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He resists Republicans who want a Bernie Sanders tax policy.

Trump's Smart Tax Decision

REVIEW & OUTLOOK

President Trump disappointed Democrats this week when he wisely rejected the idea floated by some on the right to raise tax rates on high earners. He's saving Republicans from a blunder that would divide his coalition and hurt the economy.

Our Kimberley Strassel reported last week that leaks in support of raising taxes are coming from political allies of Vice President JD Vance. Steve Bannon, the Goldman Sachs-Hollywood populist, has pitched letting the top rate revert to 39.6%—the level before the 2017 tax reform—from 37%. That rate now begins at \$626,350 in income for individuals. He and others also want new tax brackets for those earnings more than \$1 million, and perhaps \$3 million or \$5 million.

Liberals cheered the idea, but Mr. Trump knocked it down Wednesday. "You'll lose a lot of money if you do that," the President told reporters. "And other countries that have done it have lost a lot of people. They lose their wealthy people." That would be bad, because the wealthy people pay the tax. He's right on all counts.

As we reported this week, British tax revenues are falling short of projections after the Labour government raised taxes on capital gains and high-earning foreigners, causing a rush to the exits. *

Liberals retort that Mr. Trump needn't worry about a flight of millionaires since as U.S. citizens they'd still pay U.S. taxes even if they move abroad. True, but the wealthy have many ways to shield income from taxation.

As Mr. Trump knows, the rich can hire armies of accountants to reduce their tax liabilities. They can buy tax-exempt municipal bonds or donate land for conservation. Don't think the rich will change their behavior in response to a 2.6 percentage-point rate increase? When California and New York raised top rates by similar amounts, high earners fled in droves. ↪ !

All of this is why soaking the rich never raises as much revenue as predicted. In 2012 Republicans struck a deal with Barack Obama to extend the Bush middle-class tax rates but let the federal top rate revert to 39.6% from 35%. Yet income tax revenue fell \$250 billion short of the Congressional Budget Office's projections between 2013 and 2017.

Some Republicans want to raise rates to reduce the budget deficit, but there aren't nearly enough rich to do so. Increasing the top rate to 39.6% is projected to raise only \$20 billion to \$40 billion a year, and will probably bring in far less revenue once the rich alter their behavior. Others want to tax the rich more to redistribute income through the tax code, but that math also doesn't add up. Exempting tips, Social Security benefits and overtime from taxes would cost \$2 trillion over 10 years, and probably more once workers adjust behavior. Raising the child tax credit to \$5,000 would cost another \$2.4 trillion.

In any event, the tax code is already steeply progressive and the affluent pay more than their fair share. In 2022 (the last year this data is available), the top 1% paid 40.4% of federal income taxes and the next 4% of earners paid 20.6%. The top 10% paid 24 times more in tax than the bottom 50%. The share of taxes paid by the affluent is much higher than their share of income.

Many Americans are "rich" only for a year or two after decades of working or running a small business. Raising the top rate punishes labor and sweat equity. It will reduce investment since high earners invest more of their income. With Mr. Trump's tariff-tax hitting growth, the economy needs a tax cut across the board, not another tax increase. Note

As for the politics, Mr. Bannon says a millionaire tax would neutralize Democratic attacks on the GOP for supporting the rich. "This guts the AOC-Bernie 'oligarchy tour,'" he told the Washington Post, referring to the Alexandria Ocasio-Cortez and Bernie Sanders rallies. "This would destroy the Democrats." This the worst political analysis of the year. *

If Republicans raise the top rate to 39.6%, Democrats will say it should be 45%. Hike it to 45%, and they'll say it should be 50% or demand a wealth tax. Then there's the problem of blowing up the GOP brand on taxes and the coalition. Many voters support the GOP more on economics than the culture wars. They might not if Republicans imitate Bernie on taxes.

The last Republican President to raise the top rate was George H.W. Bush in 1990. It didn't turn out well for the economy and it blew up the GOP coalition in 1992. Mr. Trump is wise to avoid that blunder.

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