Thoughts on Tax Inequality: From a member of the 1%...

Who is Barry Segal?

Barry sold his roofing distribution company in 2008 and launched two foundations with his personal funds. The Segal Family Foundation has over 200 partners across Sub-Saharan Africa. Focus for Health Foundation supports organizations that address health disparities, structural reform, and ending child sex abuse. Today, the two foundations cumulatively award over $14 million annually in grants. Barry is committed to shining a spotlight on the income and health inequalities that prevent members of marginalized communities from achieving a deserved quality of life.


Dolly and Barry Segal

Tax Inequality

I put this booklet together with the hopes that some intelligent people will look at it, share it, talk about it, and make some suggestions and changes.

I only dealt with the things I felt are wrong with the tax code. Taxes are levied to pay for the goods and services needed to build a better society. We need to stop thinking about taxes as the government's money- it's taxpayer money, and it is meant to help us create the changes we want; and most of us want a fairer, more just society.

Someone else has to focus on what should be done to accomplish eradicating inequality and having a fairer system in place. These are the conversations we need to be having now.

If they take the funds and build a bigger and better wall on the Mexican border, it only accomplishes one goal: it makes Trump happy.

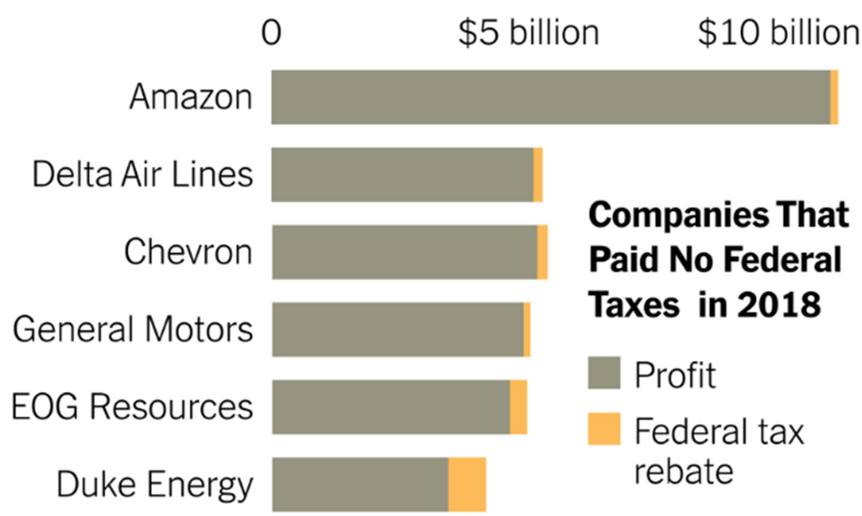
Corporations Don't Pay Their Fair Share

Have you ever asked yourself why school budgets are being cut, teachers are being laid off, and first responders' pensions are under attack, while we are learning that many large corporations are paying less in taxes than you?

Have you wondered why we don't close the loopholes that allow corporations to pay very little or nothing at all in taxes before laying off teachers and raising class sizes in our schools?

If you have, you are not alone. Recent polling data show that two-thirds of voters believe that states should close tax loopholes before considering any cuts in public education.

What is a tax loophole? Corporate tax loopholes are provisions in the tax law that **allow corporations to avoid their responsibility of paying their fair share of taxes, even though they count on the very things that those tax dollars pay for in order to do business: roads and bridges for transportation, legal and law enforcement systems for security of real and intellectual property, and schools to provide them with the skilled and creative employees they seek.** How is it that General Electric paid no federal income taxes in 2010, despite earning profits in the U.S. of over $5 billion? The answer is tax loopholes. Loopholes exist at the federal and state level.



In 2018, The institute of taxation and economic policy published a report showing 60 Fortune 500 companies that paid no federal taxes on $79 billion in corporate income last year.

