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THE NEED FOR A TRUE WEALTH TAX TO SUPPORT THOSE MOST IN NEED DUE TO THE CORONAVIRUS

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May 2020

EXECUTIVE SUMMARY

It is time for a wealth tax.

The medical and economic hardships produced by the coronavirus pandemic are falling most heavily on people who were already most disadvantaged. College-educated Americans are three times more likely to be able to work from home than workers with no education past high school, and those who make more than $80,000 per year are four times more likely to be able to work from home than those who make less than $33,000. This makes it unsurprising that the rich are socially isolating at much greater rates than the rest of America, and that both infections and deaths from the coronavirus are dramatically concentrated among poorer Americans, especially people of color.

These same Americans are shouldering the burden of sustaining social and economic life in the face of the pandemic. The essential workers who are putting their health at risk while keeping society fed, collecting the trash, and providing a thousand other basic services are also among the lowest paid Americans. Further, a recent National Bureau of Economic Research working paper shows that during the pandemic, workers in the bottom 20 percent were three times more likely to have lost their jobs than those in the top 20 percent.

Together, these patterns produce an unconscionable result. Those who are doing the most to keep the country afloat in the face of the disease simultaneously suffer its greatest evils.

A wealth tax to fund the relief effort gives meaning to shared sacrifice in the face of a universal threat. An extraordinary catastrophe, which afflicts the entire nation, should be paid for not out of income-flows that fund ordinary public policy in normal times, but rather by a one-time charge against the nation's accumulated stock of wealth. In other words, a wealth tax.

This one-time wealth tax—of 5 percent levied on the richest 5 percent of American families—is good politics. It generates deep and wide support as shown by recent polling conducted by Data for Progress:

- 66% supported the tax (40 percent strongly) while only 21 percent opposed (just 9 percent strongly). Democrats favored the tax by a ratio of 6:1, Independents by a ratio of nearly 3:1; and even Republicans favored the tax by a ratio of 2:1.
- 60% of respondents—including 54% of Republicans—agree that essential workers are doing their fair share, and that wealthy Americans must do the same by paying a wealth tax.
- 63% agree that a wealth tax is a good first step right now towards a fairer economy.

How A Wealth Tax Would Work

The tax should be assessed on the richest 5 percent of American families, who now hold $57 trillion, or two-thirds of US household wealth (up from about half in 1960). A simple device—exempting the first $2.5 million of household wealth from the tax—would shield the bottom 95 percent of households from paying any tax at all, and leave a tax base of roughly $40 trillion. Five percent of $40 trillion is $2 trillion.

The outline for a one-time wealth tax is simple and straightforward. First, the tax should exempt people whose assets are less than $1.25 million per individual or $2.5 million per married couple filing jointly. Beyond the exemption, all major forms of wealth should go into the tax base. The base should be worldwide-wealth, not restricted to U.S.-domiciled assets, and should include all publicly traded securities, privately held businesses, real property, and personal property that is independently insured. The exemption and the broad conception of wealth complement each other: as most small businesses are worth well below the $2.5 million exemption, the tax will not apply to them at all; and even slightly larger businesses will pay only a modest 5% of their value in *excess* of the exemption.

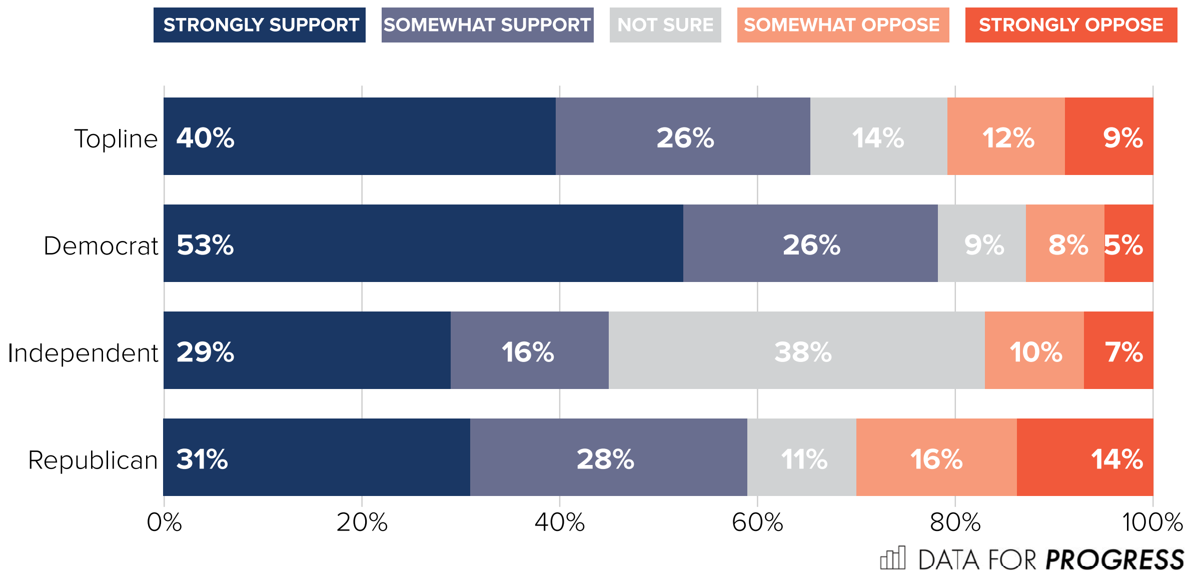
Second, the tax should be calculated and administered primarily using already existing data on valuations. Publicly traded securities should be valued based on a fixed past date using information that issuers or brokerage houses already collect and report to the IRS and taxpayers. Private businesses should be valued based on cash flows or distributions, and as stated above, most small businesses would be exempt. Real property should be valued based on already existing local tax assessments or insurance values, and personal property should similarly be valued according to insurance declarations.

