May 19, 2011
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People Who Make $250,000 Should Stop Worrying:
Obama's Income Tax Plan Targets Those Who Make Over $1 Million

Recent articles in the *New York Times*[1] and the *Fiscal Times*[2] quote observers and analyses questioning President Obama's proposal to allow the Bush income tax cuts to expire for adjusted gross income (AGI) in excess of $250,000. One theme of these articles is that in some parts of the country, $250,000 is really not very much to raise a family on and it's unclear whether families in such a position can afford to pay higher taxes.

The idea that Obama's income tax plan will result in unaffordable tax increases for people who make $250,000 a year is wrong on several levels:

1. If enacted in 2011, 84 percent of the revenue savings from Obama's plan to partially end the Bush income tax cuts would come from people whose income exceeds $1 million annually.

2. A married couple whose income is exactly $250,000 would see no change in their income taxes under Obama's plan. In fact, most married couples with incomes between $250,000 and $300,000 would see no change in their income taxes. On average, married couples in this group would lose just one percent of their Bush income tax cuts, under Obama's plan.

3. Only 2.6 percent of taxpayers will even have adjusted gross income above $250,000 (or above $200,000 for unmarried taxpayers) in 2013. Congress *should* target this group for higher taxes.

4. The attempts to show that $250,000 is really not very much to live on prove nothing, other than how wildly out of touch reporters and opinion-makers are with the rest of America.

Hill staffers and people in media often exhibit the sentiment expressed in these articles. Highly educated professionals living in either New York or Washington, DC, sometimes claim that an income of $250,000 simply does not make one "rich" in these cities.

The implications of this line of thought are absurd for the reasons listed above, which are explained in detail below.

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[1]Andrew Ross Sorkin, "Rich and Sort of Rich," *The New York Times*, May 14, 2011. http://www.nytimes.com/2011/05/15/weekinreview/15tax250copy.html?_r=1

[2]Karen Hube, "What's Rich? Down and Out on $250,000 a Year," *The Fiscal Times*, April 14, http://www.thefiscaltimes.com/Articles/2011/04/14/Whats-Rich-Down-and-Out-on-250000K-a-Year.aspx

1. If enacted in 2011, 84 percent of the revenue savings from Obama's income tax plan would come from people who make more than $1 million annually.

Last year, as Congress debated President Obama's proposal to allow the Bush income tax cuts to expire for incomes in excess of $250,000 (in excess of $200,000 for unmarried taxpayers), the Joint Committee on Taxation (JCT) released an analysis showing that 84 percent of the revenue savings from Obama's plan would come from those whose total income exceeds $1 million.

According to JCT, in 2011, Obama's plan to extend the income tax cuts except for AGI exceeding $250,000/$200,000 would have cost $202.3 billion. The Republicans' proposal to extend all the tax cuts would have cost $238.9 billion, which is a difference of $36.6 billion. JCT also shows that the difference in total income taxes paid by millionaires alone would be $30.8 billion — which is 84 percent of the total difference.[3]

In other words, only 16 percent of the revenue savings from Obama's income tax proposal would come from taxpayers with total income below $1 million. (The JCT figures basically use a measure of total income.)

And of course, none of the revenue-savings from Obama's income tax plan would come from taxpayers with adjusted gross income (AGI) below $250,000 (or below $200,000 for unmarried taxpayers.

This analysis is confined to income taxes. If we include the impact of President Obama's estate tax proposal, an even greater proportion would fall on those with incomes over $1 million because the President proposes to exempt the first $7 million of a married couple's estate from the tax. The Republican proposals for the estate tax would only help those with even larger estates, who would likely have annual incomes in excess of $1 million.

2. Married couples with incomes between $250,000 and $300,000 would lose just one percent of their Bush income tax cuts on average under Obama's plan.

Obama's plan would leave in place the Bush income tax reductions for the first $250,000 of AGI for *all* married couples (and the first $200,000 for *all* unmarried taxpayers).

A married couple with adjusted gross income of $250,001 would pay higher taxes on at most one dollar, and face a tax hike of only 3

The "$250,000" threshold is actually a *taxable income* threshold of $231,300 (in 2009 dollars).
That taxable income threshold translates into $250,000 in AGI only for couples that do not itemize deductions and have no dependent children.

Adjusted gross income	$ 250,000
Standard deduction	11,400
Two personal exemptions	7,300
Taxable income	$ 231,300

But almost all couples at such income levels do itemize and they average about three personal exemptions.
So to have taxable income above the threshold, couples would typically have to have AGI of more than $295,000.

Adjusted gross income	$ 295,450
Itemized deductions	53,200
Three personal exemptions	10,950
Taxable income	$ 231,300

[3]Joint Committee on Taxation, memo from Thomas A. Barthold to John Buckley, Aruna Kalyanam and Kase Jubboori, July 30, 2010; Joint Committee on Taxation, Table #D-10-08 (replaces Table #D-10-05 in memo), August 10, 2010.

cents at most. But even that tiny tax hike would be extremely rare, since almost all couples at that income level itemize deductions. Typically, couples would have to make more than $295,000 before they lost any of their Bush income tax cuts.

A report by Citizens for Tax Justice showed that married taxpayers with incomes between $250,000 and $300,000 would lose just one percent of their Bush income tax cuts, on average, under President Obama's plan.[4]

3. Only the best-off 2.6 percent of taxpayers will have adjusted gross income exceeding $250,000/$200,000 in 2013, and Congress *should* target this group for more tax increases.

