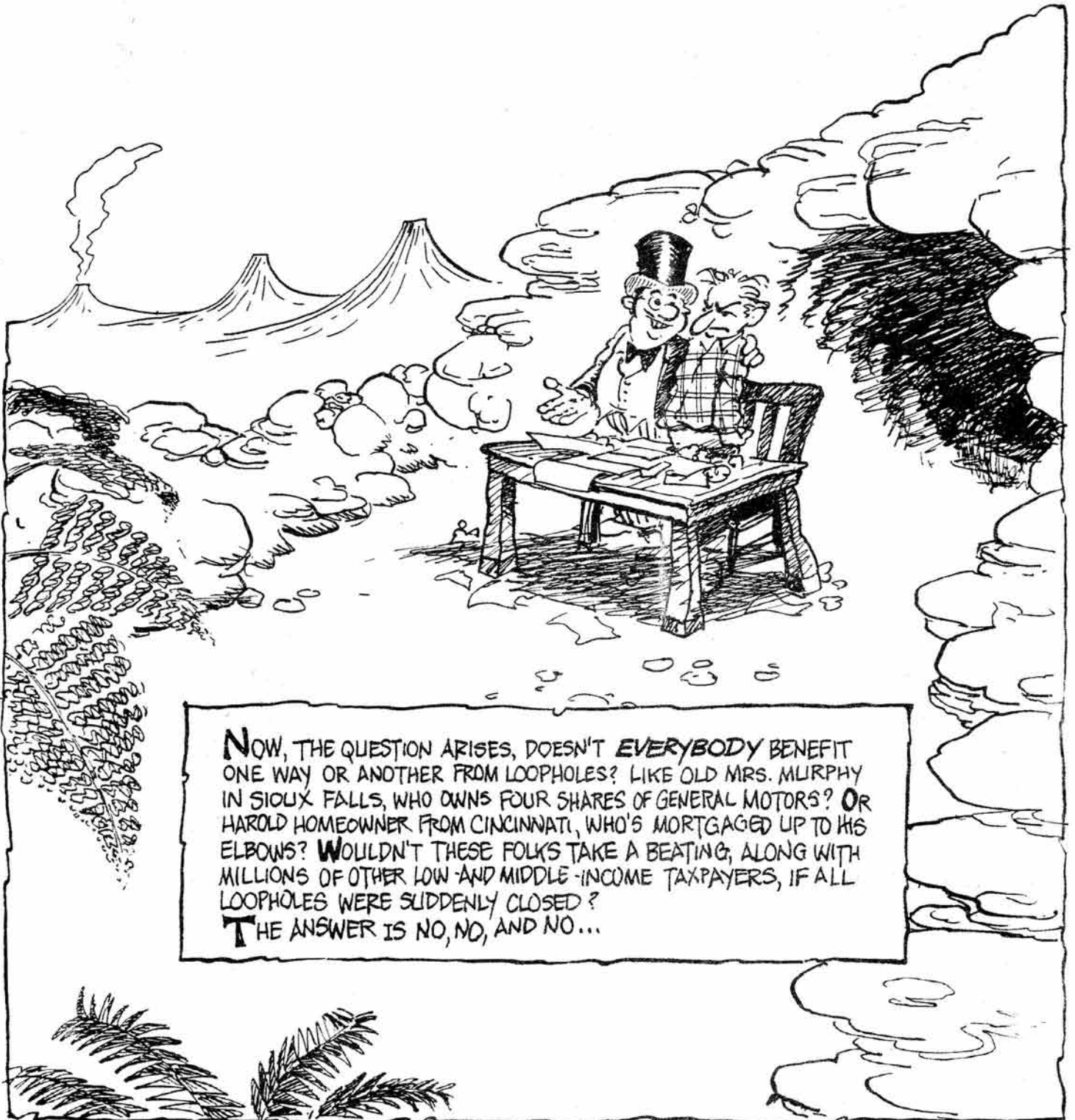


CHAPTER 3.

WHAT'S WRONG WITH LOOPHOLES?



