, gift and generation-skipping transfer (GST) taxes to the levels in place before the TCJA: $5.5 million for an individual and $11 million for a couple, one-half the TCJA rates.

BACKGROUND: This reform would increase the number of wealthy families subject to estate, gift and GST taxes by cutting in half the amount of fortune exempt from the tax, while keeping the estate tax rate at 40%. Returning to the exemption amounts in effect prior to the TCJA would still tax fewer than 2 out of every 1,000 estates each year.[102] Families with estates valued at or below about $5.5 million for an individual and $11 million for a couple would still be fully exempt from the federal estate tax. These thresholds were agreed to by both parties under the American Tax Reform Act passed in 2013. According to the JCT (as updated by ATF), this reform would raise $82 billion between 2019 and 2025, when the higher TCJA parameters are scheduled to expire and the exemption amounts return to their previous levels. It was included in the Senate Democrats infrastructure plan from 2018.[103]

For more information:

- ITEP: The Federal Estate Tax: An Important Progressive Revenue Source, Dec. 2018

8. RESTORE ESTATE, GIFT AND GST TAXES TO 2009 PARAMETERS

Type of proposal: Repeal of TCJA provision, reform of pre-TCJA provision
Proposed by or revenue estimated by: Treasury Department
Revenue raised: $202 Billion

SUMMARY: This reform would restore estate, gift and GST taxes to parameters in effect in 2009, prior to a weakening of these provisions by earlier tax-cut laws.

BACKGROUND: Even before the TCJA, recent laws had weakened the estate tax by, for example, increasing the amount of family fortunes exempt from the tax and lowering the rate on the amount that was taxed. This proposal would restore stronger parameters in effect as recently as 2009, including a lower exclusion amount for gifts.[104] It would restore a top tax rate of 45% for estate and GST taxes on amounts over $3.5 million, and on gifts of over $1 million. It would also end the indexing of exclusion amounts for inflation.

In 2016, President Obama proposed such reforms, which the Treasury Department estimated would raise $202 billion.[105]

9. FURTHER STRENGTHEN THE ESTATE TAX

Type of proposal: Repeal of TCJA provision, reform of pre-TCJA provision
Proposed by or revenue estimated by: Sen. Bernie Sanders (S. 309, 2018); Rep. Jan Schakowsky (H.R. 2907, 2015); Sen. Elizabeth Warren (S. 3503, 2018); Sen. Cory Booker (S. 3766, 2018)
Revenue Raised: $336 Billion to $400 Billion

SUMMARY: The reforms analyzed here all increase the estate and gift-tax rate as the size of inherited fortunes increase, raising large sums of revenue and limiting the accumulation of excessive riches by the already wealthy.

BACKGROUND: With only one exception over the past 80 years, every change in the estate- tax rate has lowered it: today's rate of 40% is about half the 77% rate of roughly 40 years ago.[106] At the same time, the amount of family fortune exempt from the tax has steadily grown since the tax was instituted, with that exemption growth accelerating over the past decade.[107]

Several solutions have been proposed to significantly strengthen the estate tax, with a focus on raising rates on the largest fortunes.

- **Senator Bernie Sanders** (I-VT) introduced in 2019 the "For the 99.8% Act" (S. 309).[108] It would lower the amount of family fortunes exempt from the tax to the level in place in 2009: $3.5 million per individual and $7 million per couple. Even at this lower level, the exemption would ensure 99.8% of American families could pass along their homes, investments and cherished belongings to their children without paying a penny in federal estate tax.

  The plan recognizes the wide spectrum of great wealth—from single-digit millionaires to billionaires—and consequent ability to pay by replacing the current flat estate-tax rate with a

graduated scale of rates. Current law levies the same 40% tax rate on all estates, whether worth $25 million or $25 billion. Sanders' legislation would instead tax estates worth between $3.5 million and $10 million at 45%; between $10 million and $50 million at 50%; between $50 million and $1 billion at 55%; and over a billion dollars at 77%. (This last was the top estate tax rate for almost 35 years in the last century.[109])

Sanders' bill would also end the use of trusts—including GRATs (see Option 11)—and low-ball valuations of assets to dodge the estate tax. Finally, it would extend further protections to family farms to ensure the estate tax doesn't prevent them being inherited by the next generation.

Based on the current net worth of the nation's 588 billionaires, their estates would over time pay $2.2 trillion under the Sanders' plan. There is no official estimate for the revenue raised over 10 years from all taxable estates, but it likely would exceed the $336 billion estimated for Rep. Schakowsky's Responsible Estate Tax Act described below.

- **Representative Jan Schakowsky** (D-IL), along with Senator Sanders, in 2015 introduced the "Responsible Estate Tax Act" (H.R. 2907).[110] It would also return the exemption amount to $3.5 million per individual ($7 million per married couple), and replace the current flat rate with graduated rates identical to those in Sanders' 2019 bill, except the part of an estate worth over $1 billion would be taxed at 65% instead of 77%.

  It would also similarly address trust and valuation abuses and extend the same protections to farmers. ITEP estimates that repealing the TCJA's higher exemption and then enacting Schakowsky's legislation would raise $336 billion.[111]

- **Senator Elizabeth Warren** (D-MA) has proposed a measure similar to the Schakowsky and Sanders bills with somewhat different rates and thresholds—a 55% rate starting at $3.5 million, 60% above $13 million, and 65% above $93 million.[112] She would also levy a 10% surtax on that portion of estates worth more than $1 billion—effectively a 75% rate on that portion above $1 billion. It also includes a GRAT loophole closer and would lower the gift-tax exclusion amount from the current $15,000 to $10,000.[113] Moody's Analytics has estimated it would raise about $400 billion.[114]

  Warren has specifically earmarked the revenue from her improved estate tax for increasing the stock of low-income housing by up to 3.2 million units.[115] It would do so mostly through increased funding for the Housing Trust Fund (HTF), a federal program that makes grants to states for the creation of affordable housing, primarily rental units.[116] The plan would also invest more in public-private initiatives and in rural and tribal areas, as well as programs that specifically promote minority home ownership and assist homeowners hurt by the 2008 financial crisis.

- **Senator Cory Booker** (D-NJ) would strengthen the estate tax by applying a 45% tax rate to estates valued between $3.5 million and $10 million, 55% to those between $10 million and $50 million, and 65% to those above $50 million.[117] It also addresses GRAT and gift-tax loopholes. He would use the revenue generated to give every American child $1,000 when born, plus up to another $2,000, depending on family income.[118] Funds would be deposited in a federally-

managed account and grow at roughly 3% a year. The money could eventually be used for higher education costs or to buy a home.

10. CLOSE THE "GRAT" AND "CLAT" ESTATE AND GIFT TAX LOOPHOLES

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: Sen. Bernie Sanders (S. 309, 2019); Rep. Jan Schakowsky (H.R. 2907); Treasury Department
Revenue raised: $19.1 Billion

SUMMARY: This reform would close the tax loophole that lets the wealthy avoid estate and gift taxes by diverting fast-appreciating assets into special trusts known as GRATs.

BACKGROUND: Wealthy families can avoid estate and gift taxes[119] on portions of their fortunes by temporarily transferring fast-growing assets into special trusts knows as Grantor Retained Annuity Trusts (GRATs).[120] The grantor pays a tax and retains ownership of the original value of the assets, plus a pre-determined increase in that value, and receives regular income from it. But when the trust ends—often after as little as two years—any boost in the value of the assets beyond the predetermined increase goes tax-free to the trust's beneficiaries. If, however, the grantor dies before the trust expires, all the assets are included in the taxable estate.

In 2013, the lawyer who invented GRATs estimated it had cost the federal government $100 billion in lost revenue since the turn of the century.[121] Casino mogul Sheldon Adelson reportedly has used GRATs to avoid an astonishing $2.8 billion in gift taxes.[122] GRATs particularly benefit the owners of fast-growing companies whose stock often appreciates quickly.

Proposed reforms include extending the minimum life of the GRAT to 10 years—making it more likely that the trust's assets will be subject to the estate tax—and increasing the presumed value of the original assets, thereby decreasing the amount that can be passed along to beneficiaries tax free.[123]

In 2016, President Obama proposed such GRAT reforms, which the Treasury Department estimated would raise $19.1 billion.[124]

Another type of trust that can facilitate tax-free transfers across generations is a Charity Lead Annuity Trust (CLAT).[125] The most common kind of CLAT is structured as a grantor trust, with a specified charity or charities receiving regular payments over a set period (i.e., a term annuity), and the remainder thereafter passing to a noncharitable beneficiary or beneficiaries (e.g., the grantor's children). Upon establishing and funding the trust, the grantor can claim a charitable contribution deduction equal to the present value of the annuity portion of the trust.

