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A Tax Others Embrace, U.S. Opposes

By DAVID KOCIENIEWSKI

President Obama's proposal for a new tax on millionaires echoes a call in many countries struggling with budget deficits and overwhelming debts to make the wealthy pay more.

Britain and France have imposed new taxes on their highest earners — and Italy, Spain, Greece and Japan are considering similar moves, despite some protests.

Whether the taxes on the rich in Europe raise enough money to close much of their budget shortfalls, they are being promoted as a step toward economic fairness at a time when governments are cutting spending on social programs like pensions, health care and education. Mr. Obama — whose millionaire's tax would probably raise a modest amount of revenue over the next 10 years by collecting more from several hundred thousand Americans — has also framed his plan as a way to make the system more equitable.

Specifically, the proposal would counteract decades of tax reductions for most Americans that have given the wealthy the most benefit.

But the idea being embraced by much of the world faces strong opposition in the United States from Republicans and other conservatives who say it would harm the economy and cost jobs.

“Other countries explicitly use the tax system to redistribute resources in society,” said Reuven S. Avi-Yonah, a professor at the University of Michigan and expert in international tax law. “But going all the way back to no taxation without representation, Americans have had a mistrust of government. So we tolerate a greater inequality in terms of wealth. There is more opposition to tax increases, even when rates are low. And there is less confidence that government will use the money wisely.”

Still, there are some indications that Americans may be more open to tax increases on the affluent. One recent [poll](#) by The Associated Press and CNBC found that Americans feel they are less likely to become millionaires, making them more willing to embrace a tax on that group.

The initiative also echoes a populist chord sounded by Warren E. Buffett, the billionaire investor who has publicly complained that the American tax system allows him and some other wealthy individuals to pay a lower percentage of their income in federal taxes than their secretaries do.

Whether a higher tax rate would stifle business and economic growth continues to be debated. Britain raised its top tax rate to 50 percent after the 2008 financial crisis, and a number of economists and others have said that it inhibited investment and hiring. They are asking that the issue be reconsidered if the additional money generated proves less than projected.

Spain, Greece and Italy have less room to maneuver. They are under external pressure to raise tax rates and reduce spending to help meet targets for debts and deficits imposed on all members of the euro zone. To continue to raise money in the international financial markets, these countries have taken a number of steps painful for their citizens. Adding a 3 percent “solidarity tax” on the wealthy, as Italy is considering, reminds the voters that everyone is sharing the pain.

Until the recent financial crisis and worldwide economic downturn, individual tax rates had fallen substantially in most developed countries over several decades. In 1980, the top federal rate on Americans was 70 percent, and most European countries were above 60 percent. Today most European countries have rates below 50 percent. The United States has a top rate of 35 percent, but many wealthy Americans pay considerably less because their earnings are derived from dividends or

capital gains, which are taxed at no more than 15 percent.

As a result, the effective federal tax rate, including payroll taxes, for the wealthiest 0.01 percent of earners fell to 31.5 percent in 2005, from 42.9 percent in 1979, according to data from the Congressional Budget Office. Over the same time, effective rates for taxpayers in the center of the range fell to 14.2 percent, a decrease of just 4 percentage points.

Mr. Buffett said he paid 17.4 percent of his income in federal income and payroll taxes last year. His secretary and the 19 other employees in his office paid an average of 36 percent, he said.

For all the opposition, what the president is proposing would affect a small group. About 450,000 of the 144 million returns filed last year had taxable income over \$1 million, the administration said. The "Buffett Rule," as the administration calls it, would affect only the subset with a lower effective tax rate than middle-class families. Mr. Obama has not said what rate he would consider appropriate or how much revenue it would raise.

Recent Treasury Department data gives a more detailed look at the group of taxpayers the administration is aiming at. In 2009, 238,000 households filed returns with adjusted gross incomes of at least \$1 million. One-quarter of them paid an effective federal income tax rate of less than 15 percent, the data shows, and 1,470 paid no federal income tax at all.

"It's a guiding principle," said Jason Furman, principal deputy director of the National Economic Council. "The president believes that middle-class families shouldn't pay higher taxes than households making over a million dollars annually."

Though the group is small, the dollars are large. For the top 400 taxpayers, the effective federal income tax rate has dropped from 29 percent in 1993 to 18 percent in 2008. The average adjusted gross income of those 400 households was \$271 million. By comparison, households with \$50,000 to \$75,000 in income paid an effective rate of 15 percent, according to the Congressional Budget Office.

House Speaker John Boehner, Republican of Ohio, dismissed the proposal as a politically incendiary attempt to rally Mr. Obama's core voters, and predicted it would hurt the limping economy and suppress hiring.

Recent history offers little evidence to support the contention that higher taxes undermine economic growth: employment and economic growth were far weaker after the [Bush tax cuts](#) of 2001 and 2004 than they were under the higher rates of the Clinton administration. But Curtis Dubay, a senior policy analyst at the conservative Heritage Foundation, said that job growth in the Clinton and Bush administrations followed reductions in capital gains taxes.

That is what worries Mr. Dubay. The proposal could mean higher taxes on capital gains for the wealthy. "And that's where investment and hiring starts," he said.



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