66 NATIONAL GROUPS URGE CONGRESS TO STAY STRONG ON HOUSE-PASSED BUILD BACK BETTER REVENUE RAISERS

July 8, 2022

Dear Senator:

As you resume negotiations on a reconciliation bill that would make strategic investments in our nation's future, we urge you to retain key tax reforms included in the House-passed Build Back Better Act (BBBA), which originated with and is fully supported by President Biden. They are both important revenue-raisers and critical policy reforms that will help create a more equitable tax system while discouraging tax-avoidance by large corporations and the wealthy.

Millionaires Surcharge

The BBBA included a 5% surcharge on incomes over $10 million and an extra 3% surcharge on incomes over $25 million. This tax would affect only the highest-income 0.02% of taxpayers yet raise about $230 billion over 10 years.

Taxing the ultrarich is a clear priority for voters across the political spectrum. **The millionaires surcharge is the only tax increase in the BBBA specifically designed to tax the ultrarich**, and would substantially increase what multi-millionaires and billionaires pay in taxes. Based on IRS data, Americans for Tax Fairness estimates the surcharge would have raised the average tax rate on reported income paid by the 400 highest-income Americans between 2013-18 by one-third, from 22.4% to 29.9%.[1]

There were earlier reports that certain types of income—including private-business profits, "carried interest" earned by money managers, and capital gains enjoyed by wealthy investors—might be excluded from the surcharge. These are among the biggest sources of income for the rich and **must be included** if the surcharge is to have any meaningful effect and not invite more tax avoidance.

Curbing Offshore Corporate Tax Dodging

U.S. corporations dodge an estimated $60 billion a year by offshoring profits to tax havens. The BBBA took a big step towards closing offshore tax loopholes, which also promote outsourcing of jobs, by applying a 15% minimum tax to the profits U.S. corporations booked offshore, on a country-by-country basis. These reforms will help end the international race to the bottom in corporate tax rates and revenue collected and increase the competitiveness of America's workers and domestic businesses. They (along with other international tax reforms) would raise over $300 billion. If this reform is changed, it should only be to strengthen it. Possible improvements include further raising the Global Intangible Low-Tax Income (GILTI) rate and replacing a relatively weak guard against profit shifting (known as the BEAT) with the more robust plan proposed by President Biden, among other reforms.

[1] These effective tax rates are based on adjusted gross income, which does not include the unrealized capital gains that often serve as the primary source of income for the wealthiest Americans. Like the existing income tax, the surcharge does not tax unrealized gains. To do that, further reforms are needed such as a billionaires income tax.

Corporate Profits Minimum Tax (CPMT)
The CPMT included in BBBA would ensure that America's biggest corporations pay a reasonable amount of tax every year. Currently, many large profitable corporations can pay little or no income tax because they essentially keep two sets of books, each with its own set of rules. One they show to Wall Street boasts big profits to attract investors and boost executive pay. The other they give to the IRS claims little or no profit to avoid taxes.

The CPMT would close that loophole by creating a 15% minimum tax on the profits reported to investors of the 200 American corporations with over $1 billion in annual earnings. This special tax would apply if it resulted in a higher tax bill than the firm would pay under normal rules. It would raise $320 billion over 10 years. In recent polls, between 72% and 77% of respondents thought that corporations that are now paying zero should pay a minimum 15% rate.

Closing Healthcare-Tax Loopholes Exploited by Wealthy Business Owners
Wealthy private-business owners—such as partners in Wall Street law firms and high-priced consultants—can now dodge two taxes that fund healthcare. One is the extra 0.9% Medicare tax levied on salaries above $200,000 ($250,000 for married filers) that when added to the basic Medicare tax of 2.9% totals 3.8%. The other is a 3.8% net investment income tax (NIIT) on unearned income—such as capital gains and dividends—that applies over the same income thresholds. The NIIT was created by the Affordable Care Act to help fund improved healthcare and address the inequity that the Medicare tax did not apply to unearned income.

Through the strategic classification of income and by exploiting a loophole in how certain private-business owners are taxed, many high-income business owners dodge both taxes. The BBBA would close that loophole for owners with over $400,000 in income, raising about $250 billion over 10 years.

IRS Enforcement Funding
The Treasury estimates the annual tax gap—the difference between what's owed and what's paid—is about $600 billion, and it is projected to total $7 trillion over the next 10 years. The richest 1% of households failed to pay $163 billion that they owed in 2019, making them responsible for 28% of the total of unpaid or underpaid taxes.

Because of budget cuts that began in 2011 when Republicans gained the House majority, IRS audit rates declined 58% overall between 2010 and 2019. Audit rates among large corporations were down 54%, and audit rates for millionaires were down 71%. An IRS that is starved for resources devotes its attention to low- and middle-income families who don't have legions of lawyers and accountants at their disposal. Beefing up the IRS, and modernizing its ancient systems, would shift attention to those with the most income and the most tax evasion. BBBA provides $80 billion of additional IRS funding over ten years, which would net between $120 billion (CBO) and $400 billion (Treasury) in new revenue over that same period.

There's still time to deliver to the American people the kind of transformative tax-and-investment legislation your constituents have called for. But as you shape this package, it's imperative that you include the tax reforms on the rich and corporations detailed above.

Sincerely,
List in formation

AFL-CIO
American Family Voices
American Federation of Government Employees
American Federation of Teachers (AFT)
American Federation of State, County and Municipal Employees (AFSCME)
Americans for Democratic Action (ADA)
Americans for Tax Fairness
Asian Pacific American Labor Alliance, AFL-CIO
Build Back Better USA
Campaign for America's Future
Center for Common Ground
Center for Law and Social Policy
Center for Popular Democracy
Coalition on Human Needs
Common Defense
Communications Workers of America (CWA)
COVID Survivors for Change
DemCast USA
Economic Policy Institute
Friends of the Earth
Groundwork Action
Health Care for America Now (HCAN)
Healthcare Voter
Indivisible
Institute for Policy Studies - Inequality Program
Institute on Taxation and Economic Policy
International Federation of Professional and Technical Engineers (IFPTE)
Invest in America Action
IronPAC
Jobs With Justice
Main Street Alliance
Mom's Rising
MoveOn
National Black Justice Coalition
National Education Association (NEA)
National Employment Law Center
National Latino Farmers & Ranchers Trade Association
National Women's Law Center

NETWORK Lobby for Catholic Social Justice
Our Revolution
Oxfam
Patriotic Millionaires
People Demanding Action
People's Action
Pride at Work
Progressive Change Campaign Committee
Progressive Democrats of America
Public Advocacy for Kids (PAK)
Public Citizen
Responsible Wealth
RESULTS
Right to Health Action
RootsAction.org
Service Employees International Union (SEIU)
Tax Justice Network US
United for a Fair Economy
United Steelworkers
Unrig Our Economy
Voices for Progress
Voto Latino
Women's March