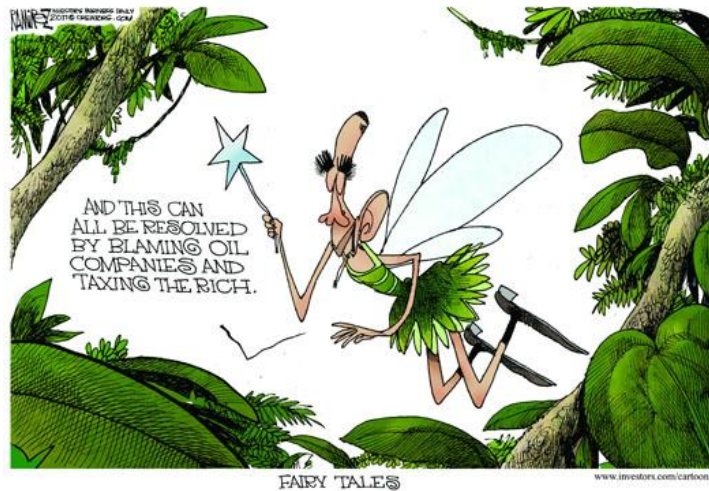


# TAKE MY TAX SYSTEM ..... PLEASE! – WINNERS AND LOSERS NO MORE!

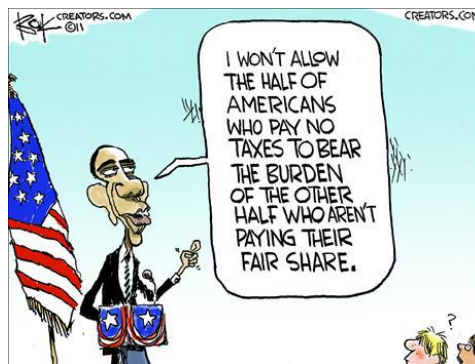
Stephen L. Bakke – May 5, 2011

The stage is set. The President submitted his 2012 budget – the most “over-the-top,” in terms of spending and deficit numbers, in American history.



And then Representative Paul Ryan, on behalf of House republicans, submitted an aggressive budget plan going out several years. It proposed dramatic spending cuts and included no proposed tax rate increases. Rep Ryan did acknowledge an intention to broaden of the tax base – more on that later.

The president followed up with another speech and numerous diatribes in reaction to Ryan having stolen center stage by aggressively defining the economic debate – and Obama’s words insinuated the same old thing:



*I believe that we can't ask everybody to sacrifice and then tell the wealthiest among us, well, you can just relax and go count your money, and don't worry about it. We're not going to ask anything of you.* – Barack Obama

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Commentary Mark Baisley came up with something, after interviewing Ted Kennedy, which he now refers to as the “Kennedy Curve”:

*My error in posing my “monumental question” [to Senator Kennedy] was my assumption that the goal of the leftist mind was to collect as much money for the government as humanly possible. I have since come to understand that the prime objective of the American liberal politician is to **MANAGE UNIFORMITY AMONG THE COMMONERS** – I call it the “Kennedy Curve.” – Economics are incidental.*

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Think about the meaning of these words:

*There is something the progressives just don't understand – i.e., resisting tax increases **ISN'T** the same as delivering new tax cuts! ..... and balancing the budget is a crucial end in itself, **NOT** merely a means to lower tax rates* - Michael Medved (paraphrased) – PLEASE CLARIFY THOSE WORDS/CONCEPTS IN YOUR MIND!

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### **What Are the Facts?**

- Obama proposed a \$3.8 trillion budget leading to the largest deficit in U.S. history – estimated at \$1.6 trillion. He's in trouble – **and it gets worse** “As Time Goes By.”
- Nearly half of U.S. taxpayers pay no federal taxes at all – and Obama wants to keep it that way!
- Those “hated” “top 5% of earners” pay almost 60% of taxes collected – the highest in the western world.
- And the demonized “top 50% of earners” account for almost all federal taxes collected.

