People & Taxes

PUBLIC CITIZEN'S (C) 1974 TAX REFORM RESEARCH GROUP

'Reforms' Hit Average Taxpayer

by P&T staff writers

The essential problem with the federal income tax law is simply that it is too complicated. The law originally served one primary purpose -- it raised money. Now, festooned with deductions, exemptions, exceptions and explanations, it tries to do too much.

As it has grown more complex, much of the law has become unfair. Hundreds of complicated deductions benefit the well-to-do far more than the middle class. For instance, in 1972 people with incomes of $10,000 to $15,000 saved an average of $31.48 on deductible medical expenses, while those in the $50,000 to $100,000 range saved an average of nine times more -- $283.63. And the half of all taxpayers who took the standard deduction received no medical expense benefits at all.

Most taxpayers don't know how unfair the law is, and have not opposed it. They only know it gives them some tax breaks, and they are grateful for what they can get. But reformers in Congress like Senator Mark Hatfield (R-Ore.) point out that people would benefit far more if all deductions were eliminated and a simple tax on gross income replaced the present loophole-ridden law.

It took Richard M. Nixon's tax abuses to spotlight the inequities of the whole system. When the Nixon tax scandals hit the headlines, public outrage swept into the White House and into the halls of Congress, where tax law is written.

The Nixon administration's reponse was to send Treasury expert Frederic Hickman up to Congress to push the administration's "reform" plan, first launched by former Treasury Secretary George Schultz in April, 1973. The administration's "reform" is a devastating raid on middle-class incomes. Advertised as tax "simplification," the proposals would cancel almost $3 billion in deductions widely used by ordinary taxpayers while leaving the wealthy's big money-savers -- like unlimited charitable contributions -- untouched. The administration plan contains a weak minimum tax package as an insignificant bandaid on these large tax breaks. The administration is even planning to push for new tax breaks to corporations and investors, according to a May 25th radio speech by the President.

The Administration must turn to Congress to pass the measures, and it has a willing ally in Rep. Wilbur Mills (D-Ark.), chairman of the tax-writing House Ways and Means Committee. Mills is no friend to middle-income taxpayers. He likes the White House scheme and is guiding it through his committee with a skillful hand. Under his leadership, Congress in the last 17 years has reduced the taxes corporations pay from 30% to only 14% of the total federal revenue, while raising social security taxes for working people from 10% to 30% of the federal revenue.

Now Mills, if not blocked, will move the tax system farther down the same road. Instead of cutting out all deductions across the board, the "reform" knocks out many middle-income benefits, puts limits on others, and even broadens some (alimony, child care, retirement income). But the cuts outweigh the benefits eight to one and lay new burdens on the already beleaguered low and middle-income taxpayer.

Committee staffers have assured newsmen that no one will really get hurt, and that the committee will restore most of what it has wiped out by increasing the standard deduction or the personal exemption. So far, however, it has taken no steps in this direction. Even if it does, it would simply continue the same unfair burden on the lower and middle classes. A $100 raise in the standard deduction, for instance, would give taxpayers in 20% bracket a benefit of only $20, while it would give those in the 70% bracket a $70 benefit.

Worse yet, reformers fear that the committee may be tempted to use the tax revision to boost federal revenues and simply not give back all of the $3 billion.

P & T STAFF PHOTO

Ways and Means Committee Chairman Wilbur Mills (left) listens to Rep. Bill Archer during hearing break.

Certainly the committee has taken no concrete steps to indicate its concern for inflation-squeezed middle class taxpayers. Meanwhile, these taxpayers should be weighing the effects on their pocketbooks of the following committee moves:

--Elimination of the state gasoline tax deduction -- worth $589 million.

--Elimination of the health insurance premium deduction, combined with new limits on the amount of medical and drug expenses which may be deducted. Now expenses would have to total 5% of adjusted gross income before they are deductible. Total cost -- $1 billion.

--Elimination of the exclusion from taxable income of the first $100 of stock dividends -- worth $300 million.

--Elimination of sick pay exclusion except for permanently and totally disabled people -- worth $250 million.

--Elimination of business-related miscellaneous expenses like union dues or required uniforms unless they exceed $200 a year -- worth $485 million.

--Tightening of conditions under which individuals who use their home for an office can claim deductions for its use -- (no estimate given).

--Allowing casualty deductions only for losses valued at more than 3% of a taxpayer's gross income and only for losses in excess of $50 per item -- worth $142 million.

Since tax deductions complicate the law and benefit the wealthy over the middle class, reformers would like to see them eliminated -- but only if everyone gets a fair share of the savings generated by closing loopholes. So far, the Ways and Means Committee has failed in this regard, and it has gone lightly on upper-income people. For example, businessmen who make money from qualified stock option plans will have to pay taxes on the value of the option at ordinary income rates instead of the lower capital gains rates. One staff member claims, though, that the qualified stock option revision will result in no dollar losses to these taxpayers.

The committee has made a few minor reforms. One is the restriction of tax write-offs which vacation homeowners can presently take on operating losses incurred on their vacation homes. Another is the

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Mills Makes Call to 'Free' Capital Gains

by Sam Senger

The special tax treatment of capital gains income may become even more favorable as a result of the current round of "tax reform" in the House Ways and Means Committee. Chairman Wilbur Mills has told the committee he favors reducing the tax on capital gains on a sliding scale according to length of time the asset was held, and a $10,000 lifetime exclusion of capital gains income.

The most expensive single loophole in the tax system, capital gains provisions presently cost the Treasury $7.5 billion per year, but only one out of 12 taxpayers benefits from them. Statistics show that middle-income taxpayers save an average of $15.07 each, while the very wealthy ($100,000 plus per year) save $39,211.40 each. Rather than limit the costs or spread the benefits to average taxpayers, the proposals will increase the benefits and probably encourage concentration among those who can afford to hold investment property for long periods of time.

Mills stated that his purpose is to "free up" about $20 billion of securities which are kept for long periods of time, because the holders of those securities don't want to sell and be liable for the tax. Mills said that he wants to "restore a degree of initia-

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Deductions for Ads Draw Fire

by Sam Senger

Oil companies have been spending a lot of money recently for ads like the one on the right, to present their side of the energy controversy. Their arguments are probably now familiar to everyone, but not everyone knows that the taxpayer helps to pay for them.

The fact is that since the oil companies deduct the expense of these ads, the Treasury, and therefore the average taxpayer, subsidizes them. The oil companies are using that subsidy to convince those same taxpayers that they are acting in the best interests of the country by raising prices to increase their profits.

The tax code and regulations permit companies to deduct the cost of product advertising as an ordinary and necessary business expense. Companies are also allowed to deduct the costs of "image" ads which promote the general reputation of the company. The regulations, however, do not allow deductions for ads which are political or which attempt to influence political decisions.

Tax and media experts testified on May 6 at Senate subcommittee hearings called by Senator Philip Hart (D-Mich.) to look into the question of oil company deductions for political advertising. Sen. Hart surveyed 35 selected energy-related companies and reported that just seven oil companies studied and the American Petroleum Institute together spent $126 million on advertising. There is no accurate figure on what portion of that is for political ads, but Mobil was the only oil company questioned that admitted any of their ads were non-deductible.

Lester Fant III, a Washington, D.C. tax attorney, testified that the regulations governing the deduction of advertising expenses prohibit deductions for ads which attempt to influence the public or the Congress politically with respect to legislative matters, elections or referendums. Mr. Fant stated that many of the oil company ads that the committee was studying were in that category, yet the companies stated that they would take deductions for them.

The danger, according to Fant, in allowing those deductions is that they increase the political power of the oil companies without giving any benefit to the average citizens whose interests they may oppose. "The imbalance of power between business interests and private citizens affects the over-all health of our democratic society," he said.

Harvey Shulman, an attorney with the Media Access Project, testified that his investigations showed massive violations of the tax law. "While the exact amount of money involved cannot be stated at this time, it is clear that we are in the midst of a multi-million dollar scandal," Shulman stated. He submitted copies of 99 ads as a sample of the political advertising which they claimed as business expenses, thus allowing them to pass the full cost along to their customers as part of their utility bills. If they were not considered business expenses, the costs would be passed on to the shareholders.

A mericans today are living in an atmosphere of crisis. The crisis of the energy shortage is compounded by the crisis of low public confidence in the ability of our government and the fuel industries to solve the problem. Rather than grappling for its solutions, politicians and business people seem to be snagging each other in the rush to find the villains of this tragedy.

Despite the widespread suspicion that the oil companies have conspired to create the energy shortage, we in the oil industry must continue our efforts to help the public understand that...

..."the energy shortage is not contrived. It is very real and very serious. In this light, I want to answer some of the questions we are most frequently asked."

These comments by Mr. B. R. Dorsey — Chairman of Gulf Oil Corporation — first appeared in the Pittsburgh Post-Gazette on December [illegible], 1973.

[illegible] try has been warning U.S. government officials for the past decade that if government regulations continued to keep oil and natural gas prices at levels too low to generate the capital needed to find more oil and gas, our nation would eventually run short.

Why wasn't it prevented? These regulations were not changed because government leaders felt that Americans were best served by low fuel prices that resulted in ever-increasing consumption.

How large is that consumption? The United States, with six percent of the world's population, consumes 35 percent of its energy. Far more than any other country.

What's the impact of the Middle East embargo? I hope that future historians will be able to say that oil producing nations in the Middle East did our country a favor in 1973. The energy shortage was creeping up on us gradually. Had the U.S. not been shocked by the impact of the import curtailment this year, we might not have moved fast enough, or marshalled all the resources necessary, to balance our energy supplies with our energy needs.

Prior to the embargo, the U.S. imported about one million barrels per day of crude oil from Arab countries and another million barrels per day of refined products made from Arab crude oil. This two million barrels represents 12 percent of our 1973 anticipated demand.

How severe will the gasoline shortage be this winter? Its severity depends upon the success of energy conservation efforts. There are signs that these efforts are helping a great deal. The latest industry reports for November and early December show a decrease of one percent in gasoline consumption as compared to the same period of last year. Considering that gasoline consumption increased in this period a year ago by more than five percent per month and had been increasing by some seven percent per month earlier this year, this drop in consumption shows remarkable voluntary response on the part of the consuming public. However, national gasoline inventories are now six million barrels lower than they were last year at this time, and still dropping. Consumption continues to outstrip supply by a factor of about 6 percent.

How about home heating oil? Part of the gasoline supply problem stems from refineries converting crude oil into as much home heating oil as they can at the expense of gasoline production. This high production level of home heating oil plus the weather being about 20 percent warmer than it was for the same period last year has resulted in heating oil inventories 20 percent greater than they were at that time. But national weather patterns tend to average themselves out before winter ends. If this occurs this year and the nation experiences a normal winter — and if conservation continues — we may get through this winter without severe hardships to heating oil consumers.

Perhaps the most serious problem is the shortage of heavy residual fuel oil used primarily by electric utilities. Since about 70 percent of this is imported, the Middle East embargo is expected to reduce U.S. supplies considerably. Many power plants cannot quickly convert to coal, and distillate fuel oil supplies are fully committed.

What immediate steps can be taken to solve the energy shortage? While the Middle East embargo continues, there is very little that can be done to improve U.S. supply of petroleum products. Plans for refining capacity increases are not likely to be implemented until refiners are reasonably confident of sufficient crude oil to feed the added refining capacity. U.S. crude oil production is declining and the Middle East has the only surplus crude oil production capacity of any consequence in the world.

How about the long term? In the long term the United States must become reasonably self-sufficient in its energy supply through a major readjustment of the different energy sources we use. It is now obvious that by some time in the mid-1980's there will not be enough oil to meet world demand even without any foreign political problems.

Stationary power plants must increasingly be fueled with coal and uranium, transportation with refined oil products, and homes with natural and synthetic gas. The United States needs an effective national energy policy that will provide:

- Intensive development of nuclear power and stepped up research on the ultimate energy source: nuclear fusion.
- Rapid development of synthetic fuels, such as petroleum from oil shale, coal gasification and liquefaction.
- An economic climate that will provide the immense capital needed to develop synthetic fuel as well as geothermal and solar energy.
- Rapid stimulation of the development of remaining U.S. oil and natural gas reserves.
- And a reasoned balance between needed environmental protections and the demands for energy that our nation requires to provide a healthy economy for all our citizens.

Our greatest hazard is that our attacks upon each other may continually divert us from getting on with this enormous task.

GULF OIL CORPORATION
P.O. Box 1403
Houston, Texas 77001

An ad that appeared in the Washington Post that will be claimed a business deduction.

