FOUR REQUIREMENTS FOR TAX REFORM IN BUDGET RECONCILIATION

President Biden and Democrats in Congress are crafting a $3.5 trillion budget reconciliation bill that would greatly expand and improve public services for America’s working families, funded by fairer taxes on the wealthy and corporations. Polling shows that the public strongly supports this agenda—see here and here and here. However, some moderate Democrats are reluctant to fully support the tax reforms slated to pay for the investments.

Those doubts have been stoked by a relentless lobbying campaign by the rich and corporations to keep their privileged tax breaks rather than start paying their fair share. By raising phony concerns about family farmers, small businesses and corporate employees—none of whom would be impacted by the proposed tax reforms—lobbyists are trying to preserve a tax system that lets billionaires and multinational corporations go income-tax-free for years on end.

TOPLINE REQUIREMENTS

Democrats must resist the special-interest pleadings of lobbyists and corporate CEOs and support four cornerstones of the Biden Build Back Better plan that are at greatest risk:

1. **Budget reconciliation must fully fund $3.5 trillion of public investments and pay for it by making the rich and corporations pay their fair share of taxes.** Budget reconciliation must raise much more revenue than the $1.9 trillion lost from the Trump-GOP tax cuts.

2. **Billionaires and other ultra-wealthy Americans must pay more taxes under this plan.** That’s only guaranteed if we close the Billionaires Loophole—stepped-up basis—that allows a lifetime of capital gains to go forever untaxed. If we don’t close the Billionaires Loophole, folks like Jeff Bezos and Elon Musk could wind up not paying a nickel more from Biden’s reforms. Family farms and small businesses will never pay more from closing this loophole for as long as they continue to run their enterprises.

3. **Loopholes must be closed that allow profitable multinational corporations to dodge tens of billions of dollars a year in U.S. taxes by shifting profits to offshore tax havens.**

4. **Rich tax cheats and corporations must no longer be able to get off scot-free as they illegally evade hundreds of billions of dollars in taxes every year.** The IRS needs a lot more money for audits and other enforcement. Wealthy business owners and investors must not be allowed to continue hiding their income—increased transparency requires increased reporting by financial institutions on the money flows of the wealthy.

EXPLANATION

1. **Budget reconciliation must fully fund $3.5 trillion of public investments and pay for it by making the rich and corporations pay their fair share of taxes.** Budget reconciliation must raise much more revenue than the $1.9 trillion lost from the Trump-GOP tax cuts.

America’s wealthy families and the corporations they own have been getting richer at an accelerating rate over the past 40 years while working families have fallen farther and farther
behind. The pandemic both highlighted and accentuated this disparity. Healthcare, housing and higher education are all too expensive; quality childcare, eldercare and care for disabled relatives are hard to find and cost too much. Climate change has moved from a theoretical concern to a dangerous reality playing out every day in increasingly catastrophic fires and floods. Meanwhile, billionaires race each other to space.

Now is the first chance we’ve had in over half a century to turn things around. The public is paying attention, they understand the problems, they’re hungry for a solution and will reward anyone who helps supply one. A big, bold package of investments addressing their everyday struggles and long-term dreams paid for with higher taxes on the rich and corporations that the public rightly suspects of dodging their fair share is the best way to seize this chance that may not come again—or anyway, soon enough to make any difference.

The Trump-GOP tax cuts of 2017 lost $1.9 trillion over 10 years, mostly in tax cuts to the rich and corporations. At a minimum, Democrats need to recoup that lost revenue but do much more by raising $3.5 trillion from the rich and corporations, as President Biden proposes.

2. Billionaires and other ultra-wealthy Americans must pay more taxes under this plan. That’s only guaranteed if we close the Billionaires Loophole—stepped-up basis—that allows a lifetime of capital gains to go forever untaxed.

Biden’s tax plan proposed several income tax increases for wealthier Americans but billionaires and other ultrarich will be able to avoid all but one of them. Not surprisingly, that’s the reform most targeted by lobbyists for the rich—closure of the Billionaire Loophole that allows a lifetime of investment gains to go forever untaxed.

