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Taxing the 'Not-So-Rich' Rich

Many of America's affluent, squeezed already, worry they will be burdened with higher taxes

By [Jane Sasseen](#)

By any measure, Dr. Howard Hammer and his wife, Hope, have a comfortable life. Hammer, 40, has built a thriving practice as an ear, nose, and throat specialist, while Hope, 39, has switched to part-time work as a real estate lawyer after years at a big firm in order to spend more time with Arielle, 7, and Matthew, 9. Home is a four-bedroom house in the Philadelphia suburbs, and between them, they bring in over \$300,000 a year. "We can't complain," he says. "We're certainly not struggling."

But are they wealthy? That's far more debatable. Hammer, who feels the same pressures squeezing Americans up and down the income ladder, says he's anything but. Ever-rising prices for gas, health insurance, and other expenses are hitting hard, as are the \$3,000-a-month mortgage and the \$2,000 he still pays monthly to whittle down his \$160,000 medical school debt. A six-year residency gave Hammer a delayed start saving for retirement, so he worries if he's stashing enough in his 401(k). By the time the couple contributes to the children's college fund, there's little extra at the end of the month.

The Hammers and their like may have more to worry about come January. As he criss-crossed the U.S. battling Senator Hillary Clinton (D-N.Y.) for the Democratic Party Presidential nomination, the presumptive winner, Senator Barack Obama (D-Ill.), talked up plans to

cut taxes for the middle class. To pay for the expansive new programs he's offered voters, Obama has pledged to boost taxes only on the wealthy. Recently in Indianapolis, Obama promised to save the average family \$2,500 in annual health-care premiums. "That's real relief, but we can only pay for this if we finally roll back the Bush tax cuts for the wealthiest 2% of Americans, who don't need them and weren't even asking for them," he said.

Such rhetoric leaves Hammer steaming. "I don't mind paying my fair share, but people act like they're just talking about Bill Gates," he says. "We would definitely feel a hit if our taxes went up." Although a year ago he would not have considered voting Republican in November, now he's not so sure: "Do you vote your heart, or do you vote your wallet?"

Just what does it mean to be wealthy these days? When it comes to raising taxes, it's far from clear exactly where the line will be drawn. While Obama has said only couples making more than \$250,000 will pay more, many analysts believe that number could change. "Rates at the top end are going up, but what does that mean for those making \$200,000, \$225,000, or \$250,000?" asks Anne Mathias, the head of Washington policy research for the Stanford Group, an investment advisory firm.

Like Hammer, many facing higher taxes don't consider themselves part of the exalted crowd. They have good incomes, to be sure, particularly compared with the median household income of \$48,200. Of the 149 million households filing federal income taxes for 2006, some 3% reported income between \$200,000 and \$500,000; fewer than 1% claimed income above half a million dollars.

But many also live in high-cost areas with expenses to match—and feel burned by talk of "taxing the rich" that doesn't recognize that \$250,000 stretches a lot further in the South or the Midwest than in Manhattan or Silicon Valley. "There is a huge difference between what politicians define as rich and what many Americans would call middle class," says **Patrick Anderson, CEO of the Anderson Economic Group and co-editor of *The State Economic Handbook*.**

The soaring deficit, along with the fact that the Bush tax cuts expire at the end of 2010, provide much of the impetus for the coming fight over high-end taxes. If Washington doesn't act, tax rates on income, capital gains, dividends, and other areas will return to the higher rates in effect before the cuts were enacted in 2001 and 2003. Senator John McCain (R-Ariz.), the presumptive GOP Presidential nominee, has said he would extend the cuts for everyone, while Obama says he'll maintain them for all but the wealthiest. If Obama wins, some taxes could go up as soon as 2009.

By "wealthiest" Obama means married couples earning more than \$250,000; for a single taxpayer, the equivalent income would be roughly \$200,000. Today, taxpayers making that much fall into the top two federal income tax brackets, paying rates of 33% or 35%. Their rates would revert to the 36% and 39.6% top rates used in 2000. The same households would also see a bump up in the rates they pay on capital gains and dividends, both of which now stand at 15%.

Austan Goolsbee, Obama's top economic advisor, points out that only a relatively small number of high-end earners would be tapped, while the majority of Americans would see their taxes fall or remain the same. "Income growth in that group has been extremely rapid, while it's been stagnant for everyone else," says Goolsbee. "It's hard to argue they face the same struggle to get by."

Yet for many close to that \$250,000 cusp, what sounds like a lot of money often doesn't feel like it. "Depending on where you live, \$250,000 is middle class, at best," says Michael Ginn, 49, a longtime media executive who lives with his wife, Dafne, 34, and 3-year-old daughter, Erin, in the New York suburb of Pelham; their second daughter is due in July. Though his income has topped \$300,000 for more than a decade, Ginn says he's never felt so stretched. With the cost of everything from health insurance to upkeep on his 90-year-old home surging, even as he takes on new expenses for his growing family, Ginn can't stash away anything near what he once did for retirement, let alone save for college. "We're just dog paddling now," he says. He argues that if Washington is going to raise high-end taxes, then the local cost of living should be taken into account.

STILL NOT ENOUGH

Yet limiting tax hikes to the \$250,000-and-up set probably won't pump enough money into the U.S. Treasury to pay for new spending programs and deal with the ballooning deficit, even when combined with proposed corporate tax increases. Analyst Daniel Clifton of Strategas Research Partners has tallied some \$350 billion in promised new annual spending by Obama. He has outlined plans to pay for new programs without increasing the deficit, but budget analysts are skeptical. "Targeting just a fraction of the population [for an increase] is not going to generate the revenues they need," says Roberton Williams, an ex-Congressional Budget Office staffer now with the independent Tax Policy Center. Adds Clifton: "They are going to have to find a way to get more from the middle class."

That prospect has many well below the \$250,000 threshold convinced that they, too, could be coughing up more to Uncle Sam. Ken Grunski, the CEO of international cell phone provider Telesial, lives with his wife and two young children in San Diego—a pricey area where, he points out, plumbers make upwards of \$90,000. Grunski brings home \$147,000 a year; enough to live in a modest three-bedroom house, but no more. Every time he hears politicians talk about targeting high-end earners, he feels like he's right in their sights. "I'm resigned to having my taxes go up, but we're not living extravagantly here," he says.

Obama could lose support if too many people who see themselves as stretched members of the middle class get tagged as wealthy. "If they draw the line in the wrong place, they risk alienating an important constituency," says Mathias. That's a prospect McCain, who has lost no opportunity to remind voters that he would cut taxes while the Democrats would raise them, would be only too happy to exploit. Yet even if McCain is elected, analysts say taxes at the top end will probably rise. With the Democrats likely to wield a stronger grip on Congress after the election, there's little chance they'd agree to a renewal of all the Bush cuts. "People think the President can just extend the cuts, but he can't," says Stanford Group's Mathias. All of which explains why Mathias has been warning her clients that the next couple of years "will be a very bad time to be rich." Whatever, precisely, that means.

Sasseen is Washington bureau chief for BusinessWeek.

TAXING THE TOP

How high-income taxpayers could fare under the new Administration

INCOME TAX

Obama wants to restore the tax rates in effect before the Bush tax cuts for households making more than \$250,000. McCain would maintain the current rates for all taxpayers.

CAPITAL GAINS

If the Democrats win, the 15% capital gains rate could increase to between 20% and 25% for high-income households. McCain would stick to today's rate.

DIVIDENDS

Obama may raise taxes on dividends from the current 15% to between 20% and 25% for high-income households. McCain would keep the current rate.

Data: Tax Policy Center, campaigns