

ROPER OPINION POLL

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COMMITTEE ON FINANCE
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ROPER OPINION POLL

THURSDAY, JULY 27, 1978

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (chairman of the committee) presiding.

Present: Senators Long, Talmadge, Byrd, Jr., of Virginia, Bentsen, Curtis, Dole, Packwood, and Danforth.

The CHAIRMAN. Let me call this meeting to order.

Today we have with us Mr. Burns Roper. I would like to ask Mr. Roper to inform us so that we can better understand what our situation is with regard to public understanding of tax measures.

Some time ago, the Roper survey did a study on public attitudes to taxes, and it was enormously helpful. They found for example, if I remember correctly, that 50 percent of the people had the impression that half of those who make large incomes pay no income tax. The fact is that only about one-fifth of 1 percent of the people in that category pay no income tax.

We need to have some idea of what the people think. Mr. Roper, we would appreciate it if you would give us some information on what the public conception is right now of the tax situation.

STATEMENT OF BURNS ROPER, ACCOMPANIED BY HENRY BLOCK OF H & R BLOCK

Mr. ROPER. Thank you, Senator Long. We are delighted to have the opportunity to outline the results of this study to the committee. This is the second study that we have done. As you mentioned, we did one a year ago. I think this one, if anything, is even more fascinating.

These studies were sponsored as a public service by H & R Block for the benefit of the Congress and the administration and others concerned with tax policy.

In designing the study, we got a lot of input from various people in and out of government. There were three basic objectives to this year's survey. One was to repeat some of the same questions that we asked in last year's survey to see what trends were and the second purpose was to nail down certain illusive or unclear things that resulted from last year's study, and the third thing was to explore new subjects—for example, public attitudes toward the \$1,000 exemption versus the \$240 credit; and to explore attitudes, for example, to the idea of a value-added tax.

I might say we had a national sample of 2,000 people, representative of the Nation's adult people. This was done 3 weeks after income tax day, in early May. There are a lot of specific findings that I think are of great interest.

But I think that there are two generalized findings which are sort of overriding significance. The first is that the American public feels that the tax system is very unfair. I do not mean that they are saying taxes are too high—not so much the amount of the tax as the feeling that a lot of people are not paying their fair share. I will illustrate that in a minute.

The second finding—and I think that it may be the reason for the first one—is that the American public has a very hazy understanding of the system and how it works. I think that it may be that haziness that results in the feeling that it is unfair.

On the subject of unfairness, a growing majority condemns the income tax system as unfair to most people—that is up from last year—64 percent last year, and up to 67 percent this year. A growing majority see middle-income families as overtaxed and high-income families as severely undertaxed.

As you mentioned, last year's study showed that the public thought that a little over half of those with a half-a-million-dollar annual income paid no taxes at all. This year it is up a little—55 percent think that those with over half-a-million-dollar income pay no taxes at all.

Last year, we were told by Treasury that the actual number was 51, but that was 51 people, not 51 percent, and this year 55 percent feel that they pay nothing.

We asked a question in this year's study, posing two different couples, each with a \$15,000 income, and we listed the deductible expenses each couple has. In the case of one hypothetical couple, they added to \$3,000, in the case of the other hypothetical couple, they added to \$1,000.

We pointed out that both couples would be better off taking the standard deduction of \$3,200 and hence both would pay the same tax. Did people think that was proper or improper? By a resounding margin, they thought—that was unfair, that they both should pay the same taxes.

Senator BYRD. I do not fully understand your reasoning on this point.

Senator BENTSEN. I did not follow it either.

Mr. ROPER. We posed two hypothetical couples, both with the same income—\$15,000. We pointed out that one couple had certain deductions which if they itemized them, would total \$1,000 and the other couple had certain expenses which, if they itemized them, would total \$3,000, but that either couple was better off taking the standard deduction of \$3,200 and hence they would both end up paying the same taxes, even though the one couple had substantially greater expenses than the other.

Then we asked people whether they thought that was proper that they both paid the same income taxes, or improper.

The CHAIRMAN. Basically what you are talking about, as I understand it, you are comparing two families who have the same gross income, and one family had a lot less net income, but that family is paying as much as the family who has a lot more net income. The public would feel that the family that had more net income ought to pay more taxes.

Mr. ROPER. That is exactly right, sir.

Mr. BLOCH. The net refers to after deductible items.

Senator BYRD. You have not given us your conclusion. What was the finding?

Mr. ROPER. They feel that that is very unfair.
 Senator BYRD. Very unfair.

Mr. ROPER. Because the standard deduction would be greater than the expenses of either of them, they would pay the same income tax even though one had three times the kinds of expenses that would be deductible as the other.

That gives you a rough idea of the unfairness of it.

On the understanding of the system, the public demonstrates an only slightly better perception of the amount of graduation in the tax system this year than they did last. We asked what people thought a family of four with a \$10,000 income would pay in income taxes and then we said what about a family of four with a \$25,000 income, \$50,000, \$100,000 and \$200,000?

Well, we converted into percent of total income what the public thinks is paid by each of these families in taxes. It works out to 9 percent for the lowest income level and graduates up to only 14 percent for \$200,000 and over. That is the shape of the graduation curve, as the public sees it.

Moreover, when you ask them what percentage of their income—ask the people we were talking to—what percentage of their income they paid in Federal income taxes, that worked out to 18 percent, or a substantially higher percentage than their perception of what the person with the \$200,000 income paid.

Another interesting thing was—we said “I am not going to ask you how much you pay in taxes, but if I were to ask you, could you tell me within a hundred dollars how much you paid this year in taxes?” This was in Federal income taxes. This was 3 weeks after income tax day.

Forty-four percent said no, I could not tell you within a hundred dollars what I pay.

Senator CURTIS. Is it your belief that that resulted because the income tax is handled through withholding?

Mr. ROPER. My guess is that is it.

Senator CURTIS. Had they filed the return and wrote a check for the full amount, the result might have been different.

Mr. ROPER. I think that is true. I would guess we would have gotten a lower percentage if we had said could you tell us how much additional you had to pay on April 15, or could you tell us how much of a refund you were due—we would not have gotten anything like 44 percent saying no, I cannot.

But when we asked about total taxes paid, more than half said they could not tell us within a hundred dollars.

Senator CURTIS. I was distracted when you made the remark about \$200,000. Would you repeat it?

Mr. ROPER. We asked people what they thought a family of four with an income of \$10,000 paid in taxes and then, at different levels, a family of four at \$25,000 paid in taxes and so on, up to \$200,000. When we converted what people said they thought the tax was to percent of total income, it worked out that they saw an effective tax rate of 9 percent at the \$10,000 income level going up by small degrees to 14 percent at the \$200,000 level.

Then, as I also mentioned, in a later question when we asked them what percent of their own income they thought they paid in Federal income taxes, that worked out to 18 percent.

Mr. BLOCH. They felt they paid a higher rate than people with an income of \$200,000.

Senator CURTIS. I am not surprised at your finding. Do you have a conclusion as to why you think there is that erroneous viewpoint?

Mr. ROPER. I think—I am not sure—that maybe some of you gentlemen—I use “you” in the broadest sense; I do not mean any of you specifically—might well have some responsibility for it. I think there has been enough talk by candidates and officeholders about the rich getting away with murder and about tax loopholes and so on, so that they have created the impression that the system works that way, that it is that unfair.

It seems to me—

Senator DOLE. Do you suggest we change officeholders?

Mr. ROPER. What I am suggesting, while I think there is some expedient and advantage in pointing out who does not pay enough, I think that the long-term effect of this could be to cause people to lose confidence in the system as being unfair, and I think more has to be done to talk about who pays what.

My conclusion on these two things—the system is unfair and people do not understand it—is when you look at what people’s understanding is, then I think that if that were the case, their conclusion that the system is grossly unfair would be totally warranted. Therefore, it seems to me, you have to do one of two things: Either radically change to an entirely new system to get rid of people’s present perceptions of unfairness, or let them be aware of what the system does do.

Senator CURTIS. Mr. Roper, I am not surprised at the conclusions. I have faced this thing over a period of years, and I find that people in the upper middle-class bracket, rather well-informed people are influenced by the public propaganda from the political rostrum. This rhetoric would have you believe that if Congress would plug some loopholes there would be plenty of money for everything, to reduce everybody’s taxes and pay off the national debt. It has really been sold to the American people.

Mr. ROPER. That is quite true.

Senator CURTIS. Your findings here are quite revealing.

Mr. ROPER. It is very clear that people think that there are lots of loopholes, but when you ask about the specific deductions and exemptions and so forth, that most people have even heard of, none of them are regarded as loopholes more than they are regarded as reasonable deductions, and that includes capital gains. Practically any deduction you can think of, more say it is a reasonable deduction than a tax loophole.

The CHAIRMAN. If it affects them.

Mr. BLOCH. In my opinion, there are two very distinct problems. One is the tax system itself and the other one, which is completely different, is how the public perceives the tax system.

You can have an absolutely perfect tax system but, with publicity slanted in various political directions, the way the public perceives the system can be completely different.

Mr. ROPER. On a couple of points that you mentioned, Senator Curtis. One of the things that we found is that we asked people—you hear people saying, well, I can write it off. It is tax deductible, and so forth. We asked people when they gave a contribution that was

tax deductible, did they think that cost them nothing at all, because they could take it off their tax, or did it cost them somewhat less than what they gave because they got a partial credit?

One out of four people said it cost them nothing at all because they can take it off their taxes. This is what I mean about lack of information. I am not saying and I am not remotely suggesting that anyone in Congress or anyone in the administration has ever suggested that contributions are wholly deductible, but here is one of the areas of ignorance of the public.

Senator BENTSEN. Do you think those people who answered that way were giving anything to anyone?

Mr. ROPER. I do not know that they were, but my point is, if their perception is that the rich can give away money and it does not cost them anything, it is not adding to an understanding of the equity that exists in the system.

Mr. BLOCH. It is really one out of three. I think there were 9 percent that did not know, so they would be the same as those who answered wrong. Therefore, about one-third of the people think that giving money to charity costs them nothing.

The CHAIRMAN. For the rich, it once did cost them nothing. Let us be fair about it. The public is only a few years behind the time when the rich could make money by giving to charity. We changed it because that is what it used to be the case. The public has just not caught up with the changes, that is all.

Mr. ROPER. One of the things, the single most surprising thing to me in the study—and it stemmed out of last year's study—we asked people last year whether they thought that low-income families paid too much, about the right amount or too little in taxes, and we did it for low-income families and high-income families.

As I mentioned, last year and this year, we find that most people, something like 80 percent think high-income families pay too little in taxes. They do not pay their fair share. But last year when we asked this, we found that the highest income groups said this, and that got us to wondering, what do they mean by high-income?

So this year we asked everybody, and we said think of a family of four. How high would their income have to be before you would describe them as middle income rather than low income?

We then asked how high would their income have to be before you would describe them as high income, rather than middle income?

We have a Nation with a median income of somewhere around \$16,000 at the present time. Nevertheless, the dividing line between low and middle was set by the public as \$20,000. Anything below \$20,000 was low income.

The dividing line between middle income and high income was \$40,000.

So it was very clear when they say the rich do not pay enough, they are not talking about the upper third of the income spectrum. They are talking about the upper 2 percent or 1 percent or something on that order.

Incidentally, that did not vary all that much according to the income of the people we were asking. The people making less than \$7,000 said the dividing line between low and middle income was \$17,000, a little over twice what they were making, or three times what they were making.

People making over \$25,000 put the dividing line between low and middle at \$23,000, so there was not that much difference in the perception of where middle separates from low.

I mentioned that the capital gains tax was not seen as a loophole. Last year, we asked two different versions of capital gains tax questions. We asked half the sample—first of all, we described what capital gains was so that they understood it. We then said that some have proposed that this should be taxed as ordinary income as any other income. Others say it should be taxed at half the rate as it is. This is not the verbatim working, but it is the essence of it.

What do you think? Should it be taxed at the full rate or half rate?

It came out overwhelming at half rate.

The other half of the sample was asked about a system that in fact the Ways and Means Committee voted through the other day—should there be a credit for the increase in the cost of living so that only that part of your profit that exceeded the cost of living should be taxed?

That, too, as you will remember, Senator Long, came out overwhelmingly endorsed.

Now, we did not repeat those questions this year, but we did some new things on capital gains tax. One of the speculations we had, and others had after last year's survey was done, was that people were endorsing low capital gains because they were thinking purely of their own homes. So this year, we repeated the question, Is capital gains tax a tax loophole or a reasonable allowance?

On half the sample, however, we changed that item. We asked first about their own home—is taxing the profit on the sale of your own home at half the profit a reasonable allowance or a tax loophole? Then we asked about capital gains on other profits.

Even though we had crossed out the home, we got the same results. So people were not thinking just of their own home when they said the reduced rate on capital gains is proper.

We had brought to our attention a set of figures, the source of which is the IRS, which says—this may explain why we get these results—that of all income tax returns in 1976 that claimed capital gains, 46 percent were filed by people with incomes of less than \$15,000 and only 2 percent had incomes over \$100,000.

That also came as a surprise to me. I had no idea that that many of the total capital gains returns were from under \$15,000 income.

Senator BYRD. Mr. Roper, would you mind repeating that again? What was the distribution of capital gains with regard to income levels?

Mr. ROPER. Of all the individual income tax returns filed for the year 1976 on which capital gains were claimed, 46 percent were filed by people with incomes of less than \$15,000.

Senator BENTSEN. Let me understand something else. When a figure like that is used and then you cite the other number of the percentage that were making \$100,000 or \$200,000, is allowance made for the fact that this may represent a one-time gain? The year before, the person might have been making a relatively small amount.

Mr. ROPER. I do not know how to answer that, sir.

Senator BENTSEN. You can run into a real distortion of numbers here. For example, if you have someone who has had an average income of, say \$20,000 a year and suddenly sells his house and makes a very substantial profit and then you throw him into the bracket of those people who are making over \$50,000 a year.

Mr. ROPER. That I cannot tell, I don't know. The source of this data is Preliminary Statistics of Income in 1976, Individual Income Tax Returns, Publication 198 of IRS.

Senator BENTSEN. You can see how misleading it can be.

Mr. ROPER. Yes. The numbers that are shown here are headed income. Whether that—

Mr. BLOCH. What he is saying, it may not be repetitive. It may be that one year.

Senator BENTSEN. Yes. And therefore he gets thrown into that category for that one year. He may sell the family business or home and all of a sudden he makes \$100,000.

Mr. ROPER. At the same time, then, nearly half of those who filed in the year, maybe they did not file a gain in another year or a previous year, were under \$15,000. That seems to me to be a significant number.

Senator BENTSEN. It is.

Mr. ROPER. We asked people about—

Mr. BLOCH. If you went up to about \$20,000 to \$25,000 of income, which still is not a high income, I imagine the percent would be extremely high. It would include certainly the big majority, probably two-thirds of those with capital gains.

Mr. ROPER. We pointed out to people in a lot of these questions about changes that there were tradeoffs involved. If you gave an exemption here, it was going to result in a higher overall tax rate to offset the loss of revenue. We were not asking people whether they would like something—that they were having something for nothing. We asked about various changes against the fact that the overall tax rate might go up, would have to go up, if various additional exemptions or allowances were granted.

We asked people which of a series of exemptions or allowances they thought should be instituted. We found that 84 percent of the public favored an extra exemption for the physically handicapped, despite the fact that it would raise the overall tax rate. We found 53 percent favoring a lower tax rate on savings account interest.

We found pluralities favoring other items, but those were the only two that a majority favored.

Senator PACKWOOD. Which two?

Mr. ROPER. An extra exemption for the physically handicapped, like the blind exemption, and a lower tax rate on savings account interest, which would make it somewhat comparable to capital gains, although we did not liken it to capital gains in the question.

We pointed out what has happened in the past: As inflation increased there would be periodic tax cuts to get taxes back into balance with inflation. We also opposed the idea, in effect inflation indexing—we did not use that term—and asked people which they would favor. It came out strongly for the annual inflation indexing as opposed to periodic tax cuts.

Nevertheless, the public approved of the idea of Carter's then—\$25 billion proposed tax cut, even though it would increase the national debt. They felt the stimulus to the economy was more important than reducing the national debt. But as a basic measure, inflation indexing is what they prefer.

Some people say that if the tax rate were cut, Government revenues would go down because of the low rate. Others say they would not go down because there would be an extra stimulus to the economy. What

do you think if the tax rate were cut? Would it reduce Government revenues, leave them at the same, or raise them?

The largest single group said that it would not affect them, and the number who said it would reduce revenues with only 2 percentage points greater than the number who said it would raise revenues.

Whether this is true economic judgment on the part of the American people or wishful thinking, I do not know, but the fact is that is what they say. They do not think it would have an adverse effect on Government revenues.

The CHAIRMAN. Would you mind repeating that? I want to make sure I got that straight.

Mr. ROPER. We asked people, we pointed out that some of the experts said that if there were a tax cut, cutting the tax rate, it would result in reduced Government revenues because of the reduced tax rate, but others said it would not, because of the stimulus to the economy. That was the preamble.

Then we said, do you think that if tax rates were cut, it would result in reduced Government revenues, about the same amount of Government revenues, or increased Government revenues?

The majority said, the largest single group—I cannot remember whether it was a majority or a plurality—said it would result in unchanged Government revenues. A few said reduced, and a few said heightened revenues.

Those who said it would result in reduced revenues were only 2 percentage points more than those who said it would result in increased revenues.

The CHAIRMAN. As I understand it, the biggest group would be the middle group who feel that Government revenues would remain the same.

Mr. ROPER. That is exactly right.

Mr. BLOCH. Forty percent would leave it the same, 22 decreased.

The CHAIRMAN. What you are saying is that a majority of people feel that if you have a tax cut, it ought to generate enough additional revenue to the Government that it would just about pay for itself?

Mr. ROPER. A majority think that it would either pay for itself or actually increase revenues. It is a little less than a majority thinks that it would be a wash.

We asked people about the \$1,000 tax exemption for dependents as compared with the \$240 tax credit, and we spelled out what the advantages and disadvantages of the exemption were. We cited two different income classes and said this could be worth \$350 per child to you if you were in this bracket. It might be only worth \$150 per child in that bracket. Which do you think we should have, the \$1,000 exemption or \$240 tax credit? And it came out slightly in favor of the \$1,000 exemption. It was close. It was almost a Mexican standoff, but it was slightly in favor of the \$1,000 exemption.

We asked about the whole question of college tuition credits. And we posed four plans: A plan whereby a person would receive a \$250 credit for each child in college, regardless of income. A plan where they would receive the same \$250 credit if their income did not exceed \$25,000. Then, in effect, President Carter's proposal of higher limits on loans and grants—higher eligibility limits for loans and grants. The fourth plan we proposed was direct aid to the colleges and universities themselves.

The Carter approach fared much better with the public than with any of the others. The two versions of the \$250 credit were both soundly rejected. Also, the direct aid to the institutions was rejected.

Far and away the most popular of the four plans was the Carter approach of lower eligibility—greater eligibility is the way to put it, I guess—for loans and grants.

Again, in this, we pointed out that there was a cost factor in here. If any of these four plans was put into effect, it would reduce Government revenues by \$1.5 billion a year, which would mean an overall tax rate increase; so that was built into it, a tradeoff. It was rejected; the \$250 credit idea was rejected almost uniformly by all subgroups of the population, including those with children of college age.

Senator DOLE. Elementary and secondary?

Mr. ROPER. We went on from there. We said any of these four plans could be extended so they would apply to private elementary and secondary schools. That is the way we phrased it for half the sample. For the other half of the sample, we introduced the idea of parochial schools to see what kind of difference that would make. It made no difference.

With extensions to the lower grades, it was even more strongly rejected.

Then we told them that extending it to the lower grades would reduce the revenues by about \$4 billion, and that would mean another tax increase. So they were aware that it would cost them more to extend it down, but they rejected it either way, and introducing parochial schools made not one whit of difference in the degree to which they rejected it.

Senator DOLE. What percentage?

Mr. BLOCH. It was 64 percent; 28 percent in favor.

Senator DANFORTH. Could you repeat that?

Mr. BLOCH. It was 64 percent opposed; 28 percent favored it.

Senator DANFORTH. For elementary and secondary?

Mr. ROPER. Yes. That is for extending the college thing to include elementary and secondary, the whole package of elementary through college.

