

U.S. NEWS

CAPITAL



Taxing Rich Wouldn't Close the Gap, but Would Shrink It

PRESIDENT Barack Obama projects the federal deficit will be \$9 trillion over the next 10 years even if his policies prevail—undoing the Bush tax cuts for upper-income Americans, auctioning carbon-emissions permits, and enacting a health-care plan that doesn't widen the deficit over the next decade.

He also continues to promise to limit tax increases to incomes above \$250,000 a year for couples and \$200,000 for individuals—“the rich,” Talking about tax increases usually dissolves into shouting matches. The right says tax increases will choke off growth and massacre small business. The left says tax increases are vital to finance much-needed investments and that the rich can pay more.

Hard numbers and recent history suggest two facts. One, the deficit is too wide to be closed exclusively by raising taxes on “the rich.” Two, “the rich” do have a lot of money, even after the bust, and raising their taxes would raise significant sums without hampering the economy.

Start with some rough arithmetic. The three million or so fortunate taxpayers whom Mr. Obama counts as rich are projected to earn about \$27.5 trillion from 2010 through 2019, according to the Tax Policy Center, a Washington think tank, and about \$23.9 trillion after deductions. They are projected to pay \$7.4 trillion in taxes. That's 31.1% of every dollar of taxable income, on average.

To squeeze an additional \$9 trillion out of these taxpayers would require boosting that to 68.9%. And that assumes these taxpayers wouldn't find tax shelters to hide their income or work less. There isn't enough money in the over-\$250,000 crowd to stick them with the \$9 trillion tab.

Shrinking the deficit will re-

quire slowing the growth of spending, particularly on whose taxes, and the arithmetic suggests it won't only be those who make more than

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Which is another way of saying that tax rates matter—to taxpayers and to the government's revenue. But they are far from the only factor in the pace of economic growth.

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Tax Arithmetic

President Obama vows to limit tax increases to couples with incomes more than \$250,000 and individuals with incomes more than \$200,000.

A look at these taxpayers over the 10 years from 2010 to 2019:

Projected adjusted gross income	\$27.5 trillion
Projected taxable income	\$23.9 trillion
Projected taxes (current rates)	\$7.4 trillion
Current income and payroll tax as fraction of taxable income	31.1%
Tax rate needed to raise \$9 trillion more	68.9%

How much revenue, over 10 years, would come from:

Raising all tax rates by 1 percentage point	\$455 billion
Raising only top rate by 1 percentage point	\$74 billion*
Raising top two rates by 1 percentage point	\$99 billion†
Raising rate for couples with incomes of more than \$1 million by 5 percentage points	\$223 billion

*Couples with taxable incomes above \$372,950 †Couples with taxable incomes above \$208,950
Sources: WSJ calculations based on Urban-Brookings Tax Center projections (top chart); Congressional Budget Office (bottom chart)

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FROM MARCELA