

Fall 1985

## Tax Reform: What the West Michigan Public Really Wants

James P. Sanford  
*Grand Valley State University*

Bennett L. Rudolph  
*Grand Valley State University*

Follow this and additional works at: <http://scholarworks.gvsu.edu/ssmm>

---

### Recommended Citation

Sanford, James P. and Rudolph, Bennett L. (1985) "Tax Reform: What the West Michigan Public Really Wants," *Seidman School Management Memo*: Vol. 6: Iss. 1, Article 6.

Available at: <http://scholarworks.gvsu.edu/ssmm/vol6/iss1/6>

This Article is brought to you for free and open access by the Seidman College of Business at ScholarWorks@GVSU. It has been accepted for inclusion in Seidman School Management Memo by an authorized administrator of ScholarWorks@GVSU. For more information, please contact [scholarworks@gvsu.edu](mailto:scholarworks@gvsu.edu).

# Tax Reform: What the West Michigan Public Really Wants

By James P. Sanford and  
Bennett L. Rudolph

## Introduction

Many recent public opinion polls have indicated that taxpayers would favor a tax reform plan that would simplify the federal income tax system and make it fairer.<sup>1</sup> Nonetheless, when specific tax reform packages are proposed, such as those suggested by President Reagan or any of the proponents of "flat taxes," the public reaction ranges between mixed and skeptical.<sup>2</sup> The reason for this less than enthusiastic reception seems to be a feeling that, like the present federal income tax, the proposed reforms would be neither simple nor fair. We therefore decided to conduct a public opinion poll to determine what type of federal tax system taxpayers would view as straightforward, simple, and fair (to the extent that all three attributes could be combined in one system) and to suggest realistic strategies to accommodate the taxpayer's desires.

President Reagan has made tax reform one of the major goals of his administration. In a radio address from the Oval Office, Reagan said tax reform "one of the most compelling issues of our time," and he claimed that the American people have become aggravated, angry, and frustrated with a tax system "shot through with unfairness, inequality, and waste."

In testimony before the House Ways and Means Committee, several experts have testified that tax reform is crucial to holding the tax system together. Internal Revenue Service Commissioner Roscoe Egger testified that the percentage of Americans who voluntarily comply with paying their tax liability fell from 84 percent in 1974 to an estimated 81.6 percent in 1985. (Each one percent decline means five billion dollars in lost revenue.) Egger, in supporting President Reagan's tax reform proposal, stated that tax reform was necessary to stop the public from believing tax evasion is acceptable.

"Taxpayers understand what is going on," he testified. "When they look at the world around them, the message comes through loud and clear: If you are not involved in complex, tax-motivated financial manipulations of your affairs, you are paying too much tax." Egger further contended that the use of tax-avoidance schemes was on the rise and without tax reform the public's perception of the current system will not improve.<sup>3</sup>

Egger's view was echoed by former Treasury Secretary Joseph Barr, who testified that he was "convinced that we have to clean up the tax code . . . or we will be in grave danger of losing the way we finance this government."<sup>4</sup>

Numerous tax reform plans have been introduced in Congress, including President Reagan's tax reform proposal. These plans, sometimes described as "flat rate tax plans," differ in some aspects, but they all set up three different income brackets instead of the 15 brackets in the present system. Few deductions would be permitted, but the basic rates would drop substantially.

Public support for some type of tax reform is clearly evident from several recent surveys. In a poll taken for the Internal Revenue Service, it was found that 80 percent of all taxpayers think the current system is unfair and benefits the wealthy.<sup>5</sup> In a Business Week-Harris Poll, 71 percent of those surveyed supported the concept of a more equitable and simpler tax system.<sup>6</sup> A poll by ABC News found that 51 percent of the respondents were in favor of simplifying the tax system, while 84 percent said that it must be made fairer.<sup>7</sup>

Since there is overwhelming support for tax reform and since President Reagan ("the great communicator") has promised to fight for tax reform, it would seem that the President's tax reform proposal would have a high probability of success in Congress. However, this does not seem to be the case. While the public is in favor of tax reform in general, broad support has not materialized for either President Reagan's specific proposals or any of the other "flat rate" plans. At the time of this writing, tax reform is stalled in Congress. The question that must be answered, therefore, is, "What type of tax reform does the public really want?"

## Methodology

In order to determine which types of tax plans would be more acceptable than the current federal tax system, we conducted telephone interviews with 303 adults living in West Michigan. A systematic cluster sampling technique was employed using Bressler's geographic telephone listings for the multi-county area. Interviewers were instructed to talk to any adult head of household and were instructed to make at least five call-backs at different times of the day and on different days of the week if the initial call was unsuccessful. The questionnaire was extensively pretested, and careful interviewer training was administered before the survey was begun. After the interviewers collected the data, their work was checked and confirmed for accuracy and a sample of each interviewer's respondents was called back for confirmation. All the information was "double entered" and computer verified before final analysis.