The CHAIRMAN. Let me ask this to get this straight the best I can. Is that not one more case where people are voting for what they conceive as their self-interest?

For example, there is one proposal that says we would have a loan program to help young people go to college. Another program says that everybody gets a tax credit if he wants to send his youngster to college. Could that not be a situation where most people may be thinking that they do not have a child going to college, and the loan program would not cost them anything but the tax credit would, because they would have to make it up in taxes? Or, in the alternative, that the loan program might be one that would benefit his child, but the tax credit might not? I should think that you thought about the reason why people might be reacting that way.

Mr. ROPER. I think the latter suggestion you postulated may be right, that they think that loans, if they had a child of college age, the loans or grants program might help them deal with the problem better than a \$250 credit. I do not think the other is true, that people who do not have children figure that one would cost less than the other, because we said any one of these four plans would decrease revenues by \$1.5 billion, which would mean an increase in the tax rate.

So in terms of the cost to the person who could not take advantage of it, all four of the plans were the same cost in this hypothetical budget. I do not think they were basing it on which would cost them less.

I do not know why.

The CHAIRMAN. Do you think that they are thinking, if I needed help, this loan or grant would do me more good?

Mr. ROPER. I think it might well be that. What is a \$250 credit for going to college?

Senator DANFORTH. In connection with that finding on the tuition tax credit, I noticed the statement here also says that the public opts for helping solve problems of unemployment and welfare by having the Government create public service jobs rather than by giving tax incentives to business. It is said, and I think it is true, that most things that the Government does by grants or by loans or by its own programs can also be done by providing tax incentives to the private sector.

I wonder if you can extrapolate from these findings a general concept that the public rejects the notion that you can do things by tax incentives as well as by direct Federal programs?

Mr. ROPER. I do not know what you can. I think that there was Government involvement in all four of these programs. The one they opted for was the one with the combination of maximum and selective. They did not go for the direct grants to universities any more than they went to the tax credits to business on helping to hire the unemployed.

They did not go the institutional route; they went the individual route. I do not know if you can generalize about their feelings about tax incentives.

Senator DANFORTH. If you take the institution out of it, if you take various ways in which Government can help the same recipient, to wit, the individual, it would seem to me that what they are saying is they would rather have Government help than by the direct approach, by the direct Federal program rather than by using the Internal Revenue Code to create incentives.

Mr. ROPER. That certainly is true in the case of the unemployed. I do not know how much of that is because the public thinks that business will somehow find a way of making a profit on that tax break. I am not sure whether it is opposition to the Government's doing it; it may be opposition to business, or suspicion of business.

Senator DANFORTH. Obviously, when you have a tax incentive or tax expenditure, the purpose of it is to treat people with the same income differently according to their behavior. I wonder if the feeling here is that, the anger factor is not the sense that people have that someone else is getting off better than they are, someone else is in the same, relatively the same, boat that they are in, but they are getting off better, they are doing better from taxes. Therefore, they would rather have the sense that that guy over there is in the same boat that I am in. He is paying the same taxes that I am paying, and the social objectives of the country are accomplished, not by giving him some tax incentive, but by the Government's taxing everybody relatively the same according to the income brackets and then getting into the direct grant program.

Mr. ROPER. I do not think there is any question that the public's concern about the tax system is the unfairness. In a very early question, before it was apparent that this was a tax survey at all, we gave people a list of problems and asked them which two or three they thought were most in need of governmental action.

First was controlling inflation and second was controlling crime. Third was making the tax system fairer.

Now, we had several other tax items on that list, like simplifying the forms and the exemptions, reducing social security taxes, and there was one other tax item. They were all at the bottom of the list, and the public's priority, making it fairer, was third.

Senator PACKWOOD. Including simplification?

Mr. ROPER. Simplification was way down.

The CHAIRMAN. Can you tell us where that is in these documents you have submitted? What page is that on?

Mr. ROPER. Page 53 of the small book.¹

Senator DANFORTH. Mr. Roper, let me ask you this: Was there any attempt to measure the tradeoff in the public's mind between differential tax treatment on the one hand and the size and reach of Government on the other?

Supposing the result of tax expenditures which creates the unfairness problem also reduces the role of Government? Supposing that the whole concept is what Government does, we want someone else to do, and you want to induce them to do it, and theoretically the Government would get smaller and simpler if we had tax expenditures?

Mr. ROPER. I certainly think there is a generalized feeling that people would have less Government. It starts to break up a little bit when you find how they would like less government. If it is less Government meaning less foreign aid, that is fine. If it is less Government meaning less education, it is not fine.

We did, in this area, ask people whether they thought the tax system ought to be used truly for raising revenue or whether it also should be used to accomplish social purposes. By a narrow margin, people bought the concept that it should be used for social purposes as well as fundraising. And then we asked them about four specific social purposes, and every one of them was rejected.

Maybe we picked the wrong four, but every one of the four was rejected.

Senator BENTSEN. For example?

Mr. ROPER. One was to encourage people to do what are generally considered worthwhile things—to work, to acquire a home, contribute to charity, that kind of thing. No; that should not be done through taxes.

Then we said what about to discourage people from doing bad things, like drinking and smoking, and this kind of thing? No, no. Not the tax system for that.

Then we said, to stimulate depressed industries? No. Not to stimulate depressed industries.

And to, in effect, redistribute wealth, equalize income. Take-from-the-rich-to-give-to-the-poor kind of concept. No. That is, as a concept. They favor the idea of using it for social purposes.

¹ See appendix.

The CHAIRMAN. They must have had something in mind.

Senator PACKWOOD. If you had asked them the question specifically, do you favor using the tax system to encourage people to buy houses or homes, do you think they would say no to that also?

Mr. ROPER. I do not know. I am not sure about that. I certainly think that they think the capital gains on homes is a fair thing. That does not necessarily mean they think that a program to acquire a home is equally good.

Senator PACKWOOD. What would they say if you were to ask them whether they think the mortgage interest deduction is a worthwhile purpose?

Mr. ROPER. They think that is a reasonable allowance, rather than a tax loophole.

Senator PACKWOOD. They would not count that as a social purpose?

Mr. ROPER. I do not know that they would.

Senator DOLE. Were all of these people taxpayers?

Mr. ROPER. Not all of them. Most of them. Far and away the largest percentage. It was the way it breaks in the population.

Senator DANFORTH. Can you differentiate between the types of tax incentives that would be acceptable according to the percentage of the population which would avail itself of the incentive?

Mr. ROPER. Not exactly. When we asked people what exemptions or deductions or allowances they would be willing to give up to effect a tax reduction, there was a tendency to name either things that were very minor in cost, like safe deposit rental fee, or the things that they did not use. Most people do not have alimony. They were inclined to say maybe you could eliminate that deduction.

There was some degree of self-interest. If it was not much of a factor to begin with and/or it is not something I can take anyway, then it is one that can go to have a tax reduction. There was some of that.

I do not mean to paint the public as cynical or greedy and grasping in that. Remember, even though it would increase the tax rate, they thought there should be an additional exemption for the handicapped. That is going to cost you. That is a cost they are willing to pay.

Now, just to cover a few other things, there is wide opposition to business tax deductions that appear to give special breaks to the so-called privileged few. Club membership should not be deductible in any part, say 69 percent of the public. First-class air fare should not be deductible in any part, say 65 percent.

By contrast, union dues should be partly or totally deductible say 61 percent. That "club" is legitimate, others are not. Uniforms should be deductible, but good clothes for people who have to be well-dressed for business should definitely not be deductible.

Child care costs should be deductible, say 74 percent.

There is hot opposition to the three martini lunch. I do not care what it is called. On half of the sample, we asked about the so-called three martini lunch. On the other half, we did not mention the three martini lunch. We talked about a salesman taking a prospective customer to lunch.

Senator CURTIS. Was this the lunch or the martini?

Mr. ROPER. We asked people whether it should be fully deductible or half deductible, volunteering, although the question did not specify it, that no amount of it should be deductible—fully deductible. The

big group went with the least permissive alternative that we posed in the question—that half should be deductible.

I now think that, had we asked should it be entirely deductible, partly deductible, or none of it be deductible, we would have gotten a much higher figure for nondeductible. That was not built into the question. That was a volunteered answer.

Senator DOLE. I think that is why the President keeps pushing it. He has read these same surveys.

Mr. ROPER. Now, our hypothesis going in was that the three-martini lunch would get killed. When we talked about a salesman taking a prospective customer to lunch, we thought that would fare pretty well. It did not. It fared very poorly.

Senator PACKWOOD. Does that come because the taxpayer perceives this is as an abuse? If you had asked him about some business deduction that does not have much publicity do they perceive that as being rational?

Mr. ROPER. I think it might be that, and probably that some people can do it and others cannot. The worker cannot deduct the cost of his lunch pail, and this only applies to the privileged few. I think that is probably as much the answer as anything.

The CHAIRMAN. They feel that it is the other guy who gets it, I do not get that.

Mr. BLOCH. It is a fact that these people are not employers. They work for companies. They do not get taken to lunch.

Senator PACKWOOD. If you ask the question, should the employer deduct the cost of advertising, most of them say yes, even though they do not advertise themselves, or have any desire to.

Mr. ROPER. I do not think that. I do not want to paint the picture of the public as being terribly selfish or terribly cynical because I do not think they are. I think there are some things that do not seem right to them—69 percent thought the system was unfair.

We had other questions where people described which types of taxes they felt were high, not high, and so forth.

The percentage of people saying income taxes are excessively high is only 26 percent. The percent saying the system is unfair—what I pay versus what you pay—was 69 percent. So, it is unfair, not too high.

I think there are perceived inequities, largely as a result of not knowing what the facts are.

The CHAIRMAN. It seems to me it all pretty well gets back to that old concept of "don't tax you and don't tax me," because if you cut taxes, you are going to have a greater deficit and create problems. But a person thinks, "make the tax system fairer—and that means cut my taxes, that's the priority."

A fellow feels he doesn't benefit from deducting club dues; it benefits the other guy, and since he doesn't get a benefit from that, therefore he is against that. I think that is how a nonmember of a club tends to react to it. Of course, a member of a club tends to feel the other way around.

It's the same way on deducting first-class fares on airplanes. A fellow who doesn't ride first class and goes past those first-class seats feels that is something somebody else enjoys. He doesn't see where they ought to be able to deduct that. Tax those people and maybe that might lighten my burden somewhat.

In any event, I think there is a degree of resentment that somebody can afford something that this fellow can't afford. He is making a sacrifice they are not making.

Mr. ROPER. I think it is more the unfairness than the desire for a cut. I call your attention to two pages in the small volume of this report.

The first is page 53. This was asked before anyone knew we were doing a tax survey. We gave this list of items and asked which of those things are most important to it right now.

If you go down the list, you will find lowering income taxes, which was only named by 9 percent. It's way down the list. And then, lowering social security taxes is an even lower 4 percent, and simplifying is 3 percent, and almost at the bottom of the list.

Senator CURTIS. Mr. Roper, I think we are faced with a problem that is not of recent origin. Throughout the history of political oratory, charges of unfairness and favoritism and loopholes have gone on and on and on, and there have been very few speeches and very few published articles detailing those features of our tax law which refute those charges.

Don't you feel that is part of the problem, a big part of the problem?

Mr. ROPER. I do.

Senator DANFORTH. But that is not all of it.

Mr. ROPER. No; I don't think it is.

Senator DANFORTH. I can remember when I was in school, when test grades came back, the immediate thing to do was to ask your buddies, What did you get? Not so much what did I get, but what did you get, and if the other guy got a lower mark than you got, you felt good about it, and if the other guy got a higher mark than you got, you felt bad about it.

And explanations by the teacher—well, the reason Bob got a better mark than you got is that he is smarter than you are—the teacher could have said that all day long, I wouldn't have accepted it for a minute. Isn't that true? It is not so much the rate of tax. This is what you are saying. I haven't made this up. I think what you are saying is, It is not the amount of tax, it is not the rate of tax that I am paying, it is not the desire for some added benefit that I want for myself. What it is is the perceived difference that somehow I am being treated differently from that guy over there.

Mr. ROPER. I think that is it almost completely. I think the reduction side of it is very minimal part of it, providing there is equity as between you and me and the rest of us.

Senator DANFORTH. Then, somebody like Surrey, who says we should have just a very simple Internal Revenue Code and less tax expenditures and reduced rates. That would be very popular; is that right?

Mr. ROPER. No.

Senator DANFORTH. No.

Mr. ROPER. We asked about that in last year's study. We proposed a much more simplified approach where we eliminated deductions and exemptions, and we gave a corresponding cut in the tax rate. I can't remember the exact number, but we made a sharp slash in the tax rate and eliminated deductions and exemptions.

I don't know if that is fear of the unknown or not being able to translate this lower rate of percentages without the exemptions and comparing it to this higher rate with the—

Senator **PACKWOOD**. What is the furor? They will get the simplified form and all their deductions are gone this year. The rates will go up and they won't have any deductions any more.

Mr. **ROPER**. That could well be it. They think the rate cut could be temporary.

Senator **PACKWOOD**. Let me ask you another question. You talked about the social purpose thing awhile ago, and in response to Jack's question about incentives to help people, they wanted those incentives not to go to the people. They preferred a direct Government approach.

There is a bill around Congress now to change the method of taking tax deductions of charitable contributions, so you can take a credit rather than deduction.

Most people, however, do not give to charities, they don't take a deduction even if they could take one.

Do you think the response would be the same if you were to give an option of having the Government be involved in this great adoption business and day-care business rather than the Catholic Church and Jewish Welfare League and not allow charitable contributions for that purpose because only a few people take them. What would be the public's attitude?

Mr. **ROPER**. I don't think they prefer having the Government do it.

Senator **PACKWOOD**. They don't object to the deduction for charities even if most of them don't take deductions for charities.

Mr. **ROPER**. That is right. They are not inclined to think it is a loophole even though they may not give to it themselves. However, I might mention, they do reject the idea of an additional deduction for charitable contributions on top of the standard deduction—in other words, an additional deduction for those who don't itemize.

Senator **PACKWOOD**. They do object to that. Is that in here some place?

Mr. **ROPER**. Yes, it is.

Senator **PACKWOOD**. Where is that?

Mr. **ROPER**. I was afraid you might ask me that.

Senator **PACKWOOD**. I am sorry to hear that.

Mr. **BLOCH**. Are you aware that the number of people giving to charities has been declining each year?

Senator **PACKWOOD**. Yes.

Mr. **BLOCH**. And the reason for that is the standard deduction has been going up, so that the average person can no longer deduct his charitable contributions.

Senator **PACKWOOD**. According to what Mr. Roper says, they object to it being basically a tax deduction below the standard deduction line.

Mr. **BLOCH**. That is right.

Senator **BENTSEN**. Do you think that results just from the fact the standard deduction has gone up or is there increasing cynicism? How do you correlate the two?

Mr. **BLOCH**. It is my understanding, from talking to people, like the head of the Heart Association that people are less inclined to give when they can't deduct contributions on their own return.

Senatory **BYRD**. What percent of the people make charitable contributions?

Mr. **BLOCH**. I can't answer that. I could get you that information. It is in the Commissioner's report.

Senator **BYRD**. Thank you.

Mr. ROPER [to Senator Packwood]. I will get you that answer. At the moment, I can't find it.

The CHAIRMAN. While you are looking for it, I would like Senator Curtis to suggest his reaction to a previous question.

Senator CURTIS. Mr. Roper, I think that while the general public may have drawn different conclusions had they had more information there does seem to be revealed quite a sense of justice on their part. I draw that from the number that would not go overboard for simplification, for doing away with all of the deductions and exemptions.

For instance, they may know some handicapped person who, with greater effort, has to pull himself up to a bench to earn a living and they think it is right he get an additional tax break. They may have known a family on their block who has had a tremendous medical bill and they would like to see that deducted. The public isn't fooled, they realize that life is complicated, and I think their knowledge of life makes them realize that if the problems are not simple, then the answers are not simple. I believe their sense of justice causes them to reject as a total panacea this idea of just simplify everything and reduce the rates.

Mr. ROPER. I think that is certainly true, in part. I don't want to be in a position of saying the tax system is completely fair. I am not enough of a judge to say that. I do think that there may be changes that should be made in the system, but I think an awful lot of what the public sees as unfairness is lack of understanding.

Senator CURTIS. That is correct. And while I think it is true that all of us, everybody, reacts to a tax proposal as it affects us individually; but at the same time, I think the public has shown a great sense of justice.

Mr. ROPER. I think that is quite right.

Senator CURTIS. And they admire the individual who is blind and has to have some extra expense to get to work and back, and so on. They want that fellow to have a tax break.

Mr. ROPER. I think that is quite true. Senator Packwood, page 60—

Senator PACKWOOD. Of which book?

Mr. ROPER. Of the small book. I would point out to you—this is question 20—that we said any time a tax deduction or tax break is given to one group, the tax rate has to be higher for everyone and this, in effect, means that those who don't get the tax benefit are paying for those who do get it. Bearing in mind that more deductions and allowances could mean higher tax rates, would you read down this list and tell me for each one whether it is or is not a tax change you think ought to be made to make the system fairer?

The first item is the one I have mentioned, the extra exemption for the handicapped; 84 percent think that should be done. Thenext to the last item is the one I was fumbling for and couldn't find, a tax deduction allowed for contributions to charity even if you don't itemize the rest of your deductions, and by a 40-to-50 margin, they feel that change should not be made.

I think another thing about this question, and a number of others in here, is that it shows the public is selective. They are not just saying cut it or simplify, or whatever. You have got 84 percent saying one of those changes should be made. You have only 36 percent saying another of them should be made. It is a high degree of selectivity within the framework, of the same question.

The CHAIRMAN. Isn't it true, though, Mr. Roper, that in something like this item that you are talking about, the way the public would react to it oftentime depends upon how you ask that question? In other words, if you approach it from a somewhat different point of view, the idea the person is entitled to have a deduction for charity, and even if he used the simple form he could claim some deduction for charity in addition to using a standard deduction, they might answer somewhat differently than the way this was presented?

Mr. ROPER. It may well be, sir.

The CHAIRMAN. It seems to me, sometimes if you pose a problem somewhat differently you get a different answer, and if you pose it against the idea of simplification, they might say, I guess that would simplify it, if you gave them that option.

Mr. ROPER. I think that is quite true. I am a strong believer that the way you ask the question can affect the results, particularly where opinions are not terribly strongly held. That is one of the reasons we always reproduce the verbatim wording of every question and you will find the verbatim wording of every question in the small volume, and you will find the full questionnaire in the large volume.

I think that is quite true and there is an example of what you are talking about, not on this contribution subject, but there is an example of what you are talking about in this study as compared with the last. Again, if I can find it quickly—

Mr. BLOCH. I think it might help if you examine the larger volume as to who voted in favor and who opposed that. I think it would be very interesting. I probably feel like you do, that that credit would be a very good thing. It would be interesting to find out who voted against it and who voted for it. Maybe the people who don't give to charities say, "Gosh, if it is a credit, I am going to have a harder time saying no."

Mr. ROPER. Shirley, do you know where the question is on broadening the tax base?

We asked a question last year about whether the tax base should be broadened and the tax rate lowered accordingly, and it came out strongly for broadening the tax base and lowering the rate. When we looked at the results, we concluded that we had written not very good questions because what we suspected was that people's interpretation of broadening the tax base was bringing into the system those who now pay nothing.

Well, that was part of what we meant. What we also meant was making less kinds of income tax exempt, making fewer exemptions, broadening the tax base in that way, as well as in bringing in those who were paying nothing at all.

This year, we rewrote the question to make it crystal clear what we were talking about. Sure, bring in those who aren't paying anything, but also, make more kinds of a person's income deductible, taxable, and fewer things deductible.

This sharply changed sentiment for broadening the tax base. It reduced it. The question was designed to do the same thing in both years, but the way we phrased it produced one result last year and a quite different result this year.

The CHAIRMAN. Can you tell me what the result is this year?

Ms. WILKINS. Page 63.

Mr. ROPER. Page 63 in the small volume is this year's wording of it, and I think I can find last year's wording, if you would like the comparison. It is at the top of the page there.

The CHAIRMAN. So the answer comes out that about 41 percent would like to see the tax base broadened and 30 percent not.

Mr. ROPER. That is right.

The CHAIRMAN. When you put it on the basis of eliminating some of the deductions.