The regulations of the Federal Power Commission, like those of the IRS, prohibit treating political ads as a business expense, but the regulations, Shulman testified, were not being enforced. And, because corporate tax returns are not public, there is no way of finding out how the IRS actually treats these deductions, even after a complaint has been made to them.

Both Shulman and Fant cited the need for more comprehensive definitions in the regulations and for enforcement review. Shulman plans to file complaints with both the Federal Power Commission and the IRS. ■

Capital Gains

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tive" so that every American can own stock. "I want to restore the right of my grandson, if he has the ability, to become a millionaire," Mills told the committee.

A recent article by Stanley Surrey and Roger Brinner, professors of tax law at Harvard, analyzed and criticized the capital gains proposals. Surrey and Brinner started by pointing out that the present tax rate on capital gains is half the regular rate because only half the income is actually taxed. Thus, a 70% bracket taxpayer only pays a 35% tax. A Senate bill, proposed by Lloyd Bentsen (D-Tex.), would reduce the amount of income taxed to 20% so that the 70% bracket taxpayer would pay an actual rate of 14% (70% of 20% = 14%) on the gain. "Ironically, 14% is also precisely the rate of tax applicable to the wages of the poorest taxpayers in the country," the authors noted.

Several other proposals have been made in the Congress to enlarge the capital gains loophole. Most supporters of these bills defend them on two grounds -- first, to counter the "lock-in" effect Mills mentioned and encourage people to sell their stock. The second reason is to allow for inflation which increases the dollar value of an asset, but not the real value.

Surrey and Brinner point out that part of the reason that investments get locked in is the tax law itself. The special rates on capital gains are only allowable if the asset is held for six months. The proposal before the committee would encourage even longer holding periods by decreasing the tax rate 2% per year for every year it is held, up to 15 years. Thus, the person who holds onto stock for the full 15 years would be taxed on the gain at only 20% of the ordinary rate.

Another provision in the present law allows the increase in value during a deceased person's lifetime to go untaxed when the assets are transferred to heirs at death. When the heir sells the asset, only the gain since the time it was inherited will be taxed. For example, if a father purchases stock for $10 and holds it until death, when it is worth $100, the $90 gain is never taxed. If his daughter inherits it and later sells it at $105, she pays tax on only the $5 gain. This encourages people to hold onto stock that has greatly increased in value so that their heirs inherit the stock and avoid the tax.

The Ways and Means proposals, instead of eliminating these provisions which encourage the locking in of stock, will only encourage longer holding periods by increasing the tax advantages over 15 years.

The second reason for the reduced rate on capital gains is supposedly to offset the effects of inflation. The greatest weakness in that argument is that wage-earners, those on fixed incomes, and people who have savings accounts, are hit by inflation just as badly but get no special tax breaks for it. In fact, even certain types of investment income such as interest and bonds, don't get capital gains treatment. "It does not seem reasonable to begin an inflation adjustment of the tax system by according further privileged treatment to capital gains," Surrey and Brinner stated.

The Congress has long been promising to revise the capital gains loophole, so it is not surprising that it's on the committee list for this spring. It is surprising, however, that the proposals under consideration only make the whole system worse. Perhaps it would be cheaper for all of us if we just gave Mr. Mills' grandson a million dollars and then got some equitable tax reform. ■

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Tax Reformers Score Victory

by Robert Brandon

Tax reformers scored a first round victory in their fight to immediately repeal the multi-billion dollar oil depletion allowance. On May 15th, the House Democratic Caucus voted to let the full House consider an immediate, retroactive end to the oil depletion allowance. The action left Ways and Means Chairman Wilbur Mills desperately maneuvering with a series of defensive moves designed to preserve his diluted power and his committee's weakened repeal of depletion.

The caucus action successfully challenged the authority of Congressman Mills by ordering him and the Rules Committee Democrats, who make up a majority of the committee, to allow floor votes on two amendments to strengthen the rather weak Ways and Means energy tax bill. The move came after Rep. William Green (D-Pa.) secured signatures from 128 Democrats asking that they go on record as preventing the Rules Committee from granting the closed, or no amendments, rule that Mills had asked for.

Taxing Windfalls

The energy tax bill which Mills wanted to bring to the floor without amendments, would phase out depletion for about two-thirds of the nation's oil over three years and give 15% depletion for the remaining third through 1978. In contrast, the Green amendment, which the caucus supported, would end the allowance as of Jan. 1, 1974. Green had pointed out that the oil industry would reap gigantic profits in 1974 -- about $9 billion on domestic oil alone. That represents a $5 billion increase over 1973's record profits. The Ways and Means bill would only tax an additional $670 million of that gain, while repeal of depletion would cut that windfall by half -- or $2.6 billion in 1974. The caucus approved a resolution to allow a vote on the Green amendment by what was described by members as a thunderous voice vote. It also agreed to allow action on another amendment by Rep. Charles Vanik (D-Ohio) to turn oil industry foreign tax credits into simple business deductions. This would increase taxation of foreign oil operations by almost $2 billion.

Faced with the prospect of having the Rules Committee open a tax bill to floor amendments for the first time ever, Chairman Mills tried to delay Rules Committee consideration. He hoped to convince some members from oil states to openly defy the caucus instruction.

When that strategy appeared to be doomed, Mills pulled another surprise out of his hat. He told the Rules Committee he was going to bypass them and take the bill directly to the floor under a little-used House procedure granting such a privilege to tax measures. That procedure could have meant chaos by allowing any amendment to be offered with no limit on debate. But members of the Ways and Means Committee from oil states didn't want to take the chance on a floor vote to end depletion, even though they would have an opportunity to offer weakening amendments or kill the bill through delay.

Forcing Confrontation

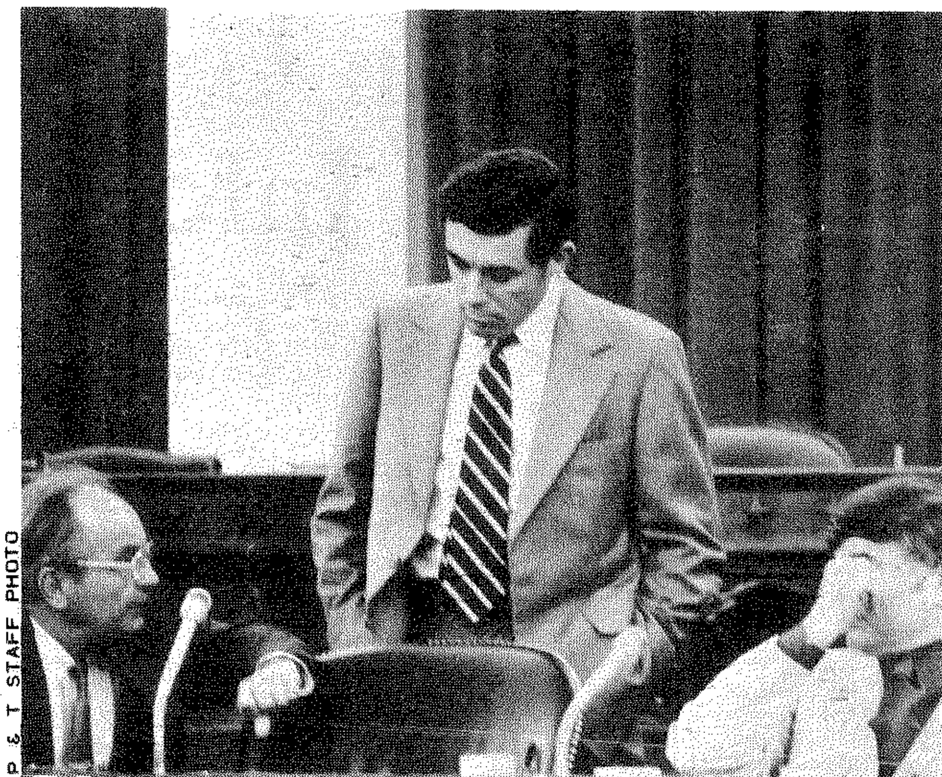
Mills was in a bind. He and the majority of the Ways and Means Committee wanted to bar amendments and the caucus wanted to allow the Green and Vanik amendments to be voted on. At the same time, Republicans, objecting to the Democratic caucus telling them what to do, wanted to bar all amendments or allow all relevant amendments under an open rule.

Mills could have accomodated everyone by asking for an open rule with some time limit on debate, but personal pride got in the way. He doesn't want the caucus, who put him in his current position of power, to tell him what to do. He is forcing a confrontation that the Democratic leadership is trying to avoid. To date, they have delayed a showdown in the Rules Committee by delaying the bill altogether until after the July 4th recess.

Meanwhile the reform effort will shift to the Senate, where a broad coalition of Senators will try to add a number of tax revision measures to a bill extending the federal debt ceiling. The major proposed tax reform is identical to Green's amendment which calls for an immediate end to the depletion allowance for oil and gas. This proposal, originally sponsored by Commerce Committee Chairman Warren Magnuson (D-Wash.) and Finance Committee member Abraham Ribicoff (D-Conn.) and 24 co-sponsors, will be offered as a package with several other reform measures and a $6 billion individual tax cut.

Senate Reform Package

A group of Senators, led by Birch Bayh (D-Ind.), Dick Clark (D-Ia.), Philip Hart (D-Mich.), Hubert Humphrey (D-Minn.), Edward Kennedy (D-Mass.) and Walter Mondale (D-Minn.), have incorporated the oil depletion repeal into a reform package that includes repeal of the $250 million Domestic International Sales Corporation tax subsidy and an $800 million asset depreciation range -- a loophole that permits rapid write-offs for depreciation of machinery and equipment. The bill would also raise $860 million by strengthening the present minimum tax on preferential (loophole) income. These reforms, along with others proposed separately by Senators Gaylord Nelson (D-Wis.), Floyd Haskell (D-Colo.) and Lawton Chiles (D-Fla.), will be linked to the Kennedy-Mondale tax cut proposal (see P&T, Vol. II, No. 5).



P & T STAFF PHOTO

Rep. William Green (standing) confers with Rep. Herman Schneebeli prior to Ways and Means Committee hearing.

Filibuster Threat

But in spite of its attractiveness, this legislation faces a Senate filibuster by oil state senators who oppose any increased taxes on the oil industry or, if passed, a Presidential veto. In either case a two-thirds vote would be needed to successfully end the depletion allowance.

If the Senate does attach a reform-relief package on the debt ceiling bill it will have to be accepted in a House-Senate conference by Rep. Mills who is opposed to the immediate repeal of depletion, the other Senate tax reforms and the tax cut. In a conference presided over by Mills and Senate Finance Chairman Russell Long (D-La.), a long-time friend of the oil industry, there will be a strong attempt to considerably weaken or, more likely, kill a depletion repeal amendment. Members of the House and Senate should be urged to support this amendment and to support a conference report on the debt ceiling bill only if it includes this long-overdue reform.

Even if the Senate cannot successfully break a filibuster and attach their reforms to the debt bill, one thing is certain: the public is demanding and a majority of both houses support an immediate end to the oil depletion allowance and the windfall profits it helps create. And sooner or later Mills and Long will have to abandon their oil allies and allow the Congress to vote to end the biggest oil tax break of them all. ■

Oil Independents Reap Profit

With the current efforts in Congress to revise the taxation of the oil and gas industry, there has been a great deal of concern for the independent oil producers. In fact, the proposal written by the House Ways and Means Committee exempts them from the repeal of the depletion allowance and instead allows them a continued deduction of 15% until 1979.

It is important to separate sympathy for the little guy in an industry dominated by vertically integrated multinational companies from a realistic appraisal of what the independents do and do not need in the years ahead. The fact is that oil companies are getting the biggest windfalls in the industry. They sell proportionately more oil (better than one-half of their production) at uncontrolled prices of more than $10 a barrel -- oil which was produced profitably at $4 a barrel a year ago.

Repeal of depletion will leave $7 billion as after-tax profits in 1974. This is an increase of $3 billion over 1973 profits with depletion. At these profit levels, the domestic producing industry will be able to raise all the capital it can use for further exploration and development. The industry is now restricted by resource availability -- steel, leases, hardware, personnel -- not by capital availability.

Since independents produce 30% of domestic oil, exempting them from any depletion repeal would cut revenues by more than 30%. Every day that independents are exempt will cost the taxpayers more than $3 million -- $3 million going to the wealthiest sector of the oil and gas industry.

It is not possible to measure exactly the profits of the independent sector because only 168 of approximately 10,000 independents are publicly-held companies which file with the SEC. But it is reasonable to project the experience of a few relatively small companies.

