TAX FOUNDATION

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State by State Look at Federal Tax Burden: Who Gets the Mine and Who Gets the Shaft?

According to the Tax Foundation's annual analysis of federal tax collections by state, the average American will owe $4,996 in fiscal 1995 to Uncle Sam (see chart below and table on page 2). However, this burden of federal taxes won't be borne evenly across the country. The average federal tax bill paid by residents of different states will range from a low of $3,170 in Mississippi to a high of $7,769 in Connecticut.

Federal taxes are collected in many forms, including individual and corporate income taxes, social insurances taxes (such as payroll collections for Social Security and Medicare), a variety of excise taxes, custom duties, and estate and gift taxes. However, virtually all of the $1.313 trillion in federal tax revenue this year will come from just three sources: individual income taxes ($588.5 billion, or 44.8 percent of the total), social insurance taxes ($479.9 billion, or 36.5 percent), and levies on corporate income ($150.9 billion, or 11.5 percent).

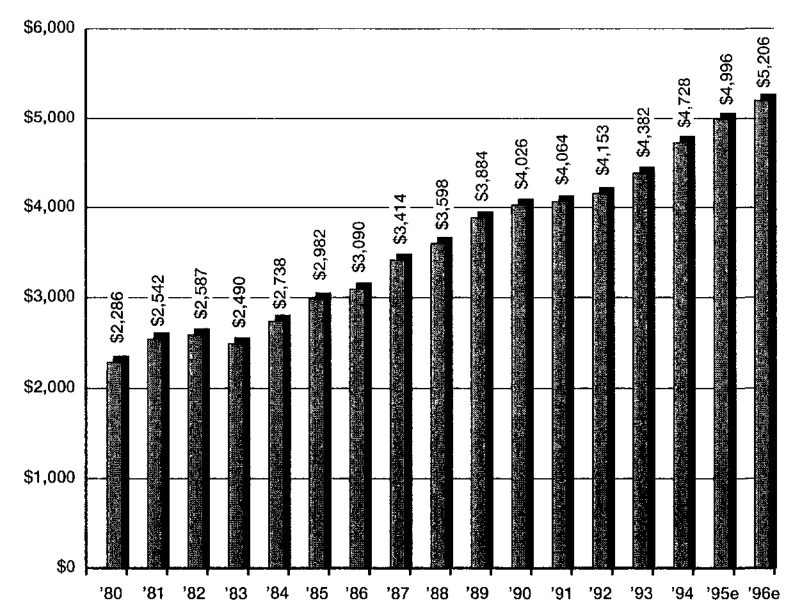
The new *Special Report*, authored by Tax Foundation Economist Patrick Fleenor and titled "1995 Federal Tax Burden by State," shows that during 1995 the residents of Connecticut will bear the highest average per capita federal tax burden in the nation, facing a tax bill of $7,769. Residents of New Jersey will also be hard hit by federal taxes, with an average federal tax bill of $6,889. The average resident of New York will pay $6,185 this year, the third highest federal tax burden in the nation.

At the other end of the spectrum, residents of Mississippi will, on average, bear a relatively light federal tax load during fiscal 1995, paying just $3,170 in federal taxes.

Mr. Fleenor notes that this variation in per capita federal tax burden by state is primarily due to differences in per capita income among

Federal Tax Burden *continued on page 2*

Per Capita Federal Tax Burden, FY 1980–1996



Source: Tax Foundation.

FRONT & CENTER

A Democratic Plan for America's Economy: Toward a Fairer, Simpler Tax Code

Rep. Richard A. Gephardt (D-Mo.)

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Federal Tax Burden

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the states. Since the federal government's primary revenue raisers, individual income and payroll taxes, are levied on measures of income, states with high per capita income will also tend to have high per capita federal tax collections. This effect is exacerbated by the progressivity of the federal tax system which causes tax burdens to rise more than proportionally with income.

In the study, Mr. Fleenor compares the Foundation's federal tax burden analysis with the Census Bureau's annual study of federal expenditures by state for fiscal 1994. Expenditures include such large-scale outlays as Social Security, Medicare, welfare, federal payroll expenses, defense procurement, and transportation funding.

