

Super rich see federal taxes drop dramatically

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that's fair, isn't it?

WASHINGTON - As millions of procrastinators scramble to meet Monday's tax filing deadline, ponder this: The super rich pay a lot less taxes than they did a couple of decades ago, and nearly half of U.S. households pay no income taxes at all.

The Internal Revenue Service tracks the tax returns with the 400 highest adjusted gross incomes each year. The average income on those returns in 2007, the latest year for IRS data, was nearly \$345 million. Their average federal income tax rate was 17 percent, down from 26 percent in 1992.

Over the same period, the average federal income tax rate for all taxpayers declined to 9.3 percent from 9.9 percent.

The top income tax rate is 35 percent, so how can people who make so much pay so little in taxes? The nation's tax laws are packed with breaks for people at every income level. There are breaks for having children, paying a mortgage, going to college, and even for paying other taxes. Plus, the top rate on capital gains is only 15 percent.

There are so many breaks that 45 percent of U.S. households will pay no federal income tax for 2010, according to estimates by the Tax Policy Center, a Washington think tank.

"It's the fact that we are using the tax code both to collect revenue, which is its primary purpose, and to deliver these spending benefits that we run into the situation where so many people are paying no taxes," said Robertson Williams, a senior fellow at the center, which generated the estimate of people who pay no income taxes.

The sheer volume of credits, deductions and exemptions has both Democrats and Republicans calling for tax laws to be overhauled. House Republicans want to eliminate breaks to pay for lower overall rates, reducing the top tax rate from 35 percent to 25 percent. Republicans oppose raising taxes, but they argue that a more efficient tax code would increase economic activity, generating additional tax revenue.

President Barack Obama said last week he wants to do away with tax breaks to lower the rates and to reduce government borrowing. Obama's proposal would result in \$1 trillion in tax increases over the next 12 years. Neither proposal included many details, putting off hard choices about which tax breaks to eliminate.

In all, the tax code is filled with a total of \$1.1 trillion in credits, deductions and exemptions, an average of about \$8,000 per taxpayer, according to an analysis by the National Taxpayer Advocate, an independent watchdog within the IRS.

More than half of the nation's tax revenue came from the top 10 percent of earners in 2007. More than 44 percent came from the top 5 percent. Still, the wealthy have access to much more lucrative tax breaks than people with lower incomes.

Obama wants the wealthy to pay so "the amount of taxes you pay isn't determined by what kind of accountant you can afford."

Eric Schoenberg says to sign him up for paying higher taxes. Schoenberg, who inherited money and has a healthy portfolio from his days as an investment banker, has joined a group of other wealthy Americans called United for a Fair Economy. Their goal: Raise taxes on rich people like themselves.

Schoenberg, who now teaches a business class at Columbia University, said his income is usually "north of half a million a year." But 2009 was a bad year for investments, so his income dropped to a little over \$200,000. His federal income tax bill was a little more than \$2,000.

"I simply point out to people, 'Do you think this is reasonable, that somebody in my circumstances should only be paying 1 percent of their income in tax?'" Schoenberg said.

Sen. Orrin Hatch of Utah, the top Republican on the Senate Finance Committee, said he has a solution for rich people who want to pay more in taxes: Write a check to the IRS. There's nothing stopping you.

"There's still time before the filing deadline for them to give Uncle Sam some more money," Hatch said.

Schoenberg said Hatch's suggestion misses the point.

"This voluntary idea clearly represents a mindset that basically pretends there's no such things as collective goods that we produce," Schoenberg said. "Are you going to let people volunteer to build the road system? Are you going to let them volunteer to pay for education?"

The law is packed with tax breaks that help narrow special interests. But many of the biggest tax breaks benefit millions of American families at just about every income level, making them difficult for politicians to touch.

The vast majority of those who escape federal income taxes have low and medium incomes, and most of them pay other taxes, including Social Security and Medicare taxes, property taxes and retail sales taxes.

The share of people paying no federal income tax has dropped slightly the past two years. It was 47 percent for 2009. The main difference for 2010 was the expiration of a tax break that exempted the first \$2,400 of unemployment benefits from taxation, Williams said.

In 2009, nearly 35 million taxpayers got a tax break for paying interest on their home mortgages, and nearly 36 million taxpayers took the \$1,000-per-child tax credit. About 41 million households reduced their federal income taxes by deducting state and local income and sales taxes from their taxable income.

About 36 million families cut their taxes by nearly \$35 billion by deducting charitable donations, and 28 million taxpayers saved a total of \$24 billion because their income from Social Security and railroad pensions was untaxed.

"As a matter of policy, there would be a lot of ways to save money and actually make these things work better," said Leonard Burman, a public affairs professor at Syracuse University. "As a matter of politics, it's really, really difficult."

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