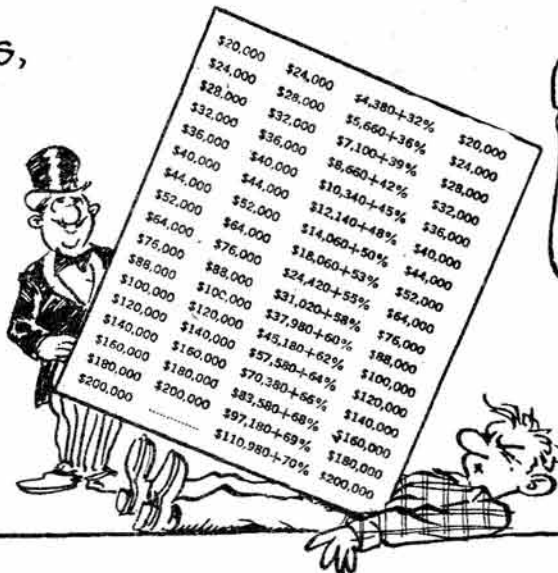
NOW, THE QUESTION ARISES, DOESN'T **EVERYBODY** BENEFIT ONE WAY OR ANOTHER FROM LOOPHOLES? LIKE OLD MRS. MURPHY IN SIOUX FALLS, WHO OWNS FOUR SHARES OF GENERAL MOTORS? OR HAROLD HOMEOWNER FROM CINCINNATI, WHO'S MORTGAGED UP TO HIS ELBOWS? WOULDNT THESE FOLKS TAKE A BEATING, ALONG WITH MILLIONS OF OTHER LOW AND MIDDLE-INCOME TAXPAYERS, IF ALL LOOPHOLES WERE SUDDENLY CLOSED?

THE ANSWER IS NO, NO, AND NO...

HERE ARE THREE GOOD REASONS WHY NEARLY EVERYONE WOULD BE BETTER OFF UNDER A LOOPHOLE-FREE TAX CODE.

① LOOPHOLES UNDERMINE PROGRESSIVE TAXATION

LOWER-BRACKET TAXPAYERS, SEEING THE TABLE OF GRADUATED RATES IN THE BACK OF THEIR FORM 1040, TAKE SOME CONSOLATION THAT WEALTHIER TAXPAYERS GET CLOBBERED EVEN WORSE.

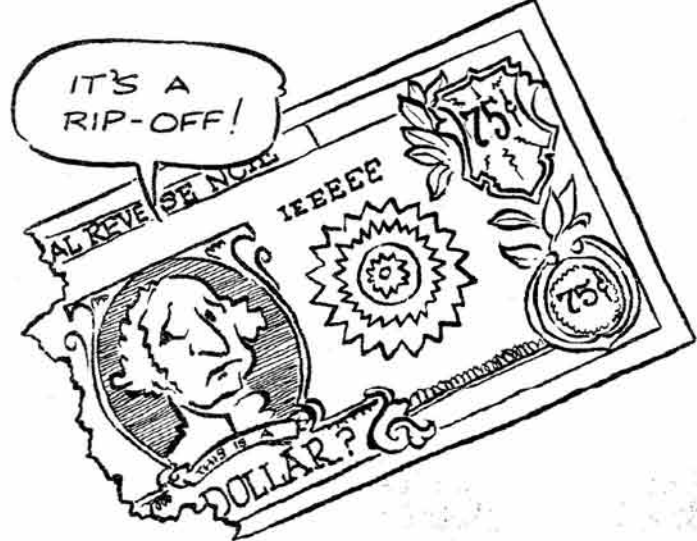


BUT IN FACT, THOSE AT THE TOP ARE GENERALLY SPARED THE NASTY INCONVENIENCE OF ACTUALLY HAVING TO PAY THOSE RATES...

THE TRUTH IS THAT LOWER-INCOME PEOPLE HAVE CONSIDERABLY FEWER OPPORTUNITIES TO REDUCE THEIR TAXES THROUGH LOOPHOLES, AND IN ADDITION ARE MUCH HARDER HIT BY NUMEROUS NON-PROGRESSIVE TAXES (SALES, EXCISE, PROPERTY) WHICH HARDLY MATTER TO THOSE HIGHER UP THE INCOME LADDER.

THE EFFECT OF THESE EXTRA TAX BURDENS?

WHETHER YOU MAKE \$2000 A YEAR OR \$100,000, YOU PROBABLY PAY ABOUT 25¢ IN TAXES ON EVERY DOLLAR!