Mr. ROPER. That is right. Last year, when we made it less clear, we got, I think it was about a 2 to 1 margin in favor of broadening the tax base. So, I would urge you not to make any conclusion about any result in here unless you also look at what the question itself is.

Ms. WILKINS. The wording last year got 48 to 29.

Mr. ROPER. Broadening the tax base was favored 48 to 29, and I don't think there has been big trend changes in a year. I think it is the wording change—a different perception of what we are talking about.

The CHAIRMAN. It is just about 50-50 when you make it clear what you are talking about in eliminating some of the deductions.

Mr. ROPER. That is right.

Senator PACKWOOD. What they would eliminate in order to broaden the tax base, and the things they do not want to eliminate are the big ticket items.

Mr. ROPER. That is right.

Senator DOLE. Space and welfare.

Mr. ROPER. Another thing relative to this whole fairness thing, we asked a question about whether everyone, rich as well as poor, ought to pay at least something in taxes, and there was overwhelming sentiment for it. I think an awful lot of it is not that I am paying too much tax, but that you or he isn't paying any, and that is the unfairness.

I would like to come back in a moment, if I could, to this question of excessive taxes. I said that 26 percent regarded their Federal income taxes as excessively high. Thirty-two percent regarded their real estate taxes as excessively high. That was the big one. And incidentally, it was far bigger in the Western States than it was in the rest of the country.

This study was done before proposition 13. Social security taxes—which were the big furor at the time we were designing this study with all kinds of reports about how the public was up in arms about the new social security taxes—they come out much lower as excessive than either property taxes or Federal income taxes.

Senator DOLE. They haven't gone up yet.

Mr. ROPER. That is true.

Senator DOLE. It is taking 2 years now.

Senator CURTIS. The big raise only helps 25 percent of the people by raising the base.

Mr. ROPER. That may well be it, but, at the same time we were designing it, there was talk about how much resentment there was then, not how much there would be next year, but how much there was then over the new rates. And we don't find it now. Maybe we will next year, but we don't now.

The CHAIRMAN. Gentlemen, I wish we could go on, but I believe we are going to call this session to a halt now because we have some bills we want to report out.

I want to thank you, Mr. Bloch, for sponsoring this study and thank you, Mr. Roper, for the fine job you have done. I am going to study both of these volumes,¹ and I would urge everybody else to. I think it is enormously important how the public conceives of our tax system.

Perhaps at a later date, we might be able to get you back and get some more information.

Senator DANFORTH. Mr. Chairman, I would like to just add my words to yours. I think this is a very interesting presentation and an excellent service, and I am delighted to see it. I am a little bit shocked by some of the results, I must say.

Mr. ROOPER. So am I.

Senator DANFORTH. I think it is a very useful thing to have. I want to express my appreciation to Henry Bloch, who not only runs a very great company and has become something of a TV celebrity in the process, but is a really outstanding citizen of Kansas City at the same time.

Senator DOLE. He lives in Kansas.

Senator CURTIS. If we are going to get in such a contest, I must have the record show that Mr. Roper is a distinguished citizen of the State of Nebraska.

I find some misconception about our tax laws in Nebraska, and if that is true, as I am afraid it is, then the misconception elsewhere, in the less-informed States, must be very, very bad.

Mr. ROOPER. On behalf of my partner, Shirley Wilkins, and Henry Bloch, I want to thank you all for the opportunity of presenting this to you.

If you have any questions about it, I hope you will give them to us.

The CHAIRMAN. Thank you very much. That will be very helpful to the committee.

[The following was subsequently supplied for the record:]

¹ Vol. II of the study was made a part of the official committee file. For vol. I see appendix.

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FOR IMMEDIATE RELEASE

TAX BURDEN COMPLAINTS INTENSIFY -- ROPER SURVEY

NEW YORK, August 8 -- U.S. taxpayers' feelings that they are over-taxed have intensified sharply in a period of only two months, according to a study released today by The Roper Organization.

Asked in mid-July how they regarded their Federal income tax burden, 41 percent called it "excessively high" -- a 15 percent jump from the results recorded two months earlier.

The earlier survey, an in-depth study of taxpayer attitudes conducted by the Roper firm, and underwritten by H&R Block as a public service to Congress, the Administration and others involved in tax legislation, interviewed a national sample of 2,000 adults one month before the wide publicity on California's Proposition 13 and before much of the tax publicity emanating from Washington. The follow-up study, done for the "Roper Reports" newsletter, was in the field about one month after Proposition 13, the vote some saw as the beginning of a "taxpayers' revolt."

The study for H&R Block, presented to the Senate Finance Committee on July 27, showed broad discontent with the tax system, a feeling that the income tax burden is unfairly distributed, and overall, a very poor understanding of how the tax system works.

"We were intrigued by some of the responses in the Block survey and curious to see if Proposition 13 and the continuing tax debates in Washington are really having a broad impact," said Burns Roper, chairman of the opinion research firm, "so we decided to repeat some of the questions in a later, more general study for Roper Reports."

Asked directly, in July, about Proposition 13, in which Californians voted to limit business and residential property taxes to no more than one percent of market value, 56 percent of the national sample said they would vote for such a measure in their own community, and only 25 percent would vote against it. So, of those who had an opinion one way or the other, more than two-thirds favor a lid on property taxes today.

The latest Roper survey showed a sharp turnaround in public opinion, from the May survey, as to which tax is thought to be the most excessive.

Asked in the H&R Block survey whether they consider their taxes "excessively high", "somewhat high", "about right", or "extremely low", 32 percent of all those asked felt property or real estate taxes were excessively high, followed by 26 percent who saw their Federal income taxes as excessively high.

The followup, identical question asked in the July survey showed an increase to 36 percent for those who think their property taxes are excessively high, but there was a remarkable 15 point increase to 41 percent of the public who now consider their Federal income taxes excessively high.

"In view of the fact that Proposition 13 was concerned with property taxes, it is not surprising to find an increase nationally in those who feel their property taxes are excessive," Roper said. "What is surprising is to find the sharp jump in such a short period in those who feel the Federal income taxes are excessive."

Both polls also asked about Social Security taxes, sales taxes, state income taxes and city or local income taxes.

In every category, there was an increase in the number of those saying the tax is "excessively high," compared with the Block survey taken in May.

Note: With Roper Survey

The following table illustrates the changes in taxpayers' opinions of their tax burden from May to July 1978:

Question: I'm going to name some different kinds of taxes you might have to pay, and for each type would you tell me whether the taxes you have to pay are excessively high, somewhat high, about right or extremely low (July-Roper Reports; May-Roper Study for H&R Block.)

	Amount paid is:											
	Excessively high		Somewhat high		About right		Extremely low		Don't pay that tax		Don't know	
	July	May	July	May	July	May	July	May	July	May	July	May
Federal Income Taxes	41%	26%	30%	37%	16%	22%	-	1%	10%	12%	2%	1%
Property or Real Estate Taxes	36	32	21	23	19	21	-	1	18	20	5	4
Social Security Taxes	27	22	24	25	29	30	1	1	14	18	4	3
Sales Taxes	24	20	27	26	41	43	1	1	6	7	2	2
State Income Taxes	21	16	24	24	28	34	1	1	22	21	3	4
City or local Income Taxes	12	10	13	15	19	22	1	1	49	48	7	5

FOR USE/RELEASE: Tuesday, August 8, 1978

**ROPER
REPORTS**

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EARLY SELECTED RESULTS: 78-7

(July 8 - 15 Interviewing)

Tax Burden Complaints Leap

Our survey for H&R Block Inc., released in July and based on interviewing conducted before passage of California's Proposition 13, showed widespread belief that our tax system is "unfair"—but "unfair," not "excessive." Only one-third felt their property taxes were "excessively high," only one in four thought their federal income taxes were "excessively high" (vs. 67% who felt the federal income tax system was "unfair to most").

Because this survey was conducted prior to Proposition 13, we repeated several questions asked in it in ROPER REPORTS 78-7. Not too surprisingly, the percentage who feel their property taxes are "excessively high" has risen nationally since passage of Proposition 13—from 32% to 36%. The "stunner," however, is that while Proposition 13 concerned property taxes, the big increase in feeling that taxes are "excessively high" is with respect to federal income taxes—a jump from 26% to 41% in just two months!

While there was little evidence of a national tax revolt in the H&R Block study, 78-7 shows that Proposition 13 has added substantial fuel to the tax fire—with respect to all taxes. But particularly the federal income tax.

14. I'm going to name some different kinds of taxes you may have to pay, and for each type would you tell me whether the taxes you have to pay are excessively high, somewhat high, about right, or extremely low? First, Federal income taxes.

	Amount paid is:								Don't pay that tax (incl.)		Don't know	
	Excessively high		Somewhat high		About right		Extremely low		Don't pay that tax (incl.)		Don't know	
	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)	RR Block (Only) (Opp)
Federal income taxes	41%	26%	30	37	16	22	-	1	10	12	2	1
Social Security taxes	37%	22%	24	28	29	30	1	1	14	16	4	3
State income taxes	21%	16%	24	34	28	34	1	1	22	31	3	4
City or local income taxes	13%	10%	13	15	19	22	1	1	49	48	7	5
Property or real estate taxes	36%	32%	21	23	19	21	-	1	18	20	5	4
Sales taxes	24%	20%	27	26	41	43	1	1	6	7	2	2

Proposition 13 In "My Community" Favored More Than Two To One

A month after passage of Proposition 13, after heavy media exposure to the pros and cons, and with mention of the pros and cons included in the question wording, the public says it would vote for a local Proposition 13 by well over a two to one margin.

15. In an election in June, the voters in California voted in favor of Proposition 13. As you probably know, that proposition called for lowering business and residential property taxes to no more than one percent of market value. Those in favor of it said that real estate taxes had gotten out of hand and had to be cut. Those against it said it would force the government to raise other taxes or else cut down on what is spent for schools, police and other services. If a proposition were put to a vote in your community to lower property taxes to no more than one percent of market value, would you vote for it or against it?

For	56%
Against	25
Don't know	19

Reasons For Supporting Proposition 13 Vary

The common denominator to the reasons for favoring Proposition 13 is an "anti-government" sentiment. Personal economics--the high cost of living--is least often named as a reason for favoring it. Public perception of government waste, inefficiency and needless programs are the motivating forces for Proposition 13 sentiment. This is underscored by the fact that people think that needed services could be maintained without tax increases by better than a two to one margin.

(If "Yes" Proposition 13 in Q.15)

16. Here are some reasons people gave for voting for Proposition 13 in California. (Card shown respondent) Which of these are your reasons for being in favor of such a proposition?

d. I don't approve of the way the government spends money--there's too much waste and inefficiency	326
e. Property taxes are much higher than they need to be	36
f. I don't approve of many of the things the government spends money on, and if there were less money some of these things would be cut out	35
g. It's time we let politicians know they can't just do anything they want to	32
h. Between rising prices and rising taxes I just can't make it and something has to give	15
None or Don't know	1

17. Some people feel that if the property tax were cut to its market value, the tax loss would have to be made up by cutting government services or increasing other taxes. Other people feel that the government would find the money somehow or could cut out enough waste, inefficiency and needless programs to avoid tax increases and service cuts. Do you think tax increases or service cuts would be necessary, or that needed services could be maintained without resorting to service cuts or tax increases?

<u>Tax increases/service cuts:</u>	
Needed	296
Not needed	33
Don't know	21

Welfare And Recreation/Culture Should Be Cut First

While most of the public sees no need to cut essential services if local property taxes are reduced, the services they would be most inclined to cut if cuts are instituted are in welfare and in parks, museums and recreation. The fact that little of welfare costs are financed by local property taxes is either little known or irrelevant. People are least inclined to cut fire and police protection.

20. Well, if they did have to reduce services, which two or three of these local services would you be most willing to see reduced? (Card shown respondent)

a. Welfare	52%	g. Street repair	6%
i. Parks, museums, and recreation	39	f. Schools	7
b. Libraries	31	e. Police	3
d. Public transportation	20	h. Fire	1
c. Sanitation (perhaps collection)	9	None	16
		Don't know	7

If All Taxes Cut One-Third, Good Effects Seen Predominant

After talk of Proposition 13 and respondents' local communities, we broadened the focus to a one-third out in all taxes--local, state and federal. A nearly evenly balanced list of possible good and bad effects of such a cut was presented to respondents, with the order of the items in it pretty much alternated between good and bad. But when people were asked what they would expect to happen in light of such cuts, there was no such even balance seen between good and bad effects. The six items most often named were all good effects.

21. Now let's turn back to all taxes, not just property taxes. If all tax--local, state and federal--were cut by one-third, which of these things do you think would happen, if any? (Check those respondent)

a. Needless wasteful government programs would be eliminated	46%	e. Public safety would be endangered because of fewer police and firemen	21%
1. Less unemployment insurance and welfare payments would make more people go to work	33	f. Education would deteriorate with lower school budgets	19
d. Government would become more efficient	17	h. Help for the truly needy would be reduced	18
e. Government would become more responsive	19	g. The rich would benefit the most	18
b. Inflation would be reduced because of less government spending	28	j. Streets and roads would deteriorate	14
n. The middle class would get much needed relief	27	o. Blacks and other minorities would suffer more than most	14
e. Unemployment would rise because of government worker layoffs	23	1. Our national defense would be jeopardized because of lowered defense spending	9
b. The economy would be stimulated because people would have more money to spend	22	Don't know	10

One-Third Cut In All Taxes Favored More Than Two To One

Not surprising, in light of the perceived effects of a one-third out in all taxes, is the fact that over twice as many think it would be a good thing to make such a cut as think it would be a bad thing. One-third, however, are either unsure of the effects or qualified their answer.

The H&R Block study conducted before Proposition 13 gave little indication of a national tax revolt, although most people expressed the view that there was substantial inequities in the federal tax system. This latest ROPER REPORTS, however, indicates that Proposition 13 has caused the public's latent tax discontents to come alive--possibly because California has proven to them that something can be done about it.

22. Everything considered, on balance do you think it would be a good thing, or a bad thing if all taxes were cut by one-third?

Good	48%	Depends on which taxes were cut (vel.)	21%
Bad	21	Don't know	18

(The 78-7 results, as well as the H&R Block results, are based on in-home personal interviews with representative samples of 2,000 adults--different adults in each study--in the continental United States. Interviewing on 78-7 was conducted during the period from July 8th to 15th, 1978. Interviewing on the H&R Block survey was conducted from May 6 to May 13, 1978.)

APPENDIX

THE AMERICAN PUBLIC

AND

THE INCOME TAX SYSTEM

The Second In A Series Of Studies
Of Public Attitudes Toward
The Federal Income Tax System

Volume I: Summary Report

Conducted by
The ROPER ORGANIZATION Inc.

July 1978

Commissioned By
H&R BLOCK INC.

INTRODUCTION

This is the second of two studies commissioned by H&R Block and conducted by The Roper Organization to explore public understanding of and attitudes towards the federal income tax system. This year's study covered eight major areas:

- . Knowledge of the federal income tax system
- . Fairness of the federal income tax system and of other types of taxes
- . Attitudes towards tax reform in general and towards various proposed changes in the tax system
- . Attitudes towards business tax deductions
- . The tax system as a vehicle for social reform
- . Attitudes towards proposals for college and private school tuition tax credits
- . Social Security taxes and funding
- . Taxpayer practices

Certain questions from the 1977 study were repeated in order to measure any changes in knowledge and attitudes that might have occurred during the year, but the majority of the questionnaire explored new areas or new dimensions of areas covered in the last study.

The Roper Organization was responsible for the questionnaire design, field work and analysis of the results. Prior to designing the questionnaire a number of tax experts, government officials and financial reporters were interviewed on an informal basis by Roper executives in order to get their opinions as to the major areas of importance to be covered in the study.

This volume presents the basic findings of the study, including the conclusions we (Roper) draw from them. A separate volume containing complete tabulations of all results and detailed demographic breakdowns is available on request.*

The study was based on interviews conducted in early May with a nationwide representative cross section of 2007 adults. All interviews were in person and took place in the homes of respondents. Technical details and a description of the methodology appear in the Appendix.

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HIGHLIGHTS FROM THE STUDY

This second study of The American Public And The Federal Income Tax System was designed to update and confirm trends in certain areas, and further explore public understanding of, and attitudes towards, the income tax system--to build on and expand the 1977 study. Major attention was devoted to attitudes towards tax reform.

This section of the report covers those things that appear to be the most important findings of the study. Subsequent individual chapters cover the detailed findings on a subject by subject basis.

- In the view of the American public, the major problem with the federal income tax system in this country is its unfairness.
 - A growing majority condemns the income tax system as unfair to most people.
 - A growing majority sees middle income families as overtaxed, while upper income people and large businesses are seen as undertaxed.
 - The public believes that over half of the very wealthy pay no income taxes at all.
 - A majority thinks that, as a matter of principle, everyone should pay some income tax--poor as well as rich.
 - The standard deduction is not seen as fair when applied to two families with the same income but different levels of expenses.
- The public places high priority on tax reform to make the system fairer.
 - Tax reform to make the system fairer ranks third (after controlling inflation and lowering the crime rate) in a list of fifteen national problems that need immediate attention.
 - The term "tax reform" means making the system fairer, and secondarily eliminating "loopholes." People do not hear the term and think their personal taxes will go up or down.

- While many are seen to be partly responsible for lack of major tax reform, "special interest groups" are most often blamed.

● This year's study confirms widespread misunderstanding of, and lack of information about, how the income tax system works, which feeds to the indictment of the income tax system as "unfair."

- The public demonstrates only slightly better perception this year of how the graduated tax rate is applied, seeing an effective rate of 9% at the \$10,000 income level, 14% at the \$200,000 level. People greatly underestimate the amount of income taxes upper income families pay, and see those in the top brackets paying little more in percentage of tax on their incomes than those in the lower brackets.
- Taxpayers continue to overestimate the percentage of income they themselves pay in taxes, and estimate their own tax percentage as higher than that for families with \$200,000 annual incomes.
- Nearly half don't know (within \$100) what they paid in Federal income tax--three weeks after April 15.
- The earned income credit is little understood--particularly by those who stand to benefit most from it, the low income groups.
- One-quarter of the public thinks a tax deductible contribution costs the giver nothing because it can be taken off income taxes.

● While there is strong demand for tax reform to make the tax system fairer, the public has not reached the boiling point on the amount of federal income taxes they pay.

- Predictive of the California tax revolt on Proposition 13, well before the vote, more called their property taxes "excessive" than called their federal income taxes "excessive"--particularly in the Pacific region.

- On an anger scale from one to ten about the amount of federal income taxes they pay, taxpayers place themselves just above the half way mark on the way to "extreme anger."

● There is no demand for further simplification of tax forms and instructions.

- The public gives lower priority to simplifying tax returns than to changing the tax laws to making the system fairer.
- Taxpayers report this year's form much less difficult to fill out than last year's.
- More taxpayers are using the short form, more are doing their own returns and fewer are having them done by outside professionals.
- A majority of taxpayers say the IRS should leave forms and instructions alone for a while rather than continue changing them to try and make them simpler.

● While the public by a narrow margin supports the concept of using the tax system as a vehicle for social and economic reform in addition to raising money, every specific additional such use of the tax system asked about is rejected.

- There is only minority support for using the tax system to encourage people to do worthwhile things, to discourage people from doing things that might be bad for them, to stimulate depressed industries or to redistribute the wealth.
- The public opts for helping solve the problems of unemployment and welfare by having the government create jobs for the needy rather than giving tax incentives to business to hire them.
- When the earned income tax credit is explained, a majority think low income working people should be helped through other means.

OTHER KEY FINDINGS

- The public defines "middle income" families as those having annual incomes between \$20,000 and \$40,000. Below \$20,000 is "low"; above \$40,000 is "high."
- The capital gains tax is considered a reasonable deduction rather than a tax "loophole"--and not because people are thinking of the capital gains on the sale of their homes.
- Large majorities describe 15 of 16 other tax breaks as "reasonable," not "loopholes."
- Additional tax breaks desired by majorities: extra exemption for handicapped, lower tax rate on savings account interest.
- People would prefer annual inflation indexing in the tax system over periodic tax cuts as a means of coping with the twin problems of inflation and rising taxes.
- But they feel President Carter's proposed \$25 billion tax cut for this year is more important than holding the line on taxes and the national debt.
- A lower tax rate is not seen as reducing government revenues.
- By a narrow margin, people would opt for a \$1,000 tax exemption over a \$240 tax credit for dependents.
- Of four plans to provide tax aid for college tuition, the Carter proposal to expand eligibility for loans and grants is the most popular.
- The public turns thumbs down on plans for college tuition tax aid that would give a flat \$250 deduction to those with children in college.
- The public gives a resounding "No" to extending tax aid for private elementary and secondary schools--either with or without consideration of parochial schools included.
- There is wide opposition to business tax deductions that appear to give special breaks to a privileged few--club memberships, first class air fare, etc.

