MONTHLY TAX FEATURES

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100% Top Bracket Rates No Panacea

In July, 1977, The Roper Organization published the results of a study conducted by them for H & R Block, Inc. entitled "The American Public and the Income Tax System." In it, The Roper Organization interviewed 2,003 adults on their understanding of and attitudes toward the Federal income tax system. The results of the survey were quite decisive: Americans have little understanding of the tax system and they consistently underestimate the amount of Federal taxes paid by those in the upper income brackets. Three quarters of those questioned saw high-income families as undertaxed. "... when asked how many out of every 100 people with an annual income of half a million dollars or more pay no income taxes at all because of tax loopholes, the astounding answer was half of them."

Some members of the public, feeling overtaxed on every level, and convinced that others are undertaxed, think the solution to government's need for increased revenue can be found in collecting more taxes from those with high incomes.

The fact is that of the 4,560 tax returns reporting adjusted gross income of $500,000 and over in 1975 (the latest reported) all but 1.2 percent paid income tax. The average tax for the 4,505 taxpayers in this income range was $479,496, or 62 percent of their taxable income, according to the Tax Foundation.

Inquiries about who should bear the major burden of taxes often come to Tax Foundation, and one possibility which interested Foundation researchers had to do with the result of imposing a 100 percent rate on all taxable income over $32,000. (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

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Alimony Rates Vary Widely Among States

The number of income tax returns reporting income from alimony increased by 26 percent between 1971 and 1975, a period when the total number of tax returns increased by only 10 percent. Tax Foundation research shows that the average alimony receipt, $2,895, failed to keep pace with the increase in average adjusted gross income, however, increasing by only 19 percent compared with 28 percent for AGI.

Data from the recently released *Statistics of Income* indicate a wide range of average alimony receipts by state. The highest, $9,728, was found in Connecticut and the lowest, $954, in North Carolina. Other states with relatively high averages include the District of Columbia ($6,558), Massachusetts ($4,122), and Ohio ($4,407). States at the low end of the scale, in addition to North Carolina, were Mary-

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Metropolitan Areas Have Greatest Federal Tax Burdens

Tax Foundation computations show that more than one-fifth of the nation's Federal tax burden is shouldered by the taxpayers in the six most populous standard metropolitan statistical areas (SMSA's): New York, Chicago, Los Angeles, Detroit, Philadelphia, and Boston.

- New York area residents pay $15.8 billion in Federal taxes.
- Chicago—$11.8 billion
- Los Angeles area—$10.0 billion
- Detroit—$6.8 billion
- Philadelphia—$6.5 billion
- Boston area—$5.6 billion

The SMSA's with the largest populations, bearing the greatest percentage of the tax burden, do not all rank among the top areas in per capita Federal tax burdens, although some do. According to Tax Foundation computations, the highest per capita Federal tax burdens are paid in five areas on the East coast.

- Bridgeport, Connecticut area has a per capita tax burden of $2,315, the highest in the country.
- West Palm Beach-Boca Raton, Florida area—$1,876
- Washington, D.C.—$1,808
- Nassau/Suffolk, New York—$1,787
- Newark, New Jersey—$1,743

The New York SMSA ranks ninth in

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Metropolitan Tax Burdens...

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Federal taxes per capita, $1,643. Outside the East, the highest per capita burdens—ranging from $1,684 to $1,620—were found in Chicago, San Francisco, Fort Lauderdale, and Miami.

On the other hand, the metropolitan areas paying the lowest per capita Federal taxes are all in the South.

- El Paso, Texas has the lowest per capita tax in the country, $905.
- Charleston, South Carolina—$918
- Mobile, Alabama—$974
- Johnson City, Tennessee—$976

Corpus Christi and San Antonio, Texas; Shreveport, Louisiana; Norfolk, Virginia; Huntsville, Alabama; and Huntington, West Virginia have Federal per capita tax burdens of approximately $1,000.

The metropolitan tax burden data compiled by Tax Foundation are allocated from total Federal tax receipts of $270 billion according to special estimating techniques required to ascertain the taxes actually borne by residents of each state or metropolitan area as distinct from the places where the tax payments are initially made. Official government agency data are not designed to reflect geographic origin.

