MONTHLY TAX FEATURES

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Can 'Somebody Else' Pay My Taxes?

The question of who should bear the major burden of taxes always comes up at election time. This year is no exception, and Tax Foundation has received an above normal quota of inquiries about the effect of various proposals to shift the burden.

One question Foundation researchers found interesting had to do with the result of imposing a 100 percent rate on all taxable income over $32,000. This, it is proposed, would be one way of collecting more in taxes on above average incomes. But how would it help the rest of us?

In 1972, the latest year for which figures are available, IRS collected $15.8 billion in taxes from taxable income brackets above $32,000. That's an effective average tax rate of 55 percent on income in the higher brackets. If the tax rate had been raised to 100 percent, and the IRS took all taxable income above $32,000, the additional revenue would have been $12.8 billion—in theory.

But It Would Destroy Incentive

That amounts to 3.2 percent of 1977 estimated Federal budget outlays. It would just barely pay the cost of the Federal government for eleven and a half days, according to the Tax Foundation.

Proposals to place a ceiling on the amount of after-tax income Americans may retain are not very realistic, notes Robert C. Brown, the Foundation's executive vice president.

The hypothesis that we can raise more revenue by taxing all income over a certain amount by means of a 100 percent rate is false, however, because as soon as Congress imposed such a tax, any income above the new ceiling would tend to vanish. Robbed of this powerful incentive, individuals would seek elsewhere for the rewards of their hard work and success. This source of revenue would quickly dry up, Bob Brown points out.

In another example the question was asked, if Congress decided to raise all tax rates over 50 percent to 100 percent, how would that affect tax revenue? The answer—again assuming that taxpayers would not change their behavior—is that Federal income taxes would rise by $3.5 billion. Federal outlays for 1977 are estimated at $400.0 billion, or $1.1 billion a day. A 100 percent rate on incomes now taxed at rates above 50 percent would produce enough revenue for little more than three days' operations.

Federal Individual Income Tax Generated at Each Tax Rate
Income Year 1972

Tax rate[1]	Number of returns with any tax at rate[2] (thousands)	Tax base taxed at rate (millions)	Tax generated at rate (millions)
14	$ 61,320	$ 49,897	$ 6,986
15	53,894	43,698	6,555
16	52,759	43,109	6,897
17	45,895	37,770	6,319
19	45,509	117,623	22,311
22	25,196	61,155	13,345
25	15,664	34,693	8,599
28	5,737	14,855	4,139
32	3,612	9,484	2,995
36	2,090	6,022	2,157
39	1,261	4,031	1,569
42	980	3,356	1,401
45	732	2,670	1,202
48	512	1,801	864
50	640	6,869	3,433
53	217	1,674	887
55	157	1,184	651
58	88	736	427
60	82	642	385
62	66	773	479
64	44	548	351
66	30	403	266
68	23	319	217
69	18	249	172
70	16	2,629	1,840
14-70	$ 61,320	$445,590	$ 94,447

[1] Data for heads of households at intervening rates are combined with data in brackets for next highest rate.

[2] Most returns have a tax base taxed at more than one rate. For example, a married couple's taxable income (adjusted gross income minus exemptions and deductions) of $3,000 is taxed as follows: first $1,000 is taxed at 14% (= 140), second $1,000 at 15% (= 150), and third $1,000 at 16% (= 160); the total tax is $450.

Source: **Facts and Figures on Government Finances**, 1977 Edition, Tax Foundation (forthcoming); basic data from Treasury Department, **Statistics of Income—Individual**, 1972.

