

Just Taxes

The CTJ & ITEP Newsletter

April 2008

Reporter and Author David Cay Johnston Speaks to CTJ about Subsidies for the Rich

New York Times reporter David Cay Johnston agreed to discuss with us his recent book, *Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (and Stick You with the Bill)*. Johnston has spent years writing about (among other topics) schemes used by the rich and powerful to avoid paying their fair share, and even won a Pulitzer Prize for this reporting in 2001.

Free Lunch is a series of stories that startle the reader and illustrate how much the government does, at the expense of all American taxpayers, to further the interests of those who are already rich. Did you know that George W. Bush made his fortune by supporting a regressive tax increase, using the proceeds build a stadium that would enrich himself, and then underpaying his taxes? Did you know that we provide a subsidy, through the tax code, that helps extremely highly compensated business people enjoy all sorts of perks like flying company jets to luxurious resorts? Or that the most successful companies in our supposedly free-market economy decimate localities by extracting tax breaks and subsidies that are several times the size as their municipal budgets? Johnston uses these examples to wake us up to the subtle, carefully concealed methods used by the powerful to dip into the public purse, while those truly in need are often ignored.

Citizens for Tax Justice: Your book describes many situations in which multi-millionaire investors get special benefits that are funded by the taxes paid by ordinary, middle-income Americans, without any noticeable benefits for those ordinary taxpayers. It always strikes us that this is something that the public should be up in arms about. What sort of reaction have you received from people? Does your book help lead people to feel as outraged as we do? What is the secret to making people see what's happening?

David Cay Johnston: That is a good question because while many people are outraged, many others have lost their sense of outrage and, worse, their sense that they have any power to affect change. We need to awaken people to the fact that the government is not a power unto itself, but derives its authority from the consent of the governed and to awaken people to their power to make the government reflect their interests and needs, not to be passive victims. As to opening eyes, the news media plays a key role here. The decline in competition, cuts in newsrooms and the shift toward "professional" journalism that identifies with the powers that be have all contributed to complacency. So has the relative economic success of many people, who do not see

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David Cay Johnston Speaks with CTJ

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he connection between government policy and their lives that was so well understood by generations past.

It's often hard to convince people that subsidies provided through the tax code are in fact subsidies that are provided by the taxpayers. Some defenders of tax subsidies say, "Hey, it's our money, how can it be a subsidy if you just let us keep it?" We try to explain that giving a corporation a tax break of \$1 million while everyone is paying taxes at the regular rate is the equivalent of giving away a subsidy of \$1 million to that one corporation. Either way, there is \$1 million less revenue for everyone else, meaning the difference must be made up in the form of cuts in public services or increased taxes on everyone else.

CTJ: How have the people you've spoken with reacted to your descriptions of unfair tax subsidies that go to the powerful and well-connected, both in your book and in your many articles on the topic in the New York Times?

DCJ: My email and calls suggest a lot of people grasp the unfairness, but many others are more cynical than the most hard bitten reporter of Hollywood lore. Many people believe that the only way little folks can get a little tax cut is if big folks get big tax cuts, which is economic and political nonsense, except if people buy into it. And in our celebrity culture many people identify with the rich, worry about the problems of the rich and buy into the idea that the rich are being oppressed by our tax system. The fact that the incomes and wealth of the rich are exploding is discounted in this kind of thinking. We have come a long way since Martin Luther King said he wanted his four children judged by the content of their character and not the color of their skin, but we have also taken a major step backwards by judging people on the contents of their wallet more than the content of their character.

CTJ: There's a chapter in your book where you talk about a lobbyist hired by a company, Gander Mountain, the sporting goods chain, to actually oppose corporate subsidies. Getting companies to perceive their own self-interest against subsidies for their competitors and to lobby for change was a key to enacting comprehensive tax reform in the 1980s, and is how reform of subsidies can work in general. You see some companies who realize they are put at a competitive disadvantage because other companies are getting a subsidies, or you see some companies who simply realize they could be paying lower taxes if they weren't paying for tax loopholes or subsidies for others. Can this happen now? Are there enough companies like Gander Mountain to join our fight to really grab the attention of members of Congress?

