

# Thinking About Income Tax

We only help ourselves by knowing more about, and thinking more about, federal income taxes. It must have been in this spirit that an acquaintance recently linked to a Washington Post graphic outlining the differences between “Republican and Democratic tax plans.” (It was first published in August, but remains fresh enough in the abstract to warrant consideration.) A brief explanation reads, “The Republicans’ plan to extend the Bush administration tax cuts for the wealthy would cost \$36.6 billion more than the Democrats’ plan, which extends cuts only for families making less than \$250,000 a year and individuals making less than \$200,000.” About this, some notes.

One: The “Republican plan” was never to extend “tax cuts for the wealthy” as a singular act; it was to extend the Bush cuts, which lowered the percentage of tax paid across every income bracket. (Some Republican, somewhere, may have said they wanted to only raise taxes on the middle class; if so, they are a dolt, and should be drummed out of the club by the seven remaining responsible Republicans in Washington.) These are referred to as “tax cuts for the wealthy” because it is they who stand to benefit most if their current tax

rates remain the same (as opposed to increasing). As they should – in fact, any plan for tax reduction that does not uniformly benefit higher income earners is unfair, precisely because it is by taxing “the rich” that America is able to function (to whatever degree is still functions).

Speaking as one of the working poor, it is my duty to inform you that poor people fundamentally do not make this country work. If anything, we are a collective blight on a system that would function much better if we weren't in it, or had the wherewithal to jump into higher tax brackets. Yes, those of us who bother to work pay federal income tax.

We also take advantage of a variety of tax loopholes – child deductions, earned income credits, et cetera – that causes our total percentage of federal income tax liability to shrink considerably and, in so many cases, vanish entirely. When you factor in the child deduction I claimed for 2009, I paid less than one percent of my income to federal income tax for the year. (I am no patriot when it comes to taxation: the more the federal government takes from the individual, the less freedom that individual has to live his life. I make absolutely no welfare claim upon the government and I have not

been without a job for nearly 15 years; if the Feds can't make due without my percentage, to Hell with them.)

Two: Is someone who makes \$200,000 really rich? To answer this question, it helps to understand how federal taxation actually works

(stay with me; this is unbelievably tedious stuff, but it's also

knowledge you should have). On the 2010 tax tables, those earning

\$8,375 and under are taxed ten percent on the amount over zero dollars. Those earning between \$8,375 and \$34,000 are taxed \$837.50

(the ten percent rate) plus fifteen percent of the amount over \$8,375.

Those earning between \$34,000 and \$82,400 are taxed \$4,681.25 (the

fifteen percent rate) plus twenty-five percent of the amount over

\$34,000. Those earning between \$82,400 and \$171,850 are taxed \$16,781.25 (the twenty-five percent rate) plus twenty-eight percent of

the amount over \$82,400. Those earning between \$171,850 and \$373,650

are taxed \$41,827.2 (the twenty-eight percent rate) plus thirty-three

percent of the amount over \$171,850. And finally, those earning

\$373,650 or above are taxed \$108,421.25 (the thirty-three percent

rate) plus thirty-five percent of the amount over \$373,650.

Let us now invent a phantom man (and make it easy on ourselves,

because arithmetic is a burden for people naturally predisposed to

writing): Bob Smith is 40 and makes exactly \$200,000 a year. If Bob is paid bi-weekly, he will gross about \$7,692.31. For fiscal year 2010, Bob will pay \$51,116.75 in federal income tax, leaving him with \$148,883.25, a nice piece of money.

For the sake of argument we will say Bob lives in Indiana, where I live, and where the State charges a rate of 3.4 percent for the right to call yourself a Hoosier. If he claims two deductions, Bob would pay Indiana about \$261.54 per check, or \$6,800.04 per year, which leaves Bob with \$142,083.21 for the year. (This is not taking into account those counties in Indiana that have adopted, along with a county income tax, additional nonsense. St. Joseph County, where I was born and raised, adopted a "wheel tax" of \$25 some years ago for the expressed purpose of repairing roads, so many of which remain in perpetual disrepair.) Okay, so we're still not feeling too bad for Bob, because if you're living in the Midwest, \$142,000 should certainly get the job done, as long as you're not spending \$143,000.