..... and whether you like it or not:

- Bush isn't the culprit, and reversing certain of his tax policies won't improve the deficit problem (changing his spending pattern is another matter). In the years after the tax rate reductions, revenues were above the average for the “pre rate reduction” period.
- After the Bush rate reductions, even a greater proportion of the total tax collections came from the (hated) “rich.”
- Capital gains tax collections increased considerably, even after those rates had been dramatically reduced.
- Obama believes we can solve our problems simply by taxing high earners more. But there's not enough money there, and a big tax increase on high and middle earners almost guarantees that our current sluggish economy will become the norm.

The bottom line is that historical statistics demonstrate that “**pro-growth tax cuts support incentives for productive behavior**”!! Whether we like it or not!!

*As the national income grows, the federal government will ultimately end up with more revenues. Prosperity is the real way to balance our budget. By lowering tax rates, by increasing jobs and income, we can expand tax revenues and finally bring our budget into balance.* - President John F. Kennedy (1917-1963)

### **Some Things Just Don't Add Up!**

Solve the deficit/debt issue by looking to the rich? I wish it were that simple. Apply simple arithmetic! The Wall Street Journal suggested that if the feds confiscated every dollar earned by those reporting more than \$1 million taxable income in 2008, it would not have raised enough additional revenue needed to close the current budget deficit! And if you were to confiscate ALL the assets of the top few hundred “wealthy” (ultra-rich) individuals, it would only be enough to eliminate a small fraction of the national debt. Whether you like it or not, **it just doesn't add up!**

Economist/educator Walter Williams presented a similar analysis: if Congress imposed a 100% tax, taking all earnings above \$250,000 per year, it would yield ..... \$1.4 trillion; if the government took 100% of the yearly profits of all the Fortune 500 companies, it would be only \$400 billion; if the federal government confiscated all the property of the country's 400 billionaires, it would yield only \$1.3 trillion dollars. And then they would be broke and our “investment community” would have lost much of its base. **It just doesn't add up!**

Suppose, just suppose ..... Washington billed the taxpayers for all that is spent – kind of a “pay-as-you-go” system. Let's use 2010 as an example. That year, \$2.2 trillion tax receipts were taken in (Remember that our national debt is about \$14 trillion). If that, only about \$900 billion came from income tax. But the Government spent around \$3.5 trillion – or a shortfall of \$1.3 trillion. OK, so we all get billed, and this translates to a HUGE increase in our income taxes! Since income tax revenues are presumed (by liberals) to be perfectly flexible, those paying them would bear at least a 50% increase in our payments. That increase is for ALL income tax payers - **not just the richest**. And remember, approximately 50% of our citizens don't pay any federal income taxes. **It just doesn't add up!**

Meanwhile, the entitlement programs that consume the bulk of our spending – Social Security, Medicare, and Medicaid – remain virtually untouched! And the administration's future budget proposals make it even worse! – a \$4 trillion proposal for 2012 – **IT JUST DOESN'T ADD UP!**

### **If I Were Really Wicked ...**

If I were not so benevolent I would remind you that these “do gooder progressives/give away other peoples' money liberals” should first look to those close to President Obama for some **symbolic** tax revenue. Treasury Secretary Geithner became prominent when appointed while

dealing with delinquent taxes arising from not paying Social Security and Medicare taxes, and taking improper write-offs. He claimed ignorance! Uh! ... He is now in charge of the IRS.

And Labor Secretary Solis had overdue property tax LIENS that went back 16 years. Go figur'!

Remember cabinet nominee Tom Daschle? He withdrew from the nomination process when it became public knowledge that he was being pursued for past unpaid taxes. And there were more. Look back at some of my reports from early 2009.

BUT I'm not even going to bring up those incidents – out of an intuitive sense of fair play! If I were to discuss any of those things, one might conclude that there is hypocrisy goin' on!

### **How About the Super Rich?**

Notwithstanding the dominance of taxes paid by the upper income levels, it is regrettable (to me) that the “ultra rich” – i.e. the top few hundred taxpayers – have recently had a surprisingly low tax rate. There are reasons for this, not the least of which is that the “rich” move their investments from “growth” opportunities to tax favored alternatives – voila! – lower taxes for them with no real reduction in wealth. They “ain't” stupid – they don't sit around waiting for their dollars to be confiscated. They pursue other options.

