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February 14, 2001

A taxing situation

The debate over whether or not to cut taxes is a fascinating one because both sides have boatloads of ammunition. The across-the-board tax-cutters who favor President Bush's approach to lower all federal income tax levels point to a discriminatory system that overtaxes working people and outright punishes the wealthy. The "tax-the-rich" crowd yells back that America is becoming an oligarchy where a few wealthy people control most of the money, while the workers struggle to get by. Let's look at the facts:

Right now the Congressional Budget Office tells us that Americans are paying the highest federal tax rate in 50 years. The combination of federal income tax and the payroll (Social Security) tax shrinks take-home pay by an average of almost 34 percent, according to the Tax Foundation in Washington.

The per capita income in the United States is \$29,705 dollars. Of that, 23.4 percent is taken by the feds, and 10.4 percent goes for state income tax. Remember these rates do not include sales taxes, property taxes and the like. So there is good reason why the average American is in debt. Take-home pay is being severely diminished by the government.

If every American were required to pay the same amount of tax to meet the obligations of the federal government, the figure would be about \$8,000 a head. Yet today, if you make a million dollars a year, your federal tax obligation is well over \$400,000 before deductions. As the rich guys never tire of telling us, the wealthiest Americans pick up most of the tax tab, therefore they should benefit the most in any across-the-board cut.

But many politicians only want targeted tax cuts that would

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help the poor and middle class. They want the rich to continue picking up the lion's share of the tax obligation.

This is somewhat disturbing if you believe in capitalism and the notion that all citizens should be treated equally. But those beliefs are declining in America. We are rapidly becoming a society that wants the government to redistribute income from those who have to those who don't have. They do this in Sweden and other countries with some success.

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But there are problems with quasi-socialism because the government cannot legislate responsibility. Remember the ant story you were told as a kid? The one that said most of the ants worked feverishly during the summer storing up food for the winter, but the grasshopper slept all day. Then winter came, and the industrious ants were fat and happy, while the lazy grasshopper went hungry.

The lesson, of course, is that you have to work for your security and prosperity.

So what happens to Americans who drop out of school, become substance abusers, have children in their teens and make a variety of other mistakes that prevent them from prospering in the marketplace? Is it morally right for the government to take money from the responsible (or just plain lucky) and give it to those who couldn't make it? If you screw up your whole life, are you entitled to free stuff when you get old?

The difficulty here is that millions of Americans do work hard and make little progress. So they are in the same boat as the irresponsible, and the government can't weed them out. Social Security was set up to protect workers, who, for whatever reason, could not save any money. It is impossible to select the worthy from the unworthy when doling out government entitlements.

Thus it does fall on the rich in America to carry the tax burden. And it is not technically fair. But this country provides a framework in which some can get very wealthy and the government expects payback for the framework.

But the government's tax system is corrupt and dumb because shrewd people can dodge taxes, and everybody knows it. There's no perfect solution, but here's a fair one:

- Immediately abolish the payroll and Medicare taxes. Institute a federal consumption tax of 2 percent for all purchases Americans make, except private medical. That revenue would cover Social Security and Medicare payments;
- Drop all federal income tax rates. If an American earns less than \$25,000, there is no tax burden;
- If you make between \$25,000 and \$50,000, you pay 18 percent;
- If you make between \$50,000 and \$75,000, you pay 22 percent;
- Between \$75,000 and \$150,000, you pay 25 percent;
- And if you earn above \$150,000, you pay 28 percent.

Finally, there would be a tax on all corporate profits. And I mean all. No more dodges. The rate would be calibrated on the size and profitability of the company.

There would be no marriage penalty, estate taxes or all the other intrusive garbage that violates our freedoms. Americans would have more money in their pockets, and the free market would respond to increased buying power.

This is the fair way to fund America, and special interests be damned. This system would raise more than enough money if our government spent and acted responsibly. We could even impose a national lottery if former President Clinton needs more government money for his various scams.

So send this column to Mr. Bush and your Congress people. There's no reason why we can't have some fairness on taxation in America. This is it.

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