

Consumer News & Views

Published twice monthly

April 15, 2014



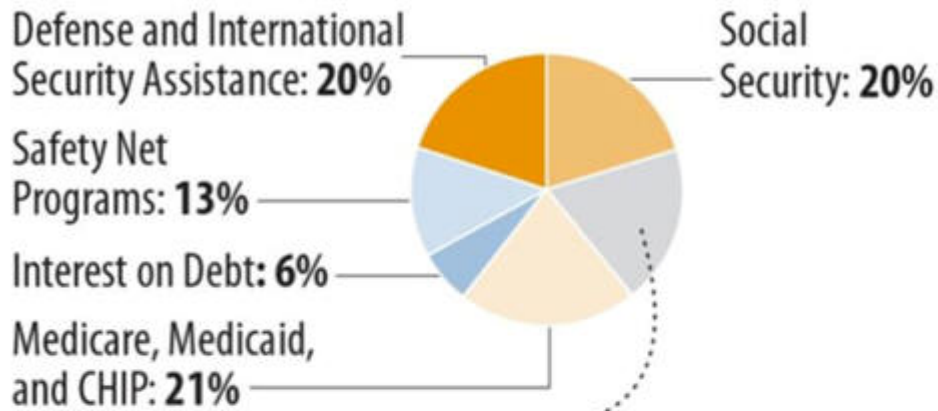
In this Issue...

- **Who Pays Taxes in America? How Much? And, Where Does It All Go?**
- **Arkansas Federal Credit Union Offers Scholarships.**
- **ACC Board of Directors Will Elect Two Candidates.**
- **Transamerica Serves the Insurance Needs of America's Consumers.**
- **ACC Annual Business Meeting is June 13.**
- **Apply for the 2013 Green CSM Certification Program.**

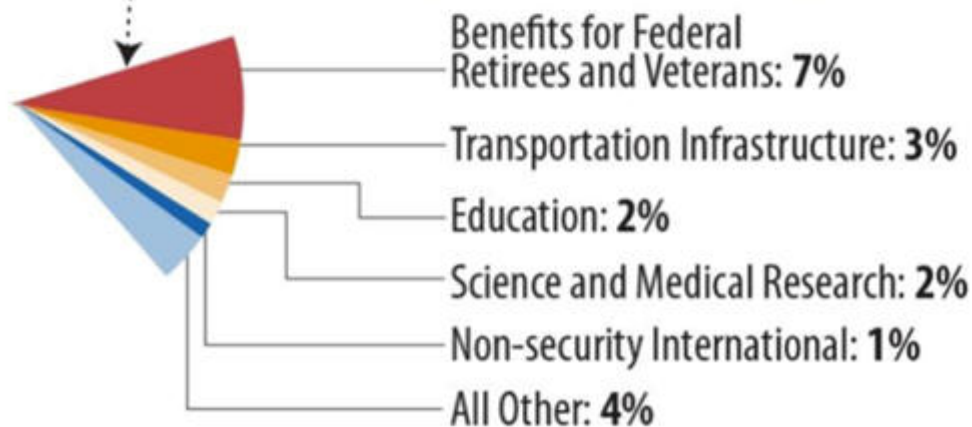
Who Pays Taxes in America? Where do our federal and state taxes go? We've had hundreds of consumer-members ask us to report on who pays taxes, where does it all go, and are we getting our money's worth? Here's an excellent breakdown by Derek Thompson of *The Atlantic* that answers most of your questions:

Defense and insurance. It might not surprise you that about \$1 in every \$5 of federal taxes paid goes to defense. But the rest of the budget is overwhelmingly designed to insure the old and poor and provide a safety net. Social Security, Medicare/Medicaid/CHIP, safety net programs, and veterans' benefits account for nearly two-thirds of the budget (not including interest paid on our debt). This great CBPP graph is a few years old, but the story hasn't changed much.

Most of Budget Goes Toward Defense, Social Security, and Major Health Programs



Program Areas in the Remaining Fifth of the Budget



Actually, I'd prefer a more detailed description of exactly where my federal taxes go. Okay, let's say you're a family making \$50,000, married with one child. Let's also say you put 2 percent of your wages toward a 401(k), don't itemize, and claim the Saver's Credit and Child Tax Credit. This is what your tax receipt might look like. You're paying \$440 to have the finest military on the planet. You're paying \$9.59 on unemployment insurance. You're paying \$15.98 to ensure that the federal government can help you out if there's a natural disaster that takes out your town. You're also paying about \$4,000 in Social Security and Medicare taxes.