- But union dues, uniforms, child care costs, and transportation to work are seen as appropriate deductions.
- There is wide opposition to full tax deductions for the business lunch, whether it is described as "the 3-martini lunch" or simply as a meal for business purposes.
- Only one-third favor "double taxation" of corporate dividends.
- Social Security taxes are not a burning issue at the present time, but the public does favor some other method than the current way of funding Social Security. The Carter plan for using a combination of worker-employer taxes and funds from general tax revenues is the most popular.
- People would be most willing to pay more taxes for fighting crime, improving education, solving the energy problem, and national health insurance (but less than one-third would pay more for any of them).
- To cut government spending, a majority would cut space exploration, over one-third would cut welfare and aid to big cities.

Chapter Summary

The public demonstrates a clear lack of understanding of how the federal income tax system works and taxpayers a lack of knowledge of what they themselves pay in taxes. A question repeated from the 1977 Study shows the public at large and taxpayers themselves still have virtually no understanding of the graduated tax rate. While there is a little more realization now than a year ago that the rate graduates, it is seen as very gradual. People estimate that those with annual incomes of \$10,000 pay 9% in taxes, and those with an income of \$200,000 pay 14% of their income in taxes. And, once again, whereas taxpayers greatly underestimate the taxes people with high incomes pay, they overestimate the percentage they themselves pay. The truth is, a large body of taxpayers do not know what they pay in taxes. Nearly half said they did not know within \$100 the total amount they paid in federal income taxes this year.

People do have the idea that those who earn over \$16,000 a year pay a majority of total tax dollars collected, although they appreciably underestimate the actual percentage of 72%. While the pattern of answers indicates guessing, they say that this 25% of the population pays over half of the tax dollars collected.

Questions on two specific aspects of the tax system reveal that:

- The public clearly has no understanding of how the earned income tax credit works for certain low income wage earners.
- One-quarter of the public believes a tax deductible contribution costs the giver nothing because it can be taken off income taxes.

Perception Of How Much People At Various
Income Levels Pay In Federal Income Taxes

As shown in the 1977 study, the public has little understanding of the graduated tax system, and greatly underestimates the amount of federal income taxes paid by those making \$25,000 or more. Asked to estimate the amount paid in federal taxes by families of four at various income levels, one-third to 44% couldn't make a guess. Those who made an estimate put percentages paid in taxes very little differently from one income level to another--13% on \$50,000, 14% on \$200,000. The only income level where the public was close to the mark on estimating the amount of taxes paid was \$15,000. Beyond that, those with under \$7,000 were close on the amount of taxes paid on \$10,000 of income, and those with \$25,000 or more income were close on the taxes paid on \$25,000 of income. All other estimates were far from the mark--particularly on incomes of \$25,000 and higher.

Q14. I'm going to name some different levels of income, and for each one would you tell me how much you think the average married couple with two children would have to pay in federal income taxes? First, a couple with \$10,000 income. About how much do you think they would have to pay in federal income taxes?

Median Estimate Of Taxes Paid

Number of respondents	Income level of respondents					Total taxpayers	Percent of total public answering don't know	Percent required according to withholding tables
	Total public	Under \$7,000	\$7,000 to \$15,000	\$15,000 to \$25,000	\$25,000 and over			
	2007 (% of income)	375 (% of income)	648 (% of income)	606 (% of income)	358 (% of income)			
<u>Amount of taxes paid by a couple with:</u>								
\$10,000 income	\$948 (9%)	\$706 (7%)	\$944 (9%)	\$1020 (10%)	\$1046 (10%)	\$964 (10%)	33%	6%
\$15,000 income	1613 (11%)	937 (6%)	1567 (10%)	1724 (11%)	1745 (12%)	1647 (11%)	34	10
\$25,000 income	2847 (11%)	2024 (8%)	2806 (11%)	2850 (11%)	3418 (14%)	2914 (12%)	36	15
\$50,000 income	6252 (13%)	4083 (8%)	6119 (12%)	6289 (13%)	7788 (16%)	6397 (13%)	41	26
\$100,000 income	14,570 (15%)	9593 (10%)	13,674 (14%)	14,649 (15%)	21,273 (21%)	15,615 (16%)	43	31
\$200,000 income	27,927 (14%)	19,412 (10%)	25,106 (13%)	29,614 (15%)	41,176 (21%)	29,078 (15%)	44	33

Note: Results within 1 of 2 points of the actual percentages required according to withholding tables are circled.

Taxpayers Estimate Of The Percentage Of Their Income They Paid In Federal Income Taxes

In estimating the percentage of their own income paid in federal taxes, taxpayers were as inaccurate as in estimating what others pay. But in this case they overestimated the amount they pay, whereas they underestimated what others pay. This group of people actually had a median income of approximately \$16,857. The median

percentage of taxes paid on their income tax was estimated at 17%, about one-third again the correct percentage (13%) for \$16,857 of family income assuming 3 exemptions. And, all income groups consistently overestimated the tax they paid.** But perhaps one of the most startling findings is that one-third of all taxpayers couldn't even make a guess as to what percent of their income they paid in taxes.

Q45X. About what percent of your total income would you say you paid in federal income taxes this year?***

	Total taxpayers	Income group			
		Under \$7,000	\$7,000 to under \$15,000	\$15,000 to under \$25,000	\$25,000 and over
Number of respondents	848	93	298	279	173
<u>Percent paid in federal taxes</u>	%	%	%	%	%
Under 5%	9	25	13	4	1
5% - under 10%	6	8	7	4	5
10% - under 20%	23	14	21	29	23
20% - under 30%	19	11	16	25	23
30% - under 40%	7	1	3	6	17
40% - under 50%	1	-	-	1	3
50% and over	1	2	2	*	-
Don't know/no answer	34	40	39	30	29
Median	18.0%	8.6%	15.2%	19.3%	23.0%

* Less than .5 percent

Asked whether they knew within \$100 the total amount they paid in federal income taxes for the year, only a little over half of all taxpayers (56%) said yes, they knew. And this may be an inflated number, considering how inaccurate people were in estimating either the percentage of their income paid in taxes or the number

** These are similar to the results obtained a year ago when the question was asked only of those who either did their own return or had it done by a professional, rather than all taxpayers as this year.

*** Half the sample was asked this question in terms of dollars in taxes paid per \$100 of income to determine whether or not the question was more understandable. Results were little different in terms of the medians, but there was a higher level of "don't know" answers on the alternate question. Therefore, this version is shown as the more valid measure.

of dollars paid in taxes per \$100 of income. Those who made out their own return were much more inclined to think they know what they paid in taxes than those who did not make out their own return, but even among those who did their own return, 3 in 10 said they did not know how much they paid in taxes--less than a month after April 15.

Q46. I'm not going to ask you how much you paid in federal income taxes this year, but if I were to ask you, do you think you could tell me within one hundred dollars what the total amount your taxes for the year came to?

	<u>Total taxpayers</u>	<u>Did own return</u>	<u>Spouse/ relative/ friend did return</u>	<u>Used outside professional</u>
Number of respondents	1684	436	387	859
Yes, know within \$100 amount of taxes paid	56	72	41	55
No, do not know	44	28	60	45

Who Are The Major Taxpayers

A question based on a report by the Tax Foundation (based on IRS date) that the 25% of taxpayers who earn \$16,000 a year or more pay 72% of all taxes collected was asked of half the sample in this year's study. The question posed was which of a list of percentages people think comes closest to the percentage this 25% of taxpayers pay of all taxes collected. The distribution of answers indicate random guessing, and the median of 57% is a good deal below the true answer of 72%.

Q48Y. 25% of all taxpayers earn \$16,000 a year or more. Which of the percentages on this card would you say comes closest to the percentage these people pay of all the income taxes that are collected from everyone? (Card shown respondent)

	<u>Total public</u>	<u>Total taxpayers</u>
Number of respondents	1003	836
	%	%
<u>Percent of all taxes collected paid by 25% earning \$16,000 or more</u>		
95%	5	5
75%	19	20
55%	18	19
40%	17	19
25%	14	14
15%	8	8
Don't know/no answer	19	16
Median percent	57	57

Knowledge Of How Earned Income Tax Credit Works

The public clearly does not understand how the earned income credit works for certain low income wage earners. Given the example of an employed wage earner who qualified for the credit, had a tax credit of \$300 and had had \$100 withheld, people were asked whether they thought he would simply get his \$100 back, or would get back both the \$100 and the \$300, or \$400 in total. Only one-third gave the correct answer--that he would get back \$400. 4 in 10 said he would get back just the \$100 that had been withheld, and one-quarter said they didn't know. Those least knowledgeable about the earned income credit were those who could most benefit from it--those with under \$7,000 annual income.

Q16. Our tax system now provides for what is called an earned income credit for certain low income wage earners. For example, an employed wage earner who qualifies and who has had \$100 withheld can have a tax credit of \$300.

Is it your impression that under this provision he would simply get his \$100 back, or would he get back both the \$100 and the \$300, or \$400 in total?

	Total <u>public</u>	<u>Income levels of respondents</u>			
		<u>Under \$7,000</u>	<u>\$7,000 to under \$15,000</u>	<u>\$15,000 to under \$25,000</u>	<u>\$25,000 and over</u>
Number of respondents	2007	375	648	606	358
	%	%	%	%	%
Get back just the \$100	41	35	38	46	44
Get back both the \$100 and the \$300 (\$400 in total)	35	30	39	35	35
Don't know	24	35	23	19	21

Understanding Of The Meaning of
"Tax Deductible" Contributions

A majority of the public (two-thirds) understands what it means when a contribution is said to be "tax deductible"--that it doesn't cost as much as the amount given because the tax savings partially offsets the amount given. However,

it is noteworthy that one-quarter of the public thinks a tax deductible contribution costs the giver nothing, because it can be taken off his or her income tax. Taxpayers answered virtually the same as the public at large on this question.

Q18. We hear a lot about contributions being tax deductible. Which of these things do you think a tax deductible contribution means? (Card shown respondent)

	<u>Total public</u>	<u>Total taxpayers</u>
Number of respondents	2007	1684
a. A tax deductible contribution is something that doesn't cost you anything because you can take it off your income tax	26	26
b. A tax deductible contribution is something that doesn't cost you as much as the amount you give because there is a saving on taxes that partially offsets the amount you give	65	68
Don't know	9	6

Chapter Summary

If there is one thing that emerges loud and clear from this study it is that in the eyes of the public the income tax system is unfair to most people. Two-thirds of the public says this, a larger majority than a year ago. Furthermore, asked what one thing bothers them most about the income taxes, people say unfairness and inequities.

The belief that the system is unfair is expressed in a number of ways. People think their own taxes are too high. An even larger majority than a year ago see middle income families as overtaxed. High income families and large businesses are still widely seen as undertaxed.

A majority thinks that, as a matter of principle, everyone should pay some income tax, no matter how small. Furthermore, they believe this principle should apply to the poor as well as the rich (though a smaller majority subscribe to the principle when it's the poor as well as the rich instead of just the wealthy). They believe that the standard deduction applied to two families with the same income but with different levels of expenses is unfair. And, they think over half of those with an annual income of half a million dollars or more pay no income taxes at all because of tax loopholes.

Yet, "tax loopholes" continue to be something outside the commonly allowed deductions and allowances. In a repeat of a question asked a year ago asking people to describe each of a number of such items as reasonable allowances or tax loopholes, a large majority again characterized most of them as "reasonable." Even the capital gains tax, frequently criticized as favoring the wealthy, is thought by only a minority to be a tax loophole. Furthermore, this is true when the capital gains tax is asked about separately on stock alone, with capital gains on a person's home excluded from it. Last year we thought results on the capital gains tax might have been influenced by people thinking of the tax in relation to their home. This year's results make it clear that this was not the case.

Despite the indictment of the tax system as unfair, the public does not yet appear to have reached the boiling point over federal income taxes, as California did over the property tax. On a one to ten "anger scale," people put themselves somewhat beyond the half way mark, at 6.4. Furthermore, even before the California vote on Proposition 13, more described their property taxes as "excessively high" than so described their federal income taxes. However, federal income taxes rank second to property taxes as excessive, and with the widespread feeling that the income tax system is unfair, and strong feelings on the part of individuals that they personally are overtaxed and that middle income families are being squeezed, the property tax revolt could spread to income taxes.

Finally, against the prevailing opinion that middle income families are the ones who are overtaxed, it is important to know how the public defines this group, and in this study we asked. The answer surprised us as much as any result in the study. Against the fact that the median annual income today is roughly \$15,000, the public says to be in the "middle income group" you have to have an income of at least \$20,000, and that you don't move into the high income group until you reach \$40,000. Below \$20,000 a family is in the low income category.

Public Opinion On Fairness Of
The Present Income Tax System

As in last year's study, early in the questionnaire before any other specific questions on taxes, people were asked how fair they thought the present federal income tax is. An even larger majority than a year ago call it unfair, with one-third calling it "quite unfair."

Q5. We'd like to talk to you about the income tax system. How do you feel about the present federal income tax system--do you feel it is quite fair to most people, or reasonably fair, or somewhat unfair, or quite unfair to most people?

	<u>Total public</u>	
	<u>1978</u>	<u>1977</u>
Number of respondents	2007	2003
	1	1
Total--fair	<u>29</u>	<u>30</u>
Quite fair	4	3
Reasonably fair	25	27
Total--unfair	<u>67</u>	<u>64</u>
Somewhat unfair	34	34
Quite unfair	33	30
Don't know	<u>4</u>	<u>5</u>

As in 1977, a majority of all subgroups of the population judge the current system to be unfair, with highest criticism on this coming from those in the \$15,000 to under \$25,000 income group, union members and white collar workers.

	Number of <u>respondents</u>	<u>Tax system is:</u>						Don't know
		<u>Total-- fair</u>	<u>Quite fair</u>	<u>Reason- ably fair</u>	<u>Total-- unfair</u>	<u>Some- what unfair</u>	<u>Quite unfair</u>	
Total public	2007 (100%)	<u>29%</u>	4	25	<u>67</u>	34	33	4
Total tax- payers	1684 (100%)	<u>28%</u>	3	25	<u>70</u>	35	35	2
<u>Income groups</u>								
Under \$7,000	375 (100%)	<u>32%</u>	4	28	<u>54</u>	31	23	14
\$7,000 to under \$15,000	648 (100%)	<u>30%</u>	5	25	<u>66</u>	33	33	4
\$15,000 to under \$25,000	606 (100%)	<u>26%</u>	3	23	<u>74</u>	38	36	1
\$25,000 and over	358 (100%)	<u>28%</u>	2	26	<u>71</u>	32	39	1
<u>Other groups higher than average on "unfair"</u>								
Union members	265 (100%)	<u>22%</u>	6	16	<u>77</u>	34	43	1
White collar workers	388 (100%)	<u>26%</u>	2	24	<u>73</u>	38	35	1

Which Groups Pay Too Much Or
Too Little In Income Taxes

When asked whether certain groups pay too much in income taxes, too little or about the right amount, the public once again demonstrates what it means when it characterizes the tax system as "unfair." As last year, few people think any groups are taxed fairly. The group most seen as overtaxed is middle class families, and more so than a year ago. 74% now say they pay too much in taxes, versus 69% in 1977. The other group seen as overtaxed by a larger majority than a year ago are people whose income comes all from salaries or wages--63% now, 59% last year. Also seen as overtaxed, but somewhat less than a year ago are people who own their homes and low income families. Still overwhelmingly seen as undertaxed are high income families and large business corporations, each seen as paying too little by about three-quarters of the public.

Q9. Here is a list of some different types of people or groups. (Card shown respondent) Would you go down that list, and for each one tell me whether you think they have to pay too much in income taxes, or too little in income taxes or about the right amount? First, low income families.

	1978 Pay in taxes				1977 Pay	
	Too much	Too little	About right	Don't know	Too much	Too little
Answers of total public (2007 respondents)						
b. Middle income families	74%	2	20	4	69%	2
d. People whose income all comes from salary or wages	63%	2	24	12	59%	3
f. People who own their homes	50%	2	33	15	53%	3
a. Low income families	47%	4	37	13	53%	5
i. Small business companies	38%	12	30	20	42%	10
g. People who live in rented homes or apartments	37%	11	31	21	38%	11
e. Self-employed people	29%	15	28	28	30%	17
c. High income families	7%	76	9	7	8%	75
h. Large business corporations	5%	72	10	13	6%	72

Note: Letters next to listed groups indicate the order in which they were asked about.

As noted in the last study, while there are some few variations in results by the various subgroups, for the most part there is consistent feeling as to which groups are overtaxed and undertaxed. Generally speaking, those who fit into a group tend more to think that group is overtaxed, but these differences are mainly one of degree rather than a reversal of results. For example, some illustrations of the feeling that "I am overtaxed" are that the self-employed are higher (53%) than the general public (29%) on feeling self-employed people are overtaxed. Homeowners are more likely (53%) than the general public (50%) to say homeowners pay too much. Home renters are more likely (50%) than the general public (37%) to say people who live in

rented homes or apartments pay too much. As noted in last year's report, it seems that everyone feels that he pays too much in taxes.

However, looking at opinion on taxes paid by low, middle and high income groups according to income of respondents reveals some interesting and seemingly inconsistent results. While it is true that more people at the lower end of the income spectrum feel lower income families are overtaxed, a majority in all income categories feel middle income families pay too much and high income families pay too little. This is true even among people in the \$25,000 and over group.

	Total public	Income groups			
		Under \$7,000	\$7,000 to under \$15,000	\$15,000 to under \$25,000	\$25,000 and over
Number of respondents	2007	375	648	606	358
<u>Low income families</u>					
Pay too much	47	57	51	43	35
Pay too little	4	3	3	5	5
About right	37	29	34	39	46
Don't know/no answer	13	12	12	13	14
<u>Middle income families</u>					
Pay too much	74	60	69	81	83
Pay too little	2	5	2	2	1
About right	20	26	24	14	15
Don't know/no answer	4	9	5	2	1
<u>High income families</u>					
Pay too much	7	5	7	6	13
Pay too little	76	75	76	80	72
About right	9	10	10	8	9
Don't know/no answer	7	9	6	6	7

Who Are The "Middle Income"?

This same pattern of opinion on the overtaxed and undertaxed income groups

was observed last year, and the opinion of the \$25,000 and over group that middle income families were overtaxed and high income families were undertaxed led us to speculate that "perhaps in this instance 'high income families' mean those with more income than they have." This year we decided to explore what people mean when they talk about "middle income" and "high income" families. Therefore, we asked people how high an income a family of four would have to have before they would describe them as a middle income family rather than a low income family, and then how high an income they would have to have before they would describe them as a high income rather than a middle income family. (The questions were reversed for half the sample.) Results were startling in light of the fact that the median income in the country today is \$15,000, and "middle income" might be expected to center around that figure. Not in the eyes of the public. They say to be in middle income group annual income has to be between \$20,000 and \$40,000. This makes opinion as to who is overtaxed and undertaxed in our society much more understandable.

There is some variation in answers by people in different income groups, but all groups places the middle income group higher than we would have expected. Those in the lowest income group describe middle income people as those with incomes between \$17,000 and \$35,000. Those in the \$25,000 and over group put middle income people between \$23,000 and \$51,000! Thus, when they say high income families pay too little in taxes they don't mean people in the \$25,000 - \$35,000 bracket are undertaxed, they mean people earning somewhere in excess of \$51,000 are undertaxed. Most of those in the \$25,000 and over group think of themselves as middle income--the group they feel is not overtaxed.

Q50X,51Y. Thinking of a family of four, that is, a couple with two children, how high would their annual income have to be before you would describe them as a middle income family rather than a low income family?

Q51X,50Y. And again, thinking of a family of four, how high would their annual income have to be before you would describe them as a high income family rather than a middle income family?

