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The Politics of Paying 'More Taxes'

By Mitch Kokai
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RALEIGH — President Gerald Ford once quipped in the middle of a presidential debate, "It was my understanding that there would be no math."

No, wait a minute. That was comedian Chevy Chase, playing Ford opposite Dan Aykroyd's Jimmy Carter, during a 1976 episode of NBC's "Saturday Night Live." Chase uttered the line in response to a debate question calling for a complicated computation involving top marginal income tax rates, increases in gross national product, and decreases in unemployment.

The fictional President Ford's lack of off-the-top-of-his-head mathematical dexterity generated plenty of laughs for the "SNL" crowd. What's less funny is the fuzzy grasp of basic math that has cropped up 36 years later in today's presidential campaign.

This column is not about $5 trillion in proposed tax cuts, 4.5 million new jobs under the current presidential administration, or even 47 percent of the American people freeloading off of the rest of the country. Each of these numbers relies on questionable assumptions and "inelegant" characterizations of some carefully selected facts.

What grates this observer to an even greater degree than these politically motivated manipulations of statistics is the assertion that a person pays "more" in taxes if he pays a higher tax rate.

It's an argument that first gained widespread support when billionaire Warren Buffett mused that it made no sense for his secretary to pay a higher tax rate than he did. Conduct a Google search for "Buffett secretary pays more taxes," and you'll get 2.68 million results. Granted, many of these results point to websites that explain the fallacy of the notion that Buffett's secretary pays more taxes than he does. But many other results repeat the basic notion conveyed in the search term: By paying a higher effective tax rate than her boss, Buffett's secretary paid "more taxes."

(As an aside, at least one site near the top of the search list ponders how a secretary reported to make roughly $60,000 a year is paying an effective income tax rate of 35.8 percent, when the top federal marginal tax rate of 35.1 percent kicks in only on adjusted gross incomes higher than $373,500.)

Buffett's comments spurred President Obama's proposed "Buffett Rule," the notion that "millionaires and billionaires" ought to fork over roughly 30 percent of their incomes in federal taxes. The same mode of thinking also led left-of-center pundits to crow about middle-class Americans paying "more taxes" than Republican presidential nominee Mitt Romney, who faced an effective tax rate of 14.1 percent in 2011.

Romney also has said he paid at least 13 percent in income taxes in each of the past 10 years.

Those who find these rates unconscionable appear to miss the distinction among top marginal tax rates, effective tax rates, and the amount of tax dollars actually paid. Each of these terms is distinct, and confusing them can lead a pundit to conclusions that are flat-out wrong.

First, a housekeeping note on Romney's taxes: Michael Tanner of the Cato Institute points out in a recent National Review Online column that "unless your household was earning more than $189,400 per year, it is unlikely that you are paying a higher federal income-tax rate than Romney. According to the Congressional Budget Office, the average middle-income American pays an effective federal income-tax rate of 1.3 percent. Recall that half of Americans pay no federal income tax at all." Tanner goes on to note that because of corporate taxation, Romney's real federal income tax rate was closer to 30 percent.

But that assessment goes beyond this column's basic point: It's a mistake to equate a higher tax rate with "more taxes." Rather than sift through the numbers associated with Mitt Romney's, Warren Buffett's, or Warren Buffett's secretary's tax returns, let's use a simple example with round numbers for both income levels and tax rates.

Mattie Romley earns an adjusted gross income of $20 million. Her secretary earns $100,000 (because Ms. Romley is not as much of a tightwad as Warren Buffett). For reasons we will leave unexplained, the secretary pays an effective tax rate of 30 percent, while Romley pays an effective tax rate of 15 percent.

Do the simple multiplication, and the secretary pays a federal income tax of $30,000. Romley pays $3 million. Romley's tax bill is 100 times as large as her secretary's. In other words, in calculating how much each taxpayer is contributing in income tax to defray the costs of the federal government's operations and obligations, Romley is paying as much as the secretary and 99 other people in the secretary's exact same income circumstances.

By any reasonable standard, Romley is paying more — much more — in income taxes than her secretary.

Should Romley pay a higher rate? Should her secretary pay a lower rate? Should both pay the same rate — higher or lower? Should different types of income — wages versus investment income, for example — face different degrees of taxation? These are policy questions open for debate. (By the way, my answers are likely to be no, yes, yes (lower), and maybe.)

What is clear is that it is a complete misuse of the English language to say that a person paying $30,000 is paying "more taxes" than a person paying $3 million. Even Chevy Chase's caricature version of a bungling President Ford would have had an easy time avoiding that pitfall.

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