# How to Get $1 Trillion from 1000 Billionaires: Tax their Gains Now*

**Emmanuel Saez and Gabriel Zucman**
**University of California Berkeley**
**April 14, 2021**

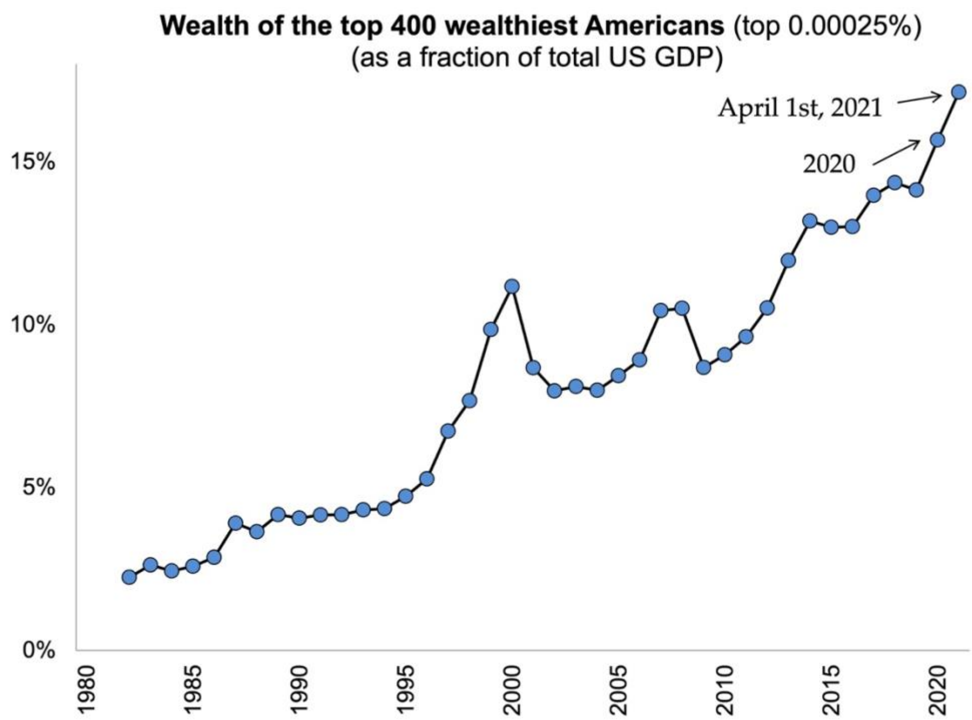
**Abstract:** Billionaires pay low effective tax rates because they can defer taxes on their capital gains for decades or forever as income tax on gains is due only upon sale of assets. US billionaires now own $4.25 Trillion, out of which $2.7 Trillion are gains that they haven't paid tax upon yet. During COVID, billionaires untaxed gains increased by $1.25 Trillion. We propose to end this tax deferral advantage by imposing a one-time tax on the stock of billionaires' unrealized gains at the ordinary tax rate (39.6%+3.8% under Biden's plan). Practically, all gains accumulated as of April 1, 2021 will be deemed realized and the tax would be payable over 10 years. This would raise approximately $1 trillion. Because it is a one-time tax of gains already accumulated, it does not create adverse economic incentives. Because gains will be deemed realized, it is an extra burden only on billionaires who were going to avoid taxes on their gains. Because it is imposed only on billionaires, a highly visible group of less than 1000, it is administratively doable. Billionaires can easily borrow against their wealth or sell part of their business stakes to pay the tax, without affecting the operation of the businesses they own. This is the most progressive tax imaginable and can bring substantial revenue for pressing needs. It fits with and strengthens the Biden administration goal of taxing capital gains like ordinary income.

---

* Saez: University of California, Berkeley, CA 94720, (e-mail: saez@econ.berkeley.edu). Zucman: University of California, Berkeley, CA 94720, (e-mail: zucman@berkeley.edu). We thank David Gamage, Darien Shanske, and Danny Yagan for helpful comments and discussions. Gamage and Shanske (2020) had proposed such a one-time tax on unrealized capital gains in the state context. This proposal is a much simplified and easier to implement version of a taxing unrealized capital gains on an on-going based as proposed by Saez, Yagan, and Zucman (2021). We acknowledge funding from the Berkeley Center for Equitable Growth and the Berkeley Stone Center on Wealth and Income Inequality.

This document describes a one-time federal income tax on unrealized gains of US billionaires (a group of less than 1000 taxpayers) that can raise $1 Trillion over the next 10 years. Such a tax would the most progressive tax possible, restore tax justice at the very top, would be fairly easy to implement and enforce, and generate substantial revenue. Such a revenue option could help in the coming negotiations between the Biden administration and congress on how to fund needed infrastructure and social spending.

