Democratic Tax Policy Proposals 2020

Article By
David S Miller
Bowon Koh
Sean Webb
Proskauer Rose LLP
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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]

This blog was updated on February 27, 2020.[2]

<table>
<thead>
<tr>
<th>Wealth Taxes</th>
<th>Mark-to-Market Tax</th>
<th>VAT</th>
<th>Increased Financial Transaction Tax</th>
<th>Additional Taxes</th>
<th>Increased Gift &amp; Estate Tax</th>
<th>Tax Repeal of stepped-up basis</th>
<th>Death as a Realization Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernie Sanders</td>
<td>Cory Booker</td>
<td>Andrew Yang</td>
<td>Joe Biden</td>
<td>Bernie Sanders</td>
<td>Beto O’Rourke (War Tax)</td>
<td>Julián Castro</td>
<td>Romney and Bennet</td>
</tr>
<tr>
<td>Elizabeth Warren</td>
<td>Pete Buttigieg</td>
<td>Mike Bloomberg</td>
<td>Kamala Harris</td>
<td>Bernie Sanders (CEO Pay Tax)</td>
<td>Bernie Sanders</td>
<td>Mike Bloomberg</td>
<td></td>
</tr>
<tr>
<td>Julián Castro</td>
<td>Cory Booker</td>
<td>Elizabeth Warren</td>
<td></td>
<td>Elizabeth Warren (Social Security Tax and Lobbying Tax)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[1]

[2]
Elizabeth Warren’s and Bernie Sanders’ 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 6% wealth tax on net worth greater than $1 billion.[3]

The chart below compares the two proposals.

<table>
<thead>
<tr>
<th>Sanders’s Proposal</th>
<th>Warren’s Proposal</th>
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</thead>
<tbody>
<tr>
<td><strong>Tax Rates</strong></td>
<td></td>
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<tr>
<td>For married filers:</td>
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<tr>
<td>• 1% tax on net worth of $32 million to $50 million</td>
<td>• 2% tax on net worth[4] between $50 million and $1 billion</td>
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<tr>
<td>• 2% tax on net worth of $50 million to $250 million</td>
<td>• 6% tax on net worth above $1 billion</td>
</tr>
<tr>
<td>• 3% on net worth of $250 million to $500 million</td>
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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. 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

Booker has proposed a mark-to-market tax that would apply in a manner similar to Wyden’s.[8]

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.

Pete Buttigieg and Elizabeth Warren

Buttigieg and Warren each have proposed a mark-to-market tax for the wealthiest 1% of individual taxpayers and to tax capital gains and dividends at ordinary income rates for these taxpayers. Only traded assets would be marked-to-market. A separate but unspecified regime would apply to nontraded assets. Buttigieg and Warren each estimate that this tax would generate over $2 trillion in revenue over 10 years.

Julián Castro

Julián Castro has proposed a mark-to-market system for the wealthiest 0.1% of taxpayers.[9]

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%.

Alexandria Ocasio-Cortez and Jan Schakowsky

Rep. Alexandria Ocasio-Cortez (D-N.Y.) and Rep. Jan Schakowsky (D-Ill.) plan to introduce a bill that would implement a mark-to-market system and increase the capital gains tax rate to match
ordinary income tax rates.[10] The details of the bill are not yet available.

<table>
<thead>
<tr>
<th></th>
<th>Wyden’s Proposal</th>
<th>Booker’s Proposal</th>
<th>Buttigieg’s and Warren’s Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Gains Tax Rate</td>
<td>Increase to match marginal ordinary income tax rates, but the rates of low-income individuals would not change</td>
<td>Increase to match marginal ordinary income tax rates</td>
<td>Increase to match ordinary income tax rates for wealthiest 1% of individual taxpayers</td>
</tr>
<tr>
<td>Tradeable Assets</td>
<td>Tax on traded assets by marking-to-market on an annual basis</td>
<td>Tax on traded assets by marking-to-market on an annual basis</td>
<td>Tax on traded assets by marking-to-market on an annual basis</td>
</tr>
<tr>
<td>Non-tradeable assets</td>
<td>Unspecified lookback charge on nontraded assets upon realization event</td>
<td>Yield-based tax on nontraded assets</td>
<td>Unspecified tax or charge on nontraded assets</td>
</tr>
<tr>
<td>Threshold</td>
<td>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</td>
<td>Taxpayers subject to mark-to-market regime if they exceed lifetime $2 million exemption for realized and unrealized gains</td>
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**Andrew Yang’s VAT Proposals**

Presidential candidate Andrew Yang has proposed a 10% value-added tax (VAT).[11] 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**