Receipts include those from personal and corporate income, estate and gift taxes, tobacco, customs and other excise taxes, and social security, unemployment, and other trust fund taxes.

The accompanying table shows total and per capita Federal tax burdens in the 50 most populous areas for fiscal year 1975. Tax Foundation's full analysis, available upon request, included the 125 largest SMSA's. These areas account for 63 percent of the population of the entire nation, and for 70 percent of the Federal tax burden.

Federal Tax Burdens By Standard Metropolitan Statistical Area Partial Listing Fiscal Year 1975[1]

SMSA	Total Tax Burden: Amount (millions)	Total Tax Burden: Per Capita
New York, N.Y.-N.J.	$15,839	$1,643
Chicago, Ill.	11,770	1,684
Los Angeles-Long Beach, Calif.	10,045	1,448
Philadelphia, Pa.-N.J.	6,549	1,363
Detroit, Mich.	6,802	1,530
Boston-Lowell-Brockton-Lawrence-Haverhill, Mass.-N.H.	5,649	1,445
San Francisco-Oakland, Calif.	5,256	1,680
Washington, D.C.-Md.-Va.	5,446	1,808
Nassau-Suffolk, N.Y.	4,682	1,787
Dallas-Ft. Worth, Tex.	3,520	1,386
St. Louis, Mo.-Ill.	3,200	1,347
Pittsburgh, Pa.	3,109	1,337
Houston, Tex.	3,273	1,446
Baltimore, Md.	2,875	1,346
Newark, N.J.	3,494	1,743
Minneapolis-St. Paul, Minn.-Wis.	2,902	1,434
Cleveland, Ohio	3,056	1,543
Atlanta, Ga.	2,608	1,456
Anaheim-Santa Ana-Garden Grove, Calif.	2,362	1,403
San Diego, Calif.	1,814	1,167
Miami, Fla.	2,301	1,620
Milwaukee, Wis.	2,090	1,465
Seattle-Everett, Wash.	2,082	1,480
Denver-Boulder, Colo.	2.050	1,462
Cincinnati, Ohio-Ky.-Ind.	1,852	1,340
Tampa-St. Petersburg, Fla.	1,634	1,213
Buffalo, N.Y.	1,673	1,257
Kansas City, Mo.-Kansas	1,806	1,399
Riverside-San Bernadino-Ontario, Calif.	1,266	1,042
San Jose, Calif.	1,726	1,484
Phoenix, Ariz.	1,570	1,309
Indianapolis, Ind.	1,577	1,378
New Orleans, La.	1,269	1,163
Portland, Oreg.-Wash.	1,525	1,416
Columbus, Ohio	1,366	1,275
Hartford-New Britain-Bristol, Conn.	1,664	1,571
San Antonio, Texas	991	1,014
Rochester, N.Y.	1,459	1,505
Louisville, Ky.-Ind.	1,143	1,284
Sacramento, Calif.	1,015	1,163
Providence-Warwick-Pawtucket, R.I.	1,127	1,319
Memphis, Tenn.-Ark.-Miss.	1,045	1,201
Dayton, Ohio	1,114	1,329
Fort Lauderdale-Hollywood, Fla.	1,397	1,662
Albany-Schenectady-Troy, N.Y.	1.033	1,294
Bridgeport-Stamford-Norwalk-Danbury, Conn.	1,834	2,315
Birmingham, Ala.	950	1,205
Toledo, Ohio-Mich.	1,062	1,359
Oklahoma City, Okla.	898	1.197
Norfolk-Va. Beach-Portsmouth, Va.-N.C.	796	1,034

[1] This listing includes the 50 largest SMSA's, ranked by 1974 population size.

Source: "Memorandum on the Allocation of the Federal Tax Burden by Standard Metropolitan Statistical Area," Tax Foundation, September 1977.

Varying Alimony Rates...

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land ($1,194), Nebraska ($1,737), and Utah ($964).

The Tax Reform Act of 1976 eased tax burdens on those who pay alimony, but not upon those who receive it, according to the Tax Foundation. Formerly only taxpayers who itemized deductions could claim a deduction for alimony payments. Beginning in 1977, alimony payments will be deductible from gross income in arriving at adjusted gross income. Thus, a taxpayer will be able to deduct his alimony payments and also elect to use the standard deduction or to itemize his other nonbusiness deductions. Other tax rules concerning alimony remain the same. Thus the recipient of alimony, as before, must include such payments in income and pay tax on them.