② THE LION'S SHARE OF LOOPHOLE BENEFITS GOES TO A TINY PERCENTAGE OF TAXPAYERS.

TAKE CAPITAL GAINS, FOR EXAMPLE. WHILE IT'S TRUE THAT ANYONE CAN BUY STOCK, FEW PEOPLE ACTUALLY DO, AND FEWER STILL BUY MORE THAN A FEW SHARES.

★ ONLY ONE FAMILY IN 10 OWNS ANY STOCK.

★ FAMILIES OF WAGE-EARNERS HOLD LESS THAN $\frac{1}{2}$ OF 1% OF ALL STOCK.

★ 1% OF THE NATION'S TAXPAYERS OWN 51% OF ALL STOCKS AND BONDS.



MEANWHILE, SPECIAL EXEMPTIONS SUCH AS THOSE FOR THE BLIND, THE ELDERLY, AND THE DISABLED, ARE NO USE AT ALL TO THE PEOPLE WHO NEED THEM MOST.

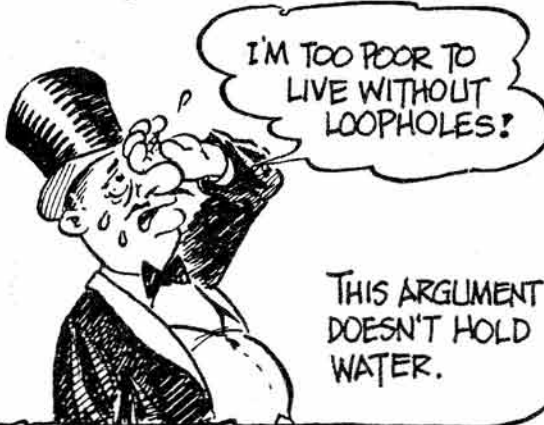
★ PEOPLE OVER 65, FOR INSTANCE, ARE ALLOWED AN EXTRA EXEMPTION ON THEIR TAX RETURN. BUT 3 OUT OF 4 PEOPLE IN THIS AGE BRACKET DON'T EVEN EARN ENOUGH TO PAY TAXES AND SO AREN'T HELPED BY THE DEDUCTION!

THE REMAINING FEW, WHO NEED IT LEAST, GET THE BENEFITS — TO THE TUNE OF **\$2 BILLION** A YEAR!



③ LOOPHOLES ARE A COSTLY AND INEFFICIENT WAY TO REGULATE ECONOMIC ACTIVITY.

LOOPHOLES ARE FREQUENTLY DEFENDED ON THE GROUNDS THAT THEY PROVIDE NECESSARY **INCENTIVES** TO CERTAIN CRUCIAL ECONOMIC ACTIVITIES, LIKE DRILLING FOR OIL OR INVESTING IN THE MARKET.



FOR ONE THING, LOOPHOLES OFTEN REWARD TAXPAYERS FOR DOING WHAT THEY DO ANYWAY.

ITEM: 75% OF THE BUSINESSES SURVEYED BY AN ECONOMIC CONSULTANT TO PRESIDENT NIXON IN 1973 REPORTED THAT THE INVESTMENT TAX CREDIT THEN UNDER CONSIDERATION WOULD HAVE **NO EFFECT** ON THEIR INVESTMENT POLICIES.



FOR ANOTHER THING, STUDIES SHOW THAT IN MANY CASES, **DIRECT SUBSIDIES** WOULD BE A LOT CHEAPER AND MORE EFFICIENT THAN TAX BREAKS AS MEANS TO THE SAME END.

