



## The poor always ye have with you.

Bible, St. John 12:8

We are in the final throes of the Presidential election campaign and the speeches are becoming more strident on both sides. Each candidate has accused the other of exaggerating the facts on everything from education to health care to taxation. Surprised? Not too long ago, during the debate on the estate tax, I became intrigued by the definitions of “poor” and “rich” as they relate to taxation. Al Gore has made an issue of not condoning “tax cuts for the rich” and that he supports “working families.” George W. Bush has been characterized as uncaring or not wanting to narrow the gap between the rich and poor with tax incentives. So far, neither candidate has been willing to define the terms so I will.

There are three kinds of rich - assets, income, or both. It is possible to own millions of dollars of a stock that doesn't pay a dividend. Berkshire Hathaway sells for almost \$65,000 a share but does not pay a dividend. At the other end of the scale is the high income executive of a dot-com company whose stock options are worthless. Then there is Bill Gates who is certainly asset and income rich. My research shows that politicians think you are rich if you have an annual income greater than \$50,000 or assets in excess of \$100,000. If I'm wrong, I'm not that far off the real figures. Here are the sources.

The Federal Government, as part of the mandate under the Constitution to “promote the general Welfare,” collects data to find out what the general welfare is. The Congressional Budget Office (CBO), along with the IRS, the Bureau of Labor Statistics, the Census Bureau and others, keeps track of family income and taxes at the request of the House of Representatives. According to the CBO there are 116.8 million working families in the United States. A summary of the CBO findings is recast below showing income, tax rates, share of income taxes and share of total Federal taxes. Look at the level of pretax income and the share of Federal taxes.

	Average Pretax Family Income	Effective Total Federal Tax Rate	Share of Total Income Taxes	Share of Total Federal Taxes
Lowest 20% of families	\$8,400	4.6%	-2.0%	1%
Next 20%	\$21,200	13.7%	1.0%	5%
Middle 20%	\$35,400	18.9%	7.0%	11%
Next 20%	\$53,000	22.2%	16.0%	19%
Top 20%	\$132,000	29.1%	79.0%	65%
All Families	\$49,500	24.2%	100.0%	100%
Top 10%	\$188,000	30.6%	63.0%	49%
Top 5%	\$276,000	31.8%	50.0%	37%
Top 1%	\$719,000	34.4%	29.0%	21%

It should be obvious from the CBO figures above that poor people don't pay taxes. By definition then, any tax cut is a tax cut for the rich. Four out of ten working families pay little or no taxes with the lowest 20% receiving money from the government in the form of assistance. The top 20% of “working families” pay 79% of the income taxes and carries almost two-thirds of the Federal tax burden. The top 40% pays 95% of the income tax. Using my number, a tax cut for the rich indicates a tax cut for any family making more than \$50,000 a year. Arizona shows the same characteristics. According to the Department of Revenue's 1998 figures, the top .1% of payers are responsible for 16% of the income taxes and the top 26% of payers are responsible for 78% of taxes paid. In Arizona, the rich pay most of the taxes, too.

In this election year we need to remember how easy it is to distort perceptions with statistics. If you divide any group into five, as the Congressional Budget Office did for the table above, some group will always be on the bottom. The politicians never talk about upward mobility. They want us to assume that the same people show up in the bottom fifth year after year. Think about the recent high school graduate who lives away from home, working to pay college expenses. Definitely low income now, but not after college. Several years ago the U.S. Treasury tracked more than 14,000 households and found that 86% of those in the lowest income bracket moved up, two-thirds to the middle class and almost 15% into the top 20%. Poverty does not have to be permanent as the Treasury stats show.

Tennis star Venus Williams recently won the women's U.S. Open and the \$800,000 first prize. Now she's rich. When President Clinton called to congratulate her on winning, she reportedly made a pitch for a tax cut. According to a report in the *Los Angeles Times*, Ms. Williams described the conversation as follows: "He said, 'You really worked hard.' I said, 'See, I did work hard and I want to keep this for me. I'm a good citizen. Can you lower my taxes, please?'" If she earns nothing other than that \$800,000 prize in 2000, she owes the IRS \$292,000 in taxes next April and that doesn't include her state or local obligations.

Another way to be "rich" is in terms of assets. The Census Bureau published Report #233 in November 1999 based on information available in 1995.

Wealth is very unevenly distributed. The lowest 30 percent of families, ranked by the size of their net financial assets, have zero or negative net financial assets; that is, their unsecured debts equal or exceed their gross financial assets. The lowest 20 percent have negative net financial assets (net debt) of \$800 or greater, and the bottom tenth have net debt of \$4,700 or more. Families in the top tenth have net financial assets of \$85,000 or more.

According to the October 9, 2000 issue of *Forbes* magazine, "the top 1% of the population owns more than one-third of the wealth in the US. The net worth of the 30 richest Americans equals approximately \$500 billion." That means that the top 1% of stockholders hold almost half the value of all stocks. The bottom 80% of households own about 4% of the stocks. I was surprised at this because of the growth of 401k plans, IRAs and other employer-sponsored plans. Then again, the Census figures are five years old.

Vice President Gore proposes a matching program for people making \$12,000 to supplement Social Security. Every dollar they save will be matched up to a maximum (with a lot of conditions attached). The person who can save on a \$12,000 income is a better person than most. And the savings won't be invested in stocks. It will be put into low yielding government bonds. George W. Bush wants to segregate part of the Social Security tax for investment in stocks which, to me, makes more sense. Gore can't complain that the majority of Americans haven't made any money in the stock market and then deny them the opportunity to participate with their retirement dollars.

Many politicians try to rectify inequality through legislation. The minimum wage is a good example. Another is the Federal Estate Tax. The irony of President Clinton's veto of this so-called "death tax" was that the truly rich don't pay the tax. They shelter their assets with tax-exempt trusts and foundations. Also, the inheritance tax does not fall on the deceased. It is really a tax on the inheritors. Whenever I think about asset and income redistribution (the primary purpose of a progressive tax system) I am reminded of an incident attributed to Andrew Carnegie, at the time the richest man in the world. An intruder told him his wealth was obscene and demanded that he share it. Mr. Carnegie sat down at his desk, did a few calculations on a sheet of paper, reached in his pocket and gave the intruder a dime. "That's your share. Now get out."

Most, if not all, of you have family incomes higher than \$50,000 or assets greater than \$100,000. Feel rich?

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