



April 5, 2006

2006 Annual Survey of U.S. Attitudes on Tax and Wealth

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Summary: Support for federal tax reform rose in 2006. A majority report they are willing to give up some tax deductions to make the tax system simpler. Only about one in ten adults are willing to pay additional taxes to eliminate the federal budget deficit and balance the budget. A majority report the amount of federal income taxes they have to pay are “too high,” and rate the value they receive from the taxes they pay to the federal government as only fair or poor.

While political momentum for federal tax reform has stalled in the nation’s capital, the Tax Foundation’s 2006 *Annual Survey of U.S. Attitudes on Tax and Wealth* shows 80 percent of U.S. adults believe the federal tax system needs major changes or a complete overhaul—up from 77 percent in 2005—and a majority (52 percent) are willing to give up some tax deductions to make the tax system simpler.

Q690. Which of the following statements best describes your opinion of the federal tax system?

2006	2005	
16%	18%	TOP 2 BOX (NET)
2%	2%	It is fine the way it is.
14%	16%	It needs minor changes.
80%	77%	BOTTOM 2 BOX (NET)
40%	42%	It needs major changes.
40%	35%	It should be completely overhauled.
4%	6%	None of these

Source: Tax Foundation

Taxes Complex, Returns Painful

With the April 17 tax deadline looming, the Tax Foundation survey questioned adults about the perceived complexity of federal income taxes and filing returns. An overwhelming 80 percent of U.S. adults say the federal income tax is somewhat or very complex. Just 10 percent of adults say federal income taxes are not too complex or not complex at all.

Q685. How complex do you think the current federal income tax is?

2006	2005	
80%	81%	TOP 2 BOX (NET)
48%	46%	Very complex
32%	35%	Somewhat complex
10%	11%	BOTTOM 2 BOX (NET)
9%	9%	Not too complex
1%	2%	Not complex at all
10%	8%	Not sure

Source: Tax Foundation

Beneficiaries of Tax Deductions Willing to Give them Up

Past surveys have shown that a leading cause of tax complexity is tax deductions and credits in the code. Since tax reform requires trimming back deductions in order to lower tax rates, many lawmakers view tax deductions as a political barrier to tax reform.

The Tax Foundation survey suggests tax deductions may not pose as difficult a problem for tax reformers as is commonly believed. When asked if they would be willing to give up some deductions to make the tax system simpler, a majority of U.S. adults (52 percent) said they would be willing to give up some deductions for a less complex tax code.

Q700. Would you be willing to give up some deductions to make the tax system simpler?

2006	2005	
52%	54%	Yes
22%	21%	No
27%	25%	Not sure

Source: Tax Foundation

Interestingly, those most willing to give up tax deductions are the same respondents who may benefit most from them. Fifty-two percent of those who itemize when filing federal tax returns—and who therefore benefit from deductions—said they are willing to trade tax deductions for simpler taxes. Among those who claim the home mortgage interest deduction—one of the most valuable and popular federal tax deductions—56 percent were willing to give up deductions. Similarly, married respondents (57 percent), those over age 45 (58 percent), those with incomes over \$75,000 (58 percent), and those with post graduate degrees or higher (60 percent) all say they are willing to abandon deductions to make the tax system simpler.

This result illustrates a well-known fact about the costs of tax complexity—they are borne most heavily by those with tax returns complicated by deductions and credits. The fact that a majority of U.S. adults are aware of the dual-edged nature of deductions and credits and say they are willing to forgo them for simplicity casts doubt on the commonly-held view that taxpayers are unwilling to support tax reform if it removes tax deductions.

Unwilling to Reduce Deficit with Tax Dollars

With the growing federal budget deficit in the headlines, the 2006 survey included two new questions about U.S. adults' willingness to pay additional taxes to eliminate the deficit and balance the budget.

Noting that the U.S. budget deficit is \$340 billion, or \$2,470 per individual tax return¹, the first question asked adults whether they would be willing to pay an additional \$2,470 in federal taxes to eliminate the deficit and balance the budget.

Just 9 percent of adults said they would be willing to pay the additional tax, while 79 percent were not willing to pay it, and 12 percent were not sure.

