Shifting Responsibility

How 50 Years of Tax Cuts Benefited the Wealthiest Americans

By Chuck Collins, Alison Goldberg, and Sam Pizzigati

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Authors

Chuck Collins is the co-founder of Wealth for the Common Good. He is a senior scholar at the Institute for Policy Studies. He is the co-author, with Bill Gates Sr., of Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes (Beacon Press).

Alison Goldberg is co-founder and director of Wealth for the Common Good. She was the Donor Education Coordinator at Resource Generation, and co-authored Creating Change Through Family Philanthropy: The Next Generation.

Sam Pizzigati edits Too Much, an Institute for Policy Studies online weekly on excess and inequality. He is the author of Greed and Good: Understanding and Overcoming the Inequality that Limits Our Lives (The Apex Press).

Research Assistance and Design: Chris Hartman, Tower Street Research

Wealth for the Common Good

Wealth for the Common Good (www.wealthforcommongood.org) is a network of business leaders, small business owners, and wealthy individuals calling for a rebalancing of our tax system to restore fairness and responsibility.
Executive Summary

The Basic Findings

• Over the last half-century, America’s wealthiest taxpayers have seen their tax outlays, as a share of income, drop enormously, by as much as two-thirds for the highest-income grouping the IRS tracks. Meanwhile, the share of their household income that middle class Americans pay in federal taxes has increased slightly.

• Our nation has borrowed money to pay for the tax cuts that have gone and continue to go to America’s wealthy, a reality that will have future generations of mostly middle income taxpayers footing the bill — with interest — for these tax cuts.

• The “Economic Recovery Tax Program” this report proposes would collect $450 billion in new revenue through tax increases only on the very wealthy. This program would also discourage financial speculation, strengthen the overall economy, and introduce greater transparency, fairness, and simplicity to the tax code.

The Key Statistics

• Between 1960 to 2004, the top 0.1 percent of U.S. taxpayers — the wealthiest one in one thousand — have seen the share of their income paid in total federal taxes drop from 60 to 33.6 percent.

• America’s highest income-earners — the top 400 — have seen the share of their income they pay in federal income tax alone plummet from 51.2 percent in 1955 to 16.6 percent in 2007, the most recent year with top 400 statistics available.

• If the top 400 of 2007 paid as much of their incomes in personal income tax as the top 400 of 1955, the federal treasury would have collected $47.7 billion more in revenue from just these 400 taxpayers.

• In 2007, if the top 0.1 percent of taxpayers — Americans with incomes that averaged $7,126,395 — had paid total federal taxes at the same rate as the top 0.1 percent paid these taxes in 1960, the federal treasury would have collected an additional $281.2 billion in revenue.

• Tax cuts for the wealthy between 2001-2008 cost the U.S. Treasury $700 billion, with all of these billions added directly to the national debt. Retaining these tax cuts will cost $826 billion over the next decade.¹

• In 1960, the middle 20 percent of U.S. taxpayers paid 15.9 percent of their incomes in total federal taxes. That total included not just income taxes, but payroll and other federal taxes as well. These same Americans, according to the most recent figures, are now paying 16.1 percent of their incomes in total federal taxes.

• Federal taxes, even after three decades of tax cuts for America’s most affluent, remain somewhat progressive. The higher the income, the higher the tax rate. But state and local taxes remain decidedly regressive. This offsets, to a significant extent, our residual federal tax progressivity. Taxpayers in America’s middle fifth paid 9.4 percent of their 2007 incomes in total state and local taxes. Top 1 percent taxpayers that year saw only 5.2 percent of their incomes go to state and local taxes.
1. The Great Tax Shift

Asking Less from Those with More

The scene has become depressingly familiar. A governor — or a mayor or a county executive — steps to the podium and somberly intones the necessity of making “hard choices” and “living within our means.” The elected leader then proceeds to announce prodigious budget cuts that will overcrowd classrooms, furlough public employees, and deny medications to poor families.

Some observers blame these painful podium processions on the Great Recession and the resulting drop-off in income that can be taxed. Others blame former President George W. Bush. His administration's massive 2001 and 2003 tax cuts left the federal budget deeply in the red — and state and local governments on their own and overwhelmed by federal mandates for everything from Medicaid to special ed.

