

...the U.S. “deserve[s]  
to have a tax system  
which looks like  
someone designed  
it on purpose.”

*FORMER TREASURY SECRETARY  
WILLIAM E. SIMON*

TICT 0014915

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**N**o one seems to dispute the fact that the federal tax system is too complicated, too cumbersome, and too unfair.

But the question remains: What can be done to create a tax system which provides adequate revenue in an uncomplicated, equitable manner?

In an effort to examine the issue, the United States Treasury Department recently sponsored a series of public hearings in seven American cities.

Across the country, throughout June 1984,

individuals and organizations were given a chance to present their ideas on tax reform. Public officials, business representatives, tax attorneys, economists, academicians, consumer advocates, and private citizens, among others, came to express their views.

Each had special concerns. Each had unique approaches to reform or simplification. Some represented liberal perspectives, others had more conservative views.

But certain subjects were raised time and again.

One of these was excise taxes.

Some economists opposed excises because they are regressive and unfair. Others spoke of their hidden nature. And others said they are an inefficient way to raise revenue.

*The Committee on Taxation and Economic Growth* opposes excise taxes and believes government should seek other ways to raise revenue. The following excerpts, taken from public testimony before the U.S. Treasury Department, present some of the strongest arguments against excises.

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HAROLD HOCHMAN

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*Professor of Economics  
Baruch College  
City University of New York  
New York  
June 25*



"... The best way to reform and simplify these levies is to abolish them ...

... fundamental tax reform and simplification should include elimination of federal excise taxes. Although some of these taxes are imposed on goods that one may think of as luxuries consumed by the well-to-do ... many are levied on products purchased at proportionately higher rates by individuals at the lower end of the income distribution. For

goods falling in this latter category ... the burden falls most heavily on those least able to pay. Moreover, excise taxes, wherever levied, misallocate resources; they cost the economy production and jobs ...

... Indeed, some have estimated that the degree of regressivity in the excise tax system is enough to offset whatever progressivity remains in the income tax, making federal taxes roughly proportional overall ..."

THOMAS E. BORCHERDING

*Professor of Economics  
Claremont College  
Los Angeles  
June 12*



"... excise taxes, wherever levied, misallocate resources; they cost the economy production and jobs.

... everyone knows that placing an excise tax on a good raises its price, but in spite of the widespread belief that the tax is

'passed on' to the consumer, it is more generally the case that part of the tax is paid by the producer...

Regardless of how the tax burden is shared (by the producer and the consumer), the price of the taxed good rises and its sales decline. The welfare of both consumers and producers is reduced, and part of this welfare loss is transferred to the government in the form of tax revenues.

This transfer comes with a price tag, however, since there is also a deadweight cost associated with the tax. This part of the reduction in welfare goes to no one. The reason is simple: the tax-induced decline in sales forces producers to

cut back output, and they therefore lay off workers and economize on their purchases of other inputs used in the manufacturing process.

Resources are released from the industry and these are forced to find employment in other lines of work, producing goods that consumers place a lower value on than the units of the taxed commodity they have given up. The excise tax thus misallocates resources. Unlike the tax revenues, these deadweight losses are not merely transferred from the private sector to the government. Rather, they are a permanent cost to society as a whole."

ROBERT D. TOLLISON

*Professor of Economics  
George Mason University  
Washington, D.C.  
June 26*



“... Excise taxes ... drive a wedge between the price paid by the consumer and the price received by the seller. Consumers face higher prices and they economize on their purchases of the taxed good. As sales decline, producers cut back output, in the process laying off workers and reducing their expenditures on other inputs. Resources are released from the industry, and these are forced to

find employment elsewhere, producing goods that consumers place a lower value on than the units of the taxed commodity they have given up...

... The excise tax thus misallocates resources in the economy, imposing a deadweight cost on society. Unlike the revenues raised by the tax, these deadweight costs are not merely transferred from the private sector to the government. Rather, they represent a permanent reduction in society's welfare...”

