TESTIMONY OF

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Like just about everything else in this imperfect world, the flat rate income tax has its advantages and its disadvantages. The purpose of my testimony today is to outline some of the pluses and the minuses for the Subcommittee. But before we can examine the flat rate tax, we need to define carefully what we mean.

For the purpose of this statement, the flat rate income tax is a single rate tax on an income base broader than that of current law. As the numerous self-described flat tax bills make clear, many approaches fit this general description. It is also evident that one could introduce a flat tax rate without broadening the tax base, or vice versa. This latter distinction is important; even if you should decide that a single tax rate is not the best approach, we would still have other things to talk about today.

To analyze the flat rate tax, it is helpful to separate the effects of the base broadening from those of the flat rate itself. The first part of my testimony will deal with the pros and cons of broadening the tax base. The second part will incorporate the single tax rate into the analysis.

## BROADENING THE INCOME TAX BASE -- GOALS AND POSSIBLE EFFECTS

The current interest in the flat rate tax has brought along with it renewed interest in broadening the tax base. The idea of "closing loopholes," "repealing tax expenditures," or "broadening the tax base" -- whichever one chooses to call it -- is certainly not new. It is the core of a school of thought of tax policy that used to be called "tax reform" and was identified more than any other influence with the Tax Reform Act of 1976. The Senate Finance Committee included several base broadening steps in its recent tax bill.

As the Subcommittee will hear many times before its hearings are over, the three goals of any tax system are efficiency, simplicity, and fairness. These goals have been universally recognized for decades, and it is not surprising that they should be widely cited in the current debate. This section next will analyze base broadening according to these three criteria.

Efficiency

A broad tax base has long been thought a necessary condition for efficient taxation. The current legal definition of "gross income" thus includes ". . . all income from whatever source derived . . ." (Section 61a); but over recent years many exceptions have crept into the law. These exceptions reduce economic efficiency in two ways.

First, if the income from some particular economic activity is either excused from taxation, or taxed at some preferential rate, then that activity is more attractive to taxpayers. Resources will flow into the tax-preferred activity from other activities with higher pretax returns, with the result that the real value of the economy's output is reduced. Everyone but the direct beneficiaries will be worse off in the long run. Some observers would argue with this generalization, on the grounds that society sometimes errs in its preferences; for example, they might say that people are shortsighted, and so we need a tax preference for retirement savings. Those who believe in the desirability of free markets, however, would prefer the marketplace to any political judgment of what activities to encourage.

A second efficiency cost occurs when these exceptions to the tax base begin to multiply and grow. As tax-preferred income increases as a share of the total and fully taxed income therefore shrinks, the tax rates needed to meet the government's revenue needs rise. Therefore, the after-tax reward for all non-tax-preferred activities -- which generally includes work and much of saving -- falls. The incentive for socially productive economic activity is reduced, and some unproductive investments (or "tax shelters") use particular tax preferences to earn risk-free after-tax profits.

The solution to these problems of economic inefficiency is to broaden the tax base by repealing the tax preferences for the various heretofore favored types of income and expenditure. Without the tax preferences, resources would be allocated according to the before-tax social return, and marginal tax rates could be reduced.

Base broadening steps must be considered carefully, however. The Congress might be asked to give up the use of tax preferences in the pursuit of some socially desirable goals: saving for retirement is an example. Also, it would be essential to retain in the law those deductions that are necessary to measure income correctly. Failure to keep such provisions would result in an income tax on more than some people's income, causing possibly serious distortions. For example, an income tax on a small businessman that does not allow a deduction for the depreciation of his business computer or other office equipment would require him to pay tax on receipts that merely cover legitimate business expenses. The same could be said of denying an interest deduction to a businessman who borrows to carry inventory. In the extreme, such excessive base broadening could result in the assessment of an income tax on a business that only breaks even, or even one that loses money. The end result would be to discourage business undertakings in which the nondeductible expenses are important. So, while broadening the tax base generally increases economic efficiency, this benefit is lost if the tax base is broadened beyond the measure of true economic income.

Simplicity

Broadening the tax base is often portrayed as the ultimate simplification of the income tax. Eliminating all those loopholes, some would argue, could trim the size and complexity of tax returns radically and put all the tax lawyers and accountants out of work. But these effects may not be so clear-cut.

It is certainly true that repealing some tax expenditures would simplify the tax forms. Prohibiting itemized deductions, for example, would eliminate Schedule A and obviate the need for keeping records on medical expenses, charitable contributions, and so on. Likewise, repealing the energy conservation credits would eliminate Form 5695 and the need for carrying conservation expense figures from year to year. Taxing long-term capital gains in full would end the complex distinction between long- and short-term gains. In general, repealing deductions, credits, and partial exclusions would simplify the tax filing process. (Increasing the zero bracket amount, which used to be called the "standard deduction," also simplifies tax filing for taxpayers who no longer need to itemize their deductions.)

Not all base broadening steps would simplify the tax system, however. In particular, taxing any type of income that is now exempt from taxation would complicate the system. For example, taxing employers' contributions for employees' life and health insurance premiums would add lines to the tax forms and would force employees to come up with cash to pay taxes on income they did not receive in cash. Taxing employers' pension contributions would be even more complicated for a number of reasons: employees whose pension rights were not vested would have to be treated differently from those who were vested; a transition would be necessary when vesting occurred; and employees who were covered by defined benefit plans might in fact receive rights to future income that differ in present value from the current amount of contributions. Putting "floors" under these items -- that is, making some small amount tax exempt but any excess over that amount taxable -- would complicate the system still further. Taxing all or part of social security benefits would force many of the low-income elderly who are now excused from filing to fill out the tax forms; this would add to the paperwork load of the system. The list could go on and on.

So in terms of simplicity, broadening the tax base could help or hurt, and probably would do some of both. It is unavoidable that some of the complexity of our highly developed economy is reflected in our tax system. We can achieve utter simplicity in our tax laws only by disregarding many very relevant aspects of the real world.

## Fairness

Fairness is one of the objectives of base broadening most often mentioned. Tax preferences for ostensibly unimpeachable purposes can sometimes be used simply for tax avoidance by people with some control over their financial affairs, while other taxpayers with less resources or inferior advice cannot take such advantage. The result has been a widespread questioning of the integrity of the tax system and possibly even a reduction in voluntary compliance. Eliminating the tax preferences that can cause extreme differences in tax burdens among similarly situated taxpayers could help to restore confidence in the fairness of the tax system.

One has to consider some caveats to the fairness effects of base broadening as well. Some variation in tax burdens within income groups occurs today not because of manipulative tax avoidance by sophisticated investors but because of such everyday activities as home purchasing and charitable giving. Eliminating those tax preferences would narrow the variation in tax burdens, but it could also have detrimental side-effects. The tax incentive for charitable giving -- a provision meant to benefit society -- would be ended. Home values would fall, and the tax burdens of homeowners would rise. This last effect might be particularly painful, because homeowner deductions are tied to long-term contractual mortgage obligations, and many homeowners would therefore have limited flexibility in their family budgets to absorb the resultant tax increases in the short term.