Average 1975 Alimony Received, Selected States[1]

U.S., total	$2,895
California	3,152
Connecticut	9,728
District of Columbia	6,558
Florida	3,742
Hawaii	2,784
Illinois	3,479
Iowa	2,549
Maryland	1,194
Massachusetts	4,122
Michigan	3,623
Nebraska	1,737
New Jersey	3,330
New York	2,932
North Carolina	954
Ohio	4,407
Pennsylvania	3,420
Texas	3,483
Utah	964
Virginia	2,165
Wisconsin	2,333

[1]Data not available for all states because of small sample.

Source: Tax Foundation computations based on Internal Revenue Service, **Statistics of Income.**

Reminder...

The Tax Foundation Washington office has moved to 1825 K Street, N.W., Washington, D.C. 20006. The telephone is (202) 296-8830.

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TF Announces Conference and Themes

"Agenda for Tax Revision—1978" will be the theme of the 29th National Tax Foundation Conference to be held on November 30, 1977 at the Plaza Hotel in New York City.

The three principal speakers at the morning session will be: Alan Greenspan, former Chairman of the Council of Economic Advisers, and currently President of Townsend-Greenspan and Co., Inc.; Daniel P. Moynihan, U.S. Senator from New York, member of the Senate Committee on Finance; and J.W. Van Gorkom, President of Trans Union Corporation. Subjects to be covered will be:

- ☐ *General Outlook for Fiscal Policy, Employment and Price Stability*
- ☐ *A Congressional Look at Tax Revision*
- ☐ *Financing the Social Security System*

The Honorable W. Michael Blumenthal, Secretary of the Treasury, will speak on "The Administration's Tax Revision Proposals" at the luncheon session.

Speakers for the afternoon session will be David F. Bradford, Professor of Economics and Public Affairs, Woodrow Wilson School, Princeton University; Charles Kingson, International Tax Counsel, Department of the Treasury; and B. Kenneth Sanden, Partner, Price Waterhouse and Company. They will speak on:

- ☐ *Integration of the Corporate and Personal Income Taxes*
- ☐ *Taxing Foreign Source Income*

The afternoon session will be followed by a panel discussion.

The dinner speaker at Tax Foundation's 40th annual dinner held that evening at the Plaza will be Reginald H. Jones, Chairman and Chief Executive Officer, General Electric Company.

Tax Laws Unfair to Private And Business Savings Plans

"...the problem of trying to save and to accumulate or conserve real assets is one of the most pressing and pervasive economic and social problems in America today, seriously affecting all of our citizens as well as all of our private institutions," writes David I. Meiselman in Tax Foundation's August *Tax Review*. Dr. Meiselman is Professor of Economics at Virginia Polytechnic Institute and State University. His ideas were first presented in July to the Subcommittee on Economic Growth and Stabilization of the Joint Economic Committee of Congress, at hearings on Tax Policy for Economic Growth and Stabilization.

Professor Meiselman states that there is a fundamental bias against capital formation in our tax system because of the multiple taxation of income which is saved and invested. Individuals must pay taxes on essentially all income they earn, whether they spend it immediately or invest it, he says. The same holds true for corporations and their profits. Taxes must also be paid on interest and dividends earned by their investments, which result from previous saving and investing.

For full tax equality between saving and consumption, all private sector saving should be deductible from the income tax base, whether invested in a savings account, the purchase of machine tools, the education of one's children, or the building of a shopping center. Only current consumption would be taxed. Professor Meiselman points out that this would mean that businesses could write off 100 percent of the cost of production facilities in the year they acquire them, thereby eliminating depreciation and other recovery allowances.

It is true that some savings, especially in pension funds, receive a partial tax break partly because under some circumstances taxes can be deferred and partly because some or all of employer

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Off-Budget Entities Distort Final Totals In Federal Budget

Net outlays of certain activities estimated to amount to $8.5 billion in 1978, fall into the category of "off-budget" entities and thus are not included in the Federal budget total for 1978.

