

HISPANICS AND TAXES:

A STUDY IN INEQUALITY

A Joint Project of:

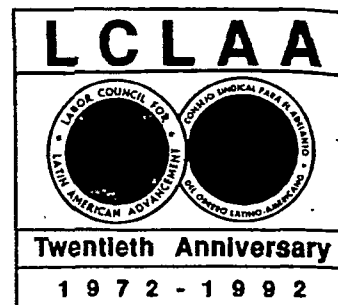
Labor Council for Latin American Advancement

and

The Strategy Group

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LABOR COUNCIL FOR LATIN AMERICAN ADVANCEMENT
 AFL-CIO Building • Suite 310 • phone: 202-347-4223 • fax: 202-347-5095
 815 Sixteenth Street, N.W. • Washington, DC 20006-4104
 Twenty Years of Progress • Somos el Futuro



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I am confident that the 1990s will prove to be a very exciting and rewarding time for the Hispanic population in the U.S. The past twenty years have been filled with tremendous growth and gains for our community. Our population, our representation, our influence and our leadership will only continue to expand into the 21st century

However, as this report clearly details, we still have many battles to fight. One of the most important battles is for fair taxation. As this report demonstrates, two of the three primary taxes we pay at the federal level – the payroll tax and the consumer excise tax -- are extremely unfair. They ask far too much of those in our community who are the most economically vulnerable.

As we will show, factors such as family size and employment patterns make the Hispanic community particularly susceptible to many of the inequities in our current tax system. Perhaps somewhat surprisingly, this study shows that the federal income tax is by far the fairest tax that Hispanics pay on the federal level, but even this has been eroded by the tax policies of the past 12 years.

I hope you will consider the results of this study very seriously. In many ways, the Hispanic community is at an important turning point that demands government and citizen action regarding critical issues such as taxes. I believe this document contains the beginnings of an important road map that can finally lead our nation back toward fair taxation for all its residents.

I want to express my gratitude to my co-authors in this project. Without their diligent efforts in original research, compilation and extrapolation of statistics, this report would not have been possible.

Sincerely,

J.F. Otero
 National President

JACK OTERO, TCU
 President

RALPH JIMENEZ, UAW
 Executive Vice-President

OSCAR SANCHEZ, USWA
 Secretary-Treasurer

ALFREDO MONTOYA, USWA
 Executive Director

VICE PRESIDENTS AT-LARGE

María Portalatín, AFT • Rudy Mendoza, CWA
 S.Q. (Chano) Merino, COPE • Ricardo F. Icaza, UFCW
 Damaso Seda, TWU • Linda Chavez Thompson, AFSME

PAST PRESIDENTS

Ray Mendoza, LIUNA • Henry L. (Hank) Lacayo, UAW

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EXECUTIVE SUMMARY

The 1990 Census has revealed many striking statistics about the remarkable growth of the Hispanic population in the U.S. But while information is readily available demonstrating that America's Hispanic population has pushed past 20 million and that Hispanics will overtake African-Americans around 2020 as our nation's largest minority, not very much information is available about Hispanics and taxes. Statistics also do not answer one very simple and important question -- does our current tax system pass a test of fairness for Hispanics?

This study will show that the answer to that question is very clear. Consider the following:

- A Hispanic family of four with an income of around \$18,000 will pay in federal consumer excise taxes a share of their income between ten to fifteen times greater than a family in the richest two percent of the nation.
- A female Hispanic head of household with one child and an income of \$17,200 will pay in federal payroll taxes a share of her income as much as three times greater than a family in the richest two percent of the nation.
- The third major federal tax, the income tax, is much fairer for Hispanics. Still, the income tax has undergone dramatic changes due to Reagan-Bush tax policies of the past decade, many of which have worked to the advantage of the wealthy and at the expense of minorities such as Hispanics.

This study will clearly show that two of the three primary federal taxes -- the consumer excise tax and the payroll tax -- are exceedingly unfair to Hispanics. In fact, they ask most Hispanics to pay a larger share of their income in taxes than families in the wealthiest two percent of Americans.

What do we mean by unfair taxes?

The test is really very simple. America has a long tradition of progressive taxation. Simply put, progressive taxation means asking people who have a little more money to pay a little more in taxes. The first U.S. federal income tax was levied by Abraham Lincoln in 1862 to help finance the cost of the Civil War. The tax was a progressive tax. Americans with incomes of more than \$10,000 paid an income tax of 10 percent, while people who made \$600 or less were exempt. Our data demonstrate that U.S. tax policy has come a long way since 1862.

Federal taxes in the U.S. -- particularly the payroll and consumer excise tax -- are now exceedingly regressive. In other words they take a greater share of income from Americans of low and moderate incomes than from the wealthiest Americans. This policy of regressive taxation is extremely detrimental to the growing Hispanic population in the U.S., which still predominantly falls into the low- and moderate-income categories.

This study is limited to an examination of taxes at the federal level because, for the most part, state and local data on income and taxation by Hispanic origin are not available. There are, however, numerous implications for state and local policy makers.

Faced with declining federal aid in the last decade, as discussed in the study, and growing demands for services, states and localities have increased their reliance on consumer sales and excise taxes and, to a lesser degree, on the state personal income tax and the local property tax to raise needed revenues. The 1990-92 recession has further exacerbated this situation.

Too often these state and local taxes (particularly consumer sales and excise taxes, but also in many cases residential property taxes and in some states flat-rate income taxes) are also regressive, hitting low- and moderate-income families the hardest.

Americans should be proud of their nation's history of progressive taxation. Unfortunately, as this study will show, our current policy makers have strayed a great distance from that principle.

GROWING POPULATION -- WIDENING INEQUALITY

"Our tax system is too complicated. We need a system that is fair to everyone -- rich and poor, urban and rural, white, black or Hispanic."

-- Jimmy Carter, 1975

An examination of demographic and economic data reveals how the growing Hispanic population in the U.S is changing the nation. It also reveals how federal taxes affect the standard of living and quality of life of Hispanics in the U.S. Specifically, it shows that Hispanics in the U.S. are extremely vulnerable to federal tax policy that favors the very wealthiest Americans over working people.

The 1990 Census figures indicate that the growing Hispanic population has characteristics that differ from other groups in this country. For instance, the Hispanic population is extremely young, has large families -- many headed by single females -- and tends to be disproportionately unemployed or underemployed.

Some simple numbers also make us realize what many in the media -- and many policy makers -- have never understood: the U.S. Hispanic population is not monolithic, but extremely diverse. It is a population of nationalities ranging from Mexican to Guatemalan, Dominican to Brazilian. It is a population that has now spread geographically throughout the U.S., one of varying incomes and diverse family backgrounds.

Table 1 on the following page summarizes the dramatic population increases of the U.S. Hispanic population since 1980. The total increase of almost seven million residents between 1980 and 1990 is a jump in population of almost 50 percent in 10 years. The Census Bureau is now projecting nine million more Hispanic residents by the year 2010, an increase of another 45 percent. These numbers reflect remarkable growth, particularly considering that many Hispanic leaders feel that this population may have been undercounted in 1990 by the U.S. Census Bureau.

TABLE 1
HISPANIC POPULATION: 1980 - 2010

PAST	
1980	14,609,000
1985	16,940,000
1990	21,505,000
PROJECTED	
1995	22,550,000
2000	25,223,000
2005	27,959,000
2010	30,795,000

Source: Statistical Abstract of the U.S., 1991.

The various nationalities within the U.S. Hispanic population are growing at different rates. For instance, Hispanics of Mexican descent are by far the largest and youngest Hispanic nationality in the U.S., comprising more than 60 percent of the Hispanic population. Almost 40 percent of Mexican-Americans in the U.S. are now under the age of 18. Puerto Ricans are the second most populous group in the U.S., comprising approximately 13 percent of Hispanic residents; approximately 34 percent are under the age of 18. New York and Chicago are the two primary population centers of Puerto Ricans in the U.S.

Table 2 on the following page shows the variety of nationalities that form this Hispanic community and the percentage of change in population from 1980-1989.

TABLE 2**CHANGE IN THE TOTAL AND HISPANIC POPULATION,
TOTAL AND BY COUNTRY OF ORIGIN: 1980-1989**

ORIGIN	1989	1980	% CHANGE
Hispanic Origin	20,076,000	14,609,000	38.9
Mexican	12,565,000	8,740,000	45.2
Puerto Rican	2,330,000	2,014,000	17.5
Cuban	1,069,000	803,000	33.8
Central- and South-American	2,544,000	N/A	N/A
Other Hispanic	1,567,000	N/A	N/A

Source: U.S. Census Bureau, Current Population Reports, 1991.

The growing Hispanic population has suffered from a federal tax policy that does not take into consideration many characteristics of the Hispanic community. These include:

- Hispanics are by far the youngest minority in the U.S., with a median age in 1989 of 26.1, compared to 33.6 for whites and 30.2 for African-Americans. In 1989, 34.7 percent of the Hispanic population in the U.S. was less than 18 years old, compared to 23 percent of the white population.
- The number of Hispanic households headed by single women has also risen dramatically in the past 10 years. In 1980, approximately 26 percent of Hispanic households were headed by women -- a figure that differed little from that of the white population. By 1985, that number had increased to 32 percent of the population, an increase of more than 20 percent. By 1990, the percentage of women heading households had increased to 40 percent, an additional increase of 25 percent.
- Hispanic heads of household are younger than their non-Hispanic counterparts. In 1990, 9.1 percent of Hispanic households were headed by people younger than 24 years old,

while only 5.3 percent of non-Hispanic households were headed by people in that age group.

- In 1990, almost 45 percent of Hispanic households were comprised of four or more people, with an average of 3.48 persons per household. Only 25 percent of white households were comprised of four or more people that year, with an average of 2.58 persons per household.

Still, the single greatest indicator of ability to pay taxes is income. Unfortunately, federal tax policy has not only largely ignored family size and composition, it has basically treated both rich and poor the same at tax time. Table 3 shows changes in mean household income for Hispanics throughout the 1980s in constant dollars. After a gradual increase in income that began in the early 1970s, the mean household income of Hispanics turned around in 1982. Hispanics did not reach their 1981 mean family income again until 1987.

