



FEDERAL TAX POLICY POSITION PAPER

UNLOCKING CAPITAL

A Rules-Based Installment-Payment Framework
for Federal Tax Liabilities Attributable to Long-Term Gains on Marketable
Securities

PROPOSED UNLOCKING CAPITAL ACT

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Prepared for professional, legislative, executive-branch, and public review

Executive Summary

POSITION. Congress should establish an elective federal capital-activation regime under which the full tax attributable to qualifying long-term marketable-security gain is determined in the year of disposition, a rules-based payment is made with that year's return, and the remaining liability is paid over a short statutory period with interest and enforceable collection protections.

The federal realization-based income-tax system permits owners of appreciated assets to control the timing of gain recognition. That rule is administrable and embedded in the Internal Revenue Code, but it creates a documented lock-in incentive: disposition of an appreciated position triggers recognition and generally requires payment of the resulting tax in the same filing cycle. Publicly traded stock and securities are excluded from ordinary installment-sale treatment even though these assets have transparent valuation, established settlement systems, and extensive third-party reporting. [1]-[5]

The proposed Unlocking Capital Act preserves the applicable capital-gain rate, recognition year, basis rules, character, netting, Net Investment Income Tax, and full federal liability. The Act changes the statutory payment schedule only. An electing taxpayer pays a required amount with the realization-year return, and the unpaid balance becomes an interest-bearing, legally enforceable federal receivable paid over three subsequent annual installments.

The required payment is determined by applying an annually calculated Capital Activation Payment Rate to qualified net gain, capped at the tax attributable to that gain. The statutory base rate is 10 percent of gain within a 5-to-15-percent band. A congressionally enacted Capital Activation Index adjusts the rate mechanically for output, labor-market conditions, financial stress, inflation, and the realization gap. Congress fixes the formula, data sources, weights, band, rounding rule, and annual-change limit. Treasury performs and publishes the calculation without discretionary rate-setting authority.

Design element	Recommended rule
Statutory vehicle	New elective payment provision, modeled procedurally on IRC §1062 but directed to qualifying marketable-security gain.
Eligible gain	Recognized net long-term capital gain from direct dispositions of publicly traded marketable securities; initial individual-taxpayer scope.
Tax determination	Full incremental tax under chapters 1 and 2A, including applicable §1(h) tax and §1411 NIIT, fixed in the year of disposition.
Immediate payment	Lesser of the attributable tax or qualified net gain multiplied by the live 5%-15% Capital Activation Payment Rate.
Deferred balance	Three equal annual principal installments after the original return due date, plus interest at the §6621(a)(2) underpayment rate.
Rate process	Annual mechanical determination; maximum 2-percentage-point annual movement; objective emergency downward adjustment only.

Design element	Recommended rule
Protection of revenue	Irrevocable election, netting rules, security for large balances, acceleration events, survival at death, and public reporting.
Development requirements	Congressional sponsorship, JCT revenue estimate, Treasury and IRS analysis, historical index back-test, distributional analysis, Legislative Counsel drafting, and IRS implementation plan before enactment.

The Act establishes four defined categories of benefit. Eligible individuals obtain elective payment flexibility that supports diversification and redeployment of sale proceeds while preserving their full tax obligation. Capital markets and corporate issuers obtain more responsive valuation and ownership reallocation; secondary-market proceeds do not flow directly to issuers, so the corporate benefit arises through price signals, shareholder transition, and subsequent investment in primary issuances or operating businesses. Treasury obtains cash from induced realizations and an interest-bearing claim for deferred balances. The public obtains a transparent, rules-based collection mechanism with published performance data.

The statutory design does not shift the seller's liability to another taxpayer or reduce the seller's nominal liability. Participation and the underlying sale remain voluntary, and non-electing taxpayers remain under current law. The identifiable public costs are cash-flow timing, administration, collection exposure, and concentration of payment flexibility among owners of appreciated assets. Interest, annual caps, security, acceleration rules, distributional reporting, and formal scoring address those costs directly.

The policy operates on a material federal tax base. IRS data report \$1.603 trillion of net capital gains in adjusted gross income for tax year 2022. CBO estimates that capital-gain realizations equaled 5.3 percent of GDP in 2025, approximately \$1.6 trillion. The Federal Reserve reports \$64.8 trillion of household and nonprofit equity holdings, direct and indirect, at the end of the first quarter of 2026; only a subset of that stock is directly held in taxable accounts and eligible under the proposed Act. At the 2025 realization scale, each 1 percent increase in aggregate realizations equals approximately \$16 billion of additional recognized gain and produces approximately \$1.6 billion of gross first-year payment at a 10 percent Capital Activation Payment Rate. These scale values establish the proposal's fiscal relevance; they are not a JCT revenue estimate. [18]-[21]

The proposal rests on clear congressional authority and established statutory precedent. Internal Revenue Code §1062 permits four equal annual payments of tax attributable to qualifying farmland gain, confirming that Congress may determine a federal tax liability in the year of realization while prescribing payment over time. The legal foundation is established. The remaining task is quantitative calibration of the immediate-payment rates, deferred-payment period, interest provisions, taxpayer eligibility and caps, index thresholds, and collection safeguards. These parameters must be designed to increase voluntary capital-gain realizations, improve capital mobility and portfolio diversification, accelerate federal cash receipts, preserve collection of the full statutory tax liability, and maintain acceptable budgetary, distributional, and administrative results. [6]

Advancement from a policy proposal to proposed legislation requires congressional sponsorship, preparation of statutory language, formal revenue estimation by the Joint Committee on Taxation, and detailed economic and administrative analysis by the Department of the Treasury and the Internal Revenue Service. The illustrative 5-, 10-, and 15-percent immediate-payment rates and three-year deferred-payment schedule establish the initial modeling parameters. The analysis will determine the statutory structure required to increase near-term federal receipts, produce a positive net budget effect over the ten-year budget window, preserve enforceability of the deferred liability, and operate through existing federal tax-reporting and collection systems.