Oftentimes, a grantor will fund the CLAT with very volatile assets and will set the payments to the charitable beneficiary such that the value of the annuity portion is equal to the value of the assets funding the trust. This strategy is known as a "zeroed-out CLAT," and it produces two significant tax benefits. First, it effectively inflates the amount of the grantor's charitable contribution deduction, because the value of the annuity portion is calculated on the assumption that the charitable

beneficiary's payments are certain, when in fact the charitable beneficiary receives all of the downside and none of the upside on a volatile investment. Second, the strategy allows assets to pass to the donor's beneficiaries free of any estate or gift tax.

There is no known revenue estimate from reforming CLATs. If GRATs were reformed but CLATs were not, the revenue raised by GRAT reform would fall, because the assets of the wealthy would be steered to the unreformed type of trust. The Treasury's GRAT revenue estimate may well account for this anticipated behavioral change.

11. REPLACE ESTATE AND GIFT TAXES WITH AN INHERITANCE TAX

Type of proposal: New revenue source
Proposed by or revenue estimated by: Lily Batchelder, Professor of Law, New York University School of Law
Revenue raised: $199 Billion to $670 Billion

SUMMARY: This reform would replace the estate tax with an inheritance tax that would end the income and payroll tax exclusion for inherited income. An inheritance tax would begin to level the playing field between newly enriched heirs of a family fortune—who currently never have to pay income or payroll tax on the total amount they inherit—and everyone else who has to work for their income. By taxing recipients of large inheritances at similar rates as income from work, rather than taxing the estate of the deceased former owner, an inheritance tax would be fairer, less easy to dodge and more politically palatable.

BACKGROUND: Whether the tax on large intergenerational wealth transfers is called an estate tax and is levied on the estate of the decedent, or an inheritance tax and is charged to the inheritor, it's the survivors who pick up the tab. Switching the official payer of the tax from the decedent's estate to the estate's recipients and requiring them to pay income taxes and a surcharge equivalent to payroll taxes on their massive inheritances would make that taxation fairer and easier to apply and defend.

Currently, the first $11 million of an estate per individual decedent ($22 million per couple) is exempt from federal estate taxes. And there is no requirement for an inheritor to pay any tax, no matter how large the inheritance. That means a lucky, lonely member of a younger generation with multiple rich elders (parents, step-parents, aunts, uncles), each of whose estate falls below the estate-tax threshold, can receive a large intergenerational wealth transfer without paying any estate, income, or payroll tax on the multiple inheritances.

Charging the estate of the recently deceased—rather than the very-much-alive inheritors—has left the estate tax open to a disingenuous but successful line of political attack. Few public relations campaigns have been more effective than opponents' relabeling of the estate tax as the "death tax." But in fact, that label completely obscures the truth. The estate tax is not a tax on death, but on the wealthy heirs of massive estates who were born with a silver spoon in their mouth. Switching to an inheritance tax would make that truth plain.

Complex tax shelters like GRATs (see Option 10) could not be used to foil collection of the inheritance tax as they do the estate tax (although clever tax lawyers would undoubtedly try to achieve the same result).

To more fully achieve the revenue and fairness goals sought by taxing inheritances, unrealized capital gains included in the inheritance should be subject to a separate and simultaneous tax (see Option 3.B).

NYU Law School professor and Washington Center for Equitable Growth scholar Lily Batchelder estimated in 2016 that various versions of an inheritance tax she proposed would raise between $199 billion and $670 billion, depending on the tax rate and exemption amount.[126] The possible exemptions per heir were $1.25 million, $1.8 million or $2.1 million and the top rate was the regular income tax rate plus 10% or 15% as a proxy for the payroll tax.

For more information:

- Lily L. Batchelder: What Should Society Expect from Heirs? A Proposal for a Comprehensive Inheritance Tax, June 2017

CURB RETIREMENT TAX BREAKS DISPROPORTIONATELY BENEFITING THE WEALTHY

Retirement plans receiving tax-favored treatment are meant to guarantee working people a secure and dignified old age. They are not meant to allow the wealthy to further enhance their riches, which is a way many are now exploited. By limiting the ability of high-paid employees and other wealthy people to abuse the tax breaks offered by retirement systems, we can better provide for the later years of those who are not wealthy because they were not born rich or, despite years of hard work, never hit the professional jackpot.

12. CURB DEFERRAL OF TAXES ON INCOME FROM ANNUITIES AND LIFE INSURANCE POLICIES

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO
Revenue raised: $210 Billion

SUMMARY: This reform would tax the investment income of annuities and life insurance policies (called "inside buildup") every year just like other investment income.

BACKGROUND: Annuities guarantee fixed payments in the future in exchange for a lump payment now or periodic payments over a fixed time. The purchase price of the annuity is invested by the company offering it (usually an insurance company) to generate the income necessary to provide the future payments to the buyer. Life insurance policies—in addition to guaranteeing payment to the family when a policyholder dies—can also be used for savings and investment.

But tax on the income generated within an annuity or life insurance policy—what's called "inside buildup"—is not due unless and until the policy is cashed in by the policyholder. However, if the

policy only ends with the death of the policyholder, or the investment income is used up being applied to premiums, the inside buildup is never taxed.

Any annual increase in the inside buildup of annuities and life insurance policies should be taxed every year just like other investment income. The CBO estimated in 2013 that this reform would raise $210 billion.[127] The Office of Management and Budget estimated in 2016 that exempting inside buildup from taxation would cost $370 billion.[128]

13. REDUCE LIMITS ON ANNUAL CONTRIBUTIONS TO RETIREMENT PLANS

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO
Revenue raised: $103 Billion

SUMMARY: This reform would lower contribution limits for 401(k)s and IRAs to limit the ability of high earners to use tax-favored retirement accounts to reduce their taxes and further increase their wealth.

BACKGROUND: This year employee contribution limits to defined contribution plans, such as a 401(k) and IRAs are $19,000 and $6,000, respectively, with workers over 50 allowed to contribute an extra $6,000 to 401(k) type plans and an extra $1,000 to IRAs.[129] The combined limit on employer and employee contributions to defined contribution plans is $56,000.

This reform would lower the worker-contribution limit to defined plans to $16,500, and to IRAs to $5,000 (regardless of age). The combined employer-employee contributions to defined contribution plans would be lowered to $50,000.

These new limits would mostly impact higher-income workers, as evidenced by the effect of existing contribution limits. For instance, just 8% of workers bumped up against the maximum contribution limit currently allowed for 401(k)s in 2014 and over half of them made over $200,000 that year, per the CBO.[130]

This reform would raise $103 billion, according to a 2018 CBO estimate.[131]

14. LIMIT TAX-FAVORED RETIREMENT ACCOUNT BALANCES OF THE WEALTHY

Type of proposal: Reform of pre-TCJA provision
Proposed by or estimated by: CBO; Obama's Treasury Department
Revenue raised: $4.4 Billion to $30 Billion

SUMMARY: This reform would, by limiting account balances, prevent wealthy people from exploiting tax-favored retirement plans to further enrich themselves and their families.

BACKGROUND: There are different types of retirement plans, with different rules for how much can be taken in and paid out. To preserve assets and better spread the wealth, traditional pension funds—

also known as "defined benefit" plans—are restricted in how much they can pay any one retiree: in 2019 the annual distribution limit is $225,000.[132]

Much more common employer-sponsored defined contribution plans—such as 401(k)s—have no distribution limit. But because lawmakers try to limit the benefits to those who really need them, annual contributions are capped: this year, the total contribution limit is $56,000 from the employer and employee combined, and $19,000 from the employee alone ($25,000 for employees over age 50).[133]

Individual Retirement Accounts (IRAs) also have contribution limits meant to prevent them from becoming piggy banks for the wealthy—in 2019, $6,000, or $7,000 for those over 50.

Despite these attempts to limit the use of retirement systems as a tax shelter for the wealthy, high-paid employees are often able to accumulate huge retirement savings spread across multiple types of accounts.

President Obama proposed prohibiting anyone whose combined retirement accounts would allow for annual payouts greater than what a traditional pension can pay (as noted earlier, $225,000 in 2019) from making any further contributions to any of those accounts.[134] (The "balances" of pension plans, which do not maintain individual accounts, would be calculated based on the benefits promised to the retiree.) In 2016, when Obama made his proposal, the combined balance limit would have been around $3.4 million.

The Treasury Department estimated in 2016 that this reform would raise $30 billion.[135] However, the CBO, presumably scoring the same proposal, said it would raise only $4.4 billion.[136]

BUSINESS TAXES

Most of the nation's most familiar businesses are corporations: famous companies like Amazon, Apple and General Motors. Each of these so-called C corporations maintains a distinct legal identity separate from its owners (shareholders), including the obligation to pay the corporate income tax. They may be the most famous businesses, but measured by number of firms, corporations are just a small fraction of all American companies.

The other 95% of American businesses are so-called "pass-through" entities: sole proprietorships, partnerships, LLCs and S corporations.[137] These entities do not pay the corporate income tax. Instead, profits and losses are passed through to the individuals who own the business, and they pay any tax due on their personal returns at individual rates. Pass-through businesses run the gamut from corner groceries and independent web designers to billion-dollar real estate developers and high-priced law firms. But even though the business form is broadly shared among different-sized companies, the income flowing to them is not: half of all pass-through income goes to the wealthiest 1% of business owners.[138]

That's why it's misleading to characterize, as proponents of the TCJA do, tax reductions for pass-through entities as "small business tax cuts." Moreover, any benefit from a pass-through tax cut or other tax advantage may be greatly outweighed by the loss of public services—whether small business loans, infrastructure repair, and income-support programs for their customers—that such tax cuts could necessitate to meet budget goals.

