

## **White House Reveals Nation's Biggest Problems: The Very Rich Don't Have Enough Money & Workers Don't Pay Enough in Taxes**

According to White House sources quoted in today's *Washington Post*, the Bush administration has revealed what it thinks are the central problems facing America today: the very rich don't have enough money and working people don't pay enough in taxes.

To rectify this alleged problem, the administration is trying to lay the groundwork for a massive shift in federal taxes away from the wealthiest and onto the vast majority of American families. As the *Post* reports:

- In recent weeks, top Bush policymakers have complained about what they falsely assert is an "increasing reliance on taxing higher income households."
- In addition, they have threatened that "the tax burden will have to begin extending backward down the income ladder."

The administration is said to be particularly concerned that even with the Bush tax cuts, the personal income tax remains progressive. That's true. Because of the regressivity of other federal taxes such as payroll and excise taxes, however, the *overall* federal tax system is only modestly progressive.

- In 2001, the wealthiest one percent earned more than 18 percent of total pretax income and paid 25.1 percent of all federal taxes.
- By 2010, under the already scheduled Bush tax cuts, the top one percent's share of all federal taxes is slated to fall to 23.9 percent, only slightly above this group's expected share of total income, which will exceed 18.9 percent.

But R. Glenn Hubbard, head of the President's Council of Economic Advisors, says the administration hopes to scrap even this small amount of progressivity in favor of an even "flatter [income] tax system." If the administration succeeds, for example, in converting the personal income tax to a strictly flat percentage of income, then in 2010:

- People making \$1.5 million each—the best-off one percent—will get average tax reductions of \$159,501 a year. Their share of total federal taxes will fall to only 15.6 percent, well below their expected share of pretax income that year.
- Meanwhile, the four out of five taxpayers making less than \$100,000 will face average annual tax increases of \$3,089 each.

"The administration has finally admitted that its maniacal zeal to cut taxes for the very wealthy will have to be paid for by much higher taxes on the vast majority of Americans," said Robert S. McIntyre, director of Citizens for Tax Justice. "Now that the cat's out of the bag, it's time for the public to wake up—before it's too late."

Tables showing current taxes and a flat income tax alternative follow.

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## Incomes & Federal Taxes Under Current Law and a Strictly Flat Personal Income Tax

| Income Group | In 2001                    |                                    |                               |  |                         |                    |
|--------------|----------------------------|------------------------------------|-------------------------------|--|-------------------------|--------------------|
|              | Current Law                |                                    |                               | Make Personal Income Tax a Flat Percentage of Income |                         |                    |
|              | Average pretax cash income | Shares of total pretax cash income | Shares of total federal taxes | New share of total taxes                             | % change in total taxes | Average tax change |
| Lowest 20%   | \$ 9,400                   | 3.3%                               | 1.1%                          | 3.2%   | +205%                   | \$ +1,537          |
| Second 20%   | 20,700                     | 7.3%                               | 4.0%                          | 7.5%   | +86%                    | +2,450             |
| Middle 20%   | 34,300                     | 12.1%                              | 9.1%                          | 12.5%  | +38%                    | +2,431             |
| Fourth 20%   | 56,100                     | 19.7%                              | 17.9%                         | 20.8%  | +16%                    | +2,024             |
| Next 15%     | 96,200                     | 25.4%                              | 26.5%                         | 26.4%  | -0%                     | -103               |
| Next 4%      | 204,000                    | 14.3%                              | 16.1%                         | 13.2%  | -18%                    | -10,223            |
| Top 1%       | 1,028,000                  | 18.1%                              | 25.1%                         | 16.2%  | -35%                    | -125,511           |
| <b>ALL</b>   | <b>\$ 56,500</b>           | <b>100.0%</b>                      | <b>100.0%</b>                 | <b>100.0%</b>  | <b>—</b>                | <b>\$ —</b>        |