COMPANY	PROFIT 1st Quarter 1974 ($ millions)	Change from 1st Quarter 1973 %	RETURN ON EQUITY 1973
Charter	17.5	559	36.3
Clark Oil &	6.1	104	16.6
Commonwealth Oil	15.6	489	27.5
Louisiana Land	27.9	79.2	27.5
Mapco	8.7	50	23.0
Murphy Oil	25.5	233	31.9
Tesoro Petroleum (3)	18.9	343	38.7

■

'Reforms'

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elimination of tax deductions for groups holding "work" meetings outside the U.S. Those within the U.S., however, would still be deductible. However, these two changes involve amounts so small that no estimates have been made on their revenue savings to the Treasury.

Left untouched are still other major deductions which especially benefit the wealthy. These include tax-free interest on state and local bonds, unlimited deductions for charitable contributions, accelerated depreciation on machinery and real estate, deferral of taxes on foreign income, expensing of oil exploration and development costs, and the biggest bonanza of all, the capital gains exemption (see article on page three).

Instead of tackling concrete tax reform, the committee has opted to discuss strengthening the minimum tax. This does two things for the committee. First, it enables them to avoid coming to grips with major tax loopholes by offering a temporary stop-gap measure. And secondly, it could put an end to the perennial list of wealthy individuals who pay no tax -- an embarrassing and highly visible symbol of tax avoidance through loopholes and inequitable legislation, which the committee would like to cover over. ■

auding IRS

Public Can Get Access to Info

by Louise Brown

The IRS Manual is a series of black, looseleaf notebooks full of instructions to Internal Revenue Service employees. Hidden in its pages are facts which, if they were known and explained properly, could help average taxpayers in their dealings with the IRS. The Manual materials have been closely-guarded secrets which the IRS is slowly giving up under the relentless prodding of people like Phil and Sue Long of Bellevue, Wash.

The Longs, targets of an IRS audit in 1969, went to court to get a look at policies IRS follows in cases like theirs (see P&T, Vol. I, No. 5). The Washington state couple based their case on the Freedom of Information Act, a law passed in 1967 specifically to end government secrecy. The Longs won their case, and in the fall of 1972 they were able to see the materials they had requested from IRS. However, that was only the beginning of a continuing effort by the Longs and other determined citizens to open up what has been one of the most secretive of all government agencies.

Open Government

Congress recognized the responsibility of government to answer citizens' questions openly, completely and promptly when it passed the Freedom of Information Act in 1967. The intent of the law (5 U.S.C. 552), as described by then-Attorney General Ramsey Clark, was that disclosure be "the general rule, not the exception." He said that the law meant everyone should have equal access to information, and that federal agencies would have to prove why questions should not be answered, rather than citizens having to prove why they should be. In addition, the act provides that anyone wrongfully denied information by a federal agency can take the case to court.

Congress passed the law to ensure to citizens their right to know what the government is doing. But the IRS has never been a great believer in open government. It has often denied data to people who ask for it under the act. IRS is conscious of its duty to protect the revenue, and quite properly keeps secret any information which might help tax cheaters. But sometimes it hides facts, not because they really would help cheaters, but because they are embarrassing, annoying or difficult to explain. According to one high IRS official, "...our documents...might be misused and misinterpreted by persons who lack the expertise to understand them." Yet the IRS often refuses to answer questions and give its own explanations about data which it has had to make public under the act.

Flagrant Violations

The IRS has used the tactics of delay and denial to thwart information seekers. A Library of Congress study showed that, between 1967 and 1971, the IRS turned down more information requests (a total of 306) than any other federal agency except the Departments of Justice and Transportation. After a year's study of the way the act was working, House Government Operations Subcommittee staff chief William Phillips called the IRS "...the most flagrant in violating not only the spirit, but the letter of the Freedom of Information Act." He said their policies had almost become a national scandal.

The information IRS has fought so hard to conceal is significant for two reasons. Some of it could give taxpayers practical help in their disputes with the IRS. And other material -- statistical data -- could measure how fairly the agency is actually treating taxpayers.

Some information which could be of direct help to taxpayers is contained in the IRS

Some of the materials available from the IRS under the Freedom of Information Act.

Phil and Susan Long discuss a portion of IRS Manual in their Bellevue, Wash. home.

Manual -- the material which the Longs won the right to see in their Freedom of Information suit. As a result of the Long case, the IRS has made limited parts of the manual available to the public in its district offices around the country. But it doesn't publicize that fact, and it would be hard to measure how many taxpayers even know about it.

Still, further access to the manual is important. The manual explains some IRS procedures which only people wealthy enough to hire skilled tax lawyers were able to find out in the past. Yet this information would benefit all taxpayers.

For instance, taxpayers faced with IRS audits would benefit greatly from knowing that there is more "give" to the IRS hard line on tax debts than most people realize. Under certain circumstances taxpayers have a legal right to offer less than the IRS says they owe, and they can make the offer anytime during the audit or collection process. It's all spelled out under "offers in compromise" in the IRS manual.

In another example, if a taxpayer appeals his case through IRS' administrative channels, he has a very good chance of paying less than the auditors originally said he owed. The manual makes clear that the IRS would rather settle disputes than go to court. When the tax men think about the costs and "hazards" of litigation (possibilities of losing the case) chances are they will "split an issue." This just means they will cut down the taxpayer's bill on a disputed item (like a business travel deduction) to get a fast settlement. If small taxpayers had such information they could bargain more effectively, as the wealthy do now.

Important Information

Citizens could use the Freedom of Information Act to look at even more significant data -- secret rulings which have given special tax treatment to some; letters and memos which might show political influence inside IRS; and statistics which show how fairly IRS is treating taxpayers.

The dry, but significant figures pried out so far by the Longs are simply the tip of the iceberg. They have raised serious questions about the evenhandedness of IRS actions in audits, collections and appeals. Mainly, they show a wide and unexplained geographical variation in IRS' treatment of taxpayers.

For example, IRS collection officers seized property and wages in six out of ten cases in the Albany, N.Y. district last year, while they made only 1 1/2 out of ten seizures in the Cheyenne, Wyo. district. Former IRS Commissioner Mortimer Caplin questioned the variations. He said, "This whole system cries out for the same treatment in California and Florida that you get in the District of Columbia." He recommended that IRS report annually on its collection actions to the Senate Subcommittee on Administrative Practice and Procedure.

Statistics from IRS' special audit program (which identifies pockets of tax cheaters and "error-prone" returns) are equally variable. The Longs' analysis of the statistics shows wide geographical differences in alleged errors found by IRS auditors in returns filed by people in the $10,000 to $50,000 class. The Longs say that IRS auditors approve 77% of returns as filed in the Parkersburg, W.Va. district, while they approve only 20% as filed in the Buffalo, N.Y. area.

Figures on IRS administrative appeals agreements raise doubts about how fair the settlements are. At IRS district level conferences, settlements ranged from 84 cents on the dollar in Newark, N.J. to 19 cents on the dollar in Cincinnati, Ohio.

Stronger Legislation

The figures prove that the IRS is right about one thing--statistics measure complex situations, and people can misinterpret them. That is why federal agencies should explain them openly and honestly. The IRS, for instance, should report each year exactly how it is administering the law. But that would not end its responsibility to answer citizens' questions as promptly and fully as the law allows. Complaints about the way federal agencies have blocked the citizen's right to know have poured into Congress, and Congress is taking action.

A House bill sponsored by William S. Moorhead (D-Pa.) and a Senate bill sponsored by Edward M. Kennedy (D-Mass.) to strengthen the Freedom of Information Act are currently under consideration in House-Senate conference. They include provisions for setting firm deadlines for agencies to answer inquiries and appeal; limiting search and copying costs; making information available to one person available to all; establishing tighter guidelines requiring agencies to file annual reports on their Freedom of Information actions.

When this legislation comes out of conference passage of a stronger Freedom of Information law seem certain. For taxpayers like Phil and Sue Long, who have been pushing at the doors of IRS for three years at their own considerable time and expense, it won't be a moment too soon. ■

Use Freedom of Information Act

The Freedom of Information Act guarantees your right of access to any document, file or other record held by a government agency. However, there are nine exemptions (listed below) and the act does not apply to Congress.

If the federal government denies you information because it is exempt, you have the right to go to court and make the government prove its case. However, a court case could cost from $2,500 to $5,000. If you cannot afford to go to court, write to your Representative and ask him to intercede with the agency on your behalf. Also, write to Rep. William S. Moorhead, Chairman, Foreign Operations and Government Information Subcommittee, U.S. House of Representatives, Washington, D.C. 20515. Rep. Moorhead's subcommittee keeps tabs on how the Freedom of Information Act is working.

Getting the Information

The first place to look for general information about IRS policies is in the Internal Revenue Service Manual. The parts of the manual which are open to the public are available in all IRS district offices. Go to the Chief of Taxpayer Services and tell him you wish to look at the manual. After you have studied it, you may want more information. If so, follow the steps below.

1. Make a list of the specific information or documents to which you seek access. Describe the material in both general and specific terms.

2. Write a letter to Commissioner Donald Alexander, Internal Revenue Service, Washington, D.C. 20224. Tell him what documents or specific information you would like to see and ask how much copying will cost. Include the document numbers and titles, if possible, or ask for the names of the documents that contain the information you seek. Ask for access to and opportunity to copy the information. This is cheaper than having to pay for copies. For instance, ask to look at the document in a local IRS office.

Request Denied

Be sure to state that if you do not receive an answer to your letter within 30 days, you will conclude that the IRS has denied your request.

3. If IRS does not answer your letter within 30 days, write again to the Commissioner. Enclose a copy of your original letter. Say that you conclude your request has been denied, and that you wish to appeal this decision.

4. If the IRS denies your appeal, or if it does not answer you within a reasonable time (30 days), you can take your case to a U.S. District Court.

5. Be sure to keep copies of all correspondence and send all mail certified, so you will receive a receipt.

The Freedom of Information Act has nine exemptions. When requesting information from the IRS, or any other government agency, keep in mind that the act does not apply to matters that are:

(1) specifically required by Executive order to be kept secret in the interest of national defense or foreign policy.

(2) related solely to the internal personnel rules and practices of an agency. This exemption covers things such as employee parking and cafeteria regulations, as well as certain manuals that relate to the internal management and organization of particular agencies. But staff manuals instructing inspectors or agents how to perform their jobs are not exempt.

(3) specifically exempted from disclosure by statute. A primary exemption here is individual income tax returns.

(4) trade secrets and commercial or financial information obtained from a person. Government prepared documents cannot be withheld under this section.

Most Used Exemption

(5) inter-agency or intra-agency memorandums or letters which would not be available by law to a party other than an agency in litigation with the agency. This exemption is the one most widely used by the government which will resort to it in almost every situation. In general, the dividing line between what may and may not be revealed under this exemption is the line between opinion and fact. Opinions and policy recommendations are the traditional types of information that can be legitimately withheld; for instance, a memo from a staff person to a supervisor recommending that a policy be formulated would be exempt. But factual reports or analyses of facts are not exempt. Thus a judge might or might not consider reports of inspectors or field personnel exempt; the material might contain opinions, but if it can be determined that it is more factual analysis than policy recommendation, it should be made available.

(6) personnel and medical files and similar files.

Investigator Exemption

(7) investigatory files compiled for law enforcement purposes except to the extent available by law to a party other than an agency. This is another over-used exemption, since a regulatory agency can claim that almost any information in its possession is an "investigatory file." However, the courts have stated that only where a law enforcement proceeding is presently active or contemplated can the exemption be used. While documents like annual surveys or inspections may be investigatory, they are not compiled for law enforcement purposes and, therefore, are not exempt under this section.

(8) and (9) These are special-interest exemptions that relate to banks and oil well information and are not relevant to most applications of the Act.

For more information write: Freedom of Information Clearing House, P.O. Box 19367, Washington, D.C. 20036. ■

Regulations Proposed for Tax Preparers

by Louise Brown

The IRS, which has been conducting a mini-war against fraudulent tax return preparers, is asking Congress for some new weapons -- laws which will make it easier to crack down on these tax cheaters. The Treasury Department won't give a dollar estimate of how much revenue these new laws would save, nor even how many of the estimated 250,000 preparers in the country might be law breakers. The line between those who knowingly break the complex tax laws and those who simply make mistakes is hard to draw and harder to prove. But official IRS estimates, published in U.S. News and World Report last September, put the amount of income taxes underpaid by individuals alone at $6 billion. Fraudulent return preparers are responsible for some of that amount.

Unscrupulous Preparers

The IRS is pushing for compliance measures aimed at the fly-by-night, store-front businesses which spring up during tax season and disappear as soon as the season is over. Some of these preparers build up their clientele by encouraging people to underreport their taxable income. They assure their naive and compliant customers (usually in the low and moderate income brackets) that they can inflate deductions or take non-existent exemptions and get away with it.

