

## Do the well-off really not pay their fair share of taxes?

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Donning an expensive “Tax the Rich” gown at the \$35,000 per-ticket Met Gala, Rep. Alexandria Ocasio-Cortez’s (D-N.Y.) publicity-seeking, hypocritical stunt serves as a metaphor for the disdain many populists on the left and right seem to hold towards the well-off.

Democrats’ sense of injustice about the American economic system dates back at least to the times of William Jennings Bryan and Woodrow Wilson. But the global financial crisis of 2007-2008 and the political ascendance of Donald Trump produced growing animosity towards the structure and operation of our economy, especially regarding tax policy.

Progressives often assert that wealthy individuals and corporations do not pay their fair share in taxes and therefore that tax rates on these upper-income people and companies should be increased.

But is it true that the rich and big companies do not pay their fair share?

A recent Internal Revenue Service (IRS) survey found that 95 percent of Americans believe it is everyone's civic duty to pay their fair share of taxes. They also believe the current system is unfair, largely benefitting big business and rich people. But the truth is American business pays 93 percent of the nation's taxes, and the top 1 percent pay over one-third of income taxes.

In actuality, corporate taxes are paid by shareholders, workers and consumers, with a substantial share passed on through retail prices or lower wages. As economist Scott Lincicome points out, this can result in lower investment and economic growth, thus reducing wages and living standards, less innovation and lower productivity. An OECD study of major taxes and their impact on economic growth and real wages found that corporate taxes were the most harmful.

But what about tax loopholes and the fact that many big companies do not pay corporate federal taxes? The truth is that the current tax code allows carryforward losses, tax credits for investments in research and development (R&D), investment in equipment and machinery and stock-based employee compensation. These constitute tax avoidance — not tax evasion.

Rarely do people complain about tax loopholes they enjoy — for instance, deductions for business expenses, medical expenses, charity, child tax credit, mortgage interest and refundable tax credits. All have broad support. Let's remember too that most interest paid on state and local government bonds is tax-exempt — a boon to cash-strapped governments in those jurisdictions.

If the House Ways and Means Committee has its way, combined federal and state corporate tax rates would be close to 31 percent, making the U.S. the third-highest among OECD countries. For individuals, House Democrats propose a top tax rate of 39.6 percent, up from 37 percent.

But if instituted, does anyone think the federal government will spend the money captured from tax increases to pay down the national debt or boost the nation's economic competitiveness? One need only examine the unbroken record of waste, fraud and abuse, including billions spent on federal subsidies, especially in farm bills.

Citizens Against Government Waste annually produces a hall-of-shame compendium of wasteful federal spending. To date the U.S. House has posted online more than 3,300 earmarks by 324 members of Congress of both parties.

Examples from previous years include Hookers for Jesus (\$531,000), space alien detection (\$7 million) and a social media campaign against tanning beds (\$3.3 million). But the worst example of waste and mismanagement is the F-35 Joint Strike Fighter, expected to cost \$1.5 trillion over its lifespan and plagued to date with a dozen serious flaws and 900 software defects.

As for subsidies, the subsidization of domestic sugar is the most egregious example. Although fewer than 4,500 farm businesses produce sugar, they cost taxpayers \$4 billion in subsidies. Average U.S. sugar prices are double the world price — all to the detriment of the U.S. consumer and further impoverishing poor sugar-producing countries in developing nations (not to mention the downstream pollution produced by the industry).

Robin Hood's motto was, "Rob the rich and give to the poor." The motto of many American populists seems to be, "rob the rich and squander it."

The American tax system is inarguably flawed. But the first step in reforming it is to understand who's really paying their fair share and how much of the tax revenue is being wasted.

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