AMERICANS FOR TAX FAIRNESS
POLICY AGENDA

February 2024

INTRODUCTION

Americans for Tax Fairness fights for a fair tax system that advances racial justice, gender justice, and economic justice for all Americans. ATF specifically supports tax policies that require the wealthy and corporations to pay their fair share in taxes to support an equitable and thriving economy that works for everyone. ATF opposes more tax cuts for the wealthy and corporations and tax policies that concentrate more wealth in fewer hands. Between now and 2025, ATF's top goal is to block renewal of the expiring Trump-GOP tax cuts that would drain billions from the economy and deepen the national deficit. Rather than renewing tax breaks that deepen inequality and disparities in our country, we should be raising revenue from the wealthy and corporations to support investments that build our economy for all. This policy agenda describes general parameters for tax policies that our coalition supports and opposes. It does not account for every single policy or possible scenario.

Americans for Tax Fairness has three broad goals for tax reform:

- MAKE CORPORATIONS PAY THEIR FAIR SHARE: Big, profitable corporations can go years paying little or nothing in federal income taxes. They report big earnings to Wall Street while reporting lower earnings to the IRS; use accounting tricks to shift profits to offshore tax havens; and were one of the biggest beneficiaries of the 2017 Trump-GOP tax cuts. Raising taxes on corporations is one of the best ways of raising taxes on the wealthy because the wealthy —and almost exclusively the wealthy —own corporations through their stock holdings. Black, Brown, and Indigenous households are less likely to own stock because of historic discrimination so are unlikely to benefit from low corporate tax rates.
- TAX WEALTH LIKE WORK: In the United States' two-tiered tax system, wealthy households that generate income from investment income like stock holdings pay lower tax rates than regular working people who get earned income from their jobs. The current top tax rate on wage income (37%) is almost double the rate (20%) on the income from the two biggest sources of investment income (long-term capital gains and qualified dividends) for richer people. Wealthy people making money on stocks should pay taxes at the same rate as working Americans. Black, Brown, Indigenous and women-headed households are overrepresented among lower-income households; since there is a significant racial and gender wealth gap these households are unlikely to benefit from low individual tax rates for the highest income brackets.
- CURB DYNASTIC WEALTH: Trillions of dollars of wealth passes down the generations of America's economic dynasties, largely untouched by taxation. Hereditary wealth distorts our economy, destabilizes our society and endangers our democracy by endowing a tiny number of wealthy individuals with outsized power to drown out everyone else's voice and interests. Astronomic inheritances undermine the American ideals of equal opportunity and individual effort. Curbing wealth accumulating over generations requires better taxation of billionaires and other ultra-wealthy, and reinvigorating the estate tax weakened after decades of Republican attacks. Since Black, Brown, and

Indigenous households are less likely to inherit wealth and the transfers are smaller, they are unlikely to benefit from low estate and inheritance taxes.

Achieving these three policy goals will make the tax code more racially equitable and raise more revenues to invest in people. ATF will pursue policies related to each of these goals through public education, communications and media, research and advocacy coordinated across our coalition. These policies are detailed below under each goal.

MAKE CORPORATIONS PAY THEIR FAIR SHARE

Raise the Corporate Tax Rate

In the 1960's, corporate tax revenue accounted for 20% of total federal revenue collected, but by 2022 that share had dropped to just 9%. As a share of the economy (GDP), corporate taxes have declined by as much as three-quarters, from a height of 4% in 1967 to as little as 1% under Donald Trump. Meanwhile, corporate profits soared to over $3 trillion in 2022, a 20% inflation-adjusted increase over the past five years.

The Trump-GOP tax law—which cut the corporate tax rate by 14 percentage points from 35% to 21%—dramatically reduced corporate tax collections. In the first five years (2018-2022) after the law was passed, corporate revenue was $380 billion less than had been projected prior to enactment of the law. Over the first three years of the law, 39 Fortune 500 corporations —including FedEx, Salesforce, and T-Mobile—paid nothing in net taxes, despite over $120 billion in combined profits. In 2020 alone, 55 of the nation's biggest firms paid zero federal income tax, despite over $40 billion in combined profits. Another 73 corporations—including Amazon, General Motors and Viacom—each paid less than 10.5% (half the statutory rate) from 2018 to 2020.

Large profitable corporations saw their average effective tax rate drop from 16% in 2014 to just 9% in 2018, the first year the law was in effect, with a quarter of them paying no taxes at all. The Joint Committee on Taxation found that U.S. multinational corporations paid an average effective tax rate of just 7.8% in 2018. The corporate income tax is one of the fairest ways of raising revenue because it overwhelmingly comes out of the pockets of shareholders and they're overwhelmingly wealthy.