Nevertheless, I favor dealing with this issue as a philosophical and practical matter. I wouldn't have higher rates compared with the current system. In fact the highest rates probably would be lower. However, this would be a comprehensive reform of the way we currently do things. Taxes would be more fair for all, and the **potential for increasing revenue would be very real!**

Doesn't it make sense to **repair/reform/replace/rethink the tax code?!**

### **Capital Gains Taxes**

The federal government futilely attempts to promote growth by politically correct “green” investments, mandates, and general redistribution and departure from free market choices. It is a historically proven fact that permanent growth is achieved through private capital investment in ideas and opportunities. And our capital gains tax is on the success of those ventures.

Make a buck? Great! Pay a reasonable level of taxes. That's fine. But don't give investors the incentive to remove earning assets/capital from investments in growth opportunities. For this reason, I encourage continuing a policy of having the capital gains rates at least marginally lower than the tax on other income. If we tax capital gains at high rates we lose in two ways: 1) “rich” investors choose NOT to invest in growth ventures which provide jobs and potentially grand earnings levels; and 2) For those investments they now hold, they make decisions NOT to sell, and no gains taxes are collected. Voila! Fewer taxes collected – because rates have increased.

Remember the debate during the run-up to the 2008 Presidential election? ABC's Charlie Gibson reiterated the well established fact that Bush's "capital gains tax rate reductions" actually was followed by an increase in revenue from that such gains. Then he asked the candidate, how he could be in favor of a rate increase, given that this is the proven historic experience? Obama responded that it was just out of a matter of "fairness." **Hmmmmmm?** But ..... such a rate increase would REDUCE revenue from capital gains! **He's got it "back-asswards."**

So, under my plan, we would have "regular earnings" and "investment earnings" – I'll leave it to others to provide the appropriate distinction between the two.

### **TAKE MY TAX SYSTEM ..... PLEASE!**

#### **– Expand the Base – Move Toward a Flat Tax - Increase Collections**

Obama arbitrarily chose incomes of \$250,000 to be that level at which punitive levels of taxes should "kick in." I guess that was just a convenient level because earnings above that level include only a few percent of U.S. taxpayers. So it was politically safe/correct!

Let's just set aside the arguments about what should be done with the current system of taxation – raise rate vs. lower rates; or favor some (the "winners") and penalize others (the "losers" – i.e. the "rich," oil companies, and most traditional businesses in general). **We should start by talking about a totally different structure** – one with inherently less tendency to promote class warfare; one that assures that all pay their fair share; one with the ability to raise revenue adequate to contribute to a solution for our deficit and national debt problems.

**Philosophically**, I think the tax system should be reformed to be similar to a flat tax/graduated flat tax system – i.e. everyone pays something, but with moderately progressive tax rates – and only 3 or 4 graduated rate levels. As a **practical** matter, the tax system would exist almost exclusively to collect revenue. We should quit trying to accomplish social reform, cram down agendas, give political reward, and coerce individuals and companies with tax policies.

THERE WOULDN'T BE WINNERS (POLITICAL AND PHILOSOPHICAL ALLIES) AND LOSERS (POLITICAL AND PHILOSOPHICAL ENEMIES). ALL ABOVE A CERTAIN LEVEL OF INCOME, E.G. THE POVERTY LEVEL, WOULD PAY SOMETHING – PERHAPS NOT MUCH AT THE VERY LOWEST END. AND VIRTUALLY ALL EXEMPTIONS AND DEDUCTIONS WOULD BE ELIMINATED. ALL WOULD PAY THEIR FAIR SHARE! THAT'S CALLED "EXPANDIN' THE BASE"!

### **Then What Will Congress Fight About?**

They would concentrate only on spending – pure and simple! There would be no "convoluted, nuance-filled, agenda laden "benefits" provided through the tax system – it would be there JUST for raising revenue. Benefits would be dealt with on the "spending side." If Congress wants a certain segment to receive favorable advantage, it would be clearly provided for in the spending budget. And they would have to write a check for it – makes sense to me. **Think about it!**