President Trump is a good example of the type of business owner who really benefits from pass-through tax cuts and other business-related advantages buried in the tax code. The Trump Organization is not a single corporation, but a collection of over 500 pass-through entities.[139]

15. REPEAL 20% DEDUCTION FOR CERTAIN BUSINESS INCOME

Type of proposal: Repeal of TCJA provision
Proposed by or revenue estimated by: JCT
Revenue lost by loophole: $387 Billion (over 7 years)

SUMMARY: This reform would repeal the TCJA's 20% pass-through business income deduction. Falsely-labeled a "small-business tax cut," this special break is primarily a bonanza for wealthy business owners.

BACKGROUND: Under the TCJA, owners of pass-through businesses are allowed, with several restrictions, to exclude 20% of their business income from taxation. This effectively lowers the top tax rate to as low as 29.6%—7.4 percentage points below the 37% top marginal tax rate for the highest-earning employees.[140]

It has been projected that three-fifths of the value of this tax break, supposedly targeted at "small businesses," will go to the richest 1% of business owners by 2024.[141] Initial data from the JCT shows that two-thirds (66%) of this tax break is accruing to those with household income above $315,000 for joint filers.[142]

Many practical and policy questions have arisen about the operation and impact of this new tax deduction, including who can claim it and its impact on tax fairness.[143] One thing that is certain, though: this provision is expensive—according to the JCT (as updated by ATF) losing $387 billion between 2019 and 2025, when the tax break is scheduled to expire.[144]

For more information:

- Center on Budget and Policy Priorities: Pass-Through Deduction Benefits Wealthiest, Loses Needed Revenue, and Encourages Tax Avoidance, March 27, 2019
- Tax Policy Center (TPC): The TCJA's Pass-Through Deduction Was Misguided From the Beginning, Aug. 15, 2018
- TPC: Navigating the New Pass-Through Provisions: A Technical Explanation, Jan. 31, 2018

16. REFORM EXPENSING & DEPRECIATION TAX BREAKS

Type of proposal: Repeal of TCJA provision, reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO; JCT
Revenue lost by loophole: $293 Billion

See Option 24 in the "Corporate Taxes" section below for details.

17. REFORM HOW BUSINESSES ACCOUNT FOR ADVERTISING EXPENSES

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO
Revenue raised: $62.5 Billion to $132 Billion

See Option 25 in the "Corporate Taxes" section below for details.

18. CLOSE LOOPHOLES ALLOWING SOME WEALTHY BUSINESS OWNERS TO AVOID TAXES FUNDING HEALTHCARE PROGRAMS

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO (Option 1); CBO (Option 2); Treasury Department
Revenue raised: $163 Billion to $236 Billion

SUMMARY: This reform would close loopholes that allow certain wealthy business owners to avoid paying taxes that support Medicare and the Affordable Care Act (ACA).

BACKGROUND: Unlike employees who receive wages and salaries, business owners have the power to classify the nature of their income so as to avoid taxes. One group of taxes that can be avoided through this kind of classification manipulation were established to support healthcare programs, specifically Medicare and the ACA.

Since the creation of Medicare over 50 years ago, payroll taxes on the wages and self-employment income of workers have funded the program. But other sources of income primarily accruing to wealthy people were until recently not subject to the Medicare payroll tax. To address this unfairness and expand access to health care, the ACA imposed a new 3.8% tax on the investment income of high-income individuals.[145] This Net Investment Income Tax (NIIT) applies to income from capital gains, dividends, interest, rents and royalties of people earning more than $200,000 ($250,000 for couples). It parallels the 3.8% Medicare tax on the salaries and self-employment income of high-income workers (those individuals making over $200,000 a year).

However, under current rules some high-income business owners can avoid both the NIIT and the Medicare tax. People who own interests in S corporations and limited partnerships and are considered "active" owners of those entities are not subject to either tax on their business profits (though they pay payroll taxes on "reasonable compensation" they receive working for the business). This loophole creates a disparity with regular workers and other business owners—for example, those who run sole proprietorships—who are subject to either the Medicare tax or NIIT on all their business income.

To remedy this disparity, President Obama proposed ensuring that all business profits of high-income individuals be subject to the 3.8% Medicare tax, either through the NIIT or self-employment tax.[146] The proposal would have also funneled all of the revenue raised from the NIIT into the Medicare trust fund to extend its solvency.

Obama's proposal also addressed a related loophole—sometimes called the "Gingrich-Edwards" loophole—that enables owners of professional services businesses to avoid self-employment taxes by deeming their income to be profits and not compensation for their work. Prominent, out-of-office political professionals from both parties, e.g. former Republican House Speaker Newt Gingrich and former Democratic Senator and vice presidential candidate John Edwards, who write books and give speeches through S corporations, have used this tax dodge.[147] President Trump may have used it as well to avoid payroll taxes on work he did running his casinos.[148]

The proposal would ensure that owners of professional services businesses that materially participate in the business—such as doctors, lawyers, entertainers, or other professionals that own their practice—pay self-employment tax on all their revenue from the business, however they label that revenue.

Obama's plan would raise $236 billion, according to a 2016 JCT estimate.[149]

The CBO has offered a similar solution to the same problem of wealthy business owners avoiding healthcare-related taxes through manipulative classification of their income. Its proposal would apply the NIIT to all business income not covered by Medicare taxes, regardless of the form of the business or the taxpayer's level of participation in running it. CBO estimated in 2018 that this proposal would raise $199 billion.[150]

Another CBO proposal would similarly simplify the healthcare-related tax rules for wealthy business owners, but in this case by making more of their income subject to payroll taxes (covering both Social Security and Medicare).[151] Under this reform, all the business income of any partner or S corporation owner "materially" involved in running the business would pay payroll taxes on all their business income—both compensation and profits—while those less active (according to IRS criteria) would pay payroll taxes only on their compensation. CBO estimated in 2018 that this proposal would raise $163 billion.

19. TAX CARRIED INTEREST AS REGULAR INCOME

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: JCT for Senate Democrats' infrastructure plan; CBO
Revenue raised: $12 Billion to $14 Billion

SUMMARY: This reform would close a loophole that allows general partners in investment funds to pay the lower capital-gains tax on "carried interest," which is really employment income that should be taxed at regular income tax rates.

BACKGROUND: Wealthy investment managers of private equity, real estate and hedge funds are allowed to pay the discounted capital-gains tax rate, and avoid payroll taxes, on so-called "carried interest": earnings tied to a percentage of the fund's profits. But this income is actually employment compensation for managing other people's investments. Therefore, it should be taxed at the same rate as wages and salaries and be subject to the self-employment tax. Income that fund managers receive as a return on their own capital contribution would continue to enjoy the appropriate capital-gains discount (assuming such a discount was still in effect).

In 2018, CBO estimated that this reform would raise $14 billion.[152] The JCT estimated for the Senate Democrats' infrastructure plan that it would raise $12 billion.[153]

20. CLOSE REAL ESTATE TAX LOOPHOLES

Real estate is perhaps the most favored industry in the tax code. Real estate investors can delay, minimize and altogether avoid taxes on their winning investments while mining their losses for big tax write-offs far more easily than other investors.

The TCJA left most of the industry's existing tax breaks in place; created exceptions for real estate in the few instances in which it otherwise closed business loopholes; and in some cases, created new benefits for the industry. Removing real estate's privileged tax status would level the business playing field while raising revenue that could—through infrastructure repair and other public investments—improve the business environment for everyone.

Unlike other business owners, real estate pros can get tax breaks investing other people's money, deduct interest other businesses can't, and have loans forgiven without incurring the tax consequences other businesses face. So powerful are real estate interests in Washington that even when the TCJA ended existing tax breaks for all other types of business, the loopholes were carefully held open for real estate. The TCJA even added new tax benefits for an industry already laden with them.

This report proposes closing three types of real estate tax loopholes: new ones created by the TCJA; special loopholes carved out for real estate in TCJA reforms that apply to all other businesses; and pre-existing loopholes that the TCJA left in place.

The first two categories—new TCJA real estate tax breaks and special exceptions for the industry from TCJA reforms—will cost $66.7 billion, according to an unpublished JCT analysis provided to the House Committee on Government Reform and Oversight.[154] Revenue raised from reform in those two areas would probably be less, as usual.

REPEAL REAL ESTATE TAX LOOPHOLES CREATED BY THE TCJA

A. End Special Qualifying Rules for Pass-Through Income Deduction and Application of Those Special Rules to REIT Dividends

Type of proposal: Repeal of TCJA provision
Proposed by or revenue estimated by: JCT for House Committee on Oversight and Government Reform Democratic Staff
Revenue lost by loophole: $28.9 Billion

SUMMARY: This reform would repeal special TCJA rules allowing real estate investors to benefit from the 20% pass-through business income deduction even though their businesses are the type meant to be excluded from the new tax break.