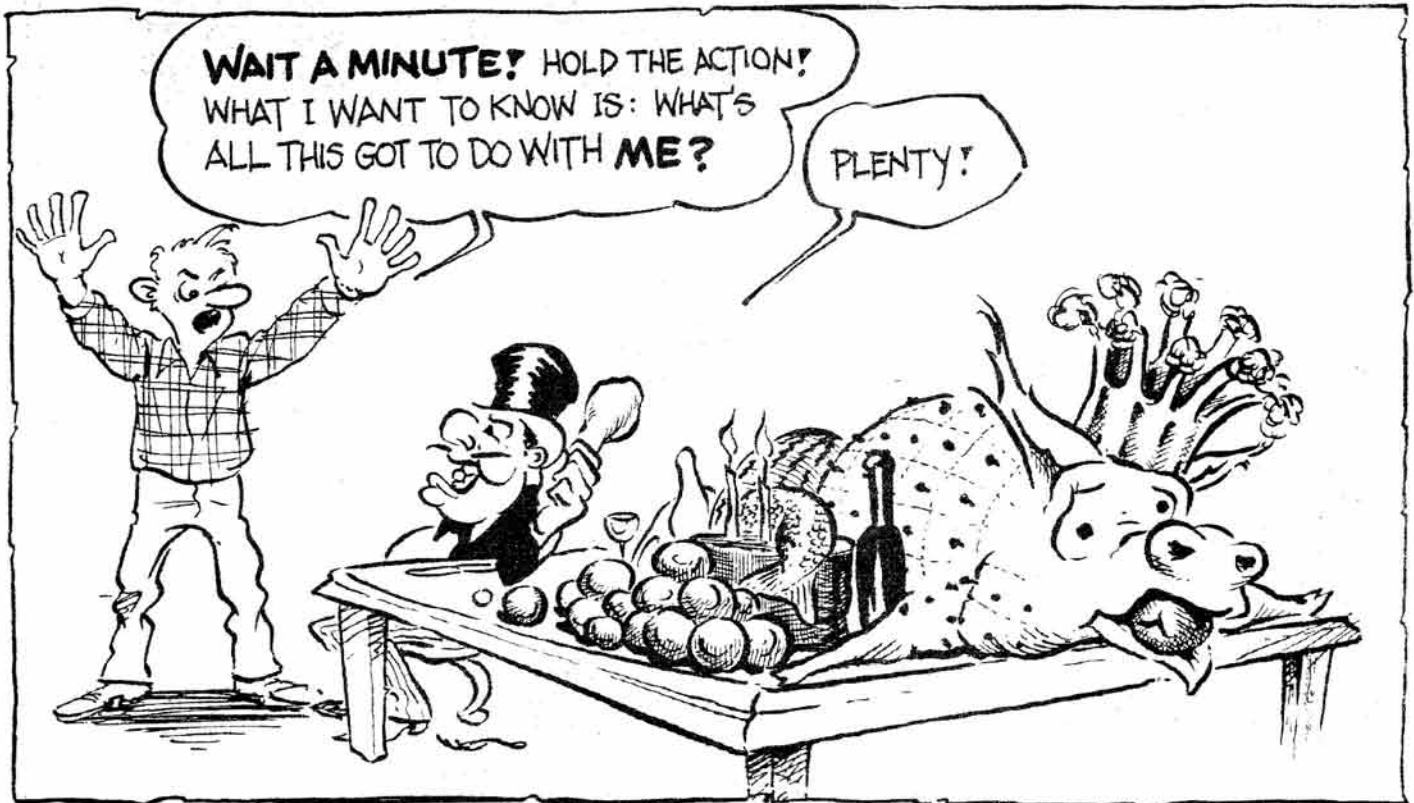
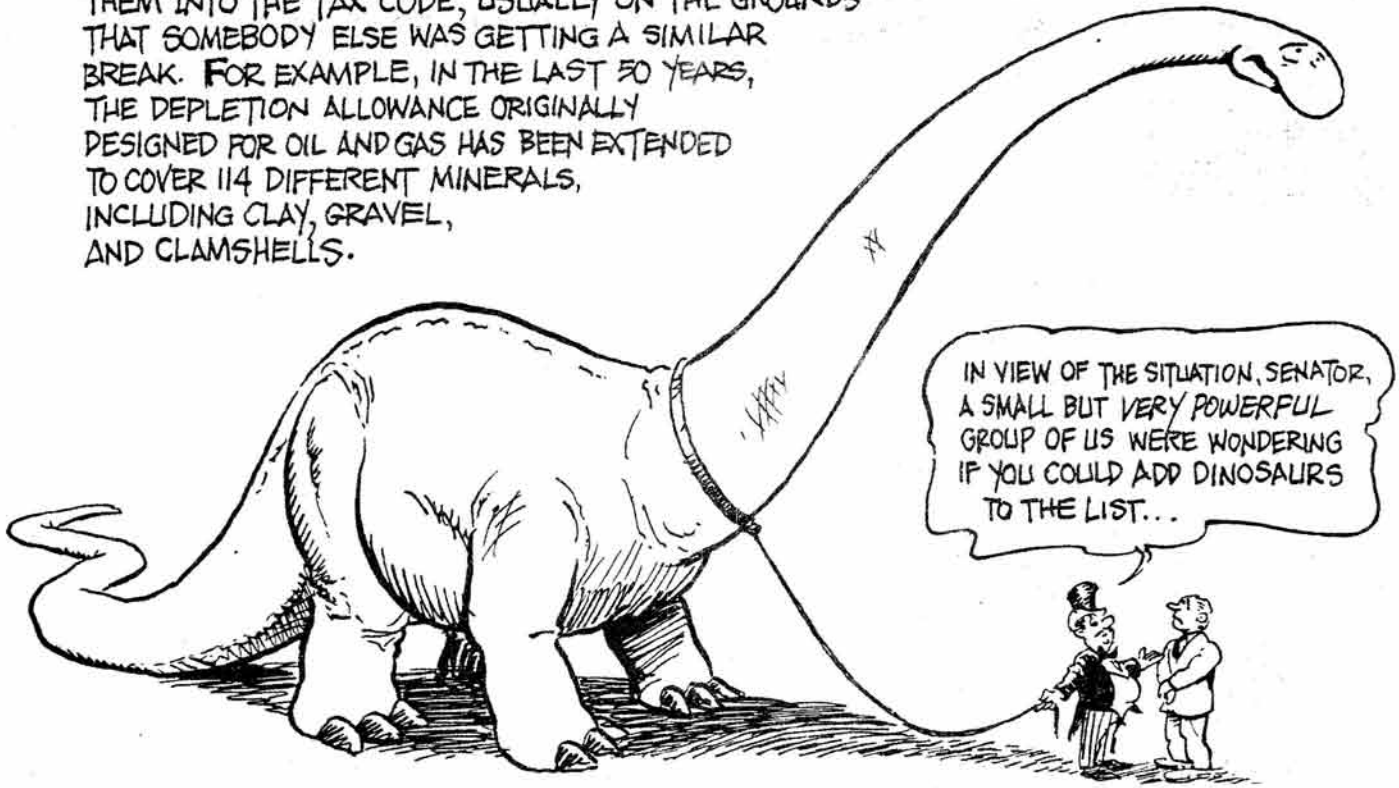
FOR EXAMPLE IN 1976, THE EXEMPTION FOR STATE AND MUNICIPAL BONDS COST THE FEDERAL GOVERNMENT **\$4.7 BILLION** IN LOST REVENUES, BUT SAVED THE LOCALITIES ONLY **\$3.6 BILLION**. UNDER A SYSTEM OF STRAIGHT SUBSIDIES, THE GOVERNMENT COULD DISTRIBUTE THE **ENTIRE \$4.7 BILLION** DIRECTLY TO THE LOCALITIES, WHILE TAXING THE BANKS AND INVESTORS WHO NOW KEEP OVER A QUARTER OF IT.

