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New Tax Plan May Bring Shift In Burden
Poor Could Pay A Bigger Share

By Jonathan Weisman
Washington Post Staff Writer
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As the Bush administration draws up plans to simplify the tax system, it is also refining arguments for why it may be necessary to shift more of the tax load onto lower-income workers.

Economists at the Treasury Department are drafting new ways to calculate the distribution of tax burdens among different income classes, which are expected to highlight what administration officials see as a rising tax burden on the rich and a declining burden on the poor.

The efforts would thrust the administration into a debate that until now has lingered on the fringes of economic policy: Are too few wealthy Americans paying too much in taxes for too many, and should the working poor and middle class be shouldering more of the tax burden?

"The increasing reliance on taxing higher-income households and targeted social preferences at lower incomes stands in the way of moving to a simpler, flatter tax system," R. Glenn Hubbard, chairman of the Council of Economic Advisers, warned at a tax forum at the American Enterprise Institute on Tuesday.

The Council of Economic Advisers' "Economic Report to the President," scheduled for release late next month or in early February, is to include a section arguing for new methods to calculate the distribution of tax burdens on various income groups.

The Treasury Department is working up more sophisticated distribution tables that are expected to make the poor appear to be paying less in taxes and the rich to be paying more.

Answering critics who say the working poor do face high taxes because they pay high Social Security payroll taxes, outgoing White House economic adviser Lawrence B. Lindsey told the AEI tax forum that the 12.4 percent Social Security levy should not be considered when tax burdens are calculated. Lindsey said the Social Security tax is ultimately returned to the taxpayer as a benefit.

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Lindsey compared the Social Security tax to a deposit in a neighborhood bank's Christmas Club. In such clubs, periodic deposits are returned in a lump sum during the holiday season, and Lindsey said no one would consider such deposits a tax.

Early this month, J.T. Young, the deputy assistant treasury secretary for legislative affairs, lamented in a Washington Times opinion article: "[Higher] earners cannot produce the level of revenues needed to sustain the liberals' increasingly costly spending programs over the long-term. . . . If federal government spending is not controlled, then the tax burden will have to begin extending backward down the income ladder."

The tenor of the administration's policy discussions marks a dramatic shift from early in 2001, when Bush sold his 10-year, \$1.35 trillion tax cut as a tool to "take down the tollgate on the road to the middle class," emphasizing its beneficial impact on workers "on the outskirts of poverty." At that time, the administration fretted over the tax burden on the working poor, which the White House calculated to include federal income taxes, state taxes and the Social Security tax.

When administration officials pushed the need to create private investment accounts to supplement Social Security, they specifically warned that taxes paid into Social Security would not necessarily be returned unless the system was reformed.

William W. Beach, an economist at the Heritage Foundation think tank, said he was sympathetic to Lindsey's argument that the Social Security tax is not really a tax. But, he said, it was a dangerous argument for a Republican to make.

"Do I allow defense spending to offset my income taxes since I like to be defended? Do I allow road taxes to offset my profits taxes because I use the roads?" he asked. "If you do start down that road, it's hard to see anything as taxes."

But for the purposes of a tax reform debate, removing Social Security taxes from consideration could have a sizable impact. The top 5 percent of the nation's taxpayers paid 41 percent of all federal taxes, a hefty share, according to the Joint Committee on Taxation. But that same group paid from 56 to 59 percent of all income taxes, an even more impressive burden.

"If we take out Social Security, the poor will look very lightly taxed," said Robert S. McIntyre, of Citizens for Tax Justice, a tax research group backed by organized labor.

Democrats say the shift could prove ominous for lower-income Americans. And they appear eager for the fight.

"These people are setting the tone in saying the poor really are not being taxed enough and that the burden is too high on the rich," said New York Rep. Charles B. Rangel, the ranking Democrat on the House Ways and Means Committee. "We're going back some 70 years."

Rep. Robert T. Matsui (D-Calif.), a member of the committee, said: "I don't think there's any question you have a number of extremists in the Republican ranks that would like to see the wealthy do very well. They're going to try to make the case that the average American is overtaxed and subsidizing the poor."

But to some conservatives, the shift is long overdue. Rep. Jim DeMint (R-S.C.) has argued for two years that the nation is

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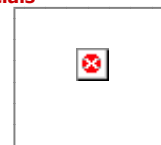
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entering a dangerous period in which the burden of financing government is falling on too few people. In such an environment, the masses will always vote for politicians promising ever-more-generous social programs, knowing they will not have to pay for such programs, DeMint warned.

"This issue is coming to a head," DeMint said earlier this month, just minutes after making his pitch to outgoing Treasury Secretary Paul H. O'Neill. "You can't maintain a democracy if the people who are voting don't care what their government costs."

DeMint and his allies have called for a national sales tax to replace the income tax. For those below the federal poverty line, sales taxes paid would be refunded, but under the system, at least they will have seen the cost of government, he said. The working poor would accept a higher tax burden because they would be relieved of the need to file a tax return.

DeMint called his ideas "the duck's feet under the water," propelling his proposals forward invisibly. Conservative thinkers at the Heritage Foundation and other think tanks have begun expressing similar opinions. Last month, the Wall Street Journal editorial page made waves with an article titled, "The Non-Taxpaying Class."

"Workers who pay little or no taxes can hardly be expected to care about tax relief for everybody else," the editorial stated. "They are also that much more detached from recognizing the costs of government."

But advocates of this new line can expect a furious backlash. Liberal commentators have already reduced the argument to an appeal to tax the poor, and even conservatives worry that the label will stick.

"It's hard to conclude it's anything else," said the Heritage Foundation's Beach.

Michael J. Graetz, a Yale University law professor and tax reform expert, said he could not figure out where the administration's arguments are supposed to lead.

"I would be very surprised if the agenda is to put more people on the tax rolls," he said. "That doesn't seem like a good political agenda."

But Democrats say that is exactly where the administration is heading. Matsui said he sees the seeds of a disastrous Republican overreach.

"The president is making the case that people who earn between \$50 [thousand] and \$75,000 a year should be paying a third more taxes," Matsui said. "I'd love to debate him on that."

But McIntyre worried that in the marketplace of ideas, the new argument could carry the day.

"I would hope the public would find it repugnant," he said, "but I suppose you never know."

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