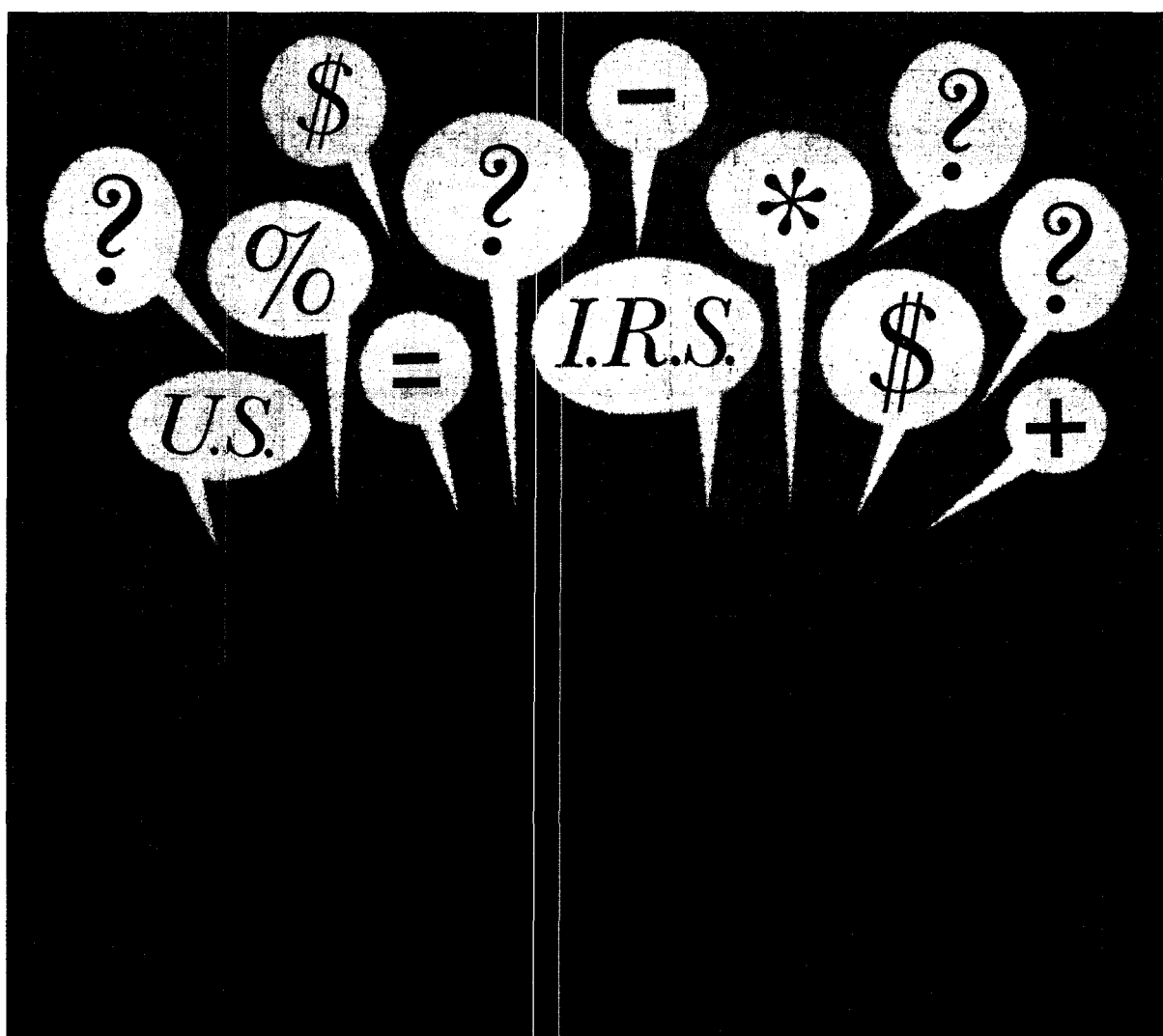


TAX

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UNCERTAINTY

A Divided America's Unformed View of the Federal Tax System



The NPR/Kaiser/Kennedy School survey team includes Robert J. Blendon, of Harvard University's Kennedy School of Government; Stephen R. Pelletier, Elizabeth Raleigh, and John Benson, of Harvard's School of Public Health; Mollyann Brodie, Drew E. Altman, and Rebecca Levin, of the Kaiser Family Foundation; Marcus D. Rosenbaum, of National Public Radio; and Melissa J. Herrmann, of International Communications Research.

