



SPECIAL REPORT

April 2006
No. 141

2006 Annual Survey of U.S. Attitudes on Tax and Wealth *Majority of U.S. Adults Support Major Tax Reform, Willing to Give Up Some Deductions to Make Tax System Simpler*

Andrew Chamberlain
Economist

Scott A. Hodge
President

Executive Summary

The Tax Foundation's 2006 annual survey of U.S. opinion on taxes finds that support for federal tax reform rose in 2006. A majority report they are willing to give up some tax deductions to make the tax system simpler. Only about one in ten adults are willing to pay additional taxes to eliminate the federal budget deficit and balance the budget. A majority report the amount of federal income taxes they have to pay is "too high," and rate the value they receive from the taxes they pay to the federal government as only fair or poor.

Introduction

While political momentum for federal tax reform has stalled in the nation's capital, the 2006 *Annual Survey of U.S. Attitudes on Tax and Wealth* shows 80 percent of U.S. adults believe the federal tax system needs major changes or a complete overhaul—up from 77 percent in 2005—and a majority (52 percent) are willing to give up some tax deductions to make the tax system simpler.

All survey results are based on a Harris Interactive® online survey conducted on behalf of the Tax Foundation within the United States between March 8 and 16, 2006 among a nationwide cross section of 2,017 adults aged 18 and older. With 95 percent confidence, the overall survey results have a sampling error of plus or minus 2 percentage points.

Taxes Complex, Returns Painful

In the midst of federal income tax filing season, the survey asked about the perceived complexity of federal income taxes and filing returns. When asked, "How complex do you

think the current federal income tax is?" an overwhelming 80 percent of U.S. adults say the federal income tax is somewhat or very complex. Just 10 percent of adults say federal income taxes are not too complex or not complex at all.

"Many lawmakers view tax deductions as a major political barrier to tax reform. However, the 2006 survey suggests deductions may not pose as difficult a problem for tax reform as is commonly believed."

Ultimately, taxes are paid in return for services from government. The survey asked adults to rate the value they personally received from the taxes they pay to the federal govern-

ment. Sixty-five percent rated the value as “poor” or “only fair,” with just 2 percent rating it excellent. This represents a slight improvement from 1993 when 80 percent of U.S. adults said the value received for their tax dollars was fair or poor, and is slightly up from 2005 as well.

Willing to Trade Deductions for Simplicity

Past surveys have shown that a leading cause of complexity in the federal income tax is the growing number of tax deductions and credits in the code. Because tax reform typically requires trimming back these deductions in order to broaden the tax base and lower overall tax rates, many lawmakers view tax deductions as a major political barrier to tax reform.

