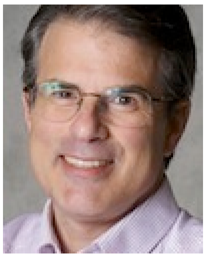
# How Biden Might Pay for Expenditures

By Kerry Pechter *Thu, Mar 11, 2021*

*Having appropriated $1.9 trillion for pandemic recovery, and with more big ideas in store, the Democrats will be looking to balance their largesse with new revenue. If you're among the "top 2%," they'll be coming for you. But if taxes prevent inflation, that may not be bad.*

We all win when the rich pay higher taxes, don't we? Jeff Bezos or Mark Zuckerberg surely wouldn't miss a billion or two. With another trillion in revenue, Uncle Sam wouldn't have to sell as many bonds. Everyone's money would be worth more, since federal taxes reduce inflation. It's a win-win-win.

Are those statements true? Neo-classical macroeconomists would probably say they aren't. But the Biden administration seems to be thinking along those lines. Liberal policymakers are talking about several new taxes. (There are no conservative policymakers; conservatives don't believe government should "make policy.")



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We know about the Biden plan to apply the payroll tax to incomes over $400,000. There's also the Elizabeth Warren's ultra-millionaire tax, the 10-basis-point financial transactions tax, and the Biden idea for converting tax deferral on retirement plan contributions to tax credits. Let's consider them.

***The Ultra-Millionaire Tax Act of 2021 (The "Wealth Tax")*** would take two percent (2%) of a person's assets worth in excess of $50 million each year and three percent (3%) of assets worth over $1 billion. The US would levy a six percent (6%) tax on assets over $1 billion if Congress creates a universal health care program. This tax would reach beyond income and reach most assets, with some exceptions.

The value of yachts, aircraft, mobile homes, trailers, cars, antiques or other illiquid collectibles worth less than $50,000 would not count toward the $50 million. The IRS would audit no less than 30% of the affected taxpayers every year. The bill would also give the IRS $70,000,000,000 a year for 10 years (2022 to 2032) for enforcement and another $30,000,000,000 a year for taxpayer services and business modernization. (I'm checking to see if those numbers were misprints in the bill. That would give the IRS $1 trillion over 10 years.)

According to an analysis by University of California-Berkeley economists Emmanuel Saez and Gabriel Zucman, "about 100,000 American families (less than one out of 1000 families) would be liable for the wealth tax in 2023 and that the tax would raise around $3.0 trillion over the ten-year budget window 2023-2032, of which $0.4 trillion would come from the billionaire 1% surtax."

For a Bezos or a Zuckerberg, who sit on snow-capped Everests of appreciated stock, a 2% ultra-wealth tax would presumably force them to liquidate part of their holdings. It's not clear how such sales might affect the market price of their stocks.

***A financial transactions tax (FTT),*** most recently embodied in H.R. 328, also introduced in the 117th Congress, proposes a 10-basis-point tax (0.1%) on transactions involving stocks, bonds, futures, options swaps, and credit default swaps. Such a tax has been proposed in at least the past five Congresses, since the 2008-2009 financial crisis.

The FTT would aim at putting a speed bump in the path of various kinds of high frequency trading. The Joint Committee on Taxation estimated in 2020 that a prior proposal similar to H.R. 328 would generate $751.9 billion in revenue over 10 years. A February 23 study by the Congressional Research Service suggested that the bill might not stop all types or aspects of high frequency trading and that traders might invent ways to avoid it.

The tax was discussed during a **hearing** this week of the Senate Banking, Housing and Urban Affairs committee, during a discussion involving the role of high-frequency trading, and of trading apps on phones used by minors, and the trading of GameStop shares, and the possible need for new regulation to prevent more such events.

Of five panelists testifying, three—Gina-Gail S. Fletcher of the Duke University Law School, Teresa Ghilarducci of The New School and Rachel Robasciotti of Adasina Social Capital recommended it. The two others, Michael Piwowar, a former SEC commissioner, and Andrew Vollmer of the Mercatus Center, opposed new regulation.

***Replace current tax deductions for retirement savings contributions with a refundable tax credits.*** As a candidate for the White House in 2020, President Biden unveiled a host of ideas for changing the tax system. Most of the ideas would raise taxes on the wealthiest or high-earning Americans (e.g., less than 2% of Americans earn more than $400,000 a year) and redistribute wealth down the income spectrum.

One of Biden's proposals would replace a deduction (or income exemption) for contributions to traditional individual retirement accounts (IRAs) and defined-contribution pension plans with a refundable tax credit. The tax expenditure (tax forgone by tax deferral) for retirement savings was about $250 billion in 2019 and, if nothing changes, will be about $1.5 trillion over the 2019-2023 time frame, according to the Tax Policy Center.

Progressives point out that most of the benefits of tax deferral accrues to the wealthy, since they have the greatest capacity to save, save the most, and are in the highest tax brackets. When middle income people save in retirement accounts, the tax benefit of doing so is smaller. Switching to a tax credit could give a bigger incentive to the middle-class to save.

The retirement industry, as represented, for instance, by the American Retirement Association and the Investment Company Institute (ICI), can be expected to lobby heavily against any threat to current incentives of tax deferral, which has helped attract trillions of dollars into retirement accounts ($20.6 trillion in assets as of 6/30/2020), according to the ICI.

## Facing the inevitable

People tend to accept taxes that bring them tangible benefits, but resent taxes that don't. Parents with children don't mind school taxes, but empty-nesters do. Some people see taxes as theft by government, others as the price we pay for civilization. Some believe that getting rid of government would mean more money for everybody. Others believe that getting rid of government would mean no money for anybody, given that the federal government has a monopoly on issuing US money.

Do taxes reduce inflation? That depends. At the local and state level, you pay taxes, the money goes into an account, and government employees and contractors get paid. Ideally, they spend some their wages locally. At the federal level, I'm told, taxes involve a different process.

When it spends (Social Security benefits, for instance), the Treasury credits your bank account. When it taxes, it debits your bank account. The big difference is that the Treasury, unlike a state or county or individual, can spend *before* it taxes or borrows. Then it *destroys* the money it collects in taxes—thus reducing inflation. Don’t ask me exactly how or why. That’s above my tax bracket.