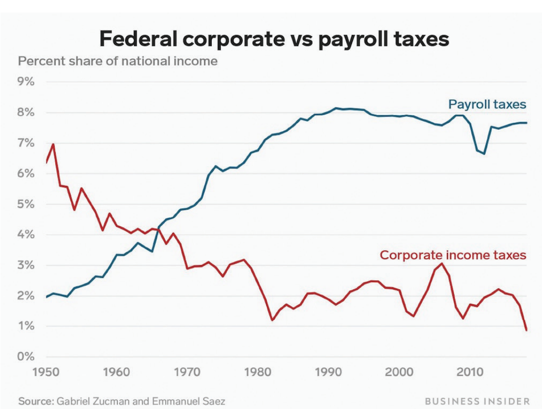
In 2015, a study by the Institute of Taxation and Economic Policy found that over the 8-year period from 2008 to 2015, 258 profitable fortune 500 companies paid an average effective federal income tax rate of 21.2%. Over the same period, exactly 18 companies, including General Electric, International Paper, Priceline, and PG&E Corp., avoided paying a single penny of federal income tax.

Source: New York Times
https://www.nytimes.com/2019/04/29/us/politics/democrats-taxes-2020.html
http://www.nea.org/home/47676.htm
https://itep.org/notadime/

How do they avoid taxes?

- **Shifting profits:** Large corporations often move profits to foreign subsidiaries in countries with lower tax rates, a practice known as offshore tax sheltering.
- **Accelerated depreciation:** Companies can expense the cost of their capital at a faster pace than it wears out. This allows a company to declare less income and defer paying taxes until later years. If the company continues to invest, the deferral of taxes can continue for an indefinite amount of time.
- **Stock Options**: As part of their compensation, employees are given stock options, which reduces their tax bill. When the options are exercised, the difference between what employees pay for the stock and its market value can be claimed for a tax deduction.
- **Incentives & Tax Breaks by Industry:** Research, oil and gas drilling, ethanol production, video game and film production are privileged by the federal tax code to receive certain tax breaks.
- **Tax havens and shelters:** Corporate tax dodgers are a huge part of the problem. There's no limit to the legal ways that billion-dollar companies get out of paying their share. They have set up so many systems to avoid paying taxes with foreign operations that some Fortune 500 have managed to pay absolutely no federal taxes at all. This is a very big subject, and I don't have enough knowledge to go into that here, except to say that it is a problem that needs to be dealt with if we are going to have a chance at a fair and balanced tax system in this country. For example, Amazon nearly doubled their profits to $11 billion in 2018 and paid no money in Federal income taxes.

Due to lack of corporate accountability and disclosure, no one really knows how much revenue is lost due to these tax loopholes, tax subsidies, and tax expenditures. Estimates are in the hundreds of billions of dollars, if not trillions.