HE'S TOO POOR TO LIVE WITHOUT LOOPHOLES?

I'M TOO POOR TO LIVE **WITH 'EM!!**



A FINAL IMPORTANT POINT ON LOOPHOLES: NUMEROUS TAX BREAKS HAVE LITTLE OR NO JUSTIFICATION AND EXIST ONLY BECAUSE SOME INFLUENTIAL GROUP OR INDIVIDUAL MANAGED TO LOBBY THEM INTO THE TAX CODE, USUALLY ON THE GROUNDS THAT SOMEBODY ELSE WAS GETTING A SIMILAR BREAK. FOR EXAMPLE, IN THE LAST 50 YEARS, THE DEPLETION ALLOWANCE ORIGINALLY DESIGNED FOR OIL AND GAS HAS BEEN EXTENDED TO COVER 114 DIFFERENT MINERALS, INCLUDING CLAY, GRAVEL, AND CLAMSHELLS.





YOU'D THINK ALL THOSE LOOPHOLES WERE COSTING THE GOVERNMENT A LOT OF MONEY, RIGHT? **WRONG!** IT'S NOT THE GOVERNMENT THAT GETS BURNED, IT'S THE **ORDINARY TAXPAYER** WHO GETS STUCK WITH THE LOOPHOLE TAB!



