Them That Has, Keep: Taxes

"Anybody has a right to evade taxes if he can get away with it. No citizen has a moral obligation to assist in maintaining the government. If Congress insists on making stupid mistakes and passing foolish tax laws, millionaires should not be condemned if they take advantage of them."

—J. P. MORGAN

A MAN MAKING $6000 a year spends almost all of it on the things he needs to live: food, shelter, clothing. A man making $200,000 a year has a far wider range of choices: two houses, three cars, European and Caribbean vacations, servants, private schools for his children. A fair tax system understands this fact of economic life; that is why a tax on incomes is graduated—it takes not just more, but a higher percentage of a wealthy man's income, because the rich need a much smaller share of their incomes for necessities. A progressive tax is also a kind of balance. You have your wealth, such a system says to the rich, but you will help pay for the schools that will give the children of the un-rich a chance to compete with your children; you will help finance the hospitals to care for the men and women injured in your plants and by your products; you will help pay for the costs of pollution and disease.

That is what is supposed to happen. It does not. The American tax system is a fraud. It has been so manipulated by the legal and political hired guns of the rich that it *reinforces*, rather than equalizes, the power of wealth in America.

Legalized tax evasion has been written into the legislation, regulation, and court opinions of our tax structure. In April 1971 two Census Department officials revealed that the *real* tax rate of $50,000-a-year families was the same as for $5000-a-year families—because the affluent family had so many opportunities to deduct, exempt, and shelter its actual wealth. In 1968 Treasury Undersecretary Joseph Barr told the Congress that middle income Americans—those making between $7000 and $20,000 a year—paid a higher percentage of their incomes to the federal government than the richest one percent of Americans. In fact, he revealed in 1967, 155 taxpayers who earned $200,000 or more—including 21 millionaires—paid *no tax* at *all*. (By 1970 there were 301 tax-dodgers in the $20,000-plus bracket.) And those millionaires who did pay taxes paid an effective rate of 25 percent—the rate that is supposed to hit those with one-fiftieth of a millionaire's income.

This legal larceny flows from the special privileges granted to corporate America and its beneficiaries. In a hundred different ways, the tax law says: "All Americans are equal; but the rich are more equal than others." Even the cost of criminal behavior can be deducted from a tax bill—if the criminal is a corporation instead of a street thief. In the early 1960s, 29 of America's biggest electrical companies were convicted of massive price-fixing and forced to pay treble damages to the customers they had bilked. Thanks to the influence of high-priced, well-connected Washington lawyers, the Internal Revenue Service permitted the companies to deduct the cost of the fines—as an *ordinary and necessary business expense!* (The 1969 Tax Reform Act limited these deductions substantially by permitting companies to deduct only the one-third of the fines that represented actual reimbursement to the cheated parties.)

The impact of our rich man's tax system can be seen by looking at the most favored of American industries, the oil industry. Despite the 1969 law trimming the oil depletion allowance to 22 percent from 27½ per cent, (a cut that made a *real* difference of only 1 percent according to Senator Fred Harris), the oil industry continues to rack up enormous profits while paying a smaller share of taxes than a badly paid worker. In 1970, the big oil companies earned profits of $8.8 billion—a 10 percent jump from 1969—and paid an average tax rate of 8.7 percent. By contrast, a $6000-a-year worker—earning barely half of what a family needs for a moderate standard of living—paid a federal tax rate of 16 percent. What this means, in brief, is that one of the most important perceived grievances of working-class Americans—that the "big boys get away with murder"—is absolutely true.

Some of the big companies pay next to nothing—or less than nothing. In 1970 Texaco, with an income of $1.1 billion, paid 6.4 percent in taxes; Standard Oil of California paid 5 percent; Gulf paid 1.2 percent. Standard Oil of Ohio not only paid *nothing* on an income of $66 million, but got a 10.4 percent *tax credit*, to charge off against any future taxes it might have to pay.

The tax laws also shelter other concentrations of wealth. Mutual savings banks in 1967 paid an effective tax rate of 5 to 6 percent; savings and loan associations coughed up 15 percent; and commercial banks paid about half of what the average industry rate is. These bank privileges alone cost more than a billion dollars a year—twice the cost of the appropriation for education vetoed by President Nixon in 1969 as "inflationary." And the tax rate of private utility companies dropped from 14.7 percent of revenues in 1955 to 11.6 percent in 1967. What these companies do not pay in taxes goes to stockholders in the form of excess profits—and stockholders are overwhelmingly the richest of Americans.

