



October 6, 2011  
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## State-by-State Figures on Proposed Millionaire Surcharge

Only one-fifth of one percent of U.S. taxpayers would pay the surcharge proposed by Senate Majority Leader Harry Reid to offset the costs of President Obama’s jobs bill. The table below shows that in the majority of states only one-tenth of a percent of taxpayers would pay the surcharge in 2013. Only in one state, Connecticut, would the share of taxpayers paying the surcharge exceed one percent.

Senator Reid proposes to apply a surcharge (a simple tax) of 5.6 percent on adjusted gross income (AGI) exceeding \$1 million. (The threshold is \$1 million for both married and unmarried taxpayers.)

The proposal is commonly referred to as a millionaire tax, but a taxpayer with exactly one million dollars in AGI would pay nothing under this surcharge, which only applies to the AGI in excess of \$1 million. For example, a taxpayer with \$1.1 million in AGI would only pay 5.6 percent of \$100,000, a tax increase of \$5,600. In this example, the tax increase would equal 0.5 percent of the taxpayer’s AGI.

In other words, even those taxpayers who expect to make one million dollars annually have little reason to worry about this proposal.

### Millionaires Are Not the Only Americans Who Need to Contribute More

Any proposal to raise revenue in a progressive way to fund jobs programs is extremely commendable. But this measure alone does not raise all the revenue that America needs. In particular, Congress should at least allow the Bush tax cuts to expire at the end of 2012 for married couples with AGI exceeding \$250,000 and unmarried taxpayers with AGI exceeding \$200,000, as President Obama has repeatedly proposed.

Percentage of Taxpayers Who Would Pay the 5.6 Percent Surcharge Proposed by Sen. Reid in 2013 (listed by state, in alphabetical order)			
Alabama	0.1%	Montana	0.1%
Alaska	0.2%	Nebraska	0.1%
Arizona	0.1%	Nevada	0.2%
Arkansas	0.1%	New Hampshire	0.2%
California	0.2%	New Jersey	0.3%
Colorado	0.4%	New Mexico	0.1%
Connecticut	1.2%	New York	0.7%
Delaware	0.3%	North Carolina	0.1%
District of Columbia	0.9%	North Dakota	0.2%
Florida	0.2%	Ohio	0.1%
Georgia	0.1%	Oklahoma	0.3%
Hawaii	0.1%	Oregon	0.1%
Idaho	0.1%	Pennsylvania	0.1%
Illinois	0.2%	Rhode Island	0.1%
Indiana	0.1%	South Carolina	0.2%
Iowa	0.2%	South Dakota	0.2%
Kansas	0.1%	Tennessee	0.1%
Kentucky	0.1%	Texas	0.5%
Louisiana	0.3%	Utah	0.1%
Maine	0.1%	Vermont	0.1%
Maryland	0.4%	Virginia	0.3%
Massachusetts	0.6%	Washington	0.3%
Michigan	0.1%	West Virginia	0.1%
Minnesota	0.1%	Wisconsin	0.1%
Mississippi	0.1%	Wyoming	0.4%
Missouri	0.1%	<b>United States</b>	<b>0.2%</b>

Source: ITEP Microsimulation Tax Model, October 2011

Some supporters of the millionaire surcharge have expressed concern that any proposal resulting in a higher tax bill for a family making \$250,000 would harm the “middle-class.” A number of misunderstandings have contributed to this mistaken belief.

First, President Obama's proposal to extend most, but not all, of the Bush tax cuts would not mean a higher tax bill for a family that makes \$250,000. Just as the millionaire surcharge would not affect a taxpayer with AGI of exactly \$1 million (as explained above), the President's plan would not result in the expiration of any tax cuts for a married couple with AGI of exactly \$250,000.