THAT'S WHERE YOU COME IN!

...AND THAT'S WHERE **YOU** COME IN, FELLOW TAXPAYER, BECAUSE EVERY DOLLAR SAVED BY AN OILMAN IN TAX BREAKS MEANS EITHER A DOLLAR LESS IN GOVERNMENT SPENDING FOR HEALTH CARE, SCHOOLS, ETC., OR A DOLLAR MORE OUT OF LESS FORTUNATE POCKETS DOWN IN THE LOWER BRACKETS.



EITHER WAY, YOU LOSE...

... UNLESS, OF COURSE, YOU **ARE** AL OILMAN, OR DADDY WARBUCKS, OR SOME OTHER HIGH-ROLLING BENEFICIARY OF THE LOOPHOLE SYSTEM, IN WHICH CASE YOU WIN, AND WIN **BIG!**



IF, ON THE OTHER HAND, YOU GET A STRAIGHT WAGE OR SALARY, THERE'S NOT MUCH TO CHOOSE FROM IN THE WAY OF TAX SHELTERS.



LOOPHOLES WERE JUST NOT DESIGNED WITH THE AVERAGE WORKER IN MIND!

SO THE MORAL OF THE STORY (OR OF THIS CHAPTER, AT LEAST) IS THAT LOOPHOLES ARE NOTHING MORE NOR LESS THAN **GOVERNMENT SPENDING**. IN THE WORDS OF WILBUR MILLS:

"THE GRANT OF... TAX CREDITS HAS PRECISELY THE SAME EFFECT ON THE BUDGET AS AN OUTRIGHT EXPENDITURE. THE ONLY DIFFERENCE IS THEY APPEAR AS A NEGATIVE RECEIPT RATHER THAN AS AN EXPENDITURE. THAT IS WHY I REFER TO... TAX CREDITS AS **BACKDOOR SPENDING**..."

...AND SPENDING OF THE WORST KIND. NOT ONLY ARE LOOPHOLES INEFFICIENT, UNFAIR, AND ANTI-PROGRESSIVE, BUT THEY NOW COLLECTIVELY COME TO