Among those 9 percent of adults who *were* willing to pay the extra tax, the survey asked an additional question, "If you paid that extra \$2,470 in additional taxes, which one of the following do you believe today's Congress would do: pay off the entire deficit, pay off part of the deficit and increase spending with the rest, or mostly increase spending and not pay off the deficit?"

A surprising 63 percent of those who were willing to pay the extra tax to balance the budget expressed the pessimistic view that Congress would likely increase spending with the extra tax revenues, and not actually pay off the deficit. Just 17 percent of those willing to pay extra tax believed Congress would in fact pay off the entire deficit with the money.

Q727. This year the U.S. budget deficit will be \$340 billion, or \$2,470 per individual tax return. Some people say it is important to balance the budget. Thinking about your own situation, would you be willing to pay an additional \$2,470 in federal taxes to eliminate the deficit and balance the budget?

2006	
9%	Yes, I would be willing to pay the additional tax.
79%	No, I would not be willing to pay the additional tax.
12%	Not sure

Source: Tax Foundation

Q729. If you paid that extra \$2,470 in additional taxes, which one of the following do you believe today's Congress would do? (Base: Willing to Pay Tax)

2006	
63%	Mostly increase spending and not pay off the deficit
20%	Pay off part of the deficit and increase spending with the rest

¹ Based on Congressional Budget Office (CBO) projections as of February 2006 when the survey was designed. CBO budget projections have subsequently been revised upward.

17%	Pay off the entire deficit
1%	Not sure

Source: Tax Foundation

Uneasiness with Tax Burden Rises

In 1947, Gallup began asking Americans a famous tax question about whether they consider the amount of federal income tax they pay as too high, about right or too low. The question has become a standard barometer of tax satisfaction over the years.

This year, according to the Harris Interactive ® survey conducted on behalf of the Tax Foundation, 59 percent say the amount of federal income tax they pay is too high. This represents an increase of 9 percentage points since 2004, and is just above the average response since 1947 of 58.6 percent.

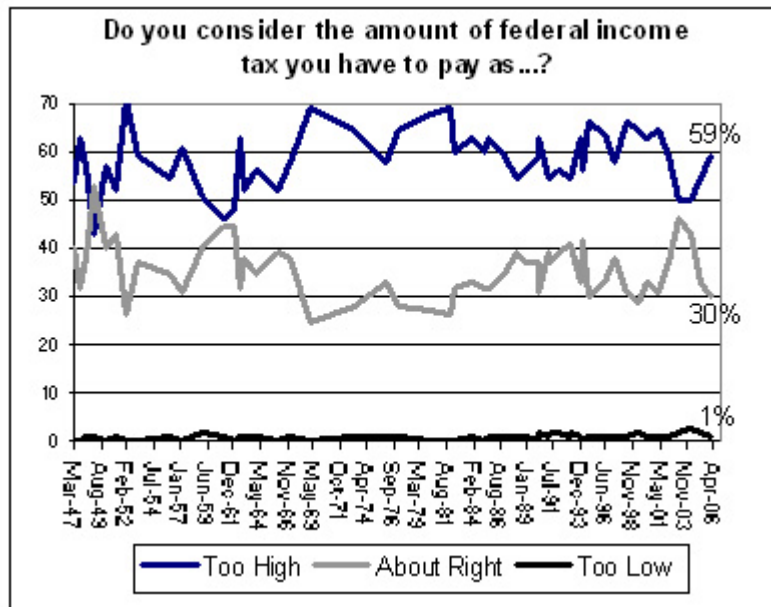
Those most likely to say their federal tax bill is “too high” include respondents between the age of 45 and 54 (71 percent) and married couples (65 percent).

Q645. Do you consider the amount of federal income tax you have to pay as...?

		Too High	About Right	Too Low
Mar. 2006	Tax Foundation/Harris Interactive	59	30	1
Mar . 2005	Tax Foundation/Harris Interactive	55	33	2
Apr. 2004	Gallup/CNN/USA Today	50	43	3
Apr. 2003	Gallup/CNN/USA Today	50	46	2
Feb.-Jun. 2002	NORC	59	37	1
Apr. 2001	Gallup/CNN/USA Today	65	31	1
Apr. 2000	Gallup/CNN/USA Today	63	33	1
Apr. 1999	Gallup/CNN/USA Today	65	29	2
Apr. 1998	Gallup/CNN/USA Today	66	31	1
Mar. 1997	Gallup/CNN/USA Today	58	38	1
Apr. 1996	Gallup/CNN/USA Today	64	33	1

Source: Tax Foundation, American Enterprise Institute “Public Opinion on Taxes.”

