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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Tax Rates on High-Income Earners, Capital Gains and Dividends**

Abraham Lincoln once said, "That some achieve great success is proof to all that others can achieve it as well."

Our country was built on the principle that everyone can succeed by working hard and playing by the rules. It's the American Dream. But lately, more and more folks are finding that as hard as they try, this success is further from their grasp.

In fact, since 2007, Americans' real median household income has fallen by 6.4 percent. It's the lowest income we've seen since 1997. The New York Times today called it a lost decade. And 21 percent of children live in poverty.

We are facing a struggling economy and record deficits. We need to do something to tackle these problems, and do so in a balanced way that creates jobs in the process.

But in tough economic times like these, taking on these problems involves difficult choices. And these choices are clear.

Putting the full load of deficit reduction on seniors, veterans and middle class families, for example, when the wealthiest can afford to pay a little more, simply doesn't make sense.

With limited resources, however, it does make sense to allow these lower tax rates for the wealthiest in our society to expire, rather than making major cuts to Social Security or Medicare.

And it sure makes sense to let those rates expire rather than increase taxes on lower and middle-income families.

Over the past three decades, the incomes of the richest one percent of Americans have risen much more rapidly than the other 99 percent of Americans. That gap continues to widen both before and after taxes. During that time period, the after-tax incomes of the top fifth of taxpayers grew nearly eight times faster than those of the bottom fifth.

I introduced legislation last year to allow the current top two tax rates to expire for those with incomes above \$200,000 and married couples with incomes above \$250,000. This proposal would mean that the top income tax rates of 33 and 35 percent would return to 36 and 39.6 percent, respectively.

Historically, the top tax rates have been much higher than the current rates – and these proposed rates. In fact, over the last century, the average top rate has been 59.2 percent.

The lower tax rate for capital gains and dividends further complicates the picture.

A Washington Post article this week noted that many of the richest Americans pay taxes at a lower rate than middle-class families do, because much of their income comes from capital gains and dividends. This partially explains why the gap between the wealthy and the rest of the country continues to widen.

Capital gains and dividends are generally taxed at a rate 20 percentage points below the top income tax rate that high-income workers pay on their wages, and earnings from capital gains and dividends constitute a larger share of income for high-income taxpayers than for most Americans.

In fact, capital gains make up 57 percent of adjusted gross income for the richest 400 taxpayers.

Low capital gains and dividends rates helped these extremely wealthy taxpayers, who had an average income of \$345 million in 2007, pay an average tax rate of only 17 percent, a rate far lower than many middle-class families pay.

There are important reasons why it might make sense to tax capital gains at lower rates than ordinary income, for example, if the gain is on stock in a company that has already paid corporate income tax.

But is it fair for someone with \$345 million in yearly income to pay income tax at a rate lower than many middle-class families?

So in these tough economic times, we must make these choices: will we be forced to make real changes to programs seniors depend on like Social Security and Medicare? Will we be forced to cut programs or raise taxes on veterans, servicemen and women and middle class families? Or should we ask some of the wealthiest in our society to contribute?

We need to make the right choices to get America on sound economic footing and the choice here seems clear. We began this summer by making real progress and cutting spending by \$900 billion, but more work remains to get our economy back on track. We need to make choices that will create job growth and expand our economy without throwing millions of Americans into further economic turmoil.

We can't let politics get in the way of common-sense solutions for our economy.

So let us make the right choices. Let us approach deficit reduction in a fair and balanced way. Let us set the top tax rates in a way that is appropriate for our current economic situation. And let us work to create jobs and provide opportunities for success for all who work hard.

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