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## Federal income taxes: What's a "rich man's" fair share?

Steve Bakke  October 8, 2024



***"I'm going to make sure that the richest among us who can afford it pay their fair share in taxes. It is not right that teachers and nurses and firefighters are paying a higher tax rate than billionaires and the biggest corporations"*** – Candidate Kamala Harris

It's presidential election time and we should be ready to evaluate competing ideas about federal individual income tax policy. It's no surprise that the two sides in this political "competition" make claims of fact that are vastly different from each other. Someone must be wrong. I request your patience with the many numbers and percentages presented in this analysis.

Inspired by this recurring mystery, I gathered the most current comprehensive data on the level of individual taxes collected from various income categories. The following statistics are mostly from 2021, the last information available from the Tax Foundation and the National Taxpayers Union Foundation. Current information will point to similar conclusions.

Here's a snapshot of taxes paid by various income categories. The top 5% of earners paid 65.6% of federal individual taxes collected. The top 10% paid a 75.8% share. The top 50% paid 97.7%. And the bottom 50% paid just 2.3%. Those percentages may be surprising to many from both political extremes.

According to the IRS, the highest marginal individual tax rate has been steadily declining. Some politicians use that fact to argue for higher tax rates on the wealthy. That conclusion ignores the fact that many things other than marginal rates affect the level of tax collections. I can demonstrate this by presenting some history.

In 1980, when the top marginal rate was very high at 70%, the top 5% of earners paid approximately 37% of individual income taxes collected. In 2021, however, after the top marginal rate had been reduced dramatically to 37%, the wealthiest 5% had an individual tax share of almost 66%. The far lower rate produced higher collections because of many factors other than the marginal rate.

Early this year, CBS News reported on the public confusion surrounding our tax regulations. Among other things, that report acknowledged that most Americans believe they pay too much in taxes. In particular, "about six in ten mistakenly believe middle-income households shoulder the highest tax burden.....only about 18% of adults correctly identified

the group facing the highest federal tax burden, which is high-income Americans.....but it's the top 50% of earners who contribute almost all of the nation's federal taxes....."

President Biden claimed several times that, "If you make a billion or a million dollars, God love you. But just pay something.....The "average percent" for billionaires is "3%" which is less than police officers....." (the President has used "8%" in other presentations).

The President and candidate Harris have made numerous claims that tax rates paid by the wealthy are lower than for "middle America." How can they defend those claims? They must have facts backing up those breathless pleas for fairness.

PolitiFact recently disclosed how the "8%" reference was derived: "The White House report found that if you include unrealized gains in the income calculations of the 400 richest U.S. families, then their taxes paid would account for just 8.2% of their income.....Biden made it sound as if 8% was the standard rate today....." The wealthiest taxpayers, defined as the top 1%, actually pay taxes of approximately 25% of their earnings. This was confirmed by PolitiFact. The 8% claim is false and grossly misleading.

Collectively, individuals in the top 25% of income, can now expect to pay approximately 89% of federal individual income taxes collected. The top 50% will pay about 98%. And the wealthiest 1%, collectively, will experience an effective tax rate of approximately 25%, higher than any other taxpayer category.

If you believe the wealthy don't pay their fair share of taxes, what percentage would you consider adequate?