	Total <u>public</u>	Income Groups			
		<u>\$7,000</u>	<u>\$15,000</u>	<u>\$25,000</u>	<u>\$25,000</u> and <u>over</u>
Number of respondents	2007	375	648	606	358
<u>Medians:</u>					
Divides middle income from lower income	\$19,702	\$17,372	\$18,836	\$19,844	\$22,907
Divides upper income from middle income	\$39,719	\$34,789	\$34,888	\$39,818	\$51,056

Opinion On Reasonableness Of Personal
Federal Income Taxes Paid

Last year a question was asked on the reasonableness of personal taxes paid--were they excessively high, about right or very reasonable. The same question was repeated this year for trend purposes with half the sample. The other half of the sample, however, was asked a new version of the question that we felt allowed for a sharper definition of answers--were taxes excessively high, somewhat high, about right or extremely low. In the old version of the question the only way a taxpayer could describe his taxes as too high was to call them "excessively high." Answers to both questions give another clear explanation of the public's indictment of the tax system as "unfair." On the trend question, nearly 6 in 10 taxpayers (and more than a year ago) characterize their own taxes as "excessively high." 29% call the amount they pay "about right" and only 8% say their taxes are "very reasonable."

Q10X. Generally, how do you feel about the federal income taxes you yourself have to pay? Would you say that your income taxes are excessively high, about right, or very reasonable?

	<u>Total public</u>		<u>Total taxpayers</u>	
	<u>1978</u>	<u>1977</u>	<u>1978</u>	<u>1977</u>
Number of respondents	1004	2003	848	1656
	%	%	%	%
<u>Personal federal income taxes are:</u>				
Excessively high	51	49	58	55
About right	26	28	29	31
Very reasonable	7	10	8	10
Don't pay any taxes (volunteered)	13	12	3	1
Don't know/no answer	2	2	2	2

However, when asked the new version of the question, which allowed them to describe their federal taxes as "somewhat high" as well as "excessively high," the largest group of taxpayers (42%) called their taxes "somewhat high," while 29% called them "excessively high." Fewer, however, called them "about right" and only 1% described them as "extremely low." Most subgroups of taxpayers called their taxes "somewhat high" more than "excessively high."

Q10Y. Generally, how do you feel about the federal income taxes you yourself have to pay? Would you say that your income taxes are excessively high, somewhat high, about right, or extremely low?

	<u>Total public</u>	<u>Total taxpayers</u>
Number of respondents	1003	836
	%	%
<u>Personal federal income taxes are:</u>		
Excessively high	26	29
Somewhat high	37	42
About right	22	24
Extremely low	1	1
Don't pay any taxes (volunteered)	12	3
Don't know/no answer	1	1

Opinion On Reasonableness Of
Other Types Of Taxes Paid

This year this new question was also asked about other types of taxes

paid as well as about federal income taxes. This allows comparing feelings about federal income taxes with feelings about other types of taxes.

If the "excessively high" percentages are looked at as a national barometer of taxpayer concern, it becomes fairly clear why Proposition 13 won in California. Property taxes lead all others as "excessively high." This is particularly noteworthy in light of the fact that interviewing on this study was conducted well in advance of the California vote--and ahead of the heavy advance publicity on the upcoming California vote. It is likely that a repeat of this question now would show even more feelings against the property tax. At the time of this study, feelings in the California area were running strongly against the property tax. 48% in the Pacific area called the property tax "excessively high," versus 32% nationally, and versus 16% in the Pacific area who called federal income taxes excessively high.

Ranking federal income taxes along with other taxes shows the public places them second to property taxes as "excessively high" (26%). In third place are Social Security taxes, with 22% calling them "excessively high." And 1 in 5 call sales taxes, the most universally paid taxes, "excessively high." State and local income taxes rank lowest, with 16% and 10% seeing them "excessively high."

But perhaps the most significant finding of these questions is that such large groups characterize all taxes as either "somewhat" or "excessively high." It is likely that the sum feeling is greater than the total of its parts, and justified or not, the public clearly feels it is overtaxed.

Q11. I'm going to name some other kinds of taxes you might have to pay, and for each type would you tell me whether the taxes you have to pay are excessively high, somewhat high, about right, or extremely low? First, Social Security taxes.

	Amount paid is:				Don't pay that tax	Don't know
	Ex- cessively high	Somewhat high	About right	Ex- tremely low		
d. Property or real estate taxes	32%	23	21	1	20	4
Q10Y. Federal income taxes	26%	37	22	1	12	1
a. Social Security taxes	22%	25	30	1	18	3
e. Sales taxes	20%	26	43	1	7	2
b. State income taxes	16%	24	34	1	21	4
c. City or local income taxes	10%	15	22	1	48	5

Once again the pattern of "I am overtaxed" is demonstrated. For example, homeowners more than non-homeowners call property taxes "excessively high." And those who are employed more than those not employed call Social Security taxes too high.

The Anger Level On Federal Income Taxes

Despite characterizations of federal income taxes as too high, and the widespread feelings that the income tax system is unfair, it appears that at least at the time of interviewing (in May) the public had not "reached the boiling point." Late in the interview, taxpayers were shown a picture of a thermometer numbered from one to ten. They were asked if the bottom line, or one, represented feeling perfectly satisfied and the top line, ten, represented extreme anger, what line represented the way they felt about the amount of income taxes they paid.

While the public is over half way to the boiling point, it has not yet been reached. The median was 6.35. Just how to interpret this is a question. It could be considered dangerous because it is beyond the halfway mark. It could be considered safe because it is well under 10. But the question was not considered to

be a one-shot summary of income tax satisfaction/indignation. The utility of the question lies in what changes it may show in the future.

Anger over income taxes increases directly along with increasing income, with the thermometer highest among those with the most income. Other groups that express higher than average anger over income taxes are blacks, white collar workers and residents of the Northeast.

Q47. We all know we have to pay taxes to provide funds for federal government services--unpleasant as paying taxes may be. But keeping in mind that while taxes may be unpleasant they are necessary, we'd like to know how you felt about the taxes you paid this year. Here is a picture of a thermometer. (Card shown respondent) If the bottom line, or one, represents feeling perfectly satisfied, and the top line, or ten, represents extreme anger, what line would represent the way you felt this year about the amount of income taxes you paid?

	<u>Median on 1 to 10 anger scale</u>
Total taxpayers	6.35
<u>Annual income is:</u>	
Under \$7,000	5.43
\$7,000 to under \$15,000	6.08
\$15,000 to under \$25,000	6.48
\$25,000 and over	6.95
Blacks	7.15
White collar workers	6.94
Residents of Northeast	7.07

Deductions And Exemptions: Which Are
Loopholes, Which Are Reasonable?

In the 1977 study, people were given an opportunity to examine a list of the major tax deductions certain taxpayers can take and of certain kinds of non-taxable income and asked to describe each one as a reasonable deduction/non-taxable item or as a tax loophole. Despite the fact that the tax system was seen as unfair, higher income people were seen as paying too little in taxes, and personal income taxes were described as excessively high, none of the major allowances now made

under the tax system were seen as "loopholes" by the public. To further explore this question, in this year's study we repeated the question with half the sample exactly as asked a year ago in order to see if any changes had occurred. With the other half of the sample, a slightly different list was asked about. Some of the items were common on both lists, others were more closely defined, and a few new ones were added.

Answers to the trend question show almost the same results as a year ago. Large majorities described each of the items except two as "reasonable" allowances, and none of the items was seen by more people as a tax loophole than as a reasonable allowance. There was a slight increase from a year ago (of 1 or 2 points) in the percentages calling most items "tax loopholes." In a few cases, the increases were greater--5 points more in the case of contributions to charity, 6 points more on fees paid for having income taxes done, 4 points more on interest income from municipal bonds. As a year ago, the two items mentioned most as tax loopholes were non-taxable types of income--interest income from municipal bonds and half the profit on capital gains. But even here more thought them reasonable allowances than loopholes. The items most overwhelmingly accepted as reasonable allowances continue to be extra exemptions for the blind and elderly, home mortgage interest and property taxes and Social Security income.

Q19X. Here are some deductions and exemptions that are now allowed for federal income tax purposes, and some types of income that are not subject to federal income taxes. (Card shown respondent) Some people feel most or all of these are perfectly legitimate and reasonable. Others think that at least some, if not all of them, are tax loopholes that work to the unfair benefit of certain groups of people.

Would you read down that list and for each one tell me whether it is perfectly reasonable for it to be deductible, or non-taxable, or whether you think it is really a tax loophole? First, interest paid on loans.

	1978			1977	
	Reasonable deduction or Tax non-taxable item	loop- hole	Don't know	Reasonable deduction or Tax non-taxable item	loop- hole
Answers of total public (1004 respondents)					
<u>Tax deductions or exemptions</u>					
i. Extra exemptions for blind people	93%	3	3	95%	3
h. Extra exemptions for those over age 65	92%	4	3	94%	3
b. Interest paid on home mortgages	88%	7	4	90%	6
c. Property taxes paid by homeowners	88%	7	5	89%	8
f. Local and state income taxes	84%	9	7	84%	11
a. Interest paid on loans	82%	13	6	84%	12
d. Local and state sales taxes	83%	10	7	84%	10
e. Gasoline taxes	76%	19	5	78%	17
j. Money paid for child care by working parents	68%	25	7	70%	23
g. Contributions to charity	65%	31	4	70%	26
k. Fees paid for having income taxes done by someone else	61%	31	8	69%	25
<u>Non-taxable income</u>					
i. Social Security income	88%	7	6	91%	5
m. Interest income from municipal bonds	43%	42	14	46%	38
n. Half the profit (capital gains) from sale of stock or property	43%	40	17	46%	39

Note 1: Letters next to listed items indicate the order in which they were asked about.

Note 2: Percentages may add to 99 or 101 rather than 100 because of rounding by the computer.

Changes made in the list asked about of the other half of the sample were minor with regard to tax deductions or exemptions, and only involved two items. Instead of asking just about "interest paid on loans," the item was expanded to "interest paid on loans and charge accounts." And instead of asking just about "gasoline taxes," the item read "state gasoline taxes." Results from the two halves of the sample were remarkably identical. The only noteworthy difference was on the changed "interest on loans" item. Here 4 points fewer called it a "reasonable deduction" when it read "interest on loans and charge accounts."

X Form	Y Form	Tax deductions or exemptions	X Form		Y Form	
			Reasonable allowance	Tax loophole	Reasonable allowance	Tax loophole
i.	i.	Extra deductions for blind people	93%	3	93%	4
h.	h.	Extra exemptions for those over 65	92%	4	92%	4
b.	b.	Interest paid on home mortgages	88%	7	88%	7
c.	c.	Property taxes paid by homeowners	88%	7	88%	7
f.	f.	Local and state income taxes	84%	9	84%	9
a.		Interest paid on loans	82%	13		
	a.	Interest paid on loans or charge accounts			78%	16
d.	d.	Local and state sales taxes	83%	10	83%	11
e.		Gasoline taxes	76%	19		
	e.	State gasoline taxes			76%	19
j.	j.	Money paid for child care by working parents	68%	25	68%	26
g.	g.	Contributions to charity	65%	31	67%	30
k.	k.	Fees paid for having income taxes done by someone else	61%	31	59%	33

More changes were made in the list dealing with non-taxable income. The only common item was "interest income from municipal bonds." Social Security income" was changed to "Social Security benefits." Two items were added, "unemployment benefits" and "welfare benefits." And, the capital gains item was split so that people were asked first about capital gains on the sale of a person's home, and then about long term capital gains on the sale of stock or property.

With one exception, more called all the items on the new list "reasonable" allowances rather than "tax loopholes." In the new context, interest from municipal bonds was called a "tax loophole" by more than called it a "reasonable" allowance. Large majorities said it was "reasonable" that Social Security benefits, unemployment benefits and welfare benefits are non-taxable.

Answers on the capital gains items were especially interesting. Capital gains on stock or property other than a home was answered identically as on the

trend question, with more calling it "reasonable" than a "loophole." Even more (55%) think the capital gains tax on a person's home is reasonable rather than a loophole. Thus, answers on capital gains in last year's study were not influenced by people thinking of capital gains in connection with their home.

X Form	Y Form		X Form		Y Form	
			Reasonable allowance	Tax loophole	Reasonable allowance	Tax loophole
		<u>Non-taxable income</u>				
	1.	Social Security income	88%	7		
	1.	Social Security benefits			90%	4
	m.	Unemployment benefits			74%	19
	n.	Welfare benefits			62%	29
n.	o.	Interest income from municipal bonds	43%	42	38%	46
n.		Half the profit (capital gains) from sale of stock or property	43%	40		
	p.	Half the profit (capital gains) from the sale of a person's home			55%	31
	q.	Half the profit (capital gains) from the sale of stock or property held more than 9 months			43%	40

Opinion On How Many Of The Very Wealthy Pay No Income Tax At All

We commented last year that "to the public, tax loopholes must be some esoteric allowances they know nothing about. None of the specific tax allowances was described as a loophole. Yet, when asked how many out of every 100 people with an annual income of half a million dollars or more pay no income taxes at all because of tax loopholes, the astounding answer was half of them." This question was repeated for half the sample in the current study, and results were much the same and generally consistent throughout all subgroups of the population--including those at various income levels.

Q48X. Some people have said that because of tax loopholes, many wealthy people pay no income tax at all. Others have said this may be true of a few, but not many. Out of every 100 people who have an annual income of half a million dollars or more, how many would you say pay no income tax at all? How many would you guess?

	1978--Income Groups					
	Total public		1978--Income Groups			
	1978	1977	Under \$7,000	under \$15,000	under \$25,000	\$25,000 and over
Number of respondents	1004	2003	195	335	288	181
	%	%	%	%	%	%
None	2	4	3	2	1	3
1 to under 5	4	4	1	2	4	9
5 to under 10	4	4	1	5	3	7
10 to under 20	9	8	9	7	12	10
20 to under 30	9	10	8	10	9	7
30 to under 40	4	3	4	3	4	4
40 to under 50	2	2	3	2	1	1
50 to under 60	16	19	18	15	18	13
60 to under 70	4	3	3	5	4	4
70 to under 80	12	8	12	13	10	12
80 to under 90	5	3	3	4	8	6
90 to 100	14	14	9	16	14	15
Don't know/no answer	16	19	28	16	12	9
	#	#	#	#	#	#
Median number per 100	55	53	54	57	55	53

Is It Fair That Some People
Pay No Income Taxes

Earlier in the questionnaire, two slightly different questions were asked of each of two halves of the sample. To one-half it was explained that some people with very high incomes end up owing no income taxes. To the other half it was explained that some people, poor as well as rich, end up owing no income taxes. Then both halves were asked whether they thought this was all right if the nature of their income and deductions or credits qualify them for no taxes, or whether as a matter of principle everyone should pay some federal income taxes, no matter how small.

A large majority of the public says that everyone should pay some income tax as a matter of principle. However, a smaller majority thinks this when the idea

of the poor paying no taxes is injected along with the rich. Answers were generally consistent throughout all subgroups of the population.

Q15X. For one reason or another, some people with very high incomes end up owing no income taxes on their income for the year. Do you think this is all right if the nature of their income and deductions or credits qualify them for no taxes, or do you think that as a matter of principle everyone should pay some federal income tax, no matter how small?

Q15Y. For one reason or another, some people--poor as well as rich--end up owing no income taxes on their income for the year. Do you think this is all right if the nature of their income and deductions or credits qualify them for no taxes, or do you think that as a matter of principle everyone--poor as well as rich--should pay some federal income tax, no matter how small?

	Asked X version <u>of question</u>	Asked Y version <u>of question</u>
All right some people owe no taxes	19%	33%
Everyone should pay at least some tax	75	62
Don't know/no answer	5	5

Is The Standard Deduction
Fair To All Who Take It

Late in the interview a question was asked on the fairness of the standard deduction after an illustration of the taxes paid by two couples each with \$15,000 incomes, but with quite different expenses. The introduction to the question explained that the standard deduction has been gradually increased in recent years because of inflation and to simplify taxes. Based on the illustration, the public by almost 3 to 1 says the couple with higher expenses should not pay the same tax as the couple with lower expenses. This was true among those who took the standard deduction as well as among those who itemized deductions, though by a smaller majority. It may be in answering this question many people saw themselves as the ones with larger expenses. But, whatever the reason, when the standard deduction is illustrated, it is thought unfair.

Q49. In recent years, because of inflation and to simplify taxes, Congress has gradually increased the standard deduction allowed taxpayers in lieu of itemizing deductions. Here is a card that shows how the increased standard deduction can affect two separate couples, each with \$15,000 incomes, but with quite different expenses. (Card shown respondent)

While Couple #1 has \$3,000 of deductible expenses and Couple #2 has only \$1,000 of deductions, both couples are better off taking the standard deduction of \$3,200. Hence both couples would pay exactly the same amount in taxes. Do you think the couple with deductible expenses of \$3,000 should pay the same tax as the couple with only \$1,000 of deductible expenses?

	<u>Total public</u>	<u>Taxpayers Took</u>	
		<u>Total deduction</u>	<u>Itemized deductions</u>
Number of respondents	2007	1684	697
	%	%	%
Yes, both should pay same tax	23	24	24
No, should not	60	61	65
Don't know/no answer	17	14	11

What Bothers People Most About
The Income Tax System

A final question in the questionnaire asked people if they had to name the one thing that bothers them most about the income tax system, what it would be. Answers to this question seem to sum up quite succinctly the concerns of the public with regard to income taxes. It is the unfairness and inequities of the system more than the amount of taxes people have to pay or the way tax money is spent. This is not to say people are not unhappy about the amount of taxes they pay, but it is the underlying feeling that the system is unfair that is the real cause of unhappiness. And the unfairness is centered on the feeling that the rich pay too little while the middle class pays too much. These feelings are sharpest among the most affluent (\$25,000 or more income), but as shown earlier, \$25,000 is considered "middle income"--in fact, toward the lower end of the middle income range.

Q52. If you had to name the one thing that bothers you most about the income tax system, what would it be?

	Total <u>public</u>	Income Groups			\$25,000 and <u>over</u>
		Under <u>\$7,000</u>	\$7,000 to under <u>\$15,000</u>	\$15,000 to under <u>\$25,000</u>	
Number of respondents	2007	375	648	606	358
<u>Major answers--one thing that bothers most about the income tax system</u>					
Unfairness, inequities (net)	<u>47</u>	<u>32</u>	<u>45</u>	<u>55</u>	<u>56</u>
Rich people pay too little, nothing	17	11	18	18	17
Middle class, middle incomes pay too much	10	3	10	12	14
Poor pay too much	5	7	4	5	2
Big business, corporations pay too little	3	2	4	4	3
Specific additional deductions/exemptions/credits needed to make system fairer	7	5	7	10	7
Taxes too high	<u>14</u>	<u>11</u>	<u>16</u>	<u>16</u>	<u>11</u>
The way tax money is spent, wasted	<u>10</u>	<u>6</u>	<u>8</u>	<u>11</u>	<u>18</u>

Note: The answers clearly are in terms of personal income taxes, which this interview had concentrated on. We know from earlier questions in this study and from other studies that the public, thinking of all taxpayers, always tends to say business corporations pay too little in taxes relative to individual taxpayers.

Chapter Summary

Against the widespread feeling that the income tax system is unfair, it is not surprising that public demand for tax reform is fairly high and that the kind of reform wanted most of all is ending inequities in the system. Making the tax system fairer has high priority as a national problem that needs immediate attention. It ranks third in a list of fifteen problems, below only controlling inflation and lowering the crime rate, and well ahead of such things as improving our educational system, reforming the welfare system, and improving defense capabilities. Consistent with the feeling that unfairness is the major problem with the tax system, lowering income taxes ranked low as a priority (although people may have felt their taxes would automatically be lowered if inequities in the system were dealt with). And, in the context of other problems needing attention, demand for simplifying the tax forms is almost non-existent.

To the public, the term "tax reform" means revising the tax system to make it fairer to all, and secondarily, eliminating "loopholes" (whatever they may be). It does not mean simplifying tax forms or raising or lowering taxes in general. The public is inclined to spread the blame for lack of major tax reform, but most blame special interest groups working against changes. There is also feeling that Congress doesn't want to make changes, that no one wants his own special benefits eliminated and that no President has pushed hard for changes.

