

Rich Americans Are Not Overtaxed

The Bogus Statistics Conservatives Use to Misrepresent the Facts

By [Sarah Ayres](#), [Michael Linden](#) | March 6, 2012

Rich Americans are not overtaxed. Not by a long shot. From 1996 to 2007 the overall federal tax rate for the richest 1 percent fell by more than 6 percentage points. The top marginal income tax rate dropped from 70 percent in 1980 to 35 percent today. And that's just for starters.

The Bush tax cuts, enacted in 2001 and 2003, delivered massive new tax breaks to the rich, reducing a millionaire's tax bill by hundreds of thousands of dollars. And tax benefits—such as the home mortgage interest deduction, the charitable deduction, and the employer provided health care exclusion—all benefit the rich more than they benefit the middle class. [One in four millionaires pays a lower overall tax rate than millions of middle-class families.](#)

Not surprisingly, then—given the enormous federal budget challenges we are currently facing—many people have come to the reasonable conclusion that the rich can and should be asked to pay a little more. But raising taxes on the richest 1 percent, even slightly, is anathema to the modern-day conservative movement. And since their argument that cutting taxes for rich people is economically good for everyone only goes so far these days—remember how the Bush tax cuts turned out—they have turned to a different bogus argument: The rich already pay more than their fair share.

How can conservatives possibly argue that the rich are overtaxed given all the evidence and facts to the contrary? They rely on one totally misleading statistic: share of overall taxes paid. Here's the familiar conservative litany on the subject:

- [Rep. Michele Bachmann \(R-MN\)](#): “The top 1 percent of income-earners pay about 40 percent of all taxes to the federal government.”
- Former President George W. Bush advisor [Karl Rove](#): “One percent of American taxpayers pay 39 percent of the burden.”
- [Speaker of the House John Boehner](#): “Come on. The top 1 percent pay 38 percent of the income taxes in America. You know, how much more do you want them to pay?”

- [Rep. Larry Buschon \(R-IN\)](#): “Arguing right now that the higher income earners aren't paying their fair share is not true. ... the top 1 percent of income earners are paying about 38 percent of the taxes.”

And you can find the same basic statistic being cited by the [Heritage Foundation](#), the [Tax Foundation](#), and the [Cato Institute](#).

One percent of the people paying 40 percent of all the taxes? It sounds unfair, right? But stop to think about it for more than a moment and it becomes apparent that the statistic is meaningless.

First of all, federal income taxes are only one part of the overall tax system. By focusing only on the one piece of the tax code that is very progressive, conservatives are artificially inflating the share of taxes paid by the 1 percent.

Second, the rich pay most of the taxes because they make most of the income. Think about it: Of course the richest 1 percent of people pay way more than 1 percent of all the taxes—they have way more than 1 percent of all the income. That's why they are in the top 1 percent.

Third, the share of taxes paid is a really silly way to think about tax burden. What matters isn't the amount of taxes someone pays as a share of total revenues. What matters is the amount of taxes someone pays as a share of his or her own income.

Federal income taxes are just one part of the total tax burden

When Rep. Bachmann or Karl Rove or anyone else claims that 1 percent of Americans pay 40 percent of all taxes, they are flat out wrong. That's because they are conflating the federal income tax with all taxes. It's true that in 2007 (the last year for which complete data are available) the richest 1 percent paid about 40 percent of all the federal income taxes. But the federal income tax is only one part of the federal tax system, and of course, there are also state and local taxes.

In fact, federal income taxes make up just [42 percent of all federal taxes](#), and only one-quarter of all taxes, systemwide across our country. The federal income tax is progressive—meaning that higher-income households pay, on average, higher tax rates—but it's practically the only piece of our country's tax system that is.

Payroll taxes, which make up [40 percent of all federal revenue](#), are regressive. According to the nonpartisan Congressional Budget Office, or CBO, in 2007 a household in the middle class paid about 9.5 percent of their income in payroll taxes while someone in the top 1 percent paid just 1.6 percent of their income in payroll taxes. State and local taxes are also regressive. [The Institute for Taxation and Economic Policy](#) reported that the average state and local effective tax rate for the top 1 percent is only 5.2 percent, while the average tax rate on the middle 20 percent is 9.4 percent.

