



Written by [Thomas Sowell](#) on September 10, 2012

## **‘Bait and Switch’ Taxes**

We have heard many times from President Barack Obama how he plans to raise taxes on “millionaires and billionaires,” but not on the middle class. Apparently, if you don’t happen to be a millionaire or billionaire, you don’t have to worry.

But the numbers say otherwise — and say so big time.

The actual tax increase plans being proposed by Obama do not start with people who have an income of a million dollars a year. They start with people with incomes of \$250,000 and up.



That is more than most people make, but it is far short of a million dollars, and miles away from a billion dollars. How many of the people who stand to get hit with Obama’s higher tax rate plan are in fact either millionaires or billionaires?

According to the Internal Revenue Service, there are more than 2,700,000 people who earn \$250,000 a year or more — and fewer than one-tenth of them earn a million dollars or more. So more than nine-tenths of the people who would be hit with the higher taxes supposedly aimed at “millionaires and billionaires” are neither.

When businesses advertise one thing and then actually sell something else, that is called “bait and switch” advertising. That is exactly what President Obama is doing with his proposed tax increases on “millionaires and billionaires.”

It gets worse when you look at the potential economic consequences of the tax rate increases being proposed. The small proportion of the people targeted for Obama’s higher tax rates who are in fact millionaires and billionaires have the least likelihood of actually paying the higher tax rates.

People with annual incomes in the millions or billions of dollars can live pretty high on the hog on a fraction of their income, leaving them with plenty of money to invest. And they can invest it in ways that keep it away from the tax collectors. In addition to tax-exempt bonds, they can invest in other countries that have lower tax rates.

Hard facts show this happening as far back as we have had a federal income tax.

The Constitution of the United States had to be amended in 1913 to permit the federal government to collect income taxes. Almost immediately, very high tax rates on people with very high incomes led to their taking steps to avoid paying those taxes.

In 1920, Secretary of the Treasury David Franklin Houston in the Democratic administration of Woodrow Wilson pointed out that the taxable income of people with incomes of \$300,000 and up had been more than cut in half, just from 1916 to 1918. He did not believe that this was because the rich were becoming poorer but “almost certainly through investment by the richer taxpayers in tax-exempt properties.”



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President Woodrow Wilson himself urged Congress to reconsider whether very high tax rates are in fact “productive of revenue” to the government. He said that, beyond some point, “high rates of income and profits taxes discourage energy, remove the incentive to new enterprise, encourage extravagant expenditures, and produce industrial stagnation with consequent unemployment and other attendant evils.” That sounds a lot like where we are today.

Both Democratic and Republican presidents once warned that high tax rates can reduce economic growth. And Secretaries of the Treasury under both Democratic and Republican administrations once pointed out that higher tax rates do not necessarily bring in more tax revenues than lower tax rates. Yet this lesson from more than 90 years ago has still not been learned by those who advocate higher taxes on “the rich” as the answer to our fiscal problems.

In today’s global economy, it is even easier for genuine millionaires and billionaires to escape high tax rates by investing in other countries. Not so for the other nine-tenths of the people hit with higher tax rates, such as small business owners or independent professionals such as dentists or realtors, whose sources of income are necessarily local.

Those hardest hit by high tax rates that drive jobs overseas are likely to be those who are unemployed and need jobs here. Ironically, millionaires and billionaires may have the least to lose from higher tax rates on “the rich.” But Barack Obama has the most to gain from class warfare rhetoric that wins votes from gullible people.

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