Q645. Do you consider the amount of federal income tax you have to pay as...?



Source: Tax Foundation, American Enterprise Institute “Public Opinion on Taxes.”

How High Should Taxes Be?

The Tax Foundation estimates that the nation’s average tax burden was 30.9 percent of income in 2005. To test whether U.S. adults view this tax burden as too low, too high or about right, they were asked the following question, “What is the maximum percentage of a person’s income that should go to taxes—that is, all taxes, state, federal and local?”

In 2006, the mean response was just 15 percent—nearly half the nation’s total average tax burden—with a median response of 10 percent. This represents a slight decrease from 2005, when the mean response was 16 percent.

Women were more likely to favor somewhat lower tax rates than men (mean of 13.4 percent for women compared to 16.7 percent for men). Other groups favoring lower tax rates include those in the lower-income range of \$25,000-\$35,000 (mean 13.9 percent of income) and the middle-income range of \$35,000-\$50,000 (mean 13.8 percent). The group favoring the lowest tax rates were widowed respondents, whose mean response was just 12.5 percent of income.

The groups favoring the highest tax rates include single respondents (mean of 16.1 percent), those earning over \$75,000 per year (mean of 17.2 percent), and those with college degrees (mean of 17.0). Adults with post-graduate degrees favored the highest tax rates of all, with a mean response of 23.2 percent of income.

Q650. What is the maximum percentage of a person's income that should go to taxes – that is, all taxes, state, federal, and local? Please enter a whole number amount only; do not enter a percent sign. If you are not sure, please give your best estimate.

2006	2005	
0%	0%	100%
0%	0%	90% - 99%
0%	0%	80% - 89%
0%	0%	70% - 79%
0%	0%	60% - 69%
1%	2%	50% - 59%
1%	3%	40% - 49%
6%	7%	30% - 39%
22%	23%	20% - 29%
43%	41%	10% - 19%
24%	20%	1% - 9%
1%	3%	0%
15%	16%	MEAN percentage

Source: Tax Foundation

Taxes Paid vs. Services Received

Ultimately, taxes are paid in return for services from government. The survey asked adults to rate the value they personally received from the taxes they pay to the federal government. 65 percent rated the value as “poor” or “only fair”, with just 2 percent rating it excellent. This represents a slight improvement from 1993 when 80 percent of U.S. adults said the value received for their tax dollars was fair or poor, and is slightly up from 2005 as well.

Q635. How would you rate the value you personally get from the taxes you pay to the federal government?

2006	2005	
27%	25%	TOP 2 BOX (NET)
2%	3%	Excellent
24%	23%	Pretty good
65%	66%	BOTTOM 2 BOX (NET)
40%	39%	Only fair
25%	27%	Poor
8%	9%	Not sure

Source: Tax Foundation

Support for Changes to Tax System

Although the political momentum for tax reform has slowed in recent months, adults expressed interest when asked about possible plans to reform the federal tax code.

When asked to choose between a flat-rate income tax with no deductions, a national sales tax or the current graduated income tax with deductions, 33 percent chose a flat-rate income tax, while 20 percent favored a national sales tax and 21 percent favored the current system of a graduate-rate income tax with deductions. Support for a flat income tax rose with income and age, and was significantly higher among married respondents (37 percent) and those over age 55 (41 percent).

Q695. If you could choose one plan to collect all federal taxes, of these listed, which federal tax plan would you prefer?

2006	2005	
33%	37%	A flat-rate income tax with no deductions.
21%	19%	The current graduated income tax with deductions.
20%	19%	A national sales tax.
26%	25%	Not sure

Source: Tax Foundation

Estate Tax Repeal Favored

While divided on tax plans, U.S. adults remain united in one respect: their aversion to the federal estate tax. Currently the estate tax is scheduled to be phased out in 2010, only to return in 2011 unless Congress takes action.

When asked about completely eliminating the estate tax, 68 percent favored elimination, the same as in 2005. Support for repeal is significantly higher among those over age 45 (74 percent), those who are widowed (78 percent) or married (71 percent).