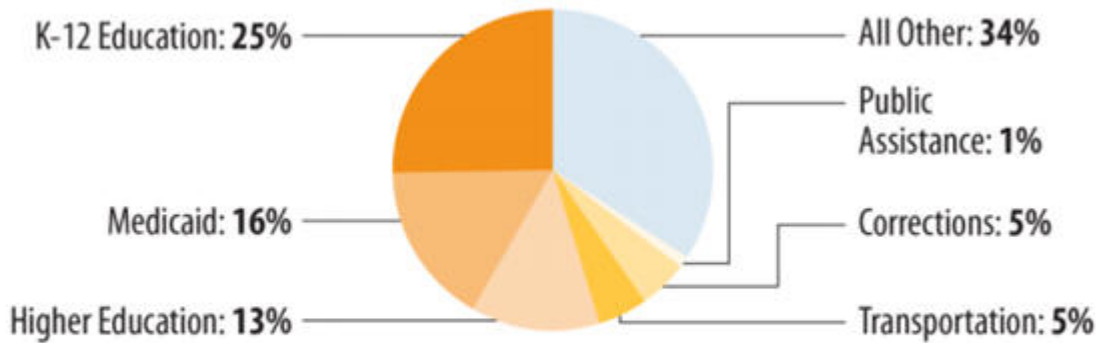
PROGRAMS & SERVICES

YOUR TAX PAYMENT

PROGRAMS & SERVICES		YOUR TAX PAYMENT	
Social Security Tax			\$3,100.00
Social Security Retirement, Survivors, and Disability Insurance			\$3,100.00
Medicare Tax			\$725.00
Medicare Hospital Insurance			\$725.00
Income Tax	Expand All Sub-Categories	% of Total Income Tax Payment	\$1,776.00
⊖	National Defense	24.79%	\$440.27
⊖	Health care	25.19%	\$447.37
⊖	Job and Family Security	18.77%	\$333.36
	<i>Unemployment insurance</i>	0.54%	\$9.59
	<i>Food and nutrition assistance</i>	3.89%	\$69.09
	<i>Housing assistance</i>	1.74%	\$30.90
	<i>Earned income, Making Work Pay, and child tax credits</i>	3.1%	\$55.06
	<i>Supplemental Security Income</i>	2.11%	\$37.47
	<i>Federal military and civilian employee retirement and disability</i>	5.16%	\$91.64
	<i>Child care, foster care, and adoption support</i>	0.62%	\$11.01
	<i>Temporary Assistance for Needy Families</i>	0.70%	\$12.43
	<i>Railroad retirement and additional income security</i>	0.44%	\$7.81
⊖	Education and Job Training	2.85%	\$50.62
⊖	Veterans Benefits	5.44%	\$96.61
⊖	Natural Resources, Energy, and Environment	1.92%	\$34.10
⊖	International Affairs	1.82%	\$32.32
⊖	Science, Space, and Technology Programs	1.13%	\$20.07
	Immigration, Law Enforcement, and Administration of Justice	2.06%	\$36.59
	Agriculture	1.15%	\$20.42
	Community, Area, and Regional Development	0.37%	\$6.57
	Response to Natural Disasters	0.90%	\$15.98
	Additional Government Programs	4.98%	\$88.44
	Net Interest	8.64%	\$153.45

What about my state and local taxes? Where do they go? Commentators, unlike taxpayers, tend to forget about state and local taxes when they make pronouncements about who pays what. But Americans fork over nearly \$1 trillion in state and local levies each year. This pile of money goes mostly to education and health care.

