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An Analysis of American Taxation

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There are very few things in this world that manage to have a dramatic impact on almost every single person that lives within a modern society. For better or for worse, taxes are included among this small group. Due to the evolution of countries within their own political systems, most countries have drastically polarized views of taxation. Throughout most of Europe, the burden of taxes on the citizenry tend to be higher due to the amount of spending and benefits that come from the money that is put into it. The United States, on the other hand, tends to have a negative view of taxes. While there are many reasons for this general distrust of taxes, they continue to be a necessary evil in our society in order to help fund anything from publicly based institutions to our infrastructure. The recent presidential election helped call attention to our country's need to have a prolonged discussion regarding taxation. Whether it was the incredibly liberal Democratic Candidate Bernie Sanders' die-hard fans that promoted increased taxes, or the strictly conservative incumbent President Donald Trump's winning platform that focused on lowering taxes, the diametrically opposed feelings toward taxes is something that needs to be fully fleshed out before our country is able to move forward.

Taxation dates back to approximately the 28th century BC, where Ancient Egypt began what is now commonplace throughout the entire globe by beginning to impose a required payment to the government by (Taxes). Taxation, at its root, is the collection of money by a government from its citizens in order to help fund public services. Taxes have been used from this time going forward in most developing civilizations, and very quickly became a standard practice for society as a whole, especially throughout much of Europe. Jumping forward to the colonization of the new world (at this point, England's 13 colonies), taxes were placed onto citizens, but they managed to remain rather low. From when colonization of the colonies began in the early 17th century until 1765, there was not much discussion regarding taxation in the colonies. Taxes remained rather low, and while the citizens of these colonies did not have any representation, they were not yet angered enough to speak up about it. In 1765, however, the Stamp Act was passed by Great Britain's parliament. This action required newspapers, legal documents, playing cards, and numerous other paper-based goods to have a tax stamp placed on them. Outraged by parliament's decision, the colonists protested heavily against the Stamp

Act, primarily citing that despite the huge tax implication that this action carried, the colonists were still not receiving adequate representation for what they had to pay for. It was from this protest that the phrase “No Taxation without Representation” was birthed, a motto that was carried into the Revolutionary War, and is still used to protest mistreatment throughout the world today.

Great Britain ended up repealing the Stamp Act, but still believed that they had to place some sort of a tax on their colonies. Not only did Great Britain have to help fund the military that they had stationed across the Atlantic Ocean protecting the new world, but also, they had to prove themselves to still be in control of the colonists. Over the next decade, the parliament continued placing taxes on the colonists of the New World, one of the most famous being the Tea Act of 1773. A group of Americans formed together and protested the new tax by dumping containers of tea into the Boston harbor. Tensions continued to rise after this action, and eventually, pushed the colonies into the Revolutionary War.

Much like the 18th century, taxation in the 21st century has the power to positively or negatively impact a country with incredibly drastic results. Because of its impact on society, there are many people that feel incredibly passionate about how taxes should be handled. There are many proponents of government intervening as little as possible with taxation, and keeping the system very simplified. On the other hand, there is a growing movement (particularly in the United States) that is pushing for a more socialist view of taxation, that would increase taxes on some brackets, but would also provide more benefits for society as a whole to take advantage of. In order to better understand the rivalry between these two opposing forces, it would be best to have a basic understanding of the different types of taxes throughout the American tax code.

The most encompassing tax in the United States is the federal income tax, as it has to be paid by anyone that has their home or business throughout the United States. The amount that an individual pays is based off of a progressive tax, which makes citizens pay a higher percentage in their taxes if they make more money. The specific brackets that taxpayers must adhere to can be found below.

Similar to the federal income tax, most states also impose an income tax of their own. While most of these states implement a progressive tax (similar to the federal one), there are some states that implement a flat tax, which taxes every single taxpayer in the state the same way, regardless of their income. While this can be seen as a much more fair or equal approach by some, others criticize the idea of a flat tax because it enables people that have incredibly high income for a year to be taxed at the same level that someone living in poverty could be making.

One question that a lot of people tend to have regarding income taxes is how a lot of wealthier taxpayers manage to pay as little as possible. Some might remember during the campaign for the 2012 presidential election, a lot of controversy came out regarding Mitt Romney, since he made $13.7 million in 2010, and only had to pay $1.9 million, which gave him an effective tax rate of 14.1%. While this was his effective tax rate, he should have been taxed (as seen below) at a 39.6% level based off of how much money he made in a year. This causes a lot of concern among taxpayers, and brings forth a lot of questions about how Romney (and countless others every year) managed to get away with paying so much.

