The the “Buffett Proposal” Is a Bad Idea

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The Takeaways

1. Warren Buffett’s idea to drop individual taxes (income, consumer, property, social security) altogether and let corporates do them is admirable but unfeasible, with potentially disastrous consequences for the country.

2. The current taxation system features three features that should stay: Shared burden by individuals and corporates, progressive rate and benefits for low- or no-income people.

3. Currently, the corporate tax has a single flat rate of 21%, accounting for only 6.5% of the total tax revenue.

4. Individuals’ real share of taxes goes far higher than what they report on Form 1040, and adds up to more than 80%.

5. Making corporates the only tax-paying entities will significantly push up their tax burden, to the extent of discouraging entrepreneurship and businesses.

6. In a democracy, individuals do need to play taxes as a financial incentive to hold the government accountable. Paying no dime to Uncle Sam will make citizens going too easy with Washington.

7. Eliminating individual taxes will also hurt tax professionals by eliminating an important part of their source of income.

8. In China, individual income tax accounts for less than 10% of the total tax revenue.

1 Buffett's Noble Proposal

This Yahoo report tells us that Warren Buffett has an idea that is both noble and admirable, given that he runs one of the largest corporations in the US and is one of the richest people in the world.

"He famously suggested raising taxes on wealthy individuals like himself and recently claimed that no American would have to pay 'a dime of federal taxes' if other corporations paid their fair share. 'We always hope at Berkshire to pay substantial federal income taxes,' he said at the company's annual meeting."

Unfortunately, not all well-meaning ideas are feasible or even good for the public. In this case, the "Buffett proposal" could lead to negative consequences for the American people, American businesses, and the American government.

> "Not all well-meaning ideas are feasible or even good for the public."

2 Current Taxation with Three Features

I'd rather see the current taxation system stay in place, with three key features: shared tax responsibility between corporations and individuals; a progressive tax rate system, and benefits for low- or no-income filers, which include the standard deduction (currently $13,850 for single filers in 2024), the Earned Income Tax Credit (EITC), and minimum income thresholds for filing tax returns.

> "The current taxation system should stay, together with three key features: shared tax responsibility between corporations and individuals; a progressive tax rate system, and benefits for low- or no-income filers."

Why is Buffett's idea bad? First, if corporations were the only tax-paying entities, it will inevitably and significantly push up the corporate tax rate to pick up what is left by individual taxpayers.

3 The Real Tax Burden of Individuals

Let's do some quick math to see that the real tax burden of individuals is much higher than what people put down on Form 1040 to IRS every year.

Right now, corporations pay a single flat rate of 21% on their taxable income. But here is a number that may shock you: corporate income taxes account for only about 6.5% of total US tax revenue.

This report of Taxfoundation.org presents detailed figures:

"In the United States, individual income taxes (federal, state, and local) were the primary source of tax revenue in 2022, at 45.3 percent of total tax revenue. Social insurance taxes (including payroll taxes for Social Security and Medicare) made up the second-largest share at 21.9 percent, followed by consumption taxes at 15.7 percent, and property taxes at 10.6 percent. Corporate income taxes accounted for 6.5 percent of total U.S. tax revenue in 2022."

Since the above are all percentages of the total tax revenue for IRS, we can calculate the approximate share of individual taxes of different types as:

$$45.3\% + 11.9\% + 15.7\% + 7.42\% = 80.32\%$$

In the above, 45.3% is totally shouldered by individuals, as the name "individual income tax" implies. The next number, 11.9% refers to the individual share of social security and medicare taxes, which is 21.9% of the total tax revenue.

More specifically, 11.9% arises from a simplified calculation of dividing 21.9% by 2, but assumes individual employees are paying slightly more than employers. The is true since employees are totally responsible for the 1.45% of Additional Medicare Tax (if applicable based on income).

The third figure of 15.7% for consumption is paid by individual consumers, rather than by corporates.

