Forbes

Bernie Sanders' Wealth Tax And What To Do About It

Todd Ganos

September 25, 2019

In this column, we have previously mentioned that studies find the vast majority of wealth is held by 1) families who owned mid-sized businesses and 2) first-generation high-income individuals. In short, successful people — successful at creating approximately 75% of all new jobs in an economy. And, for a range of reasons we won't now rehash, only about 5% of wealth is held by the so-called "elite" families (who no doubt control the Secret World Government).

In several articles, we highlighted California's tax attack on the successful. While one well-known financier said that people don't move because of taxes, studies find otherwise. The Manhattan Institute think tank released a study that found an exodus of high-income households from California since about 1990. Those households were being back-filled by inbound low-income families.

Separately, the Cato Institute found that (during the same period of above-mentioned study) growth in California's state government spending outpaced growth in California's economy by 25% and predicted a budget crash — which happened. To close the gap, the tax attack needed to accelerate. And, between the taxes, the cost of living, and housing prices, we also find that many middle-class households are leaving California.

We will not get into the politics or wisdom of such proposals. We will keep the discussion at "what is it?" and "what does one do about it?"

According to data from the U.S. Bureau of Labor Statistics and the Federal Reserve, wealth (adjusted for inflation) in the United States has growth at an average annual rate of about 3% over the past 60 years.

Mr. Sanders seeks to impose an annual wealth tax of 8% on the wealthiest families. Clearly, such a tax would cause erosion of wealth . . . which is Mr. Sanders' express intention. Mr. Sanders estimates the tax would raise federal revenues by roughly 10%. And, rather than eliminate the budget deficit, these additional revenues would allow addition spending. Again, no politics . . . just "what is it?"

Regarding California's tax attack, for some Californians, the solution has been to move out of California. Of course, we have previously noted that a Californian need not move out of the state to reduce one's California income tax burden. Among other (legal) planning methods, one can establish certain types of trusts to eliminate California tax on certain income.

As for the federal tax attack, is the solution to move out of the United States?

Expressing frustration over federal corporate taxes, one well-known casino operator relocated his corporate headquarters out of the U.S. Although, he still resides in the U.S. and would be personally subject to Mr. Sanders' proposed wealth tax. So, would he personally leave the U.S.? But, even if he did, U.S. persons are subject to U.S. taxation worldwide. So, would he personally leave the U.S. and give up his U.S. citizenship? Well, given his wealth, there would be an exit tax. (One can't win for losing.)

To make things worse, after you die and after the estate tax does its number on your number, Mr. Sanders' proposed tax would continue to attack your wealth — whether held in trust or directly by successive generations — until it has been whittled down.

But, in the same way that a Californian might establish a certain type of trust to remove certain income from the state's ability to tax that income, a U.S. person might establish a certain type of trust to remove certain income from the federal government's ability to tax that income. All legal and in full view of the IRS. And, one might even obtain an advance ruling from the IRS to affirm such tax character. Now, such tax character would only attach upon your passing. But, it would spare your family from subsequent exposure to taxation on the wealth you pass to them — income tax, estate tax, and Mr. Sanders' proposed wealth tax. We discussed the general concept in a prior article.

With proper planning, you can do something about Mr. Sander's proposed wealth tax. So, do it.