With tax cuts as the centerpiece of the Bush administration's domestic policy agenda, the president himself hit the road this spring to try to gin up public support. But as Congress and the White House carried the issue deep into the arcana of hundreds of billions of dollars of taxpayers' money, tax policy never seemed to resonate beyond the Beltway. Why? What do Americans really think about taxes and tax policy?

In February and March of 2003, National Public Radio, the Kaiser Family Foundation, and Harvard University's Kennedy School of Government set out to explore that question. Although many polling organizations have canvassed on this subject, the NPR/Kaiser/Kennedy School Poll was designed to dig deeper—to look not only at Americans' opinions about tax issues but also at why they held the opinions they did and how much they understood about the federal tax system.

Changing the Tax System

As they do on so many public policy issues, Americans divide pretty much down the middle on their basic beliefs about the federal tax system. About half (52 percent) say there is so much wrong with the federal tax system that Congress should completely overhaul it, while 44 percent say the system works pretty well and needs only minor changes to make it work better.

Likewise, the public divides fairly evenly on whether federal income taxes are too high and whether the tax system is fair. About half (51 percent) say they pay too much in federal income taxes, 43 percent say they pay about the right amount, and 3 percent say they pay too little. On the fairness issue, once again about half (51 percent) say the federal tax system is fair, while about half (48 percent) say it is unfair. Interestingly, the share of Americans saying federal income taxes are too high has declined in recent years, as has the share saying that taxes are unfair (see figures 1 and 2).

The findings on the tax burden and the fairness issues indicate that Americans may be less inclined to support tax cuts or fundamental changes in the tax system than they have been in

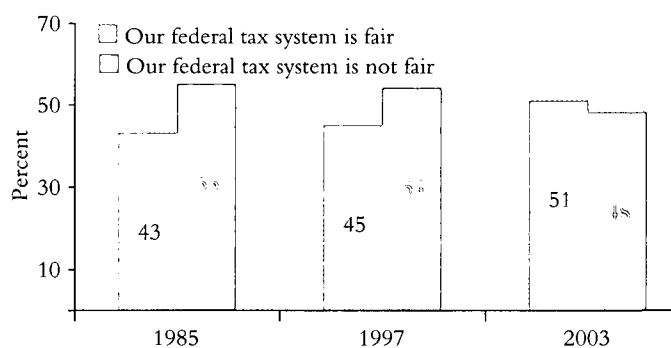
recent years because they are relatively more content today with the way things are. But clearly there is discontent, and the poll probes what Americans want to change at this time.

Reforming the Federal Tax System

The NPR/Kaiser/Kennedy School team asked about two specific tax cut proposals—eliminating the tax on dividends and eliminating the estate tax. It also asked about two proposals that would completely overhaul the current federal tax system—replacing the current graduated income tax with a flat-rate tax or with a consumption tax (described as “something like a national sales tax”). One goal was to find out whether people had formed an opinion on these issues, so initial questions asked whether the respondent favored or opposed something or hadn't heard enough about it to have an opinion. This gave people an “honorable” way to say “don't know.” (See table 1.) Some questions also explored what respondents knew about a subject and whether their knowledge was related to their opinions.