Because short-term realization increases may exceed the permanent behavioral response, the required analysis must distinguish accelerated collections from new net federal revenue. It must separately quantify realization behavior, interest receipts, collection risk, administrative cost, distributional effects, capital-market effects, and ten-year budget consequences. The resulting findings will provide the basis for selecting enactment-ready rates, thresholds, payment schedules, eligibility limits, and enforcement provisions. [8]-[10]

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1. Purpose, Scope, and Policy Position

1.1 Policy background

Federal capital-gain taxation combines taxpayer control over realization with a payment obligation concentrated in the filing cycle for the year of disposition. For marketable securities, that structure links the decision to reallocate an asset with immediate payment of substantially the entire attributable federal tax. Transparent market valuation, broker reporting, and settled collection procedures provide the administrative foundation for a separate payment regime that fixes full liability at disposition, collects a statutory amount immediately, charges interest on the balance, and protects federal collection rights.

A stock sale does not create money. Cash passes from buyer to seller, and the security passes from seller to buyer. The relevant policy effects are capital reallocation, portfolio diversification, market turnover, recognition of taxable gain, and the timing of federal receipts. The proposed Act addresses those effects directly and makes no claim of mechanical cash creation.

1.2 Formal policy position

Congress should establish an elective installment-payment schedule for federal tax attributable to qualified long-term gain on marketable securities. The election preserves current-law recognition, basis, character, netting, rate, Net Investment Income Tax, and information-reporting rules. It modifies only the statutory due dates for a portion of the determined liability.

The statutory design converts a fixed payment rule into a bounded automatic fiscal instrument. During economic weakness or financial stress, a lower immediate payment preserves more private liquidity while maintaining the federal claim. During strong or inflationary conditions, a higher immediate payment accelerates Treasury cash receipts. The deferred amount bears interest and remains subject to federal collection authority in every economic condition.

1.3 Expected beneficiaries and protected interests

The election changes payment timing without transferring statutory tax liability to another taxpayer. The following effects distinguish direct legal benefits from indirect market effects and identify the protections applicable to each affected group.

Affected group	Defined effect and protection
Eligible individuals	Elective short-term payment flexibility, diversification capacity, and continued liability for the full tax plus interest.
Buyers	Voluntary acquisition under unchanged market rules; no tax obligation transferred from the seller.

Affected group	Defined effect and protection
Corporate issuers and businesses	Indirect benefit through more responsive valuation, shareholder reallocation, primary issuance, and reinvestment of proceeds in operating businesses.
Federal government	Immediate payment on recognized gain, an interest-bearing assessed receivable, security for large balances, and acceleration upon collection-risk events.
Public and nonparticipants	Current-law treatment for non-electors; published distributional and fiscal data; no exclusion, rate reduction, or forgiveness of tax.

2. Current Federal Tax-Law Framework

2.1 Realization, character, and preferential rate computation

Under the general realization system, gain from the sale or exchange of property is measured under §1001, and capital character and holding period are determined principally under §§1221 and 1222. Section 1(h) applies preferential rates to net capital gain of individuals, generally using 0-, 15-, and 20-percent bands for most long-term gain, while separate maximum rates apply to collectibles gain and unrecaptured §1250 gain. Section 1411 may impose an additional 3.8-percent tax on net investment income for taxpayers above the statutory modified-adjusted-gross-income thresholds. [1]-[3]

A long-term capital gain does not cause all ordinary income to be taxed at the highest ordinary rate. Section 1(h) applies an alternative computation under which ordinary taxable income generally fills the ordinary brackets first and net capital gain is layered above it for preferential-rate purposes. A large realization nevertheless increases gross income, adjusted gross income, taxable income, and often modified adjusted gross income. It may place part of the gain in a higher capital-gain band, trigger or increase tax under §1411, and affect income-based limitations, surtaxes, credits, deductions, Medicare premiums, and state-law provisions. The proposed Act preserves those current-law interactions.

2.2 Pay-as-you-go requirements and uneven gain events

Federal individual income tax is administered on a pay-as-you-go basis through withholding and estimated payments. A taxpayer anticipating a sizable capital gain may need to increase an estimated payment or withholding to satisfy the current-year or prior-year safe harbor. A taxpayer receiving income unevenly may use the annualized-income installment method, but failure to plan can produce a §6654 addition even when the return is ultimately paid. [4]

The Act coordinates expressly with §6654. The deferred portion of an elected liability is excluded from the required annual payment, and the statutorily required immediate payment is due no later than the unextended due date of the return for the realization year. The statute establishes this rule directly rather than relying on penalty relief.

2.3 Installment treatment and marketable securities

Section 453 generally permits qualifying installment-sale gain to be recognized as payments are received. Section 453(k), however, excludes dispositions of publicly traded stock or securities from that method; current IRS guidance requires the entire gain to be reported in the year containing the trade date. The exclusion is sensible as an anti-deferral rule for readily marketable assets, but it also means that the taxpayer cannot obtain payment flexibility through the ordinary installment method even though valuation and reporting are unusually reliable. [5]

The Act does not amend §453 to spread recognition. It follows the payment-deferral architecture of §1062. Enacted in 2025, §1062 permits qualifying taxpayers to elect payment of the applicable net tax liability from specified farmland gain in four equal annual installments. The proposed Act uses different eligibility and economic criteria, but §1062 supplies the governing legislative technique: determine the tax attributable to gain in the realization year and prescribe the payment schedule separately. [6]

2.4 Basis at death and the outer limit of deferral

Under §1014, property acquired from a decedent generally receives a basis equal to fair market value at death, subject to statutory exceptions. As a result, appreciation may escape income-tax realization if an owner holds the asset until death. That rule strengthens the lock-in incentive for some taxpayers. The Act would not amend §1014, but an elected payment obligation already fixed during life must survive death and may not be reduced or extinguished by a basis adjustment to other property. [7]