FRED McCHESNEY

*Assistant Professor of Law  
Emory University  
Atlanta  
June 20*



"The widely held view is that many of the federal excise levies are simple nuisance taxes having no important impact on economic activity. On the contrary, in addition to the burden imposed on low-income consumers, excise taxes cost jobs. That is, excise levies not only raise the price paid by those purchasing the taxed good; they also lower the price received by the seller. This 'wedge' between price paid and price received

lowers the welfare of individuals on both sides of the market. A portion of the welfare loss is, of course, transferred to the public sector as tax revenues, but some of the welfare loss represents a deadweight cost to society...

... An additional problem with the federal excise tax system is that these levies are imposed on goods which are also subject to state and local excise and sales taxes. Many non-

federal jurisdictions rely quite heavily on the revenues they raise by taxing the consumption of goods such as alcohol and cigarettes. The effect of imposing federal levies on top of the state and local taxes is to further reduce sales of the taxed good..."

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**DOLORES MARTIN**

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*Professor of Economics  
University of Nebraska  
Minneapolis  
June 19*



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revenue-raising methods, they substantially distort the allocation of resources, and they can be an administrative nightmare...

... in my view we should ... be talking about reducing or eliminating the federal excise taxes on, for example, automobile tires and cigarettes..."

"... taxes of this sort currently levied in the United States—the federal excise taxes on tires, alcohol, beer, and cigarettes, for example—fall heaviest on those least able to pay. They reduce the economic welfare of both consumers and producers; they cause resources to be misallocated; they cost jobs...

... these taxes are the most regressive of all

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*Committee on Taxation  
and Economic Growth*

**Harold Hochman,**  
*City University of New York*

**Thomas E. Borcharding,**  
*Claremont College*

**Robert Tollison,**  
*George Mason University*

**Fred McChesney,**  
*Emory University*

**Dolores Martin,**  
*University of Nebraska*

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Consumer Excise Taxes:

A Heavy Hit

on Working Families

TICT 0014923

## A Free Ride for the Wealthy

Over the past decade, wealthy individuals and large corporations in America have received windfalls in tax breaks and giveaways.

For average working families, any tax breaks they received were more than offset by tax increases — increases that have overshadowed advancements in wages. As a result, working Americans have fallen further behind the wealthy. This massive shift in the tax burden from the rich to workers and their families is a national scandal.

The labor movement has traditionally fought for a fair, progressive tax system. Union members have always been willing to pay their fair share to fund services and programs provided by federal and state governments. But over the past decade, we have been carrying the load while wealthy Americans and large corporations have received a free ride.

Federal and state budget deficits are growing out of control, largely because of tax cuts given to the wealthy and to large corporations. So once again lawmakers at all levels of government are looking at new taxes. The decisions they make will have a huge impact on workers and their families. Our standard of living, quality of life and, for many union members, jobs are at stake.

## Excise Taxes Are Unfair to Workers and Their Families

One tax option that always receives attention from lawmakers is consumer excise taxes — taxes on everyday items like gasoline, beer and alcohol, cigarettes and other tobacco products, and telephone service. When lawmakers choose consumer excise taxes, it is another victory for the rich and for corporate America because excise taxes hit hardest at working families.

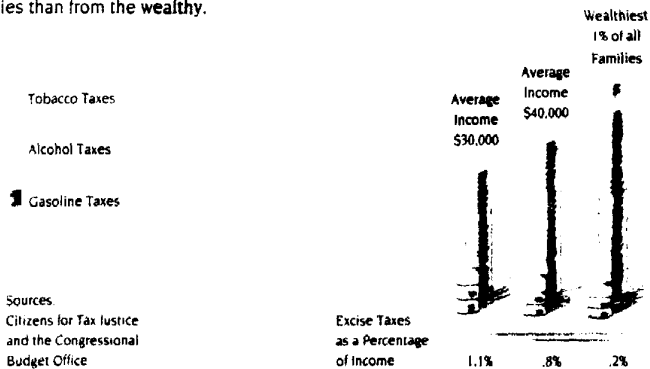
Consumer excise taxes are regressive and unfair because everyone pays the same rate, whether they earn \$30,000 a year or \$300,000 a year. Workers pay a greater share of their income in these consumption taxes than the wealthy. In fact, according to the Congressional Budget Office, consumer excise taxes are the most unfair form of taxation.

