

Tax & Spin

Five Ways the Media Distort Tax Issues

Reporters often get it wrong when covering taxes and the economy. Their economic errors go uncorrected, leaving the audience with a slanted perception of taxation and government. With the assistance of the National Taxpayers Union, the Media Research Center's Free Market Project has compiled five mistakes journalists commonly make along with suggestions for more accurate coverage.

1) RICH & POOR: Reporters often talk about "tax cuts for the wealthy" and look only at the gross amount of taxes paid instead of the percentage of income.

Wrong:

"When President Bush said that a lot of the tax benefits from his tax cuts have gone to middle-class Americans, I think Senator Kerry had a pretty good debating point to make, to say a lot of the tax cut, the absolute dollar figures, have gone to wealthier Americans. That's been one of the Democrats' main talking points. I don't think he hit that particularly hard."

– ABC's Mark Halperin during live coverage of the final presidential debate on October 13, 2004.

"Six hundred billion dollars over 10 years. The president's proposal would accelerate tax cuts already planned for the years 2004 to '06 across the board, including tax cuts for the wealthiest Americans. ... The president's plan would give the most to the rich and reduce tax receipts in the short term, but the White House argues you have to spend money to make money."

– John Roberts, "CBS Evening News," January 6, 2003

Right: Reporters should consider the percentage of income each person is paying in taxes (since "progressivity" is measured not in terms of gross taxes but in terms of taxes as a share of income). Here's a chart for easy reference which shows the steep progressivity of the federal income tax (federal payroll taxes – since they are tied to later benefits – are not progressive):

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2002 Federal Individual Income Tax Data				
	Group's Share of Adjusted Gross Income	Group's Share of Income Taxes	Income Level	Average Tax Rate
All Taxpayers	100.0%	100.0%	NA	13.03%
Top 1%	16.12%	33.71%	above \$ 285,424	27.25%
Top 5%	30.55%	53.80%	above \$ 126,525	22.95%
Top 10%	41.77%	65.73%	above \$ 92,663	20.51%
Top 25%	64.37%	83.90%	above \$ 56,401	16.99%
Top 50%	85.77%	96.50%	above \$ 28,654	14.66%
Bottom 50%	14.23%	3.50%	below \$ 28,654	3.21%

Source: Internal Revenue Service.

2) CUTS AS “COST”: Whose money is it? Referring to tax cuts as a “cost” to the government, which the media often do, assumes that all money is the government’s to begin with.

Wrong:

“White House numbers include the cost of making the tax cut permanent, but they don’t include the cost of reforming Social Security. The Bush administration believes all this can be paid for while still cutting the budget deficit in half by 2009.”

-- CBS’ Bill Plante, “The Early Show,” Jan. 26, 2005

Right: Reporters should avoid using language that could imply the government generated the tax money to begin with – it didn’t. Rather, it used its power of taxation to take money from the public.

3) DEFICIT ACCOUNTING: The media act on the assumptions that deficits are undesirable, and even worse, larger than ever.

Wrong:

“The Congressional Budget Office is upping its projection of the federal budget deficit by 33 percent, largely because of the Bush tax cut. The CBO now estimates a record American deficit of more than \$400 billion.”

– CBS’s Dan Rather on the “Evening News” on June 10, 2003.

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Right: The key to good data analysis is to answer the question “relative to what?” So with deficits, while citing nominal dollars provides shock value, the far better statistic is deficit as a share of the total economy (GDP). For instance, the president’s 2006 Budget projected a 2005 deficit of \$427 billion, more than twice the recorded deficit of 1985 (\$212 billion – both figures are current dollars). But when measured as a share of GDP, the deficits of those two years look very different. 2005’s projected deficit will amount to roughly 3.5 percent of GDP, while 1985’s deficit was 5.1 percent of GDP. Viewed in this light, the current deficit is cause for concern but not panic.

When reporting on deficits, it is also important to include fiscal imbalances faced by the federal government – such as the unfunded liabilities in Social Security and Medicare. The Trustees of the Social Security and Medicare programs estimate that, combined, the programs have roughly \$80 trillion in unfunded liabilities.