What changes in the tax system, then, are supported? With regard to tax law changes to make the system fairer versus simplifying the forms and instructions, the answer is change the tax laws. Furthermore, the public thinks that IRS should leave the tax forms alone for a while instead of continuing to change them in an attempt to make them easier.

By a narrow margin, the public thinks the tax base should be broadened, which would reduce tax rates by including more types of income. But asked which tax allowances they would give up to achieve a broadened tax base, there is low support for giving up anything except those items that either amount to little in dollars or

that few can take advantage of.

Asked which of seven new allowances should be incorporated in the tax system, a majority supports an extra exemption for the severely handicapped and a lower tax rate on savings account interest. There is narrower, and less than majority approval for having no tax on the profit from the sale of a person's home, making interest on government bonds non-taxable, and a tax deduction for home renters geared to property taxes. A majority rejects the idea of an extra deduction where both husband and wife work and of a special deduction for charitable contributions for those who do not itemize their deductions.

The public has mixed feelings on how corporate dividends should be taxed. 7 in 10 think corporations should be taxed on dividends, but they are equally divided between thinking dividends should be taxed at both the corporate and personal level, or only taxed at the corporate level. Few think only the individuals receiving dividends should be taxed on them.

By a narrow margin, people would opt for a \$100 tax exemption for each dependent over a \$240 tax credit for dependents.

To cope with the twin problem of inflation and rising taxes, the public says, by a fairly wide margin, it would prefer an annual inflation adjustment factor built into the tax system to periodic tax cuts.

But posed with which is more important now--President Carter's proposed \$25 billion tax cut to stimulate the economy, or leaving taxes as they are and holding down the national debt, a majority back the tax cut.

Asked about the long range effect on government revenues of cutting taxes, the public agrees with those economists who hold that lowering taxes stimulates the economy enough so that revenues are not decreased.

Finally, in terms of priorities for tax spending, the public most supports expenditures for lowering the crime rate, improving education, improving the energy supply and setting up a program of national health insurance. There is least

support for extending the welfare system, improving public transportation and aid to big cities. And, if government expenses need cutting, the public would cut space exploration, welfare benefits and aid to big cities.

Priority For Attention To National Problems:
Tax Reform Versus Other Problems

As an opening question people were shown a list of fifteen "things people have said need to be done in our country" and asked which one or two they think are the most important to be done right now. Included in the list were three things involving income taxes--making the income tax system fairer, simplifying income tax forms, and lowering income taxes. Lowering Social Security taxes, a much publicized issue as this study was being developed, was also included in the list.

In this context, demand for making the tax system fairer ranks third; with controlling inflation the number one priority, and lowering the crime rate a close second. These priorities rather dramatically illustrate the public's feeling that the problem with the tax system is its unfairness. Lowering income taxes ranks quite low on the public's list of priorities, although possibly people feel that if the inequities in the tax system were taken care of their taxes would automatically be lowered. And, demand for simplifying the tax forms is almost non-existent. (This is consistent with other results that show people think this year's form is much improved.) There is also low priority given to lowering Social Security taxes. These general priorities for the kind of tax reform wanted are equally true among all subgroups of the population.

Q2. Here are some things that people have said need to be done in our country. (Card shown respondent) Would you read over that list and then tell me which one or two of those things you think are the most important to be done right now?

	<u>Total public</u>	<u>Total tax- payers</u>
Number of respondents	2007	1684
	%	%
i. Controlling inflation	38	38
b. Lowering the crime rate	36	34
c. Making the tax system fairer	23	25
e. Improving our educational system	18	18
n. Reforming the welfare system	18	18
o. Improving the nation's energy supply	14	15
a. Improving the nation's defense capabilities	13	13
f. Setting up a program to provide national health insurance for everyone	13	12
j. Lowering unemployment	12	10
k. Lowering income taxes	9	9
h. Improving and protecting the environment	8	8
d. Solving the problems of the big cities	6	5
l. Lowering Social Security taxes	4	4
g. Simplifying income tax forms	3	3
m. Improving public transportation	2	2
None	*	-
Don't know	*	*

* Less than .5 percent

Priorities For Tax Spending

Two different questions were asked of each half of the sample as a follow up to the question on priorities for problems that need to be solved. Using a shorter version of the above list, one question asked which things people would be

willing to pay more in taxes to have done. Using a somewhat different list of things, the other asked which should be cut most if government expenses have to be cut.

Answers to what they would be willing to pay more in taxes to have accomplished confirmed earlier priorities. Lowering the crime rate ranks first, closely followed by improving our educational system, improving the nation's energy supply and setting up a program of national health insurance for all.

Q3X. Now here is a somewhat shorter list of those same things. (Card shown respondent) All of those things require money to accomplish. Which of them, if any, would you be willing to pay more in taxes to have done?

	<u>Total public</u>	<u>Total tax- payers</u>
Number of respondents	1004	848
	%	%
b. Lowering the crime rate	31	31
d. Improving our educational system	25	25
i. Improving the nation's energy supply	24	26
e. Setting up a program to provide national health insurance for everyone	23	23
a. Improving the nation's defense capabilities	15	17
f. Improving and protecting the environment	15	16
g. Revising the welfare system to provide more aid to people	11	10
h. Improving public transportation	7	7
c. Solving the problems of the big cities	5	5
None	14	13
Don't know	2	1

If government expenses need to be cut, the public has clear priorities for where the cuts should be made--in space exploration, welfare benefits and aid to big cities. Few would cut Social Security benefits, education expenditures or health and medical research. Taxpayers agree with the general public.

Q3Y. Now here is a list of things the Federal Government currently spends money on. (Card shown respondent) If we get to the point where we have to cut government expenses, in which two or three of those areas do you think the most cuts should be made?

	<u>Total public</u>	<u>Total tax- payers</u>
Number of respondents	1003	836
	%	%
b. Space exploration	51	50
c. Welfare benefits	38	40
h. Aid to big cities	34	36
a. Military defense	18	17
k. Subsidies to farmers	17	17
j. Public transportation	15	16
i. National highway construction and repairs	14	14
e. Aid to colleges and universities	9	9
d. Social Security benefits	4	4
f. The public education system	3	4
g. Health and medical research	2	2
None	5	5
Don't know	3	2

What Does Tax Reform Mean

Since "tax reform" is a term that is much used by the press and by government officials, we decided to ask people what these words mean to them when they hear them. And the answer comes loud and clear--it means revising the income tax system to make it fairer to everyone, and secondarily to eliminate "loopholes" (whatever they may be).

Q6. When you hear the words "tax reform," which of these things does it mean to you? (Card shown respondent)

Number of respondents	<u>Total public</u> 2007 %	<u>Total tax- payers</u> 1684 %
<u>Tax reform means:</u>		
a. That the income tax system would be revised to make it fairer to everyone-- the poor, the rich and the middle class	47	48
d. That the income tax system would be tightened up so that tax loopholes that work to the advantage of some people would be eliminated	29	31
c. That the income tax system would be revised to make it fairer to people like you	13	13
b. That the income tax forms would be simplified and made easier to fill out	9	8
e. That your personal taxes would probably go down	5	5
f. That your personal taxes would probably go up	5	5
g. Other	2	2
Don't know/no answer	7	4

Importance Of Tax Reform Versus Simplification

Although in retrospect answers to other questions made it hardly necessary, a direct question was asked as to the importance of changing the tax laws to make them fairer or simplifying the tax forms and instructions. As might be expected in light of other results, over half of the public gives first priority to changing the tax laws. Sentiment for changing the tax laws was slightly stronger among taxpayers, and was considered more important than simplification regardless of whether people did their own tax returns or had them done, which form they used or whether they took the standard deduction or itemized deductions.

Q7. There has been a lot of talk about both the need for changing the tax laws so that more people pay their fair share of taxes and the need for simplifying the tax return form people have to fill out. Of course, both of these things are important, but which one do you think should have first priority--changing the tax laws so that more people pay their fair share of taxes, or simplifying the tax return forms and instructions so that they are easier to understand and fill out, or that both are equally important?

	Number of respondents	Changing tax laws	Simpli- fying- forms and instructions	Equally important (vol.)	Don't know, no answer
Total public	2007 (100%)	53%	11	32	5
Total taxpayers	1684 (100%)	57%	9	31	3
<u>Tax return made out by:</u>					
Self	436 (100%)	64%	6	29	2
Outside professional	859 (100%)	55%	10	33	2
Spouse/relative/friend	387 (100%)	53%	12	30	4
<u>Used:</u>					
Short form	669 (100%)	53%	10	34	4
Long form	903 (100%)	61%	8	29	2
Took standard deduction	176 (100%)	60%	8	31	1
Itemized deductions	697 (100%)	62%	9	27	2

Consistent with the lesser demand for simplifying the tax forms and instructions, taxpayers think it would be easier for them if the IRS left the forms and instructions alone for a while rather than continuing to change them from year to year in an attempt to simplify them. And those who did their own returns felt more strongly about this than those who had them done by an outside professional.

Q40. In many years the tax forms and instructions have been changed by the Internal Revenue Service. Do you think the IRS should continue to change the forms and instructions from year to year in an effort to simplify them, or that it would be easier for taxpayers if they would leave the forms and instructions alone for a while?

	Total tax- payers	Did own return	Had return done by:	
			Outside professional	Spouse/ relative/ friend
Number of respondents	1684	436	859	387
	%	%	%	%
<u>IRS should:</u>				
Continue to change forms and instructions	34	33	35	34
Leave them alone for a while	59	65	55	60
Don't know/no answer	7	2	11	6

Why Hasn't Major Tax Reform Occurred

In the public's view, the leading reason why major tax reform hasn't occurred, despite talk of it for years, is that special interest groups have worked against it. And, since the public views tax reform as changes to make the system fairer, this answer is logical. But Congress also gets a good amount of blame for lack of major tax reform--more than Presidents who have failed to push for it. Few see lack of tax reform because the public is satisfied with the system as it is, although a good many think it is because no one wants his own special benefits to be eliminated. The college educated tend to place more blame on special interest groups and people not wanting to give up their special benefits and less blame on Congress and Administrations, than do the less well educated.

Q9. There has been talk of major tax reform for years. Which of these reasons, if any, do you think are the main reasons more major changes haven't occurred? (Card shown respondent)

	Total <u>public</u>	Level of education		
		<u>College</u>	<u>High school graduates</u>	<u>Non-high school graduates</u>
Number of respondents	2007	708	709	588
a. Special interest groups have worked to keep changes from being made	38	49	35	28
b. Congress doesn't really want to make changes	30	25	32	32
d. No one wants his own special benefits to be eliminated	25	32	23	19
e. No President has really pushed hard for change	20	17	23	20
c. The public is satisfied with the system as it is	3	3	3	3
None of these (volunteered)	1	2	1	2
Don't know	9	4	8	17

Which New Tax Allowances Should Be Made

Public reaction was sought with regard to seven specific proposals for new tax deductions, credits or allowances "to make the tax system fairer." The preamble to the question pointed out that in order to give a tax break to one group, the tax rate must be adjusted elsewhere in order to keep tax revenues level. This was felt necessary to dampen a "why not?" reaction to attractive additional deductions with no thought to the consequences of granting more deductions.

Two of the seven proposals had majority approval--giving an extra exemption to those with severe physical handicaps and taxing interest earned on savings accounts at a lower rate. Three others were popular enough to win approval, though by less than a majority--having no tax on the profit from the sale of a

person's home, making interest on Federal Government bonds non-taxable, and allowing a tax deduction for that part of the rent paid by home renters that goes for property taxes and mortgage interest.

Two proposals were rejected by a majority--allowing an extra tax deduction where both husband and wife work, because of the extra expenses they incur, and allowing a tax deduction for charitable contributions even when the rest of a person's deductions are not itemized.

Answers of taxpayers to these questions paralleled those of the general public, as did answers of most other subgroups.

Q20. Some people say that any time a tax deduction or tax break is given to one group the tax rate has to be higher for everyone, and this in effect means that those who don't get the tax benefit are paying for those who do get it. Bearing in mind that more deductions and allowances could mean higher tax rates, would you read down this list and tell me for each one whether it is or is not a tax change you think ought to be made to make the tax system fairer? (Card shown respondent)

	Change		Don't know
	Should be made	Should not be made	
a. An extra exemption given if a person has a severe physical handicap	84%	13	3
c. Interest earned on savings accounts should be taxed at a lower rate	63%	31	7
b. No tax placed on the profit from the sale of a homeowner's principal residence	49%	42	10
g. Interest received from Federal Government bonds should be non-taxable	48%	38	14
f. A tax deduction allowed for that portion of rent paid by apartment or home renters that goes for property taxes and mortgage interest payments	48%	39	12
e. A tax deduction allowed for contributions to charity even if you don't itemize the rest of your deductions	40%	50	9
d. An extra tax deduction allowed where both husband and wife work because of the extra expenses they incur	36%	56	8

How Should Corporate Dividends Be Taxed

Taxes on corporate dividends have been controversial. Some have claimed that they are subject to double taxation, since corporations pay taxes on their profits and dividend receivers are taxed again on those same profits. Posed with the question on how dividends should be taxed, the public has mixed reactions. A majority agrees that corporations should be taxed on them (71%), but this group divides equally between thinking dividends should be taxed at both the corporate and personal level or at the corporate level only. Only 15% think just the people receiving dividends should be taxed on them. Taxpayers feel much the same as the general public on this issue, as do most other subgroups.

Q30. People who get income from dividends on stocks they own in publicly held corporations pay personal income taxes on those dividends that are in excess of \$100. Corporations paying the dividends have already paid income taxes on those dividends, since they represent profits of the corporations and corporate profits are taxed.

How do you think dividends should be taxed--at both the corporate and the personal level as they now are, or that only the corporation should pay taxes on dividends, or that only the people receiving the dividends should pay taxes on them?

	<u>Total public</u>	<u>Total tax- payers</u>
Number of respondents	2007	1684
	%	%
Corporate dividends should be taxed at both the corporate and personal level as they now are	36	38
Only corporations should pay taxes	35	36
Only people receiving dividends should pay taxes	15	15
Don't know/no answer	14	11

Should The Income Tax Base Be Broadened

A term fairly widely used in connection with tax reform is "broadening the tax base"--a term that may well convey an erroneous meaning to the public. Answers to a question in the 1977 study on whether or not the tax base should be broadened indicated this. While the question pointed out that broadening the tax base meant fewer deductions and fewer types of non-taxable income, we felt that in voting 2 to 1 for broadening the tax base the concept of a reduced tax rate overrode the idea of fewer deductions and fewer non-taxable forms of income, and that broadening the base was interpreted as bringing those who now pay no tax at all, into the tax rolls. Therefore, in the current study, we tried to strengthen the question and get across more clearly the true meaning of "broadening the tax base." Further, we asked a follow-up question as to which of a list of deductions, credits and allowances people would be willing to give up in order to lower the overall tax rate.

On the new question on broadening the tax base, taxpayers as well as the public favor broadening the tax base by a narrow margin--42% to 40% among taxpayers, 41% to 38% among the public at large. (This was substantially narrower approval than last year's question produced--48% to 29%.) A sizeable 21% this year said they "didn't know." Clearly, there is ambivalence on this issue, an ambivalence that is even more demonstrated when it comes to which tax allowances people would forego to get a lower tax rate.

Q25. Some people have said that we need to broaden the income tax base, which would reduce tax rates by including more types of income. That is, some types of income that are not now taxed would be taxed, and fewer deductions and exemptions would be allowed. Broadening the tax base could simplify the tax return, and reduce taxes for those who don't have many deductions, exclusions, exemptions or allowances, while raising taxes for those who have a number of deductions, exemptions and allowances. In some cases, taxpayers, regardless of income, would pay more in taxes and in other cases, taxpayers, regardless of income, would pay less in taxes.

How do you feel about this? Would you like to see the tax base broadened in this way, or don't you think this is a good idea?

	<u>Total public</u>	<u>Education</u>			<u>Total taxpayers</u>
		<u>Non-high school graduate</u>	<u>High school graduate</u>	<u>College</u>	
Number of respondents	2007	588	709	708	1684
	%	%	%	%	%
Would like to see tax base broadened	41	33	38	49	42
It's not a good idea	38	37	40	37	40
Don't know	21	30	22	13	19

When it comes to which of seventeen tax allowances people would give up in order to have the overall tax rate lowered, only four are named by as many as one-third of all taxpayers. Furthermore, the ones taxpayers would be most willing to give up are either those that amount to little in the way of money or those that few people now take advantage of--safe deposit box rental fees, fee paid for having taxes done, union dues and alimony. Looking at the percentage of those who took various deductions who would be willing to give them up makes it even more clear that while people want a lower tax rate they don't want to give up their own special allowances, for in each instance a lower than average percentage would forego them. And, only slightly more who favor broadening the tax base would give up allowances than those who oppose it.

Q26. Here is a list of some deductions, credits and exemptions now allowed. (Card shown respondent) Would you call off all the ones you would be willing to see cut out in order to lower the overall tax rate? Any others?

Number of respondents	Taxpayers		
	Total <u>public</u>	Total tax- <u>payers</u>	Percent of those who took each <u>deduction</u>
	2007	1684	
n. Safe deposit box rental fee	49	52	49
h. Fee paid for having income tax made out by someone else	35	37	31
k. Union dues	33	35	24
l. Alimony	31	33	XX
e. Contributions to charity	24	24	19
m. Money paid by working parents for child care	23	25	XX
c. Interest paid on loans or charge accounts	19	19	14
j. State gasoline taxes	17	17	11
a. Property taxes paid by homeowners	10	9	7
f. Heavy medical expenses	10	9	6
i. Local and state sales taxes	10	10	7
b. Interest paid on mortgages	9	9	6
d. State and local income taxes	9	9	8
g. Losses from theft or casualty (fire, flood, storm, etc.)	9	10	XX
p. Extra exemptions for those over 65	5	5	XX
q. Extra exemptions for blind people	5	5	XX
o. Exemptions for dependents	3	3	XX
None	16	16	XX
Don't know	7	4	XX

XX Not determined or base too small to show.

Exemptions Versus Tax Credits

The public at large and taxpayers are closely divided on the question of having the present \$750 exemption and \$35 credit for dependents replaced by a \$1,000 exemption or \$240 tax credit--though by a narrow margin they opt for the \$1,000 exemption. Even those in the lower income group and those with dependent children who would benefit more from a \$240 credit than from a \$1,000 exemption, are closely divided in their preference. It may be that the difference in the dollar amounts (\$1,000 vs. \$240) swayed people to the \$1,000 exemption, despite the illustration given of the larger benefit of the \$240 credit to lower income people.

Q27. There are 2 proposals for changing the present \$750 exemption and \$35 credit for dependents. One is to change it to a \$1000 exemption. This would mean you could reduce your taxable income by \$1000 for each dependent. If you were in the 15% tax bracket, this would save you \$150 in tax for each dependent. If you were in the 35% tax bracket, it would save you \$350 per dependent. The other approach is to change to a \$240 tax credit for each dependent. In other words, regardless of what tax bracket you are in, it would reduce your tax by \$240 per dependent. Would you favor a \$1000 exemption or a \$240 credit for each dependent?

	Number of respondents	Favor		Don't know
		\$1,000 exemption	\$240 credit	
Total public	2007 (100%)	41%	39	20
Total taxpayers	1684 (100%)	42%	40	17
<u>Income groups:</u>				
Under \$7,000	375 (100%)	34%	34	31
\$7,000 - under \$15,000	648 (100%)	38%	41	21
\$15,000 - under \$25,000	606 (100%)	43%	42	15
\$25,000 and over	358 (100%)	46%	37	17
Have dependent children	956 (100%)	41%	42	18
Do not have dependent children	1051 (100%)	40%	37	23

The Effects Of Tax Cuts On Government Revenues

The public agrees with those economists who hold that lowering taxes stimulates the economy enough so that in the long run government does not lose tax revenues. Over 4 in 10 said if taxes were lowered the amount of tax revenues the

government gets would remain the same, and 18% said lowering taxes would increase government revenues. Only 22% said lowering taxes would decrease government revenues. Taxpayers answered much the same as the public in general. Against the feeling of most taxpayers that they are overtaxed, there may well be as much wishful thinking in these answers as thoughtful economic analysis.

Q21. Some people say that when taxes are lowered the government has less money to operate on. Others say that lowering taxes stimulates the economy so that more people work and pay taxes, and that over the long haul the government gets the same number of dollars or even more than before taxes were lowered. What do you think--that lowering taxes would increase the amount of tax revenues the government gets, or decrease tax revenues, or leave them about the same?

