

Income Tax No Solution To High Property Tax

by Arim Jocz

IN THE last installment of this series, we explored the many problems associated with the property tax. Any solution offered should be measured against the challenge of solving as many of these problems as possible.

It is appropriate to define taxation as "the act of raising public money by shaping the economic incentives so the private sector can make a profit." This definition implies there are several solutions, of which one is the best, and it also implies a degree of creativity to taxation. In addition to the profunctory act of raising money, taxation can be thought as a vehicle to accomplish desirable community objectives.

That group in our community which will ultimately be shouldering a bigger tax burden must recognize the damage being done by the present system. They can't argue against any change "because it will hurt me" since the perpetuation of a problem or favoring a special group is not justifiable.

Mutual understanding is important if the community is to avoid being polarized between the "haves" and "have nots." History is full of examples in which the pendulum of social injustice has swung from one extreme position of unbalance to the opposite without even a brief pause at the equilibrium point.

REPLACE WITH INCOME TAX

The most popular solution is to replace the property tax with some form of income tax. Its

popularity is based upon the ability to pay—provided that scandalous loopholes are plugged. Loopholes, it is said, allowed some 50 millionaires in 1970 to escape paying any federal income tax.

To investigate its impact, we obtained a copy of the income distribution in Beloit (number of people whose income falls within each range) for all those filing a Wisconsin Income tax, for the residential and industrial sectors. The distribution is quite revealing—50% of the people earn \$4,500/yr. or less, 75% earn \$6,500 or less, 90% earn \$10,000 or less, 99% earn \$20,000 or less, and only 32 earn over \$50,000. These figures become even more significant by observing that 22,300 people, in a city of 36,000 filed a return. This means the "good life" requires a lot of wives and/or children to pitch in and pull on the economic oar. While these figures don't give insight into the average income of the breadwinner, they are nevertheless valid for calculating taxes.

ALMOST 8 PERCENT TAX WOULD BE REQUIRED

To raise the same revenue as the property tax, a 7.8% rate would have to be applied to taxable income. The chart on this page lists gross income for easy reference, even though the taxes are calculated on the basis of taxable income (gross income—deductions—itemizations). It is recognized that these figures will vary for any particular individual within an

income category; however these values will give a good feel for the effects of this taxing policy. The impact on the community is best realized by representative comparisons.

If we assume that the income of the "average" principle breadwinner is around \$8,000 and he lives in the "average" home assessed at \$16,000, we observe that his taxes will become \$624 (income tax) as compared to \$520 (property tax). This may be even

GROSS INCOME	INCOME TAX
\$ 1,000	\$ 78
2,000	156
3,000	234
4,000	312
5,000	390
6,000	468
7,000	546
8,000	624
9,000	701
10,000	780
11,000	859
12,000	936
13,000	1,010
14,000	1,090
15,000	1,170
16,000	1,250
17,000	1,326
18,000	1,405
19,000	1,482
20,000	1,560
25,000	1,950
30,000	2,340
50,000	3,900

higher since he is more than likely to have a wife with a part time job.

At one end of the spectrum, the most expensive house in Beloit is assessed at \$148,000 and contributes \$4,700 in property

taxes. The owner is presumed to be one of the eight people in town earning over \$100,000/yr. The average income tax for that bracket would be around \$24,300. There is no question that this is in proportion to the ability to pay. However, the question becomes "Will he remain in this taxing district to pay it?" This \$20,000 increase will encourage, if not actually force, him to consider abandoning his home and writing the loss off within 5 years by the reduced taxes at a new location.

At the other end of the income scale are those with fixed incomes, typically around \$3,000-\$4,000/yr. If we assume that they may be living in average homes, then it appears that their

taxes would be significantly reduced. This has redeeming social significance but it appears to be obtained at considerable expense to the rest of the community.

INCOME TAX BURDENS RESIDENTIAL SECTOR

Why are these tax levies contrary to popular expectations? The answer is as simple as it is unknown. While the income tax is fair for all those in the residential, mercantile, industrial, or agriculture sectors, the residential sector assumes a much greater portion of the total economic burden. This is intuitively obvious when one observes that industry and business are allowed to deduct the cost of doing business while the resident has only limited deductions. This same conclusion is factually obvious after examining the results of a trial calculation. Industries in Beloit, which are

now paying \$1,017,000 in property tax, would pay \$571,000 in income tax. Their gain is at the expense of the residential sector.

The question now becomes "Is this shift good and will economic growth be encouraged?" Our definition of taxation given earlier illustrated how business decisions are guided by taxing policies. They show where profits can be made and not made (where taxed). Certainly it is desirable for companies to make a profit that can be plowed back into expansion and new jobs. Yet even though the income tax is initially lower, it discourages growth. More significantly than the absolute magnitude of the tax is how it changes when one acts in a capitalistic fashion. When growth is penalized, industry will look to relocate elsewhere. This is what we now have in Wisconsin and I submit this trend must be reversed—not continued.

Taxing profits heavily is clearly an impediment to the free enterprise system. The consequences are contrary to desirable community objectives.

Our legislatures in Madison who are concerned about the growing property tax revolt would be well advised to study the financial impact on our communities. It is entirely possible to jump from the frying pan to the fire.

If the property tax is undesirable, and the income tax is even less desirable, what hope is there of an improvement? In the next issue, the impact of the site tax will be explored.