Democracy and Taxation

I was asked if I might write an essay about taxation for this commentary collection. In retrospect, I might just as well have been asked to write a book explaining about all the *words* we use in speaking. The subject of taxation is just as vast, covering a wide range of complex terms that no one would be interested to read, just as a dictionary holds an equally complex set of terms about words, and who reads dictionaries? Even Mark Twain acknowledged to a young would-be author that he "…studied the dictionary often but could never discover the plot." Nevertheless, I will attempt to fulfill the request, try not to disappoint, or put you to sleep.

For many of us, our first exposure to the word *taxation* was in grammar school, when we were taught in our history lessons that our forefathers rebelled against the English king because of "taxation without representation," whatever that meant. For some reason colonists here in America didn't think it right for them to be taxed to pay for protection from French competitors and hostile indigenous tribes, even as they all but ignored taxes and fees imposed upon them that were associated with the import and export of raw materials, foodstuffs, and manufactured goods that were passing through the now busy port of Boston and other ports of entry along the coast. Of course, they were a bunch of young, rowdy, squabbling colonies, each imagining it was its own nation, not unlike today, so what was a mother country to do?

The word *tax*, the root word for taxation, comes from Latin *taxare*, but taxation of a kind has been around before the Romans. There is evidence that the ancient Egyptians levied taxes against the people. Without some form of taxation, or shared expense for the common good, civilization could not exist as we know it. So if we can all accept that taxation is necessary to maintain an orderly world, what is it that really bothers people about paying taxes? Why do we read in legend that Robin Hood, "took from the rich to give to the poor"? An early form of wealth redistribution? It was the sense of *unfairness*, in Robin's case the predations of the Sheriff of Nottingham against the peasantry, that such tales engendered, a sense that gives rise to grievance even in these modern times.

In the world of taxation, there have been many systems devised to separate people from their money for the alleged common good, and a host of terms have been devised to disguise the practice: duty, tariff, levy, assessment, fee, and excise. There are property taxes, sales taxes, poll taxes, estate taxes, income taxes, sin taxes, luxury taxes, corporate taxes, value-added taxes, capital gains taxes, user fees. And there are surely others I have not listed that you may recall.

Objections to taxation often stem from a perception that if one does not use a service, one should not have to pay taxes for that service. This seems fair, but it may also be impractical in some cases. Water and sewer assessments and fees are usually paid by users of those services. They are fixed to specific properties, relatively easy to regulate and are improvements that add value to the property. But what of a public school? If I have no children, why should I have to pay taxes to support the school? School budgets are often larger than general municipal budgets, and the comings and goings of children and their families would make it impractical to attempt to tax, what amounts to a fee per student. And besides, a stable and quality school system is likely to increase the desirability and overall value of the community and the houses in that community, which benefits property owners even if they have no school-age children.

Taxing property in a community, what is known as *ad valorem* or "according to value" taxation, charges tax based upon the wealth of ownership. The more you own of value, the more you are required to pay. This is another form of redistribution of wealth. The wealthy pay more taxes, and the poor pay less, even though both may use some of the same services, if not in equal proportion.

In theory, at least, an income tax works similarly; the more you earn, the more you pay. Where things get complicated is when the income gets redefined, or gets shrouded in a blizzard of tax code that allows those with a lot

of money and influence to write tax laws that can benefit the wealthy at the expense of those less fortunate (Refer to essay: On Democracy, Personhood, and Corporations. This is how billionaires like Warren Buffet came to acknowledge that he paid annual taxes on his fortune earnings at a lower rate than his secretary. Fairness is what it is about.

When people complain their property taxes are too high, they seek to cut the municipal budget so as to reduce taxes. But where to cut? And if a property owner has insufficient income as the community prospers and taxes are increased for services, the property owner may be forced to sell either part of, or all of his property, thus reducing his tax obligation. Such situations generate tax breaks for those on fixed incomes, usually the elderly, so that they may remain part of their community.

The commerce of our country, which creates the wealth we all seek to benefit from, requires money to maintain the infrastructure that sustains it. Roads, railroads, waterways, airfields, all require maintenance. Some people will complain, "Why should I have to pay taxes to maintain roadways? I don't even own a vehicle." No, but you use the roadways, nevertheless, whether mass transportation, calling an Uber, through UPS deliveries, or ordering your meals by Door Dash. Defenders of capitalism love to take credit for a vibrant American economy, but don't like to share credit for institutional (read socialistic) systems. Remember when back in 2012, President Obama, in a campaign speech caught hell from conservative critics for telling businesses, when referring to infrastructure, "You didn't build that." ? Well, one could argue that he was right; only with the help of massive institutions within the Federal and State governments could roadways and bridges be constructed and maintained. Yes, capitalism helped to fund those improvements, but we all, as taxpayers, also contributed our share.

Which reminds me that because we are a confederation of fifty states with individual State tax laws, it creates a dynamic in which each State competes with other States for ways to generate revenue while keeping taxes down. This friction, this perceived "grass is always greener" situation, results in corporations looking to cut deals with State governments, and people shopping for a place to live where taxes are less. What one may likely find, however, is that a reduced tax can result in reduced services, or reduced wages, or say, for example, increased property insurance premiums for catastrophic coverage for tornadoes and hurricanes. Then there are those who try to enjoy tax benefits without moving to a particular State. They register their vehicle in a State that does not tax vehicles. This is against most laws, and just as importantly, is the type of shenanigans that people complain *is not fair.*

But any discussion of taking money for the greater good, or to compensate for a charge—direct or indirect —to the public, will elicit opinions. Should people who don't smoke have to pay for the medical costs of those who choose to damage their lungs? The same could apply to any individual health risk. So we tax the purchase of cigarettes, or liquor, for example, presumably commensurate with the cost to society for allowing the sale of such products. These are examples of "sin" taxes.

Should a wealthy individual have to pay extra tax for the purchase of a yacht or private jet? There is already a tax on the sale of the item. A luxury tax is a *surcharge* or tax on top of a tax. Why should the purchase of a yacht or jet obligate someone to pay additional tax? Perhaps this is an alternative to paying a more proportionate share of income tax?

And built into the tax laws are allowances for abatements or waivers or other credit in instances where one qualifies. Those who are in the military are allowed waivers of taxation, what amount to benefits, presumably because of the hardships associated with military assignments and obligations. Some State government laws allow for a tax credit for civic participation, such as putting in volunteer time with a fire department. The Federal tax laws abound with adjustments to tax liability.

In recent years, economists and financial analysts have recognized that in the past forty years there has been a widening "wealth gap" in this country. Fewer and fewer people are acquiring and retaining more and more of the wealth of this country. And more people are finding themselves barely able to get by. This widening has had much to do with a stagnation of wages and passage of laws that allow wealth to pass from generation to generation, protected from substantial inheritance tax. Those with the greatest wealth also hold the greatest power, particularly over our tax laws. Democratic administrations have typically tried to reform these laws to restore what economists refer to as the "hollowed out middle class." Republican administrations continue to resist, seeking to deliver reduced tax rates to their wealthy supporters.

Whether you think the systems of taxation we live under are fair understandably depends on your economic situation. Our government, which, theoretically at least, is controlled by "we the people," seeks a level of fairness. The demand for reform increases when a sense of unfairness increases.

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