The new report also provides an analysis of federal expenditures in each state per dollar of federal taxes collected. As might be expected, states with either low federal tax burdens and/or high federal expenditures tend to benefit most, on net, from federal fiscal operations. The most obvious example of this is New Mexico, the state with the highest federal expenditure/tax ratio of 1.88 (or $1.88 of federal spending for every $1 of federal taxes). Other states with high federal expenditure/tax ratios include Mississippi, North Dakota, and West Virginia.

On the other hand, those states that do not benefit, on net, from federal fiscal operations will have either high per capita federal tax burdens and/or low federal expenditures. The state with the lowest federal expenditure/tax ratio was Connecticut, with a ratio of 0.66 (or 66¢ of federal spending for every $1 of federal taxes).

Some states have seen their ratios change dramatically over the past decade. The state which has benefited the most from such changes is Louisiana, where the federal expenditure/tax ratio rose from 0.89 in fiscal 1984 to 1.33 in fiscal 1994. In addition, Connecticut has seen its federal expenditure/tax ratio fall from 0.99 in fiscal 1984 to 0.66 in fiscal 1994, the lowest in the nation. •

FY 1995 Federal Tax Burden Per Capita and FY 1994 Federal Expenditures per Dollar of Taxes

	1995 Federal Tax Burden Per Capita	Rank	1994 Federal Expenditures per Dollar of Taxes*	Rank
United States	$4,996	–	$1.00	–
Alabama	3,922	41	1.37	6
Alaska	5,797	6	1.32	11
Arizona	3,981	40	1.17	19
Arkansas	3,751	46	1.26	14
California	5,130	17	0.97	34
Colorado	5,182	15	1.01	30
Connecticut	7,769	1	0.66	50
Delaware	5,969	5	0.71	48
Florida	4,974	20	1.03	28
Georgia	4,414	31	1.04	27
Hawaii	5,370	12	1.21	18
Idaho	3,986	39	1.11	22
Illinois	5,739	8	0.75	47
Indiana	4,518	28	0.87	40
Iowa	4,287	33	1.09	23
Kansas	4,773	24	1.04	25
Kentucky	3,836	44	1.21	17
Louisiana	3,848	43	1.33	10
Maine	4,094	36	1.34	8
Maryland	5,777	7	1.28	13
Massachusetts	6,113	4	0.97	33
Michigan	5,072	19	0.82	41
Minnesota	5,220	14	0.80	44
Mississippi	3,170	50	1.69	2
Missouri	4,585	25	1.33	9
Montana	4,060	37	1.36	7
Nebraska	4,583	27	1.02	29
Nevada	5,401	10	0.77	45
New Hampshire	5,441	9	0.76	46
New Jersey	6,889	2	0.70	49
New Mexico	3,654	47	1.88	1
New York	6,185	3	0.82	43
North Carolina	4,220	34	0.98	32
North Dakota	4,026	38	1.55	3
Ohio	4,836	22	0.91	39
Oklahoma	3,908	42	1.26	15
Oregon	4,585	26	0.93	38
Pennsylvania	5,173	16	1.00	31
Rhode Island	5,279	13	1.05	24
South Carolina	3,788	45	1.25	16
South Dakota	4,181	35	1.29	12
Tennessee	4,391	32	1.12	21
Texas	4,501	29	0.97	35
Utah	3,574	48	1.12	20
Vermont	4,493	30	0.94	36
Virginia	5,090	18	1.39	5
Washington	5,374	11	0.93	37
West Virginia	3,547	49	1.51	4
Wisconsin	4,783	23	0.82	42
Wyoming	4,844	21	1.04	26
Wash., D.C.	7,396	–	5.27	–

* When calculating this ratio, expenditures by state were adjusted downward to account for deficit spending.
Source: Tax Foundation; Census Bureau.

