Buffett’s Facts Are Wrong: Top 1% Now Paying Record Level of Taxes

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Warren Buffett is at it again, trying to convince the American people that folks like him are undertaxed. According to an Associated Press report, Buffett appeared with Sen. Hillary Clinton yesterday to warn "of the dangers of a growing gap between rich and poor, and a tax system that disproportionately helps people [he] called ‘these super-rich’—himself included."

"In the last seven-eight years what has happened is that the super-rich have gotten a huge break," Buffett said.

Clinton added, "There's a growing sense that it's [the tax system] not working for the average American."

A new report by the Congressional Budget Office shows that Buffett and Clinton have their facts quite wrong. Indeed, the "super-rich," the top 1 percent of households, are now paying a record 27.6 percent of federal taxes and a record 38.8 percent of income taxes. By contrast, the bottom 80 percent of households—representing 90 million households—pay 31.1 percent of federal taxes and just 13.7 percent of income taxes.

In other words, the top 1.1 million American households pay a greater share of the income tax burden than the bottom 90 million combined. Indeed, as the chart below shows, it may not be long until the wealthiest households will be shouldering a larger share of all federal taxes than the bottom 90 million.

The chart shows clearly that the nation's tax burden has been gradually shifting away from "typical Americans" to the wealthiest households since the early 1980s. Indeed, in 1979, the bottom 80 percent of households paid a collective 43.5 percent of federal taxes compared to a
15 percent share borne by the wealthiest households. Interestingly, the top marginal tax rate in 1979 was 70 percent, twice what it is today.

Buffett would no doubt point to the stark drop in the tax share paid by the top 1 percent after 2000 and attribute that to President Bush's "tax cuts for the rich." What is not shown is that the top 1 percent's share of the nation's income dropped dramatically after the technology bubble burst in 2000 and the recession started in 2001.

In 2000, the wealthiest households earned 17.8 percent of the nation's income, then a record level. In 2001, that share fell to 14.7 percent and fell again in 2002 to 13.5 percent. In 2003, their income share rose slightly to 14.3 percent as the economy came back to life. As Mr. Buffett should know all too well, the income of the wealthiest Americans is tied to the health of the economy since they are typically the nation's investors and entrepreneurs. And history tells us that the economy performs best when tax rates are lower, not higher.

Source: Congressional Budget Office

Notes

1. Available at http://ap.google.com/article/ALeqM5gGTeaixWoP3AEKwkzIUK_9O11AQD8TFLNR01.

3. CBO adjusts the minimum income needed to enter the top quintile by household size. The threshold for a single household was $67,400 in 2005. For a two-person household the threshold was $95,300 and for a four-person household the threshold is $134,800.

4. CBO does not count federal estate tax (and gift taxes) in its federal tax calculations, which is actually the most progressive tax of all federal taxes. In 2005, the federal government collected about $23 billion in estate and gift taxes.