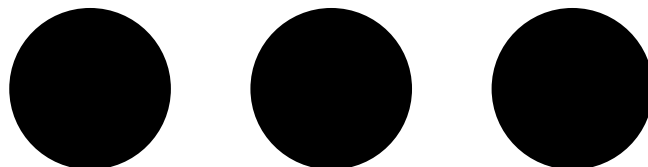




Who Pays What in Taxes?

Politicians exploit public ignorance. Few areas of public ignorance provide as many opportunities for political demagoguery as taxation. Today some politicians argue that the rich must pay their fair share and label the proposed changes in tax law as tax cuts for the rich. Let's look at who pays what, with an eye toward attempting to answer this question: Are the rich paying their fair share?



According to the latest IRS data, the [payment of income taxes](#) is as follows. The top 1 percent of income earners, those having an adjusted annual gross income of \$480,930 or higher, pay about 39 percent of federal income taxes. That means about 892,000 Americans are stuck with paying 39 percent of all federal taxes. The top 10 percent of income earners, those having an adjusted gross income over \$138,031, pay about 70.6 percent of federal income taxes. About 1.7 million Americans, less than 1 percent of our population, pay 70.6 percent of federal income taxes. Is that fair, or do you think they should pay more? By the way, earning \$500,000 a year doesn't make one rich. It's not even yacht money.

But the fairness question goes further. The bottom 50 percent of income earners, those having an adjusted gross income of \$39,275 or less, pay 2.83 percent of federal income taxes. Thirty-seven million tax filers have no tax obligation at all. The Tax Policy Center estimates that [45.5 percent of households will not pay federal income tax this year](#). There's a severe political problem of so many Americans not having any skin in the game. These Americans become natural constituencies for big-spending politicians. After all, if you don't pay federal taxes, what do you care about big spending? Also, if you don't pay federal taxes, why should you be happy about a tax cut? What's in it for you? In fact, you might see tax cuts as threatening your handout programs.

Our nation has a 38.91 percent tax on corporate earnings, the fourth-highest in the world. The House of Representatives has proposed that it be cut to 20 percent; some members of Congress call for a 15 percent rate. The nation's political hustlers object, saying corporations should pay their fair share of taxes. The fact of the matter — which even leftist economists understand, though they might not publicly admit it — is corporations do not pay taxes. An important subject area in economics is called tax incidence. It holds that the entity upon whom a tax is levied does not necessarily bear its full



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burden. Some of it can be shifted to another party. If a tax is levied on a corporation, it will have one of four responses or some combination thereof. It will raise the price of its product, lower dividends, cut salaries or lay off workers. In each case, a flesh-and-blood person bears the tax burden. The important point is that corporations are legal fictions and as such do not pay taxes. Corporations are merely tax collectors for the government.

Politicians love to trick people by suggesting that they will impose taxes not on them but on some other entity instead. We can personalize the trick by talking about property taxes. Imagine that you are a homeowner and a politician tells you he is not going to tax you. Instead, he's going to tax your property and land. You would easily see the political chicanery. Land and property cannot and do not pay taxes. Again, only people pay taxes. The same principle applies to corporations.

There's another side to taxes that goes completely unappreciated. According to a 2013 study by the Virginia-based Mercatus Center, Americans spend up to \$378 billion annually in tax-related accounting costs, and in 2011, Americans spent more than 6 billion hours complying with the tax code. Those hours are equivalent to the annual hours of a workforce of 3.4 million, or the number of people employed by four of the largest U.S. companies — Wal-Mart, IBM, McDonald's and Target — combined. Along with tax cuts, tax simplification should be on the agenda.

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