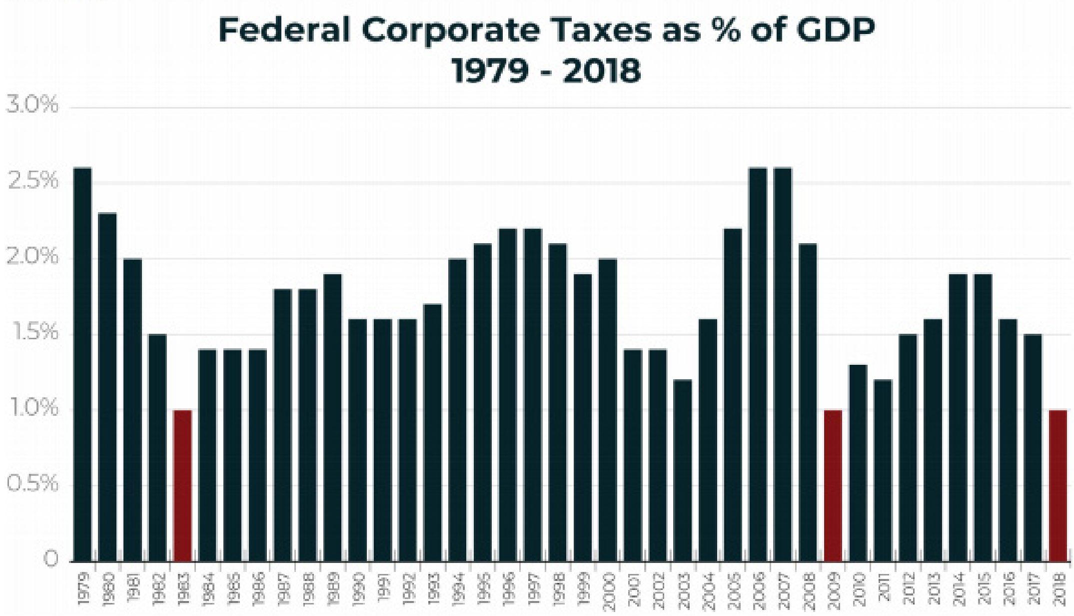


About 400 of America's largest corporations paid an average federal tax rate of about 11 percent on their profits last year, roughly half the official rate established under the 2017 tax law. The report also found that 91 corporations in the Fortune 500, many worth billions of dollars, paid no federal taxes last year. *The Washington Post*

Taxes on workers generated 35% of federal tax revenue in 2018, significantly higher than the 9% drawn from corporations, according to the Center on Budget and Policy Priorities.

Source: http://www.nea.org/home/47676.htm

FIGURE 6



Source: https://itep.org/wp-content/uploads/121619-ITEP-Corporate-Tax-Avoidance-in-the-First-Year-of-the-Trump-Tax-Law.pdf

Trump promised his corporate tax cuts would result in an average pay raise of $4,000 for working families. His top economic advisor more than doubled down on that guarantee, saying the raise could be $9,000 and that higher wages would quickly follow passage of the plan. Census data show the median family income grew by about $500 in the first year after the tax cuts, the smallest annual increase in five years.

Trump predicted the economy—boosted by the "rocket fuel" of his tax cuts—would grow as fast as 6%. Instead, annual growth has averaged well under 3% since the tax plan was enacted.

The six biggest banks in the U.S. saved $18 billion from their tax bill in 2019, thanks to the 2017 tax cuts, helping them post a record $120 billion in combined next profits.

--Bloomberg.com

Sources: https://washingtonmonthly.com/2020/02/05/donald-trumps-economic-record-is-not-what-he-says-it-is/; https://www.wbur.org/hereandnow/2019/05/31/trump-tax-cuts-economic-impact

Regressive Taxes Worsens Income Inequality

Regressive taxes take a larger percentage from low-income people than from high-income people. A regressive tax is generally a tax that is applied uniformly; this means that it taxes lower-income individuals harder. The opposite of regressive taxes is progressive tax, such as federal income tax. The effective tax rates increase as the taxpayer's income increases. While it may be fair in some instances to tax everyone at the same rate, it is seen as unjust in other cases.

Regressive tax examples:

- **Sales tax on food, clothing, transportation:** Taxing food is particularly regressive policy because poor families spend most of their income on groceries and necessities.
- **User fees:** Tolls and fees on roads, bridges, licenses and identification cards, admission to government-funded museums, state parks, parking, etc. impact low-income families more than high-income families.
- **Sin tax:** Taxes that are levied on products that are deemed to be harmful to society are called sin taxes. These are added to the prices of goods like alcohol and tobacco in order to dissuade people from using them.
- **Excise Tax:** a tax on the production or sale of certain commodities, such as alcohol, cigarettes, firearms, gasoline, air travel and telephone services are called excise taxes. Excise taxes are typically hidden taxes because they are incorporated into the price of the commodity without consumers realizing it.
- **Social Security:** The Social Security tax rate in the United States is 6.20% for everyone earning $12,200 all the way up to $137,700. This means that someone making say $50,000 would pay $3,100, but someone earning $350,000 would pay the max, $8,537, which is 2.44% of his or her salary—half the rate of someone earning $50,000.

Sales taxes inevitably take a larger share of income from low- and middle-income families than from rich families because sales taxes are levied at a flat rate and spending as a share of income falls as income rises.

In the 10 States with the most regressive tax structures (the terrible 10), **the lowest-income 20 percent pay up to 6 times as much** of their income in taxes as their wealthy counterparts. Middle-income families in these states pay a rate up to four times higher as a share of their income than the wealthiest families.