The recession and the second Bush administration have no doubt contributed — and significantly so — to the fiscal crisis we face today. But the roots of today’s crisis go back farther. Indeed, by George W. Bush’s inauguration in 2001, the prime damage had already been done. **By 2001, the United States had already stopped taxing the rich at the levels that had promoted middle class prosperity in the mid 20th century.**

Middle-class Americans entered the 21st century paying a higher share of their incomes in federal taxes than they paid midway through the 20th century. Wealthy Americans entered the new century paying less. Far less. Over the last half-century, America’s wealthiest taxpayers have seen their tax outlays, as a share of income, drop enormously, by as much as two-thirds for the highest-income grouping that the IRS tracks.

This massive giveaway to America’s financially favored has been a bipartisan effort. Republicans have claimed the most credit for the “tax cuts” that have turned the U.S. tax system upside down over recent decades. But votes by Democratic lawmakers have, at every critical juncture, eased the way.

**Fifty Years of Tax Shifts**

The tax shift we have witnessed since the 1950s has been enormous (Figure 1). From 1950 through 1963, the federal tax rate on ordinary personal income over $400,000 never dropped below 91 percent. Between 1936 and 1980, that same top rate never dropped below 70 percent.

But today, the top personal income tax rate, after the 2001 tax cut, is 35 percent (If allowed to expire at the end of 2010, this rate will return to the 39.6 percent level in place during the Clinton years).

These lower rates on high incomes actually understated the full extent of tax benefits for America’s wealthiest households. The tax rate on capital gains, the income stream that flows most robustly to those in the highest income brackets, dropped to 15 percent in 2003, down from as high as 39.875 percent in 1977.
Thanks primarily to this extremely low capital gains tax rate, Americans who reported the nation’s 400 highest incomes in 2007 paid only 16.6 percent of their incomes in federal income tax (Figure 2), according to IRS data released earlier this year.\textsuperscript{8}

In 1955, by contrast, the top 400 paid income taxes at an effective 51.2 percent rate.\textsuperscript{9}

The top 400 of 1955 paid taxes, in short, at over triple the rate that our contemporary super-rich pay. If the top 400 of 2007 had paid federal income tax at the same rate as 1955’s top 400, the federal treasury would have collected $47.7 billion more in revenue.
The revenue lost to tax cuts for the wealthy becomes even more substantial when we look beyond the top 400, to the top one-tenth of 1 percent, a cohort of just under 150,000 households nationwide.

**Flattening the Tax System**

Emmanuel Saez from the University of California at Berkeley has calculated the total federal tax burden on these high-end taxpayers and compared what these affluent Americans pay in taxes to the effective total federal tax bill for middle-income Americans.
Saez and his colleague Thomas Piketty ran these comparisons for the over four decades between 1960 and 2004—(Figure 3). The top 0.1 percent of America’s taxpayers, Saez and Piketty note, reported an average $3,158,720 in income in 2004. On this income, they paid total federal taxes at a 33.6 percent rate. This total tax bill factors in federal income, payroll, corporate, and estate taxes.

Back in 1960, America’s most affluent 0.1 percent paid nearly twice as much of their income — 60 percent — in federal taxes.

We currently have detailed IRS figures on reported incomes through 2007. The top 0.1 percent of taxpayers in 2007, the latest Saez annual income analysis shows, averaged $7,126,395. To enter the elite ranks of this top 0.1 percent, taxpayers needed to report just over $2 million in income.
Top 0.1 percent taxpayers in 2007 actually faced a lower total federal tax bill than their counterparts in 2004, since the federal estate tax rate fell between 2004 and 2007. But let’s assume, for the sake of these calculations, that the top 0.1 percent in 2007 paid total federal taxes at the same rate as the top 0.1 percent in 2004.

If this had been the case, then the top 0.1 percent in 2007 would have paid $2,397,277 in total federal taxes. But if these wealthy Americans had faced the same federal tax bill their predecessors at America’s economic summit faced in 1960, they would have paid, on average, an additional $1,876,504 in total federal taxes. All together, the federal treasury would have collected from this top 0.1 percent an additional $281.2 billion.