Our goal is to raise the top corporate tax rate back to 35% and are supportive of legislation that moves us in that direction.

Strengthen the Corporate Alternative Minimum Tax

Profitable corporations can often pay so little in tax because they are allowed to calculate their income in two different ways. When calculating the "taxable income" they report to the IRS, firms use as many credits, deductions, exemptions and other subtractions as possible to reduce their stated profits and thus their resulting tax bill. When calculating the "book income" reported to Wall Street, corporations pump up the numbers as high as possible to attract investors and raise the company's stock price. For example, from 2018-2020, Amazon reported total "book income" of $45 billion, but because the company's "taxable income" was so much lower, its effective tax rate over that period was just 4.3%—a little over a fifth of the 21% statutory corporate tax rate.

The Inflation Reduction Act took a big step towards closing this discrepancy by creating a 15% Corporate Alternative Minimum Tax (CAMT) on book income for corporations with over $1 billion in annual global earnings. But last-minute corporate lobbying weakened the law by exempting most of a growing form of corporate ownership—private equity—and allowing certain deductions not normally used in calculating book income. It is estimated that fewer than 150 corporations will be covered by this new minimum tax, leaving hundreds of profitable public firms free to go on escaping taxes through this accounting loophole. There has also been heavy lobbying by corporations to delay implementation of the CAMT.

Our goal is to expand the scope of the 15% CAMT to cover more mega-corporations by eliminating special income exemptions.

Fully Implement the International Tax Agreement Negotiated by the Biden Administration

The global tax system has long allowed corporations from large developed economies like the United States to avoid paying their full amount in domestic taxes by shifting their profits overseas to tax havens like the Cayman Islands and Bermuda. In 2018 and 2019—after the Trump-GOP tax law was supposed to have curbed offshoring—U.S. multinationals reported 61% of their foreign income from just seven offshore tax havens. This corporate profit shifting is expected to cost the federal government $60 billion a year in lost revenue for the foreseeable future. American corporations use accounting gimmicks to shift profits and operations offshore. The tax code actually encourages this practice because the foreign profits of U.S. corporations are taxed at around half the rate of their domestic earnings. Many foreign profits of American corporations are never taxed in the United States, giving firms a big incentive to shift profits and production offshore.

The international community has come together in recent years—led by the Biden Administration—around a global tax agreement which will stem profit shifting by ensuring that the profits of the mega corporations are taxed at a minimum of 15% regardless of where they are earned. A recent report found that this OECD agreement could raise $250 billion in revenue globally in a single year. While many countries have already begun implementing the core elements of this agreement, the United States still has not come into full compliance. If Congress fails to change American tax law to conform to the new rules, the international agreement will still be implemented in other countries, but the United States government could lose out on billions in potential revenue.

Our goal is to stop the offshoring of corporate profits and for the U.S. to come into full compliance with the OECD international corporate tax agreement.

Increase the Stock Buyback Tax

Publicly traded corporations often use corporate funds to buy back their own shares. The resulting rise in stock price created by a buyback is not taxed unless the stock is sold. That's a big benefit for CEOs and other wealthy investors, who are taxed every year on the alternative form of corporate payout to shareholders, called dividends. Moreover, foreign investors are not taxed at all in the United States when they sell their stock at a profit, but are taxed on their dividend income. Studies over several recent years have shown that stock buybacks are associated with income inequality, stalled innovation, lower productivity growth, and layoffs.

Corporations have significantly increased buybacks, which have intensified since the 2017 Trump-GOP tax cuts. Rather than investing in their workers and communities, big corporations have used the windfall from the Republican tax cuts to buy back record-breaking amounts of their own shares. Corporate stock buybacks set an all-time high in 2018, the first year the tax law was in effect. Another buyback record was set in 2021 and then surpassed in 2022. From 2018 through 2022, 100 top mega corporations spent $2.3 trillion on stock repurchases.

The Inflation Reduction Act instituted a 1% excise tax on stock repurchases. The goal was both to raise tax revenue from big corporations and wealthy investors and to curb the harmful practice of buybacks. But corporations have largely shrugged off the tax as too small to impact their decisions to buy back stock.

Our goal is to raise the tax to significantly constrain this harmful business practice.