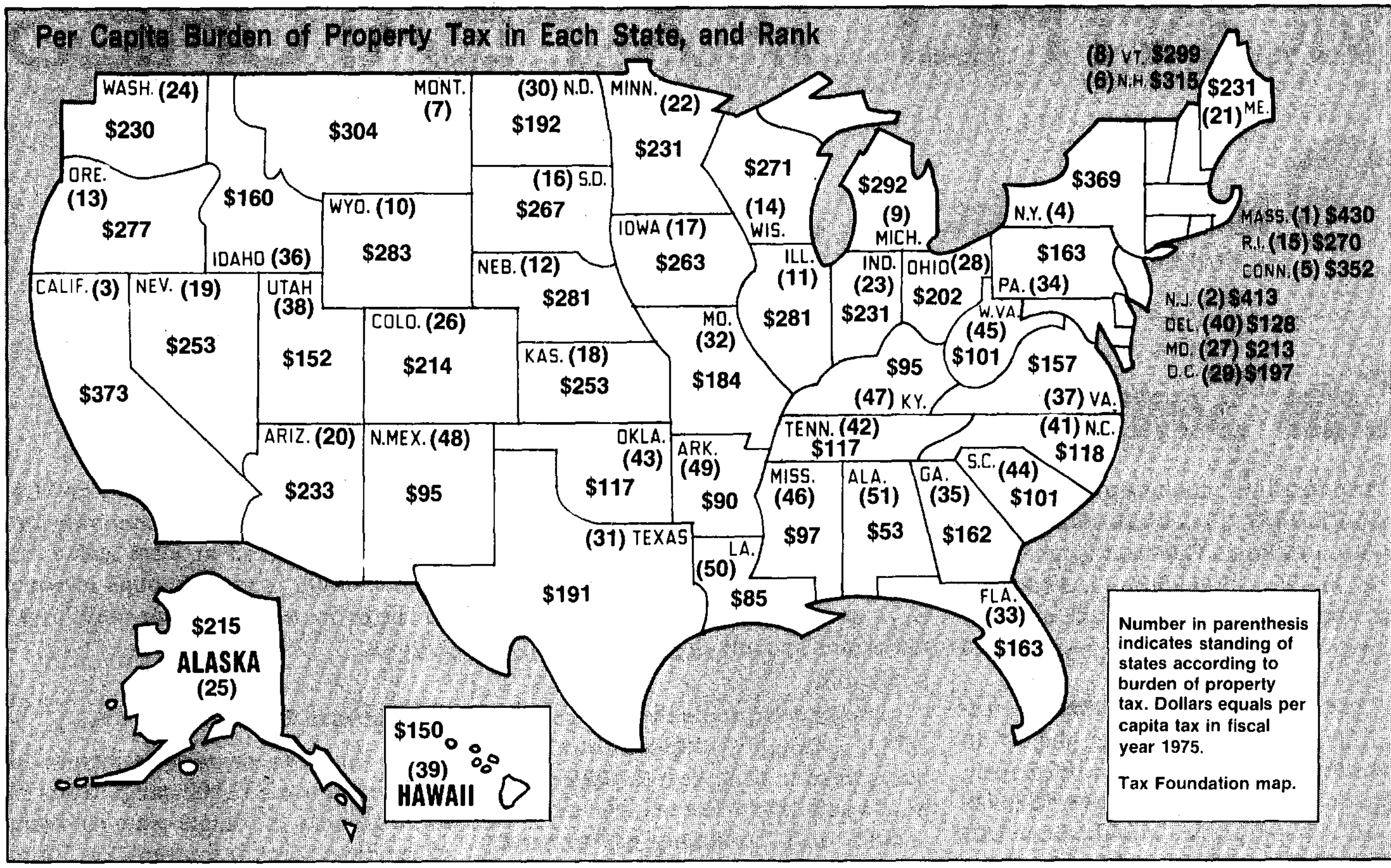
And Increase Revenue Only 1%

The tax rates on taxable income in brackets above $32,000 range from 50 to 70 percent for single persons, from 42 to 70 percent for joint returns, from 55 to 70 percent for married persons filing separately, and from 45 to 70 percent for heads of households.

The number of returns filed by taxpayers in the maximum 70 percent bracket was some 16,000—only three one-hundredths of one percent of the total. They paid $1.84 billion in taxes at the 70 percent rate. If their top marginal tax rate were raised to 100 percent it would add less than $800 million to total revenue, less than one percent of the amount now collected in all brackets.

