



Why We Need a Buffett Rule

Seven Convincing Reasons

Seth Hanlon February 2012

In recent months President Barack Obama articulated a fairness principle known as the “Buffett Rule,” named after billionaire investor Warren Buffett, who disclosed that he pays a smaller percentage of his income in federal taxes than his secretary. The Buffett Rule holds that no millionaire should pay a lower effective tax rate than middle-class families.

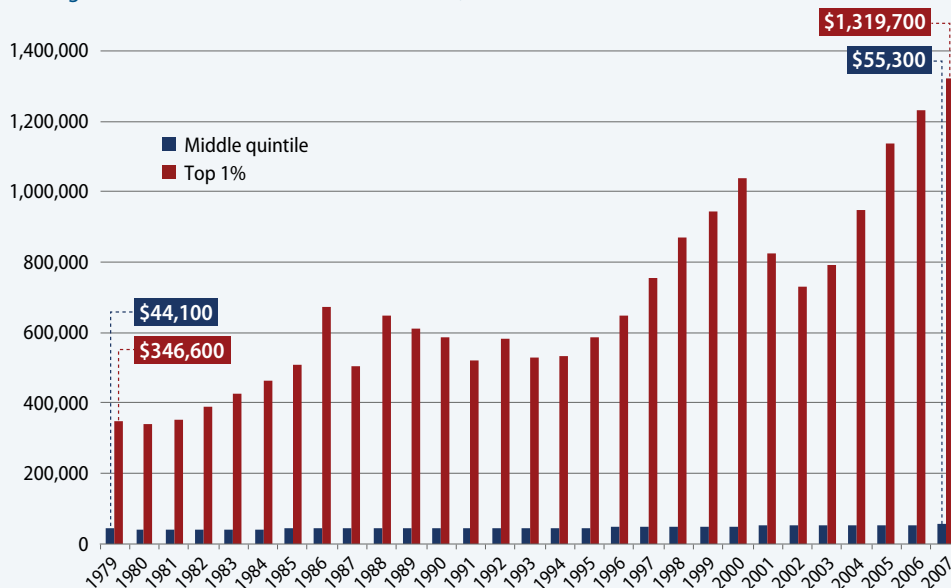
On February 1, Sen. Sheldon Whitehouse (D-RI) introduced the Paying a Fair Share Act of 2012. The bill would turn the principle behind the Buffett Rule into a rule of the U.S. tax code, requiring that all households with incomes above \$1 million pay at least a 30 percent minimum tax rate (with a phase-in for incomes between \$1 million and \$2 million).

Here are seven compelling reasons why we need a Buffett Rule.

1. The incomes of the top 1 percent have skyrocketed over the past three decades, nearly quadrupling and leaving middle-class incomes far behind. Rising inequality has meant that the very rich have captured an outsized share of the country’s economic gains.

