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The Relationship between Tax Structure and the Lives of Individuals: Who Wins and Who Loses

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THE RELATIONSHIP BETWEEN TAX STRUCTURE AND THE LIVES OF INDIVIDUALS:

WHO WINS AND WHO LOSES

By

David Werner Parker

Honors Scholarship Project

Submitted to the Faculty of

Olivet Nazarene University

for partial fulfillment of the requirements for

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ABSTRACT

This study takes a look at various forms of taxation, as well as how the various options impact households. The current system is examined, and it is compared to two alternatives, which are the flat tax and the consumption tax. The positives and negatives of each option are evaluated. Each option is also applied to a family on the poverty line, a family that makes the average household income, and a wealthy family; calculations are done to determine how much income tax they would have to pay under each of them.

The second part of the paper takes a look at the results of a survey of Olivet Nazarene University students and a small group of individuals within the Bourbonnais community. I examine their preferences of the various types of income tax examined in the first portion of my paper, as well as how those preferences apply to the tax calculations that were done in the first part of the paper.

Keywords

Income tax, flat tax, consumption tax, Hall-Rabushka, tax structure, fair share, VAT, survey

INTRODUCTION

One of the most important issues in the 2012 Presidential election between Mitt Romney and Barack Obama was the taxation of individuals. The current tax code is a complex system of rates, deductions, exemptions, and breaks for countless situations; according to a 2012 report that was delivered to the House Committee on Ways and Means and the Senate Committee on Finance, the current tax code is about four million words, with nearly 5,000 changes since 2001 (Erb, 2013). While there is wide agreement between both sides that reform is necessary, they conflict in terms of how to do it. Should the rates on wealthy Americans rise in order to try to create "fairness" (Sahadi, 2012), or should all rates be maintained or reduced in order to try to spur economic and job growth (Sahadi, 2012). This is a complex issue that cannot be easily addressed. However, there is one thing that is certain: taxes will impact Americans differently given their income level.

The purpose of this part of the study is to examine how income impacts the taxes of Americans. In evaluating the impact of these different tax structures, comparisons will be made between three examples of American families: one that is at the poverty line for a family of four (\$22,350) ("The 2011 HHS Poverty Guidelines.", 2011), one that makes the average household income for 2010 (\$49,445) (Cauchon & Hansen, 2011), and one that earns \$250,000. Three types of tax structure will be examined in this paper: the current income system, a flat tax, and a consumption tax. Each of these options will be applied

to each family to determine the most viable structure, both overall and for a specific group. However, before this is done, a review of the literature will be made to review the advantages and disadvantage of the various tax structures.

The second part of this study involved surveying people's knowledge of the different types of income tax structures that exist and have been proposed over the years. In order to do so, a survey composed of 20 questions designed to determine their knowledge of the current income tax structure, their opinions on it, and demographic information was developed.

REVIEW OF LITERATURE

The three types of tax structures that are included in this study are the current income tax, the flat tax, and the consumption tax. Much has been written about each of these structures. The section of the paper takes a look at these different types. Each type will be explained in terms of their structure and functions. The positives and negatives that supporters and critics have cited will also be explained.

Income Tax

The first structure to be discussed is the current income tax structure. Simply put, America's tax code consists of a complex maze of loopholes, deductions, and reporting requirements (Miller, 2012). Depending upon their filing status, a taxpaying household pays differing amounts based on whether they are single, head of household, which is a special status for unmarried persons who have children and maintain a household (Internal Revenue Service, 2013), married filing jointly or qualifying widow, or married filing separately (Spilker et al., 2011). Each of these classifications has several tax brackets (Spilker et al., 2011); in each of these, a person pays a certain rate on specified portions of their income, ranging from 10% to 35% as of 2012 ("2012 Marginal Tax Brackets", 2013). In order to reduce a person's tax burden, people are able to decrease their taxable income by the means of personal exemptions that allow income below a specified level to not be taxed (Carasso & Steuerle, 2011), tax deductions that reduce a taxpayer's gross income due to various types of

expenses incurred, including the standard deduction("Tax Deduction"), and tax credits that are an actual reduction of the tax owed ("Tax Credit"). The annual tax form that is filed by taxpayers is called Form 1040, with other variations designed to simplify the process ("1040 Form", 2013).

Because of these various deductions and credits, a person's average tax rate is actually less than the published marginal rates. In 2009, the average tax rate among all individuals was 7.2% ("Historical Average Federal Tax Rates for All Households," 2012). In the same year, among the top 20% of taxpayers, this rate rises to 13.4% ("Historical Average Federal Tax Rates for All Households", 2012). According to a survey conducted in 2011 by the Tax Policy Center, 46.4% of households did not pay any federal income tax (Plumer, 2011).

While there are not a large number of vocal supporters, the progressive income tax has been praised in the past as being beneficial. According to some proponents, it can result in more equitable income distribution, less financial and economic volatility, higher revenues, and possibly faster growth compared to the alternative of a value-added tax, which will be discussed later in this paper (Weller, 2007). Others have said that a progressive income tax is fairer to the poor than other options, as it would treat everyone in the same manner (Reich, 2011).

However, the current structure has been subject to various criticisms over the years. Among these is that the structure is too complex and is very expensive to ensure that filing is done correctly (Miller, 2012). Because of its

large size and its convoluted portions, including over 150 individual exemptions, people often decide to hire an accountant or purchase software in order to assist them in filing their returns (Miller, 2012). Data from a 2005 study concluded that individuals spend \$110 billion per year in order to fill out their tax forms (Miller, 2012). Some may argue that a more simplified tax code could reduce the amount that is spent for this purpose.

Another common claim is that tax rates are too high (Miller, 2012). However, in modern history, Americans have never been taxed less (Miller, 2012). Nevertheless, frustration with the level of current tax rates has enabled the creation of such documents as the Americans for Tax Reform's Taxpayer Protection Pledge, a pledge to oppose any and all tax increases that has been signed by many members of Congress ("What is the Taxpayer Protection Pledge?," n.d.).

In today's political climate, perhaps the most cited criticism is over who pays their "fair share" of their taxes. While they also pay sales taxes, payroll taxes, excise taxes, state income taxes, and property taxes, some may argue that it is not fair that over 46% of Americans don't pay federal income taxes (Miller, 2012). This was infamously represented by 2012 Republican Presidential candidate Mitt Romney, who claimed in a secretly recorded video that those who don't pay federal income taxes believe the government has a responsibility to take care of them and do not take personal responsibility for their lives (Corn, 2012). For these and other reasons, throughout modern history, individuals and

groups have proposed alternative measures that could supposedly make taxation more fair and/or become much more simple and comprehensible.

Flat Tax

The first alternative structure is the flat tax (Slemrod & Bakija, 2008, p. 189). In terms of taxation, the word “flat” can be defined as “not varying” (Slemrod & Bakija, 2008, p. 189). A flat tax isn’t necessarily flat; while a truly flat-rate tax applies a single rate to a taxpayer’s entire income, most proposals allow for an exemption up to a certain income level (Slemrod & Bakija, 2008, p. 190). In this case, the structure would be slightly progressive, though dramatically less so than the current system (Slemrod & Bakija, 2008, p. 190). According to Slemrod & Bakija (2008), the rate necessary to raise the same revenue as the 2005 income tax is 18.2%, with an exemption level of \$22,800, taking into account the standard deduction and personal exemption. This is the rate that will be used for this paper.

The flat rate tax has a few advantages. One notable advantage is that a single rate has the potential to facilitate a much less complex system of collecting taxes (Slemrod & Bakija, 2008, p. 194). A reduction in the disparity in tax rates will likewise reduce incentives for an individual or family to move their taxable income high-rate to low-rate taxable entities or periods, since anything above the exemption will be charged at the same rate (Slemrod & Bakija, 2008, p. 194). However, the reason that is cited the most often is the improvement of economic incentives (Slemrod & Bakija, 2008, p. 192). Proponents claim a flat

tax would replace a high tax rate with a low flat rate, encouraging more productive behavior (Mitchell, 2010). Nevertheless, Slemrod & Bakija (2008) argue the economic costs of progressivity are unknown, and the benefits of lower marginal rates are often exaggerated by their ardent supporters.

