Resolved: The U.S. should significantly increase taxes on the rich.

Stop Coddling the Super-Rich

By WARREN E. BUFFETT, The New York Times, August 14, 2011

OUR leaders have asked for “shared sacrifice.” But when they did the asking, they spared me. I checked with my mega-rich friends to learn what pain they were expecting. They, too, were left untouched.

While the poor and middle class fight for us in Afghanistan, and while most Americans struggle to make ends meet, we mega-rich continue to get our extraordinary tax breaks. Some of us are investment managers who earn billions from our daily labors but are allowed to classify our income as “carried interest,” thereby getting a bargain 15 percent tax rate. Others own stock index futures for 10 minutes and have 60 percent of their gain taxed at 15 percent, as if they’d been long-term investors.

These and other blessings are showered upon us by legislators in Washington who feel compelled to protect us, much as if we were spotted owls or some other endangered species. It’s nice to have friends in high places.

Last year my federal tax bill — the income tax I paid, as well as payroll taxes paid by me and on my behalf — was $6,938,744. That sounds like a lot of money. But what I paid was only 17.4 percent of my taxable income — and that’s actually a lower percentage than was paid by any of the other 20 people in our office. Their tax burdens ranged from 33 percent to 41 percent and averaged 36 percent.

If you make money with money, as some of my super-rich friends do, your percentage may be a bit lower than mine. But if you earn money from a job, your percentage will surely exceed mine — most likely by a lot.

To understand why, you need to examine the sources of government revenue. Last year about 80 percent of these revenues came from personal income taxes and payroll taxes. The mega-rich pay income taxes at a rate of 15 percent on most of their earnings but pay practically nothing in payroll taxes. It’s a different story for the middle class: typically, they fall into the 15 percent and 25 percent income tax brackets, and then are hit with heavy payroll taxes to boot.

Back in the 1980s and 1990s, tax rates for the rich were far higher, and my percentage rate was in the middle of the pack. According to a theory I sometimes hear, I should have thrown a fit and refused to invest because of the elevated tax rates on capital gains and dividends.

I didn’t refuse, nor did others. I have worked with investors for 60 years and I have yet to see anyone — not even when capital gains rates were 39.9 percent in 1976-77 — shy away from a sensible investment because of the tax rate on the potential gain. People invest to make money, and potential taxes have never scared them off. And to those who argue that higher rates hurt job creation, I would note that a net of nearly 40 million jobs were added between 1980 and 2000. You know what’s happened since then: lower tax rates and far lower job creation.

Since 1992, the I.R.S. has compiled data from the returns of the 400 Americans reporting the largest income. In 1992, the top 400 had aggregate taxable income of $16.9 billion and paid federal taxes of 29.2 percent on that sum. In 2008, the aggregate income of the highest 400 had soared to $90.9 billion — a staggering $227.4 million on average — but the rate paid had fallen to 21.5 percent.

The taxes I refer to here include only federal income tax, but you can be sure that any payroll tax for the 400 was inconsequential compared to income. In fact, 88 of the 400 in 2008 reported no wages at all, though every one of them reported capital gains. Some of my brethren may shun work but they all like to invest. (I can relate to that.)

I know well many of the mega-rich and, by and large, they are very decent people. They love America and appreciate the opportunity this country has given them. Many have joined the Giving Pledge, promising to give most of their wealth to philanthropy. Most wouldn’t mind being told to pay more in taxes as well, particularly when so many of their fellow citizens are truly suffering.

Twelve members of Congress will soon take on the crucial job of rearranging our country’s finances. They’ve been instructed to devise a plan that reduces the 10-year deficit by at least $1.5 trillion. It’s vital, however, that they achieve far more than that. Americans are rapidly losing faith in the ability of Congress to deal with our country’s fiscal problems. Only action that is immediate, real and very substantial will prevent that doubt from morphing into hopelessness. That feeling can create its own reality.

Job one for the 12 is to pare down some future promises that even a rich America can't fulfill. Big money must be saved here. The 12 should then turn to the issue of revenues. I would leave rates for 99.7 percent of taxpayers unchanged and continue the current 2-percentage-point reduction in the employee contribution to the payroll tax. This cut helps the poor and the middle class, who need every break they can get.

But for those making more than $1 million — there were 236,883 such households in 2009 — I would raise rates immediately on taxable income in excess of $1 million, including, of course, dividends and capital gains. And for those who make $10 million or more — there were 8,274 in 2009 — I would suggest an additional increase in rate.

My friends and I have been coddled long enough by a billionaire-friendly Congress. It's time for our government to get serious about shared sacrifice.

Warren E. Buffett is the chairman and chief executive of Berkshire Hathaway.

Obama Offers Plan to Cut Deficit by Over $3 Trillion

The New York Times, September 18, 2011, **By HELENE COOPER**

WASHINGTON — President Obama will unveil a plan on Monday that uses entitlement cuts, tax increases and war savings to reduce the federal deficit by more than $3 trillion over the next 10 years, administration officials said.

The plan, which Mr. Obama will lay out Monday morning at the White House, is the administration's opening move in sweeping negotiations on deficit reduction to be taken up by a joint House-Senate committee over the next two months. If a deal is not enacted by Dec. 23, cuts could take effect automatically across government agencies.

Mr. Obama will call for $1.5 trillion in tax increases, primarily on the wealthy, through a combination of letting the Bush-era tax cuts expire, closing loopholes and limiting the amount that high earners can deduct. The proposal also includes $580 billion in adjustments to health and entitlement programs, including $248 billion to Medicare and $72 billion to Medicaid. Administration officials said that the Medicare cuts would not come from an increase in the Medicare eligibility age.

