ppi radically pragmatic

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The Honorable Nancy Pelosi
Speaker
United States House of Representatives
Washington, DC 20515

The Honorable Charles E. Schumer
Majority Leader
United States Senate
Washington, DC 20510

Dear Speaker Pelosi and Majority Leader Schumer,

The Progressive Policy Institute (PPI) commends President Biden's push to fund long-neglected public investments like transportation, research and development, clean energy infrastructure, and a highly skilled workforce in the next phase of his "Build Back Better" agenda. We also applaud the president and his team for acknowledging the need for raising revenue to offset most of the costs of his American Jobs Plan and offering concrete proposals to do so.

The federal budget deficit will top $3 trillion for the second consecutive year in 2021, leaving the federal government owing more money than the economy produces annually for the first time since World War II. Although borrowing whatever sums were necessary to combat the covid recession was justified, structural deficits will persist and continue growing larger after the economy has recovered. Moreover, our recovery has thus far been "K-shaped": those who entered this crisis flush with wealth in stocks and real estate are emerging wealthier than ever before, while lower-income workers and the unemployed are falling farther behind. Americans deserve a recovery package that is substantially funded by progressive adjustments to our tax code.

We understand that the administration's ambitious blueprint has controversial features and will trigger robust debate in Congress. Our view is that Congress should consider a wider array of tax changes to offset the costs of whatever it eventually passes. Building off of discussions with moderate lawmakers who have expressed similar desires, PPI has developed a menu of radically pragmatic options for strengthening the government's fiscal infrastructure and sustainably financing strategic investments in America's future growth.

We respectfully encourage you to consider the following tax reforms, which would largely tax wealth instead of work and make federal taxes more progressive:

- **Raise the tax on inherited fortunes.** Less than 0.1 percent of inheritances are subject to the federal estate tax, which allows heirs to inherit up to $23.4 million tax-free from the estate of a couple. There is simply no good reason that a wealthy heir should pay less in taxes than a middle-class schoolteacher or an entrepreneur who earns their wealth through hard work. Replacing the estate tax with a progressive inheritance tax (one that taxes inherited income at the recipient's ordinary tax rate plus a 15 or 20 percent surtax) would raise an enormous amount of revenue while deconcentrating wealth in America. Every dollar raised from taxing the unearned income of the super-wealthy is a dollar the government does not need to raise by taxing work or productive investment.

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- **Reduce Tax Preferences for Capital Gains.** Capital gains are currently taxed up to 23.8 percent and while ordinary income is taxed up to 37 percent. Capital accounts for roughly 40 percent of income for households in the top 1 percent of the income distribution, compared to less than 2 percent of income for households in the bottom half, so reducing the disparity in tax treatment is an essential component of a progressive tax system. To ensure this change raises significant revenue, lawmakers should also repeal the "step-up basis" provision that allows recipients of inherited assets to permanently avoid paying taxes on untaxed capital gains that accrued during the original owner's lifetime – otherwise, many wealthy Americans will simply choose to hold assets until death to avoid higher capital gains tax rates.

- **Institute a Value-Added Tax (VAT)**. Many developed countries, including Canada and all of those in the European Union, fund their generous social safety nets through a consumption tax collected incrementally at each step in a product's supply chain. Economists prefer these consumption taxes over income taxes because they are harder to evade and reward people for saving and investing in growing the economy. Pairing a value-added tax with subsidies to hold harmless lower-income Americans could raise significant revenue in a progressive way without harming economic growth.

- **Put a price on carbon pollution**. Congress should use our tax code to harness the power of market mechanisms to limit the damage of climate change. Placing a fee equal to the social cost of carbon on producers puts those social costs on the emitter and ensures that carbon is only emitted when the benefits outweigh the true costs. Carbon-intensive businesses would pay higher taxes for producing more carbon and businesses that invest in reducing their emissions would gain a competitive advantage. A carbon price would especially help frontline communities most vulnerable to the impacts of climate change by reducing emissions, and these benefits could be further enhanced by earmarking some of the revenue raised to be invested in targeted climate mitigation efforts.

- **Transition to mileage-based fees**. Revenue raised by federal taxes on motor fuels have failed to keep up with transportation funding needs, both because Congress never indexed the rates to inflation and because improvements in vehicle fuel efficiency are reducing the amount of gasoline that the average driver needs to buy. That shortfall will only grow worse as our country makes the transition to electric cars and trucks. A mileage-based fee would be neutral as to fuel type while ensuring that what you pay to use the roads is related directly to how much you use them. Although a national vehicle-miles traveled (VMT) fee for all vehicles may not be not practical now, adopting a VMT for commercial trucks and launching pilot programs for passenger vehicles would put our transportation infrastructure on the road to sustainable funding for the future.

- **Raise the corporate income tax rate**. Real corporate tax reform would have lowered the corporate income rate and paid for it by broadening the tax base. But while the GOP tax law's corporate tax changes did curtail some deductions, it did not do nearly enough and gave away hundreds of billions of dollars more in revenue than it raised. The net revenue loss was an unaffordable tax giveaway to the wealthy that should be recouped by raising the tax rate.

- **Cap itemized deductions**. Itemized deductions are worth more to taxpayers in higher tax brackets because they would have owed more on each dollar deducted if it had been taxed. Capping itemized deductions at 24 or 32 percent ensures that people in higher tax brackets receive no greater benefit per dollar deducted than people in the tax bracket at which the cap is linked.

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- **Increase resources for IRS enforcement**. The IRS estimated 10 years ago that taxpayers failed to pay over $400 billion in tax obligations annually. But instead of trying to reclaim that money by spending more on tax law enforcement, Congress has cut the IRS' budget in inflation-adjusted dollars by nearly 20 percent since then. As a result, the IRS is now 80 percent less likely to audit people earning over $1 million than it was in 2011. Spending more money on tax enforcement will help the IRS crack down on tax evasion by the wealthy and reduce federal budget deficits.

Now is the time to pass a big, bold recovery package that funds America's future. With your leadership, we can set our country on the path to sustainable and equitable growth.

Sincerely,

Will Marshall

Will Marshall
President, Progressive Policy Institute

Ben Ritz

Ben Ritz,
Director, PPI Center for Funding America's Future