Chapter 2.
Share and Share Alike

The most widely accepted principle of tax justice is that taxes should be apportioned strictly in accordance with a citizen's ability to pay...
The average taxpayer's income is spent mostly on necessities, leaving practically nothing for savings or luxuries.

Especially luxuries like taxes?

Rich taxpayers, on the other hand, spend only a tiny fraction of their earnings on necessities and can therefore be taxed at a higher rate.

It's a communist plot to take away my pocket money!

Not surprisingly, the ability-to-pay philosophy has had its share of detractors down through the years.

In most cases, their arguments have sounded just like earlier opposition to the income tax itself: "Punitive" tax rates discourage hard work, penalize success, and so on.

The case was put most plainly by Andrew Mellon, a banker, industrialist, cabinet member, and billionaire of the early 1900's:

"The prosperity of the middle and lower classes depends on the good fortune and light taxes of the rich."
IN RESPONSE, ADVOCATES OF PROGRESSIVE TAXATION HAVE ALWAYS ARGUED THAT IT'S REALLY THE POOR WHO WORK LIKE DOGS, WHILE THE RICH NEED ONLY SIT ON THEIR ASSETS AND WATCH THE INTEREST PILE UP.

BUT THESE ARGUMENTS ARE OLD HAT. NOWADAYS, ENEMIES OF PROGRESSIVE TAX RATES ARE AS NUMEROUS AS EVER, BUT THEY DON'T WASTE THEIR TIME DEBATING THE ISSUE. INSTEAD, MOST HAVE DISCOVERED THAT IT MAKES NO DIFFERENCE WHETHER TAX RATES ARE PROGRESSIVE OR NOT—AS LONG AS THERE IS A WAY AROUND THOSE RATES.

AND OF COURSE, THERE IS.

THE SECRET IS...

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<th>Over</th>
<th>But not over</th>
<th>Enter on Form 1040, line 16:</th>
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<tbody>
<tr>
<td>$25,000</td>
<td>$22,000</td>
<td>$72,000-48%</td>
</tr>
<tr>
<td>$22,000</td>
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<td>$2,000</td>
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<td>$72,000-71%</td>
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If the amount on Form 1040, line 47, is: $32,000 $32,000 $38,000 $90,000 $100,000 $100,000
The term applies to any of the vast network of special deductions, exemptions, credits, and preferences which allow an individual to reduce his/her taxes — legally.
Some loopholes, like the deduction of mortgage interest, are known and used by millions of taxpayers. Others, such as the special breaks for azalea bushes and pistachio nuts, are so complicated and obscure that hardly anyone qualifies for them.

Here is how a few of the better-known loopholes work:

**Capital Gains**

As every investor knows, which lets out most of us...

Profits from the sale of stock or property held more than a certain amount of time are taxed at half the rate of other income.

Fully 2/3 of all capital gains benefits go to the top 1.2% of all taxpayers.

The cost of the capital gains break in revenue lost to the Treasury, will come to more than $6 billion in 1977!
TAX - FREE BONDS

BONDS ARE A PRINCIPAL SOURCE OF REVENUE FOR STATE AND LOCAL GOVERNMENTS - AND A HUGE TAX SHELTER FOR RICH INVESTORS.

THE MECHANICS ARE SIMPLE:

A CITY, IN NEED OF FUNDS TO BUILD A SCHOOL, ISSUES A SERIES OF BONDS PAYING 5% INTEREST. ORDINARILY, A MERE 5% RATE OF RETURN IS TOO LOW TO ATTRACT BIG-TIME INVESTORS, BUT THE BONDS HAVE AN EXTRA ADDED APPEAL: THEY'RE ABSOLUTELY TAX-FREE!

ORIGINALLY, THIS BREAK ENABLED STATES AND CITIES TO BORROW MONEY AT LOWER RATES. BUT INCREASING RELIANCE ON BONDS HAS DRIVEN RATES STEADILY UPWARD, MEANING MORE COST TO LOCAL GOVERNMENTS AND GREATER LOSSES OF TAX REVENUE TO THE FEDERAL GOVERNMENT.

I HOPE YOU LIKE THE NEW SCHOOL, BECAUSE YOU'LL BE PAYING ME BACK - WITH INTEREST - FOR THE NEXT 20 YEARS!

THE COST? IN 1976, REVENUES LOST TO THE TREASURY AS A RESULT OF TAX-EXEMPT BONDS CAME TO A WHOPPING $4.7 BILLION!
I'm inclined to decline!

Fair enough, except for one catch:

Say you own a building, on the assumption that the property declines in value over time, the law allows you to deduct a fraction of this loss from your taxable income.

The deduction is usually much greater than the actual loss.

This means you can buy a building, take several years of big write-offs, and then sell it—for a profit—

A capital gain, actually!

To another guy who starts all over again!

P.S. You can also "depreciate" machinery, airplanes, automobiles, in fact, almost any investment which becomes less valuable in time.
In recent years, Congress has allowed businesses to deduct from their taxes an amount equivalent to 10% of whatever they spend on new machinery. Designed to stimulate investment and create jobs, the investment credit has largely failed to do either. What's more, many experts believe there are cheaper, more efficient, and more equitable ways to the same end.

Stupendous machine! What's it do? Who knows? But it's a great tax write-off!

In 1978, this loophole will cost the country close to $12 billion, nearly one billion of which will go to AT&T alone, and with no measurable impact on jobs or investment.

In fact, the credit may well increase unemployment by encouraging businesses to substitute machines for workers!

But it does wonders for profits...
WHEN ALL ELSE FAILS, A RESOURCEFUL TAXPAYER CAN SOMETIMES DESIGN HIS OWN PRIVATE LOophole AND GET CONGRESS TO SNEAK IT INTO THE TAX CODE IN THE FORM OF A GENERAL LAW.

CONSIDER THE CASE OF HOLLYWOOD MAGNATE LOUIS B. MAYER:

ABOUT TO COLLECT A HUGE CHUNK OF RETIREMENT PAY, MAYER SUDDENLY DISCOVERED THAT NO EXISTING TAX SHELTER WOULD COVER HIS CASE.

THIS IS DIS-GR.R.R.RACE-FUL!

IN DESPERATION, HE ENLISTED THE AID OF THE SENATE FINANCE COMMITTEE.

COLOSSAL IDEA, L.B.!!

THEY OBLIGINGLY CREATED A SPECIAL STATUTE JUST TO MEET HIS NEEDS—AND SAVED HIM AN ESTIMATED $2 MILLION!
If none of the above loopholes covers your case, you might try

**Stock Options**

**APR. Accelerated Write-Off**

**D.I.S.C.**

Or any of a hundred others!

Isn't there anything about a "lunch depletion allowance?"

And the beauty of it is, loophole-hunting is a respectable national pastime, practiced with pride by thousands of law-abiding citizens, and openly encouraged by the government.

- Listen to Mortimer Caplin

"There's absolutely nothing wrong, from a moral or citizenship standpoint, for people to make their investment decisions on the basis of these stated tax advantages."

Who is this wonderful Caplin?

A former head of the Internal Revenue Service!