At first glance, the impact of consumer excise taxes is hard to see. They are “hidden taxes.” They chip away at family income — a few extra cents hidden in the price of a gallon of gas, a few more in the cost of a pack of cigarettes, a few in your next telephone call. The burden they impose on working families is not as obvious as other forms of taxation.

**TICT 0014924**



Consumer excise taxes take more from working families than from the wealthy.



You will not find consumer excise taxes listed on the receipts you carry away from the gas station or the grocery store. These taxes are hidden in the price of the products and services you buy. Unfair excise taxes hit you day in and day out — often without your even knowing it.

Some supporters of consumer excise taxes claim that such taxes are fair. They say spending in any one year reflects not only earnings in that year but also what a family might expect to earn over an entire lifetime. Thus, young families might spend more because they assume they will make more money in the future. This is called a "lifetime income" concept.

The "lifetime income" theory might be fitting for a law school graduate or medical student, but it doesn't make sense for most working Americans.

Some advocates of higher consumer excise taxes claim that excise taxes are fair because everyone — rich, middle income and poor — spends about the same amount. But what really matters is how much money remains after shopping is done, and the consumer excise taxes are paid.

The very rich have more money left over after paying excise taxes on gasoline, beer and cigarettes than working families who are struggling to make ends meet.

Some proponents of excise taxes also argue that the money from such taxes should be "earmarked" to pay for various government programs or services. However, services enjoyed by all should be paid for by all — rather than singling out consumers of select products. Government programs or services should be funded through fair taxes — with those who can afford to pay the most carrying the greatest share of the burden.

No matter how you cut it, consumer excise taxes are unfair and place too large a burden on working families.

### Multiple Threats to Working Families

Consumer excise taxes do not just strain working families' household budgets, they hurt workers in the companies that produce and use the taxed goods. A gasoline tax means higher costs for the transportation industry, threatening the jobs of workers in that industry. The same is true for workers in the telephone, beer and alcohol and tobacco industries, many of whom are union members.



Thus, consumer excise taxes not only hurt you as a consumer but they can hurt workers in many industries. It is a chain reaction: By raising the price of taxed goods, consumer excise taxes may cause consumers to buy less of those products. Sales go down. Production declines. Workers lose their jobs. Families suffer.

### Labor and a Fair Alternative to Consumer Excise Taxes

Because of the unfair burden consumer excise taxes place on workers and their families, the labor movement has consistently called on lawmakers to avoid excise tax increases.

According to the AFL-CIO, "If revenues are to be raised, let it be done by a fair and progressive income tax system. That means a dependence upon a fairer, more progressive income tax system rather than turning toward regressive excise taxes."

The labor movement will be in the lead of the fight for fair taxes. Working people have paid far more than their fair share of the tax burden over the past decade. The AFL-CIO says, "...those who benefitted most from the fiscal policies that created the deficit should be first in line to pay when the bill comes due."

To restore fairness to the tax system, the AFL-CIO supports a series of fair tax policy guidelines:

- Oppose new revenues obtained through regressive taxes on working families. Labor opposes increased reliance on sales taxes, consumer excise taxes or other taxes based on consumption rather than on the ability to pay.
- Raise new revenue by increasing income tax rates for the wealthiest in society and the largest corporations.
- Close tax loopholes for corporations and the wealthy.

The labor movement must take the fair tax message to their federal and state lawmakers. Individual union members must let their elected officials know that they oppose more tax giveaways for wealthy Americans and large corporations. It is time we demand a tax structure that provides relief to working men and women and makes everyone pay their fair share.



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**TICT 0014929**



Taxes:

A Labor

Perspective

TICT 0014930



## Why Workers Should Care About Unfair Taxes

Few issues have greater impact on working men and women and their families than the taxes they pay. Government decisions on tax policy directly affect standard of living, quality of life and, for many union members, jobs.

The labor movement has traditionally supported fair and progressive tax policy. Union members always have been willing to pay their fair share of taxes to fund vital services and programs provided by federal and state governments. All they have asked in return is that the wealthy and the large corporations pay their fair share as well.

