Americans for
Democratic Action

On the Road to Tax Fairness

Restoring a Progressive Tax Code

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In a welcome change from his predecessor, President Obama is treating the American people like grown-ups. He is offering essential, yet expensive, programs to restart the economy and begin to reshape it for future growth. And he says we must pay for it by restoring some progressivity to the income and estate/gift tax structures, raising taxes on the wealthy, once we have emerged from the recession, plugging loopholes, limiting shelters, and closing foreign tax havens, providing additional benefits for low-wage workers, and beefing up enforcement so taxes owed are paid. Consistent with President Obama's values, this paper offers suggestions for additional ways to restore fairness to our tax system.

Failure to address the President's concerns means that the tax burden will continue to fall increasingly on wage and salary earners, whose taxes are withheld at the source, while the tax avoiders and evaders enjoy all the benefits of schools, hospitals, courts, highways, safe food, medicine, and air travel, a cleaner environment, national defense, and a civil society without paying their fair share of the cost.

For eight years, the Bush administration neglected many of our basic needs while cutting taxes and starting two wars that have run up unnecessary and untenable debt to be paid off by future generations. We have previously addressed how the Bush administration made our tax system more regressive, other flaws in the tax structure, and ways the wealthy game the system.[1] What makes filing our taxes a headache is not the number of tax brackets – the least complicated aspect of our tax system – it's the multitude of deductions, credits, special tax rates, and exceptions that can even stump accountants. We examine loopholes, those legal forms of tax avoidance, goodies written into the tax code at the behest of special interests that make the personal income tax and corporate taxes a bonanza for the wealthy, while we propose beefing up enforcement to eliminate illegal tax evasion. And we ask whether the tax credits, deductions and special allowances that create tax complexity are the most effective and efficient way to achieve legitimate goals.

BUSH'S REGRESSIVE LEGACY

Under Bush the top marginal income tax rate on the richest taxpayers was lowered to 35 percent. In good times and bad, we have had top marginal rates well over 50 percent, as high as 90 percent applied to the extremely wealthy[2] during the Kennedy administration, a period of great prosperity. Bush also reduced the top tax rate applied to long-term capital gains and dividends to 15 percent further decreased taxes paid by the wealthy, who are the prime recipients of capital gains and dividend income. The lower rate encourages people to find gimmicks to shelter ordinary income by reclassifying it as capital gains.[3] The principal result of the Bush program was to favor income from capital over income for work.

The wealthy complain that they are over-burdened by taxes. But are they? According to the IRS, the richest one percent of Americans paid an effective rate of 30.9 percent from federal, state, and local taxes, including payroll taxes, only a bit more than that on the other 99 percent of Americans, who paid 29.4 percent. The richest 400 tax filers paid 17.2 percent of their adjusted gross income in federal taxes.[4] Under Bush, the children of the wealthy were additionally pampered by phasing out the estate and gift tax, originally designed to bring in revenue and to diminish concentrations of enormous wealth for generations in perpetuity.

The staggering size of the Bush tax cuts amounted to $240 billion a year or $2.4 trillion over ten years, when the added interest on the national debt is included.[5] Paying interest on that debt is a drag on the economy while it gobbles up an increasing proportion of the federal budget that could otherwise be devoted to meeting domestic needs.

The regressivity of the Bush tax cuts is accentuated when the budget shortfall leads to cuts in public services needed by low- and moderate-income families. The Bush administration exerted no effort to pay for the tax cuts, except to propose slashing veterans' benefits, education, social services, environmental programs, transportation, community development, and Medicare.

A decade ago the Republican Congress conducted hearings, trying to tar the IRS with harassing innocent taxpayers. It turned out that a poster child witness who claimed harassment was in fact a tax cheater. The Committee demonized the IRS, cut its funds, and rendered the government unable to collect taxes that are owed, especially where complex investigations are necessary to uncover illegal tax evasion schemes by which wealthy individuals and corporations stash their money abroad in foreign "tax havens" with low taxes and/or poorly enforced incorporation, banking, and tax laws.[6]

The Government Accountability Office (GAO) found that corporate tax havens costs the Treasury $100 billion every year – a trillion dollars over ten years. More than 80 percent of the biggest US corporations shelter profits offshore, with the biggest abusers multi-billion dollar corporations like Citigroup, Bank of America, Morgan Stanley, American Express, AIG, Boeing, Cisco, Dow, Hewlett-Packard, JP Morgan-Chase, and Pfizer.[7]

