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What Marco Rubio Offers the Super Rich that his GOP Rivals Won't

The Florida senator stands apart for eliminating all taxes on dividends and capital gains

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While 1-percenters hoping for lower taxes have reason to like pretty much every Republican running for president, there's one who should have America's wealthiest thinking about what to do with their extra thousands, or even millions, of dollars: Marco Rubio.

The freshman Florida senator who once called taxing property "immoral" now wants to completely eliminate taxes on capital gains and dividends—a mainstay for the richest of the rich. That tax already has a top rate of 23.8 percent, compared with a 39.6 percent maximum for wage income.

"It's hard to find an income source that's more concentrated in the hands of the 1 percent," said Matt Gardner, executive director of the liberal Institute on Taxation and Economic Policy. "It would be a giant tax cut, but it would have little impact for most."

Rubio declined an interview request for this story. Neither his campaign website nor his Senate site dwells on this detail of his tax plan, focusing instead on how it would help lower-income Americans. In a video on his campaign site, Rubio says, "I want to make it easier for working families to achieve the American dream, like my parents did."

But Rubio's plan is actually most lucrative for those who don't have to work for a living: those who can get by on so-called "unearned income"—quarterly stock dividends and capital gains made from selling assets at a profit.

Former GOP nominee Mitt Romney's 2011 tax return, for example, showed that he and his wife reported a total of $13.7 million in income—none of it coming from wages—on which he paid $1.9 million in taxes because of the lower rate on unearned income and their sizable charitable contributions. Had the Rubio plan been law, the Romneys would have owed *nothing* in taxes.

A *National Journal* analysis of 2013 IRS tax-return data highlights the stark contrast between the super-rich and everybody else when it comes to dividends and capital gains:

- Households earning between $40,000 and $75,000 a year reported getting more than three-quarters of their incomes from wages and salaries—and less than 3 percent from dividends and capital gains.
- The 691,000 households earning more than $1 million a year made substantially more from capital gains and dividends than they did from wages: $829 billion compared with $692 billion.
- And that $829 billion in unearned income represented more than 10 times as much was reported by the 58 million households who made between $40,000 and $75,000.
- Eliminating taxes on dividends and capital gains would cost the Treasury roughly $175 billion a year in receipts, with 95 percent of that tax relief flowing to those 691,000 households—just one-half of 1 percent of all Americans.
- And the richest slice of those households—the 1 percent of the 1 percent—would see an average tax break of $3.3 million a year.

Rubio's plan does increase tax credits for lower- and middle-income families, but those dollar values pale compared with what the country's richest families would stand to gain. On his website, Rubio calls taxes on dividends and capital gains "double taxation," because corporations pay income taxes before they distribute dividends and because investors who buy stocks do so with money on which they've already paid personal income taxes.

In a recent interview with CNBC (http://www.cnbc.com/2015/10/05/cnbc-transcript-cnbc-chief-washington-correspondent-john-harwood-speaks-with-florida-senator-marco-rubio-today-on-cnbcs-fast-money-halftime-report.html), though, Rubio offered a different, more familiar explanation: that giving the richest more capital to invest benefits everyone: "My father was a bartender at a hotel. And the reason why he had a job at a hotel is because someone invested money in building that hotel."

It is classical supply-side doctrine: that government encourages saving and investment by reducing or eliminating taxes on savings and investment, and that regardless of the fact that much this tax relief might help the wealthiest, everyone, including the poor, ultimately benefits from the improved economy.

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The reliance on supply-side theory harkens back to Rubio's biggest legislative proposal from his days in the Tallahassee statehouse.

Eight years ago, in his first year as speaker of Florida's House of Representatives, Rubio pushed hard to eliminate property taxes on primary residences and to replace the $6 billion in revenue lost each year with a 42 percent increase in the state sales tax—from six cents on the dollar to eight and a half cents.

The plan benefited every homeowner who actually lived in the house most of the year, but the biggest savings would have gone to those with the most expensive houses. The owner of a $50 million oceanfront mansion, for instance, could have saved more than $1 million a year in property taxes, while the typical homeowner would have saved at most a few thousand dollars. Renters would not have saved a dime.

The sales tax hike, meanwhile, hits the rich and poor at identical rates—though in practice that typically means a larger relative burden for those with lower total wealth.

The plan was being marketed at the time to a number of states by a consulting firm co-founded by Arthur Laffer, the supply-side economist whose "Laffer Curve" became a touchstone for Reagan-era tax-cutters and advanced the idea that tax revenues would actually increase if tax rates were cut. Rubio argued his "tax-swap" proposal would inject billions into the Florida economy, encouraging business owners to create more jobs.

