



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

fff@fff.org www.fff.org

Taxing Dividends: Once Is Not Enough?

by Sheldon Richman

Why is it controversial to propose an end to double taxation?

The centerpiece of President Bush's economic package is elimination of the tax on dividends. No one disputes that this is a double tax. A corporation pays taxes on its profits. Then if it distributes the after-tax profits to its shareholders, they pay taxes on that income. Corporate profits are taxed twice merely because they change locations.

The outcry against repeal of this outrage is deafening. Why? Because low-income people won't pay less tax as a result. Never mind that many low-income people already pay no income tax; in fact, they get cash handouts through the dishonestly named earned income tax credit. (How does one get a credit on taxes not paid?)

So, somehow, it's unfair to eliminate a tax if less-productive people don't directly benefit, but it's not unfair to tax something twice. A strange notion of fairness, indeed.

Such a notion can be based only on the view that all wealth belongs to the government, whose job it is to distribute it "equitably." Maybe that's why Sen. Lincoln Chafee (R-R.I.), objecting to Bush's plan, said, "I can't see us giving away any more of our revenues." They certainly aren't Senator Chafee's revenues. So what's he talking about?

That's the typical attitude in Washington. To enact a spending measure, you need merely claim that someone is in need. No proof is required; certainly it does not have to be shown that need justifies confiscation. But to enact a tax cut to let productive people keep their own money, politically you shoulder an impossible burden of proof.

Senate Minority Leader Tom Daschle reacted to the tax cut by saying it would help the "wrong people." No doubt he'd be appalled if it were pointed out that his statement reflects a thuggish collectivism unworthy of an earlier America. A tax cut lets people keep their own money. How can they be the wrong people?

If Daschle wants to say that the tax cuts should be deeper and include other taxes, then bravo! But that's not what he wants. He wants tax cuts for people who don't pay taxes and tax

hikes for people who do. That's the logic of one who believes that all belongs to the state. Daschle should move to Europe where his ideas are more appropriate.

Some of the class warriors claim that low-income people do indeed pay taxes — not the income tax, but the payroll tax for Social Security and Medicare. Don't those people, they ask, deserve a tax cut?

Now this is progress. There was a time not long ago when the socialist-minded among us denied that Social Security and Medicare were supported by taxes. Those payments were called "contributions." The "C" in FICA is for "contribution." The defenders of Social Security and Medicare had a reason for this artful use of language: they wanted us to believe that those programs were insurance plans, not the welfare programs they really are.

But of course if you don't remit those "contributions" to the IRS you go to jail. If it waddles like a tax and quacks like a tax, it's a tax.

These days it serves the tax-the-productive crowd's interests to call those contributions taxes. It's the best shot those folks have at parrying the sensible argument that tax cuts should be restricted to taxpayers. I'm all for cutting — make that "repealing" — the payroll tax and the programs they finance. But that's not what the class warriors have in mind. They would cut low-income people's payroll taxes, but continue to provide Social Security and Medicare benefits at the old level — which means wealthier people would be forced to subsidize them to an even greater extent than today. That would make the welfare nature of those programs even clearer. And that's why few people in power are calling for a cut in the payroll tax.

There has also been the usual handwringing about the "cost" of cutting taxes. So let's say this one more time: cutting taxes doesn't cost people money. Government programs do. Is that really so difficult?

Sheldon Richman is senior fellow at The Future of Freedom Foundation (www.fff.org) in Fairfax, Va., author of *Tethered Citizens: Time to Repeal the Welfare State*, and editor of *Ideas on Liberty* magazine.