

Wealthy will pay more if Bush tax cuts expire in 2010 as scheduled

At tax time, some sobering perspective about the federal income tax

By **DON MCINTOSH**
Associate Editor

Tax Day, April 15, is around the corner, and 2010 is special: It's the year the Bush tax cuts expire.

If you had a sneaking suspicion that America's wealthiest pay a lot less than they used to, you'd be right. From 1951 to 1964, the time in America's history with the biggest gains in prosperity and the broadest equality of incomes, the richest taxpayers paid a federal income tax rate of 91 percent on income above \$200,000. Today, the top federal income rate is 35 percent (down from 39.5 percent before the Bush tax cuts.)

But that's just on regular income. After deductions and credits, a typical working person filing singly will pay a federal tax rate of 25 percent on the income over \$34,000 they earned from a hard year's work. But the richest Americans get most of their income from capital gains, which are taxed at 15 percent for assets held longer than a year (down from 20 percent before the Bush tax cuts.) Capital gains are profits from the sale of stocks, bonds, or real estate. [The 15 percent tax rate is only for the high-rollers; when you sell stock as

part of taking a distribution from your 401(k), you'll pay at the ordinary income tax rate.]

Supporters of the disparity say that a lower tax rate on capital gains encourages productive investments; critics say it encourages speculation in the stock market. The lower rate on capital gains also means the rich are taxed at a lower rate than the non-rich. IRS data from 2007 show that the top 400 richest taxpayers in America, averaging \$344.8 million in income, paid less than 17 percent of their income in federal income tax.

All this becomes very important as public anxiety increases over the federal budget deficit. The deficit last year was \$1.4 trillion. That's quite a change from the late Clinton years, when the federal budget was in surplus. [Surplus means the government was collecting more than it spent, and paying down the debt.] Why the difference? The late '90s was a boom time, or more properly a bubble time, with lots of capital gains to tax. By contrast, today's federal budget is beset by a bitter recession, two wars, three major tax cuts, an expensive new Medicare prescription drug benefit, and stimulus and bailout spending.

An analysis by the non-profit think tank Center of Budget and Policy Priorities quantified the contributors to last year's deficit: \$418 billion because of the recession, \$364 billion because of the Bush tax cuts, \$245 billion from the financial bailouts, \$200 billion from stimulus measures, and \$178 billion for the wars.

Deficit spending means the U.S. government is going deeper into debt, borrowing money from individuals, pension funds, and the Chinese government — anyone who buys debt instruments from the U.S. Treasury. Total debt now stands at over \$12.4 trillion, over \$40,000 per citizen, and in the most recent fiscal year, \$383 billion of

federal revenues went to pay interest on that debt. The interest rate on that debt is up to around 3.5 percent, low by historical standards; if interest goes up, servicing the debt would take up a bigger chunk of the federal budget. So, tackling the deficit — short and long term — is going to be crucial.

Returning the tax rate on top incomes to what it was in the Eisenhower era would go a long way to eliminate the deficit. Congress shows little appetite for that, and instead mostly moves in the opposite direction, continuing to pass new tax cuts.

Rebecca Wilkins, senior counsel for federal tax policy at Citizens for Tax Justice, was surprised when Democrats did nothing to reverse the Bush tax cuts after Barack Obama took up residence in the White House, despite a promise to do that during his 2008 campaign.

"I was dismayed. I kind of thought they would come in February and do it as soon as they got here. But it was a recession. Everybody thought it wasn't a good time for a tax increase."

The Bush tax cuts — the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 — lowered the tax rates for all federal income taxpayers, but the biggest savings went to the highest-income taxpayers.

President Obama is now proposing to extend the Bush tax cuts for those earning over \$250,000, but let them expire Jan. 1, 2011 for the top 1 or 2 percent of taxpayers, returning them to the rates in effect in 2000 — up to 39.6 percent on ordinary income, and 20 percent on capital gains income.

"We're part of a tax education coalition that just did a bunch of polling," says Wilkins. "Increasing taxes on wealthier folks polled very well."

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