

INFORM. INSPIRE. DEVELOP CIVIC LEADERS.

THE POLICY CIRCLE

TAXES



➤ AMERICA'S TAX SYSTEM EXPLAINED ◀

TAXATION HAS PLAYED A SIGNIFICANT ROLE IN U.S. HISTORY, DATING BACK TO THE COUNTRY'S INCEPTION WITH "TAXATION WITHOUT REPRESENTATION" A PRIMARY DRIVER OF THE ORIGINAL 13 COLONIES' DESIRE TO GAIN INDEPENDENCE.

SOME LEVEL OF TAXATION IS UNAVOIDABLE IN ORDER TO FUND THE GOVERNMENT. THERE ARE TAXES ON THE MONEY WE MAKE, THE ITEMS WE BUY, THE PROPERTIES WE OWN, AND THE BUSINESSES WE RUN.

HOW AMERICANS THINK ABOUT TAXES NEEDS TO BE CONNECTED TO WHAT TAXES PAY FOR AT BOTH THE STATE AND NATIONAL LEVEL - EVERYTHING FROM HIGHWAY CONSTRUCTION TO SOCIAL SECURITY - AND WHAT THEIR EFFECTS ARE IN TERMS OF GOVERNMENT DEBTS AND DEFICITS.

DEBATES OVER THE TAX SYSTEM CONCERN TWO MAIN ISSUES:

1. HOW SHOULD THE TAX BURDEN BE DISTRIBUTED AMONG AMERICANS, AS IN WHAT IS THE "FAIR SHARE" ANY GIVEN PERSON SHOULD PAY?
2. HOW SHOULD TAXES BE PAID? TAXING INCOME MORE THAN CONSUMPTION OR PROPERTY, FOR EXAMPLE, CAN ENCOURAGE OR DISCOURAGE DIFFERENT TYPES OF ECONOMIC ACTIVITY.

➤ FACTS TO KNOW ◀


AMERICANS TEND TO PAY DIFFERENT TYPES OF TAXES TO DIFFERENT LEVELS OF GOVERNMENT. THE FEDERAL GOVERNMENT'S SINGLE LARGEST SOURCE OF REVENUE IS INCOME TAXES, WHILE STATE AND LOCAL GOVERNMENTS GENERALLY COLLECT MOST OF THEIR REVENUE THROUGH A MIX OF PROPERTY TAXES, INCOME TAXES, AND SALES TAXES.

IN ADDITION TO THE AMOUNT OF MONEY AMERICANS PAY EACH YEAR, THE COST OF TAXES ALSO INCLUDES THE AMOUNT OF TIME SPENT FILLING OUT PAPERWORK, COLLECTING FINANCIAL RECORDS, AND KEEPING UP TO DATE WITH NEW LAWS. EACH YEAR, AMERICANS SPEND ABOUT 8 BILLION HOURS, OR 54 HOURS PER TAXPAYER, PREPARING TAXES.


THE AVERAGE AMERICAN FAMILY PAID AROUND \$1,600 DOLLARS LESS TAXES IN 2018 THAN IN THE PREVIOUS YEAR DUE TO THE 2017 TAX CUT AND JOBS ACT. AS A RESULT OF THIS, AMERICANS WHO PAID LESS TAXES OVER THE COURSE OF THE YEAR ALSO RECEIVED SMALLER TAX RETURNS, CREATING A FINANCIAL HIT FOR HOUSEHOLDS THAT PLANNED THEIR FINANCES AROUND THE EXPECTATION THAT THEY WOULD RECEIVE A LARGE TAX REFUND EACH YEAR.

REPORTS SINCE THE EARLY 2010S INDICATE A GROWING "TAX GAP" BETWEEN THE TAXES OWED AND THE TAXES COLLECTED BY THE IRS EACH YEAR. THE IRS SAYS THE TAX GAP RESULTS FROM ERRORS, FRAUD, AND LACK OF RESOURCES TO ENFORCE COLLECTIONS, AND COULD AMOUNT TO AS MUCH AS \$1 TRILLION ANNUALLY. EACH ADDITIONAL DOLLAR SPENT ON THE IRS BUDGET COULD YIELD \$5-7 DOLLARS IN INCREASED REVENUE, AND HELP TO CLOSE THE GAP.


