



Tax Inspiration from Warren Buffett

Last month, billionaire Warren Buffett wrote a piece for the *New York Times* arguing that it's time for our tax system to [stop coddling the super-rich](#). Buffet reported that while he paid a healthy \$6,938,744 in federal income and payroll taxes last year, that figure was just 17.4% of his taxable income - a lower percentage than was paid by any of the other 20 people in his office. The solution, Buffett proposed, is for Congress to raise rates immediately on the 236,883 taxpayers reporting income over \$1 million, and raise them even further on the 8,274 earning more than \$10 million. "My friends and I have been coddled long enough by a billionaire-friendly Congress," he concluded. "It's time for our government to get serious about shared sacrifice."

Buffett's argument attracted immediate objectors. Some argue that taxing "the rich" can't raise enough revenue to close the deficit because there just aren't enough of them. Others pointed out that much of the income that Buffett says isn't taxed enough consists of "qualified corporate dividends," which are taxed at corporate rates ranging up to 35% before being paid out to individuals.

Now President Obama has weighed in - and it turns out, he likes Buffett's argument enough to adopt it as his own. On Monday, he proposed a \$3 trillion deficit reduction package with several important tax provisions:

- First, he would let the Bush-era tax cuts expire, raising top rates on ordinary income from 35% to 39.6% and capital gains from 15% to 20%. This would raise \$800 billion over the coming decade.
- Next, he would close corporate loopholes and cap the value of itemized deductions for individuals making more than \$200,000 and joint filers making more than \$250,000. This would raise another \$700 billion.
- Finally, he would impose a special minimum tax, called "the Buffett Rule," on those earning more than \$1 million. He didn't specify a rate, but said it should be no less than what the average middle-class taxpayer pays. The new rate would only apply to about 0.3% of taxpayers, and wouldn't raise significant revenue - but it sets a more populist tone for the debate and underscores Obama's assertion that "we can't cut our way out of this hole."

Polls show a majority of Americans favor higher taxes on top earners to help reduce the deficit. And Democrats generally favor this week's plan. In fact, some supporters don't think it goes far enough.

Former Labor Secretary Robert Reich, for example, suggests raising taxes to 50% on income between \$500,000 and \$5 million, 60% on income between \$5 million and \$15 million, and 70% in income over \$15 million.

Opponents, on the other hand, have already attacked the proposal as "class warfare" and "political games." Congressional Republicans have said they're willing to consider closing tax loopholes, so long as the resulting gains go towards lowering overall rates. But they've pledged to resist any net increase in revenue, and House Speaker John Boehner has declared tax hikes "off the table." That means this week's plan in general, and the Buffett Rule in particular, stand little chance of actually passing.

Obama's proposal is still worth paying attention to, even if Republicans don't pretend to take it seriously. It illustrates how the rising deficit is increasing pressure to raise taxes. And it signals where Obama might go if he wins next year's election - especially if Democrats retake the House of Representatives. Count on us to keep an eye out for you so that we're ready to keep *your* taxes as low as possible - no matter *which* proposals wind up passing into law!