	<u>Total public</u>	<u>Total tax- payers</u>
Number of respondents	2007	1684
	%	%
<u>Lowering taxes would:</u>		
Increase the tax revenues the government gets	18	19
Decrease tax revenues	22	24
Leave them about the same	43	43
Don't know	17	14

Periodic Tax Cuts Versus Built-In Inflation
Adjustment Factor For Taxes

By a fairly wide margin--57% to 32%--the public says it would prefer an annual inflation adjustment factor built into the tax system to the periodic tax cuts the government has made from time to time to keep taxes in line with inflation. All subgroups of the population agree on this, and taxpayers favor the inflation indexing by even a wider margin than the public at large. Perhaps the adjustment factor is seen as giving more immediate and continuing relief by taxpayers who feel pressed by both the amount of taxes they pay and steadily increasing inflation.

Q22. The effects of inflation cause people to move into higher and higher tax brackets. What the government has done to keep taxes in line with inflation has been to cut income taxes from time to time over the years. Some people say that instead of these periodic reductions an inflation adjustment factor should be built into the tax system so that each year taxes would be adjusted for inflation. Which would you prefer to see done--tax cuts made from time to time, or an inflation adjustment factor built into the tax system?

	<u>Total public</u>	<u>Total tax- payers</u>
Number of respondents	2007	1684
<u>Prefer:</u>		
Tax cuts from time to time	32	31
Inflation adjustment factor built into tax system	57	60
Don't know	11	9

Tax Cuts To Stimulate The Economy Versus
Holding Down The National Debt

Although people prefer a built-in inflation adjustment factor to periodic cuts, posed with a question on which is more important--President Carter's proposed \$25 billion tax cut or leaving taxes as they are and holding down the national debt--a majority back the tax cut. However, it is noteworthy that the vote for a cut is not larger than it is (53% for it, 37% against it). Taxpayers feel the same as the public in general, as do most subgroups of the population. One exception is that those in the upper income group are evenly divided on the question.

Q28. President Carter has proposed a \$25 billion tax cut in order to stimulate the economy. Some people are opposed to this on the grounds that the budget will not be balanced even if there is no tax cut, and the cut would add another \$25 billion to the national debt. Do you think it is more important to cut taxes and stimulate the economy, or leave taxes as they are and hold down the national debt?

	<u>Total public</u>	<u>Income groups</u>				<u>Total tax-payers</u>
		<u>Under \$7,000</u>	<u>\$7,000 to under \$15,000</u>	<u>\$15,000 to under \$25,000</u>	<u>Over \$25,000</u>	
Number of respondents	2007	375	648	606	358	1684
	%	%	%	%	%	%
<u>It is more important to:</u>						
Cut taxes and stimulate economy	53	49	53	57	48	54
Leave taxes as they are and hold down national debt	37	30	36	35	47	38
Don't know	11	21	11	7	5	8

Chapter Summary

By a narrow margin, the public favors using the tax system for social and economic purposes as well as for raising money. However, when asked about specific purposes that might be achieved through the tax system, the public rejects all of them.

Posed with four specific purposes and asked which should be done through the tax system, which should be done through other means, and which shouldn't be done at all, a majority think all should be done, but only a minority think they should be done through the tax system.

- Only 3 in 10 approved using the tax system to encourage people to do worthwhile things, such as working, saving for old age, giving to charity, etc.
- 3 in 10 approved using the tax system to redistribute the wealth.
- Only a little over one-quarter would use the tax system to stimulate depressed industries.
- Only 16% would use the tax system to discourage people from doing what some consider bad for them, such as drinking or smoking.

Given three options on ways to help solve the problems of unemployment and welfare, the public by two to one favors having the government create jobs for those unemployed or on welfare over giving tax credits to business as an incentive to hire them.

With the earned income tax credit for low income working people explained, a majority think these people should be helped through other means than the tax system.

General Feelings About Usage Of The Tax System For Social And Economic Reform

The public by a narrow margin favors using the tax system for both social and economic purposes, as opposed to using the tax system just to raise money. For half the sample, this general question was asked following one on specific purposes for which the tax system could be used, while for the other half it was asked prior to the one on specific purposes. This was done to assure that answers to one question were not influenced by the other. Results were little different in either case.

While most subgroups approved by a narrow margin tax incentives to achieve social or economic purposes, some were more in favor of it than others, and some were more evenly divided. Young people and blacks were more strongly in favor of it, as were women, Democrats, liberals, and the less well educated.

Q12Y. Here is a list of some of the purposes our tax system is used for. (Card shown respondent) Regardless of how you feel generally about how the tax system should be used, would you tell me for each one whether you think it is something that should be done through raising or lowering taxes, or done through other means, or not done at all?

Q13X. Regardless of how you feel about those specific purposes, and bearing in mind that other purposes of the tax system could be ones you disapprove of as well as ones you approve of, how do you feel generally about the tax system--do you think the tax system should be used for other purposes as well as to raise money, or that the tax system should be used just to raise money?

	Number of <u>respondents</u>	<u>Tax system should be used:</u>		
		<u>For other purposes as well as to raise money</u>	<u>Just to raise money</u>	<u>Don't know/ no answer</u>
Total public	2007 (100%)	46%	41	13
Total taxpayers	1684 (100%)	47%	43	10
Men	945 (100%)	45%	45	10
Women	1062 (100%)	47%	38	15
Age: 18 to 29	588 (100%)	54%	37	10
30 to 44	506 (100%)	46%	42	12
45 to 59	491 (100%)	46%	41	13
60 and over	422 (100%)	37%	47	17
Non-high school graduate	588 (100%)	48%	33	19
High school graduate	709 (100%)	45%	44	11
College	708 (100%)	46%	45	8
Whites	1736 (100%)	45%	43	12
Blacks	228 (100%)	55%	26	18
Democrats	947 (100%)	47%	40	14
Republicans	425 (100%)	44%	46	10
Conservatives	842 (100%)	44%	45	11
Moderates	646 (100%)	49%	39	13
Liberals	445 (100%)	49%	40	11

Which Specific Social And Economic Purposes
The Tax System Should Be Used For

While the public generally supports use of the tax system for social and economic purposes, only a minority favor using the tax system to achieve any of the four specific purposes that were posed to them. The balance were divided to various degrees between thinking these purposes should be achieved through other means or shouldn't be done at all.

Only 3 in 10 favor using the tax system "to encourage people to do what some consider worthwhile things, such as working, saving for their old age, sending children to college, contributions to charity, etc." The largest group (44%) thinks these things should be done through other means than the tax system. Opinion throughout all subgroups was divided generally the same as among the general public.

Opinion was divided almost exactly evenly on the question of using the tax system "to reduce the amount of money those who are better off have, and increase the amount of money poor people have." 3 in 10 think this should be done through raising or lowering taxes, 3 in 10 through other means and slightly over 3 in 10 think it shouldn't be done at all. There are differences of opinion on this question in certain subgroups. Those in the two lower income groups and blacks lean more toward achieving redistribution of wealth through taxes. Those in the \$15,000 to under \$25,000 group tend more to favor achieving it through other means. Whites and those in the top income group tend more to think it shouldn't be done at all.

Slightly over one-quarter would use the tax system to stimulate depressed industries, while the largest group (42%) think this should be done through other means. Only 1 in 5 don't think it should be done at all. All subgroups agree generally along these lines.

Least favored to achieve through the tax system is discouraging people from doing what is considered bad for them, drinking, smoking, etc. Over one-third would achieve this through other means, with the largest group (42%) thinking it shouldn't be done at all. All subgroups answered generally along these same lines.

On all four purposes, answers differed little whether this question was asked before or after the general question.

Q12X. Aside from raising money, the taxing system in our country has come to be used for a number of purposes--to redistribute the wealth, or to encourage or discourage certain types of behavior, or to stimulate segments of the economy, etc. Here is a list of some different things (card shown respondent). Would you tell me for each one whether you think it is something that should be done through raising or lowering taxes, or done through other means or not done at all?

Q13Y. Here is a list of some of the purposes our tax system is used for. (Card shown respondent) Regardless of how you feel generally about how the tax system should be used, would you tell me for each one whether you think it is something that should be done through raising or lowering taxes, or done through other means, or not done at all?

	<u>Done through taxes</u>	<u>Done through other means</u>	<u>Shouldn't be done at all</u>	<u>Don't know</u>
c. To encourage people to do what some consider worthwhile things, such as working, saving for their old age, sending children to college, contributing to charity, etc.	31%	44	18	6
a. To reduce the amount of money those who are better off have, and increase the amount of money poor people have	30%	30	32	8
d. To stimulate depressed industries, that is, industries that are doing poorly for one reason or another	27%	42	20	10
b. To discourage people from doing what some consider bad for them--smoking, drinking, etc.	16%	37	42	5

The Tax System As A Means Of Helping
Solve Unemployment And Welfare

Given three options as to how to help solve the problems of unemployment and welfare, the public favors having the government create public jobs for the unemployed and those on welfare by 2 to 1 over giving businesses tax credits as an incentive to hire them, and by over 4 to 1 over giving businesses direct grants or subsidies for hiring them. Taxpayers and most subgroups of the population agree in roughly the same proportions.

Q4. Unemployment and welfare have been continuing problems in recent years. Which would you favor as a way of helping solve these problems--giving direct grants or subsidies to businesses for hiring the unemployed and those on welfare, or giving businesses tax credits as an incentive to hire the unemployed and those on welfare, or having the government create public service jobs for these people?

	<u>Total public</u>	<u>Total taxpayers</u>
Number of respondents	2007	1684
<u>Favor as a way of helping solving unemployment and welfare:</u>		
Having government create public service jobs for unemployed and those on welfare	48	47
Giving businesses tax credits for as in- centives for hiring unemployed and those on welfare	24	27
Giving businesses direct grants or subsidies for hiring unemployed and those on welfare	11	11
None (volunteered)	8	9
Don't know/no answer	8	6

Help For Low Income Working People:
Through Tax System Or Other Means

It was reported earlier that few people are aware of how the earned income tax credit for low income workers operates. Given an explanation of it, a majority of the public does not favor the concept. In a question that explained that some very low income workers who file a tax return now get paid back more by the government than was withheld from their pay, people were asked whether they think the tax system should be used to help low income working people or whether they should be helped through other means. By 51% to 42% the public opted for helping them through other means. Blacks, the lowest income group and liberals are the only subgroups of the population who hold the reverse opinion, though young people and the least well educated are about equally divided in their opinions.

Q17. Actually, some very low income people who work and file a tax return now get paid back more by the government than was withheld from their pay. Do you think the income tax system should be used to help working people with very low incomes, or that working people with very low incomes should be helped through other means?

	<u>Number of respondents</u>	<u>Low income working people should be helped through:</u>		
		<u>Tax system</u>	<u>Other means</u>	<u>Don't know</u>
Total public	2007 (100%)	42%	51	7
Total taxpayers	1684 (100%)	41%	53	6
Age 18 to 29	588 (100%)	48%	47	4
Blacks	228 (100%)	55%	37	8
Under \$7,000 income	375 (100%)	48%	39	12
\$7,000 to under \$15,000 income	648 (100%)	48%	45	7
Non-high school graduates	588 (100%)	45%	44	11
Liberals	445 (100%)	52%	43	5

Chapter Summary

A major issue with regard to tax reform during the past year has been that of providing tax aid for education. This study explored public opinion on tax aid for college tuition and for private elementary and secondary school tuition.

Of four plans to provide tax aid for college tuition, the Carter proposal to make more middle income people eligible for government grants or loans by raising income eligibility was the most popular. A relatively small minority approved direct government aid to colleges and universities. But the public turns thumbs down on a flat \$250 personal tax deduction annually when a child is in college--either for everyone regardless of income or for those with less than \$25,000 income.

Furthermore, the public gives a resounding "No" to extending tax aid to private elementary and secondary schools. The idea is equally disapproved when parochial schools are mentioned and when they are not mentioned.

Tax Aid For College Tuition

With college tuition costs rising at a rapid rate, a number of proposals have been made for providing tax aid for college tuition. In this study four plans were put before the public as means of helping people cope with the cost of college. The question explained that all four would mean higher tax rates to bring in the extra billion and a half dollars each plan would cost.

The public turns thumbs down on a flat \$250 annual tax reduction for each year a child is in college--either for everyone regardless of income or for those with less than \$25,000 income. The Carter proposal to make more middle income people eligible for government grants or loans by raising the income eligibility for them was the most popular of the four plans, approved by one-third of the public. Only 1 in 5 approved direct government aid to colleges and universities so they can hold down tuition fees. Only 16% favored none of the plans.

All subgroups of the population agreed pretty much along the same lines on the four plans, including those who have children of college age.

Q23. There's a good deal of concern about the high cost of college. Here are four approaches that have been suggested for helping people cope with the cost of a college education--all of which would mean higher tax rates to bring in the extra billion and a half dollars that each of these four plans would cost. (Card shown respondent) Which of these plans would you favor, or wouldn't you favor any of them if it meant raising the tax rate?

	<u>Total public</u>	<u>Total tax- payers</u>	<u>Have children 19-22</u>
Number of respondents	2007	1684	189
<u>Plan C:</u> Make more middle income people eligible to get government grants or low cost college loans by raising the income ceiling under which these grants and loans are available	34	36	35
<u>Plan D:</u> Provide direct government aid to colleges and universities so they can hold down tuition fees	20	20	16
<u>Plan B:</u> A \$250 reduction in taxes for those with less than \$25,000 of income for each year a child is in college	14	14	19
<u>Plan A:</u> A \$250 reduction in taxes for everyone regardless of income for each year a child is in college	9	10	11
None	16	16	15
Don't know	7	5	4

Tax Aid For Private Elementary And
Secondary Schools

The public gives a resounding "No" to extending tax aid to private elementary and secondary schools. It was explained that the same four plans for college aid could be used for lower private schools, but that doing so would mean tax rates high enough to bring in four and a half billion dollars rather than one and a half billion dollars. On this basis, the public said it was opposed to extending aid to lower schools by 64% to 28%. For half the sample, the question asked about private and parochial schools, for the other half the question asked

only about private schools, with no mention of parochial. Answers were virtually identical regardless of mention of parochial schools.

A majority of all subgroups are opposed to tax aid for private elementary and secondary schools with the exception of Catholics and even Catholics are more opposed (48%) than in favor of it (43%).

Q24X. These same four plans could be used for children in private elementary and secondary schools as well as for children in colleges. But if they were extended to private schools it would mean tax rates high enough to bring in four and a half billion dollars rather than one and a half billion dollars. Would you be in favor of or opposed to extending tuition aid to private schools?

Q24Y. These same four plans could be used for children in private and parochial elementary and secondary schools as well as for children in colleges. But if they were extended to private and parochial schools it would mean tax rates high enough to bring in four and a half billion dollars rather than one and a half billion dollars. Would you be in favor of or opposed to extending tuition aid to private and parochial schools?

	<u>Total public</u>	<u>Parochial schools not mentioned</u>	<u>Parochial schools mentioned</u>	<u>Total tax- payers</u>
Number of respondents	2007	1004	1003	1684
	%	%	%	%
Favor extending tuition aid to private schools	28	28	28	28
Opposed to it	64	65	63	66
Don't know	8	7	9	6

Chapter Summary

The public is essentially sympathetic with few business tax deductions that people or businesses might take, and widely opposes the types of deductions that seem to favor a select few.

The most widely publicized deduction--the business lunch--gets hit hard by the public, whether it is described simply as a lunch when a "salesman" takes out "a customer or potential customer," or as the "3-martini business lunch." By 6 to 1, the public says only half of the cost of the meal should be tax deductible rather than the full cost.

Furthermore, of twelve possible expenses people can have, a majority would allow none of the cost of eight of them to be deductible. The four expenses a majority would allow as partial or full deductions are the cost of child care for working mothers, the cost of uniforms where jobs require them, union dues, and the cost of travel to and from work. Widely opposed as deductible are the cost of such things as business clothes for people who must be well dressed at work, club memberships for entertaining business clients, first class air fare for business trips, etc.--the "rich man's" counterparts to uniforms, union dues, etc.

Which Kinds Of Business Expenses
Should Be Deductible

One of the more widely publicized proposed tax changes has been to disallow a tax deduction for the full cost of a business lunch. In this study we explored public opinion on this in two ways--in context with other business expenses all people might have and later in a separate direct question.

Of twelve possible business expenses people can have, a majority would allow none of the cost of eight of them to be tax deductible. A majority would have as fully or partly tax deductible the cost of child care for working mothers, the cost of a uniform for jobs requiring a uniform, and union dues where union membership is required--and more would have these costs fully rather than partly deductible. A majority also would make tax deductible travel costs to and from work, but more would make them partly deductible than fully deductible. About 4 in 10 favor tax deductions for the cost of business clothes where a job requires a person to be well dressed, but most would make the cost partly deductible. A little over one-third would allow as deductible (but most partly deductible) the cost of a lunch when a salesman takes out a potential customer. The other six possible deductions were mainly the richer "perks" generally associated with top business executives, and these were widely opposed by the public.

Q29. Here are a number of different kinds of business expenses a working person can have. (Card shown respondent) For each one, would you tell me if a person should be able to deduct the full cost of it from his taxable income, or part of the cost, or none of the cost?

	<u>Full cost</u>	<u>Part of cost</u>	<u>None of cost</u>	<u>Don't know</u>
c. The cost of a child care center when a mother works	40%	34	22	4
e. The cost of a uniform if a job requires wearing a uniform	41%	29	27	3
d. The cost of union dues if a worker must belong to a union	34%	27	35	4
a. The cost of getting from home to work	21%	27	49	3
g. The cost of business clothes if the job requires that a person be well dressed	11%	27	58	4
b. The cost of lunch when a salesman takes a potential customer out	11%	24	61	4
h. The cost of personal phone calls to the family if a worker is required to travel	13%	21	63	3
l. The cost of first class air fare tickets on business trips	9%	23	65	4
i. The cost of membership in a club if the job requires entertaining customers and prospects	7%	20	69	4
j. The cost of tickets to the theatre, sports events, the symphony, etc., when entertaining a business customer	7%	15	75	3
k. The cost of travel to business conventions held outside the United States in a place where the company does no business	7%	13	76	4
f. The cost of a Christmas gift to a customer	4%	7	85	4

The Business Lunch

Slightly later in the questionnaire a direct question was asked about the proposed change in the tax laws to reduce the business lunch deduction. For half the sample, people were asked if they thought the full cost or only half the cost of the bill should be tax deductible when a "salesman" takes "a customer or potential customer" out to lunch or dinner. With the other half of the sample,

the business lunch was described as "what has been called the 3-martini lunch."

The public by 6 to 1 favors a tax deduction for only half of a business meal, and the answers are the same with and without the description of it as the "3-martini" lunch. Only 10% would allow deducting the full cost of the meal, and 11% volunteered they would allow deducting none of the cost. Answers followed the same general pattern throughout all subgroups of the population.

Q31. One proposed change in the income tax laws is to reduce what has been called the 3-martini business lunch deduction. When a businessman takes a customer or a potential customer out to lunch or dinner, do you think he or his company should be allowed to deduct from income taxes as a business expense the entire cost of the bill or only the half that was spent for the customer or potential customer?

	<u>Total public</u>	<u>3-Martini lunch mentioned</u>	<u>3-Martini lunch not mentioned</u>	<u>Total tax- payers</u>
Number of respondents	2007	1004	1003	1684
	%	%	%	%
<u>How much of business meal expenses should be tax deductible:</u>				
Entire cost	10	10	10	11
Only half the cost	65	64	66	66
None (volunteered)	11	11	10	12
Don't know	14	14	14	11

Chapter Summary

Despite the prominence of "Social Security outrage" stories in the media and in the Congress just prior to the conduct of this study, Social Security taxes are not a burning issue with the public at the present time. They rate third behind property and federal income taxes in being thought too high. If people could only have one of their taxes lowered, by over four to one, they would rather have federal income taxes cut than Social Security taxes.

This is not to say that people are happy with the Social Security taxes they pay, because a majority favors funding Social Security differently than it now is. Given three plans for funding Social Security, almost half favor the Carter plan for partial funding from worker-employer taxes as now, but supplemented out of general revenues. Only one-third favor the current system of funding, but only one in eight would fund it solely out of general revenues.