What about more average Americans? Our statistical middle — that is, taxpayers who made more than the bottom 40 percent of their fellow taxpayers but less than the top 40 percent — paid 15.9 percent of their incomes in total federal taxes in 1960. This group, in 2004, paid 16.1 percent of their incomes in total federal taxes, with most all of that in income and payroll tax levies.

Taxpayers in the next highest 20 percent of the nation’s income distribution, from the 60th to the 80th percentile, had a total effective federal tax bill of 16.7 percent in 1960 — and 20.5 percent in 2004.

In other words, despite all the “tax cut” political rhetoric and action of recent years, middle-class Americans have seen no tax savings. Wealthy Americans most certainly have.

Federal taxes, even after decades of tax cuts for America’s most affluent, do remain at least somewhat progressive. That is, the higher the taxpayer income, the higher the tax rate. But state and local taxes remain decidedly regressive and offset, to a significant extent, the progressivity that lingers in our federal tax system.

Taxpayers in America’s middle fifth, for example, paid 9.4 percent of their 2007 incomes in total state and local taxes. Top 1 percent taxpayers that year saw only 5.2 percent of their incomes go to state and local taxes.

Many conservative critics of our current federal tax system are calling for a “flat tax,” a system that applies the same tax rate to all taxpayers, no matter how high their income may be. To a distressing degree, our overall tax system — federal, state, and local — has already “flattened.”

**Inequality and the Cost of the Tax Shift**

This great tax shift is exacting a high price.

We see that price in America’s staggeringly unequal distribution of income. In 2007, America’s top 400 averaged $344.8 million in income. A half-century earlier, in 1955, the top 400 averaged, in 2007 dollars, only $12.7 million. The bottom line: The incomes of America’s top 400 have multiplied, after inflation, by 27 times since 1955. But 1955’s top 400 paid over three times more of their incomes in federal income tax.
The top 1 percent's share of total U.S. personal income, in the meantime, has jumped from 9.96 percent as recently as 1979 to 23.5 percent in 2007. The top 1 percent income share has, these figures show, more than doubled. The share of their income the top 1 percent pay in total federal taxes, over that same stretch, has dropped by a third.

We also see the high price that tax cuts for the wealthy exact whenever a “we-must-live-within-our-means” elected leader claims we have no alternative to cutting the programs that benefit low- and middle-income American families.

And our children and grandchildren will see even more of that high price tomorrow, when they will be asked to pay back, with interest, the trillions our federal government has been borrowing to offset our loss of tax revenue from wealthy taxpayers.

We can — and must — do better by our future generations.
2. Undoing the Damage

An Economic Recovery Tax Program

Under Presidents John F. Kennedy, Ronald Reagan and George W. Bush, there were significant tax cut and reform packages. But after 50 years of promising broad based tax cuts, middle class taxpayers have little to show. With rising deficits and long-deferred investments in public infrastructure and education, there is an urgent need for additional revenue.

Below is our proposed “Economic Recovery Tax Program.” Taken together, these policies would:

• Collect over $450 billion in revenue from those with the greatest capacity to pay.

• Discourage financial speculation.

• Strengthen the overall economy.

• Generate revenue for deficit reduction and investments in infrastructure and job creation.

• Introduce greater transparency, fairness, and simplicity to the tax code.

1. End the tax breaks for households with taxable incomes over $250,000: $45 billion per year.

President Obama’s budget includes a proposal to allow the 2001 and 2003 Bush tax cuts for households with taxable incomes over $250,000 to expire at the end of 2010. This would raise the top income tax rate from 35 percent to 39.6 percent and increase the tax rate on capital gains and dividends from 15 percent to 20 percent.

2. Levy a progressive estate tax on large fortunes: $40-60 billion per year.

The estate tax, under current law, is suspended for the duration of 2010 and will then revert to the 2000 status quo in 2011. Congress needs to immediately reform the estate tax to avoid the confusion this public policy roller coaster creates — and to make sure that the fortunes amassed over recent decades contribute to society through taxation. One reform proposal establishes graduated tax rates, with no tax at all on estates worth under $2 million, or $4 million for a couple. Such an approach would generate $40 billion a year immediately — and over $100 billion a year a decade from now — while taxing no more than one of every 200 estates.14
3. End overseas tax havens: $100 billion per year.