Percentage of State Spending



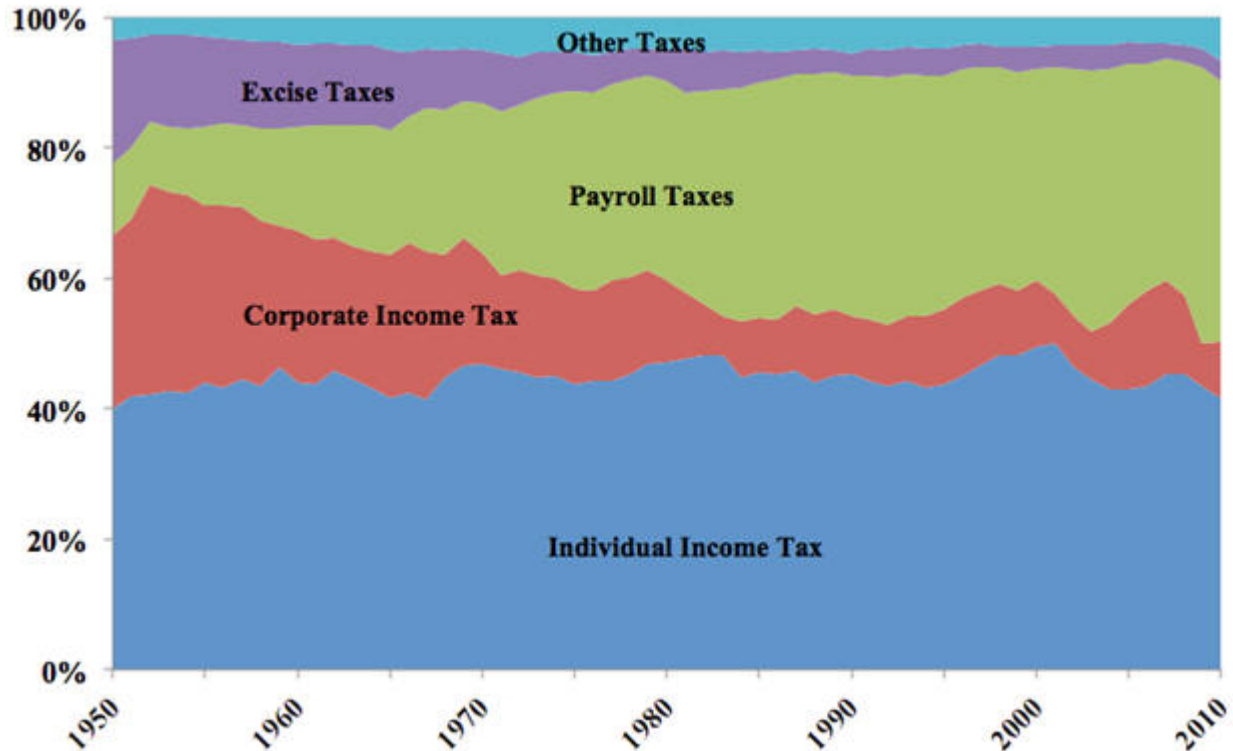
Note: "All Other" includes care for residents with disabilities, pensions and health benefits for public employees, economic development, environmental projects, state police, parks and recreation, and general aid to local governments.

Source: NASBO State Expenditure Report FY 2012, December 2013

Center on Budget and Policy Priorities | cbpp.org

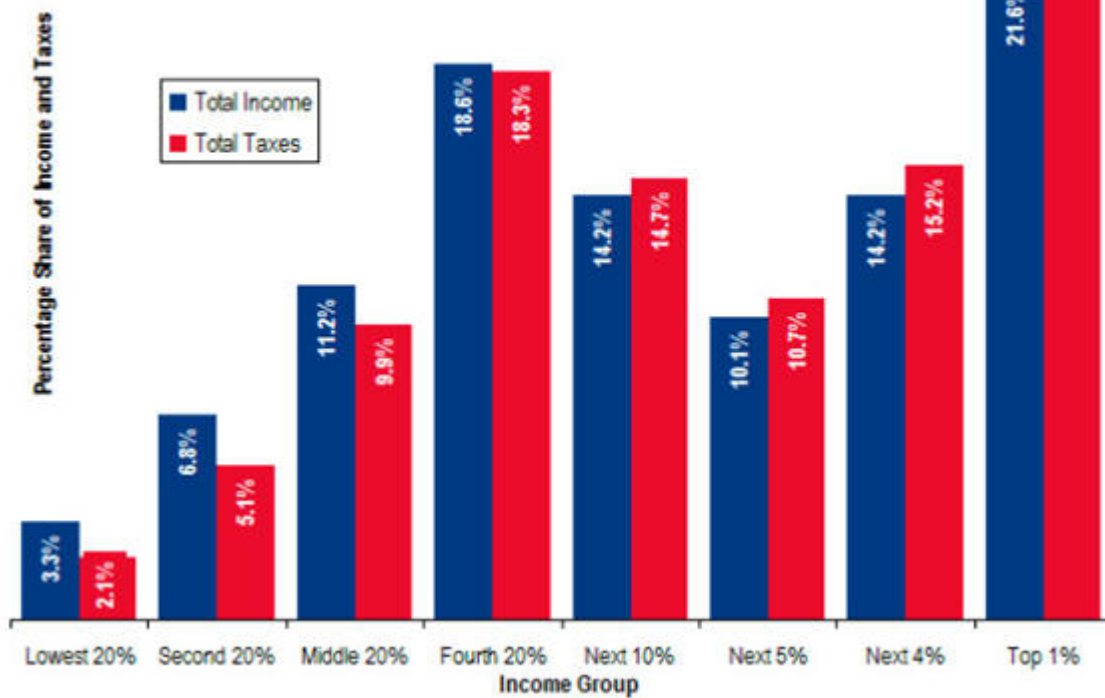
How does the federal government make money? Washington has two big money streams, which together account for 80 percent of all federal income: (1) payroll taxes, which are split between employers and employees to fund programs like Social Security, and (2) income taxes, which you're all too familiar with now that it's the middle of April. The media tends to focus on income taxes, because they are the main arena of battle between Republicans and Democrats. But payroll taxes make up just about the same share of government revenue, especially since corporate income taxes have shriveled in the last 60 years as a share of the total pie.

