



It's Time to Give Overtaxed Americans a Break

by Mark J. Perry

Summary

Politicians opposed to tax cuts make a number of arguments against them, including that they benefit only wealthy Americans. It's true that higher income earners pay the majority of taxes and so stand to receive the most in the form of a cut. But it's also true that the economic growth spurred by tax cuts benefits all citizens. It's time to provide relief for Americans suffering under the largest federal tax burden in history.

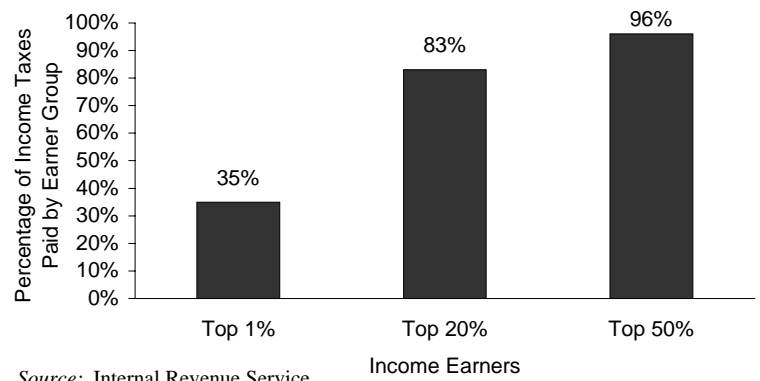
Main text word count: 701

One of the most disingenuous tactics used by politicians attacking President George W. Bush's proposed (at latest count) \$1.35 trillion tax cut is to characterize it as "a tax cut for the rich." They know that when most Americans hear that the biggest dollar amount of relief from the Bush tax cut will go to the top 5 to 10 percent of taxpayers, Americans don't really know who these people are. They're not "fat cats."

Consider a married couple in Michigan with one spouse working at the average state manufacturing wage of \$42,000 per year and the other spouse teaching in a public school at the average state teaching salary of \$45,000. Next consider a husband and wife teaching at any of the public universities in Michigan at the average annual salary of about \$75,000 for full professors.

Would most people consider either of these couples "rich" and undeserving of a tax cut? Probably not. Yet, the first couple is in the top 10 percent of America's richest households, with a combined income above \$83,000. And the married professors are easily in the top 5 percent, with a combined income above \$115,000. In fact, economic statistics show that because of combined salaries most households will have incomes in the top 10 percent sometime during their lives.

Higher Income Earners Shoulder a Disproportionate Share of the Tax Burden



Another source of confusion about tax cuts stems from a misunderstanding of who actually pays the lion's share of income taxes under our federal system. If those in the top income brackets also pay the most in taxes, it makes sense that any tax cut is going to benefit them disproportionately. It just so happens that the top 1 percent of taxpayers pay 35 percent of all income taxes paid. The top 20 percent of all taxpayers pay 83 percent of all taxes. And the top 50 percent pay almost 96 percent of all federal income taxes.

Anti-tax cut arguments that claim such cuts won't help the poor ignore the fact that most taxes are paid by higher income earners in the first place.

In other words, the top 50 percent pay almost all income taxes, and the bottom 50 percent pay almost no taxes. You can't give a tax cut to someone who doesn't pay taxes. This is the truth behind some politicians' charge that the Bush tax cut "won't help the poor." Of course it won't, in terms of what they actually give up of their incomes to the government. The lie behind the charge is that the tax cut won't benefit the overall economy by leaving more money to circulate, which helps everybody.

Finally, people don't understand that when income taxes are cut, dynamic adjustments in economic behavior actually cause high-income taxpayers to assume a greater share of the overall tax burden. In the early 1980s, the top income tax rate was cut from 70 percent to 28 percent. As a result, the top 1 percent of taxpayers saw their share of all income taxes paid increase from 17 percent to 27 percent between 1981 and 1988, and the tax burden of the top 10 percent increased from 48 percent to 57 percent. During the same period, the share of taxes paid by the bottom 50 percent of taxpayers fell by more than 8 percent. Instead of being a "tax break for the rich," in relation to the total tax burden, the reductions in marginal tax rates in the 1980s were actually a tax break for the poor.

Taxpayers might make louder demands for relief if they understood that as a percentage of total national income, federal taxes are higher than at any other time in U.S. history. In the early 1900s, the federal tax rate was only 1 percent. By 1992 it had risen to around 20 percent, and today it comes in at about 24 percent. This means that for all intents and purposes, a typical taxpayer works for 86 days to pay his or her share of federal taxes—an increase of two full weeks just over the last decade.

Unfortunately, the current resistance to tax cuts by taxpayers themselves, in the face of the highest federal tax burden in history, reveals either our growing complacency with an expanding federal government or the need for some remedial tax education. The best antidote against a rising tax burden is a citizenry of taxpayers informed about taxes.

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