A report of a subcommittee of the Senate Committee on Homeland Security, chaired by Senator Carl Levin (D-MI), found that the US loses $100 billion every year from just two European offshore secrecy bank jurisdictions, Switzerland (UBS) and Liechtenstein (LGT).[8] Starving the IRS for funds, as noted above, has been a critical part of tax inequity. Because the IRS lacks personnel to audit and go after tax evaders, the gap between what taxpayers owe and what is collected was estimated to be $345 billion in 2001.[9] When people are allowed to get away with not paying taxes they owe, people whose taxes are deducted at the source – wage earners—pay an inordinate share of the cost of government.

Elsewhere we have illustrated how the poor pay more than their fair share of federal income taxes (on top of Social Security and Medicare taxes, state income and sales taxes).[10] The Earned Income Tax Credit helps some low-income workers, but not all. For example, low earners without children are not helped at all, and they are taxed on 10 percent of the first $7,825 of taxable income, and their marginal tax rate jumps rapidly to 28 percent on annual income over $77,100. The rates increase at much larger increments on incomes well above the national median, only hitting the top marginal rate of 35 percent on income over $349,000.

TAX EXPENDITURES - STEALTH SPENDING

Other tax provisions that deserve scrutiny belong to a significant category that the Office of Management and Budget (OMB) and the congressional Joint Committee on Taxation (JCT) call "tax expenditures." These are deductions (which particularly favor high-income taxpayers) and credits that favor particular activities of individuals, such as incentives to buy health insurance, contribute to retirement plans or charity, to buy houses or municipal bonds, to build houses, or to pay for higher education. Not all of them can be blamed on the Bush administration. Legislators love them because they can claim to their constituents that by providing credits and deductions they are "cutting taxes," rather than appropriating money, to wit, "spending." The purpose of the deductions and credits for individuals are often worthwhile, but economists, the OMB, and JCT point out that they cost the Treasury as much as appropriating money, but do so less efficiently, equitably, and simply. In all, they cost the Treasury $760.5 billion in 2007, more than the Defense Department ($549 billion) or all non-defense discretionary spending ($493 billion). They add 12.82 percent to the after-tax income of the top 20 percent of taxpayers, and 6.97 percent to after-tax income of the bottom 20 percent.[11]

In addition, credits and deductions for businesses cost the Treasury more than $100 billion in 2008, according to the JCT. For example, oil and gas companies will receive $32.9 billion over the next four years in tax benefits, royalty relief, research and development subsidies, and accounting gimmicks. Under current law, these tax breaks will increase unless they are terminated.

"More than 80 percent of the biggest US corporations shelter profits offshore"

The Washington Post reported recently that the current director of the OMB Peter Orszag in 2006 said he favored substituting a refundable dollar-amount credit for tax deduction incentives, thus providing the same benefit to taxpayers regardless of income level.[12] That would be a small constructive step, but all deductions and credits need critical reexamination.

Together all of these tax provisions exacerbated the staggering income inequality that has plagued our economy for the past three decades.[13] In 2006 concentration of after-tax income in the top one percent of households is the greatest it has been since 1929. Since 1992 the average income of the top 400 taxpayers almost quadrupled, while the middle class's income stagnated. According to Citizens for Tax Justice, real median household income declined in the Bush years, while the poverty rate and unemployment increased, reversing trends of the Clinton years. These are the cumulative effects of Republican tax cuts, anti-union policies, and refusal to raise the minimum wage. Looking just at the effects of tax policy, from 1979 to 2006, the after-tax income of the top 1 percent of households rose 256 percent, by $863,000, while the middle fifth's after-tax income rose 21 percent, by $9,200, and the bottom fifth's grew by 11 percent, $1,600. In 2006, 16.3 percent of the nation's after-tax income was in the pockets of the top one percent of households.

THE STIMULUS AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

In just one month, President Obama took significant steps to fulfill his campaign promises to the American people. On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 (ARRA), the so-called stimulus bill, which became Public Law 111-5.[14] Its provisions expire after two years, after having served to dig the country a significant way out of the recession.

