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Should You Care About the Billionaire Tax?

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There is a sense today that the richest among us are not paying their fair share of taxes as a proportion of their wealth. Thus the idea of a billionaire tax that would only apply to about 400 people has come to pass. Since the odds are pretty good, dear reader, that you are not one of the 400, should you care about the billionaire tax? On one hand it seems like a fair way to get these folks to pitch in and help out. On the other hand you have to remember that income tax was invented in the USA to get the very rich to pay up and gradually turned into the main way that the government gets its money from everyone

Federal Income Tax, the 16th Amendment

For the first half of the years of the Republic there was only income tax during the Civil War and that only applied to incomes over \$800 a year and included multiple deductions. In the 1860s laborers made \$6 a week or \$300 a year and skilled tradesmen like carpenters made \$8.40 a week or \$436 a year. Union army privates made \$11 a week or \$572 a year. Thus the vast majority of people were not subject to income taxes and it was repealed in 1872. The 16th Amendment to the Constitution came into being in response to a sense of injustice that the most wealthy like the Vanderbilts, Rockefellers, Melons, and a handful of other ultra rich were not paying their fair share based on their total wealth. Thus the 16th Amendment ratified February 3, 1913, initially affected only the wealthiest in American society. Exemptions, deductions and rates were such in 1913 that only 1% of the population paid an income tax and only paid 1% of their net income up to \$20,000 a year for most who needed to pay. The system went up stepwise so that anyone making more than \$500,000 a year paid 7%. That only lasted until World War I when the highest rates hit nearly 80% in 1918.

Rates went down during the Depression and reached a 94% top tax rate in 1944 at the peak of World War II spending.

Means of Taxation

The most prominent means of taxation in the early days of the Republic were excise taxes on tobacco and whisky. The 1791-1794 Whiskey Rebellion in Western Pennsylvania was in response to a tax on whisky. (It was cheaper and more profitable for farmers to make whiskey from their grains and ship to markets like Philadelphia or New York than to ship the grain.) Property taxes and head taxes were common. As a small segment of society grew more wealthy the idea of an income tax arose in the late 19th century and was only sent to states as an amendment because the powers in charge doubted that it would pass but it did! There was, in fact, a tax on wealth for a couple of years in the 19th century but it was repealed by the courts.

Legal Tax Avoidance, Independence, and the Public Good

Learned Hand, a famous judge in his comments on a tax case said this:

Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes.

This would seem to be the advice that the majority of law-abiding citizens follow in paying their taxes. And, it is what the likes of Jeff Bezos follow as well. Recently evidence of how the [wealthy avoid income tax](#) has gotten people talking about a billionaire tax. ProPublica got its hands on tax records of many billionaires.

In 2007, Jeff Bezos, then a multibillionaire and now the world's richest man, did not pay a penny in federal income taxes. He achieved the feat again in 2011. In 2018, Tesla founder Elon Musk, the second-richest person in the world, also paid no federal income taxes.

Michael Bloomberg managed to do the same in recent years. Billionaire investor Carl Icahn did it twice. George Soros paid no federal income tax three years in a row.

None of these wealthy folks broke the law. They simply used the rules in the current tax code to avoid paying taxes. Most Americans would follow the same courses of action if their circumstance were similar. Thus, the argument (as always) is one of "fairness." Is it right for some to be so wealthy and to pay so "relatively" little?

Taxing Income versus Taxing Wealth

The wealthiest Americans have generally become much wealthier during the Pandemic as the economy has sagged but the tech sector of the market has prospered. People like Bezos don't bother to pay themselves a salary but rather profit from the appreciation of the value of their stock and other assets. If the government needs (wants) more money from them to pay for more government spending or to avoid taxing everyone else more, they need to change what they tax and how they go about doing it.

Taxes Tend to Go Up and Spread Out

A lesson to be learned from the US income tax is that it was set up to remedy a social injustice by making the ultra rich pay at least something to help the government run. It was very quickly seized upon as a way to finance involvement in World War I and never went back to the original rates. Thus a tax intended for one segment of very rich people came to be used to tax virtually everyone. As much as one would like to see the ultra rich pay their "fair share" one should be careful about what one wishes for. A wealth tax could be used across a broader segment of society by simply lowering the levels at which it would be employed. As much as the ultra rich should be shouldering a larger share of the tax burden, there is the very real risk that a tax on appreciation of wealth will end up affecting everyone and then the ultra rich will go on to find other ways to optimize their profits, increase their wealth, and minimize how much they pay in taxes.

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