Tax dodging deprives our nation of the revenue we need to maintain and modernize the infrastructure and services that underpin a strong economy. Tax dodges also undermine our economic progress. By letting these dodges continue, we are, in effect, rewarding companies more for financial manipulation than for innovation and productive investment. Tax evasion also penalizes responsible businesses and banks. They shoulder more of the tax burden when firms that exploit tax havens pay less. By using tax havens, companies like Best Buy and Citigroup shift their tax responsibility onto local appliance stores and community banks.

4. Tax financial transactions: $100 billion per year.

Over the last several decades, increased competition between brokers and new technologies that automate order processing have lowered the cost of trading. These lower trading costs have benefited investors, but also opened the door to widespread speculative activity that erodes confidence in the stability of our markets. Speculative trading now accounts for up to 70 percent of the trading in some markets. This speculation threatens the interests of responsible investors. A modest federal tax on every transaction that involves the buying and selling of stock and other financial products would both generate substantial revenue and dampen the rapid speculative turnover of stocks.

5. Create an additional top tax bracket for higher incomes: $60-70 billion per year.

High-income Americans currently face a top tax rate that runs less than half the top effective rate imposed in the half-century before 1981. We propose a 50 percent rate on income over $2 million, a step that would generate an additional $60 billion a year.

6. Eliminate the tax preference for capital gains and dividends: $80 billion per year.

Current law subjects most dividend and capital gains income — the income that flows overwhelmingly to wealthier Americans — to a 15 percent tax rate. The tax on wage and salary income, by contrast, can run up to 35 percent. With carefully structured rate reform, we can end this preferential treatment and at the same time encourage average families to engage in long-term investing.15
3. Why We Should Pay Our Fair Share

A Statement by Wealth for the Common Good

In the last decade alone, those of us with incomes over $250,000 have received over $700 billion in tax cuts. Tax breaks have reduced the tax rate we face on almost every income category: paycheck income, capital gains, dividends, and bequests.

As this new Shifting Responsibility report documents, these tax reductions reflect a pattern that has been playing out over a 50-year span. As beneficiaries of this half century of tax cuts, we believe we have a responsibility to speak out about our nation’s fiscal future — and unmet needs.

As citizens, we care about the use of our tax dollars. We advocate for efficient government and decry any waste and poor use of our precious tax dollars. We believe it is critical to participate in the democratic process over budget priorities and advocate for prudent public investments that strengthen our economy, marketplace and communities.

But our focus in this report is to bear witness to the inequities of the system by which our nation collects revenue.

Our tax breaks shift the responsibility for our nation’s fiscal health onto middle-income households with less capacity to pay. Middle class citizens pay their taxes almost automatically, through payroll deduction. Wealthy investors and global corporations, meanwhile, game the system. They lobby lower rates and loopholes into the tax code.

A Duty to Our Country

As this study shows, previous generations of upper-income Americans paid a much higher share of their income in taxes. The taxes they paid, in the middle of the 20th century, became the investments in everything from scientific research to schools that laid the foundation for a vibrant economy and an expanding our middle class.

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Our nation's wealthy a half century ago may not have always enjoyed paying progressive tax rates. But most of them recognized that a healthy society makes investments in broadening opportunity and prosperity.

Affluent Americans back then made a commitment to our future well-being — and kept their promise. We seek to honor — and follow — their example.

Signed,

Bill Lyons, Washington, DC
Arul Menezes, Seattle, WA.
John Steel, Telluride, CO
Jody Wiser, Portland, OR
Naomi Sobel, Boston, MA
Gene Mulligan, Alexandria, VA

Wealth for the Common Good (www.wealthforcommongood.org) is a network of business leaders, small business owners, and wealthy individuals calling for a rebalancing of our tax system to restore fairness and responsibility.
4. Endnotes


9 For 1955, the IRS has not published official top 400 data. But data for the top 427 returns can be extracted from an article by IRS researchers Janet McCubbin and Fritz Scheuren, “Individual Income Tax Shares and Average Tax Rates, 1951-1986,” *Statistics of Income Bulletin*, Volume 8, Number 4, Spring 1989. Please see Table 1.