While there are benefits of a flat tax, it's important to note the possible drawbacks. While its proponents claim it will greatly simplify a person's tax return, the application of a tax rate schedule to a person's taxable income is actually the least complicated step of the taxpaying process (Slemrod & Bakija, 2008, p. 194). The actual difficult step in determining a tax bill is the computation of taxable income: this is essentially figuring out the amount you earn, less the myriad exemptions, deductions and various other offsets that are described in the previously mentioned 4 million word tax code (Erb, 2013). Perhaps the most crucial issue is its effect on income equity among Americans of various economic levels. Evidence from surveys suggests that the flat tax's appeal to some Americans is their belief that it will cause the rich to pay more in taxes (Slemrod & Bakija, 2008, p. 192). However, this is actually not the case. Under a flat tax, this inequality will actually be increased by substantially reducing rates on the wealthiest families, while low- and middle-income households will see a rate increase (Frank, 2011). Even if every loophole and form of evasion was eliminated, a single rate will reduce the tax burdens on the wealthy (Slemrod & Bakija, 2008, p. 192).

Consumption Tax

The next major type of alternative tax structure is the consumption tax. A consumption tax is a tax in which the base that is used is consumption (that is, the use of goods and services (Slemrod & Bakija, 2008, p. 195). The most familiar type of consumption tax that has existed is the sales tax (Slemrod & Bakija, 2008, p. 232), which is levied by all but five states (Woo, 2011). However, there are other types; these include a Value-Added Tax (VAT) (Slemrod & Bakija, 2008, p. 233), and the Hall-Rabushka flat tax (Slemrod & Bakija, 2008, p. 231).

While there are noticeable similarities among the various versions of consumption taxes, they can be separated into two different types. The first is the retail sales tax. Under a pure retail sales tax, the aggregate tax is calculated to be the total value of final sales to consumers, and all consumers of both goods and services are taxed (Slemrod & Bakija, 2008, p. 232). However, many different variations exist in the United States, so as to ensure the tax isn't completely "impersonal;" for example, a majority of states choose to exempt certain items, such as food and prescription medicine ("State Sales Tax Rates and Food & Drug Exemptions", 2013), in order to ease the burden on the poor, and a few of them will allow the poor and elderly to apply for refunds in order to ease their burden (Slemrod & Bakija, 2008, p. 232).

The other major type of consumption tax is the Value-Added Tax. While the VAT functions similarly to the retail sales tax, under it, all businesses remit

(Slemrod & Bakija, 2008, p. 233). This is unlike a retail sales tax, for which only retail businesses remit) (Slemrod & Bakija, 2008, p. 233). The VAT also distinguishes itself from the income tax by allowing the automatic deduction of capital goods, rather than through a depreciation schedule (Slemrod & Bakija, 2008, p. 233). In order to calculate their tax base under VAT, a business takes their total sales revenue and subtracts from it the cost of their purchased inputs (Slemrod & Bakija, 2008, p. 233). While it may appear that a retail sales tax is assessed on consumers and the VAT is assessed on businesses, there is actually no difference on who bears the tax burden (which turns out to be the consumer) (Slemrod & Bakija, 2008, p. 234). This is particularly evident in regions that have a VAT, such as Europe and Canada, where the VAT doesn't appear to be much different than a retail sales tax (Slemrod & Bakija, 2008, p. 234).

There are multiple methods by which the VAT can be implemented. (Slemrod & Bakija, 2008, p. 234). The two most common methods are the credit-invoice method and the subtraction method. The credit-invoice method is used by almost every country that has a VAT (Slemrod & Bakija, 2008, p. 234). Under this method, the tax is assessed on goods during each stage of distribution or production (Bartlett, 2009). However, during each of those stages, a producer or distributor receives a credit for the taxes paid at earlier stages, which is then subtracted from the gross tax to calculate the net tax payment (Bartlett, 2009). The other method is the subtraction method, in which sellers subtract the entire balance of the cost of their inputs (including the value added

tax) from their sales, followed by calculating the VAT on the computed difference (Bartlett, 2009). Mathematically, the two methods are identical. While both methods will eventually lead to the same amount of tax, the credit invoice method creates a paper trail (Slemrod & Bakija, 2008, p. 234), making it more appealing to governments, while the subtraction method is much simpler (Bartlett, 2009).

The third major type of consumption tax is the Hall-Rabushka Flat Tax. Despite the name, it actually functions as a combination of a flat and consumption tax. Under the original proposal by Robert Hall and Alvin Rabushka of the Hoover Institution, a 19% tax would be assessed on all businesses, though wages, pension contributions, materials costs, and capital investments are deducted from the tax base (Gale, 1999, p. 155). Households would be assessed a 19% tax on any wages and pension benefits above a specified exemption, which is \$25,500 for a family of four persons (Gale, 1999, p.155). No other income would be taxed, and no other deductions would be allowed (Gale, 1999, p. 155).

While these proposals for a consumption tax may appear to be simple in theory, differences exist in compliance costs. According to recent studies, the total cost of the complying with and enforcing the current state retail taxes is estimated to be approximately four percent of revenues raised (Slemrod & Bakija, 2008, p. 244). This is much lower in comparison to the current income tax system, whose compliance costs are estimated to be ten percent of revenue

in 2012 (Slemrod & Bakija, 2008, p. 244). However, the current sales tax rates tend to be four to six percent, which is a fraction of the size of the consumption tax that is needed to replace the current income tax system; making comparisons between the compliance rates of the sales and consumption taxes is difficult (Slemrod & Bakija, 2008, p. 244).

The next potential major problem is that a consumption tax is triggered when a business acquires an input, as well as when they sell their outputs (Slemrod & Bakija, 2008, p. 245). As a result, consumer goods and other goods that involve several businesses in their production are taxed more heavily (Slemrod & Bakija, 2008, p. 245). This can lead businesses to be discouraged from producing goods whose production process cannot be vertically integrated in order to avoid the cascading (Slemrod & Bakija, 2008, p. 245).

Supporters for the VAT have claimed these problems can be addressed through this option. Mitchell (2010) contends compliance costs could be reduced, possibly by more than 90%. However, this would necessitate the elimination of states' personal income tax systems; if this does not occur, and it is unlikely it will, any potential simplification gains would be limited ("Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System," 2005). Furthermore, if intermediate firms are exempted from VAT liability, they are not required to remit taxes to the government on its sales, thus reducing the multiple layers of taxation under the consumption tax (Slemrod & Bakija, 2008, p. 247). The economic conventional wisdom among experts is that any compliance and

administrative cost savings from the exemption of firms that are below a moderate revenue level is outweighed by this approach's efficiency cost (Slemrod & Bakija, 2008, p. 248). According to Slemrod & Bakija (2008), these efficiency costs include the distortion of a company's decisions about organizational form and size. Critics have also claimed a high VAT is often associated with high economic volatility (Weller, 2007).

Unfortunately, the mechanics of the VAT can potentially cause other issues. For example, when the tax base under the VAT is calculated, the financial operations are considered to be outside of the calculations (Slemrod & Bakija, 2008, p. 248); therefore, interest income is not taxed, and interest payments are not deductible (Slemrod & Bakija, 2008, p. 248). As a result, problems may arise. For example, in an installment sale of a car, the dealer has an incentive to label some payments as interest, which would be untaxed, and there would be no effect on the customer (Slemrod & Bakija, 2008, p. 248).

While these issues are conceptual in nature, there are real-life examples of the VAT that can show how it works in practice. The VAT is used by the 27 countries that comprise the European Union ("Budget: How the rise in VAT will work," 2010). While this is helpful, since this means that the United States isn't heading into unknown territory if it ever decides to institute some form of a VAT, there are two major problems that have arisen where the system exists (Slemrod & Bakija, 2008, p. 248). The first, and probably most important, issue is the fact that it isn't always less expensive than an income tax system, contrary to the

assertions of others, such as those of Mitchell (2010); according to a study of the Swedish tax system, its VAT is actually more expensive to operate than its income tax (Slemrod & Bakija, 2008, p. 249). The VAT collection costs are 3.1% of revenue, whereas the income tax collection costs are 2.7% of revenue (Slemrod & Bakija, 2008, p. 249). The other major problem is evasion and enforcement. While the invoice-credit method does allow for a paper trail to help track compliance, there is still a noticeable level of evasion. Slemrod & Bakija (2008) provide several examples of evasion, including unregistered businesses, exaggerated refund claims, underreported sales, unrecorded cash purchases, and false export claims. Dubay (2010) claims in Europe, VAT avoidance is part of the culture, and in many cases, citizens who are doing so are not even aware that they are escaping taxation because their methods are part of their everyday lives. According to a 2009 study that was commissioned by the European Union, \$150 billion, or about 12 percent of total VAT revenues, are lost annually to fraud (Foster, 2010). Therefore, it's important to take caution when looking at an ideal, drawing-board version of a VAT and to recognize the problems of real-life applications (Slemrod & Bakija, 2008, p. 250).