| Income Group | In 2010                    |                                    |                               |  |                         |                    |
|--------------|----------------------------|------------------------------------|-------------------------------|--|-------------------------|--------------------|
|              | Current Law                |                                    |                               | Make Personal Income Tax a Flat Percentage of Income |                         |                    |
|              | Average pretax cash income | Shares of total pretax cash income | Shares of total federal taxes | New share of total taxes                             | % change in total taxes | Average tax change |
| Lowest 20%   | \$ 12,200                  | 3.1%                               | 1.0%                          | 3.1%   | +224%                   | \$ +2,112          |
| Second 20%   | 27,500                     | 7.0%                               | 3.8%                          | 7.4%   | +94%                    | +3,519             |
| Middle 20%   | 46,100                     | 11.7%                              | 8.8%                          | 12.4%  | +41%                    | +3,564             |
| Fourth 20%   | 75,800                     | 19.2%                              | 17.4%                         | 20.7%  | +18%                    | +3,160             |
| Next 15%     | 133,200                    | 25.3%                              | 27.1%                         | 26.7%  | -1%                     | -486               |
| Next 4%      | 296,000                    | 15.0%                              | 18.1%                         | 14.0%  | -22%                    | -19,764            |
| Top 1%       | 1,491,000                  | 18.9%                              | 23.7%                         | 15.6%  | -34%                    | -159,501           |
| <b>ALL</b>   | <b>\$ 78,400</b>           | <b>100.0%</b>                      | <b>100.0%</b>                 | <b>100.0%</b>  | <b>—</b>                | <b>\$ —</b>        |

Note: Incomes at the top end are substantially understated due to exclusion of unrealized capital gains, "inside build" up in investment accounts, etc.

Source: Institute on Taxation and Economic Policy Tax Model, December 2002.

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**Income and Federal Taxes in 2001 by Income Group after Bush tax cuts (\$-billions)**

| Income Group | Income Range       | Average Income*  | Total Income*     | Personal Income Taxes | Payroll (OASDHI) Taxes | Corp. Inc. Taxes | Excise Taxes   | Estate Taxes   | All Federal Taxes |
|--------------|--------------------|------------------|-------------------|-----------------------|------------------------|------------------|----------------|----------------|-------------------|
| Lowest 20%   | Less than \$15,000 | \$ 9,400         | \$ 244.6          | \$ -9.9               | \$ 19.7                | \$ 1.4           | \$ 8.4         | \$ 0.0         | \$ 19.6           |
| Second 20%   | \$15,000–27,000    | 20,700           | 539.8             | 2.6                   | 55.6                   | 4.3              | 11.8           | 0.0            | 74.4              |
| Middle 20%   | \$27,000–44,000    | 34,300           | 896.2             | 47.1                  | 98.7                   | 8.6              | 12.6           | 0.0            | 167.0             |
| Fourth 20%   | \$44,000–72,000    | 56,100           | 1,464.6           | 127.9                 | 174.0                  | 14.2             | 13.5           | 0.0            | 329.7             |
| Next 15%     | \$72,000–147,000   | 96,200           | 1,885.0           | 234.7                 | 216.6                  | 21.9             | 13.2           | 0.0            | 486.4             |
| Next 4%      | \$147,000–373,000  | 204,000          | 1,063.2           | 184.7                 | 81.2                   | 24.6             | 2.8            | 2.2            | 295.5             |
| Top 1%       | \$373,000 or more  | 1,028,000        | 1,343.7           | 329.9                 | 31.1                   | 74.2             | 2.4            | 24.6           | 462.2             |
| <b>ALL</b>   |                    | <b>\$ 56,500</b> | <b>\$ 7,428.3</b> | <b>\$ 917.0</b>       | <b>\$ 677.3</b>        | <b>\$ 149.6</b>  | <b>\$ 67.0</b> | <b>\$ 27.0</b> | <b>\$ 1,837.9</b> |

**Percentage Distribution of Pretax Income & Federal Taxes in 2001 by Income Group**

| Income Group | Income Range       | Average Income*  | Percent of All Pretax Income* | Personal Income Taxes | Payroll (OASDHI) Taxes | Corp. Inc. Taxes | Excise Taxes  | Estate Taxes  | All Federal Taxes |
|--------------|--------------------|------------------|-------------------------------|-----------------------|------------------------|------------------|---------------|---------------|-------------------|
| Lowest 20%   | Less than \$15,000 | \$ 9,400         | 3.3%                          | -1.1%                 | 2.9%                   | 0.9%             | 12.5%         | 0.0%          | 1.1%              |
| Second 20%   | \$15,000–27,000    | 20,700           | 7.3%                          | 0.3%                  | 8.2%                   | 2.9%             | 17.6%         | 0.0%          | 4.0%              |
| Middle 20%   | \$27,000–44,000    | 34,300           | 12.1%                         | 5.1%                  | 14.6%                  | 5.8%             | 18.8%         | 0.0%          | 9.1%              |
| Fourth 20%   | \$44,000–72,000    | 56,100           | 19.7%                         | 14.0%                 | 25.7%                  | 9.5%             | 20.1%         | 0.0%          | 17.9%             |
| Next 15%     | \$72,000–147,000   | 96,200           | 25.4%                         | 25.6%                 | 32.0%                  | 14.6%            | 19.7%         | 0.0%          | 26.5%             |
| Next 4%      | \$147,000–373,000  | 204,000          | 14.3%                         | 20.1%                 | 12.0%                  | 16.4%            | 4.2%          | 9.0%          | 16.1%             |
| Top 1%       | \$373,000 or more  | 1,028,000        | 18.1%                         | 36.0%                 | 4.6%                   | 49.6%            | 3.5%          | 91.0%         | 25.1%             |
| <b>ALL</b>   |                    | <b>\$ 56,500</b> | <b>100.0%</b>                 | <b>100.0%</b>         | <b>100.0%</b>          | <b>100.0%</b>    | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b>     |

