



**August 12, 2011**

## Tax Hike on the Rich

As the saying goes, 'When America sneezes, the rest of the world catches a cold'. The burgeoning debt load carried by the US government is finally taking its toll and it's affecting the world. The focus is now on how to reduce the government debt that runs into the trillions of dollars. One of the main ways is to raise taxes on the rich.

The proposal to tax the rich more has been put forth by President Obama and many of the Democrats. A recent CNN/ORC International Poll released Wednesday showed that many Americans agree that it's the country's only way out of its economic mess.

Out of 1,008 telephone respondents in the poll, 63% of them said they think taxes should be raised on higher-income Americans and businesses.

President Obama has pushed for a raise in the borrowing limit and Congress has given its approval subject to the setting up of a bipartisan committee to be in charge of deficit reduction. The committee has also backed the step to raise taxes on the rich.

The definition of 'rich' is a taxpayer earning a gross adjusted income of at least \$200,000 a year. Just how many Americans actually earn this amount? And more importantly, would taxing all of them more be able to substantially reduce the trillions of dollars in national debt?

IRS statistics show that those earning \$200,000 a year and above account for merely 3% of the taxpaying population, leaving out 97% of taxpayers. In terms of numbers, this 3% is made up of almost 4 million taxpayers. Those earning above a million dollars a year number only 236,883 of the 140 million tax returns received in 2009, accounting for only 0.2% of taxpayers. The very wealthy, those earning \$10 million or more come up

to only 8,274 taxpayers in the entire country.

Out of the 3% of rich taxpayers, 1,470 were not required to pay taxes in 2009 due to various reasons. Out of the rest, there was almost \$2 trillion in taxable income, which accounted for 26% of total income of all taxpayers in 2009. Other proposals put forth by President Obama include abolishing some corporate tax breaks for oil and gas companies and corporate jet buyer, and restoring some previous tax rates for high-income households that were enforced during the Bush administration. The planned expiry of the Bush-era tax cuts in 2012 looks to be unchanged. This would raise the rates of the top two tax brackets back to 39.6% and 36% respectively.

All these measures are projected to add \$750 billion to the government coffers over the next 10 years. Whether it will make a significant difference to the national debt remains to be seen.