Armey-Shelby Flat Tax Would Drop Tax-Related Burden

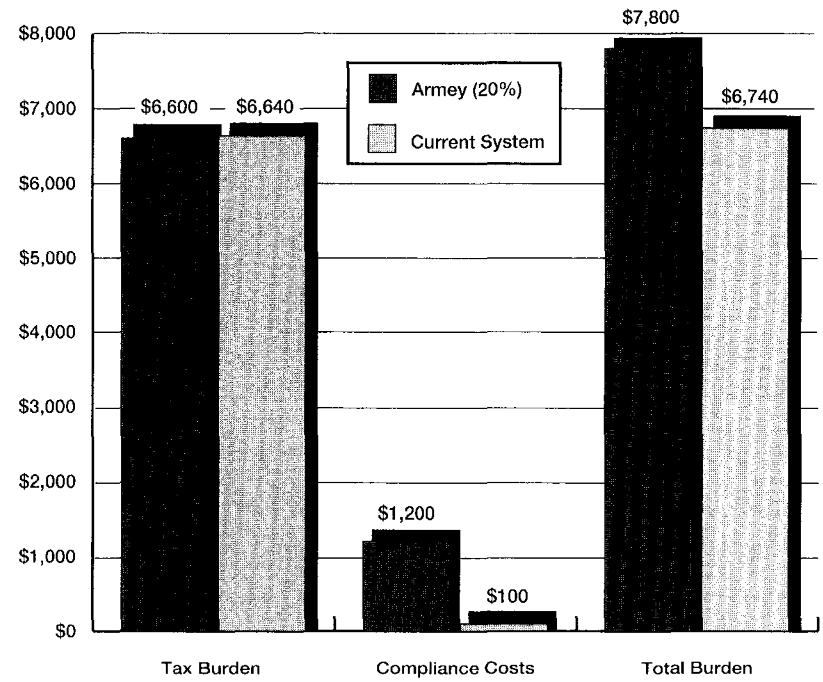
A new analysis by the Tax Foundation shows that, if Rep. Dick Armey (R-Texas) and Sen. Richard Shelby's (R-Ala.) newly introduced flat tax proposal were enacted this year, it would reduce the "tax-related burden" for the average taxpayer by an estimated 13.5% (from $7,800 to $6,740) and increase 1996 federal tax revenues by almost $5 billion (see Chart 1).

The "tax-related burden," a measurement developed by the Foundation's Senior Economist Arthur P. Hall, incorporates (1) individual tax obligations (what individuals pay directly to the Internal Revenue Service); (2) business tax obligations (taxes that are, by assumption, ultimately shared equally by business owners, such as shareholders, partners, and sole proprietors, and workers); and (3) the costs of complying with income tax rules and regulations.

Dr. Hall notes that the reduced burden in the Armey-Shelby plan stems from the taxpayer savings that would result from reducing the high

Flat Tax *continued on page 6*

Chart 1: 1996 Avg. Individual Tax Burden, Current Income Tax System and Armey Flat Tax Plan



Source: Tax Foundation.

Chart 2: 1996 Avg. Individual Tax Burden, Current System and Armey Flat Tax Plan

	Current Income Tax System			Armey Flat Tax (20%)		
Adjusted Gross Income	Tax Burden	Compliance Costs	**Total Burden**	Tax Burden	Compliance Costs	**Total Burden**
$1 under $5,000	$ –160	$ 70	**$ -90**	$ 150	$ 40	**$ 190**
$5,000 under $10,000	–250	210	**–40**	470	50	**520**
$10,000 under $15,000	–150	340	**190**	910	60	**970**
$15,000 under $20,000	990	460	**1,450**	1,680	60	**1,740**
$20,000 under $25,000	2,230	590	**2,820**	2,490	70	**2,560**
$25,000 under $30,000	3,580	720	**4,300**	3,470	70	**3,540**
$30,000 under $40,000	4,950	920	**5,870**	5,100	80	**5,180**
$40,000 under $50,000	6,780	1,180	**7,960**	7,520	100	**7,620**
$50,000 under $75,000	9,770	1,630	**11,400**	11,460	120	**11,580**
$75,000 under $100,000	16,270	2,410	**18,680**	17,670	160	**17,830**
$100,000 under $200,000	27,260	4,110	**31,370**	27,190	250	**27,440**
$200,000 under $500,000	80,650	10,640	**91,290**	62,750	620	**63,370**
$500,000 under $1,000,000	225,540	25,810	**251,350**	142,600	1,470	**144,070**
$1,000,000 or more	969,180	118,230	**1,087,410**	514,010	6,880	**520,890**
All Taxpayers	$ 6,600	$ 1,200	**$ 7,800**	$ 6,640	$ 100	**$ 6,740**