Tax provisions of ARRA include a $250 one-time payment to Social Security beneficiaries, disabled veterans, SSI and railroad retirement beneficiaries. It provided a "patch" of the Alternative Minimum Tax (AMT) for 2009, a temporary suspension of federal income taxes on the first $2,400 of Unemployment Insurance benefits, an expanded homeowner tax credit to $8,000, and – most important – a Making Work Pay Credit (MWPC) of 6.2 percent of earned income from wages and self-employment, up to $400 for individuals, $800 for couples for 2009 and 2010. The credit phases out gradually as incomes rise: two cents of the credit for every dollar earned over $75,000 for individuals, $150,000 for couples. The MWPC is, in effect, a refund of payroll taxes for low- and moderate-income families – people who will spend most of the credit on food, shelter, clothing and other necessities, thus stimulating the economy.

More low-wage families will receive the Earned Income Tax Credit (EITC). Before ARRA, parents would receive a tax credit of 34 percent with one child, 40 percent with two or more children. ARRA provides a 45 percent tax credit for 3 or more children, and also permits a credit for couples. An existing Refundable Child Tax Credit (RCTC), hitherto applicable to parents with incomes over $12,550, now applies to parents with income over $3,000. An American Opportunity Tax Credit (AOTC), 40 percent of which is refundable, provides a credit for the first $2,000 spent on higher education, 25 percent on the next $2,000, for a maximum credit of $2,500, allowed for the cost of each of the first four years of higher education, including tuition, fees, and course materials.

THE OBAMA BUDGET

The budget President Obama submitted to Congress on February 26 includes many additional tax provisions, which are being subjected to scrutiny in Congress, in large measure supported by Democrats and roundly denounced by Republicans. Compared to continuing current policies, the Obama budget would reduce the deficit by $269 billion over the next five years, and about $900 billion over 10 years. According to Citizens for Tax Justice (CTJ), it "would make the tax code considerably more progressive, and close a number of egregious tax loopholes…but it does not raise enough revenue to pay for public services." Its net effect would be $2.2 trillion in tax cuts over ten years, with $3.5 trillion in cuts and $1.3 trillion in increases.[15] The cumulative effect of all proposed changes would raise taxes only on the top one percent of taxpayers, those with average incomes of $1,467,185. They would get an average increase of $1,780 or 0.1 percent of their income. CTJ points out that the tax cuts for the other 99 percent of the population would be transitory since they're being financed by debt and would eventually need to be paid for.

At a ten-year cost of $2.455 trillion, the Obama budget proposes to retain 80 percent of the Bush's tax cuts for couples with taxable income below $250,000 (individuals under $200,000) that were scheduled to expire in 2010 – that is, for 98 percent of taxpayers. The budget proposes to make the AMT "patch" permanent, and index it, obviating the need for the annual scramble to enact a patch so the AMT doesn't unintentionally apply to middle-income taxpayers. That and retaining half of Bush's estate tax cuts, leaving estates of less than $3.5 million per spouse exempt, would cost $188.3 billion. The administration would also extend temporary tax credits enacted in the stimulus law, such as Making Work Pay Credit (cost: $576.7 billion), EITC changes (cost: $32.9 billion), the Refundable Child Tax Credit (cost: $70.5 billion), and the American Opportunity Tax Credit (cost $74.9 billion). President Obama has also proposed business tax cuts that CTJ considers of questionable value (cost: $100.16 billion). President Obama proposes to increase the maximum rate by which capital gains and dividends are taxed from 15 percent to 20 percent for taxpayers with high incomes (over $200,000/$250,000), retaining the 15 percent rate for those below. (In 1986 President Reagan agreed to tax capital gains and dividends at the same rate as ordinary income is taxed.) In addition the budget would expand a Savers' Credit and provision for automatic contributions to IRAs and 401(k)s (unless one opts out), with subsidies for low-income workers (cost: $55.2 billion).

Revenue would be raised by the cap-and-trade proposal for reducing carbon emissions (+$645.7 billion). Thus far, Congress has rejected cap and trade, ostensibly because it would raise fuel costs for low-income individuals. However, many of the same legislators who raise this objection have rejected making the Obama MWPC permanent, which would offset harm to low-wage workers. Another revenue-raiser (+$31. billion) would restore the limit on deductibility of itemized deductions of taxpayers with joint incomes over $250,000 (single $200,000) to 28 percent. The Senate's budget resolution would limit this provision, claiming it would deter people from contributing to charities. The non-partisan Tax Policy Center of the Urban Institute and Brookings Institution (TPC) estimated that charitable contributions would be reduced by only 1.3 percent, noting that this change – affecting only 1.2 percent of households—would take effect in 2011 only if we're out of the recession. Raising the top tax rate to 39.6 percent provides an incentive to make charitable deductions; limiting the deduction to 28 percent only eliminates the advantage to high-income taxpayers that the increase creates. The TPC estimated the Treasury would gain $496 billion over ten years by once again phasing out the personal exemption, along with the limitation on deductions in 2011.[16] Closing some loopholes for corporations and high-income individuals would also boost revenue (+$374.8 billion).