Sources of Federal Revenue: Fiscal 1950-2010



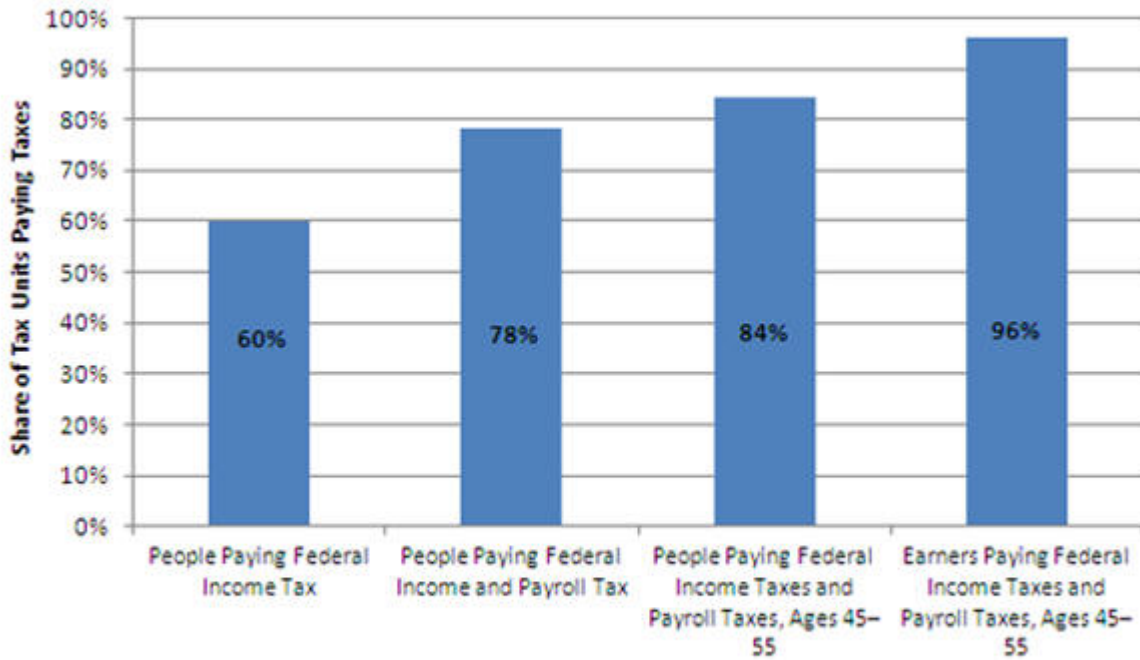
Are taxes progressive? Interesting question. The federal tax code is basically progressive. Richer people tend to pay higher effective taxes (even though wealthy people who make most of their income from capital gains and dividends benefit from low rates designed to encourage saving and investing). But sales taxes and gas taxes are regressive. As a result, the share of total taxes paid by each income group is fairly similar to the share of income, as the left-leaning Citizens for Tax Justice has argued. So yes, the tax code is progressive. But not as progressive overall as you might think, or hope.

Shares of Total Taxes Paid by Each Income Group Will Be Similar to their Shares of Income in 2014



Is it true that nearly 50 percent of families don't pay taxes? No. This is a fun talking point, but like most talking points, it's woefully incomplete. While it's true that about 50 percent of families don't pay a positive federal income tax, remember that an equal share of federal government revenue comes from payroll taxes. Practically all earners in their prime-working years pay a total federal tax, as this Hamilton Project graph shows. (Plus, you probably pay sales and excise taxes every time you pay for dinner or fill up your car with gas.)