Senior administration officials who briefed reporters on some of the details of Mr. Obama's proposal said that the plan also counts a savings of $1.1 trillion from the ending of the American combat mission in Iraq and the withdrawal of American troops from Afghanistan.

In laying out his proposal, aides said, Mr. Obama will expressly promise to veto any legislation that seeks to cut the deficit through spending cuts alone and does not include revenue increases in the form of tax increases on the wealthy.

That veto threat will put the president on a direct collision course with the House speaker, John A. Boehner, who said last week that he would not support any legislation that included revenue increases in the form of higher taxes.

Mr. Obama's proposal is certain to receive sharp criticism from Congressional Republicans, who on Sunday were already taking apart one element of the proposal that the administration let out early: the so-called Buffett Rule. The rule — named for the billionaire investor Warren E. Buffett, who has complained that he is taxed at a lower rate than his employees — calls for a new minimum tax rate for individuals making more than $1 million a year to ensure that they pay at least the same percentage of their earnings as middle-income taxpayers.

That proposal, which was disclosed on Saturday, was met with derision Sunday by Republican lawmakers, who said it amounted to "class warfare" and a political tactic intended to portray his opponents as indifferent to the hardships facing middle-class Americans.

Representative Paul D. Ryan, chairman of the House Budget Committee and a leading proponent of cutting spending on benefit programs like Medicare, said the proposal would weigh heavily on a stagnating economy.

On "Fox News Sunday," Mr. Ryan said it would add "further instability to our system, more uncertainty, and it punishes job creation."

"Class warfare," he said, "may make for really good politics, but it makes for rotten economics."

Administration officials said Sunday night that they were not including any revenue from the Buffett Rule in Mr. Obama's overall $3 trillion proposal, adding that it was more of a guiding principle the president will adopt as budget negotiations with Congress advance.

Mr. Obama has been citing Mr. Buffett as he promotes his separate $447 billion jobs-creation plan. He proposes to offset the cost of that plan and to reduce future budget deficits through higher taxes on the wealthy and on corporations after 2013, when the economy will presumably be healthier.

Nonetheless, Republicans made clear on Sunday that higher taxes on the wealthy were not acceptable to them. Appearing on the NBC program "Meet the Press," Senator Mitch McConnell of Kentucky, the Republican leader, said "it's a bad thing to do in the middle of an economic downturn. And of course the economy, some would argue, is even worse now than it was when the president signed the extension of the current tax rates back in December."

Under Mr. Obama's proposal, $800 billion of the $1.5 trillion in tax increases would come from allowing the Bush-era tax cuts to expire. The other $700 billion, aides said, would come from a combination of closing loopholes and limiting deductions among individuals making more than $200,000 a year and families making more than $250,000.

Mr. Obama's plan will hover over Congressional budget-cutting negotiations that are under way over the next two months. A bipartisan Congressional committee is charged with coming up with its own cuts by Nov. 23; unless passed by Congress by Dec. 23, $1.2 trillion in cuts to defense and entitlement programs will go into effect automatically in 2013.

Mr. Obama, however, is challenging the Congressional committee to go well beyond its mandate. "He's showing them where they could find the savings," one administration official said.

Liberal-leaning organizations were rallying behind Mr. Obama's proposals on Sunday.

"The report that the president is planning to ask millionaires and billionaires to pay taxes at a higher rate than their secretaries pay is welcome news that will be wildly popular with voters," said Roger Hickey, co-director of the Campaign for America's Future, a progressive center, in a statement. "We applaud the president for heeding the advice from progressives that he go big on his jobs plan."

The Obama proposal has little chance of becoming law unless Republican lawmakers bend. But by focusing on the wealthiest Americans, the president is sharpening the contrast between Republicans and Democrats with a theme he can carry into his bid for re-election in 2012.

Mr. Obama's proposal is also an effort to reassure Democrats who had feared that he would agree to changes in programs like Medicare without forcing Republicans to compromise on taxes. Indeed, Mr. Hickey warned in his statement that the president should not raise the Medicare eligibility age, advice that Mr. Obama, so far, seems to have heeded.

Brian Knowlton contributed reporting.

My Response To Buffett And Obama

By Harvey Golub, The Wall Street Journal, 22 August 2011

Over the years, I have paid a significant portion of my income to the various federal, state and local jurisdictions in which I have lived, and I deeply resent that President Obama has decided that I don't need all the money I've not paid in taxes over the years, or that I should leave less for my children and grandchildren and give more to him to spend as he thinks fit. I also resent that Warren Buffett and others who have created massive wealth for themselves think I'm "coddled" because they believe they should pay more in taxes. I certainly don't feel "coddled" because these various governments have not imposed a higher income tax. After all, I did earn it.

Now that I'm 72 years old, I can look forward to paying a significant portion of my accumulated wealth in estate taxes to the federal government and, depending on the state I live in at the time, to that state government as well. Of my current income this year, I expect to pay 80%-90% in federal income taxes, state income taxes, Social Security and Medicare taxes, and federal and state estate taxes. Isn't that enough?

Others could pay higher taxes if they choose. They could voluntarily write a check or they could advocate that their gifts to foundations should be made with after-tax dollars and not be deductible. They could also pay higher taxes if they were not allowed to set up foundations to avoid capital gains and estate taxes.