**Average Incomes and Federal Taxes in 2001 by Income Group**

| Income Group | Income Range       | Average Income*  | Personal Income Taxes | Payroll (OASDHI) Taxes | Corp. Inc. Taxes | Excise Taxes  | Estate Taxes  | All Federal Taxes |
|--------------|--------------------|------------------|-----------------------|------------------------|------------------|---------------|---------------|-------------------|
| Lowest 20%   | Less than \$15,000 | \$ 9,400         | \$ -380               | \$ 755                 | \$ 53            | \$ 322        | \$ 0          | \$ 749            |
| Second 20%   | \$15,000–27,000    | 20,700           | 100                   | 2,130                  | 166              | 453           | 0             | 2,848             |
| Middle 20%   | \$27,000–44,000    | 34,300           | 1,805                 | 3,779                  | 330              | 482           | 0             | 6,396             |
| Fourth 20%   | \$44,000–72,000    | 56,100           | 4,898                 | 6,663                  | 545              | 515           | 0             | 12,622            |
| Next 15%     | \$72,000–147,000   | 96,200           | 11,984                | 11,059                 | 1,117            | 673           | 0             | 24,832            |
| Next 4%      | \$147,000–373,000  | 204,000          | 35,346                | 15,538                 | 4,708            | 541           | 423           | 56,556            |
| Top 1%       | \$373,000 or more  | 1,028,000        | 252,428               | 23,832                 | 56,778           | 1,806         | 18,799        | 353,644           |
| <b>ALL</b>   |                    | <b>\$ 56,500</b> | <b>\$ 6,969</b>       | <b>\$ 5,147</b>        | <b>\$ 1,137</b>  | <b>\$ 509</b> | <b>\$ 205</b> | <b>\$ 13,967</b>  |

Current taxes include federal personal income taxes, Social Security & Medicare payroll taxes (worker and employer), excise taxes, corporate income taxes and estate taxes. Some miscellaneous, small federal taxes are excluded, as are state & local taxes.

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**Income and Federal Taxes in 2010 by Income Group after Bush Tax Cuts (\$-billions)**

| Income Group | Income Range       | Average Income   | Total Income       | Personal Income Taxes | Payroll (OASDHI) Taxes | Corp. Inc. Taxes | Excise Taxes   | Estate Taxes | All Federal Taxes |
|--------------|--------------------|------------------|--------------------|-----------------------|------------------------|------------------|----------------|--------------|-------------------|
| Lowest 20%   | Less than \$20,000 | \$ 12,200        | \$ 349.2           | \$ -14.9              | \$ 29.0                | \$ 1.8           | \$ 10.9        | \$ —         | \$ 26.9           |
| Second 20%   | \$20,000–36,000    | 27,500           | 784.8              | 1.6                   | 83.5                   | 6.4              | 15.4           | —            | 106.8             |
| Middle 20%   | \$36,000–59,000    | 46,100           | 1,318.0            | 69.6                  | 145.8                  | 15.1             | 16.3           | —            | 246.8             |
| Fourth 20%   | \$59,000–97,000    | 75,800           | 2,165.1            | 191.3                 | 254.2                  | 28.2             | 17.5           | —            | 491.1             |
| Next 15%     | \$97,000–205,000   | 133,200          | 2,853.2            | 381.6                 | 307.1                  | 57.3             | 17.1           | —            | 763.1             |
| Next 4%      | \$205,000–518,000  | 296,000          | 1,691.6            | 333.0                 | 110.2                  | 61.6             | 3.7            | —            | 508.4             |
| Top 1%       | \$518,000 or more  | 1,491,000        | 2,130.1            | 504.9                 | 43.8                   | 116.1            | 3.1            | —            | 667.9             |
| <b>ALL</b>   |                    | <b>\$ 78,400</b> | <b>\$ 11,277.5</b> | <b>\$ 1,467.0</b>     | <b>\$ 974.1</b>        | <b>\$ 287.0</b>  | <b>\$ 87.0</b> | <b>\$ —</b>  | <b>\$ 2,815.1</b> |