3. Economic and Administrative Effects of Current Law

3.1 Lock-in and portfolio concentration

The tax price of disposition causes some owners to retain appreciated positions after the investment rationale has weakened. The distortion is most significant when one security dominates a household portfolio, when a founder or employee holds concentrated employer stock, or when a low-basis investment displaces an alternative use of capital. CBO and JCT research confirms that realizations respond sharply to current and anticipated tax rates, particularly around announced changes. The long-run realization response is smaller than the short-run timing response. [8]-[10]

3.2 Capital reallocation and diversification

A qualifying sale reallocates both sides of a transaction. The buyer exchanges cash for the asset; the seller receives proceeds available for reinvestment, diversification, business capitalization, debt reduction, or consumption. When proceeds move to a different security, a primary issuance, or an operating business, capital is reallocated away from historical basis and toward the owner's current assessment of risk and return. Diversification reduces position-specific household risk, and market turnover strengthens price discovery.

3.3 Federal receipt timing

Nonrealization postpones federal receipts, in some cases until death. The election creates two opposing cash effects: induced realizations produce an immediate payment and a scheduled receivable, while elections by taxpayers who would have sold under current law defer a portion of cash that otherwise would have been paid in full. Determination of the net effect requires official JCT scoring that separates those populations and incorporates interest, prepayment, default, and administration.

3.4 Concentration of the payment obligation

Current law often converts a multi-year appreciation into one year's recognized income and one filing cycle's payment obligation. The taxpayer may have ample proceeds, but the all-at-once rule can still alter sale timing and create estimated-tax and liquidity-management problems. A federal installment election prices payment time transparently instead of leaving the taxpayer to avoid realization, borrow privately after the sale, or seek an ordinary IRS collection agreement after the tax becomes due.

4. Proposed Statutory Framework

4.1 Eligibility and initial scope

The initial regime applies to individuals, including married individuals filing jointly, who directly recognize net long-term capital gain from qualifying marketable securities. The election is made on a timely filed original or superseding return, identifies the affected transactions, and becomes irrevocable when made. An election filed after the unextended return due date does not postpone the statutory due date for the Required Capital Activation Payment, the accrual of interest, or any applicable late-payment addition from that date. Estates, trusts, dealers, mark-to-market taxpayers, pass-through allocations, short-term gain, capital-gain distributions, and nonmarketable assets are excluded from the initial regime.

Qualified marketable security is defined by cross-reference to the established-market concepts in §453(f)(2). Digital or successor trading venues enter the definition only through express statutory inclusion. The asset must be a capital asset in the taxpayer's hands, held for more than one year, disposed of in a fully recognized transaction, and reported through broker or equivalent third-party information reporting.

4.2 Qualified net activation gain

The election applies to qualified net gain rather than gross gain transaction by transaction. Eligible long-term gains are reduced by eligible long-term losses and coordinated with the capital-gain netting rules of §§1211 and 1222. Mandatory aggregation prevents a taxpayer from placing gains inside the election while using economically related losses outside it. Excluded gain, ordinary-income recapture, and gain subject to nonrecognition do not enter the payment base.

4.3 Applicable net tax liability

The Applicable Net Tax Liability equals the excess of (i) the taxpayer's federal tax imposed by chapters 1 and 2A for the taxable year, computed with qualified net activation gain, over (ii) the tax that would have been imposed if that gain were zero and all mechanically related items were recomputed. This incremental-liability method, consistent with §1062, captures the actual §1(h) and §1411 consequences rather than applying an assumed uniform tax rate.

The full Applicable Net Tax Liability is determined and assessed for the realization year. The election changes payment due dates, not the year of recognition or the amount assessed. Conforming rules govern credits, carryovers, alternative minimum tax interactions, and amended-return adjustments so that any change to the realization-year liability produces a corresponding adjustment to the deferred balance.

4.4 Required immediate payment and deferred balance

The operative statutory term is Required Capital Activation Payment. The term 'minimum tax' is excluded because it is associated with the individual and corporate alternative minimum taxes.

CORE FORMULA. Required Capital Activation Payment = the lesser of (A) the Applicable Net Tax Liability or (B) Qualified Net Activation Gain multiplied by the Applicable Capital Activation Payment Rate.

The unpaid portion becomes the Deferred Capital Activation Balance. The taxpayer pays that balance in three equal annual principal installments on the next three return due dates. Interest accrues from the original unextended due date at the federal underpayment rate under §6621(a)(2). The taxpayer may prepay without penalty. No §6651 failure-to-pay addition applies to a deferred balance before its scheduled due date. Failure to pay the Required Capital Activation Payment or any installment when due triggers ordinary late-payment consequences and accelerates the unpaid balance. [17]

4.5 Initial taxpayer limit

The initial election is limited to the first \$5 million of qualified net activation gain per taxpayer per taxable year, indexed for inflation and aggregated across a joint return and controlled entities. Gain above the cap remains subject to ordinary payment rules. The cap limits budget exposure, constrains concentration of the payment benefit, and establishes a controlled operating population for the first three filing seasons. Final calibration of the cap requires SOI-based microsimulation, distributional analysis, and JCT scoring.

4.6 Taxpayer payment schedules

The following schedules apply to \$1,000,000 of qualified net activation gain and \$238,000 of attributable federal tax, calculated as a simplified 20-percent §1(h) amount plus 3.8-percent Net Investment Income Tax. The taxpayer's actual liability is determined from the complete return. Interest is excluded from the table.

