

Version 1.1.12 of USA Equitable Tax Measures

Each version reflects updates based on community feedback.

EXPECTED THOUGHT LEADERSHIP:

- 1. Congress and its appointed committees have the responsibility to develop a framework for universal health care that will be funded in part by equitable taxation reforms.*
- 2. Aside from health care and education, affordable housing and national debt repayment should be given priority over annual increases to national defense spending.*
- 3. In the event of a national defense crisis, public health care and education services should not be sacrificed or cut in order to increase national defense spending without first increasing taxation on corporations that are directly or indirectly profiting from military engagements.*

MEASURES TOWARD EQUITABLE TAXATION:

1. Adopt Billionaires Income Tax Act (S.2845 / H.R.5427)

Background & Justification:

The primary objective of this bill is to ensure that ultra wealthy individuals pay taxes annually on their income and asset appreciation, thereby limiting tax deferral strategies. Measures in the bill only apply to individuals that satisfy the income or asset tests (i.e., individuals having more than \$100M in modified adjusted gross income or \$1B in assets for three consecutive years).

Primary Measure Implementation Details:

- *The bill addresses the “buy, borrow, die” strategy that many wealthy individuals leverage to hold appreciating assets and borrow against them tax-free until death.*
- *“Tradable covered assets” (such as publicly traded stocks) held by applicable taxpayers are treated as sold for their fair market value on the last day of each taxable year. Gain or loss is recognized annually as if a sale had occurred.*
- *For assets that are not easily tradable (e.g., private business interests), the bill imposes a “deferral recapture amount” upon their transfer. This amount consists of the tax that would have been due if the gain were allocated ratably over the taxpayer's holding period, plus interest.*
- *The bill generally requires gain or loss to be recognized upon the gift, bequest, or transfer in trust of covered assets, effectively ending the “step-up in basis” loophole for these taxpayers.*
- *The bill stipulates that the ultra wealthy are ineligible to use 1031 exchanges (also known as “like-kind” exchanges) that allow real estate investors to avoid capital gains taxes.*
- *The bill modifies the ability of applicable taxpayers to defer gains through investments in qualified opportunity funds.*
- *The complete bill proposal submitted by Senators Wyden, Whitehouse, Warren and others is located on the Senate.gov website: [Billionaires Income Tax Act](#)*

2. Federal inheritance tax on non-estate asset transfers (FITNAT)

Background & Justification:

Asset transfers such as trusts and political packs must not serve as federal tax shelters for the purpose of transferring wealth. Today, each American has what is called a “Unified lifetime estate and gift tax exclusion” that is periodically adjusted and currently set to \$15M. Some very wealthy individuals employ trust and donation strategies to move assets out of their estate in order to avoid paying estate tax above the unified lifetime estate and gift tax exclusion. These strategies have enabled many individuals to transfer unlimited sums of money tax free. Charitable donations are not discouraged because those assets transfers do not need to be counted towards the unified lifetime estate and gift tax exclusion. Furthermore, FITNAT does not apply to asset transfers that are recognized as ordinary income.

Measure Implementation Details:

- By definition, estate tax is levied on the grantor (i.e., the estate) before assets are distributed, while inheritance tax is paid by the grantee (i.e., all beneficiaries) on the assets they receive.*
- Federal inheritance tax on non-estate asset transfers (FITNAT) applies to all wealth transfers outside of an estate. For example: irrevocable trusts, dynasty trusts, Intentionally Defective Grantor Trusts (IDGTs), Grantor Retained Annuity Trusts (GRATs), Super PAC donations, and charitable donations*
- The FITNAT rate will be set to match the federal estate tax rate that is currently set to 40%.*

- *Personal loans, court-ordered personal injury trusts, and 529 education savings plans are exempt from FITNAT.*

3. Handling of high value unsecured personal loans

Background & Justification:

Unsecured personal loans (like Graegin loans) can span decades and provide a means to sidestep estate taxation. The Basic Exclusion Amount (BEA) is also referred to as the “federal estate and gift tax exemption limit” or “unified lifetime estate and gift tax exclusion limit”. The BEA is currently \$15M per individual and \$30M for married couples. Therefore, efforts to sidestep estate taxation apply to estates and gifts totals exceeding those thresholds. In order to reduce this estate tax loophole, the unsecured aggregate principal (i.e., sum total of the principal loaned with unsecured personal loans that is yet to be repaid) of the lender cannot exceed the lender’s BEA.

