

Updating the American Tax System:

American Attitudes and
Support for Tax Reform

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Updating the American Tax System: American Attitudes and Support for Tax Reform

Matthew Streit

Executive Summary

Tax reform has potential to become one of the key issues of public debate in 2015. President Barack Obama acknowledged several desired adjustments to the tax code on his agenda during the 2015 State of the Union Address. Senate Majority Leader Mitch McConnell and Speaker of the House John Boehner have jointly expressed that simplifying America's 'insanely complex' tax code is a top priority.

While not quite as dominant an issue as jobs or healthcare, Americans nevertheless care about the current tax system—they believe it is crucial to keep taxes as low as possible to stimulate investment and growth, and harbor serious concerns about how the current system works. Most significantly, Americans perceive the tax system to be **unfair**. They believe that some in society get away with not paying their fair share of the tax burden. Second, they believe the system is **corrupt**—too much favoritism and cronyism driven by a government that has too much power to pick winners and losers. Finally, voters believe the tax code is **too complex**. These combined factors lead a majority of Americans to believe it's time to update the tax system.

Admittedly though, few voters have heard, read, or seen anything about tax reform recently, and there are very few who consider themselves to be informed or active followers of the issue. Moreover, misinformation fuels misperceptions about who is carrying the tax burden and what fairness demands. That said, research demonstrates American interest and support to update the tax system is quickly stirred and, ultimately, builds support for conservative tax policy solutions.

This paper highlights findings of a national study of how voters view tax reform today, gauges reaction to policy approaches, and provides insights to effective communications on the issue. The first section explores the general landscape of American perceptions and priorities relating to tax reform. Next, the paper discusses public response to approaches and policy alternatives. Finally, the paper demonstrates the impact information and communications have to increase support to update the tax system and replace it with conservative alternatives.

Methodology

The American Perceptions Initiative, a project of The Heritage Foundation, conducted a market research study of voters' familiarity and perceptions of tax reform in America. The market research also gauged their level of understanding and support for various tax reform principles and policy approaches.

The American Perceptions Initiative's research is conducted in partnership with Vision Critical and Heart+Mind Strategies, and is fielded online with the Springboard America platform. Vision Critical is a well-respected research firm based in North America, with research specialists that cover

subjects including public opinion, health, technology, consumer goods, media and travel. They work with household brands, government bodies, not-for-profit organizations and the media to help them better understand their customers and stakeholders. Heart+Mind Strategies is an experienced and award winning consulting firm specializing in winning the hearts and minds of the people that matter most to their clients' success.

The American Perceptions Initiative's study on tax reform was conducted online from December 9-16, 2014 among over 1,000 registered voters.

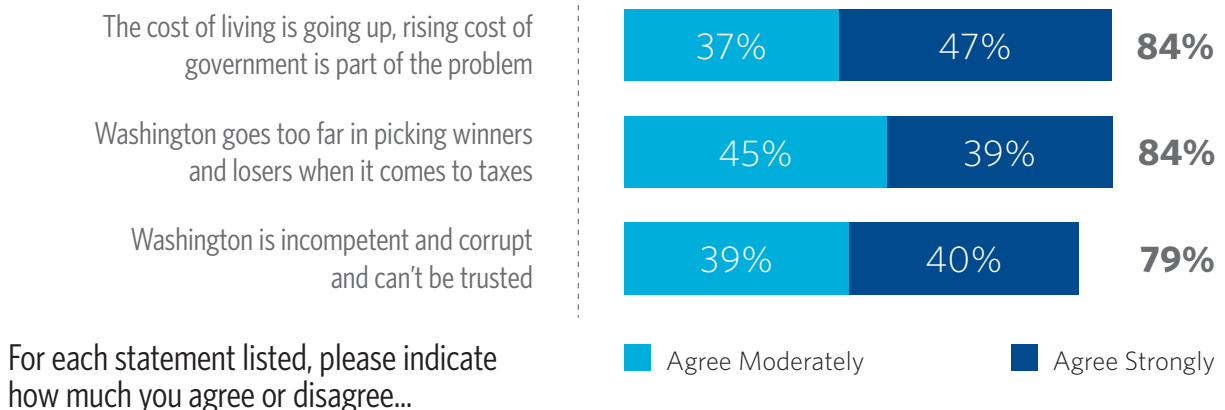
Part I: American Perceptions and Priorities

The American Mood and Tax Reform

Despite some signs of economic improvement, most Americans are still struggling to make ends meet and they see government as part of the problem. Eighty-four percent (84%) agree “the cost of living is going up, [and] rising cost of government is part of the problem.” Moreover, it is not just the growing size and rising cost of government that

concerns people. People do not trust our government. Seventy-nine percent (79%) believe “Washington is incompetent and corrupt and can’t be trusted.” Eighty-four percent (84%) believe “Washington goes too far in picking winners and losers when it comes to taxes.”

Washington a Big Part of the Problem



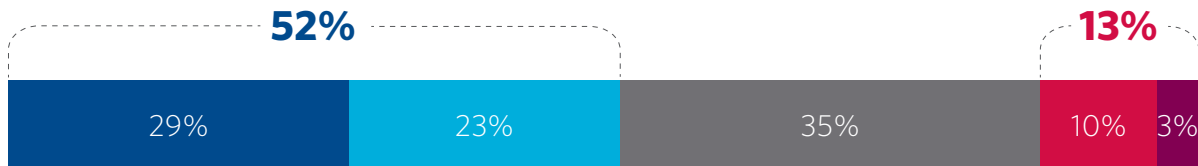
Amidst the ongoing struggle to make ends meet, it is not surprising the most important issues voters are concerned about include affordable healthcare, jobs, and economic growth. But Americans also express high levels of concern about government spending, the national debt, and tax reform—yes, tax reform.

