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Taxes on rich may bring revenue, but it won't fix deficit

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As Americans take a collective breath after the annual April 15 Tax Day turmoil, President Barack Obama is leading a charge to raise taxes on the rich as part of his wider campaign strategy.

In presenting his deficit reduction plan on April 13, President Barack Obama took the initiative in suggesting wealthy Americans be required to pay more to support their country.

"In December I agreed to extend the tax cuts for the wealthiest Americans because it was the only way I could prevent a tax hike on middle class Americans," Obama said. "But we cannot afford $1 trillion worth of tax cuts for every millionaire and billionaire in our society. And I refuse to renew them again."

The president also said his budget calls for limiting itemized deductions for the wealthiest 2 percent of Americans, and asked Congress to reform the individual tax code and the corporate tax code.

Following the president's speech, raising taxes on the rich quickly became a popular battle cry. While raising taxes is normally a risky political move, the president has taken a fairly safe course in targeting the wealthiest Americans.

CNN data and a 2010 Credit Suisse Wealth Report show there aren't enough millionaires and billionaires for this strategy to have an impact in the voting booth. Also, as CNN points out, promising low taxes for 98 percent of the country will help Obama's campaign appeal to many.

The Christian Science Monitor said the speech was meant to play to Obama's liberal base, and that it succeeded, citing New York Times columnist Paul Krugman's reaction. The speech garnered praise from Krugman who said it was a "reaffirmation of American compassion and community, coupled with fairly realistic numbers."

"Unemployment remains at nearly ten percent, the highest level in almost 30 years; foreclosures have forced millions of Americans out of their homes; and real incomes have fallen faster and further than at any time since the Great Depression," Robert Lieberman writes in a recent Foreign Affairs article. "And yet a curious thing has happened in the midst of all this misery. The wealthiest Americans, among them presumable the very titans of global finance whose misadventures brought about the financial meltdown, got richer. And not just a little bit richer; a lot richer."

While Fox Business's John Stossel and Kevin Williamson at National Review refute this using data from the IRS and Pew Charitable Trusts, these and other criticisms haven't stopped the "tax the rich" mantra from catching on.

An April 7 report from the Institute for Policy Studies says that the averted government shutdown and proposed austerity changes are unnecessary, if the U.S. would shift the tax burden to the rich and make income less concentrated at the top.

A The Huffington Post article claimed the Bush tax cuts cost the government about $120 billion. A second article called for a "wealth tax" to be applied during the immediate financial crisis and other emergencies. Yet another Huffington Post columnist suggested that the Alternative Minimum Tax should be used to help the rich "put their money where their mouths are."

ABC News wrote Sunday that taxes for the rich were falling, and that the wealthy could look forward to paying significantly less than they would have two decades ago. A group calling themselves "Patriotic Millionaires" wrote a letter to Congress pushing for them to raise their taxes. The New York Times says rich people "don't realize they're rich," which is why they're unwilling to pay more in taxes.

In a Bloomberg article, AFL-CIO claims that "runaway CEO pay" could support 102,000 jobs.

(Although, Human Events points out, using AFL-CIO President Richard Trumka's own standards, one year's worth of union dues could support 265,477 jobs.)

While taxing the rich can make an effective campaign strategy — and all signs point to that being one of Obama's main talking points for the coming election — a hefty mix of pundits, news stories and opinion pieces suggest the political reality can be compared to trying to plugging the hole in the side of the Titanic with dollar bills.

There are a number of challenges that come with tackling the national debt — which currently stands at $14.3 trillion. These include the tax code, the shrinking tax base, tax cuts for the rich, government spending and entitlements.

Opinions differ on how much an impact these factors play on the current debt, but many sources suggest addressing all or most of them to fix the problem.

Chris Edwards, who studies tax policy for the Cato Institute, tells CBS News the U.S. tax code a "huge convoluted mess." This "mess" allows those who can afford to hire help or who know how to work the system to avoid paying as much in taxes as others.