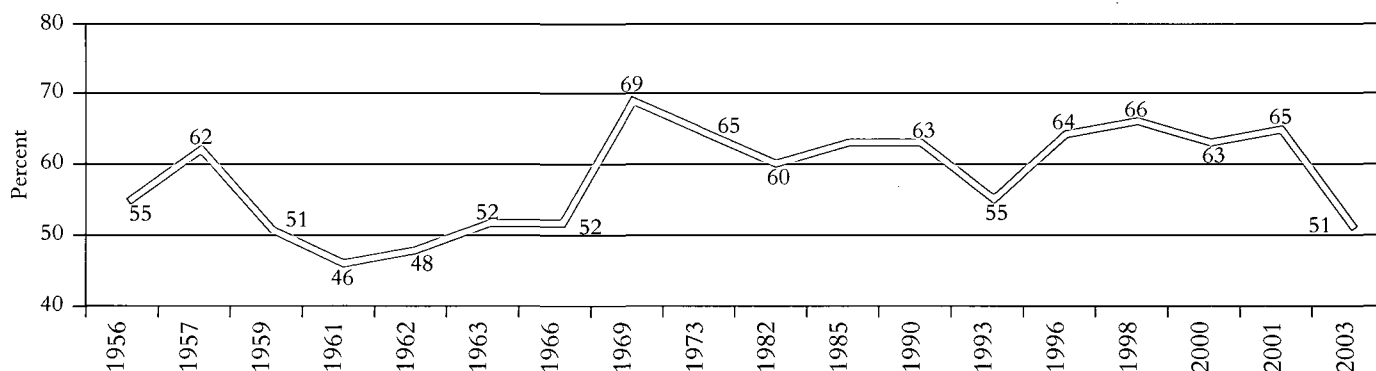
Most Americans (61 percent) had never heard of the proposal to eliminate the tax on dividends, and among the 38 percent who had, more than a quarter (28 percent) said they didn't know enough about it to have an opinion. Given arguments in favor of and opposed to the dividends tax cut, the

Figure 2.
Americans' Attitudes about Tax Fairness, 1985–2003



Source: Time/CNN/Yankelovich 1985, 1997; NPR/Kaiser/Kennedy School Survey of Americans' Views on Taxes, 2003

Figure 1.
Share of Americans Who Believe That Taxes Are Too High, 1956–2003



Source: Gallup Organization (1956–2001), NPR/Kaiser/Kennedy School Survey of Americans' Views on Taxes, 2003

Table 1.
The Public's Reaction to Changing the Tax System

	FAVOR	OPPOSE	DON'T KNOW
Eliminating estate tax	57%	15%	28%
Eliminating dividend tax			
Question as posed initially ¹	15	12	72
Question elaborated ²	43	42	14
Changing to a flat-rate tax	36	32	31
Changing to a consumption-based tax ³	24	38	38
President Bush's tax cuts			
Speeding up the tax cuts	31	21	48
Making them permanent	23	17	60

NPR/Kaiser/Kennedy School Survey of Americans' Views of Taxes, 2003

1. Respondents were not given arguments for and against the dividend tax. The question was asked only of those who said they had heard of the proposal to eliminate the dividend tax (38 percent). Favor and Oppose represent percentage of total population. Don't know includes the 61 percent who had not heard of the proposal to eliminate the tax.

2. Respondents were given arguments for and against the dividend tax.

3. Respondents were asked whether a national sales tax would be a good idea (favor) or a bad idea (oppose).

Table 2.
Americans' Knowledge of Taxes, by Household Income

KNOWLEDGE	HOUSEHOLD INCOME	
	< \$150K	TOP 5% \$150K+
Knowledge scale of taxes		
Low knowledge about taxes	49% ^a	14%
Medium knowledge about taxes	35	33
High knowledge about taxes	16 ^a	53
Questions factored into the scale include:		
In the past two years, has there been a federal income tax cut?		
Has been	49 ^a	70
Has not been	34 ^a	24
Don't know enough to say	17 ^a	7
Generally speaking, how does the federal income tax work?		
People with higher incomes are taxed at a higher percentage	59 ^a	90
Everyone pays the same percentage	12 ^a	3
Don't know enough to say	29 ^a	7
Do you think that the amount deducted from your paycheck for Social Security and Medicare is part of the federal income tax?		
No, it is not part of the federal income tax	43 ^a	64
Yes, it is part of the federal income tax	30	25
Don't know enough to say	27 ^a	9
Which group pays the highest share of their income in total federal taxes?		
High-income people	23 ^a	48
Middle-income people	52 ^a	41
Low-income people	12 ^a	7
Don't know enough to say	13 ^a	3

