

analysisMillionaires, billionaires and Buffett: Paying enough taxes?

By Mark Gollom, [CBC News](#)

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Millionaires and billionaires just aren't feeling the love in the U.S. these days. With constant talk about the perils of deficits and debt ceilings, the super well-off have become the targets of much resentment, accused by some of not paying their fair share of taxes.

U.S. President Barack Obama, sensing a political opportunity, has taken up the drumbeat, repeatedly taking dismissive swipes at "millionaires and billionaires." He has said their tax breaks result in lower government revenue and threats to government programs, meaning kids are being denied money for scholarships, funding for medical research is being threatened and food safety is being compromised.

And now, one of their own, has taken up the cause. In a recent [op-ed piece in the New York Times](#), billionaire investor Warren Buffett said it's time for his "mega-rich" friends to paid more in taxes, saying they've been protected too long.

Buffett said investment managers like himself can classify their income as carried interest, meaning they pay only a 15-per-cent tax rate. But he said the middle class pay somewhere between 15 per cent and 25 per cent and also pay heavy payroll taxes.

But some observers have suggested that Buffett is not painting the whole picture about his overall tax burden as well as the taxes paid in general by the extremely well off.

As an investor, Buffett earns money from dividends and capital gains. He said last year his federal tax bill was nearly \$7 million US, a lot of money to be sure, but only 17.4 percent of his taxable income. In contrast, the tax burden of people in his office averaged 36 per cent.

But Daniel Indiviglio, former investment banker and current associate editor of The Atlantic, writes that Buffett doesn't take into consideration the taxes already applied on his dividends and capital gains before they were paid out.

"So think about a dividend. The income that a corporation makes is first taxed at 35 per cent. Then, a dividend is paid out — after taxes. If you obtain that dividend, should it be taxed? Well, it already was — at 35 per cent," Indiviglio writes. "For this reason, it makes sense to tax it at zero per cent. If you tax it more, then you are taxing the income it produced twice."

Indiviglio said the same goes with capital gains, which also are taxed at 35 per cent.

Daniel Mitchell, a senior fellow at the libertarian Cato Institute who specializes in tax policy, said Buffett also ignores the impact of so-called death taxes, levied against people's estates and heirs after they die, which could result in the federal government seizing up to 45 per cent of his assets.

"To be sure, Buffett may be engaging in clever tax planning, so it is hard to know the impact on his effective tax rate, but it will be significant," Mitchell writes.

Mitchell said Buffett is also somewhat misleading on the payroll tax, which goes toward future Social Security benefits. The tax, imposed on income of up to \$107,000 a year, is designed so that people receive a corresponding retirement benefit.

"Imposing the tax on multi-millionaire income, however, would mean sending rich people giant cheques from Social Security when they retire," Mitchell said.

Are the rich paying?

While Buffett and Obama believe the very rich are not paying enough in taxes, they are still paying.

According to [figures calculated by the non-partisan](#) Tax Policy Center, the top one per cent of income earners — those making more than \$500,000 a year — pay about one third of all federal income taxes but only have one sixth of the total income.

The top 1/10th of one per cent, meaning those who are earning more than \$2.1 million, pay one sixth of all federal income tax but only have seven per cent of the total income.

But Williams also notes the top earners pay a smaller share of payroll tax (the top one per cent pay only four per cent)

"So the income tax they're paying is more than their share, the payroll tax they're paying is less," he said.

Meanwhile, 46 per cent of Americans won't pay any federal income tax, based on their income.

"It's a very progressive tax," Robertson Williams, senior fellow at the Tax Policy Center, told CBC News about the income tax system. "High income people start off with very large taxes and are reduced a lot but they're still positive, so they're paying taxes. People at the bottom start off with very

low tax and are reduced a little bit and they go to zero."

How much would a tax increase help?

Buffett doesn't give specific figures, saying only that tax rates should be raised for those making more than \$1 million and an additional increase for those who make \$10 million or more.

But Williams said their centre figured what would happen if the government imposed a millionaires tax, meaning that income accrued over \$1 million would be taxed at 50 per cent.

He said that would raise an additional \$34 billion in taxes this year, or roughly \$340 to \$350 billion over a 10 year period. Compare that estimate with the Congressional Budget Office's projection of a \$13 trillion deficit over the next decade.

"This wouldn't be a tenth of that. On the other hand, \$350 billion is real money. It's not chump change. It would make a dent but it wouldn't make a serious dent."

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mean old cat
 2011/08/16 at 1:29 PM ET
 Why not just a flat income tax of 10%, no loop holes, no exceptions. If you earn \$25,000 you pay \$2,500. If you earn \$10,000,000 then you fork over \$1,000,000.
 Seems fair and simple. Lots of money for government coffers.

Rating
0

1	1
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Sejanus
 2011/08/16 at 1:22 PM ET
 I read the Buffett article, he says he wants to pay more..let him.
 Fact is the mega rich are not paying a fair share and neither are corporations.
 It should be a flat rate across the board...keeping it simple.

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3	1
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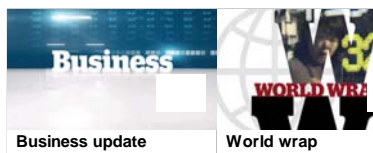
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SP 500	1185.25	-19.24
AMEX	2296.57	-8.84
TSX-VENTURE	1813.59	-15.3

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