So in general, base broadening can yield substantial efficiency, simplicity, and fairness benefits; but those benefits must all be qualified to some extent. The efficiency case for base broadening is very strong, in that eliminating tax influences in the marketplace would cause resources to be allocated to their best uses and marginal tax rates to be reduced; but it would be necessary to retain deductions required for a true measure of income. Eliminating deductions and credits would simplify the tax system, but adding hitherto missing income items to the tax base would complicate the system. Finally, fairness suggests that all income be taxed in the same way, but some persons who are by no means abusers of the current system -- such as homeowners -- might find the elimination of tax preferences distinctly unfair. Others might wish to retain the many tax subsidies for particular socially desirable activities. The lesson from all of this -- unsatisfying though it may be -- is that easy answers are hard to come by; one has to broaden the tax base with care.

With this background on the broadening of the tax base, how does the use of a single tax rate in the current flat rate proposals affect the picture?

## A SINGLE TAX RATE -- GOALS AND POSSIBLE EFFECTS

As I noted at the outset, the effects of broadening the income tax base and of changing to a single tax rate can be logically separated. A close examination suggests that some of the effects of base broadening have been attributed to the flat tax rate, while other effects of the flat tax rate have been exaggerated or misunderstood. The flat rate can be evaluated according to the same three criteria as was base broadening: efficiency, simplicity, and fairness.

## Efficiency

It is sometimes alleged that tax rate progressivity discourages work, saving, and investment, and encourages tax sheltering; from this standpoint, a changeover to a flat rate is a solution to these problems. In fact, however, it is the level of the marginal tax rates -- not the fact that they are progressive -- that reduces incentives. A simple though admittedly extreme example should make this clear. One could imagine a progressive income tax with ten tax rate brackets ranging from 1 to 10 percent that would have little or no disincentive effect on taxpayers. On the other hand, a flat rate tax with a 50 percent rate might have considerable disincentive effects. Thus, what determines the efficiency cost of any income tax is the level of the rate or rates, which, for a given revenue, is determined by the size of the tax base. How low the marginal rates can be made in any specific tax system, be it flat rate or progressive, is an empirical question.

Using a flat tax rate would unquestionably raise lower-income people's marginal tax rates and lower those of high-income taxpayers. (To collect the same total revenue on the same tax base with graduated rates, the bottom bracket rates could be made lower, but the top rates would have to be higher to make up the resulting revenue loss.) The net effect on incentives is thus very hard to predict. The outcome is even more uncertain if the flat rate tax shifts the tax burden from upper- to lower-income groups before any taxpayers actually respond by changing their behavior. In that case, the marginal rate change (in technical terms, the "price effect") and the tax liability change (the "income effect") would give taxpayers opposite incentives, making the result even more ambiguous.

(To illustrate: A high-income self-employed professional divides his time between working and vacationing. A flat rate tax is enacted; his marginal tax rate falls from 50 to 19 percent, and he also receives a $20,000 tax cut. Does he work more, to take advantage of his higher after-tax wage? Or does he use his extra $20,000 to finance longer and more expensive vacations? Economists have found these counteracting incentives from plausible tax policy changes very nearly to cancel each other out.)

Some improvements of economic efficiency would be caused solely by the flat rate tax; the advantages of tax shelters that move taxable income from high- to low-income years and from high- to low-income taxpayers would be reduced, and complicated court cases in these areas would be less numerous. However, these tax shelter effects stand to influence a more restricted group than the changes in marginal tax rates.

To sum up, it is useful to distinguish between the efficiency effects of broadening the tax base and those of applying a flat tax rate. If all else were equal, using a flat rate would permit reducing some marginal tax rates only at the expense of raising others. On the other hand, broadening the tax base would permit the reduction of all marginal tax rates.

Simplicity

Taxing all of income at a flat rate would simplify the income tax in some respects. Use of a single rate would eliminate the need for the tax rate schedules -- Schedules X, Y, and Z at the end of the Form 1040 instructions (example attached);

filers of any type of return (married filing jointly, married filing separately, single, and head of household) would pay the same tax rate. These schedules are now used only by taxpayers with incomes of above $50,000. Also, the income-averaging option -- now used by about 6 percent of all taxpayers -- could be repealed, because taxpayers would no longer pay higher taxes because of the effect of progressive tax rates on fluctuating incomes. Finally, the number of tax-shelter court cases in some areas would shrink somewhat.

Beyond these changes, however, any further simplification from using a single tax rate would be extremely limited. A brief discussion should indicate why.

One claim sometimes made is that a flat tax rate would eliminate the need for the many pages of tax tables in the Form 1040 instructions (example attached). The taxpayer looks at these tables for his type of return and income, and is told his precise tax liability. Though it is claimed that taxpayers could easily compute their own tax liabilities under the flat rate tax, taxpayers have proven to be more accurate in looking up their tax on the tax tables than in making the actual mathematical computations themselves. Thus, it is unlikely that the tax tables would be abandoned even under a flat rate tax.

Another claim for the flat rate tax is that it would simplify the tax return enough to fit on a postcard. This claim seems exaggerated. The space on the current tax return for the taxpayer's name and address, his indication of the type of return he is filing, the number and names of his dependents, and his signature already exceeds the area of a large (5 inch by 8 inch) postcard. Using a single tax rate would not eliminate the need for reporting any of these pieces of information.

In fact, broadening the tax base by eliminating deductions, partial exclusions, and credits would remove some lines from the tax forms, and also eliminate some entire forms. But much of the information now called for on the tax forms is needed so that compliance with the law can be checked from the forms themselves rather than from full-scale audits. Income must be broken down on tax forms by source, which takes up space and adds complexity, but without it spot checking for accuracy of reporting would be impossible. Individual items of dividend and interest income must be enumerated, so that information returns from payers can be matched to them. Omitting these complications in the name of simplicity could make enforcement far more difficult and costly.

A final claim concerning simplification through the flat tax rate is a saving of billions of dollars of federal expenditures for tax administration. These claims too might be exaggerated, because the flat tax rate alone (as opposed to low, graduated rates on a broad base) would do very little to ease tax administration. Computers can determine tax liabilities from the amount of taxable income in microseconds, regardless of whether the tax schedule is flat or graduated. Even the maximum potential for savings in tax administration is limited; the entire IRS budget request for fiscal year 1983 was only $6.25 billion, more than $3 billion of which was payment of credits in excess of tax liability and refunds of interest on overpayments. In other words, closing down the IRS would save only a little over $3 billion. Thus, it is clear that changing to a flat tax rate could save only a small fraction of that figure, at best.

In sum, a flat tax rate would add little to any simplification that base broadening would permit. Expectations of reduced paperwork and administrative costs attributable to base broadening and a flat tax rate should not be too high.

Fairness.

Fairness is the most visible and yet the most elusive criterion in an analysis of the flat tax rate. Inequity seems to be high on the list of Americans' criticism of the present income tax. But fairness is a subjective quality, not quantifiable by the methods that economists apply in other areas. Opinions on a flat tax's fairness will inevitably differ.

To some people, a flat rate tax is the essence of fairness; every taxpayer pays the same fraction of his income in tax. If low-income relief is allowed (in the form of a personal exemption or a standard deduction), then effective tax rates would actually be somewhat progressive. The flat rate tax also has some structural fairness advantages. It would eliminate the problem of "bracket creep" caused by inflation (though indexing exemptions and deductions, if any, would be needed to make the system more immune to inflation). The flat rate would also eliminate the marriage-penalty-related problem of one spouse's pushing the other into higher marginal tax rate brackets.

