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Experts: Obama Skews Data by Using Buffett Tax Example

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By Forrest Jones

President Barack Obama has made good on threats to propose a "Buffett Tax" on people making more than $1 million a year, but some experts say the president's use of the famed investor Warren Buffett as an example isn't providing the most accurate comparison.

Obama's initiative, part of the president's plans to curb deficits by $3 trillion, clearly aims to rile up voter emotions by accusing the rich of not paying their fair share in taxes.

The tax is named after Buffett, who says wealthy Americans pay less in taxes as a percentage than the middle class due to loopholes and other traits embedded in the country's tax code.

Some say Obama is playing politics, trying to drum up his Democratic base to blame successful Americans.

"This is purely politics, aimed at Obama's demoralized base. It undoubtedly has been poll-tested, so now Obama has a populist campaign issue. There's obviously no chance this could pass (on a vote in Congress)," says Greg Valliere, chief political strategist at consultancy Potomac Research Group, according to Reuters.

Others say the assumptions behind the proposal are wrong.

Buffett says the government is coddling the rich by pointing out his federal income tax last year came to 17.4 percent of his taxable income, adding the rich, like himself, tend to pay taxes of around 15 percent since their take home money comes from investments that are subject to lower taxes.

Still, says Alan Reynolds, a senior fellow at the Cato Institute, the average income-tax rate of those earning between $1 million and $10 million comes to 29.5 percent according to 2009 data, much higher than the 17.4 percent figure Obama and Buffett are throwing around.

Plus middle class investors are subject to the same taxes as wealthier investors.

"Investors with modest incomes also pay a tax rate of 15 percent on dividends and capital gains, although that rate is scheduled to rise to 18.8 percent under the Obama health law," and much higher if Congress enacts the reforms Obama just announced, Reynolds adds, according to Investor's Business Daily.

Plus, Buffett isn’t a good example when it comes to overhauling tax schemes.

"He pays himself a salary of just $100,000, which explains how he pays less than his employees do in payroll taxes. He dodged the estate tax by donating his wealth to the Bill and Melinda Gates Foundation. He doubtless reduces his taxable income with other donations to charity, which explains why he repeatedly refers to taxable income rather than adjusted gross income," Reynolds says.

"Despite his personal and professional dependence on capital gains, Buffett nevertheless feigns total ignorance of who pays the capital gains tax and why. He says, 'I have worked with investors for 60 years and I have yet to see anyone — not even when capital gains rates were 39.9% in 1976-77 — shy away from a sensible investment because of the tax rate on the potential gain,'" Reynolds says.

“Well, the Dow Jones Industrial Average was 831 at the end of 1977 — down from 969 at the end of 1965 — so somebody was having trouble finding investments that would still look sensible after paying a 39.9% tax,” he said.

"In any case, for Buffett to focus on the act of buying stocks or property is all wrong. The capital gains tax is not a tax on buying assets. It is a tax on selling assets. If you don't sell, there is no tax. And when the capital gains tax is high, very few people are willing to sell."

A 2008 study by the Organization for Economic Cooperation and Development finds that the highest-earning 10 percent of the U.S. population paid the largest share among 24 countries examined, even after adjusting for their relatively higher incomes, The Wall Street Journal reported in May.

"Meanwhile, the percentage of U.S. households paying no federal income tax has been climbing, and reached 51 percent for 2009, according to a new analysis by the Joint Committee on Taxation. That was the first time since at least 1992 that more than half of households owed no federal income tax, according to JCT estimates," the Journal adds.

Furthermore, about 30 percent of taxpayers received money from the government through tax credits.

The string of inaccuracies in the president's plan, meanwhile, continues, especially when looking at federal taxes.

Households bringing in $1 million will pay an average of 29.1 percent of their income in federal taxes this year, according to the Tax Policy Center, a Washington think tank, the Associated Press reported.

Households making between $50,000 and $75,000 will pay 15 percent of their income in federal taxes, the data show, while lower-income households will pay even less.

"For example, households making between $40,000 and $50,000 will pay an average of 12.5 percent of their income in federal taxes. Households making between $20,000 and $30,000 will pay 5.7 percent," the newswire reports.

CNBC.com editor John Carney writes that currently, Buffett's yearly income tax represents about 0.0001 percent of his net worth.

"What happens if we dramatically raise Buffett's taxes? Let's say we tax him at an effective rate of 50 percent — which would mean that highest marginal rate would likely be at levels not seen since the Eisenhower administration. Even at these extreme levels — where Buffett would pay something like $17 million a year — Buffett's tax would be just 0.0003 percent of his net worth."

"No amount of jiggering with marginal rates or deductions will make the tax burden of Buffett even approximate the tax burden of his receptionist. The vast size of his wealth makes the tax burden irrelevant."

To really make things fair, which is exactly what Buffett is seeking, instead of raising taxes on the wealthy, the government should cut taxes on the middle class.

"It's true that relative to his employees Buffett's taxes seem to be too low. But it's also true that relative to Buffett the employees' taxes are too high. This is as much an argument for tax cuts as it is for tax hikes," Carney writes in his CNBC.com column.

Rapid response

GOP presidential candidates were quick put aside their differences and brand the proposal a failure in the making, arguing higher taxes will hamper investment and hiring.

"President Obama's plan is a bait and switch that offers more than a trillion dollars in higher taxes for a promise of temporary tax relief. The president penalizes investment when it is needed most, discourages charitable giving and doubles down on a failed government stimulus strategy," says Texas Governor Rick Perry, according to Fox News.

"Worst of all, the Obama plan fails to provide the certainty employers need to create jobs and the spending and deficit reduction our economy needs."

Rival Mitt Romney agrees.

"President Obama's plan to raise taxes will have a crushing impact on economic growth. Higher taxes mean fewer jobs — it's that simple. This is yet another indication that President Obama has no clue how to bring our economy back," Fox adds.

Michele Bachmann adds the move will really hurt small businesses, where hiring normally takes place.

"The president's gimmicks and tax increases on the backs of small business and the middle class won't grow our economy. Only permanent fixes will. The president should allow for repatriation of American money overseas, truly reform the entire tax code so it fairer and flatter on all Americans, and get rid of job killing regulations, including on the energy sector, which will create millions of jobs," Bachmann says, Fox adds.

Some in the president's camp admit the proposal is a tough one.

“We know that that’s going to be something that our friends and our opponents alike are going to notice. But there is no way to get this job done without making tough decisions, and this is putting forward a plan that does it in a fair and a balanced way," a senior administration official tells ABC News.

Rep. Paul Ryan, R-Wis., says the tax hikes come on the heels of similar measures imposed by the Obama administration.

"Let’s not forget that under the current law that the president has already passed, the top tax rate on individual and small businesses in 2013 goes to about 44.8 percent,” Ryan tells Fox News.

Treasury Secretary Timothy Geithner, however, says the U.S. needs comprehensive tax reform and needs it now.

"If you do it sensibly through tax reform you'll strengthen investment centers, you'll make growth in the U.S. stronger, you'll make people more confident in the future, more likely to invest here," Geithner says, according to Reuters.

"That's something we should all be working toward."

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