At the very highest level—those with adjusted gross incomes over $1,000,000—preliminary figures now available from IRS for the 1974 income year show there were 1,128 such returns. Their average Federal income tax was $959,560. The average tax paid in this group was 49.2 percent of adjusted gross income.

"It is probably safe to say," concluded Bob Brown, "that a punitive tax on any kind of success is likely to be counterproductive. It is a case where the desire to have somebody else pay my taxes causes a nation to bite off its own nose. Certainly it will not produce any worthwhile amounts of revenue."



Per Capita Burden of Property Tax in Each State, and Rank

Number in parenthesis indicates standing of states according to burden of property tax. Dollars equals per capita tax in fiscal year 1975.

Tax Foundation map.

Average Property Tax Rises 105% in Decade

People paid $242 each on average in state and local property taxes in fiscal year 1975, according to Tax Foundation. That's an increase of 105 percent over the average property tax of $118 paid in 1965.

The amount of such taxes, however, varied widely from state to state. The range was from $53 in Alabama to $430 in Massachusetts. The Commonwealth of Massachusetts moved up from second place ten years ago with an increase in its property tax burden of 147 percent.

In second place, up from third in 1965, was New Jersey, which had no state personal income tax until this year. Its per capita property taxes rose 139 percent from $173 in 1965 to $413 in 1975. New Jersey's new income tax enacted July 1, will ease some of the burden of property taxes.

California dropped from first in 1965 at $197 to third at $373, an increase of 89 percent. New York remained in fourth place at $369, up 132 percent. Connecticut's property tax burden also rose by 132 percent to $352 per person.

Alaska had the largest percentage gain with an increase of 298 percent. The lowest percentage gains were in Idaho where the tax rose 36 percent and in Utah where it rose 38 percent.

Among the least burdened besides Alabama were Louisiana at $85, Arkansas at $90, New Mexico and Kentucky at $95, and Mississippi at $97. Increases in those states ranged from 73 to 111 percent.

The map above shows the 1975 per capita property tax burden in each of the states and its rank.

Legislatures Heed Governors' Urgings

Most state legislatures heeded the admonitions of their governors earlier in 1976 to hold the line on spending and to avoid major tax increases. Through September only 15 states exacted any new tax revenues, according to the Tax Foundation's October *Tax Review.*

The total amount of the new levies is less than one billion dollars. That's even less than the governors' proposals. Most of it is from New Jersey's newly enacted gross personal income tax.

Total state spending in fiscal year 1975 had reached a new high of $156.2 billion, up 18 percent over 1974. In the preceding three years spending increases averaged about 10 percent. The recent data, says the staff-produced *Tax Review,* shed new light on the concern of state officials as to the need for restraint.

Action of the New Jersey legislature leaves only nine states without a comprehensive personal income tax.

Five states increased sales tax rates. Personal income tax rates were raised in two states, motor fuels and alcoholic beverage rates in four states, and corporate income tax rates in one state. The new yields total some $975 million.

Property Taxes Still Yield Most State-Local Revenues

While the per capita burden of state and local property taxes was rising by 105 percent, total property tax payments rose 128 percent to $51.5 billion. Property taxes in 1965 had yielded $22.6 billion, according to Tax Foundation.

While property taxes, primarily local, remained the largest single source of state-local tax revenues in fiscal year 1975, nonproperty taxes rose more rapidly—by 214 percent. The largest nonproperty tax category was sales and gross receipts, which rose 191 percent from $17.1 billion in 1965 to $49.8 billion in 1975. It was individual and corporate income taxes that showed the sharpest rise, however, gaining 425 percent and 244 percent respectively.

The accompanying table gives details on the rise in state and local tax collection in the decade just past. Data were prepared and up-dated for Tax Foundation's forthcoming *Facts & Figures on Government Finance,* 1977 edition, scheduled for publication next year.

