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Taxes

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TAXES

The tax system is one of the most important means the government uses to decide who gets what in our society and who pays the price. To see how the tax system divides the benefits and burdens, we must look at two main aspects of it.

A tax system can use any of several different kinds of taxes -- an income tax, a property tax, a sales tax. Each of these collects different amounts of money from different kinds of people. Many people believe that a good tax system should take a larger proportion out of the incomes of people who are better off in order to redistribute the wealth. A tax which does this is called a "progressive" tax. One which does the opposite -- takes a larger percentage from lower-income people -- is called a "regressive" tax because it increases inequality in the society. In discussing the different kinds of taxes, we will want to decide which ones are "progressive" and which ones are "regressive".

Rich people also have ways of avoiding taxes they should pay. Sometimes they can do this legally because of special laws called "loopholes". But the important thing is this -- when some people pay less, others have to pay more to make up the difference. We will also discuss tax "loopholes" and their effects.

The tax system of this country is very complicated, and it would take years to understand all the different taxes and the gimmicks people use to escape them. For this reason, we will look just at the main taxes at each of the three levels -- City, State and Federal Government, and at the most important kinds of loopholes.

I. THE CITY

Chicago has six government bodies -- the City, Cook County, the Board of Education, the Park District, the Sanitary District and the Forest Preserve District. Many of these bodies collect money from license fees and fines, and the City itself gets a good deal of revenue from taxes on utility companies and retail stores. The biggest source of income for all of them, however, is the property tax.

The property tax collects money from owners of real estate on the basis of the value of their property. The value of land and buildings for tax purposes is set by the County Assessor. The tax rate (the number of dollars tax per \$100 "assessed value") is set by the needs of the six government bodies. Each one of them figures out how much money it needs and the tax rate needed to get that much. Then they add all six rates together to get the total rate.

In November, Mayor Daley announced that the new City budget would require a tax of \$2.14 per \$100 value. The total rate for all agencies will probably come to about

\$5.50 per \$100 (5.5%). A man with a small piece of land and a house worth \$10,000 will have to pay \$550, and the owner of a high-rise worth \$100,000 will owe \$5,500.

While the homeowner has to pay every cent himself, the apartment building landlord can pass the cost of the tax on to the tenants by raising the rent. Tenants and homeowners, not landlords, bear the burden of this tax.

In addition, there are many loopholes which allow some people to make profits and force the rest to pay more. Property owned by churches and universities is not taxed at all. The Catholic Church is the largest land-owner in all of Chicago, and the universities own hundreds of acres of land and many buildings. When they pay no taxes, it is like the City giving them thousands of dollars. This money has to come out of the pockets of homeowners and tenants.

The nature of the property tax also makes it very easy to cheat. The amount of tax is figured by multiplying the "assessed value" times 5.5%. The County Assessor, who sets this value, is an elected official sponsored by the Democratic Machine. The Machine can arrange a lower assessment for its friends, and people with money can often buy themselves a lower tax by bribing the Assessor. Landlords who do this go on charging the same rents and pocket the difference.

The costs of high tax rates are passed on to tenants, but not the benefits of cheating. And the more cheating there is, the higher the rates go.

Poor people also lose because as long as the government fails to collect the money it should, it cannot afford to run decent schools and libraries or to repair streets in poor neighborhoods.

II. THE STATE

The State of Illinois gets 45% of its money from a sales tax, 30% from taxes on cars, drivers' licenses and gasoline, and 15% from other sources. All the money from the tax on cars, licenses and gas goes to building highways, so most of the general funds come from the sales tax.

There is no tax at all on business profits or personal incomes in Illinois, although 80% of the other states have one or the other and most have both. The government says this attracts business and talented (rich) people to Illinois from other states. There are already enough rich people here to control the legislature and continue this policy.

The sales tax applies to almost everything people buy for their own use -- food, clothing, furniture, cars, restaurant meals and bus tickets. Personal services like laundry, hairdressing, automobile repairs and maid service are not taxed, nor are the materials used by businesses.

When you buy something in a store, the tax is figured as a percent of the price. In Illinois, for every dollar you spend, four cents is added on for tax. You have to pay

that four cents to the store right there, and the government collects it from them later. Whether or not the store-owner cheats on his tax return to the State, you still have to pay your share to him.

The tax does not seem like very much when it goes a few pennies at a time, but it adds up. If a family spends \$25 a week on necessary food and clothing, by the end of the year they will have paid more than \$50 in taxes.

Richer people spend less of their income on things which are taxed. They buy food and clothing too, but much more of their income goes to hairdressers and house-cleaners, vacation trips and college tuitions, which are not taxed. The higher a family's income, the smaller is the proportion it pays in sales taxes. The sales tax is therefore a "regressive" tax. That's why rich people move to Illinois.

III. FEDERAL GOVERNMENT

The tax structure of the Federal Government is the most complicated of all. The hundred billion dollars of the national budget is raised in the following ways:

58% from Personal Income Taxes

26% from Corporate Profits Tax

12% from Excise Taxes

4% from other sources

Each of these major taxes has aspects we should know about.

Lets take the smallest first.