"I was raised on other people's leftover money," Rubio told a Miami talk-radio audience (http://www.sptimes.com/2007/02/27/State/Rubio_tries_to_sell_t.shtml) as he tried to sell his plan. "When people spent their money, they spent it in the places where my parents worked. … And I'm telling you that this property tax cut will create $6 billion in disposable income. And what that means in real terms is that people who now mow their lawns will hire someone to do it. … People who now maintain their own pools will hire someone to do it. … And that helps the working class."

Moreover, Rubio argued that taxes on property were inherently wrong. "Many of us believe that taxing property is immoral and that we should eliminate it altogether," he told a statehouse rally he put together to support his proposal that April.

Democrats, meanwhile, pounded the plan.

"Trickle-down economics is one of the most empirically disproved theories in centuries," Florida House Democratic Leader Dan Gelber said at the time. "What you're saying is, 'Don't worry that Rush Limbaugh will get a half-million-dollar tax break, because he's going to buy so many flat-screen televisions that we'll all get a piece of it.' They're rolling out an oldie but a goodie."

In the end, Rubio's plan went nowhere because of opposition from the new GOP governor, Charlie Crist, and the Republican-led Florida Senate. The majority leader in that chamber at the time was Daniel Webster, a conservative who had become the first GOP Florida House speaker since Reconstruction in 1996 (and who is now running for speaker of the U.S. House). Webster called Rubio's plan "regressive" because it hit poorer Floridians hardest.

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Gelber, a lawyer in Miami and no longer in the legislature, recalls Rubio's property tax plan as an enormous waste of time. "It felt like a junior high school social-studies class project," he said.

As to Rubio's new plan, Gelber said he's not surprised, given Rubio's presidential run. "It's something that will suit him in the campaign cycle, but it's not something that works. Or is fair," Gelber said. "It's a great dog whistle for the donor class."

Republicans running for president in recent decades have almost universally called for lower taxes as tools for limiting the size of government or, through supply-side theory, stimulating the economy—or both. The GOP field this time around is no different (http://taxfoundation.org/comparing-2016-presidential-tax-reform-proposals). What makes Rubio stand out is his call for eliminating a tax on income that disproportionately flows to the wealthiest and that is already exempt from payroll taxes.

(Former Arkansas Gov. Mike Huckabee's tax plan also would eliminate taxes on capital gains and dividends—but it would end income and payroll taxes entirely. All would be replaced with a 30 percent national sales tax.)

Which means that in the long-running tension between cutting taxes on wages versus favoring tax cuts on investments, Rubio thus far appears to be alone in this GOP field among those who have put forth tax proposals.

Louisiana Gov. Bobby Jindal would eliminate a 3.8 percent tax on investment income imposed on wealthier taxpayers by the Affordable Care Act, but otherwise he would treat dividends and capital gains the same as earned income, which in the case of his plan would have a maximum rate of 25 percent.

Both Sen. Rand Paul and former Sen. Rick Santorum would establish a flat tax equally applicable to both earned and unearned income. In the case of Paul, the rate would be 14.5 percent; for Santorum, 20 percent.

Even former Florida Gov. Jeb Bush (http://www.nationaljournal.com/twentysixteen/2015/07/05/Why-Jeb-Bush-Pays-More-Taxes-Than-He-Could-Have?q=None&a=S.V.%20D%C3%A1te&t=&c=None&s=None&e=None), who for decades has railed against taxes that hit the "investor class" and "job creators," leaves the base 20 percent rate on unearned income untouched, although he, too, would get rid of the 3.8 percent Obamacare surtax that affects joint filers who make more than $250,000.

Roberton Williams, with the nonpartisan Tax Policy Center, said he cannot explain why Republicans other than Rubio are not advocating more preferential treatment for dividends and capital gains, something that has long been party orthodoxy. "I don't know the political calculus of these things," he said. "It's not easy to get into the heads of these guys."

The Institute on Taxation and Economic Policy's Matt Gardner attributes it to the anti-Wall Street, anti-establishment fervor running strong right now even among many Republican primary voters. Further, the memory of the beating 2012 nominee Mitt Romney took for paying a low tax rate remains fresh.

"It could be that candidates are recognizing that there is already a pretty substantial preference for capital gains compared to wages, and they think that people won't stand for it," he said.