Measure Implementation Details:

- *The unsecured aggregate principal refers to the sum total of the principal loaned out to one or more individuals or entities that has not yet been repaid to the lender.*
- *A lender’s unsecured aggregate principal cannot exceed their BEA.*
- *Similar to gift handling, one or more unsecured personal loans exceeding the annual gift exclusion must be reported to the IRS.*
- *Defaulted or forgiven unsecured loan principal is counted toward the Unified lifetime estate and gift tax exclusion limit (aka the BEA) and must*

be reported to the IRS by April 15th of the year following the dissolution of the loan.

- *The loan term limit of an unsecured personal loan exceeding the annual gift exclusion is five years.*

4. Tax compensation packages as ordinary income

Background & Justification:

Handle compensation packages as ordinary income to fulfill the intent of the Omnibus Budget Reconciliation Act of 1993 where efforts to limit compensation for top executives was skirted by diverting compensation to stocks and options that are exempt from ordinary income taxation.

Measure Implementation Details:

- *Compensation packages (including stocks, stock options, and ordinary income) are collectively treated as ordinary income and taxed as part of the same tax year for which they are granted.*

5. Tax “carried interest” as ordinary income

Background & Justification:

Carried interest is the share of investment profits paid to private equity, hedge fund, and venture capital managers. These managers get paid based on the combination of investment management fees and fund performance.

Proponents of carried interest argue that the managers are further incentivised when they do not have to pay income tax for managing other people’s money. However, this measure requires that these managers pay ordinary income tax on carried interest instead of the lower long-term capital

gains tax rate. The actual owners of the investments in the managed portfolios would continue to be eligible to pay the long-term capital gains tax rate provided their assets are held for more than a year before selling.

Measure Implementation Details:

- *Carried interest is to be taxed as ordinary income according to the IRS income brackets and rates.*

6. Introduce three income tax brackets

Background & Justification:

Seven federal income brackets are currently defined for seven income ranges that all start below \$1M. The current peak income marginal tax rate (MTR) is 37%. However, the same MTR applies to higher income earners irrespective of how much money they earn above the seventh income bracket. Adding three income tax brackets, conversationally referred to as “elite brackets”, will enable higher MTRs to be applied according to simple formulas anchored by the median income of Americans. Defining higher MTRs for higher earning levels is in keeping with the principle that distinct income tax brackets are already defined for lower earning levels. This measure has NO IMPACT on Americans earning less than 25 times America’s nationwide median individual income by filing status. Furthermore, this measure has no bearing on estate or inheritance taxation. For example, a brain surgeon earning \$750,000 per year is not impacted because that individual is earning far less than 25 times the nationwide median income and that individual’s MTR would remain at 37%.

Measure Implementation Details:

- *Add three income tax brackets, conversationally referred to as “elite brackets” that apply to the portion of individual adjusted gross incomes (AGIs) that are at or above 25 times America’s nationwide median individual income by filing status. For example, in 2022 the median individual income for ‘Married Filing Jointly’ was \$110,800 and an income at or above \$2,770,000 would be taxed at an elite rate.*
- *The elite bracket ranges are the following: The first elite bracket taxation rate is 55% and applies to any individual with an AGI that is 25 to 50 times greater than the median individual income by filing status. The second elite bracket taxation rate is 75% and applies to any individual filing with an AGI that is 50 to 100 times greater than the median individual income by filing status. The third elite bracket taxation rate is 95% and applies to any individual with an AGI that is 100 times or greater than the median individual income by filing status.*
- *The income value ranges of the elite brackets are recalculated using the latest available median individual income each year to ensure the bracket income ranges are indexed for inflation. This recalculation is done according to the same schedule that is used to index the preexisting income tax brackets for inflation.*

7. Introduce Make Billionaires Pay Their Fair Share Act

Background & Justification:

After being a Senator for over 19 years, Bernie Sanders has recently introduced a bill aimed at taxing the wealthy. Many people will be standing by to see whether this bill is adopted.

Measure Implementation Details:

- *The bill proposes a 5% annual wealth tax on U.S. billionaires.*

The latest version of the USA Equitable Tax measures is available online:

<https://usaequitabletax.org/measures>