Reform Pass-through and Partnership Taxation

Some of the biggest beneficiaries of the Trump-GOP tax law were "pass-through" businesses —sole proprietorships, partnerships, and S-corporations—so named because profits and losses are passed through to the owners who pay any tax due on their personal returns at individual rates. The 2017 Trump-GOP tax law allows—with many complex exceptions—pass-through business owners to exclude 20% of their income when calculating their taxes, effectively lowering their top tax rate on their pass-through income from 37% to 29.6%.

This loophole is misleadingly labeled by its proponents as a "small business tax break," but pass-through income is heavily concentrated at the top: 63% goes to businesses with annual receipts over $400,000. It's not surprising, then, that over three-fifths (61%) of the pass-through deduction's benefits are expected to go to the top 1% in 2024. The Treasury Department also estimates that white households receive 90% of the deduction's benefit, exacerbating the racial wealth gap.

In addition to benefiting disproportionately from the pass-through deduction, the partnership form of business organization enjoys other tax perks that have attracted businesses that bear no relationship to the accounting partnerships that most of us picture. Corporations have been forming partnerships with their own subsidiaries, and partnerships forming partnerships with other partnerships. One researcher estimated that roughly 1-in-7 dollars of partnership income was "circular" in that it flowed perpetually between partnerships that owned each other. Under current law, related partners in partnerships can generate tax losses on the distribution of property. This can happen when one partner receives property from the partnership that is greater in value than their actual investment (basis) in the partnership.

Current partnership rules can also be used by corporations to direct the IRS to "disregard" the income of its subsidiaries through a simple classification of those entities known as "check the box," a technique that facilitates offshore tax avoidance.

Our goal is to make it harder for the ultra-rich to exploit the preferential tax treatment for pass-throughs and partnerships by capping how much pass-through income they are allowed to deduct; tightening rules around partnership basis shifting; and ending the practice of "check the box" tax classification.

End Special Tax Breaks for Corporations

Corporations exploit a wide range of tax loopholes including deductions for excessive executive pay, the immediate deduction of advertising costs that should instead be deducted over time, and deductions of expenses used to interfere with the right of workers to organize unions. Additionally, there should be limitations on how much interest corporations can deduct on intra-company loans. To raise revenue and curb climate change, tax preferences and subsidies for fossil fuel profits should also end.

Our goal is to eliminate or reduce corporate tax breaks that lose needed revenue while encouraging bad corporate behavior.

TAX WEALTH LIKE WORK

Tax Income from Wealth More Like Income from Work

Even when the ultra-wealthy do pay taxes, they often pay at a lower rate than nurses, teachers, and plumbers. That's because the top tax on income from long-term capital gains (net profit from selling an asset held over a year) and dividends (periodic payments to corporate shareholders) is only 20% (plus a 3.8% Net Investment Income Tax [NIIT]), while the top tax rate on ordinary income earned from labor is 37% (plus payroll taxes). While capital gains have historically been taxed at a lower rate than ordinary income (though at higher rates than now), dividends only started receiving preferential tax treatment as part of the 2003 Bush tax law.

Preferential tax treatment for investment income disproportionately helps the ultra-wealthy: over 75% of the benefit goes to just the highest-income 1% of households. While the median American family earns about $67 in wages and salary for every $1 in capital gains and dividends, the average household in the top 1% reports an equal amount from each source. Income from working a job should not be taxed at up to twice the rate of living off the proceeds of great wealth.

Our goal is to close, and eventually eliminate, the tax differential between income earned through labor and income generated by capital.

Expand and Increase the Medicare Net Investment Income Tax

The Affordable Care Act implemented two new taxes on wealthy earners—individuals with income over $200,000 and couples with income over $250,000—to help fund its historic expansion of healthcare: an increase of 0.9% to the existing Medicare payroll tax (for a total of 3.8%) and a new Net Investment Income Tax (NIIT) of 3.8% on capital gains, dividends, interest, rents, and royalties—forms of income that are exempt from payroll taxes. While all the resulting revenue was intended to go directly into the Medicare Trust Fund, the NIIT revenue was diverted to the general fund instead due to limitations imposed by the budget reconciliation process.

Unfortunately, the ACA left open a loophole that wealthy business owners have exploited by recategorizing their income in a way to avoid paying either tax. Only 0.4% of taxpayers benefit from this loophole—85% of whom are millionaires—but it has cost the federal government hundreds of billions of dollars in lost revenue.Even with these limitations, the NIIT has been a success in establishing the principle of parity for how earned income and investment income are taxed to support critical programs for families. s.

Our goal is to expand the NIIT to cover all of the wealthy and raise the rate to come into closer parity with Medicare taxes on ordinary income.