Total State-Local Tax Collection by Source
Fiscal years 1965 and 1975

Source	1975	1965	Percent increase
	Millions		
Property taxes	$51,491	$22,583	128%
Non-property taxes, total	89,974	28,660	214%
Individual income	21,454	4,090	425%
Corporation income	6,642	1,929	244%
Sales and gross receipts	49,815	17,118	191%
Other taxes	12,063	5,521	118%
All taxes	141,165	51,243	176%

Source: **Facts and Figures on Government Finance**, 1977 edition, Tax Foundation, Inc. (forthcoming); basic data from Bureau of the Census, U.S. Department of Commerce.

Fundamental Reform in Property Tax Proposed

The one obvious need for urban revival and progress is capital—lots of it, year after year.

Yet present laws tell the investor, "If you spend to make the improvements cities need, we shall tax, and tax heavily, the increase in value."

There must be a better way, says C. Lowell Harriss, Tax Foundation consultant, than imposing heavy tax burdens on just the things most desired. Professor Harriss testified before the House Banking, Currency, and Housing committee September 28.

He proposed a fundamental reform in the basic structure of property taxation. Under the proposal land would gradually become the base for much more of the property tax, while improvements and machinery would become less. Such restructuring might eventually produce as much as five times more revenue from land than from man-made capital. This would not have much affect on agricultural areas, however, since total local taxes would not change as part of the restructuring.

The quantity of land is fixed: its value depends on factors other than the cost of production in the typical sense. Man-made capital, buildings and machinery, must be created by labor and materials and depends on the willingness of investors to wait for a return on their investment. Its quantity and quality in a given locality are affected by the weight of tax.

Higher land taxes would add pressure for the fuller and better use of land. Simultaneously, the relief of taxes on structures and machinery would make investment in man-made capital facilities more attractive. The increase of capital seeking investment in a particular area would tend to bolster land prices; thus, it would offset some of the adverse effects of the tax rate increase for landowners.

C. Lowell Harriss, who is professor of economics at Columbia University, theorizes that a somewhat new form of tax on urban land, based on plot size and location, might relate the tax more closely to the cost of providing certain services. Such a levy should avoid providing relief to those who keep urban land in uses below its potential.

Since land is generally underassessed relative to man-made capital, raising assessments would correct existing inequities while contributing to the longer-range goal of urban revival.

Our Founding Fathers Had A Definition of Liberty...

Our founding fathers had a definition of liberty that differs from ours in one vital respect. They sought protection of their liberties *from* government; we seek protection of our liberties *by* government.

This theme was pursued by Robert C. Brown, Tax Foundation's executive vice president, in a presentation to the Western States Taxpayers Conference at Jackson, Wyoming.

In our effort to achieve freedom from government oppression over the two centuries of our national life, we have arrived at the welfare state, he explained.

"There is an exceeding toughness in the welfare concept." It has strong popular support, and "no candidate who ignores it can be elected to high office." But there are hazards which must temper its application. If they are not tempered, "we may follow our good intentions to disaster," said Bob Brown in his review of national issues.

Beneficiaries of the welfare concept are everyone. It is an extremely expensive operation and its tax requirements have altered our Federal structure in many ways, Mr. Brown reminded delegates from taxpayer organizations in a dozen western states.

"In the name of security we are steadily socializing the economy—not so much by conventions of public ownership nor even so much by public regulation of business, but by the far less apparent and surer method of government operations. To the extent of these operations the government determines what shall be produced, under what standards, at whose economic cost, and for whose benefit.

As a result spending initiative has moved from private agencies to public

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Federal Budget Policy, Employment, Inflation, Theme of Annual Conference

Is unemployment the government's fault or the fault of business and industry? How bad is it? Can it be cured by the government? Can it be cured by business?

No matter how you answer these questions, "one thing remains clear," says Robert C. Brown, executive vice president of Tax Foundation. "It is without doubt the one single most troubling problem in our economy.

"Millions of American working people are involved. At the very least they are seriously inconvenienced by any period of unemployment. And at the worst they may face financial ruin.