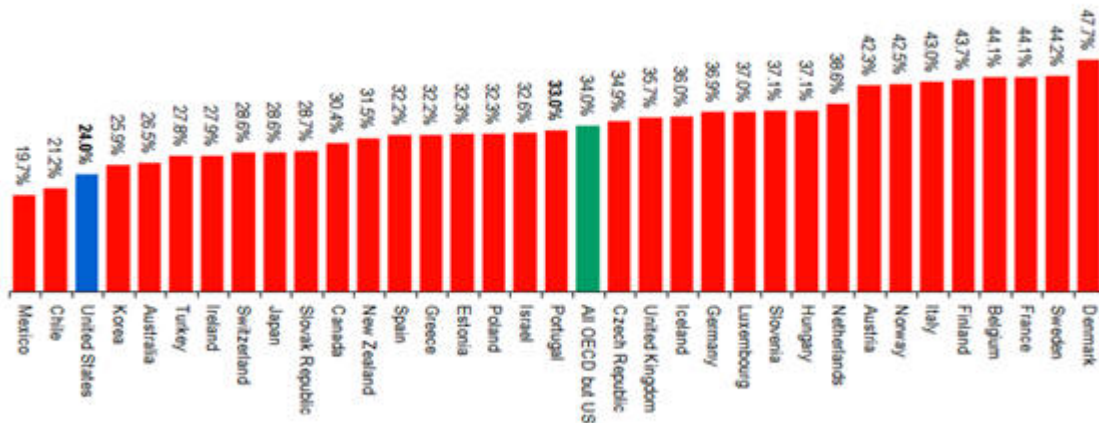
Who Pays Taxes?



Source: Tax Policy Center Table T11-0173, 2011; March CPS, 2008

Do Americans pay too much in taxes? This is a hard question to answer definitively. As Michael Linden of the Center for American Progress pointed out to me last year, the U.S. ranks in the bottom five among OECD countries in total government revenue as a share of GDP. We're just above South Korea and Turkey. We tax less than Australia, Canada, and just about every country in Europe. This graph from CTJ uses 2011 data, but the story hasn't changed much: We're a pretty low-tax country.

OECD Countries' 2011 Taxes as % of GDP



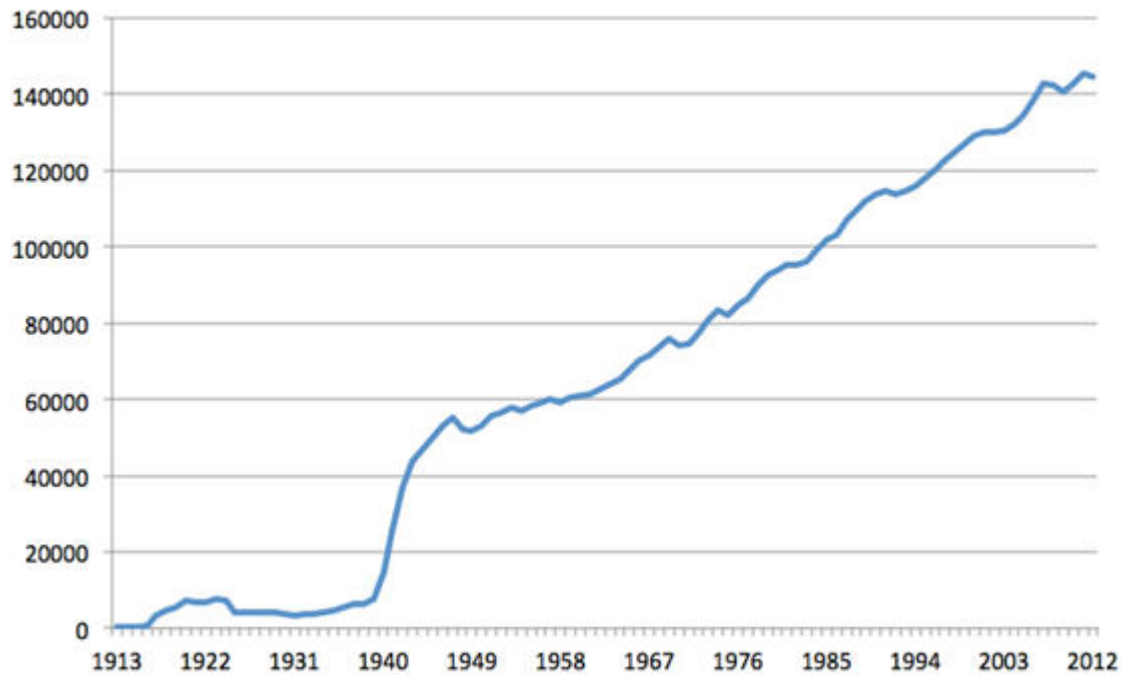
Notes: Annual totals for non-U.S. OECD are weighted by GDP. 2011 is the most recent year for which OECD has complete data.

