

Fact Check: Obama not telling the truth on taxes

Contributed by AP - Stephen Ohlemacher
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WASHINGTON (AP) — President Barack Obama makes it sound as if there are millionaires all over America paying taxes at lower rates than their secretaries.

"Middle-class families shouldn't pay higher taxes than millionaires and billionaires," Obama said Monday. "That's pretty straightforward. It's hard to argue against that."

The data tell a different story. On average, the wealthiest people in America pay a lot more taxes than the middle class or the poor, according to private and government data. They pay at a higher rate, and as a group, they contribute a much larger share of the overall taxes collected by the federal government.

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There may be individual millionaires who pay taxes at rates lower than middle-income workers. In 2009, 1,470 households filed tax returns with incomes above \$1 million yet paid no federal income tax, according to the Internal Revenue Service. That, however, was less than 1 percent of the nearly 237,000 returns with incomes above \$1 million.

In his White House address Monday, Obama called on Congress to increase taxes by \$1.5 trillion as part of a 10-year deficit reduction package totaling more than \$3 trillion. He proposed that Congress overhaul the tax code and impose what he called the "Buffett rule," named for billionaire investor Warren Buffett.

The rule says, "People making more than \$1 million a year should not pay a smaller share of their income in taxes than middle-class families pay."

"Warren Buffett's secretary shouldn't pay a higher tax rate than Warren Buffett. There is no justification for it," Obama said. "It is wrong that in the United States of America, a teacher or a nurse or a construction worker who earns \$50,000 should pay higher tax rates than somebody pulling in \$50 million."

Buffett wrote in a recent piece for The New York Times that the tax rate he paid last year was lower than that paid by any of the other 20 people in his office.

This year, households making more than \$1 million will pay an average of 29.1 percent of their income in federal taxes, including income taxes and payroll taxes, according to the Tax Policy Center, a Washington think tank.

Households making between \$50,000 and \$75,000 will pay 15 percent of their income in federal taxes.

Lower-income households will pay less. For example, households making between \$40,000 and \$50,000 will pay an average of 12.5 percent of their income in federal taxes. Households making between \$20,000 and \$30,000 will pay 5.7 percent.

The latest IRS figures are a few years older — and limited to federal income taxes — but show much the same thing. In 2009, taxpayers who made \$1 million or more paid on average 24.4 percent of their income in federal income taxes, according to the IRS.

Those making \$100,000 to \$125,000 paid on average 9.9 percent in federal income taxes. Those making \$50,000 to \$60,000 paid an average of 6.3 percent.

Obama's claim hinges on the fact that, for high-income families and individuals, investment income is often taxed at a lower rate than wages. The top tax rate for dividends and capital gains is 15 percent. The top marginal tax rate for wages is 35 percent, though that is reserved for taxable income above \$379,150.

With tax rates that high, why do so many people pay at lower rates? Because the tax code is riddled with more than \$1 trillion in deductions, exemptions and credits, and they benefit people at every income level, according to data from the nonpartisan Joint Committee on Taxation, Congress' official scorekeeper on revenue issues.

The Tax Policy Center estimates that 46 percent of households, mostly low- and medium-income households, will pay no federal income taxes this year. Most, however, will pay other taxes, including Social Security payroll taxes.

"People who are doing quite well and worry about low-income people not paying any taxes bemoan the fact that they get so many tax breaks that they are zeroed out," said Roberton Williams, a senior fellow at the Tax Policy Center. "People at the bottom of the distribution say, but all of those rich guys are getting bigger tax breaks than we're getting, which is also the case."

Treasury Secretary Timothy Geithner was pressed at a White House briefing on the number of millionaires who pay taxes at a lower rate than middle-income families. He demurred, saying that people who make most of their money in wages pay taxes at a higher rate, while those who get most of their income from investments pay at lower rates.

"So it really depends on what is your profession, where's the source of your income, what's the specific circumstances you face, and the averages won't really capture that," Geithner said.