**Motivation.** The wealth of US billionaires has exploded during the COVID crisis. According to Forbes magazine, 657 US billionaires now own $4.26 Trillion (as of March 28, 2021) up from $3.11 Trillion before the COVID crisis (in March 2019).[1] The figure below shows that the collective wealth of the billionaire class (defined as the top .00025% families, approximately the top 400 today) has exploded relative to the size of the economy. Their wealth is 18% of annual GDP today, up from 14% in 2019 before COVID, and it was only 2% of GDP four decades ago. Billionaires are a highly visible and highly influential group that has done extremely well during the crisis while the country suffered.




Billionaires can defer taxes on their capital gains for decades or forever as income tax on gains is due only upon sale of assets. When gains are realized, they are taxed at a preferential top tax rate of 20% (instead of 37% for ordinary income). If assets are bequeathed, no tax is ever due on gains. As a result, billionaires pay low taxes relative to their true economic income (Saez and Zucman 2019).

[1] The wealth of US billionaires dipped very early in the COVID crisis down to $2.97T on March 18, 2019 but very quickly recovered and far surpassed its pre-COVID levels.

The Biden campaign has proposed to tax capital gains of the wealthy like labor. Specifically, it proposed to tax capital gains of the rich at the ordinary top tax rate which would be set at 39.6%. At death, any unrealized capital gain in large estates would be deemed realized and taxable (instead of forgiven).[2] While such reforms are important improvements, they have two drawbacks when applied to billionaires. First, billionaires can generally afford to defer realizing their gains and wait out for a more favorable tax treatment in a future Republican administration. Second, billionaires can use estate tax avoidance techniques to reduce the value of their estate and hence the new tax theoretically due upon death.[3] Imposing a one-time tax on the unrealized capital gains of billionaires overcomes these issues and hence strengthens Biden's proposed reforms.

We estimate that such a tax would raise approximately $1 trillion from a group of less than 1000 US billionaires. The proposed tax is inspired from more complex and comprehensive mark-to-market tax proposals.[4] But it is much simpler to administer because it is a one-time tax and fewer than 1000 individual taxpayers would be affected, making it possible for the IRS to carefully audit each return and still raise very substantial revenue.

**How would the tax work?** For tax year 2021 (returns filed in 2022), all the unrealized capital gains of billionaires would be deemed realized (using market values as of April 1, 2021) and would face the top tax rate on capital gains that applies for tax year 2022.[5] This is presumed to be 39.6% if the Biden campaign plans are enacted plus the existing 3.8% Affordable Care Act surtax for a total rate of 43.4%. If the top tax rate on capital gains does not change, the tax rate would be the existing 20%+3.8%. The tax would be payable over 10 annual installments using a standard interest rate deferral surcharge with a low interest pegged to 10-year Treasury Bonds (currently very low 1.74% per year). The basis of assets would be correspondingly adjusted so that there is no double taxation in case of subsequent sale of assets.[6]

---

[2] Senator Van Hollen just introduced in the senate such a bill "The Sensible Taxation and Equity Promotion (STEP) Act".

[3] Estate tax statistics filed for 2019 show that there were only 471 estates over $50m reporting $70b in wealth in total. A Pareto extrapolation implies that there are only 15 estates over $500m (471*(50/500)^a with Pareto parameter a=1.5) reporting $22.5b in wealth, less than .7% of the $3.11 trillion in Forbes billionaire wealth this year, which is way too small relative to mortality in a group with such age demographics. Direct comparisons of Forbes estimates and their estates for decedents confirm indeed a large discrepancy (Raub, Johnson, and Newcomb 2010). Billionaires manage to largely under-report their estate through tax avoidance.

[4] The idea of taxing unrealized capital gains (generally called mark-to-market taxation) has a long academic history and is generally viewed by economists as an efficient and fair way to tax capital gains but challenging to implement (see e.g. Shakow 1986, Auerbach 1991, Brown 1996, Toder and Viard 2016). It has been proposed by Senator Ron Wyden in 2019. Senator Bernie Sanders introduced a one-time tax on COVID gains of billionaires in August 2020. Gamage and Shanske (2020) have proposed such a one-time tax at the state level. NY State introduced a bill in 2020 to tax its billionaires mark-to-market.

[5] To avoid creating a tax notch at the $1 billion wealth threshold, the one-time tax could not exceed the tax rate (39.6%+3.8%) times wealth in excess of $1 billion. For example, a taxpayer with net worth of $1.1 billion pays at most 43.4% of $.1 billion or $43.4 million spread over 10 years.

[6] Similarly, any tax on capital gains realizations after April 1, 2021 and due for tax year 2021 would be credited against the one-time tax. If taxpayers experience capital losses after April 1, 2021, the tax would be adjusted down ex-post so that no taxpayer ends up with large capital losses carryovers at the end of the 10-year period.

