

Questions and Answers on Federal Income Taxes



Q. The Federal income tax forms are confusing and complex - what are we getting for our money?

A. First, a far larger share of our tax revenue - more than half - goes to the military than any comparable country. Our military budget now exceeds the defense expenditure of all other nations *combined*. Second, because of our reliance on the private market for provision of health care, another large portion of our tax revenue - almost 8% of GDP - goes into health. Eliminating weapons programs we no longer need and reducing our more than 700 foreign military bases would yield \$200-300 billion in yearly revenues - restoring 1/7th to 1/5th of our projected \$1.4 trillion deficit.

Q. Are U.S. income taxes the highest in the world?

A. No. In Germany, France, the UK, Spain and Scandinavia people pay higher income taxes. However, in return they receive health care, child care and education including higher education, all at little or no out of pocket cost.

Q. How can they afford to pay those higher taxes?

A. Imagine you did not have to pay insurance premiums, deductibles and co-pays, day care fees, student loans, because your taxes took care of them. In the U.S. you have to pay for these things (or suffer serious consequences) even if they aren't called taxes.

Q. Politicians have been saying for years that they are cutting taxes. How come my taxes never seem to go down?

A. Actually taxes have declined; we now have the lowest income tax rate since 1950. However, the bulk of this decline has been taxes on the highest incomes. Between 1947 and 1980 the highest marginal tax rate, the rate applied to income above a set level ranged between 70% and 90%. Those top rates have come down to 35%, which is your top rate if you make \$373,650 or more. In contrast, the lowest federal income tax rate fell from 14% to 10%. Thus most of the benefits of the tax cuts during the past 30 years have gone to a small portion of the population that receives a very large share of total income.

Q. Would it help to raise taxes on the rich?

A. Restoring corporate and income tax rates to those of 50 years ago for households making over \$200,000 would generate an additional \$384 billion in revenue. If corporate taxes were also restored to their 1961 levels, they would generate a further additional \$485 billion in revenue. Added to the savings from reducing military spending, we would come close to balancing the federal budget.

Q. OK, so military spending cuts plus higher income taxes on the rich could plug most of the budget gap, but don't we have a long term debt problem?

A. Both our annual deficit and our need to borrow (the debt problem) will shrink as the economy recovers, job growth resumes and personal incomes rise, provided we don't stop the stimulus too soon. Unfortunately, for a combination of right wing ideology and a misplaced concern about inflation, the President and Congress seem to be doing just that —stopping the stimulus too soon. This risks cutting off what is already a very weak economic recovery and pushing us back into recession.

Q. Won't any additional Federal income taxes we collect now or savings from spending cuts just get eaten up paying for Social Security for the Baby Boomers?

A. Income taxes do not pay for Social Security; this program is financed by the Social Security payroll tax (FICA). Right now people only pay Social Security payroll taxes on the first \$106,800 of their earned income. A simple and just reform in the financing of Social Security — removing this cap on income subject to the Social Security tax — would secure benefits for projected recipients into the foreseeable future.

Q. There is no such cap on the Medicare tax, but I hear that growth in Medicare and Medicaid are the really big problems. How do we deal that?

A. Indeed, Medicare and Medicaid costs keep increasing. Taxes won't fix this one. We have to stop giving money away to insurance companies that spend on administrative overhead up 30% of the health money we pay them. In contrast, administrative costs for Medicare are only about 3%.

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