Other people believe in progressive taxation, that is, taxation at increasing marginal tax rates as income increases. Arguments for progressivity generally rest on the principle of ability to pay. Taxpayers with higher incomes are assumed to buy nonessentials with their last dollars of income; those with lower incomes are assumed to buy more basic items. It might follow, then, that persons with higher incomes could afford to pay tax at a higher rate. Putting the argument another way, the subjective value of the last dollar of a rich man's income is taken to be lower than that of a poor man. Judging the relative strengths of opinion for progressivity and proportionality is difficult. Though a majority of the population appears to favor progressivity on grounds of fairness (58 percent, according to a recent Harris poll, attached), there is probably no agreement within that majority as to just how progressive the tax system should be. On the other hand, the flat rate tax concept is a convenient rallying point for advocates of proportionality. In any event, finding strong support for any particular kind of tax system in heretofore revealed public opinion seems difficult -- given the many diverse options even for the exact design of a flat rate system.

Distinct from the question of fairness in the abstract is the unavoidable comparison of any flat rate tax proposal with current law. A flat rate tax that appeared fair in isolation might increase the tax liabilities of many relatively vulnerable taxpayers. A changeover to a flat rate tax, then, could involve a painful transition in which the "losers" would have to tighten their belts. Policymakers are therefore to some extent prisoners of the current tax law; it might be painful to impose substantial tax increases on persons with modest incomes even for a tax system that, in the abstract, seemed attractive. Of course, the severity of the transition problem for any particular flat tax proposal cannot be assessed according to any general principle; the only way is to make some necessary computations.

It is also important to understand the nature of such a winners-and-losers comparison. There is an almost universal agreement that the federal budget is far from balanced now and will be in near term. Therefore, it seems reasonable to assume that any tax proposal should at least equal the revenue yield of the current law. It then follows, regretably, that any changeover to a flat rate tax (or any other new tax system for that matter) is a "zero sum" game. For every dollar by which one taxpayer's liability is reduced, another taxpayer's liability must be increased by one dollar to keep the revenue total constant. (Some arguments that the flat tax reshuffling is not a zero sum transfer, and some caveats, will be discussed shortly.)

Analysis of Revenues and Distributional Effects of Four Flat Rate Taxes. With this background, Table 1 shows tax liabilities, by income class, for four different hypothetical flat rate tax systems. Each of these tax systems is designed to match the yield of the current tax law with 1984 rates at 1981 levels of income. The tax liabilities in each income group under these flat rate taxes can be compared with 1984 law liabilities (also included in the table) to see whether the tax burden is systematically shifted, and if so, where.

Systems 1 and 2 in the table are mainly illustrative to show the extreme outcomes under alternative tax bases. System 1 portrays a very broad tax base; long term capital gains are taxed in full, itemized deductions are prohibited, and the zero bracket amount and personal exemption are repealed. System 1 is thus a tax on gross income. In contrast, System 2 is simply a flat rate tax on the current law's rather narrow base. Predictably, the broad-based System 1 requires a much lower tax rate than the narrow-based System 2 (11.8 percent as opposed to 18.5 percent); but the distributional effects of the two systems are conspicuously similar. In both, the tax burden is significantly shifted from upper- to lower-income taxpayers; taxes are increased in the $15,000 - $20,000 group by about 30 percent, while taxpayers with incomes between $100,000 and $200,000 have their taxes cut by 40 to 50 percent. The only significant difference is at the extreme lower end of the income scale; System 1, without personal exemptions or standard deductions, hits the lowest-income taxpayers especially hard, though System 2 is not far behind on that score.

The major lessons of Systems 1 and 2 are probably that broadening the tax base is a prerequisite for achieving a low marginal tax rate (System 2's rate is almost 7 percentage points higher than System 1's) but also that greater rflief for low-income taxpayers is probably necessary to mitigate the redistributive effects of a flat rate tax. Systems 3 and 4 move on both of these fronts. Both of these systems maintain the broad income base of System 1, with capital gains taxed in full and no itemized deductions. System 3, however, permits the same personal exemption and zero bracket amount as under current law (a $1,000 exemption, and zero brackets of $2,300 for single people and $3,400 for married couples); System 4 increases the exemption and zero brackets even further (a $1,500 exemption, and zero brackets of $3,000 for single and $6,000 for joint returns). The tax rate under System 3 is 15.7 percent; System 4 requires an 18.7 percent rate.

Despite these changes, the results for Systems 3 and 4 show a general pattern similar to Systems 1 and 2. Again, the tax burden is shifted significantly, in these instances from the taxpayers with the highest incomes to those in the middle groups. Only the taxpayers with the lowest incomes are protected by the increased low-income relief in System 4. Under System 3, taxpayers in the $15,000 - $20,000 income group pay 19.0 percent more tax on average; those in the $100,000 - $200,000 group pay 33.2 percent less. Under System 4, the increase for the $15,000 - $20,000 group is 7.7 percent, while the $100,000 -$200,000 group gets a 23.1 percent tax cut.

Winners and Losers From the Redistributive Effects. The explanation of these redistributive effects and of their staying power in the face of adjustments to the flat tax system is relatively simple. Under 1984 law, taxpayers with six figure total incomes (that is, incomes of $100,000 and above, including long-term capital gains in full) will pay about 25 percent of their total incomes in tax. It follows, then, that any flat tax at a rate below 25 percent will cut taxes for those with incomes of $100,000 and up; for example, System 4 cuts their taxes by about one-fourth (25 percent minus 18.7 percent, divided by 25 percent).

If the flat tax is to maintain current law revenue yields, as System 4 does, then this revenue loss to those with the highest incomes must of necessity be made up by those with less income. The only way to moderate this effect in a flat rate tax is to increase the personal exemption and standard deduction. These steps reduce the tax liabilities of persons with the lowest incomes but require a higher tax rate, which adds further to the tax burden that the middle-income household must bear. Broadening the tax base more widely could help, but System 4 probably encompasses virtually all of the potential base broadening. Thus, under the flat tax, the average taxpayer is squeezed from both ends. The flat tax does not have the flexibility of a graduated tax, in which different tax rates can be raised and lowered in combination to ease the problems of creating winners and losers. It is also worth noting that the tax increases for middle-income groups shown in System 4 are averages; some taxpayers face increases greater than the average, and as noted above, among those with above-average tax increases will be typical homeowners.

Some arguments have been raised to suggest that the flat rate tax would be less redistributive than Table 1 suggests. One argument is that the flat tax rate need not yield the desired revenue at current levels of income, because the flat rate system would encourage substantial increases in work, saving, and investment, that taxable incomes would increase, and that tax revenues would thus exceed static estimates. (Therefore, the flat tax rate for System 4, for example, could be lower than 18.7 percent.) This is, of course, the supply-side argument so much in evidence during the consideration of the Economy Recovery Tax Act of 1981 (ERTA). However, even now, with the major supply-side provisions of ERTA in effect for many months (the Accelerated Cost Recovery System, or ACRS, since January 1981; the 20 percent maximum long-term capital gains tax rate since June 1981; and the 50 percent maximum tax rate on interest and dividends since January 1982), we are still trying to learn the precise magnitude of these supply-side effects. The uncertainty might be attributable to any number of extraneous factors, with high interest rates and a preordained cyclical downturn prominent among them. Given the obvious shortcomings of our understanding in these areas, it might be risky to count on supply-side effects to make up a revenue shortfall in a flat rate tax proposal.

