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Wealthy Americans shoulder health care tax burden

President Obama is 'spreading the wealth,' that is, taxing the rich and redistributing the wealth. Good policy or heavy-handed intrusion?



U.S. President Barack Obama speaks about health insurance reform during a visit to Portland, Maine earlier this April. The new health-care law will cost the richest 1 percent of families an average \$52,000 apiece, or \$61.2 billion as a group, in fiscal 2016, according to estimates by the conservative Tax Foundation.

Kevin Lamarque/Reuters/File

By David R. Francis / May 3, 2010

"When you spread the wealth around, it's good for everybody," presidential candidate Barack Obama famously told an Ohio man, soon dubbed "Joe the Plumber."

With passage by Congress of healthcare reform, Joe should pay attention. The redistribution of income favored by President Obama will soon begin in earnest.

The new healthcare law will cost the richest 1 percent of families an average \$52,000 apiece, or \$61.2 billion as a group, in fiscal 2016, according to estimates by the conservative Tax Foundation. That's largely due to a Medicare tax hike on those earning more than \$200,000 (singles) and \$250,000 (couples). That tax will apply for the first time to investment income, which includes capital gains, dividends, and interest, which generally make up a larger portion of the income of wealthier people.

There is more redistribution to come:

- The Internal Revenue Service has stepped up audits of those making \$1 million to \$5 million by 33 percent in 2009, compared with 2008; and up 8.5 percent for those earning \$10 million or more.

•Uncle Sam has been boosting revenues by an unspecified number of billions by cracking down on overseas tax shelters, including those in Switzerland, used mostly by the affluent.

•Congress must decide what to do with Bush tax cuts that favor the rich but expire at the end of 2010. The Senate Finance Committee, under chairman Max Baucus (D) of Montana, had not at this writing set a date to consider what to do with the cuts or whether to revive the estate tax, which expired this year.

•Obama has proposed raising \$364 billion over 10 years by raising the top two tax rates from 33 and 35 percent to 36 and 39.6 percent. He suggests boosting the tax on dividends and capital gains from 15 percent to 20 percent which could bring in an estimated \$105 billion. He aims for another \$500 billion over the next 10 years by capping and phasing out various exemptions and deductions.

Boosting taxes on the rich won't cure the burgeoning federal deficit, conservative groups say. It's "a dangerous delusion," because the rich always find loopholes – or leave the country, notes Alan Reynolds, a senior fellow at the libertarian Cato Institute in Washington.

"That is far out of any mainstream economic thought," counters Craig Jennings, director of fiscal policy at OMB Watch, a group that aims for better balance in the federal budget.

Over the past 50 years, the wealthiest US taxpayers have seen their tax outlays as a share of income drop enormously. In 1955, the top 400 incomes paid 51.2 percent of their income in taxes; by 2007, that was down to 16.6 percent, notes an April study by Wealth for the Common Good, a group of business leaders, high-income householders, and others pushing for "fair taxation."

Both Chuck Collins, an author of the study, and Mr. Jennings figure that huge revenue could be raised by taxing the rich more: maybe as much as \$100 billion a year from tax shelters alone, says Mr. Collins. The Bush tax cuts for the wealthy cost the US Treasury \$700 billion between 2001 and 2008, and would cost another \$826 billion in the next decade if they are retained.

A batch of tax measures hitting the rich might put their tax burden back to the level existing in 1982, but not back to that of 1960, Collins reckons.

•David R. Francis *writes a weekly column.*



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