TAX FAVORITISM IS NOT confined to rich institutions; it extends as well to rich individuals. Right-wing polemicists make much of of the high rates of taxation at the federal

by Jack Newfield and Jeff Greenfield

level—theoretically, those with incomes in the top bracket once paid 91 percent in taxes, and now pay 65 percent (in 1973, the top rate will drop to 50 percent). But the truth is that *almost nobody pays these rates because money earned by the wealthy is taxed less severely than money earned by the average American.*

When a taxpayer buys stock and sells it at a profit (a transaction not a normal part of an $8000-a-year life style) that profit is *not* taxed at "ordinary income" rates, but at a "capital gains" rate—a tax that exempts half of the profit from taxation and that costs the Treasury $20 billion a year. No such special privilege is given to a worker who earns extra money through overtime, or to a family in which both husband and wife work. That kind of earnings is "ordinary income."

When a rich man dies and leaves his stock to his heirs, there is no tax whatever as long as the stock is not sold. All of the enormous economic advantages of stock ownership—power to influence corporate decisions, collateral for borrowing funds for new ventures, and the like—accrue to the sons and daughters of the rich without any cost; it's a kind of economic representation without taxation. There is no such escape for the wage-earner; every dollar he makes is subject to withholding at the federal and state level.

An individual or financial institution with capital can completely escape the force of the tax law by investing money in state and local bonds, which are tax-free, risk-free, and which—despite the low rate of interest—actually are more profitable than high-interest investments. (To a taxpayer in the 50 percent bracket, a 5 percent tax-free municipal is the equal of a 10.5 percent taxable investment.)

"Charity" is another loophole by which the rich dodge taxation. A corporation or family trust can create a foundation, and can channel the largely tax-free proceeds of this institution into whatever fields it chooses. (In 1969, a 4 percent tax on the income from foundation investments was established, and some controls on the unsupervised abuses of foundations were established for the first time; before 1969, all income from foundations was completely tax-exempt.) If a millionaire decides that his foundation will support psychic research, or the private school of which he is an alumnus, he can do so and reap the tax benefits. And whether he decides to underwrite medical research, or community-action groups, it is *his* money and *his* choices—all beyond public influence. The wage-earner has no choice. His income taxes go directly to Washington and the state. He has no way to disapprove the spending of his money on projects with which he disagrees. And thus the tax law further enhances the power of the wealthy: the monies of the rich make public policy every day; between elections, the rest of us just send the tax payments to the decision-makers.

The enormous injustices written into the federal tax code were underscored by Stanley Surrey, a former Assistant Secretary of the Treasury, in a 1971 paper for the Council on Policy Evaluation. These exemptions from the tax code Surrey said, are really "tax expenditures"—subsidies to the wealthy, which in 1970 totaled $50 billion. Although these exemptions are offered under the guise of aiding social goals, the real consequence is, as Surrey puts it, that "we achieve our social goals by increasing the number of tax millionaires."

These hidden "tax expenditures" mean, for example, that a $200,000-a-year family "gets" a $70 subsidy for every $100 of mortgage payments it makes; while a $10,000-a-year couple gets only $19. The incentives for housing rehabilitation mean, in effect, that the richest of taxpayers gets a 19 percent investment credit, while an average-bracket payer gets only a 5 percent break. The measure of the outrages legislated into our tax code is that if these kinds of "expenditures" were voted on as subsidies, not a senator or congressman would have the chutzpah to vote for them. But they are just as real as welfare checks for millionaires even though they are buried under mountains of technicalities.

The inequity of taxation at the federal level is, if anything, worse at the state and local levels. Most communities finance their schools from the local property taxes: an inherently unfair method that enables wealthy communities, sealed off from their less affluent neighbors by zoning and construction restriction, to raise funds for their own children and leave the wage-earner and the poor to fight over the remaining scarce resources. States base much of their revenue-raising on the sales tax: a regressive tax, since it makes no distinctions based on ability to pay. (Two concepts many people fail to grasp are (1) an income tax at the state level may be far more desirable for the average wage-earner than a sales or property tax increase, and (2) a 6 percent sales tax is *regressive, not equal,* since it makes no distinction on ability to pay; the millionaire and the waitress pay the same tax on food, clothing, and recreation.)