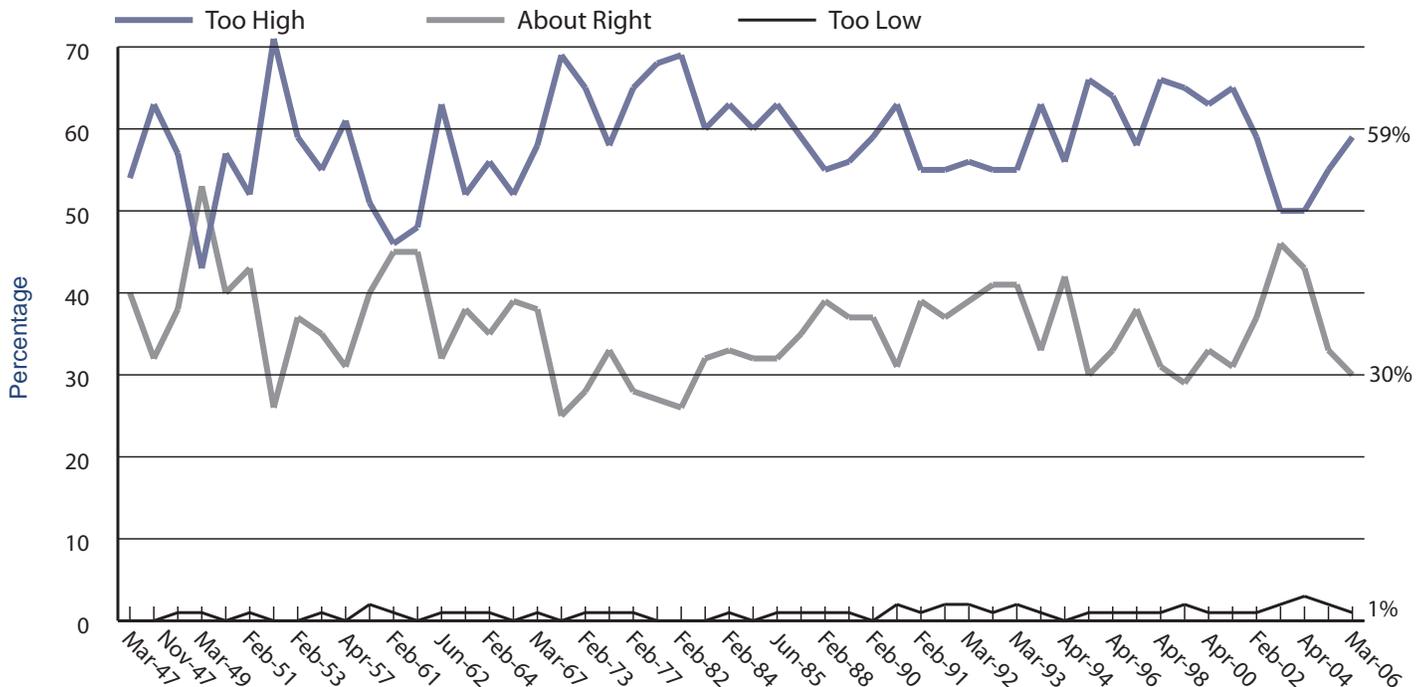
However, the 2006 survey suggests tax deductions may not pose as difficult a problem for tax reformers as is commonly believed.

When asked if they would be willing to give up some deductions to make the tax system simpler, a majority of U.S. adults (52 percent) said they would be willing to give up some deductions for a less complex tax code.

“When asked about the perceived complexity of federal income taxes, an overwhelming 80 percent of U.S. adults say the federal income tax is ‘somewhat’ or ‘very’ complex.”

Interestingly, those most willing to give up tax deductions are the same respondents who may benefit most from them. Fifty-two percent of those who itemize when filing federal tax

Figure 1
“Do you consider the amount of federal income tax you have to pay as too high, too low, or about right?”



Source: Tax Foundation; American Enterprise Institute “Public Opinion on Taxes” (<http://www.aei.org/publicopinion6>).

returns—and who therefore benefit from deductions—said they are willing to trade tax deductions for simpler taxes. Among those who claim the home mortgage interest deduction—one of the most valuable and popular federal tax deductions—56 percent were willing to give up deductions. Similarly, married respondents (57 percent), those over age 45 (58 percent), those with incomes over \$75,000 (58 percent), and those with postgraduate degrees or higher (60 percent) all say they are willing to abandon deductions to make the tax system simpler.

This result illustrates a well-known fact about the costs of tax complexity—they are borne most heavily by those with tax returns complicated by deductions and credits. The fact that a majority of U.S. adults are aware of the dual-edged nature of deductions and credits and say they are willing to forgo them for simplicity casts doubt on the commonly-held view that taxpayers are unwilling to support tax reform if it removes tax deductions.

Unwilling to Reduce Deficit with Tax Dollars

With the growing federal budget deficit in the headlines, the 2006 survey included two new questions about U.S. adults' willingness to pay additional taxes to eliminate the deficit and balance the budget.

“When asked if they would be willing to pay an additional tax to eliminate the federal deficit, just 9 percent said they would be willing to pay.”

Noting that the U.S. budget deficit is projected to be \$340 billion¹, or \$2,470 per individual tax return, the first question asked adults whether they would be willing to pay an

additional \$2,470 in federal taxes to eliminate the deficit and balance the budget.

