



Analytics

Published by the Caesar Rodney Institute

RELEASE: CRI - Center for Economic Policy and Analysis

RE: Delaware's filthy rich

DATE: 7/10/2012

The mantra of President Obama is to raise taxes on the rich rather than cut the size of government. In Delaware, the governor, supported by the legislature, has already done this. Effective January 1, 2010 the top marginal tax rate applied to personal income of \$60,000 or more was raised from almost 6% to almost 7%, and there have been no significant cuts in state government.

What are the assumptions behind this thinking?

If no significant cuts in the size of government are made, obviously all government services and spending must be essential. There are no serious efficiencies that could be achieved. In Delaware's mainstream public schools, for example, where two-thirds of the students cannot read or do math with proficiency and where per pupil spending has risen faster than inflation for twenty years, the need is really for more money and a larger Department of Education.

With regard to the "filthy rich" in Delaware, it is clear that the liberals believe it is "fair" and "just" to redistribute their income. More equal distribution of personal income is "fair" because most rich people (aside from Hollywood stars) get their money by taking advantage of others or by sheer luck. America is not a meritocracy. Hard work, commitment to family, and dedication to education don't always pay off and are thwarted by discrimination, life circumstances, and bad luck.

Well, who are the filthy rich in Delaware? The 2010 IRS data on Delaware taxpayers provides some insights.

According to the IRS, 2.6% of the 2010 Delaware personal income tax returns reported income of \$200,000 or more. These filthy rich households paid 29% of the Federal personal income tax coming from Delaware and accounted for 33% of Delaware's personal income tax revenue.

Compared to the rest of Delaware taxpayers, the filthy rich appear more likely to be married. Almost 87% of the filthy rich filed joint returns compared to just 35% of the remainder of taxpayers. Based upon the number of dependents, the filthy rich households are 60% larger.

The filthy rich in Delaware were far more likely to be business owners and entrepreneurs. Almost 37% of the filthy rich reported partnership and subchapter S income on their returns compared to 4% of the rest of the taxpayers. The proportion of returns reporting such income rose to 61% for households with income between \$500,000 and a million and to 76% for households with income over a million.



Analytics

Published by the Caesar Rodney Institute

Not surprisingly, the filthy rich are slightly more likely than the rest of Delaware taxpayers to report interest income, four times more likely to report dividend income, and ten times more likely to report income from capital gains. The filthy rich are far less likely to report income from unemployment insurance and social security.

Since tax year 2007, the filthy rich have been in retreat in Delaware. By 2010 the number of tax returns from the filthy rich fell almost 10% and their reported income dropped by 27%. This is the inter-related impact of the recent recession and the hike in Delaware's personal income tax.

As shown in the data for Delaware, the filthy rich tend to be persons who have taken the risks and made the sacrifices to launch their own businesses. They are married with dependent children. As is true across the nation, the rich in America today have mostly earned their money, not inherited it. And the businesses they have created provide jobs for the rest of us.

The research literature, including liberal organizations, consistently shows that there is significant mobility within the U.S. income distribution. Almost half the folks at the bottom will move up over five years and nearly half the folks at the top will move down. Survey data shows that while Americans favor a slightly progressive tax system, taking money from fellow citizens who have earned it through hard work cuts against the grain of the American character.

Why then the entrenched position of President Obama and Delaware's Governor? Because facts don't matter in the arena of politics. Taxing the rich, even to the detriment of Delaware's economy, is considered to be political posturing that sells.

**Dr. John E. Stapleford, Director
Center for Economic Policy and Research**