CTJ Citizens for Tax Justice

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Pawlenty Plan Would Cut Income Taxes for Richest 400 Americans by 73 Percent

Plan Would Cut Personal Income Taxes by at Least 41 Percent for Millionaires Generally

Former Minnesota governor and GOP presidential candidate Tim Pawlenty has released his proposed tax plan, including a personal income tax with just two rates, 10 percent and 25 percent. His plan would make interest, capital gains and corporate stock dividends tax-free, an enormous boon for wealthy investors. Finally, he would eliminate the federal estate tax and reduce the corporate income tax rate from 35 percent to 15 percent.

During his speech Tuesday, Pawlenty said, "The tax code is littered with special interest handouts, carve-outs, subsidies and loopholes. That should be eliminated." But he has not specified what tax expenditures he would eliminate.

"Set aside whether the wealthy benefit or not," Pawlenty said in laying out his plan.[1] But he then went on to insist that benefitting the wealthy was exactly his goal: "There's about 5 percent of the country that is our entrepreneurial class," he said, echoing far-right novelist Ayn Rand.

Even if Pawlenty's plan eliminated nearly *all* tax expenditures, those taxpayers with incomes above one million dollars annually would enjoy enormous tax cuts.

Richest 400 Taxpayers Would Enjoy Personal Income Tax Cuts of 73 Percent

- Even under current law, the richest 400 paid an effective personal income tax rate in 2008 of only 17.8 percent.
- If Pawlenty's plan had been in effect in 2008, the effective tax rate for the richest 400 would have been only 4.7 percent — a 73 percent reduction.
- The richest 400 taxpayers would have paid $35.9 million less, on average, if Pawlenty's plan had been in effect in 2008.
- One reason is that 72 percent of the income of the richest 400 comes from capital gains, interest and stock dividends, which would be exempt from personal income taxes under Pawlenty's plan.[2]

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[1] *The Washington Post*, June 7, 2011, p. A2.

[2] IRS, "The 400 Individual Income Tax Returns Reporting the Highest Adjusted Gross Incomes Each Year, 1992-2008" http://www.irs.gov/pub/irs-soi/08intop400.pdf According to the IRS data, in 2008 capital gains made up 55.8 percent of the total income of the richest 400 taxpayers. Interest was another 6.7 percent. Dividends made up 9.1 percent.

- Another reason is that the very rich would change any businesses that currently are taxed under the personal income tax into a "C corporation" (the type of business that pays the corporate income tax) to enjoy the 15 percent corporate rate under Pawlenty's plan.[3]

Millionaires In General Would Enjoy Personal Income Cuts of at Least 41 Percent

Our calculations assume that Pawlenty's plan would eliminate *all* itemized deductions and tax credits, and even under these assumptions we find that in 2013:

- Taxpayers with incomes in excess of $1 million would enjoy an average cut in personal income taxes of $288,800, a 41 percent cut.
- Taxpayers with incomes in excess of $10 million would enjoy an average cut in personal income taxes of $2.4 million, a 46 percent cut.
- The cost of the personal income tax cuts just for taxpayers with incomes in excess of $1 million would be $141.8 billion.

Impacts of Pawlenty Personal Income Tax Proposals on Millionaires in 2013 Assuming All Itemized Deductions and Credits Are Repealed

	Compared to current law baseline for 2013		
Income Group	Average Income	Average Tax Change in Dollars	Percent Tax Change
$1 million — $5 million	$ 1,854,800	$ –168,200	–39%
$5 million — $10 million	$ 6,830,900	$ –687,000	–42%
$10 million and over	$ 24,190,900	$ –2,402,100	–46%
All over $1 million	**$ 3,047,100**	**$ –288,800**	**–41%**

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But That's Not All the Tax Cuts the Wealthy Would Get From Pawlenty's Tax Plan

In addition to these personal income tax cuts, under Pawlenty's plan millionaires would also enjoy:

- Repeal of the estate tax (which only affects families who transfer several million dollars worth of assets at death), and
- A reduction in the corporate income tax rate from 35 percent to only 15 percent, which would primarily benefit the owners of the corporation by increasing stock dividends paid and capital gains on those stocks. (Neither dividends nor capital gains would be subject to the personal income tax.) Corporate stock ownership is heavily concentrated on high-income people.

Technical notes follow on page 3.

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[3]IRS. In 2008, the richest 400 taxpayers reported $21.6 billion of income from "S corporations" and another $0.7 billion from "schedule C" sole proprietorships. If the businesses generating this income were left in their current forms, they would be taxed at a top rate of 25 percent under the personal income tax under Pawlenty's plan. Taxpayers would certainly change these businesses into C corporations, because Pawlenty's plan would tax their profits at just 15 percent, while the personal income tax would not apply to dividends paid out to the owners.

Technical Notes

Estimates assume that Pawlenty plan would:
A 10% bracket for taxable income up to $50k singles/$100k married couples.
0% rate on interest, capital gains, and dividends.
Repeal all itemized deductions (all taxpayers take standard deduction).
Leave in place current personal exemptions.
Repeal all tax credits except foreign tax credit (which prevents double-taxation of income earned abroad by Americans).
Repeal PEP and Pease.
Repeal AMT.

These figures show that even if Pawlenty eliminated almost ALL tax expenditures in the personal income tax, millionaires would receive benefits that far outweigh the loss of those tax expenditures.

In other words, even before we know any more details about Pawlenty's tax plan, we know that millionaires would get income tax breaks averaging AT LEAST as much as the table above indicates.

These figures only show the personal income tax cuts that millionaires would receive.

In addition, they would also benefit from the repeal of the estate tax and a huge cut in the corporate tax.

Pawlenty proposes to reduce the corporate income tax rate to 15 percent. It would be impossible to close enough loopholes in the corporate income tax to pay for this rate reduction. Corporations would pay much less in taxes overall, which would inevitably result in an increase in corporate stock dividends paid to shareholders, who tend to be among the wealthiest taxpayers. And of course those dividends would be subject to no personal income taxes under this plan.

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