Q715. Do you personally favor or oppose completely eliminating the estate tax – that is, the tax on property left by people who die?

2006	2005	
68%	68%	Favor
19%	17%	Oppose
14%	15%	Not sure

Source: Tax Foundation

Least Fair Taxes

U.S. adults clearly believe some taxes are fairer than others. When asked which federal tax is least fair, the estate tax received the most votes (31 percent). Though this result is consistent with past surveys, it remains somewhat surprising given that the federal estate tax affects a very small percentage of federal individual tax filers each year.

In terms of unfairness, the estate tax was followed closely by the income tax (25 percent) and the Social Security payroll tax (14 percent). Adults aged 18 to 24 were more likely to name the Social Security payroll tax as the least fair tax (27 percent) than any other age group. Those over age 55 were most likely to name the estate tax (40 percent).

Q670. Some taxes are paid to the federal government in Washington and some are paid to state and local governments. Of the following federal taxes, which do you think is the worst tax -- that is, the least fair?

2006	2005	
31%	30%	The federal estate tax
25%	26%	Federal income tax
14%	15%	Social Security payroll tax
7%	8%	Federal corporate income tax
21%	21%	Not sure

Source: Tax Foundation

When asked about the fairness of state and local taxes, 39 percent of adults named local property taxes as the least fair tax. This result is also consistent with past surveys. Property taxes may be perceived as unfair for at least three reasons: (1) they tend to be highly visible taxes, making taxpayers more aware of them; (2) they rise or fall based on property values, regardless of taxpayer behavior; and (3) they are often make up a large and rising portion of the total tax burden faced by retirees who rely on fixed incomes.

In terms of perceived unfairness, property taxes were followed closely by state-level income taxes (20 percent) and sales taxes (18 percent). Adults over age 55 were significantly more likely to name local property taxes as the least fair tax (47 percent) than any other age group, while those aged 35 to 44 were most likely to name state income taxes as least fair (25 percent) than any other age group.

Q675. Of the following state and local taxes, which do you think is the worst tax -- that is, the least fair?

2006	2005	
39%	38%	Local property tax
20%	19%	State income tax
18%	18%	Sales tax
7%	7%	State corporate income tax
16%	17%	Not sure

Source: Tax Foundation

Non-Payers Seen as Unfair

The Tax Foundation estimates that 43.4 million Americans will file tax returns but owe no federal income tax after deductions and credits for 2006². When asked whether this was fair, 63 percent of adults said everyone should be required to pay some minimum amount

² The survey question used the figure for calendar year 2004, or 42.5 million. See Scott A. Hodge, "Number of Americans Paying Zero Federal Income Tax Grows to 43.4 Million." Tax Foundation *Fiscal Fact* (March 30, 2006).

of tax to help fund government. This represents an increase from 59 percent who said it was not fair in 2005. Just 21 percent said it was fair in 2006.

Q725. Last year 42.5 million Americans -- that's one-third of all taxpayers -- paid no federal income tax after deductions and credits. Thinking about your own tax burden, do you think this is fair, or do you feel everyone should be required to pay some minimum amount of tax to help fund government?

2006	2005	
63%	59%	Everyone should be required to pay minimum amount of tax to help fund government
21%	21%	This is fair
16%	20%	Not sure

Source: Tax Foundation

Survey Methodology

Survey results are based on a Harris Interactive ® online survey conducted on behalf of the Tax Foundation within the United States between March 8 and 16, 2006 among a nationwide cross section of 2,017 adults aged 18 and older.

Figures for age, sex, race, education, region and household income were weighted where necessary to bring them into line with their actual proportions in the population. Propensity score weighting was also used to adjust for respondents' propensity to be online.

In theory, with probability samples of this size, one can say with 95 percent certainty that the overall results have a sampling error of plus or minus 2 percentage points. The margin of error is higher for subgroup results based on subsets of respondents. As with all surveys of public opinion, sampling error is only one of many potential sources of error.

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For more information about the 2006 *Annual Survey of U.S. Attitudes on Tax and Wealth*, please contact [William Ahern](mailto:William.Ahern@taxfoundation.org) at (202) 464-5101 or ahern@taxfoundation.org. For questions about the polling methodology please contact Jennifer Cummings of Harris Interactive at (585) 214-7720.