Wealth tax, 'book' income tax, stricter audits of upper-income taxpayers would raise $6 trillion, Warren says

Sen. Elizabeth Warren, D-Mass., used a Finance subcommittee hearing she chaired this week to promote her proposals for a wealth tax, a tax on corporate "book" income, and increased funding for the IRS to devote more resources to auditing wealthy taxpayers.

Leading an April 27 hearing of the Subcommittee on Fiscal Responsibility and Economic Growth on "creating opportunity through a fairer tax system," Warren said the three proposals would raise more than $6 trillion over 10 years – "enough to pay for every single penny of President Biden's American Jobs Plan, then pay for every single penny of his American Families Plan, and still have more than $2 trillion left over."

Wealth tax

Returning to her 2020 presidential campaign platform, Warren argued in favor of her Ultra-Millionaire Tax Act of 2021 (S. 510), which would levy an annual 2 percent surtax on the net worth of households and trusts valued at $50 million to $1 billion and a 3 percent surtax on those valued higher than $1 billion. She says the plan would not raise taxes on 99.9 percent of Americans and that polls show a majority of individuals – Democrats, Republicans, and Independents – support such a tax.
URL: https://www.congress.gov/bill/117th-congress/senate-bill/510/text

"Our tax system is broken. There is one set of rules for wealthy individuals, and another set for the richest people," Warren said.

President Biden did not back a wealth tax during the 2020 presidential campaign nor did he include one in the American Families Plan he unveiled earlier this week. Instead, his plan would increase taxes on upper-income taxpayers through proposals to hike the top individual income tax rate to 39.6 percent, tax certain capital gains at ordinary rates, tax carried interests as ordinary income, and eliminate the step-up in basis for certain inherited assets. (See separate coverage in this issue for additional details on these and other provisions in the president's latest tax package.)

Supporting Warren's wealth tax at the hearing was Abigail Disney, an heir to the Walt Disney family fortune, who said that such a tax would merely slow the growth of her vast holdings – which annually increase primarily through dividends, capital gains, and interest taxed at lower rates than ordinary income – rather than take anything away from her. Disney also agreed with Warren that the proceeds of a wealth tax should be invested in programs such as those included in President Biden's American Jobs Plan and American Families Plan.

"My American dream also includes a lot of people who aren't currently having the benefit of things like roads and schools and parks and good health care and so forth," Disney said. "So to me, it's part of the American dream to step up and pay my fair share."

Law professor David Gamage of Indiana University also endorsed Warren's wealth tax and argued that the president's latest proposals to tax wealthy individuals would not go far enough to make the tax code more equitable.

"President Biden's proposed reforms of limiting the capital gains tax rate preference and limiting the special provision offering step-up of basis upon death should be thought of as important steps toward fixing the personal tax system with respect to the ultra-wealthy, but not as complete solutions," he said.

Taxing 'book' income

To address another of what she characterized as "tax loopholes," Warren also advocated for her proposed Real Corporate Profits Tax – something she championed during her presidential campaign and has said she plans to introduce as legislation.

This proposal would levy a 7 percent flat tax on profits greater than $100 million that corporations report to their shareholders, which Warren argues would ensure that large companies that "make billions of dollars in profits and pay little or nothing in federal income taxes" would be unable to entirely avoid US taxes. Among the current-law provisions Warren cited as allowing multinational corporations to "rig the tax system" are the tax treatment of stock options and foreign profits.

Indiana University's David Gamage said he would recommend going even further towards book tax conformity than the senator's own proposal. Under the 28 percent corporate tax rate the president included in his Made in America Tax Plan (the financing component of his American Jobs Plan), the 7 percent Real Corporate Profits Tax would mean 25 percent conformity, Gamage explained, while 50 percent conformity likely would be optimal.

President Biden's Made in America Tax Plan takes a slightly different approach to taxing "book" income. Specifically, Biden has called for a 15 percent minimum tax that, based on a description in a Treasury Department report, appears to apply to corporations with net "book" income of at least $2 billion, while allowing the benefit of foreign tax credits and business tax credits such as those for investment in R&D and renewable energy. His plan would also give companies credit for taxes they paid above the 15 percent threshold in prior years.
URL: https://home.treasury.gov/system/files/136/MadeInAmericaTaxPlan_Report.pdf

Heightened audit focus

Warren also renewed her recent calls to classify the enforcement component of the Internal Revenue Service's budget as mandatory spending to enhance the agency's ability to focus its audit efforts on the high-income sector. (IRS Commissioner Charles Rettig endorsed that proposal at a recent Finance Committee hearing on the 2021 tax filing season. For prior coverage, see *Tax News & Views*, Vol. 22, No. 20, Apr. 16, 2021.)
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/TNV/210416_3.html

Providing a consistent, reliable funding stream for the Service's enforcement efforts would help it "[make] sure the rich and powerful get caught when they break the law," she said.

The president, for his part, proposes in his American Families Plan to boost the Internal Revenue Service's budget by some $80 billion over 10 years to expand its audits of high-income individual taxpayers and corporations.

Republicans push back

Witnesses invited by the subcommittee's Republican ranking member, Sen. Bill Cassidy of Louisiana, pushed back on Warren's characterization of companies' behavior, arguing that the tax-reducing methods she described are completely legal.

"My main message is that corporations and individuals remit the taxes they do, including in situations some perceive as unfair, frequently because of explicit allowances in the tax code," said Jeffrey Hoopes, an associate professor of business at the University of North Carolina. "In other words, the largest holes in our national tax revenue bucket are ones Congress has, itself, poked, and not the product of elaborate tax planning schemes, as is a current misperception." According to Hoopes, "[i]f members of Congress seek to change the tax system, they should do so in ways that make the tax code simpler, rather than layer on additional taxes that will add complexity to the tax code, be difficult to administer, have unintended negative consequences, and, ultimately, likely be eventually eliminated, making our tax system less stable."

Scott Hodge of the Tax Foundation and Kyle Pomerleau of the American Enterprise Institute also argued against a wealth tax and a tax on corporate book profits. As alternative means of raising revenue, Pomerleau recommended that Congress consider some combination of raising the gas tax, levying a vehicle-miles-traveled tax, implementing a border-adjusted carbon tax, and imposing a value-added tax like all other OECD countries.

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