While the Hall-Rabushka flat tax has a concept that is somewhat similar to the VAT, it also has unique challenges. Despite the fact that individuals have to fill out their own tax forms under the Hall-Rabushka flat tax, unlike the VAT, advocates of the Hall-Rabushka flat tax claim that administration and compliance would not be much more difficult than the VAT (Slemrod & Bakija, 2008, p. 250).

Thus, this flat tax also has the ability to potentially reduce costs (Slemrod & Bakija, 2008, p. 250). However, whether or not it is effective in practice as it is theory cannot be determined (Teller, 2011, p.150).

Nevertheless, one potential major benefit of a Hall-Rabushka flat tax is a personal return could in effect be done on a form the size of a postcard, since the items reported are the wages, salaries, and pension income (Slemrod & Bakija, 2008, p. 252). However, this is not the case for businesses, for which the reporting process cannot be easily simplified, though the process could experience some simplifications (Slemrod & Bakija, 2008, p. 252). Additionally, some of the enforcement features of VAT could not be used, since taxing labor compensation separately at the individual level requires the subtraction method, as opposed to the popular credit-invoice method of the VAT (Slemrod & Bakija, 2008, p. 252).

Slemrod & Bakija (2008) emphasize that it's important to recognize that any potential savings and simplification from the Hall-Rabushka flat tax also lead to plenty of important questions. If the system were implemented, there would be transition issues as the systems cannot be easily swapped; the rules that result from this could lead to even more complications than the current system (Slemrod & Bakija, 2008, p. 253). Furthermore, according to Slemrod & Bakija (2008) the amount of simplification that will result from the change will be limited by the extent that states will be willing to adapt their own systems. It's also necessary to note that some of the steps toward simplification aren't limited

to this flat tax; they can also be done under the current income tax structure (Slemrod & Bakija, 2008, p. 253). Nevertheless, despite all of these points, there are still positives that can result from it, though the effects may be smaller than its originators initially claimed (Slemrod & Bakija, 2008, p. 251).

Are there any economic benefits from a consumption tax? Some supporters of a consumption tax have made overly optimistic claims, such as that a change to a flat-rate consumption tax could double the United States' long-term rate of economic growth indefinitely (Slemrod & Bakija, 2008, p. 263). However, there is no evidence to prove this would be the case, and there are no economists of note who make such large claims (Slemrod & Bakija, 2008, p. 263). In reality, evidence of any effects from a change is uncertain, and the best evidence indicates that any economic benefits would be uncertain (Slemrod & Bakija, 2008, p. 263). In fact, it is likely that it would not permanently increase our rate of growth at all (Slemrod & Bakija, 2008, p. 263). Even if there is more saving as a result of a switch, any increase in growth would continue only for a while as people add to the economy's level of capital intensity (Slemrod & Bakija, 2008, p. 263); eventually, a higher level of saving will be necessary in order to just maintain this greater degree of capital intensity (Slemrod & Bakija, 2008, p. 263). Factors that are potentially able to bring about a persistent increase in the rate of growth, such as investment in research and development or human capital, will either be left untouched or will become relatively less attractive by a

flat tax, so they are unlikely to experience a noticeable increase (Slemrod & Bakija, 2008, p. 263).

While trying to determine the economic benefits of the Hall-Rabushka flat tax is very theoretical, there have been attempts to be more specific. Robert Hall and Alvin Rabushka (1995) claimed, "By 2002 [which would have been seven years after their hypothetical date of enactment], it would mean each American will have an income about \$1,900 higher, in 1995 dollars, as a consequence of tax reform" (p. 136). However, there is reason to assume that the resulting benefit would actually be more moderate (Slemrod & Bakija, 2008, p. 264).

METHODS

The following section explains how the calculations of tax bills of the various options at different income levels, as well as the survey of people's knowledge of income tax, were conducted. The methods used to collect the data for both parts are explained in detail. The results generated as a result of these methods are discussed in the following section.

Tax Calculations

While it's important to talk about economic benefits of each type of tax system, people are less likely to ask, "How are taxes going to affect the economy?" than "How much in taxes am I going to have to pay?" Thus, it is necessary to determine how much people will pay under each tax structure. Each type of structure included in this paper will be compared by the previously described three families of four: one at the poverty level, one at the average annual household income level, and one with an annual income of \$250,000. The calculations used for these amounts are presented in Appendix A.

The first one is the current income tax structure. This situation will assume each family will take the standard deduction, as opposed to itemizing their deductions. All income will be in the form of taxable wages. Each parent is under 65 years old, and the two children are under the age of 17. The software used to make the calculations is TurboTax's TaxCaster 2012: Free Tax Calculator. The second type is the flat tax. The flat tax for the purposes of this paper will have a rate of 18.2% and an exemption of \$22,800. As previously noted,

Slemrod & Bakija (2008) cite this as the flat tax rate that would raise the same revenue as the income tax in 2005.

The third type that will be examined is the consumption tax. The rate that will be used for the sake of comparison will be the value-added tax of the United Kingdom, which is 20% ("VAT for consumers", 2013). Calculating this amount is more complicated, since we simply can't apply the incomes of each family and create a result. Taking into account exemptions on spending money on food at home, according to data from the Bureau of Labor Statistics as cited by Goldstein & Vo (2012), the amount of money not used for food at home and savings is 87.2% for households with an income between \$15,000 and \$19,999, 82.7% for households with an income between \$50,000 and \$69,999, and 78.7% for households with an income above \$150,000. It is clear that spending levels as a percentage of income decrease as a household's income increases. When these percentages are roughly translated to the three families used, a general understanding of its effects on taxation can be determined.

Survey

In order to understand people's knowledge and opinions of the current income tax system, as well as other alternatives, a survey was developed. This survey (which is found in Appendix B) consisted of questions that test the person's knowledge of tax, question their opinions on various scenarios, and gather demographic information. The results were then used for analysis.

After the survey was developed and approved by Olivet's institutional review board, it was administered to both students and adults within the Kankakee community. A total of 190 students across several classes of Olivet Nazarene University, comprising a mixture of majors, completed the surveys over the course of about a week. With the approval of the instructor, the students took the survey before their classes began. Prior to completing the survey, the students read a letter of consent that explained the purpose of the survey and how their data would be used.

The survey itself consisted of 20 questions. The first section consisted of 14 questions that asked for the respondent's opinion on tax policy and their preferred income tax structure; three of the questions were fill-in-the-blank, while the other eleven were multiple choice. The second section consisted of six demographic questions that attempted to profile the student in terms of income level, major, college classification, marital status dependent children, and education level.

The original intention of this study was to compare the student results to that of adults within the local community. Dr. Don Daake, a professor of Olivet Nazarene University, regularly surveys local community members on economic issues. The survey was made available to this group via an online link.

Unfortunately, the response rate among the group was extremely low. As a result, only seven adults from the community group completed the survey. As such, while their data has been used in the context of this analysis, comparisons

between the college students and the community group were not made because of the lack of response.

RESULTS

Tax Calculations

This section of the paper takes a look at how much taxes each family would pay under different structures. The tax bills for the income tax, the flat tax, and the consumption tax will each be calculated for the family in poverty (\$22,350), the average income family (\$49,445), and the upper income family (\$250,000). These calculations can be found in Appendix A.

- Income Tax

The first family will not need to pay any taxes; their income of \$22,350 will be exempted as a result of the standard deduction for married filers (\$11,900) and the personal exemptions of \$15,200 (\$3,800 for each member of the family). As a result, of this, as well as the refundable child tax credit and earned income credit, the family will receive a refund of \$7,220 (refer to Appendix A for the calculations).

Under the current system, for the family that makes \$49,445, their tax liability will be very small. After the personal exemptions and standard deduction, the remaining taxable income would be \$22,345. Using the 2012 tax brackets, we can calculate their tax liability to be \$2,479. From this amount, the family is also allowed to take \$1,000 tax credits on each of their two children, their balance due will be \$479.

