

# Democratic Tax Policy Proposals

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Recently, several of the presidential candidates and other prominent Democrats have suggested a number of different tax policy proposals, including wealth taxes, mark-to-market taxation, a VAT, additional taxes, increased income tax rates, and increased gift and estate taxes. This chart illustrates the various proposals, and this blog summarizes them.[\[1\]](#)

<b>Wealth Taxes</b>	<b>Mark-to-Market Tax</b>	<b>VAT</b>	<b>Increased Taxes</b>	<b>Financial Transaction Tax</b>	<b>Additional Taxes</b>	<b>Increased Gift &amp; Estate Tax</b>
Bernie Sanders	Cory Booker	Andrew Yang	Alexandra Ocasio-Cortez	Bernie Sanders	Beto O'Rourke (War Tax)	Bernie Sanders
Elizabeth Warren	Ron Wyden		Bernie Sanders	Kamala Harris	Bernie Sanders (CEO Pay Tax)	Julián Castro

Julián  
Castro

Andrew  
Yang

Elizabeth  
Warren  
(Social  
Security  
Tax and  
Lobbying  
Tax)

### Elizabeth Warren's and Bernie Sander's Wealth Tax Proposals

Sens. Elizabeth Warren (D-Mass.) and Bernie Sanders (I-Vt.) have proposed similar wealth taxes. The Sanders proposal imposes a wealth tax of between 1% and 8% on individuals with a net worth of at least \$16 million for single individuals or \$32 million for married filers. Warren would impose a 2% wealth tax on net worth between \$50 million and \$1 billion, and a 3% wealth tax on net worth greater than \$1 billion.

The chart below compares the two proposals.

#### Tax Rates

#### Sanders's Proposal

For married filers:

- 1% tax on net worth of \$32 mill
- 2% tax on net worth of \$50 mill
- 3% on net worth of \$250 millior
- 4% on net worth of \$500 millior
- 5% on net worth of \$1 billion to
- 6% on net worth of \$2.5 billion t
- 7% on net worth of \$5 billion to
- 8% on net worth exceeding \$10
- (these brackets would be halved

**Revenue projections over a decade**[\[3\]](#) \$4.35 trillion

**Number of households affected**[\[4\]](#) 180,000 households

### **Ron Wyden’s, Corey Booker’s, and Julián Castro’s Mark-to-Market Proposals**

Sen. Ron Wyden (D-Ore.) and presidential candidates Sen. Cory Booker (D-N.J.) and Julián Castro have each proposed “mark-to-market” taxes on wealthy and high-income individuals. Each of these proposals would tax unrealized gains in publicly-traded property, and would impose an additional tax upon the sale of nontraded property. Each of the proposals would also increase the capital gains rate so that it is equal to the ordinary income rate for these taxpayers.

#### *Ron Wyden’s Mark-to-Market Proposal*

Wyden’s mark-to-market proposal would apply to individuals, estates or trusts with income in excess of \$1 million or assets exceeding \$10 million in each of the three prior tax years.[\[5\]](#) For purposes of determining whether the \$10 million asset test is satisfied, the first \$2 million of combined value of a taxpayer’s primary and secondary personal residences would be excluded, the value of a taxpayer’s operating family farm would be included only to the extent it exceeds \$5 million, and the first \$3 million of a taxpayer’s retirement savings would be excluded.

These taxpayers would be required to “mark-to-market” their publicly-traded assets on an annual basis and pay a tax on any appreciation (or take a loss on any depreciation) at the end of the tax year as if they had been sold.

In addition, a “look-back charge” would be imposed on gains from non-publicly traded assets like closely-held businesses, investment real estate, and art and collectibles, upon a realization event, which would generally include any transfers of these types of property or the death of the owner. The look-back charge would minimize any benefit of deferring the tax until disposition of the asset. However, the proposal requests comments as to whether the look-back charge should be an interest charge on deferred tax, a yield-based tax, or a surtax based on an asset’s holding period.

