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## Political Strategies, Economics Don't Mix

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**Until derailed by energy prices and real estate meltdowns, the sustained prosperity of recent years has been related to tax reductions for all income groups, including those at the top.**

Story By Calvin Kent

We all know who the rich are. They are anybody who makes more money than we do.

But in a political year, the battle cry for some politicians is "Soak the rich," so they pay their "fair share" of taxes. The nonpartisan and highly regarded Tax Policy Center shed some light on this contention in its report, "The Distribution of Federal Taxes, 2008-11," issued last month. The study considers all federal taxes: individual income, payroll (Social Security and Medicare), corporate income and estate.

The Tax Policy Center notes that the federal tax system is "highly progressive." Those with higher incomes pay a larger share in federal taxes than do those with lower incomes. This is true when all federal taxes are calculated. The degree of progression will become even greater with the repeal of the limitations on itemized deductions, personal exemptions and when the 2001-06 tax cuts expire in 2010.

Even with the current "economic stimulus" rebates (which primarily benefited those in the lowest income brackets), the 2008 effective tax rate (the percentage of cash income taken by all federal taxes) for households in the lowest 20 percent of the population will be only 1.1 percent of cash incomes. The percentage for those in the top 20 percent will be 26.2 percent. For those in the top 10 percent, the effective tax rate will be 30 percent, and the top one percent will pay 32 percent.

If only the personal income tax for 2008 is considered, the effective tax rate actually becomes negative for the lowest 40 percent because of refunds. For the upper 60 percent, the burden ranges from 3.3 percent to 15 percent. The top one percent pays 18 percent of its cash income in personal income taxes.

Payroll taxes, which include Social Security and Medicare, are the only regressive feature in the entire federal tax scheme. Higher income groups get a larger percentage of their income from dividends and interest that are not subject to payroll taxes. Plus, there is a \$102,000 limit on taxable wages. As a result, the top 20 percent will pay only 1.5 percent. The top one percent pays 0.7 percent of their cash income. The lowest 20 percent's share is 8.4 percent, with the next 20 percent paying 10.4 percent.

The Tax Policy Center provides another way of looking at tax burdens. Its study considers the relationship between federal taxes and the amount of total federal taxes paid by each income group. Considering all federal taxes, the top 20 percent earns 55 percent of total cash income but pays 69 percent of all federal taxes. The top one percent earns 19 percent of total cash income and pays 28 percent. Taxpayers in the middle 20 percent earn 14 percent of total cash income but pay only 10 percent of the federal taxes.

When the 2001-06 tax cuts expire in 2010, the Tax Policy Center's projections show the top 20 percent's share of total cash income will be 54.2 percent while the percentage of federal taxes paid surprisingly falls from 69 percent to 64.9 percent. The lowest 40 percent will earn 12 percent of all cash income but pay only 5.3 percent of total taxes. The middle 40 percent are predicted to receive 34 percent of cash income and pay 29.7 percent of all federal taxes. What about that top 1 percent? Their 17.9 percent of cash income represents 24.7 percent of all federal taxes.

For the federal individual income tax alone, the 2011 figures are even more dramatic. The effective tax rate for the highest 1 percent of cash income earners will increase by one-fifth to 22.6 percent as the top federal income tax bracket rises from 35 to 39.6 percent. Capital gains rates rise from 15 to 20 percent, and qualified dividends will be taxed at the top individual rate instead of the current 15 percent.

These may seem like dry statistics, but they do show that the upper income groups are paying a significantly higher percentage of their cash incomes in total federal taxes than do lower income groups. Whether they pay too little or too much depends on your point of view -- usually determined by your income level -- not objective measurement. But these statistics should shift the burden of proof to those who advocate even higher taxes for higher income groups. They must show why those increases are justified.

In the past, increased taxes have not proven to be an effective growth strategy. Most of the investment spending comes from the upper income brackets. Investment fuels productivity, creates jobs and improves international competitiveness. Until derailed by energy prices and real estate meltdowns, the sustained prosperity of recent years has been related to tax reductions for all income groups, including those at the top. Political sound bites are not the same as sound economics.

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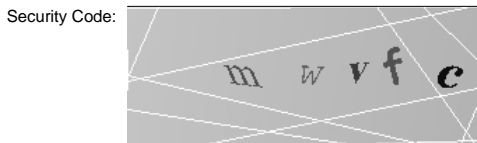
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