The inequity of the property tax is compounded by the free ride given to giant "public" or "charitable" institutions in the form of exemptions from the property tax. Nearly *one-third* of the $850 billion of real estate in America is tax-exempt; leaving the homeowner and the marginal shopkeeper, as well as the big real estate and financial interests, to pick up the slack. Some of these exemptions are legitimate: hospitals, purely religious or charitable institutions, and the like. But billions of dollars worth of property that is exempt actually enriches the wealthy: private clubs, for example, in the big city, or foundation offices that would normally be assessed at several million dollars. In some cases, the financial return to the elite is direct, and directly at the expense of the nonwealthy.

Say, for example, a bank, financial institution, or millionaire purchases the bonds of the Port Authority of New York—an interstate compact with the responsibility for running both the bridges and tunnels between New York and New Jersey and the three metropolitan airports. The Port Authority can decide—as it has—to enrich itself by going into the real estate business and building two 110-story kleenex boxes called the World Trade Center. Because it is a "public" institution, no public authority can stop the Port Authority—not the mayor, not the governors of New York and New Jersey, not the city council or state legislature or Congress; not even a public referendum. The Port Authority has total power to condemn the property,

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suddenly with a couple of extra dependents, their ages better be between zero and one. But that is only intuition—because the IRS is very secretive about its computer program.

Occupation. You may want to have been employed in "outdoor sales" or in "business" last year, because each occupation gets a few tax breaks. Also, and again it's no more than intuition, the computer's average deductions

allowed to such occupations may be a bit more generous. People in outdoor sales are permitted to throw more of their deductible expenses into the "adjustments to income" sector, which is advantageous to the taxpayer (So what if your mother didn't raise her child to be a salesperson. She didn't raise you to be poor either). Or you may have larger ambitions, and decide to be a businessman (woman), but you can't be both. An outside salesman is an employee, hence you would have a *salary*. A businessman is an owner, but could also have a salary, with his business being a part-time activity. Salesmen fill out Form 2106, businessmen complete Schedule C (part of 1040). (We will now separate into workshops, all you salespeople over in that corner, businessfolk over here.)

Form 2106 Employee Business Expenses (for salesmen and other non-entrepreneurs) invites you to deduct business expenses that you as an employee incurred, but which were *not* reimbursed to you by your boss. While the form provides blanks for travel expenses only, you can claim *any* expense that your boss would be eligible to deduct as business expense (and that of course includes damned near everything imaginable). Particularly innocuous are deductions for a portion of your apartment or house, which you use as an office, but for which your boss does not pay you. Most everyone can get away with this one, and it's easy to figure out.

Look around your home and anoint one of the rooms as your office. Figure out a rough estimate of the percentage of your home's total square footage represented by this room, and apply that percentage to the following living costs: rent and utilities, casualty insurance, repairs, depreciation (on house, not land value). This *pro rata* share can be deducted from your income taxes as unreimbursed business expenses. It gets reported under part 2, Form 2106, *if* you itemize your deductions; otherwise, it gets reported under part 1, at item 4.

Travel, paid by you and unreimbursed by your employer, is also quite common and you should not be bashful about deducting it. Under item 1, you are allowed the full cost of overnight trips, and can use $32 as a permissible *per diem* covering expenses under 1b, 1c, and 1d. Airline tickets are separate, they get reported in 1a. Item 2 is for short trips and errands, not overnighters, and you can use 15¢ per mile for auto expenses, plus tolls, parking and gasoline taxes, which are extras, outside of the 15¢ rate. If you are an outdoor salesman, under item 3 you will want to consider gifts to clients and prospective clients, postage, office expenses, and a lot of *et ceteras.*

The bottom of the form, part 3, is for the truly audacious taxpayer who claims deductions for the cost of education. Education expenses are a little tricky, in that they are only deductible if:

(a) you already had a job before you started school;
(b) that job required you to improve your skills to keep it; and
(c) your education *directly* helped you to keep the job or payrate.

Note however, that here, as is generally true wherever you find a bunch of qualifications and rules, two observations seem warranted: first, if the IRS has erected such fences around a deduction, it's a goldmine and therefore deserves your attention; and second, the IRS probably has locked some limits into the computer, so if you claim education expenses that are not legitimate, or if for other reasons you want to avoid an audit, better go easy in this category, maybe throwing in books and a few fees and transportation to and from class. Note that you should fill in part 3 on form 2106 if you claim educational expenses, and put the total claimed deduction in item 4 under part 1, without showing the details that make up the total. That's it for you employees, take a five minute break now, and then we'll meet back together with the business caucus.