Proceeds from the primary and secondary residences of a taxpayer only in excess of \$2 million, and proceeds from a family farm only in excess of \$5 million, would be subject to the look-back charge rule. Wyden’s proposal would not apply to assets held in tax-preferred savings accounts, which would continue to be taxed in the same manner as under current law.

Wyden’s proposal would also include transition rules that would require taxpayers to pay tax on pre-proposal built-in gains over an unspecified period.

Publicly-traded corporations would generally not be subject to Wyden’s proposal, but there would be anti-abuse rules that would prevent taxpayers from using a corporation to avoid application of the mark-to-market rules. The Wyden proposal would apply the regime at the partner or S corporation shareholder level, and an interest in a partnership or S corporation would generally be treated as a nontraded asset.

### *Cory Booker*

Cory Booker has proposed a mark-to-market tax that would apply in a manner similar to Wyden’s.[\[6\]](#)

Booker’s proposal would impose a mark-to-market tax on publicly-traded assets and a yield-based tax upon the sale of non-traded assets. The yield-based tax would result in the same tax as for the owner of publicly-traded property, assuming each appreciated on a constant basis, and the taxpayer sold stock with a value equal to the tax in each year. Booker’s plan would allow taxpayers to prepay taxes to minimize the yield-based tax. Realization for these purposes would include death and transfers to other family members and entities as well as gifts of appreciated property to charities. Booker’s proposal would also repeal section 1031 (the “like-kind exchange”) which permits taxpayers to exchange real estate tax-free.

Booker's mark-to-market regime would apply only to gains realized after the taxpayer exceeds a \$2 million lifetime exemption on combined realized and unrealized gains. Taxpayers below this threshold would continue to pay taxes on capital gains upon realization, rather than under the mark-to-market regime.

### *Julián Castro*

Julián Castro has also proposed a mark-to-market system for the wealthiest 0.1 percent of taxpayers.[\[7\]](#)

Like Wyden's and Booker's proposals, Castro's tax would be imposed annually on the unrealized gains of publicly-traded securities, regardless of whether the securities are sold. Castro's plan also contemplates an unspecified look-back tax on the sale of nontraded property, similar to Wyden's. Realization would include death and transfers to family members.

Castro would raise the capital gains tax rate to match ordinary income tax rates for individuals who earn \$400,000 or more. Castro would also raise the ordinary income rate to 40%.

#### **Wyden's Proposal**

##### **Capital Gains Tax Rate**

Increase to match marginal ordinary income tax rates, but the rates low-income individuals would not change

##### **Tradeable Assets**

Tax on traded assets by marking-to-market on an annual basis

##### **Non-tradeable assets**

Unspecified lookback charge on nontraded assets upon realization event

##### **Threshold**

Taxpayers subject to mark-to-market regime if they earn more than \$1 million of income or have more than \$10 million in assets in each of three preceding years

## **Andrew Yang's VAT Proposals**

Presidential candidate Andrew Yang has proposed a 10% value-added tax (VAT).[\[8\]](#) Groceries and clothing would be excluded.

Yang estimates that the VAT would generate \$800 billion in new revenue.

The revenue would be used to provide every U.S. citizen over the age of 18 with a guaranteed income of \$1,000 per month regardless of income or employment status, which Yang calls a “freedom dividend.”

## **Income Tax Proposals**

### *Bernie Sanders*

Bernie Sanders has proposed to increase the individual marginal income tax rate as follows:

- 40% (from 37%) on income between \$250,000 and \$500,000

- 45% on income between \$500,000 and \$2 million

- 50% on income between \$2 million and \$10 million

- 52% on income above \$10 million.

Sanders also proposes to cap itemized deductions at 28% for households making over \$250,000, and to repeal the 20% “pass-through deduction”.

