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The Millionaire Tax: Yet Another Job-Killing Tax Hike

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Like the villain in a horror movie, the many-lived millionaire tax is once again back from the dead. Senate Majority Leader Harry Reid (D–NV) dusted off this economically frightening tax hike that has repeatedly failed to pass Congress to pay for President Obama's jobs plan (American Jobs Act of 2011, S. 1660) after Senate Democrats rejected the tax hikes the President proposed to pay for his bill.

This is the third time in the past two years that congressional Democrats have proposed a millionaire tax. The first time it was a 5.4 percent surtax to pay for health care reform. The second time was in "the People's Budget" released by the Congressional Progressive Caucus. It failed to garner much support either time.

If the third time is the charm for the millionaire tax to become law, the economy would suffer lasting damage and reduced international competitiveness. And American workers would bear the brunt of the pain.

Permanent Tax Hike on Job Creators. The millionaire's tax would be a 5.6 percent surtax on incomes of married filers earning over $1 million starting on January 1, 2013. The surtax would kick in at $500,000 for individual filers, so it cannot be called a true millionaire tax. It would take the place of several tax hikes President Obama proposed to pay for his jobs plan, the biggest of which was capping the deductions of high-income earners.[1] It would raise approximately $450 billion over 10 years.

The millionaire surtax is contradictory to the stated aim of the President's jobs plan, which is to create jobs. The tax hike would fall squarely on the very job creators that the President wants to add jobs and reduce their incentive to add new workers.

Taxpayers earning more than $1 million per year are investors and businesses that are directly responsible for creating jobs. Investors provide the capital to existing businesses and startups so they can expand and add new workers. Raising their taxes would deprive them of resources they could invest in promising businesses that are looking to add employees. Raising their tax rate would deter them from taking the risk to invest.

The President and his allies say often that only a few businesses would pay higher taxes under their soak-the-rich policies. But a recent study from President Obama's own Treasury Department shows that 50 percent of the income earned by businesses that pay their taxes through the individual income tax code *and* employ workers would pay the millionaire tax.[2]

The millionaire tax is a direct blow to the pass-through businesses that employ the most workers. Higher taxes would deprive these important job

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creators of resources they could use to add new workers or pay their workers higher wages, and it would reduce their incentive for adding new workers. These impediments to economic growth and job creation would plague the economy *permanently*, while the questionable jobs policies the millionaire tax would pay for are temporary.

More Job Destruction. The millionaire surtax would also apply to capital gains and dividends. This would be yet another surtax on investment income, as Obamacare already applied an extra 3.8 percent tax. Combined with that surtax and the President's policy of increasing the capital gains and dividends rate to 20 percent from the current 15 percent rate, the millionaire surtax would raise the total rate to 29.4 percent—a 96 percent increase over the current rate.

Higher capital gains taxes would further impede job creation because it would increase the cost of new capital for businesses looking to grow or replace worn-out capital. This would make it more expensive for businesses to buy the equipment, tools, and other things they need to employ more workers and make their current workers more productive. The end result would be fewer jobs and lower wages for American workers.

The President frequently calls his tax hike plans "tax reform." But one of the goals of tax reform is to lower the cost of capital to improve economic growth and enhance job creation. Higher taxes on capital are opposed to the aims of true tax reform.

Highest Tax Rates in the World. The U.S. is generally regarded as a low-tax nation compared to other industrialized countries. This is one of the main factors that has allowed the U.S. economy to grow at a faster rate than other developed countries for decades and has made it the envy of the world. If the millionaire surtax becomes law, the U.S. would no longer enjoy the advantages of being a low-tax country.

After adding state and local income tax rates, the 39.6 percent top federal income tax rate long fought for by President Obama and his congressional allies, the higher Medicare surtax from Obamacare, and the new millionaire surtax, the average top marginal income tax rate in the U.S. would be 55 percent. A rate at that level would leave the average U.S. rate as the third highest among developed nations in the 30-member Organization for Economic Cooperation and Development (OECD). It would be behind only Sweden and Denmark.

Taxpayers in states with above-average top marginal income tax rates would compare even worse. In fact, taxpayers in Oregon, Hawaii, and New York would pay the highest tax rates in the developed world. Taxpayers in California, Iowa, New Jersey, Vermont, Maine, Maryland, Minnesota, Idaho, North Carolina, Wisconsin, and Ohio would pay higher rates than every developed country except Denmark.

Taxpayers in the nine states without state income taxes—and therefore with the lowest income tax rates in the U.S.—would still be taxed at a higher rate than in all but seven other developed countries. Their rates would be higher than traditional high-tax countries such as France, Germany, Italy, and Spain.