Until recently, they have been right. IRS has only been able to audit about 2% of all returns in the last few years. But the agency is now paying special attention to unscrupulous returns preparers and their clients, in efforts to plug the revenue leaks. During the last three years, the government has taken legal action in 656 cases where clear-cut criminal violations appeared to be involved.

But criminal cases require time-consuming, expensive preparation which the government would prefer to use on more flagrant offenses. The IRS would like to go after dishonest preparers on lesser charges -- like negligence and civil fraud -- rather than on criminal grounds alone. If Congress passes the proposed legislation, it will be easier for IRS to put unscrupulous preparers out of business.

The proposals would apply only to people who prepare returns for compensation -- not volunteers. The legislation would make it easier for IRS agents to spot patterns of cheating and help them find the returns that a suspected preparer works on, by requiring commercial preparers to put their identification numbers on all the returns they prepare. These preparers would also have to keep copies of all returns, or a list of their clients, for three years. IRS could use these lists to select and examine suspected returns.

In addition, if preparers employ other people, they would have to file an annual report identifying each preparer who worked for them. The proposal also calls for preparers to give taxpayers a copy of the return at the time the taxpayer signs it.

Enforcement Gap

The penalties for failure to comply with the regulations would range from $5 to $100.

The new laws would also provide a $100 penalty for negligent or intentional disregard of IRS rules or regulations, and a $500 penalty for willful attempts to evade or understate any tax. A separate penalty could be imposed for each false return.

The laws would allow the government to put a preparer out of business if he guaranteed a tax refund, misrepresented his qualifications, interfered with the administration of the tax laws, or engaged in other illegal activities.

Critics of the proposed legislation point out that, while it clamps down on small-time preparers, it won't work against Wall Street tax lawyers who help their wealthy clients break the law. There is an enforcement gap, they say, between the minor penalties of the new measures, and the stiff criminal charges which the government is reluctant to use. That is the area in which tax lawyers with wealthy clients can operate without fear. Critics believe the penalties in the new proposals should be higher and pegged to a percentage of the tax owed but not paid.

Beleaguered taxpayers might well ask why IRS doesn't protect them from unscrupulous and incompetent preparers by a system of licensing and registration. The government may lose just as much money from preparers who don't know the law as it does from dishonest ones. Congress, which passed the tax laws in the first place, should see to it that taxpayers are not preyed upon by people who use the complex measures for their own ends. ■

reading

Housing Plan Critique

In a new book, A Critical Evaluation of Federal Housing Policy (MIT Press, 1974), Dr. Arthur P. Solomon argues that the federal Government should shift its focus from encouraging new housing construction to helping the cities improve the housing they already have. A good way to do this, Dr. Solomon says, is to provide rent subsidies, housing allowances, and other income assistance directly to people who need them.

The Audit Story

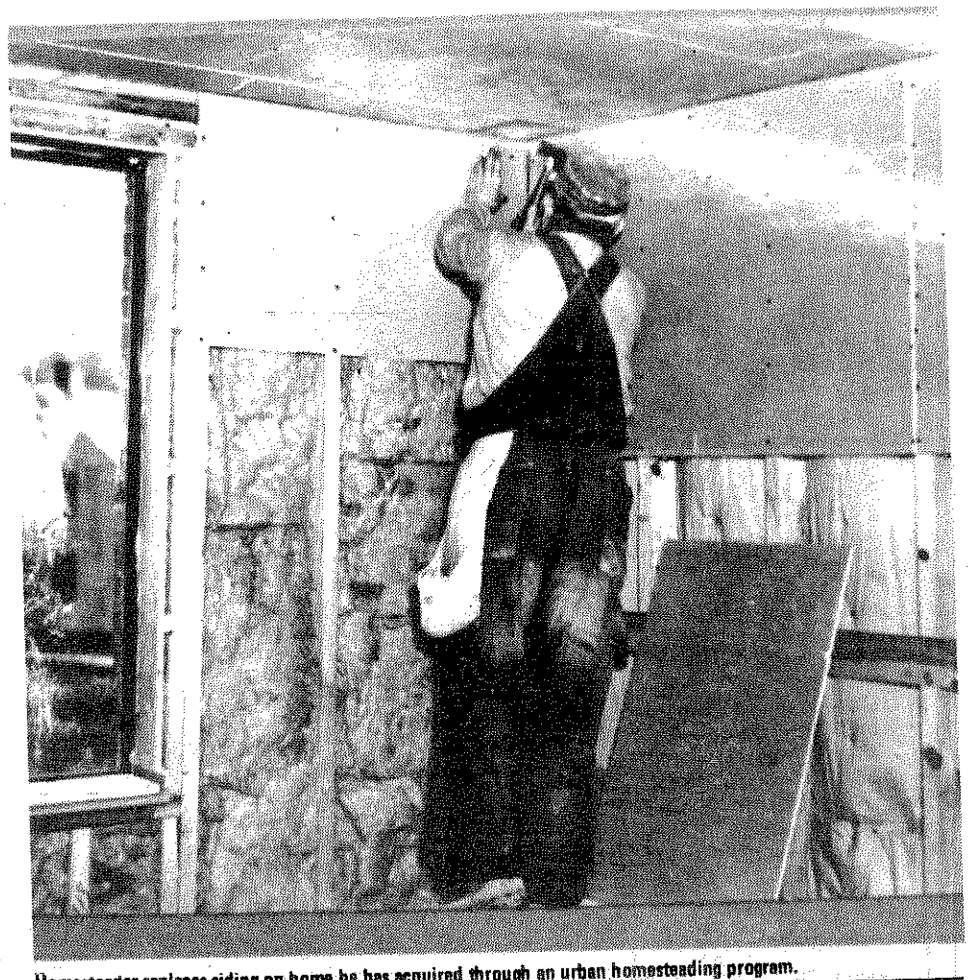
Back issues of The Audit Story, a 70-page "official use only" book full of facts and figures on how IRS audits taxpayers, are once again available from the IRS Reading Room in Washington, D.C. Tax officials removed the reports, which were published from 1962 through 1972, from public view last fall.

IRS' Public Information division says that any tax offices which still have the reports on hand will make them available to the public upon request.

Who is Taxed Hardest

The Brookings Institution has just released a new book, Who Bears the Tax Burden, which shows that the total tax bite is really about the same for nine out of ten families. The study, conducted by tax experts Joseph Pechman and Benjamin Okner, shows that income taxes are only somewhat progressive and that sales, payroll and other taxes are clearly regressive. The book is quite detailed and recommended primarily for economics buffs.

property taxes



Homesteader replaces siding on home he has acquired through an urban homesteading program.

Homesteading: A Unique Start

by Douglas Crooks

After watching the federal government's misguided efforts to save the decaying inner city neighborhoods, a growing number of east coast cities are initiating self-help programs that are turning property tax liabilities into property tax gains. Through the concept of urban homesteading, local governments may very well reap tangible fiscal benefits, while enabling families to become homeowners who otherwise may never be.

Borne out of the romantic mystique of the 19th century frontier program, urban homesteading projects give abandoned dwellings to families for $1 or free. In return the homesteader promises to rehabilitate the existing building to meet property and building codes, usually within 18 months, and occupy the home for three to five years, depending on the program. The conditions usually include property tax abatements as incentives for rehabilitation. After this period, title to the property is transfered to the occupant and the property is then taxed by the municipality at its full value.

Improved Housing

Presently the only homes available for homesteading programs are those properties local jurisdictions own outright or have access to through legal action. In both cases this ownership is usually the result of property tax foreclosures.

The concept -- which first started in Wilmington, Del. and has spread to Baltimore, Philadelphia, Washington, D.C., Boston, Newark and Pittsburgh -- focuses in varying degrees on two problems: improving inner city neighborhoods and providing housing for those who cannot afford it. Proponents feel homesteading will benefit low and moderate income families and simultaneously ease local governments out of the real estate business, while putting abandoned and tax-delinquent properties back on the tax rolls.

However, homesteading programs are in the experimental stage, and because of this, selection of applicants has not coincided with the ideals of many proponents. Selection has tended to be towards moderate and middle-income families: those less likely to have financial problems and more likely to have the skills necessary to complete much of the rehabilitation work themselves.

'Not For The Poor'

Two of the first ten applicants chosen in Wilmington exemplify this caution -- one is an Ivy League lawyer and the other is a carpenter with a working wife. In Washington, the situation is much the same. Nadine Winter, one of the city's primary community organizers of the homesteading program said, "We are not talking about houses for the poor. We're talking about houses for stable people, people with incomes, those who have some resources."

The primary problem in expanding the homesteading concept to those of lower incomes is the high cost of rehabilitation. In Wilmington the cost is estimated at between $5,000 and $12,000, in Washington $8,000 to $15,000 and in Philadelphia the costs also range up to $15,000. Few people have this kind of money readily available, so much of the solution lies in establishing lending programs and financial incentives such as tax abatements.

Financing Problems

The high cost of loans alone cuts many lower-income families out of the housing market. But high interest rates aside, lending institutions commonly discriminate against the inner city through a practice known as "redlining" (see P&T, Vol. II, No. 5). Compounding the problem is that a homesteader can default ownership interest -- and therefore the lending institution's interest as well -- by failing to reside at the premises for the specified time. This is a risk few lending institutions are willing to take.

Programs, such as Wilmington's and Washington's, which have no loan provisions -- other than normal commercial channels -- mean that for all practical purposes low and most moderate-income families will be excluded from the program. These are the same class of people who were the primary objects of exploitation in earlier federal housing programs. In Wilmington many of the initial homesteaders had to turn their homes back over to the city when they found rehabilitation money was nearly impossible to get.

Both Baltimore and Philadelphia have met this financial problem head on. In Baltimore a $2 million bond issue created a program through which citizens, who cannot obtain rehabilitation loans from commercial sources, can obtain up to

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$15,350 at 6% interest over a maximum period of 20 years.

Philadelphia delayed their program almost a year in order to establish a financial program so low-income individuals could participate. "We knew the program would die soon after it started, if we didn't have the financial machinery set up first," said Joseph Coleman, a city councilman who has helped lead Philadelphia's planning.

Donations from churches, synagogues, non-profit groups and fraternal organizations have enabled the city to set up a non-profit, tax-exempt corporation that will make low-cost loans to those who have been unsuccessful through commercial channels. Contributions from local businesses will follow as soon as the state finalizes tax deductions these businesses will receive for donations. Philadelphia is also gaining assistance from the Pennsylvania Housing Finance Agency to provide long-term financing through a $250,000 grant.

Tax Incentives

A large-scale financial program is also being considered in Massachusetts, where the legislature is discussing a bill that would establish a state agency to grant low-interest rehabilitation loans to urban homesteaders.

While few cities have included lending programs along with their homesteading plan, most have inserted tax incentives in their programs. In Wilmington, the city assesses the property at its value when the homesteader first takes over, and then permits the homeowner to subtract one-half of the value of the new improvements from any assessment increases. This abatement ends after the initial occupancy period of five years.

In Baltimore, the city assesses the property at the homesteader's acquisition cost ($1). Then, after rehabilitation, the city discounts the valuation of improvements according to the average assessed market values of properties in the immediate area, regardless of their condition.

Philadelphia Incentives

In Pennsylvania, state law authorizes local tax authorities to provide tax exemptions for improvements to deteriorating dwellings for periods of either five or ten years. Philadelphia officials, like those in Wilmington, have chosen to assess properties at their value when initially occupied, but have used their state law to exempt properties from higher assessments for the entire five-year initial occupancy period.

Newark, N.J. is meeting the rehabilitation problem itself. Before dwellings are turned over to homesteaders, the city completes any major rehabilitation needed on the roof, plumbing, heating or electrical systems, doors or windows. Then instead of getting the property for free or for $1, the homesteader pays the city the cost of major rehabilitation. Homesteaders then have 18 months to finish rehabilitation and bring property up to code. By doing the major rehabilitation before homesteaders receive the property, Newark officials are able to cut the need for major tax incentives, but are still faced with the problem of securing loans for moderate and low-income families.

In many communities the shortage of available abandoned housing is an additional problem. In Washington for instance, there are over 3,200 abandoned properties, but because they are owned by various private and federal government agencies and because of the District's peculiar foreclosure laws they are unavailable. Mainly for these reasons, the District initially could make only 14 properties available to the over 3,500 people who applied for homesteading rights.