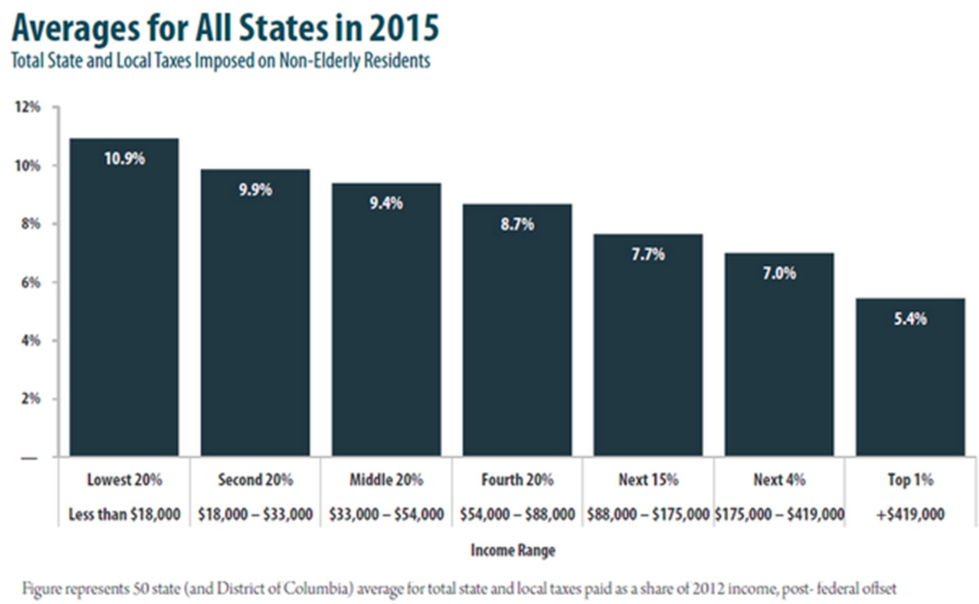
The national effective state and local tax rate is 11.4. percent for the lowest income 20 percent; 9.9 percent for the middle 20 percent; and 7.4 percent for the top 1 percent. This means the poorest Americans are paying **one and a half times as much** of their income in taxes than the top 1 percent.

Source: Who pays? 6th edition https://itep.org/whopays/

Throughout the development of Western philosophy, a number of philosophers as early as the 13th century have argued that justice requires that people be taxed according to their means – that is, the wealthy should pay a greater portion of their income tax. Those with larger incomes have a greater obligation to help provide necessary services. A regressive tax is unjust; it is not a fair distribution of the tax burden.

The ethics of taxation has been described as an uneasy truce between good citizenship and personal greed. Supreme Court Justice Oliver Wendell Holmes said that “taxes are the price we pay for civilization”. On the other hand, the U.S. tax code has been interpreted by courts as not requiring an individual to pay more taxes than are absolutely required.

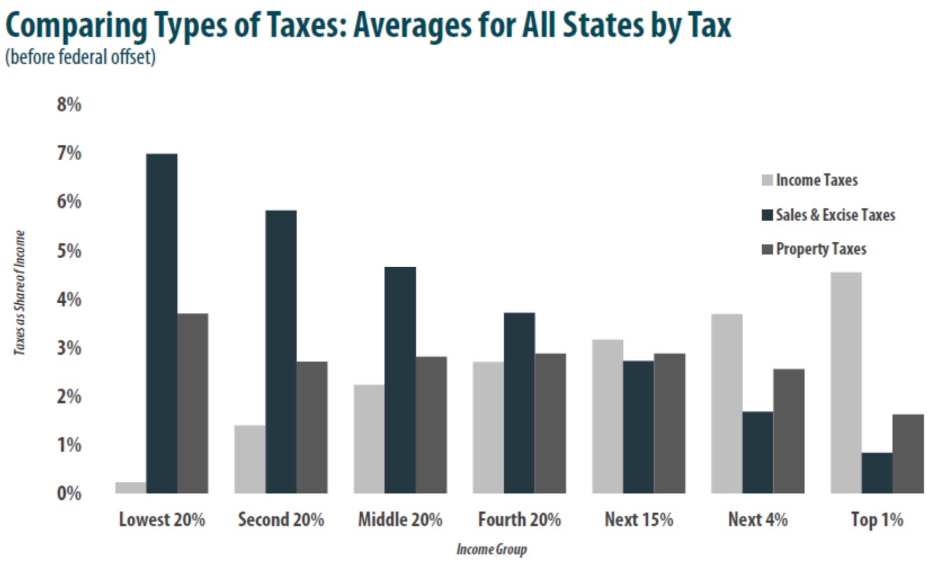
In 2015, the poorest Americans paid nearly 11 percent of their income in taxes. By comparison, the wealthiest paid 5.4 percent tax share.