NPR/Kaiser/Kennedy School Survey of Americans' Views of Taxes, 2003

a. Statistically different from the top 5% income level (\$150K+)

country once again split down the middle, with 43 percent favoring eliminating the tax and 42 percent opposed (14 percent volunteered they didn't know whether they favored or opposed eliminating the tax).

On the estate tax issue, although there also was a high share of "don't knows" (28 percent), a majority (57 percent) initially said they supported eliminating it. When asked why, 92 percent agreed that the money was already taxed once and shouldn't be taxed again, 74 percent agreed that the tax might force the sale of small businesses and family farms, and 69 percent agreed that "it might affect [them] someday."

Even among the 33 percent who knew that the estate tax affects only a few families, a majority supported eliminating the tax. But that support may not be as strong as it seems at first glance. While only 15 percent of the public said they opposed eliminating the estate tax in the initial question, another 26 percent said they would want to keep the estate tax only on estates of \$1 million or more. Taken together, that means that 41 percent supported the current law. A majority (52 percent) wanted to keep an estate tax on estates of \$5 million or more. Only 26 percent supported eliminating the tax on estates worth more than \$25 million.

Fewer than two out of five (36 percent) supported replacing the current graduated income tax system with a flat-rate one, and only about a quarter (24 percent) thought it a good idea to replace the income tax with a consumption tax. Again, many people said they don't know enough about either issue to have an opinion—31 percent for the flat-rate tax and 38 percent for the consumption tax.

Many of these proposals to overhaul the tax system are seen as ways to simplify it, and, indeed, the vast majority of Americans (87 percent) do find the federal tax system complex. When asked to choose reasons for the complexity, the most common choice was that "there are so many different kinds of deductions and tax credits, and so many rules about how to take them." Americans do not, however, disapprove of deductions. Solid majorities said it is fair to give tax breaks to families that have more dependent children (76 percent), have more medical expenses (71 percent), give more to charity (62 percent), and have a home mortgage (55 percent). Moreover, on a theoretical level, seven out of ten Americans (72 percent) said that the tax system should be used to encourage things like financing a home, giving to charities, and buying health insurance. Only 23 percent said they thought the tax system should be used solely to raise revenue.

Bush Tax Cuts

The split in public attitudes about the tax system is reflected in public views of the Bush administration's proposals to accelerate and to make permanent the 2001 tax cuts. About one-third (31 percent) favored, and 21 percent opposed, speeding up the 2001 tax cuts so they would go into effect soon. As for making the 2001 tax cuts permanent, 23 percent supported it, while 17 percent opposed it. More significant, however, is the number of people who said they did not know enough about these issues to have an opinion: 48 percent had no opinion about

speeding up the tax cuts, and 60 percent had no opinion about making the 2001 tax cuts permanent.

Stimulating the Economy

At the time of the survey, Americans were concerned with the faltering economy and the need to stimulate economic growth. President Bush has advocated his tax cuts as a way to stimulate the sluggish economy. For their part, Democrats have pushed other tax cuts as economic stimulants.

The NPR/Kaiser/Kennedy School Poll asked respondents whether four potential tax cuts would stimulate the economy. Fifty-four percent believed that an across-the-board cut in income taxes would stimulate the economy, 28 percent did not, and 18 percent did not know enough to say. But only a minority of Americans believed that a \$300 per taxpayer rebate (43 percent), a dividend tax cut (35 percent), or a temporary cut in payroll taxes (24 percent) would stimulate the economy.

