

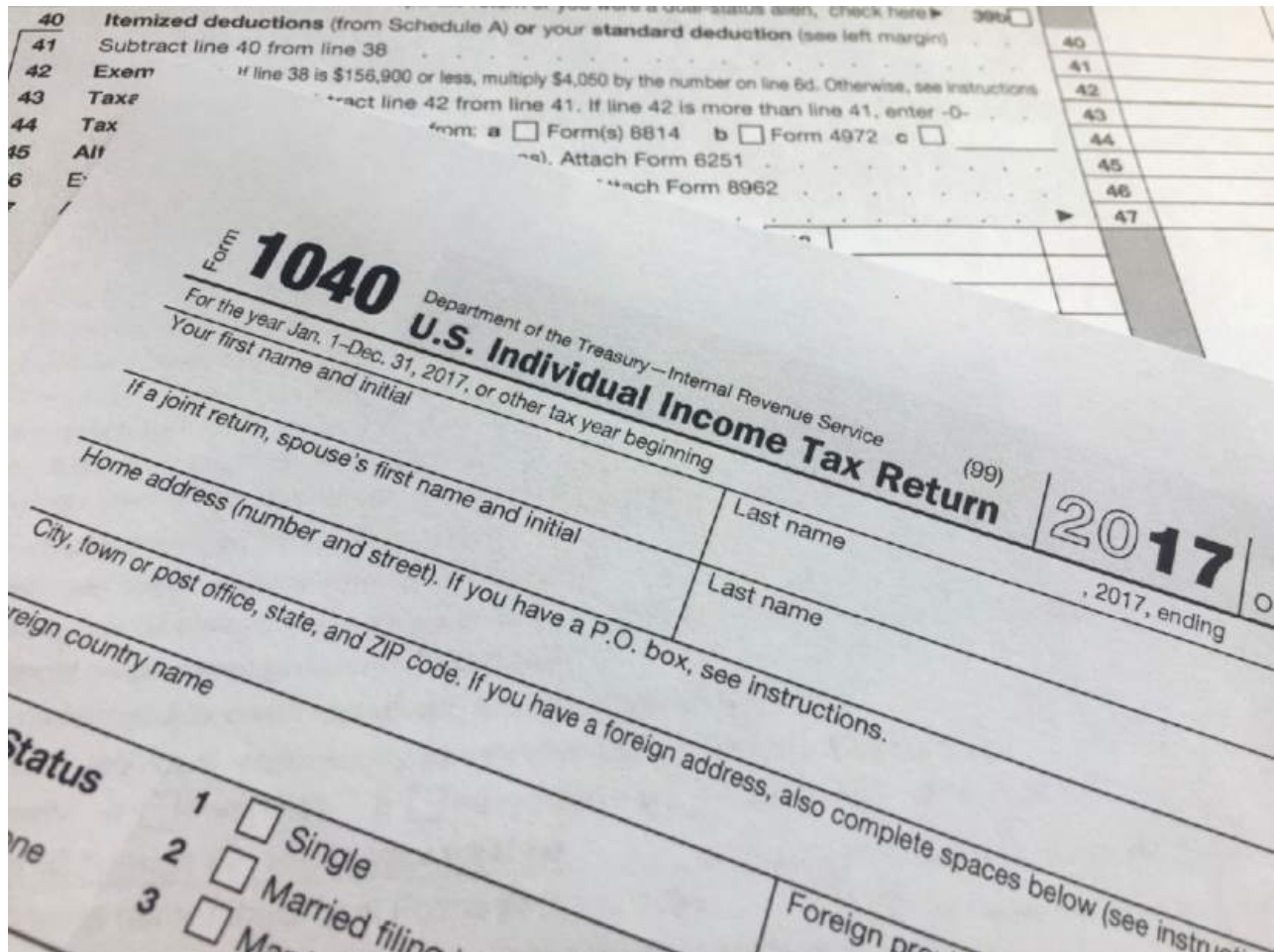


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Antony Davies & James R. Harrigan: How politicians use the federal income tax

ANTONY DAVIES & JAMES R. HARRIGAN | Saturday, April 14, 2018, 9:00 p.m.



An IRS 1040 form, U.S. Individual Income Tax Return. (AP Photo | Jenny Kane)

To most Americans, mid-April is the least wonderful time of the year because, per the Tax Foundation, we spend around \$40 billion (<https://taxfoundation.org/cost-tax-compliance/>) annually preparing and filing income taxes. To make matters worse, the government already knows almost all the numbers we report. When we file taxes, we're not so much giving the IRS information as providing free secretarial labor.

It wasn't always so. Prior to 1913, a federal income tax was unconstitutional. The 16th Amendment changed that. Not surprisingly, politicians told voters all sorts of lies to gain their support for it. Rep. William Sulzer of New York (<http://history.house.gov/People/Detail?id=22455>) said a federal income tax would make it "possible for the Government to ... make idle wealth pay its just share" Politicians assured Americans the new income tax would only apply to the rich. And so it did, initially. Within four short years, though, politicians discovered how much more money they could rake in if they taxed the poor and middle class too.

In 1913, the federal income tax was 1 percent, and applied only to people earning more than what today would be \$73,000. By 1917, Congress had doubled the bottom tax rate and extended it to people earning as little (in today's terms) as \$18,000.

Then the funny business started. Prior to the income tax, the federal government could only impose excise taxes and tariffs. These applied only to buyers of certain goods, and were thus avoidable. The new income tax could be applied to broad swaths of the population, and there was little people could do to avoid it. It didn't take politicians long to figure out that they could use the income tax to transfer large amounts of income from one group of voters to another. This newfound tool greatly magnified politicians' ability to hand out special favors. The income tax did for political patronage what Henry Ford's assembly line did for automobile production.

Now, a little over 100 years since the income tax was implemented, it has become the engine for the largest transfer of wealth in history. According to the Congressional Budget Office (<https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51361-householdincomefedtaxesonecol.pdf>), in the last year for which it provides data, the average household among the poorest 20 percent of Americans paid \$800 in federal taxes but received \$9,600 in transfers, for an effective net federal income tax rate of negative 56 percent. Even the average middle-class household received more in government transfers, \$16,700, than the \$8,900 it paid in federal taxes. On average, only the top 40 percent of households paid more to the federal government than they received from it. By contrast, the average household in the top 1 percent paid 34 percent of its income to the federal government.

Politicians who talk about forcing the rich to pay "their fair share" conveniently leave "fair" undefined. And that allows them to keep using the income tax to buy some people's votes with other people's money. The income tax has become a plaything for politicians, and their favorite game is buying votes. The reality is that most Americans do not actually pay federal taxes at all. They just fill out a lot of forms every April.

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