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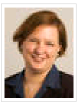
Pivot To Taxing Billionaires Replaces Pivot to Jobs



by Charlotte Hays
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President Obama's pivot to jobs was short-lived, *n'est pas*? It didn't take the president that long to pivot away from jobs, jobs, jobs and back to something that is apparently nearer and dearer to his heart: taxing the rich.

(To be fair, the president has not completely deep-sixed the jobs pivot thingy. Here is a headline from the L. A. Times:

> Oops, Obama to Tout His Jobs Plan Today at an Ohio Bridge That Won't Qualify

Maybe somebody in the White House advance office needs to feel the sting of unemployment.)

But back to billionaires!

Omaha billionaire Warren Buffett set the stage for this in his now famous oped begging to be more heavily taxed. It was in this piece that the billionaire made the (misleading) claim that he is taxed at a lower rate than his secretary. Mr. Obama began to refer to "the Buffett Rule" as part of his plan to reduce the deficit.

But Megan McArdle, who writes about business and economics for the Atlantic, took a good look at Mr. Obama's plan:

> At least in the White House document that I read, I saw no proposal to set some sort of AMT on millionaires. Instead, it claims to do this, while rehashing a bunch of things that the administration has long proposed: allowing the Bush tax cuts to expire for those making more than $250,000; changing the treatment of carried interest income accrued from capital gains; and altering the treatment of deductions for very high earners. If all of these things were passed, guess who would still pay a lower effective tax rate than his secretary? Hint: his initials are WB, and he lives in Omaha, Nebraska.

> If a "Buffett Rule" is such a great idea, how come the administration doesn't actually propose enacting one?

> Presumably for some of the following reasons: it would add complexity to the tax code; it might not be possible to do in a way that would stand up even in our very IRS-friendly tax courts; it would have upsetting effects on the market for various forms of capital, particularly municipal bonds; it might well involve taking away deductions that less well-heeled voters currently enjoy, and they'd freak out. Note that I do not include "Republican obstructionism" on this list, because the existing proposals won't pass the house; there's no reason not to include a real hard "Buffett Rule" if they think such a thing is even vaguely workable. From the fact that they didn't, I infer that they thought the idea maybe had some problems.

Well, this *is* sad news for the tax-hungry billionaire!

(By the way, Senator John Cornyn wants to see Warren Buffett's tax returns. He has a point:

> "If he's going to be the gold standard, so to speak, in terms of what our tax policy should be, let's look at them," Senator John Cornyn, R-TX, said while aboard ABC's **"Subway Series with Jonathan Karl."**)

Alan Reynolds of the Cato Institute, who has also gone through the president's proposal, calls the "Buffett Rule" an "empty threat." We shoulod be glad it is:

> The trouble is that such a Buffett Rule would quite certainly reduce rather than enlarge federal revenue. That's because we know from experience that a 28% tax on selling stock or property greatly reduces the amount offered for sale. Wealthy people then sit on more unrealized capital gains rather than subjecting themselves to a stiff tax penalty on selling those assets. The 28% tax on long-term capital gains brought in only $36.9 billion a year from 1987 to 1997, according to the Treasury Department, while the 15% tax brought in $96.8 billion a year from 2004 to 2007.

> Putting aside the seemingly empty threat of a Buffett Plan tax on capital gains, the president's new-old plan to raise income taxes on families and small businesses earning more than $250,000-to pay for temporary tax gimmicks and extra spending-is just stale wine in a new

> bottle.

I urge you to read both of these pieces. McArdle does a great job of explaining why a tax code for 300 million people can't be built on the idea that no billionaire should ever pay a lower rate than his secretary. There are just too many anomalous situations. It would also be necessary to destroy the economy, what's left of it, to make certain that this never ever happened.

McArdle writes:

> Likewise, unless you get rid of the tax-free status of muni bonds, Theresa Heinz-Kerry will continue to have the effective tax rate of a probationary janitor.

> Now, you could change the tax rules about capital losses and municipal bonds. But this would hurt a lot of people who aren't millionaires, and dramatically increases the potential cost of investments with lumpy cash flows, as well as state and local infrastructure projects*.

> The only way to actually ensure that no millionaire, anywhere, pays less than 20% on their annual income would be to essentially suspend the rule of law for wealthy people, and give the IRS power to seize income from rich people at will within some very broad guideline about fair shares. This strikes me (she said, with dramatic understatement) as a very bad idea.

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