

Tax Story

The following story by Dr. Kamerschen, Professor of Economics at the University of Georgia, illustrates how a tax cuts works under our progressive personal income tax system.

Suppose that every day ten men go out for dinner and the bill for all ten comes to \$100. If they paid their bill the way we pay our taxes, it would go something like this:

The first four men (the poorest) would pay nothing.

The fifth would pay \$1.

The sixth would pay \$3.

The seventh would pay \$7.

The eighth would pay \$12.

The ninth would pay \$18.

The tenth man (the richest) would pay \$59.

So that's what they decided to do.

The men ate dinner in the restaurant every day and seemed quite happy with the arrangement, until one day the owner threw them a curve. "Since you are all such good customers," he said, "I'm going to reduce the cost of your daily meal by \$20." Dinner for the ten now cost just \$80. The group still wanted to pay their bill the way we pay our taxes so the first four men were unaffected. They would still eat for free. But what about the other six men – the paying customers? How could they divide the \$20 windfall so that everyone would get his 'fair share'?

They realized that \$20 divided by six is \$3.33. But if they subtracted that from everybody's share, then the fifth man and the sixth man would each end up being paid to eat their meal. So the restaurant owner suggested that it would be fair to reduce each man's bill once again reflecting the way we pay our taxes and he proceeded to work out the amounts each should pay. And so:

The fifth man, like the first four, now paid nothing (100% savings).

The sixth now paid \$2 instead of \$3 (33% savings).

The seventh now paid \$5 instead of \$7 (28% savings).

The eighth now paid \$9 instead of \$12 (25% savings).

The ninth now paid \$15 instead of \$18 (17% savings).

The tenth now paid \$49 instead of \$59 (17% savings).

Each of the six was now better off than before. And the first four continued to eat for free. But one outside the restaurant the men began to compare their savings.

"I only go a dollar out of the \$20," declared the sixth man. He pointed to the tenth man, "but he got \$10!"

"Yeah, that's right," exclaimed the fifth man. "I only saved a dollar too. It's unfair that he got ten times more than me!"

"That's true!!" shouted the seventh man. "Why should he get \$10 back when I got only two? The wealthy get all the breaks!"

"Wait a minute," yelled the first four men in unison. "We didn't get anything at all. The system exploits the poor!"

The nine men surrounded the tenth and beat him up. The next night the tenth man didn't show up for dinner, so the nine sat down and ate without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them for even half of the bill!!