Economic setting	Payment rate	Payment with return	Deferred principal	Each of 3 later principal installments
Severe contraction / financial stress	5%	\$50,000	\$188,000	\$62,667
Normal conditions	10%	\$100,000	\$138,000	\$46,000
Above-trend / inflationary conditions	15%	\$150,000	\$88,000	\$29,333

If the attributable tax is less than the gain multiplied by the applicable payment rate, the full attributable tax is due and no balance is deferred. The Act therefore does not create a refund or negative payment for a taxpayer whose current-law tax is below the applicable payment-rate computation.

5. Capital Activation Index and Annual Rate Determination

5.1 Statutory and administrative design

Congress enacts the index components, weights, normalization schedules, 5-to-15-percent band, rounding convention, determination date, annual-change limit, emergency trigger, and nonretroactivity rule. Treasury performs a ministerial calculation: it obtains the designated official data vintages, applies the statutory formula, publishes the complete worksheet, and states the rate for the following calendar year.

A published stock-market index should not control the rate. Direct use of equity prices would amplify transaction-timing incentives, privilege one market signal, and invite anticipatory selling. Financial conditions and international stress are better captured through a diversified official index such as the Office of Financial Research Financial Stress Index, which incorporates multiple markets and regions. [11]

5.2 Index components

Component	Weight	Official source	Policy function
Output gap	30%	CBO actual and potential GDP data	Measures economic slack or excess demand.
Labor conditions	25%	BLS unemployment data, with CBO sustainable-rate benchmark	Detects deterioration and unusually tight labor conditions.
Financial stress	20%	OFR Financial Stress Index	Introduces credit, funding, volatility, safe-asset, and global-market conditions.
Inflation	15%	BEA 12-month PCE price index	Distinguishes disinflationary weakness from overheating; subject to stagflation override.

Component	Weight	Official source	Policy function
Realization gap	10%	IRS SOI capital-asset and Treasury administrative data	Identifies realizations materially below or above a statutory historical benchmark.

CBO publishes historical and projected potential-output data; BLS publishes the national unemployment series; BEA publishes real GDP and the PCE price index; OFR publishes a daily global-market stress index; and IRS SOI publishes capital-asset realization data. These are independently published federal data sources. The Federal Reserve's FCI-G may serve as a validation series, but adding it to the statutory formula would duplicate part of the financial-conditions content. [11]-[16]

5.3 Formula

Each component is converted under a statutory schedule to a score from -1.0 to +1.0. Negative values represent weakness, deterioration, elevated stress, low inflation associated with weak demand, or unusually low realizations. Positive values represent strong or excess demand, unusually tight labor conditions, unusually easy financial conditions, elevated inflation, or unusually high realizations.

INDEX. $CAI = 0.30(\text{Output}) + 0.25(\text{Labor}) + 0.20(\text{Financial Stress}) + 0.15(\text{Inflation}) + 0.10(\text{Realization Gap})$.
Preliminary Rate = $10\% + (5 \text{ percentage points} \times CAI)$, bounded between 5% and 15% and rounded to the nearest 0.5 percentage point.

The final annual rate may not move more than 2 percentage points from the prior year's rate. The inflation component may not increase the rate when both the output and labor components are negative; this stagflation override prevents an inflation signal from mechanically tightening payment conditions during a clear contraction. Revised data do not reopen a previously published rate: the calculation uses the official vintage available on the statutory determination date.

5.4 Announcement and emergency adjustment

- Annual determination date: September 30, using designated data available through June 30; publication no later than October 15 for the following calendar year.
- Transaction date rule: the published rate applies to qualifying dispositions occurring in the following calendar year, without retroactive increase.
- Annual movement limit: no more than 2 percentage points upward or downward, even if the unbounded formula indicates a larger change.
- Emergency rule: one downward-only adjustment, not exceeding 2 percentage points, may take effect 30 days after objective unemployment-deterioration or extreme OFR-stress thresholds are satisfied.
- No discretionary substitution: Treasury may not replace an indicator, alter a weight, change a breakpoint, or waive the band without an Act of Congress.

5.5 Operation as an automatic adjustment mechanism

The statute remains responsive because public economic data are converted automatically into the required payment rate each year. The enacted formula supplies predictability and legal accountability: taxpayers know the governing rule, Treasury cannot revise the architecture, and Congress retains authority over the index, band, and payment horizon.

6. Fiscal Scale, Budget Effects, and Economic Benefits

6.1 Scale of the affected tax and market base

Three official measures establish the relevant order of magnitude. IRS preliminary data report \$1.603 trillion of net capital gains in adjusted gross income for tax year 2022. CBO estimates 2025 capital-gain realizations at 5.3 percent of GDP, or approximately \$1.6 trillion. The Federal Reserve reports \$64.8 trillion of equity held directly and indirectly by households and nonprofit organizations at the end of the first quarter of 2026. The proposed Act reaches only directly held, taxable, qualifying marketable securities; the broader Federal Reserve measure defines the market context rather than the statutory base. [18]-[20]

The following sensitivity table converts the CBO realization baseline into gross payment scale. It measures payments attributable to induced realizations only and does not subtract payment deferral elected by taxpayers who would have sold under current law.

Increase in aggregate realizations	Additional realized gain	Payment at 5%	Payment at 10%	Payment at 15%
1%	\$16.4 billion	\$0.8 billion	\$1.6 billion	\$2.5 billion
3%	\$49.2 billion	\$2.5 billion	\$4.9 billion	\$7.4 billion
5%	\$82.0 billion	\$4.1 billion	\$8.2 billion	\$12.3 billion

At the 18-percent aggregate realized capital-gain tax rate reported in IRS research for 2021, the gross final federal tax associated with the three sensitivity cases is approximately \$3.0 billion, \$8.9 billion, and \$14.8 billion, respectively, before taxpayer-specific computations and interactions. The table is a transparent scale analysis, not an official revenue score. [21]

6.2 Federal budget mechanics and scoring

The Act preserves nominal tax liability at election. Federal budget scoring measures cash receipts within the budget window, behavioral responses, installment collections, interest, delinquencies, administrative costs, and interactions with other taxes. A balance scheduled after the year of sale reduces near-term cash from a baseline seller even when it is legally collectible and fully paid. An induced realization accelerates cash that current law would have postponed.

