Insight

White House Whiteboard Whitewash

DOUGLAS HOLTZ-EAKIN | APRIL 18, 2012

The Buffett tax went down in the U.S. Senate on Monday night. But it wasn't for a lack of sales effort by the White House. President Obama seemingly cannot get through a public appearance without invoking it. As part of the effort the White House rolled out another "whiteboard" by National Economic Council deputy Brian Deese. It turns out this was more whitewash than whiteboard.

Evidently, the White House assumed nobody would check their claim that the income tax isn't progressive. We did. Their mistake: it is progressive and they need some help doing taxes.

In the video, Deese describes three families and what he calls the "uber rich," and then displays their incomes and effective tax rates. Since America prides herself on a progressive federal tax code, and every serious study confirms that effective income tax rates rise with income, we were dubious of the White House claim that tax rates collapsed for the super rich.

In the table below, we duplicate the White House's claims. Then we attempted to replicate the calculations that produced them, to the point of asking the White House for the data, to no avail.

Since the White House has kept the underlying data under lock and key, I decided to inflict on the staff both a throbbing headache and a miserable weekend. I don't know which is worse: not finding the answer, or having to watch that video 45 times.

Still, we made reasonable assumptions about filing status (single, head of household, married), numbers of dependents, exemptions, and deductions in a good faith effort to get to the same bottom line.

It can't be done.

In the table, taxable income is income minus various deductions and exemptions. To get in the ballpark, we took the average for each income bracket in 2009. In the next row is the actual tax for that income level. We presumed that the single mother executive assistant only had one child, and applied the appropriate child tax credit, lowering her tax liability to $3,430. We made similar guesses at the families of he others. Of course, we can't be sure these are right because the White House won't tell.

You'll see in the last row that we've calculated the effective tax rates using this data and came up with 7, 10, 16, and 18 percent respectively. That's right: 7, 10, 16, and 18. As Americans make more money, they pay a higher tax rate. This progressivity has been a defining feature of the U.S. tax code and the characteristic of every serious tax study.

	Executive Assistant	Teacher & Cop	Doctor	UBER 400
Income	$49,480/YR	$105,000/YR	173,900/YR	$110,000,000/YR
White House Effective Tax Rate	16%	19%	23%	18%
Taxable Income*	$33,580	$71,945	$136,489	$109,598,723
Income Tax	$4,430	$10,236	$28,401	$19,727,770
Tax Credits	$1,000	NA	NA	NA
Net Income Tax	$3,430	$10,236	$28,401	$19,727,770
Actual Effective Tax Rate	7%	10%	16%	18%

*Assumes exemptions and deductions equal to average for income bracket in 2009.

So, how did the White House come up with its numbers? They added the payroll tax to the income tax… even though the payroll tax is mentioned exactly *zero* times in the not-exactly-pristine-white board.

	Executive Assistant	Teacher & Cop	Doctor	UBER 400
Income	$49,480/YR	$105,000/YR	173,900/YR	$110,000,000/YR
Net Income Tax	$3,430	$10,236	$28,401	$19,727,770
Payroll Taxes	$4,503	$9,555	$11,615	$3,196,572
Total Effective Tax Rate	16%	19%	23%	21%
*Assumes exemptions and deductions equal to average for income bracket in 2009.				

What do we learn from this? First, we got the effective income tax rates right because the payroll tax rates calculation is not subject to any mystery.

Second, the White House should brush up on tax policy. The Buffett rule is about income taxes. Income taxes that fund core government services. The more money you make, the more you pay into these services like national security and education.

The payroll tax on the other hand, is not about paying for core federal government services. It's about contributing to old-age programs from which taxpayers will also get back direct benefits. Take for example our single mother. If she turned 65 in 2030, she'd have, on average, put in $485,000 over her lifetime. But she will also receive up to $638,000 in benefits – a *negative* effective tax rate.

Mixing income and payroll taxes without accounting for benefits received is fundamentally incomplete and misleading. Effective tax rates done in this way and true effective tax rates are united only by a common ancestry in the integers.