



## Chafee, Sanders Point to Increasing Top Rate

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Two of the six contenders for the 2016 Democratic presidential nomination promise substantial increases in the top marginal individual tax rate if elected.

Sen. Bernie Sanders, I-Vt., said October 18 "it will be a damn lot higher" than the current 39.6 percent if he's elected. Sanders made the comment on ABC's *This Week*. He said his proposal for paid family leave would require "a small increase" in payroll taxes on all workers. Providing family leave "would mean we join the rest of the industrialized world" in providing such benefits, Sanders said.

Meanwhile, former Rhode Island Gov. Lincoln Chafee proposed a new top bracket of 45 percent on joint filers with incomes above \$750,000 and single filers making more than \$667,000. For a head of household, the threshold would be \$708,000.

Chafee, a former senator as well, also proposed increasing the long-term capital gains and dividends rate for top earners from 20 to 25 percent, not counting the extra 3.8 percent net investment income tax added by the Affordable Care Act.

Chafee first released his proposal September 24 to little notice. That changed after the October 13 debate among Democratic candidates in Las Vegas, when he joined Sanders and former Secretary of State Hillary Clinton in saying he would demand more from the wealthy if elected. Chafee said during the debate that the wealthiest taxpayers are "doing fine" and added, "So there's still a lot more money to be had from this top echelon." (Prior coverage [↗](#).)

Chafee, in a statement accompanying his marginal rate proposal, said that the new top bracket would generate \$41 billion and that he would use the money to finance a \$1,000 increase in the personal exemption, raising it to \$5,000, a move that he said would benefit lower-income taxpayers.

"We need to address income inequality in this country," Chafee said in the statement. "This proposal does just that and would move us closer to the tax code generally applicable in

industrialized European countries. The economy is ticking along. We don't need a radical change to the tax code which would change economic behavior."

According to Chafee's campaign, there are 892,000 returns annually in the highest tax bracket -- 39.6 percent for married joint filers with income over \$464,850 -- and they pay \$368 billion, about 30 percent of the \$1.2 trillion in personal income tax revenue. "Despite this fact, the wealthy are thriving while low and middle income earners are struggling," his campaign said.

Chafee's campaign said he is also "keeping an open mind" to the possibility of increasing the personal exemption further by phasing it out for filers with incomes of \$100,000 or more. Currently, the phaseout begins for single filers making \$258,250 and joint filers making \$309,900.

"The plan is certainly not a major overhaul to the tax code like we are used to from the Republican candidates, but I believe it is a plan worth noting for its simplicity," economist Kyle Pomerleau of the Tax Foundation wrote in an October 15 blog post. "In fact, its simplicity makes it very clear what Governor Chafee is trying to accomplish: Increase the progressivity of the current tax code without raising the overall level of taxes."

For his part, Sanders followed up his debate performance by promising in his interview on *This Week* to raise taxes on the top 0.1 percent of both taxpayers and corporations.

"We are going to close the loopholes that allow large corporations to stash their money in the Cayman Islands and in some cases avoid paying all federal income taxes," he said. He also said he would attack "huge loopholes" that benefit the wealthy, in addition to increasing the top rate.

Over the past 30 years, Sanders said, too much wealth has gone to those at the top -- "Donald Trump and his friends." It was a reference to the billionaire real estate developer who is leading the race for the GOP nomination.

"We have got to address the fact that the middle class in this country is disappearing," he said, reiterating that he plans to increase estate taxes on the wealthy as well.

### **Effects of Taxing the Wealthy**

Harry Stein of the Center for American Progress Action Fund, said of Sanders's and Chafee's ideas: "Given how much growth [in income] there has been at the very top, a good case can be made for increasing the marginal rate." And of Chafee's proposed increase in capital gains taxes, he added, "It makes sense to trim back that preference."

Of Sanders's payroll tax proposal, Stein called paid family leave "an incredibly important goal" and important to a well-functioning economy. "But how to finance it I think is still an open question," he said.

Chris Edwards, fiscal policy analyst at the Cato Institute, said of paid leave, "I'm not in favor of the federal government deciding human resource issues for everybody." He said it should be left to the private sector and the 50 states.

And increasing the top marginal rate, Edwards said, will hurt economic investment and entrepreneurship by putting the United States at a disadvantage with its trading partners. When state taxes are figured in, he said, the U.S. top rate is closer to 46 percent, higher than the 42 percent average among OECD nations. An increase in capital gains taxes would also put the country at more of a disadvantage compared to those countries.

"Politicians need to research the negative consequences of their proposals," Edwards said. "It sure as heck would not help the U.S. economy to have higher tax rates than our trading partners in the modern globalized economy."

Curtis Dubay, senior fellow at the Heritage Foundation, said that raising the top rate would deliver multiple blows to the economy. "Raising that rate higher would further reduce their [high-income earners] incentive to work, which would slow economic growth," he said. "More importantly, it would reduce their incentive to invest and take risks, which would reduce investment and job creation. Many businesses are organized as passthroughs and would be faced with the higher rates as well."