**Percentage Distribution of Pretax Income & Federal Taxes in 2010 by Income Group**

| Income Group | Income Range       | Average Income   | Percent of All Pretax Income | Personal Income Taxes | Payroll (OASDHI) Taxes | Corp. Inc. Taxes | Excise Taxes  | Estate Taxes | All Federal Taxes |
|--------------|--------------------|------------------|------------------------------|-----------------------|------------------------|------------------|---------------|--------------|-------------------|
| Lowest 20%   | Less than \$20,000 | \$ 12,200        | 3.1%                         | -1.0%                 | 3.0%                   | 0.6%             | 12.5%         | —            | 1.0%              |
| Second 20%   | \$20,000–36,000    | 27,500           | 7.0%                         | 0.1%                  | 8.6%                   | 2.2%             | 17.6%         | —            | 3.8%              |
| Middle 20%   | \$36,000–59,000    | 46,100           | 11.7%                        | 4.7%                  | 15.0%                  | 5.2%             | 18.8%         | —            | 8.8%              |
| Fourth 20%   | \$59,000–97,000    | 75,800           | 19.2%                        | 13.0%                 | 26.1%                  | 9.8%             | 20.1%         | —            | 17.4%             |
| Next 15%     | \$97,000–205,000   | 133,200          | 25.3%                        | 26.0%                 | 31.5%                  | 20.0%            | 19.7%         | —            | 27.1%             |
| Next 4%      | \$205,000–518,000  | 296,000          | 15.0%                        | 22.7%                 | 11.3%                  | 21.5%            | 4.2%          | —            | 18.1%             |
| Top 1%       | \$518,000 or more  | 1,491,000        | 18.9%                        | 34.4%                 | 4.5%                   | 40.5%            | 3.5%          | —            | 23.7%             |
| <b>ALL</b>   |                    | <b>\$ 78,400</b> | <b>100.0%</b>                | <b>100.0%</b>         | <b>100.0%</b>          | <b>100.0%</b>    | <b>100.0%</b> | <b>—</b>     | <b>100.0%</b>     |

**Average Incomes and Federal Taxes in 2010 by Income Group**

| Income Group | Income Range       | Average Income   | Personal Income Taxes | Payroll (OASDHI) Taxes | Corp. Inc. Taxes | Excise Taxes  | Estate Taxes | All Federal Taxes |
|--------------|--------------------|------------------|-----------------------|------------------------|------------------|---------------|--------------|-------------------|
| Lowest 20%   | Less than \$20,000 | \$ 12,200        | \$ -521               | \$ 1,017               | \$ 64            | \$ 382        | \$ —         | \$ 942            |
| Second 20%   | \$20,000–36,000    | 27,500           | 55                    | 2,924                  | 223              | 537           | —            | 3,739             |
| Middle 20%   | \$36,000–59,000    | 46,100           | 2,437                 | 5,104                  | 527              | 572           | —            | 8,640             |
| Fourth 20%   | \$59,000–97,000    | 75,800           | 6,697                 | 8,896                  | 986              | 612           | —            | 17,192            |
| Next 15%     | \$97,000–205,000   | 133,200          | 17,807                | 14,334                 | 2,675            | 798           | —            | 35,615            |
| Next 4%      | \$205,000–518,000  | 296,000          | 58,275                | 19,281                 | 10,777           | 642           | —            | 88,976            |
| Top 1%       | \$518,000 or more  | 1,491,000        | 353,500               | 30,684                 | 81,317           | 2,146         | —            | 467,647           |
| <b>ALL</b>   |                    | <b>\$ 78,400</b> | <b>\$ 10,194</b>      | <b>\$ 6,769</b>        | <b>\$ 1,994</b>  | <b>\$ 605</b> | <b>\$ —</b>  | <b>\$ 19,561</b>  |

Current taxes include federal personal income taxes, Social Security & Medicare payroll taxes (worker and employer), excise taxes, corporate income taxes and estate taxes. Some miscellaneous, small federal taxes are excluded, as are state & local taxes.