Can we realistically quantify the problem? Will the four-day week solve it? How much would it cost?

"We hope to get closer to some answers to these and other questions like them at our annual conference December first," Mr. Brown adds. "The relationships between employment and inflation and between both of them and Federal budget policy are implicit in our theme: Federal Budget Policy, Employment, and Inflation."

Speakers who will tackle these subjects include government officials, industrialists, a banker, college professors, consultants, and economists.

The meeting is Tax Foundation's 28th National Conference at the Plaza Hotel in New York, commencing at 9:15 A.M. December 1.

Invitations to members and friends of Tax Foundation from Chairman Willard F. Rockwell, Jr. are in the mail.

"I believe it will be one of the most interesting and successful meetings we have ever had," writes Mr. Rockwell. "Accommodations for both events are limited and I urge you to make your reservations as promptly as possible."

Mr. Rockwell's invitation includes the 39th Annual Dinner, also on December 1 at the Plaza. The dinner reception is at 6:30. The principal speaker is the Honorable Russell B. Long, U.S. Senator from Louisiana, who is chairman of the Senate Finance Committee.

Chairman of the Conference luncheon, scheduled for 12:15, is Thomas M. Macioce, president of Allied Stores, who is president of Tax Foundation. Samuel M. Cohn of Robert R. Nathan Associates will discuss "The Needed Disciplines in Federal Budget Policy."

Founding Fathers...

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agencies. Take-home pay for everyone is growing proportionately less and less.

"Maybe the humanitarian and security responsibilities of the industrialized society require this, but at what point does public initiative take over and private initiative disappear?" Mr. Brown asked the tax experts.

He suggested a two-year moratorium on the creation of new government undertakings. "There is nothing the matter with our Federal budget that less spending will not cure." And he recommended a permanent policy of debt retirement—at least 5 percent of each year's operating budget to be provided for debt reduction. In addition we should further explore the zero based budget concept.

"The industrialized society of America is powerful, well-meaning, and rich. The tremendous legacy of our past efforts is not easily or quickly destroyed. Indeed its great strength can too readily deceive us into thinking that we are paying our way when we are actually diminishing our heritage."

In closing, Bob Brown read from an English newspaper report:

"Socialism," it said, "is competition without prizes, boredom without hope, war without victory, and statistics without end. It is not only politically false but morally destructive. The fundamental fallacies of socialistic tenets and the utter futility of cruel and costly socialistic experiments gradually are being exposed—the hard way."

Research Bibliographies List Selected References

Research projects in Tax Foundation's 1976 program included the compilation of four bibliographies that contain selected references on current problems in government finance and administration. These were prepared by the research staff, either in connection with specific studies or as critical issues emerged.

Research Bibliography Number 62, "Unemployment Compensation," supersedes a bibliography published by Tax Foundation in 1965. Its references include the following categories: history, current performance, proposed changes, state programs, U.S. Government series, and other bibliographies.

Research Bibliography Number 64, "Pensions Systems for State and Local Employees," covers important publications since Tax Foundation's 1969 bibliography. It was compiled in connection with *Research Publication Number 33,* "Employee Pension Systems in State and Local Government." There are references on general discussions, management, financing and investment, state programs by state, local programs by state, and statistics.

Research Bibliography Number 64, "The Food Stamp Program," contains a selection of reference material on its history, current performance, proposed changes, and state programs.

Research Bibliography Number 65, "Higher Education Financing and Public Policy, includes items published over the last decade, with emphasis on items since 1970. The references include miscellaneous, Federal aid, state and local aid, student aid, annual, and other periodical publications, and educational investment returns.

In compiling these bibliographies the research staff utilizes general and special library catalogs, vertical files, periodical indexes, bibliographies, dissertations, publications of associations, societies, and universities, and catalogs of documents.

The 1976 research bibliographies are available on request from Tax Foundation, 50 Rockefeller Plaza, New York, N.Y. 10020, or call (212) JU-2-0880.