What gets me most upset is two other things about this argument: the unfair way taxes are collected, and the violation of the implicit social contract between me and my government that my taxes will be spent -- effectively and efficiently -- on purposes that support the general needs of the country. Before you call me greedy, make sure you operate fairly on both fronts.

Today, top earners -- the 250,000 people who earn $1 million or more -- pay 20% of all income taxes, and the 3% who earn more than $200,000 pay almost half. Almost half of all filers pay no income taxes at all. Clearly they earn less and should pay less. But they should pay something and have a stake in our government spending their money too.

In addition, the extraordinarily complex tax code is replete with favors to various interest groups and industries, favors granted by politicians seeking to retain power. Mortgage interest deductions support the private housing industry at the expense of renters. Generous fringe benefits are not taxed at all, in order to support union and government workers at the expense of people who buy their own insurance with after-tax dollars. Gifts to charities are deductible but gifts to grandchildren are not. That's just a short list, and all of it is unfair.

Governments have an obligation to spend our tax money on programs that work. They fail at this fundamental task. Do we really need dozens of retraining programs with no measure of performance or results? Do we really need to spend money on solar panels, windmills and battery-operated cars when we have ample energy supplies in this country? Do we really need all the regulations that put an estimated $2 trillion burden on our economy by raising the price of things we buy? Do we really need subsidies for domestic sugar farmers and ethanol producers?

Why do we require that public projects pay above-market labor costs? Why do we spend billions on trains that no one will ride? Why do we keep post offices open in places no one lives? Why do we subsidize small airports in communities close to larger ones? Why do we pay government workers above-market rates and outlandish benefits? Do we really need an energy department or an education department at all?

Here's my message: Before you "ask" for more tax money from me and others, raise the $2.2 trillion you already collect each year more fairly and spend it more wisely. Then you'll need less of my money.

Mr. Golub, a former chairman and CEO of American Express, currently serves on the executive committee of the American Enterprise Institute.

Who Pays No Taxes – and Why They're No Pot of Gold

By MICHELLE HIRSCH, The Fiscal Times August 31, 2011

Nearly half of American households won't pay any federal income tax this year. That doesn't mean there's a big pot of revenue waiting to be tapped.

Decades of tax policy decisions have created a complicated system that vulnerable populations have grown to depend upon. The lowest-earning Americans have been taken off income tax rolls completely, and the tax bills of low-income workers, the elderly, and families raising children have been reduced through a series of tax credits, deductions and exclusions that have crept into the code and grown more generous with time. Only a small portion of the non-taxpayers are in the upper income brackets with lots of tax breaks.

This puts politicians on both sides of the aisle in a tight spot. While they promise not to raise taxes and to shrink government, the leading Republican contenders for the 2012 presidential nomination cite the recent report from the nonpartisan Tax Policy Center that 46 percent of American households won't pay federal income taxes in 2011 to argue that more Americans should help pay for government programs.
When Texas Gov. Rick Perry declared his candidacy earlier this month, he said he is "dismayed at the injustice that nearly half of all Americans don't even pay income tax." In Iowa, he said, "Let everybody, as many people as possible… [help] pay for the government we have in this country." Former Massachusetts Gov. Mitt Romney said in mid-August in Nashua, N.H., "We want to make sure people do pay their fair share. Half the people in this country pay no income tax at all." Michele Bachmann said in July, "We need to broaden the (tax) base so that everybody pays something, even if it's a dollar,"

President Obama is among those calling for lower tax rates in exchange for eliminating loopholes and tax breaks for individuals and corporations. In a speech last week at an Arkansas Rotary Club, Sen. Mark Pryor, D-Ark., complained that tax breaks have taken too many people off the tax rolls. "It's hard to have a fair tax system where only about half the people are paying," he said.

The Tax Policy Center's estimate means that some 76 million households won't pay federal income tax in 2011. But they still owe other taxes. About two-thirds pay payroll taxes, and most pay state and local income and sales taxes as well as excise taxes on gas, tobacco, cigarettes and alcohol. Of the one third who don't pay payroll taxes, more than half are elderly who no longer work, and just under half are families with incomes under $20,000. Only about 1 percent of the population pays neither income nor payroll taxes and earns more than $20,000 a year, according to the Tax Policy Center.

- **For 50 percent** of those that don't pay federal income taxes, standard deductions and personal exemptions are enough to counteract their taxable earnings. A couple with two children earning less than $26,400, for example, will pay no federal income tax in 2011 because their $11,600 standard deduction and four exemptions of $3,700 cuts their taxable income to nil.
- **22 percent** are senior citizens who get a more generous standard deduction, can exclude some or all of their Social Security income and may have tax-exempt interest from mutual funds and municipal bonds. For those who itemize, charitable contributions and medical expense deductions also subtract from their tax liability.

- **15 percent** are working families, many of them low-income, who qualify for one or all of the Earned Income tax credit, the Child tax credit, the Child and Dependent Care tax credit. The earned-income credit is fully refundable, and the Child credit is partially refundable this year, meaning some households may get refunds from the government even if they owe no income taxes.
- **The remaining 13 percent** are a mix of mostly higher-income individuals with enough itemized deductions for items like mortgage interest, health payments, or charitable contributions, education tax credits, or tax exempt interest to zero out their income taxes.

"It's wrong to rail on the 46 percent of people who don't pay income tax," said Paul Caron, a tax professor at the University of Cincinnati College of Law. "A fairer analysis takes into account all taxes paid—and by this measure, everyone has tax skin in the game," he said.