Profit or (dig it) Loss from Business or Profession, Schedule C. In order to have business income and expense, we must have a business, more exactly, we must *have had* a business last year. That is a lot easier than it sounds. Just as thousands of the rich have hobby farms, Bermuda properties and other tax deductible bogus businesses whereat they vacation and entertain, so can we have modest cottage industries to shield from taxes our modest incomes: pottery, weaving, consulting, writing, contract research—dream up your own. It is not necessary that you actually make any money at your chosen business; indeed it isn't even required that you actually succeed in selling anything—only that you tried (you did *try*, didn't you?) and that the deductions you are claiming were "incurred to generate income." No, you do not have to incorporate, or have partners, or have an office or a business address—none of that camouflage is necessary. Build your business around your interests, so that you can travel tax deductibly when you are really vacationing. For instance, school teachers can write off their trips by "studying architecture" and such. Now that you have discovered your business, let's see how much money it lost you last year. All references are for Schedule C of Form 1040. For "C," fill in "None," for "E" check "Cash." "F" is "No," and so is "G." Now for the line count.

Line 1. Gross Receipts. I recommend that you plug something in here representing *cash* sales. This provides the appearance of a going business. But how can you prove any number you put here? You can't and, if you get audited, you admit that it was just an estimate, and that you did not keep any books or records. For a totally fictitious business, say a potter, weaver or jewelrymaker, plop in about a hundred dollars.

Line 2, 3: Category zero, unless you have decided to be a retailer, in which case go out and find yourself an accountant to help you with your taxes.

Line 4. Cost of Labor. This is money you paid to others for helping you. It is *not* money *you* earned. Here again, since you kept no records, and since it was only occasional part-time help, you are not required to take out social security and all that nonsense. For the phantom business, say an artisan operation, you should throw in a few hundred dollars here. I found that $400 worked nicely in my example, but season to your own taste.

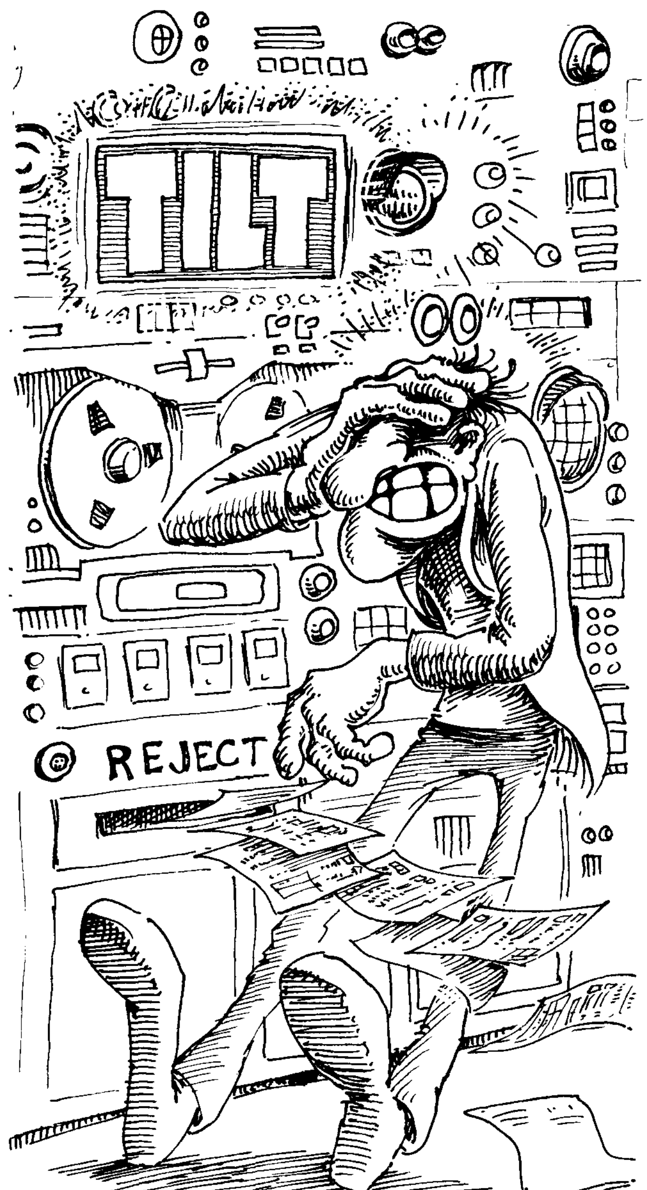
Line 5. Materials and Supplies. Every artisan has some of these, and the total should be less than your gross receipts in Line 1 above—say $80 or so. Of course, you don't have receipts; after all you aren't an accountant.