Increasing Inventory

The Department of Housing and Urban Development is the nation's largest owner of abandoned properties. In June 1973, the agency had 202,811 repossessed units on its hands -- primarily the result of corruption and poor administration of urban programs -- and estimated that this inventory would increase by 50% by 1975. HUD officials say they are eager to help the homesteading efforts and have offered 4,100 properties to 24 cities. HUD's problem, however, is that it is required by law to get the maximum revenue from sale of its properties. As a result, the agency can turn over only properties whose rehabilitation costs exceed their possible resale value.

Only Philadelphia appears to have an abundance of properties available. With approximately 36,000 parcels at hand, prima-

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Citizens Act Against Banks, S & L Redling

The Chicago Citizen Action Program (CAP) campaign to fight redlining with "greenlining" is moving ahead full steam (see P&T, Vol. II, No. 5). At this writing Chicago homeowners have pledged to shift over $20 million in savings deposits to Savings and Loans which invest a substantial portion of their assets in the neighborhoods where they get the majority of their savings. And CAP has canvassed only two neighborhoods, with four more to go. CAP is also pushing the Chicago City Council to require banks to disclose where they get their deposits and where they invest them. "We are fed up with our money being used against our interests," a CAP member testified.

There is action against redlining on the legal front as well. Cincinnati, Ohio homebuyers have taken a local building and loan company to federal court for allegedly cutting off mortgage money from a racially mixed neighborhood. It was the first such suit brought under Title VIII of the Civil Rights Act of '68 -- The Federal Fair Housing Law. Counsel for the plaintiffs is the National Committee Against Discrimination in Housing, 1425 H Street, N.W., Washington, D.C. 20005.

Homeowners Fight Property Tax Escrow

Washington, D.C. homeowners are beginning to make headway against property tax escrow accounts (see P&T, Vol. II, No. 5). Two of the area's largest Savings and Loans have settled a homeowner lawsuit by agreeing to let homeowners pay their property tax and insurance premiums on their own, instead of forcing them to pay in monthly installments into non-interest-bearing escrow accounts. Washington consumer lawyer Benny Kass estimates that the average homeowner could realize between $30 and $40 a year by depositing the funds into savings accounts until the payments are due.

Last summer two smaller D.C. S&Ls settled a suit by agreeing to pay interest on the escrows -- a step the larger institutions won't take. The chairman of one big S&L in the recent case said the settlement would have little effect on the bank's operations or expenses. This suggests that the loud cries to the contrary by S&Ls all over the country are less than candid.

New System to Appoint, Certify Assessors

Kansas has taken a major step towards good assessing. In March 1974 the Kansas legislature did away with elected assessors in the state. Starting in 1976, assessors will be appointed for four-year terms. To qualify for the post candidates will have to pass a state examination, and the state will conduct courses to enable candidates to prepare. In addition, assessors -- now called county appraisers -- will lose their certification if they do not take advanced appraisal courses regularly. For more information, contact Mr. Harold Rohmiller, Director of Property Valuation, State of Kansas, Topeka, Kansas 66601.

Cities in Debt, Creditors Escape Paying Taxes

Local governments in the nation's 72 largest metropolitan areas are deeper in debt than ever before -- to the tune of $78.6 billion. That's almost $8 billion more than these units collected in revenues in 1972. The banks and wealthy investors who hold the debt are making a bundle. They don't even have to pay income taxes on the interest.

Effective Citizen Reform-How to Get Results

Effective citizenship is an art, and there are opportunities for people who want to learn how to organize tax and other citizen reform efforts that get results. Here are a few:

--The Midwest Academy, 600 W. Fullerton, Chicago, Ill. 60614. Founded by Heather Booth a year ago, the Academy has trained people from groups as diverse as the Communications Workers of America to Stewardesses for Women's Rights to the Wisconsin Education Association. Training programs range from two-week sessions in Chicago to one and two-day workshops around the country. Trainees have an opportunity to work with CAP, one of the hardest-hitting citizen action groups around.

--Organize, Inc., 212 Fair Oaks, San Francisco, Cal. 94110, is a similar unit directed by Mike Miller, former head of Saul Alinsky's Kansas City project and now head of a group fighting Pacific Gas and Electric in the Bay area.

--ACORN (see p. 11) accepts training interns in conjunction with the Arkansas Institute for Social Justice, 523 W. 15th Street, Little Rock, Ark. 72202. Interns work directly in ACORN's organizing activities. The program lasts six months, and trainees must make a commitment to stay in Arkansas for one year.

"The Academy doesn't just teach people how to protest. It teaches how to win," says Heather Booth of the Midwest Academy. Winning is one thing the people connected with these efforts have in common. May their tribe increase.

Real Estate's Role in Assessment Exposed

A taxpayer lawsuit in Washington, D.C. has exposed a small group of real estate industry representatives that advises the D.C. government on how to assess different neighborhoods, the Washington Post has reported. The seven or eight real estate brokers, appraisers, mortgage bankers, and others receive $50 apiece in taxpayer money for each of their several meetings each year. The Post says that the committee has no rules or procedures to prevent conflicts of interest, such as when committee members advise the District on how to assess neighborhoods in which they have financial interests. Committees like this, both official and unofficial, are common in many cities.

Dean's Neighbor Demands Tax Cut

More and more Americans are said to be increasingly tired of hearing of Watergate, but some residents of Alexandria, Va. have had a hard time believing it. It seems that so many tourists and erst-while curiosity seekers had been driving through the Washington, D.C. suburb to catch a glimpse of John Dean's household, that surrounding neighbors felt their property values were going down.

One neighbor of President Nixon's former counsel was so upset that he started court action, seeking a cut in his property assessment and taxes. The neighborhood has grown much quieter in the last few weeks though -- Dean moved to California.

Bill Urges US to Pay Taxes

A bill now pending in the U.S. Congress would provide long deserved relief for many local property taxpayers. Under H.R. 12324, introduced by Rep. John A. Blatnik (D-Minn.), the federal government would pay property taxes to local governments on federal lands now tax exempt. The bill applies to lands such as those held by the National Forest Service, the Bureau of Land Management and the Corps of Engineers. An identical measure, S. 2912, was introduced in the Senate by Senators Hubert Humphrey (D-Minn.), Walter Mondale (D-Minn.) and Frank Moss (D-Utah).

Localities would have two years to decide whether or not to enter the new system. Then, the federal government and the locality would jointly appraise the federal property in the same way local private property is appraised. In the case of disagreement, a special statewide appeals board would handle the assessment dispute. The federal government would then pay taxes at the local rate.

A recent study entitled "The Forest Service in Appalachia," by Si Kahn (Cut Cane Associates, P.O. Box 78, Morgantown, Ga. 30560), highlights the inequities in the current system of federal payments. Kahn shows that by the end of 1972, the National Forest Service held almost 5.5 million acres in Appalachia, depriving local governments of roughly $10 million a year in property taxes. The Forest Service pays localities 25% of revenues from timber cutting, but these came to less than 10% of what property taxes would have brought in.

In addition, payments in Appalachia came to but 14¢ an acre, while the national average was 58¢ an acre, and some counties in California and Oregon got from $2.00 to $6.00 an acre from the timber fees.

On top of this, Kahn notes that tying local revenues to timber fees puts localities under financial pressure to support "clear-cutting," the destructive razing of entire stands of timber, even though it brings erosion and flooding. Further, under the timber-fee system the localities cannot predict their revenues from year to year.

The Blatnik and Humphrey bills would remedy this problem. It makes one glaring oversight, however. As now drafted it could deprive states of the power to tax the "possessory" or "leasehold" interests, which parties like oil and timber companies acquire in federal lands. A staffer of the California State Board of Equalization estimates that in California these interests amount to roughly $100 million in assessed value. In effect, federal taxpayers would be bailing out the big timber, oil and other interests for taxes on this assessed value. The House staff says this effect was not intended and that it will be corrected.

It appears, however, that impeachment prospects will force the bill off the House agenda for this session. But with National Forest Lands alone comprising a portion of 168 separate congressional districts, not to mention the other federal lands that would pay taxes under the bill, citizens may be able to initiate enough leverage for action. If taxpayers and officials in these districts make their views known, the federal payments bill will move faster than now planned. ■

Homesteading

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rily through tax foreclosures and some utility liens, city officials estimate they will be able to offer 30-50 properties to homesteaders every 30-50 days. Also, in exchange for wiping property tax delinquencies off the record, the city has received nearly 1,000 properties in three months.

The Redevelopment Land Agency, which is in charge of many federal urban renewal programs, is another source of abandoned property in many cities. But again the federal regulation over resale is a limitation. In addition, many of the properties owned by this agency are already part of urban renewal projects -- some (but not all) of which have merit and should not be picked apart.

Two bills are presently before Congress, which would make homesteading a national program. Both bills would eliminate the resale restrictions currently holding most HUD properties from homesteaders, but they differ in their provisions for administering the program.

The Senate bill (S. 2676), introduced by Joseph Biden (D-Del.), provides for local housing agencies to administer the program using properties transferred to them by HUD. Congresswoman Marjorie Holt's (R-Md.) bill (H.R. 10373) authorizes the department to directly administer the homesteading program.

Another important difference is that the Biden bill authorizes technical assistance and loan assistance, which would be designed by the Secretary of Housing and Urban Development.

Both bills were introduced in the fall of 1973 and are presently in committee.

Money is the key to success of urban homesteading in helping low and moderate-income families obtain homes. National legislation, similar to the Biden bill, will be necessary if programs such as Philadelphia's assistance corporation are to become widespread, because many cities do not have the resources to carry them out on their own. There must also be requirements that local lending institutions, which gain deposits from these areas, plow a certain percentage back into them; and incentives for other institutions to make available their resources as well.

While urban homesteading certainly is not the total solution to the problems of our inner cities, few if any concepts have offered the possibility of such a complete reversal of a tax problem. Turning property tax liabilities into property tax assets and using property taxes as a primary incentive -- not to mention providing home ownership for many who otherwise could not afford it -- surely is a type of concept that is the dream of every urban planner. ■

Study Describes Tax Inequities...

by Jonathan Rowe
and Douglas Crooks

Homeowners are paying hundreds of dollars too much or too little in real property taxes each year due to inaccurate and incompetent property tax assessing. That is the conclusion of a People & Taxes survey of property tax assessment levels in major urban areas throughout the country. The survey analyzed the latest U.S. Census data, which presented new figures for 1971.

For example, in Baltimore, Md. the average owner of a $30,000 home was paying $364 too much or too little in property taxes each year. That amounts to a $728 spread between the overassessed and underassessed taxpayer, a 214% difference in tax payments which should have been exactly the same.

Similarly, in Indianapolis, Ind. the average owner of a $30,000 home was paying $352 too much or too little in property taxes. That meant that two owners of $30,000 homes, who should have been paying the same amount of property tax, were possibly paying $704 more or less than the other, a difference of 212%.

The table below shows the results of the People & Taxes survey for other cities.

Dismal Pattern

The pattern is dismal. Taxpayers throughout the country are subjected to illegal and unjust variations in tax burden that go far to explain why they are so fed up with property taxes. But the table also shows that when states take seriously their responsibility to provide fair assessing they can do so. The high degree of assessment equity in cities in California and Oregon, for example, makes this point. The rest of the states should follow their leads. Every governor must put assessment reform on the list of top priorities. Taxpayers must make certain that state and local officials clean up the inequities that exist. And the U.S. Congress must move ahead on bills such as S. 1255, which would both spur more competent assessing and aid the states in providing relief for overburdened taxpayers.

In addition, taxpayers can join together and pursue their rights in court. If there are public interest minded attorneys in your area, contact them. More information on this point will appear in future issues of People & Taxes.