Note: Negative tax liabilities result from the refundable earned income tax credit; the tax burden includes both individual and business taxes paid.
Source: Tax Foundation.

A Democratic Plan for America's Economy: Toward a Fairer, Simpler Tax Code

Rep. Richard A. Gephardt
(D-Missouri)

At this time I am advancing the second chapter of a blueprint for the American economy of the future — in this case, a proposal for a broad-reaching tax reform that is more than the package of perks for the privileged which the Republicans have offered. I believe that the tax reform plan I am presenting is right on the merits, regardless of its context. But that context — a broader Democratic vision of America's economy and society, a fierce defense of working families and the middle class, an economy that upholds family wages and does not tax them into oblivion — is vitally important for my party and my country.

Mine is the only tax reform plan that is designed entirely for working families and the middle class. No lobbyist, no special interest, no corporate contributor will reap special benefits from its passage.

I have offered a Democratic way to radically reform America's tax system. While we reclaim the global and national economies from the trickle-down terrorists, we must make the tax code work for working families, not special interests and lobbyists. I will continue this dialogue in the coming months — talking about ways to lift America's falling wages and incomes; talking about ways to reform our political system and make campaigns shorter and cheaper; and talking about a new Democratic path to health care reform. Just because health care became a problem for the politicians last year doesn't mean it stopped being a problem for hard-working families. Democrats have fought for this issue for a generation, and there is no reason to stop now.

We can have a tax system that is both simple and fair. We can abandon the maddening complexity, the mind-numbing bureaucracy of today's tax system, without favoring the loophole-jumpers over the factory workers. Decades of toying and tinkering at the margins have only made the problem worse. And I've concluded that the only way to fix anything is to replace everything — to overhaul the entire system, from top to bottom. Under my plan, three-fourths of all Americans pay 10 percent of their income. The rest pay one of four progressive rates — to be specific, 20 percent, 26 percent, 32 percent, and 34 percent. The mortgage deduction is maintained, but virtually all other exemptions are eliminated.

Mine is the only tax reform plan that is designed entirely for working families and the middle class. No lobbyist, no special interest, no corporate contributor will reap special benefits from its passage. The gimmicks and giveaways that have cluttered our tax code will be eliminated, once and for all. At the same time, fringe benefits will not be taxable, but because the basic tax rates will be lowered for every single American, and because the standard deduction will be bigger, most Americans will pay less in taxes.

Tax forms will be so simple that they can be printed on a small postcard. For most Americans, thanks to an improved system of withholding, they won't have to file returns at all. So if you're one of the few who use high-powered attorneys to maneuver the maze of our tax system, then you're not going to like my plan. But if you want a tax plan that lets most Americans pay a flat 10 percent of their income, without filing a return; if you want a tax plan that insists that everyone pay their fair share; then the "10% Tax" makes sense for you.

My 10% Tax will enable us to cut the IRS, to make it smaller and less expensive. For the vast majority of Americans, who will not have to file any returns, the IRS will be reduced to little more than a mailing address. I also intend to create a citizens panel to make sure that tax forms are simple and understandable for those who do have to file them.

FRONT & CENTER

My plan begins by ending virtually every exemption, loophole, and tax shelter. With the billions of dollars we save, we will slash tax rates across the board for all Americans. With no special gimmicks and giveaway, the lobbyists who have rigged our tax code for decades will permanently lose their seats at the table.

There is one single deduction that this plan protects: the deduction of interest on home mortgages. That's because home ownership is such a basic goal for working and middle class families, it is such an essential part of the American dream, that we must do everything we can to support and encourage it. Under my plan, a family of four would pay the 10 percent rate up to about $60,000 in income. An individual would pay the 10 percent rate up to $32,000. The remaining four rates, for the top 25 percent of households, are all lower than under today's tax code.

