

George Irvin*

Obama will tax the Super Rich more than Brown

Relative poverty has risen across the whole population since Labour came to power says the Institute of Fiscal Studies.¹ For British voters concerned about inequality, this is truly bad news: Blair and Brown have failed to redress Thatcher's legacy of inequality. But what of the US where extreme disparities of income and wealth are the highest in the industrialised nations and domestic inequality has become an important electoral issue? How much of a difference will voting for Obama or McCain make?²

The answer is quite a lot. The Tax Policy Center, a Washington-based research group, last week released a report entitled 'A Preliminary Analysis of the 2008 Presidential Candidates' Tax Plans'. Although the Center notes that neither McCain nor Obama has spelled out their tax plans in great detail, each has said enough in speeches, policy papers, and interviews to allow some meaningful comparison to be made.

If Senator McCain's proposals and preferences on tax policy become law, America's top 0.1 percent of income earners—taxpayers who this year will make at least \$2.9 million in income—will each pay over a quarter of a million dollars *less* in federal taxes in 2009 than they would pay if current tax law stays in place.

By contrast, under an Obama presidency, these same households would pay over \$700,000 *more*, on average, in 2009 than they would pay under current law. In short, taxpayers making over \$2.9 million a year will pay an average federal tax rate of 28.3 percent under McCain and of 39.2 percent under Obama. The tax gap for the super-rich between Obama and McCain is nearly \$1 million per household. Indeed, it could be somewhat larger since the Tax Policy Center's report appeared just *before* Obama announced his intention to subject income over \$250,000 to Social Security payroll tax.

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¹ See Brewer, M, Goodman, A *et al*, 'Poverty and Inequality in the UK: 2007' London: IFS.

² See <http://www.toomuchonline.org/tmweekly.html>

What about the vast majority of Americans with less than \$2.9 million in annual income? How would they fare under the Obama and McCain tax proposals? The poorest Americans, or those currently making under \$19,000 a year will save an average just over \$500 in 2009 if Obama's tax proposals go into effect---but only \$20 if McCain's plans become law. More middle class households — those making between \$38,000 and \$66,000 — will average nearly \$1,500 in 2009 tax savings under Obama but only about \$300 under McCain.

A crucial difference between the candidates is that McCain would allow the 2001-2003 Bush tax cuts, scheduled to expire in 2010, to roll on while Obama would not. McCain, although he twice voted against Bush's tax cuts, now embraces them and wants to extend them permanently. Obama would let them expire for taxpayers earning more than \$200,000 a year. The Tax Policy Center estimates that letting the Bush tax cuts expire would raise an extra \$140 billion per annum from 2012 onwards.

Not only would such a measure significantly increase the progressive nature of the US federal income tax system, it would be enough to finance a universal health care scheme providing full coverage for the first time to some 50 million citizens who currently have little or no health insurance---a critical component of making the United States a more egalitarian society.

How does Labour's record on targeting the super-rich in Britain compare with Obama's apparent intentions. The answer is 'not very well'---although one must immediately add that Britain still has an NHS and a functioning welfare state. Indeed, inequality in the USA is of a different order of magnitude to that in Britain. In the USA, the top 10% of income earners receives nearly 40% of national income while in the UK, the comparable figure is less than 30%. In the USA, the ratio of top CEO earnings to their workers' remuneration is nearly 400:1, in contrast to 100:1 in Britain.

Nevertheless, Labour has steadfastly refused to reform a fiscal system which---when taking into account all forms of taxation---weighs far more heavily on the very poor than the very rich. Indeed, Labour has arguably aggravated inequality by cutting corporation

tax from 33% to 28% and capital gains tax from 40% to a flat rate of 18%, and by giving entrepreneurs ‘relief’ by taxing the first million of capital gains at only 10%. Labour has lifted the inheritance tax threshold from £300,000 to £600,000 (rising to £700,000 after 2010). The government has failed to make NI more progressive and has maintained the cap on the highest rates of council tax.

If the British government wanted to reverse this state of affairs, it has a variety of instruments at its disposal. In addition to closing ‘non-dom’ loopholes in direct taxation (bringing Britain into line with other OECD countries) , it could introduce higher rate bands---say, 50% and 60%--- for those earning above £100,000 and £500,000 respectively. Doubtless this would unleash the wrath of the tabloid press, but in a country where an average family with several working members earns only £32,000 a year, a majority would consider this fair. And while it may not be politically feasible to restore previous rates of CGT and inheritance tax, a graduated wealth tax of (say) 0.5% to 4.0% on net worth of (say) above £500,000 would be perfectly viable; Austria, Belgium, France, Germany, Norway, The Netherlands, Sweden, Spain and even Switzerland all have some form of wealth tax, typically with a low threshold and low initial but graduated rates. Additionally, Germany and The Netherlands have recently announced a special levy on large executive bonuses.

Corporate taxation is another field where reform is needed---suffice it to say that tax avoidance is rife, and loopholes allowing incorporation in Lichtenstein or the Cayman Islands need to be closed. A recent internal study by HM Customs and Revenue suggests that the annual ‘tax gap’---the result of both avoidance and evasion---is equivalent to at least £11bn and could be as large as £40bn.³ In comparison to such sums, the Chancellor’s £2.7bn ‘compensation package’ for lower income taxpayers is peanuts. Here, action is needed at European level, and Brussels has recently begun to pry open the secrecy laws of countries like Austria and Luxembourg which facilitate tax avoidance.

³ See Vaness Houlder “‘Tax Gap’ estimated at £11bn-41bn”, *Financial Times*, March 13, 2008.

In the United States, the Presidential contest is about to place the issue of the super-rich and growing inequality squarely on the political agenda. Even in Britain, inequality is finding new resonance with the electorate; A YouGov poll for the LibDems in late 2007 showed that 80 percent of voters believe the gap between the rich and the poor is too large and that nearly 60% believe those earning above £100,000 should be taxed more heavily. The current Labour leadership ignores this issue at its peril. To paraphrase Ruth Lister speaking at the recent Compass conference, it would be extremely sad if after 11 years of power a Labour Government left society more unequal.