

The Wealth Tax: What it is, Who Wants it and the Implications to the UHNW

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The 2020 Presidential election is shaping up to be one of the most intense in recent memory. Several issues are splitting candidates, parties and voters; none has proven to be more divisive than the wealth tax proposed by two Democratic candidates. The proposals from Sens. Bernie Sanders and Elizabeth Warren have proven to be quite controversial, polarizing parties and even economists. At the least, their wealth tax

provisions need to be studied by ultra-high-net-worth individuals and the professionals that serve them.

Before we get into the differences between the two proposals, let's define a wealth tax, as the notion has received disparate, and often conflicting, descriptions.

The Wealth Tax

In short, a wealth tax is one levied on the value of the total assets someone holds, as opposed to their income or compensation. A wealth tax is connected to a variety of assets, including cash, bank deposits, equity shares, automobiles and boats, real estate, pension plans, housing and trusts. You can think of it as a sort of property tax; the difference with the wealth tax is that it is applied to a person's total assets when they achieve a certain level of wealth.

The United States has never instituted a wealth tax, unlike some European nations, instead opting for a national income tax and various other revenue-generating fees. Property taxes have primarily been collected on the state and local level, while estate taxes are only levied upon death.

Despite having support from voters on both sides, a wealth tax bill would have to overcome fierce opposition in both houses of Congress and The White House before becoming law (not to mention likely litigation up to the Supreme Court).

Differences in the Plans

While Sanders and Warren both say that a wealth tax will help alleviate the inequality they often criticize, there are substantial differences between the two proposals.

Sanders, who introduced his campaign's plan in September 2019, would impose a wealth tax on those with net assets of over \$32 million; Warren's tax would affect people with more than \$50 million. She announced her wealth tax (called the Ultra-Millionaire Tax) in January 2019.

Furthermore, the two plans differ in the number of brackets. Warren's plan contains two tax brackets: 2% for people with \$50 million or more in assets and 6% for assets

above \$1 billion. On the other hand, Sanders's proposal has eight brackets: his plan would kick in with a 1% tax on wealth over \$32 million and rise to a top level of 8% for wealth above \$10 billion. According to Emmanuel Saez and Gabriel Zucman, economists at the University of California, Berkeley, who study wealth in America, Sanders' plan would affect around 182,000 HNW and UHNW people, and Warren's plan would impact 70,000-75,000.

The Sanders camp states that his wealth tax would raise an estimated \$4.35 trillion over the next decade and "cut the wealth of billionaires in half over 15 years."

Warren claims that her wealth tax, "a small tax on the great fortunes", would bring in nearly \$4 trillion in revenue.

Another feature Warren is touting is the opportunity to defer tax payments (with the accrual of interest) for up to five years. This is geared for the HNW individual who has liquidity issues and "truly exceptional circumstances."

A Major Hurdle with Both Plans: Enforcement

Critics of the wealth tax proposals say that they would both face serious administrative and compliance challenges, primarily due to valuation difficulties and tax avoidance efforts. Measuring the real worth of such assets as bank accounts, stocks, artwork and other private investment vehicles might also pose a regulatory and logistical challenge come tax time.

In response, both campaigns have their own ideas of how to enforce the tax. The Sanders campaign has said it wants to create a "national wealth registry and significant additional third-party reporting requirements." Additionally, he is calling on the IRS to perform an audit of 30 percent of wealth tax returns for those in the 1 percent bracket and a 100 percent audit rate for all billionaires.

Warren's campaign also proposes a significant increase in the IRS enforcement budget, as well as a "minimum audit rate" for wealthy taxpayers. Her program would also levy a 40% exit tax on the net worth above \$50 million of any U.S. citizen who renounces their citizenship."

Economists Saez and Zucman have also recommended several enforcement

measures, including asking financial institutions to report relevant data to the IRS, obtaining real estate values from local governments and using state records to determine the value of vehicles. Either way, the prevailing sentiment is that a wealth tax would precipitate the need for the IRS to substantially add resources.

As the primary season continues, the notion of a wealth tax should be front-and-center for the UHNW. Families should monitor how this unfolds and can proactively address the impact on their existing financial strategies.