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M.D. HARMON: Tax Day and the Invisible Man

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Whether it's called "Tax Day" or, as some put it, "National Income Redistribution Day," April 15 always looms large in the minds of those Americans who pay income taxes.

Which, these days, is just a bit more than half of us. Yes, just 53 percent of us gear up to pay the taxman every spring, while 47 percent don't think twice about it — because they don't have to.

Meanwhile, national "Tax Freedom Day" — the day at which average U.S. taxpayers stop working to pay taxes and start earning money for themselves — hasn't come yet, according to the non-profit Tax Foundation (taxfoundation.org). It's next Monday, April 21, three days later than last year.

(Mainers, whose incomes are lower than the national average, reached "working-for-yourself" status on April 11.)

In 2014, the foundation says, Americans will spend \$3 trillion on federal taxes and \$1.5 trillion on state and local taxes, totaling 30.2 percent of their income — more than they spend on food, clothing and shelter combined.

A new Gallup poll found that 52 percent of Americans now say their income taxes are "too high," compared to 46 percent last year. Gallup said the jump could be due to higher taxes, along with "discontent over the federal government overall, Congress, or the Affordable Care Act."

Some people may be surprised to find who pays how much of the total federal take.

The big news is this, according to IRS figures analyzed by Mark J. Perry, an economics professor at the University of Michigan and a fellow of the American Enterprise Institute (www.aei-ideas.org), a center-right think tank:

The top one-tenth of 1 percent of all taxpayers pay 17 percent of all income taxes, while the

bottom 50 percent pay 2 percent of the tax. In fact, the top 400 earners pay as much in taxes as the entire bottom 50 percent.

What about the “top 1 percent” so demonized by those in political power? The 1 percenters, all by themselves, earn 16 percent of U.S. income but pay 37 percent of total income taxes.

The top 5 percent — one out of every 20 taxpayers — make 34 percent of income, but chip in 59 percent of the total, while the top 10 percent pay 70 percent and the top 25 percent pay 87 percent of what the IRS rakes in.

The national average Adjusted Gross Income — the dividing line separating the top and bottom 50th percentiles — is about \$35,000.

So, as Perry notes, “The middle class and above pay all the income tax.”

All that means that the U.S. tax code ranks, as Michael Tanner of the libertarian Cato Institute (www.cato.org) pointed out this week, as the “most progressive tax system of all the major industrialized democracies” (typically because those nations rely much more heavily on highly regressive national sales taxes like the Value Added Tax).

The U.S. figure rises when you include state or local tax burdens, and those fees starting to be imposed this year by Obamacare that the Supreme Court found to qualify as taxes (estimated to be between \$770 billion and \$1 trillion over the next eight years); and finally include the cost of the complexities in the U.S. tax code (whose 4 million words work out to 73,954 pages).

It takes taxpayers and preparers about 6 billion hours to fill out all the forms each year. That is about 8,750 average lifetimes and costs an estimated \$100 billion to \$150 billion in utterly unproductive work.

Most workers also pay federal Social Security and Medicare taxes, which take an additional 15.3 percent of income when the so-called “employers’ share” is added in (it’s still a cost of employing you, so it’s fairly counted as a tax on your income).

Many conclusions that can be drawn from all this, one of which is how much a simplification of the code would save us, let alone converting to a “flat tax” with a few level rates and limited deductions, or a “fair tax” on sales that would tax people’s spending, not their incomes, thus encouraging saving and investment while offering rebates for the needy.

More immediately, if the feds are going to pay for the programs they promise, they will have to tax the middle class, not just the “rich,” to raise the money they will need. And they will have to tax them to the hilt.

When politicians get together to discuss taxes, special interests are almost always present, often with paid staff, to plead their patrons’ cases, but the people paying the taxes that support the spending are generally absent and unheard.

I've called the average taxpayer "the Invisible Man" for that reason.

But what will happen if taxpayers become really invisible — because there will be too few of them to keep everyone else afloat?

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