Also known as the stepped-up basis loophole, here’s how it could work for Jeff Bezos, the nation’s richest person thanks to the explosive growth of his Amazon stock, which he obtained for next to nothing as the company’s founder. As recently reported by ProPublica, the federal income taxes paid by Bezos between 2014 and 2018 represented 1% of his $99 billion income from capital gains over that period. (His capital-gains income—which increases his wealth—grew by another $75 billion over the first 17 months of the pandemic.)

In two earlier years, 2007 and 2011, Bezos paid no federal income taxes—undoubtedly because nearly all of his income was in the form of capital gains. Under current law, Bezos pays no income taxes on that increased wealth unless he sells the underlying stock or other asset. But he doesn’t need to sell his investments to live off them because he can get low-interest loans backed by all his wealth. And under the Billionaires Loophole—stepped-up basis—after Bezos dies those hundreds of billions of dollars—by then, perhaps well over $1 trillion—in lifetime investment income will disappear for tax purposes, passed onto his heirs forever untaxed.

To preserve the Billionaires Loophole, lobbyists are shedding crocodile tears for family farms and small businesses that they claim will face forced sales if the loophole is closed. That’s not true. First, $1.25 million in investment gains per person ($2.5 million per couple including the increased value of their house) will not be subject to tax. That excludes all but the biggest family farms and businesses. Based on recent sales data, the average value of a small business is $320,000. The Agriculture Department reports that 98% of family farms would not pay a penny under this reform. Moreover, there would be no tax due even from the tiny fraction of family farms and businesses large enough to be subject to the tax for as long as those enterprises continue to be operated by the family.
American billionaires got $1.8 trillion or 62% richer during the pandemic while amusing themselves with private space travel. That’s enough to pay for more than half of Biden’s ten-year $3.5 trillion Build Back Better plan. The only reform in the Democrats’ agenda that will ensure billionaires and other ultra-wealthy Americans pay closer to their fair share of taxes is closure of the Billionaires Loophole, stepped-up basis.

3. **Loopholes must be closed that allow profitable multinational corporations to dodge tens of billions of dollars a year in U.S. taxes by shifting profits to offshore tax havens.**

President Biden wants to moderately raise the corporate tax rate to 28% on domestic profits, far lower than the 35% it was just four years ago. He also wants to close loopholes that encourage corporations to outsource jobs and shift profits to tax havens. He would do that by taxing the 10% of offshore profits that currently go U.S.-tax-free and taxing all foreign profits at a 21% rate—double the current rate. That rate would still be lower than the 28% domestic rate, but the gap would be smaller than it is now.

American corporations currently dodge $60 billion a year in taxes by offshoring profits to tax havens. That’s one reason 55 big corporations—including FedEx, Nike and Salesforce.com—paid zero federal income taxes last year, despite over $40 billion in earnings. A couple years before that, 1,500 big multinational firms paid an effective tax rate of under 8%.

The claims by lobbyists that curbing offshore corporate tax dodging will hurt American competitiveness are false. Even after Biden’s reforms are enacted, U.S. firms would still pay lower taxes than their self-identified rivals in other industrialized nations, according to a study of 52 of the biggest American corporations.

4. **Rich tax cheats and corporations must no longer be able to get off scot-free as they illegally evade hundreds of billions of dollars in taxes every year.**

Biden wants to beef up tax enforcement that’s been gutted by Republicans in recent years so it will be easier to catch wealthy tax cheats who cost us hundreds of billions of dollars in revenue by illegally evading their taxes. In recent years, Republicans repeatedly cut the IRS budget, in the process losing one-third of its enforcement staff. Audits of millionaires fell by almost three-quarters (71%), to the lowest rate in 60 years. All the biggest corporations used to be audited annually, but now only half are.

Proposed fixes include bigger budgets to hire more staff and upgrade technology, and improved reporting of nonemployment income. Unlike the wages of workers—which are reported every paycheck to the IRS and out of which taxes are automatically deducted—much of the income of the wealthy is mostly or entirely self-reported. That makes it easy for cheats to hide these sources of income, which include rent, capital gains and business profits. It’s estimated that over a half of all business income is misreported.

An answer to the problem of hidden income is to require banks to report the flow of money coming into and out of business accounts. Banks and other opponents of this reform claim their opposition centers on privacy and practicality, but the practical effect will be to keep illegal tax evasion by their wealthy clients an easy-to-commit crime.