TABLE 3

MONEY INCOME OF HOUSEHOLDS -- CONSTANT DOLLARS: 1980-1990

YEAR	HISPANICS	WHITE
1975	20,432	28,442
1980	20,543	28,117
1981	20,871	27,491
1982	19,503	27,135
1983	19,663	27,433
1984	20,279	28,222
1985	20,127	28,704
1986	20,763	29,614
1987	21,106	29,972
1988	21,340	30,168
1989	21,921	30,406
1990	22,330	31,231

Source: U.S. Census, Money Income and Poverty Status, 1991.

Another important trend has been the ratio of Hispanic to white per-capita incomes, which, as Table 4 displays, has remained below 60 percent of white income, and sank as low as 56 percent in 1989.

TABLE 4
RATIO OF WHITE TO HISPANIC PER CAPITA INCOME --
CONSTANT DOLLARS: 1975-1989

1975	.56
1980	.59
1981	.59
1982	.57
1983	.58
1984	.58
1985	.59
1986	.57
1987	.58
1988	.57
1989	.56

Source: U.S. Census, Money Income and Poverty Status, 1991.

Stagnating income levels among Hispanics has led to sharp increases in the number of people who are living below the poverty level. The percentage of Hispanics at the poverty level remained fairly constant throughout most of the 1970s at about 26 percent. In 1982, however, that percentage increased to 29.9 percent. It currently stands at 28.1 percent of the population -- more than six million people.

The numbers are more startling for Hispanic children. As Table 5 indicates, almost 16 percent more Hispanic children were living in poverty in 1990 than were in 1975 -- an alarming total of almost three million children.

TABLE 5
% CHILDREN BELOW POVERTY LEVEL: 1975-1990

YEAR	HISPANIC	WHITE
1975	33.1	12.5
1980	33.0	13.4
1981	35.4	14.7
1982	38.9	16.5
1983	37.7	17.0
1984	38.7	16.1
1985	39.6	15.6
1986	37.1	15.3
1987	39.3	15.0
1988	37.3	14.0
1989	35.5	14.1
1990	38.2	15.6

Source: U.S. Census, Money Income and Poverty Status, 1991.

Unfortunately, far more Hispanics seem to be sliding into poverty than have been experiencing appreciable increases in income. As we see in Table 6, found on the following page, only 30.5 percent of Hispanic families earned more than \$35,000 in 1990, while 53.3 percent of whites earned that level of income. Even more pronounced is the difference at the highest income levels. While only 1.9 percent of Hispanics earned more than \$100,000, more than three times as many whites -- 5.9 percent -- earned that amount.

TABLE 6

MONEY INCOME OF FAMILIES -- 1990

INCOME	HISPANIC % AT LEVEL	WHITE % AT LEVEL
\$35,000 - \$49,999	15.7	20.8
\$50,000 - \$74,999	10.0	19.3
\$75,000 - \$99,999	2.9	7.3
\$100,000 or more	1.9	5.9
Total \$35,000 or more	30.5	53.3
Median Income	\$23,341	\$36,915

Source: U.S. Department of Commerce, U.S. Census, Money Income and Poverty Status.

But to look merely at this mosaic of statistics is to misunderstand the diversity of Hispanics in the U.S. Striking differences in family composition and income separate different nationalities within the Hispanic community. These contrasts can be seen very clearly by comparing the Puerto Rican and Cuban populations in the U.S.

In education levels, family size and composition and income, the Cuban population in the U.S. differs little from the white population. Cuban-Americans have much smaller families and fewer households headed by a female than the typical Hispanic family. While 31.2 percent of Puerto Rican families are headed by a single female, this is true for only 14.4 percent of Cuban-American families. The average family size of Cuban-Americans is 2.97, while the average Puerto Rican family size is 3.25.

Stark differences also exist in the income levels of Cubans and other Hispanics. Median family income for Cuban-Americans in 1989 was \$27,890 -- falling less than \$3,000 below whites, who had a mean family income of \$30,406. A total of 12.5 percent of Cuban-American families fell below the poverty level in 1989, compared to 8.1 percent of white families.

The economic news is far different for Puerto Ricans. Compared to Cuban-American families, almost three times as many Puerto Rican families are living in poverty -- a total of 30.4 percent. The median family income of Puerto Ricans -- \$18,943 -- is only 68 percent of Cubans and 86 percent of the overall Hispanic population. These numbers, as researcher

Marta Tienda writes, amount to "signs of economic distress" for the Puerto Rican community.

While the economic statistics for Mexican-Americans, South and Central Americans and Dominicans tend to fall somewhere between the economic extremes of Cuban-Americans and Puerto Ricans, overall data demonstrate the fact that the Hispanic population in the U.S. would benefit from a federal tax system that is flexible and progressive enough to adapt to the group's diversity.

THE SLIDE TOWARD TWO AMERICAS

"The wealthiest fifth of the U.S. population may be losing a sense of connectedness with the poorest half."

-- Robert Reich

Many Hispanics and Hispanic families struggle to reach the American dream of economic security. They see incomes stagnate and their goals of buying a home or providing for their families become much harder to attain. In fact, one researcher labeled the status of Hispanic economic progress in the early 1980s "the Big U-Turn."

In the 1988 study, "Latinos in a Changing U.S. Economy: Comparative Perspectives on Growing Inequality," researchers Martin Carnoy, Hugh Daley and Raul Hinojosa Ojeda try to pinpoint some of the reasons so many Hispanic families are facing hardships.

Among other findings, they cite:

- An ever-increasing gap between non-Hispanic concentration in high-income employment and Hispanic concentration in low-income employment.
- An increasing gap within the Hispanic community between high-income and low-income employment.

Carnoy's research points to several reasons for these trends within the Hispanic community:

- The continuing gap between Hispanic and non-Hispanic college education and high school completion.
- The increasing gap in employment between Hispanics and non-Hispanics in high-income industries and professional occupations.
- Continuing, and in many cases increasing, discrimination in both the work force and educational opportunities.

In summary, among many other changes that are occurring for the Hispanic population in today's economy, the work force is becoming polarized -- between the very few who slip into high-wage jobs and the many who are stuck in low-wage jobs. Unfortunately,

even Hispanics who graduate from high school or college do not seem to be able to translate increased educational achievement into improved economic opportunity.

In her research on wage trends within the Hispanic community, Marta Tienda finds the reasons for the continued economic decline of the nation's Puerto Rican population during the 1980s lie primarily in changing -- and declining -- employment opportunities. The Puerto Rican population in the United States experienced an extremely sharp decline in real wages and family income during the 1980s -- a decline greater than that experienced by African-Americans during the same time period.

Writing in *The Annals of the American Academy of Social Sciences*, Tienda finds several reasons for this decline, including:

- Job opportunities in categories where Puerto Ricans have traditionally been employed, such as textiles, have been rapidly declining.
- The geographic concentration of Puerto Ricans in the Midwest and Northeast (New York and Chicago both have large concentrations of Puerto Ricans) has led to severe unemployment and economic dislocation.

Indeed, Hispanics are beginning to feel the polarization of today's job market more and more -- as fewer find high-wage jobs and as middle-income jobs are disappearing. As Table 7 shows, many Hispanics have been able to find employment in such traditionally high-wage manufacturing jobs as precision production, operators and fabricators. However, as Table 7A shows, the overall percentage of the work force employed in these type of manufacturing jobs declined from 22.7 percent to 16.4 percent between 1972 and 1988, and is projected to fall to 14 percent by 2000.

TABLE 7
PERCENTAGE OF HISPANICS EMPLOYED IN SELECTED OCCUPATIONS
IN 1990

OCCUPATION	MALE	FEMALE
Precision Production, Craft, Repair	20.6	2.7
Operators, Fabricators and Laborers	29.6	16.6

Source: U.S. Department of Labor.

TABLE 7A
EMPLOYMENT BY MAJOR SECTOR, 1972-2000
(PROJECTED)

ECONOMIC SECTOR	1972	1979	1988	(PROJECTED) 2000
Total	100.0	100.0	100.0	100.0
Nonfarm wage and salary	86.9	88.3	88.8	89.6
Goods-producing	28.0	26.1	21.3	18.6
Mining	.7	.9	.6	.5
Construction	4.6	4.4	4.3	4.3
Manufacturing	22.7	20.8	16.4	14.0
Durable	13.1	12.6	9.6	8.2
Nondurable	9.6	8.2	6.8	5.8
Service-producing	59.0	62.2	67.5	70.8
Transportation and public utilities	5.4	5.1	4.7	4.5
Wholesale trade	4.9	5.1	5.1	5.1
Retail trade	14.0	14.8	16.2	16.8
Finance, insurance and real estate	4.6	4.9	5.7	5.7
Services	14.3	16.5	21.1	24.8
Government	15.8	15.7	14.7	13.9
Agriculture	4.2	3.4	2.8	2.3
Private Households	2.0	1.3	1.0	.8
Nonfarm self-employed and unpaid family workers	6.9	7.1	7.4	7.3

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

These jobs are being replaced by traditionally more low-paying jobs in the service sector. Unfortunately, as Table 8 demonstrates on the following page, a disproportionate number of Hispanics have been laboring at these minimum wage or near-minimum wage jobs.

TABLE 8

WORKERS AT MINIMUM WAGE -- 1989

PERCENT OF WORKERS AT OR BELOW MINIMUM WAGE	
Hispanic	4.9%
Non-Hispanic	4.1%
MEDIAN HOURLY EARNINGS OF WORKERS PAID HOURLY RATES	
Hispanic	\$6.07
Non-Hispanic	\$7.08

Source: U.S. Department of Commerce, U.S. Census, Money Income of Households.

Another vivid contradiction is provided by looking at the ratio of Hispanics and whites in traditionally high-paying white collar jobs. Though Hispanics account for almost ten percent of the total U.S. labor force, they comprise only 1.6 percent of the nation's lawyers, 2.4 percent of its engineers, 3.7 percent of its accountants and auditors, and 4.4 percent of its physicians.

But economic difficulties and lack of job opportunities in the U.S. are based on more than race. In fact, Tienda emphasizes that Hispanics are not alone in facing declining economic opportunity. Remarking on the best way to reverse the growing income inequality in the U.S., Tienda writes, "The experience of the 1980s ... has reaffirmed that a healthy economy is a necessary, albeit insufficient, condition for reducing inequality." In other words, difficulty finding high-wage jobs and stagnating income are not exclusively Hispanic -- or minority -- problems. These problems are in many ways color-blind when it comes to affecting American workers.