Official JCT scoring must estimate four effects separately: elections by baseline sellers; induced realizations; intertemporal transaction shifting around rate announcements; and collections on deferred

balances, including interest, prepayments, defaults, and enforcement cost. CBO and JCT research documents that short-run realization responses exceed persistent responses. That distinction governs the ten-year estimate. [8]-[10]

At a 10-percent payment rate, each \$100 billion of induced qualifying gain produces \$10 billion of gross immediate federal payment. For each \$100 billion of qualifying gain sold by taxpayers who would have realized under current law, the first-year cash deferral equals attributable tax above \$10 billion. Using the 18-percent aggregate realized rate solely as a reference, that deferral is approximately \$8 billion. The first-year federal cash effect is therefore determined by the ratio of induced gain to baseline-election gain; later installments, interest, prepayments, defaults, and administrative costs determine the cumulative budget-window effect.

6.3 Present-value protection

Interest accrues at the §6621(a)(2) underpayment rate rather than at a preferential fixed rate. The ordinary federal underpayment rate prices the time value of deferred payment through an administrable, familiar, and automatically updated rule. Interest remains nondeductible to the same extent as ordinary individual federal income-tax interest.

6.4 Credit and collection risk

The federal government becomes a creditor for the deferred amount. The liability is assessed, sale proceeds have been received, and federal collection tools apply. Large balances require security, and the obligation accelerates upon default, covered expatriation, prohibited transfer, concealment, dissipation of required security, or another statutory collection-risk event. The official estimate includes expected delinquency, recovery, and administrative cost.

6.5 Distributional incidence

Capital gains are concentrated among higher-income and higher-wealth households. IRS research estimates that 75.7 percent of capital gains accrue to the top 10 percent and 45.3 percent to the top 1 percent. The payment option therefore delivers its largest dollar benefit to taxpayers with significant appreciated assets. The Act addresses that concentration through preservation of full liability, §6621 interest, a \$5 million annual qualified-gain cap, security for large balances, and annual public distributional reporting. [21]

Congress evaluates the option against the relevant current-law alternative: indefinite nonrealization, including potential elimination of unrealized appreciation from the income-tax base at death, versus present recognition, an immediate payment, interest, and a scheduled federal claim. An official JCT distributional analysis must report both cash-flow and present-value incidence.

6.6 Capital-market and macroeconomic effects

The Act operates as a bounded fiscal adjustment mechanism through tax-payment timing. A lower immediate payment during economic stress preserves private liquidity and facilitates asset reallocation; a higher payment during above-trend conditions accelerates Treasury receipts. Secondary-market sales do not finance the issuing corporation directly. Corporate and business effects arise when reallocation

changes market valuation and ownership, supports a primary issuance, or directs proceeds into private operating investment. Macroeconomic evaluation must measure realized-gain, portfolio, investment, and output effects without treating gross transaction volume as new economic resources.

7. Compliance, Anti-Abuse, and Collection Rules

The proposed election requires defined reporting, anti-avoidance, security, and collection rules because part of an assessed tax remains unpaid after the original due date. The governing risk is protection and administration of a federal receivable. The following rules address that risk directly.

Risk	Recommended statutory response
Selective gain/loss placement	Apply the election to qualified net gain after mandatory aggregation and capital-loss netting.
Related-party transactions	Exclude sales and exchanges with persons described in §§267(b) and 707(b), subject to attribution rules.
Constructive or reversible dispositions	Coordinate with §§1091, 1092, and 1259; aggregate reacquisitions, short sales, options, and substantially identical positions.
Offshore transfer or expatriation	Accelerate unpaid balance before covered expatriation, transfer to a foreign trust, or comparable collection-risk event.
Death	Make the balance an estate obligation; permit continuation only with adequate security; prohibit extinguishment through §1014.
Large unsecured balance	Require bond, letter of credit, approved collateral, or special federal lien when deferred principal exceeds \$500,000.
Missed installment	Accelerate all unpaid principal; continue §6601 interest; apply ordinary failure-to-pay consequences from the default date.
Pass-through mismatch	Exclude allocated gain in the initial regime; consider later entity-level election and partner/shareholder reporting.
Rate-announcement timing	Limit annual movement, announce prospectively, prohibit retroactive increases, and report transaction bunching around year-end.

7.1 Election reporting

The election return includes a transaction schedule stating the CUSIP or equivalent identifier, trade date, proceeds, adjusted basis, holding period, broker, related hedges, netting computation, Applicable Net Tax Liability, Required Capital Activation Payment, and deferred-payment schedule. The taxpayer consents to extension of the collection period for the deferred balance and certifies current domestic collection contact information.

7.2 Security threshold

The proposed security threshold is \$500,000 of deferred principal. Below the threshold, ordinary federal assessment and collection rights apply. Above the threshold, the taxpayer provides Treasury-approved security or permits a special federal lien. Security remains proportionate to the unpaid balance and does not attach to unrelated assets beyond the amount required to protect the federal claim.

7.3 Coordination with amended returns and audits

A statutory ordering rule allocates any increase in Applicable Net Tax Liability following examination between the Required Capital Activation Payment and the remaining installment schedule. A decrease first reduces unpaid installments and produces a refund only to the extent prior payments exceed the recomputed liability. Ordinary deficiency procedures and judicial review remain available.

8. Administration and Institutional Responsibilities

8.1 Treasury and IRS responsibilities upon enactment

- Publish the annual Capital Activation Index worksheet and Applicable Capital Activation Payment Rate using only the statutory formula.
- Issue forms and instructions for the election, attributable-tax computation, installment schedule, security covenant, and annual payment reconciliation.
- Modify broker reporting under §6045 or establish a companion information return sufficient to verify qualifying dispositions and basis.
- Maintain taxpayer account modules that distinguish assessed tax, statutorily deferred principal, accrued interest, current installments, and accelerated balances.
- Publish aggregate annual data by adjusted-gross-income class, size of gain, payment rate, elected liability, collections, prepayments, defaults, and outstanding receivables.