The poorest 20 percent of the population end up paying double state tax rate as the top 1 percent. (Institute of Tax and Economic Policy)

Source: https://www.citylab.com/life/2015/01/how-local-sales-taxes-target-the-poor-and-widen-the-income-gap/384643/

Of the three main forms of taxes – sales, property and income- the sales tax hurts the poor most.



Low-and middle-income taxpayers pay a disproportionately large shares of their income as sales and excise tax. (Institute of Tax and Economic Policy)

"This (increasing income inequality) is not the type of thing which a democratic society – a capitalist democratic society – can really accept without addressing" - Alan Greenspan.

Some options for a less regressive sales tax

Policy makers should find ways to make sales taxes more equitable while preserving this important source of funding for public services. Law makers can provide:

- General sales tax exceptions for items that constitute a larger share of income for lower-income taxpayers, such as groceries and utilities
- Targeted and refundable low-income tax credits in place of broad -based exemptions

Sources:

https://itep.org/whopays/
https://www.investopedia.com/terms/r/regressivetax.asp
https://itep.org/whopays/
Cavanagh, G. F. (2018). Regressive tax. In R. W. Kolb (Ed.), The Sage encyclopedia of business ethics and society (2nd ed.). Sage Publications. Credo Reference: http://proxy.library.nyu.edu/login?url=https://search.credoreference.com/content/entry/sagebesa/regressive_tax/0?institutionId=577

Problems with Social Security

For years I have felt that there should be changes to Social Security. The program was originally intended to provide economic security to those U.S. citizens who needed it.

In 2011-2012 I tried not to accept Social Security, but it did not work, so I donated back the exact amount paid to me to the government for the purpose of paying down the national debt. I didn't continue to fight the system, because I felt that my charitable foundations were more effective than the government in helping people.

Social Security is currently on a financially unstable path toward insolvency. Based on the annual Social Security and Medicare trust report for 2019, the projections for 2020 state that Social Security will pay more in benefits than it raises from payroll taxes for the first time. The trend is expected to worsen as the baby-boom generation continues to retire and life expectancy grows.

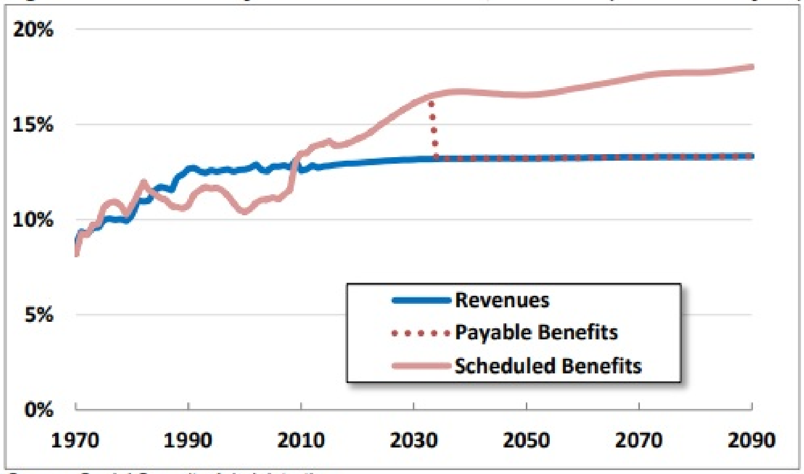
In 2016, Social Security spent about $70 billion more on benefits than it generated in tax revenue. As the population ages, that gap will only widen. Medicare and Social Security accounted for 41% of federal spending in 2016, up from 36% in 2011. The costs of both programs are set to rise due to the aging U.S. population, making it difficult for the government to outrun the solvency problems, even by sharply boosting economic growth. Nearly 56 million Americans collected retirement benefits through the program as of Jan. 2020, and 13,379 million received payments from a separate disability-insurance program
https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/

In this country most people have the impression that the money they pay into Social Security belongs to them. In other countries the general feeling is that it is the public duty to take care of the needy. The American attitude towards poverty needs to change, but obviously that is very hard to do.

