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RICH MAN'S TAX POOR MAN'S BURDEN

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FEW PEOPLE realize it, but 84 per cent of all the revenue obtained by the personal income tax comes from the basic 20 per cent rate and only 16 per cent of the revenue arises from progression. If the income presently taxed in excess of 50 per cent were taxed only at that rate, the direct loss in revenue to the government would be just $734 million, which is approximately one per cent of federal revenue collections.

If all progression were to stop, the encouragement to new enterprise would be so great that, after a slight time lapse, net returns to the government would increase because of an expanding economy and higher revenues from greater economic activity.

Let me illustrate. Although I shall not identify him by name, but refer to him only as Mr. X, this is an authentic case of a wealthy man who was approached by a group of people who wanted him and some associates to put up approximately $7,500,000 for a pulp and paper mill, which they proposed to build in the South a few years ago when there was an intense shortage of paper.

This was the equity capital in a total investment of $25 million, the rest of which a financial corporation was prepared to lend. The pulp supply had been located, the project had been carefully engineered, and it showed the probability of earnings on the total investment, after interest on the senior capital, of $2,500,000 a year. That would have been a 33 per cent return on the $7,500,000 risk capital investment – a very attractive proposal.

But the 91 per cent income tax to which Mr. X and his associates were liable compelled them to turn it down. They pointed out that if they undertook the project, it would mean first that the $2,500,000 annual earnings would be subject to a 52 per cent corporate tax. And then, with a normal payout of about 50 per cent of earnings in dividends, he and his associates would have had left, after paying their own taxes, a net return of 67 cents per $100 of investment – just two-thirds of one per cent. If the entire earnings were paid out in dividends, the net return would be only 1.4 per cent. "No, thank you," he said. "We couldn't take the risk to get that kind of a return." The plant never was built, and the paper it would have made is being imported from Canada.

Now, let us see who was hurt in this instance. Not Mr. X. He eats just as well as if he had gone into this venture. But the 500 to 700 people who would have been employed in the small Southern town where the plant would have been built, and which town, incidentally, needed economic stimulation, have been seriously hurt. Some of them certainly don't eat as well because the 91 per cent tax removed all incentive from Mr. X. The small businessmen and the people of the town have been seriously hurt, because they didn't get the stimulation of a new plant with all the payroll and all the purchases that it would have made in this community.

Now, how did the government make out? Did it get any more taxes out of Mr. X? Not a dime. But if the high-bracket tax rate had been low enough to tempt Mr. X and his associates, and the project had gone through, the government would have received a 20 per cent income tax revenue on the earnings of the 500 to 700 people thus employed. It would have received a corporate tax of 52 per cent on all earnings of the corporation, and income taxes from Mr. X on any dividends declared. And this would have been not just for one year but would have gone on continuously year after year.

The point is that, when you discourage initiative, you put brakes on the economy which hurt everyone – hurt government which doesn't receive revenue, hurt people who are not employed, and hurt small businessmen who don't get the stimulation of increased sales.

Every day across this country, instances such as this occur by the scores, if not by the hundreds, although most of them involve smaller amounts and fewer people. The fact is that people in these high brackets are not interested in acquiring income subject to such a tax if they have to take any risk at all to get it.

The 91 per cent rate hurts most, *not* the people who pay it or who even pay 50 per cent or 40 per cent or 30 per cent, but the people who never come within the length of the George Washington Bridge of paying it at all – the poorest and the most desperate in the country – those who are out of jobs because of this tax. • • •

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