In the global race for investment and capital, the millionaire tax would make almost every other developed country more competitive than the U.S.

Real Reform. The millionaire tax would end up costing the U.S. economy more jobs than the President's jobs plan it is supposed to pay for would ever create. It would ruin American competitiveness among other developed countries.

The President and his congressional allies are better off spending their time pursuing true tax reform, which would repair the tax base and *lower* marginal tax rates. That would mean dropping their

1. See Curtis S. Dubay, "Obama's Jobs Plan: Permanent Tax Hikes on Job Creators," Heritage Foundation *WebMemo* No. 3365, September 15, 2011, at *http://www.heritage.org/Research/Reports/2011/09/Obamas-Jobs-Plan-Permanent-Tax-Hikes-on-Job-Creators.*

2. U.S. Department of the Treasury, *Methodology to Identify Small Businesses and Their Owners*, August 2011, Table 15, at *http://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/OTA-T2011-04-Small-Business-Methodology-Aug-8-2011.pdf* (October 6, 2011).

Surtax Would Push Top U.S. Income Tax Rate to 55 Percent

With the addition of a 5.6 percent surtax on high-income earners, the average marginal top tax rate in the U.S. would rise to 55 percent, higher than all but two of the 30 most economically developed countries in the world. On the state level, 41 states ( ) would have rates higher than countries like Japan and Finland, and 14 states would have rates higher than Sweden. Oregon, Hawaii, and New York would subsequently have the highest tax rates in the world.

State Rank	State	Top Income Tax Rate
1	**Oregon**	**60.4%**
2	Hawaii	60.0%
3	New York	59.7%
–	Denmark	59.6%
4	California	59.3%
5	Iowa	58.3%
6	New Jersey	58.1%
7	Vermont	58.0%
8-t	Maine	57.5%
8-t	Maryland	57.5%
10	Minnesota	56.9%
11-t	Idaho	56.8%
11-t	North Carolina	56.8%
11-t	Wisconsin	56.8%
14	Ohio	56.7%
–	Sweden	56.5%
15-t	Delaware	56.1%
15-t	Arkansas	56.1%
17	South Carolina	56.0%
18	Montana	55.9%
19-t	Nebraska	55.8%
19-t	Kentucky	55.8%
21	Connecticut	55.7%
22-t	West Virginia	55.5%
22-t	Kansas	55.5%
24	Missouri	55.1%
25-t	Georgia	55.0%
25-t	Louisiana	55.0%
25-t	Rhode Island	55.0%

State Rank	State	Top Income Tax Rate
	U.S.	55.0%
28	Virginia	54.8%
29	Oklahoma	54.5%
30	Massachusetts	54.3%
31	Alabama	54.2%
32-t	Illinois	54.0%
32-t	Mississippi	54.0%
32-t	Utah	54.0%
35-t	New Mexico	53.9%
35-t	North Dakota	53.9%
37	Michigan	53.8%
–	Belgium	53.7%
38-t	Colorado	53.6%
38-t	Indiana	53.6%
40	Arizona	53.5%
41	Pennsylvania	53.3%
–	Netherlands	52.0%
–	Japan	50.0%
–	Austria	50.0%
	U.S. Rate Before Surtax	49.4%
–	Finland	49.1%
42-t	Alaska	49.0%
42-t	Florida	49.0%
42-t	Nevada	49.0%
42-t	New Hampshire	49.0%
42-t	South Dakota	49.0%
42-t	Tennessee	49.0%
42-t	Texas	49.0%
42-t	Washington	49.0%
42-t	Wyoming	49.0%

State Rank	State	Top Income Tax Rate
–	Germany	47.5%
–	Australia	46.5%
–	Canada	46.4%
–	France	45.8%
–	Italy	44.9%
–	**International average**	**43.5%**
–	Spain	43.0%
–	Portugal	42.0%
–	Switzerland	41.7%
–	Ireland	41.0%
–	Greece	40.0%
–	United Kingdom	40.0%
–	Norway	40.0%
–	Luxembourg	38.9%
–	Korea	38.5%
–	New Zealand	38.0%
–	Iceland	37.2%
–	Hungary	36.0%
–	Turkey	35.6%
–	Poland	32.0%
–	Mexico	28.0%
–	Slovak Republic	19.0%
–	Czech Republic	15.0%

Sources: Tax Foundation, "2011 State Business Tax Climate Index," October 2010, at *http://taxfoundation.org/files/bp60.pdf* (October 6, 2011); OECD, OECD Tax Database, Table 1.7, at *http://www.oecd.org/document/60/0,3343,en_2649_34533_1942460_1_1_1_1,00.html* (October 6, 2011).

Table 1 • WM 3389 heritage.org

class warfare policies for the good of the economy and the country.

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