Advisory Blog

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Disclosure

Taxes

Should the world's richest taxpayers pay more to combat climate change, poverty?

By: Eaton Vance on Washington | May 6, 2024

U.S. billionaires, already feeling the squeeze from two proposals to increase taxes, face mounting pressure to join their wealthiest peers around the world in sharing more of their riches to help the poorest people and the planet.

Under current law, U.S. billionaires with hefty stock portfolios and other appreciated assets can borrow money using their financial assets as collateral and pay little to no taxes on the cash they spend. Loopholes in U.S. tax code permit billionaires like Larry Ellison and Elon Musk to pay taxes of about 1% of the increases in their wealth, which is considered "income." Americans for Tax Fairness in January released its analysis of Federal Reserve data on household income and wealth, which found that U.S. taxpayers with at least $100 million of wealth collectively clutched at least $8.5 trillion of "unrealized capital gains" in 2022.

The proposed Billionaires Income Tax Act would subject U.S. taxpayers with more than $100 million in annual income or more than $1 billion in assets for three consecutive years, to pay taxes on the "income" they earn on an annual basis. This would require stocks to be marked-to-market annually and create a taxable event at the close of each fiscal year. A taxpayer's basis for an asset would be adjusted appropriately for any gain or loss realized because of a taxable event.

Moreover, any capital gain or capital loss related to a tradable covered asset would be treated as long-term capital gain or loss, regardless of holding period, absent the requirement of different treatment under a different applicable code section. Non-tradable assets, such as real estate or a business interest, would not be taxed annually, but if a non-tradable asset is sold, the tax imposed upon any gain would be increased by a "deferral recapture amount" or "interest charge."

The Billionaire Minimum Income Tax Act would impose a minimum tax of 25% on total income, generally to include unrealized capital gains for U.S. taxpayers with a net worth greater than $100 million. The tax would be fully phased in for all taxpayers with net worth wealth greater than $200 million. This proposal includes a tax liability for "non-readily tradable assets" subject to a limited deferral option and to adjustment for "deemed appreciation," as well as special rules regarding transfers designed to avoid tax and an option for satisfaction of tax liability in installments.

One U.S. billionaire has repeatedly said he is "proud to pay" taxes. Mark Cuban, former principal owner and current minority owner of the Dallas Mavericks, confirmed with CNBC Make It on Monday in April that the $275.9 million he owes for 2023 was "wired today."

Most billionaires aren't as eager to pay what proponents of the U.S. tax proposals consider a "fair share," and now they face a global grab.

The finance ministers of Brazil and France have called for a tax on U.S. dollar billionaires of at least 2% of their wealth each year, hoping to shore up $250 billion to combat poverty, hunger and climate change.

Brazil's Fernando Haddad and France's Bruno Le Maire made their plea in April at the Spring Meetings of the World Bank and International

Monetary Fund (IMF) in Washington, alongside IMF head Kristalina Georgieva and Kenyan finance minister Njuguna Ndung'u. French economist Gabriel Zucman is writing a proposal to be presented to G20 finance ministers and central bankers when they meet in Rio De Janeiro in July. Haddad said he wanted the Group of 20 economies to issue a statement of support. Le Maire said the wealth tax should be implemented by 2027, a decade after reform of the international taxation system began.

Not every global economic powerhouse is on board. At an April press conference in Washington, Germany's finance minister Christian Lindner, of the free-market Free Democratic Party, part of Germany's governing coalition with the center-left and Greens, said: "We do not think it is suitable. We have an appropriate taxation of income."

Meanwhile, the U.S. Internal Revenue Service (IRS) has been cracking down on the wealthiest scofflaws. IRS Commissioner Danny Werfel said in February that the agency has launched multiple initiatives aimed at taxpayers with the most complex returns to fight tax evasion and go after the nation's millionaires and billionaires who owe more than $150 billion a year in taxes.

Bottom Line: The wealthiest taxpayers in the U.S. and around the world are facing increased scrutiny and demands as governments seek to whittle deficits and fund programs for the less fortunate. Wealthy individuals should speak with their financial advisors about how these proposals may impact portfolio allocations and individual tax strategies.

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