

America's richest 400 households paid a 16.7 percent tax rate in 2012

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In 2012, the top 400 U.S. taxpayers—those who took home more than \$100 million—paid an effective tax rate of under 16.7 percent. These 400 households collectively comprise 0.0001 percent of taxpayers, but accounted, by themselves, for roughly 1.5 percent of all income.

In 2013 George W. Bush-era tax cuts expired, increasing the capital gains tax upward from 15 percent to 23 percent, which drove the effective tax rate for the super-rich up to 22.9 percent—still far lower than the statutory marginal rate of 39.6 percent that is supposed to be paid on incomes of over \$415,000.

Anticipating the change, which was the result of a deal worked out between Republicans and the White House early in the Obama administration in order to avoid the so-called “fiscal cliff,” the super-rich “sold assets before the deadline to avoid higher taxes, leading to a huge surge in income in late 2012,” notes the *Wall Street Journal*. In that bonanza year the average income of the top 400 taxpayers was \$336 million—\$70 million more than in 2013.

The effective tax rate for the super-rich is lower than the statutory marginal rate imposed on working class families. Single workers pay a tax rate of 25 percent, after payroll deductions, for income of over \$36,000; for single workers who earn more than \$88,000, the income tax rate rises to 39.6 percent

How is it that the super-rich pay a lower tax rate than many working class Americans? Put simply, it is because the rich don't work. Tax rates on income generated in dividends and capital gains—profits gained by stock market performance and by flipping property such as securities and large real estate holdings—are far lower than they are on tax rates imposed on labor.

In 2013, the 400 richest individual taxpayers received, by themselves, 5.3 percent of the entire national income in dividends, and 11.2 percent of all income derived from capital sales. For 2012, the same group accounted for 8.34 percent of taxable dividends and 12.26 percent of capital gains. Had these profits been taxable at the rate of salary or wages, super-wealthy taxpayers would have seen their tax liability more than doubled.

The super-rich's efforts to avoid taxes have created an

industry in itself, a December 29 analysis in the *New York Times* points out. “[T]he very richest Americans have financed a sophisticated and astonishingly effective apparatus for shielding their fortunes,” write authors Noam Scheiber and Patricia Cohen. “Some call it the ‘income defense industry,’ consisting of a high-priced phalanx of lawyers, estate planners, lobbyists and anti-tax activists who exploit and defend a dizzying array of tax maneuvers, virtually none of them available to taxpayers of more modest means.”

Among the tax-dodge mechanisms used by the top 400, according to the *Times*, are “convoluted partnerships and high-end investment funds,” “opaque family trusts,” and “foreign shell corporations.” But the basic strategy is to convert “one type of income into another type that's taxed at a lower rate.”

As one example, the *Times* cites hedge fund manager Daniel S. Loeb, who “has invested in a Bermuda-based reinsurer—an insurer to insurance companies—that turns around and invests the money in his hedge fund. That maneuver transforms his profits from short-term bets in the market, which the government taxes at roughly 40 percent, into long-term profits, known as capital gains, which are taxed at roughly half that rate. It has had the added advantage of letting Mr. Loeb defer taxes on this income indefinitely, allowing his wealth to compound and grow more quickly.”

There is also the tried-and-true tax shelter known as “philanthropy.” The top 400 taxpayers account for, by themselves, 6 percent of all tax deductions claimed for charitable donations.

The exploitation of the US tax system by the mega-wealthy is surpassed only by tax cheating by the firms they control. According to an October, 2015 report by the PIRG Education Fund and Citizens For Tax Justice, the vast majority of America's Fortune 500 hid profits in offshore tax havens in 2014—especially the Cayman Islands and Bermuda. These companies, the report concludes, reported an accumulated \$2.1 trillion in offshore income solely for tax avoidance purposes. Fortune 500 corporations likely have dodged \$620 billion in federal income taxes on these offshore profits, the study concludes—a figure about 8 times greater than Obama's proposed spending on education in the 2016 federal budget.

The claim that such profits are actually “earned” in these

Caribbean island statelets is absurd on its face. US Fortune 500 profits in Bermuda and the Cayman Islands amount “to 1,643 percent and 1,600 percent respectively of each country’s entire GDP,” the report notes.

