



Hard Numbers on Obama's Redistribution Plan

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by **Scott A. Hodge**

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The Tax Policy Center's recent analysis of the presidential tax plans has received a considerable amount of attention in the press. While much of the focus has been on how much or how little each plan benefits "middle-class" taxpayers, little attention has been paid to how each plan affects the overall distribution of the nation's tax burden.

On this account, the plans are vastly different. Under the McCain plan, since every taxpayer gets a tax cut, the overall distribution of the federal tax burden remains roughly the same as it is today. Under the Obama plan, because some taxpayers get a tax cut and others get a substantial tax increase, the overall distribution of the federal tax burden changes quite considerably.

In short, the Obama plan would redistribute more than \$131 billion per year from the top 1 percent of taxpayers to all other taxpayers. In 2009, for example, Tax Policy Center figures show that after the income-shifting in the Obama plan, the top 1 percent of taxpayers would pay a greater share of the total federal tax burden than the bottom 80 percent of Americans combined. In other words, 1.13 million Americans would pay more in all federal taxes than 128 million of their fellow citizens combined.

These figures do not include the impact of Obama's proposal to apply Social Security payroll taxes on incomes above \$250,000. According to Tax Policy Center estimates, this plan would increase the tax burden of top earners by an additional \$40 billion in 2009 alone and more than \$629 billion over the next ten years. By itself, the \$40 billion tax hike is twice as much as *all* the federal taxes paid by people in the bottom quintile combined.

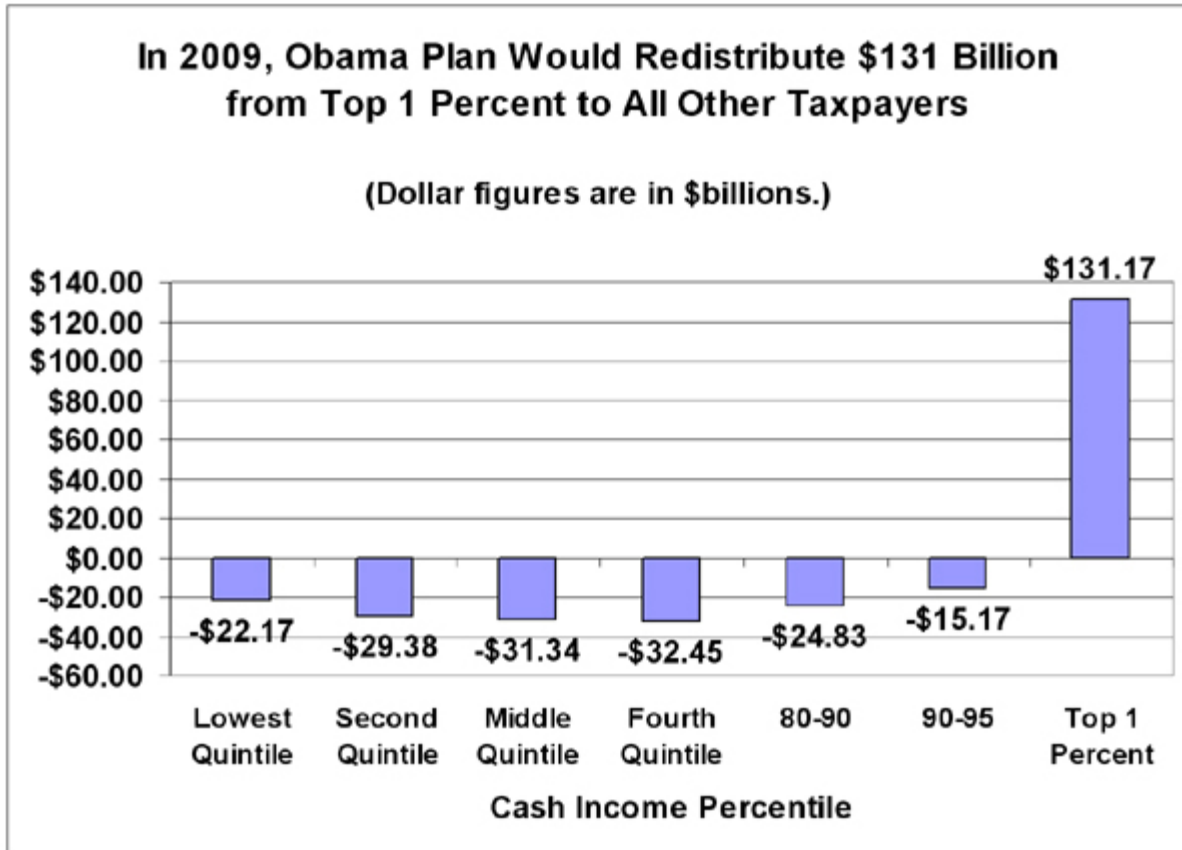
To put the Obama plan in context, it is important to understand how divided America's tax burden already is between a large group of Americans who pay little or nothing and a shrinking group of upper-income taxpayers who shoulder the lion's share of the burden. For example:

- In 1999, about 30 million tax filers had no income tax liability after taking advantage of their credits and deductions. By 2006, the number of non-payers had grown to nearly 44 million, one-third of all income tax filers.
- According to the Congressional Budget Office, in 2005, the top 20 percent of households paid 86.3 percent of income taxes while the bottom 80 percent paid a collective 13.7 percent of the income tax burden. The top 1 percent of households paid 38.8 percent of income taxes.
- Looking at all federal taxes, in 1990, the bottom 80 percent of households paid 42 percent of the tax burden while the top 1 percent of households paid about 16 percent. By 2005, the share of all federal taxes paid by the bottom 80 percent of households had fallen to 31 percent, while the share paid by the wealthiest households had risen to nearly 28 percent.
- A recent Tax Foundation study found that in 2004, the nation's tax and spending policies redistributed more than \$1 trillion in income from the top 40 percent of American households to the bottom 60 percent of households.