Another revenue raiser in the Obama budget would allow the 2001 and 2003 tax cuts for the top two brackets to expire in 2010 or whenever the economy has recovered from the recession, whichever comes later (+$339 billion over ten years). Traditional opponents of increasing taxes on relatively well off taxpayers argue, first, that it would deter recovery (despite the delayed implementation), and, second, that it would harm small business. The TPC study cited above determined that only 1.9 percent of small business owner/managers earn taxable income in that bracket (over $200,000/$250,000). Fewer than 8.9 percent of taxpayers in that income group have any income from small business, and the IRS includes in that category anyone with small business income, including wealthy investors in small businesses with no part in managing them. Most small business owners would benefit from the Obama proposals inasmuch as 98.1 percent of them are not in the top two brackets. (Small businesses would also be prime beneficiaries of health care reform.)

The proposed budget would make permanent the 2009 estate tax rules, exempting estates smaller than $3.5 million per spouse, and a 45 percent top rate on amounts above the exemption, retaining the 14-year payment period for family farms and closely held businesses. The Treasury would gain $166.3 billion more revenue if Congress were to allow the Bush estate tax cuts to expire, restoring the Clinton rate (exemption of $1 million per person, $2 million for couples, and a top marginal rate of 55 percent). As noted below, the Senate has amended its budget resolution to cater to even larger estates than the President wanted.

Other revenue raisers, most of which increase taxes for the top 1 percent of taxpayers (average income $1,467,185) by an average of about $12,064 would gain the Treasury about $350 billion over ten years: International Tax Reform (Senator Carl Levin's bill, discussed below) and simplified accounting, such as repeal of the LIFO Inventory Rule, gaining about $24 billion over 10 years. The President would also end the tax break for private equity hedge fund managers' "carried interest" by making their income subject to the ordinary income tax rates, rather than the capital gains tax rate. (While the fund managers' pay is in the form of sharing the fund's profits, those profits derive from the shareholders' investments, not the managers' investments.) He would end five different tax breaks for oil and gas companies, bringing in $31.5 billion to the Treasury. The proposed budget would also disallow deductions that the taxpayer cannot show have a substantial economic purpose other than to provide a tax benefit, require reporting of all rental income, and reinstate the Superfund Tax on oil, chemical, and feedstock, a 0.12% tax on corporate profits that was in effect from 1980 to 1995.

The Obama budget proposes to recoup $210 billion over 10 years by reforming international tax enforcement and changing rules on deferral of taxes on foreign income. At his televised press conference on March 24, 2009, President Obama endorsed the Stop Tax Haven Abuse Act, introduced on March 2 by Senator Carl Levin (D-MI), S.506, and Rep. Lloyd Doggett (D-TX), HR 1265, as have Americans for Democratic Action and 20 other organizations. The bill is intended to crack down on offshore tax evasion, close loopholes, strengthen detection and investigation capabilities, stiffen penalties, and toughen requirements that cost the Treasury $100 billion annually. Eighty-three of the top 100 publicly traded US companies have subsidiaries in tax havens. At the G-20 meeting in England on April 2, some steps were promised to curb tax havens, at the very least to publicize and stigmatize the worst offenders.

President Obama has also suggested he wants to rein in costly and unproductive subsidies in spending and tax side of the budget, curbing special interest tax loopholes, such as subsidies for Medicare Advantage. It is not clear the extent to which he would have the OMB's performance reviews scrutinize the effectiveness of all "tax expenditures," as Citizens for Tax Justice has advocated. So far the OMB's Program Assessment Rating Tool has only focused on traditional spending.[17]