Others have said this, but I really don't think it would work or raise enough money, but people with income over $500,000 a year shouldn't be taking money from Social Security or Medicare. For those who want to, there should be an option to divert the money to charity. You can keep it simple by giving them four options to choose from, such as veterans, poverty, health, or education. Too much of this money is going to people who don't want or need it.

One way or another, this has to be dealt with soon per this graph:

Figure 2: Social Security Revenue and Benefits, 1970-2090 (Percent of Payroll)



Source: Social Security Administration

http://www.crfb.org/sites/default/files/crfb_2016_campaign_social_security_myths.pdf

Another problem: the Social Security tax is a regressive tax. The lower socio-economic classes pay a bigger percentage of their income than the wealthier people. The Social Security tax rate in the United States is 6.20% for everyone earning $12,200 all the way up to $137,700. This means that someone making say $50,000 would pay $3,100, but someone earning $350,000 would pay the max, $8,537, which is 2.44% of his or her salary—half the rate of someone earning $50,000. This has to change, and there is a solution.

My plan would be something like this: In 2021, start taxing individuals and corporations on salaries over 350k and stop at 3 million. In two years, adjust the numbers to 300k salary and stop at 3.5 million. Once the process is in place, you can adjust the numbers as needed.

P.S. The rate or age of retirement should not be raised. The country has to make the necessary changes to fund Social Security.

The Lottery as a Regressive Tax: Another Way the Poor Pay More

The lottery is a regressive tax that disproportionately adversely affects lower – income families. Studies show that lower- income households spend a greater percentage of their income on lottery relative with families with higher household incomes.

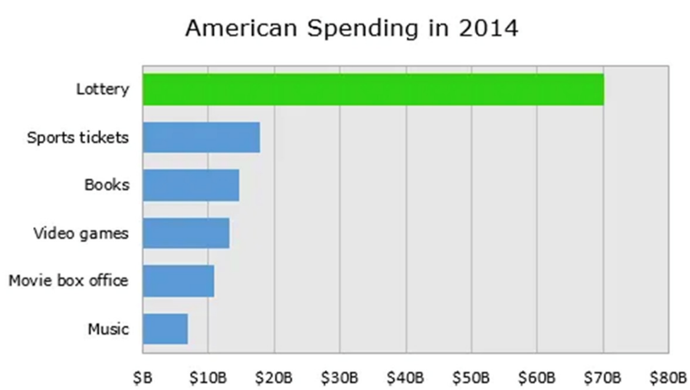
The odds of winning any lotto jackpot are extremely low. And that means people spend a lot of money without getting much, if anything back. And it's those who can least afford to lose any money who are most likely to buy tickets.

In 2014, Americans spent $70.15 billion on lottery tickets. That is about $630 for every household in the United States. Spending on lottery tickets exceeds the amount of money spent on sports tickets, books, video games, music and videos combined.

In 2015, the consortium of states that runs Powerball approved a series of new rules that allowed one to choose 5 of 69 numbers, up from 5 of 59 numbers. This decreased the odds of winning.

Where do the profits go?

- Money from those ticket sales go to government coffers.
- The promise of many lotteries is that this extra government revenue will go to important things like education funding so people can rest easier about throwing their money at tickets. But even that promise is often hollow. In New Mexico and Georgia, two states that promised to create scholarship programs with lottery revenue, demand outstripped the money so quickly that both rescinded the promises.



