

VILLAGE VIEW

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How does the size of the federal budget deficit affect the average taxpayer? Is there any reason the average American should concern himself about it? And if so, what can he do about it other than complain?

When the government doesn't raise enough money from taxing its citizens to cover its expenditures, funds to meet federal bills are borrowed from banks. When lending money to the government or anyone else, banks charge interest. Deficit spending, then, is not only the cost of programs authorized and funded, but the costs of borrowing: The interest payments. Sooner or later, taxpayers must kick in enough to repay principal amounts borrowed, plus interest.

That's why all of us are affected. We have but two choices: put the federal government on a pay-as-you-go basis, or come up with the extra cash. Complaining does little good unless we join together and speak with one voice to our elected representatives in Congress. Our votes put them in office; to stay in office, they must react to citizens' demands. If we are to complain, let us complain in influential ways.

The Internal Revenue Service (IRS) is charged with the job of collecting taxes; in that unpopular department there is growing concern about increasing numbers of citizens who are evading or under-paying their taxes. The IRS estimates losses resulting from non-compliance with tax codes amount to over ninety billion dollars annually.

This loss is a matter for individual concern since that money, if collected, could make a big difference in the size of the deficit, and therefore in interest payments. Each honest taxpayer is penalized by tax-cheaters.

Who are the non-reporters? Why do they evade payment? Can they be forced to carry their fair share of the burden?

Historically, Americans have paid voluntarily the taxes necessary to support our government. Taxpayer-resistance lies, primarily, in three sectors.

In one, the criminal element, money made by illegal means goes unreported because those involved in crime are unlikely to reveal their activities or their sources of income. Only the naive expect voluntary compliance from such as these. But their numbers are growing. The public should be aware of all of the costs of crime. And this is one of them.

To enable collection would require supervision of activities which are, obviously and admittedly, beyond the capacity of law enforcement officials to control. If this were not the case, criminal activity would be wiped out entirely.

The result? Honest American taxpayers subsidize all criminal activity that produces revenue in this country.

In another, (and the size of this group can only be estimated) people engage in honest toil, receive compensation in cash, but neglect to report some or all of their earnings.

Included in this group, the IRS suspects, are some who work for a small salary plus tips, some semi-retired who pick up odd jobs to supplement social security income, some unemployed of all ages who work for cash while collecting benefits, and some self-employed who fail to report all remuneration.

The reasons these people may not pay all the taxes they owe are more complex. A decade of double-digit inflation undermined the purchasing power of their earned dollars to such an extent that meeting basic living expenses put enormous strains on people in lower income brackets. At the same time, even though their earnings may rise, bracket creep syphons off more and more of their gross income leaving them with take-home pay inadequate to meet basic needs.

Finding themselves in a double-squeeze between decreasing purchasing power per income-dollar and higher tax brackets, people on the cutting edge—the working poor—may under-report their incomes. By so doing, they gain on two fronts.

To collect those lost tax dollars, the IRS would need access to expense details of every household and small business in the nation. Every cost would have to be itemized and cross-checked. So far, although computer-capacity probably already exists or soon will, the necessary programming of information is too unwieldy to handle. Therefore, a certain amount of taxable income quite probably goes unreported.

The result: the honest taxpayer subsidizes under-reporters in addition to criminals.

Finally, a third group of non-paying or low-taxpaying Americans consists of those who channel discretionary money (i.e. funds over and above that spent to live in the style to which they have become accustomed) into untaxed investment. This is entirely legal. This group is taking advantage of the so-called "loopholes" in the tax code. While this may seem to the majority of taxpayers an unfair advantage, "loopholes" were created (at least ostensibly), to encourage investment of capital in businesses to provide goods and services and to generate employment for millions of American workers and, in addition, for millions of people of other nations. Without capital investments, there would be no jobs.

While the number of wealthy people who can avoid paying taxes is comparatively small, their incomes, in proportion to the taxes paid, are large. And, in a way, the honest American taxpayer is subsidizing the wealthy.

In another way, however, he is indirectly guaranteeing his own opportunities to make a living. Without successful businesses, as the recent recession has demonstrated all too well, unemployment threatens everyone's economic health and security.

The complexities of this nation's economy raises myriad questions about budgeting, taxation, and business practices; all are interconnected and interdependent. Solving a problem in one area creates enormous problems in the others.

No one denies the tax code should be revised to eliminate inequities and assure that everyone carries his own share of the burden without suffering undue hardship. No one denies all must participate to keep the system from collapsing. And no one blames the honest taxpayer who is resentful about paying taxes to subsidize criminals, cheats, and the wealthy.

On the other hand, no one knows, or may ever know, exactly how to accomplish the ideal arrangement wherein everyone pays what he should, no more and no less. If we ever to achieve that goal, a clear understanding of how government machinery operates and works together with the cogs and wheels of business is vital to the public. Only when all of us who are directly affected see all the dimensions of the situation will better solutions emerge.