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The Tax Increases to Come

Democrats in Congress want to raise the top individual rate to 47%.

By [The Editorial Board](#)

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Maryland Senator Chris Van Hollen PHOTO: ALEX EDELMAN/BLOOMBERG NEWS

The Democratic candidates for President are promising a smorgasbord of new taxes, but why wait until 2021? Last week Maryland Senator Chris Van Hollen and Virginia Congressman Don Beyer unveiled the Millionaires Surtax Act, a plan to soak the top 0.2%.

The bill would put an extra 10% tax on individual income above \$1 million, or \$2 million for married couples. This surtax would apply regardless of the income's source—whether from long-term capital gains, currently taxed at a top rate of 20%, or wages, taxed at rates up to 37%. The legislation's backers say it would raise \$635 billion over a decade, citing an estimate by the left-leaning Tax Policy Center.

Messrs. Van Hollen and Beyer would effectively lift the top tax rate on income to 47%, plus there's the 3.8% ObamaCare surtax on investment income. Tax rates haven't been that high in decades. Before Ronald Reagan's big tax reform in 1986, the top rate was 50%. Since then it hasn't broken 40%.

The loopholes were also bigger and more numerous then. Reagan's 1986 law, for example, phased out the deduction for interest on credit cards and car loans. President Trump's 2017 tax reform narrowed the interest deduction for homeowners, so only the first \$750,000 of a mortgage is now eligible.

That 2017 law limited the amount of state and local taxes that can be deducted on a federal return. It used to be unlimited, but now the cap is \$10,000. There are plenty of other examples, but the basic point is that the tax base has broadened. This is desirable economically as long as the trade-off is lower rates. If Democrats now try to raise income-tax rates back to their pre-Reagan heights, special interests will soon be busy carving out new loopholes, especially for the affluent.

In the 1950s, the top income-tax rate hit 92%, which applied to earnings above roughly \$2 million, adjusted for inflation. Still, the wealthiest 1% of filers paid an effective income-tax rate of only 16.9%, according to [an analysis](#) by the Tax Foundation. By 2016 the top rate was 39.6%, but the richest percentile had an effective rate of 26.9%. Meanwhile, the overall share of income taxes paid by the top 1% has increased, from 26% in 1986 to 37% in 2016.

Mr. Beyer says the Millionaires Surtax Act would “restore fairness to the tax code.” Ohio Senator Sherrod Brown, another sponsor, adds that the new surtax would ensure “the wealthy are paying their fair share.” Rest assured, Mr. Van Hollen says, this bill isn't “in conflict” with other desired tax increases.

Democrats these days are also proposing to raise the regular income-tax rate, the corporate-tax rate, the capital-gains-tax rate, the dividend-tax rate, the death-tax and payroll-tax rates, while creating a new wealth tax, a new financial-transactions tax, a new carbon tax and a new pharmaceutical tax, even as they would repeal 100% business expensing and the 20% income exclusion for so-called pass-through firms. We've probably missed a few others.

As usual, the question Democrats won't answer: Should the top 1% pay half of all income taxes? Two-thirds? Three-fourths? Where does their “fair share” end? If Democrats sweep the 2020 election, we are sure to find out.