MEDIA BRIEFING MEMO

To: Editors and Columnists
From: Frank Clemente, Executive Director, Americans for Tax Fairness
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OCASIO-CORTEZ'S CALL FOR 70% MARGINAL TAX RATE ON SUPER WEALTHY OPENS DEBATE ON TAX FAIRNESS

Congresswoman's Proposal Is Supported by History, Current Economic Research & Is One Way to Raise Substantial Income Needed for Vital Public Services

WASHINGTON, D.C.—The recent suggestion by Rep. Alexandria Ocasio-Cortez (D-NY) that the marginal tax rate on incomes over $10 million could be raised to as high as 70% is consistent with recent American history and within the mainstream of current economic thought. More important, substantially raising taxes on the wealthiest Americans would raise significant revenue needed to protect services working families rely on like heathcare and education, as well as fund bold new initiatives to improve our economy and nation.

We urge you to write an opinion piece that puts Ocasio-Cortez's suggestion in historical and academic context, as well as explore the broader case for higher taxes on the rich.

BACKGROUND
Over the past century, the top marginal tax rate on the highest-income Americans has often been much higher than it is now (37%). In fact, between 1936 and 1980, the top marginal rate was at least 70%. The top rate was 90% or more from 1951 to 1963. Yet, despite conservative claims that taxing the wealthy hurts the economy, economic growth has often been better when taxes were higher on the rich than when they were lower, as Paul Krugman noted recently.

Politico looked at economic growth in the five years following both hikes and cuts in the top marginal tax rate, going back to the 1960s. It found that "changing the top income tax rate does not have a predictable effect on economic growth." Politifact found that the U.S.'s highest economic growth decade was the 1960s when the top income tax rates were between 70-90%.

For working Americans, the most important aspect of economic growth is job creation. According to an analysis by the Center on Budget and Policy Priorities, jobs were created at a six to eight times faster pace in the years following *tax increases* on the wealthy under Presidents Clinton and Obama, than in the aftermath of high-income *tax cuts* under President George W. Bush.

Recent economic research has determined that rich people could be taxed at much higher rates than they are now without deterring their incentive to make money, raising significant revenue for important public purposes. The "optimum" top tax rate has been estimated by different experts at 73% (p. 171) or even 80% (p. 34), as Krugman also noted.

A crucial point to understand about marginal rates: a 70% marginal tax rate *does not mean* that all of a taxpayer's income, no matter how high, is taxed at 70%. Rather, it means that the portion of a taxpayer's income *above a certain level*—in Ocasio-Cortez's example, $10 million—would be taxed at that rate. The taxpayer's income below that level would be taxed at a series of lower rates corresponding to the tax bracket it falls into.

For example: currently, the portion of every *individual* filer's income—whether earned by a minimum wage worker or a billionaire—that falls between roughly $10,000 and $40,000 is taxed at 12%; the portion between roughly $40,000 and $85,000 at 22%; and on up through several more brackets until everything over roughly $500,000 is taxed at 37%. This blended approach results in an "effective" tax rate—the percentage of a taxpayer's income actually paid in tax—that's always lower (usually much lower) than the taxpayer's top marginal rate.

ESTIMATED REVENUE RAISED

Because income has become so highly concentrated among the rich in recent years, Ocasio-Cortez's proposal would raise a lot of money while affecting very few taxpayers. According to the most recent data available, from 2016 as reported by the Washington Post, less than one-tenth of 1% of all taxpayers—just 16,000 households—reported income over $10 million. Yet according to a calculation reported by the Post, a 70% marginal rate applied to that handful of the super wealthy could in theory raise close to $720 billion over 10 years. The tax experts consulted by the paper cautioned that the total would probably be lower because the wealthy would find ways to avoid the full tax increase. (The theoretical total also assumes that capital gains would be taxed at the same rate as regular income, which is not true now—see below for more on this issue.)

What That Revenue Could Pay For

The Post listed several public investments that could be funded many times over, in whole, or at least in substantial part, by this increased revenue. They include: Congressional Democrats' plan to boost teacher salaries and rebuild schools ($100 billion), and Senator Bernie Sanders' plan for tuition-free college ($800 billion). The paper also noted that $720 billion could pay off more than half the nation's $1.4 trillion in student debt or fund three-quarters of a $1 trillion infrastructure plan.