While not the most important issue, for most Americans, tax reform is just as important as

immigration, and more important than welfare spending, education, or other social issues. A slim majority of Americans (52%) currently support tax reform based on what they have been hearing and reading. A sizeable 35% are not sure if they want Congress to attempt tax reform, perhaps reflecting a general lack of awareness on this topic. Only 13% would be against any effort to reform the tax system.

Majority of Americans Support Tax Reform, but a Large Number Still Uncertain About Undertaking Reform

52%
Support



Based on what you have heard, read, or seen, which of the following best describes how you feel about federal tax reform?

■ Strongly Support
 ■ Somewhat Support
 ■ Undecided
 ■ Somewhat Oppose
 ■ Strongly Oppose

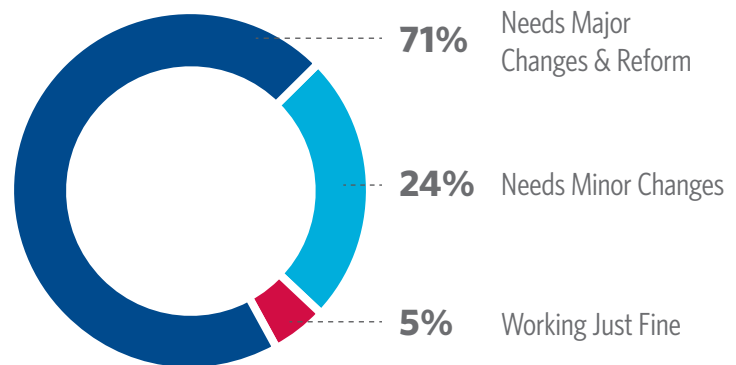
However, after just a small amount of attention focused on the current system and the possibility of alternatives, **seventy-one percent (71%) of all Americans agreed that “federal tax policies and**

the tax system in America ... needs major changes and reform.” Only 5% believe the system is working just fine.

Tax System Needs Major Changes and Reform

To generate the revenue or money that is used to run the federal government, **our nation relies on a series of tax policies and laws.** These laws establish the tax rules and rates for individuals and companies and determine who pays and how much they pay.

Thinking about federal tax policies and the tax system in America today, do you believe...?

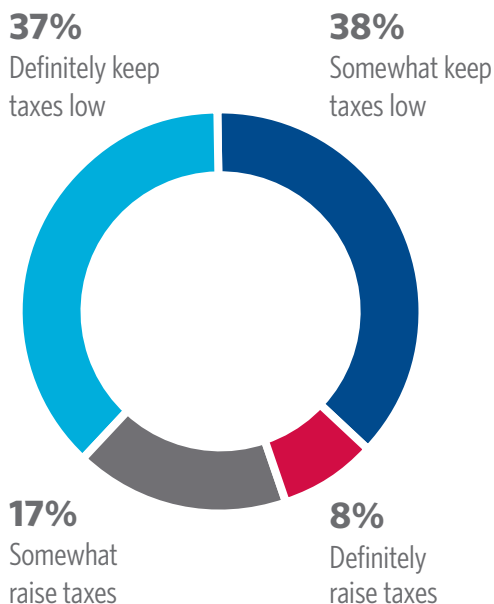


What Americans Want out of Tax Reform

There is widely shared agreement among Americans, by a margin of nearly three to one, that there are greater benefits for the country in keeping taxes low than raising taxes. Seventy-five percent (**75%**) believe “**taxes should be kept as low as possible to stimulate investment and growth** that will ultimately lead to more prosperity, higher wages,

and subsequently more money paid in taxes to fund the needs of a growing country.” Only one in four (25%) Americans believe “taxes should be raised to generate the money needed to fund government programs to help those in need and to provide more services for the common good.”

Americans Strongly Prefer to Keep Taxes Low to Stimulate Investment and Growth



75%

Other people believe **taxes should be kept as low as possible** to stimulate investment and growth that will ultimately lead to more prosperity, higher wages, and subsequently more money paid in taxes to fund the needs of a growing country.

25%

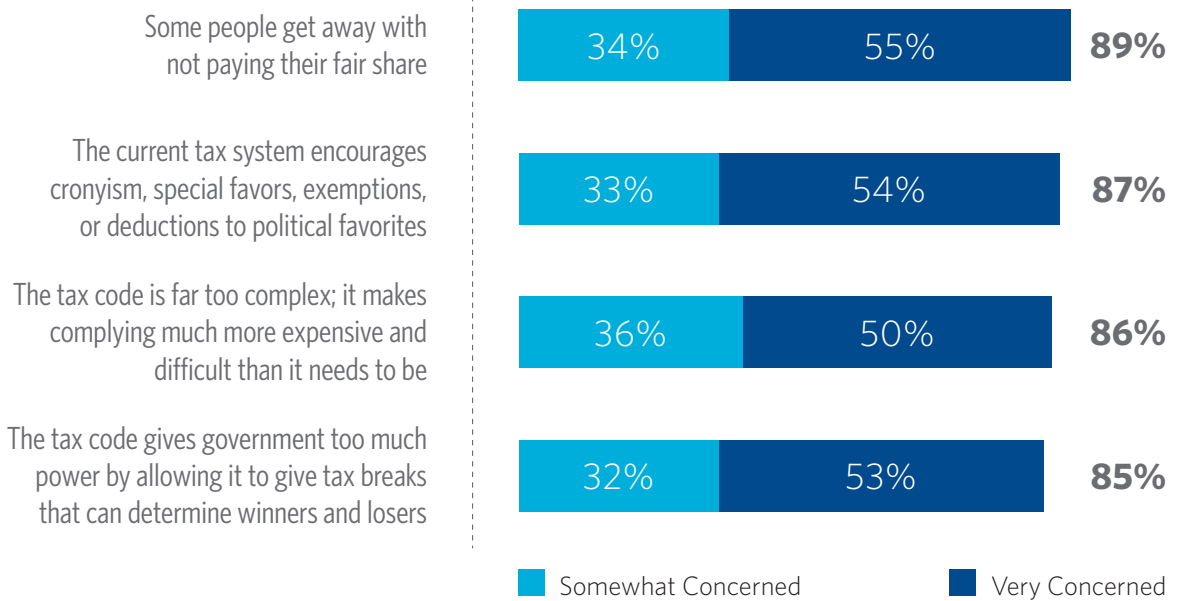
Some people believe **taxes should be raised** to generate the money needed to fund government programs to help those in need and to provide more services for the common good.