I am including in my plan a provision that Congress may not raise tax rates without a national referendum, because I want to end the temptation to start raising tax rates by doling out loopholes. That decision should belong to the American people, not to a congressional committee. If this plan becomes law, the American people can stop reading the politicians' lips and start running their own lives.

Unlike some Republican proposals, the 10% Tax treats so-called "unearned income" — money from stock speculation, capital gains, and idle investment — the same as income that has been earned the old-fashioned way. I don't think it makes sense to let supply-side speculators pay no taxes at all, which is exactly what would happen under the leading Republican plans. Do they believe that money earned through idle investment is somehow better than money earned through sweat, toil, and tears? Whether it is manual labor or the most sophisticated high-tech services, I believe we must value and encourage productive work, not just passive profit.

The 10% Tax will dramatically scale back the $300 billion industry of tax advisers and preparers, and the 4.5 billion hours Americans spend each year to prepare their taxes. The income tax shouldn't be a full employment program for accountants and economists. Under my plan, the only jobs created will come from individual investment and initiative — from people keeping and using more of their own money, from families freed from today's tax bureaucracy.

Unlike some Republican proposals, the 10% Tax will not increase the deficit. It will raise as much revenue as today's tax system, but it will raise it more fairly, since everyone will play by the same rules, whether they hail from Main Street or Easy Street. We will slash corporate welfare by $50 billion and use that money to cut taxes for small businesses. It's time to take those tax breaks from the corporations that don't need them, and give them to the small businesses that are the real engines of growth in this country.

Some argue that, instead of my simplified 10% Tax, we should merely end the income tax altogether, and switch to a consumption tax — a national sales tax on all money that is spent. The argument is that this will increase savings, since money that is saved would not be taxed. This kind of consumption tax is wrong for several basic reasons.

First, it is plainly and profoundly regressive. Families that earn less will pay a higher proportion of their income in taxes because they spend much more of what they earn just to survive.

Second, it would require a massive and sudden increase in the sales tax to raise the necessary revenue. Who can even guess the devastating effects on consumers ane retailers when sales taxes are doubled and tripled overnight? Whole industries — productive industries, ones that make more than paperwork — could be thrown into turmoil. We simply can't take that risk.

Third, at a time when the Labor Department has reported the greatest yearly decline in wages since the 1840s — when the invention of the electric loom threw millions of weavers out of work — trying to encourage savings through the tax code is simply beside the point. When you're working two or three jobs just to keep a roof over your head and put food on the table, you can't save money no matter what the tax code says.

People won't save more until they have more. That is why we must turn out attention to falling family incomes, and stop trying to control people's behavior from the committee rooms of the Capitol.

Finally, my 10% Tax is unapologetically progressive. Since Abraham Lincoln adopted the very first income tax during the Civil War, our tax system has followed this simple progressive principle: those who enjoy more of society's benefits should shoulder a little more of its burdens. This principle is the cornerstone not just of our tax system, but of a decent, civil society. Those who have prospered and profited from life's lottery have a moral obligation to share their good fortune. It's a principle as old as the Bible itself.

