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Should the ultra-rich pay a wealth tax?

Steve Bakke  December 9, 2025



I'm asking this question one more time: "Do wealthy Americans pay enough taxes?"

Here's a snapshot of individual federal income taxes paid by various income categories in 2022, the latest data available. The top 1% paid a 26.09% average rate, while the bottom 50% paid a 3.74% average rate. The top 1% paid 40.4% of all federal individual income taxes collected; the top 50% paid 97%; and the bottom 50% paid 3%. We already have a very progressive federal income tax rate, and this data demonstrates that.

The prior administration frequently implied that middle America bears the brunt of the tax burden. For example, they declared "teachers and nurses and firefighters are paying a higher tax rate than billionaires and the biggest corporations?"

We later discovered the administration used a different definition of income for each taxpayer group. Adjusted gross income was used in the computation for all but the wealthiest taxpayers. For wealthy taxpayers, unrealized gains were also included in income for their computation. This was significantly misleading.

Nevertheless, those claims beg a question. Should the ultra-wealthy pay taxes on unrealized capital gains? Or, perhaps we should introduce the more aggressive "wealth tax"?

According to Federal Reserve statistics, the total national "wealth" ("net worth") is \$167.3 trillion. That's a huge and growing number. The wealthiest 50% own over 97% of that wealth, and the top 1% owns 30% of the total. There's no denying America's national wealth is heavily skewed in favor of relatively few households. Is there a reason to believe this wealth is frivolously employed?

A recent survey of 500 households, each with over \$30 million net worth indicates that, excluding each household's two primary residences, 85% of the wealth is invested in productive investments such as equities, commercial real estate, real estate funds, and venture capital funds, etc.

Rather than labeling these households a collective economic drain, it's clear they are a major source of investment capital, the absence of which would negatively impact the businesses sector and employment.

Here are practical arguments against assessing taxes on unrealized gains or wealth:

- As demonstrated, a vast majority of America's wealth is productively employed;
- "Paper gains" may never be realized;
- What happens when unrealized gains become losses – refund prior taxes paid?

- An asset may have to be liquidated to pay its unrealized tax assessment;
- It would discourage investors from taking long-term risks;
- Many assets are difficult/impossible to value;
- Investment capital might be moved outside the U.S.;
- And, something surprising – experience indicates that capital gains tax collections increase following reductions in tax rates – owners are more likely to sell and reinvest, not just hold;
- Additionally, growth-oriented tax policy can significantly lower poverty, while simple wealth redistribution usually makes a temporary difference.

Nevertheless, if the ultra-rich paid taxes on unrealized gains or wealth, could our national debt problems be alleviated and poverty be reduced? Would wealth inequality be reduced? Or would these lofty intentions soon be cast aside in favor of ambitious, “important new programs”?

Those are noble goals. They can’t be achieved simply by taxing our most-wealthy. Eliminating a large part of our economic engine, i.e. wealthy investors, would be counter-productive. As Winston Churchill observed, sometimes the only “inherent virtue is the equal sharing of misery.”

During these complicated times, several things intensify America’s challenges: rapid technology advancement; data storage, processing, and communication; burgeoning energy demands; recent years’ huge influx of immigrants; increase in national security challenges; and explosion of national defense threats and expenditures. Of course, our divisive political debates about these challenges hamper America being all that we want it to be.

These challenges also work against our economy’s historical egalitarian tendencies and economic mobility opportunities, and in this age of populism, a majority of voters want policies that look out for the “little guy.” This voter demand magnifies challenges for both parties in our divided America.

We should never forsake fostering opportunity, rewarding productivity, and maintaining smart growth enhanced by a healthy and wealthy base of investment capital. We must keep in mind an important reality – capitalism naturally allows significant wealth inequality. And rather than being a deficit or drain on the economy, that wealth is also the fuel for a healthy, growing economy.