Sanders proposes to restore the corporate tax rate to 35% (from 21% currently), treat large master-limited and other partnerships as corporations for tax purposes, eliminate expensing and accelerated depreciation for corporations so that investments are depreciated based on their economic life. Sanders would also limit the interest deductions of corporations to 20% of adjusted taxable income, and tighten the related party rules.[\[9\]](#)

Sanders would also revise the international tax rules by taxing worldwide income at the U.S. corporate rate (i.e., Sanders would repeal the 10.5% global intangible low-taxed income (GILTI) rate) and apply a per-country limit on foreign tax credits (i.e., disallow cross-crediting).

Sanders would further restrict inversions by limiting interest deductions (presumably only for inverted corporations) to 105% of a U.S. corporation's share of net interest expense over worldwide income (presumably based on the group's income).

Sanders would also treat companies that are managed and controlled in the United States as domestic corporations, and would drastically expand the definition of an "inverted corporation" to one owned by 50% of the same (presumably U.S.) shareholders after a merger.

Sanders would retain the "base erosion and anti-abuse tax" (BEAT) but increase the rate to 17.5% (from 10%), and exclude deductible payments that give rise to includable U.S. income. He would repeal the reduced 13.125% tax rate for "foreign derived intangible income" (FDII), and deny U.S. foreign tax credits for excise tax payments by oil, extractive, gambling, and other companies.

Finally, Sanders would require corporations with revenues over \$25 million to publicly disclose significant portions of their tax returns and country-by-country financial information.

#### *Alexandria Ocasio-Cortez*

Rep. Alexandria Ocasio-Cortez (D-N.Y.) has suggested that the top marginal income tax rate could be raised as high as 70% as part of her "Green New Deal".

The Washington Post reported that a tax rate of 70% on income over \$10 million could raise an additional \$720 billion of new revenue over a decade.[\[10\]](#)

### **Financial Transaction Tax Proposals**

Bernie Sanders, Kamala Harris, and Andrew Yang have each proposed financial transaction taxes on trades of stocks, bonds and derivatives.

Bernie Sanders would apply a 0.5% tax for stocks, a 0.1% tax for bonds, and a 0.005% for derivatives, and would provide an income tax credit to offset the financial transaction tax for taxpayers with income of less than \$50,000 (or \$75,000 for couples). Kamala Harris' financial transactions tax is similar to Sanders', except that her tax rate would be lower than his (0.2% for stock trades and 0.002% for payments under derivative contracts) and she has not indicated whether any taxpayers would be exempt from the tax. Sanders estimates that his proposal would raise over \$2.4 trillion in revenue over 10 years, and Harris projects that her tax would raise over \$2 trillion over that period.

Andrew Yang has also proposed a 0.1% tax on financial transactions.[\[11\]](#) Yang projects that this tax would raise \$50 billion in revenue per year and would finance his "freedom dividend".

### **Proposals for Additional Taxes**

#### *Beto O'Rourke's War Tax*

Beto O'Rourke (D-Texas) has proposed an additional "war tax" as part of a broader initiative to improve care for veterans.[\[12\]](#)

Each Congressionally-authorized war would trigger a separate "war tax," covering the entire duration of combat activities. The revenue generated from the war tax would go into a new trust for veterans established at the outset of each war. The trust funds would support hospital care, medical services, disability compensation and any other programs directly related to the care of veterans of that war.

The war tax would be levied on households without current or veteran members of the armed forces and implemented on a progressive basis as shown below. The policy has no stated exemptions for low-income taxpayers.

<b>Adjusted gross income of the taxpayer</b>	<b>Amount of tax</b>
Less than \$30,000	\$25
At least \$30,000 but less than \$40,000	\$57
At least \$40,000 but less than \$50,000	\$98
At least \$50,000 but less than \$75,000	\$164
At least \$75,000 but less than \$100,000	\$270

At least \$100,000 but less than \$200,000	\$485
At least \$200,000	\$1,000

### *Bernie Sander's Exorbitant CEO Pay Tax*

Bernie Sanders has also proposed to impose additional taxes on corporations based on the ratio of its CEO's compensation and its median employees' compensation. His plan would apply to publicly and privately-held companies with annual revenue of \$100 million or more.

