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## Commentary by Larry Goldstein

### **Are The Rich Paying Their Fair Share?**

*(a closer look at progressivity in federal income taxes)*

The accusation keeps coming up in the political debates, “The rich do not pay their fair share.” Fair enough. Then, several questions should come to everyone’s mind.

First, what percent of the income taxes, collected, do the top 5% actually pay? A central concern raised by many is that the rich are getting a free ride and are avoiding a reasonable contribution to the tax pool, i.e., they are not paying their fair share. Finally, what would be a fair share? Obviously, the second question is the more subjective.

Let’s see if we can make some headway here. For example, if the top 5% of wage earners earn 25% of the income, what share of total income taxes paid by them would be deemed reasonable? 20%, 25%, 30%. You get the idea.

For most of you who have not seen my Relative Index of Progressivity (RIP) table before the answer may surprise you. To save space here, I’ll group the annual data into multi-years to distinguish among George H.W. Bush, Bill Clinton, George W. Bush, and Barack Obama administrations. Below is an index I created that I refer to as The Relative Index of Progressivity or RIP.

#### **THE RELATIVE INDEX of PROGRESSIVITY** (The PRE TAX INCOME and INCOME TAXES PAID by TOP 5% of Earners)

<u>Years</u>	<u>INCOME (%)</u>	<u>TAXES (%)</u>	<u>RATIO (Tx/Inc)</u>
1990-92	23.7	43.0	1.81
1993-96	24.5	48.2	1.97
1997-98	27.5	52.6	1.95
1999-01	28.7	55.5	1.93
2002-03	25.9	55.6	2.15
2004-08	30.2	61.6	2.04
2009-10	26.6	63.8	2.30
2011-13	28.4	60.5	2.13

George H. Bush=Orange

Bill Clinton= Blue

## THE RELATIVE INDEX OF PROGRESSIVITY – 2016

*George W. Bush= Red*

*Barack Obama= Green*

The data shows that the top 5% of pre-tax income earners earn a disproportionate share of national income. Typically, 25% to 30 % depending upon the year, but they pay between 52% and 64% of total income tax collections by the federal government. This does not include payments made to state and local governments. The only exception is during President Clinton's term, despite the fact that he raised the tax rates on this group.

The last column in the table is something I call RIP (Relative Index of Progressivity). It helps me answer the question; Is the tax system progressive, and is that progressivity growing or not? As you can see, the income tax system is very progressive. While it is evident that the top 5% of income earners commanded between 23% to 30% of national income between 1990 and 2013, their total federal tax contribution ranges from 43% to 64% of total federal income tax collections. Notice that the ratio is lowest under the first two presidents, when the ration stayed below 2:1. It has grown steadily since then.

The question that also needs to be asked, but never is, is do you care more about what a group actually pays or the tax rate? At some point the tax system, which is already very progressive, might push one to choose leisure over labor.