Without a lower tax rate and the resulting static revenue loss, however, any flat rate tax proposal would increase the tax burden on middle-income households. No supply-side boost from upper-income taxpayers would remove this tax increase, and so the middle-income groups would still be worse off.

A second argument for a yield greater than conventionally estimated from a flat rate tax deals with the "underground economy" -- income that is earned but not reported to the IRS. This argument holds that current tax evaders would choose to report income earned under a flat rate tax, because the marginal tax rate would be lower, and the extra income from evading taxes would thus be reduced. The Treasury would therefore collect greater receipts, and so the flat tax rate could be lower than conventional analysis would suggest. This argument is more complicated than it sounds, and it must therefore be analyzed with care.

First, though everyone agrees that there is some underground economic activity, no one knows just how much. Estimates presented thus far have been based on extremely speculative methods, have yielded widely varying results, and have been highly controversial. Thus, it might be risky to embrace a tax policy on an assumption that some minimum amount of revenues from underground activity would be captured.

Second, the claim that the underground economy would surface if lower marginal tax rates were imposed is impossible to prove, and the compliance payoff of marginal tax rate reductions cannot be predicted accurately. One can only guess at the reactions of the unidentified and uncounted persons who take their income "off the books" if marginal tax rates were reduced. Today's participants in the underground economy are concealing their income from the IRS and getting away with it. They might elect to report their incomes if marginal tax rates were lower, because the payoff of tax evasion would be smaller. But if they are successful in evading tax now, and think that they can continue to do so without taking the legal consequences, why should they stop? Perhaps one can only raise the underground economy by persuading the tax evaders that they will be caught if they violate the law. That would require greater outlays for enforcement, not lower marginal tax rates.

Finally, however, it is not at all clear that underground tax evaders would receive marginal rate cuts under the flat rate tax. The marginal tax rate under System 4, for example, is almost 19 percent; a married couple with two children needs an adjusted gross income of $24,200 to exceed a 19 percent rate under 1984 law. But perhaps even more to the point is the total tax burden of middle-income households. As was shown in Table 1, even a flat rate tax with greater low-income relief would raise taxes, not lower them, for the broad middle group of households with incomes from $10,000 to $50,000. How will these taxpayers react to the tax increase? Rather than cause the underground economy to surface, the flat rate tax might drive currently law abiding middle income taxpayers underground and make the underground economy -- and the revenue loss -- bigger, not smaller.

Again, a flat rate proposal of current law yield without relying on revenues from the underground economy might nonetheless claim some of those revenues as a bonus. But still again, unanticipated revenues from the underground will not compensate the middle-income taxpayer for his flat tax increase.

Evaluation of the Fairness Issue. To sum up this discussion of fairness, the flat rate tax might, in the abstract, be preferred to a graduated system by a substantial share of the populace, though a recent poll suggests that the flat rate would fail to garner a majority of support. One problem of the flat rate tax, however, is its reshuffling of tax liabilities in comparison to current law. A flat rate tax would inevitably shift more of the tax burden to middle-income families -- and possibly, depending on how it was constructed, to low-income families as well. If the flat rate tax were to equal the yield of the current tax law, then many middle-income taxpayers would face tax increases in the transition, while upper-income taxpayers enjoyed large tax cuts. Two arguments that a flat rate tax would yield more revenue than conventional analysis would suggest -- supply-side effects and new revenues from the underground economy -- are speculative, and might therefore be shakey grounds for long-range economic planning.

## CONCLUSION

The proposals for broadening the tax base and charging a single tax rate have both benefits and costs. Broadening the tax base would result in a more efficient allocation of resources and lower tax rates. Some base broadening steps would simplify the tax code and forms to some extent, but others would complicate both;

the net balance is hard to predict. Finally, if deductions and exclusions were removed from the tax law and all forms of income were added to the tax base in the same way, many opportunities for tax gamesmanship might be cut off, and the public might have a higher opinion of the fairness of the income tax. There might be transition problems, however, for those who lost their tax preferences, and long-term problems if income were not properly measured.

The use of a single tax rate might have some positive effects but other, ill effects. A flat tax rate, if all else were equal, would raise the marginal tax rate for some taxpayers and lower it for others; whether the result is an efficiency gain or an efficiency loss is difficult to guage. The simplicity gains of a changeover would be minimal and superficial; taxpayers would continue to look up their tax liabilities on tax tables to minimize the likelihood of computation errors, and tax administration through high-speed computers would not be changed noticeably by the single tax rate.

In terms of equity, however, the effects of the single tax rate may be considerable. While, in the abstract, the flat rate may appeal to some people as more fair, in practice it would redistribute a significant share of the tax burden from upper-income to middle-income (and possibly even low-income) taxpayers. Many of these middle-income taxpayers already have limited financial flexibility due to contractual mortgage interest and property tax obligations.

After weighing these advantages and disadvantages of the typical flat rate tax package, the Congress might decide to accept or reject it. In the meantime, however, there is nothing to lose by considering the available options. The benefits of tax base broadening can be had through a measured approach, without necessarily repealing every deduction and exclusion. The tax rate schedule under a broad based system could be lower than it is now for most taxpayers without being completely flat. This general path has been suggested frequently by many tax analysts for many years.

The tax system is certainly not the only factor, and probably not even the most important factor, that fuels or drags the U.S. economy; but we should certainly do everything we can, using every possible method, to make it more efficient, simpler, and more fair.

# 1981 Tax Rate Schedules

## Schedule X
### Single Taxpayers

Use this schedule if you checked Filing Status Box 1 on Form 1040—

| If the amount on Form 1040, line 34 is: Over— | But not Over— | Enter on line 2 of the worksheet on this page: | of the amount over— |
|---|---|---|---|
| $0 | $2,300 | —0— | |
| 2,300 | 3,400 | .......... 14% | $2,300 |
| 3,400 | 4,400 | $154+16% | 3,400 |
| 4,400 | 6,500 | 314+18% | 4,400 |
| 6,500 | 8,500 | 692+19% | 6,500 |
| 8,500 | 10,800 | 1,072+21% | 8,500 |
| 10,800 | 12,900 | 1,555+24% | 10,800 |
| 12,900 | 15,000 | 2,059+26% | 12,900 |
| 15,000 | 18,200 | 2,605+30% | 15,000 |
| 18,200 | 23,500 | 3,565+34% | 18,200 |
| 23,500 | 28,800 | 5,367+39% | 23,500 |
| 28,800 | 34,100 | 7,434+44% | 28,800 |
| 34,100 | 41,500 | 9,766+49% | 34,100 |
| 41,500 | 55,300 | 13,392+55% | 41,500 |
| 55,300 | 81,800 | 20,982+63% | 55,300 |
| 81,800 | 108,300 | 37,677+68% | 81,800 |
| 108,300 | .......... | 55,697+70% | 108,300 |

## Schedule Z
### Unmarried Heads of Household

(including certain married persons who live apart (and abandoned spouses)—see page 6 of the Instructions)

