

FEDERAL BUDGET | SEPTEMBER 2010

## A Taxpayer Receipt

By David Kendall and Jim Kessler

Corn syrup, milk chocolate, sugar, cocoa butter, coconut, almond, soy lecithin... any consumer can read these ingredients and their nutritional value on every package of a 75-cent Almond Joy. What is provided to a taxpayer with a \$5,400 tax bill? Nothing. For many Americans, the amount they pay in taxes is larger than any purchase they make during the year, but studies show they know almost nothing about where that money goes to. This contributes to ridiculous beliefs, like the view that 20% of government spending goes to foreign aid, for example. An electorate unschooled in basic budget facts is a major obstacle to controlling the nation's deficit, not to mention addressing a host of economic and social problems. We suggest that everyone who files a tax return receive a "taxpayer receipt." This receipt would tell them to the penny what their taxes paid for based on the amount they paid in federal income taxes and FICA.

### THE PROBLEM

**Taxpayers have no idea where their money goes.**

**The public is misinformed about where the federal government spends its money.**

A 2005 Washington Post/Kaiser Foundation poll found that by a margin of two to one, Americans believe the federal government spent more on foreign aid than on either Social Security or Medicare.<sup>1</sup> This is among many surveys that show that voters know little about where their money is spent.

This is not their fault. The budget process and documents put out by the IRS and government agencies are not consumer-friendly. At best, motivated taxpayers can locate a pie chart on a government website that gives percentage allocations about how large categories of spending are distributed. But these

are difficult to find and difficult to understand. Just as very few Americans know what “soy lecithin” is in a list of ingredients, few could describe the significance of categories like “discretionary spending” without an explanation equivalent to nutrition labeling that personalizes abstract information.

### **An educated consumer is a progressive’s best customer.**

With apologies to Syms clothing, progressives might have a better chance of winning greater funding levels for programs that invest in children, education, energy, environment, transportation, innovation, foreign aid, humanitarian assistance, and housing if taxpaying citizens had a better idea of how their money is spent. Most of these items represent a pittance of government spending as compared to other items in the budget.

At the same time, Americans might encourage Congress to be more fiscally responsible if they saw how much of their actual taxes went for things like interest on the national debt.

### **Taxpayers have a right to know.**

According to the IRS website, in 2008 the median tax filer in America had an adjusted gross income of \$34,140 and paid \$2,790 in federal income taxes.<sup>2</sup> Assuming that all of that income was earned through wages, this filer would also contribute \$2,610 to Social Security and Medicare through FICA. That is a total of \$5,400 in federal tax and FICA payments. For most people, that is an enormous sum of money—it certainly is for the median taxpayer.

Consumers can easily see detailed information on every product they buy, but the largest item that they purchase in a given year—their taxes—they get nothing. They have a right to know what they are paying for.

### **Voters need to know the choices in the deficit debate.**

Most voters believe the budget deficit can be solved without touching Social Security and Medicare.<sup>3</sup> Instead, they believe that government waste is the source of the deficit. In fact, entitlement spending already consumes half of the federal budget and will rise to two-thirds of the budget by 2030. Elected officials cannot offer meaningful choices about changing revenue and spending unless voters appreciate where federal dollars currently go.

## **THE SOLUTION**

### **A Taxpayer Receipt**

We suggest providing each taxpayer with a receipt that shows them exactly how their money is spent to the penny. Taxpayers could either receive a receipt online (if they file electronically) or through the mail that breaks down their tax

bill and provides them the exact contribution they made towards twenty to thirty budget items of interest.

Below is an example of what a receipt might look like for a typical taxpayer with a 2009 U.S. median income of \$34,140, who paid \$5,400 in federal income tax and FICA. It is very easy to generate and extremely informative to taxpayers.