The reason Romney was able to pay such a miniscule amount of money (especially compared to the amount that he made in the year), was because of the way that he earned the income from that year. Most of the $13.7 million came from investments and holdings that Romney had, rather than from his actual job, which he would have had to pay a significantly higher amount of tax on. Along with this, Romney was also taking advantage of as many deductions as he was able to. This, along with giving money to charity, helps to decrease the amount of tax that a person has to pay to the IRS, and will ultimately yield that taxpayer a much lower effective tax rate. In Romney’s case, his tax rate was a 14.1% for 2010, but according to analysts, he could have made it drop below 13% if he had reported the full amount that he had actually donated to charity. Having never dropped below a 13% effective tax rate, however, Romney was hesitant to do this, and decided that it would be better for him to pay more in taxes rather than to report the full donation amount to charity.

2016 Federal Income Tax Brackets

SINGLE		MARRIED, FILING JOINTLY		HEAD OF HOUSEHOLD	
INCOME RANGE	TAX	INCOME RANGE	TAX	INCOME RANGE	TAX
$0 - $9,275	**10%**	$0 - $18,550	**10%**	$0 - $13,250	**10%**
$9,276 - $37,650	**15%**	$18,551 - $75,300	**15%**	$13,251 - $50,400	**15%**
$37,651 - $91,150	**25%**	$75,301 - $151,900	**25%**	$50,401 - $130,150	**25%**
$91,151 - $190,150	**28%**	$151,901 - $231,450	**28%**	$130,151 - $210,800	**28%**
$190,151 - $413,350	**33%**	$231,451 - $413,350	**33%**	$210,801 - $413,350	**33%**
$413,351 - $415,050	**35%**	$413,351 - $466,950	**35%**	$413,351 - $441,000	**35%**
$415,051+	**39.6%**	$466,951+	**39.6%**	$441,001+	**39.6%**

Source: Internal Revenue Service, "Revenue Procedures 2015-53."

With the wide variety of taxes that are used throughout the American tax code, the job of the politicians in both our national and our local governments is to ultimately figure out how the money that is raised from taxes is going to be used. This is the point where the confusion and the difficulty surrounding taxes begins to surface. The tax code itself is incredibly lengthy and can be complicated to understand, and is something that is constantly changing, or at the very least, is able to be changed. Especially in recent years, taxes have quickly become a vital talking point in any local or federal election. On the one hand, more conservative candidates tend to favor keeping taxes low so that the individual has more freedom to choose what they want to do with their money. More liberal candidates, however, feel that taxes should either remain the same for some income brackets, or should be raised, but should overall give much more incentives to society. These two opposing groups ultimately clash on the political field when trying to do what they and their voters believe is the best for the future of the country.

One of the most interesting points of the 2016 Presidential election was the rise of Bernie Sanders, an Independent Senator from Vermont. During the lead up to the election, Sanders managed to amass a considerable following, particularly among Millennial voters, many of whom felt that Sanders fit the ideals that they would look for in a Presidential candidate. While Sanders had various ideas that helped to set him apart from the rest of the candidates, one of the biggest things that he fought for was to fight back against Wall Street and the millionaires that work there, trying to secure more rights for the diminishing middle class. Much of Sanders' plan revolved around taxes, which he would have used in ways never seen before in the United States. One of the most interesting things about Sanders' tax plan was that he acknowledged the fact that the average taxpayer would quite possibly be paying more in taxes if he was to be elected as president. Sanders put out a table that showed the various brackets that taxpayers would fall under for their income tax levels, which showed the fact that people making certain levels would be paying more in taxes compared to what they would be paying with Trump's plan (see below). Sanders' reasoning for this, however, pointed to the benefits that would come from paying more in taxes: having a more established system for universal health care, and having public colleges and universities provide education for free for all Americans.