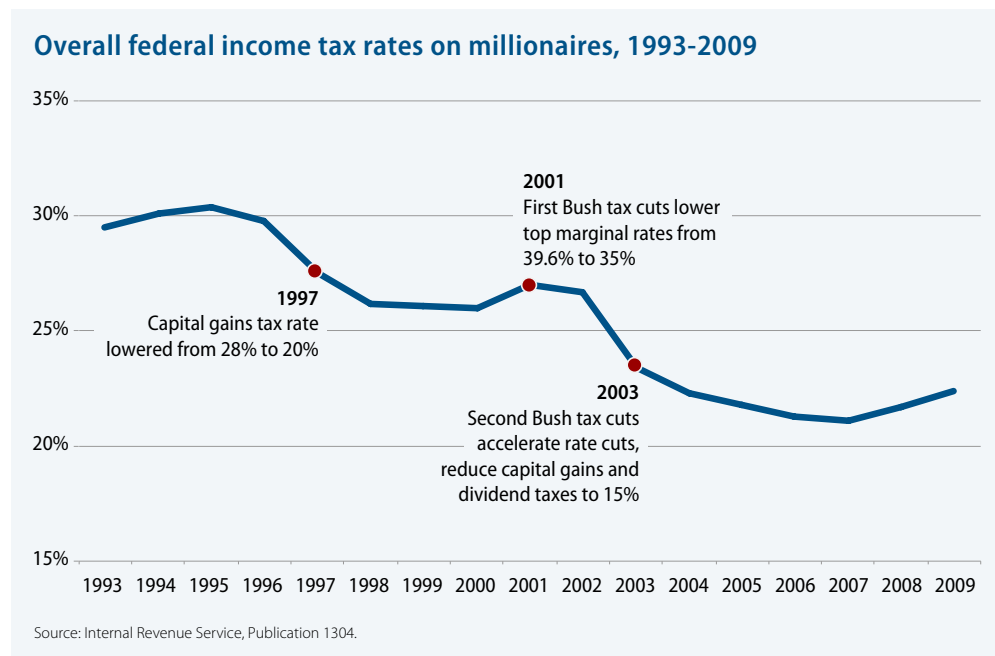
Inequality on the rise

Average after-tax income in constant dollars, 1979-2007

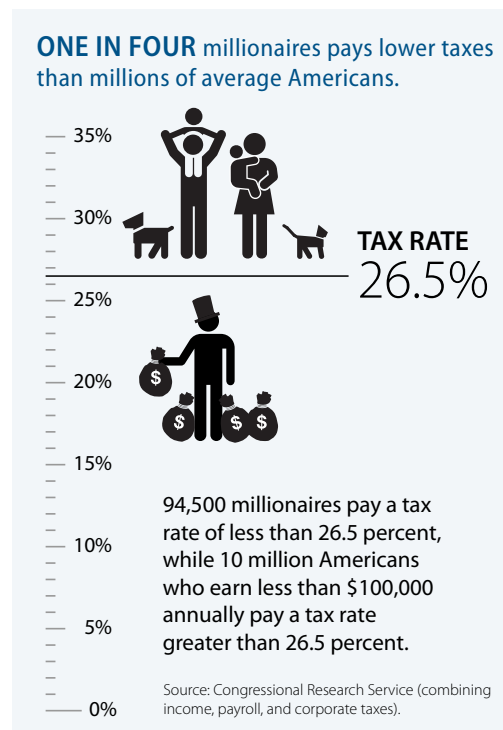
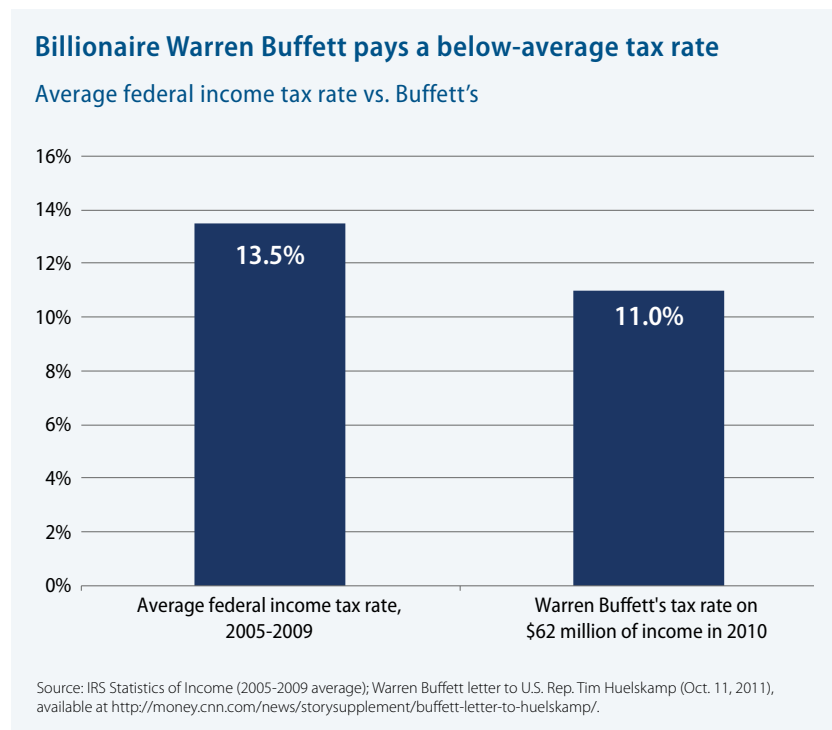


Source: CBO

2. During these same years, tax rates on millionaires dropped sharply as a result of the Bush tax cuts and successive rounds of tax cuts on investment income (capital gains and dividends).



3. A large number of millionaires are now paying lower taxes than millions of middle-class Americans.



4. While many at the top continue to pay lower taxes than those below them on the income scale, the entire burden of deficit reduction falls on investments and services for the middle class.

The Budget Control Act, enacted in August 2011, includes:

- **\$1 trillion** in cuts to government services and public investments (“discretionary” spending) over 10 years
- **\$1.2 trillion** in additional across-the-board spending cuts, including defense and Medicare, starting in January 2013
- **\$0** in additional revenues

5. The Buffett Rule would raise significant amounts of revenue to address our budget challenges, while affecting a tiny percentage of people who can easily afford it.

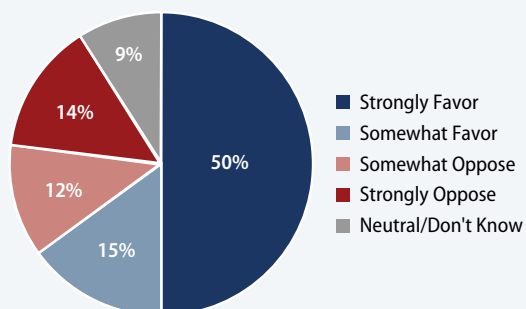
- **\$73 billion:** Additional revenue that the United States would have collected per year over the last three years if millionaires merely paid an average tax rate of 30 percent.
- **0.1 percent:** Percentage of Americans that would pay more in taxes under the Buffett Rule.
- **2.2 percent:** Average tax increase for these millionaire households.

Source: Authors’ calculations from IRS data, Tax Policy Center tbl. T12-0024.

6. The Buffett Rule enjoys broad, bipartisan support.

Majority of Americans favor Buffett Rule

AP-GfK poll, February 2012



Source: Associated Press and GfK, “The AP-GfK Poll, February, 2012,” p. 6, available at http://ap-gfkipoll.com/main/wp-content/uploads/2012/02/AP-GfK-Poll-February-2012-Topline_Congress.pdf

7. And that's because the rule would restore fundamental American values.



Seth Hanlon is Director of Fiscal Reform at the Center for American Progress.

See also:

- [Ronald Reagan, Father of the 'Buffett Rule'](#) by Seth Hanlon and Michael Linden
- [Issue Pulse: Support for the Buffett Rule](#)
- [Many Millionaires Do Enjoy Lower Tax Rates](#) by Sarah Ayres