Source: OECD data, 2014, <http://stats.oecd.org/>

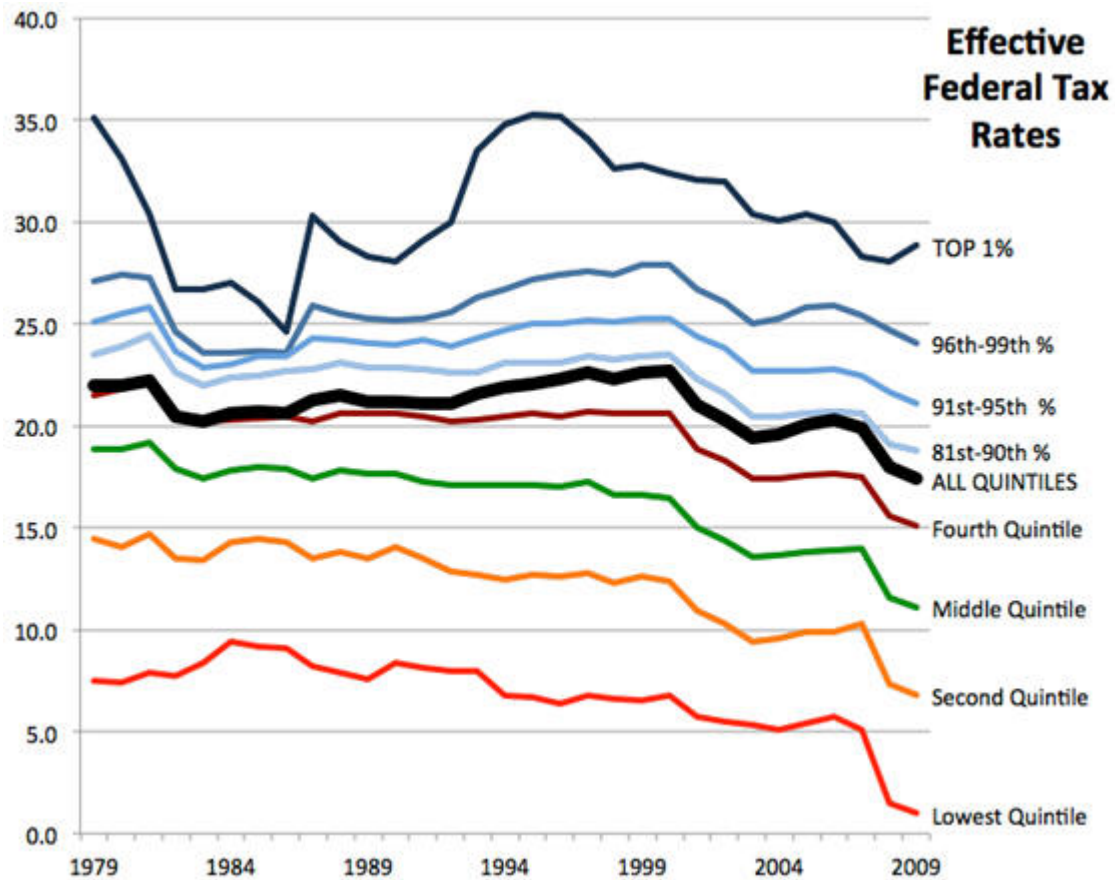
Have Americans always paid federal income taxes? Nope. For most of American history, the federal government hasn't relied on income taxes at all. Instead, it's used tariffs and excise levies to pay for its armies and services. But around the turn of the 20th century, progressives pushed for the invention of a national income tax, which was quickly ratified by the states in 1913. At first, the income tax was small: a 1% fee on the merely rich plus a 6% surtax on the super-rich, which was raised to pay for World War I. But two important events in the 1930s—the invention of Social Security and the beginning of World War II—required an expanded tax base that transformed the income tax from a "class tax" into a "mass

tax.” In the last 50 years, a tax code designed to finance wars and pay for retirement has become a social insurance tool to alleviate poverty and pay for health care.

