



Written by [Laurence M. Vance](#) on November 11, 2010

Tax Cuts for the Good Guys

Speaking on one of the political television shows before the election, Vice President Joe Biden proposed to make a deal with Republicans on tax increases. Democrats, who just raised the Medicare tax by 0.9 percent on those earning over \$200,000 (\$250,000 for joint filers), want to increase their political capital by making the Bush tax cuts — due to expire this year — permanent. The sticking point is the \$250,000 threshold at which Democrats want “the rich” to begin to pay higher tax rates. Biden said the Obama administration was willing to consider raising the threshold. “I don’t have any problem with wealthy people getting a tax cut. I mean, for real,” Biden explained. “I mean, these are good guys.”



There is something about the “good guys” described by the vice president that Democrats clamoring for higher taxes on “the rich” seem to ignore: It is the “good guys” who pay the overwhelming majority of the taxes. The majority of Americans actually pay little or no federal income tax and therefore have no taxes to cut. They may pay Social Security tax, Medicare tax, and a host of other federal, state, and local taxes, but they pay little or no federal income tax. For tax year 2009, the typical family can make as much as \$50,249 and still pay nothing in federal income tax.

According to the most recently released [IRS data](#), the top one percent of taxpayers (in terms of adjusted gross income) paid 38.02 percent of all federal income taxes in tax year 2008. The top 10 percent of taxpayers paid 69.94 percent of the taxes and the top 50 percent paid a whopping 97.3 percent. The “good guys” are not only paying more than their “fair share,” they are also paying the share of many other Americans as well.

But not only do the bottom 50 percent of taxpayers pay little or no income taxes, many of them actually get tax refunds anyway thanks to what are called refundable tax credits. Now, tax credits, like tax loopholes, are always good. The more the merrier. What taxpaying Americans need more of are not just additional child credits, but car credits, clothes credits, and dog credits, as well as loopholes big enough to drive a truck through. Tax credits lower the amount of taxes due. But if no taxes are due because the combination of deductions and exemptions sufficiently lowers one’s taxable income, then tax credits obviously are neither available nor necessary. But refundable tax credits not only lower the amount of tax due, they refund the unused portion of the credit. This means that some Americans can get a tax refund above and beyond what they had withheld from their paychecks.

The child tax credit began with the Taxpayer Relief Act of 1997. It now provides a credit of \$1,000 per qualifying child against federal income tax due. Although the excess of the credit over the tax due was originally refundable as the additional child tax credit only for families with three or more children, since 2001 it has been refundable for all families eligible for the credit.



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The money a family can receive via the additional child tax credit pales in comparison to what they can get under the earned income credit. This refundable tax credit is based on income and family size. The maximum benefit started out at a modest \$400 in 1975 and has grown every year since then. Thanks to the American Recovery and Reinvestment Act (the Stimulus Bill), the maximum allowable earned income credit for the current tax year is up to \$5,666 for families with three or more children, \$5,036 for families with two or more children, and \$3,050 for families with just one child.

Where does all the money come from to pay for these refundable tax credits? It comes from the taxpayers who actually pay taxes. Refundable tax credits are therefore just another income transfer program like food stamps, TANF, SSI, and WIC. And since welfare payments received do not count as income for tax purposes, the same people who receive welfare benefits usually also receive refundable tax credits.

The simple solution to this wealth redistribution is to eliminate all refundable tax credits. But rather than increasing the amount of income tax paid by the bottom 50 percent of taxpayers, those in the top 50 percent should be given more credits, more exemptions, more deductions, and more loopholes — not to mention lower tax rates — for the simple reason that they are entitled to the fruit of their labor, not the government.

Needs and wants are basic concepts in economics that can also be applied to governments. The federal government doesn't need income tax revenue; the federal government wants income tax revenue. We know the government doesn't need income tax revenue to operate because from the adoption of the Constitution until 1913 we had no permanent federal income tax. We know the government wants income tax revenue because congressmen have an insatiable desire to spend money — other people's money. It's that simple.

In an interview on the FOX Business Network, Treasury Secretary Timothy Geithner — echoing President Obama — said that extending the Bush tax cuts for America's wealthiest citizens "would be irresponsible."

I say it would be irresponsible not to. After all, these are the good guys.



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