Which of the following best describes your view of the purpose of taxes in America?

Further, **the desire to fix the tax system is built on shared concerns that the current system is unfair, corrupt, and too complex.** Nearly nine in ten Americans (89% somewhat/very concerned) feel “some people are getting away with not paying their fair share.” A similar number (87%) believe “the current tax system encourages cronyism, special favors,

exemptions, or deductions to political favorites” and “gives government too much power by allowing them to give tax breaks that can determine winners and losers” (85%). But that is not all, 86% express concern that “the tax code is far too complex—it makes complying much more expensive and difficult than it needs to be.”

Major Concerns About Tax System



Division and Confusion About Fairness

“Everyone needs to pay their fair share” is the most oft repeated refrain when people are asked what needs to be changed in the current tax system. Yet there are sharply different views about how to address the “fairness” concern, which are in part fueled by whopping misperceptions about how the tax system works, i.e., who is paying what share.

A slight majority of Americans (**56%**) believe fairness means “everyone pays an equal share or percentage of their income in taxes. Lower

income families would pay less because they make less and the rich will pay more because they make more—but they both pay the same percentage.”

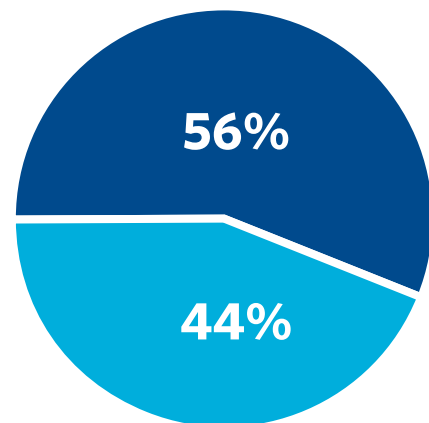
Forty-four percent (44%) believe fairness means “those that have more should pay more and those that have less should pay less. It is not enough that both pay an equal share of their income in taxes. Those with the most should pay an even higher percentage of their income in taxes and those that have less should pay a lower percentage in taxes.”

America Divided on What "Fairness" Means

Fairness means **everyone pays an equal share or percentage** of their income in taxes. Lower income families would pay less because they make less and the rich will pay more because they make more—but they both pay the same percentage.

Fairness means **those that have more should pay more and those that have less should pay less.** It is not enough that both pay an equal share of their income in taxes. Those with the most should pay an even higher percentage of their income in taxes and those that have less should pay a lower percentage in taxes.

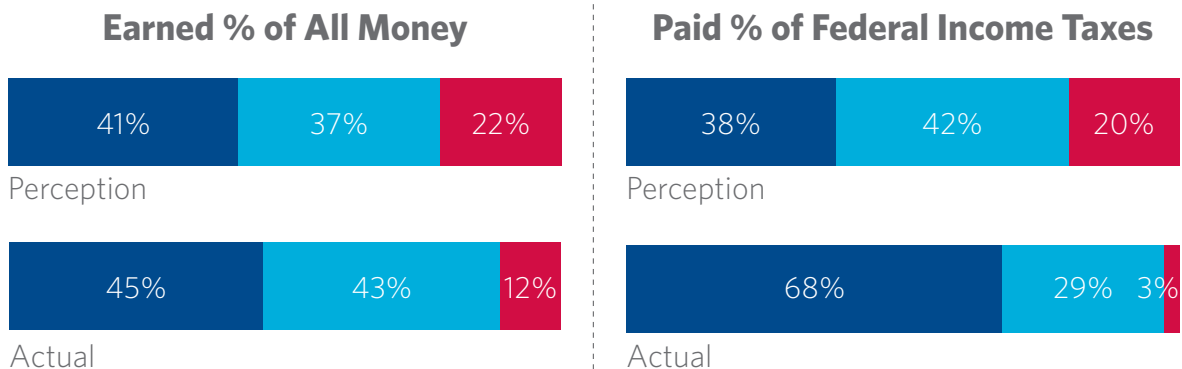
You hear the term “fairness” used quite a lot. Most people agree that no one below the poverty level should pay taxes. For everyone else above the poverty level, which of the following best describes what you consider to be fair when it comes to paying taxes?



Moreover, beliefs of who is or is not paying their fair share in taxes are based on grossly misinformed perceptions. While Americans are pretty accurate in their understanding of who makes the money in America, they sharply underestimate the proportion of the total tax bill paid by the top

10% of Americans. Americans believe the top 10% of Americans make about 41% of all the money—pretty close to the 45% actually made. By contrast, voters believe the top 10% of Americans pay 38% of federal income taxes collected when in fact they pay 68% of all the taxes.