It will be hard to change or eliminate the social policy-related tax provisions that knock millions of Americans off the federal income tax rolls, said Roberton Williams, a senior fellow at the Tax Policy Center. Not only would it risk alienating key voting blocs, such as senior citizens, but it could have a serious economic impact, he said. "It's going to hurt the economy more if you raise taxes on the poor than the rich, because the poor spend every penny they've got," Williams said. "If you take a dollar away from them in tax credits, that's a dollar they don't spend."

Not everyone considers these tax breaks untouchable, however. "This proliferation of credits and benefits at the bottom has really gone too far," said Chris Edwards, a senior fellow at the libertarian Cato Institute. "There are all kinds of pro-market policies the government can do to offset any harm caused to these people if it's going to withdraw benefits," he said. Repealing tariffs on goods from China and other countries would lower the cost of clothing and food for low-income Americans to balance the absence of tax credits, he said.

FACT CHECK: Are rich taxed less than secretaries?

By STEPHEN OHLEMACHER, Associated Press – Sept. 20, 2011

WASHINGTON (AP) — President Barack Obama says he wants to make sure millionaires are taxed at higher rates than their secretaries. The data say they already are.

"Warren Buffett's secretary shouldn't pay a higher tax rate than Warren Buffett. There is no justification for it," Obama said as he announced his deficit-reduction plan this week. "It is wrong that in the United States of America, a teacher or a nurse or a construction worker who earns $50,000 should pay higher tax rates than somebody pulling in $50 million."

On average, the wealthiest people in America pay a lot more taxes than the middle class or the poor, according to private and government data. They pay at a higher rate, and as a group, they contribute a much larger share of the overall taxes collected by the federal government.

The 10 percent of households with the highest incomes pay more than half of all federal taxes. They pay more than 70 percent of federal income taxes, according to the Congressional Budget Office.

In his White House address on Monday, Obama called on Congress to increase taxes by $1.5 trillion as part of a 10-year deficit reduction package totaling more than $3 trillion. He proposed that Congress overhaul the tax code and impose what he called the "Buffett rule," named for the billionaire investor.

The rule says, "People making more than $1 million a year should not pay a smaller share of their income in taxes than middle-class families pay." Buffett wrote in a recent piece for The New York Times that the tax rate he paid last year was lower than that paid by any of the other 20 people in his office.

"Middle-class families shouldn't pay higher taxes than millionaires and billionaires," Obama said. "That's pretty straightforward. It's hard to argue against that."

There may be individual millionaires who pay taxes at rates lower than middle-income workers. In 2009, 1,470 households filed tax returns with incomes above $1 million yet paid no federal income tax, according to the Internal Revenue Service. But that's less than 1 percent of the nearly 237,000 returns with incomes above $1 million.

This year, households making more than $1 million will pay an average of 29.1 percent of their income in federal taxes, including income taxes, payroll taxes and other taxes, according to the Tax Policy Center, a Washington think tank.

Households making between $50,000 and $75,000 will pay an average of 15 percent of their income in federal taxes.

Lower-income households will pay less. For example, households making between $40,000 and $50,000 will pay an average of 12.5 percent of their income in federal taxes. Households making between $20,000 and $30,000 will pay 5.7 percent.

The latest IRS figures are a few years older — and limited to federal income taxes — but show much the same thing. In 2009, taxpayers who made $1 million or more paid on average 24.4 percent of their income in federal income taxes, according to the IRS.

Those making $100,000 to $125,000 paid on average 9.9 percent in federal income taxes. Those making $50,000 to $60,000 paid an average of 6.3 percent.

Obama's claim hinges on the fact that, for high-income families and individuals, investment income is often taxed at a lower rate than wages. The top tax rate for dividends and capital gains is 15 percent. The top marginal tax rate for wages is 35 percent, though that is reserved for taxable income above $379,150.

With tax rates that high, why do so many people pay at lower rates? Because the tax code is riddled with more than $1 trillion in deductions, exemptions and credits, and they benefit people at every income level, according to data from the nonpartisan Joint Committee on Taxation, Congress' official scorekeeper on revenue issues.

The Tax Policy Center estimates that 46 percent of households, mostly low- and medium-income households, will pay no federal income taxes this year. Most, however, will pay other taxes, including Social Security payroll taxes.

"People who are doing quite well and worry about low-income people not paying any taxes bemoan the fact that they get so many tax breaks that they are zeroed out," said Roberton Williams, a senior fellow at the Tax Policy Center. "People at the bottom of the distribution say, 'But all of those rich guys are getting bigger tax breaks than we're getting,' which is also the case."

Treasury Secretary Timothy Geithner was pressed at a White House briefing on the number of millionaires who pay taxes at a lower rate than middle-income families. He demurred, saying that people who make most of their money in wages pay taxes at a higher rate, while those who get most of their income from investments pay at lower rates.

"So it really depends on what is your profession, where's the source of your income, what's the specific circumstances you face, and the averages won't really capture that," Geithner said.

Why Taxing the Rich Is Good for America

By Loren Berlin Posted 10:30AM 08/24/11, AOL Huffington Post Media Group

Last week, Warren Buffett wrote an incredible opinion piece in *The New York Times* asking the federal government to raise taxes on the wealthiest Americans, himself included. "My friends and I have been coddled long enough by a billionaire-friendly Congress," he argued. "It's time for our government to get serious about shared sacrifice." Buffett's editorial sent economists and politicians into a frenzy as they debated the merits and implications of his request. Underlying the chatter is an important question: Does our country benefit, financially, from taxing our wealthiest citizens?