Lines 6-23. Skip all this junk.

Line 24. Other Business Expenses. Here is the soft underbelly of the tax system, for into this category can go your mini-equivalents of all those outrageous deductions that real businesspeople get away with. Like entertainment of potential clients/customers, like gifts to your employees, like "recreation" for your employees, and travel by you while "tending" to business, and automobile expenses and . . .

But, you must not scale your expenses too far above the "reasonable" standards prescribed by the size and nature of your business. This means that a free-lance janitor can't deduct a European trip—but a free-lance "travel consultant" might. So be guided by good sense.

Travel is always a good deduction to take. The IRS expects it and has even set up some guidelines for us to follow. Guidelines we like, of course, for they give us hints about the tolerances built into the system—sort of a floor-



plan of the bank. In order to deduct a trip, it must be an overnighter, and if less than a week long, it can be a mixed vacation/business trip for which you are not required to differentiate between the costs of the two for tax purposes. For *per diem,* in addition to the cost of airline tickets, etc., you can lay on the $32 per day.

But don't abuse this travel opportunity if yours is a phantom business. A two-day trip worth $100 should be safe. Of course your auto expenses are deductible—at least the part of them that were business related. But if your claim is totally phony, and you have been taking my suggestions so far, then play it safe here too: keep the business percentage below 50 percent, and the business mileage beneath 4000 miles (which at 15¢ per mile is worth $600 expense). And that's it, an instant business which lost, by my figures, around $900 last year. Now back to the plenary session, and Form 1040.

Itemizing Deductions. Beginning at line 18 on Form 1040, bouncing from there to line 46, thence to Schedule A, we arrive at our itemized deductions (. . . where the goodtimes roll, all night long . . .). It is here that we are to hew to the IRS line, striving to achieve normality, packing in there tight with the herd. Here are the averages for 1968 modestly adjusted upward by 10 percent to allow for inflation and for a margin by which the IRS probably permits you to exceed the average before they pull you in.

Your Income From Line 18, Form 1040	Amounts You Can Deduct, on Schedule A, for			
	Contributions	Medical & Dental	Interest	Taxes
$ 5000-$ 6000	$250	$380	$400	$400
6000- 7000	250	360	480	480
7000- 8000	270	360	550	550
8000- 9000	285	340	610	610
9000- 10,000	310	350	680	675
10,000- 15,000	350	325	810	880
over 15,000	Get yourself a tax accountant			

Contributions. Following our strategy of staying within the fences, it is better to nickel-and-dime cheat on each item than it is to try to pad up large on one item, such as contributions. However, if you are up to it, you might try to score big under contributions by becoming a Mormon or a Seventh Day Adventist. They tithe regularly. For you of little religious training, tithing is giving a fixed percentage, usually 10 percent of your income to the church. So if you feel the calling, put a simple "L.D.S." (Latter Day Saints) or "7DA" to the left of your 10 percent figure under contributions, and when the agent writes you about proving to him your piety, tell him you paid it all in cash, and hence have no receipts. Note this, however; the Mormons do not pass the plate, and the IRS knows this. Short of going for this big score, you can still take your allowed average from our little table above, and by way of explanation list church, Boy Scouts, Goodwill, etc., being always careful not to put too much under that suspicious category, *et cetera.*

Taxes. Note that the table allows you a total of $400-$880 in tax deductions, but also note that Schedule A requires you to itemize just where you paid all those taxes and further delineates the amount allowed you for gas taxes and sales taxes. By all means abide by the formulas they provide for these latter two taxes, for surely the computer is wired to verify them; then dump what is left over into the "real estate" tax line. So you don't own a house, shrug your shoulders and say "I thought my rent included property taxes. Doesn't it really?"

Interest. Here again, the table allows you $400-$810, and the form makes you itemize. If you don't own a house, leave "home mortgage" blank and dump all of your interest into "installment purchases." At 18 percent interest on such purchases, your $400 deduction represents an outstanding debt of about $2000 throughout the year, which is not unbelievable, considering everyone who is average is buying a Camaro on time payments.

Medical and Dental. In order to get your $325 to $380 allowance, you have to work backwards, up the Schedule A Form, first putting in the answer at line nine and then, in this order, filling in the remaining blanks: 18, 7, 1, 8, 6, 3, 2, 4, 5. Under 5, list some figures for "doctor and dentist, eyeglasses," whatever your affliction may be.