Bring Lasting Equity to the Social Security Contribution System

In 2023, no Social Security payroll taxes are collected on the portion of wages above $162,000 (this figure is adjusted each year for inflation). That means that while a minimum-wage worker pays the standard 6.2% Social Security tax rate on all of their income, a lawyer or banker who earns $1 million will not pay this tax on 84% of their income. This regressive tax structure resulted in the bottom 90% of households paying an effective federal payroll (Social Security plus Medicare) tax rate of 10.8% in 2019, while the top 1% of households paid just a 2.3% rate. Additionally, the Joint Committee on Taxation estimates that millionaire tax filers receive 8.4% of national wages, but only make up 4% of payroll tax contributions.

Because people do not pay Social Security taxes on income above the wage cap, only around 83 percent of total earnings from employment are subject to Social Security payroll taxes. In contrast, Medicare eliminated its tax cap 30 years ago and therefore had a payroll taxbase $2.3 trillion larger than Social Security's in 2022.

Our goal is to lift the Social Security wage cap, and are supportive of legislation that moves us in that direction.

Implement a Billionaire Tax and/or a Wealth Tax

Despite their vast wealth, billionaires can go years without paying any federal income tax because of the way they make most of their money. Billionaire income comes principally from the increasing value of their assets, like corporate stock, and those gains are never taxed unless the underlying asset is sold. But billionaires don't need to sell to benefit from investment gains, because they can instead live lavishly off low-cost loans using their rising fortunes as collateral.

The recent leak of billionaire tax returns published by ProPublica provided information about how the ultra-rich are able to avoid taxes. The 26 billionaires identified by ProPublica reported collective income of $132 billion between 2013 through 2018, on which they paid an effective tax rate on their "*reported income*" of just 18.2%—already far lower than the top rate during most of that time of 39.6%. But when their $500 billion of collective wealth-growth income is included, their tax rate drops to just 4.8%—what ProPublica termed their "true tax rate." A similar study from the White House estimated that the nation's wealthiest 400 families paid an average effective tax rate of only 8.2% between 2010 through 2018 when the increased value of their stock holdings is counted as income.

A billionaires' income tax would tax new investment income each year as it occurs, just like workers' pay is taxed each year as it's earned. A wealth tax would tax an ultra-wealthy individual's total wealth. Though operating in different ways, such proposals have significant strengths over the current system where billionaires are able to go tax free in many years.

We support taxing wealth in all forms including unrealized capital gains so billionaires and the ultra-wealthy pay their fair share in taxes.

Close Tax Loopholes used by the Ultra-Wealthy

Wealthy people can exploit additional tax breaks unavailable to ordinary taxpayers. These include: the carried interest loophole, which allows wealthy money-managers to pay the lower investment-income tax rate on income that's really wages and should be taxed at a higher rate; the use by wealthy business owners of losses at their firms that may only exist on paper to reduce their personal tax bills; the abuse by rich investors of tax-favored retirement savings arrangements that are meant to provide a secure retirement for workers; the excess benefit high-income taxpayers derive from the charitable-gift deduction; the ability of early investors in startups to avoid tax on their big stock gains; and allowing big real-estate investors to avoid tax indefinitely on the gains from selling appreciated property (the Like-Kind Exchange loophole).

Our goal is to eliminate or reduce special tax benefits that are exploited by the ultra-wealthy.

Increase the Top Marginal Tax Rates

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. For nearly half the 20th century—from the mid-1930s to 1981—the top marginal income tax rate was at least 70%, even topping 90% for more than a decade. The period these rates were in effect largely overlaps with a long economic boom, disproving the theory that high tax rates on the highest incomes are a drag on the economy.

President Reagan and a conservative Congress in the 1980s slashed the top rate from 70% to 28%. In the '90s, the rate slightly rose to 39.6% under President Clinton. During the first decade of this century the top rate dropped to 35%, then was restored to 39.6% in 2013 under President Obama, where it stayed until the Trump-GOP tax law dropped it to 37% starting in 2018 and lasting through the end of 2025. This general decline in the top tax rate corresponds with a rise in income inequality.

Currently the 37% rate is paid on income over roughly $694,000 for married couples—whether that excess is $100,000 or $10 million. This lumps together prosperous doctors and software engineers with Fortune 500 CEOs, despite their drastically different capacities to pay.

Our goal is to raise the current top income tax bracket and create new higher marginal tax brackets that will lead to a more progressive tax code.