GOVERNMENT INVOLVEMENT




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FISCAL POLICY IS THE IDEA THAT GOVERNMENTS CAN INFLUENCE MACROECONOMIC PRODUCTIVITY LEVELS BY INCREASING OR DECREASING TAX LEVELS AND PUBLIC SPENDING. FOR EXAMPLE, THE GOVERNMENT CAN STIMULATE THE ECONOMY BY LOWERING TAXES TO GIVE CONSUMERS MORE SPENDING MONEY.



TOP STATE-LEVEL INCOME TAXES VARY CONSIDERABLY ACROSS THE COUNTRY. 7 STATES, INCLUDING TEXAS, HAVE NO INCOME TAXES. THE OTHER 43 STATES EACH HAVE DIFFERENT SYSTEMS OF INCOME TAX BRACKETS AND TOP TAX RATES.



ALL WORKING AMERICANS PAY PAYROLL TAXES, BUT ONLY 56% OF AMERICANS PAY INCOME TAXES. INDIVIDUAL INCOME TAXES MAKE UP 47% OF FEDERAL TAX REVENUE. PAYROLL TAXES THAT PAY FOR SOCIAL SECURITY AND MEDICAID MAKE UP 37% OF FEDERAL TAX REVENUE.

➤ FRAMING THE ISSUE ◀

THE U.S. TAX SYSTEM TAXES FORMS OF INCOME LIKE WAGES, SALARIES, DIVIDENDS AND CAPITAL GAINS MORE HEAVILY THAN IT TAXES CONSUMPTION, LIKE SALES TAXES AND VALUE ADDED TAXES. IN MOST EUROPEAN COUNTRIES, INCOME TAXES ARE LOW BUT PEOPLE PAY MORE IN VALUE ADDED TAXES. THIS INCENTIVIZES SAVINGS AND INVESTMENT OVER CONSUMPTION. CRITICS OF INCOME TAXES SAY THEY PUNISH WEALTH; CRITICS OF CONSUMPTION TAXES SAY THEY PLACE INCREASED ECONOMIC STRAIN ON LOW-INCOME TAXPAYERS.

DEBATES OVER WHETHER OR NOT WEALTHIER AMERICANS ARE PAYING THEIR "FAIR SHARE" IN TAXES CONCERN HOW PROGRESSIVE THE TAX SYSTEM SHOULD BE. WITH A PERFECTLY FLAT TAX SYSTEM, ALL AMERICANS WOULD PAY THE SAME PORTION OF THEIR INCOME IN TAXES, NO MATTER HOW MUCH THEY MAKE. UNDER A MORE PROGRESSIVE TAX SYSTEM WITH MULTIPLE TAX BRACKETS, AMERICANS ARE TAXED MORE HEAVILY ON THE PORTION OF THEIR INCOME THAT FALLS INTO HIGHER BRACKETS.

THE CORPORATE TAX RATES HAS A LARGE INFLUENCE ON HOW COMPETITIVE THE BUSINESS CLIMATE IS IN A GIVEN STATE OR COUNTRY. THE 2017 TAX CUT LOWERED U.S. CORPORATE TAXES FROM 35% TO 21%, CLOSER TO THE GLOBAL AVERAGE, BASED ON THE IDEA THAT HIGH CORPORATE TAX RATES INHIBIT BUSINESS ACTIVITY. IN SPITE OF THIS, U.S. COMPANIES CONTINUE TO SHIFT PROFITS INTO OFFSHORE TAX HAVENS. IN SUMMER 2021, G7 COUNTRIES UK AGREED TO A MINIMUM GLOBAL CORPORATE TAX RATE TO PREVENT MAJOR COMPANIES FROM USING TAX HAVENS.

THE MARGINAL TAX RATE IS PERCENTAGE OF THE NEXT DOLLAR EARNED THAT GOES TO THE GOVERNMENT. IF AN AMERICAN TAXPAYER GETS A RAISE THAT PUTS THEM IN A HIGHER TAX BRACKET, THEY WILL BE TAXED MORE HEAVILY. THIS MEANS THE MARGINAL TAX RATE AFFECTS INCENTIVES TO WORK AND IS A PROBLEM FOR WELFARE PROGRAMS BECAUSE IT MAKES IT HARDER FOR LOW-INCOME PEOPLE TO TRANSITION OUT OF THE PROGRAMS.