Use this schedule if you checked Filing Status Box 4 on Form 1040—

| If the amount on Form 1040, line 34 is: Over— | But not over— | Enter on line 2 of the worksheet on this page: | of the amount over— |
|---|---|---|---|
| $0 | $2,300 | —0— | |
| 2,300 | 4,400 | .......... 14% | $2,300 |
| 4,400 | 6,500 | $294+16% | 4,400 |
| 6,500 | 8,700 | 630+18% | 6,500 |
| 8,700 | 11,800 | 1,026+22% | 8,700 |
| 11,800 | 15,000 | 1,708+24% | 11,800 |
| 15,000 | 18,200 | 2,476+26% | 15,000 |
| 18,200 | 23,500 | 3,308+31% | 18,200 |
| 23,500 | 28,800 | 4,951+36% | 23,500 |
| 28,800 | 34,100 | 6,859+42% | 28,800 |
| 34,100 | 44,700 | 9,085+46% | 34,100 |
| 44,700 | 60,600 | 13,961+54% | 44,700 |
| 60,600 | 81,800 | 22,547+59% | 60,600 |
| 81,800 | 108,300 | 35,055+63% | 81,800 |
| 108,300 | 161,300 | 51,750+68% | 108,300 |
| 161,300 | .......... | 87,790+70% | 161,300 |

## Schedule Y
### Married Taxpayers and Qualifying Widows and Widowers

#### Married Filing Joint Returns and Qualifying Widows and Widowers

Use this schedule if you checked Filing Status Box 2 or 5 on Form 1040—

| If the amount on Form 1040, line 34 is: Over— | But not over— | Enter on line 2 of the worksheet on this page: | of the amount over— |
|---|---|---|---|
| $0 | $3,400 | —0— | |
| 3,400 | 5,500 | .......... 14% | $3,400 |
| 5,500 | 7,600 | $294+16% | 5,500 |
| 7,600 | 11,900 | 630+18% | 7,600 |
| 11,900 | 16,000 | 1,404+21% | 11,900 |
| 16,000 | 20,200 | 2,265+24% | 16,000 |
| 20,200 | 24,600 | 3,273+28% | 20,200 |
| 24,600 | 29,900 | 4,505+32% | 24,600 |
| 29,900 | 35,200 | 6,201+37% | 29,900 |
| 35,200 | 45,800 | 8,162+43% | 35,200 |
| 45,800 | 60,000 | 12,720+49% | 45,800 |
| 60,000 | 85,600 | 19,678+54% | 60,000 |
| 85,600 | 109,400 | 33,502+59% | 85,600 |
| 109,400 | 162,400 | 47,544+64% | 109,400 |
| 162,400 | 215,400 | 81,464+68% | 162,400 |
| 215,400 | .......... | 117,504+70% | 215,400 |

#### Married Filing Separate Returns

Use this schedule if you checked Filing Status Box 3 on Form 1040—

| If the amount on Form 1040, line 34 is: Over— | But not over— | Enter on line 2 of the worksheet on this page: | of the amount over— |
|---|---|---|---|
| $0 | $1,700 | —0— | |
| 1,700 | 2,750 | .......... 14% | $1,700 |
| 2,750 | 3,800 | $147.00+16% | 2,750 |
| 3,800 | 5,950 | 315.00+18% | 3,800 |
| 5,950 | 8,000 | 702.00+21% | 5,950 |
| 8,000 | 10,100 | 1,132.50+24% | 8,000 |
| 10,100 | 12,300 | 1,636.50+28% | 10,100 |
| 12,300 | 14,950 | 2,252.50+32% | 12,300 |
| 14,950 | 17,600 | 3,100.50+37% | 14,950 |
| 17,600 | 22,900 | 4,081.00+43% | 17,600 |
| 22,900 | 30,000 | 6,360.00+49% | 22,900 |
| 30,000 | 42,800 | 9,839.00+54% | 30,000 |
| 42,800 | 54,700 | 16,751.00+59% | 42,800 |
| 54,700 | 81,200 | 23,772.00+64% | 54,700 |
| 81,200 | 107,700 | 40,732.00+68% | 81,200 |
| 107,700 | .......... | 58,752.00+70% | 107,700 |

### Caution

You must use the Tax Table instead of these Tax Rate Schedules if your taxable income is less than $50,000 unless you use Form 4726 (maximum tax), Schedule D (alternative tax), or Schedule G (income averaging), to figure your tax. In those cases, even if your taxable income is less than $50,000, use the rate schedules on this page to figure your tax.

### Instructions

If you cannot use the Tax Table, figure your tax on the amount on line 34 of Form 1040 by using the appropriate Tax Rate Schedule. Then, unless you use Schedule G or Form 4726, figure your 1981 Rate Reduction Credit (1.25%) on the worksheet below.

## Tax Computation Worksheet

(Do not use if you figure your tax on Schedule G or Form 4726.)

1. Taxable income from Form 1040, line 34 . ________
2. Tax on the amount on line 1 from Tax Rate Schedule X, Y, or Z . ________
3. Rate Reduction Credit. Multiply the amount on line 2 by .0125 . . . . . . ________
4. Subtract line 3 from line 2. Enter here and on Form 1040, line 35 . . . . . . . ________

**Do not file—keep for your records.**

**Note:** *If you use the alternative tax computation on Schedule D (Form 1040), enter the amount from Schedule D, line 32, on line 1 of the worksheet. Complete the worksheet and enter the amount from line 4 of the worksheet on Schedule D, line 33.*

# 1981 Tax Table Based on Taxab...

For persons with taxa... ...s of less than $50,000.

Example: Mr. and Mrs. Brown are filing a joint return. T... ...income on line 34 is $23,270. First, they find the $23,250-23,300 income ... Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is $4,082. This is the tax amount they must write on line 35 of their return.

| At least | But less than | Single | Married filing jointly * | Married filing separately | Head of a household |
|---|---|---|---|---|---|
| | | Your tax is— | | | |
| 23,200 | 23,250 | 5,208 | 4,069 | 6,438 | 4,805 |
| 23,250 | 23,300 | 5,224 | 4,082 | 6,462 | 4,820 |
| 23,300 | 23,350 | 5,241 | 4,096 | 6,486 | 4,836 |