This practice, long in effect, was criticized by President Ford and is now being reviewed by the Carter Administration. It is discussed in *The Federal Budget, 1978 and Beyond: Prospects for Budget Balance,* Tax Foundation's analysis of the 1978 budget. Copies of the booklet are available through Tax Foundation.

Expenditures not reflected in budget outlay totals include those of the Federal Financing Bank, rural electrification and telephone revolving fund, Pension Benefit Guarantee Corporation, exchange stabilization fund, Postal Service fund, and U.S. Railway Association.

Other Practices

In addition to the off-budget entities, there are other budgetary practices which tend to understate receipt and outlay totals. For example certain transactions are entered in the budget only on a net basis; these include public enterprise funds; and trust revolving funds, such as the Federal employees' life insurance and health benefit funds, and the Federal Deposit Insurance Corporation. Still another budgetary practice is to treat certain proprietary receipts from the public as offsets against outlays, or negative expenditures.

Adjusting the official budget totals for such additional items, the Tax Foundation analysis found that estimated gross Federal receipts in fiscal 1978 will amount to $451.2 billion, as compared to $401.4 billion reported in the budget, and that gross outlays would total $521.2 billion, instead of the $462.9 billion reported in the official budget. Based on the gross transactions concept, the budget deficit would be $70.0 billion in fiscal 1978, instead of

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Generating Tax Revenue...

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from 45 to 70 percent for heads of households.)

This seems one way of collecting more in taxes on above-average incomes. However, according to Tax Foundation figures, in 1973, the latest year for which figures are available, IRS collected $13.9 billion in taxes from taxable income brackets above $32,000, an effective average tax rate of 53 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 $12.5 billion.

While sounding like a great deal of money, $12.5 billion amounts to 2.7 percent of 1978 estimated Federal budget outlays. It would pay the cost of the Federal government for less than ten days, according to Tax Foundation.

Another 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—assuming that taxpayers would not change their behavior—is that Federal income taxes would rise by $3.9 billion. Federal outlays for 1978 are estimated at $462.9 billion or $1.3 billion a day. A 100 percent rate on incomes now taxed at rates above 50 percent would produce enough revenue for only three days' operations.

The accompanying table gives some more examples of the amount of Federal income tax generated at each rate. The figures clearly show that it is a mistake to think that higher taxes on upper incomes could sharply reduce tax burdens for others. There is simply not enough income in the high brackets to produce substantial increases in revenue, even if taxed at confiscatory rates.

Federal Individual Income Tax Generated at Each Tax Rate
Income Year 1973

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	64,673	$ 52,342	$ 7,328
15	56,796	45,874	6,881
16	56,254	45,955	7,353
17	49,296	39,961	6,793
19	49,885	133,021	25,230
22	29,812	74,801	16,325
25	19,711	44,419	11,012
28	7,412	19,385	5,402
32	4,697	12,275	3,876
36	2,704	7,720	2,765
39	1,596	5,030	1,957
42	1,220	4,149	1,731
45	898	3,272	1,472
48	613	2,171	1,402
50	761	8,139	4,069
53	267	2,006	1,063
55	192	1,411	776
58	102	853	495
60	95	742	445
62	75	875	542
64	49	620	397
66	34	449	296
68	26	352	239
69	19	270	186
70	17	2,472	1,731
14-70	64,673	508,564	109,766

[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: Basic data from Treasury Department, Statistics of Income—Individual, 1973. Computations by Tax Foundation.

Off-Budget...

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the current official estimate of $61.5 billion.

The Tax Foundation analysis, as pointed out in the report, was not intended as a criticism of current budgetary practices and concepts, but rather —in view of the current emphasis upon comprehensive coverage—to provide more realistic information about the size, scope, and composition of Federal operations.

Unfair Tax Laws...

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contributions may not be taxed at all. But, Professor Meiselman warns, this route has its own dangers and shortcomings because it further bureaucratizes yet another important feature of American life by separating people from control of their own assets. Instead, control is vested in the hands of faceless caretakers and institutions who are required to act "prudently," which means they tend to provide funds to safe, established and large enterprises and activities. Professor Meiselman cites this as yet another sad example of how government keeps people out and protects those who have already made it. "Indeed, much of the tax system seems like an evil contrivance designed to keep people from becoming rich rather than striking at the rich themselves."

Professor Meiselman concludes his article with some very specific recommendations.

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