

Guest Column (7/16/09)



Taxes and the wisdom of our forebears

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BY BRIAN MILLER

One hundred years ago, on July 17, 1909, Sen. William E. Borah, R-Idaho wrote the words, “The income tax is the fairest and most equitable of the taxes. It is the one tax which approaches us in the hour of prosperity and departs in the hour of adversity. Certainly, it will be conceded by all that the great expense of government is in the protection of property and wealth. There is no possible argument founded in law or in morals why these protected interests should not bear their proportionate burden of government.”

Within two years of Borah’s pronouncement, Wisconsin enacted the first state income tax. Several other states followed suit as a wave of Progressive Era reforms led many states to replace their ailing property taxes with more progressive and effective income taxes.

By contrast, the first functional sales tax was enacted in Mississippi during the dark days of its segregationist history, in 1932, in part as an effort to shift taxes off of the wealthy and politically powerful landowners and onto the backs of African-Americans and poor whites. Several states followed, and while their reasoning may have been less offensive, it’s clear that legislators have known since the very beginning exactly who is most impacted by the sales tax.

As states across the country grapple with budget shortfalls this year, choices are again being made that will affect families everywhere. States including Hawaii, New Jersey, New York, Oregon and Wisconsin are taking the more progressive path and opting for the addition of new tax rates at the top of their states’ income tax structures. Over the coming months and into early 2010, states will continue to debate these two paths as they struggle to meet their respective shortfalls.

The choice should be clear. Unlike the income tax, so eloquently described by Sen. Borah, the sales tax falls like a hammer on families precisely during their hour of greatest adversity. That’s because it’s based on how much we spend, not how much we earn.

There are many situations where someone can spend more than they earn for months or even years: Someone who takes an extended time off work to take care of an ailing parent; college students trying to focus on studies as they live off student loans; a family struggling for months after a plant closing; an entrepreneur in the first critical years of a new business venture; and a family that chooses to live on just one income during their new child’s formative years. In all these family realities, as spending outpaces income, the sales tax has its greatest adverse impact. In more streetwise language, the sales tax gleefully kicks you when you’re down.

Meanwhile, there are those at the top of the income scale whose millions are scarcely touched by the sales tax. Much of their income is used to acquire more wealth with the purchase of stocks, bonds and real estate investments. Unlike the “purchases” most of us make every day, these “purchases” are sales-tax free, allowing their wealth to snowball. Even their attorney fees and landscaping services are generally free of the sales tax.

According to a report by the Institute on Taxation and Economic Policy, “The average state’s consumption tax structure (sales and excise) is equivalent to an income tax with a 7 percent rate for the poor, a 4.8 percent rate for the middle class, and a 1 percent rate for the wealthiest taxpayers. Obviously, no one would intentionally design an income tax that looks like this — yet by relying on consumption taxes as a revenue source, this is effectively the policy choice lawmakers nationwide have made.”

And so, under a sales tax, income at the top that more often finds its way into speculation or idle savings remains virtually untouched, while the income of the far-less-wealthy, which moves swiftly and consistently back into our local, state and national economies at a time when we need it most, is taxed at the highest possible level.

If our elected officials are serious about strengthening the middle class and fostering a more broadly shared prosperity, let them take a moment to consider the wisdom of our forebears. Great truths, like the words of Sen. Borah, stand the test of time and can help us make wise and just decisions when facing the challenges of today.

Brian Miller is the executive director of Tennesseans for Fair Taxation. In mid-August, he will become the new executive director for United for a Fair Economy, a national organization based in Boston that works to foster a more broadly shared prosperity.

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