THE ROADBLOCKS

At the end of March, the Republicans began to trickle out proposed alternatives to the Obama budget. First, they proposed making all of the Bush tax cuts permanent, thus abolishing the estate tax and providing major tax cuts for the well-to-do. They agree with the President in making the Alternative Minimum Tax patch permanent. (AMT relief offers nothing to the bottom 60 percent of taxpayers, who don't receive any of the special rates and preferences that the AMT is designed to recoup from the wealthy.) After repealing the stimulus law, including all its refundable credits to aid the working poor, the Republicans would help low-income families by reducing the lowest two tax rates by 5 percentage points. However, Citizens for Tax Justice has calculated that only one-fifth of taxpayers in those brackets had enough income to benefit at all. They complained daily that the Obama budget was fiscally irresponsible. The Washington Post reported on April 1, 2009 that Governor Sanford (R-SC) called the ARRA Stimulus Act "fiscal child abuse" because of the burden placed on future generations, perhaps hoping voters have forgotten that President Clinton handed President Bush a budget surplus, set to whittle down a national debt of $5.7 trillion, while Bush handed President Obama a $454.8 billion deficit and almost doubled the national debt to about $10.3 trillion.[18]

On April 1, Rep. Paul Ryan (R-WI), ranking member of the House Budget Committee, presented the official Republican alternative, including more detail, a proposal that would provide higher taxes than the House Democrats' budget for one-third of taxpayers, mostly low- and middle-income families.[19] That results from their adamant opposition to refundable credits for the working poor. Compared to the Democrats' budget, the richest one percent (average income $1,389,500) would pay $75,000 on average, partly by eliminating all taxes on capital gains (no mention of dividends) for the remainder of 2009 and beyond. The total proposal would cost $225 billion more than the Democrats' budget even as they would cut $240 in spending. Rep. Ryan was more specific on how he would limit non-defense discretionary spending (except for veterans): for five years there would be no increased spending based on inflation or population growth – in reality a four percent cut in programs in one year, and 13 percent in five years below the CBO figure for maintaining current services, taking inflation into account. The Republican alternative would repeal the entire stimulus bill – the American Recovery and Reinvestment Act, except for unemployment insurance changes, that is, they would cut all the stimulus spending, repeal the expansion of EITC, Child Tax Credit, and Making Work Pay Credit. They argue these people "don't pay taxes." But they pay hefty Social Security and Medicare taxes, state and local income and sales taxes – adding up to a far larger proportion of their income than the well-to-do pay. The final budget resolution extended the MWPC for one year only, unless it is paid for.

"The tax system must be made more progressive."

The usual right wing pet remedy is fewer brackets or a one-rate flat tax. One tax rate for the low-wage worker and the multi-millionaire is about as regressive as you can get. Rep. Ryan proposes an alternative "simplified" tax of 10 percent marginal rate up to $100,000, 25 percent above $100,000, eliminating the higher 28, 33, and 35 percent brackets, keeping the standard deduction and personal exemptions without reducing the benefits of itemized deductions to 28 percent.[20] The ostensible reason for not reducing the benefit of itemized deductions is that it would be a disincentive to charitable giving. However, their abolishing the estate tax (at a ten year cost of a trillion dollars) would remove a far more significant spur to charitable giving. The Republican bill would also cut the corporate tax rate from 35 percent to 25 percent at a cost of $70 billion in 2010 alone. The current effective tax rate on US corporations is 13.4 percent, compared to that of other developed countries of 16.1 percent, according to the Organization of Economic Cooperation and Development (OECD).[21]

A "bipartisan" amendment to the budget resolution was proposed by Blanche Lincoln (D-AR) and Jon Kyl (R-AZ) to exempt estates of up to $10 million from taxation and reduce the tax rate on amounts over $10 million to 35 percent. The Joint Committee on Taxation estimated that the amendment would cost $250 billion. At additional cost they would reunifying the gift and estate tax, in other words, reduce the gift tax as well. They present the usual canard that the change is necessary to protect small farmers and businesses. Yet the estates of only 140 family-operated farms and family-managed businesses would be affected in 2011 by maintaining the 2009 rates President Obama proposes.[22] Senate Majority Leader Harry Reid (D-NV) commented, "It is so stunning, so outrageous that some would choose in this hour of national crisis to push for an amendment to slash the estate tax for the super wealthy."

The Budget, somewhat modified, passed in the House of Representatives 233-196 (20 Democrats opposed, no Republicans for). On April 2, the Senate passed its more modified version 55-43, no Republicans in favor, 2 Democrats opposed, Evan Bayh (IN) and Ben Nelson (NE).