Census Bureau Data

The People & Taxes survey is based on the latest Census of Governments' publication entitled "Taxable Property Values and Assessment-Sales Price Ratios," which is prepared by the U.S. Census Bureau every five years. The most recent census, released in 1973, used 1971 assessment figures. Thus, figures for individual cities may have changed somewhat since then; and in cities that have undergone "reappraisals" this change may have been significant. The over-all degree of equity has probably improved for some cities, but in others it has probably declined. The 1971 census data for urban areas of 50,000 or more shows an over-all decline in assessment equi-

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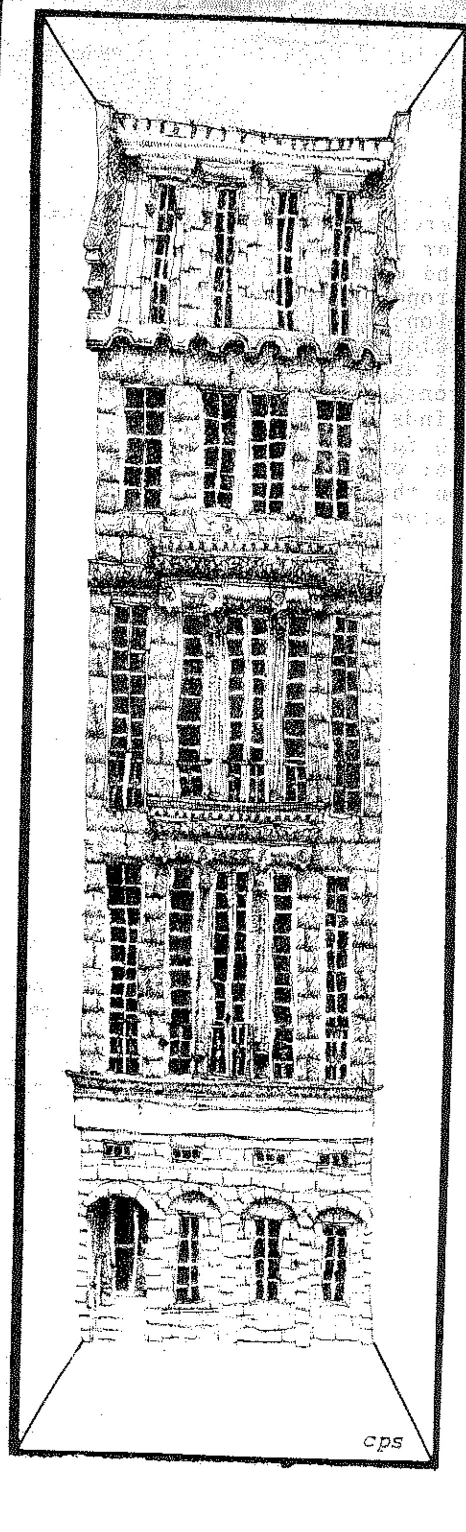
Comparison of Assessments and Taxes

City	(1) Median Assessment-Sales Price Ratio	(2) Median Assessment on $30,000 Home	(3) Coefficient of Dispersion (Average Error)	(4) Average Error in Assessment on $30,000 Home	(5) Local Tax Rate	(6) Average Local Tax	(7) Average Under- or Overpayment of Tax on $30,000 Home	(8) Difference in Taxes on Over & Under Assessed $30,000 Homes
Birmingham, Ala.	24.7%	$ 7,410	20.9%	$ 1,549	3.6%	$ 267	$ 56	$112
Phoenix, Ariz.	11.2	3,360	18.6	625	13.9	467	87	174
Little Rock, Ark.	15.5	4,650	29.1	1,353	7.4	344	100	200
Los Angeles, Cal.	20.3	6,090	15.4	938	13.2	804	124	248
Oakland, Cal.	21.7	6,510	11.0	716	13.5	379	97	194
Sacramento, Cal.	20.4	6,120	12.7	777	14.3	875	111	222
San Diego, Cal.	20.4	6,120	14.4	831	10.2	624	90	180
San Francisco, Cal.	18.9	5,670	27.6	1,565	12.7	720	199	398
Denver, Colo.	22.5	6,750	14.3	965	8.4	567	81	162
Hartford, Conn.	50.2	15,060	16.4	2,545	7.8	1,174	199	398
Wilmington, Del.	58.7	17,610	32.4	5,705	3.8	669	217	434
Washington, D.C.	47.1	14,130	22.5	3,179	3.2	452	102	204
Miami, Fla.	60.8	18,240	14.9	2,718	3.5	638	95	190
Atlanta, Ga.	24.2	7,260	21.1	1,532	4.8	348	74	148
Honolulu, Hawaii	56.1	16,830	17.0	2,861	1.9	320	54	108
Boise, Ida.	12.3	3,690	22.5	830	15.3	565	127	254
Chicago, Ill.	32.3	9,690	28.3	2,742	7.9	766	216	432
Indianapolis, Ind.	26.5	7,950	36.0	2,862	12.3	978	352	704
Des Moines, Iowa	23.0	6,900	19.9	1,373	15.6	1,076	214	428
Wichita, Kan.	24.4	7,320	20.3	1,486	10.6	776	158	316
Louisville, Ky.	83.3	24,990	9.9	2,474	1.0	250	42	84
New Orleans, La.	20.6	6,180	21.6	1,335	4.6	284	61	122
Portland, Me.	53.5	16,050	17.7	2,841	5.3	851	150	300
Baltimore, Md.	57.7	17,310	36.3	6,284	5.8	1,004	364	728
Boston, Mass.	24.8	7,440	27.2	2,024	17.5	1,302	354	708
Detroit, Mich.	42.4	12,720	14.4	1,832	5.8	738	106	212
Minneapolis, Minn.	8.4	2,520	26.5	668	25.4	640	170	340
St. Paul, Minn.	7.9	2,370	26.1	619	23.2	550	144	288
Jackson, Miss.	16.8	5,040	19.3	973	2.7	136	26	52
Kansas City, Mo.	Insufficient Data							
St. Louis, Mo.	31.9	9,570	42.4	4,058	5.6	536	227	454
Billings, Mont.	8.2	2,460	18.6	458	25.2	620	115	230
Omaha, Neb.	27.5	8,250	16.9	1,394	9.6	792	134	268
Las Vegas, Nev.	27.2	8,160	12.5	1,020	5.0	408	51	102
Manchester, N.H.	78.4	23,520	9.7	2,281	4.0	940	91	182
Newark, N.J.	67.4	20,220	40.0	8,088	8.6	1,739	696	1,392
Trenton, N.J.	37.1	11,130	54.0	6,010	17.5	145	1,052	2,104
Albuquerque, N.M.	26.7	8,010	15.7	1,258	6.2	497	78	156
Buffalo, N.Y.	25.2	7,560	25.6	1,935	16.1	1,217	311	622
New York, N.Y.	28.7	8,610	34.9	3,005	6.0	517	180	360
Rochester, N.Y.	22.3	6,690	22.2	1,485	12.8	856	190	380
Syracuse, N.Y.	26.2	7,860	29.0	2,279	14.6	1,148	332	664
Charlotte, N.C.	48.1	14,430	11.5	1,659	3.6	519	60	120
Fargo, N.D.	16.5	4,950	14.8	748	25.3	1,252	190	380
Akron, Ohio	30.9	9,270	19.5	1,808	5.0	464	90	180
Cincinnati, Ohio	33.8	10,140	34.1	3,458	4.9	497	175	350
Cleveland, Ohio	31.3	9,390	23.5	2,207	6.2	582	137	274
Columbus, Ohio	30.2	9,060	25.1	2,274	4.6	417	104	208
Dayton, Ohio	31.7	9,510	18.4	1,750	5.7	542	100	200
Toledo, Ohio	29.0	8,700	24.1	2,097	5.0	435	105	210
Oklahoma City, Okla.	20.7	6,210	35.7	2,217	9.4	584	208	416
Portland, Ore.	83.7	25,110	13.8	3,465	2.9	728	100	200
Philadelphia, Pa.	44.2	13,260	43.8	5,808	4.5	597	261	522
Pittsburgh, Pa.	36.7	11,010	42.4	4,668	7.1	782	332	664
Providence, R.I.	54.3	16,290	32.7	5,327	5.0	815	267	534
Charlotte, S.C.	4.6	1,380	36.9	509	20.2	403	149	298
Sioux Falls, S.D.	32.6	9,780	18.5	1,309	7.6	743	137	274
Knoxville, Tenn.	31.6	9,480	29.8	2,825	7.3	692	206	412
Memphis, Tenn.	38.1	11,430	18.8	2,149	4.8	549	103	206
Nashville, Tenn.	23.1	6,930	23.2	1,608	6.0	512	96	192
Dallas, Tex.	17.1	5,130	23.7	1,216	9.7	498	118	236
Ft. Worth, Tex.	19.5	5,850	31.5	1,843	10.5	614	193	386
Houston, Tex.	17.5	5,250	24.1	1,265	8.8	462	111	222
Salt Lake City, Utah	15.0	4,500	24.6	1,107	10.6	477	117	234
Richmond, Va.	81.8	24,540	26.0	6,380	2.0	127	128	255
Seattle, Wash.	27.9	8,370	33.0	2,762	4.8	402	133	266
Charleston, W.Va.	38.3	11,490	16.5	1,869	1.8	207	34	68
Milwaukee, Wis.	38.7	11,610	15.5	1,803	10.6	1,230	191	382



...Often Gross Payment Variations

continued from page 8
ty since 1966. This decline reversed a five-year trend of improvement and suggests that the People & Taxes survey, though based on 1971 data, reflects closely the assessment inequities to which homeowners on the whole are subjected today.

(Volumes I and II of the Census of Governments' publication are available for $1.25 and $2.30, respectively, from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. The People & Taxes study is based primarily on information contained in volume II.)

The People & Taxes survey included data only on owner-occupied single-family residences. Had other types of property been included, even greater inequities would have appeared. In many cities for example, there are marked differences in assessment levels for residences on the one hand and commercial and industrial property on the other. In addition, in 36 states vacant land held by real estate speculators is assessed at least ten percentage points less than other kinds of property in relation to full value. In Gary, Ind., for example, homes are assessed on the average 17.6% of full value, while vacant lots are assessed at 10.4% of full value.

Assessment Ratio

People & Taxes based its findings on two key items in the Census of Governments report on property tax assessments. These have imposing names but actually they are not difficult to understand.

1. Assessment-Sales Price Ratio -- This is simply the ratio between the assessed value and the actual full value, as reflected by the sales price, of a property. Most assessors do not even try to assess properties at full value. Instead they use some fraction of full value. The less competent assessors do not even use a fraction; instead they assess particular properties according to their whim. In some states the law allows "fractional" assessment -- assessment at a fraction of full value; in others assessors do it in violation of the law.

Amidst this confusion how do taxpayers know the assessment level, or ratio, to which they are entitled? The answer is: they are entitled to an assessment that is at the common average level of assessments. To find out what it is, the Census Bureau takes a sample of properties that have sold, and compares the assessed value before the sale to the sales price. The average of these ratios is the level at which each homeowner has a right to be assessed.

Coefficient of Dispersion

2. Coefficient of Dispersion from the average assessment sales-price ratio -- This shows by how much, on the average, the assessor missed the mark on each assessment. It shows the average gap between the common level of assessments and each individual assessment, expressed as a percent of the common level. To compute this figure, the Censss Bureau takes the assessment-sales ratio for each property in its sample and finds the difference between it and the common ratio, plus or minus. Next it finds the average of these deviations from the norm. The percentage that this average deviation is of the normal, or average, level is the "coefficient of dispersion."

We can understand these two items more easily through an example.

Suppose we have four houses, each of which sold for $30,000. The assessment rolls show the homes assessed at $10,000, $16,000, $22,000 and $28,000. (Remember, they should have been assessed the same.) The assessment-sales price ratios for the three would be:

1) $\frac{\$10{,}000}{\$30{,}000} = 33\%$ 2) $\frac{\$16{,}000}{\$30{,}000} = 53\%$

3) $\frac{\$22{,}000}{\$30{,}000} = 73\%$ 4) $\frac{\$28{,}000}{\$30{,}000} = 93\%$

And the median assessment-sales price ratio for the four would be:

$$\begin{array}{r} 53 \\ +73 \\ \hline 126 \end{array} \qquad 2\overline{)126}^{\;63\%}$$

Now we want to find the average deviation from this common level, or the "coefficient of dispersion." First we find the difference between the common level -- the average assessment-sales price ratio -- and the ratio for each individual assessment.

$$\begin{array}{r} 63 \\ -33 \\ \hline 30 \end{array} \quad \begin{array}{r} 63 \\ -53 \\ \hline 10 \end{array} \quad \begin{array}{r} 63 \\ -73 \\ \hline -10 \end{array} \quad \begin{array}{r} 63 \\ -93 \\ \hline -30 \end{array}$$

(We can disregard plus or minus signs.)

Next we find the average of these differences.

$$\begin{array}{r} 30 \\ 10 \\ 10 \\ 30 \\ \hline 80 \end{array} \qquad 4\overline{)80}^{\;20}$$

Finally we express this average difference as a percent of the common level:

$$\frac{20}{63} = 32\%$$

Thus the coefficient is 32%.

Experts consider a typical assessment error of between 10% and 15%, plus or minus, to be acceptable. Some go as high as 20%, mainly in compromise to what they perceive as the situation today. Assessors who get their typical error down to 5% to 10% deserve applause. Since market values change constantly, there are genuine problems in cutting the error much below that. The census data shows clearly, however, that local governments can achieve an acceptable degree of error if they try. In 1971 only 16% of the units studied had typical assessment errors of 15% or less.

Column Meanings

Now we can explain what each column in the table means.