Americans Grossly Underestimate the Amount of Taxes Paid by Top 10% of Americans



Thinking about **all the income earned or the money made by Americans in their jobs and from their investments**, about what percent of it do you think comes from the people in each of the following income groups?

Now thinking about this a little differently—with respect to **all the money the U.S. Government collects through federal income taxes**, please indicate what proportion comes from the following income groups.

■ Top 10% (\$120K +)
 ■ Middle Income (\$35K - \$120K)
 ■ Bottom 50% (< \$35K)

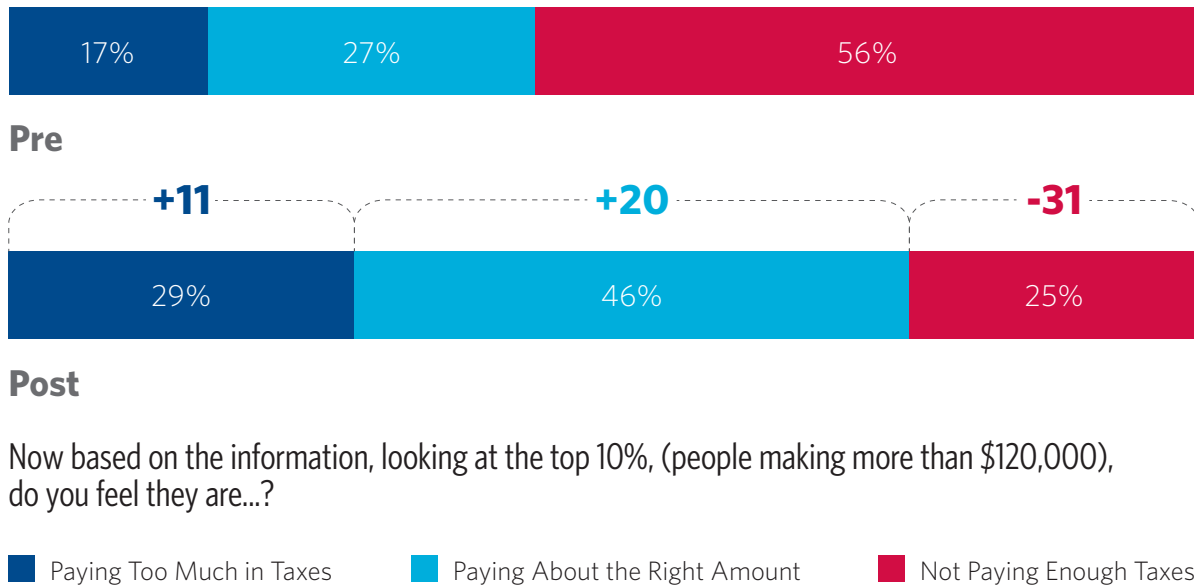
75% think top **10%** pay right amount or too much when given accurate information

Based on a gross misunderstanding of who pays how much of the nation's taxes, most Americans believe the wealthy are not paying enough in taxes. When provided with accurate information about the amount of federal income taxes paid by the

wealthiest 10% of Americans, only 25% continue to feel the wealthiest are not paying enough; 46% feel they are paying the right amount and 29% believe the wealthiest are paying too much.

Accurate Information Sharply Changes Perceptions of Who Is Paying Their "Fair" Share