According to Bruce Bartlett, who's held senior policy roles in both Ronald Reagan's and George H. W. Bush's administrations, as well as on the staffs of Reps. Ron Paul and Jack Kemp, "in 2008, those in the top 1 percent of the income distribution, with incomes over $380,000, had an effective tax rate of 23.3 percent. In 1986, a year when the real gross domestic product grew a healthy 3.5 percent, their effective tax rate was 33.1 percent. It has been much lower every year since."

Bartlett, who culled Internal Revenue Service data for his analysis, which appears this week in his *New York Times* column, goes on to say: "If this group were still paying 33.1 percent, federal revenue would have been more than $166 billion higher in 2008 alone. That would be enough to reduce the budget deficit by about 10 percent this year. If the top 1 percent of taxpayers had continued to pay the same effective tax rate they paid in 1986 every year from 1987 to 2008, the federal debt today would be $1.7 trillion lower."

While Bartlett acknowledges the assumptions implicit in his calculations, the bottom line is clear. America has lost boatloads of money thanks to our willingness to cut taxes on those who can most easily afford to pay them. This despite our country's history of successfully taxing the rich. Under Reagan, for example, the richest 1% of Americans paid one-third of their income to the federal government.

Between High European Taxes and Low U.S. Rates, a Happy Medium

Those who argue against higher taxes often fear that an increase will slow economic growth. But history dispels that myth. As William G. Gale, an expert on tax policy at the nonpartisan Brookings Institution, wrote on CNN.com, "Even the massive tax increases during and after World War II -- amounting to a permanent rise of 10% to 15% of gross domestic product -- and the much smaller tax increases in 1990 and 1993 did no discernible damage to U.S. economic growth."

The debate over whether and how much to tax the rich isn't new. But it's extremely important in the current economy. The debt ceiling deal reached earlier this month includes spending cuts, but does nothing to increase revenues. Additionally, the spending cuts come primarily from programs that support low- and middle-income households. The richest Americans? They're virtually exempt from chipping in to resolve the nation's budget problems.

Which is why Buffett is publicly asking to pay more in taxes -- and why he's right. After all, "households in the top 1% of the distribution can afford to contribute," argues Gale. "They have done enormously well during the past 30-plus years. In 1979, their income accounted for 10% of total income. According to the most recent data (from 2008), their share of total household income more than doubled to 21%. In contrast, real income for middle-class workers has remained roughly constant over the same time frame."

In his opinion piece, Gale outlines a variety of options for raising taxes. In all cases, he's advocating for moderation. "None of this means that the U.S. needs to move to European taxation levels," he writes. "But between the depleted tax revenues we raise now -- the lowest share of the economy in six decades -- and the high taxes experienced in European countries, there is plenty of room to raise revenues in an economically sound manner to support a reasonable level of government."

Or, to put it more bluntly, our country is in the throes of a debt crisis. We're delusional to think that we can continue with the current tax rates. So let's stop asking whether or not we should raise taxes on the rich and instead turn our attention to how we can most effectively do so.

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The Buffett Alternative Tax

The Wall Street Journal, Review & Outlook, Editorial, 20 September 2011

Washington has repeated nearly every economic policy mistake of the 1930s in recent years, so why not repeat one of the bigger blunders of the 1960s too? We refer to President Obama's proposal yesterday for a new "Buffett Rule" to raise taxes on Americans earning more than $1 million a year. This may sound familiar to readers of a certain age, because it is how the current, and much-hated, Alternative Minimum Tax was born.

Mr. Obama, meet Joe Barr. As LBJ's last Treasury Secretary -- he served only 30 days -- Barr became famous for his January 1969 testimony before Congress that 21 millionaires had paid no income tax in 1967. No fewer than 115 tax returns reporting income above $200,000 had also paid no income tax, and Barr predicted a "taxpayer revolt" unless something was done about it.

Washington proceeded to bend tax policy to chase those 21 millionaires, and so we got the Minimum Tax of 1969 that later became the Alternative Minimum Tax. The AMT now hits some four million taxpayers, and 27% of households that paid it in 2008 had adjusted gross income of $200,000 or less.

Because it hits taxpayers with heavy deductions, the AMT wallops in particular the upper-middle-class suburbs in high-tax states like New Jersey, Connecticut, Illinois and California. Congress keeps passing an annual reprieve to prevent the AMT from hitting another 20 million or so taxpayers, most of whom are far from millionaires.

So here we are back at the same old political stand, though even Mr. Obama concedes that today those he routinely calls "millionaires and billionaires" pay at least some tax. The President's complaint, echoing billionaire Warren Buffett, is that too many billionaires pay a lower rate than regular salary earners. So even as he endorsed tax reform in general yesterday, Mr. Obama insisted that one of his reform "principles" is that people who make more than $1 million must pay a higher tax rate than middle-class earners.

There's one small problem: The entire Buffett Rule premise is false, as the nearby table shows (See accompanying table -- WSJ September 20, 2011). In 2008, the last year for which such data are available, the IRS reports that those who made more than $1 million in adjusted gross income paid an average income tax rate of 23.3%.

That's slightly lower than the 24.1% rate paid by those making between $500,000 and $1 million, probably because the richest are like Mr. Buffett and earn more from capital gains and dividends. The rate for a relative handful of the rich -- 400 people -- fell to 18%, the modern equivalent of Barr's Gang of 21. But nearly all millionaires still paid a rate that is more than twice the 8.9% average rate paid by those earning between $50,000 and $100,000, and more than three times the 7.2% average rate paid by those earning less than $50,000. The larger point is that the claim that CEOs are routinely paying lower tax rates than their secretaries is Omaha hokum.

