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Our Unfair Tax Code: 40% Bear The Burden

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Sixty percent of U.S. households receive $3.10 in transfers for each dollar paid in Federal taxes on average. The other 40% of households get back 31 cents in transfers for each dollar of Federal taxes paid. That difference is how the transfers to the 60% are paid for.

These are the findings of a 2016 Congressional Budget Office report. It measured federal taxes, a comprehensive measure that comprises tax revenue from the federal income tax, payroll tax, corporate income tax and excise tax, for the year 2013.

This is not saying that 60% of U.S. households do not pay federal taxes. Most do pay taxes. But government transfers exceed the value of the federal taxes paid by $9,600 on average per household.

In comparison, federal taxes paid by the average household in the top 40% exceed transfers by approximately $30,000.

What do I mean by transfers? They include cash payments from programs like Social Security and Temporary Assistance for Needy Families. CBO also includes the value of in-kind benefits from programs like Medicaid and housing assistance.

It is a massive income redistribution program. In perspective in 1979, 80% of households paid positive net federal taxes and only 20% received more in government transfers than they paid in federal taxes.

Between 1979 and 2013 the U.S. moved to a much larger and more comprehensive income redistribution system. That transition is continuing.

One would expect that leaders of both parties would want to implement tax and regulatory policies to encourage income growth in all five quintiles — but in particular the top two — to keep the income redistribution system working.

If so, that would mean political leaders would want to flatten and broaden the federal personal tax and corporate tax systems to encourage income growth and growth in tax revenues in the U.S. -- or even implement a flat income tax to replace the current tax code.

Trump's tax plan would lower marginal tax rates and flatten the Federal personal income tax code, which would enhance incentives to save, invest, work and grow incomes and tax revenues.

He proposes lowering the corporate tax rate to encourage employment growth and business investment in the U.S. His tax proposal is a major step in the right direction. But Trump's proposal would also take millions more taxpayers off the rolls, which would narrow the incidence of the Federal personal income tax.

In comparison, Mrs. Clinton's tax plan would increase marginal tax rates on those earning the most income and reduce incentives to save, work and invest.

In addition, the tax rate on capital gains would increase as well as taxes on estates. She proposes maintaining the same high corporate tax rates, which act as a damper on employment and business investment.

Clearly she views the U.S. economy as static and wants to increase the proportion of income that is redistributed, rather than increase earned income.

Clinton doesn't seem to grasp that the ability to maintain the U.S. income redistribution system depends on enhancing incentives to save, work and invest so households can pay taxes.

Her program would mean fewer households paying enough federal tax to exceed the value of their transfer payments. Currently only 40% of households pay more in taxes than they get back in transfers. The Clinton program, if enacted, would probably lower that to 35% or less.

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