The biggest single tax dodger is tech giant Apple, which has avoided paying \$59.2 billion in US taxes through stashing \$181.1 billion offshore, much of it hidden in Ireland.

So effective are US corporations at dodging the federal statutory corporate rate of 35 percent, that their effective tax rate now stands at roughly 17 percent, according to data compiled by economist Gabriel Zucman in his recent book, *The Hidden Wealth of Nations*.

US corporations are leading the way in a global phenomenon of tax dodging. Zucman uses a simple method to demonstrate that there are trillions of dollars in hidden wealth circulating in the global economy. Mathematically, financial liabilities should be cancelled out by assets for a net zero, and vice versa. But Zucman found that reported liabilities, globally, are \$6 trillion larger than reported assets. He concludes the disparity is owed largely to money hidden in tax havens.

The super-rich and their corporations achieve these ends through domination of the US political system. As recently as December 18, a year-end fiscal package was signed into law by President Obama that included another \$383 billion in tax cuts for corporations and businesses. Meanwhile, in the coming decade, federal spending is expected to decline by \$8 trillion—much of it owed to cuts in health care and social spending. However, these “savings” will be largely offset by... declining tax revenue, meaning that the federal deficit will still grow by \$7.7 trillion, according to 2014 projections by the Senate Budget Committee.

Both parties are fully in the service of the super-rich. The *Times* notes that the heads of various hedge funds favor, alternatively, Republican and Democratic candidates. James Simon gives to Democrats. Robert Mercer gives to Republicans. Simon’s hedge fund, currently under investigation by the IRS, is managed by Mercer. George Soros gives millions to Democrats, and claims taxes should be raised on the wealthy, even as his \$24.5 billion hedge fund exploits tax loopholes. He and his hedge fund manager Stanley Druckenmiller give hundreds of thousands to Republicans.

The current state of affairs is the outcome of a longer process. In 1961, the high-end marginal tax rate for the wealthiest Americans stood at 91 percent. The liberal administrations of Democrats John Kennedy and Lyndon Johnson, responding to the first signs that the post-World War II global economic system was failing, reduced the tax rate of the top income bracket to 75 percent, and also cut corporate taxes from their statutory rate of 50 percent.

The assumption was that the rich and corporations would redirect this cash into investment. Instead, the tax cuts set the stage for the mergers and acquisitions wave of the late 1960s, and accelerated the outflow from the US economy of dollars

that found more profitable returns overseas, exacerbating the underlying crisis of the Breton Woods system, by which the dollar was convertible to gold at the fixed rate of \$35 per ounce.

The shift away from commodity production and toward parasitic financial speculation, at a certain point, went from being a policy error to a policy goal. A milepost was passed in 1979 when Federal Reserve chief Paul Volcker, Democrat Jimmy Carter’s appointee, raised the Fed’s benchmark overnight bank lending rate past 20 percent, redirecting investment from basic industry to finance.

The finance industry—which makes nothing tangible and whose principal “service” is simply the movement of money—has doubled its share of the US economy in the past half century, and, over the past 30 years, it has grown at a rate six times as fast as the rest of the economy—decades that correspond to a dramatic polarization of wealth in the US. All of this has been facilitated by the tax policies implemented by presidents, senators and congressmen of both parties.

“Lawmakers kept encouraging financial innovation,” the *Washington Post* noted in a recent analysis. “They did that by... loosening restrictions on the kinds of financial activities that the titans of Wall Street could engage in.” “Financial innovation” is, of course, a euphemism for swindling.

According to economists Thomas Philippon and Ariel Reshef, until the early 1980s Wall Street bankers were paid no more than other private sector professionals. Their research shows that the average Wall Street salary has gone from just under \$50,000 in 1981 to over \$350,000 in 2012. Today there are about two times as many “financial professionals” in the top 1 percent of US income earners as there were in 1979, and about 1 in 5 members of the richest .1 percent of Americans “work” in finance.

This has not been a socially neutral process. The growth of “complex financial products has served primarily to boost income for the firms themselves” Philippon’s research shows.

According to another recent study carried out by economists at Harvard and the University of Chicago, every dollar doled out to Wall Street executives actually makes the US economy 60 cents *worse off*.



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