| If line 34 (taxable income) is— At least | But less than | And you are— Single | Married filing jointly * | Married filing separately | Head of a household |
|---|---|---|---|---|---|
| | | Your tax is— | | | |
| 0 | 1,700 | 0 | 0 | 0 | 0 |
| 1,700 | 1,725 | 0 | 0 | a2 | 0 |
| 1,725 | 1,750 | 0 | 0 | 5 | 0 |
| 1,750 | 1,775 | 0 | 0 | 9 | 0 |
| 1,775 | 1,800 | 0 | 0 | 12 | 0 |
| 1,800 | 1,825 | 0 | 0 | 16 | 0 |
| 1,825 | 1,850 | 0 | 0 | 19 | 0 |
| 1,850 | 1,875 | 0 | 0 | 22 | 0 |
| 1,875 | 1,900 | 0 | 0 | 26 | 0 |
| 1,900 | 1,925 | 0 | 0 | 29 | 0 |
| 1,925 | 1,950 | 0 | 0 | 33 | 0 |
| 1,950 | 1,975 | 0 | 0 | 36 | 0 |
| 1,975 | 2,000 | 0 | 0 | 40 | 0 |
| **2,000** | | | | | |
| 2,000 | 2,025 | 0 | 0 | 43 | 0 |
| 2,025 | 2,050 | 0 | 0 | 47 | 0 |
| 2,050 | 2,075 | 0 | 0 | 50 | 0 |
| 2,075 | 2,100 | 0 | 0 | 54 | 0 |
| 2,100 | 2,125 | 0 | 0 | 57 | 0 |
| 2,125 | 2,150 | 0 | 0 | 60 | 0 |
| 2,150 | 2,175 | 0 | 0 | 64 | 0 |
| 2,175 | 2,200 | 0 | 0 | 67 | 0 |
| 2,200 | 2,225 | 0 | 0 | 71 | 0 |
| 2,225 | 2,250 | 0 | 0 | 74 | 0 |
| 2,250 | 2,275 | 0 | 0 | 78 | 0 |
| 2,275 | 2,300 | 0 | 0 | 81 | 0 |
| 2,300 | 2,325 | b2 | 0 | 85 | b2 |
| 2,325 | 2,350 | 5 | 0 | 88 | 5 |
| 2,350 | 2,375 | 9 | 0 | 92 | 9 |
| 2,375 | 2,400 | 12 | 0 | 95 | 12 |
| 2,400 | 2,425 | 16 | 0 | 99 | 16 |
| 2,425 | 2,450 | 19 | 0 | 102 | 19 |
| 2,450 | 2,475 | 22 | 0 | 105 | 22 |
| 2,475 | 2,500 | 26 | 0 | 109 | 26 |
| 2,500 | 2,525 | 29 | 0 | 112 | 29 |
| 2,525 | 2,550 | 33 | 0 | 116 | 33 |
| 2,550 | 2,575 | 36 | 0 | 119 | 36 |
| 2,575 | 2,600 | 40 | 0 | 123 | 40 |
| 2,600 | 2,625 | 43 | 0 | 126 | 43 |
| 2,625 | 2,650 | 47 | 0 | 130 | 47 |
| 2,650 | 2,675 | 50 | 0 | 133 | 50 |
| 2,675 | 2,700 | 54 | 0 | 137 | 54 |
| 2,700 | 2,725 | 57 | 0 | 140 | 57 |
| 2,725 | 2,750 | 60 | 0 | 143 | 60 |
| 2,750 | 2,775 | 64 | 0 | 147 | 64 |
| 2,775 | 2,800 | 67 | 0 | 151 | 67 |
| 2,800 | 2,825 | 71 | 0 | 155 | 71 |
| 2,825 | 2,850 | 74 | 0 | 159 | 74 |
| 2,850 | 2,875 | 78 | 0 | 163 | 78 |
| 2,875 | 2,900 | 81 | 0 | 167 | 81 |
| 2,900 | 2,925 | 85 | 0 | 171 | 85 |
| 2,925 | 2,950 | 88 | 0 | 175 | 88 |
| 2,950 | 2,975 | 92 | 0 | 179 | 92 |
| 2,975 | 3,000 | 95 | 0 | 183 | 95 |
| **3,000** | | | | | |
| 3,000 | 3,050 | 100 | 0 | 189 | 100 |
| 3,050 | 3,100 | 107 | 0 | 197 | 107 |
| 3,100 | 3,150 | 114 | 0 | 204 | 114 |
| 3,150 | 3,200 | 121 | 0 | 212 | 121 |
| 3,200 | 3,250 | 128 | 0 | 220 | 128 |
| 3,250 | 3,300 | 135 | 0 | 228 | 135 |
| 3,300 | 3,350 | 142 | 0 | 236 | 142 |
| 3,350 | 3,400 | 149 | 0 | 244 | 149 |
| 3,400 | 3,450 | 156 | c3 | 252 | 156 |
| 3,450 | 3,500 | 164 | 10 | 260 | 162 |
| 3,500 | 3,550 | 172 | 17 | 268 | 169 |
| 3,550 | 3,600 | 180 | 24 | 276 | 176 |
| 3,600 | 3,650 | 188 | 31 | 283 | 183 |
| 3,650 | 3,700 | 196 | 38 | 291 | 190 |
| 3,700 | 3,750 | 203 | 45 | 299 | 197 |
| 3,750 | 3,800 | 211 | 52 | 307 | 204 |
| 3,800 | 3,850 | 219 | 59 | 316 | 211 |
| 3,850 | 3,900 | 227 | 66 | 324 | 218 |
| 3,900 | 3,950 | 235 | 73 | 333 | 225 |
| 3,950 | 4,000 | 243 | 79 | 342 | 232 |
| **4,000** | | | | | |
| 4,000 | 4,050 | 251 | 86 | 351 | 238 |
| 4,050 | 4,100 | 259 | 93 | 360 | 245 |
| 4,100 | 4,150 | 267 | 100 | 369 | 252 |
| 4,150 | 4,200 | 275 | 107 | 378 | 259 |
| 4,200 | 4,250 | 282 | 114 | 387 | 266 |
| 4,250 | 4,300 | 290 | 121 | 395 | 273 |
| 4,300 | 4,350 | 298 | 128 | 404 | 280 |
| 4,350 | 4,400 | 306 | 135 | 413 | 287 |
| 4,400 | 4,450 | 315 | 142 | 422 | 294 |
| 4,450 | 4,500 | 323 | 149 | 431 | 302 |
| 4,500 | 4,550 | 332 | 156 | 440 | 310 |
| 4,550 | 4,600 | 341 | 162 | 449 | 318 |
| 4,600 | 4,650 | 350 | 169 | 458 | 326 |
| 4,650 | 4,700 | 359 | 176 | 467 | 334 |
| 4,700 | 4,750 | 368 | 183 | 475 | 342 |
| 4,750 | 4,800 | 377 | 190 | 484 | 350 |
| 4,800 | 4,850 | 386 | 197 | 493 | 357 |
| 4,850 | 4,900 | 395 | 204 | 502 | 365 |
| 4,900 | 4,950 | 403 | 211 | 511 | 373 |
| 4,950 | 5,000 | 412 | 218 | 520 | 381 |
| **5,000** | | | | | |
| 5,000 | 5,050 | 421 | 225 | 529 | 389 |
| 5,050 | 5,100 | 430 | 232 | 538 | 397 |
| 5,100 | 5,150 | 439 | 238 | 547 | 405 |
| 5,150 | 5,200 | 448 | 245 | 555 | 413 |
| 5,200 | 5,250 | 457 | 252 | 564 | 421 |
| 5,250 | 5,300 | 466 | 259 | 573 | 429 |
| 5,300 | 5,350 | 474 | 266 | 582 | 436 |
| 5,350 | 5,400 | 483 | 273 | 591 | 444 |
| 5,400 | 5,450 | 492 | 280 | 600 | 452 |
| 5,450 | 5,500 | 501 | 287 | 609 | 460 |
| 5,500 | 5,550 | 510 | 294 | 618 | 468 |
| 5,550 | 5,600 | 519 | 302 | 627 | 476 |
| 5,600 | 5,650 | 528 | 310 | 635 | 484 |
| 5,650 | 5,700 | 537 | 318 | 644 | 492 |
| 5,700 | 5,750 | 546 | 326 | 653 | 500 |
| 5,750 | 5,800 | 554 | 334 | 662 | 508 |
| 5,800 | 5,850 | 563 | 342 | 671 | 515 |
| 5,850 | 5,900 | 572 | 350 | 680 | 523 |
| 5,900 | 5,950 | 581 | 357 | 689 | 531 |
| 5,950 | 6,000 | 590 | 365 | 698 | 539 |
| **6,000** | | | | | |
| 6,000 | 6,050 | 599 | 373 | 709 | 547 |
| 6,050 | 6,100 | 608 | 381 | 719 | 555 |
| 6,100 | 6,150 | 617 | 389 | 730 | 563 |
| 6,150 | 6,200 | 626 | 397 | 740 | 571 |
| 6,200 | 6,250 | 634 | 405 | 750 | 579 |
| 6,250 | 6,300 | 643 | 413 | 761 | 587 |
| 6,300 | 6,350 | 652 | 421 | 771 | 594 |
| 6,350 | 6,400 | 661 | 429 | 781 | 602 |
| 6,400 | 6,450 | 670 | 436 | 792 | 610 |
| 6,450 | 6,500 | 679 | 444 | 802 | 618 |
| 6,500 | 6,550 | 688 | 452 | 812 | 627 |
| 6,550 | 6,600 | 697 | 460 | 823 | 635 |
| 6,600 | 6,650 | 707 | 468 | 833 | 644 |
| 6,650 | 6,700 | 716 | 476 | 844 | 653 |
| 6,700 | 6,750 | 726 | 484 | 854 | 662 |
| 6,750 | 6,800 | 735 | 492 | 864 | 671 |
| 6,800 | 6,850 | 744 | 500 | 875 | 680 |
| 6,850 | 6,900 | 754 | 508 | 885 | 689 |
| 6,900 | 6,950 | 763 | 515 | 895 | 698 |
| 6,950 | 7,000 | 772 | 523 | 906 | 707 |
| **7,000** | | | | | |
| 7,000 | 7,050 | 782 | 531 | 916 | 715 |
| 7,050 | 7,100 | 791 | 539 | 927 | 724 |
| 7,100 | 7,150 | 801 | 547 | 937 | 733 |
| 7,150 | 7,200 | 810 | 555 | 947 | 742 |
| 7,200 | 7,250 | 819 | 563 | 958 | 751 |
| 7,250 | 7,300 | 829 | 571 | 968 | 760 |
| 7,300 | 7,350 | 838 | 579 | 978 | 769 |
| 7,350 | 7,400 | 848 | 587 | 989 | 778 |
| 7,400 | 7,450 | 857 | 594 | 999 | 787 |
| 7,450 | 7,500 | 866 | 602 | 1,009 | 795 |
| 7,500 | 7,550 | 876 | 610 | 1,020 | 804 |
| 7,550 | 7,600 | 885 | 618 | 1,030 | 813 |
| 7,600 | 7,650 | 894 | 627 | 1,041 | 822 |
| 7,650 | 7,700 | 904 | 635 | 1,051 | 831 |
| 7,700 | 7,750 | 913 | 644 | 1,061 | 840 |
| 7,750 | 7,800 | 923 | 653 | 1,072 | 849 |
| 7,800 | 7,850 | 932 | 662 | 1,082 | 858 |
| 7,850 | 7,900 | 941 | 671 | 1,092 | 867 |
| 7,900 | 7,950 | 951 | 680 | 1,103 | 875 |
| 7,950 | 8,000 | 960 | 689 | 1,113 | 884 |