TOP 10% WITH HOUSEHOLD INCOMES OF \$120K+

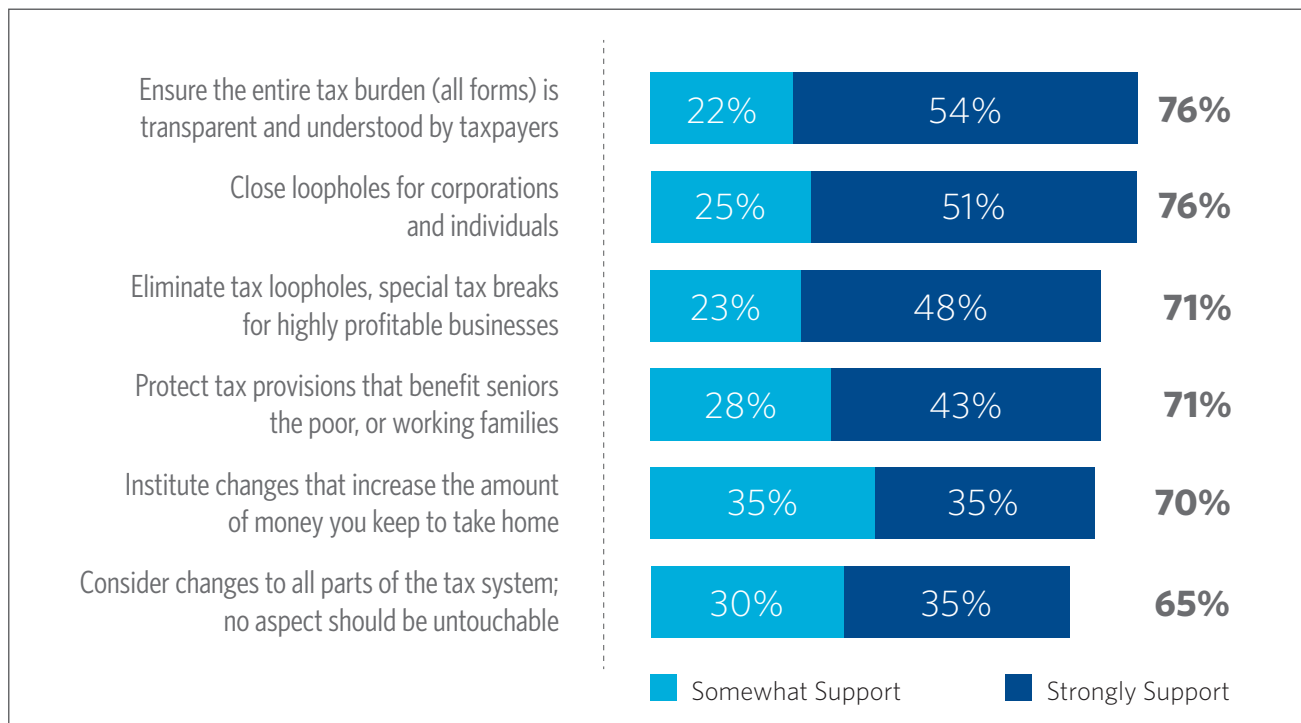


Part II: Reactions to Approaches and Alternatives

Favored Approaches Match Concerns

Given the strong concerns about the current tax system, it is not surprising to see voters place an emphasis on approaches that focus on the concerns of fairness, corruption, and complexity. The approaches to updating the tax system that garner the most support include:

- Ensuring the entire tax burden is transparent and understood by taxpayers
- Closing loopholes for corporations and individuals
- Eliminating tax loopholes, special tax breaks for highly profitable businesses
- Protecting tax provisions that benefit seniors, the poor, and working families
- Instituting changes that increase the amount of money you take home



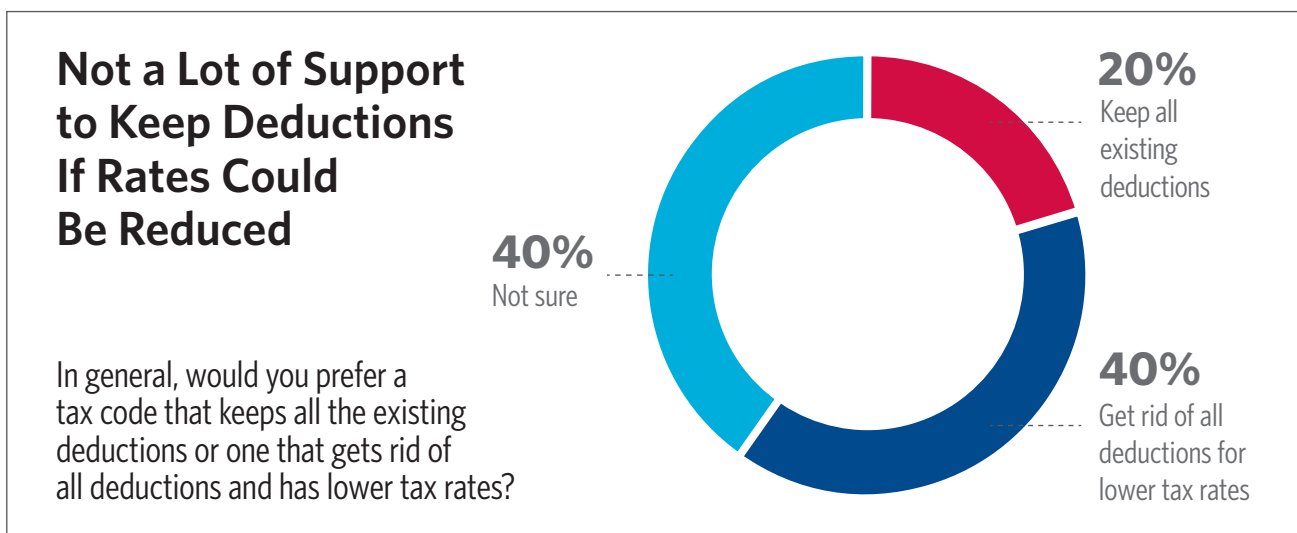
Notably, while voters are concerned about protecting provisions for seniors, the poor, or working families, they are largely open to considering

changes to all parts of the tax system, indicating flexibility on how these groups are best cared for.

Mixed Perspective on Deductions

Another common thread from these approaches is addressing the numerous deductions available in our tax system. Some American voters perceive these deductions as loopholes which allow some taxpayers to get away with not paying their fair share. Voters also believe deductions mire the tax code, adding complexity and making it much more difficult for everyone to get the full tax savings they deserve.

As a result, attitudes toward deductions generally are not favorable. Only one-in-five would like to keep all existing deductions the way they are now. The remaining 80% are split evenly between those who are uncertain about what to do, and those who would like to get rid of all deductions and simply offer lower tax rates instead.



When assessing the current tax system, the majority of voters feel there are several deductions that are very important, including:

- Medical expenses and health savings accounts
- Mortgage interest and property taxes
- Employer sponsored health insurance
- 401(k) and IRA contributions

- Education expenses
- Child and dependent care
- Student loan interest
- All savings

However, while Americans have affinities for certain deductions under the current system, they are more amenable to alternative tax systems altogether.

Support for Alternatives

There is a significant degree of interest in alternatives to the current federal income tax system. While voters are not very familiar with alternative systems, there are clearly appealing aspects to them.

We provided voters with a short description of three alternative approaches:

1. National Sales Tax;
2. Business Transfer Tax; and
3. Flat Tax

Three Approaches Assessed by Voters

NATIONAL SALES TAX

Instead of taxing the amount of money a person makes, the national sales tax would **tax the amount of money a person spends**, but spending below the poverty level would not be taxed. Goods and services would be taxed at the same rate. Individuals would not have to file tax returns and would have nothing withheld from their paychecks. Any money they save or invest would not be taxed.

