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# All so taxing

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Will Sen. John Kerry's tax plan, as he says, actually increase the tax burden on the rich? Probably *not.* The one who pays a tax is frequently not the one who bears the burden of the tax. This fact has led to much bad tax policy -- and parts of the Kerry tax plan will only worsen the situation.

The good parts of the Kerry plan, i.e., the reduced corporate tax rate, have gained him the ire of his labor and left-wing supporters. On the other hand, the bad part of his proposals, such as ending corporate tax deferral on foreign income and increasing the marginal tax rates of the upper incomes, have earned him the justified scorn of most economists and tax experts.

Over the next several months, both President Bush and Mr. Kerry will have ample time to develop sound and coherent tax programs. In evaluating their proposals, it is important to understand the difference between who pays the tax and where the tax burden actually falls.

Politicians get political mileage by saying such things as: "Let's increase taxes on greedy corporations." It sounds great until one begins to reflect on exactly who these "greedy" corporations are. Who actually owns these corporations? Is it some small group of fat rich old men? Or is it all those Americans who have pension funds, 401(k)s, mutual funds, etc.? The fact is most Americans are the real owners, directly or indirectly, because their pension funds and mutual funds own most of the stock in America's biggest corporations.

Some argue the corporation owners bear most of the burden of the corporate income tax. If that is true, those tens of millions of Americans with some of their pensions and savings in corporate stock suffer from any increased corporate tax.

Others say the corporate tax burden is passed on to workers in the form of lower wages, or to the companies' customers by higher prices and less service. It is also clearly true the corporate income tax reduces the capital a company has to invest in new equipment and hire new workers.

In the real world, parts of the corporate tax burden do fall on workers, customers, suppliers and investors. This relative burden varies widely from company to company, depending on differing circumstances. But no matter how you slice the burden, it is unambiguously clear the corporate income tax reduces job creation and economic growth.

Another greatly misunderstood tax is the "inheritance" or "death" tax. Proponents argue it is a tax on the rich. The problem with this argument is the person who was rich is now dead, and hence cannot be taxed. The beneficiaries of the rich person's estate may or may not be rich.

For example, suppose a rich man left an estate of $10 million to be divided equally among 1,000 poor people he had identified before his passing. If the tax rate was 50 percent, each poor heir would get $10,000 but, in effect, would have to pay a $5,000 tax on it. Is that good policy?

Take the other extreme, and assume Bill Gates' father, on passing, gives his multimillion-dollar estate to Bill Gates. The fact this inheritance is subject to the same 50 percent tax as in our first example probably will not be considered as unjust as when a poor person receives $10,000.

But again, let's look at the true burden of the tax. The question must be asked: Who is likely to make better use of the money -- Bill Gates or the U.S. government? One can argue Bill Gates already consumes as much as he wants, so any additional money he receives is likely to be invested, and he has an investment track record of creating many jobs and greatly increasing productivity.

Again, in the real world, most rich people leave substantial parts of their estates to people who are not rich, and these people of modest means bear the real burden of the high death tax rates, as well as do all who remain jobless because of reduced investment.

Finally, some on the left (and Mr. Kerry) have said they want higher taxes on the rich -- which seems to mean someone making more than $200,000 per year, or slightly more than the salary of a U.S. senator. When most people think of the rich, they think of people who have a lot of assets, including several luxury homes and boats (like Mr. Kerry).

However, many of those making $200,000 a year are not rich. Take a young doctor who recently graduated from medical school with several hundred thousand dollars in debts incurred for her medical education. Her income may be high, but she has a negative net worth and thus certainly is not rich. The Kerry proposal, by increasing marginal tax rates of those who are working hard to become rich, will actually limit the number of the rich to those who already are rich.

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