*This column must also be used by a qualifying widow(er).

Continued on next page

a If your taxable income is exactly $1,700, your tax is zero.
b If your taxable income is exactly $2,300, your tax is zero.
c If your taxable income is exactly $3,400, your tax is zero.

The Harris Survey

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# MAJORITY OF AMERICANS REJECT PROPOSAL TO ABANDON GRADUATED INCOME TAX

By Louis Harris



The recent proposals by some supply-side economists that the country ought to abandon the graduated income tax for a system under which everyone pays a 20 percent federal income tax meets with a resounding rejection by 61-34 percent of Americans.

The main argument by advocates for repeal of the graduated income tax is that "people with higher incomes are the ones who invest in the economy and make it grow, so they need a break like this to stimulate investment and growth." This is the same claim that was made during the debate on an across-the-board tax cut that was finally passed by Congress in July.

However, a 56-39 percent majority of Americans does not go along with this argument, according to the latest Harris Survey conducted between Aug. 11 and Aug. 16 among a cross section of 1,248 adults nationwide. If higher-income people are to be induced to invest more of their funds, most Americans would prefer that some means other than a change in the concept of the graduated income tax be devised. All groups below the $35,000 income level want to retain the progressive tax system under which the higher a person's income, the higher the percentage of federal income tax the individual will pay. The country has had that system for 68 years, ever since the Constitution was amended to permit the federal government to levy a federal income tax.

Among those with annual incomes of more than $35,000, however, a 49-47 percent plurality goes along with the argument that by going to a 20 percent across-the-board tax, investment will be stimulated. Supply-siders no doubt would argue that this is proof positive that such a change in the tax system would indeed set loose a new flood of investment money. However, the rest of the public clearly doesn't see it that way. Instead, they seem to be convinced that having those with the highest incomes pay the same tax rate as those with lower incomes is a windfall benefiting those who are most in a position to pay higher taxes.

In fact, a 53-39 percent majority feels that "to charge everyone the same percentage of their income in taxes would be decreasing federal income taxes for the rich and increasing taxes for people with incomes below $18,000 a year." Even those in the over-$35,000 income bracket agree, by 57-36 percent, that this would be the case.

This latest trial balloon on repealing the graduated income tax is one of a growing number of measures put forth by supply-side economic advocates. People now expect that one of the singular marks of the Reagan years in the White House will be harder times for the less privileged and a field day for the most privileged. When asked to estimate what things would be like a year from now, a 75-21 percent majority of Americans is convinced that "the rich and big business will be much better off" and a 64-32 percent majority feels "the elderly, the poor and the handicapped will be especially hard hit."

If a major effort is mounted to repeal the graduated income tax, it will mean undertaking the considerable task of reversing the opinion of a sizable majority of the American people. Not only does a 61-34 percent majority oppose a 20 percent across-the-board personal income tax, but also, by 58-38 percent, a majority feels that the current progressive income tax, based on the principle that "higher-income people not only have to pay more in taxes, but must pay a greater percentage of their income in taxes," is "fair and equitable."

At a time when taxes clearly are not popular, to have a 20-point majority that feels the federal income tax is fair and equitable is a real measure of the job facing those who would attempt to change the system. Significantly, a 60-37 percent majority of the college-educated defends the current tax principle, as does a 67-30 percent of professional people. However, among business executives, only a 51-46 percent majority shares this view, as does a 53-45 percent majority of those in the highest income brackets.

(over)

These latest results show that political conservatives have not yet reached the point where they are ready to change the graduated income tax. By 57-38 percent, a majority would oppose a 20 percent across-the-board federal income tax. And a 55-41 percent majority of conservatives feels the current federal tax system is "fair and equitable."

## T A B L E S

Between August 11th and 16th, the Harris Survey asked a cross section of 1,248 adults nationwide by telephone:

"For the past 68 years, the federal income tax has been based on the principle that higher-income people not only have to pay more in taxes but must pay a greater percentage of their income in taxes. Do you feel that principle is fair and equitable or not?"