By ignoring the regressive parts of federal, state, and local tax codes, and either implicitly or explicitly suggesting that federal income taxes are the only taxes, conservatives are artificially inflating the share of taxes paid by the rich. When other federal and nonfederal taxes are taken into account, the 1 percent's share of taxes paid declines quite a lot.

The CBO found that the top 1 percent paid 28.1 percent of the total federal tax burden in 2007. And a more recent [analysis](#) by the Tax Policy Center estimates that the share of federal taxes paid by the top 1 percent dropped to 25.6 percent in 2011.

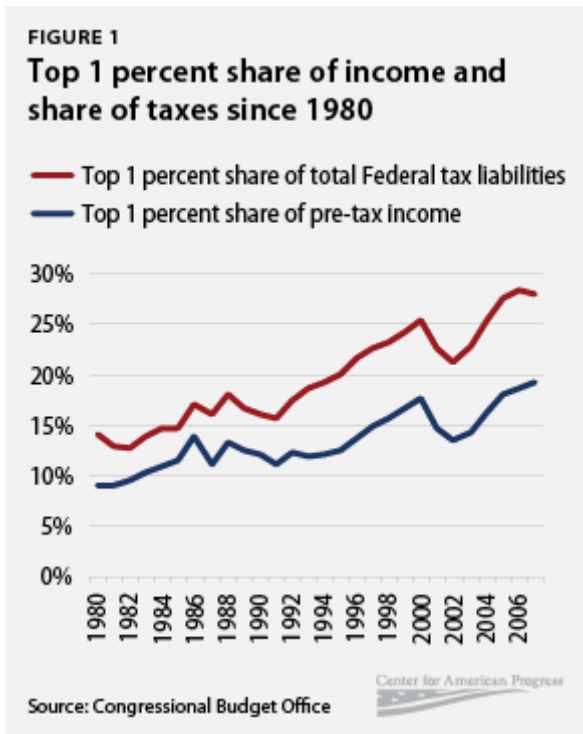
Furthermore, the share of taxes paid by the top 1 percent drops even more when taking into account state and local taxes. An analysis by Citizens for Tax Justice [found](#) that when state and local taxes are included the share of total taxes paid by the top 1 percent in 2010 is only 21.5 percent. This is just about half the “headline” 40 percent that conservatives like to claim.

The rich pay more of the taxes because they make more of the income

Still, the richest 1 percent do pay much more than 1 percent of all the taxes. But, of course, that's because they take home much more than 1 percent of all the income. In fact, the share of total taxes paid by the top 1 percent is almost identical to the share of total income going to the top 1 percent. In 2010 the richest 1 percent took home 20.3 percent of all income, and—as noted above—paid 21.5 percent of all the taxes.

Furthermore, the share of federal taxes paid by the rich increased at almost exactly the same rate as their share of income increased. Conservatives often point out that the top 1 percent's share of taxes increased over the past few decades as evidence that the rich are taxed too much. In a [report on income inequality](#), for example, House Budget Committee Chairman Paul Ryan (R-WI) lamented that “the share of the federal tax burden borne by the top 1 percent increased dramatically.”

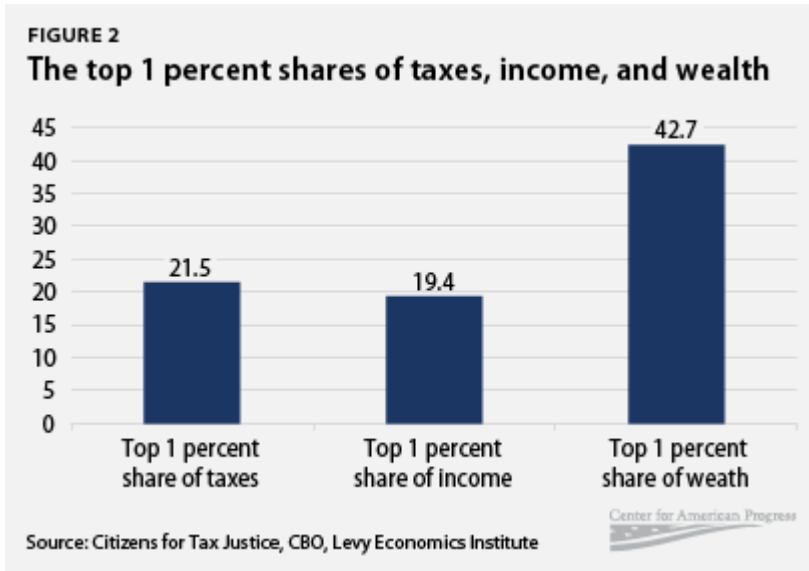
Yes, the share of federal taxes paid by the top 1 percent of income earners has increased from 14.2 percent in 1980 to 28.1 percent in 2007. But at the same time, the top 1 percent's share of total income has more than doubled. In other words, the richest Americans are paying more of the taxes now than they were in 1980 because they are now making that much more of the nation's income. The rising share of taxes paid by the top 1 percent in the past three decades is not evidence that the rich are now overtaxed; it's evidence of rising inequality.