Among many other vital investments the revenue from Ocasio-Cortez's proposed tax hike on the rich could also pay for is full funding for education programs over 10 years that aid low-income students and kids with special needs: Title I, $270 billion; special education, $180 billion; Head Start, $140 billion. Title I funding was supposed to adequately supplement the local school spending of poorer districts. If funded as Congress intended when the program began over 50 years ago, Title I would ensure that every high-poverty school would have enough nurses, counselors and other staff to properly serve their vulnerable student populations. The federal government has also failed to live up to its own funding standards for special education and serves less than half the kids eligible for Head Start.

THE PUBLIC SUPPORTS HIGHER TAXES ON THE WEALTHY

The Gallup Poll has been asking Americans for at least 25 years whether they believe different income groups, including “Upper-income people,” are paying their “fair share” of taxes, “too much” or “too little.” The percentage saying the wealthy are paying too little has never fallen below a majority—in the most recent survey last April, the share who believe the wealthy are undertaxed was 62%.

OTHER OPTIONS FOR TAXING THE WEALTHY

While Ocasio-Cortez’s idea for how to both increase tax fairness and public revenue is a valid one worth serious discussion, there are other equally valid proposals for reforming our tax system that would raise as much or even more money.

Tax Wealth Like Work

Wealth is favored over work in many parts of the tax code, but nowhere more directly than in the discount rates charged on certain capital gains and dividends. A capital gain is the profit made from selling an asset for more than its cost; dividends are corporate payments to shareholders.

Both forms of income are heavily concentrated among the wealthiest Americans. According to the Tax Policy Center, in 2012 (among the latest years for which there’s complete data), taxpayers with over $10 million a year in income got over half of it from capital gains and another 20% or so from dividends and interest.

According to the most recent information available from the Internal Revenue Service (Preliminary Data, Table 1), households with over $250,000 in income received more than half of all the nation’s ordinary dividends ($116 billion of $219 billion) and more than three-quarters of all capital gains ($421 billion of $537 billion). (Not all of either category qualify for the reduced rates.)

The discrepancy in rates leads to the gross absurdity of a couple that makes $80,000 a year in wages paying a higher top marginal tax rate (22%) than a billionaire with millions of dollars a year in capital gains and dividends (20% tax rate). While the couple goes off to work each day, the billionaire can sit around and watch the unearned income spill into his bank accounts.

Equalizing the taxes on investment income with those on work income—and taking steps to prevent avoidance of the new rates—would raise $1.9 trillion over 10 years, according to the Institute on Taxation and Economic Policy.

Replace the Estate Tax with an Inheritance Tax

The estate tax, which is the only federal curb on dynastic wealth but is under constant conservative attack, could be replaced with an inheritance tax. By taxing the living beneficiaries of a family fortune, rather than the estate of the deceased owner, an inheritance tax would be fairer, less easy to dodge and more politically palatable. Revenue raised depends on the exemption amount and the surcharge rate charged above regular income tax rates; a 15% surcharge on amounts over $1.25 million could raise $670 billion (p. 90) by one estimate.

Place a Surtax on Millionaire Households

An effective way to raise significant progressive revenue is to impose a surtax on very high-income people that would apply equally to ordinary and investment income. For example, a proposed 5.4% surtax on income in excess of $1 million for couples ($500,000 for singles) that passed the House of Representatives in 2009 as part of the Affordable Care Act deliberations would have raised $460.5 billion over ten years, according to the Joint Committee on Taxation. Similarly, Senate Democrats in the American Jobs Act of 2011 proposed a 5.6% surtax on the same income levels, which would have raised $453 billion, according to the Congressional Budget Office. As the number of wealthy taxpayers and their wealth have increased since those nearly decade-old proposals were offered, the amounts raised now would presumably be much greater especially if the surtax were placed at 10% or more.

CONCLUSION

In just her first few days as a member of Congress, Rep. Ocasio-Cortez has already addressed one of the most important issues facing our country: how to fairly and effectively raise the revenue we need to fund the services and investments the American people expect and deserve and reduce income inequality. Her ideas demand serious attention. Though we may debate the best method, raising taxes significantly on the most fortunate among us, as the Congresswoman suggested, is clearly an idea whose time has come.