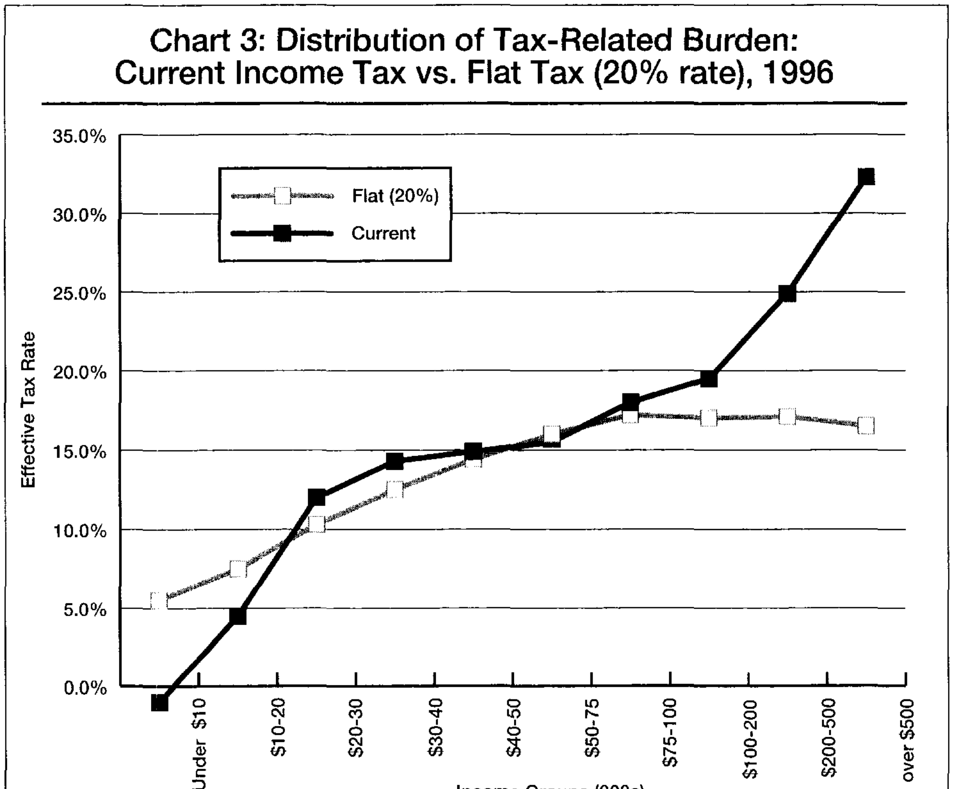
I would like to believe that both Republicans and Democrats can rally behind this plan. But if that bipartisan support does not come, Democrats must not be afraid to fight for what we believe. For I believe the 10% Tax is a model for the kind of America Democrats must champion in the 1990s.

The American people need this plan. I believe it can bring us closer to an economy that truly works for working people. An economy as strong and open and optimistic as the one we had when I was growing up in the Fifties and Sixties.

The views expressed in Front & Center are not necessarily those of the Tax Foundation.

Armey and Shelby Introduce Flat Tax Proposal

Continued from page 3



Source: Tax Foundation.

paperwork costs associated with the current income tax. In his *Special Report* "An Analysis of the Tax Burden and Compliance Costs of the Armey-Shelby Flat Tax," Dr. Hall estimates that plan could reduce compliance costs from their current level of $140 billion to $8.4 billion, a drop of 94%.

The flat tax creates a progressive distribution of the tax burden. As Charts 2 and 3 show, however, if enacted this year, the flat tax — at an initial 20% rate — would generate a much more proportional distribution of the tax burden than the current income tax. The reason: the flat tax eliminates the refundable Earned Income Tax Credit (which provides many taxpayers with a large negative tax liability) and the multiple taxation of investment income (income which is initially taxed as business profits and, after being distributed to investors in the form of dividends or capital gains, is taxed once again under current law).

Dr. Hall's report also offers a projected comparison of the current income tax and the flat tax in the year 2002, when the flat tax would be fully phased in at a rate of 17%.

Dr. Hall notes that the Armey-Shelby plan substantially changes the definition of taxable income for both individuals and businesses. In particular, individuals will pay tax only on their wage and salary income and any retirement income they receive from pension plans and individual retirement accounts. To eliminate the multiple taxation of investment income, the Armey-Shelby flat tax does not tax individuals' interest, dividend, or capital gains income. These forms of income are taxed solely on the business side of the flat tax. Businesses will pay tax on the difference between the gross revenue they receive from sales of goods and services and the cost (including wages and contributions to qualified retirement accounts) of producing such goods and services. •

59th Annual Conference Focuses on Tax Reform

Public and Private Sector Distinguished Service Awards Announced

"Tax Reform at the Crossroads" will be the topic of discussion at the Tax Foundation's 59th Annual Conference and Dinner in New York City, scheduled for November 16, 1995. The half-day conference, which like last year will start at midday, will feature as keynote speaker Kenneth Kies, Chief of Staff of the U.S. Congress's Joint Committee on Taxation.