BUSINESS TRANSFER TAX

The business transfer tax would completely eliminate all federal income taxes Americans pay. Instead **businesses would be taxed on the goods and services they sell** to Americans. All businesses would pay the same tax rate. Of course, businesses would increase the prices they charge for their goods and services in order to cover those taxes. As a result, individual Americans would no longer have to file tax returns or pay taxes to the IRS and would have nothing withheld from their paychecks.

FLAT TAX

A flat tax would replace the current system with **two taxes—one on business and one on individuals**. The tax would have a single rate once payroll taxes were taken into account. Businesses would pay tax on U.S. sales of goods and services after subtracting purchases from other businesses and wages paid. Individuals would pay tax on their wages, after a standard deduction and allowance for children. There would be a single tax rate applied to businesses and individuals.

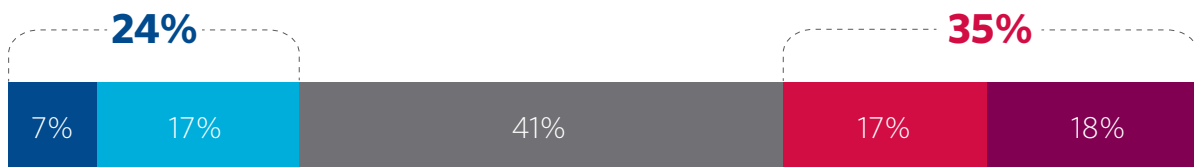
While about a third of voters are not sure how they feel about these new alternatives, the preponderance of voters support both the National Sales Tax and the Flat Tax approaches.

Most telling is the fact that after learning just a little bit about these alternatives, **only one in five (20%) would want to continue with our current federal income tax system, 80% would prefer one of the other alternatives.**

Interest and Support for Alternative Approaches



National Sales Tax



Business Transfer Tax



Flat Tax

There are a few alternatives under consideration to replace our current federal income tax. Please review each option and indicate your level of support or opposition for each.

■ Strongly Support
 ■ Somewhat Support
 ■ Undecided
 ■ Somewhat Oppose
 ■ Strongly Oppose

Few Want to Keep Current Tax System

NATIONAL SALES TAX AND TAX ON INDIVIDUAL INCOME EXCLUDING SAVINGS ARE MOST PREFERRED

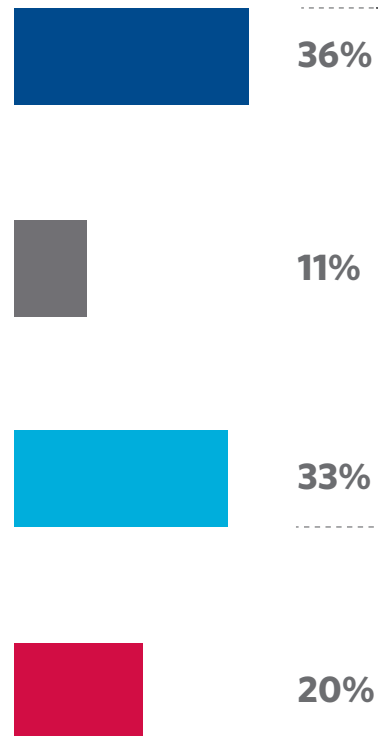
A national sales tax—a tax placed on every product or service you purchase where you are paying that tax on top of the cost of the product or services. You no longer file or pay federal income taxes.

A tax on business transactions—a tax businesses pay for all the products or services they sell. As a consumer you do not pay this tax directly—businesses pay this tax, but pass the increased costs along to customers in the prices they charge for their products and services. You no longer file or pay federal income taxes.

A tax on individual income excluding savings—very similar to the current federal income tax system, except money you save or invest is not taxed. You would still file and pay federal income taxes, but not be taxed on any money you save or invest.

The current federal income tax system—nothing changes from the current system. You would still file and pay federal income taxes on all the money you make.