Third, the tax should include anti-avoidance mechanisms to attempt to ensure that those intended to pay the tax do so. Backdating valuation to the date that the bill is introduced in Congress would by itself would prevent most tax avoidance. Also, to capture accurate world-wide wealth, the bill should rely on mechanisms already put in place by the Foreign Account Tax Compliance Act, which went into effect to help counter tax evasion in the United States. Further anti-avoidance mechanisms to address arrangements that wealthy families already use to suppress valuations and avoid the estate tax—for example, the kiddie tax that aims to prevent people from using their children to shield assets from being properly taxed—should be applied (and extended) to ensure that the rich pay their fair shares of this wealth tax.

People Want a One-time Wealth Tax

The tax is good public policy. The exemption is high enough so that the tax will fall exclusively on families who can pay it without sacrificing current consumption, but low enough so that the tax base pulls in most of society's wealth (as the richest 5 percent hold two-thirds of total assets). The exemption also reduces the number of returns and relieves much of the administrative burden of assessing wealth. Finally, a one-time wealth tax, triggered by an exceptional event—especially if wealth is assessed at a past date (for example, the date the bill to levy the tax is introduced in Congress)—dramatically reduces the potential for tax avoidance and eliminates the risk of dampening or distorting savings or suppressing capital accumulation.

Would you support or oppose a one-time 5% wealth tax on the wealthiest 5% of individuals and families—those with more than $2.5 million in assets?