8.2 Congressional and independent review

Congressional consideration requires an official JCT revenue estimate and distributional table. At congressional request, CBO analysis addresses macroeconomic and debt-service implications. The Act directs GAO to review administration, control effectiveness, taxpayer burden, and data integrity after the first three filing seasons. Following enactment, Treasury's Office of Tax Analysis and IRS SOI maintain a public evaluation dataset consistent with the return-information protections of §6103.

8.3 Ministerial calculation and judicial review

The Act designates the annual rate calculation as a ministerial application of statutory data and arithmetic. Treasury publishes the data vintage, component scores, weights, unrounded result, annual-change constraint, emergency adjustment, and final rate. Expedited procedures permit prospective correction of a computational error; a published rate may not be increased retroactively for a completed transaction.

9. Legislative Architecture

9.1 Recommended Code structure

Final Code placement is reserved for Legislative Counsel. For policy-draft purposes, the recommended structure is a new §1063 following current §1062, captioned 'Election to Pay Tax Attributable to Qualified Capital Activation Gain in Installments.' This placement emphasizes payment of attributable tax rather than installment recognition under §453.

Provision	Legislative function
Short title and findings	Name the Unlocking Capital Act and state the bounded capital-mobility and fiscal-timing purposes.
New IRC §1063	Define election, gain, attributable tax, payment rate, index, installments, interest, security, acceleration, and reporting.
§6654 coordination	Exclude statutorily deferred principal from required annual payments and prevent estimated-tax additions on that amount.
§6601/§6621 coordination	Specify interest accrual and the applicable underpayment rate.
Collection-period rule	Keep the collection statute open through the scheduled due date and applicable collection period for each installment.
Lien/security provision	Authorize proportionate security for large deferred balances and preserve federal priority.
§6045 reporting	Require broker data necessary to verify qualified dispositions and basis.
Effective date	Apply prospectively to dispositions after IRS systems, forms, and final regulations are operational.

9.2 Delegation boundary

The Act authorizes Treasury to prescribe anti-avoidance, reporting, allocation, and security regulations necessary to administer the enacted standards. The delegation excludes authority to substitute macroeconomic indicators, reweight the index, expand the 5-to-15-percent band, waive the taxpayer cap, or change the installment horizon. Those parameters remain legislative judgments.

10. Policy Issues and Responses

10.1 Distributional incidence and concentration of benefits

The election has measurable value and will be used disproportionately by taxpayers with appreciated assets. The statutory structure prices and limits that value: full tax remains assessed; interest accrues at the federal underpayment rate; the qualified-gain cap limits annual scale; large balances require

security; and aggregate distributional results are disclosed. Final calibration requires an official JCT distributional analysis.

10.2 Federal cash-flow timing and revenue protection

Deferral reduces near-term cash from baseline sellers who elect the schedule, while induced realizations accelerate cash from taxpayers who otherwise would not have sold. Interest compensates the government for payment time, and security protects collection. Determination of the net ten-year effect requires official JCT scoring of both populations, installment collections, interest receipts, defaults, enforcement expense, and administrative cost.

10.3 Transaction timing around rate changes

Transaction timing responds to the published rate. Because the rate changes payment timing rather than final liability, the incentive is smaller than a change in the final tax rate. Prospective publication, a 2-percentage-point annual limit, a downward-only emergency rule, and public reporting of transaction bunching constrain and reveal the response.

10.4 Federal creditor role

Federal tax law already administers deferred and installment liabilities. Under the proposed Act, the liability is assessed, interest-bearing, short-duration, supported by realized sale proceeds, and protected by security and acceleration rules. IRS implementation cost, account volume, default rates, and recovery expense are measured during the initial operating period and reviewed by GAO.

10.5 Index complexity, transparency, and stability

A five-component formula is more complex than a fixed percentage but less discretionary than administrative rate-setting. Taxpayers use one published annual rate. Treasury publishes every input, data vintage, score, weight, constraint, and calculation. Historical back-testing and annual audits test stability and reproducibility.

10.6 Secondary-market transaction mechanics

A sale transfers cash and an asset between willing parties; it does not create money. The Act is based on reduced realization lock-in, diversification, capital reallocation, recognition of taxable gain, and federal payment scheduling. Its fiscal measurements exclude any claim of mechanical money creation.

11. Development and Implementation Path

11.1 Phase I: Sponsored technical development (months 0-6 after sponsorship)

1. Construction of a taxpayer-level microsimulation using historical Schedule D, Form 8949, §1411, broker-reporting, and payment data, with participation by Treasury's Office of Tax Analysis and IRS SOI.

2. A congressional request for preliminary JCT ten-year revenue and distributional estimates under alternative payment bands, installment horizons, gain caps, interest rules, and security thresholds.
3. Historical back-testing of the Capital Activation Index for 2000-2025, including the 2001 recession, the 2008 financial crisis, the 2020 contraction, the subsequent inflation period, and capital-gain rate-announcement episodes.
4. Measurement of transaction shifting around annual publication and January 1 effective dates, including tests of alternative averaging and announcement windows.
5. An IRS feasibility assessment covering systems, forms, staffing, taxpayer service, collection risk, cost, and implementation schedule.
6. Legislative Counsel preparation of statutory text, conforming amendments, and an effective-date framework at the request of a congressional sponsor or committee.
7. Phase I deliverable: a public technical memorandum containing the baseline dataset, index back-test, sensitivity ranges, preliminary score, distributional tables, and IRS feasibility assessment.