Declining job opportunity is a problem that is attacking all of the residents of our nation, and, as economist Robert Reich has written, it is a problem very different from the economic difficulties our nation has confronted in the past. Previously, Americans of all income levels seemed to move up and down together through good and bad economic times.

"Through most of the postwar era, the wages of Americans at different income levels rose at about the same pace.... But in recent years, Americans with jobs have been traveling on two escalators, one going up, one going down," Reich writes. And these two escalators also have caused an increasing amount of uneasiness among Americans traveling in different directions, with some wondering who is getting a free ride.

WHO'S GETTING A FREE RIDE?

The fact that some Americans are traveling the escalator of economic opportunity while others are heading in the opposite direction has sharpened divisions among our population. As a result, many Americans are looking for someone to blame for their declining economic status.

Unfortunately, some Americans have pointed the finger of blame at minorities, believing that minorities in this country are getting a free ride, that hard-working Americans' tax dollars are getting trapped in a web of government spending on minorities instead of finding their way back to them.

Thomas Byrne Edsall wrote recently in *The Atlantic Monthly*,

Race helps define conservative and liberal ideologies, shapes the presidential coalitions of the Democratic and Republican parties, provides a harsh new dimension to the concern over taxes and crime, drives a wedge through the alliances of the working class and the poor, and gives both momentum and vitality to the drive to establish a national majority inclined by income and demography to support policies benefiting the affluent and upper-middle class.

Edsall need not look far to find facts that substantiate his claim. Certainly the popularity of the rhetoric of demagogues like Patrick Buchanan and David Duke, who both have suggested strongly that white Americans are subsidizing minorities with their tax dollars, demonstrates the strength of the appeal of the racial argument.

While data may demonstrate that Hispanics and other minorities are disproportionately poor, that does not mean they are riding on a tax-free, benefit-rich gravy train sponsored by other hard-working Americans.

Tables 9 and 10 on the following page demonstrate the net effect of federal taxing and spending on white Americans and non-white Americans. These tables show income data by quintile for whites and non-whites. The income in this section is reported as a fraction of the poverty level for a household of the size indicated. An income measure of 2.0 means that a household has an income twice the poverty level and so forth.

What these comparisons demonstrate is that the government clearly does not have any particular bias toward any minority group in its taxing and spending policy.

TABLE 9

NET EFFECT OF FEDERAL TAXES AND FEDERAL FOOD AND HOUSING BENEFITS BY ADJUSTED FAMILY SIZE, INCOME AND RACE

WHITE			
QUINTILE	PRE-TAX CASH INCOME AS FRACTION OF POVERTY LEVEL	POST-TAX INCOME PLUS BENEFITS	% DIFFERENCE
Lowest	1.01	1.04	+3
Second	2.29	2.06	-10
Middle	3.47	3.00	-13
Fourth	4.98	4.17	-16
Highest	9.14	7.26	-26
Average	4.18	3.51	-16

Source: U.S. House of Representatives, Ways and Means Committee 1991 Green Book.

TABLE 10

NET EFFECT OF FEDERAL TAXES AND FEDERAL FOOD AND HOUSING BENEFITS BY ADJUSTED FAMILY SIZE, INCOME AND RACE

NON-WHITE			
QUINTILE	PRE-TAX CASH INCOME AS FRACTION OF POVERTY LEVEL	POST-TAX INCOME PLUS BENEFITS	% DIFFERENCE
Lowest	0.45	0.65	+44
Second	1.20	1.25	+4
Middle	2.15	1.96	-9
Fourth	3.51	3.02	-14
Highest	6.78	5.51	-14
Average	2.82	2.48	-12

Source: U.S. House of Representatives, Ways and Means Committee 1991 Green Book.

For example, the average household income of white Americans before federal spending and taxes was 4.18 times the poverty level. Including federal taxes paid and federal benefits received, the average household income for white Americans decreased by 16 percent to 3.51 times the poverty level.

The average household income for non-white Americans was 2.82 times the poverty level before taxes and benefits. After taxes and benefits, non-white income also decreases, by 12 percent to 2.48 times the poverty level.

This comparison clearly demonstrates that both white Americans and non-white Americans pay more in federal taxes than they receive in federal benefits. It is important to note that changes between pre-tax and post-tax income depend solely on income level. For example, post-tax income for the lowest quintile of non-whites increases much more than that of whites -- but only because non-white income is lower. When we compare similar incomes, such as the second quintile of white income and the middle quintile of non-white income, the change is almost identical.

Still, some may argue, non-white American income decreases by only 12 percent while white income decreases by 16 percent. This does show a bias, they say, no matter how small, in federal taxing and spending patterns. However, what tables 9 and 10 demonstrate is that the federal government tends to redistribute wealth to a small degree from richer to poorer Americans.

Table 11, found on the following page, shows that federal spending on programs that many seem to think are expanding are actually decreasing. Spending on Aid to Families with Dependent Children, Food Stamps and Supplemental Security Income actually decreased over the past 10 years, and only comprises 3.2 percent of the entire federal budget.

Instead of being allocated to programs, much of the budget is spent on the debt and the bailout of the savings and loan industry. As the two largest increases in federal spending, these combine to account for 19.3 percent of the entire budget.

TABLE 11
SHARE OF FEDERAL SPENDING -- 1980-1990

	% OF FEDERAL BUDGET		CHANGE
	1980	1990	1980-1990
Social Security and Medicare	25.5	28.3	+11%
Defense	22.7	23.9	+5%
Other discretionary	25.8	16.4	-37%
Medicaid	2.4	3.3	+38%
AFDC, Food Stamps, SSI	3.8	3.2	-16%
Other entitlements	11.0	5.6	-49%
Deposit Insurance	-0.1	4.6	----
Net Interest on Debt	8.9	14.7	+65%
Deposit Insurance & debt interest	8.8	19.3	+119%

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

THE TRIUMPH OF UPPER AMERICA

"The 1980s were the triumph of upper America -- an ostentatious celebration of wealth, the political ascendancy of the richest third of the population and a glorification of capitalism, free markets and finance."

-- Kevin Phillips

"If the (Bush) administration were honest, it would say: heck yes, the rich got richer and paid less in taxes. That was the whole idea of supply-side economics."

-- Michael Kinsley

The perception that our tax system has a bias -- that many Hispanics and other minorities are paying less and receiving more from the government -- is only partially correct. The reality is that a profound and serious bias exists in our federal tax policy. However, the people who are benefiting are not minorities: they are the very wealthiest Americans.

The reason is a soak-the-poor and middle-class tax scheme called supply-side economics. This program, embodied by the Economic Recovery and Tax Act of 1981, turns the idea of fair taxation upside down. Rather than asking Americans who have a little more to pay a little more in taxes, the idea was to ask people who have a little more to pay a lot less -- hoping the benefits from investment would "trickle down" to everyone else.

The plan was really fairly simple. Tax cuts for upper-income Americans, cuts in the capital gains tax rate and cuts in corporate taxes would fuel a frenzy of both savings and investment that would revitalize a stagnant economy and help Americans of every income and economic status. The reality has been far different.

The trickles from "trickle-down" economics basically stopped trickling after they reached the very rich -- or at least the richest 20 percent of the people in the U.S. Supply-side economics led to a greatly increased concentration of wealth within the richest 20 percent of Americans, and an even more stunning concentration of wealth among the richest five percent.

The average pre-tax income for all families in the bottom 20 percent of incomes in constant dollars in the U.S. actually declined from \$8,791 in 1980 to \$8,132 in 1992, a decrease of 7.5 percent. This is in stark contrast to what happened to the incomes of the wealthiest 20 percent of the country. The average pre-tax income for this group increased from \$89,031 to \$111,652 in the last 12 years, an increase of 26.5 percent.

As Table 12 demonstrates, the numbers are even more staggering for the richest one percent of all Americans, who saw an increase in average pre-tax income from \$343,610 in 1980 to \$617,214 in 1988, a 99.4 percent increase.

TABLE 12
AVERAGE REAL PRE-TAX INCOME FOR ALL FAMILIES, 1980-1992
BY QUINTILES (IN CONSTANT 1992 DOLLARS)

QUINTILE	1980	1988	1992	% 80-88	% 80-92
Lowest	\$8,791	\$8,167	\$8,132	-7.1	-7.5
Second	\$21,009	\$20,347	\$20,094	-3.2	-4.4
Middle	\$32,948	\$32,332	\$31,970	-1.9	-3.0
Fourth	\$45,827	\$48,420	\$47,692	+5.7	+4.1
Highest	\$89,031	\$111,034	\$112,652	+24.7	+26.5
Top 1%	\$343,610	\$617,214	N/A	+99.4	N/A

Source: Congressional Budget Office (CBO) Tax Simulation Model.

But, many will say, isn't America about the opportunity to get rich? And hasn't this concentration of wealth led to an increase in federal funds as the government asks the rich to contribute their fair share in federal taxes? Unfortunately, the Reagan tax cut plan of the early 1980s had precisely the opposite effect.

The share of after-tax incomes for the richest American families has also greatly increased. Table 13 on the following page demonstrates that while the richest Americans were watching Reaganomics help them steadily increase their income, it was also helping to alleviate their tax burden.

TABLE 13

**SHARES OF AFTER-TAX INCOME FOR ALL FAMILIES
(IN PERCENT)**

QUINTILE	1980	1985	1990	DIFFERENCE 1980-1990
Lowest	5.4	4.3	4.3	-1.1
Second	11.4	10.2	9.9	-1.5
Third	16.2	15.3	14.9	-1.3
Fourth	22.6	22.0	21.7	-0.9
Highest	44.8	49.1	49.9	5.1
TOTAL	100.0	100.0	100.0	0.0

Note: Figures do not add to 100 percent due to rounding.

Source: CBO Tax Simulation Model.

In 1980, income of the richest 20 percent of the population in the U.S. comprised 44.8 percent of all after-tax income in the U.S. By 1990, that share increased to 49.9 percent, an increase of 5.1 percent.