The current system of funding Social Security is preferred to a proposal for funding it solely through a value added tax on goods and services, though a rather surprising one in five do support the unfamiliar (in this country) value added tax. And the value added tax has increased, though minority, support as a method if more tax revenues are needed.

Attitudes Towards Amount Paid
In Social Security Taxes

It was earlier shown that the amount paid in Social Security taxes ranked third below property taxes and federal income taxes in being thought high. This was confirmed in answers to a direct question as to which tax people would rather have cut if only one could be cut. By 73% to 17% the public opted for a cut in federal income taxes. Answers were generally the same throughout all subgroups of the population and among taxpayers.

Q32. Turning to another subject, if only one of these taxes could be cut, which would you personally rather see cut down, federal income taxes or Social Security taxes?

	<u>Total public</u>	<u>Total taxpayers</u>
Number of respondents	2007	1684
<u>Would rather see a cut in:</u>		
Federal income taxes	73	74
Social Security taxes	17	18
Don't know/no answer	10	8

How Social Security Should Be Funded

The fact that Social Security taxes are thought less excessive than federal income taxes and that people would cut income taxes before cutting Social Security taxes does not necessarily mean that people are happy with current Social Security taxes. In fact, a majority of the public favors a different approach to funding Social Security than now followed. Presented with three plans for funding Social Security, only a little over one-third favor the current plan of funding it solely by special Social Security taxes paid for by working people and employers. Almost half favor the Carter plan to pay for Social Security partly out of worker-employer taxes, and partly out of general revenues financed by income taxes. And 12% would fund it solely out of general revenues. All subgroups of the population, including taxpayers and employed people feel generally the same.

Q33. As you know, Social Security is currently funded by deducting Social Security taxes from the paychecks of employed people plus contributions by their employers. In order to meet increasing needs for money to pay benefits to those who receive Social Security, the current plan is to raise Social Security taxes on employers and employees rather substantially over the coming years. Some people agree with this approach, others disagree. Which of these three plans for funding Social Security do you personally favor? (Card shown respondent)

	<u>Total public</u>	<u>Employed people</u>	<u>Total taxpayers</u>
Number of respondents	2007	1197	1684
b. Social Security should be paid for partly by special Social Security taxes paid by working people and employers, and partly out of general revenues which are financed by income taxes	45	45	46
a. Social Security should be paid for solely by special Social Security taxes paid by working people and employers	37	36	37
c. Social Security should be paid for solely out of general revenues which are financed by income taxes	12	13	12
Don't know/no answer	7	5	5

The public rejects, however, a proposal to replace the current system of Social Security funding with a value added tax on goods and services. In a separate question, the present system of funding Social Security was pitted against a proposal to fund it solely through a value added tax on products and services, with the value added tax explained and examples of how it would affect costs of products and services. People opted for the present system by 3 to 1.

- Q34. One proposal that has been suggested for funding Social Security is to eliminate Social Security taxes entirely and replace it with what is known as a value added tax or built-in sales tax. This means that there would be a tax built into the price of all products and services sold to consumers. For example, a product or service that now costs 45 cents might cost fifty cents, with five cents going to Social Security. A product or service that costs ninety dollars might cost ninety-nine dollars, with nine dollars going to Social Security. How do you feel about this proposal--would you like to see Social Security continue to be funded through special Social Security taxes the way it is now, or replaced by the value added tax on products and services?

	<u>Total public</u>	<u>Total taxpayers</u>
Number of respondents	2007	1684
	%	%
Prefer current system	66	67
Prefer value added tax on products and services	22	23
Don't know	12	10

The value added tax is not totally rejected as a concept for raising additional tax funds, however. It is more acceptable (though still by a minority) when people were asked if they had to pay \$100 more in taxes during the coming year whether they would rather pay it in extra income taxes or have it added into the cost of goods and services. While 48% opted for raised income taxes, 37% chose the value added tax.

- Q35. Now thinking of income taxes, not Social Security, if during the coming year you had to pay \$100 more in taxes, would you rather pay it in extra income taxes, or rather have it added into the costs of goods and services?

	<u>Total public</u>	<u>Total taxpayers</u>
Number of respondents	2007	1684
	%	%
<u>Would rather pay an addi- tional \$100 in taxes:</u>		
In extra income taxes	48	49
In value added taxes	37	39
Don't know	15	12

Chapter Summary

Changes in the 1977 income tax forms apparently had an effect on how taxpayers filed this year. More taxpayers made out their own return this year (26% vs. 23%), and fewer went to an outside professional (51% vs. 54%). More used the short form this year and fewer itemized deductions. Furthermore, this year's form was thought much less difficult to fill out than last year's.

Those who itemized deductions reported taking an average of seven, as was true last year. Major deductions taken continue to be property taxes, charitable contributions, gasoline taxes, state and/or local income taxes, interest on loans or charge accounts, interest on home mortgages and medical expenses.

How Many Filed A Federal Tax Return
And State Or Local Tax Returns

The vast majority (84%) of people reported they filed a tax return in 1978, either individually or jointly with someone else. Further, a large majority of federal taxpayers (84%) also said they filed a state or city tax return. These results are virtually identical to those found in 1977.

Q36. Did you personally have to file a federal income tax return this year--either jointly with your (husband/wife) or by yourself?

	Total public	
	1978	1977
	%	%
Number of respondents	2007	2003
	%	%
Yes, filed a federal return	84	83
No, did not	16	17

(If "yes") to Q.36)

Q37. Did you also have to file a state or city income tax return this year or not?

	Total taxpayers	
	1978	1977
	%	%
Number of respondents	1684	1656
	%	%
Yes, also filed state or city return	84	83
No, did not	15	16
Don't know	1	1

Who Made Out Federal Tax
Returns This Year

A slightly higher percentage of taxpayers made out their own federal income tax returns in 1978 (26%) than in 1977 (23%). And slightly fewer (51%) than last year (54%) said they used an outside professional. As in 1977, about one-quarter said their spouse or other family member or friend did it for them. As might be expected, more of those who used the long form and who itemized deductions used an outside professional than those who used the short form and took the standard deduction. It is noteworthy, however, that about 4 in 10 of all taxpayers who used the

short form and almost half of those who took the standard deduction had their returns done by an outside professional.*

Q38. Who made out your income tax return this year--you, or your (husband/wife), or some other family member or friend, or did you have it done by an outside professional?

	Total taxpayers		1978			
	1978	1977	Used:		Took:	
			Short form	Long form	Standard deduction	Itemized deduction
Number of respondents	1684	1656	669	903	176	697
	%	%	%	%	%	%
Respondent	26	23	32	24	40	21
Husband/wife	13	14	12	13	8	14
Other family member	10	10	18	4	3	4
Outside professional	51	54	38	59	48	61

Tax Forms Used And Type Of Deductions Taken

Over half of all taxpayers reported they used the long form for their 1977 tax return and 4 in 10 said they itemized deductions. Indications are that more people used the short form this year than last and that more took the standard deductions instead of itemizing. Comparing just those taxpayers who did their own return or had it done by an outside professional (the only ones asked these questions last year), those using the short form are up four points to 36%, and those taking the standard deduction are up six points to 48%.

Q42. Which form did you use this year--
the short form or the long form?

Q43. Did you take the standard deduction
or itemize your deductions?

* In 1977 those whose return was done by a spouse or other family member or friend were not asked about the form used or type of deductions taken, and therefore, comparisons between 1977 and 1978 are not shown.

	Total tax-payers		Did own return or used outside professional		Did own return		Used outside professional	
	<u>1978</u>		<u>1978</u> <u>1977</u>		<u>1978</u> <u>1977</u>		<u>1978</u> <u>1977</u>	
Number of respondents	1684	1295	1268	436	378	859	890	
Used short form	40	36	32	49	47	30	25	
Used long form	54	57	63	50	52	62	67	
And:								
Took standard deduction	10	12	10	16	12	10	9	
Itemized deductions	41	44	50	33	40	49	55	
Don't know	2	1	2	*	-	2	3	
Don't know which form used	7	6	6	1	1	9	7	

Which Tax Form Was Received In The Mail

There was high overlap between the tax form used and the tax form mailed to taxpayers by the IRS. 82% of those who filed the short form said that was the form they received in the mail from IRS, and 84% of those who filed the long form said that was the form they received in the mail. The extent to which the form they received conditioned the form they filed was not determined.

Q41. Each year the Internal Revenue Service mails either a 1040A short form tax return or a 1040 long form return to taxpayers who filed a return the previous year. Do you remember which form they sent you this year?

	Total taxpayers	Used:	
		Short form	Long form
Number of respondents	1684	669	903
<u>Form received in mail from IRS was:</u>			
1040A Short	38	82	7
1040 Long	49	8	84
Neither	3	5	2
Don't know	10	4	6

Taxpayer's Assessment Of The Difficulty
Of The 1977 Tax Forms

Two different questions on the difficulty of the 1977 tax forms were asked this year of those who made out their own return. For trend purposes, half the sample was asked the same question as a year ago--how difficult the form was compared with last year's. The other half of the sample was asked just how difficult they found this year's form, with no comparison made to last year's. Over time, the new question will provide better trend data.

The evidence is that the revised tax forms for 1977 returns were quite an improvement in the eyes of those who made out their own returns. 35% said they found this year's form less difficult compared with only 4% who said that about last year's form. And only 19% said they found the form more difficult, compared with 32% who said that last year. Most improvement was seen, however, by those who filed the short form. 45% of the short form filers said this year's form was less difficult, while only 25% of the long form filers found it less difficult.

Q39X. Did you personally find this year's federal taxform a lot more difficult to fill out than last year's, somewhat more difficult, about the same, somewhat less difficult, or a lot less difficult than last year's form?

	Taxpayers who did their own return					
	Total		Used:			
	1978	1977	Short form		Long form	
		1978	1977	1978	1977	
Number of respondents	235	378	123	176	109	197
<u>Found this year's form:</u>						
Much more difficult	4	6	3	6	6	6
Somewhat more difficult	15	26	9	27	21	24
About the same	45	61	42	59	48	64
Somewhat less difficult	21	3	26	2	16	4
A lot less difficult	14	1	19	2	9	1
Don't know/no answer	1	3	1	4	1	1

But perhaps the best measure of how difficult taxpayers found this year's was obtained from the new question. And this shows that the large majority (75%) of those who made out their own returns did not consider it difficult. 41% said it was

not very difficult, and 34% said it was not difficult at all. Only 1 in 5 said it was fairly difficult, and a small 4% found it very difficult. While more of those who used the long form found it difficult than those who used the short form, even among long form users a large majority (7 in 10) said it was not very difficult or not at all difficult.

Q39Y. How difficult did you personally find this year's federal tax forms to fill out--very difficult, fairly difficult, not very difficult, or not difficult at all?

	Taxpayers who did their own return		
	<u>Total</u>	<u>Used short form</u>	<u>Used long form</u>
Number of respondents	201	92	107
	%	%	%
<u>Found this year's form:</u>			
Very difficult	4	4	5
Fairly difficult	20	14	24
Not very difficult	41	39	43
Not difficult at all	34	42	27
Don't know	*	-	1

Which Deductions Were Taken By Those Who Itemized Deductions

The average number of deductions reported by those who itemized deductions was 7.2. The major deductions taken, in order of frequency, were for property taxes, charitable contributions, state or local sales taxes, gasoline taxes, state and/or local income taxes, interest paid on a loan or charge account, interest on a home mortgage, and medical expenses--all taken as deductions by one-quarter to one-third of all taxpayers. 1 in 5 taxpayers (and half of those who itemized deductions) deducted a fee for having their tax return made out.

(Asked of those who said they itemized deductions)

Q44. Here is a list of some deductions that some people are able to take in figuring out their federal income tax. (Card shown respondent) Which of those deductions, if any, were you able to take this year?

	<u>Total taxpayers</u>	<u>Itemized deductions</u>
Number of respondents	1684	697
	%	%
Itemized deductions	<u>41</u>	<u>100</u>
a. Property taxes on a home you own	35**	84
e. Contributions to charity	34	82
h. Local or state sales taxes	32	76
i. Gasoline taxes	32	78
d. State and/or local income taxes	31	76
c. Interest paid on a loan or charge account	30	72
b. Interest on a home mortgage	29**	71
f. Medical insurance or medical expenses for you or your dependents	24	59
j. Fee for having income tax made out	21	51
k. Union dues	11	27
n. Safe deposit box	9	22
m. Money paid for child care	4	9
g. Losses from theft or casualty (fire, flood, storm, etc.)	3	8
l. Alimony	*	1
Don't know	1	3
Not asked--did not itemize deductions	<u>59</u>	<u>51</u>
Average number of deductions taken	7.2	7.2

* Less than .5 percent

** These figures represent 38% and 51% of all homeowners

NOTE: Letters next to listed groups indicate the order in which they were asked about.

METHODOLOGYSample Size

A nationwide cross section of 2007 men and women, 18 years of age and over, was interviewed for this study. All interviews were conducted in person in the homes of respondents.

Sampling Method

The sample interviewed in this study is a representative sample of the population of the Continental United States, age 18 and up--exclusive of institutionalized segments of the population (Army camps, nursing homes, prisons, etc.).

The sampling methodology employed is a multistage, stratified probability sample of interviewing locations.

At the first selection stage, 100 counties were selected at random proportionate to population after all the counties in the nation had been stratified by population size within geographic region. At the second stage, cities and towns within the sample counties were drawn at random proportionate to population. Where block statistics are available, blocks were drawn within the cities and towns at random proportionate to population. Where no block statistics are available, blocks or rural route segments were drawn at random.

A specified method of proceeding from the starting household was prescribed at the block (or route) level. Quotas for sex and age levels of respondents, as well as for employed women, were imposed in order to insure proper representation of each group in the sample. In addition, hours were restricted for interviewing men (after 5:00 on weekdays and weekends) in order to obtain proper representation for employment.

A validation was made by an outside organization of fifteen percent of all interviews to make certain that the interviews had been carried out honestly and accurately.

Interviewing Dates

Interviewing on this study was conducted between May 6 and May 13, 1978.

Demographic Breakdowns

Certain of demographic breakdowns in this study require no comment, others do. Sex is recorded by interviewer observation. Age is asked. Income is asked about total annual family income. Geographic area conforms to, but combines U S. census regions. The Northeast is New England and the Middle Atlantic states. The Midwest is the East North Central and West North Central states. South is South Atlantic, East South Central and West South Central. West is the Mountain and the Pacific states.

Any college education causes a person to be included in the College category. Trade school or secretarial school following high school does not, however, count as college. Anyone who is a high school graduate (with or without additional trade school education) is included in High School Graduate. Anyone with an 11th grade education or less is included in Non-High School Graduate. Since these are self-reported education levels, they are subject to some exaggeration.

Occupation relates to the respondent interviewed, not to the head of the household. Titled executives and members of professions are included in the executive, professional category. In addition, owners of farms, owners of small businesses and higher ranking military personnel are included in Executive and Professional. White Collar ranges from retail sales clerks to minor administrative office personnel to travelling salesmen to lab technicians and the like, and would include such people as junior officers in the military. Blue Collar includes all other employed people both skilled and unskilled. It would include lathe workers, janitors, firemen, policemen, taxi drivers, etc. People whose occupations are housewife or unemployed or student or retired are shown separately.

Smaller "religious" groups such as Jews on the one hand or atheists on the other are too small to show separately and would be meaningless to show combined and hence the "Religion" breakdown is confined to Protestants and Catholics. Jews, Mohammedans, atheists, etc. are included in the sample, however--both in the total sample and in other demographic columns in which they properly belong (women, whites, Northeast, etc.).

Members of minor political parties and those who refuse to identify their party affiliation are not shown.

Political philosophy is based on how people regard their own political/social outlooks--as being conservative (very or moderately so), middle-of-the-road, or liberal (very or moderately so).

A Political/Social activity index was built out of responses to a list of activities respondents reported having engaged in in the last year--such things as having run for political office, having written a letter to the editor, having made a speech, or written an article, having worked in a political campaign, being an officer of a civic or fraternal organization, signed a petition, etc. "Signed a petition" was put on the list largely so that anyone who wanted to say he had done something would have something to say he had done. All responses to "signed a petition" were ignored in building this scale. Respondents who did three or more of the things on the list (beyond signing a petition) are classified as "Very Active"--and may be roughly equated with "thought leaders." Those who did one or two things are classified as "Moderately Active," and those who did none are classified "Not Active."

Union members are respondents who report they themselves belong to a union. (Non-union family members of union people are not included.)

Percentages Not Totalling 100%

The computer rounds off each percentage to the nearest whole percent. As a result, the percentages in a given column of figures frequently add to 98, 99, 101, 102 rather than 100.

Where a question permits multiple answers, percentages may add to 130, 185, 210, or even more, depending on the number of answers each respondent gives.

Asterisks (*) are used when answers fall below 0.5% among a given subgroup.

DEMOGRAPHIC CHARACTERISTICS

	<u>Number of</u>	<u>Percentage</u>
	<u>respondents</u>	
	<u>#</u>	<u>%</u>
Total sample	2007	100
<u>Sex</u>		
Male	945	47
Female	1062	53
<u>Age</u>		
18 - 29	588	29
30 - 44	506	25
45 - 59	491	24
60 & Over	422	21
<u>Income</u>		
Under \$7,000	375	19
\$7,000 - \$14,999	648	32
\$15,000 - \$24,999	606	30
\$25,000 & Over	358	18
<u>Race</u>		
White	1736	86
Black	228	11
Other	20	1
No Answer	23	1

DEMOGRAPHIC CHARACTERISTICS

	<u>Number of respondents</u>	<u>Percentage</u>
	#	%
Total Sample	2007	100
<u>Geographic Area</u>		
Northeast (New England And Middle Atlantic)	484	24
Midwest (East North Central And West North Central)	542	27
South (South Atlantic, East South Central, West South Central)	639	32
West (Mountain, Pacific)	342	17
<u>Education</u>		
College (13 - 16+)	708	35
High School (9 - 12)	709	33
Grade Or Less	588	12
No Answer	2	*
<u>Occupation</u>		
<u>Employed:</u>	<u>1197</u>	<u>59</u>
Executive/Professional	278	14
White Collar	388	19
Blue Collar	515	26
<u>Not Employed:</u>	<u>810</u>	<u>40</u>
Housewife	413	21
Retired	231	12
Student	60	3
Unemployed	80	4
Other	26	2

DEMOGRAPHIC CHARACTERISTICS

	<u>Number of respondents</u>	<u>Percentage</u>
	<u>#</u>	<u>%</u>
Total Sample	2007	100
<u>Political Affiliation</u>		
Democrat	947	47
Republican	425	21
Independent	561	28
Refused	25	1
Don't Know/No Answer	49	2
<u>Political Philosophy</u>		
Conservative	842	42
Middle-Of-The-Road (Moderate)	646	32
Liberal	445	22
Don't Know/No Answer	74	4
<u>Political/Social Activism</u>		
In Past Year Have Done:		
3 Or More Activities	301	15
1 Or 2 Activities	542	27
No Activities	1164	58
<u>Union Members</u>		
265		13
<u>Children Under 18</u>		
Have:		
956		<u>48</u>
Under 13	664	33
13 - 18	375	19
19 - 22	189	9
Do Not Have	<u>1051</u>	<u>52</u>

DEMOGRAPHIC CHARACTERISTICS

	<u>Number of respondents</u>	<u>Percentage</u>
	#	%
Total Sample	2007	100
<u>Marital Status</u>		
Married	1385	69
Single	313	16
Widowed	159	8
Separated/Divorced	146	7
No Answer	4	*
<u>Home Ownership</u>		
Own	1297	65
Rent	576	29
Live With Other Family Member	117	6
No Answer	17	1

DEMOGRAPHIC CHARACTERISTICSDetail For Political/Social Activism

In Past Year Have:	8
h. Signed a petition	40
c. Attended a public meeting on town or school affairs	23
a. Written your congressman or senator	20
b. Attended a political rally or speech	12
f. Served as an officer of some club or organization	12
e. Served on a committee	10
g. Written a letter to the paper	6
i. Worked for a political party	6
j. Made a speech	5
l. Been a member of some group for better government	5
k. Written an article	3
d. Held or run for political office	*
No--none of these	45
Don't know/no answer	*

Note: Letters indicate order of presentation
on card shown respondents

[Whereupon, at 11:30 a.m., the committee proceeded to other business.]

