



Taxes: Are the Rich Paying Their Fair Share?

Buried in Title X — Strengthening Quality, Affordable Health Care For All Americans, Subtitle H — Provisions Relating to Title IX, Section 10907 — Excise Tax on Indoor Tanning Services in Lieu of Elective Cosmetic Medical Procedures, of the recently passed Patient Protection and Affordable Care Act is a new tax on tanning salon services. Dubbed “the Caucasian tax,” it imposes a 10-percent tax on the amount paid for indoor tanning services.



Besides the other new and increased taxes in the 2,409-page healthcare bill, there are a number of other federal taxes that Americans are already saddled with, from the excise tax on gasoline to the taxes on airline tickets. And then there is the additional state tax burden (only Alaska, Florida, Nevada, South Dakota, Texas, Washington, New Hampshire, Tennessee, and Wyoming have no state income tax and only Alaska, Delaware, Montana, New Hampshire, and Oregon have no general state sales tax).

The federal taxes that people are the most familiar with are those that are deducted from their paychecks. Employees pay Social Security taxes of 6.2 percent (matched by their employers) on the first \$106,800 of income and Medicare taxes of 1.45 percent (matched by their employer) on earned income of any amount. The other tax withheld from paychecks is, of course, the income tax.

The federal income tax is the tax that infuriates Americans the most, just as the federal agency that Americans loathe more than any other is the Internal Revenue Service. Aside from the amount of the tax — which is now measured in the trillions — the federal tax code is also too complicated, too intrusive, and costs untold hours and dollars in compliance and enforcement costs. There are no letters more dreaded than those from the IRS.

But other than the inconvenience of keeping records and filling out income tax forms, many Americans don't actually pay any income tax at all. This is because of our highly progressive income tax system. A progressive tax system — one of the planks of the *Communist Manifesto* — is one in which the tax rate increases as the taxable amount increases. Since the beginning of our current income tax system in 1913 — thanks to the adoption of the Sixteenth Amendment — the United States always has had a progressive tax system.

The income tax began with a 1 percent tax on taxable income above \$3,000 followed by a series of surcharges of up to 6 percent applied to higher incomes. The maximum rate of 7 percent was applied to



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taxable income over \$500,000. The current tax brackets are 10, 15, 25, 28, 33, and 35 percent. The maximum rate of 35 percent is applied to taxable income over \$372,950. If the “Bush tax cuts” are allowed to expire at the end of this year, then the two highest brackets would return to 36 and 39.6 percent in 2011.

But it’s not just the tax brackets that make the income tax so progressive. Tax credits like the child tax credit and the credit for child care expenses contribute to the progressivity of the tax code because they are lowered or eliminated above a certain income threshold.

Because of the progressive nature of the tax code, the liberal idea that the rich aren’t paying their fair share is ludicrous. Consider the example of a typical man with a wife and two children. For the tax year 2009, he could make \$50,249 and still pay nothing in federal income taxes. From an income of this amount, this man subtracts \$11,400 for his standard deduction and \$14,600 for his four personal exemptions. Although this leaves a taxable income of \$24,249 and therefore a tax liability of \$2,799, the tax due is reduced to nothing thanks to a \$2,000 child tax credit and an \$800 “making work pay” tax credit.

Some tax credits, like the earned income credit, are refundable; that is, you still get the credit even if you don’t owe any tax. This means that some Americans can get a tax refund above and beyond what they had withheld from their paychecks. Let’s reconsider the family in the example above. If instead of making \$50,249 the man made only half of that (\$25,124.50), he would still receive the same standard deduction, personal exemptions, child tax credit (now in the form of the additional child tax credit), and “making work pay” credit — plus an earned income credit of \$4,248. The result is a tax refund of \$7,048 even though this man neither had any tax withheld nor owes any income tax.

Since most Americans don’t make over \$50,249 a year, who in America is paying the taxes? According to IRS data from 2007 — the most recent year available — the tax burden of the top 1 percent of taxpayers (in terms of adjusted gross income) exceeds that of the bottom 95 percent of taxpayers. The top 1 percent paid 40.4 percent of the total income tax paid while the bottom 95 percent paid 39.4 percent. Those in the top 5 percent paid 61 percent of the taxes. Americans who earn the top 50 percent of the income pay over 97 percent of the taxes. Conversely, the other half of American wage earners pay less than 3 percent of the income taxes.

The rich are not only paying their fair share, they are paying the share of a great many others as well. The United States relies more heavily on the top 10 percent of its taxpayers for revenue than does any other country. The income tax is a vast income redistribution scheme that exists because tax eaters, those who receive more in benefits than they pay in taxes, together with the government bureaucrats who rely on their votes to stay in power, plunder taxpayers, those who pay more in taxes than they receive in benefits. It is because tax eaters greatly outnumber taxpayers that candidate Barack Obama could run commercials openly boasting that no taxes would be raised on any American making under \$250,000.

The solution, of course, is not to raise the taxes on the poor or make taxes flatter or fairer, but to abolish the whole rotten system and strictly limit government spending to only what is constitutionally authorized. Thus, as egregious as the new tax on indoor tanning services is, it is not what is in the healthcare bill that is the problem; it is the fact that there is a healthcare bill in the first place.



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