During the same time period, the share of after-tax income of the poorest 20 percent and the middle-quintile of incomes actually decreased. For the poorest 20 percent, the share of after-tax income decreased from 5.7 percent to 4.3 percent. For middle-income Americans, their share decreased from 16.3 percent to 14.9 percent.

Supply-side economics, the tax-cut scheme that was supposed to lead to greater investment, savings, job creation and deficit reduction, has achieved something very different. A policy that masqueraded as across-the-board tax cuts really resulted only in tax cuts for the very rich.

Table 14 on the following page shows growth of income as a percentage of poverty level. From 1980 to 1990, the poorest 20 percent of Americans actually saw their family income decrease from 86 percent of the poverty level to 84 percent, a decrease of 3.2 percent. Middle-Americans saw a slight gain of 8.4 percent between 1980 and 1990, but actually saw a decrease during the height of Reaganomics between 1980 and 1985. And

while the poorest Americans watched their real family income decline, the richest Americans saw astronomical growth.

The top 20 percent's adjusted family income increased 31.7 percent as a ratio to poverty level. The top five percent saw an even larger increase -- average family income of about 15 times the poverty level in 1980 grew to almost 23 times the poverty level in 1990, an increase of 46.1 percent.

TABLE 14

**AVERAGE ADJUSTED FAMILY INCOME FOR ALL FAMILIES
(INCOME EXPRESSED AS MULTIPLES OF THE POVERTY THRESHOLDS)**

QUINTILE	1980	1985	1990	% CHANGE 1980-1990*
Lowest	0.86	0.80	0.84	-3.2
Second	1.92	1.86	2.00	4.3
Third	2.93	2.96	3.18	8.4
Fourth	4.17	4.35	4.70	12.6
Highest	8.61	9.83	11.34	31.7
Top 10%	11.39	13.39	15.76	38.4
Top 5%	15.42	18.65	22.52	46.1
Overall	3.69	3.96	4.39	18.7

* The last column shows the percentage changes in real income (adjusted for inflation).

Source: CBO Tax Simulation Model.

It is entirely appropriate that the vast majority of Americans who saw their real incomes stagnate or decline during Reagan's boom years are looking around and asking, "Where's mine?" And perhaps it is not surprising that a lot of people have reached the conclusion that minorities and poor people were the ones reaping the benefits during the 1980s. But the reality could not be further from this perception.

The words of the people who benefited most may best describe what really happened. *Wall Street Journal* editor Robert Bartley recently wrote "The Seven Fat Years -- And How to Do It Again," a fond remembrance of Ronald Reagan's first seven years in office and the economic progress made during those years. Bartley writes, "During the first seven years of the 1980s, the pot was fuller for all." He is correct -- that is, if "all" means the wealthiest five or 10 percent of the country and excludes the vast majority of Americans who suffered through flat economic growth.

It is clear that Bartley did not visit certain areas of the country during those "seven fat years" -- places like the south Bronx, Humboldt Park and Pilsen in Chicago, or East Los Angeles. In these communities, citizens predominantly rode on the down escalator of the economy. Instead of benefiting from fair tax policy, they found that the federal government supported just the opposite.

A TAX FAIRNESS SCORECARD

"I've been asked to make the case for progressive taxation. That case can be made very simply: People who have more should pay more."

-- U.S. Senator Bill Bradley

For the vast majority of Americans who work hard every day to improve their standard of living, the logic of Senator Bradley's simple statement may seem inarguable. But as the following analyses will clearly show, sometimes logic is ignored. And in a time when declining job opportunities and stagnating incomes have made making ends meet harder for many Americans, particularly Hispanics, this regressive federal tax structure is unusually unfair.

While many people think of April 15 as the only day they pay the price of keeping the government running, we pay much more than income tax to the federal government. Federal consumer excise taxes and payroll taxes join the income tax as the most significant federal taxes paid by individuals. In the following pages we will look at the comparative progressivity of each of these taxes, and subject each of them to two simple tests of fairness. First, do these taxes display vertical equity -- do people who have more money pay more in taxes? Second, do these taxes display horizontal equity -- do people who have the same amount of money pay roughly the same amount in taxes? Both the federal consumer excise and payroll tax fail tests of both vertical and horizontal equity.

But the federal income tax -- the tax Americans associate with an uncaring IRS and see as the yearly tax that takes the greatest bite out of most Americans' checkbooks and savings accounts -- clearly passes the test of both vertical equity and scores much higher for horizontal equity.

PAYROLL TAXES

In late 1989, Senator Daniel Patrick Moynihan stated that the government was raising extra revenue through unneeded Social Security taxes to help mask the size of the federal deficit and suggested Social Security return to a pay as you go program. Since then, he has introduced the Social Security Tax Cut Act of 1991, a bill that President Bush called "a charade," and Budget Director Richard Darman called "the most irresponsible idea of the 1990s."

Although the idea is to cut one of our nation's most regressive, anti-working person taxes, few people have rallied behind Moynihan. In fact, very few people seem to be paying much attention at all to federal payroll taxes, and while April 15 brings almost universal disgust, the 7.65 percent that the payroll tax trims away from every working American's paycheck seems to go by largely unnoticed.

This lack of opposition is a bit hard to understand. Very few beyond the most ardent supply-siders seem to like the payroll tax -- even conservative U.S. Senators Orrin Hatch and Steve Symms like the idea of cutting the tax, William F. Buckley's *National Review* has written some nasty things about it and Jane Bryant Quinn thinks it should be cut. Milton Friedman has called it "surely the most regressive element in our tax system."

Likewise, it is almost universally detested by liberals. Michael Kinsley writes that "it would be hard to design a tax more unfair than FICA." Yet the payroll tax does more than survive -- it flourishes. And when working Americans get hit and wealthy Americans get an almost free ride, Hispanics suffer disproportionately.

The federal consumer excise tax asks every American who has a paycheck -- from the teenager who receives \$4.50 per hour at your neighborhood carryout, to the mid-level executive who makes \$55,000 per year, to the CEO who is paid more than \$1 million per year -- to contribute 7.65 percent of his or her salary to the Social Security Trust Fund.

Does this seem unfair to the teenager or middle manager? What if the CEO only has to pay his 7.65 percent on the first \$55,500 he makes, 1.45 percent on the next \$74,700, and nothing on the next million, 10 million, or 50 million?

But the 7.65 percent paid by the worker only tells half of the story, because it is only half of the tax burden. The overall payroll tax rate is 15.3 percent and half of it is paid by employers. Very few economists will disagree that the employer's half is then passed through to workers indirectly through increased prices on goods and services.

The arithmetic of determining vertical and horizontal equity is not complicated for determining the progressivity of the payroll tax. If the cashier works 40 hours per week for one year, he or she will make \$9,360 -- or almost \$5,000 below the poverty level for a family

of four. But regardless of the fact that he is toiling for near minimum wage, that he falls below the poverty level, and that he is a person who clearly cannot afford to pay much in taxes, he will be asked to contribute 7.65 percent of his income, or \$716, to the Social Security Trust Fund. The middle manager making \$55,000 per year will also contribute his 7.65 percent to the Trust Fund, a total of about \$4,200.

Some may say this seems fair -- the middle manager is paying more than \$3,000 more in taxes than the cashier -- but not so fair when you consider the cashier is making less than 80 percent of the poverty level, and choosing between such basics as food, clothing, transportation and housing on a routine basis. This is before the government takes more than \$700.

Now compare their situation to the CEO who brings in more than \$1 million. The CEO pays about \$5,300 in federal payroll taxes, an amount not too different from that paid by the middle-level manager whose income just happens to fall under the payroll tax cap. Essentially, our CEO is receiving a pass from federal payroll taxes on \$869,800, or almost 90 percent of his income. His total federal payroll tax bill of \$5,330 comes to a mere .005 percent of his income.

Or think of it this way -- a corporate executive with a salary 112 times more than that of a cashier pays about eight times as much in federal payroll taxes. A corporate executive who makes 18 times more than a mid-level manager pays less than twice as much federal payroll tax.

If these numbers are not convincing, we can simply consider that both the cashier and the manager pay a share of their salary 20 times greater in federal payroll tax than a wealthy CEO. These are certainly not hypothetical or exaggerated numbers. This is the tax reality for working Americans of all races under our current federal tax structure.

This news is particularly disturbing to our nation's exploding Hispanic population. Quite simply, for many reasons having to do with fundamental changes in our economy and job market, Hispanics are among those hardest hit by the growing federal reliance on the payroll tax to fund our government.

Less than one percent of the Hispanic population gets the free ride -- that begins at \$130,200 -- which the federal payroll tax provides to the very wealthy. And while more Hispanics are fighting their way into the middle-class, many Hispanics are still struggling in precisely the type of low-wage jobs that the payroll tax discriminates against most.

As presented in Table 8, Hispanics work in far greater numbers in precisely the type of minimum wage or near-minimum wage jobs that leave workers near or below the poverty level -- just as in the case of the hypothetical clerk we describe.

As indicated above, 24 percent of all Hispanics are living at or below poverty level. The payroll tax is blind to the fact that these people are least able to pay federal taxes of any kind.

But the payroll tax is not only unfair because it is a flat tax, it is also unfair because it is a tax only on income received from wages. Therefore, a person pays absolutely no payroll tax on any income derived from such sources as capital gains, interest or other investments. The payroll tax is a true tax on work, which is particularly unfair to Hispanics, who are one-third as likely to receive interest income as are white Americans.

Yet our government is increasingly asking Americans living near the poverty level and middle-income Americans to pay more and more in payroll taxes. In fact, for most working Americans, the payroll tax now takes a greater chunk of its income than any other federal tax. As Table 15 shows, about 40 percent of Americans now pay more in the federal payroll tax -- a flat tax -- than income taxes, which are based on ability to pay.