The family making \$250,000 will receive a much larger tax bill, due to the higher marginal rates; their highest marginal rate would be 33% on the last

\$71,350 of their income. The family would not qualify for any child tax credits, and their tax bill would actually be increased by \$986 as a result of a portion in the tax code called the Alternative Minimum Tax, which doesn't affect the other two families. The family would ultimately pay \$51,450 in income taxes for the year. A summary of the taxes paid by each family under the current tax system is shown in Figure 1.

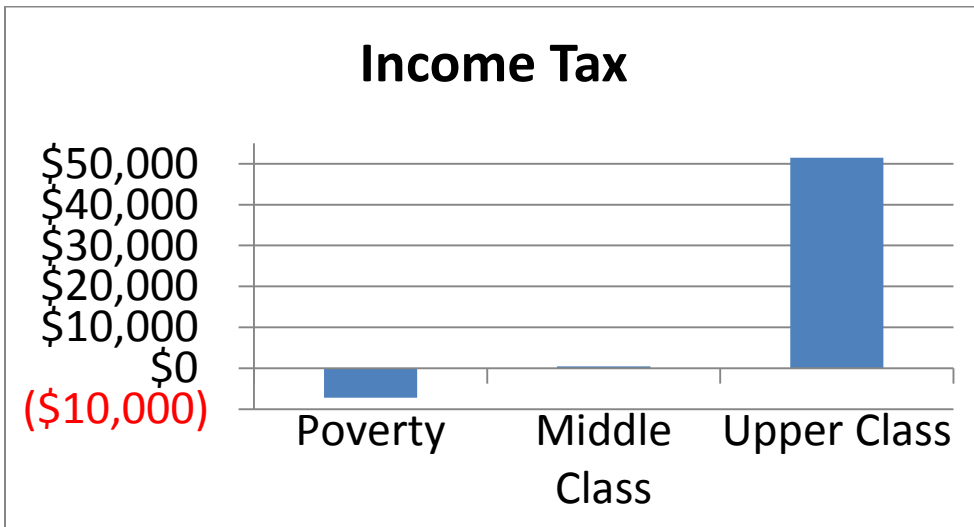


Figure 1: Tax Amounts under the current income tax system

- **Flat Tax**

The tax bills for the flat tax will be calculated by taking the income, subtracting the \$22,800 exemption from it, and multiplying the remaining amount by the 18.2% rate. If the income is less than \$22,800, the tax bill is zero, but they receive no refund. For the first family, since their income falls below the exemption level, they will not pay any federal income tax. This would actually be a tax increase for this family compared to the current system, as they would not receive any refund. The second family will also be required to pay an

amount that is significantly higher than what it would be under the current system; it is calculated to be \$4,849.39. For the family that makes \$250,000, their liability would actually be lower; the amount would be \$41,350.40, a difference of just over \$8,000.

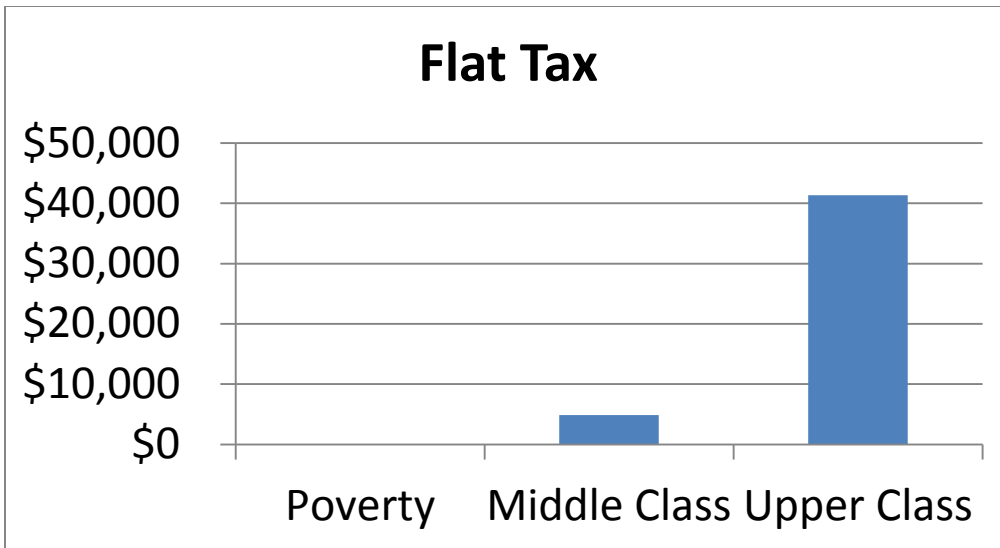


Figure 2: Tax Amounts under the Flat Tax

- **Consumption Tax**

For the consumption tax, the amount was calculated by multiplying the income by the estimated amount of money that is not used for food at home and savings, followed by multiplying this amount by the 20% tax rate. For the first household, the tax liability would be \$3,897.34. In comparison to the progressive income tax and flat tax, there is an enormous difference in the tax bill that undoubtedly needs to be recognized. For the second household, the amount of the tax liability would be \$8,178.20. Once again, this household would have to pay a lot more in taxes. For the third household, the tax bill would be \$39,350; this is the lowest tax amount for the wealthy household.

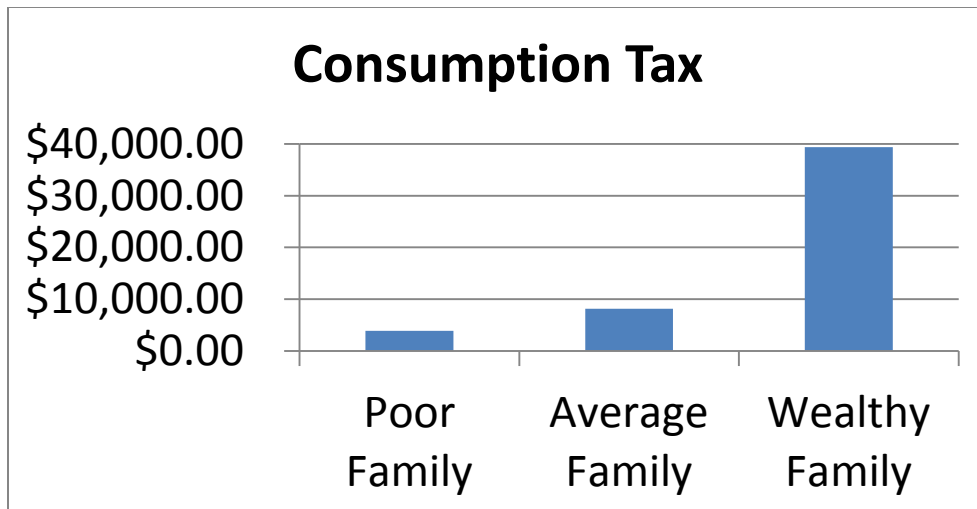


Figure 3: Tax Amounts under the Consumption Tax

Survey

In this part of the paper, the responses to the survey will be examined. This analysis will be done by looking at the number of responses, demographic information, descriptive statistics, and cross tabulations. The survey can be found in Appendix B. Frequency data is located in Appendix D, while cross tabulation is found in Appendix E. Additional descriptive statistic data can be found in Appendix C.

A total of 197 survey responses were received from the students and the community group. 190 of the respondents were students, while seven were from the community group. Of the 190 students, 72 were freshman, 23 were sophomores, 36 were juniors, and 59 were seniors. Regarding the income level of the respondents, 58 (29.4%) of respondents said "\$0-\$30,000," 23 (11.7%) said "\$30,000-\$60,000," 34 (17.3%) said "\$60,000-\$90,000," 33 (16.8%) said "\$90,000-\$120,000," and 39 (19.8%) said "\$120,000+."

Two other questions showed that the vast majority of the respondents are single and have no children. When asked about their marital status, 184 (93.4%) of respondents said they are single, 12 (6.1%) of the respondents said they are married, and one (0.5%) respondent said "divorced/married." Furthermore, when asked if they have any dependent children, 194 (98.5%) said "zero," while the answers "one," "three," and "four" received one response (.5%) each. Given the responses were from college students this is not surprising. However, if the community members had responded, this might have provided a larger variety of information.

The question "Please specify your highest education level." yielded results that may have not properly represented the respondents. 52 (26.4%) said "high school diploma," 120 (60.9%) said "some college," 12 (6.1%) said "associate's degree," 9 (4.6%) said "bachelor's degree," 2 said (1.0%) master's degree, and 2 (1.0%) said "doctorate or higher." The first four responses were all given by college students, and seem to indicate their response was based on how they personally viewed their highest education level.