Unfortunately, over the past decade working men and women have been asked to assume more and more of the tax burden, while wealthy Americans and corporations have received huge tax breaks. For most workers, their increased tax burden has not been matched by salary increases.

Mismanagement at HUD, waste and fraud at the Pentagon and the bailout of savings and loans throughout the country are legacies of government policies that made the rich richer and left working people with the bill. The savings and loan bailout alone is estimated to cost every man, woman and child at least \$2,000.

The financial squeeze on government that has resulted from tax giveaways of the past threatens the jobs of tens of thousands of workers in the public and private sectors.

The solution to these problems is *not* more tax breaks for the rich and tax increases for working families. It is time to restore fairness to the tax structure. Those who are not paying enough in taxes should contribute their fair share. Those who already bear an unfair burden should not carry any more of the load.

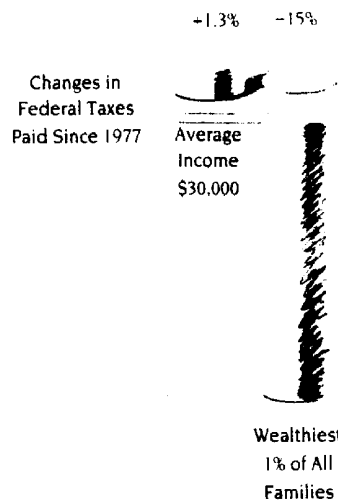
That is labor's position. According to the AFL-CIO, "...those who benefitted most from the fiscal policies that created the deficit should be first in line to pay when the bill comes due."

As federal and state governments look for ways to come to grips with the budget deficits created by the "party" the rich have enjoyed in past years, there is a lot at stake for working families and union members.

There are many different types of federal and state taxes — some treat working families fairly, others do not.



In 1990, families with an average income of \$30,000 paid **1.3 percent more** in federal taxes than they did in 1977. However, the wealthiest one percent of families paid **15 percent less**.



This brochure will provide union members with a better understanding of the options that are available to lawmakers as they look for ways to raise needed revenues.

When it comes time to determine who will foot the bill, labor unions *must* be at the forefront of the battle.

## Which Taxes Are Fair? Which Are Unfair?

Is it fair for a family making \$40,000 a year to pay a bigger share of its income in taxes than a family making \$200,000? No. Taxes should be based on ability to pay. Millionaires can afford to pay more of their income in taxes than families who fight to make ends meet.

Fair taxes are based on ability to pay. They are called *progressive* taxes. Taxes that take the same from the rich as they do from working families are called *regressive* taxes. They place more of a burden on middle- and lower-income people than on the rich.

## Personal Income Taxes

Personal income taxes could be the fairest tax of all, if they were structured progressively so the more you make, the more you pay.

Our tax system would be much fairer if federal and state governments relied on *progressive* personal income taxes rather than on *regressive* sales and consumer excise taxes.

Unfortunately, serious flaws in the federal tax system result in tax breaks for people at the top of the income scale. That helps them avoid paying their fair share.

In 1965 the personal income tax rate for the wealthiest Americans was 70 percent. In 1981 it was cut to 50 percent. Today it is down to 31 percent.

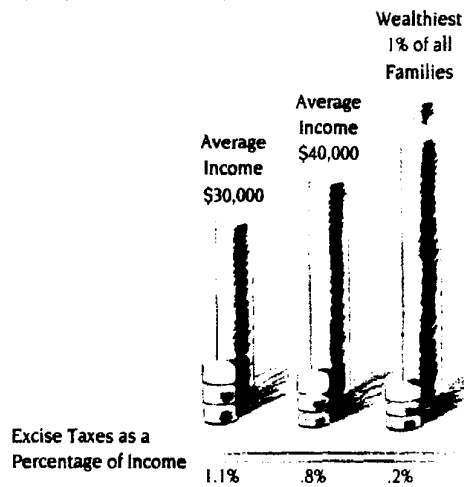
The federal government could raise billions of dollars in badly needed revenue by raising the top tax rate for the richest people in America. This also would ease the burden on working men and women.