Just 9 percent of adults said they would be willing to pay the additional tax, while 79 percent were not willing to pay it, and 12 percent were not sure. Among those 9 percent of adults who *were* willing to pay the extra tax, the survey asked an additional question, “If you paid that extra \$2,470 in additional taxes, which one of the following do you believe today’s Congress would do: pay off the entire deficit, pay off part of the deficit and increase spending with the rest, or mostly increase spending and not pay off the deficit?”

“While divided on tax reform plans, U.S. adults remain united in one respect: their aversion to the federal estate and gift tax.”

A surprising 63 percent of those who were willing to pay the extra tax to balance the budget expressed the pessimistic view that Congress would likely increase spending with the extra tax revenues, and not actually pay off the deficit. Just 17 percent of those willing to pay extra tax believed Congress would in fact pay off the entire deficit with the money.

Uneasiness with Tax Burden Rises

In 1947, Gallup began asking Americans a famous tax question about whether they consider the amount of federal income tax they pay as too high, about right or too low. The question has become a standard barometer of tax satisfaction over the years.

This year, according to the Harris Interactive® survey conducted on behalf of the Tax Foundation, 59 percent say the amount of federal income tax they pay is too high. This represents an increase of 9 percentage points since 2004, and is just above the average

(continued on page 6)

¹ Based on Congressional Budget Office (CBO) projections as of February 2006 when the survey was designed. CBO budget projections have subsequently been revised upward.

2006 Survey Questions and Responses

Q635 *How would you rate the value you personally get from the taxes you pay to the federal government?*

2006	2005	
27%	25%	TOP 2 BOX (NET)
2%	3%	Excellent
24%	23%	Pretty good
65%	66%	BOTTOM 2 BOX (NET)
40%	39%	Only fair
25%	27%	Poor
8%	9%	Not sure

Source: Tax Foundation

Q645 *Do you consider the amount of federal income tax you have to pay as...?*

2006	2005	
59%	55%	Too high
30%	33%	About right
1%	2%	Too low
9%	10%	Not sure

Source: Tax Foundation

Q650 *What is the maximum percentage of a person's income that should go to taxes — that is, all taxes, state, federal, and local? Please enter a whole number amount only; do not enter a percent sign. If you are not sure, please give your best estimate.*

2006	2005	
0%	0%	100%
0%	0%	90% - 99%
0%	0%	80% - 89%
0%	0%	70% - 79%
0%	0%	60% - 69%
1%	2%	50% - 59%
1%	3%	40% - 49%
6%	7%	30% - 39%
22%	23%	20% - 29%
43%	41%	10% - 19%
24%	20%	1% - 9%
1%	3%	0%
15%	16%	MEAN percentage

Source: Tax Foundation

Q670 *Some taxes are paid to the federal government in Washington and some are paid to state and local governments. Of the following federal taxes, which do you think is the worst tax — that is, the least fair?*

2006	2005	
31%	30%	The federal estate tax
25%	26%	Federal income tax
14%	15%	Social Security payroll tax
7%	8%	Federal corporate income tax
21%	21%	Not sure

Source: Tax Foundation

Survey Methodology

Survey results are based on a Harris Interactive™ online survey conducted on behalf of the Tax Foundation within the United States between March 8 and 16, 2006 among a nationwide cross section of 2,017 adults aged 18 and older.

Figures for age, sex, race, education, region and household income were weighted where necessary to bring them into line with their actual proportions in the population. Propensity score weighting was also used to adjust for respondents' propensity to be online.

In theory, with probability samples of this size, one can say with 95 percent certainty that the overall results have a sampling error of plus or minus 2 percentage points. The margin of error is higher for subgroup results based on subsets of respondents. As with all surveys of public opinion, sampling error is only one of many potential sources of error. Due to rounding, poll results may not always add up to 100%.

Q675 Of the following state and local taxes, which do you think is the worst tax — that is, the least fair?

2006	2005	
39%	38%	Local property tax
20%	19%	State income tax
18%	18%	Sales tax
7%	7%	State corporate income tax
16%	17%	Not sure

Source: Tax Foundation

Q685 How complex do you think the current federal income tax is?