**Michael Bennet’s and Mitt Romney’s Proposal to Repeal Stepped-Up Basis**

Sens. Michael Bennet (D-Colo.) and Mitt Romney (R-Utah) have proposed to repeal stepped-up basis for investments that are passed to heirs at death, subject to an exemption of $1.6 million for individuals and $3.7 million for married couples.[12] Under current law, the basis of property acquired from a decedent is stepped-up to the fair market value at death with the result that appreciation in the property during the life of the decedent is not subject to income tax. [13] Bennet and Romney would repeal section 1014; as a result, a taxpayer who acquires property
from a decedent would receive that property with the decedent’s tax basis, and upon a sale of that property, the taxpayer would pay tax based on the decedent’s original tax basis. The exemption of $1.6 million for individuals and $3.7 million for married couples is sometimes referred to as a “sprinkle basis” system (similar to the system briefly in place in 2010) and would allow the executor of an estate to “sprinkle” additional basis to assets passing from a decedent.[14]

**Joe Biden**

Former Vice President Joe Biden would restore the top individual income tax rate to 39.6% (from 37%), would tax capital gains at the same rate as ordinary income (39.6% rather than 20% under current law) for taxpayers who earn more than $1 million,[15] and would tax unrealized capital gains at death.[16] Biden would also repeal the $10,000 cap on the state and local tax deduction, but would limit the value of deductions for high-income individuals to 28%. Finally, Biden would repeal the “pass-through” deduction, which allows certain income from flow-through businesses to be taxable at a reduced effective rate of 29.6%.

Biden would increase the corporate tax to 28% (from 21%), double the “global intangible low-taxed income” (“GILTI”) tax from 10.5% to 21% (and from 13.125% to 26.250% starting in 2026). Biden would also impose a 15% minimum tax on book income of companies that report net income of more than $100 million in the United States, but paid zero or negative income tax.[17] Biden estimates that his tax proposals will raise more than $3.4 trillion over ten years.[18]

**Mike Bloomberg**

Mike Bloomberg’s proposal would raise the top individual income tax rate to 44.6% for taxpayers who earn more than $5 million a year and would otherwise restore the pre-tax reform rates for high-income earners (i.e., from 39.6 to 37%). Bloomberg’s proposal would tax capital gains at the same rate as ordinary income for taxpayers who earn more than $1 million and appears to treat death as a realization event.[19] He would repeal the 20% “pass-through” deduction and eliminate the carried-interest loophole. Bloomberg also proposes to repeal the “like-kind” provision that permits real estate investors to defer tax indefinitely on exchanges of real property.

Bloomberg would also raise the corporate tax rate to 28% (from 21%). He also proposes to increase the GILTI rate and apply it on a per-country, not global, basis.

**Pete Buttigieg**

Pete Buttigieg would restore the top individual income tax rate to 39.6% (from 37%) for the top 2% of taxpayers, would tax capital gains at the same rate as ordinary income (39.6% rather than 20% under current law) for the highest 1% of earners, and would increase Social Security taxes for the top 2% of taxpayers.[20] He would also repeal the 20% “pass through deduction” and change the treatment of carried interest.

Buttigieg would restore the corporate tax to 35% (from 21%).

**Bernie Sanders**

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 would also tax capital gains at the same
rate as ordinary income for households making over $250,000.

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.[21]

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% 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.

**Elizabeth Warren**

Warren has several proposals to increase taxes on individuals and corporations that would raise revenue for her Medicare for All plan.[22] First, Warren would restore the top individual income tax rate to 39.6% (from 37%) and restore the corporate tax rate to 35% (from 21%). In addition, under Warren’s proposal, foreign earnings would be subject to a country-by-country minimum tax at the same rate of 35% on a worldwide basis. Foreign corporations would also subject to U.S. tax based on their U.S. sales, which would be equal to what they would have owed if they were subject to a country-by-country minimum tax. Warren would also eliminate immediate expensing of investments for corporations and require them to depreciate or amortize investments based on the investment’s economic life.

Warren has also proposed a 7% surtax on corporations with worldwide profits exceeding $100 million. This new surtax would be separate from the existing corporate tax. Warren estimates that Amazon would pay $698 million in taxes if the surtax was adopted.

**Amy Klobuchar**

To finance her higher education plan, Sen. Amy Klobuchar proposes raising taxes on capital gains and dividends for taxpayers in the two highest income tax brackets. She would also impose a 30% minimum tax on people earning more than $1 million.[23]

**Alexandria Ocasio-Cortez and Jan Schakowsky**

Ocasio-Cortez’s and Schakowsky’s bill would increase the top marginal individual income tax rate to 59%.[24] They estimate that when combined with federal payroll taxes and state and local taxes, the effective income tax rate for taxpayers who earn over $10 million would be 70%. This increase in individual income tax rate to 59% is estimated to raise about $2 trillion or more over a decade.
Financial Transaction Tax Proposals

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

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.