0.5% between 50 and 100 to 1

1% for ratios between 100 and 200 to 1

2% for ratios between 200 and 300 to 1

3% for ratios between 300 and 400 to 1

4% for ratios between 400 and 500 to 1

5% for ratios over 500 to 1

Sanders estimates that if median worker pay is increased to \$60,000 a year and CEO pay is capped at \$3 million, no additional tax would result. However, if corporate behavior does not change, Sanders estimates that the proposal would generate an additional \$150 billion in revenue over a decade. This revenue would be used to pay for Sander's proposal to eliminate medical debt.

### *Elizabeth Warren's Social Security Tax*

Warren has proposed a new 14.8% contribution requirement on annual earnings of \$250,000 (or \$400,000 for joint filers), split evenly between employers and employees. She would also impose a separate 14.8% tax on net investment income of taxpayers who meet those thresholds. The revenue would be used to fund the Social Security Trust Fund and permit current and future recipients of Social Security to receive an additional \$200 in monthly benefits.

### *Elizabeth Warren's Lobbying Tax*

Warren has proposed that companies and organizations that spend between \$500,000 and \$1 million a year on lobbying would pay a 35% tax on those expenditures. Lobbying expenditures over \$1 million would be subject to a 60% tax, and lobbying expenditures over \$5 million would be subject to a 75% tax.

## **Gift & Estate Tax Proposals**

*Cory Booker*

Booker also has proposed to restore the estate tax structure to 2009 levels and rates by lowering the threshold value of estates subject to the tax to \$7 million for married taxpayers from the current \$22.8 million threshold.

*Bernie Sanders*

Sanders would also reduce the threshold value of estates subject to estate tax to \$7 million for married taxpayers. In addition, the existing flat 40% estate tax rate would be replaced with the following progressive rates:

45% for the value of an estate between \$3.5 million and \$10 million

50% for the value of an estate between \$10 million and \$50 million

55% for the value of an estate in excess of \$50 million

An additional 10% surtax would apply to estate value in excess of \$500 million (\$1 billion for married couples).

Sanders also proposes to (1) change the rules for “grantor retained annuity trusts” (“GRATs”) and other types of trusts and valuation techniques, and (2) increase existing protections for farmland and conservation.

*Julián Castro*

Julián Castro would replace the estate and gift tax with an income and payroll tax on inheritances in excess of a \$2 million lifetime exemption. Castro estimates that the new inheritance tax would generate \$250 billion in revenue over 10 years.

## **Discussion**

The wealth tax proposals each apply only to the wealthiest Americans and have no effect on other taxpayers. If the wealth tax proposals were enacted without changes to the income tax, taxpayers subject to them who earn current income would be subject to both the income tax and the wealth tax with respect to that income. However, taxpayers who hold (and do not sell) appreciated assets would be subject only to the wealth tax. Thus, the proposals retain the current disparate tax treatment between capital and labor. Also, the wealth tax requires annual valuations and is subject to constitutional challenge. On the other hand, because the wealth tax generates revenue each year, it is more likely to raise revenue even when faced with the possibility of repeal by a future Congress.[\[13\]](#)

Wyden's and Booker's mark-to-market proposals apply to many more taxpayers than either wealth tax. Castro's proposal is limited to the top 0.1% wealthiest individuals. Each of the proposals would impose tax on appreciated holdings, but not on labor (which is currently subject to current tax at the highest marginal rates). Thus, the proposals generally equalize the tax treatment of labor and capital. Each of the mark-to-market proposals would be relatively easy to apply to publicly-traded assets, but would be more complicated to apply to non-traded assets. Mark-to-market taxation is widely believed to be constitutional but still may be subject to challenge. A look-back regime or yield-based tax for nontraded assets may raise less revenue if taxpayers anticipate that it will be repealed by a future Congress and delay realization until after repeal.[\[14\]](#)

Andrew Yang's VAT would apply to all Americans, including low and middle-income taxpayers. Although VATs are generally regressive, the regressive effect of Yang's VAT is offset somewhat by the use of the revenue to pay his freedom dividend.