TABLE 15

FRACTION OF TAXPAYERS WHO PAY MORE IN PAYROLL TAXES THAN INCOME TAXES BY INCOME LEVEL

INCOME	# OF TAXPAYERS (THOUSANDS)	PAYROLL > INCOME TAX	%
< \$10,000	8,721	8,414	96.5
10 - \$20,000	15,921	14,081	88.4
20 - \$30,000	16,730	13,146	78.6
30 - \$40,000	13,186	9,289	70.4
40 - \$50,000	10,188	6,827	67.0
50 - \$100,000	20,475	11,479	56.1
Over \$100,000	5,312	544	10.2

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

This government shift to reliance on the payroll tax -- a quiet shift that in many ways goes unnoticed by taxpayers -- has left American working men and women with less and less money to pay the bills, while the CEOs, Wall Street insiders, and mortgage bankers have

received a virtual free ride, as none of the income they receive from interest or other investments or any income above \$130,200 is taxed.

But the income of a CEO making \$1 million per year compared to that of a cashier or clerk is not the only way to find striking inequities in the payroll tax. Table 16 on the following page clearly shows how the payroll tax affects Hispanic families of varying income levels.

Typically, only one-half of the income of wealthy Americans comes from wages and is subject to the payroll tax. The other half of the income is from non-wage sources such as capital gains and interest income. However, middle- and low-income households typically earn 80 percent or more of their income from work.

Two tax burden indices are calculated for each family type -- one assuming that the family earns 100 percent of their income from work; the other assuming the family earns 80 percent of their income from work. These indices are measured relative to the tax burden on the typical wealthy household.

An exception to this rule is made for single women with children. The typical single woman with children earns about 45 percent of her income from work; the remaining 55 percent typically comes from non-wage sources. To provide a reasonable range of comparison for this family type, payroll tax burdens were calculated assuming that 60 percent and 30 percent of the family's income is from wages. This burden is also measured relative to that of a household earning \$250,000 per year.

These comparisons show the lack of vertical and horizontal equity quite clearly. Hispanic heads of households, who generally work for a living and receive above-average government transfers only at the low end of the income scale, suffer greatly at the hands of the payroll tax. For instance:

- A female head of household with an income of less than \$20,000 will pay a share of her income in federal payroll taxes almost four times greater than a family making \$250,000 per year.
- A married Hispanic couple with both spouses working and an income of \$25,000 will pay a share of their income in federal payroll taxes almost four times greater than a family paying \$250,000 per year.
- A female head of household who earns a little more than \$17,000 will pay a share of her income in federal payroll taxes more than twice as great as a family who makes \$250,000 per year.

TABLE 16
PAYROLL TAX INDEX: 1991

FAMILY TYPE	MEDIAN INCOME	% OF TOTAL INCOME SUBJECT TO PAYROLL TAX	INDEX
Richest 2 Percent	\$250,000	50%	1.00
All Hispanics	\$ 19,000	100%	3.64
		80%	2.91
Married Couple, 1 Child	\$ 18,571	100%	3.64
		80%	2.91
Married Couple, 1 Child	\$ 26,800	100%	3.64
		80%	2.91
Married Couple, No Children	\$ 21,000	100%	3.64
		80%	2.91
Married Couple, 2 Children	\$ 25,000	100%	3.64
		80%	2.91
Married Couple, 2 Children	\$ 27,492	100%	3.64
		80%	2.91
Single Parent, 1 Child	\$ 9,264	60%	2.19
		30%	1.18
Single Parent, 1 Child	\$ 17,200	60%	2.19
		30%	1.18
Single Adult, Living Alone	\$ 12,040	100%	3.64
		80%	2.91

Note: 1.00 = the share of income devoted to payroll taxes by a family earning \$250,000 per year with average sources of income.

Source: Computations by The Strategy Group.

The index for the regressivity of payroll taxes remains largely consistent across the board in our study. The reason is simple: There is no logic to the payroll tax. There is only one rate -- there are no deductions, no adjustments for family size, no adjustments for low incomes. But what should matter to Hispanics and all working Americans is that their payroll tax burden continues to grow, and the very wealthiest Americans are paying far less than everyone else.

CONSUMER EXCISE TAXES

Federal consumer excise taxes compete with payroll taxes as the most overlooked and misunderstood of the taxes Americans pay on the federal level. Every time the telephone is used, gasoline is bought, or beer, wine, liquor or tobacco products are purchased, the federal government collects consumer excise taxes.

The simplicity -- and error -- of the logic that explains consumer excise taxes as both fair and useful tools of public policy is demonstrated by conservative commentator David Gergen:

Ask yourself: When prices go up at the gas pump, would you like to send your extra dollars to a man like Saddam Hussein or would you like to keep most of them in America to pay for domestic needs?

The argument is simple. A consumer excise tax on a good such as gasoline helps to pay for domestic programs and also doubles as energy policy. The argument is also very wrong.

A better understanding of consumer excise taxes was given by William Jennings Bryan almost 100 years ago, when he said, "Everyone knows that a tax upon consumption is an unequal tax, and that a poor man by means of it pays all out of proportion to the income which he enjoys." Unfortunately, not everyone today understands what was so obvious to U.S. Representative Bryan in 1894.

Indeed, consumer excise taxes -- or consumption taxes -- shared two more distinctions with payroll taxes during the 1980s -- they are both highly regressive and have been relied on more and more as sources of government revenue. Our study shows that when federal consumer excise taxes are raised, they are scarcely felt by the wealthiest Americans, who will barely notice paying an extra \$100 or so per year in gasoline taxes. But they are felt dramatically by low- and middle-income Americans who are already struggling to pay insurance, car payments and their annual bill for gasoline.

Data in Tables 17 and 18 on the following page show the increasing reliance of the federal government on consumer excise taxes. Data also show the level of regressivity. Clearly, federal consumer excise taxes will not pass a horizontal equity test, as the tax paid by two people with identical incomes will vary according to the amount of the taxed product or service they buy. The concept of vertical equity is also lost in consumer excise taxes. The amount of tax paid is completely unrelated to income; if a CEO purchases the same amount of gasoline as a cashier, they pay the same in consumer excise taxes.

As we look at share of income paid by quintile in Table 17, we see that the poorest Americans will pay more than 40 percent more of their income in federal consumer excise

taxes than they paid in 1980. A middle-income family will pay more than 25 percent more in federal excise taxes. But the richest one percent of all families has seen no appreciable increase.

TABLE 17

**SHARE OF INCOME PAID IN FEDERAL CONSUMER EXCISE TAXES
FOR ALL FAMILIES (BY QUINTILES, 1980-1992)**

QUINTILE	1980	1988	1992
Lowest	2.1	2.8	3.0
Second	1.3	1.7	1.8
Middle	1.1	1.3	1.4
Fourth	0.9	1.0	1.2
Highest	0.6	0.6	0.7
Top 1%	0.3	0.3	0.3

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

TABLE 18

**REGRESSIVITY INDEX FOR TAX BURDEN OF FEDERAL EXCISE TAXES
RELATIVE TO TAX BURDEN ON TOP 1%**

QUINTILE	1980	1988	1992
Lowest	7.0	9.3	10.0
Second	4.3	5.7	6.0
Middle	3.7	4.3	4.7
Fourth	3.0	3.3	4.0
Highest	2.0	2.0	2.3
Top 1 %	1.0	1.0	1.0

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

Again, we are looking at a clearly regressive tax. A family in the lowest income group will pay three percent of its income in federal consumer excise taxes, while the richest one percent of American families will pay only 0.3 percent of its income in consumer excise taxes, a virtual exemption for the nation's wealthiest residents.

Consider the corporate executive and cashier. Despite the fact that the corporate executive's annual income may be more than 100 times the cashier's, the federal government asks them to pay exactly the same amount in federal consumer excise taxes when they go to the service station to fill their gas tanks, whenever they use their telephones, or whenever they purchase a consumer item such as a pack of cigarettes.

Some will object to the idea that consumer excise taxes are taxes upon necessities -- or that excise taxes are really taxes at all. Many will make the same argument David Gergen makes -- that consumer excise taxes are really only instruments of public policy, ways to encourage gasoline conservation or to protect the environment or to discourage smoking or drinking.

But these arguments are really only distractions from what the data demonstrate. Federal consumer excise taxes unquestionably ask low- and middle-income Americans to pay a far larger share of their income in taxes than the wealthiest Americans.

Although very few would argue that energy conservation or a cleaner environment are admirable and worthy goals of public policy, few would argue either that these programs should be financed by higher taxes on the very Americans who can least afford to pay them.

Moreover, Gergen's argument seems particularly illogical when we consider that any revenue that can be raised by increases in the tax bite on gasoline or telephone usage will be but a drop -- a drop financed by working Americans -- in the sea of government red ink caused by tax cuts for the rich and spending on such programs as the savings and loan bailout.

Appendix I shows a comparison of the tax bite consumer excise taxes take from various Hispanic families to that taken from a family making \$250,000 per year. If the tax burden index equals 1.0, it means that a Hispanic household pays as much of its income in consumer excise taxes as does a family earning \$250,000 per year. An index of 0.5 would mean the Hispanic family pays one-half a share of its income in consumer excise taxes; an index of 2.0 means the burden of the Hispanic family is twice as great.

These indices depend not only upon level of income but on the relative level of consumption of each taxed item. The consumption is calculated at the following levels:

- The "All Households" Index. This number shows the relative tax burden for families who spend an average amount of money on taxed items within a given household type.

- **The "High Index."** This number shows the relative tax burden for families who are the largest consumer of the taxed item within a given household type.
- **The "Low Index."** This number shows the relative tax burden for families who are the smallest consumers of the taxed item within a given household type.
- **The "Mean Spending Index."** This number shows the relative burden for those families who spend the average for all spenders within a given household type. This differs from the "All Households Index" because not all households consume the taxed item.

The consumption is calculated at these varying levels to assure that the regressivity of the tax is not exaggerated by comparing a Hispanic family who consumes a large amount of alcohol or uses the telephone a great deal to a wealthy family who does not.

The results of the calculations show that federal consumer excise taxes are exceedingly regressive. Most Hispanic families pay a share of their income between five and 10 times greater in consumer excise taxes on telephone usage as a family making \$250,000 per year. The results are similar for gasoline, and are remarkably high for tobacco -- as much as 20 times higher.

For example, a Hispanic husband and wife earning about \$27,000 per year will pay a share of their income in federal consumer excise taxes on telephone usage and gasoline almost seven times greater than a family earning \$250,000. They will pay a share of their income almost 16 times greater in consumer excise taxes on tobacco products than a family earning \$250,000. A single parent earning less than \$9,000 will pay a share of income more than 10 times greater in consumer excise taxes on telephone usage, more than three times greater on gasoline, and 35 times greater on tobacco products than a family earning \$250,000 per year.

