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Who Pays Taxes?

Bruce Boccardy

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A mountain of literature documents the unfairness in our tax system. Laws in the majority of states are rife with dodges that permit large corporations to avoid paying tax on a significant share of their profits. These dodges include depreciation rules, exemptions, deductions, credits, tax sheltering, accelerated depreciation allowances, special tax provisions for particular business sectors, debt finance, and tax planning.

In 2008 the Government Accountability Office reported that about two-thirds of corporations, including the vast majority of foreign companies operating here, legally paid no income taxes. "Less government" translates to "protecting corporate interests" or "corporate welfare."

The Treasury Department estimates that various corporate tax breaks will cost the federal government more than $1.2 trillion between 2008 and 2017.

"Local governments have seen their budgets under enormous strain because of the recession and, in some cases, unwise 'anti-tax' policies that have benefited the wealthy," says Marty Wolfson, director of the Notre Dame labor studies program and former economist with the Federal Reserve Board.

RICH PAY SMALLER PERCENTAGE

The Institute on Taxation and Economic Policy found that that the wealthiest 1 percent of Massachusetts residents paid only 4.8 percent of their income in taxes, while 80 percent of middle-and low-income residents paid more than 10 percent of their income. In other words, the burden of financing public services rested primarily on those who could least afford it.

A second component of tax unfairness is that public services are funded largely by the personal income tax. Some defend the top 1 percent of Americans, who pay about a third of all income taxes. But this does not tell the whole story.

Consider tax shelters. Taxpayers in the top 1 percent receive much of their income not from wages but from investments. Capital gains are taxed at a much lower marginal rate. The tax rules on corporate, capital gains, dividend, estate, and interest taxes primarily benefit the economic elites, not working people.

Working people pay taxes on a bigger share of their earnings than the rich. They're hit more by Social Security taxes, excise levies, and tariffs.

Payroll taxes also unfairly gouge middle- and low-income folks. The employer's share of the Social Security tax is actually a levy on wages, since employers reduce wages to compensate for that tax. And when property taxes and fuel taxes are included in the equation, it is clear that our tax system is painfully unfair to middle- and low-income people.

Main Office: 7435 Michigan Ave Detroit, MI 48210; (313) 842-6262. **East Coast Office:** 104 Montgomery St., Brooklyn, NY 11225; (718) 284-4144.

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