BACKGROUND: As discussed in Option 15, the TCJA created a new 20% deduction for the "qualified business income" of pass-through entities like sole proprietorships, partnerships and S corporations. Various provisions of the new pass-through tax rules are supposed to prevent certain types of businesses from sharing in the lower effective rates, including those that consist of a single person or small group. But surgically precise exemptions were written into the law that allow big real estate investors like President Trump, who otherwise wouldn't qualify, to enjoy all the benefits of the new lower rate.[155]

For example, to try to ensure that larger pass-through businesses receiving the lower pass-through rate actually employ workers, who are supposed to share in the benefits, the law ties eligibility for the deduction to the amount of W-2 wages the business pays. If the business doesn't pay enough in wages, it can't claim the full deduction.

But at the last minute in House-Senate negotiations over the final form of the law, a second qualifier for getting the full deduction was slipped into the measure. Certain pass-through businesses with sufficient "qualified business property"—depreciable assets that experts say is meant to mean commercial buildings—are also eligible. This add-on qualifier highly favors established real-estate investors like Trump.[156]

It also benefits investors in real estate investment trusts (REITs), which are mutual funds that invest in income-generating real estate such as apartment buildings and shopping malls.[157] No one would confuse a REIT for a small business, nor any of its passive investors for small business owners. Yet REIT investors are able to take the "small business" 20% income deduction.[158]

Extending the "qualified business income" tax break to direct investors in real estate like President Trump and to passive REIT investors will cost $28.9 billion, per the JCT.[159] Real estate investors should not enjoy special rules that allow them to benefit from the 20% pass-through business income deduction since they were supposed to be excluded as not fitting the profile of the "small business owner" the deduction was meant to serve.

END REAL ESTATE EXEMPTIONS FROM TCJA LOOPHOLE CLOSURES

A. Eliminate Like-Kind Exchanges for Real Estate

Type of proposal: Repeal of TCJA provision
Proposed by or revenue estimated by: JCT for House Committee on Oversight and Government Reform Democratic Staff
Revenue lost by loophole: $21.7 Billion

See Option 3.D. in "Reform the Taxation of Capital Gains" above for details.

B. End Unlimited Interest Deductions

Type of proposal: Repeal of TCJA provision
Proposed by or revenue estimated by: JCT for House Committee on Oversight and Government Reform Democratic Staff
Revenue raised: $16 Billion

The TCJA required almost all businesses to accept new limitations on their right to deduct interest payments on their loans.[160] But it made an exception for those with real estate investments. While the TCJA imposed a 30% limitation on interest deducted by large businesses, it gave real estate developers a special exemption that allows them to continue to deduct all their interest. This is a $16 billion windfall, according to the JCT.[161]

CLOSE PRE-TCJA REAL ESTATE TAX LOOPHOLES

The following are long-standing, egregious real estate tax loopholes that the TCJA failed to close or even curtail. There are no current estimates on the amount of revenue that would be raised by ending these special breaks.

A. Limit Depreciation Tax Breaks for Properties Gaining Value

Businesses can write off, or "depreciate," the cost of certain property over time, reflecting gradual wear and tear that reduces value. But unlike, say, trucks and machinery, real estate often gains value over the years. Yet real estate investors are still allowed to depreciate developed commercial properties that are actually rising in market price, reducing their taxes even as their wealth grows.[162]

The tax rules fail to fully recapture the depreciation of real estate that is then sold at a profit. The depreciation deductions are taken against regular income and therefore save real estate owners up to 37% of the amount deprecated. The depreciation is included as gains when the property is sold at a profit but taxed at a top rate of just 25%. This provides an unjustified subsidy through the tax code for successful real estate investors.[163]

B. End the Exemption from At-Risk Rule

Most taxpayers can only claim losses from businesses in which their own money is at risk. The "at-risk" rule prevents investing in a business with a loan secured only with the property used by the business (a mortgage), then deducting the loss if the business loses money.[164] But real estate

investors have a special exception, allowing them to reap tax-saving losses from properties they bought mostly with borrowed money—money they can avoid ever having to repay simply by walking away from the property. President Trump—who's called himself the "king of debt"—has almost certainly benefited from this loophole.[165] It's highly unlikely, for instance, that anywhere near the full $916 million loss Trump claimed on his 1995 tax return[166]—a loss that could have wiped out any tax liability for 18 years[167]—was his own money, as opposed to borrowed funds.

C. End the Exception to Passive Loss Rules

The big tax reform of 1986 prohibited investments intended to lose money in order to reduce taxable income.[168] Such "passive losses" could no longer be subtracted from "active" income generated by a trade or profession. In 1993, after heavy lobbying by the real estate industry—including a personal appeal by Donald Trump[169]—Congress allowed real estate investors to once again use passive rental losses to shrink active income and reduce their taxes.[170]

D. Prohibit Capital Loss Deductions Against Regular Income

Businesses can suffer two kinds of losses. An "operating loss" occurs when expenses exceed income—there's more cash going out than coming in. A "capital loss" comes from selling an asset for less than it cost. Generally, when figuring taxable income, capital losses can only be subtracted from capital gains, which are sales of assets above their original purchase price. But real estate investors can subtract capital losses from regular income, which is a better deal because regular income is taxed at higher rates than are capital gains.[171]

E. End Tax-Free Cancelled Debt

In most cases, cancelled debt is considered taxable income because the forgiven debtor has received an economic benefit.[172] Without this rule, it would be easy to avoid taxes by recharacterizing regular income as forgiven loans. But cancelled debt related to commercial real estate is an exception and need not be counted as income.[173] President Trump benefited from this exception when he borrowed billions of dollars in the 1980s, then convinced his lenders to forgive much of that debt when his businesses began to fail in the early 1990s.[174] And while real estate investors carry debt, they are able to deduct the interest payments, further reducing their taxable income.

For more information:

- ITEP: How True Tax Reform Would Eliminate Breaks for Real Estate Investors Like Donald Trump, Dec. 2017

CORPORATE TAXES

Corporations dominate our economic system and, to a disturbing degree, our political system as well. The revenue of just the 500 largest corporations, as compiled by Fortune magazine, represent two-thirds of our entire economy.[175] Not all corporations (or "C corporations," to use the IRS designation for business entities that pay federal income taxes distinct from their owners) are large. But they are undoubtedly well represented among companies with over 500 employees, and such large employers—while representing less than one-half of 1% of all businesses—employ over half of all American workers.[176] Their share of the nation's payroll is even larger, almost 60%.

Corporations' economic power has in recent decades been mirrored in their political influence.[177] And among top corporate goals is paying as little in taxes as possible. During the 2017 tax debate, 62%, or more than 7,000, of the 11,000 lobbyists in Washington were working on tax issues.[178] They were overwhelmingly employed by businesses and business groups. That investment has paid off: even before the TCJA, the share of federal revenue from corporate taxes had fallen from almost a third in the middle of the last century to around 10% in recent years.[179] Post-TCJA, that share is expected to fall to just 7% this year.[180]

Annual corporate filings with the Securities and Exchange Commission show the extraordinary benefits to corporations: last year 60 of America's largest companies paid no federal income taxes, according to ITEP.[181] Combined they had $79 billion in U.S. pretax income but got tax *rebates* totaling $4.3 billion. These companies would have paid $16.4 billion in taxes, if the new low 21% corporate tax rate hadn't been undercut by corporate tax loopholes that went untouched under the TCJA, and in some cases were expanded. Some of the worst offenders:

21. RAISE THE CORPORATE INCOME TAX RATE

Type of proposal: Partial or full repeal of TCJA provision
Proposed by or revenue estimated by: CBO; JCT for Senate Democrats' infrastructure plan (25% rate); President Obama (28% rate)
Revenue raised: $96 Billion to $1.3 Trillion

SUMMARY: This reform would partially or completely repeal the TCJA's 40% reduction in the corporate income tax rate, which was lowered from 35% to 21%. The rate should be raised so corporations pay their fair share.

BACKGROUND: The biggest winner by far from the TCJA was Corporate America. Even though the share of federal revenue from corporate taxes had sunk to near record lows in 2017,[182] while corporate profits[183] and stock prices[184] hovered near record highs, corporations were handed a 40% reduction in the corporate income tax rate, which was cut from 35% to 21%.[185]

As a result, corporate income tax revenue fell by 31%—from $297 billion to $205 billion, or over $90 billion—in the fiscal year that ended September 2018.[186] That drop in corporate tax receipts was responsible for four-fifths of the $113 billion increase in the federal deficit in fiscal year 2018.

The TCJA is in effect a $1 trillion giveaway to corporate America, rather than an effort to lower rates and broaden the tax base so that federal revenues would remain roughly the same (as was the goal in the last overhaul of the tax code, in 1986[187]). The new law was predicated on false claims that American corporations were not competitive with foreign corporations in countries with lower tax rates and that our companies needed lower tax rates to become more profitable so that they could boost investments and create jobs.