## Findings and Analysis

### Fairness of Current Tax System

Nearly half of those surveyed indicated that the current tax system was either moderately unfair or extremely unfair.

Table 1. Fairness of Current Tax System (N = 303)

	Frequency	%
Extremely fair	5	2%
Moderately fair	134	44%
Moderately unfair	109	36%
Extremely unfair	38	13%
No opinion	17	6%
	303	101%*

\*Over 100 percent because of rounding.

Note that only 2 percent felt the current tax system was extremely fair, while 13 percent claimed it was extremely unfair.

When cross-tabulating standard demographic questions with the answers to the question on the fairness of the current tax system, it was found that married couples with dependents were more favorably disposed to the current tax system than were single people without dependents.

Respondents who did not think the current tax system was extremely fair were asked to explain what they felt was wrong with the federal tax system. As can be seen in Table 2, by far the most common complaint was that the current system unfairly favors one group of taxpayers while hurting others.

Table 2. Why Current Tax System Is Unfair (N = 347)\*

Reason	Frequency	%
Favors one group while hurting others	189	54%
Taxes too high	45	13%
Waste—don't like how it's spent	24	7%
Specific types of income should not be taxed	16	5%
Too complicated	9	3%
Another system preferred	8	2%
Other reasons	3	1%
Unsure about reasons	53	15%
	347*	100%

\*Larger than sample size because multiple answers accepted.

continued on page 6

# Tax Reform: What the West Michigan Public Really Wants

continued from page 5

Note that while only a relatively small percentage of respondents felt the current system was too complicated (3 percent), the issue of favoritism was cited by a majority of the respondents (54 percent). The only other issues to generate a large number of complaints were the amount of taxes paid and government waste. Obviously, these are issues tax reform alone cannot address.

The respondents were also asked if they thought the current tax system favors one social or economic class over another. As can be seen in Table 3, the vast majority of respondents (83 percent) said it does.

**Table 3. Does Current Tax System Favor One Economic Class Over Another? (N = 303)**

Response	Frequency	%
Yes	252	83%
No	37	12%
Don't know	14	5%
	303	100%

The 252 respondents who felt that the current tax system favors one economic class at the expense of another were then asked which class was favored. As can be seen in Table 4, the majority of respondents believe the upper class benefits unjustifiably under the existing tax codes.

**Table 4. Class Favored by Current Tax System (N=252)**

Response	Frequency	%
Upper Class	227	90%
Upper and Lower	7	3%
Lower Class	5	2%
Middle Class	4	2%
Upper and Middle	2	1%
Unsure	7	3%
	252	101%*

\*Over 100 percent because of rounding.

As Tables 2, 3, and 4 indicate, the current tax system is perceived to be unfair because it favors upper-income individuals. These findings support the Internal Revenue Service's study, which found that 80 percent of those surveyed believed the current system to be unfair and beneficial to the rich.<sup>8</sup> Thus, the message is clear: For a tax reform bill to be "fair," the tax system must shift a greater burden to upper-income individuals.

**Table 5. Favor a Flat Rate Tax Plan (N = 303)**

Response	Frequency	%
Yes	193	64%
No	27	9%
Don't Know	83	27%
	303	100%

When asked what effect a flat rate plan would have on their own taxes, most respondents said it would have no effect or that they were not sure what effect it might have. About the same number of respondents felt that a flat rate plan would increase their personal taxes as that their personal taxes would decline.

While flat tax proponents claim that imposition of such a tax program would make little or no difference in the amount of revenue collected by the federal government, nearly half the respondents in our sample did not believe this and felt that government revenues would increase.

Nonetheless, as previously mentioned, most were in favor of passage of a flat rate tax plan. The reason for this seeming contradiction appears to be what respondents see as the inherent fairness of the flat tax proposals. When asked specifically about the fairness issue, 59 percent said they felt that a flat rate tax system would be fairer than our current tax system.

**Table 6. Flat Rate Fairer Than Current Tax System? (N = 303)**

Response	Frequency	%
Yes, it would be more fair	180	59%
No, it would be less fair	39	13%
No difference in fairness	4	1%
Don't know	80	26%
	303	99%*

\*Under 100 percent because of rounding.

Many respondents seem to be saying that the proposed flat rate tax plans may be fairer than the current system even if their own tax liability does not decrease.