4) TAX CUTS HAVE CAUSED THE DEFICITS: If a reporter is operating under the assumption that tax dollars are really the government’s money, it would follow that the modest tax cuts of the past several years are the culprit behind today’s deficits. But this isn’t the accurate story.

Wrong:

Peter Jennings: “Terry, number one, the President wants to make his tax cuts permanent. Talk about that and how he does that given that the federal deficit is getting so much larger every moment.”

Terry Moran: “Peter, that is something the President talked about at nearly every campaign stop this fall, so he thinks he’s got a mandate to do it, but most experts say that making those tax cuts permanent would cause gigantic deficits virtually as far as the eye can see.”

– ABC’s World News Tonight, Dec. 15, 2004.

“I want to ask you, if you should become president, do you think it is possible to bring this deficit back into line? Do you think that is important? And if you are going to do that, aren’t you going to at least have to stop some of these tax cuts or in effect raise taxes?”

– CBS’ Bob Schieffer to candidate John Edwards,
“Face the Nation,” Feb. 1, 2004

Right: Excessive spending has been the real culprit behind federal deficits. Even with the passage of President Bush's tax cuts, total federal revenues in 2005 are projected to be 52 percent higher (adjusting for inflation) than in 1995. And according to research by John Berthoud of the National Taxpayers Union, if the federal government had merely limited total spending growth over the past six years to 3.2 percent annually, the Congressional Budget Office would today be projecting a small surplus for Fiscal Year 2005 instead of a substantial deficit.

5) LOOPHOLES: Many reporters tend to criticize ways that companies save themselves money, calling tax breaks "loopholes." Using the term implies that the money rightly belongs to the government and that the person taking advantage of a tax break is acting immorally or even illegally.

Wrong:

"Back in the 1940s, American corporations paid nearly 60 percent of all income taxes collected by the Internal Revenue Service. By 2003, the share was 16 percent, leaving ordinary Americans to bear most of the burden. The loopholes and shelters the corporations exploit are now costing the government up to \$70 billion a year."

-- Charles Gibson, ABC "World News Tonight," April 12, 2005

"By incorporating overseas, the companies can shield huge amounts of income from the IRS. It's a great loophole for them, but it's costing the country untold millions of dollars."

-- ABC's Elizabeth Vargas, "World News Tonight," March 1, 2002

Right: Money that flows in the business arena, such as corporate profits and investment, is usually being taxed at least once or twice already. When reporting on corporate taxes, it is important to bear in mind how many taxes are already in place and include that information as context.

The whole issue of corporate taxes deserves smarter historical and economic treatment. According to Office of Management and Budget figures, it is true that the share of total federal revenue called "corporation income taxes" has declined, from 35.4 percent in Fiscal Year 1945 to an estimated 11 percent in Fiscal Year 2005. However, the "individual income taxes" category remained relatively steady, from 40.7 percent in Fiscal Year 1945 to a projected 43.5 percent in Fiscal Year 2005. One of the most underreported changes in this mix is how so-called "social insurance" (i.e., payroll) taxes have zoomed, from a 7.6 percent share in 1945 to a 37.7 percent share today.

Simply put, Social Security and Medicare are devouring an increasingly larger share of the revenue pie.

It's also unfair to compare so-called "business taxes" of 60 years ago with today's, because many Americans now declare income from small businesses or self-employment on personal, rather than corporate, tax returns. According to IRS statistics, 13.75 million individual income tax returns filed for tax year 2002 reported "income from a business or profession" (out of 130.1 million returns total).

Finally, it's vital to remember that a "loophole" is in the eye of the beholder. The top five income "tax expenditures" - one definition the government uses for "loopholes" - added up to an estimated \$337.18 billion of federal revenues in 2006 (according to the Office of Management and Budget). These "loopholes" consisted of the exclusion of employer contributions for health care, mortgage interest deductibility, the net exclusion of 401(k) contributions and earnings, the capital gains exclusion on home sales, and the net exclusion of contributions and earnings on employer-sponsored pensions.