What Americans spent on the lottery in 2014 (CNN Money / NASPL)

■ Americans spent $50.4 billion on state lottery tickets and video kiosks in 2009. Households with take-home incomes of less than $13,000 spent on average $645 a year on lottery tickets - about 9 percent of their income. Eleven states raise more from lotteries than corporate taxes. *Salon.com*

Source: https://thinkprogress.org/powerballs-1-5-billion-swindle-of-americans-260a3d58e19e/

Fixing Tax Breaks that Only Benefit the Wealthy

Change the rules on 1031 Exchange: This tax break allows you to avoid taxes if you sell a property, and within a certain time, buy another one – this benefit only affects the wealthy. Thankfully, only real estate is subject to 1031 exchanges; artwork and airplanes are no longer eligible. One independent study indicates that lost treasury revenues from 1031 exchanges range from $200 million to $3 billion depending on the year.

Depreciation: Since assets lose value over time, they can be written off as expenses (depreciation). If you want, you can legally say that these assets lose more value in the early years, allowing you to pay less upfront (accelerated depreciation). The depreciation rate is way too generous. It should be scaled back. Accelerated depreciation should be stopped or phased out.

Annual Gift Tax-Right: As of 2020, an individual can gift $15,000 to as many people as they want. For married couples the amount is $30,000. I have 6 children, 15 grandchildren and 6 great-grandchildren, and my wife and I can gift $30,000 annually to each of them. The recipients do not pay taxes on this money. This should be capped at $75,000 per person.

Private foundations, endowments, public charities, and donor advised funds: These funds should be required to spend 7% of their assets in 2021, increasing 10% annually. This would be a 40% increase on private foundations, which is fair. Now, it leaves a ton of money on the sidelines that could be helping people who need it.

Trusts: Grantor trusts, Grantor Retained Annuity Trusts (GRAT), and Charitable Lead Annuity Trusts (CLAT) should be eliminated or phased out.

From "*Decolonizing Wealth*" by Edgar Villanueva, pg. 164
"A true commitment from the sector of finance to this plan could come in the form of the financial transaction tax (FTT). this miniscule fee charged on the trading of stocks, currencies, debt, instruments (like bonds and treasury notes), and derivatives (futures and options) would hardly be felt by investors. An FTT of 0.25%--$1 on every $400 of stock traded—would generate hundreds of billions of dollars. Only the top 10% of American households own more than $20,000 in stocks directly (directly, as opposed to their pensions, etc., being invested in the market), so it would be this most affluent community for whom the tax of trading activity would even be perceptible. Even with a more conservative rate of tax, such as what was proposed in the Inclusive Prosperity Act introduced in the U.S. House of Representatives in 2012 and the U.S. Senate in 2015 (0.5 percent for all stock transaction, 0.1% for all bond transactions, and 0.005% on the notional value of all derivative trades), there would still be $220 billion generated per year, according to researchers."

By implementing simple changes to the tax code, the very wealthy will have their percentage of taxation more in line with the rest of citizens. It would be one way to stop the tax burden falling disproportionally on lower income people. High income inequality has negative consequences for the political stability of a country and long-term economic growth. Policies that improve the re-distributive role of the tax system, may help avoid the negative effects of income inequality.

From Focus for Health Founder, Barry Segal:

I believe simple changes to the tax code could make a world of difference for low-income and marginalized communities. The tax system, in its current form, makes it easy for wealthy people to legally avoid taxes and accumulate more wealth. Those with lower incomes end up paying more than their fair share. One of the biggest determiners of a person's health is their zip code. People with lower incomes suffer health consequences related to stress, restricted access to needed medical services, and often need to choose between medications and food. Remember in 2018 when the penalty for not having health insurance was up to $695?

Big corporations and wealthy people should consider it a moral obligation to contribute more (they can certainly afford to do so), allowing the less fortunate to access better opportunities that help them thrive. We all benefit from living in a more just society. According to United for a Fair Economy, in unequal societies:

- People live shorter lives
- Children do worse in school
- More people are imprisoned
- More children die in infancy
- Obesity is more prevalent
- Teenage pregnancy is more common

Focus for Health is putting a spotlight on the injustices that affect our quality of life. Structural changes need to occur. We are partnering with organizations that are fighting for justice, equality, and wellness. Those of us who are fortunate, wealthy, and empowered need to start talking about these issues and advocating for those who need a voice.

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