Study Finds Taxing Unrealized Gains Among Most Harmful Revenue Policies Considered

Paired with Increase in Capital Gains Rate, Does Most Economic Damage and Generates Limited Revenue

When the House Ways and Means Committee produced its components of the Build Back Better Act, it omitted a proposal to tax unrealized capital gains at the time of a person's death. A recent study from global tax, accounting and advisory firm EY may help explain why. The analysis, examining five major tax proposals that were under discussion, found that taxing these gains at death, paired with an increase in the capital gains rate, provided little in terms of benefits. It would do significant economic harm, while generating relatively little revenue to offset all that pain. As the report, produced for the Small Business and Entrepreneurship Council, lays out, this policy is "the most economically harmful in terms of their adverse impact on GDP per dollar of revenue either over the 10- year budget window or in the long run."

The report created a scale to put in perspective how harmful the various tax plans would be, and the double death tax was by far the worst. The report explains: "The tax increase estimated to have the most adverse impact on GDP per dollar of revenue is given an index value of 100 with the other tax increases scaled to this policy based on the estimated GDP impact per dollar of revenue for each." As the table below demonstrates, this idea is far and away the most harmful in both the near and long term.

Table 1. Select tax proposals ranked by most-to-least harmful as measured by their impact on GDP per dollar of revenue

	10-year budget window	Long run
Tax capital gains as ordinary income, tax capital gains at death/repeal step-up of basis	100	100
Tax qualified dividends as ordinary income	40	75
28% top corporate income tax rate	32	61
39.6% top individual income tax rate	23	53
3.8% NIIT applied to self-employment income	14	23

The SAFE campaign has been educating the public about the economic threat posed by a new double death tax, and warning lawmakers about the political danger it presents. Taxing capital gains at the time of death, before they are even realized through the sale of an asset, would devastate small businesses, farms and ranches, and middle-class families. Rather than grieving for a lost loved one, the proposal would force families to find a way to pay enormous tax bills, potentially shuttering businesses and forcing families to sell what the deceased intended to be passed down.

You can learn more about this issue and what it would mean for hardworking Americans at doubledeathtax.org.

About SAFE

Saving America's Family Enterprises (SAFE) is a non-profit educational organization advocating against new transfer taxes like the STEP Act, a double death tax which will hurt small businesses, farms, homeowners, and middle-class American families. Learn more at DoubleDeathTax.org.

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