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David Cay Johnston Speaks with CTJ

Cover Story Continued

DCJ: Companies exist to make a profit. They are immortal, soulless and amoral. That is the reason we need rules to control them, so that we get the many benefits corporations provide with as little damage as possible. But the lobbyist class has found ways to form coalitions that undo natural antagonisms among businesses. For example, the National Federation of Independent Business has not tried to stop subsidies to national chains that decimate locally owned small businesses. More companies will become like Gander Mountain only if they see a self-interest in front-door action, as opposed to the backroom work in Washington that seeks to hobble competitors through special rules or unequal enforcement. There is a career out there for someone to organize small- and medium-sized businesses to work for their interests on a large scale against those of the 11,000 or so giant corporations that account for more than 80 percent of corporate profits and have a vastly disproportionate voice in Washington.

CTJ: Time after time you show government being abused for private ends and you show cases of the government interfering in the free market to benefit some well-connected figure, whether it's Cabela and the ridiculous tax breaks they squeeze out of state and local governments, George W. Bush using eminent domain, sweetheart deals and a regressive sales tax increase to pay for a stadium to enrich him and his fellow investors, or Wal-Mart slurping up every subsidy it can find. All of these situations show government picking and choosing which businesses should be successful, and the worst part is that the average taxpayer gets no discernable benefit from this meddling. During the debate of the 1986 tax reform act, we often used the term "tax code socialism" to describe those who defended the subsidies in the tax code for particular special interests, which was quite effective. Are we getting to the point where this message can work again to win over conservatives? Or is the GOP anti-tax fanaticism so strong that closing even the most egregious tax subsidy will be seen by the right as an impermissible "tax increase"?

DCJ: Having such a positive reaction from Libertarians has buoyed me. And other real conservatives are also outraged at what I report. On the other hand, many of the political leaders who describe themselves as "conservatives" do not espouse conservative principles, but radical ones. Conservatism means to hold onto that which time has shown works and to be skeptical of newfangled ideas. It does not mean adopting policies that take from those with less to redistribute to the already rich. These are corporatist policies. I wish the news media would stop labeling people liberal, conservative and the like, but then I also wish every child was born healthy.

CTJ: On the other hand, do you fear that some people will make the opposite conclusion from your book -- that government is essentially rotten and we should just do away with it whenever we can?

DCJ: If government is rotten then we as a society are rotten because the government is merely a convenient vehicle, created by us, to advance the six noble goals identified in the Preamble to our Constitution. (Getting extremely rich is not among those goals.) If we give up on our government then we are giving up on democracy and the liberties of the people, and, in time, both will come to an end. Citizenship is not a game and no one said keeping our freedom and self-governance system would be easy. But we live in an era when we are all told everything should be easy and simple and we foolishly extend that to our government. We need to honor the little heroes (a few of whom are described in *Free Lunch*) who did the right thing. We need to ostracize people whose behavior is beyond the pale (many of whom also show up in *Free Lunch*), rather than treating them as honorable members of our society. Part of that means rejecting the celebrity culture and the glitzmongers who promote it for their own gain. ◆

Where Does John McCain Stand on Taxes?

By: Steve Wamhoff
CTJ's Legislative Director

We thought it was difficult to keep track of the tax positions of all the GOP presidential candidates. But with the GOP primary essentially over, we're finding that wasn't nearly as difficult as keeping track of the tax positions of one particular candidate: John McCain.

Now that the Arizona Senator is the Republican nominee, it's worth asking what sorts of tax policies he would push for as President. Our honest answer: We have no idea. He has held several views and his recent explanations don't quite explain his various policy permutations. As our Congressional report card covering the years 2001 through 2006 shows, CTJ has given McCain an "A" in some years and an "F" in other years. But one might think that the "real" John McCain could be found by digging deeper, farther back into his history.

So it's worth looking at McCain's record before he ran for president in 2000. As explained in a report issued by CTJ on the Senator's record back then, McCain often voted against bills that would reduce the deficit by closing tax loopholes (apparently "pork" is OK in his eyes if it's done through the tax code) or raising tax rates. He did vote in favor of the sweeping revenue-neutral tax reform bill in 1986 (along with an almost unanimous senate), but after the Republicans took over Congress in the 1990s, he sided with his party on bills to provide unaffordable and unnecessary tax cuts.

During his campaign for president in 2000 and for quite a while thereafter, something strange happened to John McCain. He strongly opposed the most central planks in the GOP platform and the driving force behind the conservative movement: tax cuts. Specifically, McCain was one of only two Republican senators to vote against both the 2001 and 2003 tax cuts. It is hard to exaggerate how amazing these votes are, since tax cuts have been the main policy proposal offered by Republican presidential candidates in almost every election since 1980.

Then, as he contemplated another run for the presidency, McCain had another change of heart. The key provision of the 2003 tax cut bill that he had opposed was the tax cut for capital gains and dividends. But In 2005 he voted for the budget reconciliation bill that extended that very gift to the wealthy for an additional two years.

