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Marc Linder

Larry Norton

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U.S. should impose tax on millionaires . . .

By Marc Linder and Larry Norton
Scraps Howard News Service

Now that Democrats in Congress have proposed a surtax on the incomes of millionaires, we may debate a return to more progressive federal income taxes.

There is little doubt that the tax on millionaires should be increased — the rates are very low and the need for revenue is great — but there is a question about how high these rates should be.

To answer this question, we must know who these millionaires are, how much income they have, whence it comes and whither it goes.

Much of this information can be obtained from the tax returns filed by millionaires. Unveiling these tax returns will also help dispel some convenient myths that protect the incomes of American millionaires from the progressive taxation found in the rest of the industrial world.

The number of persons with million-dollar annual incomes skyrocketed during the 1980s. From 1978 to 1988, it grew from 2,041 to 65,303. Even after allowing for inflation, the number rose more than eightfold.

This explosion in the number of millionaires reflects a growing disparity between the haves and the have-nots. Along with this disparity has come the huge federal budget deficit, attributable at least in part to the Reagan tax cuts of the 1980s.

Faced with the undeniable need for additional federal revenue and both the rapid growth of millionaires' incomes and the

disparity between rich and poor, what do the very wealthy say?

First, they say that you can't solve the problem of poverty by taxing the very rich and giving to the very poor, because there are too few rich with too little money.

Even if this "millionaires' myth" were once true, it is not true now.

Because of the huge increase in the number of millionaires, by 1988 a modest poverty surtax on their incomes would have been sufficient to generate the \$50 billion needed to raise all of the poor to the official poverty line.

Second, millionaires talk about incentives, investment and macro-economic effects. They argue that low tax rates on their incomes encourage them to work and allow them to invest in additional wealth-producing ventures that ultimately benefit us all. Placing a surtax on their incomes, they argue, would jeopardize the whole foundation of incentives and capital investment.

Is this another "millionaires' myth" or is there a substantial macroeconomic trade-off in raising revenue by taxing the very rich? The answer to this question is, at least in part, conveniently hidden in millionaires' tax returns.

Form 1040s and the attached W-2s will show the industries, firms, and occupations in which millionaires abide. Schedules B (interest and dividends), (capital gains), and C (expenses and profit for sole proprietors) will provide information on the saving and investment of millionaires.

None of this information is available today, even to researchers.

Now, if arguments against raising taxes on millionaires are worthy of any consideration, information from their returns must be made public.

We do know that the structure of today's millionaires' income differs significantly from that of millionaires before World War II, when dividends and capital gains accounted for more than four-fifths of their income, while the share of their income from salaries was negligible.

By 1988, the average salary income of the five-sixths of millionaires reporting salaries had risen to \$849,000 — or 27 percent of their adjusted gross income.

There are many things, however, that we do not know about these 65,000 millionaires, most of whom are new. Who are they and in what occupations and industries are they found? Are they consuming their wealth, or are they investing in productive assets?

These and many other questions must be answered if there is any hope of testing the merely theoretical and speculative claim that a substantial surtax on millionaires will have some as yet unproven negative implications outweighing the fairness of such a tax and the established need for its revenue.

Unveiling the income tax returns of millionaires should provide the answer.

(Marc Linder is a visiting associate professor of law at the University of Iowa; Larry Norton is a legal services attorney in Pennsylvania.)