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Tax hypocrisy

By Richard W. Rahn

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Sen. John Kerry keeps telling us that "the rich" need to pay more in taxes. The senator and his wife are among the 400 richest Americans. He says that he has "a plan to tax the rich." Under the senator's tax plan, what percentage of the Kerrys' income do you think they would pay the IRS? (a) 50 percent, (b) 40 percent, (c) 30 percent, (d) 15 percent. The correct answer is (d) 15 percent.

According to an analysis by the Argus Group, a well respected tax law and economics firm, the Kerrys' average tax rate would only increase by 1.8 percentage points to 15.2 percent under the senator's plan, while many small business people would see their average rate rise by 4.0 percentage points, resulting in effective rates as high as 35 to 40 percent, including certain deduction phase-outs.

Last year, Mr. Kerry and his wife paid only 13.4 percent of their declared \$5.5 million income in federal taxes. President and Mrs. Bush, whose income was only 15 percent of the Kerrys', paid a tax rate more than twice as high, 27.7 percent. Despite all of the senator's bombast about the rich paying more, under his plan he and Mrs. Kerry would still pay a lower average rate than most middle-income Americans.

As Mr. Kerry's own tax situation shows, he is not proposing increased taxes on those who are already rich -- through inheritance, hard work, luck or marrying a rich woman -- but is proposing increasing taxes on those who are trying to become rich. His plan proposes to make it more difficult for people to join his club of the very wealthy. If you are already rich, you can tax shelter much of your income, but if you have little in the way of assets, it is almost impossible to shelter your earnings from taxes.

Mr. Kerry's running mate, Sen. John Edwards, also shares this tax hypocrisy. Last year, Mr. and Mrs. Edwards paid an average tax rate of only 5.1 percent on their reported \$434,000 of income, or less than one-third of what the average taxpayer pays.

Estimates of the Kerrys' worth range from a low of \$700 million to a high of 3.2 billion dollars. How much income would you expect a billion dollars to produce? The Kerrys reported \$5 million in income, which is a return of only about one-half of 1 percent, far lower than the return on even U.S. government securities. Obviously, the public is not given the full story on the Kerrys' assets and income. Mrs. Kerry did not release her full returns. For instance, she did not release the part of the return that notes whether or not she has offshore accounts. (Note: It is both legal and proper for her to have such

accounts, but her husband has called others with such accounts unpatriotic. This may explain why Mrs. Kerry did not release this information.)

The obvious questions to Mr. Kerry are: How does he justify proposing a tax rate for himself that is less than half of what he expects many young professionals and small business people to pay, many of whom may have little or no assets? How can he accuse others of not paying their fair share in taxes, when he refuses to give full details about his own family financial situation? Does he really expect us to believe his family only earned \$5 million on a billion dollars of assets last year?

It is noteworthy that not one of the debate moderators or reporters like Tim Russert of "Meet the Press" who have interviewed Mr. Kerry have asked him about the obvious hypocrisy of his tax positions. This fact is another indication that the liberal media establishment is part of the hypocrisy and cover-up.

According to the economic literature, the 15 percent tax rate Mr. Kerry has proposed for his family is probably fairly close to the long-run revenue maximizing rate for the personal income tax. If it is good enough for the Kerry family, it ought to be good enough for the rest of us. A 15 percent maximum rate for all tax payers would stimulate an additional supply of labor and capital, which would result in much higher economic growth and lower unemployment.

Republicans should use the opportunity of the Kerry hypocrisy to advocate a 15 percent (Kerry rate) maximum tax rate for everyone. There are two ways of reaching the goal. The first approach would be to establish a 15 percent flat tax rate on all income (except for lower rates or exclusions for low-income people). The second approach would be to allow taxpayers to exclude a portion of their income if they save it in a tax deferred account like an IRA, or health care savings account, etc. (Under this approach, if we had a nominal maximum tax rate of 39.6 percent -- as advocated by Mr. Kerry -- but wanted to allow even the non-rich to legally enjoy an effective tax rate of 15 percent, we would need to allow people to place up to 62 percent of their income in tax deferred accounts.)

Ironically, the Kerry hypocrisy might well lead us to what is known by economists as the consumed income tax, whereby savings and investment are excluded from income and only consumption is taxed. Economic efficiency, growth and employment would be enhanced because people would only be taxed on what they take out of the economy rather than what they put into it. Let's demand the 15 percent Kerry max tax for everyone.

Richard W. Rahn is a senior fellow of the Discovery Institute and an adjunct scholar of the Cato Institute.