Table 1. Individual Income Tax Brackets under Senator Bernie Sanders's Tax Plan

Ordinary Income	Capital Gains and Dividends	Single Filers	Married Filers	Heads of Household
12.2%	2.2%	$0 to $9,275	$0 to $18,550	$0 to $13,250
17.2%	2.2%	$9,275 to $37,650	$18,550 to $75,300	$13,250 to $50,400
27.2%	17.2%	$37,650 to $91,150	$75,300 to $151,900	$50,400 to $130,150
30.2%	17.2%	$91,150 to $190,150	$151,900 to $231,450	$130,150 to $210,800
35.2%	17.2%	$190,150 to $250,000	$231,450 to $250,000	$210,800 to $250,000
39.2%	39.2%	$250,000 to $500,000	$250,000 to $500,000	$250,000 to $500,000
45.2%	45.2%	$500,000 to $2,000,000	$500,000 to $2,000,000	$500,000 to $2,000,000
50.2%	50.2%	$2,000,000 to $10,000,000	$2,000,000 to $10,000,000	$2,000,000 to $10,000,000
54.2%	54.2%	$10,000,000 and up	$10,000,000 and up	$10,000,000 and up

Note: The bracket thresholds above are based on 2016 parameters.

Compared to many countries throughout the world, the American healthcare system is incredibly unique. In the United States, healthcare coverage is something that needs to be purchased or received through an employer. In many parts of the world, however, healthcare is considered to be a universal right for all, and is instead paid for through taxes to the government. At the moment, taxpayers are not required to pay taxes on the value of their health insurance that they receive from employers. Under Sanders' plan, nearly all private insurance providers would cease to exist, causing employers to compensate their employees by simply paying them more money instead. While this seems beneficial, the higher wages and salaries of the taxpayer would eventually be taxed anyway, so that it could help cover the government based insurance plan. This would effectively make the rise in salary and wages pointless, as it would be taking the money the worker would be making and putting it towards their health insurance, which they wouldn't get a choice.

Similar to his liberal stance on healthcare, Sanders' plan for education focused primarily on the ability to be able to send every American citizen to college if they would want to attend. In Sanders' mind, education has become such an integral part of the modern world, and whether you want to take classes to study for a specific profession or to simply further knowledge in your personal interests. While there were many critics of his college plan, it would once again be paid for solely by the use of taxation (Cole, Greenberg). By placing a .5% speculation fee on investment houses, hedge funds, and other stock trades, as well as a .005% fee on derivatives, Sanders' plan would be able to cover any student that would want to attend a public university.

The more liberal tax plan would ultimately increase taxes for many taxpayers. While it is not a guaranteed across the board tax increase, almost every citizen throughout the country would feel the effects from a more liberal tax plan. While it could end up costing the taxpayer a bit more of their income every year, it could ultimately end up benefiting them significantly in the long run. Many taxpayers have difficulty afford medical coverage because they are either working for an employer that has poor medical benefits, or because they have health problems that their provided medical plan does not significantly help with. Even though it could cost more money in the long run, it would guarantee a standard of quality health care throughout the United States for all citizens, something that liberal voters would tend to favor. Aside from health care, the increase in taxes would also help to fund public education, specifically for higher education like colleges and universities, as well as many parts of American infrastructure that are in dire need of maintenance. A broad summarization of this method of taxation is that while the taxpayer might be spending more money on their taxes, they would be getting a lot more benefit out of the amount of money that they are putting in. By putting money generated from taxes into more tangible incentives (healthcare, higher education, etc.), it would also help give taxpayers a bit more trust in the American political system, and would help them see the benefits of taxes more clearly, as opposed to the current system where many people have issues with paying more taxes because they feel as if they go to waste the vast majority of the time.

When examining a more conservative tax plan, it is clear that there are many significant differences when compared to a liberal one. Donald Trump's tax plan focused on trying to minimize the amount of taxes that were being paid by American citizens. His overall goal was to reduce the amount of income tax and corporate tax, as well as to fully eliminate the estate tax throughout the country.

One of the most attractive parts of Trump's tax plan is the fact that it is so easily simplified. One of the biggest difficulties with American taxation (or taxation in general) is that there are pages upon pages of codes and exceptions for nearly every rule. When examining his planned income brackets below, there are three major levels of taxation that taxpayers will fit under, which is an incredibly simplified plan compared to a more liberal approach that was being pushed by candidate Bernie Sanders (shown above). By keeping the rates the way that they are in Donald Trump's plan, there is much more simple and standardized way for more Americans to understand which bracket they are going to fit under when they are going to work on their income taxes for a given year.