McCain had earlier complained that "repeal of the estate tax would provide massive benefits solely to the wealthiest and highest-income taxpayers in the country," but in 2006 he decided that repealing most of the estate tax was just fine by him. He voted that year for the bill to gut the estate tax, which won a majority of votes in the Senate but failed to obtain the 60 votes needed for passage.

Now McCain has fully channeled his party's orthodoxy against taxes on the wealthy. He says he wants to make

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the Bush tax cuts permanent. He wants to slash the corporate tax rate from 35 percent to 25 percent (even though the tax "burden" on corporations in the United States is already among the lowest in industrialized countries).

Now, it would be one thing if John McCain actually offered some "straight talk" to explain all this. If he simply said he was wrong, or he was temporarily blinded by his rage at the GOP, that would be at least understandable. But instead, he has offered an explanation so convoluted that it defies belief.

John McCain now says that he opposed the Bush tax cuts in 2001 and 2003 because he thought they needed to be accompanied by cuts in spending to keep the budget deficit under control. Actually, what he said in 2000 about then-Governor George W. Bush's tax plan was, "I don't think the governor's tax cut is too big—it's just misplaced. Sixty percent of the benefits from his tax cuts go to the wealthiest 10% of Americans—and that's not the kind of tax relief that Americans need."

Does McCain believe, contrary to almost every mainstream economist, the ludicrous proposition that we can raise revenue by cutting taxes?

But for the sake of argument let's just take his word that he was concerned about budget deficits. How does he explain his position now, since the deficit is worse than ever? Here's a typical answer given by McCain: He explained at a debate on September 5 that he voted against the 2001 and 2003 tax cuts because they did not include cuts in spending, which he thought were also necessary. But at the same time, he also makes the claim that "it's very clear that the increase in revenue we've experienced is directly related to the tax cuts that were enacted, and they need to be permanent."

This is both baffling and astounding. It's baffling because if tax cuts actually could cause revenues to increase, then we would never need to cut spending ever. In fact, we could cut taxes and the resulting new revenue could be used for increased spending!

But it's also astounding because even Bush's Treasury Department has admitted (in a report released in 2006) that tax cuts cannot possibly pay for themselves. Sure, lower taxes might create some incentive to work and invest, resulting in some more income and thus more tax revenue, but that will never make up for more than a small fraction of the cost of a tax cut.

Does McCain believe, contrary to almost every mainstream economist, the ludicrous proposition that we can raise revenue by cutting taxes? Or has he been altering his view to win over an extreme fringe within his party to win its nomination?

So we have a riddle, and like any ancient sphinx, John McCain is not giving any clear answers.

This article was originally published in CTJ's Tax Justice Digest. To receive your copy of this weekly update describing timely federal and state tax issues, send an email to ctj@ctj.org ♦

On Our Bookshelf: 10 Excellent Reasons Not to Hate Taxes

It's hard to find a clear, straightforward explanation of why progressive taxes are necessary and it's hard to find an easy-to-read argument against the zealous tax-cutting movement that has dominated politics for the past couple decades. A lot of the information about tax fairness (even from CTJ and ITEP) is filled with technical terminology or acronyms like AMT, EITC, CTC and countless others.

A new book called *10 Excellent Reasons Not to Hate Taxes*, edited by Stephanie Greenwood, fills this gap. After David Cay Johnston's introduction, ITEP's Executive Director Matt Gardner's opening chapter explains the pragmatic case for taxes (why progressive taxes are actually a good deal) while other chapters lay out the moral argument for taxes, arguments about how taxes can help families, business and the economy and even help us solve our environmental problems.

Many of the arguments directly contradict some of the anti-tax dogma that has taken hold. For example, the chapter by John Abrams of the South Mountain Company and Greg LeRoy of Good Jobs First explains how some businesses

This book provides the common sense that has been in such short supply.

see that it's in their interest to pay more taxes, to make possible affordable housing in the area for their workforce, to build highways that are not congested and to educate their future workforce.

While it seems like common sense to say that taxes are what's needed to build this country, this book provides the common sense that has been in such short supply.

To buy your own copy of this important book simply visit <http://thenewpress.org> ♦

The Latest State By State Estate Tax Data

Tired of hearing all the myths about how many family farmers and small businesses are subject to the federal estate tax?

Check out www.ctj.org to see how many estates in your state are actually subject to the federal estate tax.