The tax code is "full of loopholes for those wealthy enough to take advantage, and wrought with individual and corporate subsidies," an American Thinker post states. "It discourages work, saving, and investment through high individual rates and duplicative taxation policies such as the death tax and capital gains tax."

As Walter Williams points out in an Investor's Business Daily column, the rich didn't become rich by being stupid.

While Ted Kennedy's personal wealth remains estimated to be between $45 million and $150 million, the documentary "Do As I Say," claims that Kennedy utilized an elaborate network of trusts and foundations to allow him to pass on his wealth tax-free.

President Obama, who paid $453,000 in taxes this year, should have paid $182,998 more if he were to pay taxes under the percentage he says he should. The Washington Times also points out the Obamas should set an example by returning their $12,000 refund or not itemizing and/or claiming deductions.

While proponents of raising taxes on the rich claim the extra money from the top tier will help the debt, critics say the tax base is already foisting much of the tax burden on the wealthiest Americans.

In an NPR analysis, while the top 1 percent of earners took home 23 percent of the nation's adjusted gross income in 2007, they also paid 40 percent of the federal income taxes for that year. Relying on a narrow tax base, NPR warns, can cause state revenues to nosedive when a recession hits.

The Tax Foundation also reports that the top-earning 5 percent of taxpayers paid far more than the bottom 95 percent. The Washington Examiner says that the top 1 percent of earners — those earning more than $380,354 — paid 38.02 percent of federal income taxes while the bottom 50 percent paid just 2.7 percent.

Based on past analysis, to the American Enterprise Institute estimates one-third of taxpayers will not owe any federal income tax this year. This, the institute warns, is concerning because households that pay no federal income tax are less concerned about federal spending and the size of the government.

While increasing taxes on the rich may create some revenue — although not as much as the president may think, The Washington Times, MarketWatch, The Atlantic and The Wall Street Journal all warn — even taking larger, more drastic measures would fail to have much of an impact.

A 50 percent tax hike on income taxes across-the-board would still leave a federal deficit of $750 billion a year, The New American warns. Even following Michael Moore's suggestion to take the assets of the wealthiest Americans (or, what he calls a "national resource") would fail to cover the 2011 deficit alone, Mary Katharine Ham points out on The Daily Caller.

In a blog post by Internet satirist Iowahawk, which was then turned into a video by Bill Whittle, the debt problem is put even more starkly: If the U.S. government were to confiscate the money from the members of the Fortune 500 (such as Exxon Mobil and Walmart), TV ad money spent on all 45 Super Bowls, the salaries of all players in the NFL, MLB, NBA, and NFL, as well as the winnings of those on the PGA tour and Nascar, and every penny from those making more than $250,000 a year, the government would only be funded through July 2. Ending the wars In Iraq and Afghanistan would fund the government through July 29.

Just raising taxes on the rich would not address normal government spending, nor would it help address entitlement spending, which is a looming threat to long-term fiscal health. According to USA Today, entitlement spending in Medicare and Social Security are the major threat to the U.S. economy.

Rep. Paul Ryan, who presented a deficit reduction plan that addresses spending, reforms the tax code and changes Medicare, said on Face the Nation that the keys for growth come not from raising taxes on the rich, but from getting rid of loopholes and deductions and introducing a simpler, flatter, fairer tax. Ryan's plan passed the House on April 15.

For those looking for hope in the debt situation, the left and right sides of the debate have almost found common ground in one suggestion the president floated on Tuesday.

While speaking at Northern Virginia Community College, the president said he would like to return tax rates to the level that existed when Bill Clinton was president. Conservative radio talkshow host Rush Limbaugh agreed, with the caveat that the government also return to Clinton-era spending levels.

No matter what direction you approach the deficit problem from — whether you agree with raising taxes on the rich or prefer to focus on entitlements or austerity cuts — there's probably a fiscal plan for you. With proposed plans from the president, Paul Ryan, the Institute for Policy Studies, the Bipartisan Policy Center and the president's National Commission on Fiscal Responsibility and Reform, there are many to choose from.

And if nothing else works, you could always donate to the government to help lower the public debt. But, Newser warns, your donation is not tax-deductible.