

The Washington Times

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Tax Facts and Fantasies

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Published December 14, 2010

The rich already pay more than their fair share

Never has the expression "What planet are these people from?" seemed more appropriate than when it refers to the actions of the majority of Democrats in the House of Representatives this week on the proposed tax bill compromise. In the real world, their choice is that they either vote for the compromise, which means no one will suffer a tax increase as of Jan. 1, or that everyone will have a huge tax increase. Also, the lowest wage earners will see a 50 percent jump in their tax rates, from 10 percent to 15 percent. The main point of the House Democrats' pique is that some "rich" Americans may be able to avoid having more than 50 percent of their incomes confiscated by the government and that those people's heirs may not have to pay a 55 percent tax on their inheritance if the compromise bill passes.

President Obama and his left-wing friends keep telling us that the "rich," meaning any family whose combined income is more than \$250,000 annually, can "afford" to pay more. "Afford" is an interesting term in that it refers to the ability to pay but denotes nothing about the willingness of the person to pay or the justice in making the person pay.

As can be seen in the accompanying table, those among the top 1 percent of income-tax payers earn 20 percent of the income but pay almost 40 percent of the tax bill, which is double their proportional share. Those in the top 10 percent of income -tax payers earn a little more than one-third of the income but pay almost 70 percent of the total tax. At the other end of the scale, the bottom 50 percent of taxpayers earn about 13 percent of the income but pay less than 3 percent of the tax. In reality, most of the bottom 50 percent of taxpayers receive much more in government payments and in-kind benefits than they pay in, so the disposable-income discrepancy is much smaller than it may seem.

AMERICA'S TAX BURDEN			
Who pays income taxes in the U.S. (2008)			
Taxpayer Groups	Group's Share of Total AGI	Group's Share of Income Taxes	Tax Overpayment / Underpayment

All Taxpayers	100%	100%	
Top 1%	20.0%	38.0%	90%
Top 5%	34.7%	58.7%	69%
Top 10%	45.8%	69.9%	53%
Top 25%	67.4%	86.3%	28%
Top 50%	87.3%	97.3%	12%
Bottom 50%	12.8%	2.7%	-79%

Note: AGI is Adjusted Gross Income

Source: IRS

Using the "afford to pay" standard, Bill Gates and Warren Buffet could more easily afford to pay 99 percent of their incomes than a married couple with two kids in college making \$250,000 per year, paying tax at a 50 percent rate. Taxpayers living in jurisdictions where the maximum state and local tax is 11 percent or more (e.g., Oregon, Hawaii, New York and California), combined with the proposed higher maximum federal tax rate of 39.6 percent, coupled with the reduction in usable exemptions, will have effective marginal rates of more than 50 percent). Question: If "affordability" is the correct standard, why don't those of the left who want higher taxes argue for a 99 percent rate on the superrich? I expect their answer is that "most would be unwilling to pay," which is, of course, true.

As I and many others have repeated time and time again, good tax economists know (from empirical evidence) that over the long run, tax rates on income and capital of more than 30 percent, and perhaps as low as 20 percent, result in lower rather than higher revenue. So, when you hear that those purported 10-year tax revenue losses will result in keeping the maximum individual tax rates at just 35 percent, you should know that the person (whether it is some government official, a member of Congress or someone in the media) is ignoring the evidence. It also is worth remembering, when you hear someone blathering about how much more tax revenue will be received from taxing the "rich" more, that maximum income tax rates have varied between 28 percent and 91 percent over the past half-century, yet tax revenues as a percentage of gross domestic product have continued to average about 18 percent, regardless of the maximum rate.

Repeated surveys of the American people over the years have shown that most people do not think anyone should be taxed more than 20 percent of his or her income. So what is the justice in making some people - often the most productive - pay more than 50 percent? What is the maximum rate anyone should be expected to pay and why? If people work overtime to earn more to take care of their families or whatever, why should they be taxed at a higher rate than the less responsible and energetic? These are questions that the House Democratic caucus cannot answer.

If the House Democrats do manage to block the compromise, even understanding that the new Republican-controlled House will vote for it in

January, the economic damage will be considerable. Businesses and individuals will still be uncertain about their tax rates and liabilities as they go into the New Year, which will depress hiring and expansion, and increased tax withholding will depress personal income. Now, even the Obama White House admits that such a delay in passing the tax bill could result in a double-dip recession, which would greatly enlarge the deficit.

The Pelosi Congress has been the most irresponsible - ever. For the first time, Congress did not pass a budget (and the fiscal year has been under way for three months) or any of the appropriation bills before the lame-duck session. Congress has had two years to clarify the tax situation, yet it may not even do so before Christmas. Have they learned nothing?

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