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Warren Buffett's Effective Tax Rate Is Typical of Taxpayers with \$10 Million or More of Investment Income

See more detailed report: <http://www.ctj.org/pdf/buffetrulereport.pdf>

Taxpayers with \$10 million or more in investment income this year will pay an average of 17.2 percent of their income in federal income taxes and payroll taxes, which means Warren Buffett's effective federal tax rate of around 17.4 percent is not unusual for investors at his income level.

Buffett has long criticized the loopholes in the tax code that allow him to pay a lower effective rate than his secretary, who he says pays around 30 percent of his or her income in federal taxes. This inspired President Obama's "Buffett Rule," the principle that tax reform should strive to prevent situations in which millionaires have lower effective tax rates than middle-income people.

Some commentators have pointed to the average taxes paid by *all* millionaires as somehow disproving the need for the Buffett Rule.¹ The numbers below demonstrate that millionaires are not all the same. Some pay much lower effective rates than others because they live on investment income, particularly long-term capital gains and stock dividends, which are taxed at preferential rates under the personal income tax.

Our more [detailed report](#) explains that this results in situations in which millionaire investors pay lower effective rates than middle-income working people, and the Buffett Rule is needed to reduce or eliminate this unfairness.

Effective Tax Rates of the Very Rich Depend on Composition of Income

Taxpayers with \$1 Million+ in Earned Income vs. Taxpayers with \$1 Million+ in Investment Income in 2011

taxpayers with...	% of total taxpayers in U.S.	% of total reported U.S. income	average total reported income	% income that is "ordinary"	% income that is tax-preferred**	% income tax-exempt interest	fed income tax as % of income	fed income + payroll tax as % of income
\$1 million or more in earned income	0.075%	4.52%	\$ 3,598,000	87.6%	11.3%	1.2%	27.3%	30.2%
\$10 million or more in earned income	0.002%	0.97%	\$ 25,097,800	90.5%	8.5%	1.0%	29.2%	31.9%
\$1 million or more in investment income*	0.050%	4.13%	\$ 4,936,100	40.9%	54.2%	4.9%	20.1%	21.0%
\$10 million or more in investment income*	0.003%	1.12%	\$ 24,759,500	17.9%	79.0%	3.2%	16.7%	17.2%

* Investment income includes short-term and long-term capital gains, qualified and unqualified dividends, taxable interest and tax-exempt interest.

** Income taxed at preferential rates includes long-term capital gains and qualified dividends, both of which are currently subject to a top rate of 15 percent under the federal income tax. Other income is taxed as "ordinary" income at the ordinary income tax rates.

Source: ITEP tax model, September 2011

¹ Stephen Ohlemacher, "Are the Rich Paying Less than Secretaries?" Associated Press, September 20, 2011. <http://news.yahoo.com/fact-check-rich-taxed-less-secretaries-070642868.html>