Numbers of Federal Tax Returns in America (Thousands)



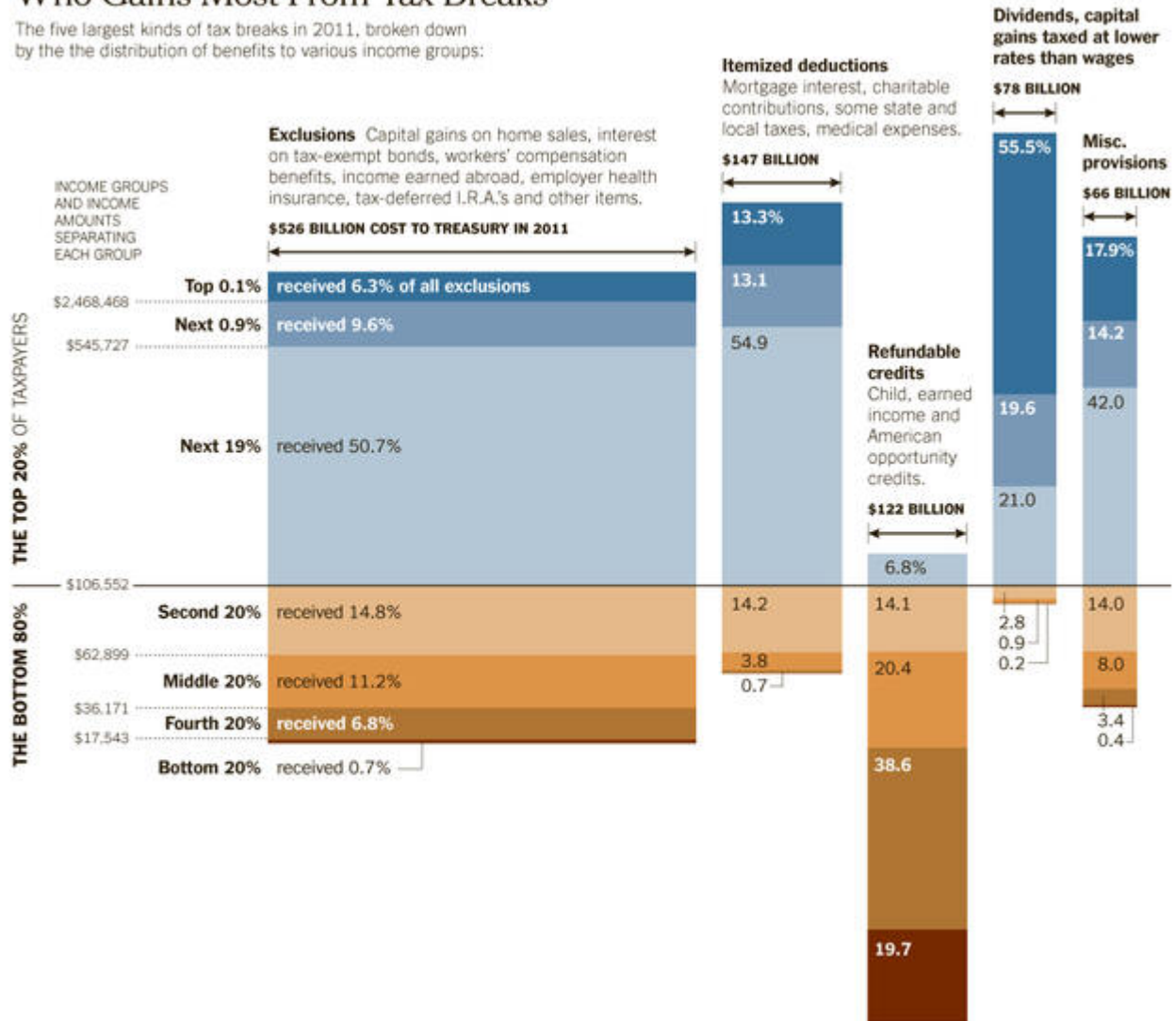
Are we paying more than we used to? Yes, if you compare to, say, 1879. No, if you compare to, say, 1979. Tax rates have declined dramatically in the last 30 years for just about every group of tax payers. Effective tax rates have fallen by between three and eight percentage points since the Reagan administration took office for just about everybody. Note that although this historical dataset from the Tax Policy Center ends in 2009, the first year of Obama's presidency, taxes have gone up for the richest Americans in the Affordable Care Act and in the deal to avert the Fiscal Cliff.



Who benefits the most from tax breaks? So far, we've talked a lot about how the government uses taxes to take money. But we haven't talked about how the government uses the tax code to spend money, or leave money in the hands of families who behave in a certain way. Two years ago, the Times drew a magnificent graph of who benefits from the \$1 trillion in tax breaks hidden within our law. The upshot is that, just as the rich pay the most taxes, they benefit the most from tax breaks. Refundable credits, which offer lower income families the opportunity to earn money from the federal income tax law, include child credits, college credits, and the earned income tax credit. The majority of capital gains benefits accrue not to the 1%, but to the 0.1%. That's one reason why our largely progressive tax code actually becomes slightly regressive at the very top, as more and more money comes from via tax-preferred investments.