ITEP Welcomes a New Analyst

We're happy to welcome Carl Davis to ITEP's Washington DC based research team. Carl is a graduate of Virginia Tech University. He is currently pursuing a Masters in Public Policy from George Washington University and comes to ITEP with a strong interest in state and federal tax fairness issues.

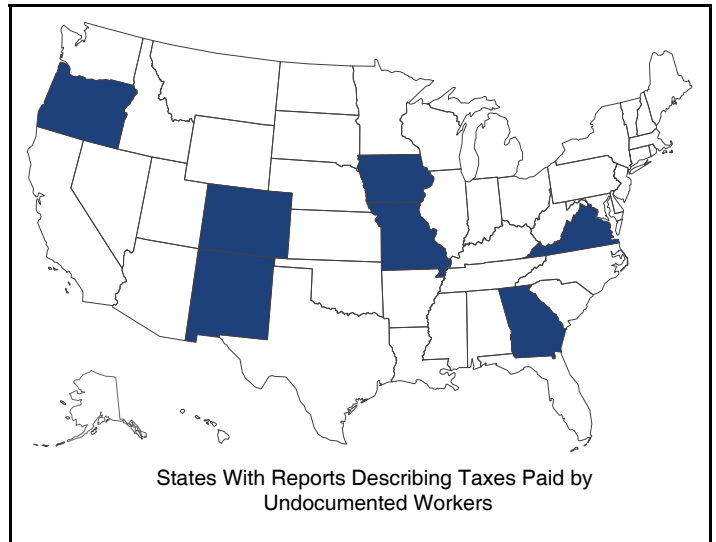
Research Groups Across the Country Use ITEP Data to Combat Anti-Immigrant Rhetoric

All too often, anti-immigration advocates assert that undocumented families impose huge costs on state budgets without contributing anything to state coffers in return.

Research groups in states across the country have used ITEP data to take a hard look at the facts behind how much tax undocumented workers pay. The results of this research reveal that undocumented families pay millions of dollars in state and local taxes through income, property, and sales taxes.

The Iowa Policy Project in their report, *Undocumented Immigrants in Iowa Estimated Tax Contributions and Fiscal Impact*, “Estimate that the average undocumented family in Iowa pays about \$1,254 in sales and excise taxes, \$110 in property taxes, and \$307 in income taxes, for a total tax contribution of \$1,671 each year. This represents approximately 80 percent of the total amount of taxes paid by a documented family in Iowa earning the same income.” It’s evident that regardless of their legal status undocumented workers contribute to state and local governments.

Visit the links below to find out just how much undocumented workers contribute.



Colorado

State and Local Taxes Paid in Colorado by Undocumented Immigrants

Bell Policy Center
www.thebell.org

Iowa

Undocumented Immigrants in Iowa Estimated Tax Contributions and Fiscal Impact

Iowa Policy Project
www.iowapolicyproject.org

Georgia

Undocumented Immigrants in Georgia: Tax Contribution and Fiscal Concerns

Georgia Budget and Policy Institute
www.gbpi.org

Missouri

Undocumented Workers: Impact on Missouri's Economy

Missouri Budget Project
www.mobudget.org

New Mexico

Undocumented Immigrants in New Mexico: State Tax Contributions and Fiscal Concerns

New Mexico Fiscal Policy Project
www.nmvoices.org

Oregon

Undocumented Workers Are Taxpayers, Too

Oregon Center for Public Policy
www.ocpp.org

Virginia

Fiscal Facts: Tax Contributions of Virginia's Undocumented Immigrants

Virginia Commonwealth Institute
www.thecommonwealthinstitute.org ◆

Who Said It?

"I voted against the tax cuts because of the disproportional amount that went to the wealthiest Americans."

Sen. John McCain on Meet the Press in January, the Senator is now an avid proponent of extending the Bush Tax Cuts

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Help Us Prepare for the November Election

In the coming months, CTJ hopes to make clear to the public where the presidential candidates stand on tax issues and which candidate has a vision that will make our tax code fairer and our nation stronger.

Your donations can help us accomplish this.

Right now the American public knows little about the candidates' positions on taxes. Which candidate voted against the rest of his party on the biggest of the Bush tax cut bills, enacted in 2001 and 2003? (John McCain.) Which candidate has reversed his position on the Bush tax cuts since they were initially enacted? (John McCain.) Which candidate promises to extend some, but not all of the Bush tax cuts? (Barack Obama and Hillary Clinton).

These are examples of the sorts of facts that Americans should know before they vote. With your help, CTJ will work to ensure that voters across the country are aware of where the candidates stand on taxes and how their policies would affect ordinary Americans.

Thank you!