➤ SOLUTIONS ◀

SIMPLIFY THE FEDERAL TAX CODE

EVEN IF THE AMOUNT OF MONEY AMERICANS PAY IN TAXES EACH YEAR DOESN'T CHANGE, A SIMPLER TAX SYSTEM WOULD FREE UP THE TIME AND MONEY THAT AMERICANS SPEND PUTTING TOGETHER PAPERWORK, FILLING OUT TAXES FORMS, AND SEEING ACCOUNTANTS EACH TAX SEASON.

USE THE TAX SYSTEM TO ENCOURAGE ECONOMIC GROWTH

DEBATES ABOUT THE PROPER TAX RATES FOR DIFFERENT TYPES OF INCOME (WAGES, CAPITAL GAINS) OR CONSUMPTION (SALES TAXES) BOIL DOWN TO QUESTIONS OF WHAT ECONOMIC DECISIONS AND ACTIVITIES THE TAX SYSTEM SHOULD ENCOURAGE OR DISCOURAGE. FOR EXAMPLE, MANY AMERICANS ARE FAMILIAR WITH "SIN TAXES" MEANT TO DECREASE CONSUMPTION OF ALCOHOL AND TOBACCO BY MAKING THESE PRODUCTS MORE EXPENSIVE.

UNDERSTAND HOW THE COMBINATION OF FEDERAL, STATE, AND LOCAL TAXES AFFECTS YOUR COMMUNITY

SIMPLIFYING THE TAX BURDEN BEGINS WITH UNDERSTANDING WHAT TYPES OF TAXES YOU PAY AT THE LOCAL AND STATE LEVEL,, HOW THESE TAXES AFFECT THE BUSINESS CLIMATE IN YOUR COMMUNITY, AND HOW MUCH TIME AND MONEY PEOPLE IN YOUR COMMUNITY SPEND COMPLYING WITH THE STATE AND LOCAL TAX SYSTEM EACH SEASON.

➤ WHAT YOU CAN DO ◀

MEASURE -

DO YOU KNOW ABOUT YOUR STATE'S BUDGET AND FINANCES?
HOW MUCH DEBT DOES YOUR STATE HAVE?
WHAT ARE YOUR STATE'S TAX POLICIES?



IDENTIFY -

WHO ARE THE MEMBERS OF THE DEPARTMENTS OF TREASURY, REVENUE, OR TAXATION IN YOUR STATE?
WHAT STEPS HAVE YOUR STATE'S OR COMMUNITY'S ELECTED AND APPOINTED OFFICIALS TAKEN?
HAS THERE BEEN ANY RECENT TAX-RELATED LEGISLATION IN YOUR STATE?



REACH OUT -

ALL IT TAKES IS A SMALL TEAM OF TWO OR THREE PEOPLE TO SET A PATH FOR REAL IMPROVEMENT.
FIND ALLIES IN YOUR COMMUNITY OR IN NEARBY TOWNS AND ELSEWHERE IN THE STATE.
FOSTER COLLABORATIVE RELATIONSHIPS WITH NEIGHBORS, COMMUNITY ORGANIZATIONS, AND LOCAL BUSINESSES OR ENTREPRENEURS.

PLAN -

SET MILESTONES BASED ON YOUR STATE'S LEGISLATIVE CALENDAR OR LOCAL COMMUNITY CALENDAR.



EXECUTE -

INVESTIGATE YOUR OWN FINANCES – HOW MUCH IS TAKEN OUT OF YOUR PAYCHECK IN TAXES?
REACH OUT TO LOCAL BUSINESS OWNERS AND ENTREPRENEURS ABOUT THEIR TAX BURDENS, OR TO YOUR LOCAL CHAMBER OF COMMERCE.
INVESTIGATE HOW YOUR STATE COMPARES TO OTHERS IN TERMS OF TAX REVENUE FROM INCOME, SALES, AND CORPORATE TAXES. SEE THE NATIONAL CONFERENCE OF STATE LEGISLATURE'S STATE TAX ACTIONS DATABASE FOR RECENT ACTIONS IN YOUR STATE.
CONSIDER CONTACTING A TAX PROFESSIONAL IN YOUR COMMUNITY TO HEAR THEIR THOUGHTS ABOUT TAX POLICY IN YOUR STATE. WRITE TO YOUR FEDERAL, STATE, OR LOCAL GOVERNMENT OFFICIALS ABOUT YOUR INTEREST IN TAX POLICY.