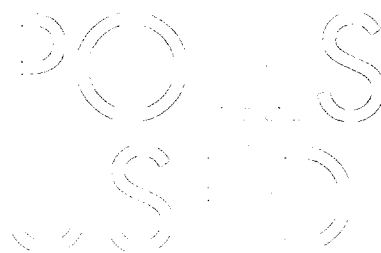
The differences between the parties were stark. Republicans were more likely than Democrats (70 percent as against 44 percent) to say an across-the-board tax cut would stimulate the economy. Similar differences existed on whether eliminating taxes on dividends (50 percent as against 25 percent) and a tax rebate of \$300 per person (50 percent as against 38 percent) would stimulate the economy.

Interestingly, only 19 percent of respondents said that if they were given a tax rebate of \$300, or up to \$1,200 per family, they would spend it—the action that many believe would provide a short-term economic stimulus. Significantly more said they would save or invest it (41 percent) or use it to pay back money they already owed (40 percent).

Knowledge of the Tax System

An important caveat is in order, however, when dealing with any of these opinions about the tax system. As Michael Delli Carpini and Scott Keeter's 1996 book, *What Americans Know About Politics and Why It Matters*, has shown, people who are knowledgeable about an issue are more capable of making informed political choices. But tax policy is not one of those issues about which Americans are informed. The NPR/Kaiser/Kennedy School survey reveals that many Americans are unfamiliar with basic tax policy debate and do not understand essential principles of the federal tax system (table 2). For example, fully half of the public (50 percent) did not know that federal income taxes had been cut over the past two years; fewer than half (43 percent) knew that Social Security and Medicare taxes are not part of the federal income tax; and nearly two-thirds (63 percent) thought that low- or middle-income people pay the highest share of their income in federal taxes (only 25 percent knew that high-income people do).

Based on a series of knowledge questions, the NPR/Kaiser/Kennedy School Poll found that the highest-income Americans (those earning \$150,000 or more a year, putting them in the top 5 percent of income nationwide) were the most knowledgeable about the tax system. More than half of



he results reported here are drawn mainly from a poll conducted by the NPR/Kaiser Family Foundation/Kennedy School of Government survey project conducted February 5–March 17, 2003.