Implement a Millionaires Surtax

The 37% top income tax rate currently applies to all taxable income over about $694,000 for married couples and $578,0000 for single filers, whether that excess is $100 or $100 million. Additionally, two major sources of investment income—qualified dividends and long-term capital gains—are taxed under a separate system that tops out at a 20% rate. So raising the general rate on ordinary income (which for most people mostly means wages) does not raise the rate on investment income. Furthermore, there are dozens of deductions and exemptions the wealthy can use to reduce their final tax bill.

Our goal is to create a millionaires surtax, and are supportive of various rates or thresholds that raise revenue and increase the progressivity of the tax code.

Create a Financial Transaction Tax

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 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. In fact, an FTT could benefit retirees and middle-class investors by reducing fees associated with high portfolio-turnover rates.

An FTT could also boost market stability by reducing the high frequency trading that currently makes up 50%-60% of trading volume. Proponents of such trading claim it makes markets more "liquid" and therefore more stable and efficient. But that claim seems belied by market panics. A particularly short, sharp market dive in 2010—the so-called "Flash Crash"—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.

Academics such as leading economist Joseph Stiglitz and financial industry professionals similarly support an FTT for the market-calming effect it would achieve by curbing fast trading. 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 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."

Our goal is to implement a financial transaction tax on the trading of stocks, bonds, and derivatives.

Crackdown on Wealthy and Corporate Tax Cheats

Wealthy individuals and big corporations have been avoiding hundreds of billions of dollars in federal taxes every year because the Internal Revenue Service (IRS) has lacked the resources to catch them. The latest estimate from the IRS is that in recent years about $600 billion in owed taxes went unpaid annually. In a separate analysis, the Treasury Department estimated that the top 1% of Americans were responsible for over a quarter (28%) of all individual tax dodging in 2019, or over $160 billion in unpaid taxes.

Between 2010 and 2021, Congressional Republicans led the effort to cut the IRS budget by 20% in inflation-adjusted terms. This led to a 31% reduction in enforcement staff in general and a 40% cut in revenue agents specifically. Less enforcement personnel in turn resulted in less scrutiny of the richest taxpayer and lost revenue. Audits of corporations with over $1 billion of income have dropped by 87% to an historic low, and for the first time millionaires were audited at a lower rate than working families receiving the EITC.

Our goal is to fully fund the IRS so they have the tools to hold wealthy households and corporations accountable for paying what they owe in taxes.

CURB DYNASTIC WEALTH

Full Overhaul of the Estate Tax

One of the greatest systemic failures of the tax code is its inability to arrest the accelerating growth of generational family fortunes. Massive, largely untaxed inherited wealth betrays the cherished American values of equal opportunity and personal initiative by exacerbating concentrated wealth and widening the gap between the wealthy and everyone else. An Americans for Tax Fairness report estimates that the ultra-rich will over the next 20 years or so accumulate $21 trillion in tax-resistant intergenerational trusts, while avoiding $8.4 trillion in tax contributions that could bolster the economy that helped make them so wealthy to begin with.

The estate tax is the only federal curb on the accumulation of generational wealth. It reduces economic inequality by taxing the excess riches of wealthy inheritors, raising revenues that can then be used to increase opportunities for the non-wealthy. . But over the past four decades Republicans have persistently chipped away at the estate tax. They've chopped the top rate of 77%—where it was for much of the 20th century—to a near historic low of just 40% today. The amount of wealth exempt from the estate tax has grown dramatically, from an individual exemption of $675,000 in 2001 to over $12 million in 2022, shrinking the number of family fortunes subject to the tax by over 96%, so that the estate tax now only impacts an estimated 1,300 estates. A study by Penn Wharton found that the cumulative loss of revenue over the last twenty years from weakening the estate tax is nearly $650 billion.

Most recently, the 2017 Trump-GOP tax law doubled the estate-tax exemption, from $5.5 million ($11 million per couple) in the year the law was passed to $11 million in 2018 ($22 million pre couple), an amount that continues to increase each year with inflation. Although the 2017 law changes were ostensibly meant to be temporary—scheduled to revert back to Obama-era levels in January 2026—Republicans are already planning to make their estate-tax giveaway permanent, which would cost an additional $126 billion in lost revenue over 10 years.

Another enormous loophole that benefits the ability of the super wealthy to hoard their wealth is "stepped-up basis," which is a huge tax loophole that allows them to avoid taxes on investment gains for their entire lives and then pass those gains onto heirs who will never be taxed on them either. This break is integral to the lifetime tax-dodging strategy among the wealthy, informally dubbed "Buy, Borrow, Die."

Our goal is to restore the progressive estate tax-rate structure, close the stepped-up basis loophole on inherited gains, and curb egregious abuses of estate-tax law such as Grantor Retained Annuity Trusts and valuation discounts.