The chart below shows the tax changes that would result from Obama's plan in 2009, in raw dollar amounts, for taxpayers separated into income quintiles, or fifths. The top quintile has been split into smaller income bands to illustrate the amount of income shifting between the groups. The top 1 percent of taxpayers would see a tax hike of \$131 billion while the other groups would see a tax cut of \$155 billion. Presumably, the residual tax cut of \$24 billion would be deficit financed.

While the majority of the redistribution is targeted to taxpayers in the middle three quintiles, a surprising large amount—\$40 billion—would flow to taxpayers in the 80th to 95th percentile (those earning roughly \$93,000 to \$192,000 per year). This is largely due to the extension of the AMT patch.

Figure 1
Tax Increases or Decreases Faced by Different Income Groups under Obama's Plan



Source: Tax Policy Center

Table 1 presents the share of total federal taxes currently borne by each income group compared to the changes that would occur under the Obama plan. A couple of figures jump out. First, the table illustrates how few taxes are paid by Americans at the bottom end of the income scale and, thus, how difficult it is to give them tax relief.

According to Tax Policy Center tables, there are roughly 72 million tax units in the bottom two quintiles, representing 48 percent of all tax units. Under current policies, these people pay just 4.8 percent of all federal taxes. Those in the lowest quintile would receive \$22 billion in various tax credits under the Obama plan, which would reduce their overall federal tax liability by an average of \$567. However, since these 39 million people currently pay an average of only \$489 in federal taxes, they would see their federal tax liability fall below zero, meaning they would get money back from the government in excess of any taxes paid. For

those in the second quintile, the Obama plan would cut their current average tax liability of \$2,995 by 30 percent, or \$892.

At the other end of the scale, the Obama plan would boost the average tax bill for the top 1 percent of taxpayers by \$115,974, from \$559,181 to \$675,155. The overall tax burden on the top 1 percent would climb from 25.7 percent of all federal taxes to 31.3 percent. Thus, the top 1 percent of taxpayers would shoulder a greater burden of all federal taxes than the bottom 80 percent combined. Again, these figures do not include Obama's proposed increase in payroll taxes on high earners.

Table 1
Impact of Obama Plan on Federal Taxes Paid by Income Quintile

Cash Income Percentile*	Tax Units*		Share of Federal Taxes		
	Number (thousands)	Percent of Total	Current Share of Total	Change Under Obama's Proposal	New Shares Under Obama's Proposal
Lowest Quintile	39,102	26.0%	0.8%	-0.90%	-0.12%
Second Quintile	32,942	21.9%	4.0%	-1.16%	2.84%
Middle Quintile	30,075	20.0%	10.7%	-1.18%	9.53%
Fourth Quintile	25,152	16.7%	17.9%	-1.15%	16.75%
Top Quintile	22,287	14.8%	66.5%	4.39%	70.88%
All	150,241	100.0%	100.0%	0%	100%
Addendum					
80-90	11,264	7.5%	14.1%	-0.88%	13.23%
90-95	5,439	3.6%	10.4%	-0.52%	9.88%
95-99	4,454	3.0%	16.3%	0.16%	16.48%
Top 1 Percent	1,131	0.8%	25.7%	5.63%	31.29%
Source: http://www.taxpolicycenter.org/numbers/Content/Excel/T08-0114.xls .					
* Quintiles have equal numbers of people but unequal numbers of tax units					

While many Americans may cheer this outcome as just or equitable, this sort of direct redistribution raises some important questions that should be part of a larger national discussion:

- What is the long-term effect on the economy of so few households shouldering such a large share of the tax burden?
- What are the consequences for our democratic system when a majority of Americans are disconnected from the full cost of government? Will that majority demand more from the government because they bear little of the cost?
- Should the tax system be used as a means of redistributing income or simply as a neutral mechanism for raising money for government services? Can a tax system premised on redistribution also be compatible with economic growth?

- The Obama plan assumes little behavioral change from such a large tax hike on high-income workers. Is this realistic or will the higher rates encourage tax minimization strategies and reduced work effort, which will lead to lower tax revenues?

The Tax Policy Center has done the public a service by putting hard numbers on the candidates' tax plans and bringing a dose of reality to the political rhetoric. While it is easy for the press and voters to consider only "What's in it for me?," there are larger issues raised by these findings that deserve more public discussion.

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Tax Foundation
2001 L Street NW, Suite 1050
Washington, DC 20036
Ph: (202) 464-6200
Fax: (202) 464-6201
www.taxfoundation.org