If Mr. Obama really wants all of these people to pay even more in taxes, there are only two ways to do so. One is to raise tax rates on capital gains, dividends and other investment income that is taxed at 15% and represents a great deal of income for the wealthy. This is probably Mr. Buffett's tax secret, though to our knowledge he hasn't released his returns to the public.

The problem is that this is a tax increase on capital investment, which the U.S. already taxes at prohibitive rates thanks to our high corporate tax rate of 35%. Capital gains and dividends are taxed twice, first as corporate profits and then as payouts to individuals. Their real capital gains tax rate is closer to 45% than 15%, which is why politicians of both parties have long supported a capital-gains rate differential.

The other way to raise taxes on the rare Buffett is with a new Minimum Tax, a la Joe Barr. But as we've seen with the AMT, while the politicians may start by chasing "millionaires and billionaires," over time they always end up taxing the middle class because that's where the real money is. Mr. Obama could tax every billionaire in America at a 100% rate and still wouldn't make a dent in the federal deficit. He would, however, succeed in making those taxpayers invest less and search for tax shelters, assuming they didn't move offshore.

We rehearse all of this because it shows that the real point of Mr. Obama's Buffett Rule and his latest deficit proposal isn't tax justice or good tax policy. It is all about re-election politics. Down in the polls and facing a sullen liberal base, Mr. Obama wants to rally the left behind him, and nothing fires them up like the pretense that government is sticking it to the rich. Mr. Obama is picking a tax fight that he apparently believes will carry him to re-election next year.

And what about the economy? Well, the plan Mr. Obama unveiled yesterday along with his Buffett Rule would sock the economy with $1.5 trillion in new taxes over 10 years, or about 1% of GDP. This includes the tax increases built into the 2013 expiration of the Bush-era tax rates but not those of ObamaCare. Anyone who believes this will help an economy that is creating few new jobs and growing by only 1% probably also believes that only the rich would pay the Buffett Alternative Tax.

Time to raise taxes on the rich

By **Sally Kohn**, Special to CNN, updated 10:44 AM EST, Wed September 14, 2011

Editor's note: *Sally Kohn is a strategist and political commentator. She is the founder and chief education officer of the Movement Vision Lab, a community-based think tank that researches and promotes the ideas of local communities to solve national problems, and a contributor to American Prospect magazine. This piece was written in association with The Op-Ed Project, an organization seeking to expand the range of opinion voices to include more women.*

(CNN) -- According to new data released by the U.S. Census Bureau this week, median household incomes adjusted for inflation declined by 2.3% in 2010 over the previous year. The data also showed that 46.2 million Americans lived in poverty in 2010 **--** the highest number in the 52 years the Census Bureau has been tracking such data. But that data is even more depressing in contrast to the skyrocketing fortunes of America's super-rich.

Between the second quarter of 2009 and the fourth quarter of 2010, our nation's total income rose by $528 billion. Of that economic growth, $464 billion went to pretax corporate profits. Just $7 billion went to wages and salaries. In other words, 88% of the brief recovery went to corporate profits and just 1% -- that's right, 1% -- went to workers, according to a study by economists at Northeastern University. By contrast, when the United States was recovering from a downturn in the early 1990s, 50% of the growth in the national income went to wages and salaries. (And actually, in that period leading up to the tech boom, average corporate profits declined 1%.)

It's not that working Americans aren't working hard. Worker productivity has risen steadily, but wages have still been stagnant. But the income of the top 1% of Americans? Rapidly rising.

At what point do we realize enough is enough -- that giving more and more money and power to big business and the super-rich will never translate into more jobs, better wages and a better economy but simply more yachts and luxury villas? At what point do we realize that conservative anti-tax extremism is nothing but blatant greed masquerading as lousy economics? At what point do we realize that class warfare isn't a liberal goal but in fact a conservative reality, advanced through decades of policies that help the rich cheat the middle class?

According to Republican economist and former White House adviser Bruce Bartlett, the actual tax rate paid by the wealthy and big business is the lowest in several generations.

Thanks to the Bush tax cuts, the super-rich paid an average of 17% on their federal income tax in 2007 -- less than many middle class Americans paid. For instance, multibillionare Warren Buffett pays a lower percentage of income tax than everyone else in his office, including the secretaries. In 1992, the rich averaged a 26% income tax.

A study earlier this month reported that 25 of the largest and most profitable corporations in the United States paid their CEOs more money than their entire corporations paid in taxes. Meanwhile, corporations are earning record profits and sitting on record cash reserves **--** upwards of $2 trillion dollars.

Anyone who can look at these numbers and think the rich need more help is crazy. Stop calling big business the "job creators." They have all the resources imaginable and they're still not creating jobs. It's time to put more money in the pockets of working Americans so they can spend it, create demand and finally kick-start the economy.

President Barack Obama has proposed a comprehensive plan that will create good jobs while rebuilding America's infrastructure for the 21st century. In the president's plan, a portion of the costs will be offset by reducing the tax-deductible exemptions for well-off families, taxing hedge fund manager income as income rather than discounted capital gains, closing loopholes that give government handouts to the oil and gas industry and taxing corporate jets with the same depreciation schedule as personal jets. For crying out loud, why not? Why we should continue to let working Americans suffer while helping the super-rich get richer?

Most Americans agree with the president. Almost three in four Americans support raising taxes on the wealthy so we can put government to work getting all of America working again, according to a Washington Post-ABC News poll. In fact, even among Republican voters, raising taxes on the rich is more popular than cuts to Social Security or Medicare -- putting the leading Republican presidential candidates squarely out of touch even with their own base.