The conference program will start with the presentation of the third annual Tax Policy Service Award at the opening luncheon, which this year goes to Robert Bartley, Editor of *The Wall Street Journal*.

Since 1940, the Tax Foundation has presented a Distinguished Service Award at its Annual Dinner to leaders of the public and private sectors who have helped promote the principles of taxation. This year's Public Sector award will be presented to Sen. Sam Nunn (D-Ga.), ranking minority member of the Senate Armed Services Committee.

Alfred C. DeCrane, Jr., Chairman and Chief Executive Officer of Texaco, Inc., will receive the Private Sector Distinguished Service Award.

This year's recipients join a long, prestigious list of previous award winners, including Presidents Hoover and Eisenhower and U.S. Senators Everett Dirksen, Robert Taft, Harry F. Byrd, and Harry F. Byrd, Jr. •

In Memoriam

John Dwight Evans, Jr.

1928–1995

J. Dwight Evans, Special Tax Counsel for the Tax Foundation since 1993 and an attorney with Mobil Oil for 29 years, died at his home in Arlington, Va., June 18.

Mr. Evans was born in Omaha, and graduated from Northwestern University and Northwestern Law School. During the Eisenhower administration he was a lawyer for the Justice Department.

In 1964 Mr. Evans went to work for Mobil Oil as a tax attorney in New York. In 1990 he moved to the Washington, D.C., area with Mobil, and at the time of his retirement in 1993 he held the position of Assistant General Tax Counsel.

After joining the Tax Foundation, he authored five well-received *Background Papers*, including:

- "A Critical Analysis of the Taxation of Business Hedging and the Case for Comprehensive Congressional Legislation," January 1994.
- "*Barclays* and *Colgate-Palmolive* Before the Supreme Court: A Pandora's Box of Tax Troubles," March 1994.
- "Is the Transfer Pricing Penalty Counterproductive? A View Through the Commissioner's Study," September 1994.
- "Does the Transfer Pricing Penalty Violate the Fourth Amendment to the Constitution?", December 1994.
- "Financing State Government in the 21st Century: The Approaching Corporate Income Tax Crisis," to be published later this year.

Mr. Evans is survived by his wife, Rose Evans; a daughter, Amy Evans Cody; a sister, Elizabeth E. Brown; and three grandchildren. •

FOUNDATION MESSAGE

The Coming of the Great Train Wreck

Just about every fall, a game of chicken is played between Republicans and Democrats, the House and the Senate, and the President and Congress. Most years the wrangling over legislation comes down to the wire, that is, September 30, and in the end some less-than-grand compromise is struck. Some people think this year will be no different. They're wrong: it's likely to be much worse, though the outcome could be surprisingly good.

An interesting confluence of forces is developing. First, of course, Congress is working on the budget and deadlines are steadily slipping. At the same time, some non-budgetary issues are turning into a strange brew. For example, the balanced budget amendment remains on hold pending another vote in the Senate. The line-item veto is in legislative stasis awaiting conference action. The regulatory reform bill seems to have died for the year. And the President seems to be loading up his veto pen for any bill that does manage to get through Congress.

J.D. Foster
Executive Director and Chief Economist

For most members of Congress, this represents the normal, slow pace of change in Washington and, while frustrating, is expected. It's another matter entirely for the freshman Republicans in the House and for the House Republican leadership, who came in expecting to change the world in a hurry, only to see their victories go for naught in the Senate or at the White House. And, contrary to expectations, their revolutionary zeal does not seem to have diminished.

Finally, the federal government is going to reach the debt ceiling sometime this fall, meaning the government's borrowing authority will be exhausted unless action is taken. If additional borrowing authority isn't granted, then spending will have to be cut back to where government can live within its means.

Suppose Congress passes a budget not at all to the President's liking. Consider where this leaves the President come September 30. He can veto the bill and shut down the government. Pending renegotiation of the budget, the Congress then needs to pass a "Continuing Resolution" (CR), which keeps the government running temporarily. And this is where the train wrecks.