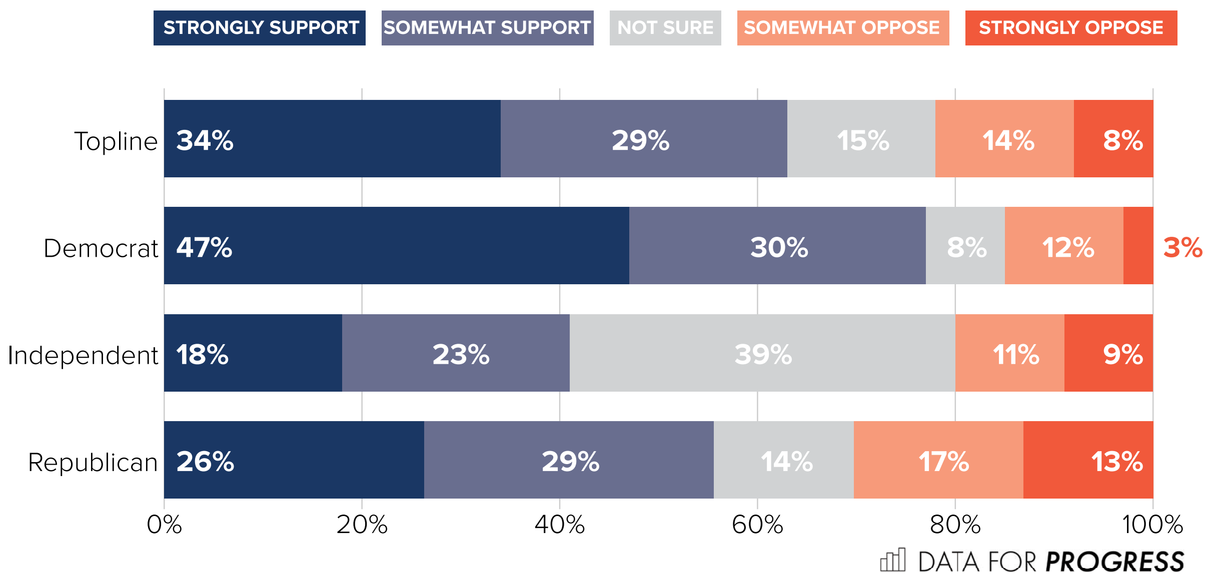


A Wealth Tax is Ethical and Fair

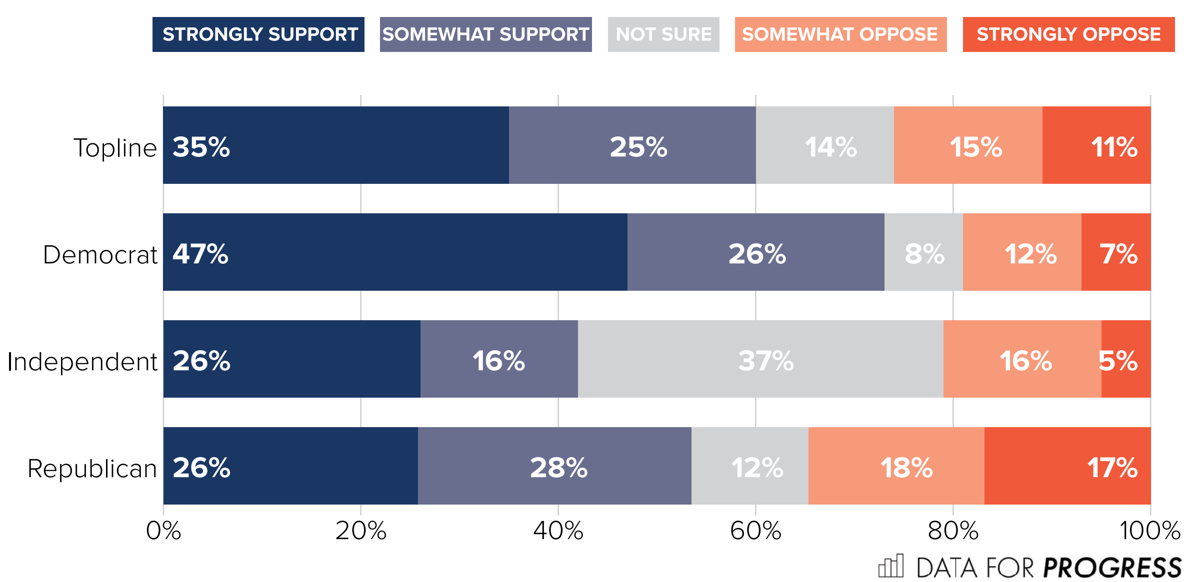
The unprecedented economic relief packages – already totaling roughly $2 trillion dollars (or more than twice the cost of the stimulus enacted following the Great Recession)—serve everyone's interest. The direct payments provided by the CARES Act may reach only households making less than $198,000 per year, but the economic relief effort's indirect benefits reach the rich and exceed the direct payments. The stock market bump triggered by the CARES Act's passage added more than $4 trillion to the value of US equities markets, and the richest 10 percent of households (which hold 84 percent of American-owned stocks) captured roughly $2 trillion of this gain.

The size of the relief packages follows from the gravity of the crisis. The coronavirus threatens our entire society and way of life—so powerfully that the battle against the pandemic is commonly analogized to a war. But it is hard for people without medical training to contribute directly to fighting the disease, and the wealthy—whose incomes are secure as they safely socially distance while working from home —are literally sitting out the fight. The wealth tax enables the wealthiest and most privileged to contribute to the relief effort by providing financial assistance to those on the front lines.

Do you support or oppose the statement that a one-time, 5% wealth tax is a good first step to creating a fairer economy?



Do you support or oppose the statement that it's important that wealthy Americans do their fair share, too by paying a wealth tax?



CONCLUSION

In short, a one-time wealth tax of 5 percent on the richest 5 percent is fair, popular, administrable, and efficient.

METHODOLOGY

From 5/8/2020 to 5/9/2020 Data for Progress conducted a survey of 1235 likely voters nationally using web panel respondents. The sample was weighted to be representative of likely voters by age, gender, education, urbanicity, race, and voting history. The survey was conducted in English. The margin of error is ± 2.7 percent.

COVER PHOTO
Gautier Salles/Unsplash