RECOMMENDATIONS

The tax system must be made more progressive by the following steps:

1. Increase the number of tax brackets, which are not the source of complexity. A flaw in our current tax system, in the President's budget, and in much talk about taxes is a failure to recognize that "wealthy" is a relative term. Annual median household income is around $50,000. Half of American households live below the median and are struggling to make ends meet. Households with twice the median, $100,000, are not "wealthy," but they are better off. Those with $200,000 are still better off. Perhaps we can agree that millionaires are rich, multi-millionaires and billionaires are super rich. The point is that the tax code should make those distinctions. During the Franklin Roosevelt and John Kennedy administrations, the tax code distinguished between the upper middle class, the wealthy, and the extremely wealthy, gradually increasing the marginal tax rate so a 90 percent rate applied only to multimillionaires, today's billionaires, with no noticeable deterrent to their efforts to earn still more. For maximum fairness, income taxes should be eliminated for low-income wage earners and pensioners, with the marginal rate increased gradually – perhaps at one or two percentage-point increments—up to a top marginal rate of at least 50 percent on millionaires. Increasing the rate at large intervals, such as by five percentage points, tends to seem unfair to a taxpayer just above the income limit for a lower rate. It is notable that many industrialized countries take a higher proportion of their gross domestic product in taxes (on personal and corporate income, payroll, and consumption) while their GDP-per-hour-worked grew at a faster rate than that of the US.[23]

2. Make filing taxes simpler by adopting an excellent proposal of candidate Obama. Under that plan, the IRS would calculate taxes (based on published tax tables) for people whose income is primarily based on wages, interest, and other amounts that must be reported to the IRS (a majority of taxpayers). The IRS would prepare a pre-filled form based on that information. The taxpayer could verify, sign, and return it, or prepare his own form if there were facts that would change the taxes owed. During the campaign, President Obama estimated that this proposal would save Americans a total of 200 million hours of work and up to $2 billion in fees paid to tax preparers (a deductible expense, which means the cost is paid by taxpayers).

3. Adopt President Obama's proposals for refundable tax credits for the working poor: the Making Work Pay Credit, expanded Earned Income Tax Credit (EITC) and Refundable Child Tax Credit.[24]

4. Examine the cost and benefit of the multitude of deductions, exceptions, credits, special interest write-offs, shelters, loopholes, and special rates, some of questionable efficiency or equity. These are the source of complexity in the tax code.

5. Return income from capital more fully to the tax base. In other words, repeal the special breaks for dividends and capital gains. (Taxing income from capital and salaries at the same rate simplifies tax preparation, eliminating one type of "preference income" that kicks in liability for the Alternative Minimum Tax.) It is unfair to favor income from capital over income from work.

6. Restore the tax on estates and gifts by enacting a bill introduced by former ADA national president Jim McDermott (D-WA), a member of the Ways and Means Committee. Among other provisions promoting fairness, the bill would exempt from taxation estates of less than $2 million per person ($4 million per couple). Only 0.7 percent of estates are worth over $2 million. Estates between $2 million and $5 million would be subject to a tax of 45 percent on the amount over the exemption. The marginal tax on estates of $5 million to $10 million would be 50 percent; those in excess of $10 million per person would pay a tax of 55 percent on the amount above the exemption. We recommend keeping the special provision that permits estate taxes on family farms to be paid over a fourteen-year period.

7. Restore the tax on corporate profits to its rate in the 1950s. At that time corporate taxes, plus excise taxes, made up 46 percent of federal tax collection. Today those taxes make up only 15 percent. Thus, over the years the burden has shifted from corporations to individuals, especially wage earners. Eliminate the preferential tax treatment of multinational corporations and other loopholes that benefit only the wealthiest individuals and corporations.

8. Enact a wealth tax. Wealth is even more unequally distributed than income.[25] Concentration of wealth undermines our democracy by exacerbating the unequal distribution of power. As other industrialized, capitalist countries have adopted a wealth tax, the U.S. could, too. If we were to follow Switzerland's example, we would generate more than $50 billion in new federal revenue, all paid by the nation's richest one percent.

9. Remove the cap on wages to which the Social Security payroll tax applies (currently $106,296.75), so FICA is collected on all wages, thus contributing to the long-term solvency of the program. (Benefits for the higher-income people should be increased very modestly, thus continuing the traditional connection between earnings and benefits, while also continuing the progressive nature of the Social Security benefit structure.) Social Security benefits should be fully taxable so benefits of wealthy people are returned to the Treasury via the income tax.

