

CRAWN'S
March 9-15, 2009

The limits of soaking the rich

IF BARACK OBAMA has his way, the top federal tax rate for families making more than \$250,000 will jump to 39.6%. If Senate Democrats prevail in Albany, the rate for those with incomes above \$1 million a year will increase sharply, to 10.3%. If City Council Speaker Christine Quinn triumphs at City Hall, the local income tax rate for those in the latter lucky group will increase to 4.65%. Add it all up, and the marginal tax rate—the rate applied to all income in the highest bracket—would be more than 54%, versus the current 45.5%.

The effect on wealthy New Yorkers could be even more severe. Mr. Obama's plan would reduce the value of deductions of high-income individuals, including those for mortgage interest, charitable contributions and state and local income taxes.

The president would raise the capital gains tax for these people to 20% from 15%. He wants to eventually apply Social Security tax to all income; this year, the levy is applied only to the first \$106,000.

The increases are so great that Mayor Michael Bloomberg, who usually says taxes have little influence on where individuals live and companies locate, argues these hikes will send the wealthy fleeing the city. He's exactly right.

Proponents of higher taxes often claim that the rich don't pay their fair share. That is simply a myth. The wealthiest 1% of New Yorkers paid 40% of all income taxes in the state in 2007. The mayor says the group pays about half of all city income taxes. And the mayor noted that even if just a small percentage of wealthy New Yorkers left, an income tax

increase wouldn't raise an additional dime.

It is important to remember that the last increases in state and city income taxes after Sept. 11 coincided with the implementation of the Bush tax cuts. So the rich saw their total tax bill drop. Those 2002 hikes were also

RICH INCOME TAX INCREASES		
Top rates in each category.		
	CURRENT	PROPOSED
Federal	35.00%	39.60%
State	6.85%	10.30%
City	3.70%	4.65%
Total	45.55%	54.55%

temporary; both things made the increases more palatable. In today's economy, the rich will take note of the difference between New York and nearby states.

Times are tough, but steep tax increases on the affluent will weaken the national recovery, and a tax-the-rich attitude at the city and state will merely deepen New York's economic hole.