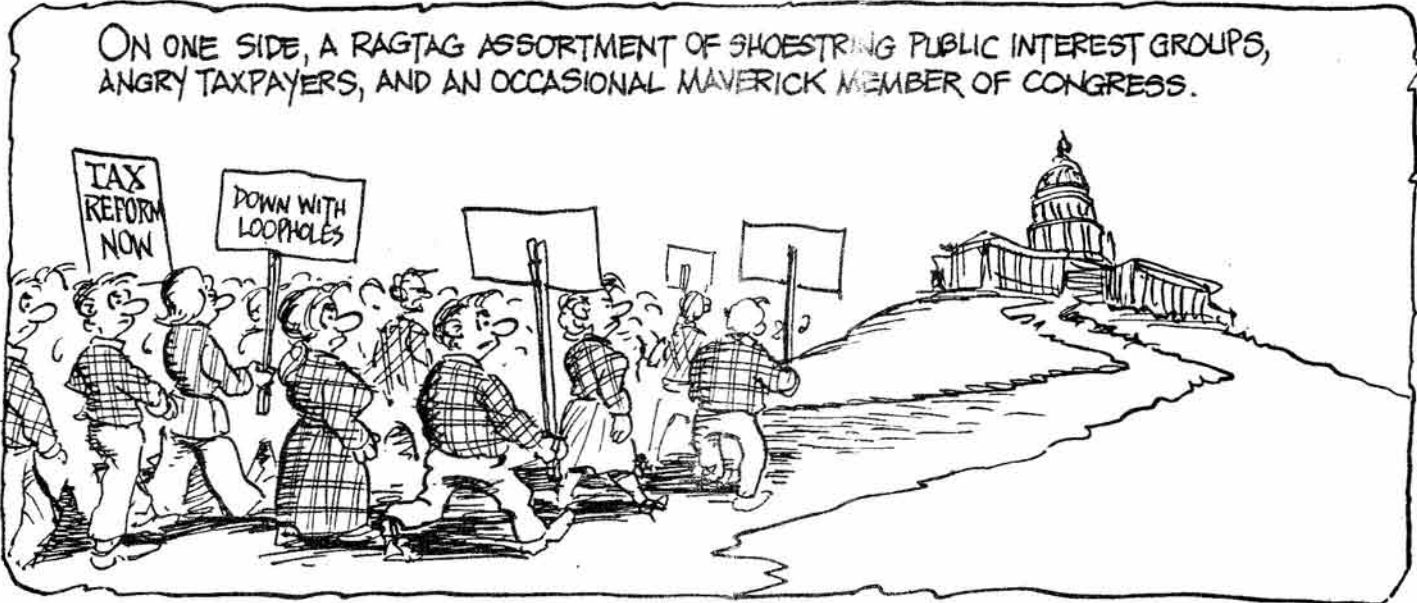
**\$125 BILLION
A YEAR!**

(THE LARGEST EXPENDITURE
IN THE ENTIRE FEDERAL BUDGET)

THIS FIGURE IS SO LARGE THAT IT'S ALMOST MEANINGLESS TO ORDINARY FOLKS, BUT LOOK AT IT IN THESE TERMS: IF ALL LOOPHOLES WERE CLOSED, THE GOVERNMENT COULD CUT TAX RATES BY **43%** AND STILL COLLECT THE SAME AMOUNT OF REVENUE!



BUT OF COURSE THERE ARE LOOPHOLES, MORE THAN 100 BILLION DOLLARS' WORTH, AND MORE IN THE PIPELINE. AS TO HOW THIS ALL CAME ABOUT, THE SAD FACT IS THAT THOSE WHO WOULD REFORM THE TAX CODE ARE NO MATCH FOR THOSE WHO LIKE IT THE WAY IT IS. CONSIDER THE CONTESTANTS.



ON THE OTHER, **BIG MONEY**, SUPPLIED BY HUNDREDS OF SPECIAL INTERESTS WITH LUCRATIVE LOOPHOLES TO DEFEND OR EXPAND.

BANKS, DOCTORS, THE INSURANCE INDUSTRY, THE OIL BUSINESS, THE MULTI-NATIONALS, ALL HAVE A STAKE IN THE TAX CODE, AND THE POWER AND INFLUENCE TO PROTECT THAT STAKE.

THEIR TROOPS? A SMALL ARMY OF TAX LAWYERS, ECONOMISTS, PUBLIC RELATIONS EXPERTS, AND EX-MEMBERS OF CONGRESS, THE BEST THAT **MONEY CAN BUY.**



AND WHERE DOES THE MONEY GO?

★ ADVERTISING

IN ONE YEAR THE AMERICAN PETROLEUM INSTITUTE (WHICH REPRESENTS THE INTERESTS OF BIG OIL) SPENT **\$4 MILLION** IN ADVERTISING ALONE. THAT MONEY FEEDS THE OIL INDUSTRY LINE ON TAXES AND OTHER SUBJECTS TO THE MILLIONS OF PEOPLE, MANY OF WHOM CAN'T HELP BUT BE PERSUADED IN THE ABSENCE OF COUNTER-ARGUMENTS.



★ LOBBYING

FACED WITH DECISIONS ON COMPLEX ISSUES, BUSY MEMBERS OF CONGRESS NATURALLY TURN FOR ADVICE TO "EXPERTS," PEOPLE THEY KNOW AND TRUST. PREDICTABLY, THE EXPERTS ARE ALL TOO OFTEN ON CORPORATE OR OTHER SPECIAL INTEREST PAYROLLS.



★ CAMPAIGN FINANCE

CAMPAIGN CONTRIBUTIONS DON'T GUARANTEE SUPPORT OR EVEN COOPERATION, BUT THEY **DO** MEAN GREATER ACCESS FOR THE CONTRIBUTOR AND A MORE SYMPATHETIC HEARING FROM THE RECIPIENT.



AND THAT, FELLOW TAXPAYERS, IS WHY OIL BARONS, MOVIE MOGULS, AND OTHER MONEYMAKERS FIND CONGRESS SO RESPONSIVE TO THEIR TAX NEEDS, WHILE THE REST OF US ARE LUCKY TO SEE A SENATOR ON MEET THE PRESS.