There is little evidence of a boost in investment from the Trump tax cuts.[188] Instead, corporations have gone on a stock-buyback spending spree: as of late March 2019, over $1 trillion in corporate share repurchases have been announced since passage of the TCJA.[189]

Buybacks mostly enrich the already wealthy, including CEOs, because rich people own most corporate stock: the wealthiest 10% of American households own 85% of all shares, the top 1% own 40%.[190] About one-half of households own no stock, not even indirectly through mutual funds or retirement funds.[191]

Paying a tax rate much higher than 21% would not be a hardship for U.S. corporations. They enjoyed record profits in 2017, when the statutory corporate tax rate was 35%.[192] The current U.S. tax rate is below the median average among the world's three dozen biggest economies.[193]
In any case, corporations getting rich off U.S. workers, consumers and public investments in the economy must pay their fair share. The CBO estimated in 2018 that each percentage point increase in the corporate tax rate would raise $96 billion over 10 years.[194] So, if the corporate tax rate were to return to 35% from the current 21%, those 14 extra percentage points would raise about $1.3 trillion to invest in infrastructure, education, healthcare and many other pressing public needs. The JCT estimated that the TCJA's reduction in the corporate tax rate from 35% to 21% lost $1.35 trillion.[195]

Senate Democrats proposed partially funding their $1 trillion infrastructure plan in 2018 by raising the corporate tax rate from 21% to 25%, which the JCT said would raise $359 billion.[196]

In 2016, President Obama outlined a framework for business tax reform that would have set the corporate rate at 28%, down from 35%.[197] Obama's plan would have raised revenue from a transition tax on foreign profits and was intended to be at least revenue-neutral over the long run, offsetting the reduction in the corporate rate with measures to broaden the tax base and close loopholes. Raising the corporate tax rate from the current 21% to 28% would raise about $675 billion.

22. IMPOSE A 7% SURTAX ON REPORTED CORPORATE PROFITS THAT EXCEED $100 MILLION

Type of proposal: New revenue source
Proposed by or revenue estimated by: Sen. Elizabeth Warren
Revenue raised: $1.05 Trillion

SUMMARY: This reform would ensure all big profitable corporations pay federal corporate income taxes, as opposed to now when many corporations are able to exploit loopholes in the corporate tax code to minimize or even entirely eliminate their federal tax bill.

BACKGROUND: Corporate profits reported to Wall Street in hopes of pleasing investors differ from those reported to the IRS for the purpose of calculating taxes.[198] Corporations have an obvious incentive to make the former high and the latter low. The effect is that big companies boasting billions of dollars in profits on their financial statements can wind up owing little or nothing on their tax returns.

The ability of profitable corporations to dodge taxes was made worse by the TCJA, which among other changes favorable to corporate tax avoidance eliminated the corporate Alternative Minimum Tax. Last year—the first entirely under TCJA rules—over 10% of the Fortune 500, or 60 of the nation's biggest companies, paid zero federal income taxes or even got rebates, according to ITEP.[199] Among the negative-tax behemoths were Amazon (reported profits of $11 billion, tax rebate of $129 million); Eli Lilly (profit: $598 million, rebate: $54 million); General Motors (profit: $4.3 billion, rebate: $104 million); IBM (profit: $500 million, rebate: $342 million); and Netflix (profit: $856 million, rebate: $22 million).

Special breaks in the tax code that allow corporations earning hundreds of millions or even billions of dollars to owe less than nothing in federal taxes include accelerated depreciation (see Option 24) and the stock options loophole (see Option 30). The cost of stock options is a prime example of corporations dodging taxes by reporting different numbers to Wall Street than to the IRS.[200]

Sen. Elizabeth Warren has proposed a solution. Her "Real Corporate Profits Tax" would assess a 7% surtax on corporate profits reported to investors in excess of $100 million.[201] The surtax would be in addition to any tax owed under the current system and would apply equally to domestic and foreign profits (offshore earnings are effectively taxed at half the domestic rate under current rules; see Option 23). This would mean the top income tax rate on domestic profits in excess of $100 million would be 28% and that on foreign profits about 19%. Major U.S. corporations not paying any taxes now due to loopholes would pay at least 7%.

It's estimated that 1,200 public corporations would be liable for the surtax, from which it would raise over $1 trillion.[202] An unknown number of privately-held corporations would also be subject to the tax, which would increase the revenue raised.

23. REMOVE TAX INCENTIVES PROMOTING CORPORATE OUTSOURCING AND PROFIT SHIFTING

Type of proposal: Repeal TCJA provision, reform pre-TCJA provision
Proposed by or revenue estimated by: Rep. Lloyd Doggett (H.R. 1711, 2019) & Sen. Sheldon Whitehouse (S. 780, 2019); Sen. Amy Klobuchar (S. 3674, 2018); Rep. Peter DeFazio (H.R. 6015, 2018)
Revenue raised: No estimates available but it is believed to be substantial (hundreds of billions of dollars)

SUMMARY: These bills would fix tax provisions that permit and even encourage American corporations to outsource jobs and shift profits offshore. Among their reforms: revoking the half-off discount multinational corporations now get on their offshore profits; ending a perverse incentive that encourages American firms to outsource more production and jobs; preventing companies from

exploiting U.S. credits for foreign taxes paid; and refusing to recognize U.S. companies as foreign just because they adopt an offshore mailing address.

BACKGROUND: By taxing foreign profits at about half the 21% domestic rate, the Trump-GOP tax law creates new incentives for American corporations to shift profits offshore and outsource production and jobs.[203] Corporations shift about $300 billion in taxable income out of the U.S. each year, according to CBO. The TCJA will only reduce that profit-shifting by $65 billion.[204] In other words, roughly 80% of profit shifting will continue.

The TCJA also failed to fix any of the existing provisions of the tax code that make it easy for U.S. firms to dodge taxes by claiming an overseas address through a so-called inversion.

Rep. Lloyd Doggett and Sen. Sheldon Whitehouse have introduced the "No Tax Breaks for Outsourcing Act" to address these threats to American jobs and federal revenue.[205]

First, it would end the preferential tax treatment of foreign income—in effect a penalty on smaller and purely domestic firms—by taxing all corporate income from whatever source at the same 21% rate.

It would also end the U.S.-tax-free status of certain offshore profits. The new law allows companies to exempt from U.S. taxation a 10% return made on foreign tangible assets, such as factories. This provides a perverse incentive for U.S. firms to outsource production because the more productive capacity they have offshore, the higher the dollar amount of foreign profits that is shielded by the 10% exemption, lowering the amount of foreign profits subject to U.S. tax.[206]

Turning to the pre-existing loopholes that the TCJA failed to address, the Doggett and Whitehouse bills would end the charade of American corporations dodging U.S. taxes by pretending to become foreign firms. It would institute the sensible rule that if a large company is primarily U.S.-owned and managed here, it is an American firm subject to the same tax laws as any other domestic firm, regardless of the address on the company's letterhead.

The bill would also specifically refuse to recognize a particularly absurd form of corporate national-identity switching. That is the "inversion": a merger between a larger U.S. company and a smaller foreign one in which the smaller foreign firm is the purported surviving company, even though the American shareholders own most of the new firm. Even in cases where Americans are not the majority shareholders of the new company, but the new company is run from here, the bill would continue to treat it as an American company for tax purposes.

Corporations can deduct interest payments from their income before figuring their tax, lowering their net income and thus their tax bill. Multinational firms can exploit this rule by paying excessive interest to their overseas subsidiaries, a form of self-dealing known as "earnings stripping." The Doggett and Whitehouse bills would require that interest payments made to an offshore subsidiary correspond to the real business activity of that subsidiary—tax-haven branches could no longer simply act as tax-dodging "sponges" soaking up U.S. profits of their parent companies.

While domestic oil and gas production are subsidized through the tax code, foreign extraction gets even bigger breaks. The bill would end the extra special tax treatment of Big Oil overseas.

Another key element of progressive offshore tax reform is to apply the lower corporate tax rate on offshore profits on a per-country basis, as proposed by Senator Amy Klobuchar (D-MN) as part of the "Removing Incentives for Outsourcing Act"[207] and in the House by Representative Peter DeFazio as part of the "Per-Country Minimum Act."[208] These measures would prohibit companies from using excess foreign tax credits from higher tax countries to offset earnings shifted to low- or zero-tax jurisdictions, as well as eliminating the 10% exclusion of foreign income from U.S. taxes described above.

The pooling of foreign tax credits on a worldwide basis, as corporations are currently allowed to do, creates an incentive to invest in high-tax foreign countries in order to generate additional foreign tax credits to reduce taxes owed on profits assigned to offshore tax havens that impose little or no tax. But whether corporations are chasing lower or higher foreign taxes, the result is the same: less investment in America. Applying the corporate tax rate on a per-country basis would remove that outsourcing incentive and ensure that companies pay the full domestic rate on any earnings they ascribe to tax havens.

