

Thirty Percent Of Zero Is...

In his long and partisan State of the Union address Obama called for a minimum 30 percent tax on all millionaires: “If you make more than \$1 million a year, you should not pay less than 30 percent in taxes. Washington should stop subsidizing millionaires... [and] if you’re earning a million dollars a year, you shouldn’t get special tax subsidies or deductions. Now, you can call this class warfare all you want. But asking a billionaire to pay at least as much as his secretary in taxes? Most Americans would call that common sense.”

Obama’s demand *is*, of course, class warfare. He is also incorrect. The federal government does not “subsidize” millionaires; it does not give them money; it does not write them welfare checks. (Well, it *does* subsidize *some* billionaires—those who raised money for Obama’s 2008 campaign. It gives them \$535 million to lose on solar companies like Solyndra.)

The 15 percent tax on capital gains and dividends applies to *all* taxpayers, regardless of their income level. If that rate is a “subsidy” to Mitt Romney or other millionaires, it is also a subsidy to the retiree who lives on nothing but his Social Security checks and the dividends he gets from stocks he has purchased over the years.

Obama is saying that secretaries pay as much in taxes as do their millionaire or billionaire bosses. That is absurd. Romney’s tax returns show that he paid \$6.2 million in taxes over two years. Is Obama suggesting that a secretary—or any other employee Romney may have—pays that much in taxes? Obama should be forced to provide even one example of a secretary who pays more in taxes than her or his billionaire boss.

Further, Obama’s proposal is foolish. If a dramatic increase in taxes were to be imposed at the \$1 million level, many wealthy Americans would simply find their way around that new rule. For example, a CEO who earns \$1.1 million might agree to a cut in salary to \$999,999.99. Why on earth would someone voluntarily pay 30 percent of income that he earned to a federal government that will turn around and give it to someone who did not? A millionaire-threshold rule is as foolish as an ObamaCare rule that applies only to businesses with 50 or more employees. Why would a company with 49 employees ever hire employee number 50 if it meant having to pay a small fortune in higher taxes and health care premiums? (In general, if a rule, regulation, or tax is logical and justifiable, it should apply to everyone equally.)

Worse yet, the imposition of a minimum 30 percent Obama tax, especially on capital gains, will result in a significant reduction in investment in businesses. For example, an individual might today cash in \$5 million in stock, pay the current 15 percent capital gains tax on the appreciation of that stock (much of which is not an actual gain but simply the result of the hidden tax of inflation), and use the remainder to invest in a promising, but risky, new business. But if that stock sale were to result in a whopping 30 percent tax, as called for by Obama, the individual may decide *against* the investment

altogether—because he is not willing to pay that high tax *and* also place the reduced remaining amount at risk in a new venture.

The result is that the proposed business cannot collect enough start-up capital to even proceed past its planning stage, and that, of course, means the business will never exist to create new jobs. Beyond that, not only would Obama not collect the 30 percent tax he would impose on the stock sale, he will not collect *any* tax on the stock sale—*because there is no stock sale*. If the stock is not sold, there is no capital gain. If there is no capital gain, there is no capital gains tax. Even a dolt like Obama should understand that multiplying zero by 30 percent yields zero.

The history of the capital gains tax is that raising it actually results in *reduced* tax revenue, while lowering it results in *increased* tax revenue. The reason is that with a lower tax, people are more likely to sell their assets—typically stocks—in order to reinvest that money where they believe it may appreciate more. But with a higher tax, people are less likely to sell their stocks. They simply hold on to what they have—*and wait for a new president and Congress to reduce the tax*. (In 1991, Congress increased taxes on yachts—to “stick it to the rich” and collect more tax revenue. What happened? Yacht sales plummeted, and the industry lost an estimated 25,000 jobs.)

Even if Obama were to get his proposed tax increase, it would do little to resolve the deficit problem. If the tax increase were to generate an additional \$100 billion in tax revenue—which is unlikely—all it would do is reduce the annual deficit from \$1.3 trillion to \$1.2 trillion. Even a slight increase in interest rates would bring the deficit back to, or even above, \$1.3 trillion. The problem is not that millionaires pay too little in taxes, the problem is that the government spends \$3.7 trillion per year.

Obama, of course, probably does understand all of this—*but he does not care*. He has no intention of actually increasing the tax to a minimum rate of 30 percent rate. Obama’s demand for a tax increase is *meant to be ignored or rejected by Congress*. He does not want the tax increased. He wants Congress to reject his proposal—to give him an opportunity to call House Republicans obstructionists and defenders of the rich.

The Republicans should call Obama’s bluff and propose increasing the capital gains tax to 75 percent—and then ask him publicly if he will sign the job-killing legislation.

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January 25, 2012