## Specific Deductions and Credits

In addition to the questions on the fairness of existing and proposed tax plans, a series of questions on existing tax deductions and credits were asked. Each question asked whether or not the deduction or credit should be continued under any new tax reform bill that might be passed in the future. While most respondents were in favor of flat rate tax plans, they are also in favor of retaining as many deductions as possible, thereby making a true flat rate plan untenable. While the majority of respondents wanted nearly all the deductions and credits retained, it is interesting to note the variance in the percentage of respondents approving each item. While barely half of the respondents wished to retain certain deductions and credits, over 80 percent wished to retain others. It is also interesting to note that nearly half of the respondents would eliminate certain deductions if they had their way. While this means that deductions and credits are still popular, it is nonetheless rather startling in light of the fact that a substantial minority would be willing to live with the elimination of certain deductions

and credits provided the overall rates were decreased and made more fair.

**Table 7. Which Deductions and Credits Should Be Retained (N = 303)**

	Should Be Retained	Should Not Be Retained	Don't Know
1. Deduction for contributions	80.2%	13.5%	6.3%
2. Deduction for mortgage home interest	79.8%	13.9%	6.3%
3. Deduction for state and local income taxes	78.2%	12.9%	8.9%
4. Deduction for retirement fund contributions such as IRA's and Keough plans	74.9%	16.8%	8.3%
5. Deduction for state and local real estate taxes	66.7%	20.8%	12.5%
6. Child care tax credit	64.4%	26.4%	11.2%
7. Deduction for state and local sales taxes	61.7%	28.1%	10.2%
8. Income averaging	56.4%	26.4%	17.2%
9. Special deduction for married couples when both work	54.8	35.6%	9.6%
10. Deduction for interest expenses on debt other than mortgage	54.8%	37.0%	8.3%
11. Tax indexed to inflation	50.8%	34.7%	14.5%
12. Capital gains taxed at a lower rate than other income	41.6%	45.2%	13.2%

As can be seen in Table 7, the deduction the largest group of respondents wanted retained was that for charitable contributions. It should be noted that the geographic area the survey was conducted in may have influenced this result in that West Michigan is a conservative political and religious area with strong Midwestern values and a great deal of church support. Charitable contributions, therefore, might well be regarded as more important in West Michigan than they might be in other parts of the country.

Other deductions which the vast majority of respondents wanted retained included those for state and local income taxes, home mortgage interest, and retirement fund contributions such as IRA's and Keough plans. Homeowners were no more likely to support deductions for home mortgage interest than respondents who rented. On the other hand, nearly half the respondents would not retain the deductions for

interest expenses on debt other than mortgages and the special deduction for married couples when both spouses work.

Lower tax rates on capital gains and indexing taxes to inflation were also not as popular as one might expect. In fact, there were more respondents who felt special capital gains should be eliminated than that they should be retained. Cross-tabulating attitudes about these issues with respondent income and stock market investment did not reveal any statistically significant relationships. The supposition nonetheless remains that the special tax rate for capital gains income is less popular because it is used less. Indexing is less familiar than most deductions because it is just being initiated. Opinions about indexing might change dramatically once taxpayers are more familiar with the concept.

### What the Public Really Wants

In general, there is wide support for a flat rate tax. The problem arises in deciding which deductions and/or credits, if any, are to be allowed. Eliminating various deductions and/or credits would make the income tax system simpler, but not necessarily fairer. Our study indicates that while taxpayers like the flat rate concept, they also like the multitude of deductions and credits which are the heart of our present tax system. The only tax breaks not enjoying great public support are those such as special treatment for capital gains, which are not widely used by the general public and are associated with being mainly beneficial to high-income taxpayers.

Attempting to eliminate deductions or credits widely used by middle-class taxpayers will not receive the public support necessary to pass a bill in Congress. For instance, President Reagan has proposed the elimination of the deduction for state and local taxes, a deduction that is widely used by middle-class taxpayers. Our survey indicates that taxpayers want this deduction continued. Thus, while the public wants a simpler tax system in order to eliminate unnecessary complexity, they are really more interested in fairness and, to a large extent, self-interest. In other words, they do not want the tax breaks they use eliminated.

Given these attitudes, it appears that the Administration's tax reform proposals have three major problems. First, some deductions that favor the wealthy are allowed (such as favorable tax treatment for the oil and gas industry) while other more commonly used deductions have been eliminated (such as deductions for state and local taxes). By favoring some special interests and not others, the plan appears to be unfair since not everyone is sharing in the sacrifice.