In fact, a great deal of income in excess of \$250,000 would continue to be taxed under the lower Bush-era rates under President Obama's plan, after deductions and other breaks are factored in. Citizens for Tax Justice estimated that three fourths of married couples with AGI between \$250,000 and \$300,000 would continue to enjoy all of their Bush tax cuts if President Obama's plan was in effect in 2011. On average, married couples in the \$250,000 to \$300,000 income range would lose just one percent of their Bush tax cuts.<sup>1</sup>

Second, even if taxpayers with just one dollar of income over the \$250,000/\$200,000 threshold had to pay a few cents more in taxes, it's difficult to see how that would harm the middle-class given that only 2.6 percent of taxpayers will have AGI exceeding the \$250,000/\$200,000 threshold in 2013.<sup>2</sup> If the best-off 2.6 percent of taxpayers cannot afford to sacrifice anything, then who can?

Third, there's a basic misunderstanding about how much revenue can be raised from higher tax rates on income exceeding \$1 million compared to higher tax rates on income exceeding \$250,000. Last year, the Joint Committee on Taxation (JCT) calculated that 84 percent of the revenue savings from President Obama's tax plan (to extend the Bush tax cuts for income up to \$250,000/\$200,000) would come from millionaires.<sup>3</sup> Some lawmakers apparently interpret this to mean that they could extend the Bush tax cuts for income up to \$1 million and save 84 percent of the revenue that President Obama's plan would save.

This is seriously wrong. Extending the Bush tax cuts for income up to \$1 million would save only a little over half as much as President Obama's plan.<sup>4</sup> The reason is that people with incomes over \$1 million would keep their Bush tax cuts on the portion of their income between \$250,000 and \$1 million.

Under President Obama's approach to the tax cuts, a married couple with income of \$1.1 million would continue to enjoy the lower Bush-era tax rates on their first \$250,000 and pay higher tax rates on the rest. But if the tax cuts are extended for income up to \$1 million, then this couple would enjoy the lower Bush-era rates on their first \$1 million of income and pay higher tax rates on just \$100,000. In other words, extending the Bush tax cuts for income up to \$1 million provides an additional tax break for all taxpayers whose income exceeds \$1 million.

Lawmakers' attempts to protect "middle-class" taxpayers making \$250,000 may be irrelevant. If lawmakers cannot agree on how to address taxes, the Bush tax cuts will expire for *all* taxpayers at the end of 2012. And this would be a reasonable outcome. CTJ estimated that if they are extended into 2013, 47 percent of these tax cuts would go to the richest five percent of taxpayers and just 13 percent would go to the poorest three fifths of taxpayers.<sup>5</sup> This is one time when Congressional inaction may be the solution.

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<sup>1</sup> Citizens for Tax Justice, "Married Couples with Incomes Between \$250,000 and \$300,000 Would Lose Only 1% of Their Bush Tax Cuts under Obama Plan versus GOP Plan," December 3, 2010. <http://www.ctj.org/pdf/obamavsgoptax.pdf>

<sup>2</sup> Citizens for Tax Justice, "People Who Make \$250,000 Should Stop Worrying: Obama's Income Tax Plan Targets Those Who Make Over \$1 Million," May 19, 2011. <http://www.ctj.org/pdf/250k.pdf>

<sup>3</sup> Joint Committee on Taxation, memo from Thomas A. Barthold to John Buckley, Aruna Kalyanam and Kase Jubboori, July 30, 2010; Joint Committee on Taxation, Table #D-10-08 (replaces Table #D-10-05 in memo), August 10, 2010. For an explanation, see Citizens for Tax Justice, "Married Couples..." cited above.

<sup>4</sup> See Thomas L. Hungerford, "The Bush Tax Cuts and the Economy," Congressional Research Service, October 2010, page 13. The figures show that the estimated ten-year revenue savings from extending the Bush tax cuts for income up to \$250,000/\$200,000 (instead of extending the tax cuts for all income levels) is \$678 billion. The ten-year savings from extending the tax cuts for income up to \$1 million is just \$364 billion.

<sup>5</sup> Citizens for Tax Justice, "The Bush Tax Cuts After Ten Years," June 2, 2011. <http://www.ctj.org/bushtaxcuts10yrs/us.pdf>