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The big problem with Biden’s new 'minimum tax' on billionaires

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What does a president do when inflation surges under his watch, gas prices are out of control, and his signature legislation has failed miserably ?

Pivot back to scapegoating the rich, apparently.

At least, that’s President Joe Biden’s latest tactic. On Monday, Biden proposed a new "minimum tax" on billionaires. "For too long, our tax code has rewarded wealth, not work, and contributed to growing income and wealth inequality in America," Biden said in a statement. "Under current law, when an American worker earns a dollar of wages, that dollar is taxed as they earn it. But when a billionaire earns income because their investments increase in value, that gain is too often never taxed at all."

A White House fact sheet says this tax would apply to those worth over $100 million and force them to pay a minimum tax rate of 20%. It would do this by taxing unrealized capital gains, aka the nominal growth in value of stock investments that haven’t been sold off yet. There is already a tax on capital gains that the wealthy pay when they cash out their stock options. However, Biden’s tax proposal is seemingly aimed at the growth in "unrealized" investments held by many billionaires, who currently do not have to pay taxes until they cash it out.

At first glance, this might seem like a sensible way of cracking down on rich people (legally) evading taxes.

It is not.

Taxing unrealized gains is both fundamentally unfair and economically absurd. "The Biden tax plan is crackers," Cato Institute economist Chris Edwards said. "Unrealized gain is not income. It represents the expectation of future income, which would be taxed in the future under a well-designed tax system. Often, expected future income doesn’t materialize and asset values drop."

Moreover, a "capital gain" is just a fancy way of saying "value gain on a productive investment." It's simple Economics 101 that when you tax something, you get less of it. Do we really want the tax code to (further) discourage productive investments?

Biden's plan could also drive more investment returns overseas. "The proposal would increase the tax burden on domestic saving in the U.S., which could impair capital investment and formation over the long run," Tax Foundation senior policy analyst Garrett Watson told the *Washington Examiner*. "Even if capital investment still occurred at current levels, it is likely that more of it would be conducted by foreign investors who are not subject to this tax on their savings. That would increase the amount of investment returns going abroad, reducing American incomes over the long run."

There are both philosophical and pragmatic reasons to oppose this tax proposal. But it's also simply not necessary. It addresses a problem that doesn't actually exist. After all, the U.S. already has a very progressive federal tax system, where most federal taxes are paid by the wealthy. As Edwards notes for Cato, the top 0.1% already pays more than 30% of all federal taxes.

There are just no legitimate policy concerns or economic arguments behind Biden's new tax. In truth, it's just another act of political pandering from a president plummeting in the polls with an election on the horizon.