



Right-Wing Spin Machine Uses Misleading Figures to Argue that the Tax Code Is More Progressive Under Bush

A recent *Wall Street Journal* editorial¹ touts new figures from the IRS² as evidence that the rich are actually paying a higher share of federal taxes under President Bush and that the tax code has, therefore, become more progressive over the past eight years.

The *Journal* uses the IRS figures to create the impression that the poorer half of Americans are contributing almost nothing to federal revenue while the wealthy are providing the bulk of it. The figures illustrate that, for example, the richest one percent of taxpayers paid almost 40 percent of federal income taxes in 2006, up from almost 34 percent in 2001. Meanwhile, the poorest 50 percent paid only about 3 percent, down from about 4 percent in 2001.

Do the rich pay too much in taxes? Has the tax code become even more progressive as a result of the Bush tax cuts?

Of course not. The share of taxes paid by the rich looks large and growing only because the *Wall Street Journal* ignores the tax that affects the poor and middle-class most heavily — the payroll tax.

The nearby table combines both the federal income tax and the federal payroll tax into the total

amount of federal taxes paid by each income group in 2007. The richest one percent does pay a large share of total federal taxes — almost 23.6 percent. But the richest one percent also receives a roughly equal share of total income in the United States, 22.4 percent. Further, the Bush tax cuts actually reduced the total share of federal taxes paid by the richest one percent.

Shares of Total Income and Federal Income Taxes & Payroll Taxes in 2007, Before and After the Bush Tax Cuts

	% of total income	Percent of total taxes paid			Change in total share
		Income tax	Payroll tax	Both taxes	
Pre-Bush Law					
Lowest 20%	3.3%	-1.0%	3.1%	0.7%	
Second 20%	6.7%	0.7%	7.7%	3.5%	
Middle 20%	11.0%	5.2%	14.7%	9.0%	
Fourth 20%	18.2%	13.4%	25.8%	18.3%	
Next 15%	24.1%	24.3%	32.3%	27.5%	
Next 4%	14.4%	20.0%	11.5%	16.7%	
Top 1%	22.4%	37.4%	4.8%	24.4%	
ALL	100.0%	100.0%	100.0%	100.0%	
Bush Law					
Lowest 20%	3.3%	-1.5%	3.1%	0.6%	-0.0%
Second 20%	6.7%	-0.4%	7.7%	3.3%	-0.2%
Middle 20%	11.0%	4.5%	14.7%	9.0%	+0.1%
Fourth 20%	18.2%	13.1%	25.8%	18.8%	+0.5%
Next 15%	24.1%	24.0%	32.3%	27.8%	+0.3%
Next 4%	14.4%	21.2%	11.5%	16.9%	+0.2%
Top 1%	22.4%	39.1%	4.8%	23.6%	-0.8%
ALL	100.0%	100.0%	100.0%	100.0%	

Source: ITEP Tax Model, June 2008

¹*Wall Street Journal*, "Their Fair Share," July 21, 2008.

²Internal Revenue Service, Statistics of Income, <http://www.irs.gov/pub/irs-soi/06in01etr.xls>

The *Wall Street Journal* article, and a report recently issued from the Treasury³ that makes similar claims, choose to examine only part of the facts in order to make the Bush tax cuts seem less regressive than they really are.

An example will illustrate the sort of logic they use. Suppose there are only 101 taxpayers. One of them, Big Jim, makes \$1 million. One hundred Little Jims make \$40,000 each (for a total of \$4 million).

Suppose further that there are only two kinds of taxes: a progressive income tax and a flat tax of \$6,000 per person. Big Jim pays \$250,000 in income tax and \$6,000 in flat tax, while each Little Jim pays \$2,000 in income tax plus \$6,000 in flat tax.

Under this scenario, as the following table illustrates, Big Jim pays 56 percent of the total income tax, and 24 percent of all taxes. (That's hardly oppressive, since Big Jim has 20 percent of all income.)

Before tax cut	Pretax Income	Tax \$			Shares of taxes		
		Income tax	Flat tax	Total tax	Income tax	Flat tax	Total
Big Jim	\$ 1,000,000	\$ 250,000	\$ 6,000	\$ 256,000	56%	1%	24%
100 Little Jims	4,000,000	200,000	600,000	800,000	44%	99%	76%
Total	\$ 5,000,000	\$ 450,000	\$ 606,000	\$ 1,056,000	100%	100%	100%

Now suppose there's a tax reduction that cuts Big Jim's income tax in half and totally *eliminates* income taxes on all the Little Jims. Here's where we'd end up:

After tax cut	Pretax Income	Tax \$			Shares of taxes		
		Income tax	Flat tax	Total tax	Income tax	Flat tax	Total
Big Jim	\$ 1,000,000	\$ 125,000	\$ 6,000	\$ 131,000	100%	1%	18%
100 Little Jims	4,000,000	—	600,000	600,000	—	99%	82%
Total	\$ 5,000,000	\$ 125,000	\$ 606,000	\$ 731,000	100%	100%	100%

After the tax change, Big Jim pays 100 percent of the income tax. "Wow! That's a really progressive tax cut," the *Wall Street Journal* or the Bush Treasury Department might claim. But that would be wrong. Because the flat tax remains unchanged, Big Jim ends up paying only 18 percent of all taxes. So even ignoring the problem of what public services will have to be slashed to pay for the tax cut, Big Jim's share of total taxes is *down* considerably — even though his share of income taxes is up. In fact, Big Jim's share of total taxes (18 percent) is now less than his share of total income (20 percent).

³Treasury Department, "Topics Related to the President's Tax Relief," May 28, 2008, http://www.treasury.gov/press/releases/reports/president_taxrelief_topics_0508.pdf

As detailed above, this is only a slight caricature of what the Treasury report does by focusing on only one federal tax, the income tax, which is not the tax that affects low- and middle-income people the most. The federal payroll tax is much more significant for low- and middle-income people.⁴ In fact, about three-quarters of all taxpayers pay more in federal payroll taxes than in federal income taxes.⁵

⁴Workers pay 6.2 percent of earnings in Social Security payroll tax, and their employer also makes a payment equal to 6.2 percent of the workers' earnings. Virtually everyone agrees that the employer tax is passed on to workers, who thus pay the entire 12.4 percent in Social Security taxes. Workers and employers also each pay 1.45 percent of the workers' earnings in Medicare tax, for a total of 2.9 percent. Thus the total payroll tax for most workers is 15.3 percent. Because this is a relatively high-rate, no-exemption tax, it affects the poor and middle-class more than the federal income tax, which has substantial exemptions and deductions, and graduated rates. In addition, earnings above \$102,000 per worker are exempt from Social Security tax, as is investment income — sharply reducing the impact of the 12.4 percent Social Security tax on very high earners.

⁵This calculation includes all taxpayers who have either payroll tax or income tax (or both) not equal to zero.