10. Prevent American corporations and individuals from evading federal income taxes by incorporating and using offshore trusts and partnerships. Companies that move their headquarters offshore in name only should be taxed as if they are still incorporated in the

US. At the same time, bar companies that have moved offshore from receiving taxpayer money in the form of government contracts. Create a presumption that every offshore company and offshore trust is controlled by the US taxpayer who formed them.

Empower the US Treasury to take special measures against foreign jurisdictions that "impede" US tax enforcement. Require US financial institutions that open accounts for foreign entities controlled by US clients, or open accounts in offshore secrecy jurisdictions for US clients, or establish entities offshore for US clients, to report such actions to the IRS. Tax income of US beneficiaries of offshore trusts. Increase penalties on promoters of unlawful tax shelter. Prohibit the US Patent and Trademark Office from issuing patents for "inventions designed to minimize, avoid, defer, or otherwise affect liability for Federal, State, local, or foreign tax". Require hedge funds and company formation agents to establish anti-money-laundering programs equivalent to those that apply to banks and other financial institutions.

11. Increase disclosure requirements. The secrecy surrounding corporate tax-reduction strategies should be eliminated. Investors have a right to a clearer picture of the financial health of a company's core business, while all citizens have a right to understand how much corporations are paying in taxes. Corporations should be required to base their tax obligations on the same data they submit to the Securities and Exchange Commission (which is designed to impress stockholders.) Close the loopholes in the Sarbanes-Oxley Accounting Reform Act and SEC regulations that permit an auditing firm that is paid to provide tax (evasion) strategy consulting to also be the auditor of the client's books.

12. At a minimum, double the Internal Revenue Service enforcement budget with particular focus on high-income taxpayers and avoidance of taxation of income from capital. Offshore hedge funds headquartered in the US should be required to report their distribution to the IRS.

CONCLUSION

Government services can't be paid for with fairy dust, even though no one enjoys paying taxes. Since taxes are necessary, they should be fair. Consistent with President Obama's progressive tax proposals, these changes would begin to restore fairness to the income tax system so corporations and high-income taxpayers once again pay their fair share. The IRS must be given the resources to ensure that billions of dollars in taxes owed are paid, so the burden no longer weighs heaviest on wage earners whose taxes are deducted at the source. These measures would enable the federal government to have sufficient revenue to meet some of our nation's needs, refurbishing infrastructure, creating good jobs, supporting alternative energy research and development, building low-income housing, and enacting comprehensive affordable health care for all.

ENDNOTES

[1] Mary von Euler and Woodrow Ginsburg, "Common Sense Tax Fairness," Americans for Democratic Action, 2008. http://www.adaction.org/media/TaxReform.pdf

[2] David Leonhardt, "Richly Undeserved," New York Times Magazine, April 12, 2009, points out that the 91 percent top rate applied only to income over $400,000, the equivalent of $3 million in today's dollars. Under Kennedy and Franklin D. Roosevelt high marginal tax rates distinguished between the upper middle class and the extremely wealthy.

[3] "Experts Agree That Capital Gains Tax Cuts Lose Revenue," Center on Budget and Policy Priorities, April 18, 2008.

[4] Citizens for Tax Justice, April 10, 2009, based on 2006 taxes, the latest data available.

[5] Joint Committee on Taxation, cited in Lori Montgomery, "As Candidates Warm to Bush Tax Cuts, Economists Warn of Long-Term Effect," Washington Post, March 28, 2008.

[6] The 110th Congress remedied one waste of taxpayers' money by which tax collection was outsourced to private collection agencies that were allowed to keep a cut of the taxes they collected. This saves the Treasury about $37 million annually. We describe costly corporate and individual tax evasion ploys in our paper, "Common Sense Tax Fairness," op cit.

[7] Nicole Tichon, "Tax Shell Games: The Taxpayer Cost of Offshore Corporate Tax Havens," U.S.PIRG Education Fund, April 2009.

[8] "Senate Investigation of Offshore Tax Evasion Focuses on Swiss Bank UBS and Liechtenstein's LGT," Citizens for Tax Justice, July 18, 2008.

[9] Senator Carl Levin (D-MI) Subcommittee on investigations estimates that unreported income in tax havens cost the US $100 billion a year. Bradley S. Klapper, AP, Washington Post, July 17, 2008.