### GRADUATED INCOME TAX FAIR?

| | Fair and equitable % | Not fair and equitable % | Not sure % |
|---|---|---|---|
| Total | 58 | 38 | 4 |
| 8th grade education | 50 | 31 | 19 |
| High school | 57 | 39 | 4 |
| College | 60 | 37 | 3 |
| $7,500 or less | 59 | 36 | 5 |
| $7,501-15,000 | 56 | 37 | 7 |
| $15,001-25,000 | 63 | 34 | 3 |
| $25,001-35,000 | 61 | 38 | 1 |
| $35,001 and over | 53 | 45 | 2 |
| Professional | 67 | 30 | 3 |
| Executive | 51 | 46 | 3 |
| Proprietor | 54 | 44 | 2 |
| Skilled labor | 60 | 39 | 1 |
| White collar | 56 | 41 | 3 |
| Conservative | 55 | 41 | 4 |
| Middle of the road | 62 | 35 | 3 |
| Liberal | 55 | 41 | 4 |

"Now it is being proposed that instead of the system of higher-income people paying a greater percentage in federal income taxes, everyone would pay the some percentage of their income in taxes, such as 20% for everyone. Would you favor having everyone pay the same percentage of their income in taxes, or would you favor keeping the present system, under which higher-income people pay a greater percentage in taxes?"

### EVERYONE PAY SAME PERCENTAGE OF INCOME TAX?

| | Favor everyone paying same percentage % | Favor keeping present system % | Not Sure % |
|---|---|---|---|
| Total | 34 | 61 | 5 |
| 8th grade education | 29 | 50 | 21 |
| High school | 32 | 64 | 4 |
| College | 38 | 57 | 5 |
| $7,500 or less | 19 | 70 | 11 |
| $7,501-15,000 | 32 | 65 | 3 |
| $15,001-25,000 | 35 | 61 | 4 |
| $25,001-35,000 | 38 | 56 | 6 |
| $35,001 and over | 48 | 49 | 3 |

c o n t i n u e d

EVERYONE PAY SAME PERCENTAGE OF INCOME TAX? (CONT'D)

| | Favor everyone paying same percentage % | Favor keeping present system % | Not sure % |
|---|---|---|---|
| Professional | 37 | 57 | 6 |
| Executive | 39 | 59 | 2 |
| Proprietor | 44 | 54 | 2 |
| Skilled labor | 38 | 59 | 3 |
| White collar | 31 | 62 | 7 |
| Conservative | 38 | 57 | 5 |
| Middle of the road | 35 | 61 | 4 |
| Liberal | 29 | 66 | 5 |

"Now let me read you some statements about changing the federal income tax system so that every person pays the same 20% of their income in taxes. For each, tell me if you agree or disagree."

STATEMENTS ON CHANGING FEDERAL INCOME TAX SYSTEM

| | Agree % | Disagree % | Not sure % |
|---|---|---|---|
| To charge everyone the same percentage of their income in taxes would be decreasing federal income taxes for the rich and increasing taxes for people with incomes below $18,000 a year | 53 | 39 | 8 |
| People with higher incomes are the ones who invest in the economy and make it grow, so they need a break like this to stimulate investment and growth | 39 | 56 | 5 |

METHODOLOGY

This Harris Survey was conducted by telephone with a representative nationwide cross section of adults 18 and over at 1,248 different sampling points within the United States between August 11th and 16th. Figures for age, sex and race were weighted where necessary to bring them into line with their actual proportions in the population.

In a sample of this size, one can say with 95% certainty that the results are within plus or minus 3 percentage points of what they would be if the entire adult population had been polled.

This statement conforms to the principles of disclosure of the National Council on Public Polls.


Chicago Tribune-N.Y. News Syndicate, Inc.
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812110

TABLE 1. DISTRIBUTION OF TAX LIABILITIES UNDER ALTERNATIVE FLAT RATE TAX SYSTEMS COMPARED TO 1984 TAX LAW[a] AT 1981 INCOME LEVELS

| Expanded Income (thousands) | Number of Taxable Returns (thousands) | Tax Liability 1984 Law (millions) | System 1 Tax Liability (millions) | System 1 Change (Percent) | System 1 Change (Dollars Per Return) | System 2 Tax Liability (millions) | System 2 Change (Percent) | System 2 Change (Dollars Per Return) | System 3 Tax Liability (millions) | System 3 Change (Percent) | System 3 Change (Dollars Per Return) | System 4 Tax Liability (millions) | System 4 Change (Percent) | System 4 Change (Dollars Per Return) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| < 5 | 6,482 | 403 | 5,479 | 1,259.5 | 783.07 | 1,574 | 290.7 | 188.71 | 2,232 | 453.7 | 282.10 | 1,996 | 395.2 | 265.71 |
| 5- 10 | 15,057 | 5,772 | 14,280 | 147.6 | 565.04 | 8,752 | 51.6 | 197.91 | 7,854 | 36.1 | 138.26 | 5,345 | -7.4 | -28.33 |
| 10- 15 | 13,092 | 12,526 | 19,700 | 57.3 | 547.99 | 17,610 | 40.6 | 388.31 | 15,720 | 25.5 | 243.97 | 12,698 | 1.4 | 13.11 |
| 15- 20 | 10,737 | 17,462 | 22,496 | 28.8 | 468.08 | 22,665 | 30.0 | 484.54 | 20,778 | 19.0 | 308.88 | 18,802 | 7.7 | 124.76 |
| 20- 30 | 16,800 | 44,080 | 49,701 | 12.8 | 334.58 | 52,871 | 19.9 | 523.28 | 49,978 | 13.4 | 351.06 | 48,170 | 9.3 | 243.45 |
| 30- 50 | 13,568 | 63,833 | 60,579 | -5.1 | -239.82 | 66,419 | 4.1 | 190.61 | 66,466 | 4.1 | 194.08 | 68,604 | 7.6 | 366.41 |
| 50-100 | 3,380 | 38,687 | 27,389 | -29.2 | -3,155.74 | 30,486 | -21.2 | -2,290.90 | 32,658 | -15.6 | -1,684.20 | 36,104 | -6.7 | -721.60 |
| 100-200 | 631 | 18,656 | 9,872 | -47.1 | -13,920.58 | 10,743 | -42.4 | -16,540.20 | 12,459 | -33.2 | -9,821.59 | 14,344 | -23.1 | -6,833.36 |
| 200 < | 164 | 16,385 | 7,675 | -53.2 | -53,107.15 | 7,129 | -56.5 | -56,438.05 | 10,050 | -38.7 | -38,630.67 | 11,843 | -27.7 | -27,692.33 |
| Total | 80,110 | 217,803 | 217,172 | -0.3 | -7.87 | 218,249 | 0.2 | 5.57 | 218,194 | 0.2 | 4.08 | 218,106 | 0.1 | 3.78 |

SOURCE: Joint Committee on Taxation.

System 1: 11.8 percent tax on adjusted gross income with long-term capital gains included in full.

System 2: 18.5 percent tax on 1984 law taxable income less zero bracket amount.

System 3: 15.7 percent tax on 1984 law taxable income less zero bracket amount, with long-term capital gains included in full, and no itemized deductions.

System 4: 18.7 percent tax on taxable income as in system 3 with increased exemption and zero bracket amount.

a. To facilitate comparison, 1984 law does not include the earned income credit, the two-earner couple deduction, or the IRA or Keogh provisions. The flat rate tax systems similarly do not include those provisions.

b. Outcomes under the flat-rate tax for tax returns of under $5,000 of income would be highly uncertain. Some taxpayers at that income level currently make use of tax preferences that would be terminated under the flat-rate tax, and those taxpayers would thus face substantial tax increases. A particular problem would arise under System 1, in which all income would be subject to tax without exemption or deduction; many households with very low incomes who are excused from filing tax returns under the 1984 law are therefore not represented in the table, but would have to file returns and pay taxes under System 1. The impact of this factor on the table would likely be small, though it would significantly change administrative burdens under the tax system.