Billionaires (defined as individual taxpayers with net worth in excess of $1 billion) would have to file a new tax form where they report the value (as of April 1, 2021) and basis of their assets and liabilities category by category. The sum of assets minus liability (as of April 1, 2021) would be used to define billionaires for tax purposes. Tax would be due upon all unrealized gains that would generate a taxable capital gains upon realization (hence gains in pension assets would not be taxable generally). The new tax would follow the same model as the existing expatriation tax that taxes all unrealized capital gains of wealthy US citizens who renounce citizenship.

**How would it be administered?** The IRS already administers the estate tax on over 5,000 large estates each year so adding 1,000 billionaire special income tax returns is well within the administrative capability of the current IRS. Borrowing from the recent NY legislature proposed billionaire tax bill, it is possible to considerably strengthen valuation rules to prevent gaming. In particular, existing billionaires lists from Forbes and Bloomberg magazines, along with detailed information from balanced sheets of private businesses reported on tax returns provide the government with an enormous leg-up for successful enforcement (Saez and Zucman 2019b discuss valuation issues in more detail).

**How would billionaires pay?** Billionaires can pay the tax over 10 years so that each annual payment is of moderate size relative to net worth. Billionaires by definition have collateral they can use to generate liquidity to pay for the tax. Billionaires typically own large stakes in large businesses. At the same time, their businesses are so large that they have a diverse set of shareholders due to previous rounds of equity finance. Hence, it is possible for billionaire owners to sell part of their stakes to pay the tax.

**How much would it raise?** We estimate that the tax would raise approximately $1 trillion in the standard 10-year budget window.

The scoring is done as follows. First, Survey of Consumer Finance data for 2019 show that about half of the wealth of the ultra-wealthy is made of unrealized gains (and this share is higher as one moves up the wealth distribution). Therefore, we assume conservatively that, in 2019, half of the wealth of billionaires was unrealized gains (i.e. $1.55 trillion out of a total net worth of $3.11 trillion). Since 2019, billionaires' wealth has increased by $1.15 trillion which are overwhelmingly new gains. Hence, we estimate that total unrealized gains in 2021 are $2.7 trillion. A tax of 43.4% on such gains raises $1.17 trillion. Billionaires who subsequently realize gains would pay less taxes (as their gains have already been deemed realized). IRS statistics on the top 400 taxpayers for 2014 (the latest year available) show that the highest earners realized .8% of total economy wide Adjusted Gross Income in gains. However, the wealthiest 400 are not the quite same as the highest 400 in income. According to Saez and Zucman (2019b), the income of the wealthiest 400 is only half to the income of the IRS top 400. Hence, about .4% of total AGI. In 2021, this is about $50 billion.[7]

Furthermore, if capital gains are taxed at ordinary rates as the Biden administration proposes, this would substantially depress realizations according to government scoring (Kamin,

[7] There are more than 400 billionaires (657 according to Forbes as of March 2021). But according to Forbes, the top 400 accounts for 90% of wealth and hence likely accounts for about 90% of realized gains as well.

2015). Therefore, with a tax rate of 43.4%, capital gain realizations are estimated to be only about half of what they would be under the current rate of 23.8%, namely $25 billion.[8] Therefore, the annual tax loss would be about 43.4%*$25B=$11B per year, or about $130B over the 10-year window (using a conventional factor 12 to take into account economic growth). Therefore, the net score is $1.17-.13=$1.04 trillion, i.e. approximately $1 trillion.

**Economic effects.** Because it is a one-time tax of gains already accumulated, it does not create adverse economic incentives. Billionaires can easily borrow against their wealth or sell part of their business stakes to pay the tax, without affecting the operation of the businesses they own. To put it simply, Bezos or Musk would have to part with a fraction of the shares of Amazon and Tesla they own but it would not affect the operations of these businesses.

**Why would centrists support such a tax?** Taxes on billionaires are popular. The wealth tax on the ultra-rich consistently polls well even among Republicans. In contrast to the wealth tax, this is not an additional tax but instead a tax that explicitly plugs an existing loophole: the ability of the ultra-rich to defer taxes (and often forever). It fits well with the expressed goal of the Biden administration to "tax wealth as labor" and actually strengthens the proposed reforms (by preventing billionaires to wait out the proposed tax increases). Because it is a one-time tax based on past gains, the usual incentive arguments against taxation do not apply. This document has presented the maximalist version that taxes 100% of the gains. It is naturally possible to scale this down. For example, a one-time tax on 50% of the gains would raise about $.5 trillion. Having the opportunity to add revenue to the next reconciliation bill could be very valuable (to allow for an expansion of state and local tax deductions to get a majority in congress for example).