Source:  
U.S. House of  
Representatives,  
Committee on  
Ways and Means



Consumer excise taxes take more from working families than from the wealthy.

- Tobacco Taxes
- Alcohol Taxes
- Gasoline Taxes



While the federal government relies on personal income taxes for nearly half its revenue, many states don't have personal income taxes at all. Some states have a flat income tax. That is regressive because it takes the same portion of everyone's income, regardless of how much they make.

In the interest of fairness, progressive taxes should be the main source of revenue for all levels of government.

## Consumer Excise Taxes

At the other end of the fairness scale are federal, state and local consumer excise taxes — the most unfair taxes in the United States.

Consumer excise taxes — taxes on items such as beer, cigarettes and other tobacco products, and gasoline — are levied at the same rate for everyone regardless of income or ability to pay. The more of these goods and services you buy, the more you pay in consumer excise taxes.

Consumer excise taxes put a larger burden on working families than on the rich. The reason: Working families have to spend more of their total income on basic goods and services than wealthy families.

Think of it this way: If you won the lottery tomorrow, you would not spend most of your winnings on gasoline. You would probably buy the same amount of gas you always bought, and you would have a lot of money left over. Working families have a lot less money left over after they have filled their gas tanks than do wealthy families.

Some proponents of excise taxes argue that the money from such taxes should be "earmarked" to pay for various government programs or services. However, services enjoyed by all should be paid for by all — rather than singling out consumers of select products. Government programs or services should be funded through fair taxes — with those who can afford to pay the most carrying the greatest share of the burden.

Sources:  
Citizens for  
Tax Justice and  
the Congressional  
Budget Office

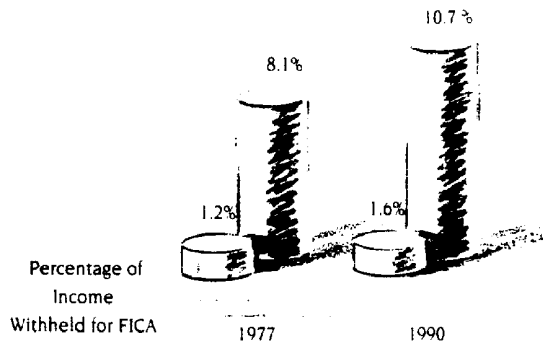


The amount of payroll taxes paid by working families has increased dramatically since 1977. Today, working families continue to pay more in payroll taxes than wealthy families.

■ Middle-Income Families  
 (Average Income in 1977\* - \$30,964  
 Average Income in 1990 - \$32,825)

Wealthiest 1% of American Families  
 (Average Income in 1977\* - \$294,874  
 Average Income in 1990 - \$548,969)

\* 1990 dollars



## Sales Taxes

The sales tax is the extra percentage the clerk rings up at the cash register. Sales taxes are the largest source of state revenue. It is not a high number in most states, but it adds up.

Sales taxes are unfair because everyone, no matter how rich or poor, pays the same rate. Those who spend the largest portion of their total income bear the heaviest burden from sales taxes.

To be fair, every state's overall tax system should work progressively. This means that states should avoid raising sales taxes and they should exempt necessities like food, utilities, prescription drugs and clothing.

## Payroll Taxes

Payroll taxes, also called Social Security taxes, are like personal income taxes because they come out of everyone's paycheck. To see the amount withheld, look in the space on your check stub labeled "FICA." After personal income taxes, payroll taxes are the federal government's second largest source of money. Unlike most other taxes, they are earmarked for one specific cause. The revenue goes into a fund created to pay for the Social Security program.

Because payroll taxes are based on a flat rate, rather than on ability to pay, they are not progressive. Moreover, people who make more than \$51,300 don't pay Social Security payroll taxes on earnings above that amount. This means that the maximum Social Security payroll tax paid by any worker in the United States is \$7,711.20 — whether that worker earns \$51,300 a year or a million dollars.

Thus, Social Security payroll taxes take a larger percentage from a working-class family's income than from the richest five percent of American families. That's yet another unfair break for the wealthy.

Source:  
Internal Revenue  
Service