The definition of insanity is doing the same thing over and over again and expecting different results. We've already drastically cut taxes for the rich and corporations, which has only made them richer while our economy remains in the gutter and no jobs are created. But in light of the depth and breadth of our economic crisis, continuing to put the interests of a few wealthy people and big corporations ahead of the needs of millions and millions of struggling and suffering Americans isn't just insane. It's immoral.

The Soak-the-Rich Catch-22

By Arthur Laffer, The Wall Street Journal, 2 August 2010

Tax reduction thus sets off a process that can bring gains for everyone, gains won by marshalling resources that would otherwise stand idle -- workers without jobs and farm and factory capacity without markets. Yet many taxpayers seemed prepared to deny the nation the fruits of tax reduction because they question the financial soundness of reducing taxes when the federal budget is already in deficit. Let me make clear why, in today's economy, fiscal prudence and responsibility call for tax reduction even if it temporarily enlarged the federal deficit -- why reducing taxes is the best way open to us to increase revenues.

-- President John F. Kennedy, Economic Report of the President, January 1963

If only more of today's leaders thought like JFK. Sadly, in the debate over whether to extend the 2001 and 2003 tax cuts, and if so whether the cuts should be extended to those people who are in the highest tax bracket, there is a false presumption that higher tax rates on the top 1% of income earners will raise tax revenues.

Anyone who is familiar with the historical data available from the IRS knows full well that raising income tax rates on the top 1% of income earners will most likely reduce the direct tax receipts from the now higher taxed income -- even without considering the secondary tax revenue effects, all of which will be negative. And who on Earth wants higher tax rates on anyone if it means larger deficits?

Since 1978, the U.S. has cut the highest marginal earned-income tax rate to 35% from 50%, the highest capital gains tax rate to 15% from about 50%, and the highest dividend tax rate to 15% from 70%. President Clinton cut the highest marginal tax rate on long-term capital gains from the sale of owner-occupied homes to 0% for almost all home owners. We've also cut just about every other income tax rate as well.

During this era of ubiquitous tax cuts, income tax receipts from the top 1% of income earners rose to 3.3% of GDP in 2007 (the latest year for which we have data) from 1.5% of GDP in 1978. Income tax receipts from the bottom 95% of income earners fell to 3.2% of GDP from 5.4% of GDP over the same time period. (See the nearby chart).

These results shouldn't be surprising. The highest tax bracket income earners, when compared with those people in lower tax brackets, are far more capable of changing their taxable income by hiring lawyers, accountants, deferred income specialists and the like. They can change the location, timing, composition and volume of income to avoid taxation.

Just look at Sen. John Kerry's recent yacht brouhaha if you don't believe me. He bought and housed his $7 million yacht in Rhode Island instead of Massachusetts, where he is the senior senator and champion of higher taxes on the rich, avoiding some $437,500 in state sales tax and an annual excise tax of about $70,000.

Howard Metzenbaum, the former Ohio senator and liberal supporter of the death tax, chose to change his official residence to Florida just before he died because Florida does not have an estate tax while Ohio does. Goodness knows what creative devices former House Ways and Means Chairman Charlie Rangel has used to avoid paying taxes.

In short, the highest bracket income earners -- even left-wing liberals -- are far more sensitive to tax rates than are other income earners.

When President Kennedy cut the highest income tax rate to 70% from 91%, revenues also rose. Income tax receipts from the top 1% of income earners rose to 1.9% of GDP in 1968 from 1.3% in 1960. Even when Presidents Harding and Coolidge cut tax rates in the 1920s, tax receipts from the rich rose. Between 1921 and 1928 the highest marginal personal income tax rate was lowered to 25% from 73% and tax receipts from the top 1% of income earners went to 1.1% of GDP from 0.6% of GDP.

Or perhaps you'd like to see how the rich paid less in taxes under the bipartisan tax rate increases of Presidents Johnson, Nixon, Ford and Carter? Between 1968 and 1981 the top 1% of income earners reduced their total income tax payments to 1.5% of GDP from 1.9% of GDP.

And then there's the Hoover/Roosevelt Great Depression. The Great Depression was precipitated by President Hoover in early 1930, when he signed into law the largest ever U.S. tax increase on traded products -- the Smoot-Hawley Tariff. President Hoover then thought it would be clever to try to tax America into prosperity. Using many of the same arguments that Barack Obama, Nancy Pelosi and Harry Reid are using today, President Hoover raised the highest personal income tax rate to 63% from 24% on Jan. 1, 1932. He raised many other taxes as well.

President Roosevelt then debauched the dollar with the 1933 Bank Holiday Act and his soak-the-rich tax increase on Jan. 1, 1936. He raised the highest personal income tax rate to 79% from 63% along with a whole host of other corporate and personal tax rates as well. The U.S. economy went into a double dip depression, with unemployment rates rising again to 20% in 1938. Over the course of the Great Depression, the government raised the top marginal personal income tax rate to 83% from 24%.