**How does this one-time tax fit with more structural reform?** This one-time tax can be seen as the simplest way to test mark-to-market taxation. The small number of taxpayers involved (less than 1000) and the one-time nature makes administration fairly easy. The high net worth and financial sophistication of taxpayers (all billionaires) eliminates liquidity issues and hence allows the base to be comprehensive (no exclusion for hard to value assets) so that the tax cannot be easily gamed. The enormous concentration of US wealth makes the revenue stake ($1T) far from negligible. Even if the one-time experiment does not work as well as planned, nothing prevents congress from coming back with strengthened regulations to tax gains that have escaped the first attempt (there is never double taxation because only untaxed gains are liable). From such an experiment, lessons can be learned about the feasibility of extending the tax to ultra-millionaires as well and making it a recurrent tax.

**Are there any precedents for such a tax?** Washington DC tends to be averse to new and untested forms of taxation. However, in this case, two existing taxes come pretty close to the current proposal. First, the 2017 Trump tax cut made all foreign corporate profits accumulated by US

---

[8] Kamin (2015) notes that the revenue maximizing tax rate used by government scorers is around $\tau$=30% implying an elasticity of realized capital gains with respect to the net-of-tax rate of e=2.3 using the classic formula $\tau$=1/(1+e). Hence, increasing the tax rate from 23.8% to 43.4% reduces realized capital gains by a factor ((1-.434)/(1-.238))^e=.50.

multinational companies deemed repatriated to the US and hence taxable in the US over a 8-year period (such profits abroad did not have to pay any tax to the US until repatriated). The current tax is similar in spirit: all billionaires (instead of all multinationals) are asked to deem their gains realized (instead of deeming their profits repatriated). Second, the current expatriation tax forces any US citizen (with net worth above $2 million) who renounces his citizenship to pay a one-time tax on all his unrealized gains. The corresponding IRS form 8854 provides a strikingly good model for the form needed in our proposal.[9]

[9] Note also that some financial assets such as future and option contracts (called section 1256 contracts) are already taxed on a mark-to-market basis (see IRS tax form 6781).

## References


Auerbach, Alan J. 1991. "Retrospective Capital Gains Taxation." American Economic Review 81, no. 1: 167-178.

Brown, Fred B. 1996. "Complete Accrual Taxation." San Diego Law Review 33(4): 1559-1680.

Gamage, David and Darien Shanske. 2020. "States Should Consider Partial Wealth Tax Reforms", Tax Notes 96(7), May 18, 2020. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3633474

Kamin, David. 2015. "How to Tax the Rich", Tax Notes, January 5, 2015, 119-129. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2550936

New York State Senate Bill S8277B. 2020. Billionaire mark to market tax and the worker bailout fund act. https://www.nysenate.gov/legislation/bills/2019/s8277

Raub, Brian, Barry Johnson, and Joseph Newcomb. 2010. "A Comparison of Wealth Estimates for America's Wealthiest Decedents Using Tax Data and Data from the Forbes 400." National Tax Association 103rd Annual Conference on Taxation, November 18–20. https://ntanet.org/wp-content/uploads/proceedings/2010/020-raub-a-comparison-wealth-2010-nta-proceedings.pdf

Saez, Emmanuel, Danny Yagan, and Gabriel Zucman. "Capital Gains Withholding", preliminary draft, January 2021.https://eml.berkeley.edu/~saez/SYZ21KG.pdf

Saez, Emmanuel and Gabriel Zucman. 2019. *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make them Pay*. New York: W. W. Norton.

Saez, Emmanuel and Gabriel Zucman. 2019b. "Progressive Wealth Taxation." Brookings Papers on Economic Activity, Fall 2019, 437-511.

Sanders, Bernie. US Senator of Vermont. 2020. "Tax on Billionaire Wealth Gains to Provide Health Care for All" https://www.sanders.senate.gov/press-releases/sanders-colleagues-introduce-tax-on-billionaire-wealth-gains-to-provide-health-care-for-all/

Shakow, David J. 1986. "Taxation Without Realization: A Proposal for Accrual Taxation," University of Pennsylvania Law Review 134(5): 1111-1205.

Toder, Eric and Alan D. Viard. 2016. "A Proposal to Reform the Taxation of Corporate Income", Tax Policy Center Working Paper (June 2016 version). https://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000817-a-proposal-to-reform-the-taxation-of-corporate-income.pdf

US Senate Committee. Ranking Member Ron Wyden. 2019. "Treat Wealth like Wages." https://www.finance.senate.gov/download/treat-wealth-like-wages-rm-wyden

US Treasury, Office of Tax Analysis, 2014. "Tax Expenditure for Exclusion of Capital Gains at Death." https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/Step-Up-Basis-2014.pdf