2006	2005	
80%	81%	TOP 2 BOX (NET)
48%	46%	Very complex
32%	35%	Somewhat complex
10%	11%	BOTTOM 2 BOX (NET)
9%	9%	Not too complex
1%	2%	Not complex at all
10%	8%	Not sure

Source: Tax Foundation

Q690 Which of the following statements best describes your opinion of the federal tax system?

2006	2005	
16%	18%	TOP 2 BOX (NET)
2%	2%	It is fine the way it is.
14%	16%	It needs minor changes.
80%	77%	BOTTOM 2 BOX (NET)
40%	42%	It needs major changes.
40%	35%	It should be completely overhauled.
4%	6%	None of these

Source: Tax Foundation

Q695 If you could choose one plan to collect all federal taxes, of these listed, which federal tax plan would you prefer?

2006	2005	
33%	37%	A flat-rate income tax with no deductions.
21%	19%	The current graduated income tax with deductions.
20%	19%	A national sales tax.
26%	25%	Not sure

Source: Tax Foundation

Q700 Would you be willing to give up some deductions to make the tax system simpler?

2006	2005	
52%	54%	Yes
22%	21%	No
27%	25%	Not sure

Source: Tax Foundation

Q715 Do you personally favor or oppose completely eliminating the estate tax — that is, the tax on property left by people who die?

2006	2005	
68%	68%	Favor
19%	17%	Oppose
14%	15%	Not sure

Source: Tax Foundation

Q725 Last year 42.5 million Americans — that’s one-third of all taxpayers — paid no federal income tax after deductions and credits. Thinking about your own tax burden, do you think this is fair, or do you feel everyone should be required to pay some minimum amount of tax to help fund government?

2006	2005	
63%	59%	Everyone should be required to pay minimum amount of tax to help fund government
21%	21%	This is fair
16%	20%	Not sure

Source: Tax Foundation

Q727 This year the U.S. budget deficit will be \$340 billion, or \$2,470 per individual tax return. Some people say it is important to balance the budget. Thinking about your own situation, would you be willing to pay an additional \$2,470 in federal taxes to eliminate the deficit and balance the budget?

2006	
9%	Yes, I would be willing to pay the additional tax.
79%	No, I would not be willing to pay the additional tax.
12%	Not sure

Source: Tax Foundation

Q729 If you paid that extra \$2,470 in additional taxes, which one of the following do you believe today’s Congress would do? (Base: Willing to Pay Tax)

2006	
63%	Mostly increase spending and not pay off the deficit
20%	Pay off part of the deficit and increase spending with the rest
17%	Pay off the entire deficit
1%	Not sure

Source: Tax Foundation

(continued from page 3)

response since 1947 of 58.6 percent. Thirty percent said their tax bill is about right, while just 1 percent said it was too low. Those most likely to say their federal tax bill is “too high” include respondents between the age of 45 and 54 (71 percent) and married couples (65 percent).

How High Should Taxes Be?

The Tax Foundation estimated that the nation’s average tax burden was 31.6 percent of income in 2006². To test whether U.S. adults view this tax burden as too low, too high or about right, they were asked the following question, “What is the maximum percentage of a person’s income that should go to taxes—that is, all taxes, state, federal and local?”

“Fifty-nine percent say the amount of federal income tax they pay is ‘too high.’ This represents an increase of 9 percentage points since 2004.”

In 2006, the mean response was just 15 percent—nearly half the nation’s total average tax burden—with a median response of 10 percent. This represents a slight decrease from 2005, when the mean response was 16 percent.

Women were more likely to favor somewhat lower tax rates than men (mean of 13.4 percent for women compared to 16.7 percent for men). Other groups favoring lower tax rates include those in the lower-income range of \$25,000-\$35,000 (mean of 13.9 percent of income) and the middle-income range of \$35,000-\$50,000 (mean of 13.8 percent). The group favoring the lowest tax rates were widowed respondents, whose mean response was just 12.5 percent of income.

“When asked, ‘What is the maximum percentage of a person’s income that should go to taxes?’ the mean response was just 15 percent.”