Column 1: the median assessment sales-ratio for homes in the city. This is the actual common level of assessments, as compared to sales values, calculated by the U.S. Census Bureau. Taxpayers should note that assessors usually claim that the actual common level is much higher than it is in truth. This leads taxpayers to think they are getting a "break" and makes them less likely to appeal.

Philadelphia is a prime example. In Philadelphia the Board of Revision of Taxes, to which taxpayers appeal their assessments, sternly warns, on the form they must fill out when they appeal, that "the law requires that all real estate be assessed at actual market value." It does not tell them that the assessor actually assesses homes at only 44.2% of full value, as column 1 shows. Homeowners reading the warning think that if their assessment is anywhere below the full value of their home the assessor has been good to them, and do not complain. Yet if their assessment is any greater than 44.2% of full value they are overassessed and are entitled to a reduction.

This is one way deceitful officials trick taxpayers out of their rights.

Typical Assessment

Column 2: the typical assessment on a $30,000 home in the city. This is computed by simply multiplying the assessment-sales price ratio in column 1 times $30,000. (To compute the typical assessment for homes worth more than $30,000, simply multiply the full value times the ratio in column 1.

Column 3: the coefficient of dispersion, or average percentage error of each assessment, as calculated by the U.S. Census Bureau. The higher this percentage, the less uniform the assessor's work, and the greater the inequities to which he is subjecting taxpayers in his jurisdiction.

Column 4: the typical error in each assessment of a $30,000 home, plus or minus. This is computed by simply multiplying the coefficient of dispersion, or average percentage error, in column 3 times the typical assessment for a $30,000 home in column 2. Note that this figure does not show the amount of tax over- or underpayment. It shows the typical variation in the assessments to which the tax rate is then applied.

Column 5: the nominal 1971 tax rate for the city, as reported by the U.S. Census Bureau. The "nominal" tax rate is simply the taxpayer's total annual tax bill divided by the assessed value of property. This is different from the "effective" which is what the tax rate would have been if the assessor had assessed property at full value instead of just a fraction of full value. When comparing tax rates in different jurisdictions the effective tax rate is the valid measure.

Tax Bill

Column 6: the property tax bill of the typical owner of a $30,000 home, computed simply by multiplying the typical assessment for such a home, in column 2, by the nominal tax rate in column 5. Column 6 shows how much tax each owner of a $30,000 home would have paid had assessments been uniform and on the mark.

Column 7: the amount by which the typical owner of a $30,000 house paid too much or too little in property taxes because of under- or overassessment. This figure was reached by multiplying the city's tax rate in column 5 times the average assessment error in column 4.

Column 8: the difference in taxes paid between two typical under- and overassessed owners of a $30,000 house. For every homeowner that was overassessed by the amount in column 4 there was another that was underassessed by that amount. Thus the spread between the taxes they paid is double the amount in column 7, since column 7 just shows how their tax payments differed from the average. Column 8 shows the actual differ-

See INEQUITIES, page 10

Inequities

continued from page 9
ence in taxes which a typical underassessed and overassessed owner of a $30,000 house paid. Remember, these two homeowners should have been paying exactly the same amount.

The People & Taxes survey greatly expands upon an analysis -- using 1967 census figures -- which Census Bureau official Maurice Criz employed in a speech before the International Association of Assessing Officials in Las Vegas, Nevada in 1970. In its official publications, however, the Census Bureau has not itself shown the dollar amounts by which homeowners pay too much or too little because of assessing inequities.

Readers Should Observe

In using this table readers should bear in mind these points:

1. The census data is from 1971. As mentioned, assessment levels and tax rates have changed since then. Some cities may have improved in assessment equity. But if the 1966-1971 trend has continued, then in more cities assessment quality has worsened.

2. The assessment data does not include partial exemptions such as those for veterans and the elderly. To include these would distort the data and would attribute to assessors variations in assessment levels and tax burdens for which they were not responsible.

3. The average over- and underpayments shown in columns 7 and 8 are those of owners of $30,000 homes. The dollar amounts would be greater for *owners of homes worth more* than $30,000, and less for owners of homes worth less than $30,000.

4. It can be argued that it is easier for assessors to achieve uniform assessments (i.e., a low coefficient of dispersion) in areas such as suburbs which contain many similar properties, than in cities which have many different kinds of complex property. However, since the People & Taxes survey is limited to single family homes, this consideration is not important.

Single-family residences alone were used to show homeowners how they stand in relation to one another. In addition, there are difficulties in comparing residential assessment levels with those on other types of property. For example, the Census of Governments included data only for properties worth $500,000 or less. The most valuable commercial and industrial properties, those especially prone to receive special favors, were left out. In addition, since commercial and industrial properties sell less often than do homes, the basis for comparing their assessment-sales ratio is weak.

The Census data demonstrates that the quality of property tax assessing varies widely among different cities. Some cities are doing a reasonably good job, while in others the assessing is abominable. In Portland, Oregon, for example, the average homeowner was assessed 13.8% too high or too low -- far from perfect, but not bad considering the very real difficulties of the task. In Philadelphia, Pa., meanwhile, the average residential assessment was 43.8% off the mark, and in St. Louis, Mo. it was 42.4%.

Assessment Improvement

Some cities have shown marked improvement since the 1966 Census. Others, however, have slipped seriously. The accompanying box explores this point further.

Comparison of Variations

The best single measure of the fairness of an assessor's work is called the "coefficient of dispersion." As explained in the article, this is simply the percentage by which the average assessment is off the mark; that is, the percentage by which it is either higher or lower than the actual common level of assessments. Taxpayers are entitled to assessments at, or close to, this level.

The assessor is responsible for inequities reflected in this figure. (Given constant changes in property values, though, some degree of error is inevitable.) The actual over or underpayment, resulting from the assessment variations, depends in part upon the tax rate, for which other officials are responsible.

Below, the cities in the People & Taxes survey are ranked according to their coefficient of dispersion for residential assessments. Those at the top have the lowest likelihood and degree of error and hence the fairest assessing. Those at the bottom have the most unequal.

Manchester, N.H.	9.7	Washington, D.C.	22.5
Louisville, Ky.	9.9	Nashville, Tenn.	23.2
Oakland, Cal.	11.0	Cleveland, Ohio	23.5
Charlotte, N.C.	11.5	Dallas, Tex.	23.7
Las Vegas, Nev.	12.5	Houston, Tex.	24.1
Sacramento, Cal.	12.7	Toledo, Ohio	24.1
Portland, Ore.	13.8	Salt Lake City, Utah	24.6
Denver, Colo.	14.3	Columbus, Ohio	25.1
Detroit, Mich.	14.4	Buffalo, N.Y.	25.6
San Diego, Cal.	14.4	Richmond, Va.	26.0
Fargo, N.D.	14.8	St. Paul, Minn.	26.1
Miami, Fla.	14.9	Minneapolis, Minn.	26.5
Los Angeles, Cal.	15.4	Boston, Mass.	27.2
Milwaukee, Wis.	15.5	San Francisco, Cal.	27.6
Albuquerque, N.M.	15.7	Chicago, Ill.	28.3
Hartford, Conn.	16.4	Syracuse, N.Y.	29.0
Charleston, W.Va.	16.5	Little Rock, Ark.	29.1
Omaha, Neb.	16.9	Knoxville, Tenn.	29.8
Honolulu, Hawaii	17.0	Ft. Worth, Tex.	31.5
Portland, Me.	17.7	Wilmington, Del.	32.4
Dayton, Ohio	18.4	Providence, R.I.	32.7
Sioux Falls, S.D.	18.5	Seattle, Wash.	33.0
Billings, Mont.	18.6	Cincinnati, Ohio	34.1
Phoenix, Ariz.	18.6	New York, N.Y.	34.9
Memphis, Tenn.	18.8	Oklahoma City, Okla.	35.7
Jackson, Miss.	19.3	Indianapolis, Ind.	36.0
Akron, Ohio	19.5	Baltimore, Md.	36.3
Des Moines, Iowa	19.9	Charleston, S.C.	36.9
Wichita, Kan.	20.3	Newark, N.J.	40.0
Birmingham, Ala.	20.9	Pittsburgh, Pa.	42.4
Atlanta, Ga.	21.1	St. Louis, Mo.	42.4
New Orleans, La.	21.6	Philadelphia, Pa.	43.8
Rochester, N.Y.	22.2	Trenton, N.J.	54.0
Boise, Ida.	22.5		

People & Taxes cautions state and local governments against the common practice of bringing in a private "mass appraisal" firm to completely redo property tax assessments. A few of these firms make valid efforts. But others, and especially the largest, have abused their position and done incompetent work. Previous issues of People & Taxes (still available) and hearings before Senator Edmund Muskie (available from the Senator) have shown that placing wholesale reliance on a private firm -- as many localities do -- can be like leaping from the frying pan into the fire.

States and localities should improve their own assessing systems rather than bring in outside contractors, so that they can keep assessments uniform and up-to-date continually. This spares taxpayers the trauma of sudden revaluations which soon decay into the old inequity. The states which have consistently good assessing do not use mass appraisal firms; an opinion of the California Attorney General has held their use contrary to state law.

Additional Points

Private appraisal firms can be useful in helping public officials to set up new assessing systems. The best such consultants agree that they should do this much, and no more.

The survey shows that even in cities doing a reasonably good job, high tax rates can cause small differences in assessment levels to add up to significant variations in tax bills. In Hartford, Conn., for example, where the typical assessment was only 16.4% off the mark, this resulted in the typical owner of a $30,000 home paying $199 too much or too little.

The Census of Governments also made these significant points on which the People & Taxes survey did not elaborate:

Comparison of Improvement

As the article points out, the latest Census study shows that assessing grew less equitable nationwide since the previous census in 1966. Below we list the cities in the People & Taxes survey in which assessing either improved or decayed significantly in that time. (In 1966 data was not compiled for all the cities.)

The figures show the change in the city's coefficient of dispersion for single-family homes between 1966 and 1971. A drop in the coefficient, or average percentage error, shows that assessments became more uniform. Only cities in which the change was 5% or more up or down are included.

Over-all, assessing grew worse in 64% of the cities in the People & Taxes survey for which data was available.

Dallas, Tex.	-48.9%	Baltimore, Md.	12.0
Detroit, Mich.	- 6.0	Columbus, Ohio	12.3
New Orleans, La.	- 5.3	Richmond, Va.	12.4
Manchester, N.H.	- 5.1	Little Rock, Ark.	12.6
Houston, Tex.	+ 5.1	Fort Worth, Tex.	13.2
Des Moines, Iowa	5.3	Charleston, S.C.	13.4
Washington, D.C.	5.6	Seattle, Wash.	14.8
Wichita, Kan.	5.7	St. Louis, Mo.	16.0
Buffalo, N.Y.	6.5	Indianapolis, Ind.	16.7
Portland, Me.	6.5	Oklahoma City, Okla.	17.0
Syracuse, N.Y.	7.1	Providence, R.I.	17.3
Minneapolis, Minn.	7.4	Philadelphia, Pa.	17.5
Cleveland, Ohio	7.7	Cincinnati, Ohio	18.9
Knoxville, Tenn.	7.7	Newark, N.J.	20.3
Memphis, Tenn.	8.0	Pittsburgh, Pa.	22.0
Toledo, Ohio	9.8	Trenton, N.J.	29.9
New York, N.Y.	11.8		

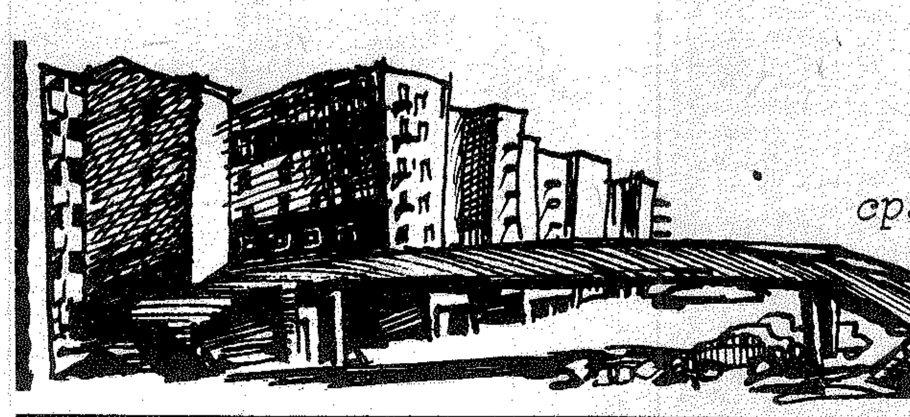
--Nationwide, the typical variation in residential assessments was 20.2%. That is, the typical homeowner was assessed 20.2% too much or too little. This figure is 1% higher than the typical variation in 1966, reflecting the decline in over-all assessment quality.