One particular question that will receive more analysis in this paper is "If you were setting tax policy in the United States, what is your preferred tax system?" This question tries to examine people's preferences to the three potential options in the review of literature. Of the 163 responses to this question, 78 (47.9%) chose a consumption tax, 51 (31.3%) chose a flat tax, 28 (17.2%) chose the progressive tax, and 6 (3.0%) preferred a different option.

These numbers, indicate there is dissatisfaction with the current system, even though the alternate options resulted in more tax for the poor and middle income family.

Another question found a similar response. The question "Consider the following scenarios. Which of these do you believe is the fairest tax policy?" also attempted to determine people's preferred tax structure, though the answers were in the form of definitions, not terms. Of the 184 responses to this question, 42 (22.8%) chose the consumption tax, 32 (17.4%) selected the progressive tax, and 110 (59.8%) chose the flat tax. This question's response also suggests people aren't happy with today's progressive tax.

A different question that had an interesting response was "I believe income taxes should be increased on all Americans in order to reduce the federal deficit." Of the 163 responses, only 26 (15.95%) agreed or strongly agreed with the statement; the number of respondents who disagreed or strongly disagreed with the statement was 114 (69.93%). However, another question that was somewhat related to it had a noticeably different response. In regards to the statement "I believe income tax increases should be an important part of an overall attempt to reduce the federal deficit," 70 of 163 respondents (42.94%) agreed or strongly agreed with the statement, while 61 (37.42%) disagreed or strongly disagreed with it. It appears some of the respondents may have felt it is important to increase income taxes to try to combat the deficit, they weren't as willing to raise them on everyone to do it. This may have been out of concern for

people with lower incomes, or they may have decided they did not want pay more income taxes.

In order to understand how people's responses are connected to each other, cross tabulations were done. The main goal was to see how people responded to the question "If you were setting tax policy in the United States, what is your preferred tax system?" in relation to their responses to other questions. Does their student status make a difference in how they responded? Is there a relationship between annual household income and their preferred tax structure? Do their responses fall in line with a question which tried to determine their preferred tax system by using a scenario, rather than a term, or did they not understand the terms?

The most significant comparison was to the question "Consider the following scenarios. Which of these do you believe is the fairest tax policy?" As noted earlier, the goal was to determine if the respondents understood the meaning of their original choices for the question about their preferred tax structure. For the consumption tax, 17 out of the 75 people (22.67%) who responded consumption tax for the first question also gave the same answer for the second question. As for flat tax, the response was 23 out of 50 people (46%). For the progressive tax, the response was one out of 26 people (just 3.85%). This seems to indicate the respondents did not understand the meanings of the definitions and based their responses in a way that cannot be determined using the results.

The responses to the nine multiple choice opinion questions were also considered. The notable findings came from the statement "I believe that taxes should be raised on households that have annual incomes of \$250,000 or more." 50.3% of respondents disagreed or strongly disagreed with the statement, while 36.8% of respondents agreed or strongly agreed with it. However, out of the 60 who did agree with it, 19 of them (31.67%) said a consumption tax was their preferred tax system; for the flat tax and progressive tax, the numbers were 27 (45%) and 12 (20%) respectively. The contrast is very noticeable; it is possible the respondents thought "consumption tax" or "flat tax" were the most appealing based on their names and not their actual understanding of the terms, but they believed in raising taxes on higher-income households without understanding its specific terminology.

Opinions about income tax type were also compared to the question "What is your annual household income?" When examining this comparison, a regular person might make certain conclusions: someone with a low income level would believe in a progressive income tax because they do not want to be taxed at the same level as the wealthy, while those living in a household with a higher income level would support a consumption or income tax because of their belief in "fairness" in the tax code. However, the actual findings didn't completely match the assumptions.

For the higher income respondents, there were no major surprises. Of the 33 respondents who said their annual household income was at least \$120,000,

20 (60.61%) support a consumption tax, 5 (15.15%) support a flat tax, and 8 (24.24%) support a progressive tax. However, the results from the lower income respondents were much more surprising. Of the 50 respondents who said their annual household income is at the most \$30,000, 18 (36%) support a consumption tax, 19 (38%) support a flat tax, and 12 (24%) support a progressive tax. These findings could be considered very unusual; in essence, the lower income respondents tended to be in opposition to an option that would be the most beneficial to them financially. While the findings did have some limitations (based on notes on some of the paper surveys, it appears the student respondents weren't sure if the question was asking about their personal or family income), they do lead to some interesting questions as to whether or not people understand how different tax structures may potentially affect their bottom line. On the other hand, it could simply be a case of not completely understanding the different tax structures.

DISCUSSION

Now that the results are generated, it's important to discuss the findings. This section discusses findings that stick out as particularly notable. Moreover, limitations of the study are addressed, and suggestions for future research are also presented.

After looking at the data created within the paper, some of the results are not very surprising. For example, the survey found that college students who were surveyed tend to not to know much about taxes. This isn't a shock, since students are probably used to having their parents go to a CPA or tax firm and simply complete their forms with information the parents have gathered. Of course, the problem is that the participants in the survey tended to be business students, so hopefully this doesn't indicate college students in general fare even worse than those with business majors.

There were a couple other results from the survey that caught my attention. The first is that people tend to believe all households should pay some form of income tax. 80.7% of respondents either agreed or strongly agreed that all households should pay some form of income tax. The other was that there was no clear belief in whether taxes should be increased to reduce the deficit. There were also interesting responses when people were asked if they believe income taxes should be increased on all Americans in order to reduce the federal deficit. 15.95% agreed or strongly agreed, while 69.93% disagreed or strongly disagreed. However, another question that was somewhat related to it had a

noticeably different response. When asked if they believe income tax increases should be an important part of an overall attempt to reduce the federal deficit, 42.94% agreed or strongly agreed, while 37.42% disagreed or strongly disagreed.

Unfortunately, the studies had some limitations. For example, there wasn't enough variety in my sample. Besides one class, the respondents tended to be business major students. Thus, there wasn't a large variety in the majors. Also, originally I had wanted to survey more adults and compare their responses to those of the students, but I was unable to do so because of a lack of responses. I assumed respondents would take the standard deduction, rather than itemizing deductions. In reality, it is much more likely that the middle class and wealthy families would itemize their deductions.

There are some things someone who may want to explore a similar case may do in the future. The variety in the sample could be strengthened. There could be greater variety of majors who are sampled in the survey to determine how much students of different areas of study know about taxes. Furthermore, students from different schools could be compared to determine if the university's teachings could affect the results. More adults could be surveyed in order to create a proper comparison between the two groups. For the tax calculations, someone could look at how families itemize the deductions and try to create calculations based on those numbers, since assuming that middle class

and wealthy families will take the standard deduction doesn't reflect the real world.

While this study showed the effects of different types of income tax structures on the tax rates of families, it does not determine which one is "fair" for all taxpayers. Such an issue is one that cannot be easily answered, and is the reason why today's political climate has seen the appearance of proposals ranging from a measure supported by President Barack Obama to have the wealthy pay their "fair share" ("The Buffet Rule"), all the way to Herman Cain's 9-9-9 tax plan that combined flat income and sales taxes (Clancy, 2011). It will require people with different desires being able to reach compromises on what is "fair" versus what is necessary to help the economy grow.