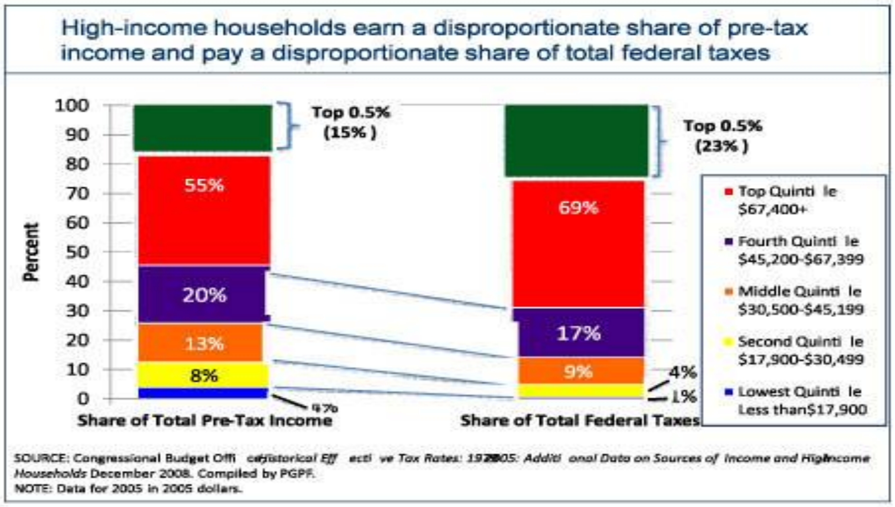
Is it any wonder that the Great Depression was as long and deep as it was? Whoever heard of a country taxing itself into prosperity? Not only did taxes as a share of GDP fall, but GDP fell as well. It was a double whammy. Tax receipts from the top 1% of income earners stayed flat as a share of GDP, going to 1% in 1940 from 1.1% in 1928, but at what cost?

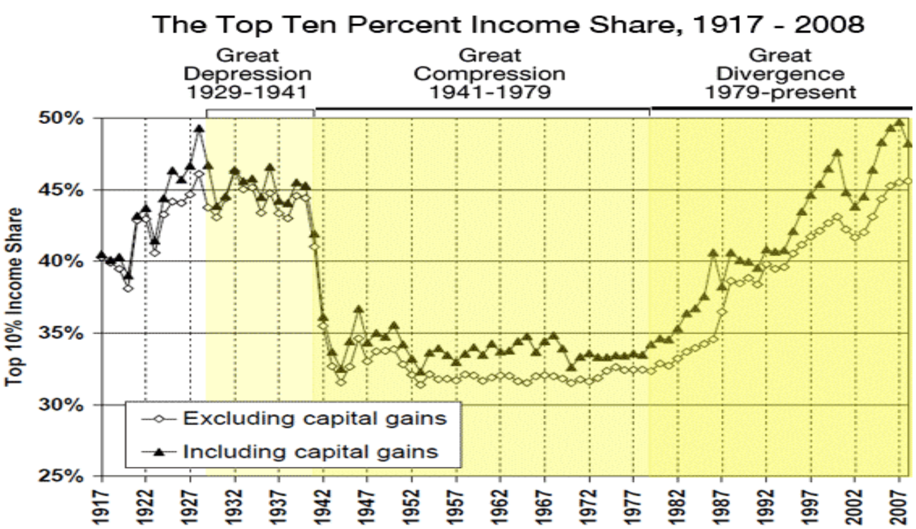
We all know that there are lots of factors influencing tax revenues from the rich, but the number one factor has to be the statutory tax rates government tells the rich they have to pay. Not only do the direct income tax consequences of higher tax rates on those in the highest brackets lead to higher deficits, the indirect effects magnify the tax revenue losses many fold.

As a result of higher tax rates on those people in the highest tax brackets, there will be less employment, output, sales, profits and capital gains -- all leading to lower payrolls and lower total tax receipts. There will also be higher unemployment, poverty and lower incomes, all of which require more government spending. It's a Catch-22.

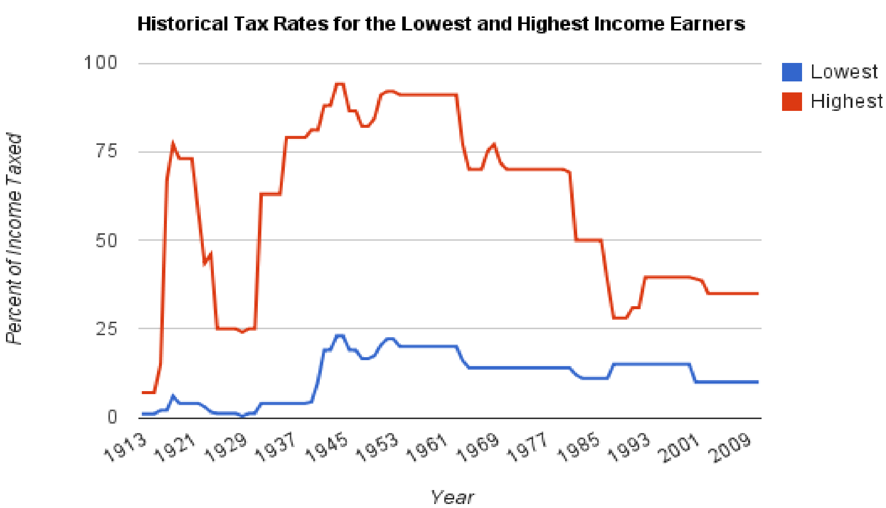
Higher tax rates on the rich create the very poverty and unemployment that is used to justify their presence. It is a vicious cycle that well-trained economists should know to avoid.

Mr. Laffer is the chairman of Laffer Associates and co-author of "Return to Prosperity: How America Can Regain Its Economic Superpower Status" (Threshold, 2010).





Income is defined as market income (and excludes government transfers).
In 2008, top decile includes all families with annual income above $109,000.
Source: Thomas Piketty and Emmanuel Saez.



Source: US Bureau of Public Debt