President Obama proposes to allow the Bush income tax cuts to end in 2013 for adjusted gross income in excess of the $250,000/$200,000 threshold, and only 2.6 of all U.S. taxpayers will be rich enough that year to lose any portion of their tax cuts under the plan. This percentage does not vary significantly by state.

Arguments that people making $250,000 (or $295,000) are not "rich" enough to endure a small tax increase are never connected to any coherent argument about how we should address our budget deficit.

If the best-off 2.6 percent of taxpayers cannot afford to sacrifice anything, then who can? Children on Medicaid? Elderly people on Medicare? Children in public schools? Poor families relying on WIC, food stamps or school lunches? Perhaps those concerned about the richest 2.6 percent don't offer alternatives because the alternatives are so obviously offensive.

Percentage of Taxpayers Who Could Lose Some of The Bush Income Tax Cuts in 2013 Under Obama's Tax Plan
(listed by state, in alphabetical order)

Alabama	1.7%	Montana	1.5%
Alaska	2.4%	Nebraska	1.7%
Arizona	2.0%	Nevada	2.1%
Arkansas	1.5%	New Hampshire	2.8%
California	3.5%	New Jersey	4.7%
Colorado	2.7%	New Mexico	1.7%
Connecticut	4.9%	New York	3.5%
Delaware	2.3%	North Carolina	1.9%
District of Columbia	5.8%	North Dakota	2.0%
Florida	2.6%	Ohio	1.6%
Georgia	2.2%	Oklahoma	1.7%
Hawaii	2.3%	Oregon	1.9%
Idaho	1.5%	Pennsylvania	2.3%
Illinois	3.1%	Rhode Island	2.2%
Indiana	1.5%	South Carolina	1.6%
Iowa	1.5%	South Dakota	1.7%
Kansas	2.0%	Tennessee	1.8%
Kentucky	1.4%	Texas	2.7%
Louisiana	2.2%	Utah	2.1%
Maine	1.7%	Vermont	2.0%
Maryland	3.5%	Virginia	3.3%
Massachusetts	3.9%	Washington	2.8%
Michigan	1.8%	West Virginia	1.1%
Minnesota	2.7%	Wisconsin	1.7%
Mississippi	1.2%	Wyoming	2.4%
Missouri	1.8%	**United States**	**2.6%**

Source: ITEP Microsimulation Tax Model, February 2011

4. Attempts to show that $250,000 is not much to live on in certain areas are absurd and beside the point.

The *New York Times* article quotes the Tax Policy Center's Roberton Williams speaking of the $250,000 threshold. "The very round nature of it suggests that it's arbitrary," he says. "There's nothing magical about $250,000 per year."

Of course there's some level or arbitrariness to this threshold, how could there not be? Every

[4]Citizens for Tax Justice, "Married Couples with Incomes Between $250,000 and $300,000 Would Lose Only 1% of Their Bush Tax Cuts under Obama Plan versus GOP Plan," December 3, 2010. http://www.ctj.org/pdf/obamavsgoptax.pdf

threshold set by law and policy is arbitrary to some extent. Why can people legally drink when they are 21 years old, rather than 21 years, two months and six days? Why can citizens vote when they are 18 years old rather than 18 years, five months and four days old? Was some research used to determine that the ages of 21 and 18 were exactly right for these purposes? Of course not.

Then there's the *Fiscal Times*, which commissioned the accounting firm BDO to provide some examples of a family's typical expenses in well-off neighborhoods in high-cost cities. Now, you might wonder why exactly the focus should be on high-cost areas. If some portion of the best-off 2.6 percent of taxpayers has chosen to live in high-cost areas, is that a reason to extend their Bush tax cuts?

The *Fiscal Times* explains, "To factor in varying state and local taxes, as well as drastically different costs of living, BDO placed the couple in eight different locales around the country with top-notch public school districts, using national data on spending." Anyone who has ever looked at real estate listings knows that "top-notch public school districts" translates into neighborhoods where most people cannot afford to live.

The families in the examples have so many luxuries that one can scarcely believe the conclusion that they are not rich. The mortgage payments in most examples are $36,000 annually. That's $3,000 a month. In each example, the family saves $33,000 for retirement. (We recently found that the middle 20 percent of taxpayers have average incomes of $40,700 a year — that's their entire annual income.)

In each example the family saves $8,000 for college education — which is great for them, but let's face it, most families either will borrow to pay for college or will send their kids to more affordable state schools.

Then we are told, "Some of the expenses incurred by couples like the Joneses may seem lavish — such as $5,000 on a house cleaner, a $1,200 annual dry cleaning tab and $4,000 on kids' activities. But when both parents are working, it is impossible for them to maintain the home, care for the kids and dress for their professional jobs without a big outlay."

Impossible? Is it really true that no family in America manages to get by with both parents working full time while doing the housework and laundry themselves? And since when did joining Little League cost $4,000?

All of this must be news to millions and millions of families who *do* maintain a home and family without spending this much money.

These are the same families who can now look forward to cuts in child care funding, health care, and other public services that will be on the chopping block if tax cuts for the rich are protected.

These are the same families who are dealing with public schools that are less than "top notch" thanks to cuts in education funding. They are the same families looking forward to reduced retirement security because of Social Security and Medicare cuts that are being discussed as part of the budget debate.

Articles about whether or not an income of $250,000 makes a person “rich” read as if they were written for the *Onion*. There’s probably an explanation as to why they seem so wildly out of touch. People who shape opinions and policy — reporters, columnists, high-profile economists, Hill staffers, government officials — all tend to live in high-cost cities like Washington, New York, Boston and Los Angeles. It’s becoming increasingly clear that they are losing touch with how the other half — actually the other 97 percent — lives.