

A minimum tax for the wealthy

By Warren E. Buffett

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Suppose that an investor you admire and trust comes to you with an investment idea. “This is a good one,” he says enthusiastically. “I’m in it, and I think you should be, too.”

Would your reply possibly be this? “Well, it all depends on what my tax rate will be on the gain you’re saying we’re going to make. If the taxes are too high, I would rather leave the money in my savings account, earning a quarter of 1 percent.” Only in Grover Norquist’s imagination does such a response exist.

Between 1951 and 1954, when the capital gains rate was 25 percent and marginal rates on dividends reached 91 percent in extreme cases, I sold securities and did pretty well. In the years from 1956 to 1969, the top marginal rate fell modestly, but was still a lofty 70 percent — and the tax rate on capital gains inched up to 27.5 percent. I was managing funds for investors then. Never did anyone mention taxes as a reason to forgo an investment opportunity that I offered.

Under those burdensome rates, moreover, both employment and the gross domestic product (a measure of the nation’s economic output) increased at a rapid clip. The middle class and the rich alike gained ground.

So let’s forget about the rich and ultrarich going on strike and stuffing their ample funds under their mattresses if — gasp — capital gains rates and ordinary income rates are increased. The ultrarich, including me, will forever pursue investment opportunities.

And, wow, do we have plenty to invest. [The Forbes 400](#), the wealthiest individuals in America, hit a new group record for wealth this year: \$1.7 trillion. That’s more than five times the \$300 billion total in 1992. In recent

years, my gang has been leaving the middle class in the dust.

A huge tail wind from tax cuts has pushed us along. In 1992, the tax paid by the 400 highest incomes in the United States (a different universe from the Forbes list) averaged 26.4 percent of adjusted gross income. In 2009, the most recent year reported, the rate was 19.9 percent. It’s nice to have friends in high places.

The group’s average income in 2009 was \$202 million — which works out to a “wage” of \$97,000 per hour, based on a 40-hour workweek. (I’m assuming they’re paid during lunch hours.) Yet more than a quarter of these ultrawealthy paid less than 15 percent of their take in combined federal income and payroll taxes. Half of this crew paid less than 20 percent. And — brace yourself — a few actually paid nothing.

This outrage points to the necessity for more than a simple revision in upper-end tax rates, though that’s the place to start. I support President Obama’s proposal to eliminate the Bush tax cuts for high-income taxpayers. However, I prefer a cutoff point somewhat above \$250,000 — maybe \$500,000 or so.

Additionally, we need Congress, right now, to enact a minimum tax on high incomes. I would suggest 30 percent of taxable income between \$1 million and \$10 million, and 35 percent on amounts above that. A plain and simple rule like that will block the efforts of lobbyists, lawyers and contribution-hungry legislators to keep the ultrarich paying rates well below those incurred by people with income just a tiny fraction of ours. Only a minimum tax on very high incomes will prevent the stated tax rate from being eviscerated by these warriors for the wealthy.

Above all, we should not postpone these changes in the name of “reforming” the tax code. True, changes are badly needed. We need to get rid of arrangements like “carried interest” that enable income from labor to be magically converted into capital gains. And it’s sickening that a Cayman Islands mail drop can be central to tax maneuvering by wealthy individuals and corporations.

But the reform of such complexities should not promote delay in our correcting simple and expensive inequities. We can’t let those who want to protect the privileged get away with insisting that we do nothing until we can do everything.

Our government’s goal should be to bring in revenues of 18.5 percent of G.D.P. and spend about 21 percent of G.D.P. — levels that have been attained over extended periods in the past and can clearly be reached again. As the math makes clear, this won’t stem our budget deficits; in fact, it will continue them. But assuming even conservative projections about

inflation and economic growth, this ratio of revenue to spending will keep America’s debt stable in relation to the country’s economic output.

In the last fiscal year, we were far away from this fiscal balance — bringing in 15.5 percent of G.D.P. in revenue and spending 22.4 percent. Correcting our course will require major concessions by both Republicans and Democrats.

All of America is waiting for Congress to offer a realistic and concrete plan for getting back to this fiscally sound path. Nothing less is acceptable.

In the meantime, maybe you’ll run into someone with a terrific investment idea, who won’t go forward with it because of the tax he would owe when it succeeds. Send him my way. Let me unburden him.

Warren E. Buffett is the chairman and chief executive of Berkshire Hathaway.