Yang has also proposed a 0.1% tax on financial transactions.[25] Yang projects that this tax would raise $50 billion in revenue per year and would finance his “freedom dividend”. Warren would also impose a 0.1% tax on the sale of stocks, bonds, and derivatives that would be assessed and collected on financial firms. Warren estimates that this tax would generate over $800 billion in revenue between 2020 and 2029.[26]

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.[27]

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.

<table>
<thead>
<tr>
<th>Adjusted gross income of the taxpayer</th>
<th>Amount of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $30,000</td>
<td>$25</td>
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<tr>
<td>At least $30,000 but less than $40,000</td>
<td>$57</td>
</tr>
<tr>
<td>At least $40,000 but less than $50,000</td>
<td>$98</td>
</tr>
<tr>
<td>At least $50,000 but less than $75,000</td>
<td>$164</td>
</tr>
<tr>
<td>At least $75,000 but less than $100,000</td>
<td>$270</td>
</tr>
<tr>
<td>Minimum Compensation</td>
<td>Tax Rate</td>
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<tr>
<td>----------------------</td>
<td>----------</td>
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<tr>
<td>At least $100,000 but less than $200,000</td>
<td>$485</td>
</tr>
<tr>
<td>At least $200,000</td>
<td>$1,000</td>
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**Bernie Sanders’ Exorbitant CEO Pay Tax**

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 Sanders’ 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.[28] She would also impose a separate 14.8% tax on net investment income of taxpayers who meet those thresholds. [29] 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.[30]

**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**

**Mike Bloomberg**

Mike Bloomberg would lower the threshold value of estates subject to the estate tax to an unspecified amount.

**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**

Warren’s and Sanders’ 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.[31]

Buttigieg’s and Warren’s mark-to-market taxes apply to the wealthiest 1% of individuals. Wyden’s and Booker’s mark-to-market proposals would apply to fewer taxpayers than Buttigieg’s or Warren’s. 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.[32]

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 Harris, Sanders, Warren, 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.[33] 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. However, it could affect market liquidity and would be borne to some extent by the middle class.

Biden’s and Bloomberg’s proposals are significantly less radical than the other candidates’. They would not impose a wealth tax or mark-to-market tax, and instead would only impose realization upon death. Only Bloomberg would impose a surtax on earners of more than $5 million. Bloomberg and Biden would also increase the corporate rate, but only to 28% (rather than 35%). Biden’s 15% minimum tax is less severe than Warren’s 7% surtax; and he alone would repeal the $10,000 cap on the state and local tax deduction (although he would also reduce the value of deductions to 28% for high-income individuals).

The Romney-Bennet proposal to repeal stepped-up basis represents the most modest proposal. It would end the current ability of taxpayers to entirely avoid income tax upon death, but it would permit taxpayers to indefinitely defer paying tax on appreciated assets, and exacerbate the “lock-in effect” of the current realization system.

[1] Several candidates have proposed repeal of some or all of the Tax Cuts and Jobs Act. This chart does not reflect those proposals.

[2] As of this update, the following presidential candidates have dropped out of the 2020 race: Cory Booker, Julián Castro, Kamala Harris, and Andrew Yang.


[4] 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.

[5] The estimate for Sanders’ proposal is from Emmanuel Saez and Gabriel Zucman, two economists at the University of California, Berkeley, with whom both the Sanders campaign consulted as he developed their proposals. The estimate for Warren’s proposal is from Simon Johnson (former Chief Economist for the International Monetary Fund), Betsey Stevenson (Professor of Economics and Public Policy at University of Michigan), and Mark Zandi (Chief Economist at Moody’s Analytics). See also note 2.


[7] 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.


[12] This purpose of this proposal is to raise revenue as part of a larger bipartisan legislative package from Bennet and Romney that includes other tax initiatives, such as expanded and

[13] Section 1014. All reference to section numbers are to the Internal Revenue Code.


[19] The Bloomberg proposal states only that he would “end stepped-up basis for unrealized capital gains at death,” but news reports indicate that Bloomberg intends to treat death as a realization event. See, e.g., Brian Faler, “Bloomberg targets the rich with his tax plan, but more gently than some rivals,” Politico (Feb. 01, 2020), https://www.politico.com/news/2020/02/01/michael-bloomberg-tax-plan-110105 (“Instead, Bloomberg would tax those assets when the person died”).


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

[22] See note 2.


[29] We understand that Warren intends for the 14.8% contribution requirement to be in addition to the existing 3.8% tax on net investment income. However, it is possible that Warren intends the 14.8% rate to replace the current 3.8% for taxpayers subject to it.

[30] If the 14.8% tax on net investment income is in addition to the current 3.8% net investment income tax, Warren’s proposal would increase the highest individual federal marginal tax rate to 58% (39.6% + 3.8% + 14.8%).


[32] See id.


[34] See id.

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