But we're acting as though Bob has no other bills to pay. What is Bob's mortgage payment? Does he have kids, or kids in college? Does he have a car payment? What is he paying for insurance (health,

car,  
home)? And what about property taxes, outstanding loans,  
credit cards,  
sales tax, Social Security, Medicare, utilities, retirement  
investment, trash removal and so forth down the line? Is he  
paying  
child support (Indiana has the good sense to have no statute  
for  
alimony)? So let's say after it's all filtered out, Bob is  
netting  
\$100,000 a year – he almost certainly is netting less, but  
we're  
taking it easy on him. One hundred thousand dollars is a  
decent net,  
but by no honest, objective standard should it be considered  
rich.  
Well off? Sure. Rich? Certainly not.

Now let's pretend Bob lives in Manhattan, where the State  
income tax  
is 7.85 percent for those making \$200,000 a year, and where  
New York  
City will tax him \$1,706 plus 3.648 percent on anything over  
\$50,000.  
(This is bypassing completely the inordinate levels of  
ancillary  
taxation New York City leads the nation at foisting upon its  
citizens,  
all so that dolt Michael Bloomberg can spend a few hundred  
grand to  
tell people soup is salty.) Or California (9.55 percent),  
Hawaii (11  
percent), Iowa (8.98 percent), Oregon (10.8 percent), Rhode  
Island (9  
percent), Vermont (8.9 percent). Those are just State income  
tax  
rates, which are on top of the federal taxes, and everything

else

mentioned above. Would you be so foolish as to believe normal, non-extravagant living is generally less expensive in States where the income tax is high?

Three: People who say things like “the rich don’t pay their fair share of taxes” ought to be constitutionally rendered unable to vote. Not only do they pay their fair share, they pay virtually everyone’s fair share. The Internal Revenue Service’s own numbers for 2008 reveal that the top one percent of earners (adjusted gross income, or AGI, of \$380,354 or above) paid 38 percent of the total income tax collected.

The top five percent (AGI of \$159,619 or above) paid a grand total of 58.7 percent of the total tax – in other words, it paid more than the remaining 95 percent of American taxpayers. As for the bottom five percent? It paid 2.59 percent of the total federal tax burden.

Not to be mistaken: This is the way things should be. In a society where income tax is collected, the burden obviously must fall disproportionately on the shoulders of those who earn more; and in the United States, it most certainly does. But too often it is assumed that because the government wants what it wants, it should be free to take it, without consequence, from the very people whose labor keeps

the federal engine from seizing. (It is not the fault of the taxpayers if the engine seizes on account of federal neglect.) How much money should be confiscated before those who achieve have so little incentive to continue doing so, they simply take it upon themselves to achieve less, or stop altogether?

If the argument is that continuing the Bush tax cuts will not stimulate the economy or create jobs, then fine, have that debate. But raising taxes most certainly won't do it, because just as the poor don't pay a significant tax burden, they also don't create jobs. If it were up to the poor to fund the federal government – in other words, to provide the levels of taxation now provided by “the rich” – America would be a third world country. (Upside? Our federal government would finally be smaller.)

Four: The Post explains that the Republican plan will “cost \$36.6 billion more than the Democrats' plan,” which is meant to cleverly divert your attention away from the fact the Democratic plan also means negative revenue for the treasury. But never mind that: Since when does the federal government give a good goddamn what anything costs? As I write this, the federal deficit is \$13.717 trillion, and the budget deficit is \$1.351 trillion. Election Day

notwithstanding,  
hardly anyone in Washington has proven they have a  
substantive, long  
term interest in reducing either spending or the debt.  
Suddenly we  
should hope they come to their senses and cut spending to keep  
levels  
of taxation where they are?

How little does the government care about paying for its own  
ideas?

PAYGO – the Statutory Pay-As-You-Go Act of 2010, signed into  
law by

President Obama in February – requires that all new tax cuts  
or

spending either be offset by spending cuts / tax increases, or  
be

budget-neutral. Now, I admit to not having encyclopedic  
knowledge of

all legislation signed into law since February, but I stand  
confident

that not a single piece of new law has really paid for itself.  
(If

your response is to say ObamaCare pays for itself, you have  
surrendered the right to be taken seriously as a human being.)