

Social inequality in America: Tax law will overwhelmingly benefit the wealthy

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The claim by President Obama and Congressional Democrats that the new tax law is an economic stimulus that will benefit working class people is a lie. It is a law tailored to benefit the extremely wealthy.

At a cost of \$150 billion over the next two years, it maintains George W. Bush's reduction in the high-end income tax rate—for those taking home over \$250,000 for married couples and \$200,000 for individuals—at 35 percent.

According to the Center for Tax Justice, the wealthiest one percent of taxpayers will pocket almost \$77,000 per year more as a result of the deal. The top 1 percent would take home over 25 percent of the total tax cut; the bottom 60 percent would share less than that, about 20 percent.

Despite White House protestations to the contrary, there is no reason to believe that Democrats will reverse these tax cuts in two years' time, when Republicans will control the House of Representatives. Over the next ten years, the perpetuation of the high-end income tax rate reduction will cost \$700 billion, according to the Congressional Budget Office, far more than was allocated for infrastructure improvements in Obama's 2009 stimulus package, the American Recovery and Reinvestment Act.

The law also includes a number of measures designed to secure the hereditary prerogative of what is, in all but name, an aristocracy. It increases the size of fortunes exempt from the estate tax to \$10 million for couples and \$5 million for individuals. For fortunes beyond those thresholds, the law will reduce the tax rate to 35 percent.

The rate was going to reset to 55 percent after this current year's "holiday" in which the rich could pass on their estates without any taxation. To further sweeten the deal for the rich, the bill includes a measure that will allow multi-million dollar estates settled in 2011 for deaths taking place in 2010 to take advantage of the zero percent tax rate.

The law also allows the \$5 million exemption to apply to gifts and "generation-skipping investments," making it "much easier for wealthy taxpayers to make gifts during life to grandchildren," according to estate attorney Beth Kaufman of Caplin and Drysdale in a comment to the *Wall Street Journal*.

The package also perpetuates for two years the all-time low tax rate on capital gains and dividends at 15 percent, along with a number of additional tax write-offs for corporations.

In an attempt to provide a degree of political cover for Obama and the Democrats, the bill includes a few measures that ostensibly benefit those outside of the richest one percent of the population.

The law extends tax cuts introduced in the Bush years for middle and lower income Americans. The working population has realized a much smaller share of the overall tax cut, however, and the money withdrawn from the public coffers will be offset by cuts to social spending. For months the Democrats called for maintaining the tax cuts for all households except for the wealthiest, but have now made into law the Republican position.

The law also extends funding for federal long-term unemployment benefits for millions of workers for another 13 months at a cost of \$56 billion, about a third of the price of the two-year income tax give-away to the rich. Hundreds of thousands of workers have lost their benefits since the November 30 expiration of extended unemployment benefits. Repeatedly held hostage by the Republican opposition and Democratic indifference over the past year, extended federal benefits will almost certainly expire at the beginning of 2012 with Republican control of the House.

The law also includes a one year Social Security tax cut, by which the payroll tax rate will be reduced from 6.2 percent to 4.2 percent on the first \$106,800 of a worker's wages.

According to an analysis by the Tax Policy Center, 51 million households—a third of the total—will be worse off as a result of the tax package. This is because for those with the greatest need—couples making less than \$40,000 or individuals making less than \$20,000—the Social Security tax break will not offset the tax break it is replacing, the Making Work Pay credit, resulting in an average household loss of \$210 per year for 45 million households.

Another 6 million households will lose their Making Work Pay credit and will receive nothing in compensation through the Obama-Republican plan because they are state or local government employees who do not contribute to Social Security.

Perhaps most significantly, cutting Social Security payroll taxes sets the precedent for further attacks on the federal retirement program. The bill marks the first time in the 75-year history of the program that Congress has intervened to cut the payroll tax rate, and there is a campaign already underway to lengthen the tax "holiday." This would have the effect of accelerating Social Security's insolvency. The program is currently not predicted to become insolvent for several decades.

The law has specific benefits for the Wall Street elite, whose reckless financial speculation triggered the global economic collapse. "[A]mong the big winners are private-equity and hedge-fund executives who prevailed in their battle against 'carried interest' provisions that would have taxed their earnings at higher ordinary-income rates rather than as capital gains," the *Wall Street Journal* notes.

In other words, the law shelters the most lucrative forms of speculative wealth accumulation on Wall Street from the personal income tax by defining these as capital gains, a form of wealth accumulation historically associated with productive investment.

The law also puts in place a two-year repeal of two laws already on the books that sought to limit the ability of the extremely wealthy to claim tax write-offs, the Pease Limitation and

the Personal Exemption Phase-out (PEP).

The net effect of the law is an acceleration of the redistribution of wealth from the working class to a tiny layer of the financial elite. This takes the immediate form of tax cuts for the wealthy, but the resulting deficit spending will be paid for through unprecedented cuts to social spending.

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