



CONGRESSMAN'S REPORT

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Taxes and Spending - - The Big Issues of 1963

Both the United States Congress and the Arizona Legislature are now in session. In Washington, as in Phoenix, the overriding issue of 1963 is TAXES. Should federal taxes be increased? Can they be reduced? What part do they play in the economy? Will tax reform and its accompanying deficit revive a sluggish economy? These and many other questions will be asked, and answers sought, in coming months.

My mailbag indicates that taxpayers are increasingly interested in these two points:

- (1) They're opposed to waste, and to spending for things which aren't really necessary or important.
- (2) They want the tax burden to be spread fairly and equitably among all citizens.

Since the present-day burden of taxes is so heavy, the burden of proof lies heavily on those who advocate programs involving additional government spending. People have to be convinced that any new expenditure---whether it be for street lights in their own block or for an interstate highway system---is important to their welfare and worth the money.

A TIME FOR DISCUSSION AND DEBATE

This is going to be a year of important tax decisions. President Kennedy has asked Congress for a reduction in income tax rates and for some far-reaching, basic reforms in our tax system. This spring the Members of Congress and the tax-writing committees will study the virtues and defects of our present hodge-podge system and consider the merits of many proposed changes. Out of all the oratory, partisan exchanges and committee hearings will come from the House Ways and Means Committee--perhaps by late summer--some kind of tax reform bill. It is too early to predict its general outline. Thousands of man-hours of work lie ahead for those directly concerned with this enormous undertaking.

When the tax bill finally comes to a vote, under the peculiar rules which govern the House, other Congressmen and I will not be permitted to amend it. In all probability, the Rules Committee will report the bill out under a "closed rule" permitting no amendments, and we will have to vote on a "take it or leave it" basis. Of course, this is somewhat frustrating to those of us who are not on the tax-writing committee, for each of us has his own ideas about proper composition of the

"tax package". However, I intend to discuss my ideas with all who will listen, and I hope my constituents will join in the debate.

During coming weeks, I plan to explore, in this series of newsletters, various aspects of taxation and government spending. I invite your comments as we go along.

SOURCES OF FEDERAL TAXES

Let's start with some fundamentals and background. In Fiscal 1962 the federal government raised \$81.4 billion in taxes from these four sources:

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| Individual income taxes | \$45.6 billion |
| Corporation income taxes | 20.5 billion |
| Excise taxes | 9.6 billion |
| Tariffs and other receipts | 5.7 billion |
| <hr/> | |
| | \$81.4 billion |

A JUNGLE OF TAX LAWS

The income tax first reared its head during the Lincoln Administration, when Civil War demands required huge federal revenue. Those first rates were 3 to 5 percent. In 1929 the beginning rate was three-eighths of 1 percent, and the top rate was just under 24 percent. With substantial exemptions in force, less than 10 percent of our population paid federal income taxes prior to World War II. Today, approximately 70 percent of our people file federal returns.

Our complex tax structure of today is largely a product of World War II when the basic rates were sharply increased to finance a global war. Two aspects of this structure stand out:

- (1) High individual tax rates tend to discourage investment, penalize individual initiative, and constitute a heavy brake on economic growth.
- (2) The jungle of tax laws and regulations (929 pages of tax code plus several volumes of Internal Revenue Service regulations) is a fantastic tangle of exceptions and special preferences which give some taxpayers decided advantage over others.

FOUR TAXPAYERS AND \$7,000

Let us compare four hypothetical Arizona taxpayers to see how these laws work. Each has \$7,000 in income during the year. Each has a wife and 2 children. But see what happens:

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| TAXPAYER "A" in Bisbee earns his \$7,000 from wages. He pays federal income tax of | \$780.00 |
| TAXPAYER "B" in Tucson receives his \$7,000 from dividends. He pays | 609.60 |
| TAXPAYER "C" in Yuma receives \$7, 000 from sale of securities with long-term capital gains. He pays | 155.00 |
| TAXPAYER "D" in Coolidge receives \$7, 000 from interest on municipal bonds. He pays | NOTHING |

THE \$228 BILLION THAT 'GETS AWAY'

The widely different treatment of these four taxpayers helps explain why the federal income "tax base" is relatively small, and why tax rates are so high. Last year, Americans had \$410 billion in various kinds of personal income. The government collected \$45.6 billion in personal income taxes. Thus, if all income were taxed, an average tax rate of 11 percent would do the job. Yet the very lowest rate is 20 percent, and the highest is 91 percent.

Why should this be so? The answer is that 56 percent of the \$410 billion---\$228 billion---isn't taxed at all! We have so many special deductions and exemptions that only \$182 billion of the \$410 billion pays taxes. The rest is exempt. Here is the arithmetic:

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| TOTAL PERSONAL INCOME | \$410 billion |
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| Less income exempt from taxation as follows: | |
| * Each taxpayer and his dependents receive a \$600 exemption. Those blind or over 65 get another \$600 exemption. These exclude from the tax base | \$105.5 billion |
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| * Donations to charity are exempt, as is interest paid. These items reduce the tax base by | 40.1 billion |
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| * Income which "disappears" (i.e., simply is not reported) takes | 25.8 billion |
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| * Reduced rates for capital gains diminish the tax base by | 8.4 billion |

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| * Transfer of capital gains rates to recipients of gifts and bequests reduces the tax base another | 5.0 billion |
| * Miscellaneous other exemptions slice away | 1.6 billion |
| TOTAL OF EXEMPT INCOME | \$228.0 billion |
| REMAINING TAXABLE INCOME | \$182 billion |

THE PHILOSOPHY OF EXEMPTIONS

I would not contend that all of these special allowances are wrong, or that all of them should be repealed. Each one was granted by Congress for social, economic or humanitarian reasons. The person entitled to one of these exemptions sees his benefit as a "just, fair tax concession"; to another it may be a "loophole"--prompting someone to remark that "one man's loophole is another man's equity."

I point out these exemptions and the different treatment accorded different taxpayers with the same income because their existence is one of the basic little-understood facts about our tax system. Taken separately, each can be justified; taken together they are an immense total which explains why tax rates are so high.

It seems the very nature of things that one exemption leads to another. One can't really argue that blind people aren't entitled to the additional \$600 exemption given by Congress. But is this the only handicap entitled to special consideration? What about the man who has lost both legs? Or the man who is totally crippled with arthritis? And if Congress should grant these additional exemptions, shouldn't a person 50% disabled get a \$300 exemption? I think as a nation we can and should be humanitarian, but we must face the fact that nearly every preference granted one group leads to demands for others.

Thus, each year dozens of bills propose more exemptions and deductions. Examined individually, these proposals may seem fair and sensible. In 1963, for example, bills before Congress propose that we:

- * Increase personal exemptions from \$600 to \$1,000, thus helping taxpayers with low incomes and big families.
- * Give a deduction for expenses of college education, thus assisting parents to provide their children with a college education.

Yet, each concession--if granted--would further erode the already limited tax base, and would indirectly increase the load of those taxpayers not included.

OTHER ASPECTS WILL BE DISCUSSED

These are just a few of the basic facts about our tax laws. In subsequent reports I shall try to outline the Kennedy tax-cut proposals; comment on the many demands that federal expenditures be sharply reduced to offset the deficits which will surely result from tax reduction; discuss the implications of federal deficits; and outline various "loophole" closing proposals. At the end of the series, I hope to make some constructive suggestions of my own. I hope to hear from you along the way.