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APPENDIX A

(Note: all calculations assume parents are under the age of 65 and there are two dependents, both of whom are children under the age of 65.)			
Current Income Tax Structure:			
Family at Poverty Level (\$22,350):		Family at Average Income (\$49,445):	
Total Income:	\$22,350	Total Income:	\$49,445
(Minus) Total Deductions:	(\$11,900)	(Minus) Total Deductions:	(\$11,900)
(Minus) Total Exemptions:	(\$15,200)	(Minus) Total Exemptions:	(\$15,200)
Taxable Income:	\$0	Taxable Income:	\$22,345
Taxes:	\$0	Taxes:	\$2,479
(Plus) AMT Tax:	\$0	(Plus) AMT Tax:	\$0
(Minus) Credits:	(\$7,220)	(Minus) Credits:	(\$2,000)
Refund:	(\$7,220)	Refund:	\$479
Wealthy Family (\$250,000):			
Total Income:	\$250,000		
(Minus) Total Deductions:	(\$11,900)		
(Minus) Total Exemptions:	(\$15,200)		
Taxable Income:	\$222,900		
Taxes:	\$50,464		
(Plus) AMT Tax:	\$986		
(Minus) Credits:	\$0		
Refund:	\$51,450		
Flat Tax:			
Family at Poverty Level (\$22,350):		Family at Average Income (\$49,445):	
Income Before Exemption (\$28,000):	\$0	Income Before Exemption (\$22,800):	\$ 26,645.00
Tax After Exemption (18.2%):	\$0	Tax After Exemption (18.2%):	\$ 4,849.39
Wealthy Family (\$250,000):			
Income Before Exemption (\$22,800):	\$ 227,200.00		
Tax After Exemption (18.2%):	\$ 41,350.40		
Consumption Tax:			
Family at Poverty Level (\$22,350):		Family at Average Income (\$49,445):	
Estimated Percentage of Income Spent:	87.20%	Estimated Percentage of Income Spent:	82.70%
Tax Rate:	20%	Tax Rate:	20%
Taxes:	\$ 3,897.84	Taxes:	\$ 8,178.20
Wealthy Family (\$250,000):			
Estimated Percentage of Income Spent:	78.70%		
Tax Rate:	20%		
Taxes:	\$ 39,350		

APPENDIX B

Instructions: Please complete the following questions. If you choose not to complete this survey, you may return it at any time, and the results will be discarded. Please do not provide your name; your responses will remain confidential.

1. On your most recent federal income tax return, what was the highest marginal tax rate applicable to your income?

2. What is the highest marginal federal income tax rate applicable to income of individuals in the United States?

3. I believe the highest income tax in the U.S. should be...

4. If you were setting tax policy in the United States, what is your preferred tax system?
 - a. Flat tax
 - b. Progressive Tax
 - c. Consumption Tax
 - d. Other _____

For the following statements, please circle the response that best represents your opinion.

5. I believe that taxes should be raised on households that have annual incomes of \$250,000 or more.
Strongly Disagree Disagree No Opinion Agree Strongly Agree
6. I believe that all households should pay some form of income tax.
Strongly Disagree Disagree No Opinion Agree Strongly Agree
7. I believe that rich Americans are becoming richer, and poor Americans are becoming poorer.
Strongly Disagree Disagree No Opinion Agree Strongly Agree
8. I believe that decreases in the average income of middle class households are the result of tax policy.

Strongly Disagree Disagree No Opinion Agree Strongly Agree

9. I believe capital gains should be taxed at the same rate as regular income.

Strongly Disagree Disagree No Opinion Agree Strongly Agree

10. I believe dividends should be taxed at the same rate as regular income.

Strongly Disagree Disagree No Opinion Agree Strongly Agree

11. I believe the income tax structure is designed to favor the wealthy.

Strongly Disagree Disagree No Opinion Agree Strongly Agree

12. I believe income tax increases should be an important part of an overall attempt to reduce the federal deficit.

Strongly Disagree Disagree No Opinion Agree Strongly Agree

13. I believe income taxes should be increased on all Americans in order to reduce the federal deficit.

Strongly Disagree Disagree No Opinion Agree Strongly Agree

14. Consider the following scenarios. Which of these do you believe is the fairest tax policy?

- a. An individual who spends \$30,000 in a year will pay a tax of \$1,875 on the purchase of the goods and services, while an individual who spends \$100,000 in a year will pay a tax of \$6,250.
- b. An individual with an income of \$30,000 pays \$3,000, while an individual with an income of \$100,000 pays \$20,000.
- c. An individual with an income of \$30,000 pays \$3,000, while an individual with an income of \$100,000 pays \$10,000.

Demographic Questions:

1. If you are a college student, what is your classification (If you are not a college student, answer N/A).
 - a. Freshman
 - b. Sophomore
 - c. Junior
 - d. Senior
 - e. N/A
2. What is your major (If you are not a college student, write N/A)?

3. What is your annual household income?
 - a. \$0-\$30,000
 - b. \$30,000-\$60,000
 - c. \$60,000-\$90,000
 - d. \$90,000-\$120,000
 - e. \$120,000+
4. What is your marital status?
 - a. Single
 - b. Married
 - c. Divorced/Widowed
5. How many dependent children do you have?
 - a. Zero
 - b. One
 - c. Two
 - d. Three
 - e. Four
 - f. Five or more
6. Please specify your highest education level.
 - a. Some High School
 - b. High School Diploma
 - c. Some college
 - d. Associate's Degree
 - e. Bachelor's Degree
 - f. Master's Degree
 - g. Doctorate or Higher

APPENDIX C

Taxes on Households with Annual Incomes of \$250,000 or more	Mean		2.39	.211
	95% Confidence Interval for Mean	Lower Bound	1.96	
		Upper Bound	2.82	
	5% Trimmed Mean		2.34	
	Median		2.00	
	Variance		1.378	
	Std. Deviation		1.174	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		.620	.421
	Kurtosis		-.743	.821
	All Households Paying Income Tax	Mean		4.32
95% Confidence Interval for Mean		Lower Bound	4.02	
		Upper Bound	4.63	
5% Trimmed Mean		4.41		
Median		4.00		
Variance		.692		
Std. Deviation		.832		
Minimum		2		
Maximum		5		
Range		3		
Interquartile Range		1		
Skewness		-1.431	.421	
Kurtosis		2.157	.821	
Rich are Becoming Richer and Poor are Becoming Poorer		Mean		2.74
	95% Confidence Interval for Mean	Lower Bound	2.24	
		Upper Bound	3.24	
	5% Trimmed Mean		2.71	
	Median		2.00	
	Variance		1.865	
	Std. Deviation		1.365	
	Minimum		1	
	Maximum		5	

	Range		4	
	Interquartile Range		2	
	Skewness		.502	.421
	Kurtosis		-1.070	.821
Decreases in Average Income and Tax Policy	Mean		2.94	.196
	95% Confidence Interval for Mean	Lower Bound	2.53	
		Upper Bound	3.34	
	5% Trimmed Mean		2.95	
	Median		3.00	
	Variance		1.196	
	Std. Deviation		1.093	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		-.029	.421
	Kurtosis		-1.308	.821
	Tax Rate of Capital Gains	Mean		2.87
95% Confidence Interval for Mean		Lower Bound	2.45	
		Upper Bound	3.29	
5% Trimmed Mean			2.86	
Median			3.00	
Variance			1.316	
Std. Deviation			1.147	
Minimum			1	
Maximum			5	
Range			4	
Interquartile Range			2	
Skewness			.126	.421
Kurtosis			-1.002	.821
Tax Rate of Dividends		Mean		2.68
	95% Confidence Interval for Mean	Lower Bound	2.26	
		Upper Bound	3.09	
	5% Trimmed Mean		2.64	
	Median		2.00	
	Variance		1.292	
	Std. Deviation		1.137	

	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		.402	.421
	Kurtosis		-.623	.821
Income Tax Structure Favors the Wealthy	Mean		2.32	.188
	95% Confidence Interval for Mean	Lower Bound	1.94	
		Upper Bound	2.71	
	5% Trimmed Mean		2.30	
	Median		2.00	
	Variance		1.092	
	Std. Deviation		1.045	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		1	
	Skewness		.413	.421
	Kurtosis		-.933	.821
	Raising Income Taxes is an Important Part of Reducing the Deficit	Mean		2.84
95% Confidence Interval for Mean		Lower Bound	2.44	
		Upper Bound	3.24	
5% Trimmed Mean			2.84	
Median			3.00	
Variance			1.206	
Std. Deviation			1.098	
Minimum			1	
Maximum			5	
Range			4	
Interquartile Range			2	
Skewness			.017	.421
Kurtosis			-1.094	.821
Increase Income Taxes to Reduce the Deficit		Mean		2.35
	95% Confidence Interval for Mean	Lower Bound	1.99	
		Upper Bound	2.72	
	5% Trimmed Mean		2.34	
Median		2.00		

	Variance		.970	
	Std. Deviation		.985	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		1	
	Skewness		.546	.421
	Kurtosis		-.652	.821
Fairest Tax Policy	Mean		2.39	.152
	95% Confidence Interval for Mean	Lower Bound	2.08	
		Upper Bound	2.70	
	5% Trimmed Mean		2.43	
	Median		3.00	
	Variance		.712	
	Std. Deviation		.844	
	Minimum		1	
	Maximum		3	
	Range		2	
	Interquartile Range		1	
	Skewness		-.866	.421
	Kurtosis		-1.018	.821