The financial transaction taxes proposed by Sanders, Harris and Yang would fall disproportionately on the wealthy (who have more financial assets) but it would also be borne by foreigner taxpayers, who hold about 20% of U.S. long-term securities.[\[15\]](#) A financial transactions tax does not present significant valuation difficulties because the tax is imposed when the securities are sold or exchange. It also would not face constitutional challenge.[\[16\]](#) However, it could affect market liquidity and would be borne to some extent by the middle class.

[\[1\]](#) Several candidates have proposed repeal of the Tax Cuts and Jobs Act. This chart does not reflect that proposal.

[2] Assets held anywhere in the world would be included in the net worth measurement, including residences, closely held businesses, assets held in trust, retirement assets, assets held by minors, and personal property with a value of \$50,000 or more.

[3] These estimates are from Emmanuel Saez and Gabriel Zucman, two economists at the University of California, Berkeley, with whom both the Sanders and Warren campaigns consulted as they developed their proposals.

[4] These are estimates produced by Emmanuel Saez and Gabriel Zucman.

[5] These thresholds would apply to both single and joint filers and would be indexed for inflation. A taxpayer with income or assets that exceed either of the thresholds would be subject to the regime until the taxpayer fails to meet both income and asset requirements for three consecutive tax years, at which point the taxpayer could elect out of anti-deferral accounting.

[6] "Opportunity and Justice for Workers," Cory 2020, <https://corybooker.com/issues/economic-security-and-opportunity/opportunity-and-justice-for-workers/>.

[7] "Working Families First," Julián Castro 2020, <https://issues.juliancastro.com/working-families-first/>.

[8] "What is Universal Basic Income?", Yang 2020, <https://www.yang2020.com/what-is-freedom-dividend-faq/>.

[9] It appears that these changes would be limited to C corporations.

[10] Jeff Stein, "Ocasio-Cortez wants higher taxes on very rich Americans. Here's how much money that could raise.", Washington Post (Jan. 5, 2019), <https://www.washingtonpost.com/business/2019/01/05/ocasio-cortez-wants-higher-taxes-very-rich-americans-heres-how-much-money-could-that-raise/>.

[11] Yang’s proposal seems to be similar to the bill introduced by Sen. Brian Schatz (D-Hawaii) and Rep. Peter DeFazio (D-Ore.) that would impose a 0.1% tax on trades of stock, bonds, and derivatives. See S. \_\_\_, 116th Cong. (2019), [https://www.schatz.senate.gov/imo/media/doc/WSTA%20Final.pdf?mod=article\\_inline](https://www.schatz.senate.gov/imo/media/doc/WSTA%20Final.pdf?mod=article_inline). The Congressional Budget Office estimated that the tax would raise \$770 billion over a 10-year period. See Congressional Budget Office, “Impose a Tax on Financial Transactions”, CBO (Dec. 13, 2018), [https://www.cbo.gov/budget-options/2018/54823?mod=article\\_inline](https://www.cbo.gov/budget-options/2018/54823?mod=article_inline).

[12] The proposal mirrors the Veterans Health Care Trust Fund Act, which stalled in the House of Representatives when he introduced it in 2016 and 2017 and died without a hearing. “Beto O’Rourke’s War Tax Is a New Approach”, Tax Foundation, <https://taxfoundation.org/beto-orourke-war-tax/>.

[13] See Daniel Hemel, “Taxing Wealth in an Uncertain World” (Draft, Sept. 17, 2019).

[14] See Hemel, footnote 13.

[15] See David Kamin & Lily Batchelder, “Taxing the Rich: Issues and Options” (Aspen Instit., Sept. 2019).

[16] See Kamin & Batchelder, footnote 15.

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