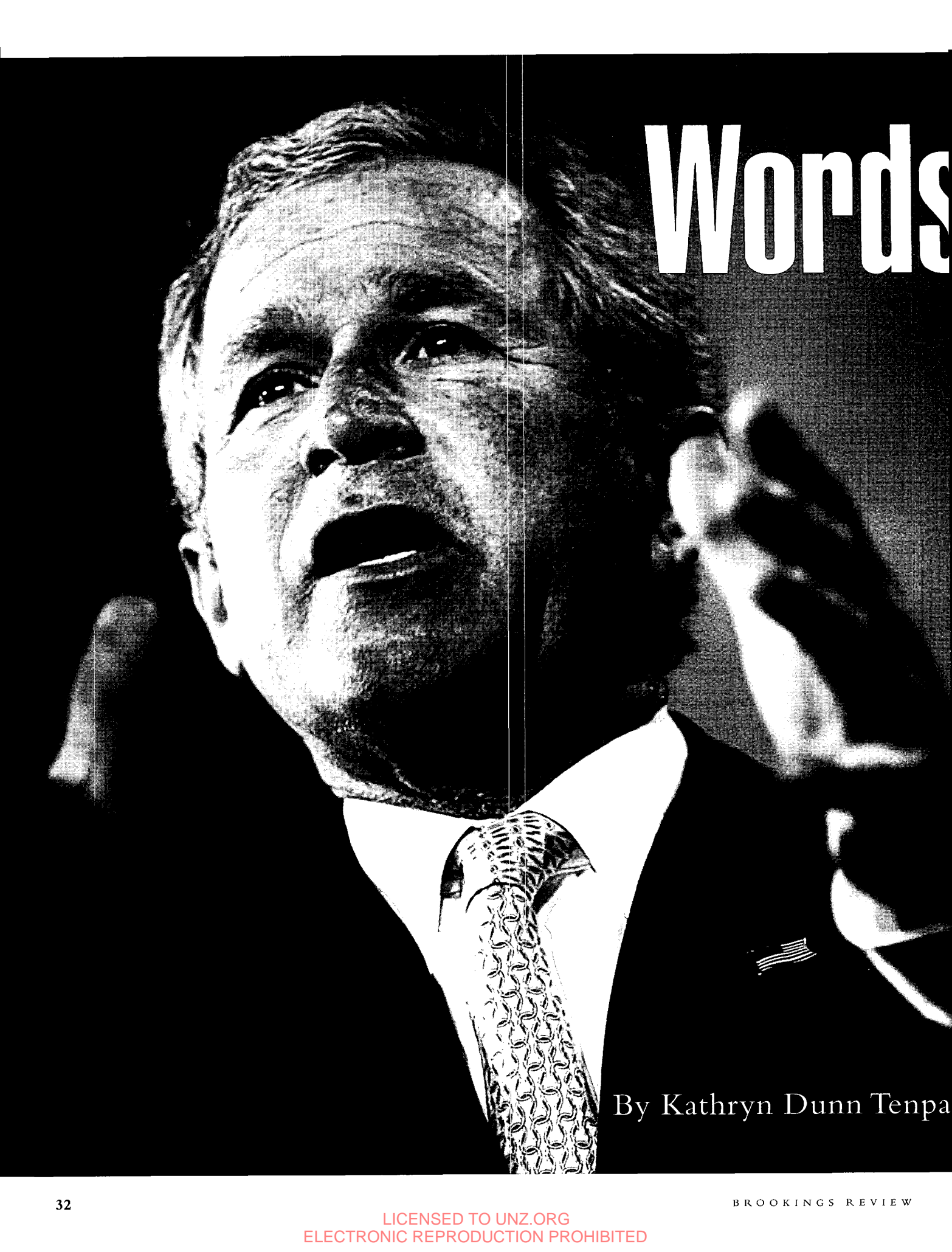
The poll surveyed 1,339 adults nationwide and oversampled Americans with annual incomes of \$150,000 or more. The survey design allowed respondents the option of saying that they did not know enough about the questions to have an opinion. This approach encourages those who have not come to a judgment or do not consider themselves knowledgeable to say so and thus leads to higher “don’t know” responses than generally found in other polls.

Other data come from polls by *Time*/Yankelovich Skelly and White (1985), *Time*/CNN/Yankelovich Clancy and Shulman (1997), the Gallup Organization (1956–2003), ABC News/*Washington Post* (March 2003).

these high-income Americans (53 percent) had high levels of knowledge about the tax system, while only 16 percent of the rest of the public did.

This situation is not unique. Earlier studies, both our own and those of other analysts, have shown that Americans do not have a good foundation of knowledge about how the economy operates. This situation has huge implications for the governance of the nation, as most of the public is at a disadvantage in debates about the future of tax policy. The debate may be weighted toward those at the top of the income scale, who pay the most taxes, because they have the most knowledge. Those who benefit most from the progressive nature of the federal tax system may not be able to participate fully in the debate because they know too little about how the system works. To have a broader debate over tax policy in the future, the nation’s politicians, schools, colleges, and the media will need to do a better job of informing all Americans about the tax system that so affects their lives.

In the meantime, if the economy continues to slump during the 2004 election campaign, Americans will no doubt want to hear how the candidates plan to get it moving again, and tax policy is likely to play a role in that debate. The findings presented here show that on this issue, as on so many others, Americans are fairly evenly divided. The findings also indicate that Americans’ general lack of knowledge about the tax system will give politicians and interest groups considerable leeway in framing their arguments. Both sides will need to take care not to let their opponents set the agenda. ■



Words

By Kathryn Dunn Tenpa