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The Forbes 400 paid 23.8% of their economic income in taxes from 2018 to '20.

Corporate Tax Ensnares Ultrawealthy

Study finds nearly 40% of taxes paid by richest in U. S. came from levy on firms

BY RICHARD RUBIN

One of the most important tools for taxing the wealthiest sliver of Americans is a levy they don't pay with a personal check to the government: the corporate income tax.

A new study estimates that nearly 40% of the taxes paid by the 400 wealthiest Americans from 2018 to 2020 came from corporate taxes.

"The corporate tax is effectively the tax that billionaires pay at source. So it is one that is still a major tax for them," said Emmanuel Saez, an economics professor at the University of California, Berkeley, and co-author of the study.

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The study, conducted with access to anonymized Internal Revenue Service data, attempts to create a comprehensive estimate of income and taxes for the very small group of people on the Forbes 400 list of the wealthiest Americans. It finds that they paid 23.8% of their economic income in taxes from 2018 to 2020. Of those taxes, 37% come through corporate taxes, with the bulk of the rest from individual income and payroll taxes.

NOTE

That 23.8% estimate is far higher than the Biden administration's frequent claim that U.S. billionaires paid just 8.2%—a figure that used a different broad income definition but didn't include corporate taxes. Democrats pointed to such numbers to argue the ultrawealthy paid a much lower rate than average Americans and should be taxed more.

The holdings and tax profiles of the very rich are substantially different from the whole population. Typical ways of measuring tax rates don't work as well, and you can't get an accurate picture by dividing their federal individual income taxes by adjusted gross income.

- Note

Compared with average wage-earners, the ultrawealthy benefit more from profits of private companies and shares of publicly traded corporations. However, they don't owe individual taxes on those corporate holdings unless they sell shares or receive dividends.

That means billionaires' individual income-tax returns can significantly understate their full economic income— and their full tax burdens.

The study includes corporate profits in individual in --come and corporate taxes in individual tax payments and matches those holdings to people on the Forbes list. Counting those corporate profits and payments presents a more complete view of what the wealthiest Americans pay the government and shows how the corporate tax functions within the fiscal system.

- Note

The analysis requires significant assumptions. The authors' past estimates of rising U.S. inequality have been contested by other economists as understating the income of most households and thus overstating tax rates for middle- income Americans.

Notably, the researchers— unlike the Treasury Department, the Joint Committee on Taxation and many academic economists—assume shareholders bear the full corporate tax burden instead of assuming that workers experience some effect through lower wages. That choice increases the study's estimates of corporate taxes paid at the top; the corporate tax would still be significant even with conventional assumptions.

The 23.8% tax rate estimates what top households pay to all levels of government. That is compared with 30% for the whole population and 45% for a broader group of highincome households that relies more on income from working. It doesn't include top households' charitable contributions, which total 11.4% of income.

No

During his presidency, Joe Biden proposed taxing some unrealized capital gains as income. Some Democrats and progressive activists have floated annual wealth taxes.

Note

For the foreseeable future, those new taxes are politically impossible. Meanwhile, the corporate tax is doing the heavy lifting of taxing the ultrawealthy. Corporate taxes amounted to 8.9% of income for the top group, compared with 1.7% for the whole population, according to the study.

Although corporate taxes are very progressive, economists and policymakers worry about their potential effect on growth.

Note

"The optimal tax rate on labor income and capital income are not the same," said Alex Brill, a senior fellow at the conservative-leaning American Enterprise Institute. "If policymakers really want to prioritize long-run economic growth, then they would favor a system that taxes capital income less than wage income. There is that inherent trade-off there."

