more?

Mar. 08, 2023

By Kelley R. Taylor, Kiplinger Consumer News Service (TNS)

President Biden, who is set to release his FY 2024 budget proposal, wants to "raise some taxes." In a recent speech, Biden said that tax increases should focus on the wealthiest taxpayers—an approach that some states have adopted or recently proposed. So, while you're worrying about the 2023 tax deadline and trying to pay as little tax as possible, the wealth tax debate is heating up again … should billionaires

person has in a given year. Part of the reason for that is that the very wealthy usually grow their wealth through investments, which are taxed at a lower rate than earned income. Earned income (which includes wages and salaries) is typically the main source of money for lower- and middle- income taxpayers.

The billionaire tax in Biden's budget proposal would be a minimum of 20% for households with net worth exceeding $100 million. For comparison, the wealthiest taxpayers in America reportedly pay an average 8% tax rate, so President Biden is essentially proposing about a 12% tax increase for the wealthiest taxpayers.

"The minimum tax would make sure that the wealthiest Americans no longer pay a tax rate lower than teachers and firefighters," Biden said of the tax proposal during his State of the Union speech to Congress earlier this year. Biden has pledged that his administration won't raise taxes on people making less than $400,000 a year.

How much tax do the wealthiest Americans pay?

Federal data show that so-called "working people" pay about 99% of the taxes they owe on income that comes from wages and salaries.

On the other hand, the wealthiest taxpayers are able to shield a portion of their income (about 20% according to the White House) from tax, so that their average tax rate ends up being quite low relative to their wealth. The top 1% also pay a much lower tax rate relative to what lower- and middle-income taxpayers pay.

For example, in 2021, a ProPublica report indicated that the richest 25 Americans had an effective zero percent tax rate. When the ProPublica analysis was first released, it generated controversy over confidentiality of taxpayer information. But the data made some people aware of how the very wealthy can sometimes avoid paying federal taxes.

So, why does all of this matter?

due to a change in the state constitution approved by voters, Massachusetts now has a "millionaires tax." Bay Staters with taxable income that exceeds one million dollars are expected to pay 4% more in Massachusetts income tax. Massachusetts recently returned billions in excess revenue to eligible residents through 62F tax refunds.

Additionally, lawmakers in California, Connecticut, Hawaii, Illinois, Maryland, Minnesota, New York, and Washington have recently proposed wealth taxes.

- The Washington state proposal would tax residents with at least $250 million in net worth with a 1% tax on asset values above that net worth threshold. (Washington is a state that doesn't have income taxes.)
- Hawaii's Wealth Asset Tax would apply to taxpayers with assets over $20 million in assets in Hawaii. The tax would be 1% of net worth per year. The bill (also known as Senate Bill 925) recently advanced from the state's senate committee.
- The latest wealth tax proposal in California would impose a 1% tax on the wealthiest Californians (i.e., those with net worth of $50 million or more). California billionaires would be subject to a 1.5% tax. (A recent effort in California to tax the rich to help subsidize electric vehicles failed in the state's 2022 midterm elections and Gov. Gavin Newsom opposes the current wealth tax proposal.)
- Illinois lawmakers proposed a wealth tax where asset gains would be recognized yearly as income and subject to a flat rate tax of 4.95%. Illinois is a state where residents pay a flat tax, and it has been reported that if adopted, the wealth tax proposal could raise about $510 million in revenue in its first year.
- "Wealth tax" bills in New York and Connecticut would focus in part on increasing state tax rates for capital gains, and dividend and interest income.

It's hard to say if any of these state wealth tax proposals could become law. That's partly because while surveys show that many Americans support wealth taxes, some people don't support "taxing the rich." There are also lingering questions about

Taxes