Miscellaneous Deductions. Here we must be cautious, for we know not what is allowed or average. Note however, you employees and salespeople, that your Form 2106 total for Part 2 gets carried in here. You may also drop in here the costs of uniforms, union dues, tools and of course the cost of this RAMPARTS and any other "tax guides" you use to prepare your return. Also, you could lose your bicycle to a thief last year and earn yourself a "casualty loss." The first $100 doesn't count, but lots of 10-speeds run $150-$200 these days, which nets you a $50-$100 deduction. Finally, bad debts are deductible. Your friend split with your $50 last year, haven't seen him since, don't know where to find him.

THAT'S ABOUT IT FOLKS. It wasn't much of a bounty, I know; but, as I said earlier, we are doomed to play with a stacked deck. Let's see how we did, comparing the taxes paid by a taxpayer using the standard 10 percent deduction, versus a hypothetical tax cheat using the advice above. Example: Income $5000, 4 dependents, a small artisan in his spare time who last year lost $700 on his business. Had he simply taken the standard deduction, his taxes would have been $176. "Our way" his tax is $20.

Example: Income $8000, 2 dependents, an outside salesperson who spent $400 on expenses not reimbursed by an employer. Taking the standard 10 percent deduction, his tax is $918, our way it is $700.

Depending on your level of audacity and your threshold of paranoia about the IRS, it seems that you can save a couple of hundred tax dollars. While I am convinced that my IRS agent informer is right, that criminal fraud charges are just never brought against petty tax chiselers, I am even more sure that, even if the feds do come after you, they cannot prove a thing. For they must depend on your own testimony, as there is no other information to show what you did *not* do last year. And then there is the Fifth Amendment. If you use the tips here offered, please do so in the spirit in which they are intended—it is a penny ante strategy played along the edges of a much larger game, where the big boys have the good seats and all of the chips.

Bob Cratchit is the pseudonym of an accountant now serving 2–10 at Soledad for, we hasten to add, embezzlement, not tax evasion. His Buy Now; Pay Never: A Bankrupt's Handbook, *is to be published this summer.*

Big Sky: Chet Huntley's New Home on the Range

"The open lands are a vital resource to this country, and we're against giving away any public lands at all. If they were moving a whole community of people out of some Eastern ghetto . . . really re-distributing the population, then it would be different, but these are going to be second homes for the wealthy. Instead of opening up the land, it's going to mean that more land will be cut off from the people."

WHEN I LEFT BOZEMAN, MONTANA, it was just two weeks before Christmas Eve. Waiting for the train out—which had been stalled by a blizzard and 100-mile-per-hour winds just up the track—I found myself filled with a melancholy anger. Five days I'd spent in this town of 18,000, nestled in the Gallatin River Valley of Southwestern Montana, and it had been warm and friendly, with invitations to home-cooked dinners almost every night. Yet running beneath that sense of *bonhommie,* I had a gnawing apprehension that for the people of Bozeman this would be the last year they would share an ordinary, small-town Christmas, the sort of thing where even the National Forest Service could welcome tree-hunters on public land without fear of abuse. By next Christmas Bozeman will have ceased to be the remote mountain spot of its last hundred years, for then it will have on its periphery one of the largest, poshest, most highly advertised resort "retreats" in the nation. Big Sky of Montana, Inc.: Chairman of the Board, Chet Huntley; principal owner, The Chrysler Corporation of Detroit, Michigan.

Why Bozeman? There are several answers, all of them shrouded in the dynamics of one of the largest land grabs of American history. The "recreational complex" at Big Sky is but one of a score of industrial real estate investments pocking the Rocky Mountains whereby giant national and international corporations are hoping to clean up on the annual escape of urban Americans to the rural wilderness.

Named after the term first coined by novelist A. B. Guthrie, Big Sky has been Chet Huntley's pet project since well before he left the television news business. Like the cultural revolutionaries who have moved to the countryside in recent years, Chet Huntley tells everyone he came back to his mountain roots because of the crime, the congestion, and the vicious pace (including nightly deadlines) of urban living. Musing scholarly, he wonders aloud if maybe "rural America" might not provide the only salvation to the deathly lifestyle that has overtaken nearly all our cities. He implies as much in his recent early memoirs, *The Generous Years: Remembrances of a Frontier Boyhood.* A paean to the rugged values of rural living, he opens the book on his first memory of Montana: "The iron tires of the spring wagon rolled silently along the twin wheel tracks worn into the

by Frank Browning