Appendix D

Preferred Tax System					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Consumption Tax	78	39.6	47.9	47.9
	Flat Tax	51	25.9	31.3	79.1
	Progressive Tax	28	14.2	17.2	96.3
	Other	6	3.0	3.7	100.0
	Total	163	82.7	100.0	
Missing	System	34	17.3		
Total		197	100.0		
High Marginal Rate					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	6	3.0	14.6	14.6
	2.00	1	.5	2.4	17.1
	8.00	2	1.0	4.9	22.0
	10.00	6	3.0	14.6	36.6
	11.00	1	.5	2.4	39.0
	15.00	8	4.1	19.5	58.5
	20.00	3	1.5	7.3	65.9
	24.00	1	.5	2.4	68.3
	25.00	6	3.0	14.6	82.9
	28.00	2	1.0	4.9	87.8
	30.00	1	.5	2.4	90.2
	35.00	2	1.0	4.9	95.1
	38.00	1	.5	2.4	97.6
	10000.00	1	.5	2.4	100.0
	Total	41	20.8	100.0	
Missing	System	156	79.2		
Total		197	100.0		
Taxes on Households with Annual Incomes of \$250,000 or more					

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	27	13.7	13.8	13.8
	Disagree	69	35.0	35.4	49.2
	No Opinion	30	15.2	15.4	64.6
	Agree	60	30.5	30.8	95.4
	Strongly Agree	9	4.6	4.6	100.0
	Total	195	99.0	100.0	
Missing	System	2	1.0		
Total		197	100.0		

All Households Paying Income Tax

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	1.0	1.0	1.0
	Disagree	20	10.2	10.2	11.2
	No Opinion	15	7.6	7.7	18.9
	Agree	108	54.8	55.1	74.0
	Strongly Agree	51	25.9	26.0	100.0
	Total	196	99.5	100.0	
Missing	System	1	.5		
Total		197	100.0		

Rich are Becoming Richer and Poor are Becoming Poorer

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	14	7.1	7.2	7.2
	Disagree	42	21.3	21.6	28.9
	No Opinion	38	19.3	19.6	48.5
	Agree	70	35.5	36.1	84.5
	Strongly Agree	30	15.2	15.5	100.0
	Total	194	98.5	100.0	
Missing	System	3	1.5		
Total		197	100.0		

Decreases in Average Income and Tax Policy					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	2.0	2.1	2.1
	Disagree	50	25.4	25.6	27.7
	No Opinion	68	34.5	34.9	62.6
	Agree	63	32.0	32.3	94.9
	Strongly Agree	10	5.1	5.1	100.0
	Total	195	99.0	100.0	
Missing	System	2	1.0		
Total		197	100.0		
Tax Rate of Capital Gains					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	4.1	4.1	4.1
	Disagree	35	17.8	17.9	22.1
	No Opinion	78	39.6	40.0	62.1
	Agree	68	34.5	34.9	96.9
	Strongly Agree	6	3.0	3.1	100.0
	Total	195	99.0	100.0	
Missing	System	2	1.0		
Total		197	100.0		
Tax Rate of Dividends					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	4.6	4.6	4.6
	Disagree	47	23.9	24.1	28.7
	No Opinion	79	40.1	40.5	69.2
	Agree	53	26.9	27.2	96.4
	Strongly Agree	7	3.6	3.6	100.0
	Total	195	99.0	100.0	
Missing	System	2	1.0		

Total		197	100.0		
Income Tax Structure Favors the Wealthy					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	22	11.2	11.3	11.3
	Disagree	69	35.0	35.4	46.7
	No Opinion	39	19.8	20.0	66.7
	Agree	52	26.4	26.7	93.3
	Strongly Agree	13	6.6	6.7	100.0
	Total	195	99.0	100.0	
Missing	System	2	1.0		
Total		197	100.0		
Raising Income Taxes is an Important Part of Reducing the Deficit					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	23	11.7	11.8	11.8
	Disagree	51	25.9	26.2	37.9
	No Opinion	44	22.3	22.6	60.5
	Agree	70	35.5	35.9	96.4
	Strongly Agree	7	3.6	3.6	100.0
	Total	195	99.0	100.0	
Missing	System	2	1.0		
Total		197	100.0		
Increase Income Taxes to Reduce the Deficit					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	33	16.8	16.9	16.9
	Disagree	97	49.2	49.7	66.7
	No Opinion	33	16.8	16.9	83.6
	Agree	28	14.2	14.4	97.9
	Strongly Agree	4	2.0	2.1	100.0

	Total	195	99.0	100.0	
Missing	System	2	1.0		
Total		197	100.0		
Fairest Tax Policy					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Consumption Tax	42	21.3	22.8	22.8
	Progressive Income Tax	32	16.2	17.4	40.2
	Flat Income Tax	110	55.8	59.8	100.0
	Total	184	93.4	100.0	
Missing	System	13	6.6		
Total		197	100.0		
College Student Year					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Freshman	72	36.5	37.9	37.9
	Sophomore	23	11.7	12.1	50.0
	Junior	36	18.3	18.9	68.9
	Senior	59	29.9	31.1	100.0
	Total	190	96.4	100.0	
Missing	System	7	3.6		
Total		197	100.0		
College Major					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		9	4.6	4.6	4.6
	?	1	.5	.5	5.1
	AACS	1	.5	.5	5.6
	Accounting	23	11.7	11.7	17.3
	Accounting/Economics	1	.5	.5	17.8

Accounting/Finance	3	1.5	1.5	19.3
Accounting/Marketing	1	.5	.5	19.8
Actuarial Science	3	1.5	1.5	21.3
Actuarial Science/Math	1	.5	.5	21.8
Art	2	1.0	1.0	22.8
Art/Photography	1	.5	.5	23.4
B.A.	1	.5	.5	23.9
Biology	1	.5	.5	24.4
Biostat?	1	.5	.5	24.9
Business	8	4.1	4.1	28.9
Business Administration	23	11.7	11.7	40.6
Business Administration/Business Information Systems	1	.5	.5	41.1
Business Administration/Information Systems	1	.5	.5	41.6
Business Administration/Marketing	3	1.5	1.5	43.1
Business Administration/Sports Management	1	.5	.5	43.7
Business Management	3	1.5	1.5	45.2
Business Management/Intercultural Studies	1	.5	.5	45.7
Business/Marketing	3	1.5	1.5	47.2
Business/Photography	1	.5	.5	47.7
Communication Studies	1	.5	.5	48.2
Communications/Spanish	1	.5	.5	48.7

Corporate Communications	1	.5	.5	49.2
Dietetics	4	2.0	2.0	51.3
Economics/Finance	3	1.5	1.5	52.8
Elementary Education	3	1.5	1.5	54.3
Elementary Education/Business	1	.5	.5	54.8
Engineering	1	.5	.5	55.3
English Education	2	1.0	1.0	56.3
English/Dietetics	1	.5	.5	56.9
Exercise Science	2	1.0	1.0	57.9
Fashion Merchandise	2	1.0	1.0	58.9
Fashion Merchandising	2	1.0	1.0	59.9
Fashion Merchandising/Business	1	.5	.5	60.4
Graphic Design	2	1.0	1.0	61.4
History	1	.5	.5	61.9
History/Social Science Education	1	.5	.5	62.4
Housing and Environmental Design	1	.5	.5	62.9
Information Systems	1	.5	.5	63.5
Intercultural Studies	1	.5	.5	64.0
International Business	1	.5	.5	64.5
International Business	6	3.0	3.0	67.5
International Business/Finance	1	.5	.5	68.0
International Business/Spanish	1	.5	.5	68.5
International Marketing	1	.5	.5	69.0

	International Relations	1	.5	.5	69.5
	Marketing	23	11.7	11.7	81.2
	Marketing and Administration	1	.5	.5	81.7
	Marketing Management	1	.5	.5	82.2
	Marketing/Mass Communication	1	.5	.5	82.7
	Math/Actuarial Science	1	.5	.5	83.2
	Music Education/Vocal Performance	1	.5	.5	83.8
	Music/Business	1	.5	.5	84.3
	Non Profit/Spanish	1	.5	.5	84.8
	Political Science	3	1.5	1.5	86.3
	Political Science/History	1	.5	.5	86.8
	Pre-Med	1	.5	.5	87.3
	Psychology	3	1.5	1.5	88.8
	Psychology/Social Work	1	.5	.5	89.3
	Public Policy/History	1	.5	.5	89.8
	Public Relations	1	.5	.5	90.4
	Social Science Education	1	.5	.5	90.9
	Social Work	3	1.5	1.5	92.4
	Sport Management	5	2.5	2.5	94.9
	Sports Management	5	2.5	2.5	97.5
	Sports Managment	1	.5	.5	98.0
	Undecided	2	1.0	1.0	99.0
	Undeclared	2	1.0	1.0	100.0
	Total	197	100.0	100.0	
Annual Household Income					