80% prefer alternative to current system



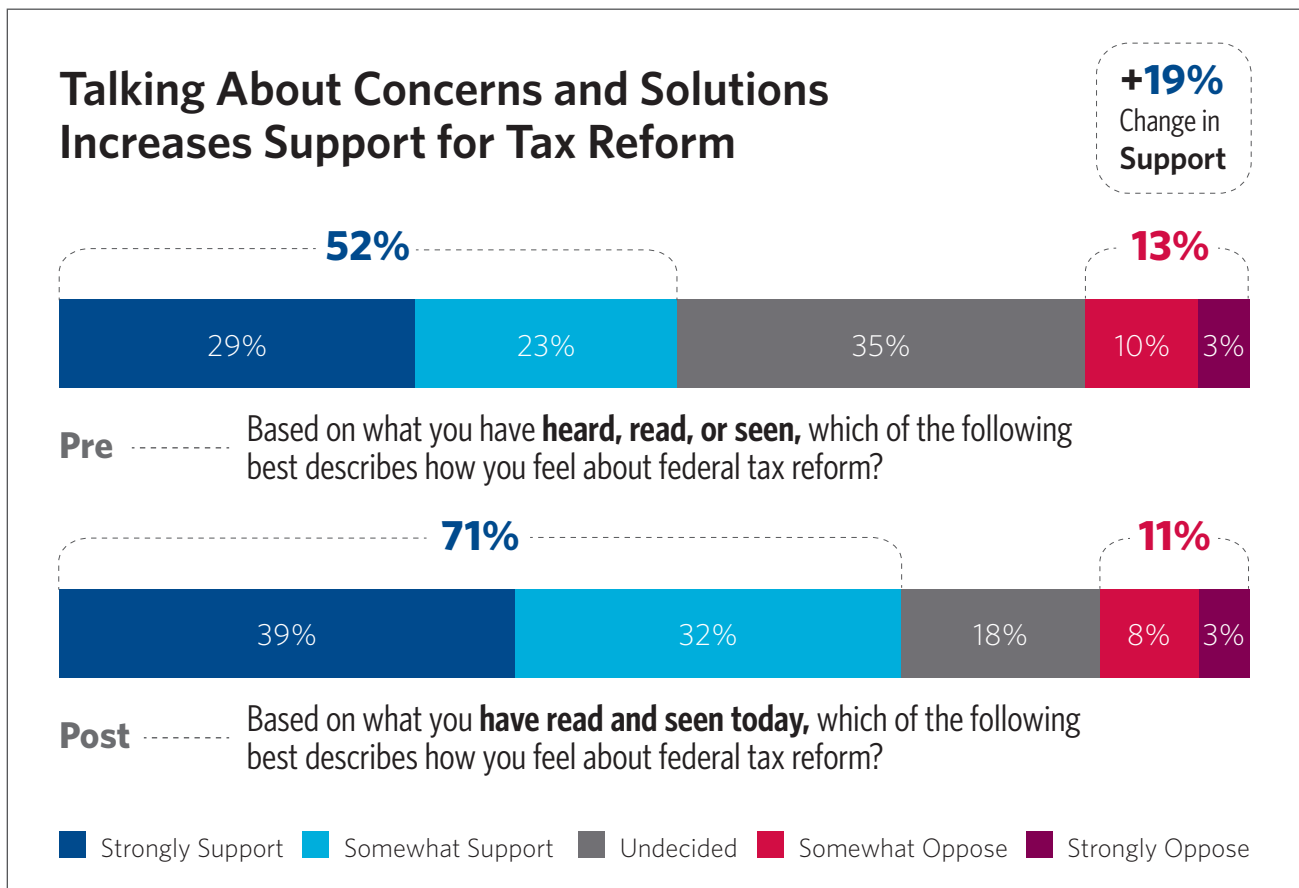
There is some talk about changing our tax system that taxes how much a person makes to a system that taxes how much a person spends. This is generally called a “consumption tax” and can be implemented in a variety of ways. Each approach would have special protections for those living below the poverty line. Which of the following would you prefer:

Part III: Building Support for Updating the Tax System

Addressing Concerns and Alternatives Increases Support for Reform

As indicated earlier, a slim majority of Americans (52%) currently support tax reform based on what they have been hearing and reading and the little they already know about alternative tax systems. **With just a small amount of attention focused on the unfairness, corruption, and complexity**

of the current system and a cursory review of a few alternatives, the level of support for tax reform jumps to 71%. This represents a significant increase not typically seen in this kind of testing and indicates a public response that is hungry to improve or change the tax system.



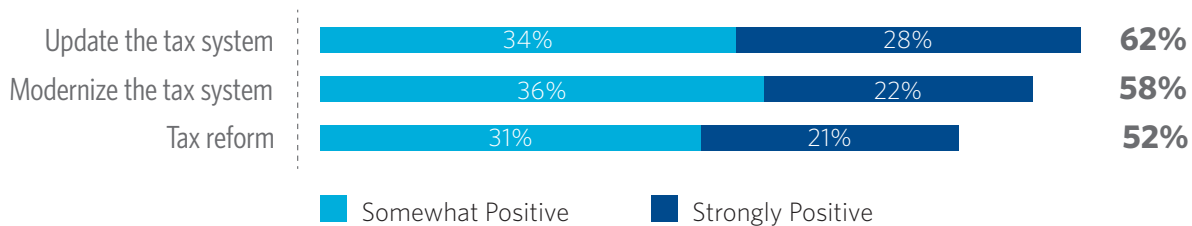
The Language of Reform

The language of tax reform covers a range of issues, groups, and concepts, each with a differing reaction among the voting public. For example, “tax reform” itself elicits a tepid and jaded response from the voting public (52% positive).

Slightly better is the phrase “modernizing the tax system” (58%). Yet, **“updating the tax system” (62%) is clearly the superior way to refer to changing the way the federal government collects revenue.**

“Update the Tax System” Key Way to Refer to Tax Reform

Thinking again about federal tax policies or tax reform in America, there are many approaches and priorities. For each of the following words or phrases that might describe some of these different approaches and priorities, please indicate whether you have a positive, negative, or neutral feeling when you hear the word.



† Split sample: Asked of partial sample to gain comparative data.

There is similarly a hierarchy of groups positively associated with the ideals of who should benefit from our tax system: “small business” (66%), seniors (57%), and the middle class (55%) are clearly the groups Americans feel should be benefiting from the design of tax policy.

Also clear in the positive language are words that address the three major concerns of fairness, corruption, and simplification. Importantly, the phrase that The Heritage Foundation uses to describe their

conservative agenda is one of the strongest phrases tested. **Voters respond strongly to “opportunity for all, favoritism to none” (62%)** precisely because it clearly addresses their concerns for fairness and anti-corruption. It is also worth noting that “simplification” (61%) is right at the top of the list as well.