11.2 Phase II: Legislative drafting and public review (months 6-12 after sponsorship)

Subject to committee leadership, Phase II consists of technical sessions and public hearings before the House Committee on Ways and Means and the Senate Committee on Finance, with participation by Treasury, IRS, JCT, CBO, GAO, tax practitioners, economists, broker-reporting specialists, market-structure specialists, and taxpayer representatives. If the proposal advances to markup, Legislative Counsel incorporates the selected payment band, installment period, cap, security standard, index schedule, reporting rules, and conforming amendments, and JCT provides the official revenue estimate and distributional table.

11.3 Phase III: Post-enactment administrative implementation (12-24 months after enactment)

Following enactment, Treasury and IRS publish proposed and final regulations, create the election and reconciliation forms, establish taxpayer-account modules for deferred balances, implement security and acceleration procedures, coordinate §6045 broker reporting, and build the public annual-index worksheet. The statute applies only to dispositions occurring after Treasury certifies that the required forms, accounts, reporting channels, and collection controls are operational.

11.4 Phase IV: Initial operating period (first three filing seasons)

The initial \$5 million qualified-gain cap and \$500,000 security threshold remain in force for at least three filing seasons. Treasury publishes annual data on elections, gains, payments, interest, prepayments, outstanding receivables, security, defaults, recoveries, transaction timing, and taxpayer distribution. IRS reports administrative cost and compliance burden with each filing season.

11.5 Phase V: Evaluation and statutory review (year 5)

The Act directs GAO to review program administration, collection controls, taxpayer burden, data integrity, and index reproducibility after the first three filing seasons. The review record includes updated fiscal and economic analysis by the responsible federal institutions. The Act also requires a fifth-year congressional review of whether to retain, modify, narrow, or expand the regime. The rate mechanism does not expire automatically because a fixed sunset would create a predictable realization-timing event.

11.6 Performance metrics

Metric	Question answered
Incremental realizations	Did eligible taxpayers realize more gain than comparable current-law behavior predicts?
Receipt timing	How much cash was accelerated through induced sales and deferred through elections by baseline sellers?
Outstanding receivables	What principal, interest, security, delinquency, and recovery amounts remain?
Transaction bunching	Did sales cluster around announcement or effective dates?
Distribution	Which AGI, wealth-proxy, age, filing-status, and gain-size groups received payment flexibility?
Portfolio effects	Did electors reduce concentrated positions or reenter the same exposure through substitutes?
Administrative burden	What were IRS cost, practitioner hours, taxpayer errors, audit adjustments, and collection cases?
Index performance	Did the rate move predictably and coherently across economic regimes?

12. Conclusion

Current law gives owners broad control over realization but generally requires substantially complete payment in the disposition-year filing cycle. This structure reinforces lock-in, portfolio concentration, and receipt-timing distortions.

The Act preserves recognition and full tax liability. The taxpayer makes a substantial realization-year payment; the balance becomes an interest-bearing, enforceable receivable. A statutory index adjusts only the first payment, and Treasury has no discretionary rate authority.

At a 10 percent payment rate, a 1 percent increase on the roughly \$1.6 trillion annual realization base implies about \$16 billion of additional gain and \$1.6 billion of gross first-year payment. The net effect

requires official JCT scoring of baseline-seller deferral, induced realizations, installment collections, interest, defaults, administrative cost, and behavior.

Payment flexibility is not forgiveness: full tax remains due, and non-electors retain current law.

Appendix A: Capital Activation Index Policy Specification

The following specification is complete for historical back-testing and microsimulation. Final statutory breakpoints are enacted in a schedule to §1063 rather than delegated through open-ended regulation. Scores between stated endpoints are linearly interpolated and bounded from -1.0 to +1.0.

Component	Illustrative normalization rule
Output	CBO output gap at or below -3% = -1.0; zero gap = 0; gap at or above +3% = +1.0.
Labor	Composite of three-month unemployment deterioration from its prior 12-month low and the unemployment gap relative to CBO's sustainable rate; severe deterioration = -1.0; materially tighter than sustainable with no deterioration = +1.0.
Financial stress	OFR FSI trailing-60-business-day percentile: at or above 95th percentile = -1.0; 25th-75th percentile = 0; at or below 5th percentile with nonnegative output = +1.0.
Inflation	Twelve-month PCE: at or below 0.5% = -1.0; 1.5%-2.5% = 0; at or above 3.5% = +1.0, subject to the contraction override.
Realization gap	Real qualified realizations as a share of the statutory household-financial-asset benchmark: 25% or more below trailing 10-year median = -1.0; within +/-10% = 0; 25% or more above = +1.0.

Data vintage rule. The annual calculation uses only values publicly available as of September 30 and attributed to periods ending on or before June 30. Subsequent revisions do not change the published rate. If a designated series is discontinued, the last valid component score remains in effect until Congress enacts a successor; Treasury may recommend but may not unilaterally substitute an index.

Emergency trigger. An emergency reduction may occur if either (i) the three-month average unemployment rate rises by at least 0.5 percentage point above its lowest three-month average during the preceding 12 months, or (ii) the trailing 10-business-day average OFR FSI exceeds the 95th percentile of the statutory reference period. The reduction may not exceed 2 percentage points, may not lower the rate below 5 percent, and takes effect prospectively after 30 days.

Appendix B: Proposed Legislative Language

The following language is a policy draft prepared for professional and public review. Final codification, definitions, cross-references, effective dates, and conforming amendments are reserved for Legislative Counsel.

SECTION 1. SHORT TITLE.

This Act may be cited as the 'Unlocking Capital Act.'

SECTION 2. PURPOSES.

The purposes of this Act are to reduce tax-induced lock-in with respect to qualified marketable securities; to authorize a short, interest-bearing schedule for payment of tax attributable to qualified net long-term capital gain; to preserve the full federal tax liability determined under existing substantive tax rules; to protect present value and

collection through interest, security, and acceleration; and to establish a rules-based Capital Activation Payment Rate that responds within statutory limits to published economic conditions.