While these numbers are startling, it is important to remember that these calculations are only for **federal** consumer excise taxes, and that state and local sales and excise taxes, which are steadily increasing around the country, are placing an even heavier burden on Hispanics and low- and middle-income Americans.

THE INCOME TAX

"A fairer approach (to taxes) doesn't have to be undertaken in a spirit of class vengeance. If asked why they're going after the rich, our policymakers ought to be able to give the same answer Willie Sutton once gave when asked why he robbed banks: 'Because that's where the money is'."

-- Barbara Ehrenreich

When most Americans think of taxes, they think of income taxes -- the annual ritual of settling a debt with the federal government. While nobody looks forward to income tax day, this study demonstrates that April 15 is the only day of the year the federal government asks wealthy Americans to pay their fair share of taxes. However, the basic progressivity of the income tax has also come under attack by supply-side economics and the Reagan-Bush economic policies of the past decade.

For the wealthiest Americans, the result of these supply-side changes has basically been more income and fewer taxes. For the rest of America -- for the vast majority of Americans who do not fall into the wealthiest 20 percent (a number that includes less than three percent of U.S. Hispanics) -- Reaganomics has meant paying a larger share of the federal income tax bill while incomes have remained stagnant.

One of the enduring images of Ronald Reagan and supply-side economics is that of a leader and a movement that brought a tax-cutting ax to Washington and chopped government hands away from Americans' wallets. However, it becomes clear that what Reagan brought was a scalpel, and the only taxes he truly cut were those of the very wealthy.

But the fact that the past decade has seen the fairness of the federal income tax eroded by tax cuts that favor the wealthiest Americans should not distract us from one important conclusion: The federal income tax scores far higher for both vertical and horizontal equity than either the payroll tax or the consumer excise tax.

Our study shows that the personal income tax is by far the greatest friend of working Hispanics and Hispanic families. It takes only enough logical understanding to know that only a tax that allows for deductions and a varying rate, only a tax that doesn't ignore income levels, will truly be fair. This is a logic that has been lacking in Washington, as our government has increasingly shifted emphasis from income tax to payroll tax and consumer excise taxes.

Table 19 on the following page documents the share of personal income tax Hispanics of varying income levels and family compositions pay in comparison to a family earning \$250,000 per year.

TABLE 19

THE PERSONAL INCOME TAX INDEX (1991)

FAMILY TYPE		INDEX	INDEX	INDEX
Richest 2 Percent	\$250,000	1.00	1.12	.44
All Hispanics	\$ 19,000	.21	.22	.14
Married Couple, 1 Child	\$ 18,571	.20	.23	.13
Married Couple, 1 Child	\$ 26,800	.33	.34	.29
Married Couple, No Children	\$ 21,000	.30	.33	.25
Married Couple, 2 Children	\$ 25,000	.25	.28	.22
Married Couple, 2 Children	\$ 27,492	.24	.30	.21
Single Parent, 1 Child	\$ 9,264	NM	NM	NM
Single Parent, 1 Child	\$ 17,200	.26	.29	.19
Single Adult, Living Alone	\$ 12,040	.28	.33	.19

Note: 1.00 = the share of income devoted to personal income taxes by a richest two percent family with average sources of income and deductions. NM represents Not Meaningful.

Source: Computations by The Center for Economic Policy Analysis.

The numbers indicate ratios of taxes paid by the selected families to those paid by a family earning \$250,000 per year. An index number 0.50 means that a particular family pays one-half as large a share as the family in the richest one percent.

- The "average" index refers to a family with average sources of income from such sources as wages, interest, dividends, welfare payments, unemployment, etc. It is also assumed that the family utilizes the standard deduction. The average index for a family making \$250,000 per year is the base of all of the tax indices.

- The "high" index refers to a family who obtains all of its income from wages and uses the standard deduction.
- The "low" index refers to a family with above-average sources of tax-exempt income, such as child-support payments, tax-free interest, welfare payments and so on. Unless fewer than 25 percent of the families within a given family type actually itemize, it is assumed that the taxpayer is an itemizer with an average amount of deductions.

The initials "NM" stand for "not meaningful." The reason these initials appear is that the federal tax payment in these cases is negative -- these families receive a net tax refund.

Looking at the numbers reflected in this table and comparing them to the results of similar comparisons of federal consumer excise taxes and payroll taxes, several conclusions are clear:

- While low- and middle-income Hispanics clearly pay greater shares of their incomes than the very wealthiest Americans in consumer excise and payroll taxes, the federal income tax asks most Americans to pay a share of taxes reflective of their ability to pay. Only in the income tax does the federal government ask people with less money to pay a smaller share of their income to the government.
- While federal payroll taxes and consumer excise taxes overall ask most working families to pay more than twice as great a share of their income as a family in the richest one percent, income taxes overall only take about half as great a share of income from working families as from the richest families.

To a large degree, this fairness reflects changes in the tax code accomplished by the Tax Reform Act of 1986. The Tax Reform Act doubled the value of the personal exemption and greatly increased the value of the standard deduction, giving a particularly large boost to the standard deduction that may be claimed by single heads of household. This reform is particularly important to Hispanics. These changes are detailed in the accompanying sidebar.

The following examples show what the personal income tax accomplishes for working Hispanic families. As shown in Table 19, a Hispanic family headed by a woman with one child, earning \$17,200, will pay a share of her income in personal income tax less than one-third as large as that of a family earning \$250,000. In contrast, the same family would pay almost three times more in payroll taxes and almost eight times more in federal consumer excise taxes on gasoline.

A Hispanic husband and wife with two children, earning \$25,000, will pay only about one-quarter as much of their income in personal income tax as a family earning \$250,000. The federal payroll tax will take a share of income four times greater from the same family. Consumer excise taxes on telephone usage will ask for almost seven times greater share.

Again, the numbers are clear. The federal income tax, particularly with the reforms enacted in 1986 to make the system more progressive, more pro-family and less of a burden on the very poorest Americans, is by far the fairest tax the federal government uses. It is the only federal tax that passes the test of vertical equity, the only tax that asks the wealthiest Americans to pay their fair share.

CONCLUSION

"We all know what a flat tax means -- it means the person who sleeps under a bridge pays the same as the person who financed building it."

-- The Nation

When Jimmy Carter talked about tax simplicity and fairness, probably the last proposal he had in mind was a flat tax -- a tax that asks everyone, regardless of their ability to pay -- to contribute at the same rate to the federal tax coffers. Yet, that is exactly what our federal government is asking too many Americans to do.

Both the consumer excise tax and the payroll tax take income from every American at exactly the same rate. At the same time, policymakers have shifted emphasis to these two taxes from the personal income tax, by far the most progressive element of our tax system.

The results of using these flat taxes are simple -- Hispanics, who have lower incomes, larger families and a great many single mothers heading households, are being penalized. Frequently, Hispanic families are being asked to contribute shares of their income as much as 20 times greater than those of the wealthiest two percent of families in the nation. Indeed, it is the wealthiest Americans who have really benefited from the federal tax policies of the past decade.

Today, our federal government has instituted a tax policy that does exactly what William Jennings Bryan feared almost 100 years ago: "Makes the load heaviest upon persons least able to bear it." For Hispanics, the nation's fastest-growing minority, this has meant a tax policy that makes day-to-day life -- buying clothes or food, paying bills, rent or mortgages -- much more difficult.

A lot of people, for a long time, have proposed common sense ideas about fair taxation -- common sense ideas that would help not only Hispanics, but every working person in the U.S. From Abraham Lincoln and William Jennings Bryan to Jimmy Carter and Daniel Patrick Moynihan, many of our leaders have felt that people who have a little more money should pay a little more in taxes.

Our nation could take a large step toward that goal today by curbing the payroll tax and consumer excise taxes, and increasing its reliance on a fair income tax.

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APPENDIX I

TAX BURDEN INDICES FOR HISPANIC HOUSEHOLDS

Household Type:

Comparison Base: Very high income

Annual Income: \$250,000

Type of Tax	If Spread Over All Households	Only Households That Spend Mean Spending
Telephone	1.00	1.00
Gasoline	1.00	1.02
Tobacco	1.00	5.85
Br.&Wn.,Home	1.00	1.70
Other AB,Home	1.00	4.85
AB, Not Home	1.00	1.41

Hispanic Household Type:

All Households with at Least One Head Hispanic

Median Income: \$19,000

Type of Tax	If Spread Over All Households	Only Households That Spend High (Quartile 3)	Low (Quartile 1)	Mean Spending
Telephone	7.99	9.74	2.24	8.62
Gasoline	5.17	7.72	2.71	6.39
Tobacco	20.65	96.28	0.00	68.94
Br.&Wn.,Home	5.19	17.57	0.00	14.31
Other AB,Home	2.36	68.52	0.00	59.47
AB, Not Home	1.99	14.45	0.00	11.92

Hispanic Household Type:
 Husband & Wife Only
 Median Income: \$21,000

Type of Tax	If Spread Over All Households (Quartile 3)	Only Households That Spend High (Quartile 1)	Low Spending	Mean
Telephone	6.91	7.54	2.41	7.12
Gasoline	5.27	7.19	2.26	6.01
Tobacco	21.22	98.79	0.00	77.86
Br.&Wn.,Home	6.14	14.70	0.00	15.19
Other AB,Home	4.30	***	0.00	***
AB, Not Home	1.95	10.35	0.00	10.06

Hispanic Household Type:
 Husband & Wife with Their Own Children Only, Oldest Child < 6
 Median Income: \$18,571

Type of Tax	If Spread Over All Households (Quartile 3)	Only Households That Spend High (Quartile 1)	Low Spending	Mean
Telephone	6.89	7.67	1.77	7.58
Gasoline	6.46	8.38	2.75	7.14
Tobacco	13.94	60.40	0.00	57.90
Br.&Wn.,Home	6.43	16.15	0.00	14.98
Other AB,Home	1.21	***	0.00	***
AB, Not Home	2.26	11.05	0.00	10.95

Hispanic Household Type:
 Husband & Wife with Their Own Children Only, Oldest Child 6-17
 Median Income: \$25,000

