



Written by [Ralph R. Reiland](#) on September 27, 2011

Wrong Medicine for a Sick Economy

Seeking to reverse his declining poll numbers, especially among his increasingly disillusioned base, Obama is attempting to give the impression that America's millionaires and billionaires are paying lower taxes than their secretaries.

IRS data for 2008, however, the latest year for which the numbers are available, show that those who earned more than \$1 million in adjusted gross income paid an average federal income tax rate of 23.3 percent.

For those earning \$100,000 to \$200,000 in 2008, the average federal income tax rate paid was just about half as much, 12.7 percent. For those with adjusted gross incomes from \$30,000 to \$50,000 — a millionaire's secretary, for instance — the average federal income tax rate paid was 7.2 percent, less than a third of the rate paid by those earning \$1 million and over.



Obama is echoing a recent column in the *New York Times* by billionaire Warren Buffett in which wrote that the federal income tax rate he paid was lower than the rate paid by employees in his office.

"Warren Buffett's secretary shouldn't pay a higher tax rate than Warren Buffett," Obama responded. "There is no justification for it. 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."

Again, the Buffett analysis is less than straightforward. For those in the top income brackets, a disproportionate share of income is from dividends, capital gains and other investments — income that is taxed at 15 percent. IRS data show that taxpayers with more than \$1 million in yearly income get only 33 percent of their income from wages and salaries.

An honest portrayal would acknowledge that dividends and capital gains are doubled taxed, first as corporate profits at the highest corporate income tax rate in the industrialized world, 35 percent, and then again as individual income when dividends are distributed or stock is sold.

The total tax rate on capital gains is "closer to 45 percent than 15 percent" stated a *Wall Street Journal* editorial on September 20.

In fact, the tax hit on capital gains is higher than the *Journal* states because capital gains are not indexed for inflation, producing taxes that are levied on illusory gains. The stock seller is taxed not only on real gains in purchasing power, but also on phantom gains attributable to inflation.

On the overall tax burden, Obama is arguing that the rich should start paying their "fair share." He



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doesn't mention that the latest IRS data, for 2008, show the top 1 percent of U.S. income earners paying 38 percent of all federal income taxes, the top 10 percent paying 70 percent, and the top half of income earners paying 97 percent of total federal income taxes.

Also unacknowledged by this White House is how President Kennedy's cut in the top marginal income tax rate produced an immediate increase in federal revenues, or how President Reagan's cut in the top marginal income tax rate was followed by a drop in the unemployment rate in the 1980s from 9.7 percent to 5.3 percent.

President Obama's prescription for revenue growth and job growth moves in exactly the opposite direction.

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