SECTION 3. ELECTION TO PAY TAX ATTRIBUTABLE TO QUALIFIED CAPITAL ACTIVATION GAIN IN INSTALLMENTS.

(a) IN GENERAL. - Subchapter O of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after section 1062 a new section 1063.

§1063. Election to pay tax attributable to qualified capital activation gain in installments.

(a) ELECTION. - An eligible individual who has qualified net activation gain for a taxable year may elect the application of this section in the manner prescribed by the Secretary. An election shall be made on a timely filed return, including extensions, shall identify each qualified disposition, and shall be irrevocable when made. An election made after the due date determined without regard to extensions shall not alter the due date of the amount required under subsection (c), the accrual of interest under subsection (e), or any applicable addition to tax attributable to late payment.

(b) APPLICABLE NET TAX LIABILITY. - The term 'applicable net tax liability' means the excess, if any, of the aggregate tax imposed by chapters 1 and 2A for the taxable year over the aggregate tax that would have been imposed if the taxpayer's qualified net activation gain were zero, with all related items recomputed under regulations consistent with this section.

(c) REQUIRED CAPITAL ACTIVATION PAYMENT. - The amount due for the taxable year of the qualified disposition shall equal the lesser of (1) the applicable net tax liability, or (2) the product of the qualified net activation gain and the applicable Capital Activation Payment Rate.

(d) DEFERRED CAPITAL ACTIVATION BALANCE. - The excess of the applicable net tax liability over the amount determined under subsection (c) shall be paid in three equal annual installments beginning on the due date of the return for the first taxable year following the taxable year of the qualified disposition. A taxpayer may prepay all or part of the balance without penalty.

(e) INTEREST. - Interest shall accrue on the unpaid deferred capital activation balance from the due date of the return for the taxable year of the qualified disposition at the underpayment rate determined under section 6621(a)(2).

(f) CAPITAL ACTIVATION PAYMENT RATE. - The rate for a calendar year shall be 10 percent, adjusted under the Capital Activation Index enacted in subsection (g); shall not be less than 5 percent or greater than 15 percent; shall be rounded to the nearest one-half percentage point; and, except for a downward emergency adjustment, shall not vary from the preceding calendar year's rate by more than 2 percentage points.

(g) CAPITAL ACTIVATION INDEX. - The Index shall consist of the output, labor, financial-stress, inflation, and realization-gap components, weighted 30, 25, 20, 15, and 10 percent, respectively, and converted to the payment rate under the statutory schedules. The Secretary shall publish the data, component calculations, unrounded rate, applicable limitations, and final rate not later than October 15 of each calendar year. The Secretary may not substitute an indicator, alter a weight, or modify a statutory breakpoint.

(h) QUALIFIED NET ACTIVATION GAIN. - The term means net long-term capital gain attributable to recognized dispositions of qualified marketable securities by an eligible individual, after application of sections 1211 and 1222 and such aggregation rules as prevent separation of economically related gains and losses. The amount taken into account shall not exceed \$5,000,000 for a taxable year, adjusted for inflation.

(i) QUALIFIED MARKETABLE SECURITY. - The term means a capital asset for which there is a market on an established securities market, within the meaning of section 453(f)(2), held by the taxpayer for more than one year and reported under section 6045. The term shall not include an asset held by a dealer, subject to mark-to-market treatment, disposed of to a related person, or included in a transaction lacking substantive economic disposition.

(j) SECURITY AND ACCELERATION. - If the deferred principal exceeds \$500,000, the Secretary shall require adequate security. The unpaid balance shall be due immediately upon default, covered expatriation, prohibited foreign transfer, material false statement, dissipation of required security, or such other statutorily specified event as materially impairs collection. The liability shall survive death and shall be enforceable against the estate.

(k) COORDINATION. - No addition to tax under sections 6651 or 6654 shall be imposed solely by reason of a deferred amount not yet due under this section. The Secretary shall prescribe rules coordinating this section with amended returns, deficiency procedures, collection periods, liens, joint returns, and credits or refunds.

SECTION 4. REPORTING; REGULATIONS; EFFECTIVE DATE.

The Secretary shall prescribe information reporting and administrative rules necessary to carry out section 1063, except that no regulation may alter the statutory rate formula or eligibility cap. The amendments shall apply prospectively to qualified dispositions occurring after the Secretary certifies that required forms, account systems, and final regulations are operational.

Appendix C: Quantitative Analysis Requirements

Advancement to committee consideration requires a reproducible technical memorandum containing the following tables, datasets, and simulations:

- SOI distribution of eligible long-term marketable-security gains by AGI percentile, age, filing status, gain size, and current marginal capital-gain rate.
- Static cash-flow schedules under 5%, 10%, and 15% immediate-payment rates and two-, three-, and four-year balance horizons.
- Present-value analysis using §6621 interest and alternative delinquency assumptions.
- Behavioral estimates using low, central, and high realization elasticities, with separate transitory and persistent responses.
- Ten-year JCT-style receipt paths distinguishing induced realization, baseline-election substitution, announcement shifting, interest, and default.
- Historical Capital Activation Index values, annual rate changes, emergency triggers, and sensitivity to data revisions from 2000 forward.
- Distributional incidence of the payment option and the proposed \$5 million gain cap and \$500,000 security threshold.
- IRS implementation cost, taxpayer compliance burden, and projected inventory of deferred accounts and secured balances.

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Document status: This position paper sets forth an integrated policy and legislative framework for professional, governmental, and public review. The stated percentages, caps, thresholds, and implementation periods are proposed design parameters. Advancement to legislation requires congressional sponsorship, JCT scoring, Treasury and IRS analysis, distributional analysis, Legislative Counsel drafting, and post-enactment administrative certification. This document does not constitute legal or tax advice.