The groups favoring the highest tax rates include single respondents (mean of 16.1 percent), those earning over \$75,000 per year (mean of 17.2 percent), and those with college degrees (mean of 17.0). Adults with postgraduate degrees favored the highest tax rates of all, with a mean response of 23.2 percent of income.

Support for Tax Changes

Although the political momentum in Washington for tax reform has slowed in recent months, U.S. adults expressed interest when asked about possible plans to reform the federal tax code.

When asked to choose between a flat-rate income tax with no deductions, a national sales tax or the current graduated income tax with deductions, 33 percent chose a flat-rate income tax, while 20 percent favored a national sales tax and 21 percent favored the current system of a graduated-rate income tax with deductions. Support for a flat income tax rose with income and age, and was significantly higher among married respondents (37 percent) and those over age 55 (41 percent).

While divided on tax plans, U.S. adults remain united in one respect: their aversion to the federal estate tax. Currently the estate tax is scheduled to be phased out in 2010, only to return in 2011 unless Congress takes action. When asked about completely eliminating the estate tax, 68 percent favored elimination, the same as in 2005. Support for repeal is significantly higher among those over age 45 (74 percent), those who are widowed (78 percent) and those who are married (71 percent).

Least Fair Taxes

U.S. adults clearly believe some taxes are fairer than others. When participants were asked which federal tax is least fair, the estate tax received the most votes (31 percent). Though this result is consistent with past surveys, it remains somewhat surprising given that the federal estate tax affects only roughly 1 percent of federal individual tax filers each year.

In terms of unfairness, the estate tax was followed closely by the income tax (25 percent) and the Social Security payroll tax (14 percent). Adults aged 18 to 24 were more likely to name the Social Security payroll tax as the least fair tax (27 percent) than any other age group. Those over age 55 were most likely to name the estate tax (40 percent).

“When asked to rate the value they personally received from taxes paid to the federal government, 65 percent rated the value as ‘poor’ or ‘only fair,’ while just 2 percent rated it ‘excellent.’”

When asked about the fairness of state and local taxes, 39 percent of adults named local property taxes as the least fair tax. This result is also consistent with past surveys. Property taxes may be perceived as unfair for at least three

reasons: (1) they tend to be highly visible taxes, making taxpayers more aware of them; (2) they rise or fall based on property values, regardless of taxpayer behavior; and (3) they often make up a large and rising portion of the total tax burden faced by retirees who rely on fixed incomes.

In terms of perceived unfairness, property taxes were followed closely by state-level income taxes (20 percent) and sales taxes (18 percent). Adults over age 55 were significantly more likely to name local property taxes as the least fair tax (47 percent) than any other age group, while those aged 35 to 44 were more likely to name state income taxes as least fair (25 percent) than any other age group.

Rising Number of “Non-Payers” Seen as Unfair

The Tax Foundation estimates that 43.4 million Americans will file tax returns but owe no federal income tax after deductions and credits for 2006³. When asked whether this was fair, 63 percent of adults said everyone should be required to pay some minimum amount of tax to help fund government. This represents an increase from 59 percent who said it was not fair in 2005. Just 21 percent said it was fair in 2006.



SPECIAL REPORT
(ISSN 1068-0306) is published at least 6 times yearly by the Tax Foundation, an independent 501(c)(3) organization chartered in the District of Columbia.

4–20 pp.
Single copy: free
Multiple copies: \$5 each

The Tax Foundation, a nonprofit, nonpartisan research and public education organization, has monitored tax and fiscal activities at all levels of government since 1937.

©2006 Tax Foundation

*Editor and Communications
Director, Bill Ahern*

*Tax Foundation
2001 L Street, NW, Suite 1050
Washington, DC 20036
(202) 464-6200
(202) 464-6201 fax
www.TaxFoundation.org
TF@TaxFoundation.org*

³ The survey question used the figure for calendar year 2004—42.5 million—which corresponds to the 2005 tax-filing season. See Scott A. Hodge, “Number of Americans Paying Zero Federal Income Tax Grows to 43.4 Million.” *Tax Foundation Fiscal Facts* (March 30, 2006).