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	\$0-\$30,000	58	29.4	31.0	31.0
	\$30,000-\$60,000	23	11.7	12.3	43.3
	\$60,000-\$90,000	34	17.3	18.2	61.5
	\$90,000-\$120,000	33	16.8	17.6	79.1
	\$120,000	39	19.8	20.9	100.0
	Total	187	94.9	100.0	
Missing	System	10	5.1		
Total		197	100.0		
Marital Status					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	184	93.4	93.4	93.4
	Married	12	6.1	6.1	99.5
	Divorced/Widowed	1	.5	.5	100.0
	Total	197	100.0	100.0	
Number of Dependent Children					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Zero	194	98.5	98.5	98.5
	One	1	.5	.5	99.0
	Three	1	.5	.5	99.5
	Four	1	.5	.5	100.0
	Total	197	100.0	100.0	
Highest Education Level					
		Frequency	Percent	Valid Percent	Cumulative Percent

Valid	High School Diploma	52	26.4	26.4	26.4
	Some College	120	60.9	60.9	87.3
	Associate's Degree	12	6.1	6.1	93.4
	Bachelor's Degree	9	4.6	4.6	98.0
	Master's Degree	2	1.0	1.0	99.0
	Doctorate or Higher	2	1.0	1.0	100.0
	Total	197	100.0	100.0	

Appendix E

Preferred Tax System * Taxes on Households with Annual Incomes of \$250,000 or more Crosstabulation							
Count							
		Taxes on Households with Annual Incomes of \$250,000 or more					Total
		Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree	
Preferred Tax System	Consumption Tax	18	31	10	15	4	78
	Flat Tax	4	15	5	26	1	51
	Progressive Tax	3	10	3	9	3	28
	Other	0	1	3	1	1	6
Total		25	57	21	51	9	163
Preferred Tax System * All Households Paying Income Tax Crosstabulation							
Count							
		All Households Paying Income Tax					Total
		Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree	
Preferred Tax System	Consumption Tax	1	9	2	35	31	78
	Flat Tax	0	4	6	30	11	51
	Progressive Tax	1	3	2	17	5	28
	Other	0	4	1	1	0	6
Total		2	20	11	83	47	163
Preferred Tax System * Rich are Becoming Richer and Poor are Becoming Poorer Crosstabulation							
Count							
		Rich are Becoming Richer and Poor are Becoming Poorer					Total
		Strongly	Disa	No	Agre	Stro	

		Disagree	Agree	Opinion	Disagree	Strongly Agree			
Preferred Tax System	Consumption Tax	9	21	18	18	12	78		
	Flat Tax	2	8	7	25	8	50		
	Progressive Tax	3	3	3	12	7	28		
	Other	0	0	3	3	0	6		
Total		14	32	31	58	27	162		
Preferred Tax System * Decreases in Average Income and Tax Policy Crosstabulation									
Count									
		Decreases in Average Income and Tax Policy					Total		
		Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree			
Preferred Tax System	Consumption Tax	1	22	19	31	5	78		
	Flat Tax	1	15	20	13	2	51		
	Progressive Tax	2	5	10	8	3	28		
	Other	0	2	3	1	0	6		
Total		4	44	52	53	10	163		
Preferred Tax System * Tax Rate of Capital Gains Crosstabulation									
Count									
		Tax Rate of Capital Gains					Total		
		Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree			
Preferred Tax System	Consumption Tax	6	9	26	33	4	78		
	Flat Tax	0	17	15	19	0	51		
	Progressive Tax	2	8	10	8	0	28		
	Other	0	0	3	1	2	6		

Total		8	34	54	61	6	163	
Preferred Tax System * Tax Rate of Dividends Crosstabulation								
Count								
		Tax Rate of Dividends					Total	
		Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree		
Preferred Tax System	Consumption Tax	6	17	28	24	3	78	
	Flat Tax	1	16	18	15	1	51	
	Progressive Tax	2	9	10	6	1	28	
	Other	0	0	4	0	2	6	
Total		9	42	60	45	7	163	
Preferred Tax System * Income Tax Structure Favors the Wealthy Crosstabulation								
Count								
		Income Tax Structure Favors the Wealthy					Total	
		Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree		
Preferred Tax System	Consumption Tax	15	29	11	18	5	78	
	Flat Tax	2	17	10	18	4	51	
	Progressive Tax	4	10	5	6	3	28	
	Other	0	2	2	2	0	6	
Total		21	58	28	44	12	163	
Preferred Tax System * Raising Income Taxes is an Important Part of Reducing the Deficit Crosstabulation								
Count								
		Raising Income Taxes is an Important Part of Reducing the Deficit					Total	
		Strongly Disagree	Disagree	No Opinion	Agree	Strongly		

						Agree			
Preferred Tax System	Consumption Tax	15	22	12	26	3	78		
	Flat Tax	1	11	9	28	2	51		
	Progressive Tax	3	7	7	9	2	28		
	Other	1	1	4	0	0	6		
Total		20	41	32	63	7	163		
Preferred Tax System * Increase Income Taxes to Reduce the Deficit Crosstabulation									
Count									
		Increase Income Taxes to Reduce the Deficit					Total		
		Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree			
Preferred Tax System	Consumption Tax	19	37	8	13	1	78		
	Flat Tax	4	30	10	6	1	51		
	Progressive Tax	4	16	4	4	0	28		
	Other	2	2	1	0	1	6		
Total		29	85	23	23	3	163		
Preferred Tax System * Fairest Tax Policy Crosstabulation									
Count									
		Fairest Tax Policy			Total				
		Consumption Tax	Progressive Income Tax	Flat Income Tax					
Preferred Tax System	Consumption Tax	17	6	52	75				
	Flat Tax	7	20	23	50				
	Progressive	10	1	15	26				

	ve Tax								
	Other	2	3	1	6				
Total		36	30	91	157				
Preferred Tax System * College Student Year Crosstabulation									
Count									
		College Student Year				Total			
		Freshman	Sophomore	Junior	Senior				
Preferred Tax System	Consumption Tax	26	10	14	24	74			
	Flat Tax	24	5	9	13	51			
	Progressive Tax	8	3	6	10	27			
	Other	0	0	2	2	4			
Total		58	18	31	49	156			
Preferred Tax System * Annual Household Income Crosstabulation									
Count									
		Annual Household Income					Total		
		\$0-\$30,000	\$30,000-\$60,000	\$60,000-\$90,000	\$90,000-\$120,000	\$120,000			
Preferred Tax System	Consumption Tax	18	7	15	14	20	74		
	Flat Tax	19	5	8	12	5	49		
	Progressive Tax	12	2	5	1	8	28		
	Other	1	1	1	2	0	5		
Total		50	15	29	29	33	156		
Preferred Tax System * Marital Status Crosstabulation									
Count									
		Marital Status			Total				
		Single	Married	Divorced /Widow					

				ed				
Preferred Tax System	Consumption Tax	72	5	1	78			
	Flat Tax	49	2	0	51			
	Progressive Tax	27	1	0	28			
	Other	4	2	0	6			
Total		152	10	1	163			
Preferred Tax System * Number of Dependent Children Crosstabulation								
Count								
		Number of Dependent Children				Total		
		Zero	One	Three	Four			
Preferred Tax System	Consumption Tax	76	1	1	0	78		
	Flat Tax	51	0	0	0	51		
	Progressive Tax	28	0	0	0	28		
	Other	5	0	0	1	6		
Total		160	1	1	1	163		
Preferred Tax System * Highest Education Level Crosstabulation								
Count								
		Highest Education Level						Total
		High School Diploma	Some College	Associate's Degree	Bachelor's Degree	Master's Degree	Doctorate or Higher	
Preferred Tax System	Consumption Tax	19	45	6	6	1	1	78
	Flat Tax	17	32	2	0	0	0	51
	Progressive Tax	6	18	0	3	0	1	28
	Other	0	4	1	0	1	0	6
Total		42	99	9	9	2	2	163