The federal tax code includes a special, extra-low rate on income from capital gains—the net gain from the sale of an asset like stocks or bonds that has increased in value.

Because capital gains go only to households with accumulated wealth – working families living paycheck to paycheck generally don’t have money to invest – this type of income is even more lopsided than that from other sources. Two-thirds of income from capital gains goes to the wealthiest 1 percent of tax filers nationally.

The special treatment of capital gains is also an important driver of racial and ethnic inequality, because the wealthiest 10 percent of white households control nearly two-thirds of all wealth nationwide.

**HOW IT WORKS:**

The top federal tax rate on capital gains income is 23.8 percent, far below the 40.8 percent top rate on income people earn from work.

This legislation would partially offset this special treatment at the federal level with a 1 percent surtax on capital gains income. The bill language contains reasonable exemptions for the kinds of investments many middle-income households have, like their home or retirement accounts.