Second, the tax reform plan appears unfair since the wealthy are thought to receive better tax breaks than the middle class. Many new stories indicate that the net effect of the tax reform proposal is to reduce taxes for the poor

and for the rich and raise them for the middle class. In addition, various news articles have indicated that between 1964 and 1984 corporate tax payments dropped from 21 percent of government revenues to 7.5 percent.<sup>9</sup> During this period federal revenues from individuals increased accordingly. Thus, public support for any tax reform package that increases the burden on the middle class taxpayer will be minimal.

Third, support for the tax reform plan has eroded as reports indicate that it would lose federal revenue and thus widen the budget deficit (although the goal of the plan is to be "revenue neutral").<sup>10</sup> The need for tax reform is obvious and yet no tax reform proposal will have the necessary public support unless the proposal appears fair for everyone.

What can be done to solve these problems in a manner consistent with the desires of the majority of taxpayers? Several specific suggestions can be made which would give tax reform a more popular appeal than it currently has. The essence of these suggestions is that tax reform must be marketed just as any other cause which requires broad popular support. This means consumer desires must be monitored (as we have done to some extent), and a program must be developed that satisfies these desires and expectations. The research conducted here indicates that the following suggestions might be a starting place for those considering future tax policy.

First, the public wants an income tax system that shifts a greater burden to upper-income individuals and corporations. That will automatically make the system fairer. The public is tired of hearing about wealthy individuals and corporations that pay no federal tax.<sup>11</sup> To accomplish this goal, Congress should pass an effective minimum tax that guarantees that *everyone* pays at least some federal tax (e.g., 20 percent of their net income above \$12,000). In addition, the deductions and credits used mainly by upper-income individuals should be modified or eliminated in order to reduce the perception of special treatment (deductions for travel to seminars in resort areas, eating out at expensive restaurants, etc.).

Second, Congress should place a moratorium on the passage of any tax legislation. The tax system is unduly complicated because Congress passes new tax laws every year. Before the public can understand the current law, it is changed, which adds to the confusion. Congress should resolve to make changes in the tax laws only every four years. In addition, tax laws should be written in "consumer English" so that they can be understood by the average worker.

Third, taxpayers should be given some discretion to "vote" how their tax dollars are spent. For instance, in Michigan, taxpayers, after figuring their income tax liability, are allowed to designate a portion of their addi-

tional income tax liability for preserving wildlife or for the relief of abused children. Currently, federal taxpayers may designate only a portion of their federal tax dollars (\$1 or \$2) to go toward financing political campaigns. If taxpayers were given the option of where a small portion of their tax dollars went (Social Security, national defense, education, the national debt, etc.), they might feel that paying their taxes was more worthwhile.

Since 1974, Congress has passed various tax bills every year, including the Tax Simplification Act of 1977, the Tax Reform Act of 1976, and the Deficit Reduction Act of 1983. Statistics indicate that these bills have failed both to reduce the national debt and to simplify and reform the tax system. The current tax system of passing new tax laws every year with special tax breaks for upper-income individuals or special interest groups must stop if Congress wants broad public support for our tax system. Until Congress gives the public what it really wants, we will not have true tax reform.

*Dr. Bennett L. Rudolph is Professor of Marketing, and Dr. James P. Sanford is Associate Professor of Taxation at the Seidman School of Business.*

### Endnotes

1. Examples of such polls are mentioned in endnotes 5, 6 and 7.
2. As reported in the *Wall Street Journal*, June 12, 1985, "Americans Prove Slow to Sign Up for Reagan in the Tax Revolution."  
Also, as reported in the *Wall Street Journal*, July 8, 1985, "Push for President's Tax-Revision Plan Stalls As Broad Public Support Fails to Materialize."
3. As reported by United Press International on June 6, 1985.
4. See endnote #3.
5. As reported in the *Wall Street Journal*, May 30, 1985. The poll was taken for the Internal Revenue Service by the firm of Yankelovich, Skelly & White, Inc.
6. As reported in *Business Week*, June 17, 1985. The poll, conducted by Louis Harris & Associates, Inc., surveyed 1,274 adults from May 30 to June 4, 1985.
7. As reported in the *Grand Rapids Press* (AP Wire Service) on June 3, 1985.
8. See endnote #5.
9. As reported in the *Grand Rapids Press* on May 26, 1985. The source of the information was the Office of Management and Budget.
10. As reported in the *Wall Street Journal* on July 8, 1985, and in the *New York Times*, June 30, 1985, concerning estimates by the Congressional Budget Office.
11. As reported in the *Wall Street Journal*, August 29, 1985, "No U.S. Income Taxes Were Paid in '84 by 40 Big, Profitable Firms, Study Says."