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RAHN: Obama's tax falsehoods

President must know his quest to raise taxes will kill jobs

By Richard W. Rahn

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Mr. President, what is the maximum rate of tax you think any American should be forced to pay? I asked those in the [White House](#) press office this question last week, and I have yet to receive an answer. I am willing to bet they will never give me or any other American the number.

In last week's column, I showed how many Americans of all income levels are paying effective tax rates of approximately 400 percent on their savings income because the government is keeping short-term interest rates under 1 percent while generating inflation of 3.8 percent at an annual rate. The inflation tax also causes many capital gains recipients to have effective tax rates in excess of 100 percent.

The administration has proposed major tax increases, based both on a false statement of the problem and false statements about the likely effects of the proposed solutions. The administration and its advisers must know that much of what they are saying is false because they have been corrected so many times.

The first falsehood is that billionaires like [Warren Buffett](#) are paying a lower tax rate than their secretaries. [Mr. Buffett](#) appears to prefer to take much of his compensation in the form of capital gains rather than salary. His companies can deduct the cost of salaries from their revenue, but capital gains only accrue after a company has paid its corporate tax. To properly measure his tax rate, it would be necessary to look at all of the taxes he pays both directly and indirectly on his investment income, including the inflation tax and pro-rata share of the corporate income tax. You can bet it is far higher than his secretary's tax rate.

On Sept. 14, former [U.S. Treasury](#) economic official [Stephen J. Entin](#), who is now president of the [Institute for Research](#) on the Economics of Taxation, testified before [Congress](#) and noted that "the top earners already pay a very high portion of the income tax. The top 2 percent of the taxpayers had 27.95 percent of AGI [adjusted gross income] and paid 48.68 percent of the income tax. The bottom 50 percent of the tax filers had

12.26 of AGI and paid 2.89 percent of the income tax. Half of the filers now owe no income tax or receive a refundable income tax credit.”

Many on the political left are quick to recognize that tax rates affect behavior when applied to behaviors they do not like, such as smoking. They want to have high taxes on certain foods, such as candy, drinks containing sugar, and trans fats, to discourage their use. But when it comes to labor and capital, those on the left often argue that those taxes have little effect on the willingness of people to work or invest in productive enterprises, despite both the empirical evidence and good economic theory. To quote [Mr. Entin](#), who has studied and modeled the effects of taxes for more than 30 years, “Higher marginal tax rates on any group, especially those already paying the highest marginal rates, would reduce GDP [gross domestic product] and income across the board, and not just on the people paying the initial tax bill. Increasing the double taxation on corporate income by raising tax rates on capital gains and dividends would dramatically reduce capital formation and wages, and would not raise the expected revenue.”

President Obama, you assert that it is fair for the rich to pay more, but you never define “fairness” or how you derived this undefined concept. Again, I have asked the [White House](#) to provide the answer but have received no response. We know from previous experience and from good dynamic economic studies that higher capital gains taxes will result in fewer new jobs and even less tax revenue. How is that fair, Mr. President?

The fact is that many American businesspeople and individuals already pay very high taxes when multiple levels of tax and the effects of inflation are properly factored in. It is false to claim that increasing taxes on capital gains, interest, dividends and the wages of those making more than \$200,000 per year is not going to make everyone worse off.

Making tax policy based on falsehoods will only impoverish people at all income levels and thus is not only irresponsible, but mean-spirited.