No official estimate has yet been made of the revenue raised by this collection of reforms, but experts consulted by the authors have indicated it would be hundreds of billions of dollars. University of Pennsylvania professor Natasha Sarin and Harvard professor Lawrence Summers have estimated that the per-country reporting reform alone would raise almost $170 billion.[209]

For more information:

- Kimberly A. Clausing, Reed College: Profit Shifting Before and After the Tax Cuts and Jobs Act, Nov. 21, 2018
- New York Times: The Global Con Hidden in Trump's Tax Reform Law, Revealed, Feb. 6, 2019
- Tax Policy Center: How Does the Current System of International Taxation Work?, Mar. 25, 2019

24. REFORM EXPENSING AND DEPRECIATION DEDUCTIONS

Type of proposal: Repeal of TCJA provision, reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO, JCT
Revenue lost by loophole: $293 Billion

SUMMARY: This reform would end the ability of businesses to gain tax benefits by writing off the cost of their capital investments faster than those investment assets actually wear out. This artificially accelerated expense allows companies to reduce their reported income in the immediate years after making an investment, cutting their taxes significantly. Corporations and other businesses should instead be required to deduct the diminished value of their investments only to the extent and at the speed they actually lose value.

BACKGROUND: One of the most expensive and complex business tax breaks is "accelerated depreciation," which allows corporations to write off the cost of their capital investments more quickly than those investment assets actually wear out.

Businesses are generally allowed to deduct the expenses needed to generate their revenue when figuring profits and taxes. Valuing expenses is relatively simple when the cost incurred—whether for rent, office supplies or employees' wages—is for an item whose value is used up immediately or nearly so. It becomes more complicated when the cost is for an item—such as a truck, computer or piece of manufacturing equipment—that retains some of its value over a longer period of time. In that case, the business's money hasn't so much been spent as transformed into a different kind of asset, one that helps generate revenue over time even as it declines in value.

For example, if a business spends $10,000 on a machine, the company's worth remains constant because it has simply exchanged $10,000 in cash for equipment valued at the same amount. The machine only reduces the net worth of the company to the extent that it loses value over time.

The tax code deviates significantly from the ideal form of "economic depreciation," in which depreciation deductions are allowed only to the extent of the asset's actual loss in value each year. At least for the next several years, the TCJA allows "full expensing" of many investments, which means companies can immediately write off their full cost in the year the purchase is made.[210]

In the example above, the business would subtract the full $10,000 from its income in the year the machine was purchased, rather than over time as the machine's value declines. Though a total of $10,000 would eventually be deducted from income either way, taking the full expense up front is better for the company because it gives the firm quicker access to its tax savings. But it's an unfair distortion of economic realities that costs everyone else through an accelerated loss of public revenue.

Even before the TCJA introduced full expensing, the tax code was already overcompensating business owners for the wear and tear on their capital investments, through the Modified Accelerated Cost Recovery System (MACRS).[211] While MACRS doesn't allow owners to deduct the full cost of an investment in the year of purchase, it does let them devalue their investments faster than those assets actually wear out.

The simplest reform proposal discussed in recent years would be to move the code away from MACRS to what's known as the Alternative Depreciation System (ADS), which more closely approximates actual economic depreciation.[212]

A bigger reform was proposed in 2013 by the then-chairman of the Senate Finance Committee, Max Baucus. It would have created a "cost recovery" system by grouping business property into four categories, or "pools," sorted by expected useful lifespans as determined by outside experts.[213] Depreciation would no longer be applied to individual items but to the pools collectively. Other changes included extending the depreciation period for real estate, and repealing "bonus" depreciation, which allows 50 percent to be expensed immediately with the remainder depreciated over time.[214]

Professor Lily Batchelder, formerly tax counsel both for President Obama and the Senate Finance Committee under Baucus, estimated in 2017 that a system like Baucus's could raise about $990 billion based on pre-TCJA corporate tax law.[215] Because the TCJA has since lowered corporate tax rates and made other changes, and projections of economic growth have likely changed from when initial estimates were made, the revenue from Baucus's proposal—and of the other ones below—would be different now.

The first and most important step to curb depreciation abuse would be to immediately repeal the TCJA's full expensing provisions. JCT estimates full expensing combined with the accelerated depreciation allowed by MACRS will cost $266 billion over the five years 2017-21.[216] Under current law, full expensing is supposed to phase out starting in 2023, but some in Congress are trying to make it a permanent tax break. ATF estimates the 10-year cost of this tax break at about $293 billion. This is based on the JCT's estimate of the cost of this tax break between 2018 and 2022 ($119 billion),[217] and CBO's estimate that making full expensing permanent would cost $174 billion between 2023 and 2029.[218]

For more information:
- ITEP: The Failure of Expensing and Other Depreciation Tax Breaks, Nov. 19, 2018
- Lily Batchelder: Accounting for Behavioral Considerations in Business Tax Reform: The Case of Expensing, Feb. 5, 2017

25. REFORM HOW BUSINESSES ACCOUNT FOR ADVERTISING EXPENSES

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO
Revenue raised: $63 Billion to $132 Billion

SUMMARY: This reform would require businesses to write off half their advertising expenses over time, rather than deduct them all in the year incurred, to better reflect the lasting value of brand building.

BACKGROUND: Just as businesses have traditionally been required to slowly deduct (depreciate) the cost of durable tangible items like buildings and equipment, they've also had to deduct over time (amortize) the cost of durable intangible assets, such as patents and trademarks. Advertising has not been considered an expense that results in a durable intangible asset and therefore all advertising expenses have been deductible in the year incurred.

While some advertising has only short-term goals—such as promoting a sale—another important purpose of advertising is long-term: to build brand awareness and goodwill. Therefore, a portion of advertising expenses should be amortized instead of written off immediately to reflect that long-lasting value.

This reform would require businesses to amortize half their advertising costs, and the longer the amortization period the more revenue raised. A 2018 CBO estimate found that a five-year amortization period would raise $62.5 billion and a 10-year period would raise $132.4 billion.[219]

26. FURTHER LIMIT DEDUCTIBILITY OF INTEREST ON BUSINESS DEBT

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: None known
Revenue raised: Not available

SUMMARY: This reform would more fully limit the deductibility of business interest. While the TCJA imposed some limits, more fully limiting the deductibility of business debt would increase corporations' financial stability, discourage the use of tax shelters, and better level the playing field between big and small firms.

BACKGROUND: Corporations raise money through debt or equity. Debt—in the form of loans from banks or bonds sold to the public—receives more favorable tax treatment than equity, which is the selling of shares in the company through the issuance of stock. Debt is favored because the interest paid on it is generally tax deductible, while dividends paid on corporate stock are not.

That disparity creates a strong incentive for businesses to take on debt, sometimes beyond healthy levels. Too much debt makes corporations more financially vulnerable during economic crises, accelerating downturns and creating costs for society like business failures and higher unemployment.

The TCJA introduced new limitations on interest deductibility for large businesses. Beginning in 2018, these big firms have only been allowed to deduct interest up to 30% of their "adjusted taxable income."[220] This limitation will get somewhat tighter in 2021.

Despite these new limits, the tax code still favors corporate debt financing. And the deductibility of interest combined with other new tax breaks in the TCJA creates a tax sheltering opportunity for companies because they can now deduct both the cost of buying a new asset (see Option 24) and the interest paid to finance the purchase.

In sum, even with the partial restriction on the deductibility of business interest enacted in the TCJA, debt financing is still favored over equity financing. Congress should consider further limiting the deductibility of interest.
For more information:

- New York Bar Association: "Report on Section 163(J)," Mar. 28, 2018

27. END MANIPULATION OF INVENTORY ACCOUNTING: LIFO & LCM

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO
Revenue raised: $58 Billion

SUMMARY: This reform would prevent corporations from avoiding taxes by manipulating their inventory accounting through such methods as "last in, first out" (LIFO) and "lower of cost or market" (LCM).

BACKGROUND: The LIFO accounting method allows companies to defer taxes by overstating the costs of their inventory. Under LIFO, companies assume they're selling the most recently made or acquired inventory, which typically costs more than older inventory. This artificially increases the cost of goods sold, lowering taxable income and thus taxes.

Tax experts have called LIFO "a massive tax holiday for a select group of taxpayers" inconsistent with basic income tax principles, that also creates inefficiencies by distorting companies' decisions about how much inventory to hold.[221] The Treasury Department has warned that maintaining LIFO in the U.S. impedes efforts to synchronize accounting standards worldwide: "International Financial Reporting Standards do not permit the use of the LIFO method, [so the] adoption [of those standards] by the [U.S.] Securities and Exchange Commission would cause violations of the current LIFO book/tax conformity requirement. Repealing LIFO would remove this possible impediment to the implementation of these standards in the United States."[222]

Other inventory accounting concepts—the "lower of cost or market" (LCM) and subnormal goods methods—allow businesses to write-down the value of inventory if its market value declines, creating artificial losses that lower their taxes. But they are not required to recognize income when the value increases, an accounting adjustment that would increase their taxes. As the Treasury Department has explained, these methods are "essentially a one-way mark-to-market regime that understates taxable income."[223]

CBO estimated in 2018 that prohibiting this kind of inventory-accounting manipulation would raise $58 billion.[224] President Obama made the same proposals in 2016, which the Treasury estimated then (under the previous tax system) would raise a total of $88 billion ($81 billion from LIFO reform and $7 billion from reforming LCM).[225] Accounting for the 40% lower corporate tax rate now, the total figure would be about $53 billion.