Don't forget about wealth

So the share of taxes paid by the rich matches up pretty closely to the share of income they make. But relative to their share of wealth, the richest 1 percent are actually making out like bandits. Wealth is an important measurement to consider in addition to income because it helps to paint a more complete picture of someone's ability to pay.

To put in perspective the difference between income and wealth, consider that to be in the top 1 percent of income earners, a household [needs an adjusted gross income of at least \\$380,000](#), or 11 times the median household adjusted gross income of \$33,000. But to be in the top 1 percent of wealthy Americans, a household [needs a net worth of almost \\$14 million](#)—225 times that of the median family net worth of just \$62,000 in 2009. And the richest 1 percent of Americans owns an even greater share of wealth than of income. Economists estimate that the wealthiest 1 percent own between [35 percent](#) and [40 percent of the nation's entire wealth](#). (see Figure 2)



Share of taxes paid is an irrelevant measurement

Given the fact that the share of taxes paid by the rich is in near perfect proportion to the share of income garnered by the rich, and is actually very low compared to share of the wealth owned by the rich, it should be fairly clear at this point that “share of taxes paid” is a not a particularly useful measurement of tax fairness or tax burden.

Share of taxes paid means nothing to individual taxpayers and says nothing about the overall tax system. No taxpayer has ever said: “Wow, my share of federal taxes this year was 0.00000041 percent instead of the 0.00000040 percent it was last year!” But that same taxpayer will care quite a lot if the amount of taxes he pays as a share of his own income goes up.

The share of taxes paid is also useless as a measure of fairness. Consider, for example, a hypothetical village of 100 people. In this village, there is one rich man who makes \$1,000 a year and 99 other villagers who each make \$10 a year. Now imagine that everyone in this village pays exactly the same overall tax rate of 10 percent. The one man who makes \$1,000—the richest 1 percent of the village—will end up paying more than 50 percent of all the taxes. Is that unfair? Of course not. He’s making more than 50 percent of all the income, and everyone is paying exactly the same tax rate.

Or consider this: What if the rich man in the village actually paid a lower effective tax rate than the rest of the villagers—say 5 percent? Then his share of taxes paid would still be more than 33 percent. In that case, the tax code is actually regressive, asking the 99 poorer people to

pay more of their income in taxes than the one rich man does. And yet if you looked only at *share of taxes paid*, you might be lead to believe otherwise.

The fact that a tax system can be regressive and still result in the rich paying the biggest share of taxes is a good indicator that share of taxes paid is not a measure of tax fairness.

You know an argument about tax fairness is bogus when...

If you hear the words “share of taxes paid” used in conjunction with an argument for why the rich already pay too much in taxes, then you can be pretty sure that the argument doesn’t hold water. Share of taxes paid is a misleading and fundamentally unreliable statistic that reveals little, if anything, about the fairness or relative burden of the tax system.

The truth is that the richest 1 percent only pay about 20 percent of the total taxes, which is just about equal to their share of the nation’s income and only about half their share of the nation’s wealth. The rise in the share of federal taxes paid by the richest 1 percent can be explained entirely by their increasing share of national income—the two numbers have moved in near perfect harmony for the past 30 years.

Finally, and most importantly, the relationship between actual progressivity in the tax code and share of taxes paid is tenuous at best. The distribution of taxes paid is far more related to the underlying distribution of income than it is to the real measure of progressivity: effective tax rates.

It may sound unfair, at first blush, that 1 percent of Americans pay much more than 1 percent of all the taxes. But share of taxes paid is a statistic designed to cloud the issue, not clarify it. The rich pay more because they have more, period. What is truly unfair is that some in the 1 percent can use special rates, loopholes, and tax benefits to reduce their tax bill so much that they end up paying [a lower share of their income in taxes than average working families](#). That is the real unfairness in the tax code.

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