

Overview

The federal income tax is designed to be progressive – tax rates increase in steps as income rises. For decades this helped restrain disparities in income and helped provide revenue to make public services available to all Americans. Today the system has badly eroded – many multi-millionaires and billionaires pay a lower tax rate than average American families.

Ironically, this has happened while the gap between the wealthy and everyone else has grown wider than ever. The extremely rich aren't only earning and owning more – many are also passing wealth to their heirs tax-free, creating a new American aristocracy with vast fortunes.

How the rich avoid paying taxes – and what to do about it

- **Tax income from investments like income from work.** Billionaires like [Warren Buffett](#) pay a lower tax rate than millions of Americans because federal taxes on investment income (*unearned income*) are lower than the taxes many Americans pay on salary and wage income (*earned income*.) Because Buffett gets a high percentage of his total income from investments, he pays a lower income tax rate than his secretary. Currently, the top *statutory* tax rate on investment income is just 23.8%, but it's 43.4% on income from work. To reduce this inequity, [we should raise tax rates on capital gains and dividends](#) so they match the tax rates on salaries and wages. These [loopholes lose \\$1.3 trillion](#) over 10 years.
- **Cap tax deductions at 28% for the wealthiest Americans.** The rich are able to get much bigger tax breaks for the same tax deductions taken by the middle class. For example, a wealthy family living in a McMansion gets a much bigger tax deduction on the interest on their large mortgage than a middle-class family gets on the interest on their small mortgage on a two-bedroom house. *President Obama* has proposed to [limit the tax break on deductions that the richest 3% can take to 28 cents on the dollar](#). In other words, the rich would get the same tax benefit per dollar of deductions as a household in the 28% tax bracket, but not more (as they do now) at the higher 39.6% bracket. This would [raise \\$500 billion](#) over 10 years.
- **Strengthen the estate tax.** Some of the ultra-rich are able to take advantage of loopholes so they pay almost nothing in inheritance taxes. Others take advantage of the fact that the exemption levels for the estate tax are very high – \$5.3 million per individual (\$10.6 million per couple.) *President Obama* proposes to [restore the exemptions to their 2009 levels](#) – \$3.5 million for an individual (\$7 million for a couple) taxed at a 45% top rate. This and other reforms would raise [\\$131 billion](#) over 10 years. Only [three estates for every 1,000 deaths](#) would be affected.

Key Facts

The richest [1% of Americans own 35% of the nation's wealth](#). The bottom 80% own just 11% of the nation's wealth.

In the 1950s and 1960s, when the economy was booming, the wealthiest Americans paid a [top income tax rate of 91%](#). Today, the top rate is 43.4%.

The richest 1% pay an [effective federal income tax rate of 24.7% in 2014](#); someone making an average of \$75,000 is paying a 19.7% rate.

The average federal income tax rate of the [richest 400 Americans was just 20 percent](#) in 2009.

Taxing investment income at a much lower rate than salaries and wages are taxed [loses \\$1.3 trillion](#) over 10 years.

1,470 households reported income of more than \$1 million in 2009 but paid [zero federal income taxes](#) on it.

CEOs of major corporations earn nearly [300 times more than an average worker](#).

[30 percent of income inequality](#) is due to unfair taxes and budget cuts to services and benefits.

The largest contributor to increasing income inequality has been [changes in income from capital gains and dividends](#).

News Coverage

[Republican's Tax Plan Awkwardly Aims at Rich](#), The New York Times

[Accidental Tax Break Saves Wealthiest Americans \\$100 billion](#)," Bloomberg News

[A Family's Billions, Artfully Sheltered](#), The New York Times

[Report: Quarter of Millionaires Pay Lower Tax Rate than some in Middle Class](#), The Washington Post

[Carried Interest Tax Break Comes Under Fire Again](#), The New York Times

Another way to ensure that large inheritances are taxed is to close the income tax loophole that lets wealthy people [avoid capital gains taxes by holding their assets until they die](#). Their heirs then escape paying taxes on these gains. This [would raise about \\$650 billion](#) over 10 years. We should also [end specialized trusts](#) that allow families, such as the Waltons who own more than half of Walmart, to completely avoid paying estate and gift taxes.

Other ways to close tax loopholes for the wealthy

- **Pass the Buffett Rule.** The Buffett rule, inspired by billionaire Warren Buffett, would require millionaires to pay a minimum tax rate of 30%. This will guarantee that the wealthy will not pay a smaller share of their income in taxes than a middle-class family pays. It would raise [\\$72 billion](#) over 10 years.
- **Close the Wall Street carried interest loophole.** Wealthy private equity managers use a loophole to pay the lower 23.8% capital gains tax rate on the compensation they receive for managing other people's money. We should close this loophole so that they pay the same rate as others at their income level who receive their compensation as salary. This would raise [\\$17 billion](#) over 10 years.
- **Eliminate the payroll tax loophole for S corporations.** This loophole allows many self-employed people to use "S corporations" to avoid payroll taxes. Used by Newt Gingrich and John Edwards to avoid taxes, closing this loophole would require treating this income as salary rather than profit, making it subject to payroll taxes. This would raise [\\$25 billion](#) over 10 years.

What conservatives say – and why it's wrong

Conservatives claim the wealthy are overtaxed. But the [overall share of taxes paid](#) by the top 1% and the top 5% is about their share of total income. This shows that the tax system is not progressive when it comes to the wealthy. The richest 1% pay an [effective federal income tax rate of 24.7%](#). That is a little more than the 19.3% rate paid by someone making an average of \$75,000. And [1 out of 5 millionaires](#) pays a lower rate than someone making \$50,000 to \$100,000.

Conservatives claim that the estate tax is a "death tax," wrongly implying that the tax is paid when every American dies. In fact, the tax primarily is paid by estates of multi-millionaires and billionaires. The [vast majority of deaths – 99.9%](#) – do not trigger estate taxes today.

Talking points

- It's time for the wealthiest Americans and big corporations to pay their fair share of taxes. When they take unfair advantage of the many loopholes in the tax code the rest of us pick up the tab.
- Instead of cutting education funding for our children, we should ask millionaires to pay a tax rate at least as high their secretary's.
- Instead of cutting Social Security and Medicare, we should ask the wealthy to give up a few tax loopholes so that we can make sure everyone has a secure retirement.

Opinion

[A Minimum Tax for the Wealthy](#), The New York Times

[Changing the Tax Code Could Help Curb Inequality](#), The Washington Post

[Failure of the Anti-tax Philosophy](#), Star-Ledger NJ.com

[Wealth Over Work](#), The New York Times

[There's No Such Thing as a Free Tax Cut](#), The New York Times

[A Costly and Unjust Perk for Financiers](#), The New York Times

[Yup, the Buffett-and-his-Secretary Analogy is Completely Accurate](#), The Washington Post

Resources

[The Buffett Rule: A Basic Principle of Tax Fairness](#), The National Economic Council

[Addressing the Need for More Federal Revenue](#), Citizens for Tax Justice

[How the Government Subsidizes Wealth Inequality](#), Center for American Progress

[Tax Expenditure Reform: An Essential Ingredient of Needed Deficit Reduction](#), Center on Budget & Policy Priorities

[Who Pays Taxes in America in 2014?](#), Citizens for Tax Justice

[Rising Income Inequality and the Role of Shifting Market-Income Distribution, Tax Burdens, and Tax Rates](#), Economic Policy Institute

Contact

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[Americans for Tax Fairness](#) is a diverse coalition of 425 national and state organizations that collectively represent tens of millions of members. ATF was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs.