

A Tax Cut for the Wealthy

by Peter Mork

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The hot topic of late is the proposed tax cut by President Bush. For the past year we have heard the newly elected President push for a tax cut, that in his words, would “benefit all Americans.” But is this really the case? Just as many times we have heard the voice of his opposition proclaiming it’s a tax cut for the wealthy. According to a recent *Pew Research Center Poll*, when asked who will benefit most from the tax cut, 79% of those surveyed agreed it was the wealthy. The middle class followed with 12%, and the poor dead last with only 4%. There is no mistaking certain Democrats have done a great job swaying the American people. But how sound is their argument?

First we need to look at the merits of this tax cut, which is not a top priority in the public’s mind. In the same survey cited above, when respondents were asked what should be done with the budget surplus only 19% said that it should be used for tax cuts (losing out to both Social Security/Medicare and domestic programs). These results make me believe that many people don’t have a firm grasp of what a budget surplus is other than a word that is overused by politicians.

Let’s break this down into a very simple example. We will postulate that there are only 3 citizens in the United States: Bob, Kathy, and Dan. The politicians project that in order to fund programs for its three citizens (i.e. maintain the highways, police department, courts, etc.), it will need to spend \$111,500. Last year, Bob, who is wealthy, made \$250,000. Kathy, who is middle class, made \$40,000, and Dan, who represents the poor, made only \$10,000. The politicians quickly realize if they take 40% of Bob’s salary (equal to \$100,000 in tax collections), 25% of Kathy’s salary (\$10,000 in tax collections), and 15% of Dan’s salary (\$1,500 in tax collections) they will collect the exact amount that they need to fund their programs (\$100,000+\$10,000+\$1,500=\$111,500). “Perfect” they exclaim!

Table 1
Government Taxes Citizens Exact Amount It Plans To Spend

Social Class	Forecasted Salary	Tax Rate	Forecasted Tax Collection
The Wealthy: <i>Bob</i>	\$ 250,000.00	40%	\$ 100,000.00
The Middle Class: <i>Kathy</i>	\$ 40,000.00	25%	\$ 10,000.00
The Poor: <i>Dan</i>	\$ 10,000.00	15%	\$ 1,500.00
		Total Taxes Collected	\$ 111,500.00
		Total Govt. Spending	\$ 111,500.00
		Surplus	\$ -

Unexpectedly, the economy is strong, and Bob, Kathy, and Dan all make 50% more than they did the previous year. Bob makes \$375,000, while Kathy makes \$60,000, and Dan makes \$15,000. Although their incomes change their tax rates do not. So instead of taking \$100,000, the politicians still get 40% of Bob's \$375,000, which equals \$150,000. From Kathy they now get \$15,000 instead of \$10,000, and from Dan they get \$2,250 instead of \$1,500. In all they politicians take in \$55,750 more than they can spend. They have a surplus. Now you tell me what should be done with this money. There are only two options: return it to the people you overtaxed or you can find new ways to spend the money. I for one, say give it back. Let them keep more of their own money that they make through hard work. It's only fair.

Table 2
Government Collects More Than It Can Spend

	Actual Salary	Tax Rate	Actual Tax Collection
The Wealthy: <i>Bob</i>	\$ 375,000.00	40%	\$ 150,000.00
The Middle Class: <i>Kathy</i>	\$ 60,000.00	25%	\$ 15,000.00
The Poor: <i>Dan</i>	\$ 15,000.00	15%	\$ 2,250.00
		Total Taxes Collected	\$ 167,250.00
		Total Govt. Spending	\$ 111,500.00
		Surplus	\$ 55,750.00

Now this is where some of the Democrat opposition gets you: if you gave back the taxes in the exact amount as to who overpaid, then you would return \$50,000 to Bob, \$5000 to Kathy, and \$750 to Dan. Only fair right? Wrong according to many. If you return all of Bob's \$50,000 to him he is getting 90% of surplus the politicians couldn't spend. Never mind it was Bob's money to begin with - but let's play their game to prove a point.

Table 3
Citizens Returned Taxes In Exact Amount They Overpaid

	Initial Taxes Paid	Taxes Returned	Percent of Surplus Returned	Final Taxes Paid
The Wealthy: <i>Bob</i>	\$ 150,000.00	\$50,000	89.7%	\$ 100,000.00
The Middle Class: <i>Kathy</i>	\$ 15,000.00	\$5,000	9.0%	\$ 10,000.00
The Poor: <i>Dan</i>	\$ 2,250.00	\$750	1.3%	\$ 1,500.00
Total Taxes Not Needed/ Returned to Taxpayer		\$55,750		

After we return Dan his \$750 that he overpaid, and Kathy her \$5,000 that she overpaid let's benefit them as best we can. Instead of returning Bob's overpayment of \$50,000 directly to him let's really help out the poor and the middle class by using Bob's money to eliminate their taxes. Of the \$50,000, \$10,000 will go to Kathy (which by eliminating her taxes will help her with the down payment on a house) and \$1,500 will go to Dan (who will be able to pay off his credit card debt). Although Kathy and Dan no longer pay any taxes (the ultimate tax cut in a sense), this still is a tax cut for the rich. How you ask? Well the politicians still return the \$38,500 to Bob that he overpaid. That means that 69% of the surplus is still going to the wealthy! In the minds of many politicians that means it still unfairly favors the rich. These politicians need to realize that it's impossible to cut the poor and middle classes taxes anymore when they are already at zero. Why are they trying to confuse us with percentages?

Table 4
Citizens Returned Taxes To Maximize Benefit to Poor and Middle Class

	Initial Taxes Paid	Taxes Returned	Percent of Surplus Returned	Final Taxes Paid
The Wealthy: <i>Bob</i>	\$ 150,000.00	\$38,500	69.1%	\$ 111,500.00
The Middle Class: <i>Kathy</i>	\$ 15,000.00	\$15,000	26.9%	\$ -
The Poor: <i>Dan</i>	\$ 2,250.00	\$2,250	4.0%	\$ -
Total Taxes Not Needed/ Returned to Taxpayer		\$55,750		

Politicians are trying to confuse us with these percentages for one reason: so they can spend our hard earned money. If they can get the public to believe that this tax cut is only going to benefit the wealthy, and then make us hate them for it, the politicians win. We will cheer as the tax cut fails knowing that we really stuck it to those rich bastards. The little man will finally have his day. Meanwhile, atop a hill in his mansion, Bob will be sitting in his favorite recliner and simply shrug his shoulders. Instead of getting 90% or 69% of the surplus, he gets 0%. He will have to put off buying his new BMW for another year. Not a big deal since he has a Porsche in the garage.

Kathy meanwhile is still saving for that down payment and Dan still has that credit card debt. Although the biggest percent is dollars of the tax cut didn't go to Bob, the greatest benefit didn't go to the poor and middle class. If they only could have seen through the politicians' game. Now the politicians are keeping all of Dan and Kathy's money and probably spending it on their pet projects.

A few years ago, I met a 23-year-old girl from Finland. During our conversation, she explained to me the different outlooks in Europe and in the United States. "In the U.S.," she said, "A guy passes you on the freeway with a BMW and you think 'Man if I work hard and save up, one day I can buy a car like that.' In Europe on the other hand the same car passes you on the freeway and you think 'What a jerk!'" If politicians can convince us that screwing the rich outweighs benefiting ourselves it will be a sad day for our country. Driving to work one day you'll hear on the radio that Congress just passed a bill to raise their own salaries. At that moment a BMW might be flying by you in the fast lane - but you will pay no attention to it. Instead, you'll look up and realize the only jerk is looking at a reflection of himself in your rear view mirror.