A. The Excise Tax The idea of an excise tax is a "progressive" one -- it is supposed to be a special tax on luxuries. In fact most of the money collected does not come from fancy jewelry and furs, but from liquor and cigarettes, which are bought by the poor as well as by the rich. There is also a tax of 10% on light-bulbs and ballpoint pens, of 5% on household appliances, and of 13¢ on a pack of cards. All of these taxes are hidden in the price of the article, and with the Illinois Sales Tax figured on top, you pay a tax on the tax.

B. The Corporate Profits Tax There is a tax on the profits of business corporations, but the rate is much lower than the Personal Income Tax rate. The government says that this is because higher taxes would be passed on to customers in higher prices or would discourage business from investing to serve the customers better. In fact the low business tax has allowed many large corporations to build up huge reserves of money which they then invest in other companies and projects (such as urban renewal). It has also failed to prevent individuals from using corporations to avoid personal income taxes.

C. The Personal Income Tax Like the Excise tax, the Personal Income Tax is progressive in theory. The income tax is a percentage of your income, but the higher your income, the higher is the percentage rate. For example

a person earning \$5,000 a year pays 22%, a person earning \$10,000 is supposed to pay 32% and a person earning \$100,000 is supposed to pay 70%. If it actually worked this way, wealth would be a lot more evenly spread among Americans.

This tax is the best in theory, but it has the biggest loopholes. Working people have the tax taken out of their paychecks every week, but they are the only people who pay their full share. For the rich whose income comes from other sources than paychecks -- stock dividends, interest, sale of property, expense accounts -- there are many ways of avoiding taxes. Many of the richest people in America today pay no taxes at all!

Phillip Stern wrote a book called The Great Treasury Raid in which he estimated that the loopholes cost the U.S. Government forty billion dollars, and that tax rates could be lowered by half for everyone if rich people paid their share.

How do rich people avoid income taxes? We can list only a few of the most common ways.

For one thing, big corporations have fancy ways to pay their top executives -- people earning \$50,000 or \$100,000 or \$200,000 a year. Instead of giving them a higher salary, the company will pay certain "expenses" for them -- buy them meals, hotel accommodations and personal secretaries, yachts, homes and trips to Europe. This permits the executive to do many of the things he would do with the extra income, but without paying 70% of

it in taxes. Some of the abuses of this loophole got so obvious that the government was forced to make a show of clamping down -- but a good deal of it still goes on.

Another way for companies to help their executives is to pay them in stock. When the price of the stock goes up, the executive can sell it for a profit which will be taxed at a much lower rate than regular income. The company can also promise executives a big pension to be paid after they retire, when they have less income and pay less taxes.

These rich people can also make other arrangements which will save a lot of money on taxes. For instance, a loophole in the tax law allows you to make believe that half the man's income was earned by the wife. This way, a man making \$60,000 can pay taxes at the rate for \$30,000, which is a good deal lower. For the same reason, a man with stocks and bonds will put them in his children's names so that much of the interest appears as their income, not his.

The rules also allow many more spectacular kinds of cheating. People who are making a lot of money and would have to pay the top tax rates do everything they can to get their income taxed at a lower rate. A special rule says that money made by selling something you own is not income, but a "capital gain". The highest tax rate on capital gains is 25% -- about the same as the lowest rate for personal income. So instead of paying income tax on his salary as an actor, Jack Paar forms the Jack Paar Show, Incorporated, and sells it to CBS as a package. President Eisenhower

sold his memoirs for \$635,000, and instead of paying \$570,000 in income taxes, he called it a capital gain and paid only \$160,000.

Another loophole says that you can avoid taxes by giving money to charity. Rich people set up their own "charitable" foundations so they can control who they help and how. They can then put all their friends on the payroll or "help" the masses by running TV programs to persuade them that this is the best of all possible worlds.

An even better gimmick for the very rich is to channel income into a dummy corporation in a foreign country where they can escape U.S. taxes altogether. Places like Bermuda and Monaco have no taxes at all on business profits or personal income. They are very popular resorts for the rich.

People with more money than they can spend avoid taxes by investing it in real estate or in drilling for oil. In real estate, a special rule says that you can pretend that a good building is losing value as it gets older and subtract the "lost value" from the income you pay taxes on, even if the building is actually increasing in value because of its location. A similar rule for oil drilling says you can subtract all your expenses in looking for oil, plus $27\frac{1}{2}\%$ of your income when you find it. If an oil well costs one million dollars to drill and produces five million dollars worth of oil a year for ten years,

the owner pays no taxes on \$13,750,000 of his income during the ten year period.

Some of the most gigantic fortunes in America and in the world have been built on the basis of these tax loopholes. Two of the richest men in the world, J. Paul Getty and H. L. Hunt, have used them to accumulate wealth of many billions of dollars each. Wealth is power, and these are the people who get special laws written to spare them the hardship of paying taxes. In 1961 there were 17 people with incomes over a million dollars each and 35 people with incomes over half a million each who paid no taxes at all.

Whether you look at the City, State or Federal level, it is the lower-income people who bear the burden of government in America. Property taxes take money from poor and working people who must live in the city. Sales tax takes money from people who have to spend most of their income on necessary food and clothing. Even with the taxes which are progressive in theory, the richest people escape through loopholes open only to them, leaving the masses to carry the weight.

The Meaning of Social Action

Miller and West point out that there is a great vagueness about the nature of social action. They note that there are many different types of social action programs, although the types have not been adequately conceptualized.