28. REPEAL TAX BREAKS FOR FOSSIL FUELS

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO; JCT; Treasury Department
Revenue raised: About $10 Billion

SUMMARY: This reform would close multiple tax loopholes that increase the profitability of the fossil fuel industry even as it contributes to the climate change endangering our planet.

BACKGROUND: The TCJA gave oil and gas companies large windfall tax cuts[226] while at the same time opening the pristine Arctic National Wildlife Refuge to oil drilling.[227] The law also preserves numerous existing tax breaks for the fossil fuel industry (including coal companies), thereby continuing to subsidize the carbon pollution that threatens the Earth. These special tax breaks are described below.

- **Percentage depletion for oil, gas, and other fuels.** In general, companies claim deductions based on their actual costs. But for nearly a century, oil companies have been allowed to use a

special and more favorable method for calculating depletion deductions, known as "percentage depletion." Revenue raised from repeal: $6.1 Billion [CBO, 2018][228]

- **Expensing of exploration and development costs, fuels.** The tax code allows companies to claim immediate deductions for the costs of exploring and developing oil and gas wells, coal mines, and other natural fuel deposits. Without this special rule, those costs would have to be capitalized, with the deduction spread out over the useful life of the asset.[229] Revenue raised from repeal: $2.3 Billion [CBO, 2018][230]

- **Corporate tax exemption for fossil fuel publicly traded partnerships.** In general, publicly traded companies are required to pay corporate income tax. But certain publicly traded partnerships—including oil and gas producers and owners of pipelines—enjoy a special exemption that allows them to avoid corporate tax. Moreover, the owners of these entities received a new tax break in the TCJA, since they are eligible for the new 20% pass-through income deduction. Revenue raised from repeal: $802 Million [JCT, 2016],[231] $1.4 Billion [Treasury Department, 2016][232]

The tax code also contains various other fossil fuel tax breaks that are smaller in nature or for which a recent revenue estimate is not available. These include: the enhanced oil recovery (EOR) credit; the credit for oil and gas produced from marginal wells; expensing of intangible drilling costs; the deduction for tertiary injectants; the two-year amortization period for geological and geophysical expenditures; the capital gains treatment of royalties on coal; and the exception to the passive-loss limitations for working interests in oil and natural gas properties.

29. FULLY CLOSE BONUS-PAY LOOPHOLE NOT COMPLETELY CLOSED BY TCJA

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: JCT and ATF calculation; Sens. Richard Blumenthal and Jack Reed (S. 82, 2017) and Rep. Lloyd Doggett (H.R. 399, 2017)
Revenue raised: $20 Billion (rough estimate)

SUMMARY: This reform would completely close the loophole—partially reformed by the TCJA—whereby taxpayers subsidize the pay of high-paid executives.

BACKGROUND: In 1993, Congress amended the tax code to prevent corporations from deducting the amounts that they pay top executives in excess of $1 million per executive—unless the compensation was in the form of stock options and other "performance" pay.[233] This loophole encouraged corporate boards to hand out massive bonuses that dramatically widened the pay gaps between corporate executives and rank-and-file workers.

The TCJA closed this "performance" pay loophole, but only for compensation going to the CEO, CFO, and the three other highest-paid employees. The JCT said $9.2 billion will be raised by the loophole's partial closure.[234]

However, pay above $1 million going to other highly-paid employees, such as traders at large Wall Street firms, remains fully deductible. Extending the $1 million deductibility cap to all forms of compensation for all employees might generate about $20 billion over 10 years. This is based on JCT's original $50 billion revenue estimate,[235] discounted to $30 billion because of the 40% corporate tax cut, and subtracting the $9.2 billion already being raised by the TCJA's partial reform.

For more information:

- Institute for Policy Studies: Report: U.S. Taxpayers Subsidized $725 Million In Wall Street CEO Bonuses In The Last Four Years, Sept. 29, 2016

30. CLOSE STOCK OPTIONS LOOPHOLE

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: JCT for former Senator Carl Levin (D-MI)
Revenue raised: $25 Billion

SUMMARY: This reform would close a loophole that lets corporations lower their taxes by claiming higher costs for paying executives through stock options than they report to investors. Corporations report a lower cost from the same transactions to Wall Street investors to make their profits look better.

BACKGROUND: Most large corporations give their executives (and sometimes other employees) options to buy the company's stock at a favorable price in the future. When employees exercise these options, corporations can take a tax deduction for the difference between what the employees pay for the stock and what it's worth (employees report this difference as taxable wages).[236]

Corporations always want to report the highest possible profits to Wall Street, to attract investors, and the lowest possible profits to the IRS, to minimize taxes. Before 2006, companies didn't have to reduce the profits they reported to their shareholders—what's known as "book" income—even as they deducted the "cost" of exercised stock options on their tax returns, reducing their "tax" income and therefore their tax bill.[237]

Rules put in place in 2006 require companies to lower their "book" profits to take account of options. But the book write-offs are usually much less than what the companies take as tax deductions. This is because the oddly-designed rules require the value of the stock options for book purposes to be calculated—or guessed at—when the options are issued. The tax deductions, on the other hand, reflect the actual value when the options are exercised. Because companies typically low-ball the estimated values, they usually end up with much bigger tax write-offs than the amounts they deduct as a "cost" in computing the profits they report to shareholders.
It was recently revealed that Amazon—the dominant online retailer run by the world's richest person—paid zero federal income taxes for the second year in a row, despite a total of nearly $17 billion in profits over those two years.[238] A big contributor to that massive tax dodge was the use of the stock options loophole.[239]

The best fix is to prohibit companies from writing off stock options at a higher cost on their taxes than the expense shown in the financial statements they share with investors. The JCT estimated in 2012 that this reform, along with other options-related reforms, would raise $25 billion.[240] But tax avoidance using the stock option loophole has grown substantially since then, with the top 25 companies receiving a tax break of over $64.6 billion between 2011-2016.[241] Reform now would probably raise more revenue than was estimated in 2012.

For more information:

- Citizens for Tax Justice: New Report Finds 315 Fortune 500 Companies Used "Stock Option Loophole" to Collectively Avoid $64.5 Billion in State and Federal Taxes, June 9, 2016

31. PLACE A FEE ON LIABILITIES OF LARGE FINANCIAL INSTITUTIONS

Type of proposal: New revenue source
Proposed by or revenue estimated by: CBO; President Obama
Revenue raised: $103 Billion

SUMMARY: This reform would require big banks with at least $50 billion in assets to pay a fee to discourage, and cover the consequences of, risky borrowing, in order to avoid taxpayer bailouts such as occurred during the financial crisis.

BACKGROUND: Before the financial crisis, the largest Wall Street banks borrowed excessively. When these and other "too big to fail" financial institutions could not repay their debts, the financial system collapsed, causing enormous economic damage and leaving taxpayers on the hook for huge bailouts.[242]

A small tax of 0.15% on the largest banks' uninsured liabilities—riskier than customer deposits, which are insured by the FDIC—would raise revenue needed to respond to future financial crises caused by excessive bank debt. Such a fee would raise $103 billion if applied to banks with assets of at least $50 billion, per a 2018 CBO estimate.[243]

It would also encourage banks to fund more of their liabilities through equity investment, discouraging future bailouts.

In 2016, President Obama proposed a financial fee on the same-sized institutions but at a lower rate: 0.07%. The Treasury estimated at the time Obama's fee would raise $111 billion.[244]

It should be stressed that a financial fee would be a complement to, not a substitute for, a financial transactions tax (Option 32). The FTT is focused on curbing speculation and covers a much wider range of financial activity and institutions, including hedge funds that would not be subject to the bank fee.

OTHER REVENUE SOURCES

32. CREATE A FINANCIAL TRANSACTIONS TAX

Type of proposal: New revenue source
Proposed by or revenue estimated by: CBO; Sen. Brian Schatz (S. 647, in 2019); Rep. Peter DeFazio (H.R. 1516, in 2019); Tax Policy Center analysis of Sen. Bernie Sanders (S. 805, in 2017)
Revenue raised: $777 Billion

SUMMARY: This reform would apply a tiny sales tax on Wall Street trades, which would raise substantial revenue, curb financial-market volatility and address rising economic inequality.

BACKGROUND: Just like consumers pay sales taxes on everything from cat food to cars, Wall Street investors should pay a transaction tax on every trade. A tax of just a small fraction of a percent would tend to slow the dangerous, high-frequency trading of stock market professionals, have virtually no impact on small investors, and raise a lot of revenue.