--Only one-quarter of local jurisdictions achieved an acceptable degree of assessment error -- 15% or less for each assessment. This number of jurisdictions doing acceptable jobs was down from 1966.

--The decline in assessment quality was most pronounced in the larger jurisdictions, those with 50,000 or more people. Among these, the number doing an acceptable job was down one-third from 1966.

--Statewide, the lowest typical error per assessment was in Connecticut, where the average homeowner was assessed 13.7% too high or too low. The highest error was in North Dakota, where the typical assessment was 40.5% off the mark.

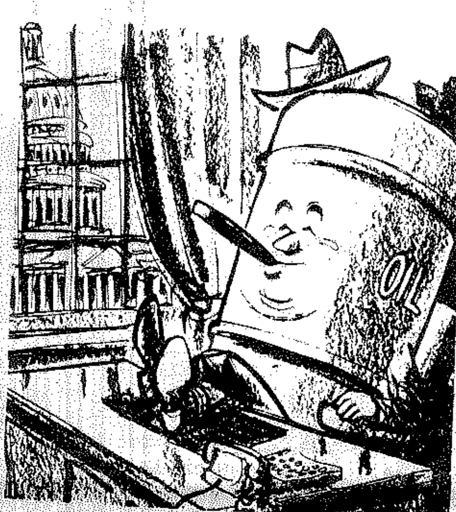
--In 79% of the areas studied, assessors assessed high-value residential property at a lower percentage of full value than they did low-value property. This confirms the view that competent and impartial assessing would make the property tax less regressive. ■



Who's Kidding Who

You've all seen those Mobil Oil ads that claim the company's 66% increase in first quarter profits are necessary to finance further exploration and development of energy resources. According to the major oil companies, every cent of the huge profits will be spent on finding more oil.

Perhaps you'll be puzzled by the fact that Mobil revealed recently that it was thinking of buying a controlling interest in Marcor Corp. -- the parent company of Montgomery Ward and the American Container Corp. The Wall Street Journal reported that such a take-over would cost Mobil $500 million. If you're wondering why the American taxpayer should be paying for oil tax breaks that produce windfall profits and enable the oil companies to buy up other large corporations, you should ask the president of the Mobil Oil Corp.



Write to Mr. W. P. Tavoulareas, President, Mobil Oil Corporation, 150 E. 42nd Street, New York, N.Y. 10017.

ACORN Wins Big

Local affiliates of the Arkansas Coummunity Organizations for Reform Now (ACORN) have scored a quiet, but major success in gaining apparent control of the Pulaski County, Ark. government.

Without a word of publicity from their organizations, 17 affiliates of the statewide community organizing group set out six months ago to make sure their members ran for all 467 seats of the county legislative body -- the Quorum Court. Running strictly as individuals, but not trying to hide their ties to ACORN, members gained 195 seats in the county government that represents 20% of Arkansas' population and is the major portion of House Ways and Means Committee Chairman Wilbur Mills' district.

Together with approximately 40 seats that were won by individuals ACORN feels share the same views, the citizens' group should -- in theory -- have control of the governing body. By law the Quorum Court has total authority over the county's $6.5 million budget.

However, the ACORN members will have to contend with the county's chief executive, County Judge Frank Mackey, who doesn't favor the organization's actions. Like most county judges in Arkansas, Mackey has a large amount of power. He draws up the county budget, with the help of an 11-person Court committee, which he appoints, and performs a variety of other legislative, executive and judicial duties.

In the past the Quorum Court has served as a rubber stamp for Mackey's budgets (last year they passed his budget in three minutes, with no discussion) and when Court members have questioned him, he has ruled them out of order.

While many new members have never even run for office before, the ACORN officeholders see their job in one way -- to find out where the county's money is going and if that is what is best for the citizens of Pulaski County.

(See P&T, Vol. II, No. 1 for more information on ACORN.)

Study of IRS

The Administrative Conference of the United States, an independent federal agency, announced in May that it has begun a probe of the Internal Revenue Service. The study, which will cost at least $100,000, will take a year. Conference officials want to find out how IRS handles citizen complaints, how fairly and consistently it selects returns for audit, and what policies it follows in making seizures for delinquent taxes.

Other areas to be studied are IRS settlement procedures, the confidentiality of taxpayer information, use of civil money penalties, and general public information policies.

The new study is headed by Charles Davenport, a professor at the University of California Law School at Davis.

The Internal Revenue Service is currently under investigation by the General Accounting Office, the Joint Committee on Internal Revenue Taxation, and two Senate subcommittees.

Informed of the new probe, game but weary IRS Commissioner Donald Alexander had this reaction: "I suggested somewhat facetiously," he said, "that we could serve only three investigators at a time, and like at the meat counter, they would have to take a number and we would serve them when we could."

The Census Bureau has released figures showing national averages on income. The figures include all income, not just wages or salaries. Latest statistics are for calendar year 1972.

Individual Personal Income

1. Total number of individuals receiving income..........122 million
   Median income of these individuals..............$ 4,713
2. Total number of persons working full-time..............55 million

Family Income (two or more related people living in same household)

1. Total number of families in U.S.........54.4 million
2. Median family income..............$11,116
3. Average family income..............$12,625
4. Average family income when family head is a full-time worker..............$15,183
   (Total number of such families is 34.8 million.)

Tax Burden Increases

Many of those who oppose a tax cut this year point out that taxes have been lowered consistently over the last decade so that the average American is now paying at a lower rate. The following chart from the Treasury illustrates the changes since 1960 on an income of $12,000.

	1960	1970	1973
AGI	$12,000	$12,000	$12,000
Standard deductions	1,000	1,100	1,800
Exemptions	1,800	1,925	2,250
Taxable	9,200	8,975	7,950
Tax	1,928	1,594	1,370
Percent of AGI	16.1	13.3	11.4

However, there are two facts left out of these calculations. First, inflation has changed the value of the dollar so much that the taxpayer who earned $12,000 in 1960 now needs $18,000 in 1973 just to stay even with the 1960 level. And the rate of inflation is still increasing. As this chart shows, even with inflation counted, there is still a slight drop in taxes.

	1960	1970	1973
AGI	$12,000	$15,734	$18,007
Standard deductions	1,000	1,100	2,000
Exemptions	1,800	1,925	2,250
Taxable	9,200	12,709	13,757
Tax	1,928	2,437	2,699
Percent of AGI	16.1	15.5	15.0

The second factor, which neither Treasury chart shows, is that social security taxes have soared from $144 in 1960 to $632 in 1973. Adding those taxes to the income taxes paid in each case changes the percentages to 17.2% in 1960 and 18.5% in 1973, showing that there has been an increase in the total amounts of taxes paid.

in brief

IRS Correction

In our May issue (Vol. II, No. 5), we said that IRS charges interest on tax debts at 1/2 of 1% per year (see "Installment Tax Plan, p. 11). The charge is 1/2 of 1% per month. People & Taxes regrets the error.

Vote Correction

In our May 1974 issue (Vol. II, No. 5) a sentence was inadvertently deleted from the Senate voting record. The fourth bill, under the title "Christmas Tree Bill," reads, "In January 1974, after postponement over Christmas recess, the Senate took up consideration of a Christmas tree bill -- a minor, 'sure passage' bill that is 'decorated' with special interest amendments." At this point, the description should include, "An amendment was offered by Clifford Hansen (R-Wyo.) designed to give a special depletion allowance to a few industry giants for mining an ore named trona, which is found in Wyoming and Utah. The amendment passed by a 50-38 vote. (See Congressional Record, Jan. 23, 1974, p. S 357.)"

People & Taxes regrets this error on the critical wording of this vote.

other

Visitors Center Opens

P & T STAFF PHOTO

Nader addresses media at Visitors Center opening.

A new dimension in tourism for the nation's capital was started in May as Ralph Nader opened the Public Citizen Visitors Center (PCVC). The center's purpose will be to encourage tourists in the nation's capital to look at the interior of public mechanisms rather than just the exterior of public buildings.

"Visitors to Washington, D.C. should be given the opportunity to observe, learn, contribute and participate in local and Federal activities while having fun, relaxing and engaging themselves in new, relevant experiences," Nader said. "The objective is to have the tourist become issue-oriented and citizen-conscious along pathways of his or her interest."

The center, which is located at 15th and M Streets, N.W. in Washington, will utilize a detailed calendar of activities in metropolitan Washington as its primary method for issuing information. The calendar will be distributed free of charge throughout the country.

One of the PCVC's primary objectives will be to press reluctant agencies, such as the Federal Aviation Administration and the Interstate Commerce Commission, to develop regular visitor programs.

"Tourism in Washington, D.C. should be more than an exercise in gawking and Gray-lining and a necessarily-hurried guided tour through the U.S. Congress," Nader said. "The PCVC is going to try to provide visitors a meaningful experience to carry back with them to their hometowns."

Consumer Protection Bill

The Senate has scheduled the floor vote on the Consumer Protection Agency (S. 707) for later this month. However, James Allen (D-Ala.) and possibly Sam Ervin (D-N.C.) plan to filibuster and lead a fight to add weakening admendments.

The Senate bill is stronger than the one already passed by the House, but consumers need to let their Senators know they want no weakening amendments added on the floor. Public Citizen's Congress Watch feels they have 60 votes favoring the bill, but it takes 2/3 of the Senators present and voting to end a filibuster and permit a vote on the issue.

Such corporate giants as Sears, J.C. Penney, Ford, General Motors, Greyhound, Western Union and General Electric have been lobbying hard against the bill. In addition, the Nixon administration is also in opposition to the bill and is threatening a veto. If this happens it will take 2/3 of each house to override the veto -- something the 93rd Congress has only done once.

If the Consumer Protection Agency Act is ever to reach the public, citizens must urge their Senators to support this legislation in its present form.

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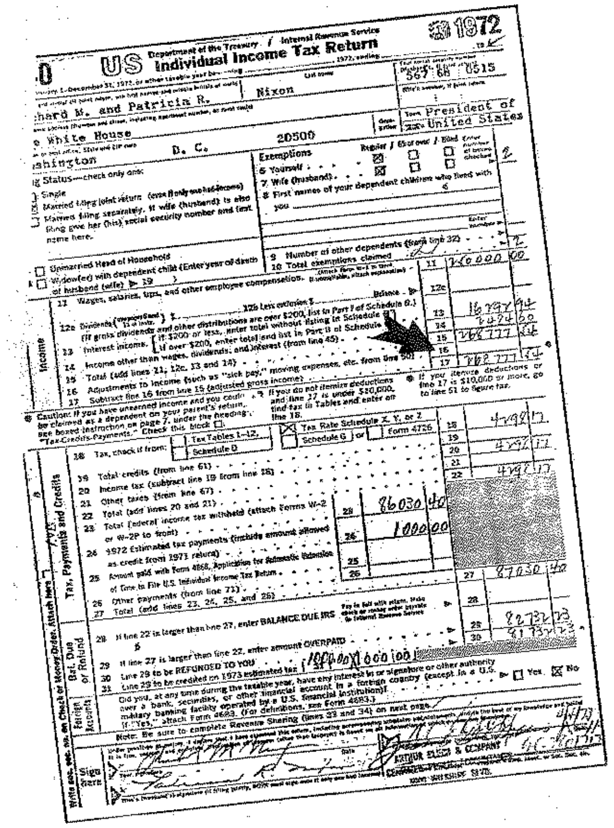
ADDRESS CORRECTION REQUESTED

We're doing something about tax reform - informing you!



These are some of the things we've been reporting:

- How Akron, Ohio resident Bob Loitz began a nationwide petition drive for tax reform.
- How Phil and Sue Long of Seattle, Washington have fought secrecy in the IRS.
- How Richard M. Nixon paid less income tax than a family of three making $7,500/yr.
- How the Citizens Action Program of Chicago uncovered millions of dollars worth of property tax underassessments of major industries.
- How some "mass appraisal" firms are bilking local governments and property taxpayers across the country.

Nearly 2000 years ago Plato wrote in The Republic, "When there is an income tax, the just men will pay more and the unjust less on the same amount of income..." These words are still true today and people are upset.

In People & Taxes we're working to change this.

We investigate tax loopholes and inequities, and report what people like yourselves have done and can do to end them.

Won't you join us.

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PUBLIC CITIZEN'S **People & Taxes**

VOL. II, NO. 6 TAX REFORM RESEARCH GROUP JUNE 1974

Study Shows Tax Inequities

ENVIRONMENTAL PROTECTION AGENCY

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