

Reid wants vote this week on millionaires tax

Democrats need Republican votes to overcome filibuster

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**** FILE **** Senate Majority Leader Harry Reid of Nev., meets with reporters on Capitol Hill in Washington, Tuesday, Oct. 4, 2011, after a Democratic caucus lunch. (AP Photo/J. Scott Applewhite)

In a plan that convinced more Senate Democrats to fund President Obama's jobs bill, Majority Leader Harry Reid is calling for a vote this week on a new tax targeting millionaires.

The 5.6 percent surtax on people who earn more than \$1 million is more palatable to some lawmakers who resisted Mr. Obama's original proposal to raise taxes on moderately wealthy families and on oil and gas companies. Last week, Senate Democrats replaced the president's payment plan with the surtax, which the Congressional Budget Office said would raise \$452 billion over 10 years - enough to pay for the president's \$447 billion jobs legislation.

The switch won over Senate Democrats, but stands little chance of gaining traction among Republicans, who remain vigorously opposed to any tax increases. Even with unanimity in their 53-seat caucus, Democrats would need some Republican support to achieve the 60-vote threshold to overcome a filibuster. If that doesn't happen, they could try to use the issue politically next year, accusing Republicans of defending the rich.

But the disputes raise questions long debated by lawmakers: What incomes qualifies as "rich" and how high can taxes be raised before they hinder economic growth?

Mr. Obama's plan would have limited tax deductions for individuals earning more than \$200,000 and couples making more than \$250,000 - about 2 percent of Americans. An even smaller strata of the population, about 0.2 percent, would pay the surtax proposed by his party.

Announcing their alternate plan last week, Democrats said a million dollars is the right place to draw the line.

"In the eyes of many, it is hard to ask more of households that make \$250,000 or \$300,000 a year," said Sen. Charles E. Schumer, New York Democrat. "They are not rich, and in large parts of the country, that kind of income does not get you a big home or lots of vacations or anything else that's associated with wealth in America."

Projections vary of how many Americans would earn enough to pay the surtax, since it wouldn't go into effect until 2013, after next year's election. The Urban Institute estimates that it would affect 392,000 taxpayers, who would pay an average of \$110,000 extra in the first year.

Still, Republicans charge that the surtax will harm the sluggish economy because it would apply to some wealthy individuals who operate small businesses and report their income on personal tax returns, instead of corporate.

"Whacking small businesses with this massive tax increase for another stimulus is bad for the economy and bad for job creation," Sen. Orrin G. Hatch, Utah Republican, said last week.

Sixty-one percent of American millionaires report business earnings, according to the Tax Policy Center. Of that, about half earn at least 50 percent of their income from business.

Supporters of the surtax say that some of those earners don't create many jobs anyway. A lawyer in a two-person practice couldn't lay off workers the same way as the owner of a small machine shop, said Roberton Williams, a senior fellow with the Urban Institute.

"You'll hear screaming about it because there are some businessmen there, but it's not as big a deal as they would have you think," he said. "It's a small group, and a small part of that small group will be affected. We don't know how many of these are hedge fund managers."

But some conservatives worry about enacting a heavier tax burden on the most successful members of society. If passed, the surtax would push the top personal income tax rate from 42 percent to 48 percent, said Chris Edwards, director of tax policy for the Cato Institute.

"Those 330,000 people are the most productive and highly valued people in the economy," Mr. Edwards said. "In general, they're venture capitalists, they're brain surgeons, they're CEOs. I don't think it makes any sense to impose an extra tax on them."

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