The cost of such taxes would fall overwhelmingly on Wall Street firms and high-frequency traders who use computer-generated algorithms to flip stocks and derivatives every few minutes, or even milliseconds, rather than making long-term, sustainable investments. The impact on retirement savings would be negligible.[245] In fact, an FTT could benefit retirees and middle-class investors by reducing fees associated with high portfolio turnover rates.[246]

An FTT could also boost market stability by reducing the high frequency trading that currently makes up 50%-60% of trading volume.[247] Proponents of such trading claim it makes markets more "liquid" and therefore more stable and efficient. But that claim seems belied during market panics. A particularly short, sharp market dive in 2010—the so-called "Flash Crash"[248]—caused widespread critical reappraisal of the impact of high-frequency trading. The chief economist at the government's commodities trading regulator at that time later determined that high-speed trading harms traditional investors and that any added liquidity vanishes during a market crisis, just when it is needed most.[249]

Academics such as leading economist Joseph Stiglitz[250] and financial industry professionals[251] similarly support an FTT for the market-calming effect it would achieve by curbing fast trading, which during a crash can stop just as quickly. As former JPMorgan Managing Director John Fullerton once put it, trading volume plummets "in times of crisis as speculators turn their algorithms off and pull their (faux) liquidity out of the market… This can trigger a cascading effect as real money investors pull back in self-defense and at times flee in panic."[252]

CBO estimated in 2018 that a tiny tax of 0.1% (10 cents on every $100) on each trade of stocks, bonds, and derivatives would generate $777 billion.[253] Companion bills introduced in March 2019 by Sen. Brian Schatz and Rep. Peter DeFazio (S. 647 and H.R. 1516) are based on this rate for all financial instruments. The Tax Policy Center estimated in 2016 that Sen. Sanders' plan would raise $592 billion over 11 years; it would tax stock trades at 0.5%, bond trades at 0.1% and derivative trades at 0.005%.[254]

For more information:

- Center for Economic and Policy Research, Reining in Wall Street to Benefit All Americans: The Case for a Financial Transaction Tax, July 2016.
- Economic Policy Institute, A financial transaction tax would help ensure Wall Street works for Main Street, July 28, 2016.
- Tax Policy Center, Financial Transaction Taxes In Theory and Practice, July 2015.

33. ASSESS A CARBON TAX TO ADDRESS CLIMATE CHANGE

Type of proposal: New revenue source
Proposed by or revenue estimated by: CBO; Treasury Department; Congressional Progressive Caucus
Revenue raised: $1.1 Trillion to $2.2 Trillion (gross amount before any energy-cost rebates)

SUMMARY: This reform would tax climate-changing carbon emissions to discourage them and raise revenue needed to address their catastrophic effects on the planet.

BACKGROUND: Climate change caused by man-made carbon emissions may have catastrophic effects on the planet, impacting low-income communities earliest and hardest. A carbon (CO_2) tax would discourage greenhouse gas emissions while raising revenue that could be used to address climate-change challenges, such as through investments in renewable energy and increased energy efficiency. How much is raised depends on the tax rate, and on whether some portion (or all) of the revenue is refunded to low-income families who can least afford higher energy prices.

The Treasury estimated in 2017 that $2.2 trillion could be raised from a steadily increasing tax starting at $49 per metric ton of CO_2 and reaching $70 per ton after 10 years.[255] The CBO estimated in 2018 that a fixed tax of $25 per ton would raise $1.1 trillion.[256]

Whatever the gross revenue amount, it could be reduced or completely eliminated by rebates given to low-income households to compensate for higher energy costs.

For instance, the Congressional Progressive Caucus has estimated that a net $762 billion could be raised by an initial $25 per ton charge that increased by 5.6% a year—coupled with a rebate to lower income households of 25% of the revenue raised.[257]

In 2016, the Center for American Progress proposed a revenue-neutral carbon tax.[258] It was to begin in 2020 at $30 per ton, then rise over the next decade till it reached in 2030 the estimated "social cost of carbon" (SCC) of $50, thereafter rising with the increase in the SCC.

Estimating the tax would raise $200 billion per year over 20 years, CAP recommended all that revenue be returned to lower-income families to make up for higher energy costs. Households making less than $25,000 would receive direct rebates, those earning between $25,000 and $100,000 would receive a combination of rebates and tax cuts on labor income, and those making between $100,000 and $150,000 would get only tax cuts on labor income.

34. RAISE THE MOTOR FUELS TAX

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO
Revenue raised: $515 Billion

SUMMARY: This reform would raise the motor fuel taxes by 35 cents to pay for desperately needed highway, bridge and mass transit improvements.

BACKGROUND: Conditions on America's roadways merit a nearly failing grade of "D," according to the nation's civil engineers.[259] Hundreds of billions of dollars in productive time is wasted sitting in traffic jams while fatalities from accidents have risen in recent years as U.S. roads and highways continue to deteriorate.

Repairs and improvements to highways and mass transit are funded through a tax on motor fuels, currently 18.4 cents on gasoline and 24.4 cents on diesel fuel.[260] These excise taxes ask those who drive the most to pay the most to maintain our road system, as well as provide an alternative to it. The motor fuels tax was last raised in 1993, over 25 years ago.[261]

The CBO estimated in 2018 that $515 billion could be raised by increasing each tax by 35 cents—to a total of 53.4 cents and 59.4 cents, respectively—and indexing them to inflation each year thereafter.[262]

35. STANDARDIZE AND RAISE ALCOHOL TAXES

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO
Revenue raised: $83 Billion

SUMMARY: This reform would raise alcohol taxes and standardize rates, which are currently applied unevenly to different types of beverages. Such a tax increase would discourage alcohol abuse, force heavier drinkers to pay more of the societal cost of excess consumption and raise significant revenue.

BACKGROUND: Alcohol abuse places heavy costs on society: higher healthcare spending, reduced productivity, increased accidents, more domestic violence and other crime. Alcohol taxes, by increasing the price of consumption, tend to lower use. This is especially true among young people, who are responsible for a disproportionate number of alcohol-related accidents and whose early choices establish life-long drinking habits.

Currently, beer, wine and liquor are taxed under different systems and rates. Basing the taxing system on a uniform measure of alcohol content would be simpler and fairer. CBO estimated in 2018 that $83 billion could be raised by taxing all alcohol beverages at $16 per proof gallon, with the tax indexed to inflation.[263]

36. RAISE TOBACCO TAXES

Type of proposal: Reform of pre-TCJA provision
Proposed by or revenue estimated by: CBO
Revenue raised & outlays reduced on healthcare: $42 Billion
SUMMARY: This reform would raise tobacco taxes in order to discourage smoking and raise revenue needed to address the health and other societal impacts of smoking.

BACKGROUND: Tobacco use is the leading cause of preventable death in the United States.[264] Cigarette smoking causes about 20% of all U.S. deaths—about half a million—each year. Smoking is estimated to cost our economy $300 billion a year due to increased health care costs and lost productivity from illness and premature death.[265]

Making smoking more expensive by raising taxes will lower demand for the product, especially among young people, while raising revenue to help cover the societal costs of tobacco use.

CBO estimated in 2018 that revenues would increase by $42 billion (includes $1 billion in reduced health costs) if the federal tax on all tobacco products was raised by 50% (for cigarettes, that would be 50 cents more a pack), and separate taxes on pipe tobacco and cigars were hiked as well.[266] That figure includes the savings from decreased healthcare and other tobacco-related costs.

37. INCREASE IRS ENFORCEMENT FUNDING

Type of proposal: New revenue source
Proposed by or revenue estimated by: CBO
Revenue raised: $35 Billion

SUMMARY: This reform would boost IRS funding by $20 billion, particularly to employ more enforcement agents, more than paying for itself through increased tax collections.

BACKGROUND: IRS funding has been cut deeply over the past decade, costing the federal government tax revenue and undermining the integrity of the tax code. In 2019, the agency's budget of $11.3 billion[267] is $3 billion below its 2010 level, after accounting for inflation.[268] The IRS enforcement budget has been particularly hard hit: the agency has lost 14,000 enforcement employees—more than one quarter of its enforcement staff—since 2010.[269]

The IRS currently has only 9,510 auditors; ProPublica reported that "[t]he last time the IRS had fewer than 10,000 revenue agents was 1953, when the economy was a seventh of its current size."[270] Consequently, audit rates have been on the decline since 2010, and the rates have decreased the most for corporations and high-earners.[271]

Allocating additional funds to enforcement initiatives would more than pay for itself through higher revenue collections. CBO estimated in 2018 that the IRS could generate a net gain of $35 billion by spending $20 billion more on enforcement over ten years, yielding $55 billion in greater revenue.[272] The estimate doesn't include the deterrence value of increased enforcement, which would increase revenues even more.[273]

For more information:

- Center on Budget and Policy Priorities: [New Congress Must Fund IRS, Refocus Its Enforcement Priorities], Dec. 20, 2018

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