The total property tax share is 10.6%, and will be paid by property owners. I asked Gemini to break down the US properties by ownership types, and learned that private properties take the lion's share at 70%, followed by public property (federal and states) at 25%, corporate property is only 5%.

Since 70% of 10.6% is 7.42%, we add the latter to the above equation to get the 80.32%.

> "In the US, individuals are responsible for paying more than 80% of tax revenue, while corporates only contribute 6.5%."

Note however that employers are solely responsible for paying Federal Unemployment Tax Act (FUTA) taxes.

Now, if we follow Buffett, we will have to switch all 80+% of individual taxes to corporate, since Buffett wants to see no American paying a dime of federal taxes.

4 Democracy & Taxpayers

It is hard to comprehend the full consequences of such a proposed "tax revolution." A few things are highly likely to occur, however.

First, the notion of "taxpayers" will be ill-founded, only "corporate taxpayers." But in a democracy, individual taxpayers play a crucial role, as they provide the financial incentive for holding government accountable. Without paying a dime of tax to Uncle Sam, citizens will take it too easy on Washington, which is not good.

> "In a democracy, paying individual taxes provides the financial incentive for holding government accountable."

Read this report from St. Louis that "Two taxpayers filed a lawsuit against the City of St. Louis, Comptroller Darlene Green, Treasurer Adam Layne and Mayor Tishaura Jones in St. Louis Circuit Court seeking a 'Writ of Mandamus' to stop the program... 'The Missouri Constitution and the City Charter strictly prohibit giving away public money to private persons, which is exactly what Guaranteed Basic Income law does,' according to a media release from the organization."

The value and merit of such a lawsuit are subject to debate, but what makes this case interesting is that citizens are taking the matter in their own hands, and feel the urge to fight for the constitutionality of offering public money for a certain purpose.

Such a lawsuit is unlikely to happen in China, partly because individuals pay a small amount of income tax there.

5 China's Taxation System

China, by the way, has a different taxation system, in which individuals contribute lightly to the total tax revenue.

Claude.AI has the following breakdown of the tax revenue in China:

1. **Value-Added Tax (VAT)**: This is the largest source of tax revenue in China, accounting for about 30-40% of total tax revenue.

2. **Corporate Income Tax**: The second-largest source, contributing approximately 20-25% of tax revenue.

3. **Individual Income Tax**: This accounts for roughly 8-10% of total tax revenue.

4. **Consumption Tax**: Applied to specific goods like tobacco and alcohol, contributing about 5-8% of tax revenue.

5. **Customs Duties**: Import and export taxes make up around 5-7% of tax revenue.

6. **Property and Land-related Taxes**: Including real estate tax and land appreciation tax, accounting for about 5-7% of revenue.

> “ In China, individual income tax accounts for less than 10% of the total tax revenue. ”

6 Discouraging Entrepreneurship & New Business

Back to the US: The second consequence of the Buffett proposal is that a heavy corporate tax burden can discourage entrepreneurship, potentially stifling the dynamism of the American economy, similar to concerns raised about some European Union countries.

In the first Presidential debate, Biden mentioned corporate greed as a source of problems this nation faces.

For example, "We're going to make sure we cap rents, so corporate greed can't take over."

Regulation is needed, of course, but regulators should keep in mind that being greedy is not all bad. It gets people up in the morning and staying late into the night. The problem is to channel the "greedy energy" or greedy drive to save it from damaging the society.

Levying extremely high taxes will almost certainly deflate the economic vitality and undermine social welfare.

> An extremely high corporate tax rate will deflate human incentive for starting or doing businesses, which in turn will degrade social welfare.

7 Damaging Tax Professionals

Thirdly, the absence of individual income taxes would have a ripple effect on the service sector, with tax professionals taking a major hit. The number of tax preparers would likely shrink significantly, as a significant source of their income would disappear.

This is a big deal because in the age of Generative AI, direct service to human needs is still better done by humans than by robots for at least another 10 years.

> Even in the age of Generative AI, human services are still better done by humans than by robots for at least another 10 years.