Table 1. Individual Income Tax Brackets Under Donald Trump's tax plan

Ordinary Income Rate	Capital Gains Rate	Single Filers	Married Joint Filers
12%	0%	$0 to $37,500	$0 to $75,000
25%	15%	$37,500 to $112,500	$75,000 to $225,000
33%	20%	$112,500+	$225,000+

One of the biggest reasons that many people supported Donald Trump's tax plan is for its simplicity and ease of use. Another reason is that they feel that the government should not be responsible for health care within the United States, and that taxes should not be used in order to fund a system for universal healthcare. One argument insists that it is better to have the personal choice to choose your provider because only you can know what plan or insurance company would work best for you and your needs. If the government were to be in control of healthcare, they would choose a plan and a system for you, and you would not have as much control over your health as you might want. Others also argue that the quality of care would begin to plummet if the government took over. The quality of health care in the United States, in its current form, ranges from being mediocre to being one of the best in the world. Part of the issue is that unless a taxpayer is able to afford high insurance costs or high medical bills, they will usually get stuck with an overall subpar medical experience, or with absolutely no coverage at all. The benefit to having universal healthcare would be, while there wouldn’t be as much freedom and personal choice involves as many would probably hope for, it would at least set a guaranteed standard of service that Americans could expect if they were to have any medical issues.

Another part of Trump’s tax plan is his dedication to ensuring that the estate tax is removed during his presidency. The estate tax is a charge that is levied on the assets of someone that passes away before the assets are given to the heirs. While not every state employs an estate tax, there are many that do throughout the country, which helps to raise a large amount of revenue every year. Trump’s decision to eliminate this tax is understandable, but it would also end up taking away from the United State’s revenue that it manages to generate from taxes. On the other hand, the biggest concern that people have with the estate tax is that in their mind, the assets of the deceased effectively end up being taxed twice: when they are earned/taken out, and when they are passed onto the heirs. At the same time, the estate tax only tends to affect wealthier Americans, since as of 2016, each individual was able to pass on $5.45 million in assets to their heirs after they pass away. Part of the reason Trump finds it important to repeal the estate tax is because it is something that would directly impact him and his family should he pass away, since he is easily worth a significantly higher amount than $5.45 million.

For the immediate future, there is pretty much a consensus as to what the plan for taxation will be, especially considering the fact that the government is almost entirely controlled by the Republican Party. Going forward, however, it would be a good idea to have a few ideas about the different options that American taxpayers should consider when they are voting for anyone running for political office.

Some political candidates in the past have called for an across the board repeal of income taxes, and replacing them with a varying amount of consumption based taxes. While this movement has seemed to end a bit, especially in recent years, the basic idea that they had was to add an increased amount of retail sales tax and individual consumption taxes, and to take away the income tax. While there have been studies showing the benefits and problems with this kind of tax system, there are two specific reasons that a group of consumption based taxes was put into effect:

1. This kind of tax would place an incredibly large burden on lower-income households
2. No major industrialized nation has ever repealed their income tax

At the end of the day, the consumption-based tax system definitely has merit, but in the state that members of Congress were pushing for, it had a lot of fundamental problems.

One idea that has been thrown around in the past is something that is called the Buffett Rule. This rule states that any person that is making more than $1 million per year would be forced to pay an effective tax rate of 30% at a MINIMUM, subject to be higher depending on their exemptions. Unfortunately, while this is a good idea, it would not actually work if it was to be employed. The issue with this rule is that many millionaires don’t actually make $1 million worth of income over the course of a year. They are able to rely on holding larger assets that will allow them to live the way that they want to. Along with this, many of the stocks that the Romneys specifically held had dividends. A non-dividend paying stock does not have to show any sort of taxable income.

Ultimately, the current status of taxation in the United States is something that can only be truly unpacked with a large amount of knowledge and experience. The ever-growing split between voters (primarily Republicans against Democrats) has contributed to a significant amount of this complication, since the two parties have drastically different ideas of how the country should be run. One party favours higher rates of taxation, but an increase in social benefits that will be paid for by the increase in taxes. The other party favours keeping more money in the pockets of Americans, but does not allow for as many social programs to be utilized. Until a consensus can be found, there is not one solution to how taxation in the United States should work. While the current system gets the job done, the polarization of the political spectrum will continue to lead to constant clashes throughout all levels of government, until a more stable status quo is eventually able to be reached.

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