<b>What You Paid For</b>	
2009 tax receipt for a taxpayer earning \$34,140 and paying \$5,400 in federal income tax and FICA (selected items) <sup>4</sup>	
Social Security	\$1,040.70
Medicare	\$625.51
Medicaid	\$385.28
Interest on the National Debt	\$287.03
Combat Operations in Iraq and Afghanistan	\$229.17
Military Personnel	\$192.79
Veteran's Benefits	\$74.65
Federal Highways	\$63.89
Health care research (NIH)	\$46.54
Foreign Aid	\$46.08
Education Funding for Low Income K-12 Students	\$38.17
Military Retirement Benefits	\$32.60
Pell Grants for Low Income College Students	\$29.75
NASA Space Program	\$28.09
Internal Revenue Service	\$17.69
Environmental Clean Up (EPA)	\$11.67
The FBI	\$11.21
Head Start	\$10.91
Public Housing	\$10.50
National Parks	\$ 4.27
Drug Enforcement Agency	\$3.14
Amtrak	\$2.23
Smithsonian Museum	\$1.12
Funding for the Arts	\$0.24
Salaries and benefits for members of Congress	\$0.19

## ■ CRITIQUES & RESPONSES

### ***How is this done?***

It's really very easy. The total amount of federal spending is the denominator and the amount of money spent on a particular program is the numerator. The resulting quotient is the percentage of all federal spending that goes to that program. For example, the amount of money spent on Pell Grants in fiscal year 2009 was \$19.38 billion, which is divided by total federal spending of \$3.518 trillion. This means that 0.55% of all federal spending went to Pell Grants. Multiply this number by the amount a taxpayer paid in taxes (in this case \$5,400) and that means this person contributed \$29.75 to Pell Grants.

### ***Would this be hard and expensive for the federal government to do?***

It shouldn't be. The mathematical formula to do this is very simple. The Social Security Administration does this every year through the mail to tell people what they can expect from Social Security in the future. This would be far easier. It could also be done online. An IRS website should be available so people could key in the amount they pay in taxes and a receipt pops up showing several dozen recognizable programs and the amount that went to each of them.

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#### ABOUT THIRD WAY

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For more information about Third Way please visit [www.thirdway.org](http://www.thirdway.org).

## ■ ADDITIONAL RESOURCES

The idea for a taxpayer receipt has seen several iterations over the past several years. Senator Charles Schumer (D-NY) introduced the idea as a bill when he was a member of the House in 1997, "The Taxpayer Right-to-Know Act," H.R. 2827.

The journal, *Democracy* has an insightful article on the idea, "Can't Wait 'Til Tax Day!" by Ethan Porter in it's Spring, 2010 issue, available at: <http://www.democracyjournal.org/article2.php?ID=6747&limit=0&limit2=1000&page=1>

Here are some personal calculators that show where your taxes go based on your income: <http://www.whatwepayfor.com/> and <http://taxes.kareemshaya.com/>.

California offers a taxpayer receipt based on state income taxes paid: <http://www.ftb.ca.gov/individuals/taxreceipt/index.shtml#taxInput>

There are many sources for descriptions of where federal spending goes. Here's one example: <http://www.nationalpriorities.org/taxday2010>

Third Way published an earlier version of the taxpayer receipt in 2008: <http://www.thirdway.org/publications/109>

## ■ ENDNOTES

1 Poll conducted by The Washington Post, Henry J. Kaiser Family Foundation and Harvard University, Feb. 3-6, 2005, Accessed September 8, 2010. Available at: <http://www.publicagenda.org/charts/about-half-americans-mistakenly-believe-we-spend-more-foreign-aid-medicare-and-social-security>.

2 These calculations are based on the Internal Revenue Service (IRS), "Selected Incomes and Tax Items," Table 1.1, 2008, Accessed September 8, 2010. Available at: <http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96981,00.html/>

3 Benenson Strategy Group Poll, June 19 to June 22, 2010, 1,100 likely voters. Available at: <http://www.thirdway.org/publications/316>.

4 Budget calculations are based on budget allocations obtained from the Office of Management and Budget using historical tables from the FY2011 budget submission as well as the Congressional Budget Office website for such items as interest on the debt, Medicare, Medicaid, and Social Security.