There is a strong positive reaction to the term “tax free savings” (59%). This term and concept is seen quite favorably. Oppositely, “double taxation” (7%) elicits one of the most negative reactions

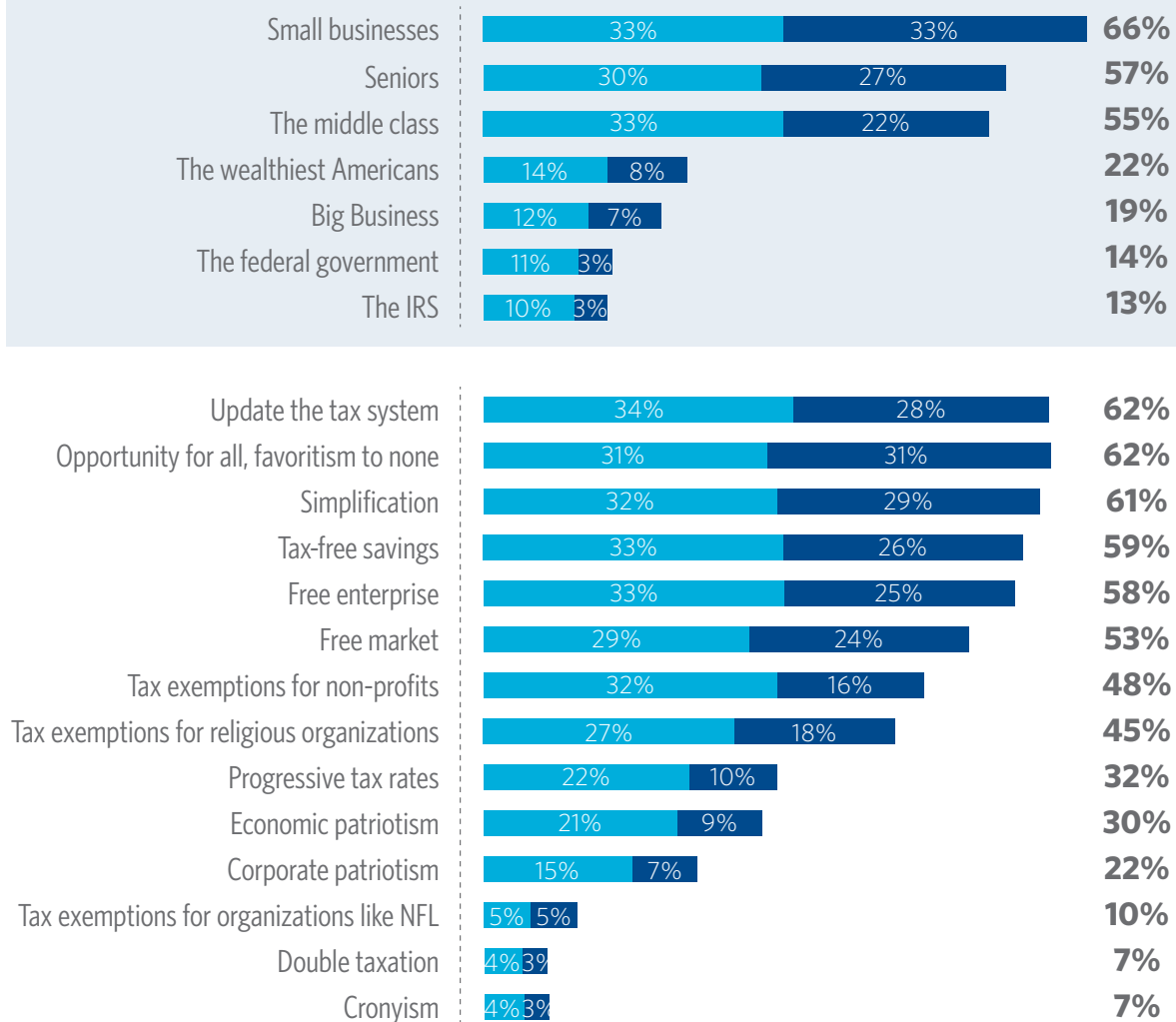
and raises the interesting possibility that it might be used to more effectively convey the counter-productive policy of taxing money Americans put away in savings for their future and the future of their families.

There are also a few words that sharply define what Americans dislike about our tax system. At the top of that list are terms like “cronyism” and “double taxation” and organizations like the “IRS” and “federal government.”

The Language of Reform

Thinking again about federal tax policies or tax reform in America, there are many approaches and priorities. For each of the following words or phrases that might describe some of these different approaches and priorities, please indicate whether you have a positive, negative, or neutral feeling when you hear the word.

SMALL BUSINESSES CONSIDERED MOST POSITIVE



† Split sample: Asked of partial sample to gain comparative data.

■ Somewhat Positive ■ Strongly Positive

Conclusions and Implications

While not the number one issue for Americans, tax reform is influential in terms of motivating voter participation. The level of influence is impressive, given the lack of familiarity with the issue. Registered voters clearly indicate an interest in tax reform. Additional information and messaging significantly increases the demand for it.

What is abundantly clear from the American Perception Initiative's recent research is that voters see the current system as overly complex, unfair, and corrupt. Highlighting the top concerns and problems with the current system stirs the demand for change.

Complex

- Too hard to understand
- More difficult and expensive than it needs to be

Unfair

- Too many getting away with not paying fair share
- Too many loopholes

Corrupt

- System encourages cronyism and favoritism
- Government picking winners and losers and playing favorites
- Gives the BIGS (Washington politicians and special interests) too much influence and too many advantages

Based on a gross misunderstanding of who pays how much of the nation's taxes, most Americans initially believe the wealthy are not paying enough. However, providing voters with accurate information about the amount of federal income taxes paid by the wealthiest 10% of Americans radically changes their demand that they pay more.

Americans are hungry for a plan to "update the tax system." Put most simply, they are looking for a plan that **treats everyone equally, creating opportunity for all and favoritism to none.**

The key distinguishing features of such a plan include the following:

- **Fair:** treats people equally
- **Simple:** easy to understand and apply
- **Rewards work and savings**
- **Eliminates special privileges**

A conservative approach to tax policy that emphasizes these points while articulating a concern for those in society we all care about effectively stimulates interest and demand for conservative policy solutions.