Suppose the House, led by a very frustrated freshman class, refuses to raise the debt limit. *Instant balanced budget.* And suppose the House passes a CR setting spending amounts consistent with a balanced budget, then goes home. The Senate would have little choice but to pass the same resolution and send it on to the President. At this point President Clinton is faced with a real nightmare: sign the CR and effectively slash spending on his most cherished programs, or veto the CR and shut down the government. Some members of Congress are already preparing for the great train wreck.

White House Chief of Staff Leon Panetta has called for a short-term debt ceiling extension and expects Congress to pass a CR, thereby giving the President time to negotiate with Congress on longer-term solutions. Unfortunately for the President, the House may well decide not to negotiate, choosing instead to present the President with a take-it-or-leave-it proposition — a balanced budget now or shut down the government. Either way, given their commitment and their frustration, the House freshmen would probably feel they've finally earned their pay for the year after all.

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We recently lost a good friend with the passing of Dwight Evans. As the neighboring article notes, Dwight joined us after a distinguished career at Mobil Oil. He brought depth of experience and a keen intellectual interest to the Tax Foundation, as became readily apparent in the publications he quickly produced. But, above all, Dwight was a good friend, and we will miss him.

Gephardt Plan: Lower Tax Burden for Middle Class Offset by Higher Burden on Wealthy

TAX FEATURES

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Rep. Richard Gephardt's (D-Mo.) newly released tax reform proposal would lower the average tax obligation for income groups earning less than $75,000, according to an analysis by Tax Foundation Senior Economist Arthur P. Hall. This lowering of the tax burden of most middle class Americans, however, would be offset by a steep increase in the average burden of those earning more than $200,000. As a result, under the Gephardt plan the average federal income tax burden for the nation as a whole would rise from $7,106 to $7,218 (see table).

1997 Avg. Individual Tax Burden, Current System and Gephardt Plan

Adjusted Gross Income	Current System	Gephardt Plan
$1 under $5,000	$ (149)	$ (163)
$5,000 under $10,000	(230)	(275)
$10,000 under $15,000	(134)	(412)
$15,000 under $20,000	996	608
$20,000 under $25,000	2,242	1,693
$25,000 under $30,000	3,624	2,978
$30,000 under $40,000	5,041	4,155
$40,000 under $50,000	6,913	5,902
$50,000 under $75,000	9,940	9,408
$75,000 under $100,000	16,314	16,483
$100,000 under $200,000	26,771	30,615
$200,000 under $500,000	79,907	97,487
$500,000 under $1,000,000	227,396	261,243
$1,000,000 or more	1,013,710	1,129,296
All Taxpayers	$ 7,106	$ 7,218

Note: Negative tax liabilities result from the refundable earned income tax credit.
Source: Tax Foundation.

Dr. Hall's analysis takes into account the indirect impact that business tax payments have on individual tax filers. Dr. Hall's calculations assume that the burden of business income taxes is ultimately shared equally by business owners (such as shareholders, partners, and sole proprietors) and workers. As a result, the figures presented in the analysis represent the level of overall tax burden (a combination of direct and distributed tax burdens), rather than mere tax obligations (what individuals or businesses pay directly to the IRS).

Rep. Gephardt's plan retains the five tax brackets of the current system, but lowers the statutory rates while dramatically expanding the tax base. He does this primarily by eliminating all deductions except for those on mortgage interest payments, and by taxing fringe benefits and employer contributions to employee pension plans.

As the accompanying table shows, under the Gephardt plan the average tax burden falls from the current level for taxpayers earning up to $75,000. For example, if the Gephardt plan were enacted taxpayers earning between $30,000 and $40,000 would pay an average of $4,155 in income taxes in 1997, about 18 percent less than under the current tax system ($5,041).

However, under the Gephardt plan taxpayers earning over $200,000 would see their tax burdens rise. For example, those earning between $200,000 and $500,000 would pay $97,487 under the Gephardt plan, about 22 percent higher than under the current system ($79,907). •

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