[10] Mary von Euler and Woodrow Ginsburg, "Common Sense Tax Fairness," Americans for Democratic Action, 2008. http://www.adaction.org/media/TaxReform.pdf

[11] Chye-Ching Huang and Hannah Shaw, "New Analysis Shows 'Tax Expenditures' Overall are Costly and Regressive," Center on Budget and Policy Priorities, February 23, 2009, based on Tax Policy Center analyses. The analysis does not include all special deals, such as capital gains exclusion on home sales, valuation of capital gains at death, and some employer-provided benefits.

[12] Kenneth R. Horney, "Obama's Budget Seeks to Shrink Tax Benefit of Owning," Washington Post, March 7, 2009.

[13] Woodrow Ginsburg, "Income and Inequality," Americans for Democratic Action, 2008.

[14] The bill, HR 1, was introduced by Rep. David Obey (D-WI) January 26, 2009. The conference report passed the House of Representatives on February 13 by a vote of 246-183 with the support of no Republicans, and in the Senate by a vote of 60-38 with the support of three Republicans, Senators Arlen Specter R-PA), Olympia Snowe (R-ME) and Susan Collins (R-ME). Basic provisions of the law provided by Senator Ben Cardin (D-MD) by email, March 13, 2009. Details provided by Citizens for Tax Justice.

[15] Cost estimates are from Citizens for Tax Justice, "Tax Proposals in President Obama's First Budget: Budget Proposal Includes Significant Progressive Initiatives and Tax Reforms, But Revenue Falls Short," March 18, 2009.

[16] Chye-Ching Huang, Jason Levitis, and James Horney, "Very Few Small Business Owners Would Face Tax Increases Under President Obama's Budget," Center on Budget and Policy Priorities, February 28, 2009. Further analysis of CBPP reinforced those findings. March 12, 2009.

[17] Citizens for Tax Justice, March 17, 2009.

[18] "House GOP Leaders' Budget Plan: Poor Pay More and Rich Pay Less Under GOP Plan that Costs $300 Billion Annually More than the President's Plan," Citizens for Tax Justice, March 27, 2009. http://www.ctj.org/pdf/housegopplan200090327

[19] New Report from Citizens for Tax Justice on House Republican Budget, April 2, 2009. Among the non-tax provisions of the Ryan proposal would be to cut Medicare spending, for Americans now under age 55, provide the elderly a voucher to purchase private health insurance, turn Medicaid into a block grant, and cut some Social Security benefits.

[20] Paul N. Van de Water and Kathy A. Ruffing, "Obama Budget Reduces Deficit by $900 billion over 10 Years Compared to Current Budget Policies," Center on Budget and Policy Priorities, March 31, 2009. The deficit would total $9.3 trillion due to inherited policies. CBPP recommends that we take additional steps to rein in the deficit when the economy improves. President Obama has suggested the same.

[21] Paul N. Van de Water and Kathy A. Ruffing, "House Republican Budget Would Aid Wealthy Individuals and Corporations, Cut Public Services, Slow Economic Recovery, CBPP, April 2, 2009. American Progress Action Fund, "Progress Report: The Economic Costs of War," February 26, 2008. As of March 2008 the national debt stood at $9 trillion. Lori Montgomery, "As Candidates Warm, to Bush Tax Cuts, Economists Warn of Long-Term Effect," Washington Post, March 28, 2008.

[22] Jason Levitis and Chuck Marr, "Lincoln-Kyl Estate Tax Amendment Is Both Unnecessary and Unaffordable," CPBB, April 2, 2009.

[23] Australia, Czech Republic, Finland, France, Greece, Hungary, Iceland, Ireland, Norway, Portugal, Slovakia, Sweden, and the United Kingdom. OECD figures cited in Max Sawicky, "Improving With Age: Financing Government in the 21st Century," Americans for Democratic Action , 2008.

[24] Alan Berube, David Park, Elizabeth Kneebone, "Earned Income Tax Credit, Inequality, Working Poor, and Children, and Families," Metropolitan Policy Program, Brookings Institution, June 5, 2008. "The Child Tax Credit Gap: A Snapshot of Families Left Out" www.firstfocus.net, drawing on work of Aviva Aron-Dine, "Improving the Child Tax Credit: An Important Step Toward Reducing Child Poverty, Center on Budget and Policy Priorities, May 19, 2008/.

[25] Woodrow Ginsburg, "Income and Inequality: Millions Left Behind," Americans for Democratic Action Education Fund, January 2008, p.12

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