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The biggest tax catch

Obama may go angling for a levy on wealth

By: William G. Shipman – May 8, 2013

While pundits, politicians and economists are distracted by marginal tax rates and a possible Internet sales tax, President Obama may be preparing for the biggest of all trophies: a wealth tax. He doesn't say this, of course, but he is baiting his hook, and looking for the optimal place and time to cast his line. Most people don't see this coming. Should it happen, though, it will be very difficult to protect yourself.

This all started — at least the public part — with the president's 2014 budget, which proposes to limit tax-deductible saving to an amount that will provide an annual benefit of $205,000. The budget document states that "the maximum accumulation that would apply for an individual at age 62 is approximately $3.4 million."

Putting the numbers aside for the moment, this initiative targets one's wealth as well as one's income. If an individual's tax-qualified wealth — both defined contribution and benefit plans — approximates $3.4 million, then future tax-deductible contributions would not be allowed. If the level drops below $3.4 million, say because of poor market returns, then additional contributions would be allowed. If it is already above $3.4 million, it is not clear how, or if, the excess would be taxed. At the moment, only tax-qualified wealth is targeted. The budget document also suggests that retirees need only $205,000 in annual income.

Let's say one has no tax-qualified wealth, but has financial assets of $5 million. That level, according to the president's own calculations, would provide retirement income greater than $205,000. This starts the slippery slope. Is it fair that one retires with more wealth than is necessary to provide $205,000 per year? Although the question itself may repulse you, it is common progressive language when it refers to income: "Shouldn't higher-income folks contribute just a little more?" Now, just replace the words "higher income" with "wealthier."

We have become conditioned to income taxes since the 16th Amendment to the Constitution was ratified on Feb. 3, 1913. It states: "The Congress shall have power to lay and collect taxes on incomes ." The amendment is silent on taxing wealth. Should Mr. Obama try to tax financial wealth, from an administrative point, it would be pretty easy.

Each year, investors receive from custodian banks 1099 forms, which report dividend and interest income. They don't receive the sum total of their assets on the 1099s, but they do in their periodic reports. In fact, those data are readily available with a mouse

click. If the federal government required those data, it would be a relatively trivial software application to provide year-end financial asset levels on the 1099s.

The federal government could then attempt to levy a tax on financial wealth that exceeds some threshold. The political argument has already been well tested when related to income. The American public accepts progressive tax rates, or the view that higher-income folks should pay proportionally more. The debate is only how much, or what marginal tax rates should apply. As it relates to financial wealth, the president could then argue that the concept is the same, and the debate should rest only on the appropriate marginal tax rates.

With high budget deficits, frightening levels of government debt and unfunded liabilities in the tens of trillions of dollars, politicians' appetite for additional resources will not be satiated. The president knows this as he watches his ideological opponents casting their lines for small fish while he may be preparing for the biggest trophy of all since 1913.