Who Gains Most From Tax Breaks

The five largest kinds of tax breaks in 2011, broken down by the distribution of benefits to various income groups:



This post is adapted from an article we originally published on April 16, 2012.

Derek Thompson is a senior editor at *The Atlantic*, where he writes about economics, labor markets, and the entertainment business





THE ARKANSAS FCU SCHOLARSHIP APPLICATION IS AVAILABLE.

Do you know or are you a high school senior looking for scholarships for college? If so, you should check out the AFCU Scholarship application!

The scholarship is for \$5,000 and high school seniors who are AFCU members or children of AFCU members are eligible to apply.

The applications can be picked up at any one of our service centers or found online at AFCU.org. The deadline to apply is Thursday, May 15, 2014.

[View the Scholarship Application Online](#)



American Consumer Council Announces Two Nominees to Serve on Board of Directors. Two members of the American Consumer Council (ACC) will be elected at ACC's annual meeting on Friday, June 13, in San Diego. The qualified individuals are Barbara Yager, an attorney in Madison, Connecticut, and Edward McHale, an attorney in West Palm Beach, Florida. Candidates for the ACC Board of Directors completed a written document stating their qualifications and intentions to serve on the Board. The document was submitted to ACC's national headquarters by April 4th and witnessed by a second member of the organization.



ACC also invites member representation for its eight standing committees – Education; Sponsorship; Advocacy & Consumerism; Member Services; Regional & State Councils; Marketing; Regulatory & Government Affairs; and, Awards & Recognition.

Any member who wishes to serve on one of ACC's eight standing committees may do so by sending a statement describing their interest and qualifications. Appointments are announced on a regular basis. Officers of credit unions and regulatory officials and their agents are not eligible for service in keeping with ACC's policies relating to conflicts-of-interest.



Transamerica Financial Solutions Group serves the financial institution market with loan protection products, reinsurance solutions and related services. Our mission is to market the industry's most innovative insurance programs and deliver effective marketing, professional training and support to help our partners maximize profitability while reducing costs and improving service.

Transamerica is an AEGON company, a multinational insurance organization headquartered in The Hague, the Netherlands. AEGON is one of the world's leading life insurance and financial services organizations. Transamerica markets the quality products of AEGON's affiliated insurance carriers and utilizes the resources and expertise gained from diverse products and distribution channels. With a portfolio that includes credit and mortgage insurance, debt cancellation, reinsurance solutions and related products, Transamerica can tailor products that strengthen your financial institution while protecting customers' loan obligations.

Transamerica utilizes the following AEGON company carriers that are rated by A.M. Best Company, Standard & Poor's, Fitch Ratings and Moody's Investor Service based on financial strength and operating performance.

Transamerica has an outstanding track record of supporting credit unions and other financial institutions. Transamerica is also a corporate sponsor of the American Consumer Council.

For more information, please contact Transamerica Vice President Tom Kazar at:

http://www.transamericafinancialsolutions.com/contact_us.html



ACC Annual Meeting Scheduled for Friday, June 13. The annual meeting of the American Consumer Council will be held in San Diego, California on Friday, June 21, 2013 at 10:00 am PST. The specific meeting location will be announced soon. This year's meeting will include a teleconference call to accommodate more members who wish to participate. All voting members are invited to participate in the annual business meeting. There is no cost to attend the meeting.

To register to participate at this year's annual meeting, please email the ACC office. If you wish to participate via the teleconference, please request the password for access to the conference call at: info@americanconsumercouncil.org.

The annual meeting will discuss business matters pertinent to the management and operations of the American Consumer Council including the election of two new directors for the board of directors, and review activities and issues during the past 12 months. An agenda will be posted on the ACC website by May 1st.

Green CSM Certification Accepting Applications for 2014 Summer Cycle:

If your company or organization would like to increase its credibility with consumers, you should consider applying for the **Green CSM Certification**. Applications for the 2014 Summer cycle are now being accepted through May 30, 2014.

It's a proven fact that consumers want to do business with companies that are eco-friendly and practice Corporate Social Responsibility (CSR). The process is straight-forward and all applicants are recognized by ACC and the Green USA Institute.

All applicants complete the criteria and submit their responses to ACC's Green Consumer Council for review, assessment and feedback. Program details and the **Green CSM Certification** criteria can be viewed at ACC's website located at: <http://americanconsumercouncil.org/greenc.asp>

