Resource 4 (1 of 3)

Perspectives and Evidence on the Capital Gains Tax

Fill in this table with the percentage of income *you* believe people should pay in federal taxes, based on how much total income they have. As a frame of reference, taken together and averaged, in 2014, the total share of income Americans paid in federal income taxes was 9.2%;[1] in contrast, in 2005 the total share was 20.5%.[2]

Income Quintile	What Percentage of Income Should They Pay?
Lowest 20% of Incomes	
Lower Middle: 20th–40th Percentiles	
Middle: 40th–60th Percentiles	
Upper Middle: 60th–80th Percentiles	
Top 20% of Incomes: 80th–100th Percentiles	

- Explain your decisions.

Resource 4 (2 of 3)

Perspectives and Evidence on the Capital Gains Tax

Now, look at the actual distribution of percentage of income paid in federal taxes, by income bracket, as of 2005[2]:

Income Level	Total Effective Federal Tax Rate
Lowest 20%	4.3
Lower Middle: 20th–40th percentiles	9.9
Middle: 40th–60th percentiles	14.2
Upper Middle: 60th–80th percentiles	17.4
Percentiles 81–90	20.3
Percentiles 91–95	22.4
Percentiles 96–99	25.7
Percentiles 99.1–99.5	29.7
Percentiles 99.51–99.9	31.2
Percentiles 99.91–99.99	32.1
Top 0.01%	31.5

For the most part, as people earn more income, they tend to owe more of their income in federal taxes. This is because the tax system is *progressive*, meaning that the wealthy are required to pay a larger share of their income in taxes.

- Do you think this is fair? Why or why not?

- Do you see an exception to this pattern?

Sources:

1. Saunders, L. (2015, April 10). Top 24% of earners pay 84% of income tax. *Wall Street Journal*. Retrieved from http://www.wsj.com/articles/top-20-of-earners-pay-84-of-income-tax-1428674384
2. Congressional Budget Office. (2008, December 23). Historical effective tax rates, 1979 to 2005: Supplement with additional data on sources of income and high-income households. Retrieved from http://www.cbo.gov/publication/20374

Resource 4 (3 of 3)

Perspectives and Evidence on the Capital Gains Tax

Two Perspectives on the Capital Gains Tax

Perspective 1

> Last year my federal tax bill—the income tax I paid, as well as payroll taxes paid by me and on my behalf—was $6,938,744. That sounds like a lot of money. But what I paid was only 17.4 percent of my taxable income—and that's actually a lower percentage than was paid by any of the other 20 people in our office. Their tax burdens ranged from 33 percent to 41 percent and averaged 36 percent.
>
> If you make money with money, as some of my super-rich friends do, your percentage may be a bit lower than mine. But if you earn money from a job, your percentage will surely exceed mine—most likely by a lot. . . .
>
> Back in the 1980s and 1990s, tax rates for the rich were far higher, and my percentage rate was in the middle of the pack. According to a theory I sometimes hear, I should have thrown a fit and refused to invest because of the elevated tax rates on capital gains and dividends.
>
> I didn't refuse, nor did others. I have worked with investors for 60 years and I have yet to see anyone—not even when capital gains rates were 39.9 percent in 1976–77—shy away from a sensible investment because of the tax rate on the potential gain. . . .
>
> **Source:** Buffet, W. (2011, August 14). Stop coddling the super-rich. *New York Times*. Retrieved from http://www.nytimes.com/2011/08/15/opinion/stop-coddling-the-super-rich.html?_r=1

Perspective 2

> Experts agree that capital gains tax cuts produce an especially large bang for the buck. They're a great way to boost the economy. That's because high capital gains [tax] rates cause what is called a "locked-in" effect. Investors hold off on selling assets to avoid the tax. But if capital gains taxes are cut, those same people sell—and invest. "Locked-in" wealth is released. Growth soars, along with a surge in tax receipts.

[In other words, Forbes and Ames believe investors will keep their money tied up in old investments if they know that selling them will result in high taxes on any profits they make. Without re-investment the economy won't grow. They also argue that lower taxes on capital gains will actually produce more money in taxes because when investors are freed up to sell, the lower rates will be offset by greater volume.]

Source: Forbes, S., & Ames, E. (2009). *How capitalism will save us*. New York: Crown, p. 170.