The US Tax Code: An Exercise in Group Think

The US government is one of the most discriminative organizations in existence. I’m using the word discriminative to describe the action of treating people who are the same, differently. Illegal you say? Hardly. Let’s assume that Mr. and Mrs. Smith are blessed with quadruplets. Their daughters, Emily, Madison, Olivia, and Catherine all grow up, go to school, open up a company together, and each earn exactly $100,000 a year in salary. The four sisters share a common DNA and a common income, yet the federal government will treat them each differently. Here’s why:

Emily decided to remain single. Madison married a grad student who makes $15,000 a year. Olivia married a businessman who makes $150,000 a year, and Catherine opted to marry a venture capitalist who earns $400,000 a year. When filing their federal income taxes, Emily faces a 28% marginal tax bracket, Madison faces a 25% tax bracket, Olivia faces a 33% tax bracket, and Catherine faces a 35% tax bracket. While they each earned the same amount of money for the same amount of work, the federal government charges them each a different tax rate. That’s discriminatory.

What kind of distortions does such discrimination cause? Spouses of high income earners face such a high marginal tax rate that they often do not find work to be worthwhile. Not only does the tax code discourage two income households, it actively subsidizes one income ones. In the above example, if Emily were to marry a stay a home husband, her marginal tax rate would fall from 28% to 25%. She has someone potentially cooking and cleaning for her and gets to pay lower taxes as a result.

It gets worse. Suppose that the sisters opt to have varying numbers of children or choose to own a home vs. renting one. The taxes they are forced to pay on their exact same income will diverge even further. The more children they have, the lower their tax burden. Rather than taxing individuals, the US government has decided to tax groups. In this case, they group people by their definition of household. The government’s definition of household causes further discrimination. What if Olivia has a domestic partner rather than spouse? What if Catherine has children with her spouse and then they divorce?

Here at Capitalism Today we believe in the sanctity of the individual and dislike government perpetrated discrimination. Everyone should be treated the same by the tax code. At a minimum, people with the same income should pay the same in income taxes. That is horizontal equity. Even better would be a world where each dollar of income is taxed the same for everyone. That is vertical equity.

If the government refuses to stop its blatant tax discrimination, I suggest that they at least start discriminating in my favor. People who live in the group called “Kentuckians” should face smaller tax rates than those in the group called “Tennesseans”. People who are legally blind should pay fewer taxes than the deaf, mute, or paraplegic. Oh wait, because the legally blind get a special tax deduction and Kentuckians get to deduct their higher state taxes from their federal tax burden, blind Kentuckians already do pay lower taxes than deaf Tennesseans. Combine that with the fact that I have four kids and I’m now convinced that federal discrimination is awesome! Not really.