Type of Tax	If Spread Over All Households	Only Households That Spend High (Quartile 3)	Low (Quartile 1) Spending	Mean
Telephone	6.77	7.62	1.92	7.06
Gasoline	5.44	7.17	2.42	5.88
Tobacco	21.77	72.09	0.00	59.38
Br.&Wn.,Home	6.92	13.73	0.00	14.12
Other AB,Home	0.62	***	0.00	***
AB, Not Home	1.03	6.02	0.00	5.41

Hispanic Household Type:

Husband & Wife with Their Own Children Only, Oldest Child > 17

Median Income: \$26,800

Type of Tax	If Spread Over All Households	Only Households That Spend		Mean Spending
		High (Quartile 3)	Low (Quartile 1)	
Telephone	6.51	6.82	2.33	6.59
Gasoline	6.30	7.53	3.41	6.68
Tobacco	15.50	75.23	0.00	54.88
Br.&Wn.,Home	3.63	13.73	0.00	10.26
Other AB,Home	1.42	***	0.00	***
AB, Not Home	0.47	***	0.00	***

Hispanic Household Type:

All Other Husband & Wife Families with At Least 1 Spouse Hispanic

Median Income: \$27,492

Type of Tax	If Spread Over All Households	Only Households That Spend		Mean Spending
		High (Quartile 3)	Low (Quartile 1)	
Telephone	9.03	9.03	2.30	9.22
Gasoline	6.55	8.00	2.95	6.76
Tobacco	13.87	68.31	0.00	47.28
Br.&Wn.,Home	4.73	18.23	0.00	12.36
Other AB,Home	1.45	***	0.00	***
AB, Not Home	0.88	***	0.00	***

Hispanic Household Type:

Single Parent with Their Own Children Only, At Least 1 Child < 18

Median Income: \$8,700

Type of Tax	If Spread Over All Households	Only Households That Spend		Mean Spending
		High (Quartile 3)	Low (Quartile 1)	
Telephone	10.02	16.62	4.05	12.02
Gasoline	3.53	7.89	0.00	6.94
Tobacco	34.09	146.53	0.00	115.55
Br.&Wn.,Home	2.62	***	0.00	***
Other AB,Home	4.80	***	0.00	***
AB, Not Home	1.73	***	0.00	***

Hispanic Household Type:
 Individual Person Living Alone
 Median Income: \$12,040

Type of Tax	If Spread Over All Households	Only Households That Spend		Mean Spending
		High (Quartile 3)	Low (Quartile 1)	
Telephone	9.83	13.22	2.56	10.84
Gasoline	4.09	7.91	0.00	6.43
Tobacco	21.66	***	0.00	***
Br.& Wn., Home	4.49	***	0.00	***
Other AB, Home	4.68	***	0.00	***
AB, Not Home	4.70	***	0.00	***

Hispanic Household Type:
 All Other Families with At Least One Head Hispanic
 Median Income: \$17,742

Type of Tax	If Spread Over All Households	Only Households That Spend		Mean Spending
		High (Quartile 3)	Low (Quartile 1)	
Telephone	8.29	11.51	3.02	9.39
Gasoline	4.53	7.43	0.00	6.21
Tobacco	21.15	97.93	0.00	65.16
Br.& Wn., Home	4.90	22.43	0.00	15.97
Other AB, Home	1.29	***	0.00	***
AB, Not Home	2.15	36.12	0.00	13.88

SOURCE: Computations by Arthur Lyons, Center for Economic Policy Analysis, Chicago, Illinois [(312) 786-1825]; based on individual household data from the U.S. Consumer Expenditure Surveys for 1989 and 1990.

APPENDIX II

DATA AND METHODS FOR COMPUTING TAX BURDEN

Data for this report were obtained from the U.S. Bureau of Labor Statistics, Congressional Budget Office, the National Center for Health Statistics, and an alcohol industry trade group. This appendix explains how the raw data were analyzed to obtain the results presented elsewhere in this report.

Excise Taxes

Relative excise tax burdens were calculated from computer tapes that report the individual household results of an annual survey conducted by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor. This survey, the Consumer Expenditure Survey (CES), collects data about the incomes and consumption patterns of "consumer units" (CUs) throughout the country. A CU is roughly equivalent to what the U.S. Census defines as a household.

CES surveyors do not ask specifically about the portion of expenditures that go for excise taxes -- most citizens would not know, anyway. We assumed that excise tax burdens are proportional to relative spending on taxed items, that is, if Consumer Unit A spent twice as much as Consumer Unit B on a particular item, its taxes were twice as high.

This assumption is conservative in terms of the thesis examined in this paper. That is, it works against finding large differences between income groups because the excise taxes we looked at, except for the one on telephone services, are proportional to the quantity purchased rather than to price. For example, when the CES showed a high-income CU spending twice as many dollars on alcoholic beverages as a lower-income CU, we assumed that the higher-income household also paid twice as many dollars in liquor excise taxes. This overstates the relative excise tax burden on the high-income CU because at least part of the price difference is almost certainly due to the fact that they paid more per unit of volume of a "premium" brand. Since the excise tax is levied on quantity, not price, the true relative tax burden on the higher-income household is actually less than our computations make it appear. Put another way, the relative excise tax burdens on low- and moderate-income households are, if anything, higher in reality than the computations in this paper indicate.

Information in the CES File. CES surveyors select CUs by a stratified random sampling method intended to insure representation from households in all

parts of the country and at different income levels. Selected CUs form a "panel", with each CU surveyed on a regular schedule over five consecutive calendar quarters before being dropped from the panel and replaced by another randomly selected unit.

The survey includes detailed questions about each CU's household composition, ethnicity, other selected characteristics, income received during the year, and expenditures during the previous three months on hundreds of items. In order to get a larger and more representative sample, we combined results for the two most recent years, 1989 and 1990. From among the hundreds of categories surveyed, we extracted spending on gasoline (two categories). We projected total annual expenditures for each CU from the amounts spent during the interview quarter.

Because the survey only asks about spending on telephone services from one's own dwelling unit, it does not pick up the spending or excise taxes paid from public telephones. Although people in all income groups may occasionally use public phones, the proportion of households who use only public phones is much higher among low-income groups, many of whom do not have telephone service to their home. Therefore, the data understate the true extent of the telephone excise tax burden on lower-income CUs.

Additional information about the CES, published summaries of some of its data, and copies of the computer tapes are available from BLS.

Refining the CES Database. The CES collected data separately for purchases of gasoline on overnight trips and for purchases when not on a trip. We added the two categories to get total spending on gas, since there is no difference in the tax treatment of the categories.

Likewise, we added expenditures for cigarettes and other tobacco products to get a combined tobacco total. In this case, cigarettes and other tobacco products may have different excise taxes, but reported spending on other tobacco is so small compared to cigarettes that it cannot be reasonably examined alone.

For alcoholic beverages, the CES's four categories include two types of purchases for home consumption and two for consumption away from home. The former are classified as either beer and wine (combined) or other (primarily hard liquor). We retained these CES categories because they reflect different excise structures. However, even though we have two years of survey responses, there are only 106 Hispanic households who reported any spending at all for other alcoholic beverages to be consumed at home. This is an extremely small number for a national sample, and so the results for this category should be interpreted with caution.

For alcoholic beverages purchased and consumed away from home, the CES makes a distinction based on the type of excursion during which the purchase occurred: either a trip of at least one night's duration or any other occasion outside the home (primarily at local restaurants and taverns). We combined these into a single total, since the excise-tax collector does not distinguish between liquor purchased while on a long trip or a short one. However, because there are different excise taxes on different types of alcoholic beverages, our figures for relative excise tax burdens on alcohol purchased for non-home consumption should be viewed as a sort of composite index. If different income or ethnic groups differ significantly in the type of beverage they purchase when outside their homes, the tax burden indices would have to be adjusted; but it seems very unlikely that the general direction of the relative burdens would change.

We then eliminated cases with obvious errors or inconsistencies that would make analysis difficult or impossible. The most common problems were CUs who reported negative incomes, as could be the case for unemployed people drawing down their savings; CU's reporting zero incomes or identified by CES as not having responded fully to all the income questions; and CUs who reported spending on one or more of the five selected items that was so far above the level for other households that they would have distorted the final results if we had left them in the data set. The number of households excluded for these various reasons and the number we finally analyzed are reported in the next two subsections.

High-Income CUs. The most widely used measure of the tax burden in studies of this type is the ratio of taxes to income. Unfortunately for our purposes, however, CES coding rules obscure the total income of any CU with more than \$100,000 from wages and salaries, dividends, or any of the other 14 income categories for which data are collected. Regardless of how high the income from any of these sources is, the largest amount ever entered into the computer file for any given income component is \$100,000, with a separate variable indicating that the entry is a "top-code". In some cases, CUs are reported to have not-top-coded total incomes in excess of \$100,000 because the various components, each less than \$100,000, sum to more; for the most part, though, the ratio of spending to income by the very highest income households cannot be directly calculated because one or more of their income sources is top-coded.

We overcame this problem by using regression analysis to project the ratio of spending to income for each consumption item separately, beginning with CUs whose annual incomes exceeded \$40,000 and were not top-coded. Various combinations of logarithmic and exponential terms were estimated in order to obtain a final equation for each commodity that fit the data as closely as possible.

Altogether, there were 11,659 CUs in the original CES data set who reported an income over \$40,000 and spending on at least one of the items we examined. Of

these, 11,176 (95.95 percent) were not top-coded and otherwise had complete income data. Of this number, 210 (2.0 percent) were excluded because of unreliable spending data.

Hispanic CUs. There were 3,306 CUs in the original file who claimed at least one Hispanic as a household head and who spent on at least one of the items we examined. Of these, 2,656 (87.5 percent) had complete income data and were not top-coded. Examination of spending patterns led to the exclusion of 128 cases (5.0 percent) with extreme expenditure levels.

Calculating the Tax Burden Indices. We sorted the Hispanic households into groups by household type (married or not, with or without children, etc.), based on information in the CES file. We then calculated the median income for the households in each family type. This is reported along with the tax burden indices.

In order to derive the burden indices, we calculated four statistics for each commodity for each household type. Each statistic was expressed as the percent of income spent, not the dollar amount. The four statistics are:

1. The mean, or average, expenditure on each item by all households in that category, including households with zero expenditures for the commodity in question.
2. The mean, or average, expenditure for all households, including this time only the households that actually purchased the commodity.
3. Again looking only at actual purchasers, the fraction of income spent on the item at the third quartile. One-fourth of purchasers spent this much or more of their income on the commodity in question, while three-fourths spent less.
4. Again for actual purchasers, the fraction of income spent at the first quartile, or the point at which one-fourth of the spenders spent this much or less. If, however, more than one-fourth of all households in the group did not purchase the commodity at all, we substituted a value of zero.

Each of these statistics was used to calculate a corresponding tax burden index. The process entailed simply dividing each statistic by the mean fraction of income that would be spent by households with a \$250,000 annual income if all these high-income households spent equally on the commodity. In other words, Statistic

(1) above for the highest income group was used as the base for all the tax burden indices. However, indices for spenders (Numbers 2-4 above) were not computed if fewer than 50 households in the group bought the item in question. These situations are indicated in the tables by asterisks.

Interpreting the Burden Indices. The indices provide a straightforward but meaningful comparison between the groups. An index value of 1.00, for example, indicates that the excise tax burden falls as heavily on members of the Hispanic household group as it does on households with quarter-million dollar incomes. Higher index values indicate that Hispanic-Americans pay more than their proportionate share of a particular excise tax and lower values indicate they pay less. For example, an index value of 1.25 means that members of the group pay a 25 percent higher fraction of their income toward that particular excise tax than do CUs with incomes of \$250,000 or more. An index of 4.25 means group members pay 325 percent more, or 4.25 times as much, in excise taxes measured as a fraction of income, compared to households with \$250,000 annual incomes.

The four indices for each commodity can also be analyzed within each group of Hispanics. The following paragraphs are numbered to correspond to the numbered statistics in the previous subsection.

1. If all households in the category not only purchased the item but also spent exactly the same fraction of their income on it, excise tax burdens for all of them would be the same. The difference between this equal burden within the group and the burden on very high income households and in other groups is indicated by the index value itself.
2. If only those who purchased the item spent exactly the same fraction of their income on it, they would have an equal tax burden among themselves. This burden would differ from the one borne by other groups of spenders, as indicated by the indices for those groups. It would also differ from the burden borne by non-spenders in this group (and incidentally, in all other groups as well) because non-spenders have a zero tax burden.
- 3/4. Not only are there different tax burdens on spenders and non-spenders, but even among spenders. Comparing indices for the third and first quartiles shows how widely divergent these burdens are. These differences are in addition to any that exist between group members on average and members of the highest income group.

For example, consider the group of all Hispanic households who use telephone services. Their index value is 8.62 which means that on average they pay 8.62 times as much of their income toward the telephone excise tax as do households with \$250,000 or higher incomes. The third and first quartile indices, 9.74 and 2.24, show how non-uniformly this burden is distributed, even among phone users. One-fourth of them pay at least 9.74 times as high a fraction of their income in phone taxes as the very wealthy, while another fourth pay 2.24 times as much or less. All other Hispanic phone users are somewhere in the middle of this very broad range.

Finally, even if the telephone excise tax were such that all Hispanics paid exactly the same fraction of their income toward it, that fraction would be 7.99 times as high as is now paid by the very wealthy. This is indicated by the tax burden index of 7.99 for the case when spending is spread equally over all households.

Personal Income Tax

Calculations of personal income tax liability were performed with the assistance of a software package called "Turbo Tax", a registered trademark of Chipsoft, Inc., and reflect laws in effect for the filing of 1991 returns.

The "average" index refers to a family with average sources of income for a particular income level -- that is, a family with an average proportion of wages, interest, dividends, welfare payments, and so on, that together add up to the total family income. The "average" index also refers to a family with average deductions for families at a given income level (unless more than 50 percent of the families at that income level utilized the standard deduction; in such cases, we assumed that the "average" family utilized the standard deduction as well).

The "high" index refers to families who obtain all of their income from wages and always utilize the standard deduction.

The "low" index represents an attempt to analyze the tax payments of those families who receive above-average sources of tax-exempt income, such as welfare payments, child support payments, and the like. The "average" figure captures tax burdens for families who represent a composite of all families at a certain income level. In other words, the "average" figure mixes together families who receive tax-exempt income such as Aid for Dependent Children and families who do not.

The "low" index reflects the sources of income for those families who receive a significant part of their income from these tax-exempt sources. We factored in only those sources of tax-free income which were received by more than 25 percent of the families at a given income level. We then calculated how large a share of total family income this tax-free income represented for those families and only those families who actually received such income.

The data on sources of income were derived from tables prepared by the Congressional Research Service for the 1991 edition of "Background Material and Data on Programs within the Jurisdiction Of The Committee On Ways And Means," and are based on the 1991 *Current Population Survey*. Data on itemized deductions were obtained from the Internal Revenue Service, "Statistics of Income Bulletin," Spring 1991, Washington, D.C., 1991.

The Payroll Tax

Calculations on the payroll tax are based on data extracted from the Committee on Ways and Means, Green Book, 1991. We have chosen representative African-American family income groups to compare to the base family with an income of \$250,000. Based on these data, it is assumed that 50% of this \$250,000 is from wages and salary, and therefore subject to the payroll tax. This 50-50 split is typical of the income composition of wealthy Americans.

Middle- and low-income families, however, typically earn 80% or more of their income from work. We have therefore calculated two tax burden indices for each family group -- one assuming that the family earns 100% of their income from work; the other assuming the family earns 80% of their income from work. These indices are measured relative to the tax burden of the typical wealthy household earning \$250,000.

An exception to this rule is made for single women with children. The typical single woman with children earns about 45% of her income from work. To provide a reasonable range for this family type, payroll tax burdens were calculated assuming that 60% and 30% of that family's income is from wages. This is also measured relative to the tax burden of a family earning \$250,000.

The full payroll tax of 7.65% is applied to wage earnings up to \$55,500 per year. A much smaller Medicare payroll tax of 1.45% is applied to annual wage earnings between \$55,500 and \$130,200. No payroll tax is applied to earnings above \$130,200 per year.

APPENDIX III

HIGHLIGHTS OF THE 1986 TAX REFORM ACT

While the income tax frequently receives criticism, it is still by far the best deal for the vast majority of Americans.

The basic fairness of the personal income tax was improved even more with the passage of the Tax Reform Act of 1986. Tax reform accomplished several important goals by increasing the value for working people of three very important elements of the tax code: the personal exemption, the standard deduction, and the earned income tax credit.

The Personal Exemption

The personal exemption was designed to adjust individual taxes for the variety of factors that affect the relative ability of families to pay. Clearly, two families of equal income, one with four children and one with no children, have vastly different abilities to pay income tax. Raising a child is obviously an important cost factor that should be considered in taxation.

The Tax Reform Act of 1986 increased the value of the personal exemption from \$1,040 to \$2,000. For Hispanics who are struggling to make ends meet, every tax credit that adjusts for relative ability to pay based on family size is a tremendous help.

The Standard Deduction

The standard deduction was instituted in 1987 to simplify the tax filing process. It provides a fixed level of deductions for persons who don't want to keep or who would not gain any financial advantage from keeping a detailed list of itemized deductions. In this way, it basically serves as a simple substitute for a detailed list of the variety of factors that affect people's relative ability to pay, such as state and local taxes paid, medical expenses and charitable contributions.

The Tax Reform Act gave a substantial boost to the standard deduction that may be claimed by the heads of households. This is of particular advantage to the many female Hispanics who are heading households. Traditionally, the tax code had treated such families in a manner far closer to single taxpayers than married couples. This reform realized the frequently diminished ability by single families who are working to raise a family to pay taxes, and was thus a pro-family portion of the tax reform.

The Earned Income Tax Credit

The earned income tax credit is a refundable credit designed to alleviate the combined federal tax burden of income and payroll taxes on the working poor. If the credit is greater than the total federal income tax bill owed by the taxpayer, the federal government mails out a refund check for the difference. This provides some relief from payroll taxes -- which are, as we have seen, by far the largest burden on the working poor.

BIOGRAPHIES

This report was prepared by the Labor Council for Latin American Advancement (LCLAA) with assistance from The Strategy Group.

JACK F. OTERO

Jack Otero is recognized as an outspoken national leader in the cause of uplifting the economic, social and political standing of Hispanic-Americans.

Born in Havana, Cuba, on April 13, 1934, Otero immigrated to the United States in 1954 and went to work for the Illinois Terminal Railroad in St. Louis, Missouri, where he joined the Brotherhood of Railway and Airline Clerks. In 1960, he became a naturalized U.S. citizen.

First elected in 1971, Otero is in his 6th term as International Vice President of the Transportation and Communications Workers Union (TCU). He is responsible for state and federal legislation, political education, governmental affairs and international affairs.

Otero was one of the founders of the Labor Council for Latin American Advancement in 1972 and has been president of the national LCLAA since 1985. LCLAA is the Hispanic arm of the AFL-CIO and speaks for 1.4 million Hispanic union members.

At the 19th AFL-CIO Constitutional Convention in 1991, Otero was elected a Vice President of the AFL-CIO, the first Hispanic labor leader ever to attain this post.

DOUGLAS SCOFIELD

Douglas Scofield is the research director at The Strategy Group, a political and public policy consulting firm based in Chicago, Illinois. He is a former staff member of the Chicago City Council Committee on Economic Development, and has served as chief of staff for a Chicago Alderman. He is a former writer for the Lexington Herald-Leader and a graduate of the Northwestern University Medill School of Journalism.

ARTHUR LYONS

Arthur Lyons is the president and director of the Center for Economic Policy Analysis (CEPA), an independent research organization based in Chicago, Illinois. CEPA conducts public policy research for community-based organizations and for state and local governments. Lyons is the former administrative assistant of the Cook County Board of Tax Appeals. He also taught urban planning at the University of Illinois' Chicago campus for ten years. He received his doctorate in economics from Northwestern University in 1977.

For additional copies of this publication
write or call:

**Labor Council for Latin American Advancement
AFL-CIO Building - Suite 310
815 Sixteenth Street, N.W.
Washington, DC 20006-4104
202-347-5095**

